

Global Markets Research

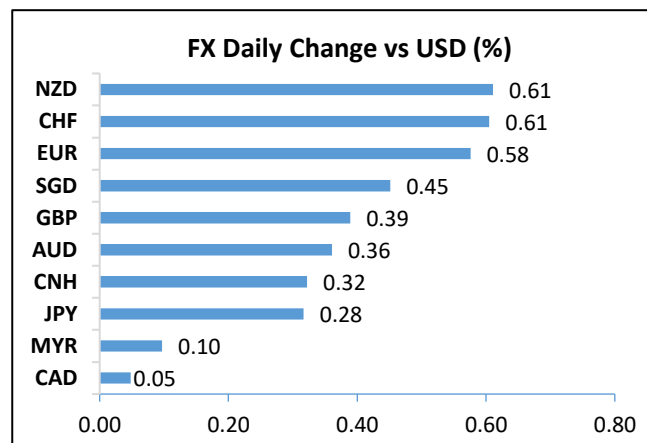
Daily Market Highlights

Key Takeaways

- The selling pressure surrounding US stocks extended and accelerated to a second session this week as the concerns over surging inflation persisted and weighed on overall sentiment. The worry that the Fed may raise rates sooner in response to the sharp rise in prices continued to dominate the market ahead of Thursday's release of the latest Fed's minutes. This was despite the fact that a couple of Fed officials (Robert Kaplan and Richard Clarida) reiterated the central bank's accommodative policy stance. The fall in tech, financials, industrials, consumer discretionary and energy shares led the S&P 500 to shed 0.9%. The Dow Jones fell 0.8% and the NASDAQ lost 0.6%. **Major benchmarks were mostly down in Europe while Asian markets closed out Monday's session in greens.**
- Treasury yields fell only slightly across the curve (-0.4 to -1.8bps) as the market awaited the Fed's minutes to offer some guidance. The yield on 10Y UST was 1.2bps lower at 1.64%. The dollar index slipped below 90 responding to Kaplan's remarks that he did not expect rates to rise until next year. Clarida said that it was not yet time to start "taper talk" especially after April's job numbers were weaker than expected. The USD weakened against all G10 currencies except CAD which was little changed. CHF and NZD were top performers. On the commodity front, gold futures closed on a flat note at \$1868/oz. **Crude oil benchmarks pared off recent gains and fell more than 1% due to progress in current Iran talks which may lead to removal of US sanctions and thus higher crude supply back to the market.** Brent settled at \$68.71/barrel and WTI at \$65.49/barrel.
- US construction data disappointed amid the supply chain constraints and higher material costs as housing starts fell more than expected by 9.5% in April. Building permits rose only 0.3%. **The Eurozone's 1Q GDP contracted by 0.6% q/q while its trade surplus narrowed considerably to €13.0b in March thanks to a surge in imports. The UK's labour market turned around as the economy added 88k jobs in the three months to March. The RBA reaffirmed its accommodative stance in its latest minutes.**
- USD weakened for the third consecutive session, as DXY was down 0.46% to a close of 89.75. This was the first time DXY was below the 90 mark since 25 February. The recovery in major economies and Fed's plans to remain accommodative have brought about dollar weaknesses, bringing rallies in G10 currencies. The break of the 90 level now leads us to a more **bearish view of the USD**. Market focus is on FOMC meeting minutes and Markit PMIs for May.
- USD/MYR edged down a little (-0.1%) to 4.1250. We are **neutral to bearish** on the pair following the weak USD performance overnight. However, the lack of market driver and the anticipation for the Fed's minutes may continue to limit movements for now, thus restricting the pair within 4.10-4.14.

Market Snapshots

	Last Price	DoD %	YTD %
Dow Jones Ind.	34,060.66	-0.78	11.29
S&P 500	4,127.83	-0.85	9.90
FTSE 100	7,034.24	0.02	8.88
Hang Seng	28,593.81	1.42	5.00
KLCI	1,591.32	0.50	-2.21
STI	3,142.63	2.04	10.51
Dollar Index	89.75	-0.46	-0.21
WTI oil (\$/bbl)	65.49	-1.18	34.98
Brent oil (\$/bbl)	68.71	-1.08	32.64
Gold (\$/oz)	1,868.00	0.02	-1.36
CPO (RM/tonne)	4,720.00	-1.41	24.60



Source: Bloomberg

Overnight Economic Data

US	↓	EZ	↓
UK	↑		

Up Next

Date	Events	Prior
19/05	AU Westpac Consumer Conf Index (May)	118.8
	AU Wage Price Index YoY (1Q)	1.4%
	JP Industrial Production MoM (Mar F)	2.2%
	UK CPI YoY (Apr)	0.7%
	EZ CPI YoY (Apr F)	1.3%
20/05	US MBA Mortgage Applications (14 May)	2.1%
	US FOMC Meeting Minutes (28 Apr)	--
	JP Exports YoY (Apr)	16.1%
	JP Core Machine Orders MoM (Mar)	-8.5%
	CH 1-Year Loan Prime Rate (20 May)	3.85%
	AU Employment Change (Apr)	70.7k
	AU Unemployment Rate (Apr)	5.6%
	US Philadelphia Fed Business Outlook	50.2
	US Initial Jobless Claims (15 May)	473k
	US Leading Index (Apr)	1.3%

Source: Bloomberg

Macroeconomics

US' housing starts fell more than expected in April:

- Housing starts fell more than expected by 9.5% m/m in April, following the upwardly revised 19.8% increase in March. Consensus estimate had expected housing starts to record a more modest 2.0% fall after the sharp upturn in the previous month.
- Building permits also missed expectation, recording a mere 0.3% m/m increase in April compared to the 0.6% expected growth. March's data were revised down to show only a 1.7% increase. The latest set of figures suggest that construction may have been delayed by the supply chain constraints plaguing the US economy, particularly when material costs such as lumbers are high.

Eurozone's GDP contraction at 0.6% q/q in first quarter:

- The second estimate confirmed that the Eurozone economy slumped into technical recession as GDP contracted by 0.6% q/q in the first quarter (4Q: -0.7%). Year-on-year, GDP shrank by 1.8% (4Q: -4.9%), easing from the 4.9% y/y decline prior.
- Employment fell 0.3% q/q in the first quarter (4Q: +0.4%) as businesses faced the third Covid waves that saw government tightened social distancing rules. Employment was 2.1% y/y lower (4Q: -1.9%) compared to the same quarter last year.
- Trade surplus narrowed considerably to €13.0b in March (Feb: €23.1b), reflecting the surge in imports (+5.6% m/m) back to the pre-pandemic level. Exports were little changed (-0.3% m/m) but is close to its pre-pandemic level and may increase further in line with the recent rise in global demand.

Upturn in UK's job market:

- The UK's labour market turned around as the economy added 88k jobs in the three months to March (3 month to Feb: -73k), marking its first gain since March last year before the pandemic hit the country. The reading beat expectations for a more modest 50k increase.
- The unemployment rate also went down to 4.8% in the same period, from 4.9% despite the fact that the country was still officially in lockdown in March, although some rules were relaxed as part of the government's step-by-step reopening plan.
- The jobless claims for April, a timely indicator also fell 15.1k (Mar: -19.4k) as fewer people applied for unemployment benefits. The stable pandemic situation alongside high vaccination rate has allowed the government to keep up with its promise to gradually reopen the economy, paving way for the labour conditions to improve further. However, this also means that it is likely to not extend its job furlough scheme beyond September this year, which may trigger a rise in unemployment.

RBA reaffirmed accommodative stance:

- In the latest RBA's meeting minutes, officials noted that Australian economy was transitioning from recovery to expansion earlier and with more momentum than previously anticipated. However, it added that the important source of uncertainty for the domestic outlook.
- Overall, its assessment of the economy was more upbeat compared to the previous meeting, noting strong recovery in the housing sector as well as non-mining businesses alongside continued improvement in the labour market condition.
- However, it said that wage and price pressures remained subdued. The current monetary policy package had continued to support the economy. It reaffirmed the accommodative stance and repeated that it won't raise the cash rate until "actual inflation is sustainably within the 2 to 3 per cent target range". Wage growth would need to be "materially" higher than the current levels.

Forex

MYR (Neutral-to-Bullish)

- USD/MYR edged down a little (-0.1%) to 4.1250. We are neutral to bearish on the pair following the weak USD performance overnight. However, the lack of market driver and the anticipation for the Fed's minutes may continue to limit movements for now, thus restricting the pair within 4.10-4.14.

USD (Neutral-to-Bearish Outlook over 1 Week Horizon)

- USD weakened for the third consecutive session, as DXY was down 0.46% to a close of 89.75. This was the first time DXY was below the 90 mark since 25 February. The recovery in major economies and Fed's plans to remain accommodative have brought about dollar weaknesses, bringing rallies in G10 currencies. The break of the 90 level now leads us to a more bearish view of the USD. Market focus is on FOMC meeting minutes and Markit PMIs for May.

EUR (Neutral-to-Bullish)

- EUR/USD rallied by 0.58% to a close of 1.2222 on Tuesday's session, after broad dollar weakness. A recovery in Covid-19 conditions in the US and Europe have brought about market optimism. We turn constructive on the EUR, eyeing new resistance of 1.2349 while support is at 1.2120. Markit PMIs next to focus on.

GBP (Neutral-to-Bullish)

- GBP/USD broke the 1.42 big figure briefly, before a close of 1.4189. This was helped by the lifting of some Covid-19 restrictions in the UK. We turn slightly optimistic, eyeing 1.4237 high seen on 24 February before 1.4300. Support around 1.4060. The UK releases CPI, PPI, retail sales and Markit PMI in the coming days.

JPY (Neutral)

- USD/JPY headed lower for the fourth consecutive session, although only by 0.28% to a close of 108.90. We upgrade our view of JPY, anticipating a range of 108 to 110 for USD/JPY for the week ahead. JPY may underperform other currencies in an environment of dollar weakness, unless risk aversion return.

AUD (Neutral)

- AUD/USD rebounded by 0.36% to a close of 0.7792, still seeing plenty of reversals over the past weeks. Still, we upgrade our view of AUD, expecting slight upside bias for AUD/USD. Resistance remains at 0.7840 before further moves towards 0.7900, while support looks to have firmed up around 0.7710. Markets will likely focus on employment data, Markit PMIs and retail sales figures.

SGD (Neutral)

- USD/SGD was down by 0.45% to a close of 1.3296. The broad dollar weakness movements lead us to remove our view of upside risk for USD/SGD. We see USD/SGD hovering mostly around 1.3220 to 1.3380 for the week ahead. Focus is still on Singapore's Covid-19 situation, while CPI, industrial production and GDP will be released over the coming week.

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

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