16 June, 2021

Global Markets Research

Daily Market Highlights

Key Takeaways

- **US' stocks pulled back from record highs** overnight as a series of mixed US data spurred the selling of some risk assets just ahead of the FOMC decision. **May's retail sales came in lower while the higher producer prices stoked concerns that firms may pass more costs to consumers.** The Dow Jones posted a second day of loss (-0.3%) while the S&P 500 saw a more modest decline (-0.2%) despite the selling of tech and consumer stocks, thanks to the sharper increase in energy shares. NASDAQ fell 0.7%. Treasury yields were little changed, closing within 1 bp-difference across the curve as the market awaited the Fed's decision. The yield on the benchmark 10Y UST was last seen at 1.49% on Tuesday.

- **The greenback saw another session of mixed performances while gold prices extended declines to the third session amid lacklustre demand for safe haven assets.** Futures were down by 0.5% to $1854.5/oz. **The rally in crude oil prices gained more momentum, propelling prices to highest since Oct-2018** as markets expected strong oil demand. The API announced 8.5mil barrels of withdrawals in the US' crude inventory last week in the after-hours. Brent crude rose 1.6% to near $74/barrel while WTI advanced 1.8% to $72.12/barrel. **The spotlight is on the FOMC statement and the accompanying quarterly rate forecasts i.e., the dot plot alongside the revised economic projections, on top of any clues on tapering talks.** Fed Chair Jerome Powell will also speak to the press after the decision.

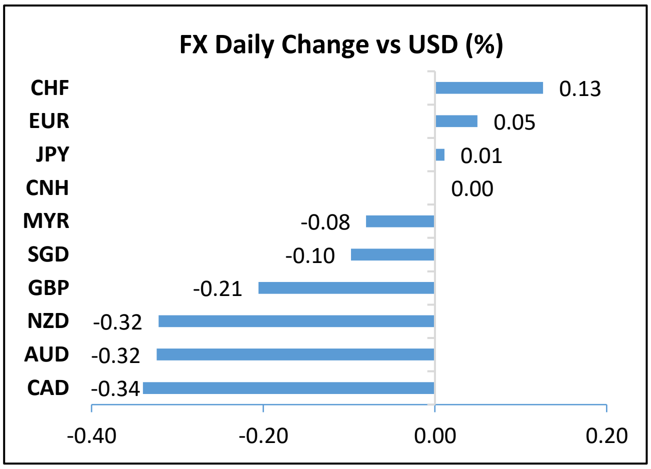
- **Economic releases turned out to be a mixed bag.** US' retail sales fell 1.3% m/m in May while industrial production rose 0.8%. PPI inflation also gained 0.8% m/m. Homebuilding confidence turned lower in June. The UK's job report showed strengthening labour conditions as unemployment rate fell to 4.7% but the real picture of job market remained masked by the furlough program. The Eurozone's trade surplus narrowed to €9.4b; its 4M21 trading volume with the UK remained lower compared to last year. Japan's exports rose 49.6% y/y in May (Apr: +38%), outpacing the import growth of 27.9% y/y.

- DXY was steady ahead of FOMC decision, closing at 90.54. Retail sales came in below expectations, but PPI was rising above expectations, leading y/y numbers to a 6.6% expansion. Post-FOMC reaction may vary depending on market reaction towards any announcements, or non-announcements. We look for **slight USD gains**, particularly if there is talk of tapering.

- USD/MYR closed on a flattish note, at 4.1175 on Tuesday. We continue to expect more **neutral** trading ahead of key events. The market is unlikely to pay heed to the PM's recent unveiling of a phase-by-phase reopening plan for the remainder of 2021. We eye support at 4.1055 and resistance at 4.1200, while maintaining a weekly range of 4.09-4.13.

Market Snapshots

	Last Price	DoD %	YTD %
Dow Jones Ind.	34,299.33	-0.27	12.07
S&P 500	4,246.59	-0.20	13.06
FTSE 100	7,172.48	0.36	11.02
Hang Seng	28,638.53	-0.71	5.17
KLCI	1,581.37	-0.07	-2.82
STI	3,174.87	0.69	11.64
Dollar Index	90.54	0.02	0.67
WTI oil ($/bbl)	72.12	1.75	48.64
Brent oil ($/bbl)	73.99	1.55	42.84
Gold (S/oz)	1,854.50	-0.51	-2.14
CPO (RM/tonne)	3,471.50	1.57	-8.36



Source: Bloomberg

Overnight Economic Data

US	→	EZ	↓
UK	↑	JP	↑

Up Next

Date	Events	Prior
16/06	AU Westpac Leading Index MoM (May)	0.2%
	CH Retail Sales YoY (May)	17.7%
	CH Industrial Production YoY (May)	9.8%
	CH Fixed Assets Ex Rural YTD YoY (May)	19.9%
17/06	US FOMC Rate Decision (16 Jun)	0-0.25%
	NZ GDP SA QoQ (1Q)	-1.0%
	SG Non-oil Domestic Exports YoY (May)	6.0%
	AU Employment Change (May)	-30.6k
	AU Unemployment Rate (May)	5.5%
	EZ CPI YoY (May F)	1.6%
	US Philadelphia Fed Business Outlook	31.5
	US Initial Jobless Claims (12 Jun)	--
	US Leading Index (May)	1.6%

Source: Bloomberg

Macroeconomics

US' retail sales fell in May as consumers shifted spending behaviours:

- Retail sales fell 1.3% m/m in May, compared to the expected decline of 0.8%. This showed the stimulus effects which had boosted consumer spending in March during the economic reopening, had faded. Nonetheless, the lower spending came after the previous month's sales were revised upwards substantially from 0% to 0.9% m/m, an early sign that consumers are normalising spending patterns.
- Consumers also shifted their spending from goods such as motor vehicles, furniture and electronics to experience-based items such as dining in, food & beverages and health & personal care. Sales of clothing rose as individuals shopped for post-lockdown outfits.

Mixed readings of US' manufacturing data:

- Industrial production rose 0.8% m/m in May, but April's output growth was revised down to a mere 0.1% m/m. Production in May was driven by manufacturing goods (+0.9%) thanks to the large gain in motor vehicle assemblies. The output excluding motor vehicles & parts rose 0.5%, reflecting the broad-based gains in factory output nationwide. Despite that, May's output was still 1.4% lower compared to the pre-pandemic level in February last year. Capacity utilisation rose 0.6ppts in May, but was still below its long run average, suggesting that the ongoing supply chain bottlenecks may have constrained growth.
- The raw material shortage and the supply chain delay have also ramped up prices of finished goods charged by firms, which may be passed to consumers. The separate release of the producer prices report showed that prices rose 0.8% m/m in May (Apr: +0.6%), beating estimates of 0.5%. This represents a 6.6% y/y gain compared to the same month last year.
- Meanwhile, the New York Fed's Empire State Manufacturing Index fell for the second month to 17.4 in June (May: 24.3) as prices paid, new orders, work hours and employment rose at easier paces compared to the previous month.

US homebuilding sentiment pulled back in June:

- Homebuilding confidence in the US slipped in June as the NAHB Housing Market Index fell to 81, from 83 prior. This reflects builders' less optimistic perception over sales of single-family homes in the present time and future. They also saw less traffic for prospective buyers. The shortage of raw materials and the resulting higher costs of constructions are current challenges faced by developers as they race to fulfil the strong housing demand. Having said that, the recent fall in prices of lumber suggests that conditions may improve in coming months.

Economic reopening boosted job gains in the UK:

- The UK economy added an average of 113k jobs in the three months to April (Prior: +84k), missing the consensus forecast of 135k gains. This reflects the fourth successive increase in full-time employment, while part-time jobs continued to fall.
- The unemployment rate fell to 4.7% in the same period (prior: 4.8%), matching expectations. The jobless claims, a timelier indicator, fell for the third consecutive month, by 92.6k in May (Apr: -55.8k). All data point to strengthening of the labour market as the UK gradually opened up its sector in that period of time when Covid-19 cases went down substantially. Nonetheless, the underlying condition of the job market remained masked by the job retention scheme which expires in September this year. The UK has postponed the full lifting of its restriction by a month from 21 June to 19 July given the recent rise in new Covid cases.

Forex

MYR (Neutral)

- USD/MYR closed on a flattish note, at 4.1175 on Tuesday. We continue to expect more neutral trading ahead of key events. The market is unlikely to pay heed to the PM's recent unveiling of a phase-by-phase reopening plan for the remainder of 2021. We eye support at 4.1055 and resistance at 4.1200, while maintaining a weekly range of 4.09-4.13.

USD (Neutral-to-Bullish)

- DXY was steady ahead of FOMC decision, closing at 90.54. Retail sales came in below expectations, but PPI was rising above expectations, leading y/y numbers to a 6.6% expansion. Post-FOMC reaction may vary depending on market reaction towards any announcements, or non-announcements. We look for slight gains, particularly if there is talk of tapering.

EUR (Neutral-to-Bearish)

- EUR/USD was up by 0.05% to close at 1.2126 on Tuesday's session, in line with slight recovery after prior underperformance. The Eurozone's trade surplus was halved in April to €9.4b, from €18.3b in March as exports retreated (-2.3% m/m) and imports gained. We place support at 1.2070 and resistance at 1.2280.

GBP (Neutral-to-Bearish)

- GBP/USD pulled back by 0.21% the previous session, with pair now down to 1.4083 at close. The UK economy added an average of 113k jobs in the three months to April (Prior: +84k), missing the consensus forecast of 135k gains. Immediate support is at 1.4100, before 1.4000. We place resistance at 1.4248.

JPY (Neutral)

- USD/JPY steadied on Tuesday, after a relatively narrow range of 109.99 to 110.17. Focus turns to central banks, with Bank of Japan announcing policy decision on 18 June. We see the pair staying within a range of 109.20 to 110.00. A key level on the downside is the 50-day MA at 109.11.

AUD (Neutral-to-Bearish)

- AUD/USD was down by 0.32% to close 0.7687. We look for slight downsides in the AUD, watching 0.7640 support, while resistance is at 0.7800. Momentum looks fairly subdued for now. Australia releases employment data on 17 June, which may shape AUD movements.

SGD (Neutral-to-Bearish)

- USD/SGD was up by 0.1%, in line with most currencies performances with the dollar. This brought the pair to a close of 1.3277. We maintain our view of a range between 1.3190 and 1.3300 over the coming session, with a potential break in resistance possible if the USD strengthens. Singapore releases non-oil domestic exports on 17 June.

Eurozone's trade surplus narrowed in April:

- The Eurozone's trade surplus was halved in April to €9.4b, from €18.3b in March as export growth retreated (-2.3% m/m) from the previous jump. Imports meanwhile continued to climb higher (+2.3% m/m) for the second consecutive month, as demand for oversea goods rose in concurrent with the reopening of the services sector and generally stronger economic optimism.
- For the first four months of 2021, exports to ex-EU destinations were up by 7.8% y/y, compared to the same period last year, driven by exports of raw materials, energy and manufactured goods such as machinery and vehicles. In the same period, imports were also 6.3% y/y higher.
- The Brexit transition period ended in late January this year; for the first four months of 2021, trade volumes with the UK remained lower compared to last year- exports were down by 3.3% y/y while imports from the UK were 27.1% lower.

Japan's exports and imports scored double-digit annual growth rates:

- Japan's trade data recorded double-digit growth rates in May, inflated by the low bases from last year when international trading slowed substantially amid a global lockdown. Exports rose 49.6% y/y in May (Apr: +38%), outpacing the import growth of 27.9% y/y (Apr: +12.8%), suggesting that the export sector may continue to support Japan's economic recovery.
- A separate release showed that core machine orders, a key gauge of Japan's business investment edged up a mere 0.6% m/m in April, compared to the expected growth of 2.5%. The modest reading followed a 3.7% increase in March.

RBA meeting minutes reaffirmed dovish stance; pushed key decision to July:

- In the latest RBA minutes, officials discussed the key considerations to be made at the next July meeting, with regards to the 3-year yield target and the government bond purchase program.
- Regarding the yield target, the consideration was "whether to retain the April 2024 bond as the target bond or extend the target to the next maturity, the November 2024 bond" as well as the assessment of the prospect of actual inflation reaching a sustainable target range of 2-3% sometime in 2024, so as to decide on the 3-year yield target.
- As for the QE program, the decision was on future purchases after the completion of the second (current) $100b purchase in early Sep-21. Potential choices include ceasing purchasing in September, repeating $100b purchase for another six months, scaling back the amount purchased or spreading the purchases over a longer period and "moving to an approach where the pace of the bond purchases is reviewed more frequently, based on the flow of data and the economic outlook".
- RBA thought it would be premature to consider easing the QE program, and said it remained committed to "highly supportive monetary conditions until its goals for employment and inflation were achieved".

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