Global Markets Research

Daily Market Highlights

Key Takeaways

- **US stocks rose modestly overnight**, rebounding from Tuesday's slump **as investors looked convinced that the Federal Reserve would not tighten monetary policy as the surging inflations domestically and globally are expected to be temporary.** After last week's FOMC minutes that hinted at possibilities of starting conversations on tapering the Fed's asset purchase program, **several Fed officials signalled that they were in no rush to withdraw support.** The Dow pared intraday gains and closed Wednesday's session on a flat note. The S&P 500 rose 0.2%, led by gains in energy and consumer discretionary sectors. NASDAQ edged up 0.6%.

- **US yields rose slightly (+0.4 to +1.7bps) alongside the stronger dollar.** The 10Y UST last traded on Wednesday at 1.58% (+1.7bps). The dollar index bounced back from recent losses and added 0.5% to 90.04 as the USD strengthened across the board amid month-end short covering. **NZD was the sole winner against the USD, picking up nearly 0.8% after the RBNZ's hawkish signals.** Gold futures extended gain to the third session to close just over $1900/oz level, albeit with a more moderate gain (+0.2%) as the USD rebounded. It has retreated back below $1900 this morning. Spot price continues to trade steadily in the $1896-1897 range. **Crude oil prices rose for the fourth consecutive session as a brighter outlook for oil consumption overshadowed recent concerns over the return of Iranian supply.** Brent crude traded 0.3% higher at $68.87/barrel and WTI at $66.21/barrel (+0.2%).

- US' mortgages applications fell over 4.0% last week. Australia's Westpac Leading Index eased in April but still points to continuous growth. New Zealand's annual trade surplus narrowed in April. **Focus shifts to the US' second estimate for 1Q GDP growth (first estimate: annualised +6.4% q/q) as well as the latest weekly jobless claims data and the monthly durable goods orders.**

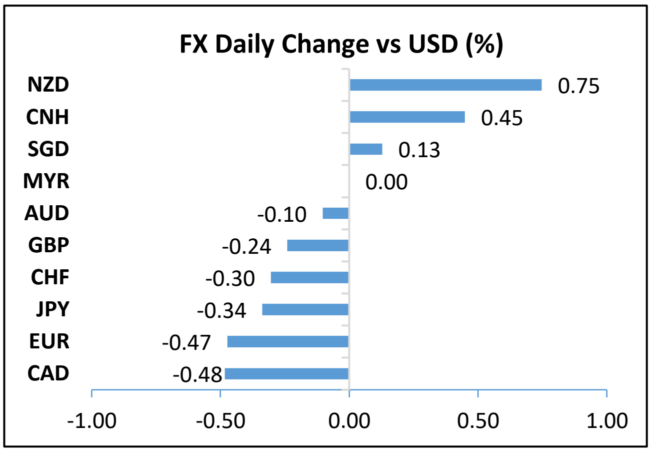
- The USD strengthened after two sessions of weaknesses on Wednesday. DXY was up by 0.45% to a close of 90.04. This was helped by positive market sentiments and views that Fed will stay accommodative in 2021. We are maintaining our weekly **neutral to bearish USD** outlook for now. Near-term, initial jobless claims, PCE and U. of Michigan sentiment are the main datasets we track.

- USD/MYR closed little changed at 4.1435 on Tuesday before Wednesday's public holiday. We maintain our **neutral to bullish USD/MYR weekly outlook** as heightened concerns over surging Covid-19 cases in Malaysia could weigh on the MYR. We continue to eye a range of 4.13-4.17 this week.

Market Snapshots

	Last Price	DoD %	YTD %
Dow Jones Ind.	34,323.05	0.03	12.14
S&P 500	4,195.99	0.19	11.71
FTSE 100	7,026.93	-0.04	8.77
Hang Seng	29,166.01	0.88	7.11
KLCI*	1,577.82	0.38	-3.04
STI*	3,146.09	0.72	10.63
Dollar Index	90.04	0.45	0.12
WTI oil ($/bbl)	66.21	0.21	36.46
Brent oil ($/bbl)	68.87	0.32	32.95
Gold (S/oz)	1,901.20	0.17	0.13
CPO (RM/tonne)**	4,300.00	-3.05	13.52

**Closings for 25 May*
*** Closing for 24 May*



Source: Bloomberg

Overnight Economic Data

US ↓ AU ↑ NZ ↓

Up Next

Date	Events	Prior
27/05	CN Industrial Profits YoY (Apr)	92.3%
	HK Exports YoY (Apr)	26.4%
	US Durable Goods Orders (Apr P)	0.8%
	US GDP Annualized QoQ (1Q S)	6.4%
	US Initial Jobless Claims (22 May)	444k
	US Pending Home Sales MoM (Apr)	1.9%
	US Kansas City Fed Manf. Activity (May)	31.0
28/05	NZ ANZ Consumer Confidence Index (May)	115.4
	JP Jobless Rate (Apr)	2.6%
	MA Exports YoY (Apr)	31.0%
	EZ Economic Confidence (May)	110.3
	US Advance Goods Trade Balance (Apr)	-$90.6b
	US Personal Income (Apr)	21.1%
	US Personal Spending (Apr)	4.2%
	US PCE Core Deflator YoY (Apr)	1.8%
	US MNI Chicago PMI (May)	72.1

Source: Bloomberg

Macroeconomics

RBNZ maintained monetary policy but delivered hawkish bias:

- RBNZ left its official cash rate (OCR) unchanged at 0.25% as expected. It also kept its Large-Scale Asset Purchase and Funding for Lending Programmes as expected, in order to meet its consumer price inflation and employment objectives.
- Most surprisingly, in its latest set of forecasts, the projected OCR path was upgraded with the next hike now expected in the second half of 2022, compared to the previous guidance of no hike until 2023. Note that prior to this statement, the RBNZ did not publish the OCR path beyond 1Q21.
- GDP is expected to have contracted 0.6% q/q in 1Q21, driven by weakness in the services sector, followed by a rebound in 2Q. Growth is set to be particularly strong in 2Q-3Q next year (+1.0 to +1.1% q/q).
- As for inflation, it now expects the annual CPI rate to temporarily surge this quarter (to 2.6% y/y) before easing again in 3Q onwards to 1.5% y/y in 2Q next year.
- It acknowledged that the global economic outlook has continued to improve but mentioned that "divergences in economic activity, both within and between countries" remain significant. Its medium-term outlook for growth remained similar compared to the last meeting, as confidence in outlook rose. However, RBNZ said that it retained its caution. It added that rising price pressures globally are likely to be temporary.

US' mortgage applications fell last week:

- Mortgage applications fell 4.2% last week, after having just risen by 1.2% in the week before. The refinancing segments dropped by 7.2% after its three successive weekly gains. The mortgage applications to purchase houses rose only 1.7% after a sharp decline, which continued to display buyers' wariness amid rising house prices and limited supply.

Australia's Westpac Leading Index points to continuous growth:

- The Westpac Leading Index's six-month annualised growth rate eased to 2.85% in April, from 3.31% in March, but indicates a strong above-trend growth momentum through the second half of 2021 and into early 2022. The moderating trend came following the 'extremely strong starting point" post Covid-19 lockdown.

New Zealand's annual trade surplus narrowed in April:

- Trade surplus in the 12 months to April narrowed to NZD733m, from NZD 1.7b prior. Trade surplus for April alone meanwhile widened to NZD388m, from $39m in the previous month, thanks to a smaller decline in export (-5.8% m/m) compared to the sharper fall in imports (-12%). In March, both exports and imports had recorded double digit growth rates.

Forex

MYR (Neutral-to-Bearish)

- USD/MYR closed little changed at 4.1435 on Tuesday before Wednesday's public holiday. We maintain our neutral to bullish weekly outlook for the pair as heightened concerns over surging Covid-19 cases in Malaysia could weigh on the MYR. We continue to eye a range of 4.13-4.17 this week.

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

- The USD strengthened after two sessions of weaknesses on Wednesday. DXY was up by 0.45% to a close of 90.04. This was helped by positive market sentiments and views that Fed will stay accommodative in 2021. Near-term, initial jobless claims, PCE and U. of Michigan sentiment are the main datasets we track.

EUR (Neutral-to-Bullish)

- EUR/USD pulled back to a close of 1.2192 after hitting a high of 1.2266 on 25 May. We stay slightly constructive on the currency on market positivity. Upside momentum stayed high despite levels looking elevated. Resistance at 1.2349 while support at 1.2140. Eurozone releases confidence indexes on 28 May.

GBP (Neutral-to-Bullish)

- GBP/USD was down by 0.24% on Wednesday after two sessions of range movements. This brought the pair down to 1.4119. For the week ahead, we look for further bids in the pair. Momentum is still upwardly biased at elevated levels. Resistance at 1.4237 while support lies at 1.4000.

JPY (Neutral)

- USD/JPY moved in a bid after flat changes a session earlier. Pair closed at 109.15, 0.34% higher. We see range movements for the pair over the coming week, within a range of 108.00 to 109.80. Momentum looks subdued as Covid-19 cases are elevated. Employment and jobless rate data is due to be released early 28 May.

AUD (Neutral)

- AUD/USD was 0.1% down on Wednesday's session, closing at 0.7743. This maintained the pair's range mostly around 0.77 to 0.78 big figures since 12 May. We still see the pair moving horizontally for the coming sessions, examining a range of 0.7660 to 0.7820. Momentum is low at evenly balanced levels. Risk sentiments regarding commodity prices and inflation may shape the pair's movements.

SGD (Neutral-to-Bullish)

- USD/SGD fell back by 0.13% on Wednesday, a third session of SGD strength vs. the USD. This brought the pair down to 1.3242 and is in line with our view since Tuesday, that the Covid-19 situation is not deteriorating further. 1.3220 is the support to watch before 1.3157, while resistance is at 1.3320.

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