

Global Markets Research

Daily Market Highlights

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22-Jan: Central Banks Watch for Downsides

The Bank of Japan and European Central Bank stayed pat, but were watchful of downside risks

US new jobless claims fell slightly, robust homebuilding activity continued

Japan's key inflation gauge recorded steepest fall in a decade, added to deflationary concerns

Market Pulse

Technology shares powered on overnight while the broader stock markets hold gains as investors weighed mixed headlines. The tech-focus NASDAQ meanwhile picked up 0.5% to extend the record-setting gain. Stocks had earlier fallen in Europe and finished mixed in Asia.

The ECB reconfirmed its “very accommodative monetary policy stance by keeping its monetary policy unchanged. That includes maintaining the ECB’s key interest rates at present levels and buying bonds under its €1850b Pandemic Emergency Purchase Program. It expects resurgence of the virus and the intensification of the containment measures to weigh on activity in the first quarter, broadly in line with the December projection. It said that the vaccines rollout offered greater confidence to resolve this health crisis but did not rule out further adverse development of the pandemic. “The risks surrounding the euro area growth outlook remain tilted to the downside but less pronounced”. This came after BOJ kept its policy settings unchanged in the Asia session.

Markets are hopeful for the new US administration’s \$1.9trillion spending package but also concerned over Senate Republicans’ willingness to support certain legislations that require more than a simple majority to pass. President Biden signed 10 executive orders on his first day in office and kicked off a plan to combat the Covid-19 pandemic in the US.

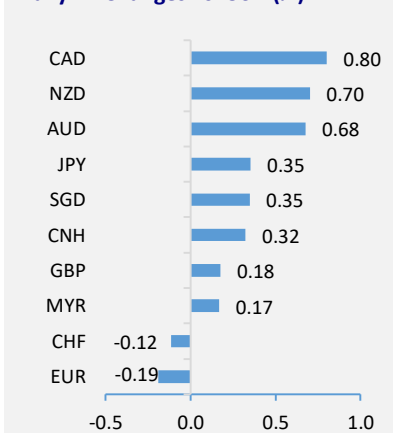
Initial jobless claims in the US fell by 26k to 900k for the week ended 16 Jan. The elevated level of new filings indicates that US firms continued to lay off workers this month amid sky-high coronavirus cases. Housing starts jumped more than expected by 5.8% m/m in December. Housing starts had now risen for seven months for the last eight months as builders rushed to fulfil demand in an inventory-lean environment.

Japan’s headline CPI recorded a deeper 1.2% y/y fall in December (Nov: -0.9%). The closely watched CPI ex-fresh food index (the BOJ’s main inflation gauge) also shed 1% y/y (Nov: -0.9%), its largest drop in a decade. This comes as price pressure continued to lose momentum in Japan and adds to deflationary concerns.

Key Market Metrics

	Last Price	DoD %	YTD %
Dow Jones Ind.	31,176.01	-0.04	1.86
S&P 500	3,853.07	0.03	2.58
FTSE 100	6,715.42	-0.37	3.95
Hang Seng	29,927.76	-0.12	9.90
KLCI	1,594.80	-0.42	-1.99
STI	3,017.15	0.61	6.10
Dollar Index	90.13	-0.4	0.2
WTI oil (\$/bbl)	53.13	-0.2	9.42
Brent oil (\$/bbl)	56.10	0.04	8.30
Gold (\$/oz)	1,870.02	-0.10	-1.51

Daily FX Changes vs. USD (%)



Source: Bloomberg, HL Bank

Up Next

Event	Prior
JP Natl CPI Ex Fresh Food YoY (Dec)	-0.9%
AU Retail Sales MoM (Dec P)	7.1%
MA CPI YoY (Dec)	-1.7%
UK Retail Sales Inc Auto Fuel MoM (Dec)	-3.8%
EU Markit Eurozone Manufacturing PMI (Jan P)	55.2
EU Markit Eurozone Services PMI (Jan P)	46.4
UK Markit UK PMI Manufacturing SA (Jan P)	57.5
UK Markit/CIPS UK Services PMI (Jan P)	49.4
UK GfK Consumer Confidence (Jan)	-26.0
US Markit US Manufacturing PMI (Jan P)	57.1
US Markit US Services PMI (Jan P)	54.8
US Existing Home Sales MoM (Dec)	-2.5%

Source: Bloomberg

Week Ahead Forecasts

For Singapore's key data metrics, we forecast continued reflation in December, for both headline and core inflation to move up to 0% y/y from -0.1% a month ago. Rising energy prices and a rebound in economic activities likely supported. Industrial production may be still supportive of growth in December, albeit deflated by high base effects. We forecast a 7.5% y/y expansion compared to 17.9% a month ago.

Currency Highlights

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

DXY was down by 0.38% on Thursday, reaching a low of 90.45 and a close of 90.13. This came as initial jobless claims were slightly below expectations (900k vs 935k consensus forecast). We watch for some continued downward trend, albeit at a gradual pace. Support at 90.20 while resistance is at 90.90. Key focus today is on the Markit PMIs.

EUR (Neutral)

EUR/USD gained by 0.48% to close at 1.2164. This came as ECB kept its policy settings unchanged, saying that rates will stay at present or go lower until inflation goal is near. ECB chief Lagarde also said that the economy contracted in 4Q. As mentioned previously, there may be renewed upsides if 1.2150 is breached promptly towards a 1.2150 to 1.2300 range. Focus turns to PMIs.

GBP (Neutral-to-Bullish)

GBP/USD reached the highest levels since May 2018, touching a high of 1.3746 before closing at 1.3733. Resistance is now at 1.3760 and next 1.3800 big figure. GBP may stay buoyant from positive risk sentiments. Data focus is on retail sales and PMI on 22 January.

JPY (Neutral)

USD/JPY stayed flat, closing at 103.50 on Thursday. This came as BOJ announced unchanged policy settings. Improved its outlook. Key point was Kuroda's comments that negative rates are subject to review and importance of keeping the yield curve low. JPY may underperform on a mix of weak domestic fundamentals, risk appetite rebound and central bank stance. Support and resistance at 103.00 and 104.45 respectively.

AUD (Neutral-to-Bullish)

AUD/USD gained by 0.22%, closing at 0.7764. This came as unemployment figures were lower than expected, and Markit PMIs stay on strong positive levels. We are constructive on AUD. AUD may benefit from recovering commodity price outlooks, and as event risks dissipates. However, pair has looked stretched and we watch for a range of 0.7600-0.7810.

SGD (Neutral)

USD/SGD was down slightly to 1.3228 close on Thursday, with a modest 0.15% gain for the SGD. Range of 1.3200-1.3360 is still likely to persist as we stay confident of Singapore's fundamentals at the moment. However, Covid-19 community clusters are returning and presents slight risks towards the current economic situation at this stage. A break of the 1.32 big figure may turn attention to the 1.3162 support.

MYR (Neutral-to-Bearish)

USD/MYR fell 0.4% to 4.0290 on Thursday. Pair has broken 4.03 support and the downtrend is likely to continue especially after the broader greenback declined overnight. BNM's decision to maintain OPR and its neutral policy stance also benefits MYR to some extent. In the short term, we turn neutral to bearish on USD/MYR after BNM's policy pause while at the same time expecting US stimulus optimism to fade now that Biden is settled in.

FX Forecasts

FX	1Q-21	2Q-21	3Q-21	4Q-21
DXY	88.50	89.00	88.50	87.50
EUR/USD	1.2450	1.2400	1.2450	1.2550
GBP/USD	1.3850	1.3750	1.3850	1.4000
AUD/USD	0.7800	0.7700	0.7800	0.7950
USD/JPY	102.50	103.50	103.00	101.00
USD/MYR	3.90	3.95	3.90	3.88
USD/SGD	1.3050	1.3100	1.3000	1.2850

Policy Rate (%)	1Q-21	2Q-21	3Q-21	4Q-21
Fed	0.25-0.50	0.25-0.50	0.25-0.50	0.25-0.50
ECB	-0.50	-0.50	-0.50	-0.50
BOE	0.10	0.10	0.10	0.10
RBA	0.10	0.10	0.10	0.10
BOJ	-0.10	-0.10	-0.10	-0.10
BNM	1.75	1.75	1.75	1.75
MAS	-	Hold	-	Hold

Technical Support / Resistance Levels

	S2	S1	Prev. Close	R1	R2
EUR/USD	1.2000	1.2068	1.2164	1.2350	1.2400
GBP/USD	1.3490	1.3580	1.3733	1.3760	1.3800
AUD/USD	0.7420	0.7600	0.7764	0.7810	0.7850
USD/JPY	101.19	102.71	103.50	104.45	105.00
USD/MYR	3.9800	3.9957	4.0435	4.0580	4.0700
USD/SGD	1.3162	1.3200	1.3228	1.3360	1.3400

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