# Global Markets Research

# Daily Market Highlights

## Key Takeaways

- **Conclusion of a €750bn landmark deal by EU leaders** to steer the euro reigon out of recession after four days of intense discussion **sent cheers to the global financial markets. Major stock indices advanced globally** in European and Asian sessions earlier but the benchmark Dow and S&P 500 narrowed gains while the Nasdaq ended in the red as weaker than expected corporate earnings outweighed positivity from talks of anohter stimulus plan by Washington.

- **The greenback came under selling pressure amid gains in all majors led by the Aussie (+1.6%).** The Dollar Index lost ground for the 3rd straight day, down by 0.75% to 95.12, nearing its March low. Gold and US treasuries gained on paring of risk sentiments, with the 10Y UST yields slipping 2bps to 0.59%. Meanwhile, **crude oil narrowed its gains** to close 2.4-2.8% higher on the day as **report showing a hefty increase in stockpiles** dented the rally brought about by stimulus optimism earlier. **Today, talks on additional stimulus from the US will be eyed** given the current worrisome state of health and economic situation. This shall follow more quarterly earnings reports from giants such as Microsoft, Intel, Tesla and Unilever.

- **Data flow appears more positive.** US Chicago Fed National Index picked up in June, to 4.11 from 3.50 in May. Jibun Bank PMI readings improved but remained contractionary, suggesting the recovery ahead will be bumpy. Leading index continued to pick up in Australia foretelling expectations for a better outlook ahead. **The RBA minutes for 7 July reiterated previous stances to maintain the accommodative approach for some time.**

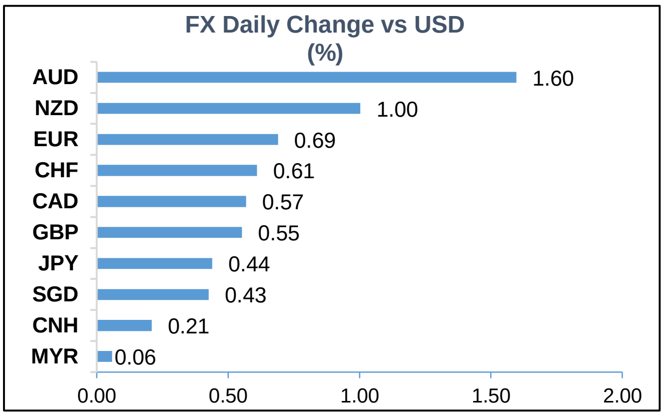
- USD broadly weakened on Tuesday. DXY lost 0.75%, closing at 95.117. This brought it below our 2Q-2021 forecast. The bullish market sentiment mostly triggered strong momentum, with investors focusing on US stimulus deal next. We are **neutral to bearish USD on a one-week horizon.**

- USDMYR finished flat again on Tuesday as expected, inching a minute 0.06% gain at 4.2610. **USDMYR is expected to turn slightly bearish today** following overnight USD weakness but overall outlook over the medium term remains neutral, susceptible to shift in market sentiments. In the absence of fresh catalysts either from the domestic or external front, the pair should still sit comfortably within 4.25- 4.29 in our view with 4.2530 serving as a key support for now.

## Market Snapshots

| | Last Price | DoD % | YTD % |
|---|---|---|---|
| Dow Jones Ind. | 26,840.40 | 0.60 | -5.95 |
| S&P 500 | 3,257.30 | 0.17 | 0.82 |
| FTSE 100 | 6,269.73 | 0.13 | -16.87 |
| Hang Seng | 25,635.66 | 2.31 | -9.06 |
| KLCI | 1,595.93 | 0.41 | 0.45 |
| STI | 2,629.45 | 0.50 | -18.41 |
| Dollar Index | 95.12 | -0.75 | -1.32 |
| WTI oil ($/bbl) | 41.96 | 2.82 | -31.28 |
| Brent oil ($/bbl) | 44.32 | 2.40 | -37.63 |
| Gold (S/oz) | 1,841.91 | 1.33 | 21.44 |
| CPO (RM/tonne) | 2,708.00 | 2.75 | -10.49 |

*Source: Bloomberg*




*Source: Bloomberg*

### Overnight Economic Data

| | | | |
|---|---|---|---|
| US | ↑ | Japan | ↑ |
| Australia | ↑ | New Zealand | → |
| Hong Kong | ↓ | | |

### Up Next

| Date | Event | Prior |
|---|---|---|
| 22/07 | MA CPI YoY (Jun) | -2.9% |
| | MA Foreign Reserves (15 Jun) | $103.4b |
| | US MBA Mortgage Applications (17 Jun) | 5.1% |
| | US FHFA House Price Index MoM (May) | 0.2% |
| | US Existing Home Sales MoM (Jun) | -9.7% |
| 23/07 | US Initial Jobless Claims (18 Jun) | -- |
| | US Leading Index (Jun) | 2.80% |
| | US Kansas City Fed Manf. Activity (Jul) | 1 |
| | EC Consumer Confidence (Jul A) | -14.7 |
| | SG CPI YoY (Jun) | -0.80% |

*Source: Bloomberg*

## Macroeconomics

- ***Minutes showed RBA to maintain dovish policy:*** The RBA released the minutes of its 7th July meeting, during which it had left the cash rate unchanged at 0.25% and maintained its current policy package. Following reviews, RBA members agreed that "there was no need to adjust the package of measures in Australia in the current environment". They did not rule out adjusting the package if circumstances warranted. Negative interest rates "remain extraordinarily unlikely". There was also "no case for intervention in the foreign exchange market". While assessing the economic outlook, RBA noted that timely indicators showed that economic activity had generally picked up, suggesting that the worst of the global economic contraction had passed. The outlook however remained uncertain. Domestically, "economic conditions had stabilised and the downturn had been less severe than earlier expected". Members reiterated that RBA's policy package continued to work broadly as expected and stated that its accomodative approach would be maintained for as long as necessary.

- ***US Chicago Fed National Index picked up in June***: Chicago Fed national activity index improved for the 2nd straight month to 4.11 in June (May: 3.50 upwardly revised), bouncing back sharply from April's -16.7. The latest reading showed economic activities have been growing above trend in the last two months, in line with economy reopening.

- ***Japan manufacturing and services PMI***: Jibun Bank preliminary July reading showed manufacturing and services sector remained in contraction mode in Japan. The PMI manufactuirng picked up to 42.6 in July (Jun: 40.1) while the services inched marginally to 45.2 (Jun: 45.0). Despite the slight improvement, overall outlook remains dismal spelling bumpy recovery ahead.

- ***Advances in Hong Kong headline CPI halved:*** Gain in Hong Kong CPI moderated for the 3rd consecutive month to 0.7% YOY in June (May: +1.5% YOY), skewed by a higher base from pork prices that started spiking last May. Meanwhile, underlying inflation that stripped off one-off government relief measures also eased to 1.2% YOY in June (May: +1.9% YOY). Inflation outlook is expected to remain soft given the current weak demand condition.

- ***Australia leadindg index points to firmer outlook***: Westpac leading index picked up to +0.44% in June (May: +0.19%), signalling expectations for the Australia economy to gain momentum in the months ahead, but uncertainties surrounding the pandemic and US-China relations will remain as key risk factors.

- ***New Zealand card spending extended monthly gain***: New Zealand credit card spending rose 14% MOM in June, following the hefty 59.4% rebound in May. This translates to smaller annual fall of 9.2% YOY (May: -20.6%) as consumer spending continued to recover in the country amid successful containment of Covid-19 outbreak.

## Forex

**MYR (Neutral-to-Bullish)**

- USDMYR trended higher from a lower opening to finish flat again on Tuesday as expected, inching a minute 0.06% gain at 4.2610. USDMYR is expected to turn slightly bearish today following overnight USD weakness but overall outlook over the medium term remains neutral, susceptible to shift in market sentiments. In the absence of fresh catalysts either from the domestic or external front, the pair should still sit comfortably within 4.25-4.29 in our view with 4.2530 serving as a key support for now.
- **Factors supporting**: Economic recovery
- **Factors against**: Risk aversion, US-China relations, domestic politics

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

- USD broadly weakened on Tuesday. DXY lost 0.75%, closing at 95.117. This brought it below our 2Q-2021 forecast. The bullish market sentiment mostly triggered strong momentum, with investors focusing on US stimulus deal next.
- **Factors supporting**: Risk aversion, US-China relations, stretched low DXY levels
- **Factors against**: Complacent markets, positive developments from global policymakers

**EUR (Neutral-to-Bullish)**

- EUR/USD rose by 0.69% on Tuesday, helped by optimism on EU stimulus package. This has brought pair above 1.15, closer to our 2021 forecasts.
- **Factors supporting**: Solid fiscal support on confidence, recovering economy
- **Factors against**: Risk aversion, 2nd wave of Covid-19 infections, stretched levels

**GBP (Neutral)**

- GBP/USD gained 0.55% on Tuesday amid USD weaknesses. This broke 1.27 big figure, closing to the 10 June high of 1.2813.
- **Factors supporting**: Breakthrough in news
- **Factors against**: Risk aversion, Brexit, twin deficits

**JPY (Neutral)**

- USD/JPY fell 0.44%, despite underperforming compared to other currencies. Against a longer trend, USD/JPY stayed relatively in a tight 106.5-107.5 range since 9 July. We still see a range of 106-108, now biased on the downside.
- **Factors supporting**: BOJ policy, risk aversion
- **Factors against**: Weak fundamentals

**AUD (Neutral-to-Bullish)**

- AUD/USD surged by 1.6% (with NZD also seeing a 1% gain vs. USD). Risk sentiment climbed and the recovery in commodities helped break previous long-held resistance levels. After reaching highest levels since April 2019, 0.72 is next big figure to watch.
- **Factors supporting**: Current account, resilient economy
- **Factors against**: Risk aversion, 2nd wave of Covid-19 infections, China-Australia relations, stretched levels

**SGD (Neutral-to-Bullish)**

- USD/SGD fell by 0.43% on Tuesday. This brought pair towards the lower range of 1.38-1.40 from bullish risk sentiment.
- **Factors supporting**: Fed vs. MAS policy, economic recovery
- **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