Global Markets Research
Daily Market Highlights

Key Takeaways

- **US stocks ended on a mixed note overnight after the Federal Reserve held rates steady and signalled no plan to adjust rates anytime soon, projecting rates to stay pat at current level till 2022**. The Dow Jones lost 282pts or 1.0% and the S&P 500 fell 0.5%. Infotech stocks outperformed other sectors and was the sole gainer overnight, and this helped propel NASDAQ (+0.7%) to breach 10,000 and another record high. The recent optimism surrounding reopening of the global economy had waned; in fact the OECD warned that a second Covid-19 wave would deal a severe blow to the expected economic recovery in 2021.

- **Sentiment turned more downbeat in general as investors flocked to safe haven assets**- this could be seen in the 10bps decline in 10Y treasury yield from 0.83% to 0.73% amid a general fall in global bond yields; gold price climbed for the third session by 1.4% to $1738.7/ounce. Meanwhile the US dollar continue to weaken post-FOMC; the dollar index was down by 0.4% to 95.959. Crude oils saw only modest gains despite the new OPEC+ deal; Brent rose 1.3% to $41.73/barrel and WTI was 1.7% higher at $39.60/barrel.

- Looking at US data, **CPI inflation continued to pull back to a mere 0.1% YOY i**n May while mortage applications rebounded by 9.3% last week. UK house prices fell to 10-year low according to the RICS survey. China CPI and PPI inflation retreated further- CPI rose 2.4% and PPI fell 3.7% YOY. New Zealand retail card spending jumped nearly 79% MOM in May, recovering from the low in April. Australian home loans fell 4.8% MOM in April.

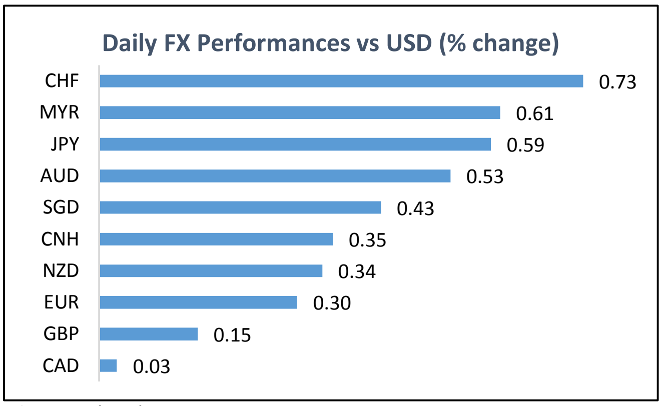
- The dollar weakness momentum continued, post-FOMC. This time round, safe haven currencies like the CHF and JPY led the gains, while MYR caught up with the previous day's movements. The dollar index was down by 0.4% to 95.959. We are **neutral to bearish on the USD** for the week ahead. Fed accommodation will likely be a big factor in driving USD weaknesses from now on.

- USDMYR finished 0.61% lower at 4.2510 on the back of dollar weakness. **USDMYR daily outlook is bearish** in our view as the USD remains pressured on a broader level after the Fed signalled no change to its low rates in the years to come; meanwhile the reopening of more economic sectors locally alongside brighter commodity outlook is likely to support MYR in the short term. Having said that, uncertainty about US-China tension continues to be a downside risk to MYR.

Market Snapshots

	Last Price	DoD %	YTD %
Dow Jones Ind.	26,989.99	-1.04	-5.43
S&P 500	3,190.14	-0.53	-1.26
FTSE 100	6,329.13	-0.10	-16.09
Hang Seng	25,049.73	-0.03	-11.14
KLCI	1,575.27	0.01	-0.85
STI	2,800.57	0.23	-13.10
Dollar Index	95.96	-0.4	-0.3
WTI oil ($/bbl)	39.60	1.69	-35.15
Brent oil ($/bbl)	41.73	1.34	-38.18
Gold (S/oz)	1,738.70	1.36	14.45
CPO (RM/tonne)	2,413.50	1.39	-20.23

Source: Bloomberg



Source: Bloomberg

Overnight Economic Data

US	↑	UK	↓
Japan	↓	New Zealand	↑
Australia	↑		

Up Next

Date	Event	Prior
11/06	MA Industrial Production YoY (Apr)	-4.9%
	US PPI Final Demand YoY (May)	-1.2%
	US Initial Jobless Claims (6 Jun)	1877k
12/06	US Import Price Index YoY (May)	-6.8%
	US U. of Mich. Sentiment (Jun P)	72.3
	EC Industrial Production SA MoM (Apr)	-11.3%
	UK Monthly GDP (MoM) (Apr)	-5.8%
	UK Industrial Production MoM (Apr)	-4.2%
	UK Visible Trade Balance GBP/Mn (Apr)	-£12,508m
	JP Industrial Production YoY (Apr F)	-14.4%
	NZ BusinessNZ Manufacturing PMI (May)	26.1

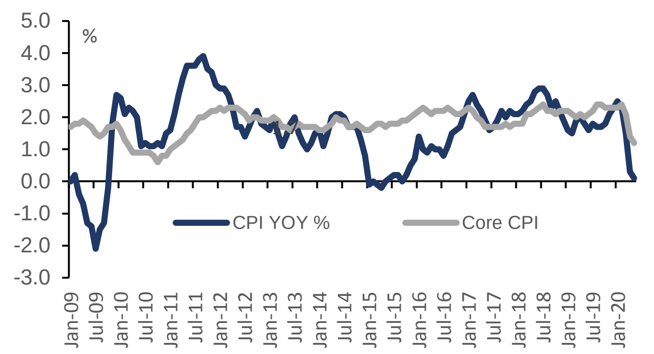
Source: Bloomberg

Macroeconomics

- ***The Fed signalled no rate adjustment any time soon:*** The Federal Reserve kept its Fed Funds Rate target range unchanged at 0-0.25% as widely expected. The FOMC statement was little changed except that it said "financial conditions have improved, in part reflecting policy measures to support the economy". The Fed also said it would increase its holdings of assets "at least at the current pace" to sustain smooth market functioning. Median projections show that the US GDP is expected to shrink 6.5% in 2020 but rebound to a 5% growth in 2021; unemployment rate is projected to be at 9.3% in 2020 and 6.5% in 2021; core PCE inflation at 1.0% in 2020 and 1.5% in 2021. The median projection for Fed Funds Rate is expected to remain unchanged at 0.1% throughout 2020 to 2022. The newly published dotplot indicated the same with fed funds rate staying within 0-0.25% in 2020-2022, signaling that the Fed would not adjust rates any time soon. Fed Chair Jerome Powell reiterated this stance in a virtual press conference, stressing that the Fed is strongly committed to using its tools to do whatever it could and for as long as it took to provide some relief and stability, adding that they were "not even thinking about raising rates". Powell said last week's job report was a welcome surprise but said that "it's a long road".

- ***US inflation eased further in May:*** Consumer price index fell 0.1% MOM in May, easing from the 0.8% fall observed in the previous month. Core inflation also recorded a 0.1% MOM decline, from -0.4% in April, offering signs that prices fell at slower pace as the economy reopened. YOY, CPI growth pulled back to a mere 0.1%, compared to 0.3% in April, this was its lowest rate since Sep-15, reflecting the nearly 34% fall in gasoline price alongside the fall in prices of apparel (-7.9%) and transportation services (-8.7%). Food inflation went up to 4% of which food at home rose 4.8% as consumers were advised to stay at home to contain Covid-19 virus. The annual rate of core CPI retreated to 1.2%, from 1.4%.

US CPI



Source: BLS

- ***US mortgage applications increased last week***: Mortage applications rebounded to add 9.3% last week, following the prior 3.9% decline. This reflects the 11% gain in the Refinance Index and the 5% increase in Purchase Index. The higher loan volume last week was fueled by "low mortgage rates, pent-up demand from earlier this spring, and states reopening across the country" according to the Mortgage Bankers Association.

Forex

MYR (Bullish)

- USDMYR finished 0.61% lower at 4.2510 on the back of dollar weakness.
- The pair's daily outlook is bearish in our view as the USD remains pressured on a broader level after the Fed signalled no change to its low rates in the years to come; meanwhile the reopening of more economic sectors locally alongside brighter commodity outlook is likely to support MYR in the short term. Having said that, uncertainty about US-China tension continues to be a downside risk to MYR.

USD (Neutral-to-Bearish)

- The dollar weakness momentum continued, post-FOMC. This time round, safe haven currencies like the CHF and JPY led the gains, while MYR caught up with the previous day's movements. The dollar index was down by 0.4% to 95.959.
- We are **neutral to bearish** on the USD for the week ahead. Fed accommodation will likely be a big factor in driving USD weaknesses from now on.

EUR (Neutral-to-Bullish)

- EUR/USD stayed in a bid tone and touched a high of 1.1422 on 11 June before returning to sub-1.14 levels.
- We are neutral to bullish on EUR for the week. Momentum is strong but consolidation is likely at some stage. This week's data should not derail momentum.

GBP (Neutral)

- GBP/USD stayed in consolidation territory for a second consecutive day on Wednesday, after a high of 1.2813.
- We remain neutral on GBP on consolidation. There are less reasons to be optimistic on the GBP than the EUR, given Brexit uncertainty, worse Covid-19 infection and fundamentals. Progress in Brexit talks will be keenly watched after Germany's ambassador to the EU said that there has been no real progress in the EU-UK trade deal.

JPY (Neutral-to-Bullish)

- The JPY rebound continues for a third consecutive day, bringing USD/JPY below 107. This is the lowest level seen since a month ago.
- We now turn neutral to bullish on the JPY for the week ahead. This is due to USD weakness. Relatively higher central bank accommodation from the Fed may also cause JPY to strengthen further.

AUD (Neutral-to-Bullish)

- AUD/USD continued to touch and go. Pair reached a high of 0.7061 but has since retreated back below 0.70 once again on profit taking.
- We stay neutral to bullish on the AUD at current levels. We see some consolidation around the 0.69-0.70 range. There is a risk that AUD will drop, mainly from event risks like rising US-China or China-Australia relations, or commodity markets.

SGD (Neutral-to-Bullish)

- USD/SGD is now consolidating, rebounding after hitting a low of 1.3804 on 11 June. 1.3800 remains a gold standard to beat at the moment, in the era of USD weakness.
- A move below 1.40 shifts the overall equation for the pair. We stay neutral to bullish on the SGD. Pair may look to remain at a range of 1.38-1.39 should sentiments improve further.

- ***UK house prices plunged to 10-year low:*** The Royal Institution of Chartered Surveyors (RICS) reported that its house price balance index fell to -32% in May, its lowest level since 2010, from -21% in April as Covid-19 pandemic disrupted real estate activity in the UK. However the rebound in new buyer enquries from a record low of -94% to -5% suggests that confidence is returning to the market.

- ***China inflation pulled back in May:*** Consumer and producer inflation continued to retreat in May. Consumer price inflation eased for the fourth consecutive month to 2.4% YOY, from 3.3% in April, its smallest increase since Mar-19 as prices of food rose at slower rate. Food inflation pulled back to 10.6% YOY (from 14.8%) with prices of porks gaining around 82% compared to last year (versus the above 90% rate in previous months). Subdued demand and Covid-19 related measures had stiffled general price gains. Meanwhile, producer prices also fell for the fourth month by 3.7% YOY in May (Apr: - 3.1%), as factories slumped deeper into deflation.

- ***New Zealand card spending recovered in May:*** Retail card spending rebounded by 78.9% MOM in May (Apr: -47.5%), from very low spending in April as businesses reopened and consumers returned to spend following a successful containment effort in New Zealand. Compared to the same month last year, retail card spending has sharply recovered but was still down by 6% in May (Apr: -47.5%). Only two out of six retail sectors had increased spending namely consumables (groceries) and durable goods (furniture, hardware, appliances, and recreational goods). The New Zealand government had announced the complete removal of all social distancing rules this week after becoming the first nation to have eliminated Covid-19 with zero cases of local transmission.

- ***Australian home loans fell in April:*** Australia home loans fell 4.8% MOM in April, after a flat reading in March, marking its sharpest MOM decline since 2015. Loans extended to owner-occupiers fell 5% while lending to investors dropped 4.2% as housing market turned softer amid a pandemic.

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