Global Markets Research

Daily Market Highlights

Key Takeaways

- **US stocks generally rose overnight as optimism was kept elevated by stimulus hope.** The Dow Jones pulled back by 0.2% while the S&P500 and NASDAQ picked up 0.3% and 0.5% to record highs. Markets are anticipating lawmakers to pass $908b worth of relief by year end after months of deadlock. US retail sales data fell more than expected, adding to signs of slowing economy. The Federal Reserve did not expand its QE program to add more stimulus, merely providing more details and clearer guidance on its current plan. Treasury yields rose by 0.2 to 1.3bps; 10Y UST yield was slightly (+1.2bps) to 0.92%.

- On the commodity front, gold futures gained +0.3% to $1857.9/oz. Meanwhile oil prices extended gains over a 3.1mil-barrel draw in EIA crude inventory; Brent crude added 0.6% to $51.08/barrel and WTI advanced 0.4% to $47.82/barrel. **Brexit talks continued as negotiators tried to reach agreement on its most pressing and prickly issue of fishing rights**. Bloomberg reported that substantial differences still exist between both sides and could risk jeopardising a deal. The BOE's MPC meeting is in focus today.

- **The Federal Reserve kept the Fed funds rate target unchanged at 0-0.25% and enhanced forward guidance on its bond-buying program**. Policymakers also maintained their interest rates outlook and revised their economic projections to be more optimistic. **Flash Markit PMI data painted an overall uneven growth picture** in the US, Eurozone and UK in December. US retail sales fell 1.1% MOM despite Black Friday Sales in November. Homebuilders' confidence also retreated from record high. Elsewhere, Eurozone international trade remained at pre-crisis level while inflation retreated in the UK. New Zealand 3Q GDP rebounded by 14%, pushing the country out of recession.

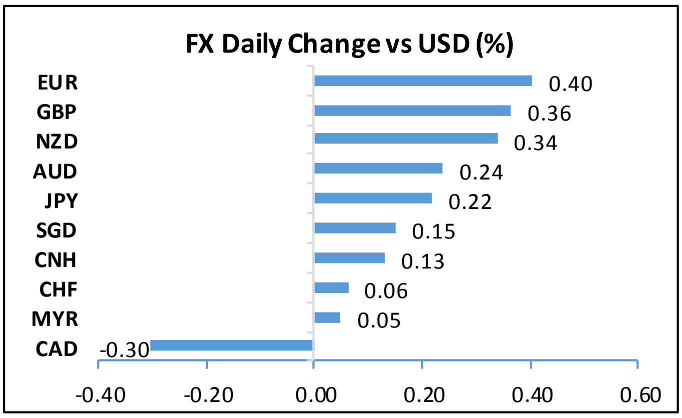
- **The dollar weakened further;** DXY was little changed at 90.45 as CAD experienced a down move whereas other major currencies strengthened modestly against the greenback. We are neutral to bearish on USD as the DXY could head further down to 90 with dollar weakness still prevailing in the market.

- **USD/MYR remained flat for the second session**, closing out Wednesday little changed (-0.05%) at 4.0505 ahead of the FOMC meeting. We remain neutral to bullish MYR on the back of extended dollar weakness. NO change to current view that the pair likely trades within a range of 4.03-4.08 this week, with room for further downside.

Market Snapshots

	Last Price	DoD %	YTD %
Dow Jones Ind.	30,154.54	-0.15	5.66
S&P 500	3,701.17	0.18	14.56
FTSE 100	6,570.91	0.88	-12.88
Hang Seng	26,460.29	0.97	-6.14
KLCI	1,681.41	0.44	5.83
STI	2,872.80	0.56	-10.86
Dollar Index	90.45	-0.03	-6.16
WTI oil ($/bbl)	47.82	0.42	-21.68
Brent oil ($/bbl)	51.08	0.63	-22.61
Gold (S/oz)	1,856.10	0.21	21.86
CPO (RM/tonne)	3,630.00	-0.22	19.98

Source: Bloomberg



Source: Bloomberg

Overnight Economic Data

US	↓	Eurozone	→
UK	→	Australia	↑
New Zealand	↑		

Up Next

Date	Events	Prior
17/12	SG Non-oil Domestic Exports YoY (Nov)	-3.1%
	AU Unemployment Rate (Nov)	7.0%
	EC CPI YoY (Nov F)	-0.3%
	UK Bank of England Bank Rate	0.1%
	US Initial Jobless Claims (12 Dec)	853k
	US Housing Starts MoM (Nov)	4.9%
18/12	US Kansas City Fed Manf. Activity (Dec)	11.0
	NZ ANZ Consumer Confidence Index (Dec)	106.9
	NZ Trade Balance 12 Mth YTD NZD (Nov)	2191m
	JN Natl CPI Ex Fresh Food YoY (Nov)	-0.7%
	NZ ANZ Business Confidence (Dec F)	-6.9
	UK GfK Consumer Confidence (Dec)	-33
	UK Retail Sales Inc Auto Fuel MoM (Nov)	1.2%
	US Leading Index (Nov)	0.7%
	JN BOJ Policy Balance Rate (43435)	-0.1%

Source: Bloomberg

Macroeconomics

- ***Federal Reserve made no change to QE program but enhanced guidance; released more optimistic new forecasts:***
  - The Federal Reserve kept the Fed funds rate target unchanged at 0-0.25% as widely expected but provided clearer guidance on its bond-buying program. It did not announce any expansion of the program as anticipated by some traders.
  - In the latest FOMC statement, the Fed said that it will "continue" to increase its holding of treasuries by "at least $80b per month" and of "agency mortgage-backed securities by at least $40 billion per month until substantial further progress has been made toward the Committee's maximum employment and price stability goals. It reaffirmed its dovish policy stance.
  - New projections showed that members revised their median growth forecasts to be more optimistic. The economy is now expected to contract by a smaller rate of 2.4% in 2020 (versus -3.7% in September forecast). Growth in 2021 was revised upwards to 4.2% (prior: +4%).
  - It also cut its projected unemployment rate to a lower 6.7% for 2020 (prior: 7.6%) and expects it to go down to 5% in 2021 (prior: 5.5%). Core PCE inflation is expected to remain below 2% for both 2020 and 2021.
  - Policy makers maintained their interest rates outlook, expecting the fed funds rate to stay near 0% and remain so through 2023.
  - Fed Chair Jerome Powell said in his post-meeting press conference that the Fed would "increase policy accommodation through a lower expected path of fed funds rate and a higher expected path of the balance sheet" if economic recovery had slowed. He mentioned the "significant disinflationary pressures around the world" and it took time to get inflation to move up.

- ***Flash PMI data painted an uneven growth picture in December:***
  - US Markit Manufacturing PMI was little changed at 56.5 in December (Nov: 56.7) while the services gauge fell to 55.3 (Nov: 58.4) to signal waning growth momentum amid rising Covid-19 cases.
  - The stronger Eurozone's manufacturing sector helped counter continued weakness in the services sector as manufacturing PMI picked up to 55.5 in December (Nov: 53.8), better than analysts' expectation. The services PMI also improved sharply to 47.3 (Nov: 41.7), albeit still below 50 that indicates continued contractions in overall activity.
  - The UK Manufacturing PMI extended its climb to a 37-month high of 57.3 in December (Nov: 55.6), as new orders were boosted by purchasing ahead of Brexit deadline. The services index rose to 49.9 (Nov: 47.6), close to stabilisation as lockdown measures eased.

- ***US retail sales fell in November; homebuilders confidence retreated from record high:***
  - Retail sales fell more than expected in November, down by 1.1% MOM. This marks sales' first drop in seven months, following a 0.3% rise in October. Analysts had expected a smaller -0.3% fall. Core retail sales (control group) also disappointed, recording a 0.5% decline (Oct: +0.1%).

Forex

MYR (Neutral-to-Bullish)

- USD/MYR remained flat for the second session, closing out Wednesday little changed (-0.05%) at 4.0505 ahead of the FOMC meeting. We remain neutral to bullish MYR on the back of extended dollar weakness. NO change to current view that the pair likely trades within a range of 4.03-4.08 this week, with room for further downside.
- **Factors supporting**: Economic recovery, less dovish MPC, USD weakness
- **Factors against**: Risk aversion, domestic politics, second lockdown.

USD (Neutral-t0-Bearish Outlook over 1 Week Horizon)

- The dollar weakened further; DXY was little changed at 90.45 as CAD experienced a down move whereas other major currencies strengthened modestly against the greenback. We are neutral to bearish on USD as the DXY could head further down to 90 with dollar weakness still prevailing in the market.
- **Factors supporting**: Risk aversion, Covid-19 resurgence
- **Factors against**: Fed accommodation, vaccine, potential US stimulus, Buoyant sentiments

EUR (Neutral-to-Bullish)

- EUR/USD surged to a fresh 2020 high of 1.2212 early on in its trading session. The positive sentiments arose from progress in US stimulus talks and Brexit negotiations. The pair closed the day down a little from its high at 1.2200. Support is at 1.2115.
- **Factors supporting**: Economic data rebound
- **Factors against**: Risk aversion, Covid-19 outbreak

GBP (Neutral-to-Bullish)

- GBP/USD traded mostly upwards on Wednesday. The pair traded as high as 1.3549 and was trading in the 1.35 region for most of the day amid USD weakness. The immediate focus turns to the BOE MPC meeting today while negotiators try to hammer out a Brexit deal.
- **Factors supporting**: Breakthrough in news, USD weakness
- **Factors against**: Risk aversion, Brexit, twin deficits, Bank of England increasing monetary accommodation

JPY (Neutral)

- USD/JPY had a choppy day of trading, hitting a monthly low of 103.25 as the USD plummeted further. We are observing a range of 103.42-103.56 for now ahead of BOJ's announcement tomorrow.
- **Factors supporting**: BOJ policy, risk aversion, dollar weakness
- **Factors against**: Weak fundamentals

AUD (Neutral-to-Bullish)

- AUD/USD continued to strengthen modestly by 0.2% thanks to broad dollar weakness and higher oil prices. AUD outlook remains neutral-to-bullish with upside capped at 0.76 for now. Support remains at 0.73. Job data due today could be a market driver.
- **Factors supporting**: Fundamentals improve from current levels
- **Factors against**: Risk aversion, RBA policy, Australia-China relations

The latest print highlights retreat in consumer spending even in the month of Black Friday sales as the pull-back likely resulted from a different expectation for festivities this year given the needs to practice social distancing rules

- US homebuilders confidence fell in December as the NAHB Housing Market Index retreated to 86 from the record high level in November (90). Nonetheless, the index remained at elevated level with the housing sector a bright spot in the US economy.
- Mortgage applications rose 1.1% last week, making up for the prior 1.2% decline

- ***Eurozone trade still below pre-pandemic level:*** Eurozone trade surplus rose to €25.9b in October (Sep: €23.7b) thanks to faster exports growth (+2.1% MOM). Imports rose 1%. International trades have continued to climb since May, but the monthly imports and exports values remained below the pre-pandemic level.

- ***UK inflation retreated in November:*** Inflation eased unexpectedly in November as CPI rose by a mere 0.3% MOM (Oct: +0.7%), due to fall in apparel prices which was concurrent with the month's Black Friday Sales. Core CPI inflation also retreated to 1.1% MOM (Oct: +1.5%). Overall this translates to a small 0.3% YOY gain in headline inflation (Oct: +0.7%). This should not be a main concern for the BOE for now, as the monetary policy committee meets this week.

- ***Australia Westpac Leading Index pointed to strong recovery:*** The Westpac Leading Index 6-month annualised growth index surged 4.4% MOM in November (Oct: +3.8%), marking the index' strongest gain on record, a sign of upbeat recovery. This reflects broad-based positive contribution from all factors except for the lower commodity prices.

- ***Strong rebound in 3Q GDP lifted New Zealand out of recession:***
  - The New Zealand economy grew 14% QOQ in the third quarter of 2020, more than offsetting the pandemic-related contractions in the first half of the year.
  - GDP had contracted by 1.2% in 1Q followed by a record 11% decline in 2Q when the country went into full national lockdown. The reading was stronger than consensus forecast of 12.9% growth. YOY, GDP managed to post a positive 0.4% growth (2Q: -11.3%), defying analysts' expectation of a 1.8% fall.
  - Successful containment of the virus alongside massive fiscal and monetary easing helped propelled New Zealand out of a pandemic recession. Strong rebounds were noted in the goods producing (+26% QOQ) and services (+11.1% QOQ) sectors; the primary industry saw a more modest growth.
  - Retail trade and accommodation contributed the most to the upbeat quarterly growth as consumers raised spending; the housing sector meanwhile was extremely robust, leading regulator to re-impose lending curb to prevent a housing bubble.

SGD (Neutral-to-Bullish)

- USD/SGD traded as low as 1.3228 on Wednesday before picking up some steam to end the day at 1.3307. We observe a range of 1.3288 – 1.3306 for now and resistance sits at 1.3420. We maintain our neutral-to-bullish stance on the SGD, with travel bubbles on the horizon and especially if the US dollar continues to weaken.
- **Factors supporting**: Economic recovery, CNH strength
- **Factors against**: Risk aversion, potential deterioration in Singapore fundamentals

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