HongLeong Bank

Global Markets Research

Daily Market Highlights

Key Takeaways

- **US stocks struggled to find a direction overnight, leading major benchmarks to close out the session on a mixed note as investors weighed the impact of surging inflation on the manufacturing sector's outlook.** The Dow eked out a small 0.1% gain while the S&P 500 and NASDAQ both declined by less than 0.1%. **Crude oil prices soared to their highest levels in two years after OPEC and its allies (known as OPEC+), led by Saudi Arabia and Russia, agreed to ease the ongoing output cut they made at the start of the pandemic.** This means that they would start to increase 450k barrels per day (bpd) starting in July. Saudi Arabia will also separately ease the 1mil bpd cut that it has undertaken earlier this year. The oil cartel offered upbeat comments on oil outlook, citing clear signs of improvement in demand. The international benchmark, Brent crude rose 1.3% to $70.25/barrel while the US WTI gained 2.1% to $67.72/barrel.

- **US treasury yields edged up slightly** across the curve by 0.6 to 1.2bps. The benchmark 10Y UST last yielded 1.61% as the market closed. **The greenback recorded mixed performances**. Gold prices stayed supported above the $1900/oz mark on Tuesday but have eased this morning. **Asian stocks are poised for a muted start today** according to the futures market, tracking the flattish US stocks overnight. **Australia's 1Q GDP report is today's data highlight. Yesterday, the RBA has kept its policy intact and said would decide in July meeting, whether to extend the yield target and its QE program.**

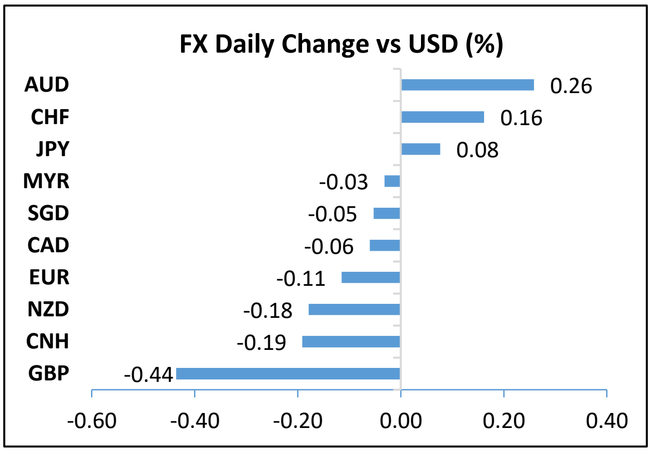
- **Latest PMI data showed that the manufacturing sector in the Western developed economies continued to expand, but growth potentials may have been stymied by the surging raw materials' prices and particularly in the US, a shortage of workers.** Meanwhile, the manufacturing PMI in China, Malaysia and Vietnam turned slightly weaker albeit still above 50. Other than that, private residential construction spending continued to rise in the US. **Inflation hit 2.0% in the Euro area.** The UK's house prices saw a double-digit annual growth. Hong Kong's retail sales were down on a month-on-month basis.

- DXY was broadly unchanged on Thursday, at a close of 89.83. USD weakened against AUD and JPY but strengthened against GBP, NZD and EUR. **Daily outlook is neutral**, as market focus shifts towards non-farm payrolls, for a clue towards inflationary pressures from the labour market.

- USD/MYR held steadily at recent levels, closing little changed at 4.1265 on Tuesday. MYR remained resilient as the market may have taken comfort that the latest stimulus package only comprises a small RM5b fiscal injection. We continue to expect USD/MYR to trade on a **neutral** note today, but revised our weekly range to 4.10- 4.15 this week in view of recent down moves, with 4.1500 remaining a key resistance.

Market Snapshots

	Last Price	DoD %	YTD %
Dow Jones Ind.	34,575.31	0.13	12.97
S&P 500	4,202.04	-0.05	11.87
FTSE 100	7,080.46	0.82	9.60
Hang Seng	29,468.00	1.08	8.21
KLCI	1,585.90	0.15	-2.54
STI	3,187.23	0.73	12.08
Dollar Index	89.83	0.00	-0.12
WTI oil ($/bbl)	67.72	2.11	39.57
Brent oil ($/bbl)	70.25	1.34	35.62
Gold (S/oz)	1,902.90	0.02	0.21
CPO (RM/tonne)	4,180.50	0.30	10.36



Source: Bloomberg

Overnight Economic Data

US	↑	EZ	↑
UK	↑	CN	→
HK	↓	VN	↓
MA	↓		

Up Next

Date	Events	Prior
02/06	AU GDP SA QoQ (1Q)	3.1%
	US MBA Mortgage Applications (28 May)	-4.2%
	SG Purchasing Managers Index (May)	50.9
03/06	US U.S. Federal Reserve Releases Beige	
	US, EZ, UK, JP, CN Markit Services PMI (May)	
	SG Markit Singapore PMI (May)	51.8
	HK Markit Hong Kong PMI (May)	50.3
	AU Exports MoM (Apr)	-2%
	AU Retail Sales MoM (Apr F)	1.10%
	US ADP Employment Change (May)	742k
	US Initial Jobless Claims (29 May)	406k
	US ISM Services Index (May)	62.7

Source: Bloomberg

Macroeconomics

Global manufacturing sector saw extended growth, struggled with surging price pressures:

- The US' ISM headline manufacturing index rose to 61.2 in May (Apr: 60.7), but manufacturers continued to struggle with surging raw material prices as well as shortages of workers, limiting the potential gain in overall production. The Markit Manufacturing PMI rose to 62.1 (Apr: 60.5) and the survey also told us the similar supply chain and raw input constraints.
- The Eurozone's Markit Manufacturing PMI picked up further to 63.1 in May (Apr: 62.9) which is a record level in the survey's history, marking its third month hovering at above-60 levels.
- UK's CIPS/Markit Manufacturing PMI surged to 65.6 in May (Apr: 60.9) amid looser pandemic restrictions and high levels of pent-up demand.
- China's Caixin Markit Manufacturing PMI was little changed at 52.0 in May (Apr: 51.9).
- Malaysia's manufacturing PMI edged lower to 51.3 in May (Apr: 53.9).
- Vietnam's manufacturing PMI slipped to 53.1 in May (Apr: 54.7).

US' construction spending rose for the second month:

- Construction spending in the US rose 0.2% m/m in April, following the upwardly revised 1% growth in March. This was mainly supported by the private residential sector (+1.0%) as developers raced to build more houses to satisfy the strong housing demand.
- The Dallas Fed's manufacturing index turned lower to 34.9 in May, from 37.3 prior.

Eurozone's headline inflation hit 2.0% in May:

- The Eurozone's HICP inflation rate came in slightly higher than expected at 0.3% m/m in May (Apr: +0.6%). The annual rate however rose considerably to 2% y/y (Apr: +1.6%), its highest rate since Nov-18., thanks to lower base from the previous year. The core CPI rate also accelerated to 0.9% y/y (Apr: +0.7%). This reflects higher broad-based price gains across key sectors – energy (+13.1%), food (+0.6% y/y), non-energy industrial goods (+0.7% y/y) and services (+1.1%).
- On a separate note, the Eurozone's unemployment rate fell to 8.0% in April, from 8.1% prior. This was better than the forecast of 8.1%, reflecting the positive impact of the services sector reopening on the labour market.

UK's home prices climbed further in May:

- The Nationwide House Price Index rose more than expected by 1.8% m/m in May (Apr: +2.3%) as the economic reopening further fuelled the already high housing demand, leading prices to rise further in May. Compared to the same month last year, prices were up by 10.9% y/y (Apr: +7.1%), the highest growth rate in nearly seven years.

Hong Kong's retail sales grew less than forecasted:

- Hong Kong's retail sales rose less than expected by 12.1% y/y in April (Mar: +20.2%). This compares to analysts' forecast of 17.6% and marked its second month of slower growth, despite having a favourably low base from the same month last year (retail sales had plunged 36.1% in April-20). On a monthly basis, retail sales were down by 2.3% m/m (Mar: -6.4%), suggesting that the effect of pent-up demand has waned in recent months.

Forex

MYR (Neutral)

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USD (Neutral)

- DXY was broadly unchanged on Thursday, at a close of 89.83. USD weakened against AUD and JPY but strengthened against GBP, NZD and EUR. Daily outlook is neutral, as market focus shifts towards non-farm payrolls, for a clue towards inflationary pressures from the labour market.

EUR (Neutral)

- EUR/USD was down by 0.11% to close at 1.2213. Daily outlook is neutral, with bias towards slight gains. This comes as the pair stayed in highest levels since the start of 2021. Focus turns to the 1.23 big figure as resistance, while 1.2040 is the support.

GBP (Neutral-to-Bearish)

- GBP/USD was down by 0.44%, closing at 1.4150, on profit taking after the 1.4248 high. Daily outlook is biased towards slight losses from current selloff. Markets are starting to look concerned regarding Covid-19 variants. We place resistance at 1.4300 and support at 1.4090.

JPY (Neutral-to-Bullish)

- USD/JPY was down by 0.08%, closing at 109.48. Pair started Wednesday on a bid tone. Daily outlook for the pair is neutral-to-bearish, eyeing 108.90. Resistance is at 110 and then 110.97.

AUD (Neutral)

- AUD/USD was 0.26% up to a close of 0.7754, as the Reserve Bank of Australia said it will decide on quantitative easing and yield target in the July meeting. It signalled at an unchanged cash rate until 2024 at the earliest. We see daily outlook for AUD/USD as being neutral, as markets anticipate GDP data on 2 June and trade/retail sales on 3 June. Support at 0.7710 and resistance 0.7780.

SGD (Neutral-to-Bullish)

- USD/SGD was 0.05% higher, but still stayed around the 1.3220 range for the third consecutive session. Pair opened Wednesday on an offered tone and we see slight momentum on the downside to test the 1.3189 low it set in the previous session. Support is at 1.3157 and resistance at 1.3380. Singapore releases PMI tonight.

Macroeconomics

RBA offered no surprise, to offer decision on QE in next meeting

- The RBA announced that it is maintaining its policy framework – cash rate and 3-year government bond yield at 0.1%. Its bond purchase program was kept at AUD100b.
- It maintained its accommodative stance at the closing paragraph, in order to meet its employment and inflation objective.
- It said that it would, in the next meeting in July, whether to extend the yield target or any future bond purchases. The current AUD100b QE program is ending in September. This comes as Victoria was currently put in a week-long lockdown to curb the new Covid-19 outbreak.
- It continues to “place a high priority on a return to full employment”.
- It repeated that it won’t increase cash rate until the actual inflation rate sustainably within the 2-3% target range. Wage growth will need to materially higher; it signalled that this would happen in 2024 at the earliest.

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