12 January, 2021

Global Markets Research

Daily Market Highlights

Key Takeaways

- **US stocks retreated from record highs, spurred by sell down in tech stocks** after Twitter and Facebook moved to ban Trump permanently (in Facebook's case, indefinitely) while Amazon Web Service, Google and Apple pulled support for the right-wing social media app Parler. This renewed long-standing anxiety that a Democrats–controlled Congress would toughen regulations on big tech, to rein in on its massive power to dictate social media; in fact German Chancellor called Twitter's removal of Trump's account "problematic".

- **Investors largely ignored the House's vote on a resolution seeking Vice President Mike Pence to invoke the 25th Amendment of the US Constitution to remove President Trump from office.** Democrats would proceed to impeach Donald Trump for the second time should Pence fail to act. The Dow Jones slipped 0.3%, the S&P500 fell 0.7% and tech-focus NASDAQ was down more sharply by 1.3%. **Selloff in treasuries extended into this week, pushing overall yields higher**; 10Y UST yield went up another 3bps to 1.15% ahead of Wednesday's auction of $38b 10Y notes. **Gold futures gained** 0.8% to $1850.80/oz as the dollar strengthened for the fourth consecutive session. **Brent crude snapped a four-day winning streak,** shedding 0.6% to $55.66/barrel on Monday.

- There were no US data scheduled on Monday. Elsewhere, **Eurozone's investor morale picked up** as inoculation begins in the continent. **China's inflation data implied at reflation in December** as both CPI and PPI improved. **Australia's retail sales jumped sharply in November** as the state of Victoria emerged from lockdown. Meanwhile in **Malaysia, industrial production fell more than expected in November.**

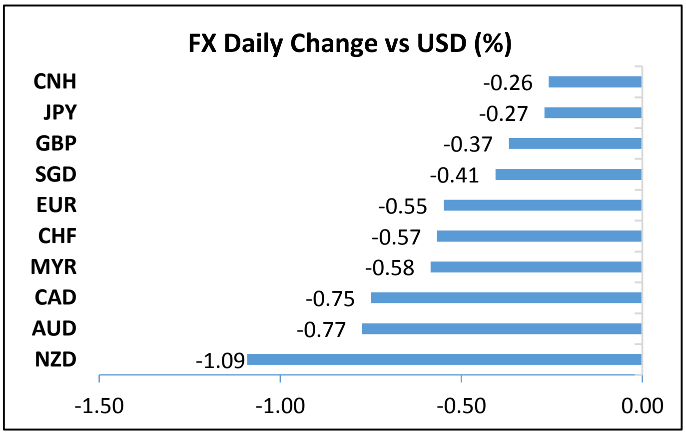
- DXY saw a fifth consecutive day of gain on Monday, as markets continued to reprice FX trends. Expectations of less reliance of monetary policy brought DXY to a close of 90.47. We tactically turn **neutral-to-bullish on the dollar** vs. G10, given current momentum. We still believe in dollar weakness in 2021, after President-elect Joe Biden is inaugurated.

- USD/MYR strengthened substantially by 0.6% to 4.0530 as dollar bulls dominated market. Pair has now breached our weekly range of 3.98-4.04 and is poised to strengthen further with USD now propelled by robust stimulus optimism in the wake of Democrats' Congressional majority and inauguration of President-elect Joe Biden next week. We are **bullish on USD/MYR today**, expecting talks of stimulus and higher US inflation to dominate; pair now targets 4.07 after having broken 4.05 in the prior session.

Market Snapshots

	Last Price	DoD %	YTD %
Dow Jones Ind.	31,008.69	-0.29	1.31
S&P 500	3,799.61	-0.66	1.16
FTSE 100	6,798.48	-1.09	5.23
Hang Seng	27,908.22	0.11	2.49
KLCI	1,617.25	-0.98	-0.61
STI	2,983.90	-0.31	4.93
Dollar Index	90.47	0.41	0.59
WTI oil ($/bbl)	52.25	0.02	7.69
Brent oil ($/bbl)	55.66	-0.59	7.45
Gold (S/oz)	1,850.80	0.84	-2.52
CPO (RM/tonne)	3,990.00	-0.29	5.33

Source: Bloomberg



Source: Bloomberg

Up Next

Date	Events	Prior
12/01	US NFIB Small Business Optimism (Dec)	101.4
13/01	JN Machine Tool Orders YoY (Dec P)	8.6%
	EC Industrial Production SA MoM (Nov)	2.1%
	US MBA Mortgage Applications (08 Jan)	1.7%
	US CPI YoY (Dec)	1.2%

Source: Bloomberg

Macroeconomics

- ***Eurozone's investor sentiment improved in January:*** The Sentix Investor Confidence Index came in better than expected at 1.3 in January, from -2.7 in December, reflecting improved readings of both the expectations and current situation indexes. Optimistic mood among investors were largely driven by the rollout of vaccine in the continent as well as in other parts of the world that could quicken the end of restrictions/lockdowns.

- ***China saw reflation in December:***
  - Both consumer and producer prices rose m/m in December. The result implies at improving profit margins for industries in December, after bottoming out in 2H-2020.
  - CPI went up by 0.2% y/y from -0.5% a month ago. This represented a 0.7% m/m increase. Food inflation bore the main responsibility, up 1.2% y/y from -2% prior. Non-food inflation stayed flat (0% y/y).
  - Meanwhile, PPI's decline narrowed to 0.4% y/y from -1.5% prior. The index rose 1.1% m/m, reflecting broad improvement, particularly for mining, raw materials and food.

- ***Australia retail sales surged in November:*** Australia's retail sales jumped 7.1% m/m in November, following a modest 1.4% m/m gain in October, reflecting sharp rise of sales in Victoria (+22.4%) after the state emerged out of lockdown and the retail sector was allowed to do operate as usual.

- ***Industrial production fell in Malaysia:***
  - Industrial production (IPI) extended its decline, falling more than expected by 2.2% y/y in November (Oct: -0.5% y/y), worse than our expectation for a 1.1% decline and consensus estimate for a small gain. We believe this was attributable to the full month impact of Conditional Movement Control Order (CMCO) in the Klang Valley and some other states.
  - The pullback was broad-based, with slower growth seen in the manufacturing sector, and contractions in mining and electricity. Compared to the preceding month of October, overall industrial production fell again after increasing the last two months, by 2.7% m/m (Oct: +1.7%), adding to tentative signs of weakening production.
  - Looking ahead, we believe manufacturing activities will continue to grow albeit at uneven and probably slower paces across the globe, taking cue from the distinct infection development worldwide. Overall outlook has turned a little gloomier. As cautioned last month, stubbornly high daily new cases would pose a downside risk to growth outlook and derail the recovery path in the near term.

Forex

MYR (Bearish)

- USD/MYR strengthened substantially by 0.6% to 4.0530 as dollar bulls dominated market. Pair has now breached our weekly range of 3.98-4.04 and is poised to strengthen further with USD now propelled by robust stimulus optimism in the wake of Democrats' Congressional majority and inauguration of President-elect Joe Biden next week. We are bullish on USD/MYR today, expecting talks of stimulus and higher US inflation to dominate; pair now targets 4.07 after having broken 4.05 in the prior session.
- **Factors supporting**: Economic recovery, less dovish MPC, USD weakness
- **Factors against**: Risk aversion, domestic politics, second lockdown.

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

- DXY saw a fifth consecutive day of gain on Monday, as markets continued to reprice FX trends. Expectations of less reliance of monetary policy brought DXY to a close of 90.47. We tactically turn neutral-to-bullish on the dollar vs. G10, given current momentum. We still believe in dollar weakness in 2021, after President-elect Joe Biden is inaugurated.
- **Factors supporting**: Democratic sweep reducing reliance on monetary policy, return of risk aversion, Global tensions
- **Factors against**: Ultra-easy Fed policy to continue, economic recovery, vaccination

EUR (Neutral-to-Bearish)

- EUR/USD was down to a close of 1.2151 after a low of 1.2132, down by 0.55% in the process. Recent upside has been halted by dollar resurgence. We think that the week ahead should continue to see near-term consolidation before further increases for the pair. Support at 1.2068.
- **Factors supporting**: Improvement in Eurozone fundamentals
- **Factors against**: Risk aversion, Covid-19 outbreak, ECB introducing further monetary measures

GBP (Neutral-to-Bearish)

- GBP/USD was down by 0.37% on Monday, down to a close of 1.3515 after hitting a low of 1.3452. Dollar resurgence partly contributed to this. We see some near-term correction before a return to the upward trend later this month. This comes as the UK considers need for a tighter lockdown. Support at 1.3360.
- **Factors supporting**: Rapid increase in vaccination rates
- **Factors against**: Risk aversion, Covid-19 outbreak, Bank of England increasing monetary accommodation

JPY (Neutral-to-Bearish)

- USD/JPY gained by 0.31%, to a close of 104.26 on Monday. This was partly due to a strong dollar. The Tokyo lockdown also contributed to bearish expectations on the economic fundamentals. We watch for a 105 resistance.
- **Factors supporting**: BOJ policy, risk aversion
- **Factors against**: Weak fundamentals, Covid-19 outbreaks in Japan

AUD (Neutral-to-Bearish)

- AUD/USD stayed consolidative after dipping from a high of 0.7820 on 6 January. Pair was last around 0.77 big figure, after a 0.77% downward move on Monday. We turn slightly bearish and expect some pullback towards 0.76 support, from dollar strength.
- **Factors supporting**: Fundamentals improve from current levels, export recovery (terms of trade)
- **Factors against**: Risk aversion, RBA policy, Australia-China relations

SGD (Neutral)

- USD/SGD stayed in range movements around the 1.33 big figure, after moving up from the 1.3250 range seen on Friday. We turn neutral, anticipating a range of 1.3250-1.3360 for the pair. Resilient fundamentals may insulate the SGD partly against dollar strength, alongside prior underperformance.
- **Factors supporting**: Economic recovery, CNH strength
- **Factors against**: Risk aversion, global tensions

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