

Daily Treasury Outlook

22 September 2020

Highlights

Global: Global risk appetite faltered again overnight with most global bourses swimming in a sea of red ink as global bank stocks were weighed down by reports of an investigation into suspicious transaction activity and also resurgent Covid concerns. Meanwhile, prospects for US fiscal stimulus continued to dim in the run-up to the November presidential elections and Fed chair Powell warned that “both employment and overall economic activity, however, remain well below their pre-pandemic levels, and the path ahead continues to be highly uncertain” in his written remarks to the House Financial Services Committee today. The S&P 500 fell 1.16% and the Dow was down by more than 500 points. VIX jumped to 27.78 while USD rose. The UST bonds bull-flattened with the 10-year yield lower at 0.67% amid the flight to quality, and the 3-month LIBOR also eased to 0.2233% (lowest since May 2014). Meanwhile, China kept its 1- and 5-year LPR fixings unchanged for the fifth month at 3.85% and 4.65% respectively.

Market watch: Asian markets are likely to consolidate today amid the risk-off tone. Today's economic data calendar comprises of US' August existing home sales and the Richmond Fed manufacturing index, Taiwan's August unemployment rate and Hong Kong's 2Q20 current account. BOE's Bailey, ECB's Villeroy, Panetta and Lane are also speaking, but the main focus will likely be on Fed chair Powell and Treasury Secretary Mnuchin's appearance at the House Financial Services Panel.

US: US federal debt may almost double to 195% of GDP by 2050, according to the Congressional Budget Office, up from 98% this year and 79% in 2019.

EU: ECB's Lagarde opined that the central bank had room to add stimulus if needed as the recovery is still uneven and incomplete.

UK: PM Johnson is expected to announce fresh restrictions on bars and restaurants to close by 10pm from Thursday to curb the rise of Covid cases. Meanwhile, France has urged more EU-UK talks to pursue a FTA.

SG: The MAS will re-open \$1.8b (with MAS taking \$200m) of the 20-year SGS bond maturing on 1 July 2039 with the auction on 28 September noon. The bond is currently yielding around 1.25%. There are no outstanding maturities until June 2021 and while the 20-year tenor is traditionally deemed as more appropriate for insurance companies matching of asset-liabilities, nevertheless, given the current chase for yield in a world where zero or even negative yields are increasingly commonplace, the relative steepness of the SGS yield curve at 37bps over the 10-year SGS bond and the 27bp spread over the 20-year swap suggests that the take-up for this re-opening should be healthy, even though the past four 20-year SGS bond auctions had cut-off yields ranging from 2.25-2.41% and average bid-cover ratios of around 2.1x. The back-end of the SGS yield curve is also inverted with the 30-year SGS only yielding 1.23%, but this is also unlikely to deter demand in our view.

Key Market Movements

Equity	Value	% chg
S&P 500	3281.1	-1.2%
DJIA	27148	-1.8%
Nikkei 225	23360	0.0%
SH Comp	3316.9	-0.6%
STI	2485.7	-0.5%
Hang Seng	23951	-2.1%
KLCI	1499.4	-0.5%
	Value	% chg
DXY	93.656	0.8%
USDJPY	104.65	0.1%
EURUSD	1.1771	-0.6%
GBPUSD	1.2817	-0.8%
USDIDR	14700	-0.2%
USDSGD	1.3622	0.2%
SGDMYR	3.0329	-0.2%
	Value	chg (bp)
3M UST	0.08	-0.25
10Y UST	0.67	-2.79
1Y SGS	0.29	0.10
10Y SGS	0.86	-1.57
3M LIBOR	0.23	-0.20
3M SIBOR	0.41	0.00
3M SOR	0.18	0.00
	Value	% chg
Brent	41.44	-4.0%
WTI	39.31	-4.4%
Gold	1913	-2.0%
Silver	24.72	-7.7%
Palladium	2276	-3.6%
Copper	6692	-1.8%
BCOM	71.16	-2.5%

Source: Bloomberg

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Major Markets

US: US equities retreated further, with the S&P 500 index falling 1.2% while the Nasdaq 100 Composite index closed 0.1% lower. The US equity market is likely to remain wary of additional selloff in the sessions ahead.

CN: China's monthly fixing for benchmark loan prime rate (LPR) has been kept unchanged for five consecutive months in September. Given Chinese economy is expected to outperform most of the major economies in the world this year, China's top leaders may be satisfied about the current achievement as long as job market remained stable. China's State Council said last week it will shift its focus away from policy innovation to policy implementation. Therefore, the room for further stimulus is likely to be limited.

HK: CPI declined for the second consecutive month albeit at a moderate rate by 0.4% yoy in August. The narrowed decline was mainly due to the sharp rebound of housing inflation (from -4.8% in July to +0.6% in August) as the government's payment of public housing rentals and HK Housing Society's waiver of rent in July dissipated in August. However, CPI remained negative as food inflation decelerated to the weakest since February 2017 of 0.5% amid high base effect. Moving forward, we expect overall inflation to remain muted amid high base effect, sluggish local consumption, a near-standstill inbound tourism, weak external price pressure and the continuous relief measures. With inflation likely staying close to zero in the coming months, the resultant upward pressure on real interest rate may become a potential drag on the economic recovery. Elsewhere, with market players continuing to hoard cash in the run up to quarter-end and busy IPO pipeline, strong HKD demand prompted HKMA to sell HK\$16.87bn (YTD high), making the YTD intervention amount to HK\$164.5bn.

Macau: Visitor arrivals increased for the fourth straight month on monthly basis by 206.9% to 227,113 in August thanks to the resumption of visa approvals to Macau by Zhuhai and the rest of Guangdong in mid-August and late August respectively. Lately, the daily average of visitor arrivals increased to about 15,000. This indicates that the gambling hub's inbound tourism will regain more traction in the coming months especially with the rest of China resuming the visa approvals from 23rd September. However, on yearly basis, visitor arrivals fell by over 90% for the seventh consecutive month by 93.7%. This suggests that the resumption of travel between Macau and Mainland China may not take the tourism back to the pre-virus level (about 100,000 visitor arrivals per day) any time soon as tedious procedures required to get access to Macau may deter some potential visitors. In addition, the transportation between Macau and Mainland China may not resume normalcy given the persistent pandemic uncertainty.

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SG: The STI retreated 0.48% to close at 2485.71 yesterday and may continue to chop lower today amid the weak cues from Wall Street. Longer dated SGS bonds outperformed yesterday with yields lower by up to 1-2bps and the rally may continue to extend on the risk-off tone prevailing today.

Taiwan: Export orders grew by 13.6% yoy in August, better than expected. The performance of those high technological products remained resilient, with the export orders of electronic products and "Information & Communication Products" increasing by 28.2% yoy and 26.4% yoy respectively, thanks to the recovery of external demand. On the flip side, the decline of traditional products continued to narrow. By areas, the orders from US, Europe and China (including Hong Kong) grew by 12.3% yoy, 13.9% yoy and 13.7% yoy respectively. Moving forward, with the recovery of external demand, the export orders may continue to improve in the rest of this year, in turns lending supports to the trade performance.

Malaysia: With the global market sentiment turning more unsettled again overnight, Malaysian assets may come under pressure as well. Ahead of the Sabah state elections this weekend, political uncertainties may be a renewed factor for the market as well, especially if it does portend a snap election at the national level, as the prime minister suggested earlier. Early voting for Sabah's election is starting to take place today.

Indonesia: Indonesia's capital city of Jakarta is adding 10,000 hospital beds in an effort to cope with record increases in virus cases. As many as 4176 confirmed cases were added to the national tally yesterday, with Jakarta contributing one-quarter of it. Press reports suggest that the healthcare system is "already overwhelmed", with a task force coordinator quoted by Bloomberg as saying that the ambulances have been running nonstop for days to transport patients.

Oil: Oil prices sank yesterday, with Brent falling almost 4% to \$41.44/bbl and WTI dipping 4.4%. Despite the recovery in prices last week, the fundamentals for crude oil remains soft and is likely to continue weighing on the energy complex in the near term.

Gold: Gold fell 2% to \$1912.51/oz yesterday after the dollar index rose 0.8% to close at its highest in almost two months.

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Bond Market Updates

Market Commentary: The SGD swap curve was lower yesterday, with the shorter and belly tenors trading 0-1bps lower while the longer tenors traded 0-2bps 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 remained mostly unchanged at 672bps. The HY-IG Index Spread tightened 1bps to 501bps. Flows in SGD corporates were heavy, with flows in HSBC 5%-PERPs, STANLN 5.375%-PERPs, SIASP 3.13%'26s, CS 5.625%-PERPs, HSBC 4.7%-PERPs, LBBW 3.75%'27s, SINTEC 4.05%'25s, SPHSP 3.2%'30s and UBS 4.85%-PERPs. 10Y UST Yields fell 3bps to 0.67%, as investors were concerned about the probability of new pandemic lockdowns, election uncertainty and the weak performance of stock market over the past few days.

New Issues: CCBL Cayman 1 Corp Ltd (Guarantor: CCB Leasing International Corp DAC) priced USD200mn 5-year at T+152.5bps, tightening from IPT of T+195bps area and another USD100mn 10-year at T+190bps, tightening from IPT of T+220bps area respectively. Sdoe Development I Co. Ltd. (Guarantor: Shandong Marine Group Ltd) priced a USD200mn WNG 3-year at 4.8%, tightening from IPT of 5.25% area. The Government of Mongolia has arranged investor calls commencing 21 September for its proposed USD bond offering. Korea National Oil Corporation has arranged investor calls commencing 21 September for its proposed USD bond offering. Perenti Global Ltd. has arranged investor calls commencing 21 September for its proposed USD bond offering. China Merchants Bank Co., Ltd. Singapore Branch and China Merchants Bank Co., Ltd. Luxembourg Branch have arranged investor calls commencing 21 September for their proposed USD bond offering. Power Construction Corporation of China has arranged investor calls commencing 21 September for its proposed USD bond offering. Taiwan Semiconductor Manufacturing Company Limited has arranged investor calls commencing 21 September for its proposed USD bond offering.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	93.656	0.79%	USD-SGD	1.3622	0.17%
USD-JPY	104.650	0.08%	EUR-SGD	1.6035	-0.41%
EUR-USD	1.177	-0.58%	JPY-SGD	1.3017	0.10%
AUD-USD	0.722	-0.89%	GBP-SGD	1.7459	-0.61%
GBP-USD	1.282	-0.77%	AUD-SGD	0.9839	-0.75%
USD-MYR	4.123	0.17%	NZD-SGD	0.9081	-1.22%
USD-CNY	6.805	0.53%	CHF-SGD	1.4896	-0.15%
USD-IDR	14700	-0.24%	SGD-MYR	3.0329	-0.17%
USD-VND	23169	0.00%	SGD-CNY	4.9904	0.05%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.5230	-0.53%	O/N	0.0831	0.08%
2M	-0.3360	-0.34%	1M	0.1558	0.16%
3M	-0.5040	-0.50%	2M	0.1869	0.19%
6M	-0.4680	-0.46%	3M	0.2254	0.23%
9M	-0.1940	-0.20%	6M	0.2753	0.28%
12M	-0.4290	-0.42%	12M	0.3739	0.38%

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	-0.131	-3.1	0.05	0.05
04/28/2021	-0.14	-0.9	0.047	0.047
06/16/2021	-0.154	-1.4	0.044	0.044
07/28/2021	-0.18	-2.6	0.038	0.038
09/22/2021	-0.204	-2.4	0.032	0.032
11/03/2021	-0.212	-0.8	0.029	0.029
12/15/2021	-0.221	-0.9	0.027	0.027
01/26/2022	-0.27	-4.9	0.015	0.015
0	0	0	0	0

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	39.31	-4.38%	Corn (per bushel)	3.698	-2.3%
Brent (per barrel)	41.44	-3.96%	Soybean (per bushel)	10.225	-2.0%
Heating Oil (per gallon)	110.73	-4.46%	Wheat (per bushel)	5.548	-3.5%
Gasoline (per gallon)	117.71	-4.81%	Crude Palm Oil (MYR/MT)	30.400	-2.0%
Natural Gas (per MMBtu)	1.84	-10.40%	Rubber (JPY/KG)	2.166	6.2%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	6691.50	-1.78%	Gold (per oz)	1912.5	-2.0%
Nickel (per mt)	14541.00	-2.44%	Silver (per oz)	24.7	-7.7%

Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
09/22/2020 14:00	IN BoP Current Account Balance	2Q	\$17.15b	--	\$0.60b
09/22/2020 14:00	DE Consumer Confidence Indicator	Sep	--	--	-5.5
09/22/2020 16:30	PH Budget Balance PHP	Aug	--	--	-140.2b
09/22/2020 16:30	US Household Change in Net Worth	2Q	--	\$7607b	-\$6548b
09/22/2020 16:30	HK BoP Current Account Balance	2Q	--	--	-\$9.03b
09/22/2020 16:30	HK BoP Overall	2Q	--	--	\$25.81b
09/22/2020 18:00	SK PPI YoY	Aug	--	-0.5%	-0.8%
ANZ Roy Morgan Weekly Consumer					
09/22/2020 18:00	AU Confidence Index	44075	--	93.5	92.4
09/22/2020 18:00	UK CBI Trends Total Orders	Sep	-40	--	-44
09/22/2020 18:00	UK CBI Trends Selling Prices	Sep	-4	--	-5
09/22/2020 22:00	US Existing Home Sales	Aug	6.00m	--	5.86m
09/22/2020 22:00	PH BoP Overall	Aug	--	--	\$8m
09/22/2020 22:00	NE Consumer Spending YoY	Jul	--	--	-7.0%
09/22/2020 22:00	EC Consumer Confidence	Sep A	-14.7	--	-14.7
09/22/2020 22:00	US Richmond Fed Manufact. Index	Sep	12.0	--	18.0
09/22/2020 22:00	US Existing Home Sales MoM	Aug	2.4%	--	24.7%

Source: Bloomberg

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