

Daily Treasury Outlook

14 September 2020

Highlights

Global: A big week lies ahead with slew of central bank meetings including the FOMC, BOE, BOJ, BI and CBC. The S&P 500 index closed the week slightly higher at +0.05%, but the Nasdaq 100 Composite Index chalked up 0.6% losses on Friday and marked its worst week since March, with VIX easing to 26.87. Meanwhile UST bonds advanced after recovering from earlier session lows despite the stronger-than-expected US' August CPI inflation data, with the belly of the curve outperforming and the 10-year yield a tad lower at 0.67% as buyers emerged. The 3-month LIBOR rose to 0.2504%. Meanwhile, China has tightened rules and capital demands on non-financial companies that do business across at least two financial sectors and have financial assets exceeding CNY500b (for those with banking licenses) or CNY100b (for those without banking operations) from 1 November. Elsewhere, Israel has voted to impose a second nationwide lockdown starting Friday for at least three weeks, Turkey's sovereign credit rating was cut by Moody's to B2, and AstraZeneca and University of Oxford have restarted their vaccine trial.

Market watch: Asian markets are likely to range trade this morning, awaiting for the election of the new PM in Japan (with Yoshihide Suga the frontrunner). Market focus will be on the trifecta of FOMC, BOE and BOJ on Thursday even though no policy rate adjustments are tipped. Starting with the FOMC, this is the last meeting ahead of the 3 November elections and especially given the current fiscal stimulus impasse, we expect a clarification of the specifics of its new average targeting framework (eg. how long will the Fed allow the temporary overshoot of inflation for instance) as well as the updated SEP forecasts (which will likely reflect the Fed Funds rate being static in the new 2023 forecasts), followed by the BOE (where the prospects of a no-deal Brexit is back on the table with the highly controversial Internal Bill Agreement being debated, and may weigh on the BOE to be more cautious, albeit divided), and BOJ (where governor Kuroda is likely to continue to lean on the dovish side). BI and CBC are also likely to be static on Thursday, with the former currently monitoring IDR volatility closely. Friday is also the quadruple witching for US markets with the quarterly expiration of futures and options on indexes and stocks. Today's economic data calendar is very quiet with only China's August new home prices, Hong Kong's 2Q industrial production and PPI, Europe's industrial production and India's CPI.

US: August CPI rose for the third straight month by 0.4% mom (1.3% yoy), with core CPI also expanding 0.4% mom (1.7% yoy). The main culprit was the sharpest surge in used-vehicle costs (+5.4%) since 1969, which accounted for more than 40% of the rise in the core CPI.

EU: ECB president Lagarde noted that the recent Euro strength has partly offset the monetary policy stimulus boost to inflation, and the central bank stands ready to adjust policy settings if necessary. She opined that "when it comes to meeting our price stability goal, there is and there will be no complacency", which reinforced market speculation of further easing.

Key Market Movements

Equity	Value	% chg
S&P 500	3341.0	0.1%
DJIA	27666	0.5%
Nikkei 225	23406	0.7%
SH Comp	3260.3	0.8%
STI	2490.1	-0.1%
Hang Seng	24503	0.8%
KLCI	1504.9	1.0%
	Value	% chg
DXY	93.333	0.0%
USDJPY	106.16	0.0%
EURUSD	1.1846	0.3%
GBPUSD	1.2796	-0.1%
USDIDR	14890	0.2%
USDSGD	1.3678	-0.2%
SGDMYR	3.0393	-0.1%
	Value	chg (bp)
3M UST	0.11	0.50
10Y UST	0.67	-1.14
1Y SGS	0.29	0.00
10Y SGS	0.92	-0.81
3M LIBOR	0.25	-0.11
3M SIBOR	0.41	0.00
3M SOR	0.20	0.11
	Value	% chg
Brent	39.83	-0.6%
WTI	37.33	0.1%
Gold	1941	-0.3%
Silver	26.73	-0.5%
Palladium	2324	1.0%
Copper	6739	1.1%
BCOM	71.56	0.1%

Source: Bloomberg

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Major Markets

US: The S&P 500 index gained a marginal 0.1% and the Nasdaq 100 Composite index closed 0.6% lower. Risk sentiment is likely to remain fragile over concerns of a continued stock rout. This is likely to weigh on equity markets ahead of this Wednesday's FOMC meeting.

CN: The stock of aggregate social financing rose by 13.3% yoy, fastest growth since February 2018. The stronger than expected aggregate social financing was mainly supported by local government bond issuance thanks to proactive fiscal policy. M2 growth, however, decelerated to 10.4% from 10.7% in July. The divergence between M2 growth and aggregate social financing growth was mainly the result of rising fiscal deposit. Nevertheless, the acceleration of M1 growth showed the economic activities remain high. Meanwhile, China's State Council unveiled new rules to tighten its supervision of financial holding companies. The financial holding companies will be put under the centralized supervision of the central bank, which aimed to prevent from the regulatory arbitrage. This will help reduce systemic risk.

SG: The STI retreated 0.08% to close at 2490.09 on Friday and may try to open on a firmer tone this morning, taking Friday cues from Wall Street and morning gains from Kospi. Meanwhile, SGS bonds which bull-steepened on Friday, may also remain supported today.

Macau: Average housing price dropped for the seventh consecutive month by 9.2% yoy in July. During the same month, housing transaction volume growth returned to negative territory with a decline of 19.9% yoy. Clearly, the pent-up demand, the long-term undersupply of housing and the lowered interest rates together were insufficient to offset the hit from several unfavorable factors. First, the supply in both primary and secondary housing market reduced. Second, investment sentiment in the housing market may have been dented by the control measures, the sluggish business outlook and the sliding housing rents amid the sharp decrease in non-local workers. Third, with first-home local buyers being the main driver of the housing market growth, the market remained sluggish due to the increasing local unemployment and the still bleak economic outlook. Given these unfavorable factors, we expect average housing price (-5.3% YTD in July) to drop up to 5% yoy by end-2020.

Malaysia: Friday saw the release of Malaysia's industrial production print for the month of July. At 1.2% yoy, it came in slightly better than the 1.0% expected, and also marked an improvement from the -0.4% prior. While mining activities and electricity generation sub-components remained weak, manufacturing element has continued to gain year-on-year, helping to boost the overall index.

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Indonesia: Bank Indonesia has reportedly intensified its intervention in the currency markets to keep rupiah from weakening further. Announcement of further social restrictions in the capital city of Jakarta to curb the pandemic spread had triggered the latest bout of depreciation pressure. The rupiah fell as much as 0.6% on Friday to 14950 per US dollar, which marked the weakest level for the currency since May 12.

Oil: Brent fell below \$40/bbl once again, losing 0.6% on Friday to close at \$39.83/bbl. Selling pressure on crude oil appears to be picking up at the moment, consistent with the risk-off theme across global markets.

Gold: Gold fell 0.3% to \$1940.55/oz on Friday after the dollar index endured a volatile session. The precious metal looks like it will continue to consolidate in the near term.

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Bond Market Updates

Market Commentary: The SGD swap curve slightly fell last Friday (with the exception of the 1-year which traded slightly higher), most of the tenors traded 0-1bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 169bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 9bps to 678bps. The HY-IG Index Spread widened 8bps to 510bps. Flows in SGD corporates were heavy, with flows in AREIT 3%-PERPs, HSBC 5%-PERPs, UOBSP 4%-PERPs, UBS 4.85%-PERPs, CS 5.625%-PERPs, FPLSP 4.98%-PERPs, OLAMSP 4%'26s, STANLN 5.375%-PERPs and UBS 5.875%-PERPs. 10Y UST Yields fell 1bps to 0.67%, despite stronger-than-expected August CPI.

New Issues: Trafigura Group has mandated banks for its proposed USD bond offering.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	93.333	0.00%	USD-SGD	1.3678	-0.15%
USD-JPY	106.160	0.03%	EUR-SGD	1.6207	0.14%
EUR-USD	1.185	0.26%	JPY-SGD	1.2890	-0.14%
AUD-USD	0.728	0.36%	GBP-SGD	1.7504	-0.24%
GBP-USD	1.280	-0.07%	AUD-SGD	0.9967	0.25%
USD-MYR	4.152	-0.29%	NZD-SGD	0.9122	0.12%
USD-CNY	6.834	0.00%	CHF-SGD	1.5053	0.06%
USD-IDR	14890	0.24%	SGD-MYR	3.0393	-0.13%
USD-VND	23167	0.00%	SGD-CNY	4.9969	-0.12%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.5160	-0.54%	O/N	0.0830	0.08%
2M	-0.3360	-0.34%	1M	0.1524	0.15%
3M	-0.4840	-0.49%	2M	0.1979	0.20%
6M	-0.4550	-0.46%	3M	0.2504	0.25%
9M	-0.1940	-0.20%	6M	0.2819	0.28%
12M	-0.3950	-0.40%	12M	0.4139	0.41%

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	% Hike/Cut	Implied Rate Change	Implied Rate
09/16/2020	-0.047	-4.7	0.082	0.082
11/05/2020	-0.071	-2.4	0.076	0.076
12/16/2020	-0.112	-4.2	0.066	0.066
01/27/2021	-0.167	-5.4	0.052	0.052
03/17/2021	-0.208	-4.1	0.042	0.042
04/28/2021	-0.247	-3.9	0.032	0.032
06/16/2021	-0.256	-0.9	0.03	0.03
07/28/2021	-0.287	-3.1	0.023	0.023
09/22/2021	-0.316	-2.9	0.015	0.015
11/03/2021	-0.329	-1.3	0.012	0.012
12/15/2021	-0.348	-1.9	0.007	0.007
01/26/2022	-0.387	-3.9	-0.002	-0.002

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	37.33	0.08%	Corn (per bushel)	3.650	2.2%
Brent (per barrel)	39.83	-0.57%	Soybean (per bushel)	10.055	2.1%
Heating Oil (per gallon)	108.96	0.67%	Wheat (per bushel)	5.338	-1.2%
Gasoline (per gallon)	109.49	-0.26%	Crude Palm Oil (MYR/MT)	28.800	-0.6%
Natural Gas (per MMBtu)	2.27	-2.32%	Rubber (JPY/KG)	1.985	-2.4%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	6739.00	1.06%	Gold (per oz)	1940.6	-0.3%
Nickel (per mt)	15094.00	1.77%	Silver (per oz)	26.7	-0.5%

Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
09/14/2020 06:15	JN Industrial Production MoM	Jul F	--	8.0%	--
09/14/2020 09:29	PH Foreign Reserves	Aug	--	\$98.0b	\$98.6b
09/14/2020 06:30	NZ Performance Services Index	Aug	--	46.9	54.3
09/14/2020 06:45	NZ Net Migration SA	Jul	--	-26	760
09/14/2020 09:30	CH New Home Prices MoM	Aug	--	0.47%	--
09/14/2020 12:30	JN Tertiary Industry Index MoM	Jul	0.5%	--	7.9%
09/14/2020 12:30	JN Industrial Production YoY	Jul F	--	--	-16.1%
09/14/2020 12:30	JN Capacity Utilization MoM	Jul	--	--	6.2%
09/14/2020 12:30	FR Bank of France Ind. Sentiment	Aug	100	--	99
09/14/2020 14:30	EC Bloomberg Sept. Eurozone Economic Survey				
	Bloomberg Sept. United Kingdom Economic Survey				
09/14/2020 15:30	UK Survey				
09/14/2020 16:30	HK Industrial Production YoY	2Q	--	--	-4.6%
09/14/2020 16:30	HK PPI YoY	2Q	--	--	1.3%
09/14/2020 17:00	EC Industrial Production SA MoM	Jul	4.2%	--	9.1%
09/14/2020 17:00	EC Industrial Production WDA YoY	Jul	-8.1%	--	-12.3%

Source: Bloomberg

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