

Daily Treasury Outlook

27 August 2020

Highlights

Global: Investors may be wary of a re-escalation of US-China tensions after China launched four medium-range ballistic missiles into the South China Sea and the US announced trade and visa restrictions on 24 companies for helping China “reclaim and militarise disputed outposts” there. Wall Street still closed higher overnight with the S&P500 and Nasdaq both at fresh records for a fourth straight session, as US durable goods orders surprised with a 11.2% mom surge in July, but VIX rose to 23.27. UST bonds pared losses after a strong \$51b 5-year note auction and the 10-year yield closed at 0.69%. Separately, BoK kept its benchmark rate constant at 0.50% this morning.

Market watch: Asian markets may trade with a cautious tone today, awaiting Fed chair Powell’s speech at the virtual Jackson Hole symposium and fresh clues on the Fed’s policy framework review, while keeping an eye on US-China relations. Today’s economic data calendar also comprises of China’s industrial profits, US’ initial jobless claims and pending home sales. Other speakers include BOC governor Macklem and ECB chief economist Lane.

US: Core capital goods orders excluding aircraft also rose 1.9% mom, suggesting a healthy surge in automobile and parts production (+21.9% mom). Elsewhere, the Treasury Department has found that Vietnam deliberately undervalued its currency by about 4.7% against the USD in 2019 as part of its investigations into alleged subsidies on passenger vehicle and light truck tires from Vietnam.

EU: Germany extended its “Kurzarbeit” program that subsidizes jobs until end-2021 and the EUR10b cost will be funded by next year’s federal budget.

UK: British advisors are likely to recommend banning TikTok from moving users’ data out of the country.

SG: The salary criteria for Employment Pass (EP) and S Pass holders will be raised soon to reflect the changed labour market conditions according to the MOM. The last monthly salary adjustment was the EP hike from \$3.6k to \$3.9k in May and the second tranche increase in S Pass from \$2.3k to \$2.4k in January this year. Meanwhile, industrial production disappointed by contracting for the third straight month by 8.4% yoy but rose 1.6% mom sa in July, dragged down by biomedical (-24.8% yoy), especially pharmaceuticals, reversal in electronics (-1.4% yoy) and soft transport engineering and general manufacturing industries. Despite the recent stumble, the manufacturing sector is still tipped to see marginal growth of 2+% yoy for 2020, with our GDP growth forecast intact around -5.5% yoy, on the back of healthy global semicon equipment demand

Key Market Movements

Equity	Value	% chg
S&P 500	3478.7	1.0%
DJIA	28332	0.3%
Nikkei 225	23291	0.0%
SH Comp	3329.7	-1.3%
STI	2542.1	-0.7%
Hang Seng	25492	0.0%
KLCI	1549.6	-0.3%
	Value	% chg
DX	93.006	0.0%
USDJPY	105.99	-0.4%
EURUSD	1.1830	0.0%
GBPUSD	1.3210	0.4%
USDIDR	14678	0.2%
USDSGD	1.3656	-0.2%
SGDMYR	3.0483	0.1%
	Value	chg (bp)
3M UST	0.09	0.26
10Y UST	0.69	0.49
1Y SGS	0.30	0.00
10Y SGS	0.96	2.72
3M LIBOR	0.25	1.73
3M SIBOR	0.41	0.00
3M SOR	0.20	0.00
	Value	% chg
Brent	45.64	-0.5%
WTI	43.39	0.1%
Gold	1954	1.4%
Silver	27.50	3.6%
Palladium	2189	0.7%
Copper	6594	1.0%
BCOM	72.30	0.4%

Source: Bloomberg

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Major Markets

US: Bullish momentum continues to remain strong in US equities, with the Nasdaq composite index closing 1.3% higher while the S&P 500 index rallied 1.0%. Both printed new record highs for the fourth consecutive day. Looking ahead, the Jackson hole symposium will likely shape risk sentiment in the near term. We expect US equity markets to retain its bullish momentum for now.

CN: The US-China tension continued to escalate with focus shifting to South China Sea after the US added another 24 Chinese companies into the entity list. As we mentioned before that trade war is no longer appealing to President Trump for his bid for re-election. Instead, his administration has increasingly leveraged on economic sanctions. Nevertheless, unlike trade war, we think China is unlikely to go down the path of tit-for-tat for sanctions. This could be one of the ways for China to deescalate the situation. On data, China's net profit for state-owned companies rose by 14% yoy in July as Chinese emerged from the lockdown.

HK: Exports and imports continued to drop by 3% yoy and 3.4% yoy respectively in July. Zooming in, we see some bright spots in the trade data. First, total exports to Asia as a whole grew for the second consecutive month by 0.6% yoy. This reflects the trend of regionalization which might have accelerated amid US-China tension and Covid-19 outbreak. Second, exports of electrical machinery and office machines both increased for the sixth straight month. Meanwhile, imports of electrical machinery advanced by 8.1% yoy. This suggests that Asian electronic value chain remained resilient. Taken all together, it reinforces our view that the Hong Kong could continue to play its role as the key re-export port connecting China and the rest of Asia despite that the US revoked HK's special trading status. That said, in the near term, the outlook of the trade sector may remain clouded by the overall subdued demand as exports and imports with other major partners continued to show sharp decline. US-China tensions could also remain a potential drag.

SG: The STI declined 0.66% to close at 2542.08 yesterday but may range trade today amid the balance of risks between South China Sea tensions and hopes for more dovish Fed signals from Powell. SGS bond yields rose by up to 3bps yesterday. For today, watch the auction for \$2.9b (MAS taking \$200m) 2-year SGS bond re-opening and \$1b of the 30-year SGS bond re-opening.

Malaysia: Malaysia's Human Resources Minister M. Saravanan said that the government will not be lifting the bar against foreign worker employment for now, since the priority remains to make sure that Malaysians have jobs. He added that the freeze is crucial to lower the unemployment rate. Malaysia's unemployment rate has ticked up to 5.3% in May due to the pandemic impact, although it has since come down a tad to 4.9% in June.

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Indonesia: Jakarta's governor, Anies Baswedan, said that movie theaters in the capital city will be allowed to reopen after five months of closure. This comes despite renewed uptick in covid-19 infections, which saw a total of around 35k cases in the city alone. The governor said that the theaters will have to follow strict protocols including compulsory use of face masks. Entry will be limited to people aged between 12 to 60.

Oil: Oil closed at the highest since the oil crash in March, with Brent closing 1.6% higher, as Hurricane Laura evolves into a Cat 4 hurricane. The path of Hurricane Laura on land and its subsequent magnitude will likely be the key driver in how oil prices behave in the next 24 hours.

Gold: Gold closed above \$1950/oz for the first time in more than a week, adding 1.4% to end the session at \$1954.46/oz.

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Bond Market Updates

Market Commentary: The SGD swap curve steepened yesterday, with the shorter tenors trading 1-3bps higher (with the exception of 2-year trading 0.3bps lower) while the belly and longer tenors traded 4-5bps higher. The Bloomberg Barclays Asia USD IG Bond Index average OAS remained mostly unchanged at 167bps, while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 4bps to 665bps. The HY-IG Index Spread tightened 4bps to 497bps. Flows in SGD corporates were heavy, with flows in OLAMSP 4%'26s, WINGTA 4.35%-PERPs, CS 5.625%-PERPs, CMZB 4.875%'27s and STTGDC 3.13%'28s. 10Y UST Yields remained mostly unchanged at 0.69% after a solid 5-year note auction.

New Issues: Tencent Music Entertainment Group priced a USD300m 5-year bond at T+110bps, tightening from IPT of T+155bps area and another USD500mn 10-year bond at T+135bps, tightening from IPT of T+180bps area respectively. Elect Global Investments Ltd. (Guarantor: Hysan Development Co Ltd) priced a USD200mn re-tap of its HYSAN 4.85%'PerpNC3 at 101.625%, tightening from IPT of 100.5% area. Eureka Investment Company Limited priced a USD230mn 3-year bond at 3m-US LIBOR+110bps

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	93.006	-0.01%	USD-SGD	1.3656	-0.18%
USD-JPY	105.990	-0.38%	EUR-SGD	1.6155	-0.22%
EUR-USD	1.183	-0.04%	JPY-SGD	1.2884	0.20%
AUD-USD	0.723	0.53%	GBP-SGD	1.8040	0.27%
GBP-USD	1.321	0.44%	AUD-SGD	0.9878	0.36%
USD-MYR	4.170	0.04%	NZD-SGD	0.9042	0.95%
USD-CNY	6.886	-0.39%	CHF-SGD	1.5035	-0.23%
USD-IDR	14678	0.20%	SGD-MYR	3.0483	0.10%
USD-VND	23165	0.00%	SGD-CNY	5.0408	-0.16%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.5150	-0.52%	O/N	0.0814	0.08%
2M	-0.3360	-0.34%	1M	0.1703	0.17%
3M	-0.4810	-0.49%	2M	0.1904	0.19%
6M	-0.4430	-0.44%	3M	0.2510	0.23%
9M	-0.1940	-0.20%	6M	0.3081	0.30%
12M	-0.3730	-0.38%	12M	0.4400	0.44%

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	% Hike/Cut	Implied Rate Change	Implied Rate
09/16/2020	-0.106	-10.6	0.07	0.07
11/05/2020	-0.095	1.1	0.072	0.072
12/16/2020	-0.133	-3.8	0.063	0.063
01/27/2021	-0.175	-4.2	0.052	0.052
03/17/2021	-0.206	-3.1	0.045	0.045

Equity and Commodity

Index	Value	Net change
DJIA	28,331.92	83.48
S&P	3,478.73	35.11
Nasdaq	11,665.06	198.59
Nikkei 225	23,290.86	-5.91
STI	2,542.08	-16.95
KLCI	1,549.58	-5.38
JCI	5,340.33	1.44
Baltic Dry	1,518.00	27.00
VIX	23.27	1.24

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	0.28 (+0.02)	0.14(-)
5Y	0.55 (+0.01)	0.29 (-0.01)
10Y	0.96 (+0.03)	0.68(-)
15Y	1.23 (+0.02)	--
20Y	1.29 (+0.03)	--
30Y	1.21 (+0.02)	1.4 (+0.02)

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	-1.23	(-)
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	0.08
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Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	43.39	0.09%	Corn (per bushel)	3.405	-0.1%
Brent (per barrel)	45.64	-0.48%	Soybean (per bushel)	9.195	0.6%
Heating Oil (per gallon)	124.47	-1.22%	Wheat (per bushel)	5.320	0.9%
Gasoline (per gallon)	136.06	-2.53%	Crude Palm Oil (MYR/MT)	27.400	0.7%
Natural Gas (per MMBtu)	2.46	-1.12%	Rubber (JPY/KG)	1.790	4.9%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	6594.00	1.00%	Gold (per oz)	1954.5	1.4%
Nickel (per mt)	15159.00	1.22%	Silver (per oz)	27.5	3.6%

Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
08/26/2020 08:28	PH BoP Overall	Jul	--	--	\$80m
08/27/2020 08:39	SK BoK 7-Day Repo Rate	27-Aug	0.5%	0.5%	0.5%
08/27/2020 09:30	AU Private Capital Expenditure	2Q	-8.2%	--	-1.6%
08/27/2020 12:30	JN All Industry Activity Index MoM	Jun	6.3%	--	-3.5%
08/27/2020 14:00	JN Machine Tool Orders YoY	Jul F	--	--	-31.1%
08/27/2020 14:45	FR Manufacturing Confidence	Aug	86.0	--	82.0
08/27/2020 16:00	EC M3 Money Supply YoY	Jul	9.2%	--	9.2%
08/27/2020 20:30	US Initial Jobless Claims	22-Aug	1000k	--	1106k
08/27/2020 20:30	US GDP Annualized QoQ	2Q S	-32.5%	--	-32.9%
08/27/2020 20:30	US GDP Price Index	2Q S	-1.8%	--	-1.8%
08/27/2020 20:30	US Continuing Claims	15-Aug	14400k	--	14844k
08/27/2020 20:30	US Core PCE QoQ	2Q S	-1.1%	--	-1.1%
08/27/2020 20:30	US Personal Consumption	2Q S	-34.2%	--	-34.6%
08/27/2020 21:45	US Bloomberg Consumer Comfort	23-Aug	--	--	43.5
08/27/2020 22:00	US Pending Home Sales MoM	Jul	2.0%	--	16.6%

Source: Bloomberg

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