HongLeong Bank

Global Markets Research

Daily Market Highlights

Key Takeaways

- **US stocks extended decline on Wednesday, concurrent with the selloff in US treasuries that was spurred by deepening concerns over higher inflation.** The Dow Jones fell 0.4%, the S&P 500 lost 1.3% and NASDAQ shed 2.7% as the selling of tech and consumer discretionary stocks intensified, outweighing gains in the financials and energy sectors. **Stocks in the UK rose nearly 1.0% after Chancellor Rishi Sunak unveiled the 2021/22 budget which comprises £44bn worth of near-term support (2% of GDP).** The furlough scheme which allows employees to receive 80% of their usual wages was extended. A tax hike targeting the corporate sector amounting to £65bn was also announced.

- Treasury yields spiked 2 to 9bps across the curve as investors continued to bet that higher inflation would lead the Federal Reserve to tighten monetary policy. 10Y UST yield jumped by 9bps to 1.48% leading the 2s10s curve to steepen substantially. **The dollar staged a rebound amid higher yields. Gold futures plunged** by 1.0% to $1715.80/oz as the dollar strengthened. **Crude oil prices surged** more than 2.0% as the EIA gasoline stocks fell by 13.6mil barrels following the deep freeze in the US as well as news that OPEC+ may extend output cut to April instead of raising output. **Stock futures are pointing to lower openings in Hong Kong and Japan**, taking cue from the selling of US stocks overnight. **All eyes will be on BNM OPR decision today where we do not expect a change.**

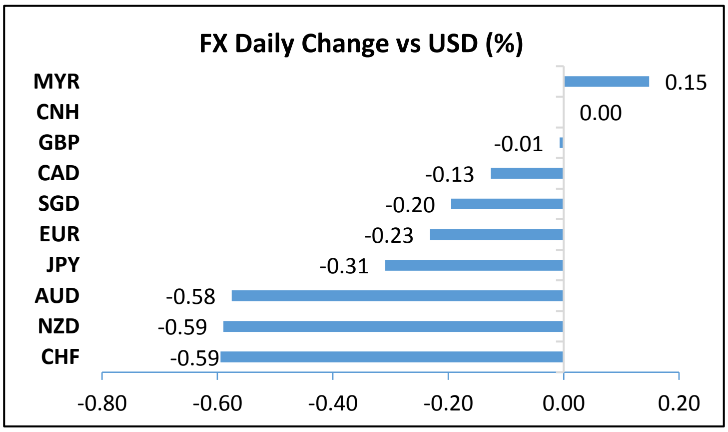
- **Services PMI readings were mixed across major economies** The US private sector added fewer than expected 117k jobs in February while the Fed's Beige Book reported modest expansion in economic activity. Hong Kong's retail sales registered another double-digit decline despite the festive season. Australia's GDP growth beat expectation at 3.1% q/q in the final quarter of 2020.

- The dollar grinded higher from some risk aversion on Wednesday's session. DXY was up by 0.18%, closing at 90.95. Bond yields surged once again, dragging stocks and currency performance. Over a one-week period, we are **neutral to slightly bullish USD** and see a range of 90.60-91.50 for the DXY as it may strengthen again. Non-farm payrolls data is next to watch for on Friday.

- USD/MYR fell 0.2% to 4.05100 on Wednesday but still managed to stay above 4.05 and within our weekly range of 4.04-4.07. We maintain our **neutral call on USD/MYR** ahead of today's BNM's OPR decision where we do not expect any change in rates and policy tone.

Market Snapshots

	Last Price	DoD %	YTD %
Dow Jones Ind.	31,270.09	-0.39	2.17
S&P 500	3,819.72	-1.31	1.69
FTSE 100	6,675.47	0.93	3.33
Hang Seng	29,880.42	2.70	9.73
KLCI	1,588.45	1.18	-2.38
STI	3,000.37	0.89	5.51
Dollar Index	90.95	0.18	1.12
WTI oil ($/bbl)	61.28	2.56	26.30
Brent oil ($/bbl)	64.07	2.19	23.69
Gold (S/oz)	1,715.80	-1.03	-9.89
CPO (RM/tonne)	3,874.50	-2.63	2.28



Source: Bloomberg

Overnight Economic Data

US	→	EU	→	UK	↑	Japan	→	China	↓
AU	↑	HK	→	SG	↑				

Up Next

Date	Events	Prior
04/03	AU Exports MoM (Jan)	3%
	AU Retail Sales MoM (Jan F)	0.60%
	MA BNM Overnight Policy Rate (38047)	1.75%
	EC Unemployment Rate (Jan)	8.30%
	EC Retail Sales MoM (Jan)	2.00%
	US Initial Jobless Claims (46419)	--
	US Factory Orders (Jan)	1.10%
05/03	AU AiG Perf of Services Index (Feb)	54.3
	SI Retail Sales YoY (Jan)	-3.60%
	MA Foreign Reserves (46054)	$109.7b
	US Change in Nonfarm Payrolls (Feb)	49k
	US Unemployment Rate (Feb)	6.30%
	US Trade Balance (Jan)	-$66.6b

Source: Bloomberg

Macroeconomics

- ***Services PMIs were mixed across major economies:***
  - The US ISM Services Index slipped to 55.3 in February (Jan: 58.9) as the severe winter weather disrupted supply chain as well as causing blackouts resulting in the slowest expansion of US services activity in nine months. In contrast, the Markit Services PMI rose to 59.8 in the same month (Jan: 58.3), highlighting strong growth in US financial financial services activity.
  - The Eurozone Markit Services PMI was little changed at 45.7 in February (Jan: 45.4) as extended lockdowns/tight social distancing restrictions continue to have negative impacts on the services sector.
  - The UK Markit/CIPS Services PMI jumped to 49.5 in February (Jan: 39.5) indicating that a degree of stability has returned to the UK services sector.
  - Japan Markit Services PMI was little changed at 46.3 in February (Jan: 46.1), marking its 13th month below 50 neutral threshold.
  - China Caixin Services PMI was a tad lower at 51.5 in February (Jan: 52), reflecting weaker services activity during the Lunar New Year celebration.
  - Hong Kong Markit Private Sector PMI rose sharply to 50.2 in February (Jan: 47.8)
  - Singapore Markit Private Sector PMI improved to 54.9 in February (Jan: 52.9).

- ***US private sector added fewer jobs than expected:***
  - The ADP National Employment Report showed that the US private sector added 117k jobs in February, falling short of consensus forecast for an 205k increase. The job gains in January were revised higher from +174k to +195k. In February, the goods-producing sector shed jobs while the services sector continued to hire more workers.
  - The Federal Reserve's latest Beige Book reported that economic activity expanded modestly from January to mid-February for most Federal Reserve Districts. Most businesses remain optimistic for the next 6 to 12 months as vaccines become more widely distributed. The rise in costs widely attributed to supply chain disruptions and to strong overall demand.
  - Mortgage applications rose a mere 0.5% last week following the sharp 11.4% decline prior indicating that potential buyers held back from applying for loans amid the higher interest rates following the spikes in treasury yields.

- ***Hong Kong retail sales fell in January***: Hong Kong's retail sales fell 13.6% y/y in January (Feb: -13.3%) as tighter social distancing rules curtailed consumer spending despite the Lunar New Year festive season. This marks retail sales' full 24-month decline as the city's retail sector was battered by domestic protests which kept foreign visitors away in 2019, followed by the pandemic in 2020.

- ***Australia economy contracted 2.4% in 2020:***
  - Australia's GDP growth beat expectation at 3.1% q/q in the final quarter of 2020, better than consensus forecast of 2.5% but weaker than prior growth of 3.3%. Compared to the same quarter in the previous year, GDP contracted by 1.1% y/y (3Q: -3.8%). For the full year of 2020, the Australian economy shrank 2.4.
  - Household spending rose 4.3% q/q in 4Q, with consumption in Victoria jumping by more than 10% following the lifting of strict lockdown restrictions. Private investment rose 3.9% q/q, its strongest growth since 3Q17, boosted by both housing and business investment.

Forex

MYR (Neutral)

- USD/MYR fell 0.2% to 4.05100 on Wednesday but still managed to stay above 4.05 and within our weekly range of 4.04-4.07. We maintain our neutral call on USD/MYR ahead of today's BNM's OPR decision where we do not expect any change in rates and policy tone.

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

- The dollar grinded higher from some risk aversion on Wednesday's session. DXY was up by 0.18%, closing at 90.95. Bond yields surged once again, dragging stocks and currency performance. Over a one-week period, we see a range of 90.60-91.50 for the DXY as it may strengthen again. Non-farm payrolls data is next to watch for on Friday.

EUR (Neutral-to-Bearish)

- EUR/USD was down by 0.23% on Wednesday's session, down to a close of 1.2063 after hitting a low of 1.2043. We put support at 1.2000 and resistance at 1.2120. EUR is likely to be adversely affected by any risk off moves. Any move below 1.2000 may trigger more momentum downwards.

GBP (Neutral-to-Bearish)

- GBP/USD stayed relatively steady, with an intraday range of 1.3921 to 1.4006. But pair closed relatively flat to the previous day's 1.3955. A correction to below 1.4000 has turned momentum away from the previous uptrend. Support at 1.3850. If GBP moves higher and pushes beyond 1.4000 again, the focus is on the 2018 high of 1.4377.

JPY (Bearish)

- JPY weakened further even as markets sentiments dived. USD/JPY was up by 0.31%, hitting a high of 107.15 in the process. We maintain view of yen underperformance for now, given prior weakness even in risk averse environment. The move to above 107.00 levels will now likely shift attention towards a 106.50-108.00 range.

AUD (Neutral)

- AUD/USD corrected lower after the previous two sessions' gains. Pair is down to a close of 0.7775, down 0.58% from the previous day's 0.7820. We continue to see some zig zag movements ahead, before AUD rallies again. This will likely stem from market uncertainty. Immediate resistance at 0.7890, before psychological level of 0.8000. Support is at 0.7670.

SGD (Neutral-to-Bearish)

- USD/SGD moved slightly higher for the session successive session. Pair was up to a close of 1.3326 after closing the previous session around the 1.33 big figure. SGD stayed relatively anchored despite near term zig zag movements for most currencies. Focus on a range of 1.3100 (support) to 1.3400 (resistance). Singapore retail sales data will be released this week.

Hong Leong Bank Berhad

Fixed Income & Economic Research, Global Markets
Level 8, Hong Leong Tower
6, Jalan Damanlela
Bukit Damansara
50490 Kuala Lumpur
Tel: 603-2081 1221
Fax: 603-2081 8936
Email: HLMarkets@hlbb.hongleong.com.my