

Daily Treasury Outlook

3 September 2020

Highlights

Global: Equity bulls remain in the driver's seat overnight despite the Fed's Beige Book flagging "reporting slowing job growth" and "some pessimism" in some districts and the US' ADP employment growing by a smaller than expected 428k in August. Lifting risk sentiments was the CDC telling US states to prepare for a Covid-19 vaccine to be ready by 1 November. The S&P 500 surged 1.54% to a fresh record, led by utilities and materials, with the Dow crossing the 29,000 handle, while VIX also rose to 26.57 overnight. The UST bond market rallied with the curve bull-flattening and longer dated yields lower by up to 4bps and the 10-year yield at 0.65%. The 3-month LIBOR edged up to 0.2513% with market demand for commercial paper likely to slip as Vanguard Group converted its \$125b prime fund into a government one. Crude oil prices and gold slipped, while USD rose. Elsewhere, the Australian economy contracted a record 7% qoq in 2Q20.

Market watch: Asian markets may open with a firmer tone while investors await the China Caixin PMI due this morning, as well as the services and composite PMIs from US, Europe and Asia later today. Today's economic data calendar also comprises US initial jobless claims and trade balance. ECB's Schnabel and Fed's Evans are also speaking.

US: United Airlines Holdings will cut 16,370 staff to halve its domestic workforce when federal support expires on 1 October. Meanwhile, Fed's Mester opined that the recovery remains fragile and requires more government action, but Senate Majority Leader Mitch McConnell doubted if Congress could agree on the stimulus package after the summer recess.

EU: The rising Euro may pose an additional challenge for the ECB after EURUSD broke above 1.20 recently, with Lane and Schnabel acknowledging the issue.

UK: The UK government has announced a GBP500 funding for expanded Covid-19 testing program. Separately, Chancellor Sunak has promised Tories no "horror show" of tax rises but does not rule out short-term hikes.

SG: PM Lee said that emergency measures are crucial for now but cannot continue indefinitely. On the data front, the August manufacturing PMI is likely to stay in expansion territory, and the electronics PMI may play catch up as well, compared to July readings of 50.2 and 49.2 respectively.

Gold: Gold fell 1.4% yesterday to \$1942.92/oz after the US dollar index rose 0.6% to add downward pressure on the precious metals. Gold continues to hover around the \$1950/oz level and is likely to continue its consolidation trend in the near term.

Oil: Data from the US Department of Energy yesterday showed US crude oil inventories falling 9.4mn barrels in the last week of August, bringing the total crude oil stockpile in the US to 498.4mn barrels. This is the first time since the start of April that US crude oil inventories are below 500mn barrels and is the sixth consecutive week of drawdown in the US.

Key Market Movements

Equity	Value	% chg
S&P 500	3580.8	1.5%
DJIA	29101	1.6%
Nikkei 225	23247	0.5%
SH Comp	3404.8	-0.2%
STI	2539.9	0.1%
Hang Seng	25120	-0.3%
KLCI	1537.5	1.1%

	Value	% chg
DXY	92.847	0.6%
USDJPY	106.18	0.2%
EURUSD	1.1855	-0.5%
GBPUSD	1.3350	-0.3%
USDIDR	14745	1.2%
USDSGD	1.3625	0.1%
SGDMYR	3.0436	-0.3%

	Value	chg (bp)
3M UST	0.10	0.00
10Y UST	0.65	-2.12
1Y SGS	0.30	0.00
10Y SGS	0.97	-2.25
3M LIBOR	0.25	1.03
3M SIBOR	0.41	0.00
3M SOR	0.21	0.00

	Value	% chg
Brent	44.43	-2.5%
WTI	41.51	-2.9%
Gold	1943	-1.4%
Silver	27.45	-2.4%
Palladium	2248	-1.4%
Copper	6697	0.1%
BCOM	72.83	-0.9%

Source: Bloomberg

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Major Markets

US: US equities rose to print fresh record highs close. The S&P 500 index notched a 1.5% gain and the Nasdaq 100 Composite index advanced 1%. Market sentiment continued to display bullishness despite the miss in ADP employments. We expect US equities to remain bullish in the near term.

CN: China's State Council reiterated yesterday to pursue a prudent monetary policy in a more flexible and appropriate way. In addition, it also added the word "sustainability" into its decision making mechanism, a sign that China will not go down the path of excessive stimulus.

HK: CCL index which tracks the secondary housing price dropped by 1.2% on a weekly basis as of 23rd August. Meanwhile, housing transaction volume dropped for the second consecutive month by 28.9% mom to 4358 units in August. The retreat in housing market could be attributed to virus resurgence, lowered rental yield, urgent need for cashflows of homeowners, and the softening labor market outlook. Going forward, once the local pandemic recedes and the containment measures are eased, we expect to see moderate rebound in the housing market given the supportive measures, lowered interest rates, the tight housing supply and the pent-up demand from the less affected higher-income group. In conclusion, housing price index (+1.5% YTD in July) may drop up to 5% yoy by end of this year. Elsewhere, the government further relaxed the restriction measures by allowing gyms and massage parlours to re-open with conditions and allow dining-in in restaurants till 10pm (currently till 9pm), effective from 4th September.

SG: The STI closed nearly flat (+0.05%) at 2539.94 yesterday, but may trade with a firmer tone today amid positive overnight cues from Wall Street. SGS bonds are also likely to extend gains today, tracking the overnight UST rally.

Malaysia: PM Muhyiddin Yassin has reportedly garnered a good score in a Merdeka Center poll for public perception of his handling of the pandemic, with more than 90% of respondents expressing their support. Though his overall rating eased to 69% in August, from 74% in June and July, the support remained relatively high. Meanwhile, his Perikatan Nasional alliance is said to be viewed positively by 51% of respondents, twice the level for the opposition coalition.

Indonesia: Bank Indonesia has reportedly intervened in the foreign exchange market yesterday to stabilize the Rupiah. Market appears to be increasingly uneasy about the host of unprecedented moves on central bank independence under a proposed set of legal amendments that might see the government asserting more control over monetary policy setting was reported. Confusion about whether the debt monetization is a one-off or otherwise did not help.

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Bond Market Updates

Market Commentary: The SGD swap curve bull flattened yesterday, with the shorter and belly tenors trading 0-3bps lower while the longer tenors traded 3bps lower and the 30-year traded 6bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 167bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 1bps to 646bps. The HY-IG Index Spread remained mostly unchanged at 479bps. Flows in SGD corporates were heavy, with flows in CATHAY 3.375%'23s, HSBC 5%-PERPs, SPHRSP 4.1%-PERPs, WINGTA 4.35%-PERPs, CS 5.625%-PERPs and HSBC 4.7%-PERPs. 10Y UST Yields fell 2bps to 0.65% as ADP employment data disappointed investors and the market looked to the release of the official employment report for August on Friday.

New Issues: China Merchants Bank Co Ltd/Hong Kong priced a USD800mn 5-year green bond at T+105bps, tightening from IPT of T+150bps area. Kaisa Group Holdings Ltd priced a USD400mn re-tap of its KAISAG 11.25%'25s at 10.75%, tightening from IPT of 11.125% area. China South City Holdings Ltd priced a USD250mn 2Y7M bond at 12.35%, tightening from IPT of 12.75% area. Eastern Creation II Investment Holdings Ltd. (Guarantor: Beijing Infrastructure Investment Co.) priced a USD650mn 3-year bond at T+108bps, tightening from IPT of T+160bps area. Oversea-Chinese Banking Corp Ltd priced a USD1bn 10NC5 Sub at T+158bps, tightening from IPT of T+200bps area. BOSCI (BVI) Limited priced a USD300mn 3-year bond at T+110bps, tightening from IPT of T+145bps area. SABIC Capital I BV (Guarantor: Saudi Basic Industries Corp.) has arranged investor calls commencing 2 September 2020 for its proposed USD bond offering.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	92.847	0.55%	USD-SGD	1.3625	0.08%
USD-JPY	106.180	0.21%	EUR-SGD	1.6153	-0.39%
EUR-USD	1.186	-0.48%	JPY-SGD	1.2831	-0.13%
AUD-USD	0.734	-0.46%	GBP-SGD	1.8191	-0.16%
GBP-USD	1.335	-0.25%	AUD-SGD	0.9998	-0.38%
USD-MYR	4.144	0.01%	NZD-SGD	0.9226	0.27%
USD-CNY	6.838	0.15%	CHF-SGD	1.4951	-0.13%
USD-IDR	14745	1.18%	SGD-MYR	3.0436	-0.28%
USD-VND	23166	0.00%	SGD-CNY	5.0165	-0.10%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.5100	-0.52%	O/N	0.0813	0.08%
2M	-0.3360	-0.34%	1M	0.1556	0.16%
3M	-0.4780	-0.48%	2M	0.2026	0.19%
6M	-0.4410	-0.45%	3M	0.2511	0.24%
9M	-0.1940	-0.20%	6M	0.3033	0.31%
12M	-0.3730	-0.38%	12M	0.4326	0.45%

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
04/28/2021	-0.204	-0.9	0.043	0.043
06/16/2021	-0.209	-0.4	0.041	0.041
07/28/2021	-0.224	-1.6	0.038	0.038
09/22/2021	-0.253	-2.9	0.03	0.03
11/03/2021	-0.255	-0.2	0.03	0.03
12/15/2021	-0.263	-0.7	0.028	0.028
01/26/2022	-0.284	-2.1	0.023	0.023

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	41.51	-2.92%	Corn (per bushel)	3.498	0.1%
Brent (per barrel)	44.43	-2.52%	Soybean (per bushel)	9.625	0.8%
Heating Oil (per gallon)	118.85	-3.44%	Wheat (per bushel)	5.478	-1.4%
Gasoline (per gallon)	120.20	-1.85%	Crude Palm Oil (MYR/MT)	29.220	1.1%
Natural Gas (per MMBtu)	2.49	-1.62%	Rubber (JPY/KG)	2.196	2.2%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	6697.00	0.14%	Gold (per oz)	1942.9	-1.4%
Nickel (per mt)	15706.00	1.11%	Silver (per oz)	27.4	-2.4%

Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
09/03/2020 20:30	US Initial Jobless Claims	Aug-29	950k	--	1006k
09/03/2020 11:30	TH CPI YoY	Aug	-0.60%	--	-0.98%
09/03/2020 09:30	AU Trade Balance	Jul	A\$5350m	--	A\$8202m
09/03/2020 20:30	US Trade Balance	Jul	-\$58.0b	--	-\$50.7b
09/03/2020 22:00	US ISM Services Index	Aug	57.0	--	58.1
09/02/2020 09:04	PH BoP Overall	Jul	--	--	\$80m
09/03/2020 15:50	FR Markit France Services PMI	Aug F	51.9	--	51.9
09/03/2020 16:00	EC Markit Eurozone Composite PMI	Aug F	51.6	--	51.6
09/03/2020 15:50	FR Markit France Composite PMI	Aug F	51.7	--	51.7
09/03/2020 21:00	SI Purchasing Managers Index	Aug	50.1	--	50.2
09/03/2020 15:55	GE Markit Germany Services PMI	Aug F	50.8	--	50.8
09/03/2020 08:30	HK Markit Hong Kong PMI	Aug	--	--	44.5
09/03/2020 09:45	CH Caixin China PMI Services	Aug	53.9	--	54.1
09/03/2020 16:30	UK Markit/CIPS UK Services PMI	Aug F	60.1	--	60.1
09/03/2020 15:55	GE Markit/BME Germany Composite PMI	Aug F	53.7	--	53.7
09/03/2020 16:00	EC Markit Eurozone Services PMI	Aug F	50.1	--	50.1

Equity and Commodity

Index	Value	Net change
DJIA	29,100.50	454.84
S&P	3,580.84	54.19
Nasdaq	12,056.44	116.77
Nikkei 225	23,247.15	109.08
STI	2,539.94	1.39
KLCI	1,537.54	16.11
JCI	5,311.97	1.29
Baltic Dry	1,471.00	-17.00
VIX	26.57	0.45

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	0.22 (-)	0.13(-)
5Y	0.49 (-0.03)	0.25(-)
10Y	0.97 (-0.02)	0.65 (-0.02)
15Y	1.27 (-0.04)	--
20Y	1.38 (-0.04)	--
30Y	1.25 (-0.02)	1.38 (-0.04)

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	-0.85	(-)
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	0.09
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Source: Bloomberg

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