Global Markets Research

Daily Market Highlights

Key Takeaways

- **US stocks rebounded ahead of the Georgia runoff elections results** that would decide which party holds the majority in the Senate. Some investors are seeing a potential Democratic sweep i.e. more fiscal supports for the US economy. The Dow Jones gained 0.6%, the S&P500 picked up 0.7% while NASDAQ rose nearly 1%, in a session driven by higher tech, consumer discretionary and energy shares. **Treasury yields recorded sharper jumps** across the board by 0.8 to 4.7bps as investors exited the bond market. 10Y UST yield went up 4bps to 0.95%. **Gold futures gained for the fifth session** albeit more modestly by 0.4% to $1954.40/oz.

- **Saudi Arabia made a surprise announcement that it would voluntarily cut 1mil barrels of crude productions starting next month**, in a move to stabilise prices and signalling its worry on poor crude demand this year amid surging coronavirus. **This came on top of earlier news that OPEC+ had decided not to raise the output quota dramatically in February.** Some producers are allowed a small increase in production while some are keeping them flat. Both news sent oil prices soaring nearly 5% DOD with Brent settling at $53.60/ barrel while WTI notched higher to $49.93/barrel. Both benchmarks are now at its highest levels since late February last year prior to the massive pandemic slumps.

- Data were limited to **US ISM Manufacturing** Index which **recorded an unexpected 3.2pt-increase in December** that was **driven by higher output, production, employment as well as lead time.** The report is in line with the Markit manufacturing PMI; both highlight the US supply chain constrain amid a raging pandemic. Meanwhile **Singapore retail sales fell slower** by 1.9% YOY in November, better than analysts' forecast of a 8.5% decline, a positive sign for economic recovery.

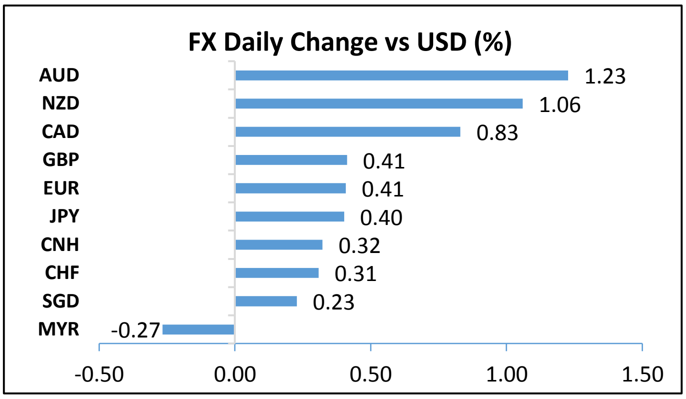
- DXY broadly weakened by around 0.5% on Tuesday, touching a low of 89.428. Oil price spikes supported commodity related currencies at the expense of the dollar. Rising inflation expectations also dampened on the dollar. We lean towards **further downsides** in the week ahead, looking at 89.0 for the DXY. The Georgia Senate election may shape direction, with a Democrat victory possibly dollar-negative.

- USD/MYR corrected from recent low, recovering modestly by 0.3% to 4.0160. This comes as risk aversion helped support USD in Tuesday's Asian session. The pair would attempt to breach 4.00 support again today as **MYR bulls** are restored by soaring oil prices and weak USD. In the short term, any recovery or correction is likely to be short term (pair is at oversold level), as extended dollar weakness is expected to send the pair lower again.

Market Snapshots

	Last Price	DoD %	YTD %
Dow Jones Ind.	30,391.60	0.55	-0.70
S&P 500	3,726.86	0.71	-0.78
FTSE 100	6,612.25	0.61	2.35
Hang Seng	27,649.86	0.64	1.54
KLCI	1,608.35	0.36	-1.16
STI	2,859.68	0.03	0.56
Dollar Index	89.44	-0.48	-0.56
WTI oil ($/bbl)	49.93	4.85	2.91
Brent oil ($/bbl)	53.60	4.91	3.47
Gold (S/oz)	1,954.40	0.40	3.17
CPO (RM/tonne)	3,850.00	1.77	27.25

Source: Bloomberg



Source: Bloomberg

Up Next

Date	Events	Prior
06/01	SG Markit Singapore PMI (Dec)	46.7
	HK Markit Hong Kong PMI (Dec)	50.1
	JN Jibun Bank Japan PMI Services (Dec F)	47.2
	CH Caixin China PMI Services (Dec)	57.8
	EC Markit Eurozone Services PMI (Dec F)	47.3
	UK Markit/CIPS UK Services PMI (Dec F)	49.9
	US ADP Employment Change (Dec)	307k
	US Markit US Services PMI (Dec F)	55.3
	US Factory Orders (Nov)	1.00%
07/01	US FOMC Meeting Minutes (16 Dec)	--
	JN Labor Cash Earnings YoY (Nov)	-0.70%
	AU Trade Balance (Nov)	A$7456m
	EC Retail Sales MoM (Nov)	1.50%
	EC Economic Confidence (Dec)	87.6
	EC CPI Estimate YoY (Dec)	-0.30%
	US Initial Jobless Claims (02 Jan)	787k
	US Trade Balance (Nov)	-$63.1b
	US ISM Services Index (Dec)	55.9

Source: Bloomberg

Macroeconomics

- ***Surprise jump in US ISM Manufacturing Index highlights strong manufacturing growth and supply chain strain:*** The ISM Manufacturing Index rose to 60.7 in December, from 57.5 in November, better than analysts' expectation of 56.8. This marked the index's sharpest upturn in more than two years, signaling a robust growth in the manufacturing industry that was driven by increase in new orders and productions alongside higher supplier deliveries, confirming the strain in the supply chain amid a raging pandemic. Notably, employments increased after having contracted in the prior month, a positive indicator for the upcoming NFP report. Overall report is consistent with the Markit US Manufacturing PMI released yesterday (57.1 vs 56.7)

- ***Broad-based and better-than-expected Singapore retail sales result in November:***
  - Retail sales fell by 1.9% YOY in November, from -8.5% in October. Consensus forecast was for 8.1% decline. A strong MOM pick up (+7.3%) signals a recovery in economic activities and momentum. It also bodes well for the December result.
  - Notable improvements include department stores, furniture and household equipment, watches/jewellery, and computers/telecommunication equipment. These grew by double digits compared to the previous months. Retail sales for motor vehicles grew a fourth consecutive month. Excluding motor vehicles, retail sales improved to -2.9% YOY from -11% a month ago.
  - The proportion of online sales increased to 14.3% of the total in November, from 10.5% in October. This may have reflected the 11.11/Black Friday campaigns. The trend of some diversion of retail sales from brick and mortar stores to online stores is set to continue in 2021, given more familiarity, attention and the infrastructure to support it. It is also notable that furniture and household equipment online sales took up 28.7% of total sales in November.
  - For December retail sales, we expect another MOM increase. This is likely helped by Singapore Rediscovers campaign, as domestic tourism increases further in December. The MOM print may be depressed by high base effects.

Forex

MYR (Neutral to Bullish)

- USD/MYR corrected from recent low, recovering modestly by 0.3% to 4.0160. This comes as risk aversion helped support USD in Tuesday's Asian session. The pair would attempt to breach 4.00 support again today as MYR bulls are restored by soaring oil prices and weak USD. In the short term, any recovery or correction is likely to be short term (pair is at oversold level), as extended dollar weakness is expected to send the pair lower again.
- **Factors supporting**: Economic recovery, less dovish MPC, USD weakness
- **Factors against**: Risk aversion, domestic politics, second lockdown.

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

- DXY broadly weakened by around 0.5% on Tuesday, touching a low of 89.428. Oil price spikes supported commodity related currencies at the expense of the dollar. Rising inflation expectations also dampened on the dollar. We lean towards further downsides in the week ahead, looking at 89.0 for the DXY. The Georgia Senate election may shape direction, with a Democrat victory possibly dollar-negative.
- **Factors supporting**: Return of risk aversion, Global tensions
- **Factors against**: Ultra-easy Fed policy to continue, economic recovery, vaccination

EUR (Neutral)

- EUR/USD gained by more than 0.4% on Tuesday, close to the 1.23 big figure. This was pushed by a weak dollar. While we still see a 1.22-1.232 range, a breakaway from the top of the range may see focus turn to 1.24 big figure.
- **Factors supporting**: Improvement in Eurozone fundamentals
- **Factors against**: Risk aversion, Covid-19 outbreak, ECB introducing further monetary measures

GBP (Neutral)

- GBP/USD steadily climbed on Tuesday, reaching a high of 1.3642 in the process. The dollar weakness remained a key support for the pound, despite certain uncertainty. We see a 1.3490-1.3704 range, although bias may be on the upside. Covid-19 infections (government said that 1 in 50 in England has the virus) may dampen on any further rallies.
- **Factors supporting**: Rapid increase in vaccination rates
- **Factors against**: Risk aversion, Covid-19 outbreak, Bank of England increasing monetary accommodation

JPY (Neutral)

- USD/JPY came off on Tuesday, hitting a low of 102.61 before closing nearby. Movements remain driven by dollar. We anticipate a range of around 102-103 over the coming 5 days. A breakaway from the 102.60 low is likely to shift focus to the next 101.19 support.
- **Factors supporting**: BOJ policy, risk aversion
- **Factors against**: Weak fundamentals, Covid-19 outbreaks in Japan

AUD (Neutral-to-Bullish)

- AUD/USD outperformed on Tuesday and rose by more than 1.2%, touching a high of 0.7780 in the process. This brought about a shift of focus towards the 0.78-0.80 range. We stay bullish and watch whether the 0.78 resistance can hold for now.
- **Factors supporting**: Fundamentals improve from current levels, export recovery (terms of trade)
- **Factors against**: Risk aversion, RBA policy, Australia-China relations

SGD (Neutral-to-Bullish)

- USD/SGD came off by c.0.23% on Tuesday, although underperformed G10 movements. In the process, pair reached a low of 1.3172. With support of 1.3162 in sight, a breakaway will shift attention to next 1.3120 level. SGD may also benefit from Asia FX strength in the coming week. Hence, we stay constructive on the SGD.
- **Factors supporting**: Economic recovery, CNH strength
- **Factors against**: Risk aversion, potential deterioration in Singapore fundamentals

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