13 July, 2021

HongLeong Bank

Global Markets Research

Daily Market Highlights

Key Takeaways

- **US stocks continued to gain grounds on Monday, buoyed by optimism surrounding the upcoming corporate earnings season, which overshadowed concerns over virus variants and global recovery prospects, for now.** The Dow and S&P500 advanced 0.4% while the NASDAQ rose a more modest 0.2%, led by financials and communication services. **US treasuries yields saw more muted increases** of only 0.5-1.4bps (prior day 2-7bps increase) reflecting some support in UST despite record high stock levels and sizeable debt sale. The US Treasury sold $58bn 3Y notes at a high yield of 0.43% with a decent BTC of 2.41x (prior 2.47x) followed by $58bn 10Y reopening, which fetched a high yield of 1.37% at a lower BTC of 2.39x (prior 2.58x). The benchmark 10Y note yield settled little changed at 1.36% for the day.

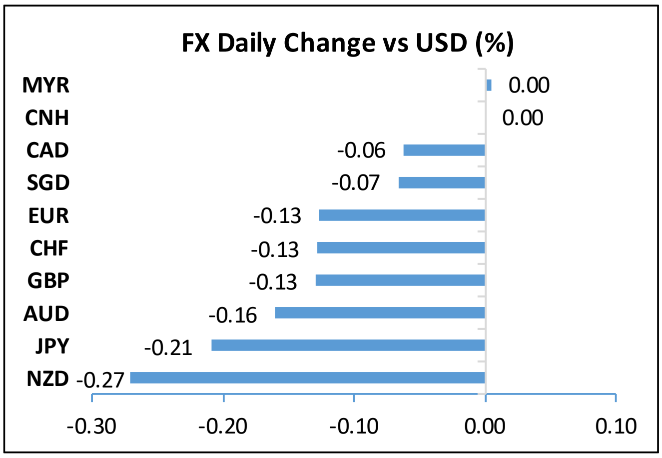
- **The USD strengthened against all G10s, the most vs commodity currencies and JPY.** The DXY advanced again after consolidating in the last two trading days, by 0.1% to 92.26. On the commodity front, **gold futures softened** amid paring of haven demand while **oil prices settled 0.5-0.6% lower** on concerns over demand outlook. The Brent and WTI last traded at $75.16 and $74.10/ barrel respectively. Tracking the overnight gain in US stocks, **futures point to higher opening in Asian markets today, ahead of earnings releases by major banks JP Morgan and Goldman Sachs. Markets will also closely watch upcoming US CPI due tonight for more clues on the transitory nature of inflation.**

- DXY rose after two sessions of weaknesses, up by 0.14% to a close of 92.26. Dollar strength is driven by economic outperformance, albeit at some stretched levels already. 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 flat at 4.1915 on Monday, hovering near its strongest level in nearly 11 months. Risk aversion will likely take center stage for the time being given fluidity of the situation domestically, hence reaffirming our **neutral-to-bearish view on MYR.** The pair remains at overbought level, indicating an imminent pullback before further upmove. We foresee a weekly range of 4.15-4.20, with upside capped by the 4.20 key psychological resistance.

Market Snapshots

	Last Price	DoD %	YTD %
Dow Jones Ind.	34,996.18	0.36	14.34
S&P 500	4,384.63	0.35	16.73
FTSE 100	7,125.42	0.05	10.29
Hang Seng	27,515.24	0.62	1.04
KLCI	1,512.89	-0.51	-7.03
STI	3,147.14	0.50	10.67
Dollar Index	92.26	0.14	2.58
WTI oil ($/bbl)	74.10	-0.62	52.72
Brent oil ($/bbl)	75.16	-0.52	45.10
Gold (S/oz)	1,805.90	-0.26	-4.65
CPO (RM/tonne)	4,002.00	1.60	5.65



Source: Bloomberg

Overnight Economic Data			
JP	↓	Malaysia	↓
NZ	→		

Up Next

Date	Events	Prior
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%
	CN Imports YoY (Jun)	51.1%
14/07	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

Malaysia's data saw more moderate gains in May:

- Industrial production registered a slower growth of 26.0% y/y in May (Apr: +50.1%), better than our expectations (+23.8%) but below market consensus estimate (+28.0%). This was due to normalizing growth in manufacturing and electricity production which more than offset the pick-up in mining.
- Wholesale & retail trade also witnessed a similar trajectory, with growth pulling back to 28.3% y/y in May (Apr: +66.2%).
- MOM, IPI and wholesale & retail trade contracted 3.4% and 2.5% respectively, and is poised to weaken further in June amid tighter containment measures with more economic sectors being adversely impacted nationwide. We expect industrial production and wholesale & retail sales data to turn contractionary in June and recover gradually as and when more economic sectors are reopen.

Japan's machine tool orders normalized in June:

- Machine tool orders grew at a more moderate pace of 96.6% y/y in June, normalizing from the 141.9% y/y increase seen in May. Overall outlook for business spending remains sanguine. Orders increased 6.6% m/m, its best gain in three months, driven by a 34.7% m/m rebound in domestic orders, offsetting the 3.7% m/m decline in foreign orders.

Housing sales moderated but food prices spiked in New Zealand:

- REINZ house sales pulled back sharply to increase only 6.2% y/y in June (May: +81.4% y/y), distorted by base effect and as lesser supply curbed sales. The housing market remains healthy overall. Median house prices continued to sustain double-digit gain, rising 28.7% y/y during the month.
- The gain in food prices more than tripled to 1.4% m/m in June (May: +0.4% m/m), its fastest in 17 months. This was driven by a sharp increase in food staples namely fruits and vegetables (+9.4%), followed by meat, poultry and fish (+1.0%), pointing to potential inflationary pressure.

Forex

MYR (Neutral-to-Bearish)

- USD/MYR closed flat at 4.1915 on Monday, hovering near its strongest level in nearly 11 months. Risk aversion will likely take center stage for the time being given fluidity of the situation domestically, hence reaffirming our neutral-to-bearish view on MYR. The pair remains at overbought level, indicating an imminent pullback before further upmove. We foresee a weekly range of 4.15-4.20, with upside capped by the 4.20 key psychological resistance.

USD (Neutral-to-Bullish)

- DXY rose after two sessions of weaknesses, up by 0.14% to a close of 92.26. Dollar strength is driven by economic outperformance, albeit at some stretched levels already. 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 saw slight downsides on Monday's session. This mirrored the move from the dollar, down 0.13% to a close of 1.1861. We see slight downsides for the upcoming session. Technical indicators point downward. We place support at 1.1710 and resistance close to 1.2000. Industrial production and CPI are the upcoming data releases.

GBP (Neutral)

- GBP/USD was down by 0.13% to a close of 1.3883, consolidating after prior session's outperformance against the dollar. We see some range movements for the session ahead, after the prior rally. We see a range of 1.3626 to 1.3924. Downside momentum is only slightly fading, according to technical indicators. Focus shifts towards CPI and PPI data.

JPY (Neutral-to-Bearish)

- USD/JPY was up a second consecutive session, by 0.21% to close at 110.37. We see further upsides, with pair likely to trade within 108.77 to 111.04. This comes as machine tool orders grew 6.6% m/m, supported by domestic orders. 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 came off from Friday's rally, slightly retreating by 0.16% to a close of 0.7476. We continue to see slight downsides for AUD/USD for the upcoming session. Momentum is strong on the downside. We estimate a range around 0.7307 to 0.7530. Data focus is on employment change for June.

SGD (Neutral-to-Bearish)

- USD/SGD stayed in a bid tone after Friday's retreat. Pair was up by 0.07% to close at 1.3520, close to the 1-week high. We stay slightly bearish on SGD strength, given Asian currency weaknesses and Covid-19 outbreaks in the region. Pair is likely to mostly trade within a range of 1.3445 and 1.3651. Resistance at 1.3600 for further upsides. Week ahead data focus is on advance estimates of 2Q GDP and non-oil domestic exports.

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