

Daily Treasury Outlook

18 August 2020

Highlights

Global: The 'everything rally' is back, with stocks, Treasuries, oil and gold rose while the dollar retreated. The S&P 500 index came agonisingly close to setting a new record high, just 4.16 points or 0.12% away from current levels to best its record close of 3386.15 set in February this year. Meanwhile the rally in Treasury yields took a breather, with the 10Y UST yield declining to 0.6882% from 0.7208% last Friday. This broad risk-on rally came amid increasing US-China tensions, with the US now adding another 38 of Huawei's affiliates to its blacklist, effectively limiting the tech firm from accessing commercially available chips. The ample liquidity theme, however, continues to take precedence for now. Elsewhere, Thailand posted a better-than-expected 12.2% yoy GDP contraction in Q2 (vs -13.0% expected).

Market watch: Asian markets are likely off on a firm footing this morning as investors take bullish cues from the risk-on rally overnight. Today's economic calendar is relatively light, with US housing starts likely the main focus for investors (5.0% m/m expected).

US: The Empire Manufacturing index produced a huge miss in August, coming in at 3.7 vs 15.0 expected, suggesting that the economy's recovery is likely to face increasing headwinds. The six-month-ahead index at 34.3 fell for a second month from 56.5 in June, with optimism from employers waning as we head into Q3 with no resolution for the coronavirus in sight.

SG: DPM Heng announced an up to 7-month extension to the Jobs Support Scheme to cover wages paid up to March 2021 to provide continued support for businesses and workers amidst the protracted economic downturn. The move did not come as a surprise given the weak state of the S'pore economy. The JSS is essentially buying time for stressed companies, especially for the industries that have been badly impacted by the Covid-19 pandemic. From a fiscal perspective, the \$8b does not require a further draw on past reserves as it is fully funded by reallocating earlier planned expenditure from other areas. Nevertheless, the option may still be on the table to reassess in 1Q2021 to see if there's a further need to do more, especially after DPM Heng remarked that the labour market is likely to remain weak beyond 2020.

Oil: Brent rose 1.3% to \$45.37/bbl yesterday, in a broad risk-on rally that saw most risk assets post gains and the yields on Treasuries taking a breather from its recent rally. The OPEC+ meeting tomorrow is expected to yield little surprises.

Gold: The retreat of the dollar and Treasury yields yesterday led gold to end the session 2.1% higher at \$1985.30/oz.

Key Market Movements

Equity	Value	% chg
S&P 500	3382.0	0.3%
DJIA	27845	-0.3%
Nikkei 225	23097	-0.8%
SH Comp	3438.8	2.3%
STI	2571.6	-0.4%
Hang Seng	25347	0.7%
KLCI	1560.7	-0.2%
	Value	% chg
DXY	92.851	-0.3%
USDJPY	106	-0.6%
EURUSD	1.1870	0.2%
GBPUSD	1.3103	0.1%
USDIDR	14795	0.0%
USDSGD	1.3679	-0.2%
SGDMYR	3.0605	0.1%
	Value	chg (bp)
3M UST	0.09	-0.25
10Y UST	0.69	-2.12
1Y SGS	0.30	0.00
10Y SGS	0.89	-1.46
3M LIBOR	0.27	-0.97
3M SIBOR	0.44	0.00
3M SOR	0.22	0.00
	Value	% chg
Brent	45.37	1.3%
WTI	42.89	2.1%
Gold	1985	2.1%
Silver	27.49	3.9%
Palladium	2203	3.9%
Copper	6446	1.2%
BCOM	72.02	1.7%

Source: Bloomberg

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Major Markets

US: Risk sentiments remain elevated despite fresh restrictions on Huawei. The NASDAQ composite index gained 1.0% to a record high of 11,127.7 while the broader S&P500 index climbed 0.3% higher. In the near term, the market is likely to maintain its bullish tilt barring further escalation of Sino-US relations.

CN: The PBoC injected CNY700 billion 1-year liquidity into the system via rolling over 1-year MLF, much higher than maturing CNY550 billion MLF in August. The more generous than expected liquidity offering served two purposes. First, the liquidity injection ahead of massive local government bond issuance this week showed that China's monetary policy will work hand in hand with fiscal policy to support the issuance of government bond. Second, it may also alleviate the concerns about scarcity of long-term funding as a result of rising NCD cost. This will also help stabilize the liability cost for banks.

Singapore: The STI posted its second consecutive retreat yesterday, declining 0.4% to 2571.55 despite rising to 2596.81 in early trading. The 2600 remains a particularly strong resistance for the benchmark equity index and it remains to be seen if overnight momentum from Wall Street is sufficient to propel the benchmark Singapore equity index over this level today.

Malaysia: Leaders of UMNO and PAS have said that they welcome Bersatu party into their Muafakat Nasional coalition. This came after PM Muhyiddin said over the weekend that the decision on whether to join the formal coalition would be finalised soon. The two parties in the MN coalition had previously been reluctant to formally join the Perikatan Nasional grouping that the PM had formed to support his rule. The potential "reverse coalition" comes before the Slim by-election in Perak on August 29 and Sabah state election on September 26.

Indonesia: Indonesia celebrated the 75th anniversary of its independence yesterday and market was closed. Recent chatters have surrounded the 2021 budget in which the deficit is slated to go down slightly from this year's 6.34% of GDP to 5.5%. While the relative fiscal consolidation should be welcomed, the comment by President Jokowi that Bank Indonesia would continue in its "burden sharing" agreement with the government to help finance the deficit gave rise to market concerns. While Finance Minister Sri Mulyani has clarified to the press that the outright debt monetisation recently is indeed a one-off and that BI's support will be in the form of primary auction standby buyer, market might need more convincing in the days ahead.

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Bond Market Updates

Market Commentary: The SGD swap curve slightly steepened yesterday, with the shorter and belly tenors trading 0-1bps lower while the longer tenors traded slightly higher. The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 168bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 2bps to 663bps. The HY-IG Index Spread widened 1bps to 495bps. Flows in SGD corporates were heavy, with flows in OLAMSP 6%'22s, MAPLSP 3.15%'31s, STTGDC 3.13%'28s, FPLSP 4.15%'27s, SINTEC 4.1%-PERPs and SLHSP 3.5%'30s. 10Y UST Yields fell 2bps to 0.69% after the New York Fed's Empire Manufacturing Survey fell 13.5 points to 3.7 in August, signalling a slower pace of US economic recovery.

New Issues: National Australia Bank Ltd priced a USD1.5bn 10-year bond at T+165bps, tightening from IPT of T+185-190bps. Vedanta Holdings Mauritius II Ltd. (Guarantors: Vedanta Resources Ltd., Vedanta Holdings Jersey Ltd. and Vedanta Holdings Mauritius Ltd.) priced a USD1.4bn 3-year amortizing bond at 13.0%, tightening from IPG of 13.25% area. Shui On Development Holding Ltd (Guarantor: Shui On Land) priced a USD500mn 4NC2 bond at 6.15%, tightening from IPT of 6.5% area. HSBC Institutional Trust Services (Singapore) Ltd. (in its capacity as trustee of Ascendas Real Estate Investment Trust) priced a SGD100mn 10-year green bond at 2.65%, tightening from IPT of 2.85% area. Olam International Limited priced a SGD400mn 5.5-year bond at 4.0%, tightening from IPT of 4.25%. Elect Global Investments Ltd. (Guarantor: Hysan Development Co.) has arranged investor calls commencing 17 August 2020 for its proposed USD perp offering.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	92.851	-0.26%	USD-SGD	1.3679	-0.22%
USD-JPY	106.000	-0.56%	EUR-SGD	1.6238	0.02%
EUR-USD	1.187	0.24%	JPY-SGD	1.2905	0.34%
AUD-USD	0.721	0.60%	GBP-SGD	1.7925	-0.08%
GBP-USD	1.310	0.13%	AUD-SGD	0.9869	0.40%
USD-MYR	4.191	-0.04%	NZD-SGD	0.8971	0.03%
USD-CNY	6.933	-0.25%	CHF-SGD	1.5088	0.05%
USD-IDR	14795	0.14%	SGD-MYR	3.0605	0.09%
USD-VND	23165	-0.05%	SGD-CNY	5.0675	-0.07%

Equity and Commodity

Index	Value	Net change
DJIA	27,844.91	-86.11
S&P	3,381.99	9.14
Nasdaq	11,129.73	110.43
Nikkei 225	23,096.75	-192.61
STI	2,571.55	-9.77
KLCI	1,560.74	-3.85
JCI	5,247.69	0.00
Baltic Dry	1,540.00	30.00
VIX	21.35	-0.70

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.5110	-0.51%	O/N	0.0854	0.09%
2M	-0.3360	-0.34%	1M	0.1580	0.16%
3M	-0.4860	-0.48%	2M	0.2221	0.22%
6M	-0.4280	-0.43%	3M	0.2648	0.25%
9M	-0.1940	-0.20%	6M	0.3368	0.34%
12M	-0.3530	-0.36%	12M	0.4579	0.46%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	0.24 (-0.02)	0.16(-)
5Y	0.47 (-0.02)	0.29 (-0.01)
10Y	0.89 (-0.01)	0.72 (-0.02)
15Y	1.16 (-)	--
20Y	1.22 (-)	--
30Y	1.1 (-0.01)	1.43 (-0.01)

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	% Hike/Cut	Implied Rate Change	Implied Rate
09/16/2020	-0.075	-7.5	0.077	0.077
11/05/2020	-0.099	-2.4	0.072	0.072
12/16/2020	-0.142	-4.3	0.061	0.061
01/27/2021	-0.175	-3.3	0.052	0.052
03/17/2021	-0.228	-5.3	0.039	0.039

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	-1.52	(-)
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	0.09
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Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	42.89	2.09%	Corn (per bushel)	3.310	2.0%
Brent (per barrel)	45.37	1.27%	Soybean (per bushel)	9.125	1.0%
Heating Oil (per gallon)	123.91	0.19%	Wheat (per bushel)	5.165	3.3%
Gasoline (per gallon)	127.00	2.04%	Crude Palm Oil (MYR/MT)	27.740	-1.0%
Natural Gas (per MMBtu)	2.34	-0.72%	Rubber (JPY/KG)	1.706	2.8%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	6446.00	1.25%	Gold (per oz)	1985.3	2.1%
Nickel (per mt)	14599.00	1.62%	Silver (per oz)	27.5	3.9%

Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
08/17/2020 08/19	HK Composite Interest Rate	Jul	--	0.7%	--
08/17/2020 08/23	TH Car Sales	Jul	--	58013	--
08/18/2020 04:00	US Net Long-term TIC Flows	Jun	--	\$113.0b	\$118.1b
08/18/2020 04:00	US Total Net TIC Flows	Jun	--	-\$67.9b	-\$15.9b
	ANZ Roy Morgan Weekly Consumer Confidence Index	Aug-16	--	88.60	86.50
08/18/2020 07:30	AU Confidence Index	Aug-16	--	88.60	86.50
08/18/2020 11:00	ID BoP Current Account Balance	2Q	--	-\$3924m	--
08/18/2020 11:00	NZ Non Resident Bond Holdings	Jul	--	49.9%	--
08/18/2020 12:00	MA CPI YoY	Jul	-1.3%	--	-1.9%
08/18/2020 12:00	ID Exports YoY	Jul	-14.3%	--	2.3%
08/18/2020 12:00	ID Trade Balance	Jul	\$889m	--	\$1267m
08/18/2020 12:00	ID Imports YoY	Jul	-19.4%	--	-6.4%
08/18/2020 20:30	US Housing Starts	Jul	1245k	--	1186k
08/18/2020 20:30	US Building Permits	Jul	1325k	--	1241k
08/18/2020 20:30	US Housing Starts MoM	Jul	5.0%	--	17.3%
08/18/2020 20:30	US Building Permits MoM	Jul	5.3%	--	2.1%

Source: Bloomberg

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