13 August, 2020

Global Markets Research

Daily Market Highlights

Key Takeaways

- **US stocks extended gains overnight, supported by continuous optimism of a potential stimulus bill in Washington**. The Dow Jones added nearly 290 pts or 1.1%, the S&P 500 briefly hit its all-time-high before retreating slightly to finish the day 1.4% higher. All S&P500 sectors edged up except for financials; tech and healthcare shares led the gain. NASDAQ outperformed with a 2.1% gain.

- **Meanwhile, 10Y UST yield hit five-week high and closed at 0.67% (+3bps) as new debt issuance pressured treasury prices and drove yields higher.** Gold prices were little changed after having fallen sharply in the previous session amid profit taking activity. **Crude oil prices jumped on bullish oil inventory data.** The EIA reported a larger-than-expected draw in US crude stocks (-4.5mil barrel versus -2.9mil estimated). US WTI soared more than 2.5% to $42.67/barrel while Brent crude rose 2.1% to $45.43/barrel. Earlier, **the RBNZ kept its OCR unchanged at 0.25% but announced an expansion of its bond buying program to NZD100b.**

- **On the data front, US headline CPI recorded steady gain and core CPI accelerated** thanks to higher services inflation. Mortgage applications rebounded last week. Eurozone industrial production rose for the second month. UK GDP contracted by a record 20.4% QOQ in the second quarter, but the housing market recovered in July. Australia recorded slowest wage growth in history.

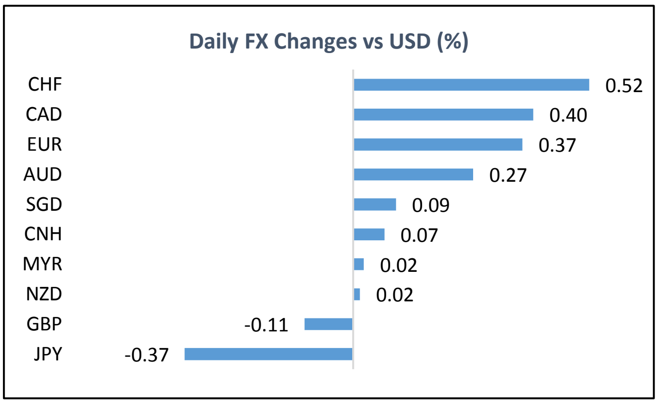
- The greenback retreated after strengthening modestly for three sessions. DXY slipped 0.2% to 93.44. Gains were seen in EUR, AUD, CAD and CHF; GBP weakened a little in response to poor GDP data while the JPY retreated on resumption of risk on mode. Maintain a **neutral USD outlook** for now.

- USD/MYR continued to trade on a neutral note, closing Wednesday session little changed at 4.1930 (-0.02%) ahead of Friday's 2Q GDP report. A sharply disappointing reading is expected to be MYR negative. **Daily USDMYR outlook remains neutral** nonetheless.

Market Snapshots

	Last Price	DoD %	YTD %
Dow Jones Ind.	27,976.84	1.05	-1.97
S&P 500	3,380.35	1.40	4.63
FTSE 100	6,280.12	2.04	-16.74
Hang Seng	25,244.02	1.42	-10.45
KLCI	1,556.64	-0.52	-2.02
STI	2,563.20	0.75	-20.47
Dollar Index	93.44	-0.20	-3.20
WTI oil ($/bbl)	42.67	2.55	-30.12
Brent oil ($/bbl)	45.43	2.09	-31.23
Gold (S/oz)	1,934.90	0.12	26.16
CPO (RM/tonne)	2,836.00	-0.35	-6.26

Source: Bloomberg



Source: Bloomberg

Overnight Economic Data

US	↑	Eurozone	↑
UK	→	Australia	↓

Up Next

Date	Event	Prior
13/08	AU Employment Change (Jul)	210.8k
	AU Unemployment Rate (Jul)	7.4%
	US Initial Jobless Claims (08 Aug)	1186k
	US Import Price Index YoY (Jul)	-3.8%
14/08	NZ BusinessNZ Manufacturing PMI (Jul)	56.3
	CN Fixed Assets Ex Rural YTD YoY (Jul)	-3.1%
	CN Retail Sales YoY (Jul)	-1.8%
	CN Industrial Production YoY (Jul)	4.8%
	MA GDP YoY (2Q)	0.7%
	HK GDP YoY (2Q F)	-9.0%
	EU Trade Balance SA (Jun)	8.0b
	EU Employment QoQ (2Q P)	-0.2%
	EU GDP SA QoQ (2Q P)	-12.1%
	US Retail Sales Advance MoM (Jul)	7.5%
	US Industrial Production MoM (Jul)	5.4%
	US U. of Mich. Sentiment (Aug P)	72.5

Source: Bloomberg

Macroeconomics

- ***US core CPI inflation accelerated in July:*** CPI recorded a steady 0.6% MOM growth in July (Jun: +0.6%), thanks to higher prices of services (+0.6% vs +0.2%) as well as transportation. Core CPI beat expectation with 0.6% MOM growth (Jun: +0.2%). The annual rate of inflation picked up to 1.0% YOY (Jun: +0.6%), its fastest rate in four months, but still well below its previous rates of above 2.0%. Core inflation jumped to 1.6% YOY (Jun: +1.2%).

- ***US mortgage application rebounded last week:*** Mortgage applications rose 6.8% WOW for the week ended 7 Aug (prior: -5.1%) following two weeks of decline. Both applications for refinancing and new home purchases recorded increase. This demonstrates that housing demand remained rather solid in the US thanks to low interest rates.

- ***Eurozone industrial production rebounded for the second month,*** recording 9.1% MOM growth in June (May: +12.3%). The reading however missed analysts' expectation of a 10% increase. YOY, industrial production was still 12.3% lower compared to the same month last year, marking its 19th declines within a 20-month period since late 2018. The manufacturing sector had been weak prior to the pandemic thanks to a newly imposed emission regulation back then as well as weak demand resulting from rising protectionism.

- ***UK GDP plunged more than 20% in 2Q:*** UK economy contracted 20.4% QOQ in 2Q (1Q: -2.2%), unsurprisingly its largest fall in history, roughly meeting expectation of -20.7%. YOY, GDP growth plunged to -21.7% (1Q: -1.7%), slightly better than consensus forecast of -22.3%. Looking at details, private consumptions fell 23.1% QOQ, government spending was reduced by 14% and investment fell 25.5%. Exports were 11.3% lower. The pandemic shock sent the UK economy into a downturn, although indicators such as industrial production has gained for straight two months (+9.3% vs +6.2%), the economy remained in a dire state as evident in the deteriorating state of labour market.

- ***UK housing market rebounded in July:*** In a separate and more positive note this morning, the RICS House Price Balance Index rose to +12 in July (Jun: -13), its first positive reading since the Covid-19 pandemic hit the UK economy, highlighting the recovery in the housing market. However RICS warned that its members were worried that a boom could turn into a bust after the government's job protection program ended in less than three months.

- ***RBNZ left OCR unchanged, expanded bond-buying program:*** RBNZ left the Official Cash Rate (OCR) unchanged at 0.25% as widely expected but expanded its monetary support by increasing its Long Term Asset Program (LSAP) up to NZD100b in a bid to further lower retail interest rates. The central bank added that a package of additional monetary instruments must remain in active preparation and the deployment of such tools depends on the outlook for inflation and employment. These include a negative OCR as well as purchases of foreign assets. RBNZ expressed optimism in recent economic recovery which had happened sooner than projected but stressed that "severe global economic disruption caused by the pandemic is persisting". Outlook remained uncertain and is dependent on the containment on the virus. (New Zealand had just recorded new cases after more than 100 days without locally transmitted infections). RBNZ reiterated its pledge to provide additional stimulus as necessary.

Forex

MYR (Neutral)

- USD/MYR continued to trade on a neutral note, closing Wednesday session little changed at 4.1930 (-0.02%) 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 retreated further on Wednesday, now down to 93.44 at close. This came as the DXY looked to retake the low of 93.171 reached on 11 August. In the process, USD weakened against most G10 currencies except a notable JPY and GBP.
- **Factors supporting**: Risk aversion, US-China relations, stretched low DXY levels
- **Factors against**: Complacent markets, positive developments from global policymakers, poor US economy, US stimulus

EUR (Neutral)

- EUR/USD moved higher once again, reaching a high of 1.1816 intraday. The pair consolidated but we observe a bid tone on Thursday opening.
- **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 consolidated and was relatively range bound on Wednesday. Pair retreated from the high of 1.3132. With pair now at a narrow range of 1.302-1.306, a bid tone tests further upside potential.
- **Factors supporting**: Breakthrough in news, USD weakness
- **Factors against**: Risk aversion, Brexit, twin deficits

JPY (Neutral-to-Bearish)

- USD/JPY was in a bid tone on Wednesday for a second consecutive day. In the process, pair touched a high of 107.01. Amid some risk on sentiments at the moment, JPY is likely to stay defensive and we turn more bearish on the JPY.
- **Factors supporting**: BOJ policy, USD weakness
- **Factors against**: Weak fundamentals, risk sentiments

AUD (Neutral)

- AUD/USD consolidated and then looked to retake the 11 August high of 0.7190. We turn neutral on the AUD, expecting a high of 0.7243 (attained on 7 August) to hold for now.
- **Factors supporting**: Current account, resilient economy
- **Factors against**: Risk aversion, 2nd wave of Covid-19 infections, China-Australia relations, stretched levels, RBA

SGD (Neutral)

- USD/SGD saw a move downwards overnight, retreating after a high of 1.3756. Pair is now looking to move towards the 1.3702 low observed on 11 August. We turn neutral, expecting some consolidation around 1.37 in the larger trend.
- **Factors supporting**: Fed vs. MAS policy, economic recovery
- **Factors against**: Risk aversion, trade war, US-China

- ***Australia wage growth slowest on record in 2Q:*** Australia wage price index gained a mere 0.2% QOQ in the second quarter of 2020 (1Q: +2.2%), below estimate of 0.3% growth and marked its slowest gain on record. This led the annual wage growth to ease to 1.8% YOY in 2Q, from 2.2% in 1Q, also a record low, dampening outlook for consumer spending and inflation in general especially amid the resurgence of a second wave in the state of Victoria.

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