

Daily Treasury Outlook

28 August 2020

Highlights

Global: Policy flexibility is the new game in town as Fed chair Powell unveiled a major policy shift that will allow inflation and employment to run hotter so that inflation will average 2% over time and allow for appreciation of the benefits of a strong labor market. The S&P500 climbed 0.2% to notch up its a record for the fifth session, led by financials and real estate shares, while Nasdaq dipped into the red and VIX rose to 24.47. The USD rebounded while oil and gold retreated. UST bonds sold off with the 10-year bond yield up at 0.75% amid the curve bear-steepening bias. Elsewhere, TikTok is said to be asking for \$30b for its US sale.

Market watch: Asian markets may celebrate the Fed's newfound and dovish policy framework flexibility today. Today's economic data calendar also comprises Malaysia's July trade data, Eurozone's consumer confidence, and US' personal income and spending, core PCE deflator and wholesale inventories. US president Trump is due to speak at the last night of the Republican convention, while BOE governor Bailey is also speaking at the Jackson Hole symposium.

US: Fed's Bullard suggested that inflation could run at 2.5% to make up for past misses while Kaplan suggested that "this is not a formula...it's not a commitment". Meanwhile, House speaker Nancy Pelosi said negotiations for fresh fiscal stimulus is at a "tragic impasse".

SG: The minimum salary criteria for EP and S Pass have been raised to \$4.5k and \$2.5k from 1 Sep and 1 Oct respectively, while the financial sector will see a further hike to \$5k on 1 Dec 2020

Oil: Oil prices fell after Hurricane Laura largely avoided the refineries and ports in Southeast Texas. Laura has now weakened into a tropical storm. Brent fell 1.2% to \$45.09/bbl.

Gold: Prices endured a volatile session on Powell's comments, rising to as high as \$1954.45/oz and as low as \$1910.13/oz before eventually closing 1.3% lower on the day at \$1929.54/oz.

Malaysia: Trade data. Malaysia is due to report its trade data for July today. Market is expecting exports to grow by -1.4% yoy, compared to 8.8% in June which was a strong upside surprise. Trade balance is expected to soften to MYR16.3bn. Overall, any consolidation of trade data will be watched closely for signs of how the economy is recovering from the pandemic into H2.

Key Market Movements

Equity	Value	% chg
S&P 500	3484.6	0.2%
DJIA	28492	0.6%
Nikkei 225	23209	-0.4%
SH Comp	3350.1	0.6%
STI	2519.8	-0.9%
Hang Seng	25281	-0.8%
KLCI	1554.8	0.3%
	Value	% chg
DXY	93.001	0.0%
USDJPY	106.57	0.5%
EURUSD	1.1822	-0.1%
GBPUSD	1.3201	-0.1%
USDIDR	14660	-0.1%
USDSGD	1.3662	0.0%
SGDMYR	3.0566	0.3%
	Value	chg (bp)
3M UST	0.09	0.25
10Y UST	0.75	6.38
1Y SGS	0.30	0.00
10Y SGS	0.95	-0.43
3M LIBOR	0.26	0.49
3M SIBOR	0.41	0.00
3M SOR	0.21	0.00
	Value	% chg
Brent	45.09	-1.2%
WTI	43.04	-0.8%
Gold	1930	-1.3%
Silver	27.02	-1.8%
Palladium	2179	-0.4%
Copper	6621	0.4%
BCOM	72.62	0.4%

Source: Bloomberg

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Major Markets

US: The Fed maintained its dovish stance in yesterday's Jackson Hole symposium, which continued to support market sentiment. The S&P 500 index rallied 0.17% even though the Nasdaq composite index closed 0.34% lower. With a clear signal that interest rates will be kept low for an extended period, we expect US equities to retain its bullish momentum in the near term.

CN: China's industrial profit growth reaccelerated to 15% yoy in July from 10.4% yoy in June. As such, the year to date contraction has narrowed to 8.1% yoy from the contraction of 12.8% yoy in the first half of 2020. Higher demand for electronic, computer and infocomm related products, of which profit jumped by 28.7% yoy, continued to support the recovery of industrial profit

Macau: Unemployment rate rose from 2.5% to 2.7% during May to July 2020, the highest level since 3Q 2011. During the same period, the employed population dropped to 395.4k from 401.9k amid the continuous decrease in non-local workers living in Macau. Other than the construction sector, all major sectors showed deterioration in the unemployment as the travel restrictions brought the gaming and tourism to an almost standstill and weighed heavily on the relevant sectors. Moving into the coming three-month period, the jobless rate may edge up as relief measures expire gradually. On a positive note, the labor market may improve in 4Q 2020 as the worst may be over for the major sectors on the back of China's phased resumption of visa approvals to Macau from mid-August. However, jobless rate may not return to the pre-virus levels any time soon as full recovery remains far off for Macau's major sectors that rely heavily on in-person interaction and external demand.

SG: The STI slipped 0.88% to close at 2519.81 yesterday but may trade with a firmer tone today amid the Fed's policy shift. SGS bonds may be pressured to track the overnight UST sell-off. The \$2.9b 2-year auction fetched a 1.98x bid-cover ratio and a cut-off yield of 0.32%.

Indonesia: Loan growth. Head of Indonesia's FSA said that loan growth for the month of July rose slightly to 1.53% yoy, compared to 1.49% of June. This is said to be supported by loans disbursement from state-owned banks, which posted loans growth of 3.36% compared to 0.91% of private banks. He added that banks have restructured a total of IDR837.6tn of loans for 7.18mn borrowers as of Aug 10.

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Bond Market Updates

Market Commentary: The SGD swap curve fell yesterday, with the shorter and belly tenors trading 1-3bps lower while the longer tenors traded 1-4bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 167bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 5bps to 659bps. The HY-IG Index Spread tightened 5bps to 493bps. Flows in SGD corporates were heavy, with flows in HSBC 4.7%-PERPs, OLAMSP 4%'26s, CMZB 4.875%'27s, CAPLSP 3.8%'24s, CS 5.625%-PERPs, SRENVX 3.125%'35s and UBS 4.85%-PERPs. 10Y UST Yields gained 6bps to 0.75%, its highest since June 19, after the Fed announced it would seek inflation that averages 2% over time to spur economic recovery before tightening financial conditions.

New Issues: Emperor International Holdings Ltd. priced a USD250mn 3-year bond at 4.5%, tightening from IPT of 4.8% area. Inventive Global Investments Ltd (Guarantor: ABC International Holdings Ltd) priced a USD800mn 5-year bond at T+147.5bps, tightening from IPT of T+195bps area .

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	93.001	-0.01%	USD-SGD	1.3662	0.04%
USD-JPY	106.570	0.55%	EUR-SGD	1.6152	-0.02%
EUR-USD	1.182	-0.07%	JPY-SGD	1.2820	-0.50%
AUD-USD	0.726	0.36%	GBP-SGD	1.8035	-0.03%
GBP-USD	1.320	-0.07%	AUD-SGD	0.9918	0.40%
USD-MYR	4.173	0.06%	NZD-SGD	0.9071	0.32%
USD-CNY	6.894	0.12%	CHF-SGD	1.5029	-0.04%
USD-IDR	14660	-0.12%	SGD-MYR	3.0566	0.27%
USD-VND	23165	0.00%	SGD-CNY	5.0432	0.05%

Equity and Commodity

Index	Value	Net change
DJIA	28,492.27	160.35
S&P	3,484.55	5.82
Nasdaq	11,625.34	-39.72
Nikkei 225	23,208.86	-82.00
STI	2,519.81	-22.27
KLCI	1,554.78	5.20
JCI	5,371.47	31.14
Baltic Dry	1,518.00	27.00
VIX	24.47	1.20

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%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	0.28 (-)	0.14(-)
5Y	0.53 (-0.01)	0.31 (+0.03)
10Y	0.95 (-)	0.68 (+0.06)
15Y	1.22 (-0.01)	--
20Y	1.29 (-)	--
30Y	1.18 (-0.03)	1.4 (+0.1)

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	% Hike/Cut	Implied Rate Change	Implied Rate
09/16/2020	-0.091	-9.1	0.071	0.071
11/05/2020	-0.109	-1.8	0.067	0.067
12/16/2020	-0.11	-0.1	0.066	0.066
01/27/2021	-0.165	-5.5	0.052	0.052
03/17/2021	-0.164	0.1	0.053	0.053

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)	43.04	-0.81%	Corn (per bushel)	3.443	1.1%
Brent (per barrel)	45.09	-1.21%	Soybean (per bushel)	9.373	1.9%
Heating Oil (per gallon)	121.07	-2.73%	Wheat (per bushel)	5.425	2.0%
Gasoline (per gallon)	128.45	-5.59%	Crude Palm Oil (MYR/MT)	27.840	1.6%
Natural Gas (per MMBtu)	2.58	4.79%	Rubber (JPY/KG)	1.829	2.2%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	6621.00	0.41%	Gold (per oz)	1929.5	-1.3%
Nickel (per mt)	15191.00	0.21%	Silver (per oz)	27.0	-1.8%

Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
08/28/2020 22:00	US U. of Mich. Sentiment	Aug F	72.80	--	72.80
08/28/2020 14:45	FR CPI YoY	Aug P	0.1%	--	0.8%
08/28/2020 20:30	CA Quarterly GDP Annualized	2Q	-39.4%	--	-8.2%
08/28/2020 07:30	JN Tokyo CPI Ex-Fresh Food YoY	Aug	0.3%	-0.3%	0.4%
08/28/2020 14:45	FR GDP QoQ	2Q F	-13.8%	--	-13.8%
08/28/2020 20:30	US Personal Spending	Jul	1.6%	--	5.6%
08/28/2020 20:30	US Personal Income	Jul	-0.3%	--	-1.1%
08/28/2020 20:30	CA GDP MoM	Jun	5.6%	--	4.5%
08/28/2020 14:45	FR GDP YoY	2Q F	-19.0%	--	-19.0%
08/28/2020 21:45	US MNI Chicago PMI	Aug	52.6	--	51.9
08/28/2020 20:30	US Wholesale Inventories MoM	Jul P	-0.9%	--	-1.4%
08/28/2020 15:30	TH Foreign Reserves	Aug-21	--	--	\$252.0b
08/26/2020 08/28	PH BoP Overall	Jul	--	--	\$80m
08/28/2020 07:30	JN Tokyo CPI YoY	Aug	0.6%	0.3%	0.0
08/28/2020 17:00	EC Consumer Confidence	Aug F	--	--	-14.7

Source: Bloomberg

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