Global Markets Research

Daily Market Highlights

Key Takeaways

- **US stocks ended generally higher** overnight ahead of the US House of Representatives' vote to impeach President Trump for inciting the Capitol Hill violence last week. **The House voted to impeach Trump shortly after the market closed**, making him the first US president in history to have been impeached twice. The President faces a Senate trial next but Republican Senate Majority Leader Mitch McConnell said that the chamber is unlikely to convene for now i.e. the trial is delayed until after the Biden inauguration. The Dow Jones was little changed, while the S&P500 and NASDAQ picked up modest 0.2% and 0.4% respectively. With just days left before Trump ends his term, **investors have largely disregarded the impeachment, and instead focus on the incoming administration's promise to offer additional fiscal stimulus.**

- **US Treasury yields retreated substantially as the Treasury Department completed this week's auctions of $120b government debts.** The sales of $24b 30Y bond drew strong demand, driving down overall yields by 0.2 to 5.6bps that have jumped in the last week. **Gold futures extended the indecisive trend,** rebounding 0.6% to $1854.9/oz. **Crude oil prices pulled back from nearly-eleven-month highs amid stronger USD** while reports on higher supply of refined products overshadowed falling crude inventories. US benchmark WTI snapped a six-day gaining streak to close 0.6% lower at $52.91/barrel; Brent settled 0.9% lower at $56.06/barrel.

- **Overnight dataflow all turned out on the positive side.** US' CPI inflation rose to four-month high of 0.4% m/m, thanks to surge in gasoline prices. Eurozone's industrial production recorded a 2.5% m/m increase, reflecting overshooting of Ireland's output. Japan's core machine orders beat estimate with 1.5% m/m growth, suggesting some resilience in investment.

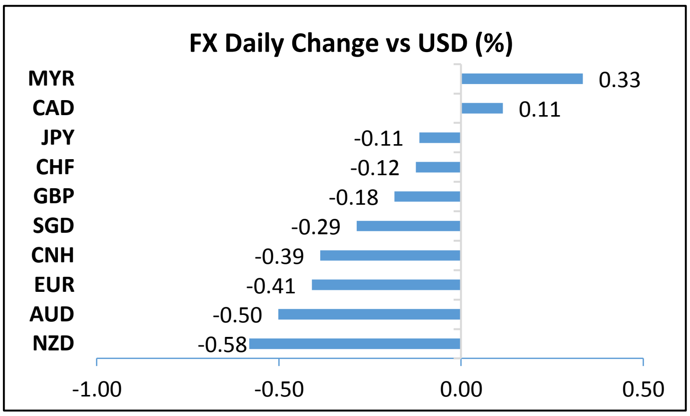
- **DXY** was 0.3% higher on Wednesday, continuing on an upward trend seen since a week ago. This brought DXY to a close of 90.36. We stay **slightly bullish** on modest dollar gains near-term, given some uncertainty on events (Trump's impeachment and Biden's inauguration). T-bills have eased from recent highs, possibly a drag on dollar strength in the coming weeks.

- **USD/MYR** retreated modestly as expected on Wednesday, recording 0.3% d/d losses to 4.0430. We remain **neutral** on the pair on a daily basis, as the broad USD made a minor come back overnight following stronger US CPI data. No change to expected weekly range of 4.03-4.07.

Market Snapshots

	Last Price	DoD %	YTD %
Dow Jones Ind.	31,060.47	-0.03	1.48
S&P 500	3,809.84	0.23	1.43
FTSE 100	6,745.52	-0.13	4.41
Hang Seng	28,235.60	-0.15	3.69
KLCI	1,636.69	1.53	0.58
STI	2,977.51	0.01	4.70
Dollar Index	90.36	0.29	0.46
WTI oil ($/bbl)	52.91	-0.56	9.05
Brent oil ($/bbl)	56.06	-0.92	8.22
Gold (S/oz)	1,854.90	0.58	-2.46
CPO (RM/tonne)	3,936.00	-0.64	3.91

Source: Bloomberg



Source: Bloomberg

Up Next

14/01	US Initial Jobless Claims (09 Jan)	787k
	US Import Price Index YoY (Dec)	-1.0%
	CH Exports YoY (Dec)	21.1%
	CH Imports YoY (Dec)	4.5%
15/01	AU Home Loans Value MoM (Nov)	0.70%
	UK Industrial Production MoM (Nov)	1.30%
	UK Visible Trade Balance GBP/Mn (Nov)	-
	UK Monthly GDP (3M/3M) (Nov)	10.20%
	EC Trade Balance SA (Nov)	25.9b
	US PPI Final Demand MoM (Dec)	0.10%
	US Empire Manufacturing (Jan)	4.9
	US Retail Sales Advance MoM (Dec)	-1.10%
	US Industrial Production MoM (Dec)	0.40%
	US U. of Mich. Sentiment (Jan P)	80.7

Source: Bloomberg

Macroeconomics

- ***Stronger US inflation stoked by higher gasoline prices:***
  - Headline consumer price index rose 0.4% m/m in December (Nov: +0.2%), matching consensus estimate and was the fastest monthly rate in four months. This reflects a sharp rise in the energy basket (+4.0% vs 0.4% m/m) as prices of gasoline jumped 8.4% m/m, contributing substantially to overall increase in CPI. Stripping off food and energy, the core CPI rate eased to 0.1% m/m (Nov: +0.2%), implying at weak underlying inflation. The annual CPI inflation accelerated to 1.4% y/y (Nov: +1.2%); core CPI rate was steady at 1.6% YOY.
  - In a separate report, US mortgage applications jumped by 16.7% last week (prior: +1.7%). Both refinancing (+20.1%) and purchases (+8.0%) rose sharply, despite higher interest rates (higher treasury yields). MBA said that "sustained housing demand continued to support purchase growth, with activity up nearly 10 percent from a year ago".

- ***Eurozone's rosy headline IPI masked weaker regional conditions:*** Headline industrial production growth accelerated 2.5% m/m in November (Oct: +2.3%), extending the ongoing growing streak to seven-month long and translating to a smaller 0.6% y/y decline (Oct: -3.5%). This reflects mainly the nearly 53% m/m surge in Ireland's output while other key economies (Spain, France and Italy) recorded lower production. Germany's output growth also eased considerably to 0.8% m/m (Oct: +3.7%), indicating weaker outlook in the coming months.

- ***Japan core machinery orders defied expectation:*** Japan core machine orders rose 1.5% m/m in November, beating consensus forecast that called for a 6.5% decline following an outstanding 17.1% growth in the prior month. This suggests some resilience in Japan's investment despite surging Covid-19 cases in November but we take note of the volatile nature of the data.

Forex

MYR (Neutral)

- USD/MYR retreated modestly as expected on Wednesday, recording 0.3% d/d losses to 4.0430. We remain neutral on the pair on a daily basis, as the broad USD made a minor come back overnight following stronger US CPI data. No change to expected weekly range of 4.03-4.07.
- **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 was 0.3% higher on Wednesday, continuing on an upward trend seen since a week ago. This brought DXY to a close of 90.36. We stay slightly bullish on modest dollar gains near-term, given some uncertainty on events (Trump's impeachment and Biden's inauguration). T-bills have eased from recent highs, possibly a drag on dollar strength in the coming weeks.
- **Factors supporting**: Higher yields, Democrat sweep reducing reliance on monetary policy, risk aversion, Global tensions
- **Factors against**: Ultra-easy Fed policy to continue, economic recovery, vaccination

EUR (Neutral-to-Bearish)

- EUR/USD was down with a low of 1.2140 on Wednesday, although it closed slightly higher at 1.2157. 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 0.2% on Wednesday, down to a close of 1.3639 after hitting a low of 1.3452. This came after a recent rally since 11 January which brought a high of 1.3701. We watch for a 1.3490-1.3704 range for now.
- **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 was initially moving downwards on Wednesday, hitting a low of 103.53. However, pair rebounded to 104 and closed at 103.89 after Japan announced extensions to its lockdown policy as Covid-19 cases surged. We watch for a 103.60-104.45 resistance.
- **Factors supporting**: BOJ policy, risk aversion
- **Factors against**: Weak fundamentals, Covid-19 outbreaks in Japan

AUD (Neutral-to-Bearish)

- AUD/USD came off by 0.5% on Wednesday, as oil prices dipped. Pair was down to a low of 0.7722 and close of 0.7733. We stay slightly bearish and expect some pullback towards 0.76 support, from dollar strength. Resistance at 0.7810.
- **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 headed up by 0.3% on Wednesday, before some consolidation around the 1.3260 area. Pair had an intraday range of 1.3217-1.3274. We are neutral, anticipating a range of 1.3215-1.3320 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, potential deterioration in Singapore fundamentals

Hong Leong Bank Berhad
Fixed Income & Economic Research, Global Markets
Level 8, Hong Leong Tower
6, Jalan Damanlela
Bukit Damansara
50490 Kuala Lumpur
Tel: 603-2081 1221
Fax: 603-2081 8936
Email: HLMarkets@hlbb.hongleong.com.my