HongLeong Bank

Global Markets Research

Daily Market Highlights

Key Takeaways

- **US stocks fell overnight as concerns regarding the reopening of economies continued to dominate sentiment**. Dr Fauci, the director of the National Institute of Allergy and Infectious Diseases who has been the US leading man in combating Covid-19 warned of severe consequences if the US reopens (its economy) too soon. The selling of stocks intensified after noon following a fairly stable session in the morning. The Dow Jones lost more than 450pts or 1.9%, the S&P500 and NASDAQ both slipped 2.1%. Losses were broad-based across all eleven S&P sectors; real estate was the biggest loser.

- **Treasury yields fell; 10Y UST yield was 4bps lower at 0.67%.** USD weakened after government data show that CPI recorded its largest fall since the Global Financial Crisis; the dollar index resumed decline overenight after a temporary boost in the previous session. On the commodity front, gold price added 0.3% to $1702.7/ounce while crude oils rebounded; Brent rose 1.2% to $29.98/barrel and WTI jumped 6.8% to $25.78/barrel.

- US data were poor. **US headline CPI fell 0.8% MOM in April, its largest fall since Dec-08** during the depth of the GFC. Core CPI's 0.4% MOM decline was the deepest decline on record. YOY, CPI growth pulled-back to a mere 0.3%. Besides, the **NFIB Small Business Optimism Index also fell to its lowest level in nearly 8 years,** highlighting the worries surrounding Covid-19 pandemic. **In China, prices continued to ease in April**. CPI rose at a slower 3.3% YOY as the economy reopened. PPI however suffered largest contraction in 4 years by recording a 3.1% fall, taking factories deeper into deflation. **Japan's leading index points to "worsening outlook". Australia business confidence recovered** 20pts in April. **Malaysia IPI fell for the first time (-4.9% YOY) since Feb-13.**

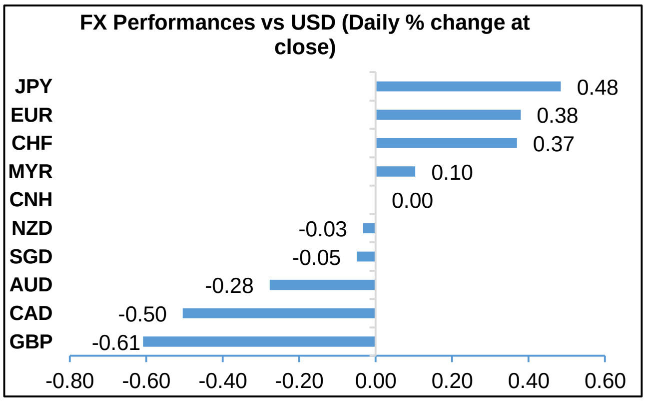
- **The US dollar was overall weaker on Tuesday**, despite mixed performances against other currencies. USD gained against GBP, CAD and AUD, but weakened compared to JPY, EUR and CHF. **We are neutral on the USD on a 1-week basis**. Positioning for long USDs look stretched, although there may be some gains now and then. DXY is set to stay within 99.0-100.5 range in our view. USD is likely to move on surprises on the news front regarding Covid-19 and on US-China relations.

- **USDMYR jumped sharply in Tuesday early session but lost steam thereafter** to finish 0.1% lower at 4.3295. **Daily outlook for the pair is neutral to slightly bearish** taking cue from overnight dollar weakness that was induced by a poor CPI reading but we reckon that MYR market is likely to be quiet ahead of today's 1Q GDP release. Our house view is calling for a 1.2% YOY growth.

Market Snapshots

	Last Price	DoD %	YTD %
Dow Jones Ind.	23,764.78	-1.89	-16.73
S&P 500	2,870.12	-2.05	-11.16
FTSE 100	5,994.77	0.93	-20.52
Hang Seng	24,245.68	-1.45	-13.99
KLCI	1,379.93	-0.17	-13.14
STI	2,587.81	-0.90	-19.70
Dollar Index	99.93	-0.3	3.8
WTI oil ($/bbl)	25.78	6.79	-57.78
Brent oil ($/bbl)	29.98	1.18	-55.36
Gold (S/oz)	1,702.70	0.28	12.35
CPO (RM/tonne)	2,055.00	0.88	-32.08

Source: Bloomberg



Source: Bloomberg

Overnight Economic Data			
US	↓	Japan	↓
China	→	Australia	↑
Malaysia	↓		

Up Next

Date	Event	Prior
13/05	MA GDP YoY (1Q)	3.6%
	US MBA Mortgage Applications (08 May)	0.1%
	US PPI Final Demand YoY (Apr)	0.70%
	EC Industrial Production SA MoM (Mar)	-0.1%
	UK Industrial Production MoM (Mar)	0.1%
	UK Visible Trade Balance GBP/Mn (Mar)	-£11487m
	UK GDP QoQ (1Q P)	0.0%
	JN Eco Watchers Survey Outlook SA (Apr)	18.8
	AU Westpac Consumer Conf Index (May)	75.6
	AU Wage Price Index YoY (1Q)	2.2%
	NZ RBNZ Official Cash Rate	0.25%
14/05	US Import Price Index MoM (Apr)	-2.30%
	US Initial Jobless Claims (09 May)	--
	UK RICS House Price Balance (Apr)	11%
	JN Machine Tool Orders YoY (Apr P)	-40.7%
	AU Employment Change (Apr)	5.9k
	AU Unemployment Rate	5.2%

Source: Bloomberg

Macroeconomics

- ***US consumer prices experienced deepest fall since GFC:*** US consumer price index dropped 0.8% MOM in April (Mar: -0.4%), its largest decline since Dec-08 during the depth of the Global Financial Crisis. This reflects the 10.1% plunge in prices of energy alongside the collapse in global crude oil prices last month. Cost of gasoline alone dipped by a whopping 20.6% with demand weighed down by the lack of transportations as states issued social distancing orders. Food prices rose 1.5% of which food at home jumped sharply by 2.6% MOM, the most since 1974 as households stocked up groceries. Other notable items that experienced large decline in prices unsurprisingly include apparels (-4.7% MOM) and transportation services (-4.7%). Core CPI dropped 0.4% MOM (Mar: -0.1%), its largest fall since 1957. YOY, CPI rate clocked in at a mere 0.3%, following a 1.5% increase earlier, the smallest rise since Oct-15 while core CPI rose 1.4% YOY, weakest gain since Apr-11.

- ***US small business optimism Index fell to near-eight year low:*** The NFIB Small Business Optimism Index fell to 90.9 in April, from 96.4 in March, its lowest level since Mar-13. Sales expectations for the next six months fell 30pts to its lowest level on record. On a brighter note, the gauge for busines conditions expectations managed to rebound indicating businesses' optimism that the Covid-19 pandemic fallout could be temporary.

- ***China inflation eased further in Apr:*** China consumer price index fell 0.9% MOM in April, a smaller decline compared to the 1.2% decrease in March; food prices continue to fall (-3% MOM) as warmer weather raised the supply of vegetables, fruits and eggs while the higher pork production pushed prices of pork further down by 7.6% MOM. Prices of fuels fell (Petrol price dropped 7.5%) alongside the collapse in crude oil prices in April. The reopening of the economies raised the demand of transportation and helped push air tickets higher by 5.6% MOM. This left the annual rate of CPI to ease to 3.3% (Mar: +4.3%). Consumer inflation has now pulled back for the third month in a row from its peak of 5.4% YOY in January. April's rate was also the slowest since Sep-19 thanks to strict social distancing measures. Meanwhile the producer price index dipped 3.1% YOY in the same month (Mar: -1.4%), its sharpest decrease since Apr-16 as deflation intensified in the manufacturing industry despite recent reopening of factories. This shall further erode industrial companies' margin.

- ***Japan leading index points to worsening outlook:*** Japan's Leading Economic Index slipped from 91.9 to 83.8 in March, according to a preliminary release by the Cabinet Office. The Coincidence Index also dropped to 90.5 (Feb: 95.4). This indicates that economic outlook is "worsening" for the eight consecutive month even prior to the nationwide State of Emergency declaration by the Japanese government in mid-April.

- ***Australia business confidence improved in Apr:*** The National Australia Bank's Business Confidence Index recovered by 20pts from a trough of -66 in March to -46 in April, but nontheless a poor reading. This reflects businesses' slightly better view of economic outlook as Australia has thus far succeeded in containing Covid-19. PM Scott Morrison had also outlined a 3-step plan to reopen the economy by July as the country eased its social distancing rules.

Forex

MYR (Neutral to Bearish)

- USDMYR jumped sharply in Tuesday early session but lost steam thereafter to finish 0.1% weaker at 4.3295.
- Daily outlook for the pair is neutral to slightly bearish taking cue from overnight dollar weakness that was induced by a poor CPI reading but we reckon that MYR market is likely to be quiet ahead of today's 1Q GDP release. Our house view is calling for a 1.2% YOY growth.

USD (Neutral)

- The US dollar was overall weaker on Tuesday, despite mixed performances against other currencies. USD gained against GBP, CAD and AUD, but weakened compared to JPY, EUR and CHF.
- We are neutral on the USD on a 1-week basis. Positioning for long USDs look stretched, although there may be some gains now and then. DXY is set to stay within 99.0-100.5 range in our view. USD is likely to move on surprises on the news front regarding Covid-19 and on US-China relations.

EUR (Neutral)

- The EUR/USD has stalled close to the 1.0850 levels, after it rebounded from bottom of the April range of 1.0727-1.0991. We see little risks of EUR/USD breaking the 1.08-1.10 range at the moment, given little impetus.
- Pair likely to remain within the 1.0800-1.1000 big figures. Economic fundamentals look to improve as Eurozone economies reopen cautiously from the Covid-19 pandemic.

GBP (Neutral to Bearish)

- GBP is once again on the downward trend, as policy uncertainty in the UK climbed and the Covid-19 escalated.
- We caution against being optimistic about the GBP down the road. Economic fundamentals remain extremely weak. BOE expects a 14% decrease in 2020 GDP this year. Risk aversion also does not favour the GBP in our view.

JPY (Bullish)

- JPY has rebounded after several days of weakness. After hitting a high on 12 May at 107.77 (USD/JPY), pair has since moved closer to the 107 big figure.
- Policy differentials between Fed and BOJ may favour slight JPY strength. In addition, we expect some market risk aversion in the coming weeks. Our End-June forecast is 107.

AUD (Neutral to Bearish)

- After a double peak on 11 and 12 May, AUD/USD is falling below the 0.6500 big figure once again. This has come on the back of stretched positioning and a return of some market concerns – Covid-19 and US-China trade.
- AUD/USD may correct further after being at stretched level, partly from depressed commodity markets. We see a sustainable AUD/USD level at around 0.6300.

SGD (Neutral)

- Downside momentum on USD/SGD has recently stalled at lower levels and has since rebounded on USD strength. Range at 1.4050-1.4250. This is on the back of recovering risk sentiments on Singapore, as Covid-19 cases peaked. Our weekly outlook is for some consolidation of prior gains.
- Further into Q2, we see possible moves upwards for USD/SGD (if risk aversion returns). Other key drivers for USD/SGD will include the Covid-19 situation, and US-China tensions.

- ***Malaysia IPI fell on the heels of Covid-19 fallout:*** Industrial production posted its first contraction since Feb-13, falling by 4.9% YOY in March. This marked a sharp reversal from the upwardly revised 6.2% YOY increase in February, suggesting domestic production and economic activities have started to take the hit from the Covid-19 pandemic and Movement Control Order (MCO) first implemented on 18-March. The decline in production was broad-based spanning manufacturing, mining and electricity sectors. Given the severity and the depth of the pandemic, we continue to see great amount of uncertainties and downside risks ahead even though we have penciled in a 1.2% YOY growth in 1Q GDP, due today. Our base case remains for a V-shape recovery for now but we also acknowledge increasing odds of a U-shape recovery amid disruption not only from global supply and demand dynamics, but also from the "new normal" even if the outbreak eventually eases.

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