HongLeong Bank

Global Markets Research

Daily Market Highlights

Key Takeaways

- **US stocks closed lower overnight despite better-than-expected third quarter earnings reports**. Earnings of JP Morgan and Citigroup as well as that of Johnson and Johnson beat expectations but concerns over recovery prospect as well as the availability of vaccines weighed down the equity market. Both JP Morgan and Citigroup have set aside less reserve for loan losses; JP Morgan CEO Jamie Dimon called for more federal government stimulus to help support the economy, suggesting still uncertain economic outlook.

- **The Dow Jones fell by 0.6%, the S&P500 lost 0.6% and NASDAQ managed to only shed 0.1%.** Financials shares led the broad-based losses. The bond market reopened; demand for safe havens pressured overall yields by 1.4 to 6.1bps. 10Y UST yield was down by 4.6bps to 0.727%. Gold futures tumbled by 1.8% to $1888.5/oz as the dollar strengthened. Oil prices rebounded after Monday's sharp losses; Brent crude added 1.8% to $42.45/barrel and WTI rallied by nearly 2% back above the $40 handle.

- **On the data front, US latest CPI data suggest that prices remained subdued;** small business optimism surged back to pre-pandemic levels. UK job market deteriorated as unemployment rate rose sharply and economy shed more jobs than expected. German investors turned less optimistic over Eurozone growth outlook according to the latest ZEW survey. **China's strong import growth narrowed its trade surplus** and is interpreted as signs of strong domestic demand. **Singapore GDP rebounded by 7.9% QOQ in the third quarter; the MAS maintained its policy stance**.

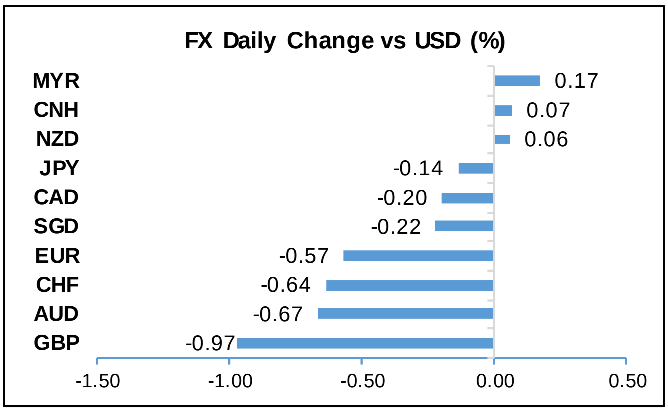
- **DXY gained 0.5% to 93.525 as the strength in the greenback gained further momentum**. Major currencies saves for NZD weakened against USD, with huge losses seen in GBP. We maintain our view that movements will stay volatile and may be unpredictable for October. There may be a bearish bias on the dollar if markets turn constructive. Earnings results may also be a factor.

- **USD/MYR closed 0.2% lower at 4.1410 on Tuesday** as the local unit was supported by announcement of a less strict Conditional Movement Control Order (CMCO) rules that allow businesses to continue operating in the affected states and territories. Daily outlook for the pair remains bullish following stronger USD overnight and retreating risk sentiment in global markets.

Market Snapshots

	Last Price	DoD %	YTD %
Dow Jones Ind.	28,679.81	-0.55	0.50
S&P 500	3,511.93	-0.63	8.70
FTSE 100	5,969.71	-0.53	-20.85
Hang Seng	24,649.68	2.20	-12.56
KLCI	1,525.20	0.45	-4.00
STI	2,567.65	0.60	-20.33
Dollar Index	93.53	0.50	-2.97
WTI oil ($/bbl)	40.20	1.95	-34.16
Brent oil ($/bbl)	42.40	1.63	-35.76
Gold (S/oz)	1,888.50	-1.77	23.99
CPO (RM/tonne)	3,058.00	1.73	1.07

Source: Bloomberg



Source: Bloomberg

Overnight Economic Data

US	→	Eurozone	↓
UK	↓	China	↑
Singapore	↑		

Up Next

Date	Event	Prior
14/10	AU Westpac Consumer Conf Index (Oct)	93.8
	JP Industrial Production MoM (Aug F)	1.7%
	EU Industrial Production SA MoM (Aug)	4.1%
	US MBA Mortgage Applications (09 Oct)	4.6%
	US PPI Final Demand YoY (Sep)	-0.2%
15/10	AU Employment Change (Sep)	111.0k
	AU Unemployment Rate (Sep)	6.8%
	CN PPI YoY (Sep)	-2.0%
	CN CPI YoY (Sep)	2.4%
	US Initial Jobless Claims (10 Oct)	17.0
	US Empire Manufacturing (Oct)	17.0
	US Import Price Index YoY (Sep)	-1.4%
	US Philadelphia Fed Business Outlook (Oct)	15.0

Source: Bloomberg

Macroeconomics

- ***US inflation stayed subdued; small businesses turned more optimistic:***
  - Consumer price index rose at a slower pace for the second month by 0.2% MOM in September (Aug: +0.4%). Core CPI growth also eased to 0.2% MOM (Aug: +0.4%). On a yearly basis, CPI growth however was a tad higher at 1.4% YOY (Aug: +1.3%) while core CPI was steady at +1.7% YOY (Aug: +1.7%), confirming that inflationary pressure remained subdued.
  - The NFIB Small Business Optimism Index rose to 104 in September (Aug: 100.2), the highest level in seven months and back to the pre-pandemic levels.

- ***Job market downturn deteriorated in UK:***
  - The downturn in UK's job market was worse than expected according to the latest job data released by the ONS. The economy suffered total job losses of 153k in the three months to August, five times more than analysts' expectation of 30k losses (3m to Jul: -12k).
  - The unemployment rate ticked up sharply to 4.5% in the same period (prior: +4.1$), the highest level since Apr-17.
  - Separate report shows that there was also a record jump in quarterly increase of vacancies (+144k) in the Jul-Sep period which brings the vacancies levels to 448k. But this is still below the pre-pandemic levels and is 40.5% lower compared to the same period last year.

- ***Less optimistic German investors:*** German investors turned less optimistic over the growth outlook of Germany and the broader euro area. The latest ZEW Survey reported that the Expectations Index for Germany fell sharply to 56.1 in October (Sep: 77.4) while a similar gauge for Eurozone also dropped to 52.3 (Sep: 73.9), reflecting concerns over the recent rise in Covid-19 cases in the continent that had led to stricter social distancing rules.

- ***Strong rebound in China's import growth reduces trade surplus in September:*** China's trade surplus narrowed to USD 37b (consensus 60bn) on strong import growth. Exports climbed 9.9% YOY compared to 9.5% a month ago, marking its fourth month of back-to-back growth since June. Imports rebounded to a 13.2% YOY expansion compared to the 2.1% fall a month ago. The print defied analysts' forecast of that called for a mere 0.4% YOY gain. This signalled a recovering domestic economy, and should be interpreted positively.

- **Singapore GDP rebounded sharply in 3Q; MAS maintained policy stance:** The Monetary Authority of Singapore has kept the Singapore Dollar Nominal Effective Exchange Rate (SGD NEER) policy stance unchanged, by keeping to a zero-appreciation stance. According to an advance estimate, Singapore GDP expanded by 7.9% QOQ in the third quarter (2Q: -13.2%), reflecting resumption in domestic activity after the circuit breaker measures were eased and government stimulus took effect. Compared to the same quarter last year, GDP fell by -7% YOY in 3Q after a 13.3% collapse in 2Q. Construction and services sectors continued to drag on economic growth with manufacturing seeing some modest growth. MAS expects the Singapore economy to recover in 2021, alongside receding disinflation risk but the underlying growth momentum will be weak.

Forex

MYR (Bearish)

- USD/MYR closed 0.2% lower at 4.1410 on Tuesday as the local unit was supported by announcement of a less strict Conditional Movement Control Order (CMCO) rules that allow businesses to continue operating in the affected states and territories. Daily outlook for the pair remains bullish following stronger USD overnight and retreating risk sentiment in global markets.
- **Factors supporting**: Economic recovery, less dovish MPC, USD weakness
- **Factors against**: Risk aversion, US-China relations, domestic politics, imposition of second lockdown

USD (Neutral Outlook over 1 Week Horizon)

- DXY rebounded from 93 levels to an intraday high of 93.6, affected by US stimulus deadlock. We maintain our view that movements will stay volatile and may be unpredictable for October. There may be a bearish bias on the dollar if markets turn constructive. Earnings results may also be a factor.
- **Factors supporting**: Risk aversion, US-China relations
- **Factors against**: Volatility, positive developments from global policymakers, poor US economy, US stimulus

EUR (Neutral-to-Bullish)

- EUR/USD weakened below 1.18 levels seen on 12 October, to an intraday low of 1.1731. This was affected by market pessimism from US stimulus programme. We believe that EUR will likely range around 1.170-1.185 from recent volatility.
- **Factors supporting**: USD weakness, Europe economic recovery
- **Factors against**: Risk aversion, Faltering fundamentals

GBP (Neutral)

- GBP/USD weakened to 1.293 levels after a 1-month high of 1.3083 on 12 October. We maintain the view of some consolidation for the pound ahead.
- **Factors supporting**: Breakthrough in news, USD weakness
- **Factors against**: Risk aversion, Brexit, twin deficits, Bank of England increasing monetary accommodation

JPY (Neutral-to-Bearish)

- USD/JPY traded in a bid after some recovery and a low of 105.24 on 12 October. Pair reached an intraday high around 105.60, opening Wednesday around 105.5. We expect range-trading of around 105-106 for now from volatility.
- **Factors supporting**: New prime minister's directives, BOJ policy, USD weakness
- **Factors against**: Weak fundamentals, risk sentiments

AUD (Neutral-to-Bullish)

- AUD/USD has fell more since the 0.7243 high on 10 October, Pair opened Thursday around 0.7162. For now, a bullish run may see levels stretch to 0.73 but a correction may turn attention to 0.71.
- **Factors supporting**: Resilient economy, USD weakness
- **Factors against**: Risk aversion, 2^{nd} wave of Covid-19 infections, China-Australia relations

SGD (Neutral-to-Bullish)

- USD/SGD traded in a bid on Tuesday, reaching an intraday high of 1.3610. Pair is likely to remain volatile on USD movements. MAS decision has now priced in, with slight strengthening of the SGD (for USD/SGD to fall below 1.36) immediately after the news.
- **Factors supporting**: Fed vs. MAS policy, economic recovery, USD weakness
- **Factors against**: Risk aversion, trade war, US-China

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