17 August, 2020

Global Markets Research

Daily Market Highlights

Key Takeaways

- **US stocks finished the week on a mixed note** after having swung between gains and losses throughout the week. The S&P500 was little changed on Friday, ending the week with 0.6% gain; The Dow Jones was up by only 0.1% DOD and scored a modest 1.8% weekly gain. NASDAQ fell 0.2% on Friday and closed the week flat (+0.08%). This came after **lawmakers still failed to reach consensus to extend enhanced stimulus relief to Americans.** In the meantime, **tension between the US and China remained high** with Trump just recently ordered ByteDance to sell Tik Tok's US operation to an American firm. **The US and China had also postponed a planned review of the "Phase One" trade deal signed in January.**

- Benchmark treasury yields saw mixed movement with the front end of the curve shifting lower. 10Y UST was 1bps lower on Friday at 0.71%, nonetheless was up by nearly 15bps for the week. Gold futures retreated on Friday (-1%) and lost 3.6% WOW to below $2000/oz.

- **Economic data were generally weak.** US retail sales, industrial production and consumer sentiment data all suggested that the **recovery has slowed.** Similarly in China, all key indicators are pointing that economy is struggling to normalize. **2Q GDP data were poor on a synchronised basis in the Eurozone, Japan, Hong Kong and Malaysia.**

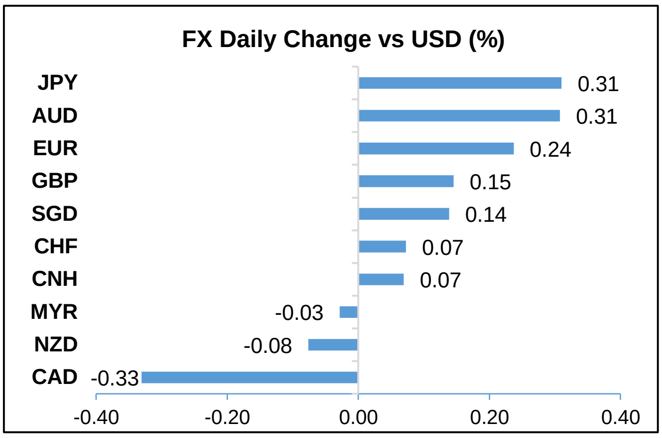
- The dollar weakened (-0.3%) for the third straight session to 93.10 as at last Friday's close. DXY was 0.4% lower compared to the previous week. This came on the back of gains in JPY and AUD. We remain **neutral on the USD** outlook.

- USD/MYR finished little changed at 4.1930 on Friday even as Malaysia 2Q GDP report turned out worse than expected with a -17.1% YOY reading, probably due to an optimistic recovery outlook painted in the latest BNM growth projection, expecting a recovery to +5.5% to +8.0% in 2021, from a downwardly revised -3.5% to -5.5% for 2020. We maintain a **neutral view on MYR** with USD movement remaining as the key driver.

Market Snapshots

	Last Price	DoD %	YTD %
Dow Jones Ind.	27,931.02	0.12	-2.13
S&P 500	3,372.85	-0.02	4.40
FTSE 100	6,090.04	-1.55	-19.26
Hang Seng	25,183.01	-0.19	-10.67
KLCI	1,564.59	-0.75	-1.52
STI	2,581.32	-0.56	-19.91
Dollar Index	93.10	-0.26	-3.47
WTI oil ($/bbl)	42.01	-0.54	-31.20
Brent oil ($/bbl)	44.80	-0.36	-31.82
Gold (S/oz)	1,937.00	-1.01	27.17
CPO (RM/tonne)	2,860.00	2.45	-5.47

Source: Bloomberg



Source: Bloomberg

Overnight Economic Data

US	➔	Eurozone	➔
Japan	↓	China	➔
Hong Kong	↓	Malaysia	↓

Up Next

Date	Event	Prior
17/08	SG Non-oil Domestic Exports YoY (Jul)	16.10%
	JP Industrial Production YoY (Jun F)	-17.70%
	US Empire Manufacturing (Aug)	17.2
	US NAHB Housing Market Index (Aug)	72
18/08	AU RBA Minutes of Aug. Policy Meeting ()	
	US Housing Starts MoM (Jul)	17.30%
	US Building Permits MoM (Jul)	3.50%

Source: Bloomberg

Macroeconomics

- ***US data show economy struggled to recover and normalise:***
  - Retail sales in the US slowed substantially, recording a small 1.2% MOM gain in July (Jun: +8.4%), lower than analysts' estimate of 2.1% gain. This marks retail sales' third straight month of growth after the historic 14.7% drop in April. The growth in retail sales for control group, a gauge of core consumer spending also eased to 1.4% MOM, from 6% prior
  - Industrial production growth met expectation at 3% MOM in July (Jun: +5.7%), extending its current recovering streak to three months. Manufacturing, utilities and mining recorded gains.
  - University of Michigan Consumer Sentiment Index was little changed at 72.8 in early August (July: 72.5) according to preliminary reading, highlighting consumers' wariness of the ongoing economic recovery.

- ***Eurozone GDP unrevised; employment fell sharply in 2Q:***
  - The second Eurozone 2Q GDP growth was unrevised at -12.1% QOQ (1Q: -3.6%). The annual rate of contraction was also unrevised at -15% YOY (1Q: -3.1%).
  - Total employment fell 2.8% QOQ in the second quarter (1Q: -0.2%), reflecting the full impact of the pandemic on the labour market. Compared to the same quarter in 2019, employment was 2.9% lower.
  - International trade widened to €17.1b in June, from May's €8.6b thanks to the 11% MOM jump in exports. Imports rose nearly 6%.

- ***Japan GDP saw steepest contraction in history:*** The Japanese economy slipped deeper into a downturn, recording its third back-to-back quarterly contraction in the second quarter amid the Covid-19 pandemic. GDP growth came in slightly worse than expected at -7.8% QOQ (1Q: -0.6%) and also the largest fall on record. The economy had started to shrink since 4Q prior to the pandemic when an early October typhoon disrupted economic activity and the imposition of higher sales tax rate cringed spending. On an annualized basis, the economy tanked 27.8% in 2Q, also a record fall following a 2.2% decline in 1Q.

- ***China July Data show an audacious climb back to normality***
  - Industrial production grew 4.8% YOY in July, unchanged from June. This showed that a pickup towards 5+% faces headwinds from the current subdued global economic conditions
  - Retail sales fell 1.1% YOY in July, after a 1.8% contraction in June. This was a major disappointment given that markets (including ourselves) were looking for a small growth print.
  - Fixed asset investment (FAI) fell at a slower pace of 1.6% YOY YTD in July, compared to -3.1% prior. This roughly translates to an encouraging 7.4% YOY increase in July, according to our calculations.
  - We revise down our 2020 GDP forecast for China, after economic data in July showed subdued momentum towards returning to normality. The outlook ahead remains challenging due to the tense US-China relations as well as a challenging global economic environment. We expect about a 4.6% YOY expansion in H2-2020, after a 3.2% increase in 2Q. While a recovery may be more evident in 2021, the situation remains fluid.

Forex

MYR (Neutral)

- USD/MYR finished little changed at 4.1930 on Friday even as Malaysia GDP report came in worse than expected.
- **Factors supporting**: Economic recovery
- **Factors against**: Risk aversion, US-China relations, domestic politics, imposition of second lockdown

USD (Neutral Outlook over 1 Week Horizon)

- USD weakened on Friday, with DXY down by 0.26% to close to 93 level. This came as AUD and JPY registered gains against the greenback.
- **Factors supporting**: Risk aversion, US-China relations, stretched low DXY levels
- **Factors against**: Complacent markets, positive developments from global policymakers, poor US economy, US stimulus

EUR (Neutral)

- EUR/USD rebounded on Friday after coming off a day earlier. Pair gained close to the high seen on Thursday, but consolidated around 1.184.
- **Factors supporting**: Solid fiscal support on confidence, recovering economy
- **Factors against**: Risk aversion, 2nd wave of Covid-19 infections, stretched levels

GBP (Neutral)

- GBP/USD touched a high of 1.3142 on Friday before coming off below 1.31. Pair opened Monday close to 1.31 big figure.
- **Factors supporting**: Breakthrough in news, USD weakness
- **Factors against**: Risk aversion, Brexit, twin deficits

JPY (Neutral-to-Bearish)

- USD/JPY retreated after a prior rebound. This brought pair closer to 106.5 level after reaching a high of 107.05 on Friday.
- **Factors supporting**: BOJ policy, USD weakness
- **Factors against**: Weak fundamentals, risk sentiments

AUD (Neutral-to-Bearish)

- AUD/USD moved higher on Friday, despite not reaching the weekly high of 0.7190. Pair started Monday on a bid tone and looking to move to 0.72.
- **Factors supporting**: Current account, resilient economy
- **Factors against**: Risk aversion, 2nd wave of Covid-19 infections, China-Australia relations, stretched levels, RBA

SGD (Neutral-to-Bearish)

- USD/SGD came off on Friday to close to 1.37 big figure. Pair started Monday higher but is now looking towards 1.37 level.
- **Factors supporting**: Fed vs. MAS policy, economic recovery
- **Factors against**: Risk aversion, trade war, US-China

- ***Hong Kong deep in recession:*** Hong Kong remained mired in recession in the second quarter of 2020 with GDP growth coming in at -9.0% (1Q: -9.1% revised), unrevised from the preliminary reading. This marked GDP's fourth back-to-back contraction since 3Q last year. On a seasonally adjusted QOQ basis, GDP recorded a small decline of -0.1%, after the heftier fall in 1Q (-5.5%). The minute QOQ change offers signs that the downturn has bottomed up. Chances of a potential stabilization were dampened by the third wave of Covid-19 virus which had hit Hong Kong in mid-July, prompting the imposition of more stringent social distancing measures. These measures are expected to further weigh on the private sector in the third quarter, particularly in the food/dining/catering industry. The government said that Hong Kong's near term outlook remains highly uncertain. Domestic recovery depends on the containment of the virus and global economic recovery which is likely to be bumpy and uneven. US-China tension also fuels uncertainties. The official forecast for 2020 is now downgraded to -6% to -8%, from the previous -4% to -7%.

- ***Malaysia 2Q GDP shattered by Covid-19 pandemic:*** The Malaysian economy slipped into a technical recession following the 17.1% YOY and 16.5% QOQ contraction in 2Q GDP. This came in worse than expected as both domestic and external sectors were badly beaten down by the Covid-19 pandemic. Today's print suggests the economy has contracted 8.3% YOY in the first half 2020, and would require a marked improvement in the second half of the year in order to achieve BNM's latest revised growth forecast of -3.5% to -5.5%. We are maintaining our full year 2020 GDP forecast at -4.9% for now, awaiting clearer signs of the strength of the recovery momentum in the third quarter. Labour market health and wavering consumer demand are among the key concerns. Given uncertainties on the recovery outlook, we continue to see the case of another OPR cut by BNM in September

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