

## Global Markets Research

### Daily Market Highlights

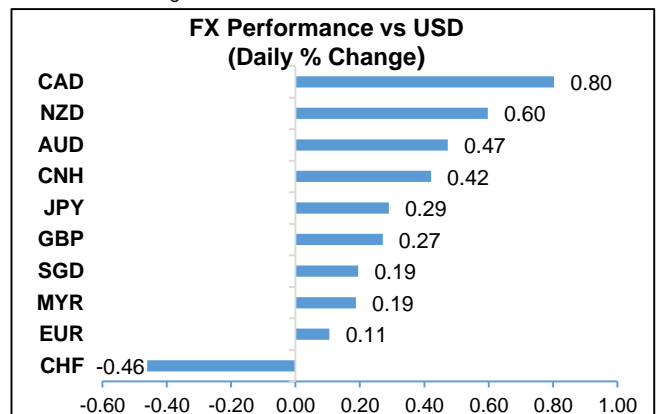
#### Key Takeaways

- US stocks extended modest gains on Wednesday**, after equities in both Europe and Asia ended higher as investors reacted to a bevy of **good news from Moderna's promising vaccines studies, Goldman Sachs' earnings, Apple's court victory in Europe and better-than-expected US industrial production data**. The Dow Jones added 228pts or 0.85%, the S&P 500 rose 0.91% and NASDAQ went up by 0.59%. Goldman Sachs' second quarter beat expectations. The bank's revenue also turned out much better than expected thanks to strong performance in its trading and investment banking segments. Goldman's shares traded upward by 1.4% and the S&P500 Financials Index rose nearly 2%. Apple won a key €13b tax dispute against the European Union's antitrust authority, pushing its shares higher by 0.7%.
- US treasury yields were little changed on Wednesday- the benchmark 2Y (0.16%) and 10Y UST yields (0.63%) changed less than 1basis point when the market closed. Gold price was steady at \$1810.29/ounce. Crude oils picked up more than 2% gain over a much larger than expected draw in US crude inventory (-7.5 mil barrels) last week. Brent crude settled at \$43.79/barrel and WTI at \$41.2/barrel. **Earlier yesterday, the BOJ left its monetary policy unchanged and the Bank of Canada kept its policy rate at 0.25%**.
- US data showed promising signs of recovery** despite surging Covid-19 cases, UK CPI rose 0.1% MOM and New Zealand CPI fell for the first time in more than 4 years. **China's 2Q GDP data are due at 10 am and is expected to set the tone for today's trading session. We are projecting a 2.9% YOY growth (1Q: -6.8%)** and a Bloomberg consensus estimate stands at 2.4% YOY. Australia's and the UK job data are also in today's calendar. After that, attention turns to the ECB's meeting and President Lagarde's press conference. **No change is expected in the ECB's policy. US retail sales data are expected to drive markets later tonight.**
- The greenback weakened for the fourth consecutive session, losing out to nearly all major currencies save for the Swiss franc; CAD and NZD were among the top performers, the DXY fell 0.2% to 96.08. **We are still neutral on the USD** today in anticipation of ECB's meeting and US retail sales data which could potentially swing the greenback's direction especially if there is a major surprise.
- USD/MYR closed 0.2% lower at 4.2630 on Wednesday as MYR strengthened alongside its Asian peers amid broad-based dollar weakness. Pair is expected to open lower, catching up with the weaker dollar overnight but the downside is limited in our view ahead of key China and US data. **We continue to see USD/MYR 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.     | 26,870.10  | 0.85  | -5.85  |
| S&P 500            | 3,226.56   | 0.91  | -0.13  |
| FTSE 100           | 6,292.65   | 1.83  | -16.57 |
| Hang Seng          | 25,481.58  | 0.01  | -9.61  |
| KLCI               | 1,585.56   | -0.83 | -0.20  |
| STI                | 2,648.90   | 1.10  | -17.81 |
| Dollar Index       | 96.08      | -0.2  | -0.3   |
| WTI oil (\$/bbl)   | 41.20      | 2.26  | -32.53 |
| Brent oil (\$/bbl) | 43.79      | 2.07  | -33.65 |
| Gold (\$/oz)       | 1,810.29   | 0.05  | 19.38  |
| CPO (RM/tonne)     | 2,400.00   | -3.69 | -20.67 |

Source: Bloomberg



Source: Bloomberg

#### Overnight Economic Data

|             |   |    |   |
|-------------|---|----|---|
| US          | ↑ | UK | ↑ |
| New Zealand | ↓ |    |   |

#### Up Next

| Date  | Event                                      | Prior  |
|-------|--|--------|
| 16/07 | US Retail Sales Advance MoM (Jun)          | 17.7%  |
|       | US Philadelphia Fed Business Outlook (Jul) | 27.5   |
|       | US Initial Jobless Claims (11 Jul)         | 1314k  |
|       | 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%  |
| 17/07 | US Building Permits MoM (Jun)              | 14.40% |
|       | US Housing Starts MoM (Jun)                | 4.30%  |
|       | US U. of Mich. Sentiment (Jul P)           | 78.1   |
|       | EC CPI YoY (Jun F)                         | 0.10%  |
|       | SI Non-oil Domestic Exports YoY (Jun)      | -4.50% |
|       | NZ BusinessNZ Manufacturing PMI (Jun)      | 39.7   |

Source: Bloomberg

## Macroeconomics

- BOJ left monetary policy unchanged:** The Bank of Japan maintained short term interest rate target at -0.1% and its 10Y JGB yield target at around 0%, as widely expected. It also maintained limits and annual paces of purchase of ETF (¥12trn), J-REITs (¥180b) as well as the outstanding amount of Commercial Papers (¥2trn) and Corporate Bonds (¥3trn). The 2% inflation target remained well in place and it reiterated stance that it would provide additional easing if necessary. BOJ's baseline scenario is for the Japanese economy to gradually improve in 2H as economic activity resumes, but the pace is expected to be "only moderate". The assumption is that a second wave of Covid-19 would not occur on a large scale. Annual CPI ex fresh food (key BOJ inflation gauge) is likely to be negative for now. The outlook is "extremely unclear", depending on the consequences of Covid-19 pandemic. Risk to economic activity and prices are skewed to the downside. Median forecast of GDP growth for fiscal year 2020 was downgraded to -4.7% (Apr forecast: -5% to -3%); CPI ex fresh food at -0.5% (Apr forecast: -0.7% to -0.3%).
- US Industrial production, NY Empire State Manufacturing point to recovery in manufacturing:** Federal Reserve's data show that industrial production rose 5.4% MOM in June (May: +1.4%), better than expectation of 4.3% growth. This reflects 7.2% increase in manufacturing output and a 4.2% growth in utilities. The largest gains were recorded in the production of motor vehicles and parts (+105%). Mining continued to decrease 2.9%. Nonetheless, total industrial production remained 10.9% lower than its pre-pandemic level in February, indicating there is still some way to go before a full recovery. In a separate release, the New York Fed Empire State Manufacturing Index picked up to 17.2 in July (Jun: -0.2), its first positive reading in five months as the region's manufacturing industry went back into operation.
- US Fed Beige Book reported increase in US economy activity and an uncertain outlook:** The Federal Reserve published its fifth Beige Book of the year and the survey outlined that economic activity increased in almost all US districts but remained well below the pre-pandemic levels following the reopening of the economy. Employments went up as well (still below pre-pandemic level) and prices were little changed. The retail sector and manufacturing were up and construction was subdued. Loan demand excluding that of the Paycheck Protection Program and residential mortgages were flat. Outlooks remained highly uncertain.
- US imported prices jumped in June as petroleum prices recovered:** Import price index gained 1.4% MOM in June (May: +0.8%) thanks to a jump in prices of imported petroleum (+23%) as global crude oil prices stabilised. Prices of industrial supplies also gained for the second month (+7%). This translates into a smaller fall in the annual rate of imported prices (-3.8% vs -6.2%) which has now recorded its fifth consecutive month of decline. This highlights the lack of imported inflation in the US economy.
- US refinancing activity rose amid lower rates:** Mortgage applications in the US rose 5.1% for the week ended 10 Jul. This follows a 2.2% increase in the prior week. The latest gains were mainly driven by the nearly 12% jump in refinancing applications thanks to lower rates. Purchases applications fell 6.1% after a 5.3% increase in the previous week.

## Forex

### MYR (Neutral to slightly bullish)

- USD/MYR closed 0.2% lower at 4.2630 on Wednesday as MYR strengthened alongside its Asian peers amid broad-based dollar weakness.
- Pair is expected to open lower, catching up with the weaker dollar overnight but the downside is limited in our view ahead of key China and US data. We continue to see USD/MYR 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.

### USD (Neutral)

- The greenback weakened for the fourth consecutive session, losing out to nearly all major currencies save for the Swiss franc; CAD and NZD were among the top performers, the DXY fell 0.2% to 96.08..
- We are still neutral on the DXY today in anticipation of ECB's meeting and US retail sales data which could potentially swing the greenback's direction especially if there is a major surprise.

### EUR (Neutral)

- EUR/USD rose 0.11%, holding above 1.14 for the second day as dollar weakened.
- Attention will be on the ECB policy decision today, where forward guidance will be keenly eyed. The outlook for EUR may remain better than that of GBP.

### GBP (Neutral)

- GBP/USD gained 0.27% to 1.2587.
- Outlook is neutral today ahead of multiple UK job data that include jobless claims, unemployment rate and number of jobs changes. The lack of Brexit progress remains a major downside to the pair.

### JPY (Neutral)

- USD/JPY fell 0.29% to below 107; JPY strengthened despite positive risk sentiment. Pair did not react to BOJ's meeting.
- We stay neutral on USD/JPY, expecting to range 106-108. Further moves away from the range looks unlikely at this stage, barring from any substantial shift in risk sentiment.

### AUD (Neutral)

- AUD/USD surged 0.47%, trailing behind NZD. Importantly it broke past 0.70 resistance.
- We are neutral on the pair for now as the sustainability of this level depends on Australia's job report and China's GDP.

### SGD (Neutral)

- USD/SGD fell 0.19% to below 1.39.
- We expect USD/SGD to stay within a tight range of 1.38-1.40 for now as China's GDP is expected to set the tone for emerging market currencies.

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## Macroeconomics

- **UK CPI posted surprise gain:** UK CPI rose 0.1% MOM in June, after a flat reading in May, better than analysts' expectation. This translates into an annual inflation rate of 0.6% YOY, higher than 0.5% in April. This mainly reflects the smaller fall in cost of energy, clothing & footwear as well as the jump in prices of medical products. Core CPI rate also surged to 1.4% YOY, from 1.2% in April.
- **New Zealand consumer prices fell in 2Q; annual inflation eased less than expected:** New Zealand CPI fell 0.5% QOQ in the second quarter this year, following the 0.8% gain recorded in the first quarter its first negative reading in more than four years thanks to the Covid-19 pandemic lockdown. This reflects fall in prices of fish/poultry, clothings, footwear, transport supply, transportation as well as smaller gains in prices of groceries, housing/utilities, energy and household supplies. The annual rate of CPI slipped to a mere 1.5% growth in 2Q, from 2.5% in 1Q, although the reading still beat a Bloomberg survey (+1.3%).

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