

Global Markets Research

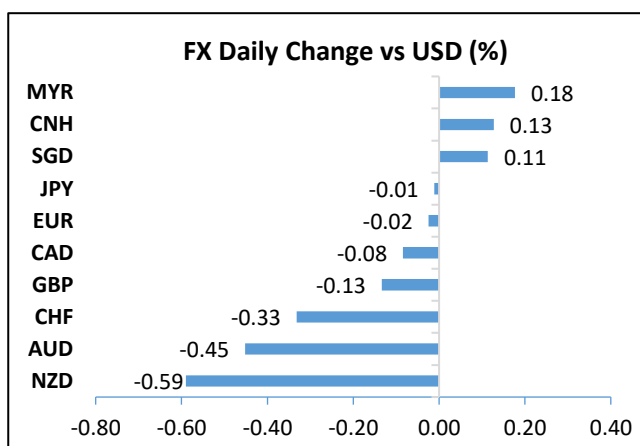
Daily Market Highlights

Key Takeaways

- US stock benchmarks eked out small gains** on the last trading day of May amid light trading volume ahead of three-day weekend (US markets will be closed for Memorial Day on 31 May). The S&P 500 rose 0.2% while the Dow and NASDAQ posted less than 0.1% gain. **Markets gave little reaction towards President Biden's \$6 trillion budget plan.** Both the Dow and S&P 500 wrapped up the month with their fourth consecutive monthly gain despite heightening inflation concerns as investors focused on post-Covid restriction economic growth. On the contrary, NASDAQ snapped a six-month winning streak with a modest loss in a month marked by volatilities in tech shares and the crypto market.
- Treasury yields fell slightly across the curve despite stronger than expected core PCE inflation, reflecting easing concerns on the part of investors that the Fed would raise rates sooner than expected.** The Fed has repeatedly said that accelerating inflation was merely transitory. The yield on 10Y UST was down to 1.59% on Friday (-1.2bps). **The dollar strengthened moderately** on the hot inflation data. The dollar index closed out Friday's session slightly higher at just above 90. Gold closed out the week on a bullish note, breaching the \$1900 key level. Futures last traded on Friday at \$1902.5/oz (+0.4% d/d). Crude oil benchmarks recorded mixed performances on Friday. Brent extended gain to the sixth successive session (+0.2%) to \$69.63/barrel, while US WTI fell 0.8% to \$66.32/barrel amid profit taking. Focus shifts to the US' NFP job report on Friday as well as a slew of PMI data throughout this week.
- US' core PCE inflation, the Fed's main inflation gauge jumped to an annual rate of 3.1% y/y in April.** On a monthly basis, the index rose 0.7%. **Personal spending and income growth both came off from the stimulus driven surge in March.** Eurozone's economic sentiment was boosted by reopening of the services industry. Japan's industrial output and retail sales both fell in April. **Malaysia's exports recorded a 63.0% y/y growth thanks to low base.**
- The USD stayed relatively stable for a second consecutive day, with the DXY just up 0.07% on Friday to a close of 90.03. This came after President Biden unveiled details of his Budget plan. PCE deflator came in within expectations, increasing again on a m/m basis. We see **slight weaknesses on the USD** for the coming week. Week ahead focus shifts to ISM and non-farm payrolls, after previously disappointing figures on the latter.
- USD/MYR weakened by 0.18% to 4.1330 on Friday, snapping a three-week gaining streak. We turned **neutral to bullish on the pair today**, suspecting some knee-jerk reactions after the government announced a two-week national lockdown last Friday, starting from 1 June. However, the economic impact is likely to be much smaller this round given that it is less restrictive compared to the MCO 1.0 first imposed in March last year. We estimate that every two-week lockdown would deduct 0.8-1.0ppt off GDP growth. For instance, a six-week lockdown would shave approximately 3ppts off headline GDP growth. We eye a range of 4.13-4.17 in the week ahead.

Market Snapshots

	Last Price	DoD %	YTD %
Dow Jones Ind.	34,529.45	0.19	12.82
S&P 500	4,204.11	0.08	11.93
FTSE 100	7,022.61	0.04	8.70
Hang Seng	29,124.41	0.04	6.95
KLCI	1,594.44	0.03	-2.01
STI	3,178.50	0.43	11.77
Dollar Index	90.03	0.07	0.13
WTI oil (\$/bbl)	66.32	-0.79	36.69
Brent oil (\$/bbl)	69.63	0.24	33.03
Gold (\$/oz)	1,902.50	0.36	0.48
CPO (RM/tonne)	4,260.00	1.03	12.46



Source: Bloomberg

Overnight Economic Data

US	→	EC	↑
JP	↓	MA	↑

Up Next

Date	Events	Prior
31/05	NZ ANZ Business Confidence (May F)	7.0
	CN Non-manufacturing PMI (May)	54.9
	CN Manufacturing PMI (May)	51.1
01/06	VN, MA, JP, CN, EZ, UK, US Markit Manufacturing PMIs	
	AU RBA Cash Rate Target (37043)	0.1%
	UK Nationwide House Px NSA YoY (May)	7.1%
	HK Retail Sales Value YoY (Apr)	20.1%
	EZ Unemployment Rate (Apr)	8.1%
	EZ CPI Estimate YoY (May)	1.6%
	US Construction Spending MoM (Apr)	0.2%
	US ISM Manufacturing (May)	60.7
	US Dallas Fed Manf. Activity (May)	37.3

Source: Bloomberg

Macroeconomics

US' core PCE inflation shot up more than expected in April:

- The Fed's key inflation gauge, the core PCE price index rose 0.7% m/m in April, from 0.4% prior. The annual rate jumped to 3.1% y/y, from 1.9% previously, surpassed the expected rate of 2.9%. Personal spending picked up by 0.5% m/m in April, following the stimulus-checks-driven 4.7% growth in March. This was reflected in the sharp fall in personal income (-13.1% vs +20.9% prior). May's personal outlay data confirmed that prices are set to increase further as the US economy recovers.
- The University of Michigan Consumer Sentiment Index however slumped in May, from 88.3 to 82.9 over concerns of surging prices.
- Advance goods trade deficit narrowed for the first time this year to \$85.2b in April, from \$92.0b in March as exports (+1.2% m/m) surged to a record high and imports (-4.2% m/m) retreated from previous month's record.
- The MNI Chicago PMI edged up to 75.2 in May (Apr: 72.1), indicating stronger regional manufacturing expansion.

Services sector reopening boosted Eurozone's economic sentiment:

- The European Commission's headline economic sentiment index came in higher than forecasted at 114.5 in May, from 110.5 in the previous month, lifted by the sharp gain (+9pts) in services sector confidence amid the reopening of the bloc's services industry. Optimism was broad-based as the pandemic situation improved in the continent and vaccination rates are picking up. Consumer confidence index turned less negative at -5.1, compared to -8.1 prior.

Japan's industrial production, retail sales fell in April:

- Japan's industrial production rose less than expected by 2.5% m/m in April (Mar: +1.7%), compared to the consensus forecast of a 3.9% growth. This marked IPI's second consecutive growth; the annual rate came in at 15.4% y/y, (Mar: +3.4%) inflated by the low base from last year during the first State of National Emergency.
- Retail sales fell 4.5% m/m in April (Mar: +1.2%), also more than the consensus estimate of 1.7%. Y/y, retail sales rose 15.5% (Mar: +3.0%). The latest fall in m/m sales offset the recent two months of gains as the government imposed another National Emergency in April in certain prefectures in an attempt to contain the fourth Covid wave ahead of the Olympics game. The latest set of restrictions have been extended to 20 June.

Malaysia's exports recorded double-digit gain on base effect:

- Exports accelerated for a 3rd consecutive month in April, doubling its growth pace to 62.9% y/y, from the 31.0% y/y increase in March. This marked its fastest growth since 1998, coming in within our expectation (+62.9%) but far exceeded market consensus estimate (+50.0%). The upbeat readings were broad-based, augmented by the low base effect in April last year when the world was almost in complete lockdown.
- Meanwhile, although paled in comparison to the sharp spike in exports, imports also expanded at a faster pace of 24.4% y/y in April (Mar: +19.2% y/y), its best in four years. Trade surplus narrowed on a month-on-month basis to RM20.5bn (Mar: RM24.2bn) as imports rose at a faster pace of 5.4% m/m vs the 0.6% m/m gain in exports.
- This however marked a turnaround from the RM3.5bn trade deficit registered in April 2020, which would provide a big lift to economic performance in 2Q.

Forex

MYR (Neutral-to-Bearish)

- USD/MYR weakened by 0.18% to 4.1330 on Friday, snapping a three-week gaining streak. We turned neutral to bullish on the pair today, suspecting some knee-jerk reactions after the government announced a two-week national lockdown last Friday, starting from 1 June. However, the economic impact is likely to be much smaller this round given that it is less restrictive compared to the MCO 1.0 first imposed in March last year. We estimate that every two-week lockdown would deduct 0.8-1.0ppt off GDP growth. For instance, a six-week lockdown would shave approximately 3ppts off headline GDP growth. We eye a range of 4.13-4.17 in the week ahead.

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

- The USD stayed relatively stable for a second consecutive day, with the DXY just up 0.07% on Friday to a close of 90.03. This came after President Biden unveiled details of his Budget plan. PCE deflator came in within expectations, increasing again on a m/m basis. We see slight weaknesses on the USD for the coming week. Week ahead focus shifts to ISM and non-farm payrolls, after previously disappointing figures on the latter.

EUR (Neutral-to-Bullish)

- EUR/USD was relatively range bound within 1.2133 and 1.2205 on Friday, for a second consecutive day. Despite some previous possible pullback on profit taking, we still remain slightly constructive on the EUR on positive fundamentals. Upward momentum stays high. Focus turns to the 1.23 big figure as resistance, while 1.2040 is the support. Data focus is on CPI, PPI and retail sales.

GBP (Neutral-to-Bullish)

- GBP/USD was down 0.13% to a close of 1.4188, after previously reaching 1.42 levels. Confidence remains supported by the lifting of certain Covid-19 restrictions. We see modest gains, eyeing resistance at 1.4300 and support at 1.4090. Momentum is biased on the upside. Covid-19 developments will likely be integral to GBP performance over the coming week.

JPY (Neutral-to-Bearish)

- USD/JPY was slightly up by 0.04% to a close of 109.85. This came after breaking 110 big figure, and the 31 March high of 110.97 will likely serve as a significant resistance. Support is at 108.90 for any pullback.

AUD (Neutral)

- AUD/USD came off by 0.45% on Friday to a close of 0.7712. Victoria state has introduced more restrictions after rising Covid-19 cases. Meanwhile, commodity prices stayed elevated. Data focus turns to RBA on 1 June, GDP on 2 June and trade/retail sales on 3 June. Watch range of 0.7660 to 0.7820.

SGD (Neutral-to-Bullish)

- USD/SGD was 0.11% down as the SGD gained from authorities' optimism about the domestic Covid-19 situation. Pair closed the week at 1.3228. We see slight downsides for the pair, with support at 1.3157 and resistance 1.3380, on some offer momentum. Watch China and Singapore PMIs for SGD drivers.

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