Global Markets Research

Daily Market Highlights

Key Takeaways

- **Stocks rebounded on Wednesday as investors were more convinced on an economic recovery after parsing the Federal Reserve's latest meeting minutes**. The central bank continues to show deep commitment in to support the economy via its wide range of monetary tools. Investors were also closely monitoring the reopening of economies now happening across all 50 US states. The Dow Jones added nearly 370pts or 1.5%, almost reversing its Tuesday's losses; the S&P 500 gained 1.7% while NASDAQ jumped 2.1%. All eleven S&P500 sectors were up, led by energy shares. Treasury yields were lower after the Treasury's auction of $20b worth of 20-year bonds, its first in 34 years. Demand was decent with a yield of 1.22%. 10Y UST yield meanwhile slipped a little to 0.68% (-1bp).

- Looking at other asset clasess, gold price saw milder climb (+0.2%) to $1748.18/ounce and the dollar continued to weaken; the dollar index has now eased for the fourth consecutive session to the low side of 99. **Crude oil prices firmed up -** WTI settled at $33.49/barrel (+5.2%) and Brent Crude at $35.75/barrel (+3.2%) **as the EIA reported larger-than-expected draw in US crude inventory** (nearly 5mil fall in stockpiles last week versus 1.15mil expected). This gave rise to market confidence that oil consumption is recovering as states reopened. Earlier on Wednesday, stocks had also rose in both Europe and Asia; **the PBOC left its one-year loan prime rate at 3.85% while the Bank of Thailand cut its policy rate by 25bps to a new all-time-low of 0.50%.**

- US mortgage applications were 2% lower due to the drop in refinancing activity. **Data showed the impact of lower oil prices and Covid-19 pandemic on inflation** - on Eurozone HICP inflation pulled back to a mere 0.3% YOY, UK CPI rose 0.8% YOY while Malaysia CPI fell 2.9% YOY. There was a slight recovery in Eurozone consumer confidence. Japan exports fell for the 17th successive month.

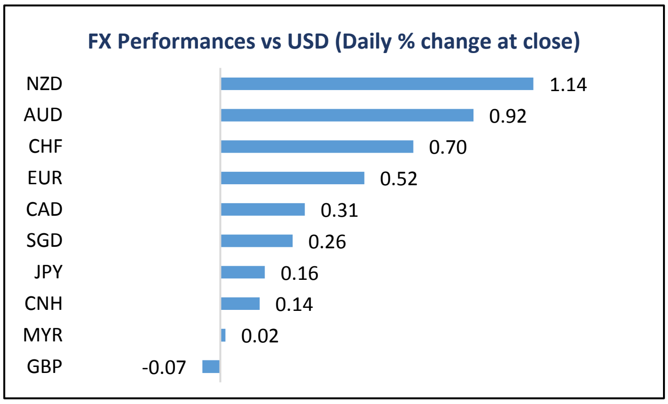
- USD weakness intensified on Wednesday. DXY was down by 0.25% to close at 99.12. This was led by NZD, AUD, and EUR. **We turn slightly bearish on the USD** on a 1-week basis, given bearish momentum. Technical support of 98.78 (1 May low) will likely be watched.

- USDMYR finished virtually unchanged at 4.3525 as risk appetites retreated and investors reassessed market. **Outlook remains neutral with a slgiht bearish bias** as USD was weighed down overnight. US-China tension continues to pose a downside risk to MYR.

Market Snapshots

	Last Price	DoD %	YTD %
Dow Jones Ind.	24,575.90	1.52	-13.88
S&P 500	2,971.61	1.67	-8.02
FTSE 100	6,067.16	1.08	-19.56
Hang Seng	24,399.95	0.05	-13.44
KLCI	1,435.12	0.78	-9.67
STI	2,561.94	-0.75	-20.51
Dollar Index	99.12	-0.2	3.0
WTI oil ($/bbl)	33.49	3.05	-44.66
Brent oil ($/bbl)	35.75	3.17	-45.59
Gold (S/oz)	1,748.18	0.18	15.11
CPO (RM/tonne)	2,187.50	2.20	-27.70

Source: Bloomberg



Source: Bloomberg

Overnight Economic Data			
US	↓	Eurozone	→
UK	↓	Japan	↓
Malaysia	↓		

Up Next

Date	Event	Prior
21/05	US Philadelphia Fed Index (May)	-56.6
	US Initial Jobless Claims (16 May)	--
	US Markit US Manufacturing PMI (May P)	36.1
	US Markit US Services PMI (May P)	26.7
	US Leading Index (Apr)	-6.7%
	US Existing Home Sales MoM (Apr)	-8.5%
	UK Markit UK PMI Manufacturing (May P)	32.6
	UK Markit/CIPS UK Services PMI (May P)	13.4
	JP Jibun Bank Japan PMI Mfg (May P)	41.9
	JP Jibun Bank Japan PMI Services (May P)	--
	NZ Credit Card Spending MoM (Apr)	-9.1%
21/05	MA Foreign Reserves (15 May)	--
	EC Markit Eurozone Manf PMI (May P)	33.4
	EC Markit Eurozone Services PMI (May P)	--
	UK Retail Sales Inc Auto Fuel MoM (Apr)	-5.1%
	JN Natl CPI Ex Fresh Food YoY (Apr)	0.4%

Source: Bloomberg

Macroeconomics

- ***FOMC minutes showed Fed's commitment to support economy via wide range of tools:*** In the Federal Reserve's newly released meeting minutes, officials noted that the effects of Covid-19 pandemic and the ongoing public health crisis would continue to weigh heavily on economic activity, employment and inflation and pose considerable risk to outlook in the medium term. The second quarter would likely to see overall economic activity decline at an unprecedented rate. Members continued to support the various monetary tools put in place by the Fed since March to support the economy. Officials noted that the current monetary policy stance is appropriate and discussed the potentials of having clearer or "more explicit" forward guidance in fed funds rate. Among the ideas discussed were an outcome-based forward guidance and data-based forward guidance. Some officials suggested that the FOMC to further clarify on its intentions for purchases of Treasury securities and MBS; without which could raise the uncertainty about the evolution of the Federal Reserve's asset purchases. Other than that, other discussions involve using ongoing bond-buying program to keep longer-term yields low as well as using the balance sheet to reinforce the Committee's forward guidance in fed funds rate.

- ***Mortgage data show recovery in home purchase:*** Mortgage applications in the US fell 2.6% for the week ended 15 May, following a 0.3% increase earlier as the fall in the refinancing applications (-6%) outweighed the rise in the purchase category (+6%). This again shows that "applications for home purchases continue to recover from April's sizable drop" according to the Mortgage Bankers Association. Purchase activity had now increased for five straight weeks.

- ***Eurozone inflation pulled back futher in April:*** Eurostat data showed that inflation in the Euro Area slowed to a mere 0.3% YOY in April, from the 0.7% YOY in March. This was a tad lower than the flash reading of 0.4% released in late April. The fall in energy prices (-9.7%) mainly weighed on inflation, subtracting nearly 1ppts from the index growth. Prices of food, alcohol & tobacco jumped 3.6% YOY whereas the cost of services (+1.2%) and non-energy industrial goods (+0.3%) eased last month. Core inflation rate also retreated to 0.9% YOY, from 1.0% prior.

- ***Small recovery in Eurozone consumer confidence***: The flash reading of European Commission Consumer Confidence Index came in at slightly higher at -18.8 in May, from -22 in April, signaling some recovery in consumer sentiment. The reading remains poor but the slightly improvement is likely attributed to the gradual easing of lockdown across the region.

- ***UK inflation eased to near-four-year low***: UK all-items inflation (CPIH) eased to 0.9% YOY in April, from 1.5% in March. Excluding owner occupiers' housing cost, the more closely watched CPI rose 0.8% YOY, the slowest since Aug-16, after the 1.5% increase in the previous month. This reflects falling energy and fuel pump prices that made up the largest downward contribution which was partially offset by rising prices for recreational goods. Falling prices of housing and household services as well as clothing & apparels were also negative contributors. ONS said that 16.3% of the CPIH basket items weren't available to consumers during this period thanks to the Covid-19 lockdown. Core CPI which excludes food, alchohol & tobacco and energy rose 1.4% YOY, following a 1.6% growth previously.

Forex

MYR (Neutral to Bullish)
- USDMYR finished virtually unchanged at 4.3525 as risk appetites retreated and investors reassessed market.
- Outlook remains neutral with a slgiht bearish bias as USD was weighed down overnight. US-China tension continues to pose a downside risk to MYR.

USD (Neutral-to-Bearish)
- USD weakness intensified on Wednesday. DXY was down by 0.25% to close at 99.12. This was led by NZD, AUD, and EUR.
- We turn slightly bearish on the USD on a 1-week basis, given bearish momentum. Technical support of 98.78 (1 May low) will likely be watched.

EUR (Neutral-to-Bullish)
- EUR/USD rose again on Wednesday, almost touching the 1.1000 level before a consolidation. Pair closed at 1.0980, close to the high of recent 1 month ranges.
- 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-Bullish)
- GBP consolidated on Wednesday, underperforming compared to EUR. This came as deflationary pressures intensified according to released PPI and CPI figures. BOE Governor Bailey said that it is keeping its lower bound under review.
- We see some near-term potential for GBP to catch up after prior underperformance. Still, we remain comparatively pessimistic regarding the GBP thereafter. Despite economic reopening, the Covid-19 outbreak continues to escalate in the UK. Brexit and risk aversion does not favour GBP in our view.

JPY (Neutral-to-Bearish)
- JPY has weakened on improvements in risk sentiments. USD/JPY reached a month-to-date high of 108.09 on 19 May. JPY has since strengthened slightly on 21 May, with USD/JPY remaining within 107-108 range.
- We do not expect significant further weaknesses on the JPY. Policy differentials between Fed and BOJ still favour slight JPY strength. Besides, US-China relations may pose some market concerns. Our End-June forecast is 107.

AUD (Neutral-to-Bullish)
- AUD/USD surged again to a month-to-date high of 0.6616 on Wednesday before some profit taking led to a slight retreat.
- Momentum is for a stronger AUD at the moment. AUD/USD may correct later on after being at stretched level, partly from depressed commodity markets. We see a sustainable AUD/USD level at around 0.6300.

SGD (Neutral-to-Bullish)
- USD/SGD continued to see downside momentum on Wednesday. Pair reached a low of 1.4121 before some consolidation. This came as the SGD outlook improved in recent days over recovering fundamentals.
- Improving risk sentiments may mean that USD/SGD stays close to current levels around 1.4100-1.4200. Other key drivers for USD/SGD will include the Covid-19 situation, and US-China tensions.

- ***Japan exports fell for 17th month:*** Japan exports extended further decline in April by a whopping 21.9% YOY, following 11.7% decrease in March, its largest fall yet in its current 17-month losing streak that had started in Dec-18. The poor demand for Japanese goods were exacerbated by the Covid-19 global pandemic and also the halt in domestic factory operations amid a nationwide lockdown that further crippled the international trade sector. Imports decreased 7.2% YOY (Mar: -5%), marking a good twelve months of decline since May-19.

- ***Hefty fall in Malaysia consumer prices as oil prices plunged:*** Consumer Price Index (CPI) registered a bigger than expected decline of 2.9% YOY in April, much steeper than the 0.2% YOY decline in March, and was bigger than ours as well as market estimate of 2.5% and 1.6% declines respectively. The plunge was dragged by no other than the sharp contraction in transport prices that fell along with the plunge in global crude oil prices, as well as the surprised decline in the costs of housing and utiltiies. This marked its back-to-back decline for the first time since Feb-19 and the biggest fall since 2009. On a more comforting note, core CPI stabilized for three months in a row at 1.3% YOY in April while services CPI also tapered off only marginally to 1.4% YOY in April (Mar: +1.5% YOY), reflecting easing, but still decent inflationary pressure in the system, ex-transport costs. We reiterate our view for negative CPI prints for the remaining of the year. We expect deflation to reach its peak in 2Q, before tapering off somewhat towards the end of the year. Again, the trajectory would largely hinge on movement in global oil prices. With inflation in negative territory and real interest rates at unprecedented highs, there is indeed policy space for further policy easing should downside risks to growth escalate. We however expect an OPR pause for now after the massive 100bps cut since January, complemented by the mammoth RM260bn economic stimulus packages

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