

Global Markets Research

Daily Market Highlights

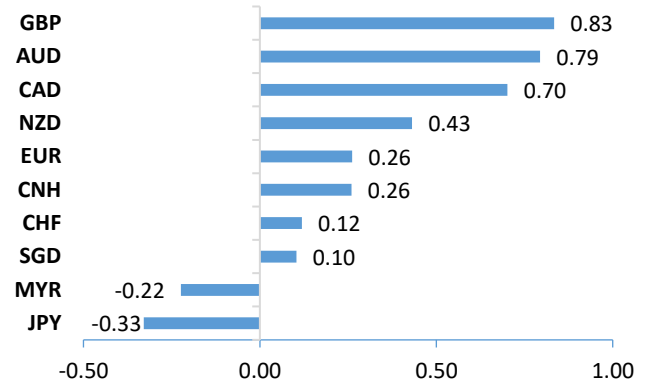
Key Takeaways

- US stocks staged a strong rebound on Friday, recovering from the sell down in the prior session as markets looked past the economic concerns.** All three US' main benchmarks hit record highs, underscoring the resilience of the stock markets, despite investors' recent moves to unwind some reflation trades. The Dow (+1.3%) was the top gainer, followed by the S&P 500 (+1.1%) and NASDAQ (+1.0%). Friday's rally was broad-based - led by the financials and infotech sectors- and left stocks higher for the third consecutive week (+0.3 to +0.4% w/w). **US yields rebounded after dipping for four sessions** as investors sold treasuries and flocked into equities. The 10Y UST yield rose 6.7bps to 1.36% on Friday. Compared to the week before, it was down by 6.4bps.
- The greenback slipped and gold prices advanced further at above \$1800/oz. Futures closed 0.6% higher at \$1810.6/oz, bringing its third consecutive weekly gain at 1.5%. **China's PBOC announced a 50bps cut in its reserve requirement ratio for all banks**, effective 15 July, in a bid to free up roughly 1 trillion yuan in long-term liquidity. The move marked its first reduction since Jan-2020 and will bring the RRR for major banks to 12%. **ECB President Christine Lagarde said that the central bank will change its forward guidance in its next meeting on 22 July** to reflect its new strategy.
- Data were limited. The UK's nominal GDP growth slowed to 0.8% m/m in May and still 3.1% below the pre-pandemic level. China's inflation slipped in June as CPI (+1.1% y/y) and PPI (+8.8% y/y) growths both eased from previous month. Japan's core machinery orders surged 7.8% m/m in May; PPI inflation eased to 5.0% y/y. **The US' earnings season kicks off this week** with major banks releasing their second quarter earnings reports, starting with JP Morgan and Goldman Sachs on Tuesday. Markets also look towards **Fed Chair Jerome Powell's biannual testimony before Congress**.
- DXY was down by 0.31%, as currencies like the GBP and AUD staged a strong rebound against the USD. DXY closed at 92.13 in the process. DXY has come off since peaking at 92.85 on 7 July, but we see some consolidation around 92 levels. Hence, we anticipate some **range movements** (possibly biased on the upside) for the DXY in the upcoming session, awaiting fresh updates. Data focus ahead is on CPI, PPI, Beige Book and retail sales, among others.
- USD/MYR closed at 4.1915 on Friday, its strongest level in nearly 11 months. Last week, the pair gained 0.7% w/w, marking its fourth consecutive weekly gain since mid-June. In the week ahead, despite our weaker view of the greenback, we remain **neutral-to-bearish on MYR**, as we expect some risk aversion to drag on the local unit as markets monitor the development of the current political conundrum. The pair has breached the RSI overbought level at circa 4.19, indicating an imminent pullback; 4.20 is the key psychological resistance. We foresee a weekly range of 4.15-4.20.

Market Snapshots

| | Last Price | DoD % | YTD % |
|--------------------|------------|-------|-------|
| Dow Jones Ind. | 34,870.16 | 1.30 | 13.93 |
| S&P 500 | 4,369.55 | 1.13 | 16.33 |
| FTSE 100 | 7,121.88 | 1.30 | 10.24 |
| Hang Seng | 27,344.54 | 0.70 | 0.42 |
| KLCI | 1,520.58 | 0.79 | -6.55 |
| STI | 3,131.40 | 0.77 | 10.11 |
| Dollar Index | 92.13 | -0.31 | 2.46 |
| WTI oil (\$/bbl) | 74.56 | 2.22 | 53.67 |
| Brent oil (\$/bbl) | 75.55 | 1.93 | 45.98 |
| Gold (\$/oz) | 1,810.60 | 0.58 | -4.60 |
| CPO (RM/tonne) | 3,939.00 | 0.45 | 3.99 |

FX Daily Change vs USD (%)



Source: Bloomberg

Overnight Economic Data

| | | | |
|----|---|----|---|
| US | | CN | |
| JP | → | | → |

Up Next

| Date | Events | Prior |
|-------------------------------|---------------------------------------|--------|
| 12/07 | MA Industrial Production YoY (May) | 50.1% |
| | JP Machine Tool Orders YoY (Jun P) | 141.9% |
| 13/07 | AU NAB Business Confidence (Jun) | 20.0 |
| | US NFIB Small Business Optimism (Jun) | 99.6 |
| | US CPI YoY (Jun) | 5.0% |
| | CN Exports YoY (Jun) | 27.9% |
| 14/07 | CN Imports YoY (Jun) | 51.1% |
| | SG GDP YoY (2Q A) | 1.30% |
| | AU Westpac Consumer Conf Index (Jul) | 107.2 |
| | NZ RBNZ Official Cash Rate (14 Jul) | 0.25% |
| | JP Industrial Production MoM (May F) | -5.9% |
| | UK CPI YoY (Jun) | 2.1% |
| | EZ Industrial Production SA MoM (May) | 0.8% |
| | US MBA Mortgage Applications (09 Jul) | -1.8% |
| US PPI Final Demand YoY (Jun) | 6.6% | |

Source: Bloomberg

Macroeconomics

UK's monthly GDP disappointed in May:

- The UK's nominal GDP growth slowed to 0.8% m/m in May, following a downward revised 2.0% m/m growth in April. This was well below the consensus estimate of 1.5%, but nonetheless marked its fourth consecutive month of growth. Compared to the pre-pandemic level in Feb 2020, output remained 3.1% lower.
- The slowdown reflects the contraction in manufacturing (-0.1%) and construction (-0.8%) output which offset the gains in the services industry (+0.9%). However, the broader industrial production index (including manufacturing) returned to growth (+0.8% vs -1.0% prior), as adverse weather conditions in May boosted output in electricity, gas and air supply.
- The UK's government has decided to go ahead with the full reopening scheduled on 19 July despite covid cases creeping up in the latest wave. In the absence of a lockdown, the economy could continue to recover but consumer wariness may limit the potentials.
- Meanwhile, the UK's goods trade deficit narrowed to £8.5b in May (Apr: -£10.9b) reflecting stronger export performance (+7.1% m/m) as imports fell 1.4% m/m.

China's inflation slipped in June:

- Producer prices inflation eased to 8.8% y/y in June, from the 12-year high in May (+9%). This came as the Chinese government put in place measures to curb commodity prices. The broad-based slowdown in growth may have also contributed to the ease in factory inflation.
- Consumer inflation also came off to 1.1% y/y (May: +1.3%) as pork prices slumped over 36%, indicating that inflation in China has peaked this year.

Japan's core machinery orders surged in May; PPI inflation eased:

- Japan's core machinery orders rose 7.8% m/m in May, after a sluggish growth in April (+0.6% m/m). This beat the consensus estimate of 2.4% and marked its third monthly gain in a row, indicating higher business capex in May. Compared to the same month last year, orders were 12.2% y/y higher (Apr: +6.5%).
- Factory gate inflation in Japan eased in June, coming off from the peak in May. The producer prices index rose 0.6% m/m in June, easing from the 0.8% increase in May. The y/y rate also retreated to 5.0%, from the upwardly revised 5.1% in May.

Forex

MYR (Neutral-to-Bearish)

- USD/MYR closed at 4.1915 on Friday, its strongest level in nearly 11 months. Last week, the pair gained 0.7% w/w, marking its fourth consecutive weekly gain since mid-June. In the week ahead, despite our weaker view of the greenback, we remain neutral-to-bearish on MYR, as we expect some risk aversion to drag on the local unit as markets monitor the development of the current political conundrum. The pair has breached the RSI overbought level at circa 4.19, indicating an imminent pullback; 4.20 is the key psychological resistance. We foresee a weekly range of 4.15-4.20.

USD (Neutral-to-Bullish)

- DXY was down by 0.31%, as currencies like the GBP and AUD staged a strong rebound against the USD. DXY closed at 92.13 in the process. DXY has come off since peaking at 92.85 on 7 July, but we see some consolidation around 92 levels. Hence, we anticipate some range movements (possibly biased on the upside) for the DXY in the upcoming session, awaiting fresh updates. Data focus ahead is on CPI, PPI, Beige Book and retail sales, among others.

EUR (Neutral-to-Bearish)

- EUR/USD was up by 0.26% on Friday's session, recovering to a weekly close of 1.1876 after a weekly low of 1.1782. This was on the back of depressed levels following ECB's increase of inflation target. We see slight downsides. Technical indicators point downward. We place support at 1.1710 and resistance close to 1.2000. Industrial production and CPI are upcoming data releases.

GBP (Neutral)

- GBP/USD rose by 0.83% to a close of 1.3901 on Friday's session. This was supported by announcements that the UK will go ahead with full reopening on 19 July. We see some range movements for the session ahead, after the prior rally. We see a range of 1.3626 to 1.3924. Technical downside momentum remains significant. Focus shifts towards CPI and PPI data.

JPY (Neutral-to-Bearish)

- USD/JPY rebounded after a week of downward movements. Pair was up by 0.33% to close at 110.14. We see further upsides, with pair likely to trade within 108.77 to 111.04. Focus shifts to Bank of Japan policy decision on 16 July, where it is likely to stay relatively less hawkish than other central banks.

AUD (Neutral-to-Bearish)

- AUD/USD was up by a significant 0.79%, taking back prior day's losses. This brought the pair to a weekly close of 0.7788. Authorities said on Sunday that Covid-19 curbs will be extended in Sydney, as the cases from delta variant climb. We see slight downsides for AUD/USD for the upcoming session. Momentum is strong on the downside. We estimate a weekly range around 0.7307 to 0.7530. Data focus is on employment change for June.

SGD (Neutral-to-Bearish)

- USD/SGD touched an intraday high of 1.3555 on Friday's session before easing to a 1.3511 close. This brought the pair slightly down for the session. We stay slightly bearish on SGD strength, given Asian currency weaknesses and Covid-19 outbreaks in the region. Singapore and Australia's travel bubble is delayed until at least the end of the year. Pair is likely to mostly trade within a range of 1.3445 and 1.3651. Resistance at 1.3600 for further upsides. Data focus is on advance estimates of 2Q GDP and non-oil domestic exports.

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