22 January, 2021

Hong Leong Bank

Global Markets Research

Daily Market Highlights

Key Takeaways

- **Tech shares powered on overnight while the broader stock markets held on to gains as investors weighed mixed headlines.** Both the Dow Jones (-0.04%) and S&P 500 index (+0.03%) were little changed; the tech-focus NASDAQ meanwhile picked up 0.5% to extend the record-setting gain. Stocks had earlier fallen in Europe and finished mixed in Asia. Markets are hopeful for the new administration's $1.9trillion spending package but also concerned over Senate Republicans' willingness to support certain legislations that require more than a simple majority to pass. **President Biden signed 10 executive orders on his first day in office and kicked off a sweeping plan to combat the Covid-19 pandemic in the US.**

- **US bond yields rose at the longer end of the curve, tracking higher yields in Europe after the ECB maintain its monetary policy.** 10Y UST yield traded higher (+2.6bps) at 1.1%. **The dollar weakened** across the board; the dollar index fell 0.4% to 90.13. **Gold futures was flat** at $186.59/oz; Brent crude rose for the third session to $56.20/barrel while WTI was down modestly to $53.13/barrel. **Bank Indonesia kept its benchmark rate unchanged at record low of 3.75%.**

- **Data were mixed in the US**. Initial jobless claims fell by 26k last week but remained at an elevated level of 900k. Housing starts and building permits both recorded strong gains while the Philly Fed Manufacturing Index jumped sharply. In Europe, **consumer sentiment turned more downbeat in the UK and euro area** in January with lockdowns and strict rules remained in place. **Japan's key CPI gauge recorded the steepest drop in 10 years**, triggering deflationary concerns. **Hong Kong CPI also fell sharply** thanks to government's subsidy. **New Zealand CPI beat expectation,** supported by accommodation services prices. Australia's retail sales retreated from previous high.

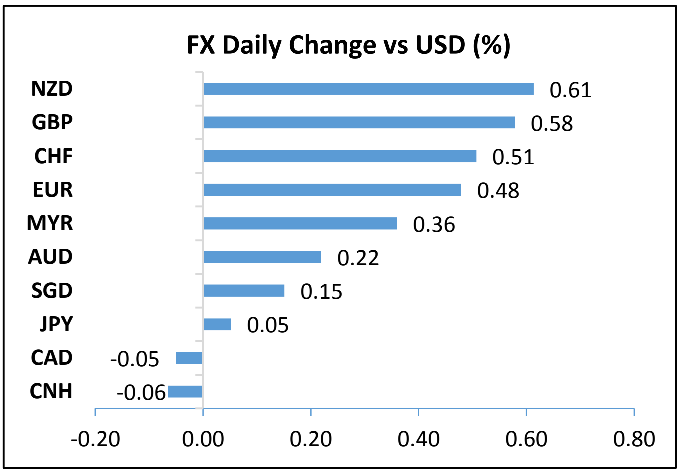
- DXY was down by 0.4% on Thursday, reaching a low of 90.45 and a close of 90.13. This came as initial jobless claims were slightly better than expected (900k vs 935k consensus forecast). We watch for some **continued downward trend**, albeit at a gradual pace. Support at 90.20 while resistance is at 90.90. Key focus today is on the Markit PMIs.

- USD/MYR fell 0.4% to 4.0290 on Thursday. Pair has broken 4.03 support and the downtrend is likely to continue especially after the broader greenback weakened overnight. BNM's decision to maintain OPR and its neutral policy stance also bodes well with MYR to some extent. In the short term, we turn **neutral to bearish on USD/MYR** after BNM's policy pause while at the same time expecting US stimulus optimism to fade now that Biden has settled in.

Market Snapshots

	Last Price	DoD %	YTD %
Dow Jones Ind.	31,176.01	-0.04	1.86
S&P 500	3,853.07	0.03	2.58
FTSE 100	6,715.42	-0.37	3.95
Hang Seng	29,927.76	-0.12	9.90
KLCI	1,594.80	-0.42	-1.99
STI	3,017.15	0.61	6.10
Dollar Index	90.13	-0.38	0.22
WTI oil ($/bbl)	53.13	-0.21	9.42
Brent oil ($/bbl)	56.10	0.04	8.30
Gold (S/oz)	1,865.90	-0.03	-1.35
CPO (RM/tonne)	3,482.50	-3.49	-8.06

Source: Bloomberg



Source: Bloomberg

Up Next

22/01	Flash Manufacturing PMIs for Japan, EU,	
	MA CPI YoY (Dec)	-1.7%
	US Existing Home Sales MoM (Dec)	-2.5%
25/01	SI CPI YoY (Dec)	-0.1%
	US Chicago Fed Nat Activity Index (Dec)	0.27
	US Dallas Fed Manf. Activity (Jan)	9.7

Source: Bloomberg

Macroeconomics

- ***ECB kept policy intact:*** The ECB reconfirmed its "very accommodative monetary policy stance by keeping its monetary policy unchanged. That includes maintaining the ECB's key interest rates at present levels and buying bonds under its €1850b Pandemic Emergency Purchase Program. It expects resurgence of the virus and the intensification of the containment measures to weigh on activity in the first quarter, broadly in line with the December projection. It said that the vaccines rollout offered greater confidence to resolve this health crisis but did not rule out further adverse development of the pandemic. "The risks surrounding the euro area growth outlook remain tilted to the downside but less pronounced".

- ***BOJ maintained policy, turned gloomier over current condition:*** The Bank of Japan maintained its monetary policy lever; preserving its massive QE program and yield curve control. The short-term policy balance rate was kept at -0.1% while the longer-term target on 10Y JGB yields stay at around 0%. The announcement was widely expected ahead of a policy review due March when the BOJ is expected to make some tweaks to its current policy. It reinforced dovish policy stance; said it would closely monitor the impact of Covid-19 and will not hesitate to take additional easing measures if necessary. It expects short- and long-term policy interest rates to remain at their present or lower levels. Alongside the main statement was the accompanying January Outlook for Economic Activity and Price report where BOJ said Japan's economy is likely to follow an improving trend as the impact of Covid-19 wanes gradually; the pace is however expected to be only moderate. The BOJ cut its growth forecast for the 2020 fiscal year ending in March 2021 to -5.6% (previous: -5.5%), as it took a slightly more downbeat view for the current quarter's economic recovery. It revised the 2021 fiscal year growth to 3.9% (previous: +3.6%). Meanwhile, CPI ex-fresh food inflation is expected to be at -0.5% at the end of fiscal year 2020 and bounce back to +3.9% (previous +3.6%) in fiscal year 2021.

- ***US new jobless claims at 900k last week; robust homebuilding activity continued:***
  - Initial jobless claims fell by 26k to 900k for the week ended 16 Jan (prior: 926k); the elevated level of new filings indicates that US firms continued to lay off workers this month amid sky-high coronavirus cases.
  - Housing starts jumped more than expected by 5.8% m/m in December (Nov: +3.1%); housing starts had now risen for seven months for the last eight months as builders rushed to fulfil demand in an inventory-lean environment.
  - Building permits also picked up 4.5% m/m in December (Nov: +5.9%), adding to signs that housing starts will rise again in the coming months.
  - The Philadelphia Fed Manufacturing Index jumped to 26.5 in January, from 9.1 prior, a positive reading for the manufacturing sector.

Forex

MYR (Neutral to Slightly Bullish)

- USD/MYR fell 0.4% to 4.0290 on Thursday. Pair has broken 4.03 support and the downtrend is likely to continue especially after the broader greenback weakened overnight. BNM's decision to maintain OPR and its neutral policy stance also bodes well with MYR to some extent. In the short term, we turn **neutral to bearish on USD/MYR** after BNM's policy pause while at the same time expecting US stimulus optimism to fade now that Biden has settled in.
- **Factors supporting**: Economic recovery, less dovish MPC, USD weakness
- **Factors against**: Risk aversion, domestic politics, second lockdown.

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

- DXY was down by 0.38% on Thursday, reaching a low of 90.45 and a close of 90.13. This came as initial jobless claims were slightly better than expected (900k vs 935k consensus forecast). We watch for some continued downward trend, albeit at a gradual pace. Support at 90.20 while resistance is at 90.90. Key focus today is on the Markit PMIs.
- **Factors supporting**: Higher yields, Democrat sweep reducing reliance on monetary policy, risk aversion, Global tensions
- **Factors against**: Ultra-easy Fed policy, economic recovery, vaccination

EUR (Neutral)

- EUR/USD gained by 0.5% to close at 1.2164. This came as ECB kept its policy settings unchanged, saying that rates will stay at present or go lower until inflation goal is near. ECB chief Lagarde also said that the economy contracted in 4Q. As mentioned previously, there may be renewed upsides if 1.2150 is breached promptly towards a 1.2150 to 1.2300 range. Focus turns to PMIs.
- **Factors supporting**: Improvement in Eurozone fundamentals
- **Factors against**: Risk aversion, Covid-19 outbreak, ECB introducing further monetary measures

GBP (Neutral-to-Bullish)

- GBP/USD reached the highest levels since May 2018, touching a high of 1.3746 before closing at 1.3733. Resistance is now at 1.3760 and next 1.3800 big figure. GBP may stay buoyant from positive risk sentiments. Data focus is on retail sales and PMI on 22 January.
- **Factors supporting**: Rapid increase in vaccination rates
- **Factors against**: Risk aversion, Covid-19 outbreak, Bank of England increasing monetary accommodation

JPY (Neutral)

- USD/JPY stayed flat, closing at 103.50 on Thursday. This came as BOJ announced unchanged policy settings. Improved its outlook. Key point was Kuroda's comments that negative rates are subject to review and importance of keeping the yield curve low. JPY may underperform on a mix of weak domestic fundamentals, risk appetite rebound and central bank stance. Support and resistance at 103.00 and 104.45 respectively.
- **Factors supporting**: BOJ policy, risk aversion
- **Factors against**: Weak fundamentals, Covid-19 outbreaks in Japan

- ***Gloomy consumer sentiment in Eurozone:*** Preliminary reading of the European Commission Consumer Confidence Index fell to -15.5 in January, from -13.8 in the previous month, suggesting that consumers turned gloomier at the start of the year. This may reflect the impact of government's extended lockdowns/stricter rules and the high daily infections on overall consumer confidence in the euro area.

- ***UK consumer sentiment weakened:*** The GfK consumer Confidence Index fell to -28 in January, from -26. This was better than analysts' expectation of -30. Both the gauges for economic expectation for next 12 months and the climate for major purchase declined, painting a more downbeat picture of overall UK consumer sentiment this month as the pandemic remained out of control.

- ***Japan's key inflation gauge recorded steepest fall in a decade:*** Japan's headline CPI recorded a deeper 1.2% y/y fall in December (Nov: -0.9%). The closely watched CPI ex-fresh food index (the BOJ's main inflation gauge) also shed 1.0% y/y (Nov: -0.9%), its largest drop in a decade, as price pressure continued to lose momentum in Japan. This adds to deflationary concerns amid weak spending behaviours that were worsened by the raging pandemic.

- ***Hong Kong's CPI fell more than expected:*** Hong Kong CPI inflation decelerated to -0.7% y/y in December, from -0.2% prior. This is much steeper than consensus forecast of 0.3% decline. This reflects impact of government's subsidy that brought down prices of certain goods and services. Underlying inflation (after stripping off government's one-off relief) was unchanged, implying at muted inflation.

- ***New Zealand's inflation beat expectations:*** New Zealand CPI rose 0.5% q/q in the fourth quarter of 2020, extending from the 0.7% gain prior. This translates to 1.4% y/y gain (3Q: +1.4%), better than consensus estimate for a 1.1% increase. The firmer inflation was led by higher prices for domestic accommodation services (hotels/motels/AirBnb), homebuilding and used cars. This offers positive signs for overall consumption trajectory in New Zealand and suggests that the RBNZ would keep its OCR unchanged.

- ***Australia's retail sales pulled back***: Australia's retail sales fell 4.3% m/m in December following the 7.1% surge in the prior month. Consumers likely have scaled back on spending after the recent splurge. Nonetheless, the outlook for retail sales remained positive given the improvement in the labour market.

AUD (Neutral-to-Bullish)

- AUD/USD gained by 0.2%, closing at 0.7764. This came as unemployment figures were lower than expected, and Markit PMIs stay on strong positive levels. We are constructive on AUD. AUD may benefit from recovering commodity price outlooks, and as event risks dissipates. However, pair has looked stretched and we watch for a range of 0.7600-0.7810.
- **Factors supporting**: Fundamentals improve from current levels
- **Factors against**: Risk aversion, RBA policy, Australia-China relations

SGD (Neutral)

- USD/SGD was down slightly to 1.3228 close on Thursday, with a modest 0.2% gain for the SGD. Range of 1.3200-1.3360 is still likely to persist as we stay confident of Singapore's fundamentals at the moment. However, Covid-19 community clusters are returning and presents slight risks towards the current economic situation at this stage. A break of the 1.32 big figure may turn attention to the 1.3162 support.
- **Factors supporting**: Economic recovery, CNH strength
- **Factors against**: Risk aversion, potential deterioration in Singapore fundamentals

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