12 August, 2020

Global Markets Research

Daily Market Highlights

Key Takeaways

- **US stocks retreated on Tuesday amid the lack of progressin the coronavirus stimulus package talks at Capitol Hill**. The S&P500 retraced gains to finish 0.8% lower, after having gone near February's all-time level intraday, dragged down by tech, healthcare and consumer discretionary shares. Financials and industrial stocks gained. The Dow Jones lost 104pts (-0.4%), weighed down by tech stocks namely Apple, Microsoft, Intel and Cisco. NASDAQ lost 1.7%. Republicans and Democrats still failed to hammer out a deal after missing the self-imposed Friday deadline last week. The Democrats are proposing bigger stimulus payment while Republicans want to keep this second round of stimulus largely the same. Meanwhile, **Democratic presumptive nominee, former Vice President Joe Biden picked California Senator Kamala Harris** (a former presidential candidate) as his running mate. Elsewhere, **Russia announced the world's first approved Covid-19 vaccine**.

- **Treasury yields rose 1.8 to 7.5bps across the curve** amid a strong auction of 3-year notes ($48b). 10Y UST yield rose nearly 7bps to 0.64%. **Gold futures retreated substantially** (-4.5%) to $1932.6 as investors took profits. Investors are expected to keep monitoring the US stimulus talk, US-China tension as well as any vaccines news. **The RBNZ is expected to keep its official cash rate unchange**d at 0.25% later this morning. **UK 2Q GDP report is expected to dominate the data front (Bloomberg consensus forecast: -20.7% QOQ)**. Futures indicate that Asian stocks are likely to open on a mixed note.

- Tuesday's data releases include the fall in US small business optimism index and a rebound in PPI inflation. German investors appeared upbeat over Eurozone growth outlook. **The UK job market was hard hit by pandemic**. Australia business and consumer sentiments retreated.

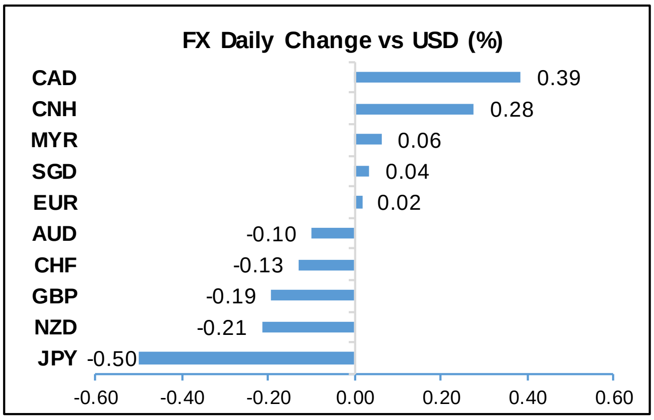
- **The dollar index was little changed (+0.05%) at 93.628**, nonetheless marking its third straight session of gain. The dollar saw mixed performances across the FX board - CAD was the major gainer, JPY led the losses while EUR was steady.

- **USD/MYR held steady at 4.1940 on Tuesday (-0.06%).** We continue to expect a range of 4.18-4.22 this week in the run-up to scheduled release of 2Q GDP on Friday, where we are penciling in a contraction of 12.3% YOY (1Q: +0.7% YOY).

Market Snapshots

	Last Price	DoD %	YTD %
Dow Jones Ind.	27,686.91	-0.38	-2.98
S&P 500	3,333.69	-0.80	3.19
FTSE 100	6,154.34	1.71	-18.40
Hang Seng	24,890.68	2.11	-11.70
KLCI	1,564.74	-0.44	-1.51
STI	2,544.15	-0.05	-21.06
Dollar Index	93.63	0.05	-2.86
WTI oil ($/bbl)	41.61	-0.79	-31.85
Brent oil ($/bbl)	44.50	-1.09	-32.58
Gold (S/oz)	1,932.60	-4.53	25.74
CPO (RM/tonne)	2,846.00	-0.33	-5.93

Source: Bloomberg



Source: Bloomberg

Overnight Economic Data			
US	→	Eurozone	→
UK	↓	Australia	↓

Up Next

Date	Event	Prior
12/08	AU Wage Price Index YoY (2Q)	2.10%
	NZ RBNZ Official Cash Rate (12 Aug)	0.25%
	UK GDP QoQ (2Q P)	-2.20%
	UK Industrial Production MoM (Jun)	6.00%
	JP Machine Tool Orders YoY (Jul P)	-32.10%
	EU Industrial Production SA MoM (Jun)	12.40%
	US MBA Mortgage Applications (44050)	-5.10%
	US CPI YoY (Jul)	0.60%
13/08	UK RICS House Price Balance (Jul)	-15%
	AU Employment Change (Jul)	210.8k
	AU Unemployment Rate (Jul)	7.40%
	US Initial Jobless Claims (08 Aug)	--
	US Import Price Index YoY (Jul)	-3.80%

Source: Bloomberg

Macroeconomics

- ***US Small Business Optimism fell in July:*** The NFIB Small Business Sentiment Index slipped to 98.8 in July, from 100.6 in June as a smaller percentage of business owners expect better economy and higher sales compared to the previous month's survey. This followed after the resurgence of Covid-19 cases in July has dimmed the outlook for a robust economic recovery. More businesses however plan to hire more employees, in concurrent to the reopening of the economy.

- ***US producer prices rebounded:*** The producer prices for final demand, a gauge of factory-gate inflation in the US rebounded by 0.6% MOM in July (Jun: +0.6%), driven by higher goods and services prices. The annual rate of PPI inflation continued to record a negative reading of -0.4% growth albeit comparatively smaller compared to June (-0.8%).

- ***German investors see better outlook, still gloomy of current situation:*** The ZEW Expectation Index for Germany edged up to 71.5 in August, from 59.3 in July, making its fifth consecutive month of climb following a sharp drop in March. The current situation index however fell slightly to -81.3 (Jul: -80.9), reflecting German investor's depressed assessment of the country's current condition. A similar expectation index for the broader Eurozone economy also rose to 64 in August (Jul: 59.6).

- ***UK job market deteriorated:*** The UK economy lost 220k jobs in the three months to June (three months to May: --125k), its largest decline since 2009, highlighting the impact of the Covid-19 pandemic shock on the UK job market. However unemployment rate was steady at 3.9% in the same period, reflecting the shrinkage of the labour force as people likely had refrained to search for jobs in the midst of a pandemic. In a separate release, jobless claims rose by 94.4k in July alone, after briefly recording a fall of -68.5k in June, this indicates that the worst job data are yet to come.

- ***Australia sentiment fell in response to second virus outbreak:*** The NAB Business Confidence Index fell back to the negative reading of -14 in July, after improving to 0 in June. The separately released Westpac Consumer Confidence Index fell 9.5% MOM in August (July: -6.1%). This came after the resurgence of a second wave of Covid-19 outbreak in the State of Victoria, dampening the hope of a smooth economic recovery following

Forex

MYR (Neutral)

- USD/MYR held steady at 4.1940 on Tuesday (-0.06%) ahead of Friday's 2Q GDP report.
- **Factors supporting**: Economic recovery
- **Factors against**: Risk aversion, US-China relations, domestic politics, imposition of second lockdown

USD (Neutral Outlook over 1 Week Horizon)

- USD weakened on Tuesday, reaching a low of 93.171 before rebounding strongly. This came as risk sentiments improved then retreated.
- **Factors supporting**: Risk aversion, US-China relations, stretched low DXY levels
- **Factors against**: Complacent markets, positive developments from global policy makers, poor US economy

EUR (Neutral)

- EUR/USD touched a high of 1.1807 intraday but soon some profit taking saw EUR/USD retreated to around 1.174 at close.
- **Factors supporting**: Solid fiscal support on confidence, recovering economy
- **Factors against**: Risk aversion, 2nd wave of Covid-19 infections, stretched levels**.**

GBP (Neutral)

- GBP/USD reached an intraday high of 1.3132 but retreated to 1.305 levels by the day ended.
- **Factors supporting**: Breakthrough in news, USD weakness
- **Factors against**: Risk aversion, Brexit, twin deficits

JPY (Neutral)

- USD/JPY was in a bid tone on Tuesday, reaching a high of 106.68. This ended our hopes of some downward movements. We see some range-bound movements for now.
- **Factors supporting**: BOJ policy, risk aversion, USD weakness
- **Factors against**: Weak fundamentals

AUD (Neutral-to-Bearish)

- AUD/USD came off late Tuesday to a low of 0.7135, coming after a high of 0.7190.
- **Factors supporting**: Current account, resilient economy
- **Factors against**: Risk aversion, 2nd wave of Covid-19 infections, China-Australia relations, stretched levels

SGD (Neutral-to-Bearish)

- USD/SGD gave back its losses on Tuesday, despite touching a low of 1.3702. We see the pair staying in a range of 1.37-1.38 for now.
- **Factors supporting**: Fed vs. MAS policy, economic recovery
- **Factors against**: Risk aversion, trade war, US-China

Hong Leong Bank Berhad
Fixed Income & Economic Research, Global Markets
Level 8, Hong Leong Tower
6, Jalan Damanlela
Bukit Damansara
50490 Kuala Lumpur
Tel: 603-2081 1221
Fax: 603-2081 8936
Email: HLMarkets@hlbb.hongleong.com.my