March 18, 2020

HongLeong Bank

Global Markets Research

Daily Market Highlights

Key Takeaways

- **US stocks staged a reversal rally overnight from Tuesday's ruthless fall on renewed stimulus hope.** Main indexes jumped 5-6% in a volatile session over news that the Trump Administration is seeking approval on a $1 trillion stimulus fund that would include some $250b direct payment to households to ward off a potential Covid-19 recession. The Federal Reserve launched the Commercial Paper Funding Facility to purchase commercial papers and thus extend credits to businesses, a special crisis tool which was last invoked during the Global Financial Crisis. The Dow added more than 1000 pts after just losing nearly 3000pts the day earlier. **This followed higher equities in Europe as the French government led by Emanuel Macron announced a €45b stimulus package to support the pandemic-battered economy.** US treasuries yields surged 13-40 basis points in a single day - the benchmark 10Y UST yields recovered by more than 50% (+36bps) to 1.082%, back above 1.0% for the first time in nearly two weeks. Gold price snapped losing streak to add nearly 1% at $1528.30/ounce. Crude oil prices extended decline as outlook for demand is pessimistic. **Brent crude collapsed 4.4% to close at $28.73/barrel, its first sub-$30 level since 2016.**

- **Economic data were generally poor;** US industrial production was boosted by utility output thanks to colder weather. Retail sales slipped 0.5% prior to Covid-19 outbreak and homebuilders slowly turned less optimistic. In Europe, the German ZEW investor sentiment suffered its largest drop in history on downbeat growth outlook. Eurozone wage growth eased further while UK job data largely disappointed and showing early signs of weakness. Japan industrial output and exports both registered declines. RBA meeting minutes signals effort to ease further via tomorrow's QE announcement.

- **The US dollar broadly gained on Tuesday**, with the DXY closing at 99.575. DXY gained 1.54% DOD as a result. This was evident as some currencies are around record lows with the USD (such as the AUD, NZD and GBP). Other currencies which were strong (like the JPY and EUR) also experienced some retreat against the dollar. Dollar perhaps was supported by official US support on the economy. **We maintain a bullish view on a 1-month outlook**, with much volatility expected. USD is likely supported by safe haven positioning during risk volatility and US fundamentals. The Covid-19 outbreak has caused quite a fair bit of disruption worldwide and this will likely impact on the US and the USD.

- **USD/MYR skyrocketed to 4.3515 on Tuesday,** adding 1.0% DOD as MYR weakened alongside regional Asian currencies in a risk-off environment that favours the dollar. MYR is severely oversold but the renewed dollar strength is **expected to boost USD/MYR in the near term** as risk aversion albeit retreating, remains high in our view and markets are likely to remain volatile.

Overnight Economic Data

US	➔
Eurozone	↓
UK	↓
Japan	↓
Australia	↓

What's Coming Up Next

Major Data

- US MBA Mortgage Applications, Housing Starts, Building Permits
- Eurozone Trade Balance, HICP Inflation

Major Events

- Nil

Daily Supports – Resistances (spot prices)*

	S2	S1	Indicative*	R1	R2	Outlook
EURUSD	1.0778	1.0924	1.1003	1.1300	1.1495	↘
GBPUSD	1.1500	1.1841	1.2115	1.2332	1.2500	↘
USDJPY	104.45	105.00	107.49	108.50	109.50	➔
AUDUSD	0.5500	0.5800	0.6000	0.6313	0.6434	↘
EURGBP	0.8622	0.8858	0.9087	0.9543	0.9996	➔
USDSGD	1.3942	1.4000	1.4276	1.4325	1.4547	↗
USDMYR	4.3000	4.3250	4.3562	4.3600	4.3800	↗
EURMYR	4.7462	4.7722	4.7960	4.8084	4.8380	↘
JPYMYR	4.0160	4.0388	4.0573	4.0950	4.1252	➔
GBPMYR	5.2325	5.2650	5.2774	5.3030	5.3400	➔
SGDMYR	3.0335	3.0433	3.0515	3.0586	3.0650	➔
AUDMYR	2.6000	2.6047	2.6117	2.6288	2.6500	↘
NZDMYR	2.5700	2.5828	2.5924	2.6075	2.6200	↘

* at time of writing

↗ = above 0.1% gain; ↘ = above 0.1% loss; ➔ = less than 0.1% gain / loss

	Last Price	DoD %	YTD %	Name	Last Price	DoD %	YTD %
KLCI	1,256.58	-1.88	-20.91	CRB Index	130.29	-1.83	-29.87
Dow Jones Ind.	21,237.38	5.20	-25.58	WTI oil ($/bbl)	26.95	-6.10	-55.86
S&P 500	2,529.19	6.00	-21.72	Brent oil ($/bbl)	28.73	-4.39	-56.47
FTSE 100	5,294.90	2.79	-29.80	Gold (S/oz)	1,528.30	0.94	1.42
Shanghai	2,779.64	-0.34	-8.87	CPO (RM/tonne)	2,280.50	-1.17	-24.62
Hang Seng	23,263.73	0.87	-17.47	Copper ($/tonne)	5,290.50	-3.10	-14.31
STI	2,454.53	-1.65	-23.84	Rubber (sen/kg)	438.00	0.69	-3.20

Source: Bloomberg

➢ Macroeconomics

Economic Data				
	For	**Actual**	**Last**	**Survey**
US Retail Sales Advance MoM	Feb	-0.5%	0.6% (revised)	0.2%
US Industrial Production MoM	Feb	0.6%	-0.3%	0.4%
US NAHB Housing Market Index	Mar	72.0	74.0	73.0
EU Labour Costs YoY	4Q	2.4%	2.6%	--
EU ZEW Survey Expectations	Mar	-49.5	10.4	--
UK Average Weekly Earnings 3M/YoY	Jan	3.1%	2.9%	3.0%
UK ILO Unemployment Rate 3Mths	Jan	3.9%	3.8%	3.8%
UK Employment Change 3M/3M	Jan	184k	180k	140k
JP Industrial Production YoY	Jan F	-2.3%	-3.1%	--
JP Exports YoY	Feb	-1.0%	-2.6%	-4.2%
AU Westpac Leading Index 6M Annualized Growth	Feb	-0.96	0.49	--
AU RBA Minutes of March Policy Meeting				

Source: Bloomberg

- ***US Feb retail sales dropped 0.5% prior to outbreak***: Retail sales dropped 0.5% MOM in February (Jan: +0.6%) following an upwardly revised 0.6% growth in January. Sales for the so-called control group, a key gauge of consumer spending was unchanged (Jan: +0.4% revised) as the impact of Covid-19 outbreak hasn't yet been reflected in the data given that the rapid virus spread and the subsequent containment measures only escalated in the past two weeks.

- ***US industrial production boosted by utilities as weather turned colder:*** Industrial production rose 0.6% MOM in February (Jan: -0.5% revised), marking its largest gain in three months mainly thanks to the 7.1% MOM rise in utilities output as the temperature returned to normal levels following an unusually warm January. Manufacturing recorded only a minimal 0.1% MOM growth while mining output dropped 1.5% MOM. The pre-Covid-19 growth is expected to be reversed this month when the manufacturing sector began to feel the pain of the pandemic; the earliest signal available was the more than 20pts plunge in the New York Fed Empire State Manufacturing Index.

- ***US homebuilder confidence eased in March***: The NAHB Housing Market Index, a key gauge of homebuilder sentiment slipped to 72 in March (Feb: 74), but still at relatively high level historically. This signals the earlier impact of Covid-19 on the housing sector as its recent recovery is at risk of being disrupted by the rapid spread of the virus in the near to medium term.

- ***Free falling of German investor sentiment:*** The Germany ZEW Economic Sentiment Index suffered its biggest drop in history of 58.2pts in March (-49.5 vs 8.7) as the authorities struggle to contain Covid-19 outbreak in Germany and Europe in general. Germany is among the countries outside China with the highest number of cases, trailing behind Italy, Spain and France. The same reading for broader Eurozone also tumbled by nearly 60pts to -49.5 (Feb: 10.4) reflecting investors' battered confidence regarding near-term Eurozone growth outlook.

- ***Softer wage growth in Eurozone:*** Labour cost rose 2.4% YOY in 4Q19, moderating from 2.6% in Q3, marking its second consecutive quarter of slowdown, confirming the emerging signs of weakness in the Euro area labour market late last year prior to Covid-19 outbreak.

- ***UK job report largely disappointed:*** The UK economy added 184k in the three months to January (Dec: +180k), more than what was expected by economists. Gains came from the full-time employment which recorded the largest quarterly increase in history (+225k), that was partially offset by the loss in part-time jobs. This was however overshadowed by other poorer indicators. Unemployment rate was a tad higher at 3.9% in the same period (Dec: 3.8%), its highest in five months. Average weekly earnings, a key gauge of wage growth rose 3.1% YOY in the three months to Jan (Dec: +2.9%) thanks to higher bonus payment. Excluding bonus, base pay growth eased to 3.1% YOY (Dec: +3.2%). The jobless claims that measured the number of people claiming for unemployment benefit also jumped by 17.3k in the month of February (Jan: -0.2k) reflecting the initial impact of Covid-19.

- ***Japan industrial production recovered prior to Covid-19:*** Japan industrial production gained for the second month by 1.0% MOM in January (Dec: +1.2%) pointing to recovery in output after the activity disruption caused by an early October typhoon. The decline in production extended to the fourth month but eased to 2.3% YOY (Dec: -3.1%). The gradual recovery however was ruined in the wake of Covid-19 spread in the country, pointing to reversal in MOM growth and even bigger contraction in the annual decline in February.

- ***Japan exports fell for 15th straight month***: Japan exports fell 1.0% YOY in February (Jan: -2.6%) extending its ongoing declining streak to fifteen-month long. MOM, exports managed to gain 3.4% but is likely not sustainable in March onwards as the impact of supply chain disruption on international trade should be more profound by then. Imports plunged 14% YOY (Jan: -3.6%) and 6.1% MOM (Jan: -2.1%) reflecting dampening demand stemming from Covid-19 outbreak.

- ***RBA meeting minutes reaffirmed dovish stance to support economy:*** On 3 March, the RBA had cut cash rate by 25 basis points to 0.5%. The minutes showed the central bank's preparedness in easing monetary policy further to fight Covid-19 related economic disruption. As economic activity in 1H2020 would be "significantly affected" by the global response to Covid-19 outbreak. 1Q GDP growth is likely to be "noticeably weaker" -the projected 10% decline in services exports alone is expected to lower Australian GDP growth by half a percentage point in 1Q20- it was difficult to predict how long it would take for the economy to return to more usual levels of activity. Combining fiscal and monetary policies would help the economy to deal with these challenges. The scenario of which the outbreak would be contained in the near future was considered very unlikely. RBA said that it was appropriate to ease monetary policy further in response to Covid-19 and reaffirmed its dovish stance, expecting "an extended period of low interest rates". It repeated that it was prepared to ease monetary policy further to support Australian economy. It added the importance of monitoring the rapidly changing developments closely in the subsequent weeks and "maintaining contact" to assess the outbreak's implications, possibly referring to the expected Thursday's launch of a QE program announced yesterday.

- ***Leading index indicates very weak Australian growth:*** The Westpac leading index dropped 0.4% MOM in February leading the 6-month annualized growth rate to -0.96% (Jan: -0.49%), pointing to a very weak Australian growth outlook, that was likely to be hampered by Covid-19 pandemic that disrupted the country's services and trade sector.

Economic Calendar

Date	Time	Country	Event	Reporting Period	Survey	Actual	Prior	Revised
20/03	15:00	Malaysia	Foreign Reserves	Mar-13	--	--	$103.4b	--
18/03	**19:00**	**US**	**MBA Mortgage Applications**	**Mar-13**	**--**	**--**	**55.4%**	**--**
	20:30		**Housing Starts MoM**	**Feb**	**-4.3%**	**--**	**-3.6%**	**--**
	20:30		**Building Permits MoM**	**Feb**	**-3.2%**	**--**	**9.2%**	**--**
19/03	20:30		Philadelphia Fed Business Outlook	Mar	9.0	--	36.7	--
	20:30		Initial Jobless Claims	Mar-14	220k	--	211k	--
	22:00		Conference Board Leading Index	Feb	0.1%	--	0.8%	--
20/03	22:00		Existing Home Sales MoM	Feb	0.9%	--	-1.3%	--
18/03	**18:00**	**Eurozone**	**Trade Balance SA**	**Jan**	**19.2b**	**--**	**22.2b**	**--**
	18:00		**CPI YoY**	**Feb F**	**1.2%**	**--**	**1.2%**	**--**
	18:00		**CPI Core YoY**	**Feb F**	**1.2%**	**--**	**1.2%**	**--**
19/03	07:30	Japan	Natl CPI Ex Fresh Food YoY	Feb	0.6%	--	0.8%	--
	12:30		All Industry Activity Index MoM	Jan	0.3%	--	0.0%	--
20/03	09:30	China	1-Year Loan Prime Rate	Mar	3.98%	--	4.05%	--
19/03	08:30	Australia	Employment Change	Feb	6.3k	--	13.5k	--
19/03	08:30		Unemployment Rate	Feb	5.3%	--	5.3%	--
19/03	05:45	New Zealand	GDP SA QoQ	4Q	0.5%	--	0.7%	--
	05:45		GDP YoY	4Q	1.7%	--	2.3%	--

Source: Bloomberg

	Last Price	DoD %	High	Low	YTD %
EURUSD	1.0997	-1.66	1.1189	1.0955	-1.74
GBPUSD	1.2055	-1.76	1.2273	1.2003	-8.71
USDJPY	107.70	1.77	107.86	105.81	-1.17
AUDUSD	0.6000	-1.91	0.6149	0.5959	-14.68
EURGBP	0.9123	0.09	0.9142	0.9066	7.63
USDSGD	1.4292	0.58	1.4325	1.4174	6.24
USDMYR	4.3515	1.02	4.3515	4.3075	6.36
EURMYR	4.8266	0.11	4.8478	4.8074	5.21
JPYMYR	4.0701	0.25	4.0797	4.0240	8.01
GBPMYR	5.3085	-0.31	5.3181	5.2715	-1.28
SGDMYR	3.0529	0.71	3.0549	3.0278	0.38
AUDMYR	2.6374	-0.87	2.6590	2.6273	-8.03
NZDMYR	2.6172	0.50	2.6281	2.6044	-4.92
CHFMYR	4.5654	-0.37	4.5740	4.5373	7.99
CNYMYR	0.6203	0.79	0.6204	0.6161	5.51
HKDMYR	0.5599	0.97	0.5599	0.5544	6.53

Source: Bloomberg

➢Forex

MYR

- **USD/MYR skyrocketed to 4.3515 on Tuesday,** adding 1.0% DOD as MYR weakened alongside regional Asian currencies in a risk-off environment that favours the dollar.
- MYR is severely oversold but the renewed dollar strength is **expected to boost USD/MYR in the near term** as risk aversion albeit retreating, remains high in our view and markets are likely to remain volatile. Pair's medium term outlook remains bullish on the back of oil prices volatilities and growing risk aversion that is exposing EM currencies to higher downside risk.

USD

- **The US dollar broadly gained on Tuesday**, with the DXY closing at 99.575. DXY gained 1.54% DOD as a result. This was evident as some currencies are around record lows with the USD (such as the AUD, NZD and GBP). Other currencies which were strong (like the JPY and EUR) also experienced some retreat against the dollar. Dollar perhaps was supported by official US support on the economy.
- **We maintain a bullish view on a 1-month outlook**, with much volatility expected. USD is likely supported by safe haven positioning during risk volatility and US fundamentals. The Covid-19 outbreak has caused quite a fair bit of disruption worldwide and this will likely impact on the US and the USD.

EUR

- **EUR lost 1.66%** against the USD overnight, despite US announcing more measures (stimulus and Fed emergency lending).
- **We are bearish on EUR/USD today** once again from general market aversion to risk. We are bearish over the coming month after stretched positioning in long EUR/USD.

GBP

- **GBP weakened 1.76%** against the USD overnight, with pair now almost at 1.20.
- **We are bearish on GBP/USD today**, as the UK remains gripped by Covid-19 related risk aversion and policymakers take a relaxed approach against it. We are bearish on a 1-month basis, from general flight to safety.

JPY

- **JPY weakened 1.77%** against the USD on Tuesday, closing at 107.70.
- **We remain neutral on USD/JPY** today on consolidation close to 108 levels. We are bearish on a 1-month basis. BOJ is likely to disappoint sky-high expectations but JPY strength is already at multi-year highs.

AUD

- **AUD weakened again by 1.91**% on Tuesday compared to the USD. Pair is last at 0.6000.
- **We are bearish AUD/USD today** as further RBA easing expected. We are bearish on a 1-month basis as the AUD remains weighed down by the impact of oil price drops, domestic bushfires and on RBA easing expectations.

SGD

- **SGD weakened 0.58%** against the USD on Tuesday, remaining on the downtrend from market volatility, despite better-than-expected NODX.
- **We are bullish on USD/SGD today**, after Fed's latest announcement and rate cut. We are neutral on a 1-month basis, consolidative after previous volatility.

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