

Global Markets Research

Daily Market Highlights

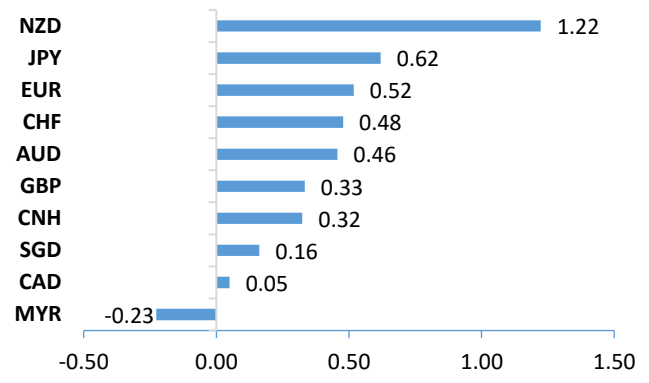
Key Takeaways

- US stock benchmarks ended on a mixed note** on Wednesday. The Dow Jones and S&P 500 both eked out modest gains of 0.1% in an indecisive session marked by swings between gains and losses while NASDAQ closed 0.2% lower. **Nearly all S&P 500 sectors recorded gains, led by financial stocks** after a slew of positive earnings reports from banks (Bank of America, Citigroup and Wells Fargo beat expectations). Energy shares fell as oil prices slumped. **Fed Chair Jerome Powell testified before the House Financial Services Committee and maintained the view that the rising inflation was temporary. He said that the Fed would certainly act if inflation turned materially higher than expected, but stressed that tapering was still “ways off”.**
- US yields retreated sharply** (-3bps to -7.6bps) from the previous session’s jump on Powell’s remark. The yield on 10Y UST fell 7.1bps to 1.35%. **The US dollar retreated** alongside the lower yields, leading the DXY to close 0.4% lower. Leading the pack was **NZD** which **soared 1.2% after the RBNZ surprised markets with an announcement to stop QE by next week. The CAD was little changed despite the BOC’s widely expected third tapering move.** On the commodity front, gold prices rallied amid a weaker dollar. Spot gold jumped over 1% while futures picked up 0.8% to \$1825/oz. **Crude oil prices plunged after OPEC came closer to resolving its internal deadlock with the UAE which likely leads to an agreement that allows the latter to boost its output more considerably.** Brent crude fell 2.3% to \$74.76/barrel.
- US Fed’s Beige Book reported that the US economy displayed “moderate to robust” growth. PPI inflation surged to record high of 7.3% y/y.** The Eurozone’s industrial production fell 1.0% m/m in May while the UK’s CPI rose 0.5% m/m in June, easing from the 0.6% growth prior. Japan’s industrial production was revised lower to -6.5% m/m. Australia’s consumer confidence improved.
- The USD headed lower after prior surges to highs of 92.83 a day earlier. DXY closed at 92.41 on Wednesday’s session, which is 0.37% d/d lower. This came after Fed Chair Jerome Powell’s testimony, which retained the transitory inflation outlook, and a long way to go before tapering. At this stage, we see some **upsides**, even as the USD enters overbought territory. After CPI data, market focus turns to initial jobless claims, and retail sales.
- USD/MYR closed 0.2% higher at 4.2015, a level last seen in August last year as MYR weakened alongside most of its Asian counterparts against the USD. Domestic issues also played a role as markets turned risk-off over the deteriorating pandemic situation in Malaysia. **USD/MYR remains overall bullish**; a close above the 4.20 psychological level would lead the pair towards the 4.23 handle but we expect some pullback at the currently overbought level.

Market Snapshots

| | Last Price | DoD % | YTD % |
|--------------------|------------|-------|-------|
| Dow Jones Ind. | 34,933.23 | 0.13 | 14.14 |
| S&P 500 | 4,374.30 | 0.12 | 16.46 |
| FTSE 100 | 7,091.19 | -0.47 | 9.76 |
| Hang Seng | 27,787.46 | -0.63 | 2.04 |
| KLCI | 1,512.32 | -0.48 | -7.06 |
| STI | 3,153.15 | -0.43 | 10.88 |
| Dollar Index | 92.41 | -0.37 | 2.75 |
| WTI oil (\$/bbl) | 73.13 | -2.82 | 50.72 |
| Brent oil (\$/bbl) | 74.76 | -2.26 | 44.32 |
| Gold (\$/oz) | 1,825.00 | 0.83 | -3.60 |
| CPO (RM/tonne) | 4,037.00 | 0.80 | 6.57 |

FX Daily Change vs USD (%)



Source: Bloomberg

Overnight Economic Data

| | | | |
|----|---|----|---|
| US | ↑ | EZ | ↓ |
| UK | ↑ | JP | ↓ |

Up Next

| Date | Events | Prior |
|-------|--|--------|
| 15/07 | AU Employment Change (Jun) | 115.2k |
| | AU Unemployment Rate (Jun) | 5.1% |
| | CN GDP YoY (2Q) | 18.3% |
| | CN Retail Sales YoY (Jun) | 12.4% |
| | CN Industrial Production YoY (Jun) | 8.8% |
| | CN Fixed Assets Ex Rural YTD YoY (Jun) | 15.4% |
| | UK ILO Unemployment Rate 3Mths (May) | 4.7% |
| | UK Employment Change 3M/3M (May) | 113k |
| | US Empire Manufacturing (Jul) | 17.4 |
| | US Philadelphia Fed Business Outlook (Jul) | 30.7 |
| 16/07 | US Initial Jobless Claims (10 Jul) | 373k |
| | US Industrial Production MoM (Jun) | 0.8% |
| | NZ CPI YoY (2Q) | 1.5% |
| | JP BOJ Policy Balance Rate (16 Jul) | -0.1% |
| | EZ Trade Balance SA (May) | 9.4b |
| | EZ CPI YoY (Jun F) | 2.0% |
| | US Retail Sales Advance MoM (Jun) | -1.3% |

Source: Bloomberg

Macroeconomics

RBNZ to end bond buying by next week:

- The RBNZ unexpectedly said that it would reduce monetary stimulus starting from next week. It said it would halt the additional asset purchases under its Large-Scale Asset Purchase (LSAP) program by 23 July. The OCR was kept at 0.25%.
- RBNZ's move caught market by surprise as many had not predicted the central bank to end its QE program this soon. Its economic assessment was very positive, mentioning that New Zealand's "aggregate economic activity is above its pre-COVID-19 level". "New Zealand economy remains robust despite international border restrictions".
- It said there would be a near-term spike in CPI inflation in 2Q and 3Q and foresee more persistent inflation pressure over time, but said that "uncertainties remain as to the pace and magnitude of any pass-through of costs onto medium term inflation".
- The minutes showed that officials agreed that "further asset purchases under the LSAP programme were no longer necessary for monetary policy purposes". The OCR is the "preferred tool" when responding to economic conditions in the future. They also agreed that some monetary stimulus remains necessary to best ensure CPI inflation will be sustained at the 2% target midpoint, and that employment is at its maximum sustainable level.

US Fed's Beige Book showed moderate to robust US economy; PPI inflation soared to record high:

- The latest Fed Beige Book reported that the US economy displayed "moderate to robust" growth from late May to early July. Inflation was rampant as seven districts reported strong price growth while the rest saw moderate gains. Price pressures grew more "acute" in the hospitality sector. Labour shortage remained a widespread issue, resulting in some firms delaying expansion or scaling back services due to understaffing.
- Meanwhile, the US' producer price inflation jumped 1.0% m/m in June (May: +0.8%), bringing the y/y rate to a whopping 7.3% (May: +6.6%), in yet another display of surging price pressures across the US. This is the largest gain the index has ever recorded in its history.
- The MBA mortgage applications rose 16.0% w/w (prior: -1.8%) after slipping for two successive weeks. Refinancing applications (+20.4%) outweighed purchases applications (+8.3%) amid generally lower mortgage rates.

Eurozone's industrial output fell in May:

- The Eurozone's industrial production fell 1% m/m in May (Apr: +0.6%) as supply chain delay capped potential growth in output despite stronger reopening-related demand. Production fell in all key categories of goods, except durable consumer goods.

UK's annual inflation rose to 2.5% in June:

- The UK's CPI rose 0.5% m/m in June, easing from the 0.6% growth prior. Prices of all goods and services continued to increase last month, supported by the post lockdown pent-up demand. On a year-on-year basis, inflation accelerated to 2.5% (May: +2.1%) driven by the low base effect. This was the index' sharpest gain since Aug 2018. The core CPI rate also rose to 2.3% (May: +2.0%).

Forex

MYR (Neutral-to-Bearish)

- USD/MYR closed 0.2% higher at 4.2015, a level last seen in August last year as MYR weakened alongside most of its Asian counterparts against the USD. Domestic issues also played a role as markets turned risk-off over the deteriorating pandemic situation in Malaysia. USD/MYR remains overall bullish; a close above the 4.20 psychological level would lead the pair towards the 4.23 handle but we expect some pullback at the currently overbought level.

USD (Neutral-to-Bullish)

- The USD headed lower after prior surges to highs of 92.83 a day earlier. DXY closed at 92.41 on Wednesday's session, which is 0.37% d/d lower. This came after Fed Chair Jerome Powell's testimony, which retained the transitory inflation outlook, and a long way to go before tapering. At this stage, we see some upsides, even as the USD enters overbought territory. After CPI data, market focus turns to initial jobless claims, and retail sales.

EUR (Neutral-to-Bearish)

- EUR/USD recovered by 0.52% d/d to close at 1.1837. This was helped by Powell's calmness in his outlook assessment, even as PPI climbed higher. We still anticipate downside pressures for the upcoming session, as technical indicators point downward. We place support at 1.1710 and resistance close to 1.1890. Industrial production fell in May and CPI is up next.

GBP (Bearish)

- GBP/USD was up by 0.33%, closing at 1.3860. We stay more bearish on the pound, on potential weakness after Covid-19 cases spike. We see a range of 1.3626 to 1.3924. Downside momentum is persisting, according to technical indicators. Focus shifts towards PPI data.

JPY (Neutral-to-Bearish)

- USD/JPY fell below the 110 mark after prior upward movements. Pair reached a close of 109.97 after an intraday high of 110.70. This was a significant 0.6% d/d lower. Still, we see upsides, with pair likely to trade within 109.50 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 recovered by 0.46%, with a 0.7481 close. Pair has been hovering around 0.74-0.75 ranges since 8 July, albeit with some volatility. This came after RBNZ took a hawkish stance, causing some AUD weakness compared to NZD. We continue to see slight downsides for AUD/USD for the upcoming session. Momentum is biased 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 reached a high of 1.3579 on 14 July but pulled back thereafter to a 1.3531 close. We turn bearish on the SGD, due to some deterioration in the Covid-19 situation which may deter further reopening or cause some restrictions to return. GDP growth came in as expected, hence did not drive pair significantly. Resistance is at 1.3600, with support at 1.3490.

Japan's May industrial production revised lower:

- Japan's industrial production fell 6.5% m/m in May (Apr: +2.9%) according to a final reading, more than the initially estimated decline of 5.9% m/m. This came as the State of Emergency was extended and expanded to additional prefectures in Japan and followed two months of consecutive growth.

Australia's consumer confidence improved in July:

- Australia's Westpac Consumer Confidence Index rebounded 1.5% m/m in July, from the sharp fall of 5.2% in June. Consumer confidence improved this month from the lockdown-related decline seen in June as consumers upgraded their views over current conditions and the one-year ahead family finances. This was despite the fact that Sydney remains in lockdown to contain the Delta variant.

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