

Global Markets Research

Daily Market Highlights

Key Takeaways

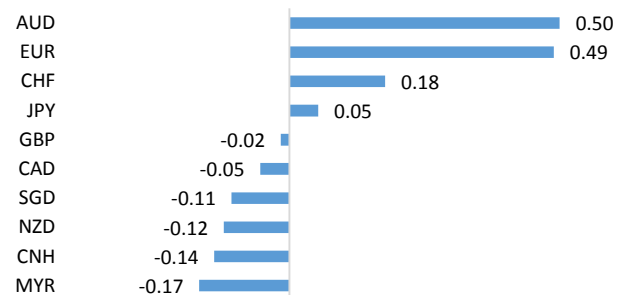
- US stocks drifted higher on Tuesday**, reversing some of last Friday's losses as US big banks released second quarter earnings, kicking off a much anticipated earnings season. **Despite the short drop in profits, earnings for two large banks indeed surpassed the very low expectations.** JP Morgan reported more than 50% drop in profit but the actual number beat analysts' expectations. Citigroup's earnings was also better than expected although profits declined 73%. San Francisco-based Wells Fargo meanwhile posted its first loss in more than a decade. All three banks set aside a total \$28 billion to cover potential loan losses according to the WSJ. The Dow Jones outperformed its peers on Tuesday with a 556-point or 2.1% daily gain; the S&P500 rose 1.3% of which all sectors posted gains and NASDAQ picked up 0.9%. Stocks in Europe and Asia had finished lower earlier.
- 10Y US treasury yield was unchanged at 0.62%. Gold price climbed further (+0.4%) to \$1809.36/ounce; crude oils rose 0.4-0.5% (WTI settled at \$40.29/barrel and Brent at \$42.90/barrel). The greenback weakened further, leading the dollar index to slip 0.2% to 96.26. **US-China tension is cast into spotlight again** as President Donald Trump signed a bill to impose sanctions on Chinese officials and also an executive order ending US' preferential treatment on Hong Kong. He also threatened more actions on China. **The Bank of Japan and the Bank of Canada are announcing their latest monetary policy decisions today. Stock futures are pointing to mixed starts in Asia; stocks in Hong Kong and Japan are expected to open higher.**
- Overall, data were positive except for Japan and Malaysia.** US reported better than expected Small Business Optimism Index and higher CPI print. Eurozone and UK both saw rebound in industrial production. Japan industrial production on the other hand fell for the eighth consecutive month. China exports rose slightly and overall trade activities also beat expectations. **Malaysia unemployment rate climbed to a fresh record high of 5.3% in May and is expected to continue inching up.**
- The USD weakened further on Tuesday buoyed by sentiments. DXY was down by 0.2%, closing at 96.26, mainly as EUR and AUD strengthened. We are **neutral on the USD** for the week ahead, with a bearish bias. We are not expecting much impetus from the usual positives (data) and negatives (Covid-19). Focus will be on retail sales, industrial production and labour market data from the US.
- USDMYR closed slightly higher (+0.17%) at 4.2710 on Tuesday as USD gained some strength. No change to current view of a neutral MYR ahead of key China and US data. Trump's latest move risks escalating US-China tension but we think that the effect on market was limited for now. We continue to see **USDMYR moving on a neutral note**, potentially swinging between minor gains and losses in response to volatile sentiment ahead of key China and US data. The pair should sit comfortably within 4.25- 4.29 in our view.

Market Snapshots

	Last Price	DoD%	YTD %
Dow Jones Ind.	26,642.59	2.13	-6.64
S&P 500	3,197.52	1.34	-1.03
FTSE 100	6,179.75	0.06	-18.07
Hang Seng	25,477.89	-1.14	-9.62
KLCI	1,598.75	-0.48	0.63
STI	2,620.19	-0.41	-18.70
Dollar Index	96.26	-0.2	-0.3
WTI oil (\$/bbl)	40.29	0.47	-34.02
Brent oil (\$/bbl)	42.90	0.42	-34.71
Gold (\$/oz)	1,809.36	0.37	19.33
CPO (RM/tonne)	2,410.00	-2.03	-20.34

Source: Bloomberg

Daily FX Changes vs USD (%)



Source: Bloomberg

Overnight Economic Data

US	↑	Eurozone	↑
UK	↑	Japan	↓
China	↑	Malaysia	↓

Up Next

Date	Event	Prior
15/07	US MBA Mortgage Applications (10 Jul)	2.2%
	US Import Price Index YoY (Jun)	-6.0%
	US Empire Manufacturing (Jul)	-0.2
	US Industrial Production MoM (Jun)	1.4%
	UK CPI YoY (Jun)	0.5%
	JN BOJ Policy Balance Rate (15 Jul)	-0.1%
	AU Westpac Consumer Conf Index (Jul)	93.7
16/07	US Federal Reserve Beige Book	-
	US Retail Sales Advance MoM (Jun)	17.7%
	US Philadelphia Fed Business Outlook (Jul)	27.5
	US Initial Jobless Claims (11 Jul)	--
	US NAHB Housing Market Index (Jul)	58
	EU Trade Balance SA (May)	1.2b
	EU ECB Deposit Facility Rate (16 Jul)	-0.50%
	CN Industrial Production YoY (Jun)	4.40%
	CN GDP YoY (2Q)	-6.80%
	CN Retail Sales YoY (Jun)	-2.80%
AU Unemployment Rate (Jun)	7.10%	
NZ CPI YoY (2Q)	2.50%	

Source: Bloomberg

Macroeconomics

- US CPI inflation posted first positive growth in four months:** Consumer prices rose 0.6% MOM in June (May: -0.1%), its first positive reading in four months. Core CPI also turned positive (+0.2%), from -0.1% prior. This is a result of a rebound in energy prices (+5.1%) and higher services inflation (+0.2%). Prices of apparels and transportation picked up while housing was steady. Prices of food rose at slightly slower pace. The annual CPI inflation rate met expectations at 0.6% YOY (May: +0.1%) and the core CPI rate was steady at 1.2% YOY (May: +1.2%).
- US small business optimism index rose above 100:** The NFIB Small Business Optimism Index rose to 100.6 in June, beating analysts' expectation (97.8) by quite a huge margin and a hefty increase from 94.4 in May. Key points of the survey include 39% business owners expected better economy (May: 34%), 16% plan to hire (May: 8%) and 22% had increased capital spending (May: 20%). 13% also expect higher sales. Despite the generally positive reading, the "positive earnings trends" sub-index was at -35%, compared to -26% in the prior month, indicating that business owners remained gloomy over their earnings outlook.
- Eurozone industrial production rebounded in May:** Industrial production in the Eurozone posted a 12.4% MOM growth in May (Apr: -18.2%), rebounding from the two consecutive months of decline in March and April when most of the region was in lockdown. Productions of capital goods, durable consumer goods, and intermediate goods posted double-digit rebounds; energy output rose a mere 2.3%. Germany, France, Spain, Italy and Portugal all registered increase in output. Compared to the same month last year, industrial production was still 20.9% YOY lower, though being an improvement from the 28.7% YOY decline in April. May's reading also marked output's 18th consecutive month of contraction within a 19-month period since late 2018, underlying manufacturing weakness in the single-currency bloc.
- German investors offered mixed signals on growth outlook:** Germany's ZEW Survey reported that the expectation index for Germany's outlook fell by 4pts to 59.3 in July (Jun: 63.4), highlighting German investors' waning optimism over a strong economic recovery after the economy reopened. The index for current condition rose to -80.9 (Jun: -83.1) but still at depressed level. Investors however appeared more positive over the broader Eurozone's outlook as the same expectation index for Eurozone rose to 59.6 in July, from 58.6 in June,
- UK monthly GDP posted minor rebound in May as economy reopened:** UK GDP fell by 19.1% in the three months to May as Covid-19 lockdown dramatically reduced economic activity (three months to April: -10.8%), reflecting broad-based decline across services (-18.9%), production (-15.5%) and construction (-29.8%). In May alone, GDP posted a 1.8% MOM growth (Apr: -20.3%) after the economy reopened. This is evident in the 6% MOM rebound in industrial production (Apr: -20.2%) of which manufacturing output grew 8.4%.
- Japan industrial production fell for eighth month:** Industrial production fell 8.9% MOM in May which translates into a 26.3% YOY decline according to a final reading. This marks its eighth consecutive month of decline since October last year and was much larger than the 15% contraction in April.

Forex

MYR (Neutral)

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USD (Neutral)

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EUR (Neutral)

- EUR gained 0.49% vs. USD on Tuesday, bringing EUR/USD to above 1.14.
- Attention will be on the ECB policy decision on 16 July, where forward guidance will be keenly eyed. The outlook for EUR may remain better than that of GBP.

GBP (Neutral-to-Bearish)

- GBP/USD stayed roughly flat on Tuesday.
- Attention will be on any progress on Brexit, where uncertainty is still high. On 13 July, the government has warned that the outcome of ongoing Brexit negotiations will not alter significant changes to trade with EU that business needs to prepare for (according to BBC).

JPY (Neutral)

- JPY gained by 0.05% compared to the USD on Tuesday.
- Focus is on Bank of Japan meeting today but there is unlikely more measures from the bank. We may however see some updated views on its policy and virus risks. We stay neutral in the absence of any momentum away from the current range.

AUD (Neutral-to-Bearish)

- AUD/USD gained 0.50% on Tuesday, touching 0.70 in the process.
- The pair has been sensitive to daily swings in sentiments. Economic data focus is on employment, where things still look pretty grim in June. Second waves may hamper the outlook ahead. We are neutral-to-bearish on elevated levels, with risk of some correction.

SGD (Neutral)

- SGD weakened by 0.11% on Tuesday, staying close to 1.39.
- We expect USD/SGD to stay within a tight range of 1.38-1.40 for now. For the week ahead, markets are likely to focus on central bank announcements and economic data. These are likely to stabilise expectations, as numbers improve from April lows. However, a second wave of Covid-19 infections worldwide is limiting further bullish views for now.

- **China trade activities better-than-expected in June:** China exports rose 0.5% YOY, after a 3.3% decrease a month ago. This is better than consensus expectation of 2% decline. Export growth to US, Canada, Taiwan, UK, ASEAN posted improvements. Meanwhile, imports climbed 2.7% YOY, from a 16.7% contraction prior. The numbers reflect a significant month-on-month jump from May which is hinting at improving domestic activities. Imports from US rose 11.3% YOY, after falling for previous months in 2020. This has reduced the trade surplus to USD 46.4bn, from USD 62.93bn previously from better than expected import growth. Overall trade surplus remains healthy. Given April-June figures, net exports will support GDP growth in 2Q. Improved trade activities in China is a positive sign for the global economy.
- **Malaysia unemployment rate continued to inch up in May:** Unemployment rate extended its upward move to a fresh record low of 5.3% in May (Apr: 5.0%), way above the historical norm of 3.3-3.5%. The number of unemployed jumped to 826.1k (Apr: 778.8k), representing a 58.9% YOY and 6.1% MOM increase. The 1.8% MOM increase in the labour force coupled with the 0.3% MOM decline in the number of employed signalled more people are looking for jobs but companies are hiring less. Labour force participation rate eased further to 68.0% in May (Apr: 68.1%), its lowest since Dec-17, but still above the record low of 62.6% in 2008. There is still room for unemployment rate to inch higher as the job market softens.

Hong Leong Bank Berhad

Fixed Income & Economic Research, Global Markets

Level 8, Hong Leong Tower

6, Jalan Damansara

Bukit Damansara

50490 Kuala Lumpur

Tel: 603-2081 1221

Fax: 603-2081 8936

Email: HLMarkets@hlbb.hongleong.com.my**DISCLAIMER**

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