

Daily Treasury Outlook

24 August 2020

Highlights

Global: Risk sentiments remained supported on Friday amid robust US economic data, namely existing home sales which surged 24.7% yoy and the preliminary August manufacturing and service PMIs which rose to 53.6 and 54.8 respectively. The S&P500 closed higher by 0.34% on Friday, notching up its fourth consecutive week of gains, while VIX slid to 22.54. UST bonds gained led by the longer tenors contributing to a curve flattening with the 10-year yield down to 0.63%. Elsewhere, flooding from the Three Gorges Dam may potentially weigh on food prices.

Market watch: Asian markets may tread water today, ahead of fresh market catalysts. Today's economic data calendar also comprises of Thailand's July trade data, S'pore's July CPI, Taiwan's industrial production and unemployment rate, and US' Chicago Fed national activity index. The main market focus this week will be the virtual Jackson Hole symposium (titled "Navigating the decade ahead: implications for monetary policy") on Thursday and Friday, where Fed chair Powell is due to speak on the policy framework review ahead of the September FOMC where market speculation revolves around average inflation targeting and any still dovish policy signals may provide the fuel for the risk-on rally to sustain in the near-term. BOE governor Bailey is also speaking on Friday, while Thursday's BOK policy meeting is likely to be static. China policymakers will also discuss its new 5-year plan from tomorrow, but is expected to only be finalised in October. US president Trump is also speaking on 27 August at the Republican National Convention.

US: The Treasury Department will sell \$148b of 2-, 5- and 7-year bonds with record auction sizes starting tomorrow, but the large month-end index extension is likely to remain supportive.

EU: Disappointing Eurozone PMIs at 51.7 (manufacturing) and 50.1 (services) for August contrasted with the buoyant readings from the US (see above) as well as the UK (which rose to 55.3 and 60.1 for the manufacturing and services).

UK: EU's Chief negotiator said that a Brexit deal with the UK "seems unlikely".

SG: July headline and core inflation may have fallen 0.6% yoy (-0.5% mom nsa) and 0.4% respectively, extending the -0.5% yoy and -0.2% yoy prints seen in June. Main disinflationary drags remain transport and utilities. The newly elected Parliament also sits today.

Key Market Movements

Equity	Value	% chg
S&P 500	3397.2	0.3%
DJIA	27930	0.7%
Nikkei 225	22920	0.2%
SH Comp	3380.7	0.5%
STI	2528.5	0.0%
Hang Seng	25114	1.3%
KLCI	1577.1	0.1%
	Value	% chg
DXY	93.247	0.5%
USDJPY	105.8	0.0%
EURUSD	1.1797	-0.5%
GBPUSD	1.3090	-0.9%
USDIDR	14773	0.0%
USDSGD	1.3717	0.3%
SGDMYR	3.0533	0.2%
	Value	chg (bp)
3M UST	0.09	0.00
10Y UST	0.63	-2.27
1Y SGS	0.30	0.00
10Y SGS	0.89	-1.75
3M LIBOR	0.26	0.93
3M SIBOR	0.41	0.00
3M SOR	0.23	-1.72
	Value	% chg
Brent	44.35	-1.2%
WTI	42.34	-1.1%
Gold	1940	-0.3%
Silver	26.79	-1.7%
Palladium	2183	-0.1%
Copper	6490	-1.7%
BCOM	71.46	-0.5%

Source: Bloomberg

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Major Markets

US: US market sentiment was bolstered by strong US economic data on Friday, with existing home sales growing 24.7% yoy, higher than expectations of 14.6%. The S&P500 closed 0.3% higher, posting its fourth straight weekly uptick. In the near term, we expect market to maintain its bullish tilt.

CN: China's banking and insurance regulator said over the weekend that China's banking sector has sacrificed more than CNY870 billion net profit in the first seven months via lower interest rate and reduced fees as well as loan moratorium and restructuring to support the real economy. In addition, the higher loan provision also contributed to falling net profit in the sector which fell by 9.4% yoy in the first half of 2020. Meanwhile, the regulator reiterated its commitment to open China's financial market. 34 measures have been rolled out to support opening since 2018 with more than 100 foreign banks and insurers have set up their subsidiaries and branches in China.

HK: HK government announced to start mass Covid-19 testing on 1st September and aims to complete within two weeks. Besides, as new daily cases have dropped lately, the government is discussing about relaxation of the ban on dining-in at night and re-opening of cinemas, beauty parlours and sports venues with restrictions in the first phase. However, for most of the containment measures, it is reported that the government will keep them in place till mid-September after the mass virus testing. In other words, the worst is not yet over for the hardest-hit sectors and the already damaged economy will remain under pressure. As such, additional fiscal stimulus is imminent to put a floor under the economy.

Macau: 2Q economic contraction deepened to a record 67.8% yoy as travel restrictions brought the two pillar industries gaming and tourism to an almost standstill. Meanwhile, the positive factors were overshadowed, including strong relief measures, receded local pandemic and the resumption of economic activities. Moving into 2H, we do expect the damaged economy to regain steam as the local pandemic has remained well contained and the travel between Macau and Mainland China has been resuming in phases. However, local consumption's rebound may be constrained by the softening labor market and wage prospects. Business sentiment may also remain muted in anticipation of subdued demand. On the other hand, as the two pillar industries rely heavily on in-person interaction and external demand, full recovery is still far off before an effective vaccine is widely available. Taken all together, though the decline of economy may narrow in 2H 2020, the recovery will inevitably be a bumpy ride. Since the GDP has shrunk by 58.2% yoy in 1H, we tip a recession of about 40% yoy for 2020 as a whole.

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Singapore: The STI ended nearly flat (+0.02%) at 2528.54 on Friday and may range trade today despite Friday's Wall Street rally amid soft morning cues from KOSPI. The SGS yield curve flattened on Friday, supported by demand for longer-dated bonds. There are the \$2.9b (MAS taking \$200m) 2-year SGS bond re-opening and \$1b of the 30-year SGS re-opening on 27 August.

Malaysia: Malaysia's court dismissed an application for a judicial review of the dissolution of Sabah's state assembly, paving the way for the state to hold an election on 26 September. This will be the first state-level election since PM Muhyiddin Yassin took over earlier this year. More than a million voters are registered to vote, and the result will be closely watched as a barometer for the ruling administration's support, given the thin margin at the federal level.

Indonesia: Indonesia is back from a long holiday weekend. With a dearth of economic data release or major policy announcements expected this week, market will be likely to continue taking cues from the global and regional front. USDIDR will be watched, as Rupiah has weakened to around 14770 level despite broad weakening in US dollar lately. Continued difficulties in containing the virus outbreak may be one factor swaying market opinion.

Oil: Crude oil fell last Friday, with Brent closing at its lowest in two weeks at \$44.35/bbl. Expectations are for oil to rise in the immediate near term on concerns over a twin storm - Tropical Storms Laura and Marco - that are expected to make landfall in the Gulf Coast this week.

Gold: Gold continues to be pressured under the \$1950/oz level, rising to as high as \$1955.98/oz last Friday but ultimately closing at \$1940.48/oz. After two volatile weeks, we expect gold prices to consolidate at current levels in the near term.

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Bond Market Updates

Market Commentary: The SGD swap curve fell last Friday, with the shorter tenors trading 3bps lower while the belly and longer tenors traded 4bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS remained mostly unchanged at 169bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS remained mostly unchanged at 674bps. The HY-IG Index Spread remained mostly unchanged at 504bps. Flows in SGD corporates were heavy, with flows in SOCGEN 6.125%-PERPs, CAPITA 3.48%'24s, HSBC 5%-PERPs, UBS 4.85%-PERPs, METRO 4%'21s and STTGDC 3.13%'28s. 10Y UST Yields fell 2bps to 0.63% despite the US Manufacturing PMI rising to its highest since Feb 2019 and new home sales marking its strongest monthly gain on record in July. Eurozone composite flash PMI though was lower at 51.6 in August, dropping off from 54.9 in July, with investors increasingly concern over a slowing recovery momentum in the Eurozone.

New Issues: Perennial Real Estate Holdings Limited priced a SGD44.25mn 2-year bond at 5.95%. Fuyuan Worldwide Ltd. (Guarantor: Shandong Commercial Group Co.) has arranged investor calls commencing 24 August 2020 for its proposed USD bond offering.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	93.247	0.49%	USD-SGD	1.3717	0.34%
USD-JPY	105.800	0.00%	EUR-SGD	1.6181	-0.21%
EUR-USD	1.180	-0.53%	JPY-SGD	1.2964	0.33%
AUD-USD	0.716	-0.43%	GBP-SGD	1.7954	-0.61%
GBP-USD	1.309	-0.94%	AUD-SGD	0.9823	-0.09%
USD-MYR	4.178	0.10%	NZD-SGD	0.8972	0.41%
USD-CNY	6.919	0.05%	CHF-SGD	1.5047	-0.09%
USD-IDR	14773	-0.49%	SGD-MYR	3.0533	0.21%
USD-VND	23171	0.02%	SGD-CNY	5.0416	-0.26%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.5170	-0.52%	O/N	0.0818	0.08%
2M	-0.3360	-0.34%	1M	0.1751	0.18%
3M	-0.4870	-0.49%	2M	0.2135	0.20%
6M	-0.4410	-0.44%	3M	0.2500	0.26%
9M	-0.1940	-0.20%	6M	0.3144	0.30%
12M	-0.3760	-0.37%	12M	0.4410	0.44%

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	% Hike/Cut	Implied Rate Change	Implied Rate
09/16/2020	-0.122	-12.2	0.063	0.063
11/05/2020	-0.129	-0.7	0.062	0.062
12/16/2020	-0.141	-1.2	0.058	0.058
01/27/2021	-0.185	-4.4	0.047	0.047
03/17/2021	-0.226	-4.1	0.037	0.037

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	42.34	-0.56%	Corn (per bushel)	3.270	0.8%
Brent (per barrel)	44.35	-1.22%	Soybean (per bushel)	9.008	-0.2%
Heating Oil (per gallon)	120.80	-3.10%	Wheat (per bushel)	5.273	1.5%
Gasoline (per gallon)	128.41	-0.96%	Crude Palm Oil (MYR/MT)	27.980	-1.2%
Natural Gas (per MMBtu)	2.45	4.08%	Rubber (JPY/KG)	1.669	-0.6%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	6490.00	-1.69%	Gold (per oz)	1940.5	-0.3%
Nickel (per mt)	14691.00	0.30%	Silver (per oz)	26.8	-1.7%

Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
08/21/2020 08/24	HK Composite Interest Rate	Jul	--	0.7%	--
08/24/2020 06:45	NZ Retail Sales Ex Inflation QoQ	2Q	-15.0%	-14.6%	-1.2%
08/24/2020 08/28	PH BoP Overall	Jul	--	\$80m	--
08/24/2020 08/30	GE Import Price Index MoM	Jul	0.2%	0.6%	--
08/24/2020 08/30	GE Import Price Index YoY	Jul	-4.7%	-5.1%	--
08/24/2020 11:30	TH Customs Exports YoY	Jul	-18.8%	-23.2%	--
08/24/2020 11:30	TH Customs Imports YoY	Jul	-21.6%	-18.1%	--
08/24/2020 11:30	TH Customs Trade Balance	Jul	\$1124m	\$1610m	--
08/24/2020 13:00	SI CPI YoY	Jul	-0.6%	-0.5%	--
08/24/2020 13:00	SI CPI NSA MoM	Jul	-0.5%	0.0%	--
08/24/2020 13:00	FI PPI YoY	Jul	--	-4.4%	--
08/24/2020 13:00	SI CPI Core YoY	Jul	-0.4%	-0.2%	--
08/24/2020 20:00	CA Bloomberg Nanos Confidence	Jul	--	51.7	--
08/24/2020 20:30	US Chicago Fed Nat Activity Index	Jul	3.7	4.11	--

Source: Bloomberg

Treasury Research & Strategy

Macro Research

Selena Ling*Head of Research & Strategy*LingSSSelena@ocbc.com**Tommy Xie Dongming***Head of Greater China**Research*XieD@ocbc.com**Wellian Wiranto***Malaysia & Indonesia*WellianWiranto@ocbc.com**Terence Wu***FX Strategist*TerenceWu@ocbc.com**Howie Lee***Thailand & Commodities*HowieLee@ocbc.com**Carie Li***Hong Kong & Macau*carierli@ocbcwh.com**Dick Yu***Hong Kong & Macau*dicksnyu@ocbcwh.com

Credit Research

Andrew Wong*Credit Research Analyst*WongVKAM@ocbc.com**Ezien Hoo***Credit Research Analyst*EzienHoo@ocbc.com**Wong Hong Wei***Credit Research Analyst*WongHongWei@ocbc.com**Seow Zhi Qi***Credit Research Analyst*ZhiQiSeow@ocbc.com

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