Hong Leong Bank

Global Markets Research

Daily Market Highlights

Key Takeaways

- **US stocks rose on Friday despite poor economic data and escalating US-China tension.** Main indexes picked up 0.3-0.8% DOD on Friday but ended the week lower. The Dow lost nearly 646pts or 2.7% last week, the S&P500 was down by 2.3% and NASDAQ was 1.2% lower on a weekly basis. On Friday, the Trump Administration's move to block foreign chipmakers from shipping chips to Hua Wei had sparked a counter measure by China that was prepared to put US companies on an "unreliable entity list". This latest action added to Administration's recent remarks, accusations and threats that had sparked a renewed hostility between Washington and Beijing.

- **10Y UST added 2bps** to 0.64% after falling for three straight session, driven by better consumer confidence data. **Gold price continued to climb,** finishing the week 2.4% higher at $1743.67/barrel. The dollar pulled back slightly but remained strong with EUR strengthening against USD; nontheless the dollar index stayed above 100. **Crude oils extended recovery** amid higher demand for fuel as the global economy gradually reopened. Brent crude gained 4.9% WOW to $32.5/barrel while the front-month WTI contract added 19% last week to $29.43/barrel ahead of its expiration tomorrow.

- **Hard data were poor in the US with record fall in retail sales and industrial production** highlighing the impact of Covid-19 pandemic on the economy. University of Michigan Consumer Sentiment Index rebounded. **Eurozone GDP contracted 3.8% QOQ** in 1Q, unrevised in second estimate. **Japan 1Q GDP shrank 0.9% QOQ** prior to lockdown. **China industrial production and fixed investment recovered but consumption remained weak. Singapore NODX remained decent underpinned by pharmaceutical exports.**

- The USD was marginally weaker on a day of mostly range trading. DXY was 0.06% down, notably weakening against the JPY and EUR. **We are neutral to bullish on the USD on a 1-week basis**. Risk sentiments are currently souring, which can provide for some USD strength near-term. We see some possible moves closer to the 101 level for the DXY.

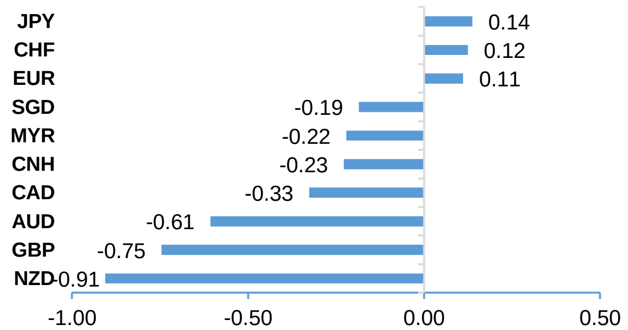
- USDMYR closed Friday session slightly higher (+0.28%) at 4.3510 on the back of firmer USD as risk aversion lurked in global markets. **Daily outlook for the pair remains slightly bullish** in our view as rising US-China tension continues to pose as a major downside risk to MYR.

Market Snapshots

	Last Price	DoD %	YTD %
Dow Jones Ind.	23,685.42	0.25	-17.01
S&P 500	2,863.70	0.39	-11.36
FTSE 100	5,799.77	1.01	-23.10
Hang Seng	23,797.47	-0.14	-15.58
KLCI	1,403.44	0.44	-11.66
STI	2,523.55	0.05	-21.70
Dollar Index	100.40	-0.1	4.1
WTI oil ($/bbl)	29.43	6.79	-51.80
Brent oil ($/bbl)	32.50	4.40	-49.23
Gold (S/oz)	1,743.67	0.77	15.98
CPO (RM/tonne)	2,033.50	-0.27	-32.79

Source: Bloomberg

FX Performance vs USD (Daily % change at close)



Source: Bloomberg

Overnight Economic Data			
US	→	Eurozone	↓
Japan	↓	China	→
Singapore	↑		

Up Next

Date	Event	Prior
18/05	US NAHB Housing Market Index (May)	30
19/05	US Building Permits MoM (Apr)	-6.8%
	US Housing Starts MoM (Apr)	-22.3%
	EC ZEW Survey Expectations (May)	25.2
	UK Average Weekly Earnings 3M/YoY (Mar)	2.8%
	UK ILO Unemployment Rate 3Mths (Mar)	4.0%
	UK Employment Change 3M/3M (Mar)	172k
	JN Industrial Production YoY (Mar F)	-5.2%
	AU RBA Minutes of May Policy Meeting ()	

Source: Bloomberg

Macroeconomics

- ***US retail sales saw record plunge; online sales got a boost*:** Retail sales in the US plunged by a record 16.4% MOM in April, following the 8.3% decline in March and was worse that analysts' forecast of 12%. This highlights the impact of the Covid-19 pandemic and the measures to contain its spread on US retail sector as consumers stayed at home and cut discretionary spending. Declines in sales were broadbased across all sectors save for online sales ; sales at nonstore retailers jumped 8.4% MOM (Mar: +4.9%) as consumers resorted to purchasing items via the internet during this period. Spectacular fall were noted in sales of clothings (-78.8), furnitures (-58.7%) and electronics appliances (-60.6%). In fact, some of America's largest apparel retailers namely J.Crew and Neiman Marcus and JC Penny have filed for bankruptcy; Sales of motor vehicles dropped 12.4%; gasoline sales dropped 28.8% alongside sharply lower gasoline prices. Food services & drinking places suffered nearly 30% loss in businesses and even groceries sales went down by 13%.

- ***Largest drop in US industrial production history***: Industrial production fell by a whopping 11.2% MOM in April, its largest monthly drop in history as the Covid-19 pandemic led many factories to "slow or suspend operations" according to the Fed. Manufacturing production dropped 13.7%, also a record fall, mining was down by 6.1% while utilities slipped 0.9%. The output of motor vehicles and parts fell more than 70%. On a separate note, the NY Fed Empire State Manufacturing Survey reported that its headline general business condition index recovered by 30pts to -48.5 in May (Apr: -78.2), from the record low in April. While current conditions remained weak, firms appeared to grow more optimistic over outlook for the next six months.

- ***US consumer confidence improved a little in early May***: University of Michigan Consumer Sentiment Index edged up to 73.7 in May from 71.8, according to preliminary reading. This reflects the improvement in the current economic condition index (+8.7pts) and a slight drop in expectations (-2.4%). The survey reported that the higher confidence stemmed from the CARES relief checks that helped improve consumer finance and widespread discounting boosted buying attitudes. Nontheless, personal financial prospects for the year ahead continued to weaken.

- ***Eurozone GDP shrank 3.8% in first quarter***: Euro area economy contracted 3.8% QOQ in the first quarter of 2020 (4Q: +0.1%) according to a flash estimate, the sharpest on record, as output and activity were curbed in March when member states issued strict social distancing orders to contain Covid-19 pandemic. Compared to the same quarter last year, GDP shrank by 3.2% (4Q:+1.0%), the deepest fall since 3Q-09 during the Global Financial Crisis. Unemployment fell 0.2% QOQ after holding on to steady gains for multiple quarters as the job market was still tigtening up prior to the pandemic. The bloc's biggest economies where cases were highly saturated took a huge beating - Germany (-2.3% QOQ), Spain (-4.1%), France (-5.4%) and Italy (-4.8%). On a separate note, the Eurozone trade surplus narrowed to €23.5b in March, from €25.6b thanks to an 8.9% drop in exports, the largest decline since Jan-09 and a simultaneous 9% fall in imports.

Forex

MYR (Bullish)

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- Daily outlook for the pair remains slightly bullish in our view as rising US-China tension continues to pose as a major downside risk to MYR.

USD (Neutral Outlook)

- The USD was marginally weaker on a day of mostly range trading. DXY was 0.06% down, notably weakening against the JPY and EUR.
- **We are neutral to bullish on the USD on a 1-week basis**. Risk sentiments are currently souring, which can provide for some USD strength near-term. We see some possible moves closer to the 101 level for the DXY.

EUR (Neutral)

- EUR/USD dipped below 1.08 to a low of 1.0775 on 14 May. However, pair continues to like 1.08 as a floor and pair has returned a close of 1.0820 on Friday.
- Pair likely to remain within the 1.0800-1.1000 big figures. Economic fundamentals look to improve as Eurozone economies reopen cautiously from the Covid-19 pandemic.

GBP (Neutral to Bearish)

- GBP stayed on the downward trend, reaching a low of 1.2116 on Friday's close. This came as GBP underperformed compared to the EUR. Short positioning was high as investors bet GBP 750bn on it, according to Bloomberg.
- We remain pessimistic regarding the GBP. Despite economic reopening, the Covid-19 outbreak continues to escalate in the UK. BOE expects a 14% decrease in 2020 GDP this year. Brexit and risk aversion also does not favour the GBP in our view.

JPY (Bullish)

- USD/JPY has been range-bound, consolidating after a prior downtrend around 106.80-107.40. This comes as the JPY consolidates gain against all G10 currencies, with a 1.45% YTD gain as of 15 May close.
- Policy differentials between Fed and BOJ may favour slight JPY strength. In addition, we expect some market risk aversion in the coming weeks. Our end-June forecast is 107.

AUD (Neutral to Bearish)

- AUD/USD was weighed down towards 0.6400 by the weekend on continued risk aversion. This has come on the back of stretched positioning and profit taking. The reality of extremely bad data is sinking into markets.
- AUD/USD may correct further after being at stretched level, partly from depressed commodity markets. We see a sustainable AUD/USD level at around 0.6300.

SGD (Neutral to Bearish Outlook)

- USD/SGD resumed climbing on Friday 15 May, reaching a close of 1.4268. The bid towards higher levels have been a trend since 11 May. We see some scope for higher USD/SGD, pushing closer to the 1-month high of 1.4329.
- Further into Q2, we see possible moves upwards for USD/SGD (if risk aversion returns). Other key drivers for USD/SGD will include the Covid-19 situation, and US-China tensions.

- ***Japan economy shrank lesser than expected before nationwide lockdown:*** Preliminary estimate showed that Japan GDP contracted 0.9% QOQ in the first quarter of this year, a tad below analysts' forecast of 1% decline. This came after the much larger contraction in 4Q (-1.9%) when economic activity was disrupted by typhoon and consumption affected by a hike in sales tax. Private demand fell 0.9% QOQ and subtracted 0.7ppts from headline GDP of which household consumption dropped 0.8%. Public demand was unchanged (government consumption was flat); private investment fell 1% and made a 0.2ppts negative contribution. Exports plunged 6.0% and imports also fell by 4.9% QOQ, resulting in a -0.2ppts contribution from net exports. Compared to the same period last year, GDP contracted 3.4% YOY, this compares to the 7.3% slump in 4Q. The Japanese government had only declared a State of Emergency around mid-April thus the latest 1Q GDP data did not fully reflect the impact of Covid-19; the numbers are expected to worsen in 2Q.

- ***China production returns, consumption does not:*** Released data highlight some rebound in economic conditions in April as authorities reopened the economy gradually. The results suggest muted growth in Q2 compared to Q1's 6.8% YOY fall. The largest positive from April data came from industrial production. It expanded 3.9% YOY in April after a 1.1% decrease in March (consensus forecast: 1.5%; HL Bank: 2.7%). This mirrored positive export growth in April (3.5% YOY), and showed that China's production and export activities are helped by a restarting global economy. Meanwhile, fixed asset investment has also rebounded. Year-to-date growth remained negative (-10.3% January to April YOY from -16.1% a month ago). In contrast, retail sales stayed weak, highlighting cautiousness among consumers. It fell at a slower pace of 7.5% YOY compared to 15.8% prior (consensus forecast: -6%, HL Bank: -5%). There were little changes in consumption patterns during the pandemic. Food and communication retail sales stayed elevated (18.2% YOY and 12.2% respectively). Clothing (-18.5% YOY), petroleum (-14.1%) and jewellery (-12.1%) saw little demand on the flipside.

- ***Solid growth in Singapore NODXs***: Singapore's non-oil domestic exports soared by 9.7% YOY in April, still strong compared to March's 17.6% increase. This was helped by strong exports to EU (106.8% YOY) and US (124%), although exports to China fell 31.5% YOY. Product-wise, pharmaceuticals (174.3% YOY) offset weak growth in other aspects – electronics (-0.6%) and petrochemicals (-24.9%).

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