6 July, 2021

HongLeong Bank

Global Markets Research

Daily Market Highlights

Key Takeaways

- **Trading was subdued as the US' markets were closed on Monday to observe the Independence Day's holiday. Stocks rose in Europe**, leading the pan-continental index, STOXX Europe 600 to register a gain of 0.6%. **Equities saw mixed performances across Asia**, as the main indexes traded lower in both Japan (-0.6%) and Hong Kong (-0.6%). **Oil prices surged as the impasse at OPEC worsened. The group had failed in its third attempt to reach an agreement over oil production between leader Saudi Arabia and the United Arab Emirates**, and had called off a scheduled meeting with Russia-led producers. The news boosted Brent crude by 1.3% to $77.16/barrel, its highest level since late October-18. WTI shot up 1.5% to $76.29/barrel this morning as the US market reopened.

- **The greenback saw mixed performances across the FX board. GBP rose modestly after the UK government announced plans to fully reopen the economy on 19 July**, despite rising Covid-19 cases in the country. PM Boris Johnson said that people must learn to live with Covid. Spot gold rose 0.3% to $1791.77/oz, marking its fourth advance in a row. Futures rose this morning to $1792.5/oz. **Asian shares look set for a mixed opening today as futures rose in Japan but slipped in Hong Kong.** China continued to probe the recently listed ride-hailing giant Didi Chuxin, amid an ongoing cybersecurity crackdown.

- **A series of services PMI showed that services sector growth was firmer in the UK and Eurozone, compared to their Asian counterparts such as China and Japan.** Investor confidence rose in the euro area in July as vaccination rates soared. Japan's household spending (-2.1% m/m) and earnings (-1.8% mm) both fell in May. Australis's retail sales were revised higher (+0.4% m/m) in May but were still down from April. The RBA's policy decision is in focus today as it announces adjustment to its QE program as well as the 3Y yield target.

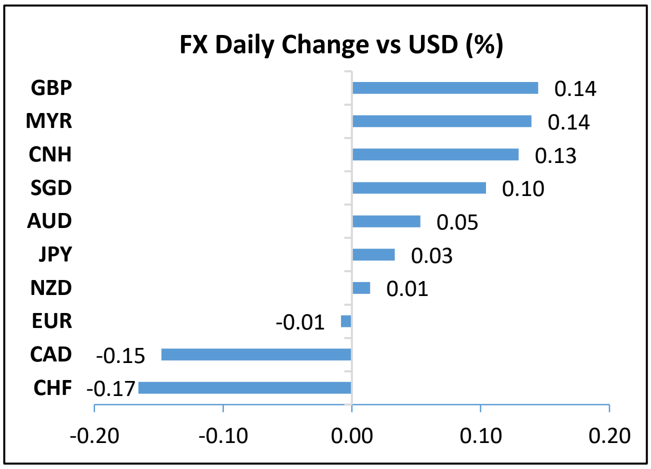
- USD stabilised on Monday's session as US markets closed for a holiday. DXY was overall down by 0.02%, after a 0.4% correction on Friday. This brought DXY to a 92.21 close. We now see some **stabilisation** before new updates. Focus turns to FOMC minutes for 16 June where there was a change in FOMC forecasts. Covid-19 developments (delta variant) in the US may also shape market sentiments.

- USD/MYR closed 0.14% higher at 4.1565, after trading within a tight range of 4.1530-4.1580 throughout Monday's session. We maintain a **neutral to bearish** outlook for MYR, expecting the pair to stay within the range of 4.14-4.17 with cautiousness taking centre stage ahead of BNM's OPR decision on Thursday, 8 July. We see a slimmer chance of any OPR move this week after the announcement of the additional RM150bn aid package, but would expect BNM to shift to a more cautious stance, paving the way for further policy easing if need be, now that most part of Selangor, that contributed about a quarter of Malaysia GDP, is placed under enhanced movement restrictions for a preliminary two weeks. We would not be surprised if there is a preemptive cut.

Market Snapshots

	Last Price	DoD %	YTD %
Dow Jones Ind.*	34,786.35	0.44	13.66
S&P 500*	4,352.34	0.75	15.87
FTSE 100	7,164.91	0.58	10.90
Hang Seng	28,143.50	-0.59	3.35
KLCI	1,532.36	-0.06	-5.83
STI	3,141.02	0.39	10.45
Dollar Index	92.21	-0.02	2.53
WTI oil ($/bbl)*	75.16	-0.09	54.91
Brent oil ($/bbl)	77.16	1.30	48.96
Gold (S/oz)*	1,783.30	0.37	-5.48
CPO (RM/tonne)	3,939.50	1.23	4.00

*Closings for 02 July



Source: Bloomberg

Overnight Economic Data			
EZ	↑	UK	↓
JP	→	CN	↓
AU	↓	SG	↓

Up Next

Date	Events	Prior
06/07	HK Markit Hong Kong PMI (Jun)	52.5
	AU RBA Cash Rate Target (06 Jul)	0.1%
	EZ Retail Sales MoM (May)	-3.1%
	EZ ZEW Survey Expectations (Jul)	81.3
	US Markit US Services PMI (Jun F)	64.8
07/07	JP Leading Index CI (May P)	103.8
	MA Foreign Reserves (30 Jun)	$111.0b
	US MBA Mortgage Applications (02 Jul)	-6.9%
	US JOLTS Job Openings (May)	9286k
08/07	US FOMC Meeting Minutes (16 Jun)	--
	UK RICS House Price Balance (Jun)	83.0%
	MA BNM Overnight Policy Rate (08 Jul)	1.75%
	US Initial Jobless Claims (03 Jul)	364k

Source: Bloomberg

Macroeconomics

Services sector PMI soared in Eurozone; slowed down in China:

- The Eurozone's services PMI soared to 58.3 in June (May: 55.2) as the relaxation of restrictions boosted services activity in the region.
- The UK's services PMI retreated to 62.4 in June (May: 62.9), but the historically elevated level continues to indicate solid expansion of the services sector.
- Japan's Jibun Bank Services PMI rose to 48.0 in June (May: 46.5), suggesting a smaller contraction in services activity. This was mainly because the State of Emergency measures to contain the fourth Covid wave in Japan remained in place throughout June.
- China's Caixin Services PMI edged lower to 50.3 in June, a sharp decline from the 55.1 in May, indicating a tremendous slowdown of services activity. Businesses also turned less optimistic in June amid rising Covid-19 cases.
- Singapore's private sector PMI fell to 50.1 in June (May: 54.4), signalling an almost stagnant economic condition as the reimposition of the Phase 2 restrictions were extended to June.

Investor confidence rose in euro area:

- The Sentix Investor Confidence Index came in higher at 29.8 in July (Jun: 28.1), roughly matching the consensus forecast of 30.0. This also marked the index's fifth advance in a row as the Eurozone's investor sentiment improved further against the backdrop of pandemic stabilisation and the sharp rise in vaccination rates in the region. The firmer sentiment was reflected in the strong gain in the current situation index (+8.5pts). The expectations index (-5.5pts) continued to pull back for the second month from the multi-month high in May.

Japan's earnings and spending slumped in May:

- Japan's labour cash earnings rose 1.9% y/y in May, after April's earnings were downwardly revised to reflect a smaller 1.4% y/y gain. The reading missed the consensus estimate of a 2.1% gain. The much smaller gain in bonus payment and the steady gain in regular pay were offset by the surge in overtime payment (+20.7% y/y). The hours worked in June rose substantially by 6.8% y/y (Apr: +4.1%) indicating more robust business and corporate activity.
- On a m/m basis, cash earnings fell for the third consecutive month (-1.8% m/m) reflecting the decline in both regular and overtime pay while bonus pay-outs were roughly at the same level compared to the previous month.
- In a separate note, household spending data in Japan continued to be distorted by the low base effect. Spending had plunged substantially in May-20 as it was the first full month Japanese experienced the State of Emergency lockdown. Despite the advantage of a super low base, spending recorded a smaller y/y gain of 11.6% in May (Apr: +13.0%); this was reflected in the fall in m/m household spending (-2.1% m/m vs +0.1% prior) as the quasi-State of Emergency measures were extended and expanded to additional prefectures.

Forex

MYR (Neutral-to-Bearish)

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USD (Neutral)

- USD stabilised on Monday's session as US markets closed for a holiday. DXY was overall down by 0.02%, after a 0.4% correction on Friday. This brought DXY to a 92.21 close. We now see some stabilisation before new updates. Focus turns to FOMC minutes for 16 June where there was a change in FOMC forecasts. Covid-19 developments (delta variant) in the US may also shape market sentiments.

EUR (Neutral)

- EUR/USD was down by 0.01% to close at 1.1864. Downsides are still possible, looking at 1.1710 support and 1.2000 resistance. Technicals point downward. Market attention is on retail sales. Covid-19 resurgence may potentially dampen on the EUR.

GBP (Neutral-to-Bullish)

- GBP/USD was up a second consecutive session, by 0.14% to close at 1.3844. This was helped by news that the UK will reopen further on 19 July. We see slight upsides, with 1.3910 resistance and 1.3620 support. Monthly GDP and industrial production data will likely be the data focus in the coming days.

JPY (Neutral-to-Bearish)

- USD/JPY was down by 0.07% as the yen recovered its footing. Pair closed at 110.97 after a low of 110.80. Threat of reaching a 112 resistance is still present, as Japan struggles with containing Covid-19 outbreaks ahead of Olympics. Support is at 110.

AUD (Neutral-to-Bullish)

- AUD/USD was up by 0.05% to close at 0.7530. This comes as oil prices gained higher, which may be a support to commodity related currencies. We are slightly bullish and eye resistance at 0.7650. Support is at 0.7400. Focus shifts to the Reserve Bank of Australia's policy decision today. Any improvements in Covid-19 situation or reduced restrictions may help the AUD find some footing.

SGD (Neutral)

- USD/SGD retreated a second consecutive session to close at 1.3453. This stems from some profit taking, and softening of USD strength. Singapore's PMIs and retail sales results show that the outlook will be brighter in 2H-2021 as economic activity levels improves. Finance Minister Lawrence Wong announced extended measures to support the worst-hit sectors. We see an immediate range between 1.3420 to 1.3490.

Australia' retail sales revised higher in May:

- Australia's retail sales growth slowed down substantially to 0.4% m/m in May, from 1.1% prior. This reflects the decline in sales of household goods as well as department store items. Meanwhile, sales of food rose less alongside cafes & restaurants sales. Apparel stayed at the same level.
- The headline reading came as a surprise as the first estimate had put retail sales growth at a mere 0.1% m/m. The announcement of a lockdown in greater Melbourne had prompted some stockpiling at the end of May.

Singapore's retail sales impacted by Covid-19 containment measures:

- Singapore's retail sales grew by 79.7% in May, from 54% prior. This compares well with our 79.5% y/y forecast and consensus of 65% y/y. The lofty gain reflects the low base effect from last year's circuit breaker (7 April to 2 June 2020). In fact, May 2020 was the only full month of "broken-circuits".
- Excluding motor vehicles, retail sales grew by 61.6% y/y, which is higher than our 55.6% forecast and consensus forecast of 41.5%. Motor vehicle sales grew by 421.2% y/y, due to the almost-100% pause of the motor industry a year ago. There was a 6.8% m/m decrease from April (seasonally adjusted). However, this is anticipated given the return of "Phase 2 Heightened Alert" in May 2021.
- Compared to a month ago, spending patterns were distorted by Phase 2 Heightened Alert, returning to supermarkets/food at the expense of most other items (recreational, watches/jewellery). Growth was supported by computers/telecommunications equipment (+68.9% y/y and 18.9% m/m), partly from work-from-home demand.

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