

Daily Treasury Outlook

21 August 2020

Highlights

Global: US' initial jobless claims unexpectedly surged to 1.1 million last week, up from 135k the previous week, albeit continuing claims fell to 14.8 million, which suggested that the labour market recovery was not smooth-sailing. Meanwhile, pressure is increasing for House Speaker Nancy Pelosi to restart stalled stimulus talks with Republicans. The S&P500 added 0.3%, with Nasdaq powering to a record high, while VIX rose to 22.72. Meanwhile, UST bonds also gained with the 10-year yield down 3bps to 0.65% despite a weak 30-year TIPS auction. The 3-month LIBOR edged up slightly to 0.2561%. Elsewhere, ECB minutes suggest that the September meeting will unveil fresh forecasts for a reassessment and shape policy guidance going forward. China kept its 1-year LPR rate unchanged for the fourth month at 3.85%. US-China may hold pre-trade talks over the phone in coming days.

Market watch: Asian markets may trade with a firm tone today. Today's economic data calendar also comprise of manufacturing PMIs for US, Eurozone and UK, foreign reserves data for Malaysia and Thailand, and US' existing home sales.

US: The US has requested the UN to reinstate international sanctions against Iran, but Germany, France and the UK have said they are not in favour.

EU: German Chancellor Merkel called on EU leaders to avoid re-imposing lockdowns at "any cost" despite a resurgence of Covid-19 cases.

SG: Some 224,800 workers from 6,300 companies saw their wages cut in the last five months, according to MOM data.

Oil: Brent fell to as low as \$44.02/bbl yesterday during intraday trading, although it recovered to end the session 1% down at \$44.90/bbl.

Gold: Gold rose almost 1% yesterday to end the session at \$1947.26/oz, as a larger than expected initial jobless claims raised demand for the safe haven asset. We maintain our bullish view on gold.

Malaysia: Malaysia is due to report its foreign reserves number for the period ending 14 August, which is likely to show a slight uptick from the prior \$104.2bn. Given the supported sentiment in the US market overnight, Malaysia should get some uplift as well, including benefiting from the USD renewed weakness, although the downtick in oil price might dampen it a little.

CN: China kept its August Loan Prime Rate (LPR) fixing unchanged yesterday in line with expectation. The intact of LPR rate for four consecutive months reinforced our view that driver to China's credit growth will shift from supply side factor to demand side factor.

Key Market Movements

Equity	Value	% chg
S&P 500	3385.5	0.3%
DJIA	27740	0.2%
Nikkei 225	22881	-1.0%
SH Comp	3363.9	-1.3%
STI	2527.9	-1.3%
Hang Seng	24791	-1.5%
KLCI	1575.4	0.0%
	Value	% chg
DXY	92.887	0.7%
USDJPY	105.8	-0.3%
EURUSD	1.1860	0.2%
GBPUSD	1.3214	0.9%
USDIDR	14773	0.0%
USDSGD	1.3671	-0.2%
SGDMYR	3.0469	-0.5%
	Value	chg (bp)
3M UST	0.09	-0.51
10Y UST	0.65	-2.92
1Y SGS	0.30	-1.00
10Y SGS	0.91	1.75
3M LIBOR	0.25	-0.61
3M SIBOR	0.41	0.00
3M SOR	0.22	0.00
	Value	% chg
Brent	44.9	-1.0%
WTI	42.82	-0.7%
Gold	1947	0.9%
Silver	27.25	2.1%
Palladium	2184	1.3%
Copper	6602	-1.2%
BCOM	71.78	-0.8%

Source: Bloomberg

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Major Markets

US: US market sentiment remained elevated despite a miss in initial jobless claims (actual: 1.1mn, estimate: 0.92mn), an increase of 135k from the week before. The S&P500 index gained 0.3% while the NASDAQ composite index gained 1.1%, erasing yesterday's losses. In the near term, we expect bullish momentum to continue barring any negative surprises on the stimulus and trade front.

HK: Inflation turned negative for the first time since 2009 in July and reached the weakest level since late 2003 of -2.3%. This was mainly dragged down by housing inflation (-4.8%, lowest since 2004) amid government's payment of public housing rentals and Hong Kong Housing Society's rent waiver for some tenants from July. Other than that, food inflation slowed down to 0.8% amid high base effect, local virus resurgence and strict containment measures. Meanwhile, government's electricity subsidy kept utility inflation mired in negative territory and the extra MTR fare rebate from July pushed transport inflation down to record low of -3.7%. Moving forward, we expect internal and external price pressures to remain subdued amid local virus resurgence and the slow recovery of global economy. Adding to the downward pressure on inflation would be the ongoing relief measures and the high base effect associated with last year's pork shortage. Overall speaking, we expect overall inflation to stay negative in the coming months.

Macau: Inflation decelerated to 0.27% in July, the weakest since January 2010 amid subdued local and external price pressures. Moving forward, due to the high base amid last year's pork shortage, food inflation (3.21% in July) is set to decelerate. Besides, housing inflation (0.38% in July) may remain muted amid weak demand in housing rental market with a decreasing number of non-local workers. Furthermore, external, and internal price pressures are expected to remain sluggish. As such, it is possible for overall inflation falling into negative territory over the coming months. On the tourism front, visitor arrivals increased notably by 228.1% mom owing to the travel bubble formed between Mainland China and Macau from 15th July but still dropped 97.9% yoy in July. With China's phased resumption of visa approvals to Macau and the National Day Holiday effect, we expect tourism activities to regain more momentum in the coming months. However, it may still take some time for the sector to return to the pre-virus level given China's sluggish economy and the persistent pandemic uncertainty.

Singapore: The STI slipped 1.29% to close at 2527.92 yesterday but may attempt to regain some lost ground today amid positive overnight cues from Wall Street. SGS bonds may trade with a more supported tone following overnight UST bond market gains, but the upcoming \$2.9b (with Mas taking \$200m) of 2-year re-opening on 27 August may limit gains.

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Bond Market Updates

Market Commentary: The SGD swap curve steepened yesterday, with the 1-year and 2-year trading slightly lower while the belly and longer tenors traded 0-2bps higher. 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 5bps to 674bps. The HY-IG Index Spread widened 4bps to 504bps. Flows in SGD corporates were heavy, with flows in OLAMSP 4%'26s, ARASP 5.6%-PERPs, HSBC 5%-PERPs, SOCGEN 6.125%-PERPs, STANLN 5.375%-PERPs, OLAMSP 6%'22s and STTGDC 3.13%'28s. 10Y UST Yields fell 3bps to 0.65% on the back of higher-than-expected weekly unemployment claims data while the auction of 30-year Treasury-Inflation Protected Securities draw tepid demand.

New Issues: Rizal Commercial Banking Corp. priced a USD300mn PerpNC5 at 6.75%. Industrial Investment Overseas Limited (Guarantor: New & High (HK) Limited) priced a USD200mn 364-day bond at 3.7%, tightening from IPT of 4.15% area. Hongkong Electric Finance Limited (Guarantor: The Hongkong Electric Company, Limited) priced a USD500mn 10-year bond at T+130bps, tightening from IPT of T+160bps area. JIC Zhixin Limited (Guarantor: China Jianyin Investment Limited) priced a USD400mn 5-year note at T+125bps, tightening from IPT of T+180bps area and another USD500m 10-year bond at T+160bps, tightening from IPT of T+210bps area. Nan Fung Treasury Limited (Guarantor: Nan Fung International Holdings Limited) priced a USD500m 10-year bond at T+305bps, tightening from IPT of T+345bps area. Overseas Chinese Town Asia Holdings Limited (Guarantor: Overseas Chinese Town Enterprises Co Ltd) priced a USD300mn PerpNC3 at 4.5%.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	92.793	-0.10%	USD-SGD	1.3671	-0.22%
USD-JPY	105.800	-0.30%	EUR-SGD	1.6215	-0.04%
EUR-USD	1.186	0.19%	JPY-SGD	1.2921	0.08%
AUD-USD	0.719	0.14%	GBP-SGD	1.8065	0.67%
GBP-USD	1.321	0.89%	AUD-SGD	0.9832	-0.13%
USD-MYR	4.174	-0.21%	NZD-SGD	0.8935	-0.59%
USD-CNY	6.916	-0.07%	CHF-SGD	1.5061	0.59%
USD-IDR	14773	-0.49%	SGD-MYR	3.0469	-0.48%
USD-VND	23166	0.00%	SGD-CNY	5.0548	-0.22%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.5190	-0.52%	O/N	0.0846	0.08%
2M	-0.3360	-0.34%	1M	0.1709	0.16%
3M	-0.4880	-0.48%	2M	0.2123	0.20%
6M	-0.4420	-0.44%	3M	0.2469	0.25%
9M	-0.1940	-0.20%	6M	0.3045	0.32%
12M	-0.3660	-0.37%	12M	0.4449	0.45%

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	% Hike/Cut	Implied Rate Change	Implied Rate
09/16/2020	-0.112	-11.2	0.066	0.066
11/05/2020	-0.109	0.3	0.067	0.067
12/16/2020	-0.152	-4.3	0.056	0.056
01/27/2021	-0.185	-3.3	0.047	0.047
03/17/2021	-0.216	-3.1	0.04	0.04

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	42.58	-0.82%	Corn (per bushel)	3.245	-0.2%
Brent (per barrel)	44.90	-1.04%	Soybean (per bushel)	9.030	-1.0%
Heating Oil (per gallon)	124.67	-0.34%	Wheat (per bushel)	5.195	1.5%
Gasoline (per gallon)	129.65	0.46%	Crude Palm Oil (MYR/MT)	28.310	0.6%
Natural Gas (per MMBtu)	2.35	-3.05%	Rubber (JPY/KG)	1.679	-0.9%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	6601.50	-1.25%	Gold (per oz)	1947.3	0.9%
Nickel (per mt)	14647.00	-0.53%	Silver (per oz)	27.2	2.1%

Equity and Commodity

Index	Value	Net change
DJIA	27,739.73	46.85
S&P	3,385.51	10.66
Nasdaq	11,264.95	118.49
Nikkei 225	22,880.62	-229.99
STI	2,527.92	-33.12
KLCI	1,575.38	-2.47
JCI	5,272.81	-22.36
Baltic Dry	1,568.00	-18.00
VIX	22.72	0.18

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	0.24 (--)	0.14 (--)
5Y	0.48 (+0.01)	0.27 (-0.01)
10Y	0.91 (+0.02)	0.65 (-0.03)
15Y	1.19 (+0.02)	--
20Y	1.25 (+0.02)	--
30Y	1.16 (+0.03)	1.38 (-0.04)

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	-1.96	(--)
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	0.09
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Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
08/20/2020 08:25	PH BoP Overall	Jul	--	--	\$80m
08/21/2020 07:30	JN Natl CPI YoY	Jul	0.3%	0.3%	0.1%
08/21/2020 08:30	JN Jibun Bank Japan PMI Mfg	Aug P	--	--	45.20
08/21/2020 14:00	UK Retail Sales Inc Auto Fuel MoM	Jul	2.0%	--	13.9%
08/21/2020 14:00	UK Retail Sales Inc Auto Fuel YoY	Jul	0.1%	--	-1.6%
08/21/2020 14:00	UK Retail Sales Ex Auto Fuel MoM	Jul	0.2%	--	0.135
08/21/2020 15:15	FR Markit France Services PMI	Aug P	56.30	--	57.30
08/21/2020 15:30	GE Markit/BME Germany Manufacturing PMI	Aug P	52.30	--	51.00
08/21/2020 15:30	TH Foreign Reserves	Aug	--	--	\$251.6b
08/21/2020 16:00	EC Markit Eurozone Manufacturing PMI	Aug P	52.70	--	51.80
08/21/2020 16:30	UK Markit UK PMI Manufacturing SA	Aug P	54.00	--	53.30
08/21/2020 20:30	CA Retail Sales MoM	Jun	24.5%	--	18.7%
08/21/2020 20:30	CA Retail Sales Ex Auto MoM	Jun	14.9%	--	10.6%
08/21/2020 21:45	US Markit US Manufacturing PMI	Aug P	52.00	--	50.90
08/21/2020 22:00	US Existing Home Sales	Jul	5.41m	--	4.72m

Source: Bloomberg

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