Hong Leong Bank

Global Markets Research

Daily Market Highlights

Key Takeaways

- **US stocks jumped following the Memorial Day weekend,** tracking higher stocks in the European and Asian markets earlier. This came after Maryland-based Novanax's announcement of its first clinical vaccine trial on human, building on recent optimism that the world-wide effort to develop a Covid-19 vaccine is gathering steam. While economic data remained generally poor and point to a deep recession, markets focused on the gradual reopening of economies and the accompanying recovery, in the States and around the world as infection rate eased. The Dow Jones on Tuesday rose 530pts or 2.2% DOD. The S&P500 failed to hold above 3000 at closing albeit being above the level for most part of the session; nonetheless the index closed 1.2% higher. NASDAQ underperformed with a mere 0.2% gain as tech stocks experienced minor losses.

- **The renewed risk appetites also resulted in higher treasury yields (10Y UST added 4bps to 0.7%), lower gold price (-1.2% to $1710.58/ounce) and also a weaker dollar**; the dollar index lost 1% DOD, its largest single-day decline since the last week of March. Crude oil prices were higher – Brent crude rose 1.8% DOD to $36.17/barrel and WTI was up by 3.3% at $34.35/barrel. Futures are pointing to mixed openings and markets are shifting attention to **Washington's potential response to China's new national security law on Hong Kong**.

- US data were mixed. **Consumer confidence was up this month and Dallas Fed index rebounded as the economy reopened**; new home sales registered a surprise albeit minimal gain. Chicago Fed National Activity Index pointed to a recession. Elsewhere, Japan's All Activity Index fell sharply in March even ahead of the nationwide lockdown. New Zealand's monthly trade surplus at record high thanks to falling imports. **Singapore's 1Q GDP growth was revised upwards from -2.2% to -0.7% YOY and the additional budget measures brought total budget spending to 20% of GDP**.

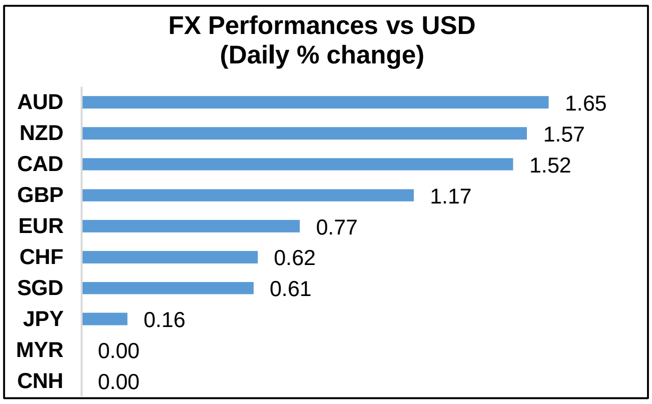
- USD weakened, after market sentiments turned more positive. The dollar index lost 1% DOD, its largest single-day decline since the last week of March. **We remain slightly bullish on the USD** on a 1-week basis. The US dollar may rise on further concerns on US-China relations. Besides, the threat of a second wave of Covid-19 infections remain moderate-to-high. However, sentiments continue to improve as the economy reopens and economic activities start to recover.

- USDMYR last closed higher (+0.39%) on 22 May (Friday) ahead of the long weekend in Malaysia. **Outlook for MYR is bullish** taking cue from weaker USD overnight amid a broad-based improvement in risk sentiment; US-China tension that could still escalate from Washington's response to China's new Hong Kong security law, and pose a major downside risk to the local unit.

Market Snapshots

	Last Price	DoD %	YTD %
Dow Jones Ind.	24,995.11	2.17	-12.42
S&P 500	2,991.77	1.23	-7.40
FTSE 100	6,067.76	1.24	-19.55
Hang Seng	23,384.66	1.88	-17.05
KLCI	1,447.67	0.76	-8.88
STI	2,530.20	0.00	-21.49
Dollar Index	98.91	-1.0	2.8
WTI oil ($/bbl)	34.35	3.30	-43.74
Brent oil ($/bbl)	36.17	1.80	-45.53
Gold (S/oz)	1,710.58	-1.23	13.04
CPO (RM/tonne)	2,199.50	0.62	-27.30

Source: Bloomberg



Source: Bloomberg

Overnight Economic Data

US	→	Japan	↓
New Zealand	↑	Singapore	→

Up Next

Date	Event	Prior
27/05	US MBA Mortgage Applications (22 May)	-2.6%
	US Richmond Fed Manufact. Index (May)	-53
28/05	CN Industrial Profits YoY (Apr)	-34.90%
	US U.S. Federal Reserve Beige Book	
	US GDP Annualized QoQ (1Q S)	-4.80%
	US Durable Goods Orders (Apr P)	-14.70%
	US Durables Ex Transportation (Apr P)	-0.40%
	US Core Capital Orders (Apr P)	-0.10%
	US Initial Jobless Claims (23 May)	2438k
	US Pending Home Sales MoM (Apr)	-20.80%
	US Kansas City Fed Manf. Activity (May)	-30
	EU Economic Confidence (May)	67
	EU Consumer Confidence (May F)	-18.8
	NZ ANZ Business Confidence (May F)	-45.6

Source: Bloomberg

Macroeconomics

- ***Unexpected increase in US consumer confidence:*** The Conference Board Consumer Confidence Index picked up a little from 87.5 in April to 86.6 in May, beating analysts' expectations. The Present Situation Index slipped from 73.0 to 71.1 but the Expectations Index rose to 96.9 (Apr: 94.3) indicating consumer optimism over a more favourable outlook for income, business and labour market condition in the short term. Conference Board said that the gradual reopening of the economy "helped improve consumers' spirit" but they remain concern over their financial prospect.

- ***Chicago Fed Index point to substantial fall in US growth:*** The Chicago Fed National Activity Index plummeted to -16.74 in April, from -4.97 in March, pointing to sharp decline in economic activity across the US following state governments' social distancing rules. All four broad categories made negative contributions and recorded MOM decline. The index's three-month moving average fell to -7.22 in April (Mar: -1.69) of which a level below -0.7 has historically been associated with an increasing likelihood of a recession following a period of economic expansion. On a separate and brighter note, the Dallas Fed Manufacturing Business Index rebounded sharply from -74 to -49.2 in May, largely in line with the broad-based recovery in sentiment though the depressed level still indicates contraction in activity.

- ***Small unexpected gain in US new home sales:*** New home sales defied expectations to record a 0.6% MOM increase to a seasonally adjusted rate of 623k units in April, following the sharp 13.7% decline in the prior month. This is a welcoming surprise considering the fact that analysts had been expecting a downbeat 21.9% fall in new home sales. It's worth noting that the gain is paltry and could be temporary as the economy remains in a downturn. Meanwhile, the Federal Housing Finance Agency reported that its House Price Index managed to gain a mere 0.1% MOM in March (Feb: +0.8%). The S&P CoreLogic Case-Schiller National Index posted a 0.5% MOM increase and a 4.4% YOY gain (Feb" +4.2%). Dow Jones Indices, the publisher of the index warned that March prices haven't yet reflect any adverse effects from the governmental suppression of economic activity to curb Covid-19. April data may "show a more noticeable impact."

- ***Japan All Industry Activity Index fell 3.8% ahead of lockdown:*** The All Industry Index fell 3.8% MOM in March to below 100, following the small 0.7% decline in February, reflecting the the contraction in industrial production (-3.7%) and tertiary activity (-4.2%) which made up more than 70% of the headline index. Construction activity defied trend and gained 1.4%. The index is likely to experience larger decline in April when the country went into a nationwide lockdown in mid-April.

- ***New Zealand hit record monthly trade surplus:*** New Zealand saw its trade surplus jumped to an all-time high of NZD1.3b in April, from NZD722mil in March as imports plummeted last month, coinciding with the Covid-19 pandemic lockdown from end March to April. Imports dropped by NZD1.1b or 22% YOY, the second largest fall on record since 1960 according to StatNZ. Exports meanwhile fell $220mil or 4% compared to the same month last year as log export saw tremendous decline amid a suspension in operation. Dairy and fruit exports were strong.

Forex

MYR (Bullish)

- USDMYR last closed higher (+0.39%) on 22 May (Friday) ahead of the long weekend in Malaysia.
- Outlook for MYR was bullish taking cue from weaker USD overnight amid a broad-based improvement in risk sentiment; US-China tension that could still escalate from Washington's response to China's new Hong Kong security law, and pose a major downside risk to the local unit.

USD (Neutral to Bullish)

- USD weakened, after market sentiments turned more positive. The dollar index lost 1% DOD, its largest single-day decline since the last week of March.
- We remain slightly bullish on the USD on a 1-week basis. The US dollar may rise on further concerns on US-China relations. Besides, the threat of a second wave of Covid-19 infections remain moderate-to-high. However, sentiments continue to improve as the economy reopens and economic activities start to recover.

EUR (Neutral)

- EUR/USD hit a high on 1.1008 on 21 May, after seeing a bid tone since 15 May. Pair came off on some profit taking and has rebounded to close to the 1.1000 big figure on Tuesday.
- 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)

- GBP experienced a strong rebound on Tuesday after consolidating prior. GBP/USD surged above 1.2300 after hovering close to the 1.2200 levels.
- 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-Bullish)

- JPY has stayed on consolidation mode around the 107.40-107.80 range. USD/JPY came off on some USD weakness and last around 107.50 level.
- We do not expect significant weaknesses on the JPY at current levels. 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-Bearish)

- AUD/USD surged above 20 May's 0.6616 to a high of 0.6675 on 27 May. Pair continues to stay at elevated levels, benefitting from risk on mood.
- AUD/USD may correct after being stretched, partly from depressed commodity markets and from rising US-China tensions. We see a sustainable AUD/USD level at around 0.6300.

SGD (Neutral)

- USD/SGD has come off by one big figure, closing below 1.4170 from 1.4248 a day earlier. This came as Singapore announced the Fortitude Budget to support the economy.
- Fragile risk sentiments may mean that USD/SGD stays close to current levels around 1.4200. Other key drivers for USD/SGD will include the Covid-19 situation, and US-China tensions.

- ***Singapore 1Q GDP growth revised upwards; slower IPI and falling prices:***

  - Singapore has upwardly revised 1Q GDP growth figure, to -0.7% YOY from initial estimates of -2.2% (-4.7% QOQ SAAR from -10.6% prior). However, the Ministry of Trade and Industry (MTI) has revised downwards its GDP growth forecast for 2020, to -4 to -7% from -1 to -4% previously. We believe that GDP growth is likely worst during 2Q (particularly April and May), the circuit breaker period. At this moment, we expect two waves of economic rebound. The first will likely be in June, where the resumption of economic activities will help to negate the doldrums in 2Q. The second will likely be in 2021 when a vaccine or some cure to Covid-19 is found.

  - Meanwhile, Singapore's industrial production climbed 13% YOY in April, compared to a 16.5% expansion in March. This represented a 3.6% increase from March (accounting for seasonal effects), despite the circuit breaker in place for most of April. Industrial production remains supported by biomedical production (100.5% YOY), particularly pharmaceuticals (141.3%). Excluding the biomedical industry, the outlook is much cloudier. Major sectors like electronics (0.8% YOY), chemicals (-6.8%) and transport engineering (-24.1%) saw subdued-to-sluggish growth. The good news is that numbers did not collapse.

  - Singapore's headline inflation fell 0.7% YOY in April, worse than the 0% registered in March. This was dragged by the circuit breaker. Private road transport inflation fell steeply from car prices, petrol prices, and the suspension of the Electronic Road Pricing charges. Core inflation also fell at a larger pace (-0.3% YOY from -0.2% prior). This was broadly dragged across most major components. Only food inflation rose from higher price increases in non-cooked food items. Meanwhile, deflationary pressures as high, as headline and core inflation fell at a larger pace compared to a month ago. This may be temporary as some items' prices fell as a result of the circuit breaker. A sustained fall in price expectations (not our core view) may increase the likelihood of the Monetary Authority of Singapore doing more easing in October.

  - Singapore's fourth Fortitude Budget announced yesterday entailed an additional SGD33bn, brining the total to almost SGD100bn or 20% of GDP. It seeks to address gaps and revive confidence for both businesses and consumers. For businesses, it is about further support to 3Cs – cash flow, costs and credit. It is also about digital transformation. For individuals, it is about jobs, jobs and jobs – Jobs Support Scheme, foreign worker levy waiver, and Covid-19 Support Grant. The additional Jobs Support Scheme will cost SGD 2.9bn. Rental relief for SMEs will cost SGD 2bn. About $2 billion is set aside for the SGUnited Jobs and Skills Package this year. The budget deficit will rise to 15.4% of GDP, or SGD 74.3bn. This is the largest ever overall Budget deficit.

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