HongLeong Bank

Global Markets Research

Weekly Market Highlights

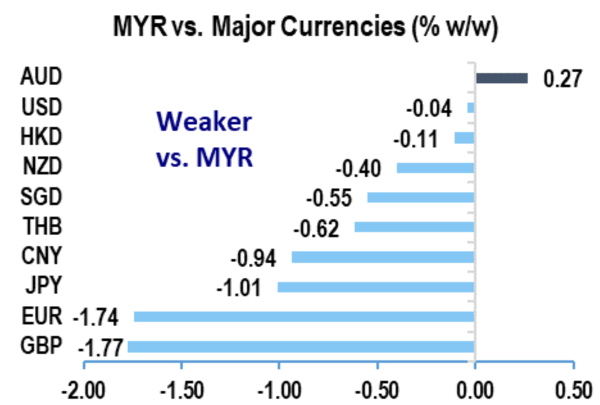
Markets

	Last Closing	WOW%	YTD %
Dow Jones Ind.	33,291.78	-2.08	-8.38
S&P 500	4,199.12	-1.98	-11.90
FTSE 100	7,479.74	-0.82	1.29
Hang Seng	19,968.38	1.03	-14.66
KLCI	1,495.49	-1.39	-4.60
STI	3,247.80	-0.78	3.97
Dollar Index	108.47	0.92	13.38
WTI oil ($/bbl)	92.52	2.23	20.82
Brent oil ($/bbl)	99.34	2.85	27.72
Gold (S/oz)	1,757.70	0.14	-3.88

Source: Bloomberg

- US stocks fell alongside treasuries this week as traders braced for potentially hawkish remarks by Fed Chair Jerome Powell at the annual Jackson Hole retreat. Recent Fed officials' remarks suggest that the Fed's commitment to tightening monetary conditions and battling inflation would not be wavered by the weak US data. Globally, the sustained level of inflation also reinforced the belief that central banks will still carry on with hiking rates, as reflected in the surge in bond yields. Oil prices marched higher this week after Saudi Energy Minister warned of a potential production cut.
- Bank Indonesia delivered a surprised 25bp rate hike on Tuesday, after opting to stay cautious for most part of the year. Other central bank actions of the week include the 25bp rate hike by the Bank of Korea. The latest set of preliminary S&P Global PMI readings showed that business activity is weakening in the US, Eurozone, UK and Japan. US data generally weakened especially in the housing market. On a brighter note, Initial jobless claims fell for the second consecutive week to 243k last week, suggesting that the labour market remains solid.

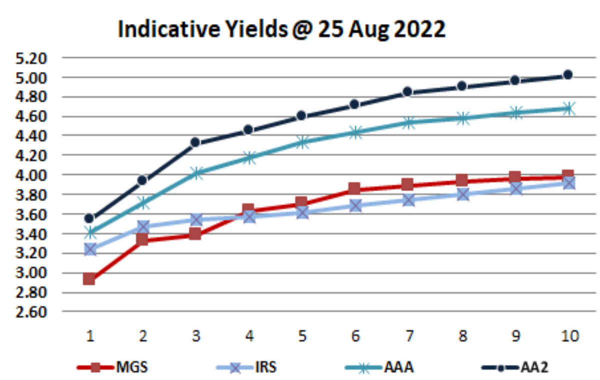
Forex



Source: Bloomberg

- **MYR:** USD/ MYR was seen trading higher around the 4.48 big figure this week, but the pullback on Thursday led the pair to end slightly lower by 0.04% at 4.4715, outperforming most of its peers. Focus this week is squarely on anxiety leading up to the Fed annual symposium at Jackson Hole. We expect the pair to continue trading in a ***Slightly Bullish*** note testing the 4.50 record level, hence our weekly range of 4.46-4.50. The delayed release of July CPI is expected to show a jump to the high 4.0% level given the adjustment in the ceiling prices of selected food items.
- **USD**: The greenback advanced for a second straight week, with the Dollar Index climbing higher albeit with a smaller gain of 0.9% w/w (prior +2.3%). The Dollar Index touched a 20-year high of 109.27 in intraday trading on 23 August amid expectations that the Fed will maintain a hawkish stance at Jackson Hole, before pulling back to 108.47 as at Thursday's close. Tonight's speech by Jerome Powell will be the key influence for FX movement going into next week. Any disappointment will likely dampen USD bulls, hence our ***Neutral*** view on the USD, potentially in a wider range of 106-110 as volatility will likely prevail. Nonfarm and the reinstituted ADP job numbers based on a new methodology will be key data watch.

Fixed Income



Source: Bloomberg/ BPAM

- **UST:** US Treasuries were sold-off over lingering concerns pertaining to the Fed's hawkish outlook. The curve shifted higher as overall benchmark yields spiked between 15-21bps. **The UST 2Y jumped 17bps higher to 3.37% whilst UST 10Y (spiked 21bps to 3.09%;** hurtling past the 3.00% handle for the 1st time in a month. The $27b UST 7Y note auction saw solid demand unlike the earlier coupon offerings for both the 2Y and 5Y note auctions. Whilst investors expect Fed Chair Powell to set the tone of bringing down inflation, some are also anticipating if he will reiterate the case for slowing the pace of tightening. Expect bonds to react either direction next week; depending on the outcome of Fed Chair Powell's address at the Jackson Hole symposium commencing at 10pm tonight.
- **MGS/GII:** Local govvies saw both MGS/GII well-supported w/w, especially in the short and intermediate tenures. Prospects of additional interest rate hike in September took a back-seat as investors searched for bonds with beaten-down values. Both the MGS and GII curve steepened whilst overall benchmark yields closed mixed between -6 to +1bps across. **The benchmark 5Y MGS 11/26 eased 4bps to 3.69% whilst the 10Y MGS 7/32 ended within 1bps at 3.96%.** The weekly secondary market volume increased by 32% to ~RM16.5b versus prior week's RM12.5b with interest seen mainly in the off-the-run 22-24's and also benchmark 3Y MGS/GII, 10Y MGS/GII and also 15Y MGS. Expect local govvies to continue its slow march upwards as investors digest improving fundamentals.

Macroeconomic Updates

- **Stocks dipped alongside bonds:** US stocks fell alongside treasuries this week as traders braced for potentially hawkish remarks by Fed Chair Jerome Powell at the annual Jackson Hole retreat. A late afternoon push on Thursday helped pare the losses in US equities; the Dow Jones fell 1.2% on a week-to-date basis while the S&P 500 and NASDAQ were down by 0.7% and 0.5% respectively. Recent Fed officials' remarks suggest that the Fed's commitment to tightening monetary conditions and battling inflation would not be wavered by the weak US data. Globally, the sustained level of inflation also reinforced the belief that central banks will still carry on with hiking rates, as reflected in the surge in bond yields.

- **Oil regained momentum:** Oil prices marched higher this week after Saudi Energy Minister Prince Abdulaziz bin Salman warned of a potential production cut attributed to a disconnection between the paper and physical markets. Oil was also supported by the reducing US crude stockpiles (-3.28mil barrels) last week, an extension from the 7.1mil-barrel decline prior. Brent crude recaptured the $100/barrel level this week before giving up gains to trade at $99.34/barrel (+2.7% wtd) on Thursday. The US WTI benchmark was seen at $93/barrel (+1.9% wtd).

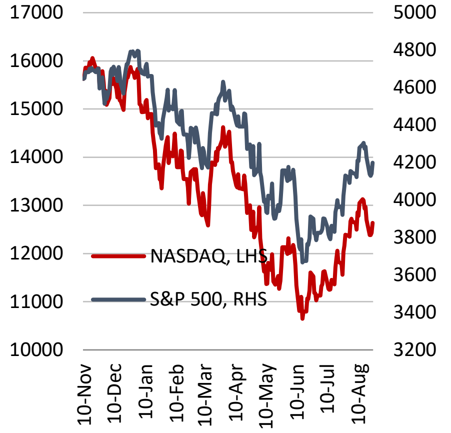
- **Bank Indonesia's preemptive hike:** Bank Indonesia delivered a surprised 25bp rate hike on Tuesday, taking the 7-day reverse repo rate to 3.75%. This marked the central bank's first rate hike this year, referred to by it as "a pre-emptive and forward-looking measure" in anticipation of higher subsidised fuel prices and inflation. BI finally began its tightening cycle after opting to stay cautious for most part of the year, compared to regional peers such as BNM, MAS and BSP. It also indicates its intention to flatten the yield curve by actively buying long term government bonds and selling short-term maturities. It remains confident over the domestic economic growth, driven by domestic demand and solid export performance. The 2022 GDP growth is projected "with a bias towards the upper bound" of 4.5-5.3%. Other central bank actions of the week include the 25bp rate hike by the Bank of Korea. BOK reverted to a smaller magnitude as signs of easing inflationary pressures emerged after having announced a one-off 50bp hike in mid-July.

- **PMI data showed weakening business activity**: The latest set of preliminary S&P Global PMI readings showed that business activity is weakening in the US, Eurozone, UK and Japan. In the US and Japan, manufacturing PMI held up above 50 but turned in weaker while both countries' services PMI slumped beneath 50 to indicate contraction. In the Eurozone and UK, the situation was reversed. Manufacturing PMI came in below 50 as factories struggled with high energy prices. Services managed to remain above 50 but also weaker.

- **US data generally weakened:** Higher borrowing rates continued to weigh on the US housing market. The pending home sales, a leading indicator for existing home sales, fell 1.0% m/m in July. In the same month, new home sales slipped by a whopping 12.6% m/m in July. Mortgage applications dropped 1.2% w/w. The Richmond Fed Manufacturing Index turned negative at -8 in August while the Kansas City Fed index slipped lower to 3.0. On a brighter note, durable goods orders sustained at a robust level after the over 2.0% m/m increase prior. Initial jobless claims fell for the second consecutive week to 243k last week, suggesting that the labour market remains solid.

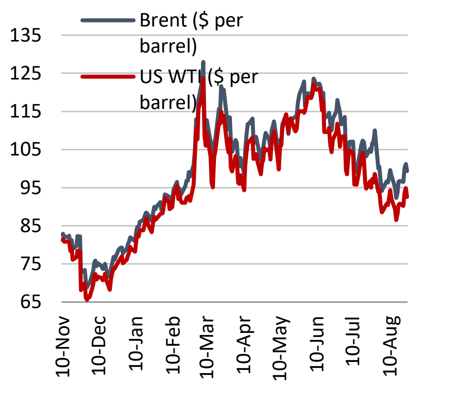
- **Next week data:** In the week ahead, the US job market is back into focus. The nonfarm job report is due as usual on Friday, and the ADP will also resume publishing its private sector payrolls data next week based on a new methodology. The JOLTS job opening report is also in the pipeline. Other major US data include the ISM manufacturing PMI, construction spending, Conference Board Consumer Confidence and a couple of house price data. Elsewhere, the Eurozone reports its August HICP inflation reading as well as unemployment rate. China's official NBZ PMI data are also on the deck alongside other S&P Global PMI surveys' results. Japan also released several major data such as jobless rate, industrial production and retail sales. Back home, CPI will see a surge pass 4.0%.

US stocks seen lower this week



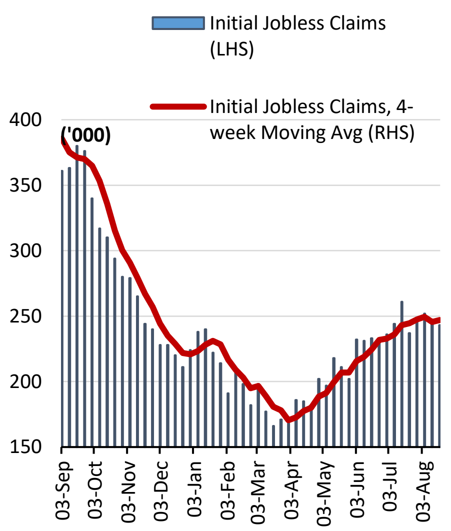
Source: Bloomberg

Oil higher but pared gains



Source: Bloomberg

Initial jobless claims fell last week



Source: Bloomberg

Foreign Exchange

- **MYR:** USD/ MYR was seen trading on higher grounds around the 4.48 big figure this week, but the pullback on Thursday led the pair to end slightly lower by 0.04% at 4.4715, from 4.4730 the preceding week, outperforming most of its peers. Focus this week is squarely on anxiety leading up to the Fed annual symposium at Jackson Hole, especially on Fed Chair Powell's testimony. After trading in a higher range of 4.4700-4.4913 for the week, we expect the pair to continue trading in a ***Slightly Bullish*** note testing the 4.50 record level, hence our weekly range of 4.46-4.50. The delayed release of July CPI to next Monday is expected to show a jump to the high 4.0% level given the adjustment in the ceiling prices of selected food items.

- **USD**: The greenback advanced for a second straight week, with the Dollar Index climbing higher albeit with a smaller gain of 0.9% w/w (prior +2.3%). The Dollar Index touched a 20-year high of 109.27 in intraday trading on 23 August amid expectations that the Fed will maintain a hawkish stance at Jackson Hole, before pulling back to 108.47 as at Thursday's close, back to the familiar 108 handle it has been trading at most of this week. Fed speaks overnight have been mixed and did not offer much new leads on the Fed policy path. Instead, tonight's speech by Jerome Powell will be the key influence for FX movement going into next week. Any disappointment will likely dampen USD bulls, hence our ***Neutral*** view on the USD, potentially in a wider range of 106-110 as volatility will likely prevail. Nonfarm and the reinstituted ADP job numbers based on a new methodology will be key data watch.

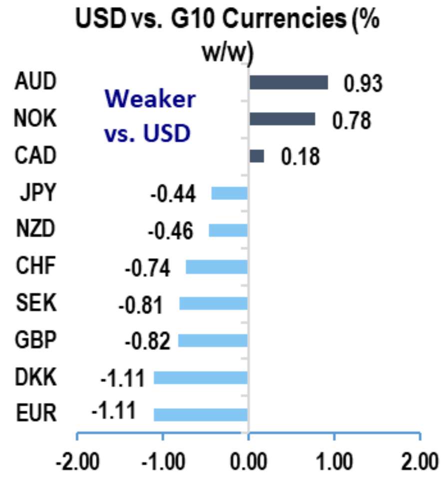
- **EUR**: The EUR weakness stayed extended for the second consecutive week, losing 1.15 w/w against the USD to trade below parity at the 0.99 handle, last closed at 0.9975 on Thursday, off its week-low of 0.9901. As the USD traded at its 20-year high, the EUR traded at its 20-year low, and was the worst performing G10s (along with DKK) this week. We expect weaker Eurozone fundamentals and a relatively less hawkish ECB to continue suppress EUR performance, besides being USD driven. However, given expectations of a consolidation in the USD after recent rally, we expect EUR to take on a ***Neutra***l stance potentially in a range of 0.99-1.01 in the week ahead. CPI, PPI, jobless rate and consumer confidence are key Eurozone data in the pipeline.

- **GBP**: The GBP saw extended decline for the second straight week, albeit at a more modest loss of 0.8% w/w (prior -2.3%). The pair traded below the 1.20 critical level at 1.17-1.18 ranges, last settled at 1.1832 on Thursday, its lowest since 1985. PMIs showed manufacturing activities contracted in August while services were growing at a slower pace. Softening growth prospects in the UK is raising expectations of a smaller BOE hike in September. We are ***Slightly Bearish*** on GBP/ USD, expecting the pair to trade below the 1.20 handle, likely in a range of 1.17-1.20, with losses capped by expectations of a USD consolidation. Nationwide house prices and mortgage approvals on UK data on the deck.

- **JPY**: The JPY ended the week with a 0.4% loss under the influence of the USD amid the interchange between risk-on and risk-off mood ahead of the Fed Jackson Hole Symposium. USD/ JPY see-saw within 135.72-137.71 before closing at 136.49. We are ***Neutral*** on the pair potentially maintaining a range of 135-138 in the week ahead, expecting some consolidation in the USD post Jackson Hole event and amid cautiousness ahead of US key job data.

- **AUD**: AUD led in the G10 space with a 0.9% w/w gain, holding on to the 0.69 big figure. The pair was seen trading in a range of 0.6836-0.6991 before closing just a tad below its week-high at 0.6981, boosted by optimism from China's stimulus measures. AUD/ USD is expected to trade in a ***Slightly Bullish*** bias next week, likely in a range of 0.68-0.71 on the back of a neutral USD. That said, any disappointment in China PMI data next week could dampen Aussie outlook. Locally, retail sales, building approval, and home loans will be key data watch.

- **SGD**: SGD posted two straight weeks of losses against the USD, shedding 0.2% w/w to 1.3886 as at Thursday's close (prior 1.3862). Continuous pick-up in Singapore CPI to 7.0% y/y and core CPI to 4.8% y/y in July has had little impact on SGD as the FX market was predominantly under the influence of the USD. The SGD however traded largely firmer against other majors, except AUD, NOK and CAD. We expect USD/ SGD to trade on a ***Slightly Bullish*** tone next week, likely in a range of 1.38-1.40. Upside in the pair will likely be limited for now amid expectations the MAS may still tighten in October. PMI will be the next data to watch to assess the health of the Singapore economy in 3Q.



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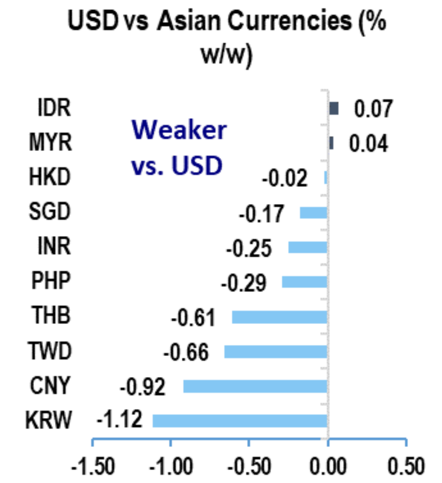


Source: Bloomberg

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

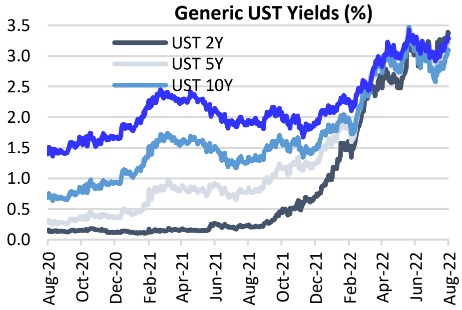
Fixed Income

- **UST:** For the week under review, US Treasuries sold-off over lingering concerns pertaining to the Fed's hawkish outlook to bring down persistently high inflation. The curve shifted higher as overall benchmark yields spiked between 15-21bps. **The UST 2Y jumped 17bps higher to 3.37% whilst the much-watched UST 10Y (which ranged tighter but higher between 2.69-2.84%) spiked 21bps to 3.09%;** hurtling past the 3.00% handle for the 1st time in a month. Elsewhere, the $27b UST 7Y note auction saw solid demand unlike the earlier coupon offerings for both the 2Y and 5Y note auctions. Whilst investors expect Fed Chair Powell to set the tone of bringing down inflation, some are also anticipating if he will reiterate the case for slowing the pace of tightening. Elsewhere, demand for the Fed's Reverse Repo facility fell for the first time in a week due to softer tone related to the GSEs investing mortgage-loan repayments received from homeowners. Expect bonds to react either direction next week; depending on the outcome of Fed Chair Powell's address at the Jackson Hole symposium commencing at 10pm tonight.

- **MGS/GII:** Local govvies saw both MGS/GII well-supported w/w, especially in the short and intermediate tenures. Prospects of additional interest rate hike in September took a back-seat as investors searched for bonds with beaten-down values. The increase in foreign reserves by almost $1.2b to $110.9b was also seen as a sign of confidence in the financial markets. Both the MGS and GII curve steepened whilst overall benchmark yields closed mixed between -6 to +1bps across. **The benchmark 5Y MGS 11/26 eased 4bps to 3.69% whilst the 10Y MGS 7/32 ended within 1bps at 3.96%.** The weekly secondary market volume increased by 32% to ~RM16.5b versus prior week's RM12.5b with interest seen mainly in the off-the-run 22-24's and also benchmark 3Y MGS/GII, 10Y MGS/GII and also 15Y MGS. Expect local govvies to continue its slow march upwards as investors digest improving fundamentals.

- **MYR Corporate bonds/ Sukuk**: The week under review saw higher investor interest on decent volumes amid attractive yield-carry opportunities. **Trades were seen across the GG to single-A part of the curve as yields closed mostly mixed amid a 28% jump in weekly market volume @ RM2.26b.** Topping the weekly volume were PRASA 12/32 (GG) which rallied with yields closing 36bps lower compared to previous-done levels at 4.24%. This was followed by its other 2/31 tranche (GG) which also closed 13bps lower at 4.20% and subsequently SEB 1/27 which edged 1bps lower at 4.15%. Higher frequency of bond trades was seen in DANA, PRASA, LPPSA, AIR Selangor, Sarawak Petchem, GENM Capital, PASB and also TENAGA bonds and Bank Islam bonds. Odd-lot transactions were also seen in Affin and Sabah Development bonds, TROPICANA and also YNH Property perps. The prominent fresh issuances for the week included LPPSA's RM4.0b, 3-30Y govt-guaranteed bonds with coupons ranging between 3.69-4.81%.

- **Singapore Government Securities:** SGS ended weaker w/w, somewhat influenced by UST movements. The curve bear-steepened considerably as overall benchmark yields jumped higher between 4-24bps. The SGS 2Y moved 4bps higher to 2.65% whilst the 10Y bond spiked 24bps to 2.89% (the SGS 10Y ranged substantially wider between 2.63-2.89%). Singapore's sovereign bonds reversed to post a loss of 1.2% w/w (prior week: +0.3%). As at YTD, it has issued ~S$73.3b of bonds this year, slightly up ~2% compared to same period last year. Although the government is expected to tighten its belt this year, it is not sufficient to push the budget balance into positive territory; with the deficit projected at 0.5% of GDP in 2022. Meanwhile, national water agency PUB has successfully priced its S$800m 30Y green bond at 3.433%. These will form part of its S$10b multicurrency MTN program. UOB China too has completed its issuance of 3-year RMB-denominated bonds amounting to RMB21b at a coupon of 2.88%. Expect attention to shift to the upcoming S$3.0b 5Y SGS auction next Monday.



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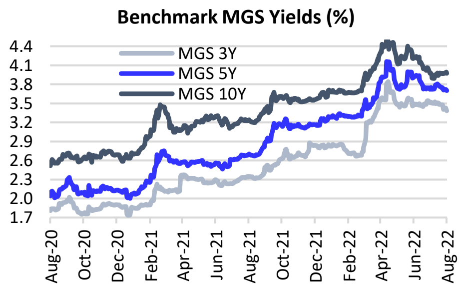

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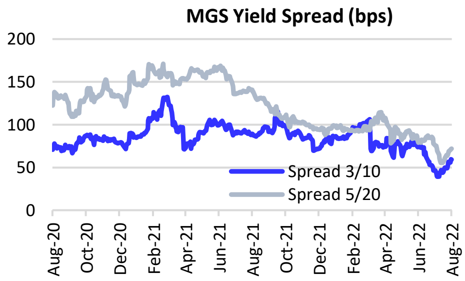

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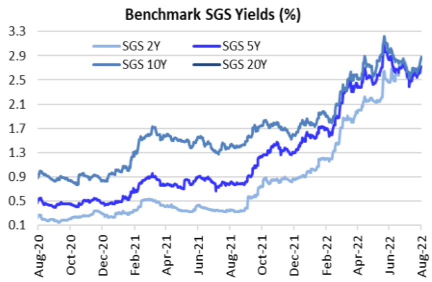

Source: Bloomberg

Rating Actions

Issuer	PDS Description	Rating/Outlook	Action
Dynasty Harmony Sdn Bhd	RM165 mil Islamic Medium-Term Notes (the Sukuk) (2018/2033)	AA3/Stable	Reaffirmed
Bank of China (Malaysia) Berhad	Financial institution rating	AA1/Stable/P1	Reaffirmed
JB Cocoa Sdn Bhd	Proposed Islamic Medium-Term Notes (Sukuk Wakalah) programme of up to RM500.0 million	A+IS/Stable	Assigned
UMW Holdings Berhad	RM2.0 billion Islamic Medium-Term Notes Programme (Sukuk Musharakah) at AA+IS	AA+IS/Stable	Assigned
	RM2.0 billion Perpetual Sukuk Programme (Perpetual Sukuk)	AA-IS/Stable	Assigned

Source: MARC/RAM

HongLeong Bank

Economic Calendar

Date	Time	Country	Event	Period	Prior
29/08	09:30	AU	Retail Sales MoM	Jul	0.2%
	22:30	US	Dallas Fed Manf. Activity	Aug	-22.6
30/08	07:30	JP	Jobless Rate	Jul	2.6%
	07:30	JP	Job-To-Applicant Ratio	Jul	1.27
	17:00	EZ	Economic Confidence	Aug	99
	21:00	US	FHFA House Price Index MoM	Jun	1.4%
	21:00	US	S&P CoreLogic CS 20-City YoY NSA	Jun	20.5%
	22:00	US	Conf. Board Consumer Confidence	Aug	95.7
	22:00	US	JOLTS Job Openings	Jul	10698k
31/08	07:50	JP	Industrial Production MoM	Jul P	9.2%
	07:50	JP	Retail Sales MoM	Jul	-1.3%
	09:00	NZ	ANZ Business Confidence	Aug	-56.7
	09:30	CN	Manufacturing PMI	Aug	49.0
	09:30	CN	Non-manufacturing PMI	Aug	53.8
	16:30	HK	Retail Sales Value YoY	Jul	-1.2%
	17:00	EZ	CPI Estimate YoY	Aug	8.9%
	19:00	US	MBA Mortgage Applications	26 Aug	-1.2%
	20:15	US	ADP Employment Change	Aug	128k
	21:45	US	MNI Chicago PMI	Aug	52.1
01/09	08:30	MA	S&P Global Malaysia PMI Mfg	Aug	50.6
	08:30	JP	Jibun Bank Japan PMI Mfg	Aug F	51.0
	09:30	AU	Home Loans Value MoM	Jul	-4.4%
	09:45	CN	Caixin China PMI Mfg	Aug	50.4
	16:00	EZ	S&P Global Eurozone Manufacturing PMI	Aug F	49.7
	16:30	UK	S&P Global/CIPS UK Manufacturing PMI	Aug F	46
	17:00	EZ	Unemployment Rate	Jul	6.6%
	20:30	US	Initial Jobless Claims	27 Aug	243k
	21:45	US	S&P Global US Manufacturing PMI	Aug F	51.3
	22:00	US	Construction Spending MoM	Jul	-1.1%
	22:00	US	ISM Manufacturing	Aug	52.8
02/09	20:30	US	Change in Nonfarm Payrolls	Aug	528k
	20:30	US	Unemployment Rate	Aug	3.5%
	20:30	US	Average Hourly Earnings YoY	Aug	5.2%
	21:00	SG	Purchasing Managers Index	Aug	50.1
	22:00	US	Factory Orders	Jul	2.0%

Source: Bloomberg

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