Global Markets Research

Daily Market Highlights

Key Takeaways

- **US stocks fell overnight as mixed PMI data, dimmer hope of additional fiscal stimulus as well as recently higher Covid-19 cases further lower expectations for a smooth recovery.** The Dow Jones lost 525pts or 1.9% DOD; the S&P500 was down by 2.4%, led by losses in the tech sector; NASDAQ fell by 3.0%. **US treasuries yields were little changed** (-0.6 to +0.8bps) along the curve despite the sharp losses in equities. The benchmark 10Y UST yield was flattish at 0.67%. **Gold futures plunged 2.0% to $1860.50/oz as the dollar strengthened further.**

- Brent crude barely rose (+0.1%) to $41.77/barrel but US benchmark WTI recovered by 0.8% to $39.93/barrel. **RBNZ kept OCR unchanged at 0.25% and its QE program at NZD100b, said that further monetary stimulus is needed.** Fed officials continued to plead for more fiscal help in separate interview and virtual events. **Back home, the Prime Minister announced an additional RM9.4bn (~0.6% of GDP) stimulus in the form of wage subsidies and cash assistance to aid the economic recovery. No change to our full year GDP forecast of -4.9% for now given prevailing uncertainties and fragility of the situation.** UK Covid-19 cases continued to spike, the daily addition of 6182 cases was the highest on record according to data from Bloomberg.

- On the data front, **PMIs reflects the loss in momentum in the services sector in the US, UK, Eurozone and a contraction in Japan.** US housing data remained a bright spot. Singapore and Malaysia were still in a deflation. New Zealand annual trade balance widened sharply.

- DXY added 0.4% to a two-month high of 94.39; major currencies extended their losses against the greenback, AUD and NZD fell more than 1.0%. GBP stabilized. We turn technically **bullish on USD** due to strong momentum on the upside. Sentiments have turned for the worse and we may be heading into a bumpy ride next few months. A partial rebound towards 96 is not implausible, after DXY rose to 94.39 on Wednesday close.

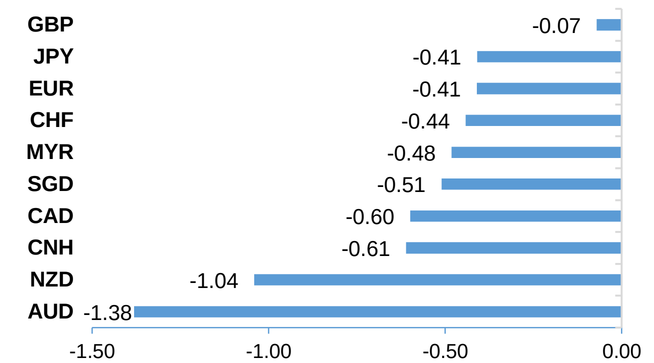
- USD/MYR jumped by 0.48% to close at 4.1525, on the back of USD strength and partly on heightened political noises on the domestic front. The pair has now broken our expected range for this week and looks set to target 4.16 as the dollar continued to firm up overnight amid cautious global market sentiment. FTSE Russell announcement remains an event risks on the local unit.

Market Snapshots

	Last Price	DoD %	YTD %
Dow Jones Ind.	26,763.13	-1.92	-6.22
S&P 500	3,236.92	-2.37	0.19
FTSE 100	5,899.26	1.20	-21.79
Hang Seng	23,742.51	0.11	-15.78
KLCI	1,496.48	-0.62	-5.81
STI	2,481.14	0.72	-23.01
Dollar Index	94.39	0.43	-2.07
WTI oil ($/bbl)	39.93	0.83	-34.93
Brent oil ($/bbl)	41.77	0.12	-36.71
Gold (S/oz)	1,860.50	-2.04	21.76
CPO (RM/tonne)	2,951.00	-4.33	-2.46

Source: Bloomberg

FX Daily Change vs USD (%)



Source: Bloomberg

Overnight Economic Data

US	→	Eurozone	→
UK	↓	Japan	↓
Singapore	↓	Malaysia	→
New Zealand	↑		

Up Next

Date	Event	Prior
24/09	HK Exports YoY (Aug)	-3.00%
	US Initial Jobless Claims (19 Sep)	--
	US New Home Sales (Aug)	901k
	US Kansas City Fed Manf. Activity (Sep)	14
25/09	SG Industrial Production YoY (Aug)	-8.40%
	US Durable Goods Orders (Aug P)	11.40%
	US Cap Goods Orders Nondef Ex Air (Aug	1.90%

Source: Bloomberg

Macroeconomics

- ***Preliminary Markit PMI data showed retreating services growth,*** highlighting the sector's difficulty to return to normality amid a pandemic:
  - US manufacturing PMI edged up a little to 53.5 in September (Aug: 53.1) while services PMI retreated to 54.6 (Aug: 55.0),
  - Eurozone manufacturing PMI beat expectations, picking up to 53.7 in September (Aug: 51.7); services PMI however fell to 47.6 (Aug: 50.5) to indicate a contraction in services activity.
  - UK manufacturing PMI slipped to 54.3 in September (Aug: 55.2) while services PMI retreated significantly to 55.1 (Aug: 58.8).
  - Japan manufacturing PMI inched up slightly to 47.3 in September (Aug: 47.2) while services PMI rose slightly to 45.6 (Aug: 45.0); both readings remained at sub-50 levels, indicating activity contraction.

- ***US housing data remained a bright spot:***
  - Mortgage applications rebounded by 6.8% for the week ended 18 Sep (prior: -2.5%) thanks to both higher purchases and refinancing applications.
  - The FHFA House Price Index recorded a steady and very strong 1% MOM gain in July (Jun: +1%) amid solid housing demand.

- ***Singapore CPI growth remained negative:*** Singapore headline inflation held steady at -0.4% YOY in August (Jul: -0.4% YOY). This reflects smaller gain in food prices, jump in communication prices as well as more modest decline in prices of clothing & footwear prices; housing & utilities recorded a steadier and minor decline. MOM, inflation rose 0.6% (Jul: -0.3%), its largest gain in one year. Core inflation decreased 0.3% YOY (Jul: -0.4%), a slightly smaller decline compared to the previous month's. Private transport fell 2.3% YOY, accommodation rose 0.4% YOY. MAS expects headline and core inflation at a range of -1 to 0% in 2020, no update to its subdued inflation outlook.

- ***Malaysia still in deflationary mode but core prices were steady:*** The latest August print of headline Consumer Price Index (CPI) confirmed that the Malaysian economy remains in deflation for the 6th consecutive month. CPI registered a 1.4% YOY decline in August (Jul: -1.3% YOY), hit by continuous falls in transport (-9.9% YOY) and utilities (-3.0% YOY) prices in the midst of lower global crude oil prices and electricity discounts. Despite the negative reading in headline inflation, core CPI remained positive and stable at a low 1.1% YOY in August (Jul: +1.1% YOY) while services inflation also held steady at 1.3% YOY, after the brief spike a month ago. MOM, inflation lost steam for a 2nd straight month, increasing by only 0.2% in August, easing off from the 0.7% MOM gain in July. Headline CPI averaged -1.0% YOY in the first eight months of the year and looks set to settle lower from our full year projection of -0.7% given the renewed weakness in global oil prices. We therefore revise our full year 2020 CPI projection to -1.3% YOY, anticipating widening decline in headline CPI in the remaining four months. This continues to remain within BNM forecast range of -1.5% to +0.5%.

- ***Malaysia foreign reserves rose to $104.8b amid stronger MYR:*** The international reserves of Bank Negara Malaysia rose to USD104.8b as at 15 September 2020 (prior: $104.4b) as the MYR strengthened during that period. The reserves position is sufficient to finance 8.7 months of retained imports and is 1.1 times total short-term external debt.

Forex

MYR (Neutral-to-Bearish)

- USD/MYR jumped by 0.5% to close at 4.1525, on the back of USD strength and partly on heightened political uncertainty on the home front.
- **Factors supporting**: Economic recovery, less dovish MPC, USD weakness
- **Factors against**: Risk aversion, US-China relations, domestic politics, imposition of second lockdown

USD (Bullish Outlook over 1 Week Horizon)

- We turn technically bullish on USD due to strong momentum on the upside. Sentiments have turned for the worse and we may be heading into a bumpy ride next few months. A partial rebound towards 96 is not implausible, after DXY rose to 94.39 on Wednesday close.
- **Factors supporting**: Risk aversion, US-China relations
- **Factors against**: Volatility, positive developments from global policymakers, poor US economy, US stimulus

EUR (Bearish)

- EUR/USD continued to pull back. A break of our previously stated support of 1.1738 is now technically pointing towards a reversal of prior upward movements. 1.16 is the focus now and if that breaks, attention is on 1.14 – very much below current levels.
- **Factors supporting**: USD weakness, Europe economic recovery
- **Factors against**: Risk aversion, Faltering fundamentals

GBP (Bearish)

- GBP/USD continues to head lower since the high of 1.3482. 1.2670 is a key support before turning to 1.25. In our view, GBP may be vulnerable towards risk off mood in markets. Brexit and other event risks remain as brakes for pullbacks.
- **Factors supporting**: Breakthrough in news, USD weakness
- **Factors against**: Risk aversion, Brexit, twin deficits, Bank of England increasing monetary accommodation

JPY (Neutral-to-Bullish)

- USD/JPY headed higher on Wednesday on dollar strength, touching a high of 105.49 on Thursday open. Near-term we may see JPY resilience compared to other G10 currencies, and a relatively solid resistance of 106.
- **Factors supporting**: New prime minister's directives, BOJ policy, USD weakness
- **Factors against**: Weak fundamentals, risk sentiments

AUD (Bearish)

- AUD/USD fell sharply continuing a trend seen since 21 September. Pair is down to 0.7060 low on Thursday open. A break away of the 0.70 support (also 100-day MA) can bring AUD/USD lower towards the 0.6773 200-day MA. Risk off mood is unfavourable for AUD at this stage.
- **Factors supporting**: Resilient economy, USD weakness
- **Factors against**: Risk aversion, 2nd wave of Covid-19 infections, China-Australia relations

SGD (Bearish)

- USD/SGD touched the 50-day MA on 23 September, now triggering our shift towards a bearish call. Resistance of 100- and 200- day MA of around 1.3850 will be keenly watched.
- **Factors supporting**: Fed vs. MAS policy, economic recovery, USD weakness
- **Factors against**: Risk aversion, trade war, US-China

- ***RBNZ reinforced dovish stance, said further stimulus needed:*** The Reserve Bank of New Zealand held its official cash rate (OCR) unchanged at 0.25% as widely expected and maintained the size of its Large Scale Asset Purchase (LSAP) program at NZD100b. The central bank reinforced its commitment to loose monetary policy, reiterating the need for prolonged monetary support to further lower household and business borrowing rates. The MPC also reflected on the need for further monetary stimulus via such potential tools as Funding for Lending Programme (FLP), a negative OCR, and purchases of foreign assets. RBNZ said that both international and domestic activity remained significantly below pre-pandemic levels. It expected a rise in unemployment and an increase in firm closures amid weak underlying economic conditions.

- ***New Zealand posted large trade surplus in Aug***: New Zealand monthly trade balance swung to a deficit of NZD353m in August (Jul: 447m) as exports fell 12.4% MOM while imports rose 3.8% MOM. However, for the 12 months ending Aug, trade surplus widened sharply to NZD 1.34b (Jul: 51m), its biggest annual trade surplus in six years.

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