

Daily Treasury Outlook

18 September 2020

Highlights

Global: A sour mood for US equities prevailed overnight, with tech stocks leading the way south again, as investors digested the FOMC outcome and the current US fiscal impasse. Fed chair Powell had warned that the US labour market has a long way to go to achieve the Fed's maximum employment mandate. The S&P500 fell 0.84% after paring some initial losses, with VIX rising to 26.46. The USD was lower while longer-dated UST bonds caught a bid with the yield curve bull-flattening and pushing the 10-year yield down 1bp to 0.69% whereas the \$12b re-opening of the 10-year TIPS saw a record low yield of -0.966% and a bid-cover ratio of 2.65x. The 3-month LIBOR rose to 0.2274%. On the central bank front, BOE voted unanimously to keep its policy rate and asset purchase target unchanged at 0.1% and GBP745b, but said they will hold "structured engagement" with the Prudential Regulation Authority later this year on operational considerations in 4Q20 for implementing negative rates. Meanwhile, BOJ, BI and CBC were static as widely expected, but BOJ upgraded its economic assessment for the first time since the Covid-19 pandemic.

Market watch: Asian markets may trade with a more cautious tone this morning amid re-emerging concerns about the tech sell-off and the sufficiency of US policy stimulus to drive improvements in the labour market. Today's economic data calendar comprises UK' retail sales, German August PPI, and preliminary September print for the University of Michigan sentiments. ECB's Guidos, and Schnabel, as well as Fed's Bullard and Bostic are also speaking.

US: Initial jobless claims fell by 33k to 860k while August housing starts fell more than expected by 5.1% mom to 1.416m and building permits also unexpectedly fell 0.9% mom to 1.47m. Meanwhile, the Philadelphia's Fed business index eased from 17.2 in August to 15.0 in September. Separately, the Fed is considering extending the bank dividend caps as stress tests resume.

JP: BOJ governor Kuroda opined that "just because inflation isn't moving much, that does not mean we will not deploy additional monetary steps".

EU: August CPI fell more than expected by 0.4% mom, dragged down by energy price (-7.8% yoy). ECB's Rehn warned that the Eurozone risked getting tapped in a prolonged period of low growth and weak inflation.

SG: Demand in the construction sector has been revised lower by \$10b to \$18-23b from an earlier forecast in January due to the drop in private sector contracts, according to BCA.

Oil: Oil prices rose 2.6% to \$43.30/bbl yesterday, after Saudi Arabia urged OPEC+ members to comply with their respective quotas.

Gold: The day after the FOMC meeting saw gold lost 0.8% to close at \$1944.44/oz, the first time in three sessions that the precious metal closed below the \$1950 handle. We think that dip is likely technical profit taking and that gold's bullish structure remains intact.

Key Market Movements

Equity	Value	% chg
S&P 500	3357.0	-0.8%
DJIA	27902	-0.5%
Nikkei 225	23319	-0.7%
SH Comp	3270.4	-0.4%
STI	2500.8	-0.2%
Hang Seng	24341	-1.6%
KLCI	1513.1	-1.2%
	Value	% chg
DX	92.970	-0.3%
USDJPY	104.74	-0.2%
EURUSD	1.1848	0.3%
GBPUSD	1.2973	0.0%
USDIDR	14833	-0.1%
USDSGD	1.357	-0.1%
SGDMYR	3.0434	0.0%
	Value	chg (bp)
3M UST	0.08	-1.01
10Y UST	0.69	-0.82
1Y SGS	0.29	0.00
10Y SGS	0.89	-1.00
3M LIBOR	0.23	-1.29
3M SIBOR	0.41	0.00
3M SOR	0.17	0.00
	Value	% chg
Brent	43.3	2.6%
WTI	40.97	2.0%
Gold	1944	-0.8%
Silver	27.04	-0.5%
Palladium	2332	-2.8%
Copper	6781	0.1%
BCOM	72.39	0.1%

Source: Bloomberg

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Major Markets

US: US equities retreated further as markets weighed in on the Fed's dour economic outlook and higher-than-expected jobless claims. The S&P 500 index fell 0.8% and the Nasdaq 100 Composite Index closed 1.3% lower. We expect US markets to consolidate today, after a busy week of central bank action.

CN: China's central bank said it will speed up the establishment of cross border RMB trade finance asset transfer platform to further streamline the process of cross border RMB trade finance. Elsewhere, domestically, market will watch whether PBoC will restart 14 day reverse repo offering to ease quarter end liquidity pressure.

SG: The STI declined 0.17% to close at 2500.78 and may see further consolidation today amid overnight slippage by Wall Street. SGS bonds are likely to be supported by flight to quality bid today. There is an upcoming 20-year SGS bond re-opening on 28 September, with the size announcement on 21 September, but duration plays may be in fashion post-FOMC.

HK: Unemployment rate remained static at 6.1% for the three-month to August, better than expected. Though economic activities were largely disrupted by the virus resurgence since mid-July, the unemployment of the hardest-hit sectors did not worsen significantly thanks to the relief measures including the Employment Support Scheme (ESS). However, about 10,000 fewer employers applied for the second tranche of the ESS as some may plan to close the business or cut jobs given the still dire situation. We expect more SMEs in the hardest-hit sectors may go bust as the relief measures expire gradually. As such, we hold onto our view that overall unemployment rate may edge higher. On a positive note, any further increase could be moderate given the easing of containment measures, the receding local pandemic and global recovery, all of which may even support a gradual improvement in labour market in the medium term.

Malaysia: Malaysia's major glove producer, Top Glove, reported an almost 1500% surge in its profit for the quarter ending August this year, to a record-high level of MYR1.29bn (~USD310mn). Demand for the rubber gloves has skyrocketed due to demand for protective equipment amidst the global pandemic. The company, which is now listed in Malaysia and Singapore, is reportedly exploring a listing in Hong Kong.

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Taiwan: CBC kept the interest unchanged at 1.125%. Given that the stronger than expected economic recovery, CBC revised the GDP forecast for 2020 upwardly from 1.52% to 1.6% as investment and government spending may help to lend supports to economic growth in second half of this year. The GDP growth is expected to be 3.28% in 2021, which will be mainly driven by domestic demand. On the inflation fronts, the forecast of CPI will be -0.2% in whole 2020 but CBC does not see the sign of deflation. The central bank expects that the CPI will return to positive territory next year. From the perspective of exchange rate, CBC sees that frequent capital flows increased the volatility of FX market and it reiterates to maintain the order of FX market. The governor of CBC said that TWD seems not to be especially strong on the NEER and REER basis. CBC will ease the policy further should global peers do so. Moving forward, as the recovery is stronger than expected and the liquidity remains very flushed, we expect CBC to keep the interest rate unchanged in the rest of this year, given that there will be no resurgence of Covid-19 or sharp deterioration of domestic and external economic performance. If this is the case, we keep our views unchanged that Taiwan's GDP is expected to grow by 1% - 1.6% yoy in 2020. The development of Covid-19 will remain the major uncertainty in the second half of this year.

Indonesia: Bank Indonesia kept its policy rate unchanged at 4.0% yesterday, in line with what the market and we had expected. Governor Perry Warjiyo commented on the recent proposal to amend legislations governing BI, by saying that the president and finance minister have made clear that "monetary policy must remain credible, effective and independent." BI said that it has bought IDR99.08tn (~USD6.7bn) in bonds directly from the government thus far, out of around \$27bn that it has pledged to buy. It added that the direct purchases of government bonds is a one-off, even as it remains prepared to be a 'standby' buyer of bonds through next year if needed to support growth.

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Bond Market Updates

Market Commentary: The SGD swap curve was little change yesterday, with the shorter and longer tenors trading 1bps higher while the belly tenors and the 10-year traded slightly lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 170bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 1bps to 670bps. The HY-IG Index Spread widened 1bps to 500bps. Flows in SGD corporates were heavy, with flows in CAPLSP 2.9%'32s, UBS 4.85%-PERPs, STANLN 5.375%-PERPs, OLAMSP 4%'26s, HSBC 4.7%-PERPs, HSBC 5%-PERPs, SIASP 3.13%'27s and CMZB 4.875%'27s. 10Y UST Yields fell 1bps to 0.69% on the back of mixed economy data. New unemployment benefits claims saw a fall though housing starts fell m/m and missed expectations, amidst a continued selloff in stock market.

New Issues: Xianjin Industry Investment Co. (Guarantor: Hefei Industry Investment Holding (Group) Co.) priced a USD300mn 3-year bond at 2.95%, tightening from IPT of 3.3% area. Jining High Tech Urban Construction Investment Co Ltd priced a USD82mn re-tap of its JIHTE 5.5%'23s. Tingyi Cayman Islands Holding Corp priced a USD500mn 5-year bond at T+147.5bps, tightening from IPT of T+200bps area. China Aoyuan Group Ltd priced a USD350mn 5.5NC3 bond at 6.2%, tightening from IPT of 6.5% area. Concord New Energy Group Ltd priced a USD90mn 3-year bond at 10.75%. China Construction Bank Corp. Singapore Branch priced a SGD500mn 3-year bond at 1.073%, tightening from IPG of SOR+90bps area. GSH Corporation Limited priced a SGD30mn re-tap of its GSHSP 5.2%'22s. Tangshan International Investment (Hong Kong) Co., Ltd (Guarantor: Tangshan Financial Holding Group Inc.) has arranged investor calls commencing 17 September 2020 for its proposed USD bond offering.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	92.970	-0.26%	USD-SGD	1.3570	-0.12%
USD-JPY	104.740	-0.20%	EUR-SGD	1.6079	0.16%
EUR-USD	1.185	0.27%	JPY-SGD	1.2956	0.08%
AUD-USD	0.731	0.10%	GBP-SGD	1.7606	-0.06%
GBP-USD	1.297	0.05%	AUD-SGD	0.9923	-0.02%
USD-MYR	4.137	0.10%	NZD-SGD	0.9168	0.23%
USD-CNY	6.764	0.13%	CHF-SGD	1.4938	-0.01%
USD-IDR	14833	-0.07%	SGD-MYR	3.0434	-0.02%
USD-VND	23179	0.04%	SGD-CNY	4.9794	0.02%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.5260	-0.52%	O/N	0.0825	0.08%
2M	-0.3360	-0.34%	1M	0.1500	0.15%
3M	-0.4870	-0.49%	2M	0.1916	0.20%
6M	-0.4620	-0.46%	3M	0.2333	0.25%
9M	-0.1940	-0.20%	6M	0.2704	0.27%
12M	-0.4190	-0.42%	12M	0.3780	0.39%

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	% Hike/Cut	Implied Rate Change	Implied Rate
11/05/2020	-0.024	-2.4	0.076	0.076
12/16/2020	-0.056	-3.2	0.069	0.069
01/27/2021	-0.1	-4.4	0.058	0.058
03/17/2021	-0.164	-6.4	0.042	0.042
04/28/2021	-0.16	0.4	0.043	0.043
06/16/2021	-0.19	-3	0.035	0.035
07/28/2021	-0.2	-1	0.032	0.032
09/22/2021	-0.229	-2.9	0.025	0.025
11/03/2021	-0.22	0.9	0.027	0.027
12/15/2021	-0.243	-2.3	0.022	0.022
01/26/2022	-0.27	-2.7	0.015	0.015
0	0	0	0	0

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	40.97	2.02%	Corn (per bushel)	3.753	0.9%
Brent (per barrel)	43.30	2.56%	Soybean (per bushel)	10.285	1.7%
Heating Oil (per gallon)	115.98	3.90%	Wheat (per bushel)	5.563	2.6%
Gasoline (per gallon)	122.44	2.99%	Crude Palm Oil (MYR/MT)	30.050	2.6%
Natural Gas (per MMBtu)	2.04	-9.93%	Rubber (JPY/KG)	2.035	3.2%

Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	6780.50	0.05%	Gold (per oz)	1944.4	-0.8%
Nickel (per mt)	15084.00	-0.93%	Silver (per oz)	27.0	-0.5%

Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
09/18/2020 07:30	JN Natl CPI YoY	Aug 0.2%	0.2%	0.3%	--
09/18/2020 07:30	JN Natl CPI Ex Fresh Food YoY	Aug -0.4%	-0.4%	0.0%	--
09/18/2020 14:00	UK Retail Sales Inc Auto Fuel MoM	Aug 0.8%	--	3.6%	--
09/18/2020 14:00	UK Retail Sales Inc Auto Fuel YoY	Aug 2.7%	--	1.4%	--
09/18/2020 14:00	UK Retail Sales Ex Auto Fuel MoM	Aug 0.4%	--	2.0%	--
09/18/2020 14:00	UK Retail Sales Ex Auto Fuel YoY	Aug 4.2%	--	3.1%	--
09/18/2020 14:00	GE PPI MoM	Aug 0.0%	--	0.2%	--
09/18/2020 14:00	GE PPI YoY	Aug -1.4%	--	-1.7%	--
09/18/2020 14:00	TH Car Sales	Aug --	--	59335	--
09/18/2020 14:45	FR Wages QoQ	1Q F --	--	0.9%	--
09/18/2020 15:30	TH Foreign Reserves	Sep-11 --	--	\$252.9b	--
09/18/2020 16:00	IT Industrial Sales MoM	Jul --	--	13.4%	--
09/18/2020 16:00	EC ECB Current Account SA	Jul --	--	20.7b	--
09/18/2020 20:30	US Current Account Balance	2Q -\$160.0b	--	-\$104.2b	--
09/18/2020 22:00	US Leading Index	Aug 1.3%	--	1.4%	--
09/18/2020 22:00	US U. of Mich. Sentiment	Sep P 75.0	--	74.1	--

Source: Bloomberg

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