August 11, 2017

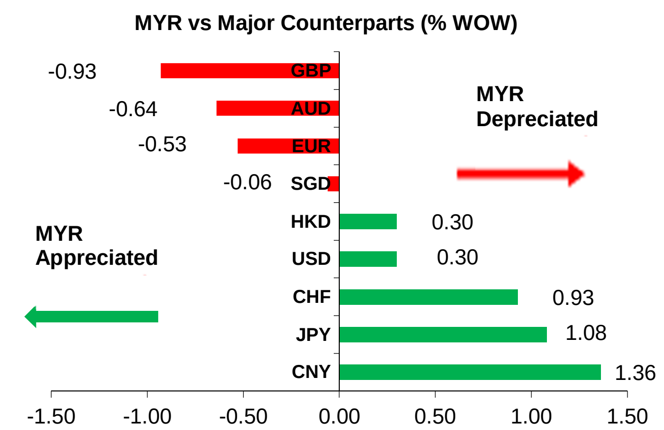
HongLeong Bank

Global Markets Research
Weekly Market Highlights

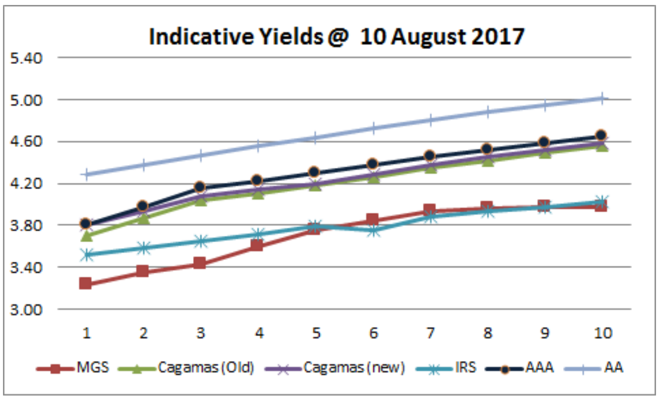
Weekly Performance

	Macro	Currency	Equity	10-y Govt Bond Yields
US	↔	↑	↓	↓
EU	↓	↓	↓	↓
UK	↔	↓	↓	↓
Japan	↔	↑	↓	↓
Malaysia	↔	↓	↑	↔
China	↓	↑	↓	↓
Hong Kong	↔	↓	↓	↑
Singapore	↑	↓	↓	↓

Weekly MYR Performance



Indicative Yields



Please see important disclosure at the end of the report

Macroeconomics

- Renewed geopolitical risks following heightened tension between the US and North Korea unnerved markets, sending global financial markets into risk-off mode and spurring flight to safety. This overshadowed a mixed bag of economic releases although positive vibes from last Friday's upbeat payroll report continued to keep sentiments supported earlier this week.
- China data that turned out on the soft side was in focus too. Softer trade numbers raised concerns over slower demand from both the external and domestic fronts. Reports also showed inflationary pressure remained relatively subdued in China, suggesting lack of demand-pull pressure despite improvement in global commodity prices.
- After the breather this week, next week calendar will be swamped by first tier data and market-movinng events. Topping investor radar will be minutes of the previous meetings from the FOMC, ECB and RBA. Investors will scrutinize the FOMC and ECB minutes for more insights on the timing of the central banks' tapering plans.
- On the data front, the flow is heavy and mainly first tier. US retail sales, housing starts, industrial production, Uni Michigan consumer sentiments, UK CPI, PPI, RPI, job reports, and retail sales, EU preliminary 2Q GDP, industrial production, trade balance, and CPI, are all on the deck. In Asia, China retail sales, industrial production, and fixed asset investment will take center stage. Back home, the much awaited 2Q GDP number will be released on Friday. Taking cue from upbeat indicators, we expect growth to stay elevated at 5.5-5.6% in 2Q, implying growth is on track to surpass 5.0% in 2017.

Forex

- MYR slipped 0.3% WOW to 4.2917 against a firmer USD but managed to beat 8 G10s that were on the retreat amid risk aversion. We maintain a slight bearish view on MYR next week against USD, possibly weighed down by unabating geopolitical concerns as well as risk aversion ahead of Malaysia GDP report. Apart from these, expect MYR direction to be dictated by USD performance. USDMYR remains technically bullish with likelihood of stronger upsides as momentum picks up. The 4.2977 level is now under threat, above which 4.3015 is soon to be broke, too. Do not rule out a test at 4.3098.
- USD strengthened against 8 G10s while the Dollar Index rose 0.61% WOW to 93.40, lifted by firmer employment data last Friday and then by refuge demand amid heightened geopolitical concerns between the US and North Korea. We expect this issue to prevail though possibly to a lesser extent next week, supporting a bullish USD, while upside in US data will provide further lift. FOMC minutes will be a key factor to either push USD higher to end current rebound. Bullish bias prevails but scope of gains is under threat after failing to hold above 93.54. The Dollar Index is still exposed to a climb to 93.70, but if 93.07 is lost, inclination to further losses increases.

Fixed Income

- UST continue to trade on range-bound mode but saw better support by Thursday's close. 10-year yields ended at 2.20% at time of writing. Sale of $24b 3-year, $23b 10-year and $15b 30-year notes garnered BTC cover of 3.13x, 2.23x and 2.32x respectively. Fed tapering expectations are expected to continue as recent data prints have turned more optimistic, paving the way for balance sheet reduction to start soon.
- Local govvies meanwhile saw trading levels thinner but still supported. Foreign holdings of MYR government bonds moderated lower for the month of July, with percentage holdings at 25.4% versus previous level of 26% (back in June). Percentage is based on non-resident holdings of governments bonds versus outstanding MGS/GII/SPK. Details for new 3-year MGS 2/21 was announced with tender size coming in at RM3.5b, a tad lower versus our projected size of RM4b. All eyes on 3-year MGS tender next Monday.

Contents

Macroeconomics

6-month Macro Outlook

	Economy	Inflation	Interest Rate	Currency
US	↔	↔	↔	↑
EU	↑	↔	↔	↓
UK	↓	↔	↔	↓
Japan	↔	↔	↔	↔
Australia	↔	↔	↔	↓
China	↓	↔	↔	↓
Malaysia	↓	↓	↔	↔
Thailand	↔	↔	↔	↔
Indonesia	↔	↔	↔	↔
Singapore	↔	↔	↔	↔

Review

- Renewed geopolitical risks following heightened tension between the US and North Korea unnerved markets, sending global financial markets into risk-off mode and spurring flight to safety. This overshadowed a mixed bag of economic releases although positive vibes from last Friday's upbeat payroll report continued to keep sentiments supported earlier this week.

- US nonfarm payrolls increased more than expected by 209k in July while the June number was upwardly revised by 9k to 231k. Unemployment rate dipped to 4.3% as expected, down from 4.4% previously though this is highly likely due to increased labour participation rate from 62.8% to 62.9% in July. More importantly, wage growth steadied at 2.5% YOY in July, against expectations for a softer increase of 2.4%, somewhat soothing longstanding concerns that absence of wage gains are denting consumer spending. The Atlanta Fed forecasts that the US economy is on track to grow 3.5% on an annualized pace in 3Q. Separately, Fed Evans and Bullard echoed plans to begin reducing balance sheet soon but reiterated inflation concern that could delay the Fed's plan for further interest rate increases. We are maintaining our view for no further Fed rate hike this year.

- RBNZ kept its key policy rate unchanged at 1.75% and policy tone shifted to a more dovish bias in our view. Policy makers commented that "monetary policy will remain accommodative for a considerable period. Numerous uncertainties remain and policy may need to adjust accordingly". We maintain our view that there is no strong justification for any policy move at this juncture and therefore not expecting any change in policy rates this year.

- China data that turned out on the soft side was in focus too. Exports grew at a softer than expected pace of 7.2% YOY while imports growth also moderated more than expected to 11.0% YOY in July, raising concerns over slower demand from both the external and domestic fronts. Any faster than expected slowdown would complicate the government's deleveraging plans to curb credit growth. Reports also showed inflationary pressure remained relatively subdued in China, suggesting lack of demand-pull pressure despite improvement in global commodity prices.

- This morning's final print of Singapore 2Q GDP growth came in at 2.9% YOY, more upbeat than the advance estimate, driven by quicker 2.4% YOY increase in the services sector which offset slower growth in manufacturing (+8.1% vs +8.5%) and continued contraction in the construction sector (-5.7% vs -6.3%). Growth is expected to moderate somewhat going forward amid still sluggish domestic demand but YTD growth of 2.7% has prompted MTI to narrow this year's growth forecasts to 2.0-3.0%, up from 1.0-3.0% previously.

- At the home front, Malaysia exports and IPI pulled back in June on seasonal factors and we expect this to be just a blip. The still resilient indicators in 2Q are expected to keep GDP growth elevated at 5.5-5.6%, higher than our initial estimate of 5.0-5.2%, amid sustained domestic demand and a lift from net exports.

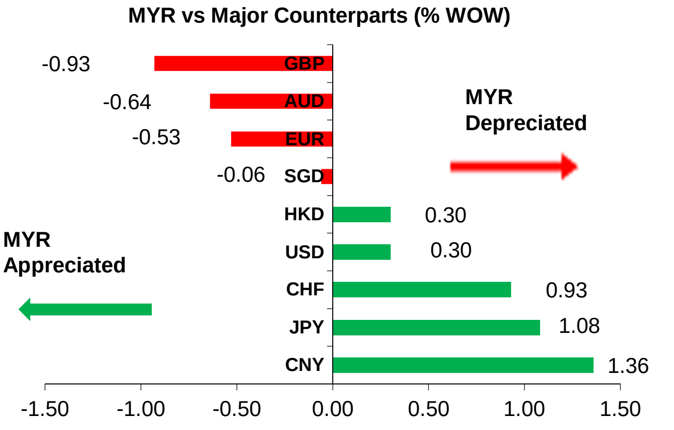
The Week Ahead…

- After the breather this week, next week calendar will be swamped by first tier data and market-movinng events. Topping investor radar will be minutes of the previous meetings from the FOMC, ECB and RBA. Investors will scrutinize the FOMC and ECB minutes for more insights on the timing of the central banks' tapering plans. Post-FOMC minutes, the annual Jackson Hole Symposium scheduled a week later on 24-26 August will be the next key watch ahead of the next FOMC meeting on 20-21 September.

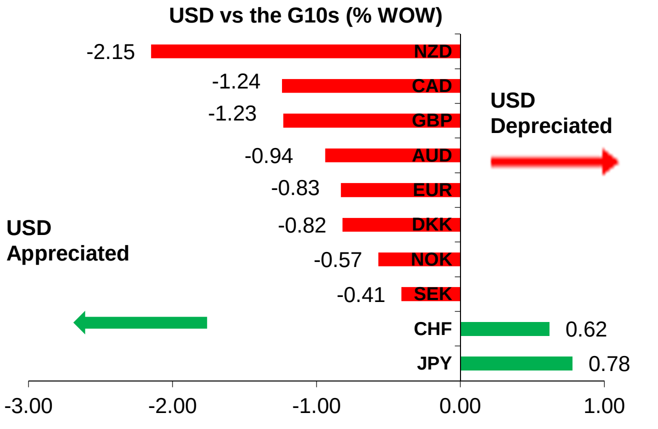
- On the data front, the flow is heavy and mainly first tier. US retail sales, housing starts, industrial production, Uni Michigan consumer sentiments, UK CPI, PPI, RPI, job reports, and retail sales, EU preliminary 2Q GDP, industrial production, trade balance, and CPI, are all on the deck.

- In Asia, China retail sales, industrial production, and fixed asset investment will take center stage to gauge the momentum of the China economy after exports disappointed and CPI landed on the soft side. Besides, preliminary 2Q GDP, industrial production, and trade balance from Japan, Singapore NODX, and Australia jobless rate and employment change are also due. Back home, the much awaited 2Q GDP number will be released on Friday. Taking cue from upbeat indicators, we expect growth to stay elevated at 5.5-5.6% in 2Q, implying growth is on track to surpass 5.0% in 2017.

Forex



Source: Bloomberg



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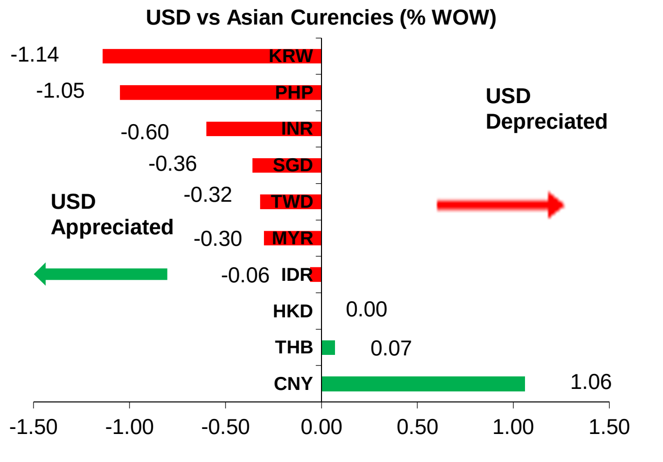


Source: Bloomberg

Review & Outlook

- **MYR**: MYR slipped 0.3% WOW to 4.2917 against a firmer USD but managed to beat 8 G10s that were on the retreat amid risk aversion. We maintain a slight bearish view on MYR next week against USD, possibly weighed down by unabating geopolitical concerns as well as risk aversion ahead of Malaysia GDP report. Apart from these, expect MYR direction to be dictated by USD performance. USDMYR remains technically bullish with likelihood of stronger upsides as momentum picks up. The 4.2977 level is now under threat, above which 4.3015 is soon to be broke, too. Do not rule out a test at 4.3098.

- **USD**: USD strengthened against 8 G10s while the Dollar Index rose 0.61% WOW to 93.40, lifted by firmer employment data last Friday and then by refuge demand amid heightened geopolitical concerns between the US and North Korea. We expect this issue to prevail though possibly to a lesser extent next week, supporting a bullish USD, while upside in US data will provide further lift. FOMC minutes will be a key factor to either push USD higher to end current rebound. Bullish bias prevails but scope of gains is under threat after failing to hold above 93.54. The Dollar Index is still exposed to a climb to 93.70, but if 93.07 is lost, inclination to further losses increases.

- **EUR**: EUR fell 0.83% WOW to 1.1772 against a firmer USD and fell against 6 G10s, weighed down by risk aversion in the markets. EUR is still bearish against USD in our view amid prevailing risk-off. Performance in Eurozone data will be a crucial determinant if EURUSD recaptures 1.1850 that is needed to push higher. ECB minutes will be particularly important to capture the governing council's tone on potential QE tapering. EURUSD remains poised to drop below 1.1752 and head to 1.1714. Breaking below this exposes a drop to 1.1640.

- **GBP**: GBP weakened 1.23% WOW to 1.2977 against USD and dropped against 7 G10s, continuing last week's downsides from reducing bets on a near-term BOE rate hike. We stay bearish on GBP against USD next week, in anticipation of weakness amid bearish potential in UK data. Price data will be particularly important; the absence of price pressures will allow the BOE to keep interest rate unchanged. Bearish bias prevails while below 1.3008 and GBPUSD is inclined to a drop to 1.2928. This is a crucial support that protects from testing 1.2848.

- **JPY**: JPY strengthened 0.78% WOW to 109.20 against USD and advanced against all G10s, supported by firmer refuge demand. Stay bullish on JPY against USD amid refuge demand, but caution that sign of risk appetite prevailing will likely overturn gains. Bearish bias prevails and is further bolstered by increased downside momentum. USDJPY is likely charting a path to 108.00, but we currently view this to be a strong support that will prevent further losses. Otherwise, do not rule out a test at 100 in the longer term.

- **AUD**: AUD tumbled 0.94% WOW to 0.7875 against USD and fell against 6 G10s amid downside pressure from risk aversion in the markets. We expect some risk-off to still prevail next week, more so ahead of RBA minutes and Australia's employment data, thus we stay bearish on AUD against USD. Downside could also come from China's data, if they underperform. AUDUSD remains bearish while below 0.7892. We continue to set sights on a drop to 0.7819, below which a decline to 0.7784 will be triggered. Rebounds will need to break 0.7931 to be sustainable.

- **SGD**: SGD slipped 0.36% WOW to 1.3636 against USD but managed to beat 8 G10s as it remains a regional proxy for refuge demand. SGD is likely to remain bearish against USD next week in line with our anticipation of prevailing risk-off in the markets. Expect bullish bias to prevail while above 1.3600, which will continue to put upside pressure on USDSGD to climb to 1.3681. We reckon that this will take some time to form given recent soft momentum.

Technical Analysis:

Currency	Current price	14-day RSI	Support - Resistance		Moving Averages			Call
					30 Days	100 Days	200 Days	
EURUSD	1.1776	62.1780	1.1499	1.1930	1.1611	1.1180	1.0907	Negative
GBPUSD	1.2985	46.8320	1.2907	1.3221	1.3019	1.2850	1.2633	Negative
USDJPY	109.0300	31.0910	109.0300	112.6900	111.7100	111.3100	112.4500	Neutral
USDCNY	6.6470	17.0640	6.6715	6.7952	6.7545	6.8319	6.8549	Neutral
USDSGD	1.3624	41.4130	1.3545	1.3694	1.3680	1.3851	1.4034	Positive
AUDUSD	0.7872	52.5330	0.7836	0.8028	0.7839	0.7614	0.7562	Negative
NZDUSD	0.7274	39.0760	0.7255	0.7554	0.7365	0.7144	0.7122	Negative
USDMYR	4.2925	56.2720	4.2755	4.2934	4.2884	4.3287	4.3675	Positive
EURMYR	5.0549	65.5810	4.9149	5.1116	4.9730	4.8275	4.7647	Neutral
GBPMYR	5.5738	47.5750	5.5357	5.6662	5.5842	5.5499	5.5055	Neutral
JPYMYR	3.9372	68.3250	3.7950	3.9260	3.8355	3.8878	3.9041	Positive
CHFMYR	4.4644	54.2730	4.3785	4.5325	4.4539	4.4209	4.4018	Positive
SGDMYR	3.1507	61.1170	3.1307	3.1601	3.1335	3.1240	3.1152	Neutral
AUDMYR	3.3790	53.6100	3.3632	3.4309	3.3587	3.2985	3.3065	Neutral
NZDMYR	3.1221	41.3720	3.1151	3.2238	3.1548	3.0881	3.1124	Neutral

Trader’s Comment:

Geopolitical concerns were on the radar for markets as Trump’s ‘fire and fury’ threat towards North Korea were retaliated by a so called plan to missile strike Guam by the middle of the month. These concerns are likely to dominate market interests as significant domestic policy changes in major economies now seem unlikely. Clues to next Fed, ECB moves are on the radar as well as market focuses on Fed minutes and ECB accounts for the more medium term direction.

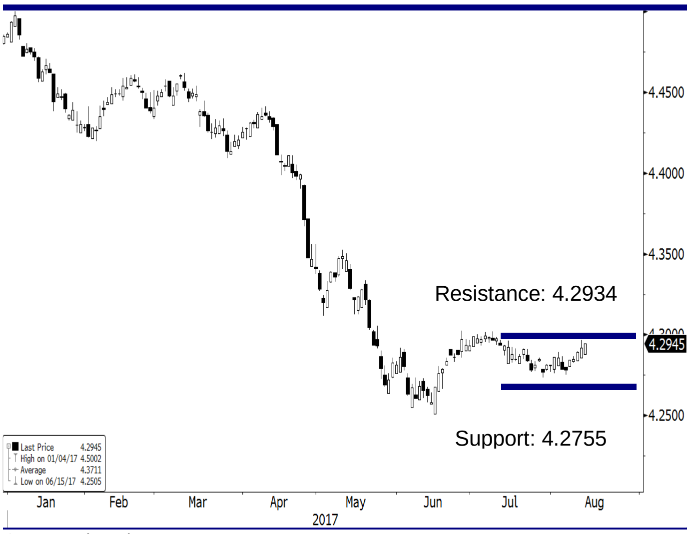
JPY and CHF benefitted the most due to the rising tensions with USDJPY trading to 109.00 levels from 110.80 levels at the start of the week and USDCHF from 0.9775 levels to short term support at 0.9611 at time of writing. The crosses of EURJPY and EURCHF were the bigger moves as market over positioning in long EURUSD on expectations of more ECB tapering took over as risk off tones grip markets on geopolitical concerns and falling equity markets. EURCHF dropped from a high of 1.1500 levels at the start of the week to 1.1250 whilst EURJPY caved from 131.00 levels to 128.30 levels at time of writing with no sign of slowing down yet.

Overall, there was a flight to safe haven in most markets as participants took money off the table and readjusted their portfolios whilst keeping a close eye out on developments. Crude and gold gained as hedges against a war scenario took over giving these commodities decent gains amidst a low volatility environment.

Locally, USDMYR traded to a high of 4.2950 from around 4.2750 at the start in line with most moves albeit with a lower beta. BNM reported higher reserves as exporter measures imposed by the central bank seem to be working. At time of writing, it trades around 4.2930 levels having broken through the Ichimoku cloud resistance at around 4.2880 levels. BNM also slammed SGX and ICE over the launching of MYR futures in their respective exchanges which started only middle of last month. Would pay closer attention now to foreign bond holders as there are significant bond maturities for the month of September and October. Given the size of the maturities and current market liquidity, bond holders would likely start hedging ahead giving the pair a more bidded tone going forward.

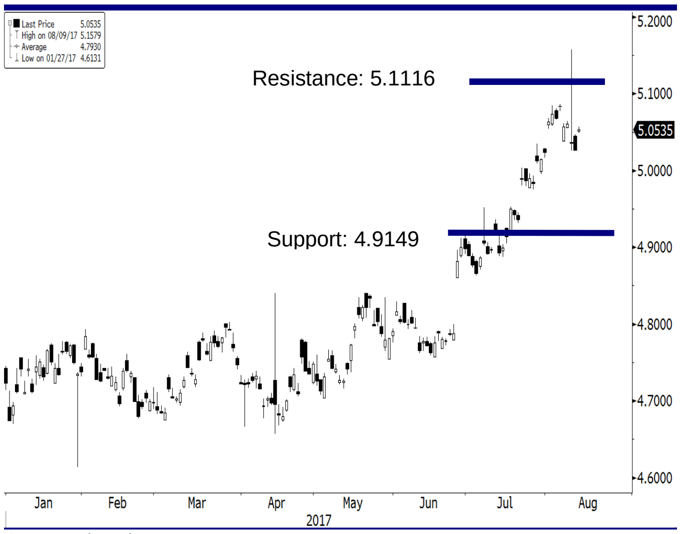
Technical Charts

USDMYR



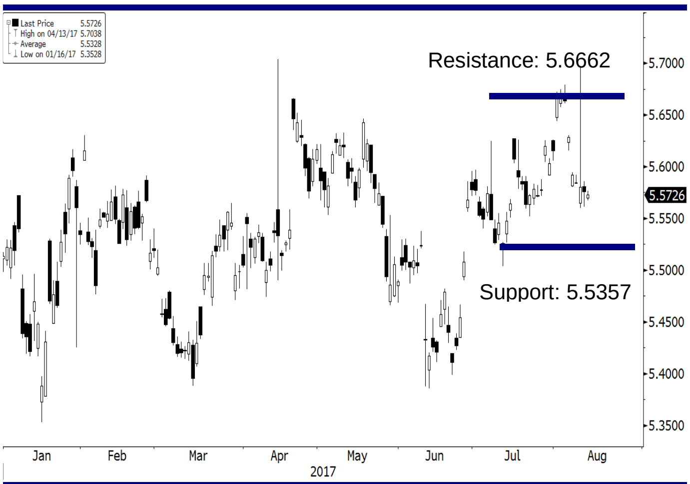
Source: Bloomberg

EURMYR



Source: Bloomberg

GBPMYR



Source: Bloomberg

JPYMYR

Source: Bloomberg

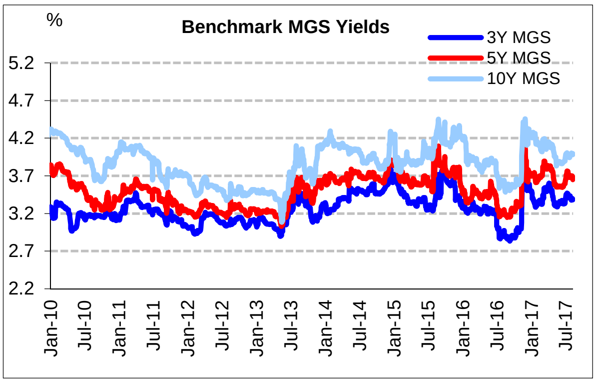
AUDMYR

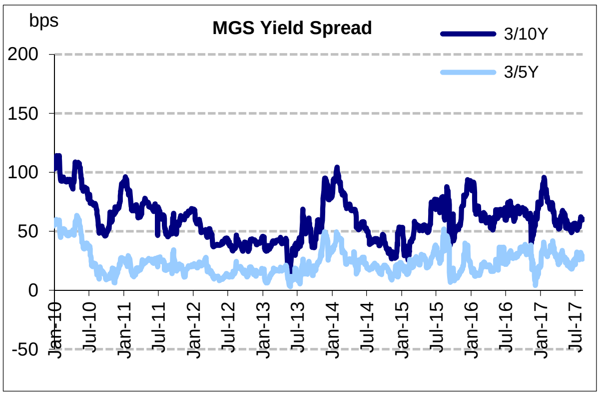
Source: Bloomberg

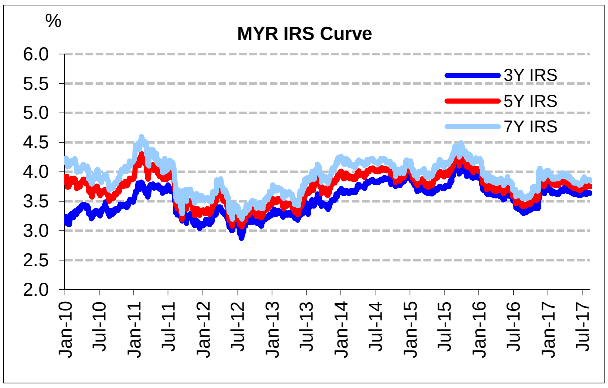
SGDMYR

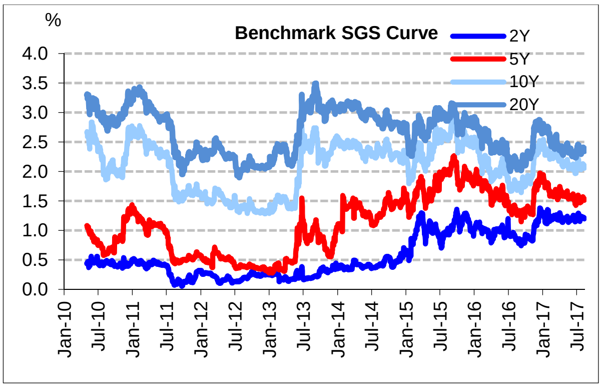
Source: Bloomberg

Fixed Income









Review & Outlook

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- Local govvies meanwhile saw trading levels thinner but still supported. Foreign holdings of MYR government bonds moderated lower for the month of July, with percentage holdings at 25.4% versus previous level of 26% (back in June). Percentage is based is non-resident holdings of governments bonds versus outstanding MGS/GII/SPK. Details for new 3-year MGS 2/21 was announced with tender size coming in at RM3.5b, a tad lower versus our projected size of RM4b.

- In corporate bonds space, trading volume stayed thin mirroring similar tone seen in the MYR govvies space. As of Thursday's close we saw In the GG segment, we saw RM50m of PASB '2/23 traded at 4.10% level. MACB '12/22 and Aquasar '7/24 meanwhile traded at 4.36% and 4.49% level respectively. Also traded were MEX '4/32 and '4/34 with levels changing hands at 5.40% and 5.55% level respectively.

- In the SGS space, bond yields ended supported with 10-year eased 4 bps lower to end at 2.06% level. Latest macro print from Singapore came in more upbeat with GDP growth at 2.9% YoY and 2.2% QoQ in 2Q. Traction in growth was supported by strong trade rebound. We expect continued range-bound trading in SGS tracking yield movements in the UST.

Rating Actions			
Puncak Wangi Sdn Bhd	Guaranteed IMTN Programme of up to RM200 million (2014/2022)	AAA (fg) / Stable	Reaffirmed
Sepangar Bay Power Corporation Sdn Bhd	RM575 million nominal value Sukuk Murabahah	AA1 / Stable	Reaffirmed
State Government of Sabah	RM1.0 billion Bonds (2014/2019)	AAA / Stable	Affirmed

Source: RAM, MARC

Economic Calendar Release Date

Date	Country	Event	Reporting Period	Survey	Prior	Revised
08/18	**Malaysia**	**GDP YOY**	**2Q**	**--**	**5.6%**	**--**
08/22		Foregin reserves	Aug 15	--	$99.4b	--
08/23		CPI YOY	Jul	--	3.6^	--
08/15	**US**	**Retail sales MOM**	**Jul**	**0.4%**	**-0.2%**	**--**
		NAHB housing market index	**Aug**	**--**	**64**	**--**
08/16		**MBA mortgage applications**	**Aug 11**	**--**	**3.0%**	**--**
		Housing starts MOM	**Jul**	**0.8%**	**8.3%**	**--**
		Building permits MOM	**Jul**	**-2.8%**	**9.2%**	**--**
08/17		**FOMC minutes**	**Jul 26**			**--**
		Initial jobless claims	**Aug 12**	**--**	**--**	**--**
		Philly Fed biz outlook	**Aug**	**18.5**	**19.5**	**--**
		Industrial production MOM	**Jul**	**0.2%**	**0.4%**	**--**
		Leading index	**Jul**	**0.3%**	**0.6%**	**--**
08/18		**Uni Michigan consumer sentiment**	**Aug P**	**94.0**	**93.4**	**--**
08/22		Richmond Fed manufacturing indexc	Aug	--	14	
08/23		MBA mortgage applications	Aug 18	--	--	--
		Markit PMI manufacturing	Aug P	--	53.3	--
		Markit PMI services	Aug P	--	54.7	--
		New home sales MOM	Jul	-1.3%	0.8%	--
08/24		Initial jobless claims	Aug 19			--
		Exisitng home sales MOM	Jul	0.7%	-1.8%	--
		Kansas City Fed manufacturing index	Aug	--	10	--
08/25		Durable goods orders	Jul P	-5.3%	6.4%	--
08/15	**UK**	**CPI YOY**	**Jul**	**--**	**2.6%**	**--**
		RPI YOY	**Jul**	**--**	**3.5%**	**--**
		PPI Output YOY	**Jul**	**--**	**3.3%**	**--**
08/16		**Jobless claims change**	**Jul**	**--**	**5.9k**	**--**
		ILO jobless rate	**Jun**	**--**	**4.5%**	**--**
		Employment change	**Jun**	**--**	**175k**	**--**
08/17		**Retail sales incl auto fuel MOM**	**Jul**	**--**	**0.6%**	**--**
08/21		Rightmove house prices YOY	Aug	--	2.8%	--
		PSNCR	Jul	--	18.3b	--
08/24		GDP QOQ	2Q P	--	0.3%	--
		Index of services MOM	Jun	--	0.2%	--
08/14	**Eurozone**	**Industrial production**	**Jun**	**--**	**1.3%**	**--**
08/16		**GDP QOQ**	**2Q P**	**--**	**0.6%**	
08/17		**Trade balance**	**Jun**	**--**	**19.7b**	**--**
		CPI YOY	**Jul F**	**--**	**1.3%**	**1.3%**
		ECB minutes				**--**
08/18		**Construction output MOM**	**Jun**	**--**	**-0.7%**	**--**
08/22		ZEW survey expectations	Aug	--	35.6	--
08/23		Markit PMI manufacturing	Aug P	--	56.6	--
		Markit PMI services	Aug P	--	55.4	--
		Consumer confidence	Aug A	--	-1.7	--
08/14	**Japan**	**GDP SA QOQ**	**2Q P**	**0.6%**	**0.3%**	**--**
08/15		**Industrial production MOM**	**Jun F**	**--**	**1.6%**	**--**
08/17		**Trade balance**	**Jul**	**¥353.6b**	**¥439.9b**	**¥439.8b**
08/17-08/21		Nationwided dept sales YOY	Jul	--	1.4%	--
08/21		All industry activity index MOM	Jun	--	-0.9%	--
08/22		Supermarket sales YOY	Jul	--	-1.2%	--
08/23		Machine tool orders YOY	Jul F	--	26.3%	--
08/24		Nikkei PMI manufacturing	Aug P	--	52.1	--

		Leading index	Jun F	--	106.3	--
		Coincident index	Jun F	--	117.2	--
08/25		National CPI YOY	Jul	--	0.4%	--
		PPI services YOY	Jul	--	0.8%	--
08/14	**China**	**Retail sales YOY**	**Jul**	**10.8%**	**11.0%**	**--**
		Fixed asset investmet YOY YTD	**Jul**	**8.6%**	**8.6%**	**--**
		Industrial production YOY	**Jul**	**7.1%**	**7.6%**	**--**
08/17	**Hong Kong**	**Unemployment rate**	**Jul**	**3.2%**	**3.1%**	**--**
08/22		CPI YOY	Jul	--	1.9%	--
08/24		Exports YOY	Jul	--	11.1%	--
08/17	**Singapore**	**NODX YOY**	**Jul**	**--**	**8.2%**	**--**
08/23		CPI YOY	Jul	--	0.5%	--
08/25		Industrial production YOY	Jul	--	13.1%	--
08/15	**Australia**	**RBA minutes**				
08/16		**Westpac leading index MOM**	**Jul**	**--**	**-0.14%**	**--**
08/17		**Employment change**	**Jul**	**17.5k**	**14.0k**	**--**
		Unemployment rate	**Jul**	**5.6%**	**5.6%**	**--**
08/14	**New Zealand**	**Services index**	**Jul**	**--**	**58.6**	**--**
		PPI Output QOQ	**2Q**	**--**	**1.4%**	**--**
		PPI Input QOQ	**2Q**	**--**	**0.8%**	**--**
08/24		Trade balance (NZD)	Jul	--	242m	--
08/24	Vietnam	CPI YOY	Aug	--	2.52%	--
08/25-08/31		Retail sales YTD YOY	Aug	--	10.0%	--
		Exports YTD YOY	Aug	--	18.7%	--
		Industrial production YOY	Aug	--	8.1%	--

Source: Bloomberg

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