7 January, 2021

# Global Markets Research

# Daily Market Highlights

## Key Takeaways

- **US Capitol Hill was put on lockdown as Pro-Trump supporters stormed the legislative building, effectively suspending the certification of Joe Biden's election victory.** US stocks ended on a mixed note as investors exited tech shares and piled into bank and health care sectors, anticipating a Democratic sweep of Congress following the Georgia runoff elections. **Latest headlines confirmed that the Democrats' double victories left the Senate divided evenly at 50-50**; incoming Vice President Kamala Harris (as the President of Senate) would cast a tie-breaking vote, thus delivering a Senate and hence congressional majority to the Democratic Party. The Dow Jones added 438 pts or 1.4% while S&P500 gained modestly by 0.5%. Tech-focus NASDAQ index fell 0.6%.

- **Treasury yields continued to rise sharply across the curve by 1.8 to 9.4bps** on projected Democratic win. Notably yield on 10Y UST hit 1.0% for the first time since March, closing at 1.03% (+7.6bps). **Gold futures snapped winning streak**, correcting from recent high and losing 2.3% to $1908.60/oz. **The dollar had a mixed session,** strengthening against JPY and GBP and lost out to NZD, AUD and EUR. CAD and CHF were flat. **Crude oil prices extended gains** following Saudi Arabia's surprise output cut announcement. Brent crude went up to $54.30/barrel and WTI added another 1.4% to $50.63/barrel.

- **US private sector unexpectedly shed 123k jobs in December, marking its first job losses since April which does not bode well for tomorrow's nonfarm payroll numbers.** Headline factory orders rose for the eighth month, offering upbeat signs of the manufacturing sector. **A series of services PMI showed that services activities were mostly down as virus cases surged** although businesses did expected better outlook in 2021 following vaccine rollout. **Japan's wages fell sharply in November as the country battled new virus wave.**

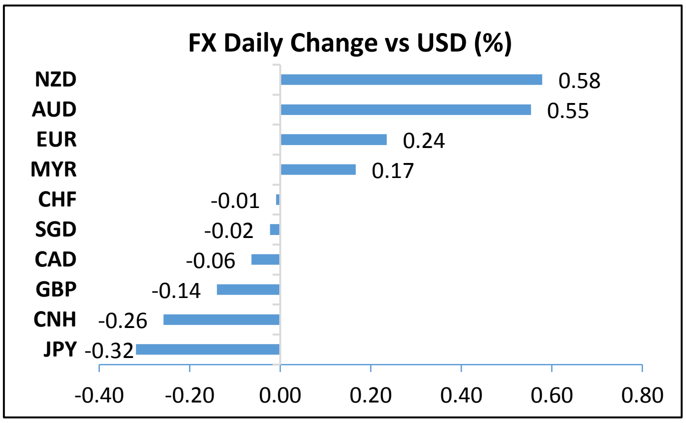
- DXY was slightly up on Wednesday as the Senate election played out, by 0.11%. This brought DXY to 89.53 at close. Event risks are high from the Capitol incident. We lean towards **further downsides in the USD** in the week ahead, looking at 89.0 for the DXY. A Democrat sweep in the US Senate election is possibly dollar-negative.

- **USD/MYR** weakened modestly by 0.2% to 4.0095, in line with broad dollar weakness. The pair would **attempt to breach 4.00 support again** as dollar weakness persisted. 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.** | 30,829.40 | 1.44 | 0.73 |
| **S&P 500** | 3,748.14 | 0.57 | -0.21 |
| **FTSE 100** | 6,841.86 | 3.47 | 5.90 |
| **Hang Seng** | 27,692.30 | 0.15 | 1.69 |
| **KLCI** | 1,591.97 | -1.02 | -2.17 |
| **STI** | 2,863.01 | 0.12 | 0.68 |
| **Dollar Index** | 89.53 | 0.11 | -0.45 |
| **WTI oil ($/bbl)** | 50.63 | 1.40 | 4.35 |
| **Brent oil ($/bbl)** | 54.30 | 1.31 | 4.83 |
| **Gold (S/oz)** | 1,908.60 | -2.34 | 1.46 |
| **CPO (RM/tonne)** | 3,925.00 | 0.53 | 3.62 |

*Source: Bloomberg*




*Source: Bloomberg*

### Up Next

| Date | Events | Prior |
|---|---|---|
| 07/01 | 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 |
| 08/01 | JN Household Spending YoY (Nov) | 1.90% |
| | MA Foreign Reserves (11658) | $105.7b |
| | EC Unemployment Rate (Nov) | 8.40% |
| | US Change in Nonfarm Payrolls (Dec) | 245k |
| | US Unemployment Rate (Dec) | 6.70% |
| | US Average Hourly Earnings YoY (Dec) | 4.40% |

*Source: Bloomberg*

## Macroeconomics

- ***Fed minutes showed discussions on QE enhancement:***
  - The latest FOMC meeting minute showed that Fed officials expected economic expansion to slow in the coming months amid worsening pandemic across the country. In the medium term, positive vaccine news however had improved the economic outlook.
  - All official supported enhancing the Fed's guidance on asset purchases, adopting qualitative and outcome based guidance. This would offer more clarity about the role of asset purchase program in providing monetary policy accommodation.
  - Some officials are open to weighting purchases of treasury securities of longer maturities and increasing the pace of purchases. There was also discussion of gradual tapering. Overall officials saw current pace as being appropriate and nearly all favoured maintaining the current composition of purchases.

- ***US private sector unexpectedly cut jobs in December; factory orders remained strong:***
  - The US private sector unexpectedly shed 123k jobs in December according to the ADP National Employment Report. Consensus forecast was for a 75k gain. The total job gains in November were also revised down slightly to 304k (from 307k). Overall goods producing sector cut 18k jobs while services sector shed 105k employments This marks private payroll's first decline since April and losses came from the leisure, hospitality and retail sector, as the US continues to record massive daily new infections. The number does not bode well for Friday's NFP report.
  - Headline factory orders rose for the seventh consecutive month by 1% MOM in November (Oct: +1.3%), beating analysts' estimate of a 0.7% growth, confirming strong manufacturing demand. Orders of durable goods (+1%) and core capital goods (+0.5%) also went up.
  - Mortgage applications rose 1.7% last week after the sharper 5.8% decline prior, driven by increase in refinancing applications amid a general drop in interest rates.

- ***PMIs showed services activity down in most economies:***
  - US Markit Services PMI retreated sharply to 54.8 in December (Nov: 58.4) from the recent high as new business growth softened when Covid-19 cases soared.
  - Eurozone Markit PMI rose to 46.4 in December (Nov: 41.7), reflecting broad-based upturn in confidence. The index remained firmly below 50 indicating that continuous drop in activity.
  - UK CIPS/Markit PMI improved to 49.4 in December (Nov: 47.6), driven by better business expectation. Nonetheless the sub-50 level indicates a sustained drop in services activity linked to restrictions to contain the pandemic.
  - Japan Jibun Bank Services PMI was little changed at 47.7 in December (Nov: 47.8), highlighting persistent weakness in the services sector amid new virus wave.

## Forex

### MYR (Neutral to Bullish)

- USD/MYR weakened modestly by 0.2% to 4.0095, in line with broad dollar weakness. The pair would attempt to breach 4.00 support again as dollar weakness persisted. 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 was slightly up on Wednesday as the Senate election played out, by 0.11%. This brought DXY to 89.53 at close. Event risks are high from the Capitol incident. We lean towards further downsides in the week ahead, looking at 89.0 for the DXY. A Democrat sweep in the US Senate election is 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 0.24% on Wednesday, touching a high of 1.2349. A breakaway from the previous 1.22-1.23 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 was slightly down on Wednesday, weakening 0.14% to a close of 1.3608. This came as the dollar rebounded slightly. 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 rebounded on Wednesday, reaching a high of 103.44 before closing at 103.04. Movements remain driven by dollar. We anticipate a range of around 102-103 over the coming five 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 again on Wednesday and rose by 0.55%, touching a high of 0.7820 in the process. This brought about a shift of focus towards the 0.78-0.80 range. We stay bullish and watch for some stabilisation in momentum ahead.
- **Factors supporting**: Fundamentals improve from current levels, export recovery (terms of trade)
- **Factors against**: Risk aversion, RBA policy, Australia-China relations

- China Caixin Services PMI pulled back to 56.3 in December (Nov: 57.8), in line with the official gauge that suggests some easing in growth.
- Hong Kong Markit PMI fell sharply to 43.5 in December (Nov: 50.1), its lowest since April as new wave of virus prompted tightening of social distancing measures.
- Singapore Markit PMI rose to the expansionary territory of 50.5 in December (Nov: 46.7), consistent with a series of improved data recently, pointing to better recovery prospect as virus stayed under control.

- ***Japan's wages fell as virus surged in November:*** Japan's labour cash earnings fell more than expected by 2.2% YOY in November, way below consensus estimate of 0.9% decline as wages fell substantially in the month when the country began to record above 1000 covid-19 cases on a daily basis. This followed the upwardly revised 0.7% YOY fall in earnings in the previous month, extending the losing streak to 8-month long. Within contracted pay, base or regular pay barely grew at 0.1% YOY while overtime payout fell 10.3% YOY, indicating weaker corporate activity compared to a year ago. Bonus earnings were nearly 23% YOY lower.

**SGD (Neutral-to-Bullish)**

- USD/SGD was relatively stable on Wednesday, and stayed around 1.318 at close. 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, global tensions

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