Global Markets Research

Daily Market Highlights

Key Takeaways

- **Global stocks slipped as risk-off sentiment dominated markets.** US stocks traded lower on Thursday, in another swing in sentiment as **markets weighed surging Covid-19 infections, mixed banks earnings and positive retail sales data.** Bank of America reported a 52% drop in profits while Morgan Stanley saw a 45% profit jump in the second quarter. Risk sentiment retreated globally with European and Asian stocks closing Thursday's trading session lower; the Shanghai Composite Index pulled back by 4.5% after a recent rally, despite upbeat China's GDP data. The Dow Jones, S&P 500 and NASDAQ fell by 0.3-0.7% DOD overnight. The week-to-date performances were mixed as both Dow and S&P500 are still in positive territories while NASDAQ was lower compared to last week.

- **Global bond yields generally edged lower** on Thursday as risk aversion took hold of markets; 10Y UST treasury yield fell 1bp to 0.62%. Gold price retreated (-0.7%) to $1797.16/ounce, its first sub-1800 closing in four days. Crude oils fell around 1%, partially reversing recent gains – WTI and Brent crude settled at $40.75/barrel and $43.37/barrel respectively. The greenback regained grounds.

- Earlier, **the ECB had maintained its monetary policy as widely expected. US retail sales rose** 7.5% MOM, **initial jobless claims were little changed** at 1.3mil last week. **Philly Fed Manufacturing Index was slightly lower** this month and hombuilder sentiment returned to pre-pandemic level. **Eurozone trade surplus widened** but international trade remained much lower compared to a year ago. **UK unemployment rate was steady** at 3.9**%. China 2Q GDP grew 3.2% YOY, June data point to gradual recovery.** Australia added 200k jobs, all of them in the part-time segment. New Zealand Manufacturing PMI surged back above 50.

- The dollar index snapped three-day losing streak, adding 0.3% to 96.346. USD appreciated against major currencies, notably leading EUR/USD to slip below 1.14 and AUD/USD to below 0.70. Even JPY and CHF weakened as well. **We turned bullish on DXY today** as risk aversion is likely to fuel the dollar's rise. The surge in Covid-19 cases in the US remain a major concern and could stifle economic recovery but the absence of any major drivers globally and the generally lacklustre data could lead to higher demand for the greenback.

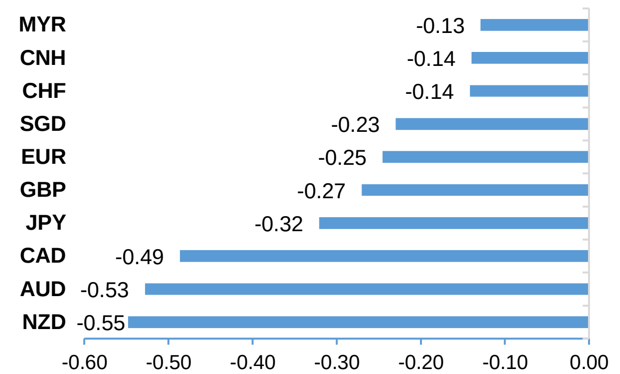
- On the home front, USD/MYR finished slightly higher (+0.13%) at 4.2685 on Thursday, barely reacting to major China data. Our neutral outlook for USD/MYR is at risk today following a retreat in risk sentiment overnight. This is still in line with our expectation that the pair could potentially swing between gains and losses in response to volatile sentiment. **Daily outlook is slightly bullish** as the pair is likely to open higher and investors are prone to sell MYR on Friday ahead of the weekend, but shouldn't divert away from the comfortable range of 4.25- 4.29.

Market Snapshots

	Last Price	DoD %	YTD %
Dow Jones Ind.	26,734.71	-0.50	-6.32
S&P 500	3,215.57	-0.34	-0.47
FTSE 100	6,250.69	-0.67	-17.13
Hang Seng	24,970.69	-2.00	-11.42
KLCI	1,573.31	-0.77	-0.97
STI	2,623.67	-0.95	-18.59
Dollar Index	96.35	0.3	-0.1
WTI oil ($/bbl)	40.75	-1.09	-33.26
Brent oil ($/bbl)	43.37	-0.96	-34.23
Gold ($/oz)	1,797.16	-0.73	18.57
CPO (RM/tonne)	2,480.00	-2.63	-18.03

Source: Bloomberg

FX Daily Changes vs USD (%)



Source: Bloomberg

Overnight Economic Data

US	↑	Eurozone	↑
UK	→	China	→
Australia	→	New Zealand	↑

Up Next

Date	Event	Prior
17/07	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%
20/07	UK Rightmove House Prices YoY (Jul)	--
	JP Exports YoY (Jun)	-28.30%
	CH 1-Year Loan Prime Rate (44013)	3.85%
	NZ Performance Services Index (Jun)	37.2

Source: Bloomberg

Macroeconomics

- ***ECB maintained monetary policy:*** The ECB left monetary policy unchanged as expected, leaving all key interest rates at the same levels. It continued to pledge monetary easing via the ongoing €1,350 billion Pandemic Emergency Purchase Programme (PEPP). The timeline horizon was unchanged – "until at least the end of June 2021". The APP program will continue at a monthly pace of €20b together with the additional €120b until the end of 2020. ECB said that economic indicators remained well below pre-pandemic levels, the recovery is in its early stages and remained uneven. Real GDP is expected to have contracted even further in 2Q. Activity is expected to rebound in 3Q as containment measures are further relaxed. The balance of risks to growth outlook remained on the downside. Weaker demand will continue to put downwward pressure on inflation.

- ***US retail sales better than expected:*** US retail sales rose 7.5% MOM in June, beating expectations of a 5.0% growth. Growth in May was also revised upwards from 17.7% to 18.2%. Sales continued to rise in key sector such as motor vehicles, gasoline stations, electronics, clothings as well as food services and drinking places as the economy gradually reopened. The so-called retail sales for control group, a gauge of core spending grew 5.6% MOM (May: +10.1%). Compared to the same month last year, headline retail sales were 1.1% higher. Online sales slipped 2.4% MOM but was still 23.5% higher YOY.

- ***US initial jobless claims stabilised last week:*** Initial jobless claims was little changed at 1.30mil for the week ended 10 July, from 1.31mil recorded in the prior week. Continuous claims fell to 17.34 mil for the week ended 3 Jul, from 17.76mil, but still indicating high level of unemployment in the US. Surging cases in the US had led some states to halt reopening plan, this serves as a downside risk to the recovery in the labour market.

- ***US Philly Fed Manufacturing Index slipped lower in July:*** The Philly Fed manufacturing Index fell to 24.1 in July, from 27.5 in June, indicating a slower pace of growth in Philadelphia's factory activity.

- ***US homebuilders' sentiment recovered back to pre-pandemic level:*** US NAHB Housing Market Index jumped to 72 in July, from 58 in June, The index has now climbed back above 70 - from the trough in April (at 30)—levels prior to the pandemic, reflecting the recovery in homebuilders' confidence in the US. The indexes measuring sales of single-family units for the presence as well as in the next six months both recorded substantial increases, making up for the lacklustre readings in the prior three months.

- ***Eurozone's international trade remained considerably lower than last year:*** Eurozone trade surplus widened to €8b in May, from the revised €1.6b in April thanks to a nearly 8.0% MOM surge in exports. Imports registered a smaller growth of 3.2%. Covid-19 containment measures continued to have a significant impact on international trade in goods. Compared to the same month last year, Eurozone's exports was still 29.5% lower while imports were also 26.7% lower.

Forex

MYR (Neutral to slightly bearish)

- On the home front, USD/MYR finished slightly higher (+0.13%) at 4.2685 on Thursday, barely reacting to major China data. Our neutral outlook for USD/MYR is at risk today following a retreat in risk sentiment overnight. This is still in line with our expectation that the pair could potentially swing between gains and losses in response to volatile sentiment.
- Daily outlook is slightly bullish as the pair is likely to open higher and investors are prone to sell MYR on Friday ahead of the weekend, but shouldn't divert away from the comfortable range of 4.25- 4.29.

USD (Bullish)

- The greenback regained strength. The dollar index snapped three-day losing streak, adding 0.3% to 96.346. USD appreciated against major currencies, notably leading EUR/USD to slip below 1.14 and AUD/USD to fall back below 0.70. Even JPY and CHF weakened as well.
- We turned bullish on DXY today as risk aversion is likely to fuel the dollar's rise. The surge in Covid-19 cases in the US remain a major concern and could stifle economic recovery but the absence of any major drivers globally and the generally lacklustre data could lead to higher demand for the greenback.

EUR (Slightly bearish)

- EUR/USD snapped four-day winning streak, losing 0.25% to 1.1384 as ECB left monetary policy unchanged.
- Daily outlook is slightly bearish as the pair lost 1.14 level and demand for dollar returned.

GBP (Slightly bearish)

- GBP/USD fell 0.27% to 1.2553 on dollar weakness.
- The latest UK job report offered a mixed reading and many are generally wary of the low unemployment rate. Fundamentals remain fragile in our view and the lack of Brexit progress remains a major downside to the pair.

JPY (Neutral)

- USD/JPY inched up by 0.32% to 107.27 as the greenback rose across the board.
- No change to our neutral outlook, expecting the pair 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 to bearish)

- AUD/USD slipped 0.53% to 0.6971 despite better than expected Aussie and China data.
- The 0.70 handle was only temporary as markets succumbed to volatile sentiment and the positive Aussie job data weren't convincing. We are neutral-to-bearish AUD/USD on elevated levels, with risk of further corrections.

SGD (Neutral)

- USD/SGD gained 0.23% to 1.3925 amid broad dollar strength.
- No change to current view that USD/SGD would stay within a tight range of 1.38-1.40.

Macroeconomics

- ***UK job data a mixed note:*** UK unemployment rate held steady at 3.9% in the three months to May, unchanged from the three months to April. This is better than a Bloomberg survey that estimated the jobless rate at 4.2%. In the same period, employment fell by 125k (prior: +6k), fewer than consensus call for 275k job losses, thus suggesting that the unemployment rate is not an accurate reflection of the labour market, partly because of lower participation rate and the government's job protection program. Claimant counts or jobless claims fell for the first time in five months (-28.1k in June) after the phenomenal surges in April and May as the economy reopened.

- ***China GDP growth beat expectation:*** China's second quarter real GDP growth came in better than expected at 3.2% YOY, above Bloomberg consensus +2.4% and ours +2.9% YOY. This marked a sharp rebound from the 6.8% YOY contraction in the first quarter when the nation was placed under strict lockdown to combat the Covid-19 pandemic. Compared to the same quarter last year, the primary (agricultural) industry managed to eke out a 0.9% growth; output in both secondary (-1.9% YOY) and tertiary (-1.6%) industries were still lower compared to last year, although the rates of contraction had eased substantially. On a seasonally adjusted basis, GDP posted a 11.5% QOQ growth, more than reversing the revised 10% contraction in the first quarter.

- ***China's June Indicators point to continuous albeit slow recovery:*** Industrial production met expectation with a 4.8% YOY growth in June (May: 4.4%), marking its third consecutive month of gains. Growth was broad-based across mining, manufacturing and power supply. Retail sales fell 1.8% YOY in June (May: -2.8%); Sales of consumer goods was only 0.2% YOY lower compared to the same month last year, indicating that sales have normalised from March's decline. Decline in restaurant/catering sales (-15.2% YOY) continued to ease and on track to normalize from the 47% fall in March. This reflects the impact of social distancing practice and consumers' concerns over dining out. Fixed asset investment slipped 3.1% YOY (May: -6.3%).

- ***Part-time employments fuelled partial recovery in Australia jobs:*** Australia added 210.8k jobs in June, following the revised 264.1k losses in May. This beat Bloomberg's consensus estimate of +100k by a huge margin. July's improvement represents a partial and gradual recovery from the large job losses since March when Covid-19 outbreak hit the economy. Total job losses for Mar, Apr and May amounted to nearly 875k. It's worrying to point out that job gains came primarily from part-time employment (+249k) as full-time jobs continued to fall 38k. Unemployment rate rose to 7.4% (May: 7.1%), the highest jobless rate since Nov 1998, in part because of higher labour participation rate (64.0% vs 62.7% prior). Jobs are likely to recover in July onwards as the government had reopened the economy this month with the exception of Melbourne which is now newly placed in a six-week lockdown in response to surging cases. Risk of a second wave outbreak nationwide still stays.

- ***New Zealand manufacturing sector back to growth:*** The BNZ - BusinessNZ Performance of Manufacturing PMI surged to 56.3 in June, from 39.7 in May. This is the index's highest reading since Apr-18 and represents a 16.5-point MOM jump, indicating the manufacturing sector's return to expansion. BusinessNZ however warned that "one expansionary result does not represent a trend given ongoing offshore uncertainty around Covid-19".

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