Global Markets Research

Daily Market Highlights

Key Takeaways

- **US stocks rose overnight after the Federal Reserve left rates unchanged as widely expected and maintained its dovish policy stance.** In a post meeting press conference, **Chair Jerome Powell offered a rather bearish economic outlook, adding that high frequency data such as credit card spending showed that the pace of recovery has slowed since mid-June.** The Dow saw a more modest gain of 0.6% while the S&P500 and NASDAQ both rose more than 1%. Tech shares rose as the CEOs of the so-called "Big Tech" i.e. Google, Facebook, Apple and Amazon testified virtually to the House Judiciary subcommittee on antitrust issue. Stock futures are pointing to higher opening in Asia later this morning. **Key market driver today is US 2Q GDP estimate and a Bloomberg consensus survey is looking at an annualized contraction of 34.5% QOQ.**

- **Dovish Fed pressured already weak dollar: Treasury yields were little changed**; limited to -0.8 to +1.9 bps across the curve; 10Y UST fell less than 1bp to 0.574%. **Gold extended its current bull run** – futures rose 0.45%, spot price added 0.63% to $1970.79/ounce but has retreated slightly this morning. Some profit taking activity is possible.

- On the data front, US goods trade deficit narrowed for the first time in four months to $70.6b. Pending home sales beat expectations with a near 17% gain. Mortgage applications fell slightly. Japan's retail sales saw record MOM growth. Hong Kong GDP fell 0.1% QOQ in 2Q. Australia CPI data were dismal.

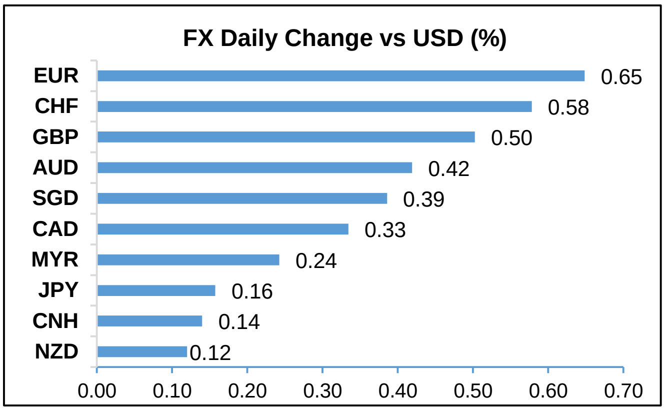
- The dollar resumed falling overnight following the Fed's and Powell's dovish outlook. The DXY fell 0.3% to 93.45 after a brief and tiny rebound in the previous session. The DXY has now fallen for eight sessions out of nine amid persistent dollar weakness. USD weakened against all G10 currencies, gains were led by the EUR and Scandinavian pairs. No change to our **neutral to bearish outlook on the USD**.

- USD/MYR fell 0.24% to 4.2430 on Wednesday ahead of the FOMC meeting. **Daily outlook turned bearish** in response to overnight's dollar weakness after the Fed's and Jerome Powell's bearish outlook. Pair is expected to open lower and could break below 4.24 today. USD movement and shift in risk sentiments will remain a key determinant for MYR fate in the short-to-medium term.

Market Snapshots

	Last Price	DoD %	YTD %
Dow Jones Ind.	26,539.57	0.61	-7.00
S&P 500	3,258.44	1.24	0.86
FTSE 100	6,131.46	0.04	-18.71
Hang Seng	24,883.14	0.45	-11.73
KLCI	1,611.42	0.09	1.43
STI	2,573.45	-0.37	-20.15
Dollar Index	93.45	-0.26	-3.16
WTI oil ($/bbl)	41.27	0.56	-32.41
Brent oil ($/bbl)	43.75	1.23	-33.67
Gold (S/oz)	1,970.79	0.63	29.56
CPO (RM/tonne)	2,706.00	-4.55	-10.56

Source: Bloomberg



Source: Bloomberg

Overnight Economic Data

US	→	Hong Kong	→
Japan	↑	Australia	↓

Up Next

Date	Event	Prior
30/07	US GDP Annualized QoQ (2Q A)	-5.0%
	US Initial Jobless Claims (25 Jul)	--
	EU Economic Confidence (Jul)	75.7
	EU Unemployment Rate (Jun)	7.4%
	HK Retail Sales Value YoY (Jun)	-32.8%
	NZ ANZ Business Confidence (Jul F)	-29.8
31/07	US Personal Income (Jun)	-4.2%
	US Personal Spending (Jun)	8.2%
	US PCE Core Deflator YoY (Jun)	1.0%
	US MNI Chicago PMI (Jul)	36.6
	US U. of Mich. Sentiment (Jul F)	--
	EU GDP SA QoQ (2Q A)	-3.6%
	EU CPI Estimate YoY (Jul)	0.3%
	UK GfK Consumer Confidence (Jul F)	--
	JP Jobless Rate (Jun)	2.9%
	JP Job-To-Applicant Ratio (Jun)	1.2
	JP Industrial Production YoY (Jun P)	-26.3%
	CN Manufacturing PMI (Jul)	50.9
	CN Non-manufacturing PMI (Jul)	54.4
	NZ ANZ Consumer Confidence Index (Jul)	104.5

Source: Bloomberg

Macroeconomics

- ***Powell reiterated highly uncertained outlook:*** The Federal Reserve left its fed funds target range unchanged at 0-0.25% as widely expected. There are some changes to the new FOMC statement that highlights the Fed's bearish and uncertain growth outlook. It said that "following sharp declines, economic activity and employment have picked up somewhat in recent months but remain well below their levels at the beginning of the year". It also added and warned that "the path of the economy will depend significantly on the course of the virus". It reiterated its dovish stance and its readiness to adjust current plans as appropriate. In the post-meeting press conference, Fed Chair Jerome Powell said that high frequency data such as credit card spending showed that the pace of recovery has slowed since mid-June. He added that the path forward for the economy is "extraordinarily uncertain" and will depend, in large part, on the country's success in keeping the virus in check. He also pleaded for more fiscal measures to support the economy.

- ***US good trade deficit narrowed in June:*** Advance reading shows that US good trade deficit narrowed for the first time in four months to $70.6b in June, from the revised $75.3b in May thanks to a strong rebound in exports (+13.9%) and a concurrent but smaller gain in imports (+4.8%). Shipments of all key products to overseas recorded growth save for foods,feeds and beverages (-5.2%). Imports of all products also increased except for industrial supplies (-19.2%), pointing to potentially slower growth in the manufacturing activity.

- ***Strong gain in US pending home sales:*** US pending home sales extended gains in June, recording a better-than-expected 16.6% MOM increase, following the 44.3% rebound in May. The index tracks real estate contracts activity and is a leading indicator for US exisitng home sales. Impressively, pending home sales in June is 12.7% higher compared to June last year, confirming the strong housing demand despite the Coronavirus pandemic, amid historically low interest rates. In a separate note, mortgage applications fell by a mere 0.8% last week, following a 4.1% weekly gain. This reflects the small declines in both the purchases and refinancing segments.

- ***Record growth in Japan's retail sales:*** Japan retail sales recorded a strong 13.1% growth in June, its largest increase on record. This comes after a minor 1.9% MOM rebound in May following two months of decline since the lockdown in March. Sales rose in all major categories with department store sales registering a growth as high as 135.2% MOM. YOY, retail sales, was still 1.2% lower compared to June 2019, but the bright side is that the contraction was much smaller than analysts' expectation of a 5.7% decline.

- ***Hong Kong GDP stabilising in 2Q:*** Advance estimate indicates that Hong Kong GDP fell 0.1% QOQ in the second quarter of 2020, following the 5.3% decline in 1Q, offering signs that the economy is stabilising after contracting for four straight quarters. 2Q print marked its fifth consecutive contraction as the economy was battered by domestic political unrests and then the global pandemic. However on a YOY basis, GDP fell 9.0% in 2Q, compared to -8.9% YOY in 1Q, its largest contraction on record.

Forex

MYR (Bearish)

- USD/MYR fell 0.24% to 4.2430 on Wednesday ahead of the FOMC meeting. Daily outlook turned bearish in response to overnight's dollar weakness after the Fed's and Jerome Powell's bearish outlook. Pair is expected to open lower and could break below 4.24 today. USD movement and shift in risk sentiments will remain a key determinant for MYR fate in the short-to-medium term.
- **Factors supporting**: Economic recovery
- **Factors against**: Risk aversion, US-China relations, domestic politics, imposition of second lockdown

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

- USD weakened further on Wednesday, falling to a low of 93.18 before a slight rebound on Thursday open. This came as Fed reiterated accommodative monetary policy.
- **Factors supporting**: Risk aversion, US-China relations, stretched low DXY levels
- **Factors against**: Complacent markets, positive developments from global policymakers, poor US economy

EUR (Neutral-to-Bullish)

- EUR/USD climbed to a high of 1.1806 before a slight retreat.
- **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 touched a high of 1.3013 but fell below 1.30 at the time of writing.
- **Factors supporting**: Breakthrough in news, USD weakness
- **Factors against**: Risk aversion, Brexit, twin deficits

JPY (Neutral-to-Bullish)

- USD/JPY stabilised on Wednesday, despite a low of 104.77.
- **Factors supporting**: BOJ policy, risk aversion, USD weakness
- **Factors against**: Weak fundamentals

AUD (Neutral)

- AUD/USD reached a high of 0.7197 before a slight retreat.
- **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 reached a low of 1.3731 overnight, but is slightly rebounding from the move downwards.
- **Factors supporting**: Fed vs. MAS policy, economic recovery
- **Factors against**: Risk aversion, trade war, US-China

- ***Australia CPI contracted in 2Q:*** Australia headline CPI fell 1.9% QOQ in the second quarter of 2020 (1Q: +0.3%), slightly smaller than analysts' expectation for a 2% decline. Compared to the same quarter last year, the headline CPI was 0.3% YOY lower (1Q: +2.2%), analysts had been expecting a fall of 0.5% YOY. The surge in cost of food (+4.1%) and alcohol & tobacco (+8.4%) were outweighed by the sharp fall in prices of transportation (-7.5%) following the collapse in global crude oil prices in 2Q as well as that of household furnishing (-9.8%). Prices of clothing & footwear, housing, healthcare also rose at much slower paces. The trimmed mean CPI inflation, a gauge of core inflation eased to 1.2% YOY, from 1.8% in 1Q.

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