Hong Leong Bank

Global Markets Research
Daily Market Highlights

Key Takeaways

- **US stock broadly fell overnight, dragged down by the losses in the tech sectors** as investors continued to rotate out (of tech) and bought cyclical shares. **Energy shares gained 2.5% alongside a rebound in oil prices** as a massive container ship was stuck at the Suez Canal, risking a disruption of global trade. The Dow Jones ended the session unchanged from the previous closing while the S&P500 fell 0.6%. NASDAQ lost 2.0%. Crude oil benchmarks largely recouped the losses from this week's selloff following said blockage. Brent oil gained nearly 6.0% to $64.41/barrel while WTI jumped 5.9% to $61.18/barrel

- **Treasury yields fell for the fourth straight session** on Wednesday on the back of safe haven demand amid concerns for the Eurozone's economy as the continent still struggles to contain the pandemic. **Fed Chair Jerome Powell repeated in a testimony before the Senate Banking Committee that he wasn't concerned about rising long-term yields and that it reflected vaccination optimism and a brighter growth prospect.** The 10Y UST last closed with a yield of 1.61% (-1.2bps). Gold futures rebounded by 0.5% to $1733.2/oz.

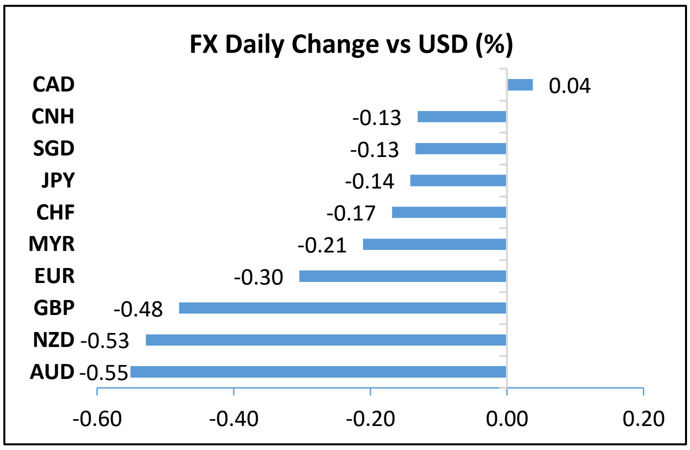
- **A series of preliminary PMI readings show that faster vaccination rates and easing pandemic helped boost economic activity in US and UK.** Manufacturing activity in the Eurozone and Japan recorded solid growth but services activity still lagged. **Durable goods orders fell for the first time in ten months in the US.** Mortgage refinancing activity continued to decline amid higher rates. Eurozone's consumer confidence recorded its best reading in a year. **UK's CPI inflations slowed in February while Malaysia saw its first positive CPI print in a year.**

- The dollar continued to edge up after significantly strengthening the previous session. DXY touched a new high of 92.61 in the process, above a major resistance of 92.50. The USD strengthened against nearly all G10 currencies where the AUD and NZD were the biggest losers. This comes as markets stayed nervous as yields fell. Breaking of the 92.50 resistance now shifts attention towards the 93.00 level. Only a pullback to 91.80 may signal at some consolidation. We maintain our **neutral to bullish** outlook of the USD.

- **USD/MYR** extended gain to Wednesday, closing 0.2% higher at 4.1330. We turn **neutral to bullish** on the pair as persistent risk aversion and bullish USD sentiment could lead to a breach of 4.14 sooner than expected.

Market Snapshots

	Last Price	DoD %	YTD %
Dow Jones Ind.	32,420.06	-0.01	5.93
S&P 500	3,889.14	-0.55	3.54
FTSE 100	6,712.89	0.20	3.91
Hang Seng	27,918.14	-2.03	2.52
KLCI	1,602.40	0.45	-1.52
STI	3,133.31	0.05	10.18
Dollar Index	92.53	0.21	2.88
WTI oil ($/bbl)	61.18	5.92	25.99
Brent oil ($/bbl)	64.41	5.95	24.34
Gold (S/oz)	1,733.20	0.47	-8.53
CPO (RM/tonne)	4,254.00	4.44	12.30



Source: Bloomberg

Overnight Economic Data			
US	→	UK	→
EU	→	JP	→
Malaysia	↑		

Up Next

Date	Events	Prior
25/03	HK Exports YoY (Feb)	44.00%
	US Initial Jobless Claims (20 Mar)	--
	US GDP Annualized QoQ (4Q T)	4.10%
	US Kansas City Fed Manf. Activity (Mar)	24
26/03	SI Industrial Production YoY (Feb)	8.60%
	UK Retail Sales Inc Auto Fuel MoM (Feb)	-8.20%
	US Advance Goods Trade Balance (Feb)	-$83.7b
	US Personal Income (Feb)	10.00%
	US Personal Spending (Feb)	2.40%
	US PCE Core Deflator YoY (Feb)	1.50%
	US U. of Mich. Sentiment (Mar F)	83

Source: Bloomberg

Macroeconomics

Faster vaccination rates and easing pandemic helped boost economic activity in US and UK; Manufacturing activity in the Eurozone and Japan recorded solid growth but services still lagged.

- The US' Markit Manufacturing PMI rose slightly to 59.0 in March (Feb: 58.6), according to a preliminary reading while the services PMI also gained a little to 60.0 in the same month (Feb: 59.8). The exceptionally strong readings suggest the surge in economic activity after the mid-Feb winter disruption as well as the loosening of Covid-19 rules in certain states.
- The UK's Markit/CIPS Manufacturing PMI picked up considerably to 57.9 in March (Feb: 55.1) and the services gauge jumped sharply to the expansion area, at 56.8 (Feb: 49.5) after staying at sub-50 levels for four months.
- The Eurozone's Markit Manufacturing PMI jumped to 62.4 in March (Feb: 57.9) driven by a surge in output. The services sector PMI also saw improvement at 48.8 (Feb: 45.7) albeit still below 50.
- Japan's Markit Manufacturing PMI improved slightly to 52.0 in March (Feb: 51.4). The services PMI was little changed at 46.5 (Feb: 46.3), reflecting the diverging outlook between both sectors.

US' durable goods orders declined in February after weather disruption:

- Durable goods orders in the US fell 1.1% m/m in February (Jan: +3.5%), its first decline in ten months as the adverse weather condition in mid-Feb disrupted the supply chain and demand. The core capital orders also declined by 0.8% m/m (Jan: +0.6%). This is expected to be a blip in manufacturing orders and we expect orders to recover in March.
- In a separate note, mortgage applications in the US fell 2.5% last week as the higher interest rates led to a fall in refinancing applications. Mortgages to purchase homes continued to increase.

Eurozone's consumer confidence jumped in March:

- Preliminary reading of the European Commission's consumer confidence index jumped to -10.8 in March, from -14.8 prior, marking its highest reading since February last year. This reflects optimism over the recent loosening of some Covid-19 restrictions and generally the effort to vaccinate the population.

UK CPI inflation unexpectedly lost steam in February:

- UK's CPI inflation slowed to 0.4% y/y in February (Jan: +0.7%), contrary to consensus forecast for a pick-up to 0.8% y/y. The core CPI rate also eased to 0.9% y/y (Jan: +1.4%) compared to forecast of 1.4%.
- The sharper decline in prices of clothing & footwear alongside the smaller gain in healthcare, household goods, recreation and restaurants & hotels have contributed to the smaller inflation rate.
- Nonetheless, the jump in producer prices inflation from 1.3% y/y to 2.6% y/y suggests that the higher production cost may feed through to consumer prices in March.

Forex

MYR (Neutral-to-Bearish)

- USD/MYR extended gain to Wednesday, closing 0.2% higher at 4.1330. We turn neutral to bullish on the pair as persistent risk aversion and bullish USD sentiment could lead to a breach of 4.14 sooner than expected.

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

- The dollar continued to edge up after significantly strengthening the previous session. DXY touched a new high of 92.61 in the process, above a major resistance of 92.50. This comes as markets stayed nervous as yields fell. Breaking of the 92.50 resistance now shifts attention towards the 93.00 level. Only a pullback to 91.80 may signal at some consolidation.

EUR (Neutral-to-Bearish)

- EUR/USD hit support of 1.1810 but closed near the low on Wednesday. This came despite a recovery in PMI figures in the Eurozone. We see downsides ahead, with revised support now at 1.1710 and resistance at 1.1900.

GBP (Neutral-to-Bearish)

- GBP/USD continued to retreat on Wednesday, down by almost 0.5% for the day. In the process, the pair hit a low of 1.3674. UK composite PMI turned sharply positive (56.6) after a negative print the previous month (49.6). We turn our range lower, and now see support at 1.3600, and resistance close to 1.3800.

JPY (Neutral-to-Bearish)

- USD/JPY was slightly resistant and was up by a slight 0.13%. Pair however, reached a high of 108.96 in the process. A shift in range is showing some yen recovery, and now turns attention towards a 108.00-109.36 range. Dollar strength still likely to dominate posing upside risks.

AUD (Neutral-to-Bearish)

- AUD/USD fell by an additional 0.55% on Wednesday's session after Tuesday's 1.6% drop. Pair touched a low of 0.7580 in the process. This negative sentiment arose from US dollar strength, Covid-19 spread and geopolitics. Australia's worst floods in nearly half a century has weighed in heavily on the mood. We maintain our bearish bias for AUD, and anticipate a support of 0.7530 and resistance of 0.7730.

SGD (Neutral-to-Bearish)

- USD/SGD was 0.13% up on Wednesday's session, reaching 1.3477 high before closing around the 1.3460 level. Higher inflation pressures are supporting expectations of some MAS tightening in early 2022. However, SGD was adversely impacted by risk off sentiments. We estimate support and resistance at 1.3400 and 1.3531 respectively.

Malaysia recorded first positive CPI print in a year:

- Headline Consumer Price Index (CPI) bounced back to positive territory for the first time since Feb-20, albeit at a slightly slower than expected pace of 0.1% y/y in February (Jan: -0.2% y/y). This put an end to the 11th consecutive month of transitory "deflation", as the decline in transport prices continued to narrow as global crude oil prices improved.
- Despite the uptick in headline CPI, core CPI held steady at +0.7% y/y for the 4th consecutive month. This underscored still benign inflationary pressure in the system, which should assuage any concern that may arise on inflationary and overheating risks.
- While we expect CPI readings to trend higher going forward, peaking at 4.3-4.5% y/y in April-May distorted by base effect, we expect some pullback towards the long run average of 2.0-3.0% in the subsequent months, keeping our full year CPI forecast of +2.2% y/y intact.

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