HongLeong Bank

Global Markets Research

Daily Market Highlights

Key Takeaways

- **US stocks tumbled overnight**, reversing the most recent gains. Investors fled the tech sector and spurred the broad-based selling of equities. The Dow Jones Industrial Average shed nearly 560pts or 1.8% after just hitting a record high in the prior session; the S&P 500 lost 2.5% and NASDAQ plunged 3.5%. **Fed Chair Jerome Powell's dovish congressional testimony did not stop investors from selling treasuries as markets continued to anticipate higher inflation that could lead the Fed to tighten policy eventually.** The latest set of jobless claims data suggest that economic recovery is underway and are supportive of this view.

- **Bond yields jumped by 4 to 21 bps across the curve**, made worse by the poor demand for the newly auctioned 7-year treasury notes which yielded a poor BTC of 2.04x. The yield on 10Y UST crossed 1.60% briefly before pulling back to 1.52% (+14bps). **The curve steepened sharply. The dollar staged some moderate rebound** - commodity currencies as well as GBP and JPY weakened against the USD. CHF went up slightly while EUR was flat. This left the dollar index flat at 90.13. Gold prices extended decline to the third session, futures shed more than 1.0% to $1775.4/oz. Oil prices stabilised with Brent crude holding steadily at $66.88/ barrel while WTI up slightly (+0.5%) to $63.53/barrel.

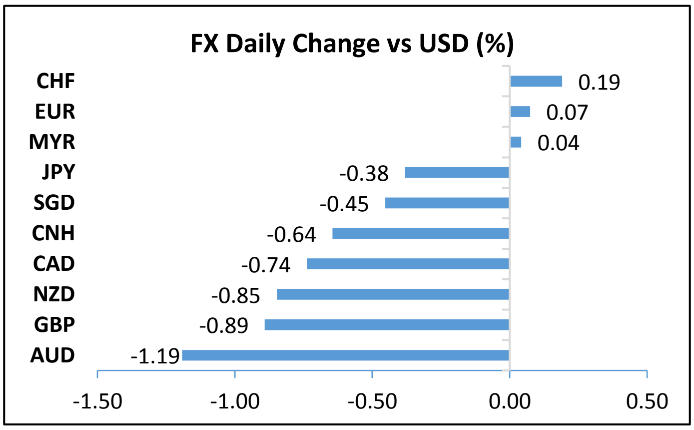
- On the data front, **US initial jobless claims fell by 111k to 730k last week, better than consensus forecast**. The US 4Q GDP growth was revised to 4.1% q/q (vs 4.0% prior). Durable goods orders rose for the ninth month but the fall in pending home sales indicates fatigue in housing boom. **Eurozone's economic sentiment improved amid vaccination drives.** Japan's industrial production rose 4.2% m/m and retail sales fell 0.5%. Hong Kong exports reported double digit jump (+44%) on favourable base effect. New Zealand's annual trade surplus narrowed in January.

- DXY was slightly down on Thursday, as it struck by volatility, with a relatively wide intraday range of 89.68-90.29. After the dust settled, USD strengthened against AUD, GBP and NZD, but weakened slightly compared to the EUR. We anticipate a **slightly bearish USD** ahead, and eye a range of 89.40-90.60.

- USD/MYR continued to trade on a neutral note, closing little changed (-0.034%) at 4.0400 on Thursday. We remain **neutral on USD/MYR**, given the continuously mixed USD performance and anticipate a range of 4.0250-4.0600 amid a lack of catalyst on the domestic front. Exports data are not expected to elicit any meaningful movements on the pair.

Market Snapshots

	Last Price	DoD %	YTD %
Dow Jones Ind.	31,402.01	-1.75	2.60
S&P 500	3,829.34	-2.45	1.95
FTSE 100	6,651.96	-0.11	2.96
Hang Seng	30,074.17	1.20	10.44
KLCI	1,581.54	1.54	-2.81
STI	2,973.54	1.67	4.56
Dollar Index	90.13	-0.05	0.22
WTI oil ($/bbl)	63.53	0.49	31.02
Brent oil ($/bbl)	66.88	-0.24	29.11
Gold (S/oz)	1,775.40	-1.17	-6.55
CPO (RM/tonne)	3,975.00	-0.53	4.94



Source: Bloomberg

Overnight Economic Data

US	→	Eurozone	↑	New Zealand	↓
Japan	↑	Hong Kong	↑		

Up Next

Date	Events	Prior
26/02	MA Exports YoY (Jan)	10.8%
	SI Industrial Production YoY (Jan)	14.3%
	US Advance Goods Trade Balance (Jan)	-$82.5b
	US Personal Spending (Jan)	-0.2%
	US PCE Core Deflator YoY (Jan)	1.5%
	US U. of Mich. Sentiment (Feb F)	76.2
01/03	AU AiG Perf of Mfg Index (Feb)	55.3
	AU Home Loans Value MoM (Jan)	8.6%
	VN Markit Vietnam PMI Mfg (Feb)	51.3
	MA Markit Malaysia PMI Mfg (Feb)	48.9
	JN Jibun Bank Japan PMI Mfg (Feb F)	50.6
	CH Caixin China PMI Mfg (Feb)	51.5
	EC Markit Eurozone Manufacturing PMI	57.7
	UK Markit UK PMI Manufacturing SA	54.9
	US Markit US Manufacturing PMI (Feb F)	58.5
	US Construction Spending MoM (Jan)	1.0%
	US ISM Manufacturing (Feb)	58.7

Source: Bloomberg

Macroeconomics

- ***Lower initial jobless claims points to US job market recovery:***
  - Initial jobless claims came in lower than expected at 730k for the week ended 20 Feb, 111k fewer than 841k claims recorded in the prior week. Analysts had been expecting the new filings for unemployment benefit to be at 825k. The positive reading offers signs that the US job market is recovering further as the improvement in the pandemic situation alongside ongoing vaccination drives allowed businesses to hire more employees. However there is also the possibility that the energy crisis and cold weather have disrupted the process to file for claims.
  - The US' 4Q annualised GDP growth was revised higher from 4.0% to 4.1% q/q according to the latest estimate. This followed the 33.4% q/q rebound in 3Q when the economy reopened. For the full year of 2020, the US economy shrank 3.5% (2019: +2.2%).
  - Durable goods orders rose 3.4% m/m in January (Dec: +1.2%), marking its ninth consecutive months of gains. Core capital orders also registered a 0.5% m/m increase (Dec: +1.5%), implying at strong business spending.
  - Pending home sales fell 2.8% m/m in January (Dec: +0.5%), adding to signs of fatigue in the current housing boom, suggesting that existing home sales may pull back in the coming months.
  - The Kansas City Fed Manufacturing Index rose to 24 in February (Jan: 17), in line with solid manufacturing data.

- ***Eurozone's economic sentiment improved in February:*** The European Commission Economic Sentiment Indicator improved to 93.4 in February, reflecting less gloomy sentiments across the services, industrial and consumer segments. The number of new Covid-19 cases remained high in major economies but the ongoing vaccination drives helped improve overall confidence levels.

- ***Japan's industrial output came back strong after two-month slide; retail sales saw marginal decline:***
  - Japan's industrial production staged a strong 4.2% m/m rebound in January (Dec: -1.0%) after pulling back for two months straight in Nov-Dec. The reading is better than consensus forecast of 3.8%, as strong external demands supported the industrial sector. Compared to the same month last year, output was 5.3% y/y lower (Dec: -2.6%).
  - Retail sales recorded a minor 0.5% m/m in January (Dec: -0.7%), marking its third successive fall since November. The smaller than expected fall came as a surprise given that the pandemic was still raging in January. The number of daily cases has reduced significantly in February, suggesting that retail sales may have improved this month. Year-on-year, retail sales fell 2.4% (Dec: -0.2%).

- ***Hong Kong exports jumped 44% on base effect:*** Hong Kong's exports jumped 44% in January (Dec: +11.7%) thanks to favourable base effect. In the same month last year, exports had fallen by nearly 23%. The sharp growth was a result of broad-based increase in shipments to its trading partners- exports to China (HK's main trading partner) registered a whopping 58.8% y/y growth ahead of the Lunar New Year celebration while exports to the US and Japan also rose over 18% y/y. Imports recorded an equally steep growth of 37.7% y/y (Dec: +14.1%).

Forex

MYR (Neutral)

- USD/MYR continued to trade on a neutral note, closing little changed (-0.034%) at 4.0400 on Thursday. We remain neutral on USD/MYR, given the continuously mixed USD performance and anticipate a range of 4.0250-4.0600 amid a lack of catalyst on the domestic front. Exports data are not expected to elicit any meaningful movements on the pair.

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

- DXY was slightly down on Thursday, as it struck by volatility, with a relatively wide intraday range of 89.68-90.29. After the dust settled, USD strengthened against AUD, GBP and NZD, but weakened slightly compared to the EUR. We anticipate some slight dollar weakness ahead, and eye a range of 89.40-90.60.

EUR (Neutral-to-Bullish)

- EUR/USD advanced slightly on Thursday, within an intraday range of 1.2156 and 1.2243. Pair pulled back after the intraday high to end around 1.2175 level. We are slightly constructive on EUR/USD, placing resistance at 1.2280 and support at 1.2050.

GBP (Neutral-to-Bullish)

- GBP/USD stretched to a high of 1.4182 (lower than previous session's 1.4282), but retreated to just above the 1.4000 big figure. This was dragged by market concerns, after prior outperformance. If GBP moves higher again, the focus is on the 2018 high of 1.4377. However, a correction to 1.4000 may turn momentum away from current uptrend.

JPY (Neutral-to-Bearish)

- JPY stayed vulnerable despite risk aversion. USD/JPY reached a high of 106.40 before a pullback to close around 106.20. We turn biased against the yen, examining a range of 105.00-107.50 for USD/JPY. There is a possibility of range movements instead.

AUD (Neutral-to-Bullish)

- AUD/USD pulled back from market fears after prior rallies. Pair touched a high of 0.8007, highest since February 2018. However, it plummeted sharply to a low of 0.7859, closing near-by. We stay slightly bullish on AUD, after recent volatility. We see eventual upside momentum, with resistance at 0.8000. A pull back to 0.7850 will signal at some consolidation, before the upward movements resume.

SGD (Neutral)

- USD/SGD gave up some prior downward moves, back up to a high of 1.3269 after hitting a low of 1.3165. This was affected by risk aversion. For the week ahead, we expect USD/SGD to stay within a range of 1.3157-1.3390. We expect the SGD to benefit from dollar weakness, although it may underperform other currencies' rallies. Industrial production is the key data left for this week to watch.

- ***New Zealand's sentiment stabilised; recorded trade deficit in January:***

– New Zealand's business confidence weakened in February according to the latest ANZ Confidence Index which came in lower at 7.0 (Dec: 9.4). The activity outlook index was little changed. Note that ANZ did not conduct a survey in January.

– In a separate note, the ANZ Consumer Confidence Index was also little changed at 113.1 in February (Jan: 113.8). Both readings implied some consolidations in overall economic sentiments as the recovery expectations in New Zealand fizzled out.

– New Zealand recorded a narrowed trade surplus of NZD 2.75b in the 12 months to January (Dec: 2.98b) after it recorded a deficit of NZD626m in the single month of January. Exports fell sharply by 22.2% m/m in January (Dec: +2.7%) reflecting fall in dairy exports while imports was 9.4% m/m lower (Dec: +8.1%)

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