Hong Leong Bank

Global Markets Research

Weekly Market Highlights

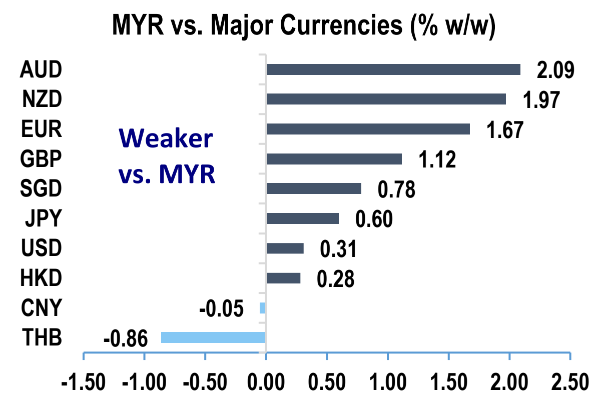
Markets

	Last Closing	WOW%	YTD %
Dow Jones Ind.	32,036.90	4.59	-11.84
S&P 500	3,998.95	5.50	-16.10
FTSE 100	7,270.51	3.28	-1.54
Hang Seng	20,574.63	-0.85	-12.07
KLCI	1,450.32	2.13	-7.48
STI	3,152.30	2.00	0.92
Dollar Index	106.91	-1.51	11.43
WTI oil ($/bbl)	96.35	0.60	29.24
Brent oil ($/bbl)	103.86	4.80	33.65
Gold (S/oz)	1,713.40	0.45	-6.10

Source: Bloomberg

- US stocks rallied this week on the back of weaker bonds and dollar. The European continent was swarmed with multiple uncertainties, namely the magnitude of the ECB rate hikes, and whether Russia will resume supplying gas to Europe not to mention the political turmoil in Italy. Investors digested a slew of bank and tech companies' corporate earnings. Apart from that, the market continues to predict the Federal Reserve's interest rate decision next week where a 75bp rate hike is now the dominating narrative as US data turned out weaker.
- The ECB hiked its key interest rates by 50bps; analysts had been expecting a 25bp adjustment as signaled previously by the Governing Council in June. It also tweaked the interest rates' forward guidance to a "meeting-by-meeting" approach and introduced a new anti-fragmentation tool. Meanwhile, the BOJ continued to defy the global tightening trend by keeping its monetary policy unchanged as widely expected. Markets' attention will be on next week's FOMC meeting.

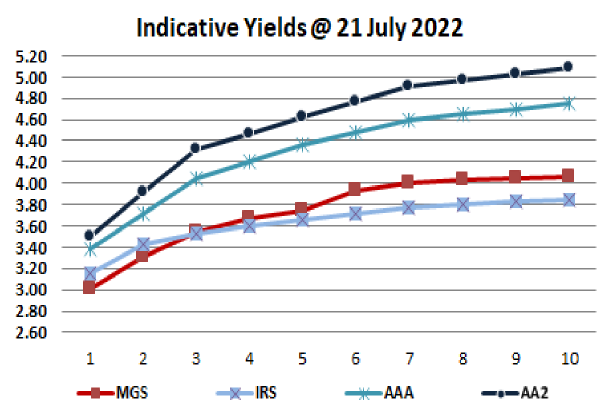
Forex



Source: Bloomberg

- **MYR:** The upward trajectory in USD/ MYR stayed extended for the 7th consecutive week, rising further by 0.3% w/w to a close of 4.4580 on Thursday, just a tad shy of its week-high of 4.4587, which also marked its highest level since Mar-2017. The MYR appears to have momentarily lost its resiliency despite the pullback in the greenback and a stronger than expected Malaysia exports print, weakening against most majors and regional peers. A breach of the 4.45 key level pave the way for further upmove to 4.47-4.48 in our view, hence our ***Slightly Bullish*** outlook on USD/MYR, potentially in a range of 4.45-4.47 in the week ahead. FOMC meeting will be key influence in the absence of domestic data.
- **USD**: The rally in the Dollar Index halted for the first time in seven weeks, pulling back from the 108 to the 106 handles, as investors dialled back expectations of a 100bps Fed rate hike at the July's MPC meeting, in addition to paring of haven demand as risk appetite improved. We expect the USD to trade on a more ***Neutral*** note within the range of 106-108 next week ahead of the FOMC announcement on 28-July, where a 75bps rate hike is expected. A less hawkish Fed will likely exert further downward pressure on the greenback, especially when other major central banks were seen stepping up their tightening move. First estimate of US 2Q GDP and core PCE reading could also infuse fresh leads in the FX space.

Fixed Income



Source: Bloomberg/ BPAM

- **UST:** USTs ended higher as investors dialed back expectations that the Fed would deliver a 100bps increase in its Fed funds rate next week. Data out of the US especially housing and jobs data has been on the soft side, spelling risks to growth outlook. **Overall benchmark yields fell 5-9bps w/w, with the 2Y yields falling 5bps to 3.09% whilst the 10s lost 9bps to 2.88%.** The 2/10 part of the curve remained inverted for the last thirteen trading sessions. All eyes will be on FOMC decision next week, where another 75bps hike is expected. Markets will be looking forward to more forward guidance on the Fed's next move, and the first print of 2Q GDP and PCE core readings next week will be keenly watched. **We expect UST to trade on a cautious note next week ahead of FOMC announcement.**
- **MGS/GII:** Local govvies showed little direction w/w, with the MGS deviating slightly save for the front-end as the curve ended flatter whilst the longer-ends were slightly better-bid. GII however closed mostly mixed-to-higher instead. Overall benchmark yields settled mixed between -10 to +9 bps lower. Average daily secondary market volume decreased by 22% to ~RM2.44b with interest seen mainly in the off-the-run 22-23's, 25's, 29's and also benchmark 5Y MGS/GII 10Y MGS/GII. The 20Y MGS 10/42 auction saw strong BTC of 2.656x whilst being awarded at 4.598%. **Expect local govvies to continue to be well-supported next week again with intermittent profit-taking activities.**

Macroeconomic Updates

- **US stocks rise this week:** US stocks rallied this week on the back of weaker bonds and dollar. The European continent was swarmed with multiple uncertainties, namely the magnitude of the ECB rate hikes, and whether Russia will resume supplying gas to Europe not to mention the political turmoil in Italy. Investors digested a slew of bank and tech companies' corporate earnings. Apart from that, the market continues to predict the Federal Reserve's interest rate decision next week where a 75bp rate hike is now the dominating narrative as US data turned out weaker (initial jobless claims rose to 251k last week). Tech-focus NASDAQ index outperformed major indexes by climbing 5.3% on a week-to-date basis. Netflix shares rallied as the number of subscribers fell less than expected. Tesla's 2Q earnings met analysts' expectations and helped push its share price higher. Looking at other asset classes, oil prices pared gains as traders mulled weaker outlook. Saudi Arabia has refused to commit to any sort of output increase during President Biden's visit to the country. Brent crude rose 2.7% WTD while WTI fell 1.3% to below $100/barrel. The Nord Stream 1 pipeline was reopened as scheduled, averting an energy crisis in Europe.

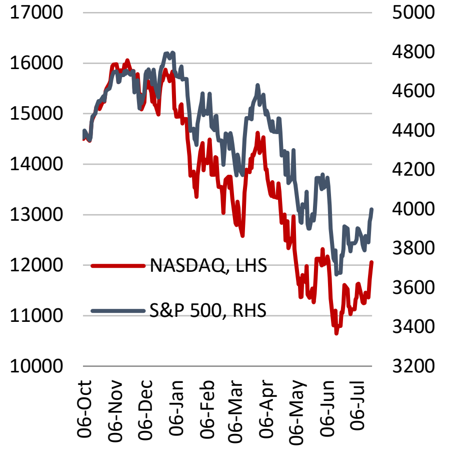
- **ECB hiked rates by 50bps; BOJ maintained status quo:** The ECB hiked its key interest rates by 50bps; consensus had been expecting a 25bp adjustment as signalled previously by the Governing Council in June. This showed that the ECB intends to catch up with the global tightening trend that increasingly favours a larger adjustment of 50bps. The tweaking of interest rates' forward guidance to a "meeting-by-meeting" approach also suggests that the ECB fast tracked rate hikes before it is too late, considering the higher recession risk. It also introduced a new anti-fragmentation tool called Transmission Protection Instrument (TPI) that would allow ECB to buy bonds from vulnerable member states. Meanwhile, the BOJ continued to defy the global tightening trend by keeping its monetary policy unchanged as widely expected. It also published the latest economic outlook that showed BOJ trimming the fiscal 2022 GDP growth down to 2.4% (prior: 2.9%) and upgrading the CPI-ex-fresh food inflation to 2.3% (prior: +1.9%). The latest CPI ex-fresh food had come in at 2.2% in June, marking its third consecutive month above the BOJ's 2% target.

- **US housing market set to slow down further**: A series of data painted a weaker picture of the US housing market. Higher interest rates, elevated home prices erode the affordability of owning a home. Existing home sales fell for the fifth consecutive month to a two-year low in June while the median selling price of a home rose to a fresh record high of $416k. The mortgage applications fell 6.3% last week to the lowest level since February 2020 as mortgage rates continued to rise. On the construction end of things, housing starts fell to 2% m/m in June while building permits also slipped 0.6% m/m. The NAHB Housing Market Index, a gauge of developer sentiment fell 12pts to the lowest reading since May 2020, reflecting deteriorating sentiment.

- **UK CPI hit fresh record high:** The UK CPI inflation jumped to 9.4% in June, besting the forecast of 9.3% and May's 9.1% reading. Core CPI rate eased to 5.8% yy, from 5.9% but remained high. The acceleration in headline inflation raised the speculation that the BOE may finally deliver a half-percentage-point hike in August, after having hiked for 25bp for the past five meetings. Governor Andrew Bailey said that the 50bp rate hike is now on the table as policy makers are prepared to adjust rates higher to curb the surging inflation.

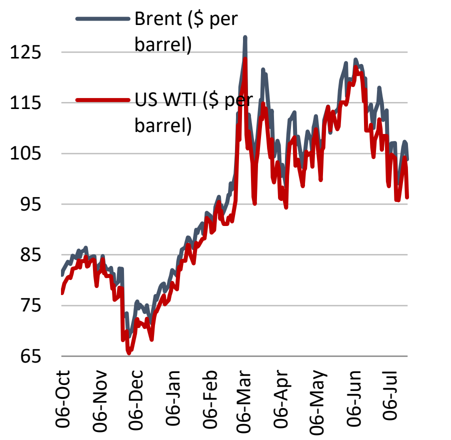
- **FOMC meeting in focus:** In the week ahead, the FOMC meeting is the center of attention as the Fed is set to further lift rates to battle inflation. The US data trove include the advance 2Q22 GDP growth, personal income and spending and core PCE inflation as well as the durable goods orders. The Eurozone's first estimate of 2Q22 GDP is also due next week while Australia's quarterly CPI will help set the guidance for RBA interest rates trajectory. Other key readings include Japan's job data and industrial production, China's industrial profits and Singapore's CPI and industrial production.

US stocks rallied on USD and bond retreats



Source: Bloomberg

Oil pared gains on weaker outlook



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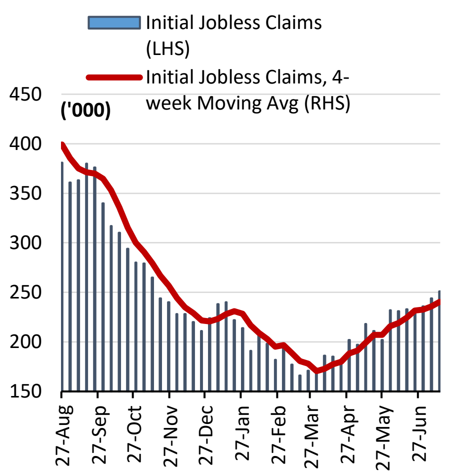
Initial jobless claims rose to a 8-month high



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Foreign Exchange

- **MYR:** The upward trajectory in USD/ MYR stayed extended for the 7th consecutive week, rising further by 0.3% w/w to a close of 4.4580 on Thursday, just a tad shy of its week-high of 4.4587, which also marked its highest level since Mar-2017. The MYR appears to have momentarily lost its resiliency despite the pullback in the greenback and a stronger than expected Malaysia exports print, weakening against most majors and regional peers. A breach of the 4.45 key level pave the way for further upmove to 4.47-4.48 in our view, hence our ***Slightly Bullish*** outlook on USD/MYR, potentially in a range of 4.45-4.47 in the week ahead. FOMC meeting will be key influence in the absence of domestic data.

- **USD**: The rally in the Dollar Index halted for the first time in seven weeks, pulling back from the 108 to the 106 handles, as investors dialled back expectations of a 100bps Fed rate hike at the July's MPC meeting, in addition to paring of haven demand as risk appetite improved. We expect the USD to trade on a more ***Neutral*** note within the range of 106-108 next week ahead of the FOMC announcement on 28-July, where a 75bps rate hike is expected. A less hawkish Fed will likely exert further downward pressure on the greenback, especially when other major central banks were seen stepping up their tightening move. First estimate of US 2Q GDP and core PCE reading could also infuse fresh leads in the FX space.

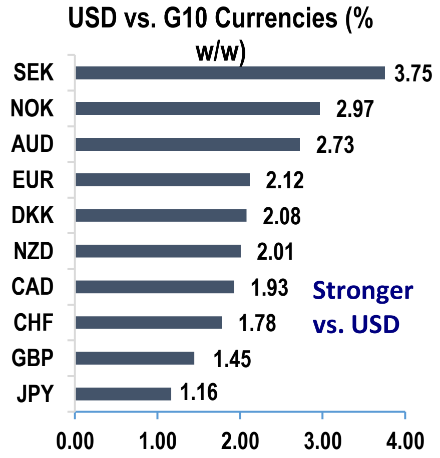
- **EUR**: The EUR regained lost ground from sixth consecutive week of losses, traded firmly above parity against the USD this week and saw a steady climb from the 1.0007 low on 15-July to a week-high of 1.0278 on 21-July post ECB surprised 50bps hike. The pair closed the week 2.1% w/w higher at 1.0230, back to levels last seen in early July. We expect a ***Slightly Bullish*** EUR in the range of 1.00-1.03 supported by rate hike expectations near term, further reinforced by likelihood of rangetrading in the USD. Eurozone CPI and 2Q GDP readings next week could lend some support to EUR strength barring any negative surprises.

- **GBP**: The pound sterling staged a rebound in line with other G10 currencies on the back of a weaker greenback. Selling pressure was however less intense (-1.45% w/w), compared to other majors save for the JPY (-1.2%), probably due to the fresh high in UK CPI print and stronger job data which spurred expectations of a potential 50bps hike from the BOE. GBP/ USD could be in for a ***Neutral*** week in the 1.18-1.20 ranges in the week ahead, taking cue from USD and EUR movement with only housing data being key data watch at the home front.

- **JPY**: The JPY continued to underperform the USD for a fifth consecutive week, albeit at a slower pace of 1.2% w/w (prior -2.1%). USD/JPY traded higher in a range of 137.30 to 139.13 before settling near the low at 137.36 as at Thursday's close. BOJ's reiteration of its continued ultra loose monetary policy at this week's policy meeting offered no surprises although it downgraded its growth forecast and upgraded inflation forecasts. Overall USD/ JPY outlook remains bullish but bullishness and positive momentum is softening. We therefore expect some further pullback in the pair (***Slightly Bearish***) to 136-138 next week amid expectations of a rangy USD. Numerous first tier Japanese data is in the pipeline (retail sales, industrial production, jobless rate and leading index) but unlikely to have any significant influence on the JPY.

- **AUD**: AUD weaknesses extended for another week despite general improvement in risk appetite in the markets. The Aussie doubled its losses to 2.7% w/w (prior: -1.3%), last settled at 0.6934 on Thursday, back to the 0.69 big figure for the first time in three weeks. RBA minutes offered little fresh insights while Governor Lowe said inflation will continue to inch higher hence the need for further rate hike but the RBA is not on a pre-set path to achieve any specific interest rate level. Next week inflation print for 2Q shall shed more lights on RBA's next policy move and AUD/ USD appears ***Neutral*** for now, likely staying within a range of 0.68-0.70 in the week ahead.

- **SGD**: SGD outperformed the greenback and its regional peers with a 1.0% w/w advance against the USD at 1.3897. The off cycle tightening by the MAS on 14-July is believed to have driven advances in the SGD, while NODX signalled continuous expansion in Singapore's external trade. We expect USD/ SGD to hold on to its 1.38-1.39 trading range in the week, representing a ***Neutral*** USD/ SGD outlook ahead of FOMC decision. Singapore CPI print due next week is expected to reinforce expectations for further MAS policy tightening in October, keeping the SGD supported.



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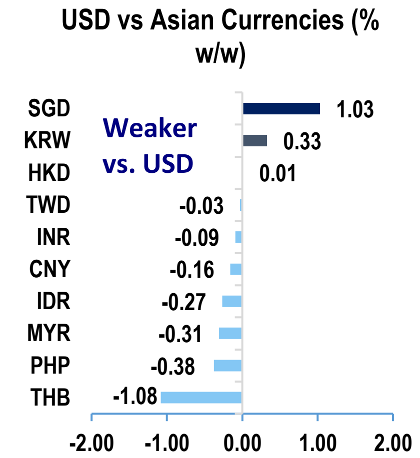


Source: Bloomberg

Forecasts

	Q3-22	Q4-22	Q1-23	Q2-23
DXY	106	105	103	102
EUR/USD	1.02	1.03	1.05	1.04
GBP/USD	1.21	1.22	1.24	1.23
AUD/USD	0.67	0.69	0.70	0.70
USD/JPY	138	135	133	132
USD/MYR	4.42	4.40	4.38	4.35
USD/SGD	1.40	1.38	1.37	1.36
USD/CNY	6.72	6.70	6.68	6.67

	Q3-22	Q4-22	Q1-23	Q2-23
EUR/MYR	4.51	4.53	4.60	4.52
GBP/MYR	5.35	5.37	5.43	5.35
AUD/MYR	2.96	3.04	3.07	3.05
SGD/MYR	3.16	3.19	3.20	3.20
CNY/MYR	0.66	0.66	0.66	0.65

Source: HLBB Global Markets Research

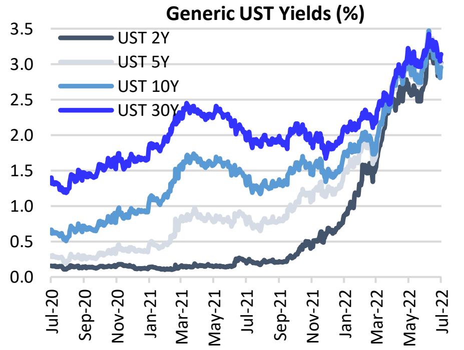
Fixed Income

- **UST:** USTs ended higher as investors dialed back expectations that the Fed would track the BOC and deliver a 100bps increase in its Fed funds rate next week. Data out of the US especially housing and jobs data has been on the soft side, spelling risks to growth outlook. Leading index also recorded back to back contraction for the third straight month, further heightening growth fear. **Overall benchmark yields fell 5-9bps w/w, with the 2Y yields falling 5bps to 3.09% whilst the 10s lost 9bps to 2.88%.** The 2/10 part of the curve remained inverted for the last thirteen trading sessions, where history showed a protracted inversion could be a telltale sign of a recession in most, although not all past incidences. All eyes will be on FOMC decision next week, where another 75bps hike is expected. Markets will be looking forward to more forward guidance on the Fed's next move, and the first print of 2Q GDP and PCE core readings next week will be keenly watched. The Treasury will also sell US$45bn 2Y note, US$46bn 5Y and 7Y notes next week, following this week's decent auctions. **We expect UST to trade on a cautious note next week ahead of FOMC announcement.**

- **MGS/GII:** Local govvies showed little direction w/w, with the MGS deviating slightly save for the front-end as the curve ended flatter whilst the longer-ends were slightly better-bid. GII however closed mostly mixed-to-higher instead. Bonds were initially weaker following the rather large announcement of the issuance of 20Y bond auction & private placement totaling RM5.0b (which was in line with our projection). Overall benchmark yields settled mixed between -10 to +9 bps lower. **The benchmark 5Y MGS 11/26 settled within 1bps lower at 3.74% whilst the 10Y MGS 7/32 edged 1bps lower at 4.03%.** Average daily secondary market volume decreased by 22% to ~RM2.44b versus prior week's RM3.13b with interest seen mainly in the off-the-run 22-23's, 25's, 29's and also benchmark 5Y MGS/GII 10Y MGS/GII. The 20Y MGS 10/42 auction saw strong participation from a variety of end-investors consisting of GLIC's, pension funds and insurance companies, as BTC notched 2.656x whilst being awarded at 4.598%. The government's austerity drive to defer and cancel new projects that have yet to commence, is expected to see lesser issuance of both govt-guaranteed and/or Corporate Bonds. **Expect local govvies to continue to be well-supported next week again with intermittent profit-taking activities.**

- **MYR Corporate bonds/ Sukuk**: The week under review saw stronger investor interest in govt-guaranteed bonds, corporate bonds and Sukuk investors nibbling in the secondary market amid a dearth of primary issuances. **Trades were seen across the GG to single-A part of the curve as yields closed mostly mixed-to-higher amid a 49% spike in average daily market volume @ RM440m.** Topping the weekly volume were TSH Sukuk Murabahah Sdn Berhad (AA3) which rallied with yields closing 48bps lower compared to previous-done levels at 4.19%. This was followed by TG Excellence Sukuk SH Sukuk Murabahah Sdn Berhad (AA3) which saw yields fall sharply lower at 4.13% and subsequently Sabah Credit Corporation 12/26 (AA1) which declined 16bps to 4.47%. Higher frequency of bond trades was seen in DANAINFRA, PLUS, TENAGA-related bonds, EDRA along with odd-lot transactions in Alliance Bank callable bonds, Sabah Development Bank, Genting-related bonds and also Eco World International, YNH Property perps, and TROPICANA 2023-2026 bonds and its perps. The prominent fresh issuance for the week included Bank Muamalat Malaysia Berhad's RM300m A3-rated 10-year bonds with a coupon of 5.33%.

- **Singapore Government Securities:** SGS underperformed w/w, weakening more that USTs following the recent pro-active unscheduled tightening announcement last week as central banks around Asia realize that they can no longer ignore rising food and oil prices which has driven up inflation. The curve was flatter as overall benchmark yields ended higher between 4-11bps save for the 20Y which edged 1bps lower. The SGS 2Y yield spiked 11bps to 2.86% whilst the 10Y bond rose 4bps instead to 2.85% (the SGS 10Y ranged tighter between 2.78-2.83%). MAS said that global inflation has yet to peak and get entrenched firmly into the Singapore economy. Singapore's sovereign bonds continued to post a mere gain of 0.1% w/w (prior week: +0.2%).



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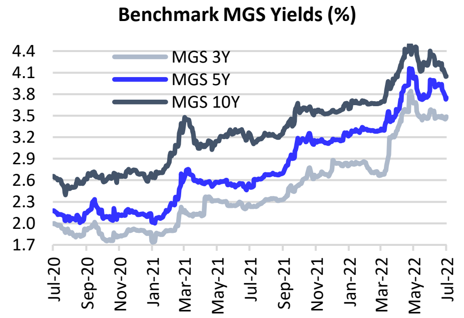

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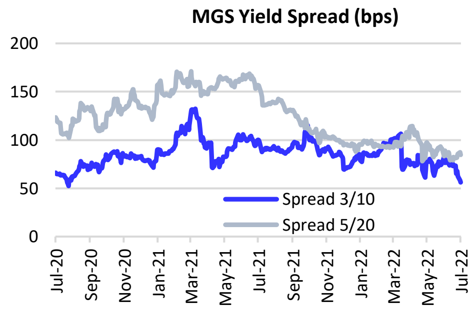

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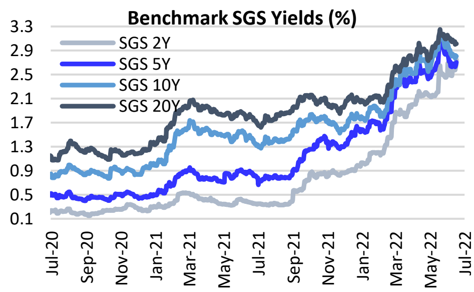

Source: Bloomberg

Rating Actions

Issuer	PDS Description	Rating/Outlook	Action
Tanjung Bin Power Sdn Bhd	RM4.5 bil Sukuk Ijarah Programme	AA2/Stable	Reaffirmed
Sarawak Petchem Sdn Bhd	RM4.5 bil Sukuk Ijarah Programme	AA2/Stable	Reaffirmed
Aman Sukuk Berhad	Islamic Medium-Term Notes (IMTN) Programme of up to RM10.0 billion	AAA IS/Stable	Affirmed
edotco Malaysia Sdn Bhd	Proposed Islamic Medium-Term Notes Programme (Sukuk Wakalah Programme) of up to RM3.0 billion	AA+ IS/Stable	Assigned
KAF Investment Bank Berhad (KAF IB)	Financial institution (FI) ratings	AA-/MARC-1	Affirmed

Source: MARC/RAM

Economic Calendar

Date	Time	Country	Event	Period	Prior
25/07	13:00	SG	CPI YoY	Jun	5.6%
	16:30	HK	Exports YoY	Jun	-1.4%
	20:30	US	Chicago Fed Nat Activity Index	Jun	0.01
	22:30	US	Dallas Fed Manf. Activity	Jul	-17.7
26/07	13:00	SG	Industrial Production YoY	Jun	13.8%
	21:00	US	FHFA House Price Index MoM	May	1.6%
	21:00	US	S&P CoreLogic CS 20-City YoY NSA	May	21.23%
	22:00	US	Richmond Fed Manufact. Index	Jul	-11.0
	22:00	US	Conf. Board Consumer Confidence	Jul	98.7
	22:00	US	New Home Sales MoM	Jun	10.7%
27/07	09:30	CH	Industrial Profits YoY	Jun	-6.5%
	09:30	AU	CPI YoY	2Q	5.1%
	19:00	US	MBA Mortgage Applications	22 Jul	-6.3%
	20:30	US	Advance Goods Trade Balance	Jun	-$104.3b
	20:30	US	Durable Goods Orders	Jun P	0.8%
	20:30	US	Cap Goods Orders Nondef Ex Air	Jun P	0.6%
	22:00	US	Pending Home Sales MoM	Jun	0.7%
28/07	02:00	US	FOMC Rate Decision	27 Jul	1.5%-1.75%
	09:00	NZ	ANZ Business Confidence	Jul	-62.6
	09:30	AU	Retail Sales MoM	Jun	0.9%
	17:00	EC	Economic Confidence	Jul	104.0
	20:30	US	GDP Annualized QoQ	2Q A	-1.6%
	20:30	US	Initial Jobless Claims	23 Jul	--
	23:00	US	Kansas City Fed Manf. Activity	Jul	12.0
29/07	06:00	NZ	ANZ Consumer Confidence Index	Jul	80.5
	07:30	JP	Jobless Rate	Jun	2.6%
	07:30	JP	Job-To-Applicant Ratio	Jun	1.24
	07:50	JP	Retail Sales MoM	Jun	0.7%
	07:50	JP	Industrial Production MoM	Jun P	-7.5%
	10:00	VN	CPI YoY	Jul	3.4%
	10:00	VN	Industrial Production YoY	Jul	11.5%
	10:00	VN	Exports YoY	Jul	20.0%
	10:00	VN	Retail Sales YoY	Jul	27.3%
	17:00	EC	CPI Estimate YoY	Jul	8.6%
	17:00	EC	GDP SA QoQ	2Q A	0.6%
	20:30	US	Personal Income	Jun	0.5%
	20:30	US	Personal Spending	Jun	0.2%
	20:30	US	PCE Core Deflator YoY	Jun	4.7%
	21:45	US	MNI Chicago PMI	Jul	56.0
	22:00	US	U. of Mich. Sentiment	Jul F	51.1

Source: Bloomberg

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