HongLeong Bank

Global Markets Research

Daily Market Highlights

Key Takeaways

- **US stocks plunged on Friday as the post-FOMC selloff continued to weigh on investor sentiment.** The selling pressure intensified after **St. Louis Fed's President James Bullard said that he had anticipated the first Fed's rate hike to happen in late 2022** when he submitted forecasts for the FOMC's quarterly economic projections. **Bullard however does not currently have a vote on the FOMC.** The Dow Jones fell for the sixth consecutive session, shedding 533pts or 1.6% d/d, bringing the weekly losses to 3.5%, its worst weekly performance since late October. The S&P 500 fell 1.3% d/d, reflecting broad-based decline across all sectors; energy, utilities and financials were the day's biggest losers. For the week, the index was down by 1.9%. NASDAQ edged 0.9% d/d lower, but recorded a relatively modest loss (-0.3% w/w), thanks to some rotations to the tech sector last week.

- **Longer term UST yields extended their post-FOMC's declines, albeit more moderately as rate hike expectations climbed. The simultaneous gains in short term yields further flattened the curve**, leading the 2Y10Y spread to narrow by another 11bps, and the 5Y30Y spread by 7.6bps. The yield on 10Y UST was down by 6.6bps to 1.44%, its lowest closing since early March this year. **Gold prices slumped further as the dollar strengthened**; futures shed 0.3% to $1767.9/oz and had its worst week (-5.8% w/w) since March last year during the pandemic selloff. On the contrary, **crude oil prices recovered around 0.8% after prior session's losses.** Brent crude and WTI bounced back to close respectively at $73.51/barrel and $71.64/barrel.

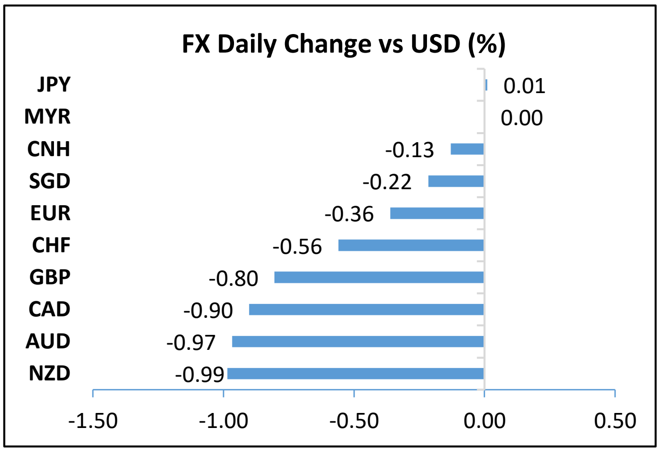
- **On Friday, the Bank of Japan maintained its policy setting** and extended the pandemic emergency lending program. The UK's retail sales retreated 1.4% m/m in May. **Asian stocks are poised to fall this morning** as futures pointed significantly lower in Hong Kong and Japan. **Fed Chair Jerome Powell is set to testify before a House Subcommittee on Wednesday** regarding the Covid-19 pandemic emergency lending. A number of Fed's officials will also speak at multiple events/interviews/conferences this week. **The Bank of England's MPC meeting is on Thursday.**

- DXY gained decisively for the third consecutive session, with a 0.37% rise to a close of 92.23 for the week. Post-FOMC positioning continues to shift towards a stronger dollar. We are anticipating more **modest upsides for DXY** after prior rallies. Focus shifts to June PMIs and May PCE data, on economic trends and price pressures.

- The MYR was resilient and closed unchanged at 4.1395 vs the USD on Friday, despite broad-based weakening of most Asian currencies. For the week, the pair snapped a three-week losing streak with a 0.8% w/w gain. Renewed USD strength would likely continue to exert some pressure, hence some **bearishness in the MYR** this week. We therefore foresee a range of 4.12-4.16 for the pair in the week ahead. A near-overbought DXY as well as the key resistance of 4.15 will likely cap excessive gains in USD/MYR.

Market Snapshots

	Last Price	DoD %	YTD %
Dow Jones Ind.	33,290.08	-1.58	8.77
S&P 500	4,166.45	-1.31	10.93
FTSE 100	7,017.47	-1.90	8.62
Hang Seng	28,801.27	0.85	5.77
KLCI	1,589.05	1.16	-2.35
STI	3,144.16	0.19	10.56
Dollar Index	92.23	0.37	2.56
WTI oil ($/bbl)	71.64	0.84	47.65
Brent oil ($/bbl)	73.51	0.59	42.39
Gold (S/oz)	1,767.90	-0.33	-6.71
CPO (RM/tonne)	3,529.00	-0.21	-6.84



Source: Bloomberg

Overnight Economic Data

UK

Up Next

Date	Events	Prior
21/06	UK Rightmove House Prices MoM (Jun)	1.8%
	CH 1-Year Loan Prime Rate (21 Jun)	3.85%
	US Chicago Fed Nat Activity Index (May)	0.24
22/06	JN Machine Tool Orders YoY (May F)	140.7%
	MA Foreign Reserves (15 Jun)	$110.9b
	HK CPI Composite YoY (May)	0.7%
	EC Consumer Confidence (Jun A)	-5.1
	US Richmond Fed Manufact. Index (Jun)	18.0
	US Existing Home Sales MoM (May)	-2.7%

Source: Bloomberg

Macroeconomics

BOJ maintained policy framework; extended emergency pandemic lending facility:

- The Bank of Japan maintained the policy rate balance rate at -0.1% and the 10Y yield target at "around 0%" as expected. It also maintained the guidelines for its asset purchase program while extending the pandemic lending program by six months to March 2022.
- It has a more favourable assessment of Japan's business conditions, citing rising exports and industrial productions and improved corporate profits and business sentiment. Business fixed investment has picked up as well.
- In contrast, things were less rosy on the household front. The employment and income situation has remained weak, which in turn led to stagnant private consumption. The recently higher inflation rate at around 0% reflected higher energy prices and inflation expectations have been more or less unchanged.
- It said that the economy remained in a "severe situation" but is "likely to recover", although Japan's economic activity, especially the face-to-face services sector is expected to be lower for the time being, compared to the pre-pandemic level. BOJ stayed very cautious, repeating Covid-19's high uncertainties on the risks to outlook.
- The most notable addition was the introduction of a new fund-provisioning measure to help fund financial institutions' efforts to address climate change issues. It is expected to be launched within 2021, of which the preliminary outline will be made available to the public at the next July meeting.
- It reaffirmed its dovish policy stance and reassured markets that it would not hesitate to take additional easing measures to support the economy if necessary.

UK's retail sales fell in May after consumers splurged in April:

- The UK's retail sales unexpectedly fell 1.4% m/m in May, compared to the consensus forecast of 1.5% growth. This followed a sharp 9.2% m/m increase in April when pent-up demand drove consumer spending after restrictions were partially lifted.
- Auto fuel sales rose 6.2% m/m (Apr: +10.6%). Excluding sales of auto fuel, the total sales volume was also down by 2.1% m/m (Apr: +9.1%). Sales at food stores (-5.7% vs -0.9%), non-specialised stores (-6.7% vs +4.3%), sales of clothing & footwear (-2.5% vs +69.5%) came down in May, while sales of household goods (+9% vs +10.1%) were rather steady. Online sales declined too (-4.2% vs +1%) following two months of modest gains.
- The retreat of overall sales reflects a pattern of scaling back on spending after consumers' recent splurge in the previous months; spending is expected to remain supported in the next few months as summer comes, barring from any tightening of Covid restriction.

Forex

MYR (Neutral-to-Bearish)

- The MYR was resilient and closed unchanged at 4.1395 vs the USD on Friday, despite broad-based weakening of most Asian currencies. For the week, the pair snapped a three-week losing streak with a 0.8% w/w gain. Renewed USD strength would likely continue to exert some pressure, hence some bearishness in the MYR this week. We therefore foresee a range of 4.12-4.16 for the pair in the week ahead. A near-overbought DXY as well as the key resistance of 4.15 will likely cap excessive gains in USD/MYR.

USD (Neutral-to-Bullish)

- DXY gained decisively for the third consecutive session, with a 0.37% rise to a close of 92.23 for the week. Post-FOMC positioning continues to shift towards a stronger dollar. We are anticipating more modest upsides for DXY after prior rallies. Focus shifts to June PMIs and May PCE data, on economic trends and price pressures.

EUR (Neutral-to-Bearish)

- EUR/USD was down by 0.36%, hitting a low of 1.1848 on Friday before slightly recovering to 1.1864. Technicals point towards an offer tone, eyeing support at 1.1800 and resistance at 1.2000. For the week, focus is on Markit PMI and ECB's economic bulletin.

GBP (Neutral-to-Bearish)

- GBP/USD was down by 0.80%, after being more resilient to dollar strength in prior sessions. This brought the pair below 1.38 (to an intraday low of 1.3792). Pair recovered back to 1.3810 at close. Watch support at 1.3730 after prior break of 1.3800, with resistance at 1.3950 for any rebound. Attention is on whether Bank of England also shift towards a more hawkish view on 24 June, alongside PMI data.

JPY (Neutral-to-Bearish)

- USD/JPY closed relatively flat at 110.21 on Friday's session, despite hitting 109.94 to 110.48 range. Bank of Japan stayed dovish and maintained its negative interest rates and asset purchase program. It came up with a new tool to support climate change, while also pushing back its Covid-19 lending measures by six months. Momentum is biased on the upside, and we place resistance at 110.97, while immediate support is at 110 before 108.90.

AUD (Neutral-to-Bearish)

- AUD/USD underperformed among G10 currencies and fell by almost 0.97% d/d to close at 0.7478. Pair opened the week looking to get a hold around the 0.75 big figure. Momentum continues to look for certain losses. Watch support at 0.74 and resistance at 0.7650. Focus shifts to Markets PMIs for June.

SGD (Neutral-to-Bearish)

- USD/SGD was up by 0.22%, closing at 1.3451 for the week. We watch for 1.3490 and 1.3600 resistances. Support is at 1.3350 if there are any pullbacks from recent trends. Singapore has loosened Covid-19 restrictions further today, albeit cautiously. For the week ahead, watch CPI and industrial production data.

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