18 November, 2020

Global Markets Research
Daily Market Highlights

Key Takeaways

- **US stocks pulled back from recent rally as vaccine optimism waned.** This was **despite the US reported lower than 100k daily new cases for the first time since 04 Nov.** The Dow Jones (-0.6%) and S&P500 (-0.5%) slipped from all-time highs while NASDAQ was down modestly by 0.2%. Utilities and healthcare were top two losers. Pharmaceutical stocks took a hit as Amazon announced that it now sells prescription drugs online.

- **Treasury yields dropped on the back of weaker retail sales data and in response to Fed Chair Jerome Powell's remarks that surging coronavirus could slow the economy.** Overall yields dropped by 0.8 to 5.7bps; 10Y UST yield fell nearly 5bps to 0.86%. Gold futures snapped winning streak and moved slightly lower (-0.14%) to $1885.10 as **the dollar saw mixed performances**. Crude oil benchmarks were mixed after the sharp climbs in the prior session. Brent crude retreated a little (-0.16%) to $43.75/barrel while WTI settled 0.22% higher at $41.43/barrel.

- **US data continued to indicate economic expansion ahead despite slower than expected retail sales.** Industrial production recorded a solid rebound from prior month's fall while home building sentiment is at its all-time high. **Japan's exports surprised on the upside with the smallest decline recorded since Nov-18**. In Australia, Westpac Leading Index showed significant improvement to Australia's growth outlook. However, wage growth, a lagging indicator, was the weakest on record in 3Q. **RBA's meeting minutes earlier reaffirmed its dovish policy stance.**

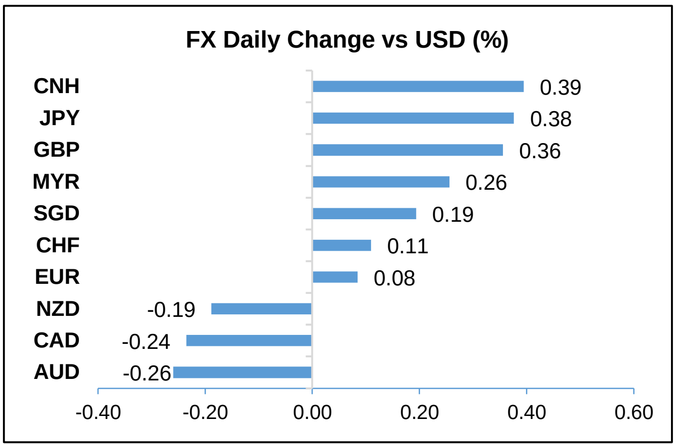
- DXY was 0.24% down on Tuesday, as JPY and GBP gained. This brought DXY to a close of 92.42 after a low of 92.27. We are **neutral-to-bearish on the USD** for the week ahead, more for EM than G10 FX. However, post-US election risks and Covid-19 still remain. Low of 92.13 eyed before immediate support around 91.70, with a rebound likely to test 93.50 resistance.

- USD/MYR weakened for the fourth session, losing 0.26% to close at 4.1045 on Tuesday. The pair is now eyeing 4.10 key support but cautious sentiment overnight as reflected in the mixed USD performance could diminish this possibility, keeping the pair within 4.10-4.12 today. For the week, we remain **neutral to bullish MYR** as improving risk sentiments will likely dampen the bid tone in the greenback despite occasional flips from vaccine and pandemic headlines.

Market Snapshots

	Last Price	DoD %	YTD %
Dow Jones Ind.	29,783.35	-0.56	4.36
S&P 500	3,609.53	-0.48	11.72
FTSE 100	6,365.33	-0.87	-15.61
Hang Seng	26,415.09	0.13	-6.30
KLCI	1,610.15	0.66	1.35
STI	2,778.55	1.11	-13.79
Dollar Index	92.42	-0.24	-4.12
WTI oil ($/bbl)	41.43	0.22	-32.15
Brent oil ($/bbl)	43.75	-0.16	-33.71
Gold (S/oz)	1,885.10	-0.14	23.50
CPO (RM/tonne)	3,500.00	-0.07	15.68

Source: Bloomberg



Source: Bloomberg

Overnight Economic Data

US ↓ Japan ↑
Australia

Up Next

Date	Event	Prior
18/11	UK CPI YoY (Oct)	0.5%
	EU CPI YoY (Oct F)	-0.3%
	US MBA Mortgage Applications (13 Nov)	-0.5%
	US Building Permits MoM (Oct)	4.7%
	US Housing Starts MoM (Oct)	1.9%
19/11	AU Employment Change (Oct)	-29.5k
	AU Unemployment Rate (Oct)	6.9%
	US Initial Jobless Claims (14 Nov)	709k
	US Philadelphia Fed Business Outlook (Nov)	32.3
	US Leading Index (Oct)	0.7%
	US Existing Home Sales MoM (Oct)	9.4%

Source: Bloomberg

Macroeconomics

- ***US retail sales disappointed; industrial production rebounded; homebuilding sentiment hit record high:***
  - Retail sales rose 0.3% MOM to $553.5b in October (Sep: +1.6% revised), missing analysts' forecast of 0.5% growth. This marks retail sales' slowest gain since May after the economy reopened. Compared to the same period last year, sales were 5.7% YOY higher (Sep: +5.9%). The weaker retail sales last month was a result of broad-based retreat in demand for almost all categories of goods (sales of clothing, food & beverages fell, while sales of vehicles and gasoline decelerated). Gain in retail sales for control group, a gauge of core retail sales retreated to a mere 0.1% MOM (Sep: +0.9%). Online retail sales managed to rebound by 3.1% from previous month's fall and represented 29% YOY growth, reflecting consumers' continuous preference to shop online in a pandemic.
  - Industrial production rose 1.1% MOM in October, more than offset the 0.4% fall in the prior month. According to the Federal Reserve, the output has recovered much of its 16.5% record fall from Feb-April at the onset of the pandemic but nonetheless still 5.6% lower than the pre-pandemic level in February. YOY, output was also 5.3% lower compared to same month last year. Manufacturing (+1.0% MOM) and utilities (+3.9% MOM) drove overall growth; mining output fell 0.6% MOM.
  - Import price index fell for the first time in six months by 0.1% MOM in October (Sep: +0.2%) on the back of stronger dollar. This translates to a YOY decline of 1.0% (Sep: -1.4%) which indicates the absence of imported inflation.
  - The NAHB Housing Market Index surged to an all-time high of 90 in November (Oct: 85), beating analysts' forecast of 85. Homebuilders' optimism is at the most upbeat level in history as low interest rates and the pandemic driven suburban shift continued to drive present and future sales.

- ***Australia RBA reaffirmed dovish stance; Westpac Leading Index showed improved outlook***
  - The RBA latest meeting minutes reaffirmed its dovish monetary policy stance. The RBA had during the meeting decided to expand its QE program to include purchase of AUD100m worth of longer dated (around 5 to 10 years) government bonds. Cash rate and the three-year yield target were cut to 0.1%. The Board expects the cash rate to remain at its current level for at least 3 years. The minutes also remove speculations that the RBA would cut cash rate to negative level officials agreed that "hat there was little to be gained from short-term interest rates moving into negative territory and continued to view a negative policy rate as extraordinarily unlikely." RBA said that "the focus over the period ahead will be the government bond purchase program".
  - **The** Westpac Leading Index rose slightly to 96.31 in October (Sep: 96.2). Notably, the six-month annualised growth rate jumped to 3.25% from previously negative readings, indicating a huge improvement in growth outlook for the Australia's economy over three to nine months into the future after the economy emerged from the most recent lockdown.
  - Australia wage price index rose 0.1% QOQ in the third quarter of 2020, easing from the 0.2% growth prior. This translates to a mere 1.4% YOY in 3Q (2Q: +1.8%), its weakest growth on record as the pandemic dragged down wage growth substantially since 2Q**.**

Forex

MYR (Neutral-to-Bullish)

- USD/MYR weakened for the fourth session, losing 0.26% to close at 4.1045 on Tuesday. The pair is now eyeing 4.10 key support but cautious sentiment overnight as reflected in the mixed USD performance could diminish this possibility, keeping the pair within 4.10-4.12 today. For the week, we remain neutral to bullish MYR as improving risk sentiments will likely dampen the bid tone in the greenback despite occasional flips from vaccine and pandemic headlines.
- **Factors supporting**: Economic recovery, less dovish MPC, USD weakness
- **Factors against**: Risk aversion, domestic politics, second lockdown.

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

- DXY was 0.24% down on Tuesday, as JPY and GBP gained. This brought DXY to a close of 92.42 after a low of 92.27. We are **neutral-to-bearish** on the USD for the week ahead, more for EM than G10 FX. However, post-US election risks and Covid-19 still remain. Low of 92.13 eyed before immediate support around 91.70, with a rebound likely to test 93.50 resistance.
- **Factors supporting**: Risk aversion, Covid-19 resurgence
- **Factors against**: Fed accommodation, potential US stimulus, Buoyant sentiments

EUR (Neutral)

- EUR/USD reached a high of 1.1894 on Tuesday but momentum was weak as we anticipated. This meant only modest gains of <0.1% on Tuesday. Event risks and poor fundamentals may weigh on the EUR near-term. Resistance at 9 November high of 1.1920.
- **Factors supporting**: Economic data rebound
- **Factors against**: Risk aversion, Covid-19 outbreak

GBP (Neutral)

- GBP/USD led gains among G10 during dollar weakness. This brought pair to a high of 1.3272 before a slight retreat to a 1.3246 close. We are **neutral** on the GBP. We see a range of around 1.30-1.33. Brexit negotiations remain slow as the deadline of a trade deal nears (transition period ends 31 December).
- **Factors supporting**: Breakthrough in news, USD weakness
- **Factors against**: Risk aversion, Brexit, twin deficits, Bank of England increasing monetary accommodation

JPY (Neutral)

- USD/JPY came off further towards a close of 104.19, touching a low of 104.07 in the process. We turn **neutral** on the JPY at current levels, seeing a range of 104-105 for now. A breakaway may signal at more momentum either way. We see bias towards further downward moves compared to upward moves, due to dollar weakness.
- **Factors supporting**: BOJ policy, risk aversion
- **Factors against**: Weak fundamentals

AUD (Neutral-to-Bullish)

- AUD/USD came off on Tuesday after the 5D high of 0.734 reached intraday. AUD/USD came off to close at 0.7301. We see a range of 0.71-0.735 for the week ahead. RBA said it is not concerned regarding recent currency strength. Trade tensions between Australia and China may weigh against further gains above 0.74. However, dollar weakness should provide ample support.
- **Factors supporting**: Fundamentals improve from current levels
- **Factors against**: Risk aversion, RBA policy

- ***Japan exports recorded small decline, best performance since late 2018:***
  - Exports surprised on the upside, recording its smallest decline of 0.2% YOY (Sep: -4.9%) since Nov-18. This beats consensus forecast of -4.5%. Exports had been falling for the 23rd consecutive months but the rate of decline had tapered off in recent months as the global economy reopened. The recent surge in coronavirus cases across its major partners such as Europe and the US may post downside risk to Japan's trade outlook as fresh lockdowns heading into winter may curtail demand.
  - Imports meanwhile fell more than expected by 13.3% YOY in October (Sep: -17.4%); consensus were expecting a smaller 8.8% decline. Nonetheless, October's print was considered an improvement, as exports recorded smaller fall for the third month.

SGD (Neutral-to-Bullish)

- USD/SGD saw some modest downward moves again on Tuesday, with a low of 1.3421 and close of 1.3428. We are **neutral-to-bullish** on the SGD for the following week. We see 1.3582 as the resistance for the week, with 1.3410 the support barrier.
- **Factors supporting**: Economic recovery, CNH strength
- **Factors against**: Risk aversion, trade war, US-China

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