Global Markets Research

Daily Market Highlights

0. Key Takeaways

- **US stocks tumbled overnight alongside the dramatic plunge in cryptocurrencies and other riskier assets, while the latest FOMC minutes hinted at possible talks of bond tapering sent treasury yields and the dollar higher.** The Dow Jones fell as much as 472pts before paring its losses to 164pts or 0.5% at the end of the session. The S&P 500 edged down by 0.3%, driven by the selloff in energy, consumer discretionary and materials shares; the info tech and communication services sectors managed to post modest gains. NASDAQ finished little changed. Major European benchmarks slumped more than 1% while Asian markets closed on a mixed note.

- **Markets remained concerned over the potential timing that the Fed would start adjusting its accommodative policy in light of recent surge in inflation and the bright economic prospects.** Treasury yields rose 0.6 to 4bps after the highly anticipated Federal Reserve's minutes revealed that some officials suggested that it might be "appropriate at some point in upcoming meetings" to discuss plan to taper its QE program. The yield on the benchmark 10Y UST picked up 3.4ps to 1.67%. Gold prices slipped as the dollar strengthened; leaving futures 0.7% lower at $1868.7/oz. Crude oil benchmarks suffered around 3% losses; Brent crude was down to $66.66/barrel and WTI settled at $63.36/barrel.

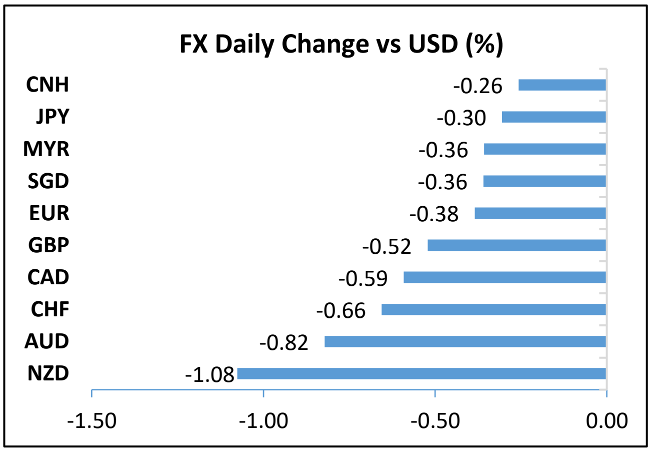
- On the data front, mortgage applications rose merely 1.2% last week, as applications for home purchases declined. **The Eurozone's April HICP inflation rate came in at 1.6% y/y but the core reading was weighed down by slower services inflation**. **The UK's CPI meanwhile surged to 1.5% y/y in April**. Japan's positive data (trade, industrial production and core machine orders) point to ongoing recovery. Australia's 1Q wage growth was higher at 1.5% y/y.

- **DXY rebounded after dipping below 90 in the previous session.** DXY closed at 90.19, up by 0.49% d/d. This came as US shares dipped and yields rose as a result of Fed minutes, which flagged possibility of debate to scale back asset purchases. We anticipate slight USD weaknesses, for the DXY to go below 90 again over the coming week, with attention now on Markit PMIs for May.

- **USD/MYR rose 0.4% to 4.14 on Wednesday**. We turned neutral to bullish on the pair as it may catch up with overnight FX market movements and risk aversion is expected to dominate today's session. Pair has broken 4.14 this morning as expected, with resistance at 4.1550.

Market Snapshots

	Last Price	DoD %	YTD %
Dow Jones Ind.	33,896.04	-0.48	10.75
S&P 500	4,115.68	-0.29	9.57
FTSE 100	6,950.20	-1.19	7.58
Hang Seng	28,593.81	1.42	5.00
KLCI	1,580.52	-0.68	-2.87
STI	3,104.21	-1.22	9.16
Dollar Index	90.19	0.49	0.28
WTI oil ($/bbl)	63.36	-3.25	30.59
Brent oil ($/bbl)	66.66	-2.98	28.69
Gold (S/oz)	1,881.50	0.72	-1.46
CPO (RM/tonne)	4,794.00	2.04	26.56



Source: Bloomberg

Overnight Economic Data			
US	↓	EZ	→
UK	↑	JP	↑
AU	↑		

Up Next

Date	Events	Prior
20/05	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%
21/05	Preliminary PMIs for US, EZ, UK, JP (May)	
	UK GfK Consumer Confidence (May)	-15
	JP Natl CPI Ex Fresh Food YoY (Apr)	-0.1%
	AU Retail Sales MoM (Apr P)	1.3%
	UK Retail Sales Inc Auto Fuel MoM (Apr)	5.4%
	EZ Consumer Confidence (May A)	-8.1
	US Existing Home Sales MoM (Apr)	-3.7%

Source: Bloomberg

Macroeconomics

FOMC minutes revealed Fed's economic optimism and hint to begin taper talks:

- The Federal Reserve released the much-anticipated 27-28 April FOMC meeting minutes overnight and appeared to show more optimism over the US' economic outlook but still maintained its accommodative monetary policy stance.
- Officials expect the core PCE inflation to temporarily run above 2% in the near term due to transitory effects, and noted that the current supply chain bottlenecks and input shortage could out upward pressure on prices beyond this year. Nonetheless, it judged that longer-term inflation expectation remained well anchored.
- The risks to the outlook "were no longer as elevated as in previous months" thanks to progress in vaccination, easing of restrictions and policy support. Officials agreed that the economy was still far from the FOMC's longer-run goals and the path ahead continued to depend on the course of the virus.
- Officials noted that "it would likely be some time" until the economy made substantial progress towards achieving the maximum employment and price stability target. Notably, a number of officials suggested that if the economy continued to make rapid progress, "it might be appropriate at some point in upcoming meetings to begin discussing a plan for adjusting the pace of asset purchases". This statement slightly caught the market off guard as Fed Chair Jerome Powell did not hint at such discussion in his recent speeches or interviews, and was interpreted by investors as early signals for potential taper talks in the future.

Mortgage applications fell in the US:

- Mortgage applications in the US rose 1.2% last week, following the 2.1% gain in the week before. This was mainly supported by the gains in refinancing applications (+4%) as the applications to purchase homes dropped 4.1%. The rates on mortgages were slightly higher compared to the previous week with the 30Y fixed rate at 3.15%, versus 3.11% prior. While the higher borrowing costs was a factor, the pullback in mortgages demand may also be attributed to higher home prices and low housing supply which turned potential buyers away.

The Eurozone's inflation data showed mixed readings:

- The Eurozone's HICP rose 0.6% m/m in April, unrevised from the first estimate. This followed the 0.9% m/m gain in March. The annual rate came in at 1.6% y/y, accelerating from 1.3% prior, driven by the surge in energy prices. The core inflation, however, eased to 0.7% y/y (Mar: +0.9%), reflecting slower services inflation.

Inflation lifted by higher energy cost in the UK:

- Annual inflation in the UK surged to 1.5% y/y in April, from the 0.7% in March, beating expectation for a 1.4% increase. This marked the headline index's sharpest rise since Mar-20, thanks to the 9% hike in the official energy price cap and partly attributed to the low base from last year.
- Compared to the month before, CPI rose 0.6% m/m (Mar: +0.3%), its sharpest increase in two years, reflecting the reopening impact as the UK began to loosen restrictions. The core CPI index rose 1.3% y/y (Mar: +1.1%) and recorded a m/m reading of 0.3% (Mar: +0.4%).

Forex

MYR (Neutral-to-Bearish)

- USD/MYR rose 0.36% to 4.14 on Wednesday. We turned neutral to bullish on the pair as it may catch up with overnight FX market movements and risk aversion is expected to dominate today's session. Pair has broken 4.14 this morning as expected, with resistance at 4.1550.

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

- DXY rebounded after dipping below 90 in the previous session. DXY closed at 90.19, up by 0.49% d/d. This came as US shares dipped and yields rose as a result of Fed minutes, which flagged possibility of debate to scale back asset purchases. We anticipate slight USD weaknesses, for the DXY to go below 90 again over the coming week, with attention now on Markit PMIs for May.

EUR (Neutral-to-Bullish)

- EUR/USD corrected after prior bids, down 0.38% to a close of 1.2175. As optimism in the Eurozone Covid-19 situation continues, we stay constructive on the EUR over the coming week. We eye resistance of 1.2349 while support is at 1.2120. Markit PMIs next to focus on.

GBP (Neutral-to-Bullish)

- GBP/USD was down by 0.52% on Wednesday, closing at 1.4115. PPI came in above expectations while CPI result was within market consensus expectations. We still think that the GBP/USD may still aim for 1.42 big figure in the coming week, helped by the loosening of Covid-19 restrictions. 1.4237 high seen on 24 February is the resistance to watch before 1.4300. Support around 1.4060. The UK releases retail sales and Markit PMI next.

JPY (Neutral)

- USD/JPY was up by 0.30% on the last session, after four consecutive sessions downwards. This brought pair to a high of 109.34 before closing at 109.22. Trade surplus for April was slightly below expected, also narrowing from previous month. We anticipate 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 steadily pulled back on 19 May, overall down 0.82% to a close of 0.7728. Pair stabilised after Thursday's open, looking for further impetus. Resistance remains at 0.7840 before further moves towards 0.7900, while support looks to have firmed up around 0.7710 before employment data release. Thereafter, markets will likely focus on Markit PMIs and retail sales figures.

SGD (Neutral)

- USD/SGD headed higher and touched a high of 1.3361 on Wednesday due to FOMC reaction, closing 0.36% up at 1.3344. 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.

Japan's positive data point to ongoing recovery:

- Japan's exports recorded another double-digit growth in April at 38% y/y (Mar: +16.1%), driven by strong global demand and favourable low base. Imports also rose 12.8% y/y (Mar: +5.8%), marking its third successive monthly gain, adding to sign of firmer domestic demand.
- Core machine orders, a gauge of business investment rebounded by 3.7% m/m, after the sharp 8.5% decline prior; this however fell short of analysts' forecast of 5% increase.
- Japan's industrial production rose 1.7% m/m in March (Feb: -1.3%), more than recovered the decline recorded in the previous month. The annual rate of industrial output growth turned positive to +3.4%, for the first time since Jan-19; this was helped by the low base in 2020.

Australia's wage growth rose in 1Q:

- Australia's wage price index rose 0.6% q/q in the first quarter of 2021, the same rate as posted in the previous quarter. This was better than analysts' forecast of 0.5%, leaving the annual growth rate at 1.5% y/y (Mar: +1.4%). The reading was good news for the RBA, but is still too early to tell whether it would help drive inflation.
- In a separate note, the Westpac Consumer Sentiment Index slipped to 113.1 in May (April: 118.8) following the sharp in jump in the previous month.

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