Hong Leong Bank

Global Markets Research

Daily Market Highlights

Key Takeaways

- **US equities rallied in late trading session** to close the day higher, shrugging off the directionless trading earlier. **Markets were torn between escalating US-China tension, US fiscal package** that is expected to extend jobless benefits, **and potential vaccine following news Pfizer baggged a near $2.0bn deal** with the US governemnt. **Earlier, European and Asian stocks came under the mercy of intensified US-China standoff** following US accussation of data stealing by two Chinese hackers and the order of closure of China consulate in Houston. China vowed to retaliate if the decision is not reversed. After market close, **Microsoft and Tesla reported better than expected quarterly earnings but weaker than expected cloud services sales from Azure (a unit of Microsoft) dampened positive vibes** in the corporate scene.

- **The Dollar Index extended its bearish move down**, breaking the 95.0 handle at 94.99 (-0.14%). All majors continued to strengthen save for the JPY which fell 0.33% to 107.15 against the USD. **EUR and AUD made further grounds and stayed firmly above 1.15 and 0.71** handles respectively. **Safe haven demand remained bid.** Gold rose another 1.6% DOD to $1871.41/oz while the 10Y UST yields fell about one basis point to 0.586%. **Global crude oil prices continued to slip on higher stokcpiles.** The Brent and WTI last settled at $44.29 and $41.90/ barrrel respectively. **Today, focus will remain on souring US-China relations, US stimulus discussion, initial jobless claims data tonight, not forgetting more corporate earnings announcements.**

- **Overnight economic releases were light. Housing indicators suggest a recovering but somber housing market in the US.** Existing home salres rebounded from May's low but remained below trend. Weekly mortgage applications slowed while house prices unexpectedly fell. **Malaysia CPI saw a smaller negative print of 1.9% YOY in June** due to smaller decline in transport prices and quicker gain in food prices. Core CPI signaled tentative signs of firming inflationart pressure. **BNM foregin resereves continued inching up to $104.0bn as at mid-July.**

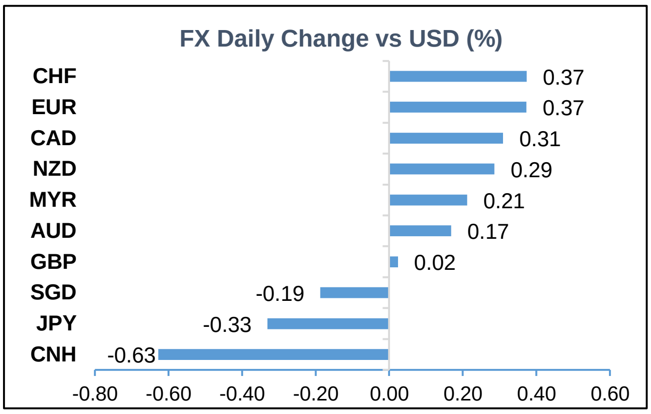
- USD fell slightly further on Wednesday. DXY saw a 0.14% decline. This was brought about as CHF, EUR and CAD advanced. JPY weakened against the USD in contrast. We maintain our **neutral to bearish view on the USD** over a one week horizon.

- USDMYR finished lower by 0.21% at 4.2520 yesterday on the back of a softer greenback. This marked its strongest level in six weeks. The local unit traded mixed against other G10s and largely outperformed its Asian peers. **USDMYR is expected to remian neutral to slightly bearish today** taking cue from extended USD weakness. Swing in market sentiments will remain a major influence to the pair's fate. After having broken the 4.2530 support, we now expect the pair to head towards 4.2450 - 4.2480.

Market Snapshots

	Last Price	DoD %	YTD %
Dow Jones Ind.	27,005.84	0.62	-5.37
S&P 500	3,276.02	0.57	1.40
FTSE 100	6,207.10	-1.00	-17.70
Hang Seng	25,057.94	-2.25	-11.11
KLCI	1,586.98	-0.56	-0.11
STI	2,594.53	-1.33	-19.50
Dollar Index	94.99	-0.14	-1.45
WTI oil ($/bbl)	41.90	-0.14	-31.46
Brent oil ($/bbl)	44.29	-0.07	-37.67
Gold (S/oz)	1,871.41	1.60	23.43
CPO (RM/tonne)	2,715.50	0.28	-10.25

Source: Bloomberg



Source: Bloomberg

Overnight Economic Data

Malaysia	↑	US	→

Up Next

Date	Event	Prior
23/07	US Initial Jobless Claims (18 Jun)	1,300k
	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%
24/07	US Markit Manufacturing PMI (Jul P)	49.8
	US Markit Services PMI (Jul P)	47.9
	US New Home Sales MoM (Jun)	16.60%
	EC Markit Manufacturing PMI (Jul P)	47.4
	EC Markit Services PMI (Jul P)	48.3
	UK GfK Consumer Confidence (Jul P)	-27
	UK Retail Sales Inc Auto Fuel MoM (Jun)	12.00%
	UK Markit PMI Manufacturing SA (Jul P)	50.1
	UK Markit/CIPS Services PMI (Jul P)	47.1
	SG Industrial Production YoY (Jun)	-7.40%
	NZ Exports NZD (Jun)	5.39b
	NZ Trade Balance 12 Mth YTD NZD (Jun)	-1327m

Source: Bloomberg

Macroeconomics

- ***Narrower decline in Malaysia CPI:*** CPI extended its decline for a fourth straight month albeit at a slower pace of 1.9% YOY in June due to smaller decreases in transport prices as well as a pick-up in food inflation. Today's report also offered first glimpse that prices have started picking up as evident in core CPI and services CPI. Looking ahead, we maintain that price pressure will remain very soft in the absence of demand-pull inflation as consumers stay wary of a still murky outlook and uncertain recovery path. In addition, extension in discounts for electricity bill will also cap increases in prices, if any. The movement in global crude oil prices will remain a key determinant in CPI trajectory, with odds of an earlier return to positive CPI readings in the second half of the year should oil prices are sustained at current level. No change to our full year CPI forecast at -0.7% for now.

- ***Malaysia foreign reserves saw slgiht uptick:*** Foreign reserves continued to inch up, amounted to $104.0bn as at 15-July, from $103.4 as at end-June. The current level of foreign reserves is sufficient to finance 8.5 months of retained imports and 1.1x of short term external debt.

- ***US housing indicators points to a recovering but somber housing market***: Existing home sales rebounded less than expected by 20.7% MOM to 4.72m units in June (May: -9.7% MOM), off the May-low but still below trend. The percentage of investors had dropped substantially to 9% (prior 14%), a sign of weak confidence, while first time and cash buyers were little changed at 35% and 16% respectively (prior 34% and 17%). MBA mortgage applications for the week ended 17-July continued to increase albeit at a slower rate of 4.1% WOW (prior: +5.1% WOW) due to slower growth in the refinancing index which outweighed the rebound in new purchases. In another release, FHFA house prices unexpectedly fell 0.3% MOM in May (Apr: +0.1% revised), marking its first decline since Jan-12. Six out of nine regions reported a fall, two unchanged and only South Atlantic registered an increase.

Forex

MYR (Neutral-to-Slightly Bullish)

- USDMYR finished lower by 0.21% at 4.2520 yesterday on the back of a softer greenback. This marked its strongest level in six weeks. The local unit traded mixed against other G10s and largely outperformed its Asian peers. USDMYR is expected to remian neutral to slightly bearish today taking cue from extended USD weakness. Swing in market sentiments will remain a major influence to the pair's fate. After having broken the 4.2530 support, we now expect the pair to head towards 4.2450 - 4.2480.
- **Factors supporting**: Economic recovery
- **Factors against**: Risk aversion, US-China relations, domestic politics

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

- USD fell slightly further on Wednesday. DXY saw a 0.14% decline. This was brought about as CHF, EUR and CAD advanced. JPY weakened against the USD in contrast.
- **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 0.37% on Wednesday, helped by optimism on EU stimulus package. This has brought to a high of 1.1601 for the day.
- **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 peaked at 1.2768 and eased thereafter. Pair continues to stay close to the 10 June high of 1.2813.
- **Factors supporting**: Breakthrough in news
- **Factors against**: Risk aversion, Brexit, twin deficits

JPY (Neutral)

- USD/JPY rose by 0.33%, continuing to lag G10 FX performance. 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 saw a high of 0.7182 but failed to see further gains on Wednesday. Pair still saw a 0.17% gain compared to a day ago.
- **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 rose 0.19%, rebounding from Tuesday's move downwards. However, pair stays within the 1.38-1.40 range, after a low of 1.3820.
- **Factors supporting**: Fed vs. MAS policy, economic recovery
- **Factors against**: Risk aversion, trade war, US-China

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