Global Markets Research

Daily Market Highlights

Key Takeaways

- **US stocks fell for the second session on Wednesday as Fed Chair Jerome Powell warned of a prolonged and painful economic downturn and stressed the importance of fiscal stimulus to boost recovery in a prepared speech**. House Democrats has unveiled another $3 trillion stimulus package, which is unlikely to receive bi-partisan support from Senate Republicans even if it is passed at the House of Representatives on Friday. The Dow Jones lost 517pts or 2.2% while the S&P500 and NASDAQ each fell 1.7% and 1.5%. **Energy shares fell 4.4% and were the major loser overnight alongside renewed declines in crude oil prices even as the EIA reported a 745k draw in US crude inventory last week**, its first decline in four months as states gradually reopened economies. Brent crude was 2.6% lower at $29.19/barrel and WTI fell 1.9% to $25.29/barrel.

- Gold price climbed for the second session (+0.8%) to $1716.28/ounce. Treasury yields slipped further on Wednesday; 10Y UST yield fell 2bps to 0.65%. **The greenback was boosted by Powell speech, wiping out its intraday losses**. The dollar index was flat throughout the Asian session but began to lost ground when Europe opened, only to recover again in the American session; the index eventually gained 0.31% to 100.242. **The RBNZ expanded its QE program to NZD60b and left OCR unchanged at 0.25%.**

- **Data were generally poor**. US PPI saw record decline of 1.3% MOM but mortgage applications recovered. Eurozone industrial production fell 11.3%, also a record decline. UK GDP shrank 2% QOQ in 1Q, the largest contraction since the Global Financial Crisis; the RICS House Price Index slumped back to negative area. Australia wage growth stabilized prior to lockdown. Malaysia 1Q GDP fell 2% QOQ and recorded a small 0.7% YOY gain.

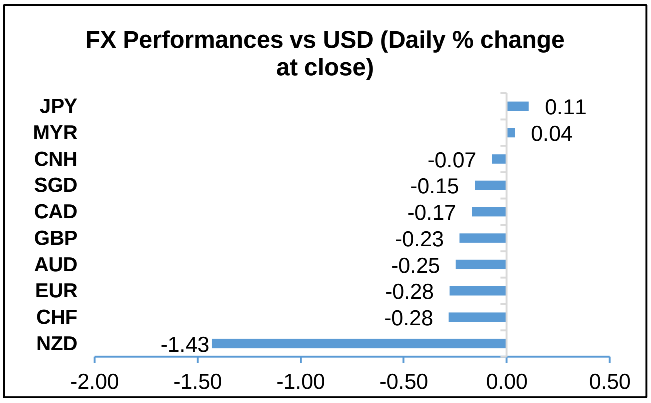
- **The USD shrugged off initial weakness on 13 May, to register a bid tone**. DXY ended the day above 100.2, after dipping to as low as 99.6 intraday. Overall, DXY gained 0.31% on Wednesday, strengthening by the most against the NZD, EUR, AUD and GBP. We are neutral on the USD on a 1-week basis. Positioning 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 started the day firmer but gradually lost steam on Wednesday** and finished the session virtually unchanged at4.3280 (-0.04%) following the release of Malaysia 1Q GDP that had fallen less than analysts' expectation. Daily outlook for the pair is bullish as risk aversion is raising the appeal of the greenback in the short term alongside falling oil prices.

Market Snapshots

	Last Price	DoD %	YTD %
Dow Jones Ind.	23,247.97	-2.17	-18.54
S&P 500	2,820.00	-1.75	-12.71
FTSE 100	5,904.05	-1.51	-21.72
Hang Seng	24,180.30	-0.27	-14.22
KLCI	1,397.13	1.25	-12.06
STI	2,572.01	-0.61	-20.19
Dollar Index	100.24	0.3	4.0
WTI oil ($/bbl)	25.29	-1.90	-58.58
Brent oil ($/bbl)	29.19	-2.64	-55.56
Gold (S/oz)	1,716.28	0.80	13.33
CPO (RM/tonne)	2,022.50	-1.58	-33.15

Source: Bloomberg



Source: Bloomberg

Overnight Economic Data			
US	→	Eurozone	↓
UK	↓	Japan	↓
Australia	→	Malaysia	↓

Up Next

Date	Event	Prior
14/05	US Import Price Index MoM (Apr)	-2.30%
	US Initial Jobless Claims (09 May)	3.17mil
	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%
15/05	US Retail Sales Advance MoM (Apr)	-8.7%
	US Empire Manufacturing (May)	-78.2
	US Industrial Production MoM (Apr)	-5.4%
	US U. of Mich. Sentiment (May P)	71.8
	EC Trade Balance SA (Mar)	25.8b
	EC GDP SA QoQ (1Q P)	-3.8%
	JN PPI YoY (Apr)	-0.4%
	CH Industrial Production YoY (Apr)	-1.1%
	CH Retail Sales YoY (Apr)	-15.8%
	CH Fixed Assets Ex Rural YTD YoY (Apr)	-16.1%
	NZ BusinessNZ Manufacturing PMI (Apr)	53.2

Source: Bloomberg

Macroeconomics

- ***RBNZ kept OCR unchanged and expanded QE; mentioned negative OCR:*** The RBNZ kept its official cash rate unchanged at 0.25% as widely expected and expanded its Large Scale Asset Purchase program to NZD60b, for the next 12 months, up from the previous NZD33b limit. It also has newly included the purchase of New Zealand Government Inflation-Indexed Bonds in the program. The global economic disruption caused by Covid-19 is expected to persist; althought New Zealand has successfully contains the disease locally, reduced world activity means lower demand for many of New Zealand's exports. "The balance of economic risks remains to the downside". According to the accompanying minutes, officials noted that the main thing needed to support the economy is fiscal stimulus and monetary policy is to complement the effect of fiscal measures. The central bank had discussed a range of monetary policy options and the committee agreed that a 'least regrets' monetary policy approach is needed. It stands ready to deploy further tools as needed, should the need for stimulus continue to increase. Among these are further cut in OCR (including a possible reduction to negative rate in future), a term lending facility and the addiiton of other asset classes to the LSAP program.

- ***Record fall in US PPI:*** Producer prices index for final demand fell for the third month- a record 1.3% MOM decline in April (Mar: -0.2%). Prices fell across all key categories except for trade, most notably in energy (-19% MOM). Core PPI (excluding food and energy) fell 0.4% MOM. Compared to the same month last year, the index was 1.2% YOY lower, following a 0.7% gain. The changes in the core PPI eased considerably to 0.6% YOY (Mar: +1.4%).

- ***Gradual recovery in US mortgage application:*** Mortgage application gained 0.3% in the week ended 08 May, compared to a week earlier according to the Mortgage Banker Association's (MBA) data. This reflects the 11% increase in the purchase category while refinancing fell 3% as recovery in purchases recovered gradually following the reopening of economies acros states. Mortgage rates remained close to record-lows.

- ***Record fall in Eurozone industrial production:*** Industrial production fell dramatically by 11.3% MOM in March, a record decline. This underscores the major effect of Covid-19 containment measures on the Euro area's already poor manufacturing industry. The fall in output was broad-based across all sectors, notably in the production of durable consumer goods (-26.3%) and capital goods (-15.9%). The bloc's largest economies experienced drastic decline in output as these countries were also the ones with leading number of cases – Germany (-11.2%), France (-16.4%), Spain (-11.9%) and Italy (-28.4%).YOY, industrial production fell 12.9%, its steepest contraction since Aug-19.

- ***UK GDP contracted the most since GFC:*** Preliminary data show that the UK economy shrank 2% QOQ in the first quarter of 2020, a smaller contraction compared to analysts' expectation of -2.5%. This followed a flat-lined reading in 4Q last year and is now the largest fall since 4Q08 during the Global Financial Crisis. Compared to the same quarter last year, GDP fell 1.6% YOY versus 1.1% growth in 4Q20. The reading largely reflects the 5.8% fall in output in March 2020 as the nation went into lackdown to contain Covid-19, with widespread monthly declines in output across the services, production (industrial production fell 4.2% MOM in March alone) and construction industries. From the expenditure perspective, household consumption fell by 1.7% in Quarter 1 2020, the largest contraction since 4Q08, alongside fakk in gross fixed capital formation (-1%), government consumption and trade volumes.

Forex

MYR

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USD

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- 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

- After bidding to breach 1.0900, EUR/USD has now dipped towards 1.0800 once again. Pair continues to move horizontally for most of May. We see little risks of EUR/USD breaking the 1.08-1.10 range at the moment.
- 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

- GBP is once again on the downward trend, as policy uncertainty in the UK climbed and the Covid-19 escalated. GBP/USD has dipped below 1.2250 on Wednesday and is now consolidating.
- We remain pessimistic regarding the GBP. Despite economic reopening, the Covid-19 outbreak continues to escalate in the UK. BOE expects a 14% decrease in 2020 GDP this year. Risk aversion also does not favour the GBP in our view.

JPY

- USD/JPY shrugged off a bid tone on 13 May and continues to grind lower. Pair has now moved below 107.
- 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

- After three successive waves to stay above 0.6500, AUD/USD is falling below the level 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.

- ***Negative expectations in UK housing market :*** UK house prices fell drastically in April as Covid-19 pandemic smashedd the post-Brexit recovery of the housing market. The RICS House Price Balance Index fell to -21% in April (Mar: 11%), following three successive month of positive readings. RICS said that this indicator could drop further in the coming months as near-term price expectations collapsed to a deep negative of -72%. 80% of contributors to the survey said that they have seen buyers or sellers backing off from transactions. Prices, rent and sales are expected to fall sharply in the next three months as the government's ongoing lockdown to contain Covid-19 curbs housing activity.
- ***Japan Economic Watcher Survey painted worsening current economic condition:*** The Cabinet Office Economic Watcher Survey reported that the diffussion index for current condition fell dramatically from 14.2 in March to 7.9 in April, indicating the serious economic fallout that was induced by the Japanese government's declaration of a State of Emergency in April. The similar index for outlook meanwhile recorded a smaller decline, from 18.8 to 16.6 in April, still a poor reading but nonetheless suggests that this downturn is short-lived.
- ***Australia wage growth stabilised prior to lockdown :*** The wage price index held on to a steady increase in the first quarter, recording a 0.5% QOQ gain (4Q: +0.5%), on a back of a year of relatively stable but slower economic growth according to the ABS. The annual gain in wages was slower at 2.1% YOY, compared to the 2.2% increase in 4Q. The data were captured prior to the social distancing restriction issued by the Australian government and thus do not reflect the impact of the pandemic on the labour market. April Job report, due today shall paint a clearer picture.
- ***Malaysia economy at the brink of a recession:*** The Malaysian economy managed to register a small positive gain of 0.7% YOY in 1Q, a tad below our projection for a 1.2% growth but way better than consensus estimate for a 1.0% contraction. Understandably, domestic demand expanded at a much weaker pace of 3.7% YOY in 1Q20 (4Q: +4.8% YOY) amid softer private consumption and investment while net exports also exerted a bigger drag (-37.0% vs -12.4% YOY) in the wake of fast dwindling global demand. On a seasonally adjusted basis, 1Q GDP contracted by 2.0% QOQ (4Q: +0.6%). Pessimism among the local business communities and consumers are expected to dampen investment and consumption activities, though some reliefs and supports are expected out of the PRIHATIN stimulus package. Against such an uncertain and unprecedented backdrop which requires reforms and new normal from all fronts, we believe Malaysia would not be able to spare itself from slipping into a recession this year. We are projecting a 4.3% YOY contraction in the Malaysian economy for 2020, expecting the sharp contraction in economic activities amid the MCO/ CMCO in 2Q to only recover gradually towards the end of the year. While there is still policy space to further support economic growth, we are of the view that BNM may opt to pause to assess the effectiveness of monetary and fiscal easing measures introduced todate, barring any escalation of downside growth risks.

SGD

- USD/SGD has returned to the 1.4200 big figure recently, as risk aversion returned to markets. At this momentum, some profit taking is partly causing pressures on the downside.
- 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.

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