Hong Leong Bank

Global Markets Research

Daily Market Highlights

Key Takeaways

- **US stocks rose to records overnight as investors parsed the Federal Reserve's meeting minutes that reflected officials' divided thoughts over the timing of tapering** the $120b asset purchase program. Nonetheless, the minutes showed officials' general regard of progress towards this move, as the economy recovered further from the pandemic. The S&P 500 rose 0.3% to set a record high after the brief retreat in the previous session, primarily supported by the infotech, industrials and healthcare sectors. This marked the S&P 500 eight record-setting session within a nine-day period. NASDAQ eked out a tiny gain (+0.01%) and still at its all-time high. The Dow rose 0.3%, about 100pts away from its Friday's record high level.

- **Treasury yields slumped further** after the seemingly less hawkish interpretation of Fed's minutes. The yield on 10Y UST continued to slide 3.2bps to 1.32%, its lowest level since February. **The dollar bulls continued to dominate the FX market while gold prices advanced further to breach the $1800-mark for the first time since mid-June.** Futures rose 0.4% to $1802.10/oz. **Oil prices fell around 1.5-1.6% as investors still looked out for any decision/agreement from OPEC+ regarding its production policy.** Brent settled at $73.43/barrel and WTI at $72.2/barrel. **The ECB is reported to have decided to raise its inflation target to 2.0%, from the current "below, but close to 2.0%",** according to unofficial sources. It would also allow inflation to overshoot the target when needed. The outcome came from a special strategy meeting convened this week.

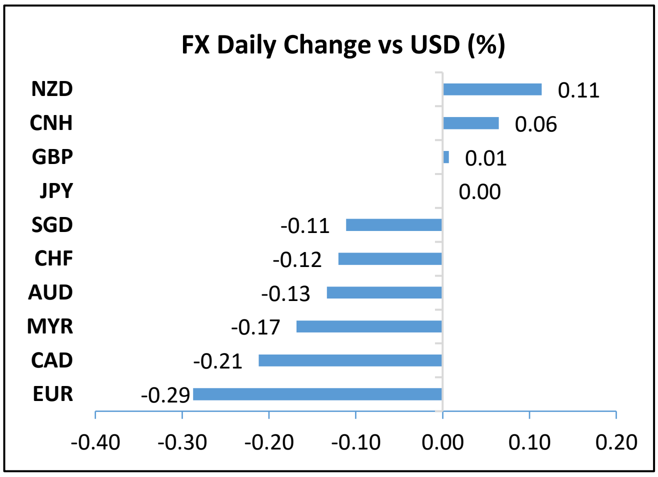
- Data were limited. **The US' job openings rose to another record high in May, while quit rate remained elevated** as well, underscoring the labour market's ongoing struggle with worker shortages. The UK's RICS survey showed that the housing boom is set to ease in coming months as the stamp-duty waiver expired in June. Malaysia's foreign reserves rose to $111.1b.

- The USD slightly strengthened after FOMC minutes were released. DXY was up by 0.11%, closing at 92.64 from 92.55. Officials noted progress in economy that moved towards tapering, although they were not ready to communicate a timeline for doing so. Focus shifts towards updates on price pressures, with CPI and PPI data due in the coming days, which could still portray some slight upsides, hence **positive for the USD**.

- USD/MYR strengthened modestly (+0.2%) to 4.1615 on Wednesday. We maintain a **neutral to bearish outlook on MYR**, expecting the MYR market to trade on a cautious note ahead of today's BNM MPC decision and amid some emergence of political uncertainty. We continue to see a slimmer chance of any OPR move today after the announcement of the additional RM150bn aid package to ease the pain of individuals and businesses from the latest lockdown measures, but would expect BNM to shift to a more cautious stance, paving the way for further policy easing if need be.

Market Snapshots

	Last Price	DoD %	YTD %
Dow Jones Ind.	34,681.79	0.30	13.32
S&P 500	4,358.13	0.34	16.03
FTSE 100	7,151.02	0.71	10.69
Hang Seng	27,960.62	-0.40	2.68
KLCI	1,530.15	-0.10	-5.96
STI	3,141.60	-1.54	10.47
Dollar Index	92.64	0.11	3.01
WTI oil ($/bbl)	72.20	-1.59	48.80
Brent oil ($/bbl)	73.43	-1.48	41.76
Gold (S/oz)	1,802.10	0.44	-4.78
CPO (RM/tonne)	4,031.00	1.82	6.41



Source: Bloomberg

Overnight Economic Data

US	→	UK	↓
MA	↑		

Up Next

Date	Events	Prior
08/07	MA BNM Overnight Policy Rate (08 Jul)	1.75%
	US Initial Jobless Claims (03 Jul)	364k
09/07	CN CPI YoY (Jun)	1.3%
	CN PPI YoY (Jun)	9.0%
	UK Monthly GDP (MoM) (May)	2.3%
	UK Industrial Production MoM (May)	-1.3%
12/07	NZ Card Spending Retail MoM (Jun)	1.70%
	JN Core Machine Orders MoM (May)	0.60%
	MA Industrial Production YoY (May)	50.10%
	JN Machine Tool Orders YoY (Jun P)	141.90%

Source: Bloomberg

Macroeconomics

Fed's minutes showed divided thoughts on timing of asset tapering but most expected progress:

- At its 15-16 June meeting, the Federal Reserve had maintained its monetary policy and brought forward the expectations of the next potential rate hike to 2023. The minutes (published overnight) showed that officials agreed the US economic recovery was incomplete and saw inflation as largely reflecting temporary factors.
- A number of expected "the economic conditions set out in the Committee's forward guidance for the federal funds rate to be met somewhat earlier than they had projected in March". Some were still wary, emphasizing on the "elevated" uncertainty around the economic outlook and that it was too early to draw conclusions.
- With regards to the asset purchase program, the "substantial further progress" was not yet met, but they expected progress to continue. Various members said they expected "the conditions for beginning to reduce the pace of asset purchases to be met somewhat earlier than they had anticipated". On the other hand, some viewed the incoming data as providing less clear signals about the underlying economic momentum. Members emphasized that the Committee should be "patient in assessing progress toward its goals and in announcing changes to its plans for asset purchases"
- Some members preferred to reduce the pace of purchase of mortgage back securities (MBS) "more quickly or earlier than Treasury purchases" in light of valuation pressures in housing markets. This view was countered by those who preferred to reduce the pace of treasury and MBS purchases commensurately, citing well alignment with the previous communications. They also thought that purchasing both asset classes provide accommodation through their influence on broader financial conditions.

US' job openings at record high in May:

- The JOLTS openings rose slightly to 9.2mil in May, missing the consensus forecast of 9.3mil, but still at a record high. This followed the downwardly revised 9.19mil openings in April and reflected the US' labour market's ongoing struggle with worker shortages as the economy reopened. The turnover or "quit rate" fell to 2.5% in May (Apr: 2.8%). This means that the number of people who voluntarily left their jobs still stood at a high number of 3.6mil, compared to nearly 4mil in April, as individuals looked out for better work opportunities amid the hiring boom.
- In a separate note, mortgage applications in the US fell 1.8% w/w for the week ended 2 July (prior: -6.9%), as both applications for purchasing and refinancing homes declined.

RICS survey pointed to easing housing market as stamp-duty holiday ended:

- The UK's RICS House Price Balance Index held steady at 83% in June, from the downwardly revised 83% in May, reflecting only a small increase in surveyors who reported a rise in house prices. The breakdown of the survey showed that price expectations fell substantially (29 vs 44) from the elevated levels, while sales expectations turned negative. New instructions slumped further.
- The housing market boom in the UK looks set to ease after the government's stamp-duty waiver expired in June.

Malaysia's foreign reserves rose to $111.1b:

- BNM said yesterday that international reserves rose to $111.1b as at 30 Jun, higher than mid-June's level of $111.0b. The reserves were sufficient to finance 8.2 months of retained imports and was 1.1 times short-term external debt.

Forex

MYR (Neutral-to-Bearish)

- USD/MYR strengthened modestly (+0.2%) to 4.1615 on Wednesday. We maintain a neutral to bearish outlook on MYR, expecting the MYR market to trade on a cautious note ahead of today's BNM MPC decision and amid some emergence of political uncertainty. We continue to see a slimmer chance of any OPR move today after the announcement of the additional RM150bn aid package to ease the pain of individuals and businesses from the latest lockdown measures, but would expect BNM to shift to a more cautious stance, paving the way for further policy easing if need be.

USD (Neutral-to-Bullish)

- The USD slightly strengthened after FOMC minutes were released. DXY was up by 0.11%, closing at 92.64 from 92.55. Officials noted progress in economy that moved towards tapering, although they were not ready to communicate a timeline for doing so. Focus shifts towards updates on price pressures, with CPI and PPI data due in the coming days, which could still portray some slight upsides, hence positive for the USD.

EUR (Neutral-to-Bearish)

- EUR/USD was down by 0.29% to close below 1.18 on Wednesday. Pair closed at 1.1790 after being as high as 1.1895 a day earlier. This came after some market whisper ahead of the European Central Bank special session, that the ECB will raise its inflation goal to 2.0%, hence possibly delaying tapering. We see chances of more downsides, with 1.1710 support and 1.2000 resistance. There is little on the data front until industrial production on 14 July.

GBP (Neutral-to-Bearish)

- GBP/USD ended up at levels close to that of the previous, despite a 1.3754 to 1.3842 range, closing at 1.3801 on Wednesday's session. With USD strength returning, we eye a 1.3620 support and a 1.3910 resistance. Covid-19 developments in the UK may be pivotal for the GBP. Monthly GDP and industrial production data will likely be the data focus in the coming days.

JPY (Neutral-to-Bearish)

- USD/JPY stayed within a relatively tight range of 110.40 to 110.82 overnight, closing 0.03% down at 110.66 in the process. We see some neutrality in the coming session, with a range of 110 to 112. However, there is limited JPY strength given that Japan is struggling with containing Covid-19 outbreaks ahead of Olympics.

AUD (Neutral-to-Bearish)

- AUD/USD was slightly down by 0.13% to close at 0.7487. We eye support at 0.7400 and resistance at 0.7650. Any improvements in Covid-19 situation or reduced restrictions may help the AUD find some footing. Market focus shifts to RBA Governor Philip Lowe's speech today.

SGD (Neutral-to-Bearish)

- USD/SGD was up for a second session, by another 0.11%. This brought the pair to a close of 1.3491, after a 1.3499 high. Singapore announced further loosening of dining on 12 July, supporting the F&B sector. SGD will likely remain supported by resilient fundamentals and progress in Covid-19 vaccination. We see resistance at 1.3550. after the pair broke our previous range of 1.3420 to 1.3490.

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