HongLeong Bank

Global Markets Research

Daily Market Highlights

Key Takeaways

- **US stocks extended gains for the third session, boosted by the surprise 17.7% jump in May retail sales data that** point to a return of consumer spending following the easing of social distancing rules across the country, as well as the $1 trillion infrastruture spending announced by Trump. Industrial production also managed to recovered 1.4% from its record decline although the actual number missed expectations. The Dow Jones added 527pts or 2.0%, the S&P500 rose 1.9%, boosted by broad-based gain across all eleven sectors while NASDAQ picked up 1.7%. Stocks of retailers like Kohl, Nordstrom and Gap rallied more than 8%. Stock markets in Europe and Asia had also finished higher earlier, riding on the Federal Reserve's most recent announcement that it would purchase individual corporate bonds to support the US economy. European benchmarks gained around 3% while key Asian markets picked up 1.5% to nearly 5%.

- Global bond yields generally edged up on the back of better risk sentiment; 10Y UST yield rose 3 basis points to 0.75%. Spot gold rose slightly to $1726.53/ounce; Brent crude settled 3% higher at $40.96/barrel. **US housing starts and building permits data are due tonight** and shall offer assessment of the post-lockdown homebuilding activity and real estate outlook in general.

- Elsewhere, the June ZEW Expectations Survey shows that **German investors turned more upbeat over Germany's as well as the broader Eurozone's economic outlook**. UK unemployment rate surprisingly held unchanged at 3.9% in April and data are not likely reflective of the actual state of the labour market. **In Japan, the BOJ expanded corporate bond purchase program.** Today's trade data show more than 20% decline in international trade. RBA minutes offered no new insights. Singapore NODX resumed decline.

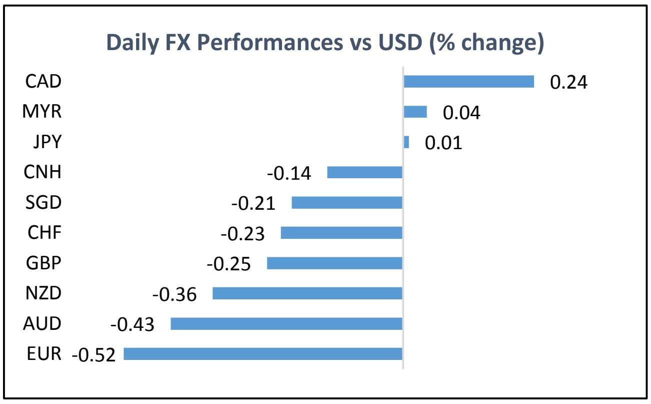
- The USD rebounded on Tuesday. DXY recovered by 0.3%, closing at 96.958. It gained against the EUR. AUD and NZD, reversing prior day's losses. DXY has seen some range movement since 10 June, after a bottom of 95.716 on 11 June. We are **neutral to bearish on the USD** for the week ahead, after the reversal. Risk sentiments now driving USD weakness. Fed accommodation will likely remain a large factor in driving further moves downwards.

- USDMYR was little changed at 4.2770 on Tuesday. We remain **bullish on USDMYR** today, as the pair might catch up with overnight USD strength. In the short-to-medium term, uncertainty surrounding US-China tension and the renewed worry about a new Covid-19 outbreak in China continues to linger and pose as a downside risk to MYR.

Market Snapshots

	Last Price	DoD %	YTD %
Dow Jones Ind.	26,289.98	2.04	-7.88
S&P 500	3,124.74	1.90	-3.28
FTSE 100	6,242.79	2.94	-17.23
Hang Seng	24,344.09	2.39	-13.64
KLCI	1,517.71	1.26	-4.47
STI	2,666.85	2.03	-17.25
Dollar Index	96.96	0.3	0.7
WTI oil ($/bbl)	38.38	3.39	-37.14
Brent oil ($/bbl)	40.96	3.12	-38.91
Gold (S/oz)	1,726.53	0.08	13.91
CPO (RM/tonne)	2,369.50	-0.94	-21.68

Source: Bloomberg



Source: Bloomberg

Overnight Economic Data

US	↑	Eurozone	↑
UK	↑	Japan	↓
Singapore	↓		

Up Next

Date	Event	Prior
17/06	US MBA Mortgage Applications (12/06)	--
	US Building Permits MoM (May)	-20.8%
	US Housing Starts MoM (May)	-30.2%
	EC CPI YoY (May F)	0.3%
	UK CPI YoY (May)	0.8%
	AU Westpac Leading Index MoM (May)	-1.5%
18/06	US Philadelphia Fed Business Outlook (Jun)	-43.1
	US Initial Jobless Claims (13/06)	--
	US Leading Index (May)	-4.4%
	UK Bank of England Bank Rate (18/06)	0.1%
	AU Employment Change (May)	-594.3k
	AU Unemployment Rate (May)	6.2%
	NZ GDP SA QoQ (1Q)	0.5%

Source: Bloomberg

Macroeconomics

- ***Record jump in US retail sales; meagre recovery in industrial production:*** Retail sales rose 17.7% MOM in May, after the hefty 14.7% decline in April; more than double analyst expectation of 8% rebound and marked its sharpest jump on record. Nearly all categories of goods recorded double-digit growth and in the case of clothing, a whopping 188% growth as the easing of social distancing rules led to a pent-up demand among US consumers.

- ***Meagre recovery in US industrial production:*** Industrial production rose 1.4% MOM in May, rebounding from the 12.5% record fall in April as many factories "resumed at least partial operations as the US economy reopened. The recovery was led by manufacturing output which rose 3.8% while mining and utilities registered decline.

- ***More optimistic German investors***: German investors turned more upbeat over the growth outlook of Germany's as well as broader Eurozone's economy according to the June ZEW Economic Sentiment Survey. The Economic Sentiment Index for Germany rose to 63.4 (May: 51) although the current situation index remained severely depressed (-83.1 vs -93.5). The Economic Sentiment Index for Eurozone also recovered further from 46 to 58.6.

- ***UK job data not reflective of the actual state of labour market:*** The ILO unemployment rate surprisingly held unchanged at 3.9% in April, believed to be due to reporting methodology that could still see the rate spiking in the months ahead. The UK labour market also unexpectedly added 8k of jobs in the three months to April, contrary to expectation a decline of 83k. In what we believe are closer to reality, claimant count rate rose more than expected by 529k in May, although it was halved from the month before, while average earnings decelerated sharply to 1.7% and 1.0% (ex-bonus), compared to March's 2.7% and 2.3% increase respectively.

- ***BOJ stood pat and only expanded corporate bond purchase programme:*** BOJ maintained short term interest rate target at -0.1%, and 10Y JGB yield target around 0%, but increased its Special Covid-19 Lending Programme (include purchases of commercial papers and corporate bonds) from ¥75 trillion to ¥110 trillion. BOJ highlighted that the Japanese economy is in an "extremely severe situation" due to the coronavirus pandemic and will likely remain so for the time being. However, the economy is likely to improve gradually, supported by accommodative financial conditions and the government economic measures. We expect no further changes in its already ultra-accommodative policy stance in the near term.

- ***Japan international trade battered by pandemic***: Japan exports slumped 28.3% YOY in May, its largest fall in 10 years, following the nearly 22% decline in April, in the wake of the lockdown that started in mid-April. The decline was equally sharp and in fact turning steeper in imports, with a 26.2% YOY fall in May (Apr: -7.1%).

- ***No new insights from RBA minutes***: Minutes of the June RBA meeting offered no new insights. The central bank said that the Australian economy is experiencing the worst recession since 1930. Although the downturn could be shallower than initially expected, accommodative fiscal and monetary policy will be required for some time. The bank's policy measures were working broadly as expected and RBA is prepared to scale up bond purchases again if necessary.

Forex

MYR (Bearish)

- USDMYR was little changed at 4.2770 on Tuesday.
- We remain bullish on USDMYR today, as the pair might catch up with overnight USD strength. In the short-to-medium term, uncertainty surrounding US-China tension and the renewed worry about a new Covid-19 outbreak in China continues to linger and pose as a downside risk to MYR.

USD (Bearish)

- The USD rebounded on Tuesday. DXY recovered by 0.3%, closing at 96.958. It gained against the EUR. AUD and NZD, reversing prior day's losses. DXY has seen some range movement since 10 June, after a bottom of 95.716 on 11 June.
- We are **neutral to bearish** on the USD for the week ahead, after the reversal. Risk sentiments now driving USD weakness. Fed accommodation will likely remain a large factor in driving further moves downwards.

EUR (Neutral-to-Bullish)

- EUR gains failed to gather momentum and EUR/USD came off on Tuesday. EUR/USD has now stayed in a range of 1.1195-1.1422 since 4 June.
- We are neutral-to-bullish on EUR for the week. Momentum to weaken is not strong at the moment. However, the EUR may turn out a casualty if USD strengthens again.

GBP (Neutral-to-Bearish)

- GBP/USD weakened 0.25% on Tuesday, now showing signs of consolidation.
- We are bearish on GBP during periods of USD strength. Fundamentally, there are less reasons to be optimistic on the GBP than the EUR, given Brexit uncertainty, worse Covid-19 infection and fundamentals.

JPY (Neutral-to-Bearish)

- JPY has moved in a range and stayed around 107.20 levels on Tuesday.
- We are neutral to bearish on the JPY on the week ahead. There exist strong supports around the 106 and 107 big figures, unless risk aversion climbs significantly.

AUD (Neutral)

- AUD/USD weakened by 0.43% to close at 0.6889.
- Despite looking stretched, AUD is now looking quite balanced in terms of both its bullish and bearish signs. Pair remains much higher than 50, 100 and 200 day averages, so there may exist some pressure for a near-term retreat to 0.6551-0.6665.

SGD (Neutral-to-Bearish)

- USD/SGD rebounded on Tuesday, now appearing to be in consolidation mode since 10 June.
- Psychological resistance for USD/SGD is at 1.4000. Following which, the attention may turn to 100-day moving average of 1.4085. Still, a weaker USD may move USD/SGD to the lower half of the 1.38-1.40 range. A breakthrough of this range will likely signal at some momentum.

- ***Singapore NODX resumed decline:*** Singapore's non-oil domestic exports fell 4.5% YOY in May, reversing a 9.7% increase in April. This came despite a 12.5% YOY surge in electronics exports. Non-electronics exports contracted 8.8% YOY, particularly weighed down by petrochemicals. The data provided an early warning into the pharmaceutical sector's performance. It may normalise from astronomical levels in the coming months.

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