HongLeong Bank

Global Markets Research
Daily Market Highlights

Key Takeaways

- **US stocks fell last week, snapping a three-week winning streak** as market weighed Fed Chair Jerome Powell's testimony before Congress and key economic data. On Friday, the selling pressure surrounding equities intensified throughout the session, bringing the Dow, S&P 500 and NASDAQ to close 0.8-0.9% d/d lower. The NASDAQ suffered the heaviest losses (-1.9% w/w), followed by the S&P 500 (-1% w/w) and the Dow (-0.5% w/w). Stocks fell in Europe but picked up in key Asian markets. **Treasury yields held steadily on Friday as the bond market stabilised**. The benchmark 10Y UST last traded at 1.29% on Friday, 7bps lower compared to the previous week. Yields fell last week as Powell stuck to the view of inflation being transitory and assured markets that there was still a long way to go before asset tapering.

- **Gold prices fell amid profit taking activity;** futures were down 0.8% to $1815/oz on Friday after a 3-day gaining streak. Nonetheless, the bullion managed to eke out a small 0.2% w/w gain, its fourth positive week in a row. Oil prices stabilised after recent selloff. Brent crude and WTI rose 0.2% to $73.59/barrel and $71.81/barrel on Friday. For the week, both benchmarks were down – WTI lost 3.7% and Brent shed 2.6%. On Sunday, **OPEC+ agreed to a deal to phase out the 5.8mil bpd of oil production cuts by September 2022.** Output will then increase by 400k bpd on a monthly basis after that. Brent futures fell this morning.

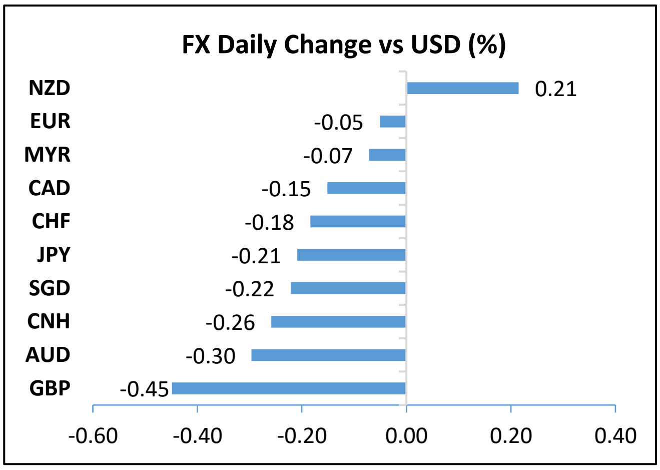
- Last Friday, the latest report showed **US retail sales rose 0.6%** m/m. UK house prices rose lesser (+0.7% m/m) this month as the housing boom cooled. **The BOJ left its policy unchanged**. Stock futures are down this morning across all key markets, indicating lower openings as a new week kicks off. In the week ahead, the **ECB's Governing Council meets and is expected to deliver a change in forward guidance**. Economic data are on the lighter side next week, with a number of CPI data from Asia and the preliminary composite PMI readings for developed economies in the docket.

- **USD slightly strengthened on Friday, from other currencies' weakness.** DXY inched up during the session, up 0.07% to a close of 92.69. The dollar saw modest gains against most G10 currencies except the NZD that reacted to the surging New Zealand's CPI inflation and ahead of the end of the RBNZ's asset purchase program next week. GBP led the losses amid pessimism surrounding the UK's worsening Covid outbreak.

- **USD/MYR closed slightly higher at 4.2055 on Friday**, bringing the fifth consecutive weekly gain at 0.3%; MYR is expected to remain slightly bearish this week, but expectations for a neutral USD outlook could provide some support, keeping the pair in a range of 4.18-4.22.

Market Snapshots

	Last Price	DoD %	YTD %
Dow Jones Ind.	34,687.85	-0.86	13.33
S&P 500	4,327.16	-0.75	15.20
FTSE 100	7,008.09	-0.06	8.48
Hang Seng	28,004.68	0.03	2.84
KLCI	1,522.48	0.11	-6.44
STI	3,152.30	0.39	10.85
Dollar Index	92.69	0.07	3.05
WTI oil ($/bbl)	71.81	0.22	48.00
Brent oil ($/bbl)	73.59	0.16	41.14
Gold (S/oz)	1,815.00	-0.77	-4.33
CPO (RM/tonne)	4,176.50	2.52	10.26



Source: Bloomberg

Overnight Economic Data			
US	→	EZ	↓
UK	↓	SG	↑
NZ	↑		

Up Next

Date	Events	Prior
19/07	US NAHB Housing Market Index (Jul)	81.0
20/07	JP Natl CPI Ex Fresh Food YoY (Jun)	0.1%
	CN 1-Year Loan Prime Rate (20 Jun)	3.85%
	AU RBA Minutes of July Policy Meeting	
	US Building Permits MoM (Jun)	-2.9%
	US Housing Starts MoM (Jun)	3.6%
21/07	JP Exports YoY (Jun)	49.6%
	AU Westpac Leading Index MoM (Jun)	-0.06%
	AU Retail Sales MoM (Jun P)	0.4%
	JP Machine Tool Orders YoY (Jun F)	96.6%
22/07	AU NAB Business Confidence (2Q)	17.0
	HK CPI Composite YoY (Jun)	1.0%
	EZ ECB Deposit Facility Rate (22 Jul)	-0.5%
	US Chicago Fed Nat Activity Index (Jun)	0.29

Source: Bloomberg

Macroeconomics

US retail sales rose 0.6% in June; but consumer sentiment fell in July:

- Retail sales in the US rose 0.6% m/m in June, after a downwardly revised 1.7% decline in May. The reading beat the consensus expectation of 0.3% fall. The core retail sales rose more than expected (+1.1% m/m) versus the expected gain of 0.4%. June report showed that consumers generally increased spending in nearly all categories of goods, except for large-ticket items such as motor vehicles, furniture and building materials. Sales of vehicles were down because of the limited inventory. Americans have also spent more in services such as dining out as the economy reopened.
- The positive data is showing signs of peaking as the University of Michigan Consumer Sentiment Index fell to 80.8 in July, from 85.5 prior. Consumer sentiment pulled back this month over higher prices of goods in the US, which may lead to a diminishing intention to spend.

Eurozone's May inflation unrevised:

- The final reading of the Eurozone's HICP inflation was unrevised at 1.9% y/y in May (Apr: +2.0%) while the core CPI rate was also unchanged at 0.9% (Apr: +1.0%). Inflation is expected to ease further in the coming month before surging again on a year-on-year basis in August onwards due to the low bases from last year. Prices had fallen in August last year as the German government introduced sales tax holiday.

UK housing boom cooled in July:

- The UK's Rightmove House Prices Index rose 0.7% m/m in July (Aug: +0.8%) to £338.4k, marking its third month of slowdown as housing demand cooled down after the government's stamp duty holiday expired in June. In fact, London's house prices fell 0.8% m/m (Aug: +1.5%) to £645.3k. On a year-on-year basis, prices rose 5.7% (Aug: +5.1%), inflated by the base effect from last year when prices had fallen.

BOJ maintained policy framework:

- The Bank of Japan maintained its policy setting as widely expected but revised down its growth forecasts. The BOJ said it left the policy balance rate unchanged at -0.1% and kept in places the yield curve control measure as well as the asset purchase program. It also unveiled the preliminary framework of its climate change initiatives.
- The BOJ said that the outlook for economic activity and prices is highly unclear, citing the development of the Covid-19 pandemic. "Risks to economic activity are skewed to the downside for the time being". It downgraded the median real GDP forecast for fiscal year 2021 to 3.8% (from 4%), but raised the forecast for fiscal year 2020 to 2.7% (from 2.4%). CPI-ex fresh food inflation is expected to be at 0.6% in fiscal year 2021 (a sharp revision from +0.1% prior) mainly due to higher energy prices.
- BOJ reiterated its accommodative stance and said it is ready to act whenever necessary. Overall, the release of the statement was a non-event as it is within analysts' and market's prediction.

Singapore NODX rebounded in June:

- Singapore's NODX rose 6% m/m in June (May: -0.2%), rebounding from two months of consecutive decreases and this helped boost the y/y NODZ growth to 15.9% y/y (May: +8.6%).
- Exports of all key goods categories reported gains on a y/y basis; electronics rose 25.5% y/y while pharmaceuticals picked up 8.1%. In terms of destination, shipments to most of its key trading partners showed growth as well with the exception of the US and Japan.

Forex

MYR (Neutral-to-Bearish)

- USD/MYR closed slightly higher at 4.2055 on Friday, bringing the fifth consecutive weekly gain at 0.3%; MYR is expected to remain slightly bearish this week, but expectations for a neutral USD outlook could provide some support, keeping the pair in a range of 4.18-4.22.

USD (Neutral-to-Bullish)

- USD slightly strengthened on Friday, from other currencies' weakness. DXY inched up during the session, up 0.07% to a close of 92.69. The USD gained mostly against the GBP and other Asia (G10 and EM) currencies. This came as retail sales beat expectations, and some equity correction in the US. We see slight upsides for the upcoming session. Attention will turn towards initial jobless claims and PMIs closer the end of the week.

EUR (Neutral-to-Bearish)

- EUR/USD was down by 0.05% to close at 1.1806 on Friday's session. With May inflation unrevised at 1.9% y/y, attention shifts towards the European Central Bank meeting on 22 July, and the PMIs thereafter. Hence, the pair may be more resilient for now as markets await more clarity on policy stance, after the special session allowing for inflation overshoot. We watch support of 1.1710 and resistance of 1.1930.

GBP (Bearish)

- GBP/USD was down by 0.45% the previous session, partly caused by rising Covid-19 cases as the country prepares to reopen fully. This brought the pair down to a close of 1.3767. We see more downsides for the pair, after prior outperformance at the start of the year. Watch support of 1.3700 and next 1.3567, while resistance is at 1.3850 for any rebound in momentum.

JPY (Neutral-to-Bearish)

- USD/JPY was up by 0.22%, heading above 110 to close 110.07 in the process. While the yen may outperform on risk aversion, it remains weak from fundamentals and dollar strength. Olympics and Covid-19 outbreaks in focus. We watch a resistance of 111 and support of 109.10 for the pair.

AUD (Neutral-to-Bearish)

- AUD/USD was down by 0.3% on Friday's session, closing at 0.7401 after briefly dipping below the 0.74 big figure. Market focus for the pair turns to RBA minutes of July meeting, retail sales and Markit PMI figures. NZD resilience may slightly support the AUD from underperformance. We see immediate support at 0.73 and resistance at 0.7490.

SGD (Bearish)

- USD/SGD closed at an elevated 1.3571 on Friday, up by 0.22%. This came as non-oil domestic exports continued to outperform, and Covid-19 community cases increased from several clusters. We are bullish on USD/SGD for the upcoming session on Asian FX weakness and USD strength. We see immediate resistances of 1.3600 and 1.3650, while support is at 1.3520.

New Zealand's PMIs pointed to stronger growth in 2Q:

- New Zealand's performance of services PMI rose to 58.6 in June, from 56.3 prior, driven by the rebound in sales, new orders and employment. BNZ said that, combined with the manufacturing PMI published last week (60.7 vs 58.6 prior) both indicators suggest a roughly 4% y/y GDP growth rate in the second quarter. In the first quarter, GDP had expanded 2.4% y/y.

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