Hong Leong Bank

Global Markets Research

Weekly Market Highlights

Markets

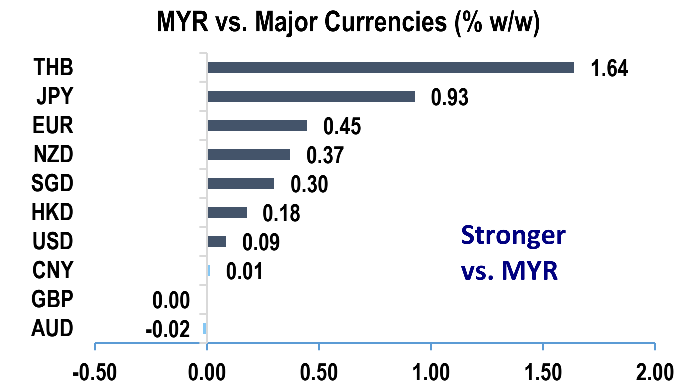
	Last Closing	WOW%	YTD %
Dow Jones Ind.	32,726.82	**0.61**	**-9.94**
S&P 500	4,151.94	**1.95**	**-12.89**
FTSE 100	7,448.06	**1.40**	**0.86**
Hang Seng	20,174.04	**-2.18**	**-13.78**
KLCI	1,507.71	**1.11**	**-3.82**
STI	3,269.86	**1.53**	**4.68**
Dollar Index	105.69	**-0.62**	**10.48**
WTI oil ($/bbl)	88.54	**-8.17**	**15.00**
Brent oil ($/bbl)	94.12	**-12.15**	**21.01**
Gold (S/oz)	1,788.50	**2.18**	**-2.06**

Source: Bloomberg

- The US stock markets had a choppy week as the market parsed corporate earnings, economic data and Federal Reserve officials' remarks. Oil prices tumbled 10-14% this week as a government report showed that US crude stockpiles rose about 4.5mil barrels last week, a sign of weakening demand. This came as OPEC+ announced a tiny output hike of 100k starting from September. The Bank of England MPC voted 8-1 to lift the bank rate by 50bps while the RBA also hiked the cash rate by 50bps. Newly released data broadly point to a weakening US outlook while other countries also displayed similar trend.

- Data flow turns much lighter next week. Key US reading is none other than the July CPI inflation as the market is looking for more signs that inflation has peaked in the country to predict the Federal Reserve's next move. The June CPI inflation hit a four-decade high of 9.1% y/y but the core CPI rate has eased for the third consecutive month, at 5.9% y/y. The UK will also report its second quarter GDP growth. China will release the CPI and PPI inflation while Hong Kong and Malaysia are set to publish their respective second quarter GDP growth.

Forex

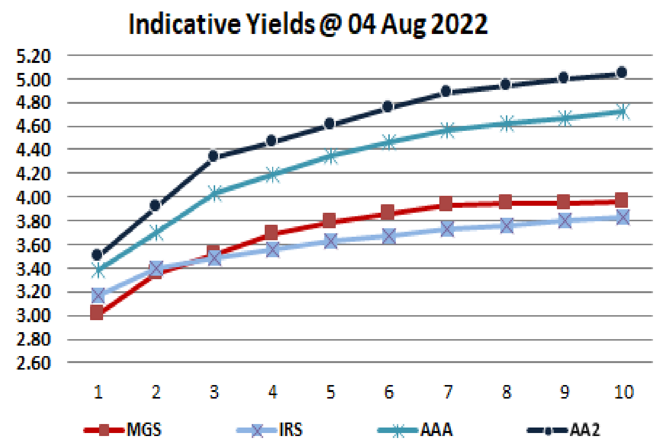


Source: Bloomberg

- **MYR:** The MYR was among several Asian currencies that displayed resilience against the dollar this week. MYR consistently registered daily change of less than 0.1% for the past week's sessions, closing 0.1% w/w higher at 4.4575 on Thursday. Weaker USD sentiment amid the recalibration of the Fed rate hike expectations had offered support to the local currency and we continue to expect the pair to cling to 4.4500 handle, likely within a range of 4.4400-4.4600 and exhibit ***Neutral*** bias ahead of the key US CPI data as well as Malaysia's second quarter GDP growth.

- **USD**: DXY ended up 0.6% w/w lower at 105.69 on Thursday. The dollar index has begun shifting downwards three weeks ago, indicating that the dollar strength has hit its peak and further weakness looms. We remain ***Slightly Bearish*** on USD in the week ahead, eyeing a lower range of 105-107. The release of the US CPI inflation will be the major event in a week where economic data are sparse. The focus is to search for more signs of a receding price pressure, such as a continuous retreat in the core CPI rate.

Fixed Income



Source: Bloomberg/BPAM

- **UST:** US treasuries which mostly strengthened due to flight to safety, succumbed mid-week due to the re-emergence of hawkish FedSpeak rhetoric which ultimately overwhelmed earlier US-China geopolitical concerns. The curve flattened considerably as overall benchmark yields closed between 1-18bps lower save for the 6bps decline in the long bond. **The UST 2Y spiked 18bps to 3.05% whilst the much-watched UST 10Y (which ranged lower between 2.57-2.75%) edged 1bps up at 2.69%.** The 2s10s yield curve inversion, a reliable recession indicator, is now seen extending beyond a month.

- **MGS/GII:** Local govvies closed mixed w/w, with the front-end MGS pressured whilst the longer-ends were well-bid. GII however saw smaller deviation with closing levels mixed. The save-haven bids which ensued during mid-week following perceived US-China tensions arising from US House Speaker Pelosi's trip to Taiwan after a stop-over in Kuala Lumpur, succumbed to FedSpeak hawkish rhetoric. Overall benchmark yields closed mixed with overall yields settling -12 to +10bps with the intermediate tenures pressured. **The benchmark 5Y MGS 11/26 spiked 10bps to 3.80% whilst the 10Y MGS 7/32 edged 1bps higher at 3.95%.** The weekly secondary market volume spiked 46% to ~RM18.01b versus prior week's RM12.36b with interest seen mainly in the off-the-run 22-23's, 29's and also benchmark 5Y MGS/GII 7Y MGS/GII, 10Y MGS/GII. The auction involving new issuance of 5Y MGS 11/27 notched a BTC ratio of 2.044x and awarded at 3.799%.

Macroeconomic Updates

- **US stocks traded mixed; oil plunged:** The US stock markets had a choppy week as the market parsed corporate earnings, economic data and Federal Reserve officials' remarks. On a week-to-date basis, the tech-focus NASDAQ outperformed major indexes by notching a 2.7% gain. The Dow Jones fell slightly (-0.4%) while S&P 500 rose modestly (+0.5%). Oil prices tumbled 10-14% this week as a government report showed that US crude stockpiles rose about 4.5mil barrels last week, a sign of weakening demand. This came as OPEC+ announced a tiny output hike of 100k starting from September, despite President Biden's recent visit to Saudi Arabia to meet the Crown Prince Mohammed Bin Salman. Brent crude slumped to $94/barrel handle while WTI was seen at below $88/barrel this morning; oil has now fallen to levels seen before the Russian invasion of Ukraine which threatened energy supply.

- **BOE delivered first 50bp rate hike in current cycle:** The Bank of England MPC voted 8-1 to lift the bank rate by 50bps; the move brought the benchmark rate from 1.25% to 1.75%, marking its biggest rate hike since 1995 and its sixth consecutive hike since December last year. CPI rate had hit a record high of 9.4% in June and the BOE expects inflation to rise further to "just over 13% in 2022 Q4" and to remain elevated throughout much of 2023, before falling to the 2% target two years ahead. The BOE now predicts that the UK will enter a recession from the fourth quarter this year but still signalled that it may "act forcefully" towards inflation, which spurred talks that the central bank may front-load rate hikes before the window closes.

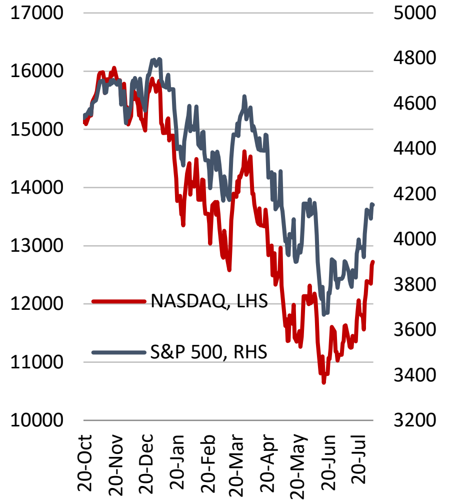
- **RBA lifted cash rate by 50bps for the third time:** The Reserve Bank of Australia lifted the cash rate target to 1.85% on Tuesday in widely expected move; this marked its fourth consecutive rate hike and the third back-to-back 50bp adjustment since June as the central bank catches up with policy normalisation and attempts to curb inflationary pressure. RBA also followed in the footsteps of the Fed and ECB, adding that policy normalisation decisions are not pre-set and will be data-dependent. On a separate note, Australia's trade surplus widened to A$17.67b in June (May: A$15.01b), reflecting the strong export performance (+5.1% m/m. Exports to China, its largest trading partner, rose for the second month in a row, reflecting the Shanghai reopening effect.

- **US data largely point to weakness ahead**: Newly released US data this week largely point to a further slowdown in the economy. The ISM manufacturing index was relatively resilient at 52.8 in July (Jun: 53.0) but new orders' contraction added to weaker demand. The ISM services index unexpectedly advanced to 56.7 in July (Jun: 55.3) but the employment sub-index remained contractionary. Both surveys reported substantial fallback in the prices paid indexes, indicating receding price pressure. Apart from that, factory orders rose 2.0% m/m in June, supported by a sustained demand for transportation and computer and electronics equipment. The private residential construction spending fell sharply by 1.6% m/m in June, backing the notion that the US housing market is cooling down further in the second half of 2022. Job data cooled – JOLT openings fell to a nine-month low of 10.7mil in June but vacancies are still considered high; initial jobless claims rose to 260k last week.

- **Other countries' data also weakened**: PMI data for other countries also painted a weaker picture of economic conditions. Manufacturing and services PMI all weakened in the Eurozone, UK, Japan and China. Elsewhere, an advance estimate showed that Hong Kong's 2Q GDP contracted 1.4% y/y compared to the same quarter last year, driven by weaker Chinese demand and local Covid restrictions. Retail sales for June also slipped 1.2% y/y.

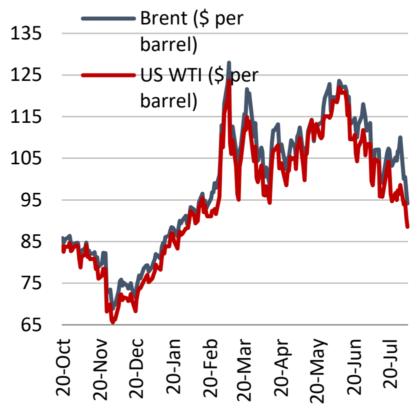
- **US CPI in focus next week:** Data flow turns much lighter next week. Key US reading is none other than the July CPI inflation as the market is looking for more signs that inflation has peaked in the country to predict the Federal Reserve's next move. The June CPI inflation hit a four-decade high of 9.1% y/y but the core CPI rate has eased for the third consecutive month, at 5.9% y/y. The UK will also report its second quarter GDP growth. China will release the CPI and PPI inflation while Hong Kong and Malaysia are set to publish their respective second quarter GDP growth.

US stocks had a choppy week



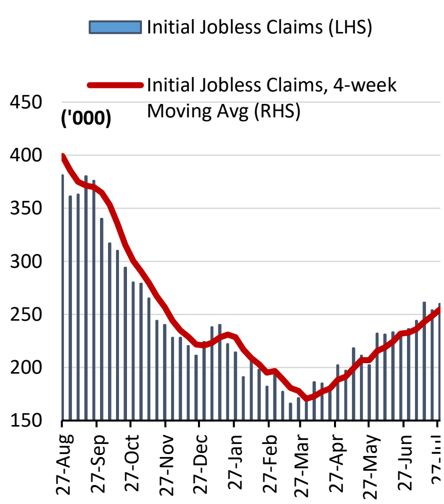
Source: Bloomberg

Oil plummeted on weak outlook



Source: Bloomberg

Initial jobless claims rose to 260k



Source: Bloomberg

Foreign Exchange

- **MYR:** The MYR was among several Asian currencies that displayed resilience against the dollar this week. MYR consistently registered daily change of less than 0.1% for the past week's sessions, closing 0.1% w/w higher at 4.4575 on Thursday. Weaker USD sentiment amid the recalibration of the Fed rate hike expectations had offered support to the local currency and we continue to expect the pair to cling to 4.4500 handle, likely within a range of 4.4400-4.4600 and exhibit ***Neutral*** bias ahead of the key US CPI data as well as Malaysia's second quarter GDP growth.

- **USD**: The dollar index clung to 105-106 levels throughout the week, as the market recalibrated the Fed rate hike expectations. DXY ended up 0.6% w/w lower at 105.69 on Thursday. Most US data had come in weaker for the past two weeks and led to speculations that the Fed will turn less hawkish soon. The dollar index has begun shifting downwards three weeks ago, indicating that the dollar strength has hit its peak and further weakness looms. We remain ***Slightly Bearish*** on USD in the week ahead, eyeing a lower range of 105-107. The release of the US CPI inflation will be the major event in a week where economic data are sparse. The focus is to search for more signs of a receding price pressure, such as a continuous retreat in the core CPI rate.

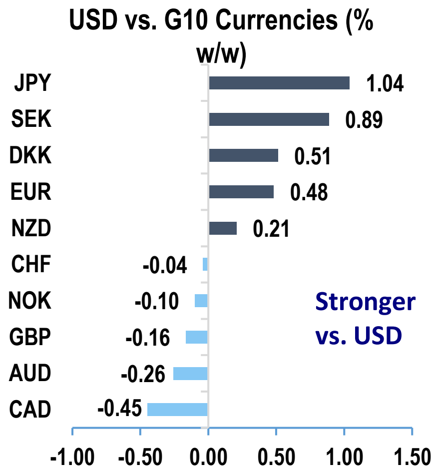
- **EUR**: The EUR recovered some ground this week, ending 0.5% w/w higher at 1.0246 on Thursday as it rode on the weaker USD sentiment. In the week ahead, the outlook for EUR/USD is ***Neutral to Slightly Bullish***, likely within a range of 1.0150-1.0300 as the potentially weaker US CPI data may again spur the talks of slower Fed rate hikes. Upsides are limited for the single currency as the Eurozone remains exposed to an energy crisis and the further increase in natural gas prices would eat into household income and lead to deteriorating sentiment.

- **GBP**: The GBP had a choppy session this week, closing 0.2% lower w/w at 1.2160 on Thursday. The Bank of England's 50bp rate hike offered no surprise but the central bank's recession warning and its hinting of another 50bp adjustment put the sterling in a rather tricky position. Nonetheless, we are ***Neutral to Slightly Bullish*** on GBP/USD in the week ahead on account of a weaker USD trajectory and the continued decline in the sterling's net short position. Despite a potential front-loading of rate hikes, downsides for the GBP are weaker outlook, gap in policy tightening relative to the Fed, exposure to the surging natural gas prices as well as political uncertainties.

- **JPY**: The JPY extended its recent rally, trading as low as 131 versus the dollar earlier in the week before paring some gains. On Thursday, USD/JPY was 1.0% w/w lower at 132.89 and the yen outperformed its G10 peers, thanks to a broadly weaker dollar and also haven demand. JPY may continue to see sustained strength amid a flight to safety now that the global economic data are increasingly pointing to a weaker outlook. We are therefore ***Bearish*** on USD/ JPY, eyeing a range of 131-134 in the week ahead.

- **AUD**: AUD/USD swung between gains and losses throughout the week and ended the week 0.3% w/w lower at 0.6971 on Thursday. This was despite the fact that the RBA delivered its third consecutive 50bp rate hike. The quarterly released RBA Statement on Policy (different from the MPC decision) showed that the RBA sees further rate hikes as warranted to stave off inflation but the market has appeared to shrug off the hints for now ahead of the US job and inflation data. We are ***Neutral to Slightly Bearish*** on AUD/USD (weekly range: 0.69-0.71) amid further increase in net short positions while a continuous slump in oil prices may also weigh on the pair.

- **SGD**: SGD rose again this week, advancing 0.3% higher to trade at 1.3764 versus the USD. The SGD is expected to continue outperforming its Asia-ex-Japan peers as the elevated inflation supports the case for a further MAS policy tightening in October. USD/ SGD weekly outlook is tilted to ***Slight Bullishness*** in the week ahead, possibly in a range of 1.37-1.39 as the USD may remain on the backfoot.



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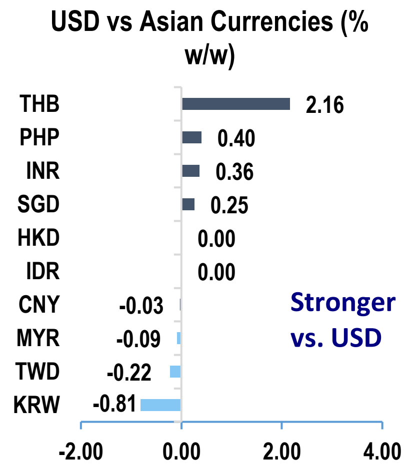


Source: Bloomberg

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

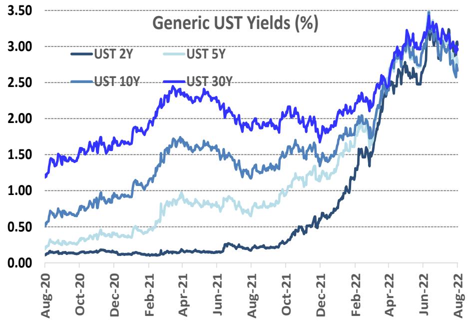
Fixed Income

- **UST:** For the week under review, US treasuries which mostly strengthened due to flight to safety, succumbed mid-week due to the re-emergence of hawkish FedSpeak rhetoric which ultimately overwhelmed earlier US-China geopolitical concerns. The curve flattened considerably as overall benchmark yields closed between 1-18bps lower save for the 6bps decline in the long bond. **The UST 2Y spiked 18bps to 3.05% whilst the much-watched UST 10Y (which ranged lower between 2.57-2.75%) edged 1bps up at 2.69%.** The 2s10s yield curve inversion, a reliable recession indicator, is now seen extending beyond a month. A shortage of T-Bills which may disrupt US funding markets under the government's latest quarterly refunding exercise would ensure continuing robust demand for the Fed's reverse repo facility. Meanwhile, expect bond movements to reflect the outcome of tonight's NFP data that could determine the magnitude of Fed's tightening measures intended to stem inflation.

- **MGS/GII:** Local govvies closed mixed w/w, with the front-end MGS pressured whilst the longer-ends were well-bid. GII however saw smaller deviation with closing levels mixed. The save-haven bids which ensued during mid-week following perceived US-China tensions arising from US House Speaker Pelosi's trip to Taiwan after a stop-over in Kuala Lumpur, succumbed to FedSpeak hawkish rhetoric. Overall benchmark yields closed mixed with overall yields settling -12 to +10bps with the intermediate tenures pressured. **The benchmark 5Y MGS 11/26 spiked 10bps to 3.80% whilst the 10Y MGS 7/32 edged 1bps higher at 3.95%.** The weekly secondary market volume spiked 46% to ~RM18.01b versus prior week's RM12.36b with interest seen mainly in the off-the-run 22-23's, 29's and also benchmark 5Y MGS/GII 7Y MGS/GII, 10Y MGS/GII. The auction involving new issuance of 5Y MGS 11/27 notched a BTC ratio of 2.044x and awarded at 3.799%. Strong participation was seen from pension funds, inter-banks, insurance companies and also GLIC's. Expect local govvies to range sideways with intermittent profit-taking next week.

- **MYR Corporate bonds/ Sukuk**: The week under review saw investor interest climb in govt-guaranteed bonds, corporate bonds and Sukuk. **Trades were seen mostly across the AAA to single-A part of the curve as yields closed mostly mixed amid an 18% increase in weekly market volume @ RM1.53b.** Topping the weekly volume were PRASA 3/30 (GG) again which declined 7bps compared to previous-done levels to 4.13%. This was followed by TNB 6/47 (AAA) which rallied with yields ending 44bps lower at 5.08% and subsequently DANUM 6/29 (AAA) which also was strongly bid resulting in a 19bps slide in yields to 4.31%. Higher frequency of bond trades was seen in Air Selangor, TNB, BGSM, EDRA bonds along with odd-lot transactions in Affin Bank callable bonds, Sabah Development Bank, Eco World and TROPICANA 2023-2028 bonds and its perps. The prominent fresh issuances for the week included PR1MA Corporation Malaysia's RM500m govt-guaranteed 5-year bonds with a coupon of 4.00% and SME Bank's AAA-rated 3-year papers with a coupon of 4.04%.

- **Singapore Government Securities:** SGS ended stronger w/w, decoupling from UST movements as growth concerns outweighed inflation risk. The curve bull-flattened as overall benchmark yields ended lower between 2-19bps The SGS 2Y fell 11bps to 2.52% whilst the 10Y bond edged 2bps lower at 2.61% (the SGS 10Y ranged tighter between 2.52-2.61%). Singapore's sovereign bonds continued to post a bigger gain of 0.7% w/w (prior week: +1.0%). MAS is raising S$2.4b of 50Y green bonds known as "Green SGS" at 3.04%. The proceeds are expected to be part of its plans to finance Singapore's Green Plan 2030, especially two (2) lines of its MRT rail system. This is part of the pipeline of up to S$35b of sovereign and public sector green bonds that both the government and statutory boards are expected to issue by 2030. With a AAA-rating, SGS are expected to provide protection from the perceived threat of recession as the tension between higher inflation (June CPI advanced by 4.4% y/y and 3.6% m/m) and slower economic growth is seen to pull markets in different directions.



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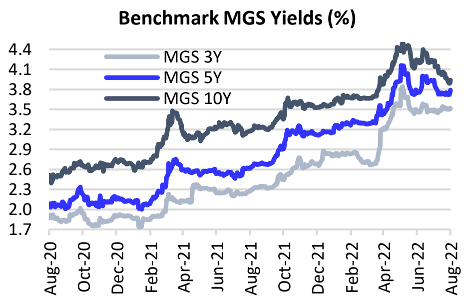

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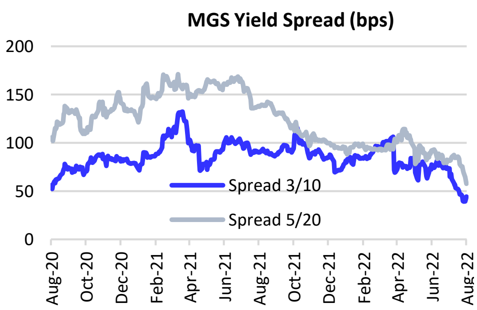

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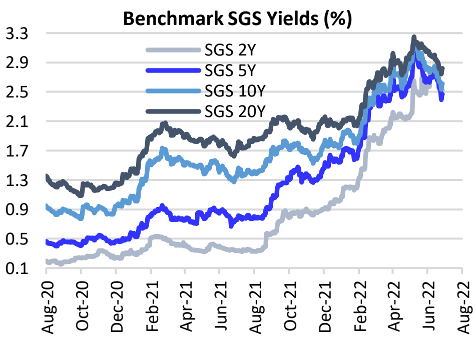

Source: Bloomberg

Rating Actions

Issuer	PDS Description	Rating/Outlook	Action
KIP REIT Capital Sdn Bhd	RM210 mil Class A 2019-Issue 1 Medium Term Notes (Class A Notes)	AAA/Stable	Reaffirmed
Gabungan AQRS Berhad	Proposed RM200 million Islamic Commercial Papers (ICP)/Islamic Medium-Term Notes (IMTN) Programme	MARC-1 IS /A IS	Assigned
Malaysian Resources Corporation Berhad	Islamic Medium-Term Notes (IMTN) Programme up to RM5.0 billion	AA-IS/Stable	Affirmed
Islamic Development Bank (IsDB)	Financial institution (FI) rating	AAA/MARC-1/Stable	Affirmed
Central Impression Sdn Bhd	Central Impression Sdn Bhd	From AA-/Negative to AA-/Stable	Upgraded
CIMB Group Holdings Berhad	Corporate Credit rating	AA1/Stable/P1	Reaffirmed
	RM6 billion Conventional/Islamic Medium-Term Notes Programme (2008/2038)	AA1/Stable	Reaffirmed
	RM6 billion Commercial Papers Programme (2015/2022)	P1	Reaffirmed
	RM10 billion Additional Tier-1 Capital Securities Programme (2016/-)	A1/Stable	Reaffirmed
	RM15 billion Sukuk Wakalah Programme (2021/-)		
	Senior Sukuk Wakalah	AA1/Stable	Reaffirmed
	Tier-2 Subordinated Sukuk Wakalah	AA2/Stable	Reaffirmed
	Additional Tier-1 Sukuk Wakalah	A1/Stable	Reaffirmed
CIMB Bank Berhad/CIMB Islamic Bank Berhad/CIMB Investment Bank Berhad	Financial Institution rating	AAA/Stable/P1	Reaffirmed
CIMB Bank Berhad	RM10 billion Tier-2 Subordinated Debt Programme (2013/2073)	AA2/Stable	Reaffirmed
	RM10 billion Additional Tier-1 Capital Securities Programme (2016/-)	A1/Stable	Reaffirmed
	RM20 billion Medium-Term Notes Programme (2017/-)	AAA/Stable	Reaffirmed
	RM15 billion Sukuk Wakalah Programme (2021/-)		
	Senior Sukuk Wakalah	AAA/Stable	Reaffirmed
	Tier-2 Subordinated Sukuk Wakalah	AA2/Stable	Reaffirmed
	Additional Tier-1 Sukuk Wakala	A1/Stable	Reaffirmed
CIMB Islamic Bank Berhad	RM10 billion Sukuk Wakalah Programme (2017/-)	AAA/Stable	Reaffirmed

Source: MARC/RAM

Economic Calendar

Date	Time	Country	Event	Period	Prior
08/08	16:30	EZ	Sentix Investor Confidence	Aug	-26.4
09/08	06:45	NZ	Card Spending Retail MoM	Jul	0.1%
	09:30	AU	NAB Business Confidence	Jul	1.0
	12:00	MA	Industrial Production YoY	Jun	4.1%
	18:00	US	NFIB Small Business Optimism	Jul	89.5
10/08	08:30	AU	Westpac Consumer Conf Index	Aug	83.8
	09:30	CN	PPI YoY	Jul	6.1%
	09:30	CN	CPI YoY	Jul	2.5%
	19:00	US	MBA Mortgage Applications	05 Aug	--
	20:30	US	CPI YoY	Jul	9.1%
11/08	20:30	US	PPI Final Demand YoY	Jul	11.3%
	20:30	US	Initial Jobless Claims	06 Aug	260k
12/08	06:30	NZ	BusinessNZ Manufacturing PMI	Jul	49.7
	12:00	MA	GDP YoY	2Q	5.0%
	14:00	UK	Monthly GDP (MoM)	Jun	0.5%
	14:00	UK	GDP QoQ	2Q P	0.8%
	14:00	UK	Industrial Production MoM	Jun	0.9%
	14:00	UK	Index of Services MoM	Jun	0.4%
	14:00	UK	Visible Trade Balance GBP/Mn	Jun	-£21445m
	16:30	HK	GDP YoY	2Q F	-1.4%
	17:00	EZ	Industrial Production SA MoM	Jun	0.8%
	20:30	US	Import Price Index YoY	Jul	10.7%
	22:00	US	U. of Mich. Sentiment	Aug P	51.5

Source: Bloomberg

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