

Daily Treasury Outlook

31 August 2020

Highlights

Global: Global risk appetite continued to remain buoyant on Friday, with Wall Street leading the charge, albeit Japanese PM Abe's shock resignation due to ill-health prompted questions if it meant the end of Abenomics (our view: unlikely, given that BOJ governor Kuroda will likely insist on policy continuity). S&P500 saw another record close after adding 0.67% to close above 3500, while VIX declined to 22.96. UST bonds pared losses ahead of expected month-end extensions which is tipped to add 0.16 year of duration to the US Treasury Index, with the 10-year yield down to 0.73%. The USD continued to weaken, while the 3-month LIBOR eased to 0.2409%. Meanwhile, Chinese banks saw their worst profit declines in more than a decline amid a surge in loan loss provisions. Any sale of TikTok's US operations is also said to require China's approval. Elsewhere, Auckland has exited a lockdown, while investors are also waiting for the Ant's at least \$30b IPO in Hong Kong and Shanghai in October.

Market watch: For today, Asian markets are likely to take the positive cue from Wall Street's Friday rally while keeping an eye on the Abe's succession and the upcoming slew of August PMIs for data cues. Today's economic data calendar also comprises of China's August PMI, India's 2Q GDP growth, industrial production from Japan and South Korea, Thailand's trade data, Germany's CPI, S'pore's July bank loans data, and US' Dallas Fed manufacturing activity. Also, on tap today are Fed's Clarida and Bostic, with the former speaking on the monetary policy framework. For the week ahead, watch for RBA's policy decision tomorrow, Australia's 2Q GDP growth (to reflect its firsts recession in decades) on Wednesday, and US' labour market report on Friday (with August nonfarm payrolls, unemployment rate and average hourly earnings tipped to come in at 1.4m, 9.8% and 0.0% mom/4.5% yoy respectively).

US: Both personal income and spending rose a better-than-expected 0.4% and 1.9% mom in July, despite the surge in Covid-19 cases and the cut in unemployment benefits. The core PCE deflator rose 0.3% mom (1.3% yoy) in July, the same as June.

UK: Treasury officials are pushing for significant tax hikes to raise at least GBP20b annually to plug the rising budget deficit, and could include raising the corporate tax rate from 19% to 24%, according to the Times. Chancellor Sunak is due to announce the budget in November. Meanwhile, BOE governor Bailey opined that "we are not out of firepower by any means".

SG: July bank loans growth is likely to remain in contraction territory after printing -1.0% yoy in June amid the weak economic conditions.

Gold: Gold rose 1.8% to \$1964.83/oz last Friday as the Fed's indication of higher inflation tolerance bolstered the demand of the precious metal. We continue to be bullish gold in the near to mid-term.

Key Market Movements

Equity	Value	% chg
S&P 500	3508.0	0.7%
DJIA	28654	0.6%
Nikkei 225	22883	-1.4%
SH Comp	3403.8	1.6%
STI	2539.6	0.8%
Hang Seng	25422	0.6%
KLCI	1525.2	-1.9%
	Value	% chg
DX	92.371	-0.7%
USDJPY	105.37	-1.1%
EURUSD	1.1903	0.7%
GBPUSD	1.3353	1.2%
USDIDR	14632	-0.2%
USDSGD	1.3581	-0.6%
SGDMYR	3.0655	0.3%
	Value	chg (bp)
3M UST	0.10	0.25
10Y UST	0.72	-3.11
1Y SGS	0.30	0.00
10Y SGS	1.01	6.09
3M LIBOR	0.25	-0.99
3M SIBOR	0.41	0.00
3M SOR	0.20	-0.35
	Value	% chg
Brent	45.81	0.5%
WTI	42.97	-0.2%
Gold	1965	1.8%
Silver	27.50	1.8%
Palladium	2209	1.4%
Copper	6667	0.7%
BCOM	73.14	0.7%

Source: Bloomberg

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Major Markets

US: US equities continues to be propped up by tech stocks. The S&P 500 index rose 0.67% while the Nasdaq 100 composite index rallied 0.60% in last Friday's close. Both printed highs consecutively for the third and fifth day respectively. We expect bullish momentum to continue in US equities.

CN: The USDCNY ended firmly below 6.90 last week sending RMB index to a month high level. Although the delayed review of phase one trade deal was largely a non-event, it did remove the tail risk for RMB given both sides reaffirmed their plans to honour the deal. RMB's recent appreciation is more a catch-up move, which may continue to support the pair test 6.80 range.

HK: Yum China is expected to start public offering this week and plans to raise about US\$2 billion. Following Nongfu Spring's IPO, there seems to be a new wave of IPOs coming up. This suggests that the IPO market remains resilient and becomes increasingly attractive to Chinese companies given the looming financial war between US and China. On the other hand, the busy IPO pipeline and the equity inflows may continue to boost HKD demand. As such, USDKHK spot may keep re-testing 7.75 and in turn trigger more HKMA intervention. As HIBOR volatility reduced notably on increasing interbank liquidity, even if IPO effect and seasonal factors lead to brief jump in HIBOR, HKD rates may come off ultimately once these short-term factors abate.

SG: The STI added 0.79% to close up at 2539.63 on Friday and may attempt to add to the rally this morning amid positive Friday clues from Wall Street. SGS bond yields rose up to 8bps as the curve bear-steepened on Friday, but may trade with a more supportive tone into the month-end.

Malaysia: Malaysia is out today on Independence Day holiday. Friday saw the release of its July trade data, where trade surplus broke the record-high that was set just a month earlier. It came in at MYR25.15bn, driven by exports which rose for a second month running, driven by continued uptick in shipment of electronics. Rubber products exports surged by 93.9% yoy, powered by shipment of medical gloves.

Indonesia: Indonesia has reportedly told major manufacturers in Cikarang, West Java, to stop their operations due to covid-19 outbreak. Plants such as LG Electronics and Suzuki Motors in the major industrial park were affected, after more than 300 workers tested positive. The development speaks to the challenges facing Indonesia, as it tries to resume economic activities even as it struggles to keep the pandemic under control.

Oil: Brent rose 0.5% on Friday to \$45.81/bbl last Friday but looks set to fall back into its consolidation range of \$45-\$46 after the passing of Hurricane Marco and Laura. We expect consolidation of crude oil prices to continue in the near term.

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Bond Market Updates

Market Commentary: The SGD swap curve bear steepened last Friday, with the shorter tenors trading 2-4bps higher while the belly and longer tenors traded 5-10bps higher. The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 168bps, while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 5bps to 654bps. The HY-IG Index Spread tightened 7bps to 486bps. Flows in SGD corporates were heavy, with flows in HSBC 5%-PERPs, OLAMSP 4%'26s, UBS 4.85%-PERPs, NTUCSP 3.1%'50s and HSBC 4.7%-PERPs. 10Y UST Yields fell 3bps to 0.72% while S&P 500 was pushed higher by technology stocks and closed at its sixth record high.

New Issues: Korea Development Bank priced a SGD20mn 1-year bond at 0.43%.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	92.371	-0.68%	USD-SGD	1.3581	-0.59%
USD-JPY	105.370	-1.13%	EUR-SGD	1.6166	0.09%
EUR-USD	1.190	0.69%	JPY-SGD	1.2890	0.55%
AUD-USD	0.737	1.46%	GBP-SGD	1.8133	0.54%
GBP-USD	1.335	1.15%	AUD-SGD	1.0004	0.87%
USD-MYR	4.164	-0.20%	NZD-SGD	0.9158	0.96%
USD-CNY	6.865	-0.42%	CHF-SGD	1.5021	-0.05%
USD-IDR	14632	-0.19%	SGD-MYR	3.0655	0.29%
USD-VND	23166	0.00%	SGD-CNY	5.0547	0.23%

Equity and Commodity

Index	Value	Net change
DJIA	28,653.87	161.60
S&P	3,508.01	23.46
Nasdaq	11,695.63	70.29
Nikkei 225	22,882.65	-326.21
STI	2,539.63	19.82
KLCI	1,525.21	-29.57
JCI	5,346.66	-24.81
Baltic Dry	1,488.00	-16.00
VIX	22.96	-1.51

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.5230	-0.52%	O/N	0.0809	0.08%
2M	-0.3360	-0.34%	1M	0.1568	0.16%
3M	-0.4770	-0.48%	2M	0.1856	0.19%
6M	-0.4440	-0.44%	3M	0.2409	0.25%
9M	-0.1940	-0.20%	6M	0.3099	0.31%
12M	-0.3690	-0.36%	12M	0.4453	0.44%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	0.28 (-)	0.13(-)
5Y	0.56 (+0.03)	0.27 (-0.04)
10Y	1.01 (+0.06)	0.72 (-0.03)
15Y	1.31 (+0.09)	--
20Y	1.38 (+0.08)	--
30Y	1.25 (+0.07)	1.5 (-0.01)

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	% Hike/Cut	Implied Rate Change	Implied Rate
09/16/2020	-0.107	-10.7	0.067	0.067
11/05/2020	-0.109	-0.2	0.067	0.067
12/16/2020	-0.141	-3.2	0.059	0.059
01/27/2021	-0.185	-4.4	0.047	0.047
03/17/2021	-0.217	-3.2	0.04	0.04

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	-0.80	(-)
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	0.07
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Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	42.97	-0.16%	Corn (per bushel)	3.460	0.5%
Brent (per barrel)	45.05	-0.09%	Soybean (per bushel)	9.505	1.4%
Heating Oil (per gallon)	121.62	0.45%	Wheat (per bushel)	5.393	-0.6%
Gasoline (per gallon)	131.55	2.41%	Crude Palm Oil (MYR/MT)	28.450	2.2%
Natural Gas (per MMBtu)	2.66	3.02%	Rubber (JPY/KG)	1.870	2.2%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	6667.00	0.69%	Gold (per oz)	1964.8	1.8%
Nickel (per mt)	15367.00	1.16%	Silver (per oz)	27.5	1.8%

Economic Calendar

Date Time		Event		Survey	Actual	Prior	Revised
08/31/2020 07:50	JN	Industrial Production MoM	Jul P	5.0%	--	1.9%	--
08/31/2020 09:00	CH	Manufacturing PMI	Aug	51.2	--	51.1	--
08/31/2020 15:00	TH	BoP Current Account Balance	Jul	\$1000m	--	-\$247m	--
08/31/2020 20:00	GE	CPI YoY	Aug P	0.1%	--	-0.1%	--
08/31/2020 09:00	AU	Melbourne Institute Inflation MoM	Aug	--	--	0.9%	--
08/31/2020 20:00	GE	CPI MoM	Aug P	0.0%	--	-0.5%	--
08/31/2020 07:00	SK	Industrial Production YoY	Jul	-2.0%	-2.5%	-0.5%	--
08/31/2020 09:00	NZ	ANZ Business Confidence	Aug F	--	--	-42.4	--
08/28/2020 09:04	PH	BoP Overall	Jul	--	--	\$80m	--
08/31/2020 09:30	AU	Private Sector Credit MoM	Jul	-0.1%	--	-0.2%	--
08/31/2020 20:00	GE	CPI EU Harmonized YoY	Aug P	0.1%	--	0.0%	--
08/31/2020 09:00	CH	Non-manufacturing PMI	Aug	54.2	--	54.2	--
08/31/2020 07:50	JN	Retail Sales YoY	Jul	-1.7%	--	-1.2%	-1.3%
08/31/2020 09:30	AU	Private Sector Credit YoY	Jul	2.6%	--	2.9%	--
08/31/2020 15:30	TH	Exports YoY	Jul	--	--	-24.6%	--

Source: Bloomberg

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