Global Markets Research
Daily Market Highlights

Key Takeaways

- **US stock benchmarks ended on a mixed note overnight** as investors weighed the Federal Reserve's latest signals over asset purchase tapering. The S&P 500 was little changed (-0.02%) amid mixed sectoral performances with energy and communication shares being the major winners. The Dow fell 0.4%, despite the 4.2% rally in Boeing shares after it reported its first quarterly profit in nearly two years. NASDAQ advanced 0.7%, building on the upbeat earnings reports from big tech in the previous day.

- **The Fed said in its latest statement that the US economy has made progress towards achieving the FOMC's maximum employment and price stability goals and hinted that it could start discussing the moves to reduce its current $120b per month bond buying program.** Treasury yields were little changed after the FOMC decision. The yield on 10Y UST fell 0.8bps to 1.23%. Yields on the front end were flattish. Futures showed that investors raised their expectations over the first post-pandemic rate hike to happen at late 2022 (74% chance vs 68% prior).

- Spot gold traded higher at $1799.70/oz as the dollar weakened. Futures were flat. **Crude oil prices ticked up after the EIA reported a 4.1mil drop in US crude inventory to its pre-pandemic level, indicating that markets may remain tight despite the gradual output increase by OPEC+.** Brent crude settled at $74.74/barrel (+0.4%) while US WTI rallied over 1% to $72.39/barrel. Elsewhere, the Hang Seng and CSI 30 rose slightly from the dramatic selloffs in the past couple of sessions **as China securities regulator convened a virtual meeting with major investment banks to calm market fears over the government's recent crackdown in the private education sector.** Stock futures are pointing up in Hong Kong and Japan this morning, indicating higher openings.

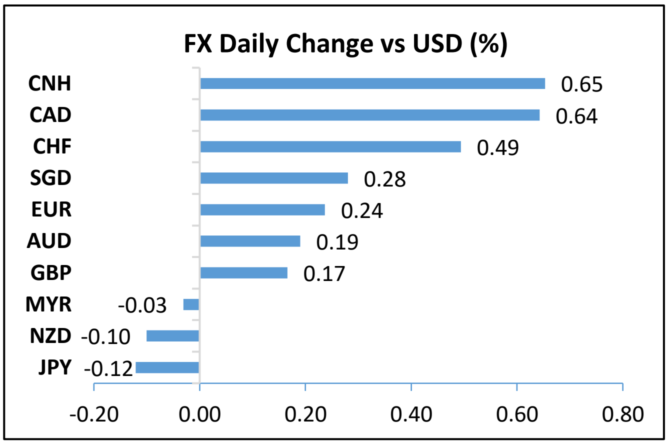
- US goods imports rose 1.5% m/m to a record high in June, reflecting the higher prices of industrial supplies such as petroleum, widening the goods trade deficit to $91.2b. Mortgage applications rose 5.7% w/w last week. Australia's annual inflation rate surged to 3.8% y/y in 2Q. Malaysia's export growth further normalised to 27.2% y/y in June.

- The USD weakened after US FOMC meeting. DXY pulled back from the intraday high of 92.75 to close at 92.32. Overall, DXY was down by 0.12% from previous day's 92.43. Powell's comments that the Fed is moving closer to discuss tapering but still with "some ground to cover to get there" may dampen near-term dollar strength. We turn tactically more **bearish on the USD** near-term. Focus turns to 2Q GDP.

- USD/MYR barely changed at Wednesday's closing, ending the session at 4.2245 (+0.03%). USD/MYR may experience some reversal after the weaker USD overnight but is likely to remain **constrained at circa 4.22-4.23 levels**. Focus is now on the pandemic situation on the local front as well as the 5-day parliament sitting. The RSI indicator continued to show the pair being at overbought levels. We watch out for a weekly range of 4.21-4.25.

Market Snapshots

	Last Price	DoD %	YTD %
Dow Jones Ind.	34,930.93	-0.36	14.13
S&P 500	4,400.64	-0.02	17.16
FTSE 100	7,016.63	0.29	8.61
Hang Seng	25,473.88	1.54	-6.45
KLCI	1,515.39	0.05	-6.87
STI	3,141.75	0.09	10.48
Dollar Index	92.32	-0.12	2.65
WTI oil ($/bbl)	72.39	1.03	49.20
Brent oil ($/bbl)	74.74	0.35	44.29
Gold (S/oz)	1,799.70	-0.01	-4.56
CPO (RM/tonne)	4,662.50	2.28	23.09



Source: Bloomberg

Overnight Economic Data

US	→	AU	↑
MA	↑		

Up Next

Date	Events	Prior
29/07	NZ ANZ Business Confidence (Jul)	-0.6
	EZ Economic Confidence (Jul)	117.9
	US Initial Jobless Claims (24 Jul)	419K
	US GDP Annualized QoQ (2Q A)	6.4%
	US Pending Home Sales MoM (Jun)	8.0%
30/07	NZ ANZ Consumer Confidence Index (Jul)	114.1
	JP Jobless Rate (Jun)	3.0%
	JP Job-To-Applicant Ratio (Jun)	1.09
	JP Industrial Production MoM (Jun P)	-6.5%
	JP Retail Sales MoM (Jun)	-0.4%
	HK GDP YoY (2Q A)	7.9%
	EZ Unemployment Rate (Jun)	7.9%
	EZ GDP SA QoQ (2Q A)	-0.3%
	EZ CPI Estimate YoY (Jul)	1.9%
	US PCE Core Deflator YoY (Jun)	3.4%
	US MNI Chicago PMI (Jul)	66.1
	US U. of Mich. Sentiment (Jul F)	80.8

Source: Bloomberg

Macroeconomics

Fed hinted at tapering discussion in coming meetings:

- In its latest statement, the Federal Reserve hinted overnight that it would start to assess the possibility of tapering its $120 per month asset purchase program in the coming meetings as the US economy has made progress towards achieving the FOMC's maximum employment and price stability goals.
- The Fed has maintained the fed funds rate target range unchanged at 0-0.25% as well as its bond buying (or QE) program as expected.
- It said that the indicators of economic activity and employment have continued to strengthened, but added that the sectors most adversely affected by the pandemic have shown improvement but have not fully recovered.
- Fed Chair Jerome Powell pointed out in his press conference that the US economy was "some way away from having had substantial progress towards the maximum employment goal, while referring to the labour market.
- There is little support of tapering Mortgage Back Securities (MBS) earlier than treasuries but there was some support to taper MBS at a faster rate once the process begins.
- Powell maintained his transitory inflation view. He said that inflation is expected to run above their objective for a few months before moving back down, but added that that "inflation could turn out to be higher and more persistent" than expected.

US goods imports rose to record high in June:

- The advance goods trade deficit widened to $91.2b in June, from $88.2b in May, reflecting a larger increase of imports (+1.5% m/m) to record high level the ongoing economic recovery in the US. The purchase of industrial supplies from overseas surged by a whopping 8.5% m/m and include the more expensive petroleum. Foods, feeds & beverages (+4%) and capital goods (+1.1%) also drove the higher imports. Exports meanwhile rose by a mere 0.3% m/m, reflecting the effect of supply chain constraints at US factories.
- Mortgage applications rose 5.7% w/w last week (prior: -4%) as refinancing applications jumped amid generally lower interest rates. The purchase index fell for the second successive week, implying a cooling demand.

Australia's CPI inflation accelerated in 2Q:

- Australia's CPI inflation accelerated to 0.8% q/q in the second quarter (1Q: +0.6%), versus the expected rate of 0.7%. This boosted the annual inflation rate to 3.8% y/y (1Q: +1.1%) which is the fastest pace since 2H 2008.
- Underlying or core inflation measured in the form of trimmed mean inflation rose 0.5% q/q (1Q: +0.4%). The annual rate for the core reading picked up to 1.6% y/y (1Q: +1.1%).
- Compared to the previous quarter, prices in nearly all categories of goods and services were higher, reflecting higher consumer spending before the lockdowns. The surge in y/y rate were mostly attributed to the low base effects. The latest reading is unlikely to lead to any change in the RBA's policy stance as the higher inflation is considered transitory as expected by the central bank.

Forex

MYR (Neutral-to-Bullish)

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USD (Neutral-to-Bearish)

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EUR (Neutral-to-Bullish)

- EUR/USD rebounded after an intraday low of 1.1773, to close at 1.1845 on Wednesday. This came as US FOMC dampened dollar strength. As a result, we see slight EUR/USD rebounds, after the 5-day low of 1.1755 on 23 July. We see a range of 1.1710 to 1.1910 for now. The Eurozone releases GDP and CPI data this week.

GBP (Neutral-to-Bullish)

- GBP/USD initially fell pre-FOMC meeting, but recovered to close 0.17% higher at 1.3902. UK Covid-19 cases are stabilising after previously spiking once again. We see slight rebounds in the coming sessions, after the pair has been dampened in recent weeks. Resistance now shifts to 1.40, as we peg support at 1.3810.

JPY (Neutral)

- USD/JPY was 0.12% higher to close 109.91, but endured an intraday high of 110.28. Rising Covid-19 cases in Tokyo dampened any yen rebound against the pivot in the USD. We continue to see limited moves in the coming session, eyeing a range of 108.80 to 110.80. Japan releases retail sales, industrial production and labour market data this week, which all may remind markets of its underperforming economy.

AUD (Neutral-to-Bullish)

- AUD/USD rebounded slightly on Wednesday's session, closing at 0.7376. Pair was 0.19% up for the day. Released data showed rising inflationary pressures in line with that of the US. We now see slight possible upsides, with resistance at 0.7500 and support at 0.7290. Eyes are PPI on 30 July on more clues on price pressures.

SGD (Neutral)

- USD/SGD dipped lower by 0.28% to close at 1.3566, after rising to an intraday high of 1.3619. Pair remains vulnerable to further bids if the fluid Covid-19 situation worsens again, but may turn more offered in the coming session from dollar weakness. We eye an immediate range of 1.3520 to 1.3640 for the time being.

Malaysia's exports showed resilience in June:

- Malaysia's export growth normalised further to 27.2% y/y in June, from the elevated level of +47.3% y/y in May. The increase still came in at a surprisingly lofty rate of, reflecting the resilience in external trade. Waning base effect and stricter lockdown measures appeared to have relatively muted impact on June's trade, offering some support to 2Q GDP.
- Imports also rose lesser compared to previous month, by 32.1% y/y (May: +50.3%), attributed to the smaller increases in capital goods, intermediate goods and consumption goods.
- The sharp pick-up in imports in 2Q overall suggests that negative net exports may pose some drags to 2Q GDP growth.

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