

## Global Markets Research

### Daily Market Highlights

#### Key Takeaways

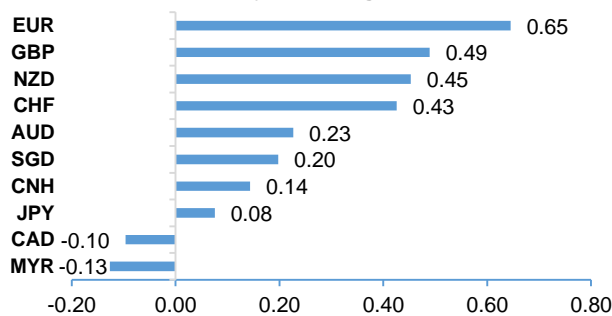
- US stocks closed lower on Thursday after President Trump announced a Friday press conference regarding China's recent move to impose a controversial national security on Hong Kong.** The Dow Jones fell 148pts or 0.6% whereas the S&P500 and NASDAQ finished 0.2% and 0.5% lower. Stocks had rallied in the European as well as Asian markets save for the Hang Seng Index (-0.7%). The Chinese legislature had on Thursday, passed a proposal that allowed it to suppress any acts that might threaten national security in Hong Kong, in a bid to formally tighten its grip on the Special Administrative Region (SAR), despite strong dissent among the city's pro-democracy citizens, raising the uncertainties surrounding Hong Kong's autonomy that may lead other countries to renegotiate issue such as trade arrangements.
- Treasury yields were little changed with 10Y UST yield holding rather steady at 0.69% (+1bps). Gold rebounded to add a modest 0.5% DOD at \$1718.33/ounce. **Oil prices recovered partial losses despite the EIA's weekly report showed an 7.9mil barrel increase in crude inventory** – Brent went up 1.6% to \$35.29/barrel and WTI gained 2.7% to \$33.71/barrel. Futures pointed to lower opening in Asian equities this morning, as investors anticipate Trump's press conference which may give rise to growing tension to an already poor Sino-American relation.
- US April data remained unsurprisingly weak.** 1Q GDP growth was revised down from -4.8% to -5.0% QOQ in the second estimate; initial jobless claims for last week totalled 2.1mil and more than 40mil in 10 weeks while durable goods orders fell 17%. Pending home sales continued to decline around 22%. Eurozone economic sentiment improved a little as economy reopened. Similarly, business and consumer confidence recovered in New Zealand. **Japan's April data weakened tremendously following a nationwide lockdown**- jobless rate went up to 2.6%, highest since late 2017 while industrial production and retail sales both fell around 14% YOY
- The dollar weakened after poor US data and market concerns. DXY retreated by 0.7% to 98.383 on Thursday. EUR and GBP saw the biggest gains, while CAD weakened. This continued the weakening trend since mid-May. **We are neutral-to-bearish on the USD** on a one-week basis. Momentum is weak for the USD at the moment as liquidity concerns abate. At the same time, uncertainty regarding US-China relations remains high.
- USDMYR closed slightly (+0.13%) stronger at 4.3535 on Thursday, retreating from the high of 4.3625 as USD lost steam in the afternoon session. Despite weakness in the USD, the uncertainty surrounding **US-China tension poses a downside risk to MYR** today which tends to underperform alongside its emerging market peers for fear of a potential US-China fallout. This might led to a short term recovery in USD as risk appetites broadly retreated.

#### Market Snapshots

	Last Price	DoD%	YTD%
Dow Jones Ind.	25,400.64	-0.58	-10.99
S&P 500	3,029.73	-0.21	-6.22
FTSE 100	6,218.79	1.21	-17.55
Hang Seng	23,132.76	-0.72	-17.94
KLCI	1,457.50	0.40	-8.26
STI	2,515.24	-0.17	-21.96
Dollar Index	98.38	-0.7	2.2
WTI oil (\$/bbl)	33.71	2.74	-44.79
Brent oil (\$/bbl)	35.29	1.58	-46.53
Gold (\$/oz)	1,718.33	0.52	13.47
CPO (RM/tonne)	2,272.50	2.71	-24.89

Source: Bloomberg

#### FX Performance vs USD (Daily % Change)



Source: Bloomberg

#### Overnight Economic Data

US	↓	EU	↓
Japan	↓	New Zealand	↑

#### Up Next

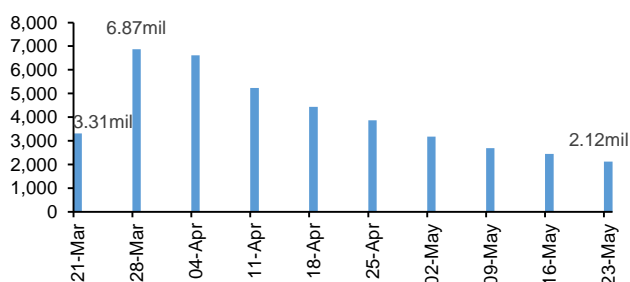
Date	Event	Prior
29/05	US Advance Goods Trade Balance (Apr)	-\$64.2b
	US Core PCE Price Index YoY (Apr)	1.7%
	US MNI Chicago PMI (May)	35.4
	US U. of Mich. Sentiment (May F)	73.7
01/06	EU CPI Estimate YoY (May)	0.40%
	MA Markit Malaysia PMI Mfg (May)	31.3
	US Markit US Manufacturing PMI (May F)	--
	US Construction Spending MoM (Apr)	0.90%
	US ISM Manufacturing (May)	41.5
	UK Markit UK PMI Manufacturing (May F)	--
	JN Jibun Bank Japan PMI Mfg (May F)	--
	CH Caixin China PMI Mfg (May)	49.4
	AU AiG Perf of Mfg Index (May)	35.8
	VN Markit Vietnam PMI Mfg (May)	32.7
	HK Retail Sales Value YoY (Apr)	-42.00%

Source: Bloomberg

## Macroeconomics

- US 1Q GDP growth revised lower:** The seasonally adjusted annualized real GDP growth for the first quarter of 2020 was revised lower from -4.8% to -5.0% QOQ in a second reading, reflecting the downward revision to private inventory investment, which was partly offset by upward revision to personal consumption expenditure (PCE) and nonresidential fixed investment. This follows a 2.1% QOQ growth in 4Q. PCE dropped 6.8% QOQ, investment extended its further decline to -10.5%. Exports were down by 8.7% and imports dramatically plunged 15.5% which results in a positive contribution from net exports. Compared to the same quarter last year, real GDP still registered a 0.2% YOY growth (4Q: +2.3%), mainly thanks to the first two months of growth before the onslaught of Covid-19 pandemic in March.
- US Initial jobless claims topped 40mil in ten weeks:** Initial jobless claims came in at 2.123mil for the week ended 22 May (previous week: 2.446mil revised), roughly matching analysts' expectation of 2.1mil. This brings the total number of Americans filing for unemployment benefit to total approximately 40.8mil for a period of ten weeks since mid-March when states began to issue social distancing orders to contain Covid-19 pandemic. Nonetheless, it is worth noting that the number of new claims are retreating since the peak registered in late March and the number is likely to slip further this week onwards as the economy reopens.

Initial Jobless Claims since 21 March



Source: CEIC, US Department of Labour

- US Durable goods orders fell 17.2% in April:** Durable goods orders decreased by \$35.4b or 17.2% MOM in April, following the 16.6% decline in March. This reflects decline in orders of all categories of goods, highlighting the dramatic plunge in demand for manufacturing goods amid a global supply chain disruption triggered by the Covid-19 pandemic. Notably, new orders of transportations equipment nearly halved of which motor vehicles and parts dropped by nearly 53% in April when compared to March. The core capital orders were down by 5.8% MOM, following 1.1% decline. Shipments of durable goods also fell by 17.7% MOM in April after a more modest 5.5% fall in March. A separate release showed that the Kansas City Fed Manufacturing Index recovered from a recent trough of -62 to -25 in May, in line with other regional Fed surveys.
- US Pending home sales experienced further decline:** Pending home sales fell 21.8% MOM in April, extending its decline in March (-20.8%) according to the National Association of Realtors. The index tracks the contract activity in the US existing single-family homes market, offering signals that sales of existing homes would likely to remain weak this month.

## Forex

### MYR (Slightly Bearish)

- USD/MYR closed slightly (+0.13%) stronger at 4.3535 on Thursday, retreating from the high of 4.3625 as USD lost steam in the afternoon session.
- Despite weakness in the USD, the uncertainty surrounding US-China tension poses a downside risk to MYR today which tends to underperform alongside its emerging market peers for fear of a potential US-China fallout. This might led to a short term recovery in USD as risk appetites broadly retreated.

### USD (Neutral-to-Bearish)

- The dollar weakened after poor US data and market concerns. DXY retreated by 0.7% to 98.383 on Thursday. EUR and GBP saw the biggest gains, while CAD weakened. This continued the weakening trend since mid-May.
- We are neutral-to-bearish on the USD on a one-week basis. Momentum is weak for the USD at the moment as liquidity concerns abate. At the same time, uncertainty regarding US-China relations remains high.

### EUR (Neutral-to-Bullish)

- EUR/USD has reached a high of 1.1093 on 28 May and consolidated since. With this, the pair has broken out of the previous 1.08-1.10 range.
- EUR/USD may gradually strengthen, although we do not see much sustainability above 1.1100. Fundamentals are supported by reopening economies, although still weak.

### GBP (Neutral)

- GBP rebounded on 28 May and looked to reach a fortnightly high of 1.2363 on 26 May. This came as GBP steadily moved from the low of 1.2076 on 18 May.
- Although there is scope for some near-term GBP catch-up, we remain comparatively pessimistic regarding the GBP thereafter. Covid-19, Brexit and risk aversion does not favour GBP in our view.

### JPY (Neutral-to-Bearish)

- USD/JPY has now been consolidative since 19 May, within a range of 107.30-108.09. Pair is now close to the middle of the range at 107.65 at the time of writing.
- We are slightly bearish on the JPY due to market optimism. Concerns on US-China relations may cap gains above 108.00.

### AUD (Neutral-to-Bullish)

- AUD/USD surged above 20 May's 0.6616 to a high of 0.6680 on 27 May. Despite some consolidation since, pair continues to stay at elevated levels, benefitting from risk on mood.
- AUD/USD is likely to be one of the primary beneficiaries of risk on mood in markets. Commodity markets outlook is also recovering. However, concerns on US-China or Australia-China relations may cause AUD to weaken.

### SGD (Neutral)

- USD/SGD has stayed within the band of 1.4121-1.4279 since mid-May. This can be attributed to swings in risk sentiments and some reassurance from fiscal support. Lately, USD/SGD has consolidated below the 1.4200 level on some concerns of US-China relations.
- There remains a lack of impetus to move SGD away from current ranges. The SGD is vulnerable in risk off market situations. Losses may be capped on resilient fundamentals.

- **Slight improvement in Eurozone economic confidence:** The European Commission Economic Sentiment Index (ESI) edged up to 67.5 in May, from 64.9 in April, reflecting improvement of industrial confidence (+5pts), consumer confidence (+3.2pts) as services confidence (-5pts) and construction confidence (-1.3pts) continued to decline. Nonetheless they remained well below 0 at negative territory, an indication that sentiment remained gloomy in the Euro area.
- **Japan jobless rate at more-than-2-year high as economy shed 1mil jobs:** Japan's unemployment rate went up to 2.6% in April, (Mar: 2.5%), the highest level since December 2017 when it was at 2.7%. Before this, unemployment rate had been holding within the range of 2.2-2.5% reflecting the economy's tight labour market. April's higher rate is partly attributed to the shrinkage in labour force by nearly 1mil persons (-990k) alongside the 1.07mil job losses during the nationwide lockdown to contain Covid-19. A separate release shows that job-to-applicant ratio continued to slide to 1.32 in the same month (Mar: 1.39) reflecting scarcer jobs available for Japanese looking for works. The ratio used to hover around 1.5-1.6 for most part of last year.
- **Sharper fall in Japan's industrial production and retail sales in April:** Preliminary reading of industrial production plunged 9.1% MOM and 14.4% YOY in April (Mar: -5.2%), extending its current losing streak to seven-months long. The sharper YOY decline nearly doubled analysts expectation of a 7.9% contraction. The industrial sector had been weak since 2019 and was hard hit especially in October and November last year when a devastating typhoon disrupted factory activity. Unsurprisingly, the retail sector also took a battering with retail sales recording 9.6% MOM and 13.7% YOY decline in April (Mar: -4.7%). Analysts had been expecting a slightly smaller fall of 11.5% YOY.
- **Recovery in New Zealand sentiment:** The ANZ Business Confidence Index went up from -66.6 in April to -41.8 in May, reflecting business owners' more optimistic outlook. May's final reading was up from -45.6 in the preliminary survey, offering positive signals, but the reading is still way below 0, with businesses still planning to cut employment and investment intention and profit expectation remaining low. Meanwhile, the ANZ Consumer Confidence Index edged up to 97.3 in May, from 84.8 in April, a welcoming sign for the economy as Covid-19 was brought under control in New Zealand.

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