

## Daily Treasury Outlook

1 September 2020

### Highlights

**Global:** Global risk appetite may start September on a slightly more cautious note. The S&P500 slipped 0.2% overnight as Microsoft and Walmart declined on concern that the Tik Tok deal could be scuppered by China, but still capped its best August in 34 years with a 7% gain. Nasdaq powered to a fresh high on the back of Apple. VIX rose to 26.41. UST bonds whipsawed despite the month-end extensions, but still ended near session lows with the yield curve bull-flattening and the 10-year yield at 0.71%. The 3-month LIBOR eased to 0.2409%. China's official manufacturing PMI slipped from 51.1 to 51 in August, but the services PMI improved from 54.2 to 55.2. India reported a record 23.9% yoy contraction in 2Q.

**Market watch:** Asian markets may range trade or even succumb to some consolidation today after the month-end and amid mixed overnight cues from Wall Street. Key event to watch is the RBA policy decision which is likely to be unchanged at 0.25% for both the cash rate target and the 3-year yield target. Today's economic data calendar also comprises of the slew of manufacturing PMIs from Europe and Asia including China's Caixin, Indonesia's August CPI, Hong Kong's July retail sales, Eurozone's August CPI and July unemployment rate, and US' manufacturing ISM.

**EU:** ECB's Schnabel said "if you look at incoming data, by and large they support the baseline" and there is no need to add to stimulus again. In addition, whilst there is a certain resurgence of infections, but at the moment it looks unlikely that we are going to see a full lockdown again.

**SG:** July bank loans growth contracted for the second straight month by 0.3% yoy, following a -1.0% yoy print in June. This is the first back-to-back contraction since the last contraction streak ended in September 2016, due to the drag from consumer loans which fell 3.1% yoy due mainly to the housing loans weakness (-1.4% yoy), whereas business loans actually accelerated to 1.5% yoy, aided by business services, building & construction, transport, storage & communications, and financial institutions. Total bank loans also shrunk sequentially for the 5th consecutive month by 0.2% mom, as business loans fell 0.3% mom whilst consumer loans was flat compared to June 2020. With the likely softening of the domestic labour market and mixed consumer sentiments, bank loans could contract by around 1.0% yoy in 3Q20. Total bank loans had expanded 1.4% in the first seven months of 2020, but is likely to contract for the remainder of the year amid the muted economic conditions and could potentially see full-year 2020 bank loans growth barely in positive territory at 0.2% yoy. Meanwhile, MP Patrick Tay has suggested sector-specific EP salaries for the IT and professional services. Some 70% of businesses see prevailing business conditions persisting for the next 12 months, according to a SBF survey.

### Key Market Movements

Equity	Value	% chg
S&P 500	3500.3	-0.2%
DJIA	28430	-0.8%
Nikkei 225	23140	1.1%
SH Comp	3395.7	-0.2%
STI	2532.5	-0.3%
Hang Seng	25177	-1.0%
KLCI	1525.2	0.0%
	<b>Value</b>	<b>% chg</b>
DXY	92.144	-0.2%
USDJPY	105.91	0.5%
EURUSD	1.1936	0.3%
GBPUSD	1.3370	0.1%
USDIDR	14563	-0.5%
USDSGD	1.3603	0.2%
SGDMYR	3.0608	-0.2%
	<b>Value</b>	<b>chg (bp)</b>
3M UST	0.09	-0.25
10Y UST	0.70	-1.63
1Y SGS	0.30	0.00
10Y SGS	1.01	-0.52
3M LIBOR	0.24	-0.51
3M SIBOR	0.41	0.00
3M SOR	0.19	0.00
	<b>Value</b>	<b>% chg</b>
Brent	45.28	-1.2%
WTI	42.61	-0.8%
Gold	1968	0.2%
Silver	28.14	2.3%
Palladium	2246	1.7%
Copper	6667	0.0%
BCOM	73.32	0.2%

Source: Bloomberg

## Daily Treasury Outlook

1 September 2020

### Major Markets

**US:** Fed's Clarida said capping Treasury yields could be "an option that the committee could reassess" at some point, but again bluntly rejected negative rates. Meanwhile, Bostic said it was a "bit premature" to detail how to achieve its new policy framework. Despite closing 0.22% lower, the S&P 500 index recorded its biggest August gain since 1986. The Nasdaq 100 composite index notched a 0.68% gain. US equities continue to be driven up by tech stocks. Looking ahead, we expect market to retain its bullish tilt.

**CN:** Although China's August manufacturing PMI edged lower slightly to 51 from 51.1 in July due to moderation of production, the underlying breakdown is encouraging. The improvement of demand continued with new order rose for five consecutive months to 52 from 51.7. In addition, new export order also rose for four consecutive months to 49.1, highest in 2020. Meanwhile, employment index also improved marginally to 49.4 but still below the threshold line 50. Overall, we think China's August manufacturing PMI confirmed the recovery, although it is still an uneven recovery with smaller companies are still facing the stress. In addition, PBoC also said yesterday that it will promote DR rate, a repo rate from depository institutions, as interbank benchmark rate for its interest rate curve.

**HK:** Total loans and advances rose by 1.7% mom, led by the loans for use in HK (excluding trade finance) which grew by 2.6% mom or 8.7% yoy. That said, excluding IPO loans, total loans and advances would have increase only by 0.1% mom as local loan demand may have remained soft especially given the virus resurgence. On the other hand, total deposits grew by 6.3% yoy (the strongest since April 2018) or 2.7% mom in July. Excluding deposits growth driven by IPO activities, total deposits and HKD deposits would have grown by 1.5% and 1.8% on monthly basis respectively, which is still strong due to the strong equity inflows in July and the continuously upbeat investment sentiments. Moving ahead, another wave of hot IPOs is set to keep spurring loans and deposits growth. That said, as overall loan demand remains subdued and banks remain cautious, we expect total loans and advances (+7.4% yoy) to show single-digit growth this year. In contrast, total deposits especially HKD CASA deposits may continue to see relatively strong growth amid the upbeat sentiment and expected equity inflows on the back of global flushed liquidity.

**SG:** The STI declined 0.28% to close at 2532.51 yesterday and may consolidate today amid mixed cues from Wall Street. SGS bonds are also likely to range trade after the month end.

**Malaysia:** Malaysia celebrated its 63rd birthday yesterday but is back in action today. Earlier, PM Muhyiddin Yassin said in a televised speech that the country will extend pandemic measures to year-end. These include continued closure for nightclubs and theme parks, as well as a ban on foreign tourists.

## Daily Treasury Outlook

1 September 2020

**Indonesia:** Indonesia's parliament is reportedly discussing changes to a law governing Bank Indonesia, which includes setting up of a new monetary board led by finance minister to help the central bank determine policy. The board further includes economic affairs minister, head of FSA and the governor and the senior deputy governor of BI. It is slated to meet twice a month or as needed, and is to "lead, coordinate and direct monetary policy in line with government's economic policies in general", according to Bloomberg.

**Gold:** Gold rose 0.2% yesterday, with its lowest intraday price of \$1954.39/oz trading above the \$1950 level for the first time in three weeks. We remain bullish on gold and expect prices to retest the \$2000 level in the near term.

## Daily Treasury Outlook

1 September 2020

### Bond Market Updates

**Market Commentary:** The SGD swap curve steepened yesterday, with the shorter and belly tenors trading 0-1bps lower while the belly and the 20-year traded 5bps higher. The Bloomberg Barclays Asia USD IG Bond Index average OAS remained mostly unchanged, while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 8bps to 646bps. The HY-IG Index Spread tightened 8bps to 478bps. Flows in SGD corporates were heavy, with flows in UOBSP 4%-PERPs, HSBC 5%-PERPs, OLAMSP 4%'26s, UOBSP 3.58%-PERPs, UBS 4.85%-PERPs, SOCGEN 6.125%-PERPs, STANLN 5.375%-PERPs, STTGDC 3.13%'28s, CATHAY 3.375%'23s, CS 5.625%-PERPs and HSBC 4.7%-PERPs. 10Y UST Yields fell 3bps to 0.72% as the momentum from last week's selloff cooled down and investors were likely buying on dips.

**New Issues:** Nan Fung Treasury (III) Ltd. (Guarantor: Nan Fung International Holding Ltd) priced a USD500mn PerpNC3 at 5%, tightening from IPT of 5.4% area. ZhongAn Online P&C Insurance Co Ltd priced a USD300mn 5.5-year bond at T+325bps, tightening from IPT of T+345bps area. Modern Land (China) Co., Ltd. priced a USD50mn re-tap of its MOLAND 11.5%'22s at 12.375% and another USD50mn re-tap of its MOLAND 11.95%'24s at 12.85%. Ahli Bank Q.P.S.C. has mandated banks for its proposed USD bond offering.

## Daily Treasury Outlook

1 September 2020

### Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	92.144	-0.25%	USD-SGD	1.3603	0.16%
USD-JPY	105.910	0.51%	EUR-SGD	1.6237	0.44%
EUR-USD	1.194	0.28%	JPY-SGD	1.2844	-0.36%
AUD-USD	0.738	0.15%	GBP-SGD	1.8186	0.29%
GBP-USD	1.337	0.13%	AUD-SGD	1.0033	0.29%
USD-MYR	4.164	-0.20%	NZD-SGD	0.9159	0.01%
USD-CNY	6.849	-0.25%	CHF-SGD	1.5051	0.20%
USD-IDR	14563	-0.47%	SGD-MYR	3.0608	-0.15%
USD-VND	23166	0.00%	SGD-CNY	5.0345	-0.40%

### Equity and Commodity

Index	Value	Net change
DJIA	28,430.05	-223.82
S&P	3,500.31	-7.70
Nasdaq	11,775.46	79.83
Nikkei 225	23,139.76	257.11
STI	2,532.51	-7.12
KLCI	1,525.21	-29.57
JCI	5,238.49	-108.17
Baltic Dry	1,488.00	-16.00
VIX	26.41	3.45

### Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.5230	-0.52%	O/N	0.0809	0.08%
2M	-0.3360	-0.34%	1M	0.1568	0.16%
3M	-0.4770	-0.48%	2M	0.1856	0.19%
6M	-0.4440	-0.44%	3M	0.2409	0.25%
9M	-0.1940	-0.20%	6M	0.3099	0.31%
12M	-0.3690	-0.36%	12M	0.4453	0.44%

### Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	0.24 (-0.05)	0.13(-)
5Y	0.54 (-0.03)	0.27(-)
10Y	1.01 (-0.01)	0.71 (-0.02)
15Y	1.32 (+0.01)	--
20Y	1.41 (+0.04)	--
30Y	1.26 (+0.01)	1.48 (-0.03)

### Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	% Hike/Cut	Implied Rate Change	Implied Rate
09/16/2020	-0.084	-8.4	0.072	0.072
11/05/2020	-0.084	0	0.072	0.072
12/16/2020	-0.134	-4.9	0.06	0.06
01/27/2021	-0.164	-3.1	0.052	0.052
03/17/2021	-0.196	-3.1	0.045	0.045

### Financial Spread (bps)

	Value	Change
EURIBOR-OIS	-0.80	(-)
TED	35.36	--

### Secured Overnight Fin. Rate

SOFR	0.07
------	------

### Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	42.61	-0.84%	Corn (per bushel)	3.485	0.7%
Brent (per barrel)	45.28	0.51%	Soybean (per bushel)	9.513	0.1%
Heating Oil (per gallon)	119.61	-1.65%	Wheat (per bushel)	5.443	0.9%
Gasoline (per gallon)	127.61	-3.00%	Crude Palm Oil (MYR/MT)	28.450	2.2%
Natural Gas (per MMBtu)	2.63	-1.02%	Rubber (JPY/KG)	1.996	6.7%

  

Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	6667.00	0.69%	Gold (per oz)	1967.8	0.2%
Nickel (per mt)	15367.00	1.16%	Silver (per oz)	28.1	2.3%

### Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
09/01/2020 12:30	AU RBA Cash Rate Target	Sep-01	0.25%	--	0.25%
09/01/2020 07:30	JN Jobless Rate	Jul	3.0%	2.9%	2.8%
09/01/2020 15:50	FR Markit France Manufacturing PMI	Aug F	49	--	49
09/01/2020 16:30	HK Retail Sales Value YoY	Jul	-27.4%	--	-24.8%
09/01/2020 22:00	US ISM Manufacturing	Aug	54.7	--	54.2
09/01/2020 08:00	SK Exports YoY	Aug	-10.3%	-0.1	-7.0%
09/01/2020 09:45	CH Caixin China PMI Mfg	Aug	52.5	--	52.8
09/01/2020 09:30	AU Building Approvals MoM	Jul	-2.0%	--	-4.9%
09/01/2020 07:00	SK GDP YoY	2Q F	-2.9%	-2.7%	-2.9%
09/01/2020 15:55	GE Markit/BME Germany Manufacturing PMI	Aug F	53.0	--	53.0
09/01/2020 08:30	VN Markit Vietnam PMI Mfg	Aug	--	--	47.6
09/01/2020 16:00	EC Markit Eurozone Manufacturing PMI	Aug F	51.7	--	51.7
09/01/2020 08:30	ID Markit Indonesia PMI Mfg	Aug	--	--	46.9
09/01/2020 08:30	SK Markit South Korea PMI Mfg	Aug	--	--	46.9
09/01/2020 16:30	UK Markit UK PMI Manufacturing SA	Aug F	55.3	--	55.3

Source: Bloomberg

# Treasury Research & Strategy

## Macro Research

**Selena Ling**

Head of Research & Strategy

[LingSSSelena@ocbc.com](mailto:LingSSSelena@ocbc.com)

**Tommy Xie Dongming**

Head of Greater China Research

[XieD@ocbc.com](mailto:XieD@ocbc.com)

**Wellian Wiranto**

Malaysia & Indonesia

[WellianWiranto@ocbc.com](mailto:WellianWiranto@ocbc.com)

**Terence Wu**

FX Strategist

[TerenceWu@ocbc.com](mailto:TerenceWu@ocbc.com)

**Howie Lee**

Thailand & Commodities

[HowieLee@ocbc.com](mailto:HowieLee@ocbc.com)

**Carie Li**

Hong Kong & Macau

[carierli@ocbcwh.com](mailto:carierli@ocbcwh.com)

**Dick Yu**

Hong Kong & Macau

[dicksnyu@ocbcwh.com](mailto:dicksnyu@ocbcwh.com)

## Credit Research

**Andrew Wong**

Credit Research Analyst

[WongVKAM@ocbc.com](mailto:WongVKAM@ocbc.com)

**Ezien Hoo**

Credit Research Analyst

[EzienHoo@ocbc.com](mailto:EzienHoo@ocbc.com)

**Wong Hong Wei**

Credit Research Analyst

[WongHongWei@ocbc.com](mailto:WongHongWei@ocbc.com)

**Seow Zhi Qi**

Credit Research Analyst

[ZhiQiSeow@ocbc.com](mailto:ZhiQiSeow@ocbc.com)

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC Bank, its related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial services to such issuers. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).