OCBC TREASURY RESEARCH

Daily Treasury Outlook

4 January 2021

Highlights

Global: Happy new year to everyone and all. The end of 2020 brought some festive cheer to the markets, with the S&P 500 index ending at a fresh record high to clock a full-year gain of 16.6%. Brent ended the year at $51.80/bbl while gold closed in on the $1900 level. It has been a remarkable year for risk assets, with unprecedented amounts of fiscal and monetary stimulus globally pushing asset inflation levels higher amidst the pandemic. Into the new year, familiar questions will remain. The uncertainties posed by the new virus strain; the speed and efficacy rate of vaccination globally; the fiscal gridlock in Washington; US-China relations; and the UK living in a post-Brexit world will likely be the key developments in 2021. Risk assets are likely to continue their rally in the coming year, aided by continued fiscal and monetary stimulus while the Covid-19 vaccine becomes more widely available. Most economies should also see strong economic growth numbers this year, although that would be largely due to the very low base from 2020. Overall, an optimistic start to 2021 and we expect risk sentiment to sustain through the coming year.

Market watch: Asian markets are likely to open on a firmer tone this morning, following the record close on Wall Street last Thursday. Today's economic calendar comprises a slew of manufacturing PMIs from Asia, Australia, Eurozone and UK, Indonesia's December CPI, and Hong Kong's November retail sales. For the week ahead, watch for the Georgia senate election on Tuesday which will determine the composition of the US Congress, and ultimately influence President-elect Joe Biden's ability to enact his agenda.

US: Initial jobless claims fell to 787k last week from 806k the prior week, beating estimates of an increase to 835k. Meanwhile, the US is set to impose additional tariffs on some EU goods, including aircraft-making parts and some alcoholic beverages.

SG: The S'pore economy shrank by a milder 3.8% yoy (+2.1% qoq sa) in 4Q20, while the growth estimates for 3Q20 was also revised up to a milder -5.6% yoy (9.5% qoq sa) to bring the full-year 2020 GDP growth to -5.8% yoy. The latter outperforms the -6.5% to -6.0% official forecast range, but still marked a sharp contraction from the 0.7% yoy growth seen back in 2019. Notably, manufacturing sector grew 9.5% yoy aided by the electronics, pharmaceuticals and precision engineering industries, while the contraction in the construction and services sector eased to 28.5% yoy and 6.8% yoy with the resumption of more construction activities in 4Q20 as well as steady momentum in the information & communications and finance & insurance industries respectively. Looking ahead, with the vaccinations underway both globally and domestically (notwithstanding the new strain of Covid infections) and the transition to Phase 3 for the S'pore economy, we expect growth to stabilise and improve to around 4-6% yoy in 2021.

Key Market Movements

Equity	Value	% chg
S&P 500	3756.1	0.0%
DJIA	30606	0.0%
Nikkei 225	27444	0.0%
SH Comp	3473.1	0.0%
STI	2843.8	0.0%
Hang Seng	27231	0.0%
KLCI	1627.2	0.0%
	Value	**% chg**
DXY	89.937	0.0%
USDJPY	103.2	0.0%
EURUSD	1.2215	0.0%
GBPUSD	1.3672	0.0%
USDIDR	14050	0.0%
USDSGD	1.3219	0.0%
SGDMYR	3.0426	0.0%
	Value	**chg (bp)**
3M UST	0.06	0.00
10Y UST	0.91	0.00
1Y SGS	0.39	0.00
10Y SGS	0.84	0.00
3M LIBOR	0.24	0.09
3M SIBOR	0.41	0.00
3M SOR	0.19	0.00
	Value	**% chg**
Brent	51.8	0.0%
WTI	48.52	0.0%
Gold	1899	0.0%
Silver	26.40	0.0%
Palladium	2449	0.0%
Copper	7766	0.0%
BCOM	78.05	0.0%

Source: Bloomberg

Major Markets

US: US equities closed higher last Thursday on rising market optimism, elevated by the signing of the US stimulus package and an agreement on the Brexit deal. The S&P 500 index rose 0.6% and the Nasdaq 100 Composite index notched a 0.1% gain. With the risk rally likely to maintain its momentum, we think the US equity market may continue its bullish tilt in the near term ahead of the Georgia senate election this week.

CN: The New York Stock Exchange announced on 31 December 2020 that it will delist three Chinese telecommunication companies China Mobile, China Unicom and China Telecom (Hong Kong) to comply with an executive orders from the White House in November which bars US investors from investing in Chinese companies having ties to the Chinese military. Given Biden Administration is expected to take office on 20 January, market may take a wait and see approach and is unlikely to jump to the conclusion that it will evolve to financial de-coupling. In addition, China announced to revise the weights for its currency basket RMB index to reflect the trade relationship in 2020. The dollar weight in RMB index has been cut to 18.79% from previously 21.59% while Euro weight has been increased to 18.15% from 17.40%. Against the backdrop of rising consensus about the extended dollar weakness in 2021, the increase of Euro weight in RMB index suggested that RMB index may be stronger slightly under the new weight than the old weight.

SG: The STI fell 0.9% on the last trading day of 2020 to end the year at 2843.81, clocking a full-year loss of 11.8%. The benchmark equity index may see some buying interest today on Wall Street’s record close last week and a seemingly optimistic start to the new year.

HK: HKD loan-to-deposit ratio dropped further to 82.7% in November, the lowest since February 2018, as HKD loans (-14% mom) fell at a faster pace than HKD deposits (-12.6% mom). Moving into 2021, as we expect the IPO market to remain active, HKD loans and deposits may grow on the back of IPO-related demand. However, excluding IPO effects, local loan demand may be sluggish given the still dire business situation and a weakening labour market, especially if the government were to unwind the one-off relief measures. Loans for use outside of Hong Kong which grew at the slowest rate in four years by 0.9% yoy in November may remain subdued as well amid the relatively flush onshore liquidity. In contrast, total deposits may continue to see resilient year-on-year growth given flush global liquidity and the relatively sanguine investment sentiments amid vaccine rollouts and the fresh stimulus of US. Since we expect HKD loans to grow at a slower pace than HKD deposits in 2021, HKD loan-to-deposit ratio may edge down further.

Macau: Gaming revenue dropped less than expected by 65.8% yoy in December but still plunged for the second consecutive year by 79.3% yoy for 2020 as a whole. Moving into 2021, should vaccine rollout help to contain the virus and warrant the resumption of international travel, Macau's gaming sector may gain further momentum. However, the upside may remain capped. On one hand, the weakening prospect of wage growth across the globe may drag on the recovery of the mass market segment. On the other hand, though the government denied that the digital yuan will be introduced in Macau, the lingering policy risk has hit the junket operators hard and may continue to weigh on the VIP segment. In conclusion, though we expect gaming revenue to more than double in 2021 as compared to the level of 2020, it may not return to the pre-virus level.

Bond Market Updates

Market Commentary: The SGD swap curve mostly fell last Thursday, with shorter tenors trading between 1-2bps lower and belly tenors trading 2-3bps lower. Longer tenors traded 4-5bps lower while the 15-year traded almost flat. The Bloomberg Barclays Asia USD IG Bond Index average OAS remained mostly unchanged at 150bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 2bps to 644bps. The HY-IG Index Spread remained mostly unchanged at 495bps. There were very minimal flows in SGD corporates last Thursday. 10Y UST fell 1bps to 0.92% on the last trading day of the year after emerging variants of the coronavirus muted optimism.

New Issues: Vigorous Champion International Limited priced a SGD66mn 1-year bond at 0.85%. StarHub Ltd priced a SGD200mn 10-year note at 2.48%. Hotel Properties Limited priced a SGD50mn re-tap of its HPLSP 3.8%'25s at 3.8%.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	89.937	0.29%	**USD-SGD**	1.3219	-0.02%
USD-JPY	103.200	-0.05%	**EUR-SGD**	1.6139	-0.04%
EUR-USD	1.222	-0.01%	**JPY-SGD**	1.2808	0.16%
AUD-USD	0.769	0.00%	**GBP-SGD**	1.8075	0.08%
GBP-USD	1.367	0.01%	**AUD-SGD**	1.0171	0.03%
USD-MYR	4.020	-0.40%	**NZD-SGD**	0.9517	0.28%
USD-CNY	6.527	0.06%	**CHF-SGD**	1.4838	-0.62%
USD-IDR	14050	-0.57%	**SGD-MYR**	3.0426	-0.08%
USD-VND	23098	0.05%	**SGD-CNY**	4.9369	-0.07%

Equity and Commodity

Index	Value	Net change
DJIA	30,606.48	196.92
S&P	3,756.07	24.03
Nasdaq	12,888.28	18.28
Nikkei 225	27,444.17	-123.98
STI	2,843.81	-25.41
KLCI	1,627.21	-17.20
JCI	5,979.07	-57.10
Baltic Dry	1,366.00	4.00
VIX	22.75	-0.02

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.5540	-0.56%	**O/N**	0.0776	0.09%
2M	-0.3360	-0.34%	**1M**	0.1439	0.14%
3M	-0.5450	-0.54%	**2M**	0.1904	0.18%
6M	-0.5260	-0.52%	**3M**	0.2384	0.24%
9M	-0.1940	-0.20%	**6M**	0.2576	0.26%
12M	-0.4990	-0.50%	**12M**	0.3419	0.34%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	0.29 (+0.03)	0.12(--)
5Y	0.46 (+0.01)	0.36(--)
10Y	0.84 (-0.01)	0.91(--)
15Y	1.11 (-0.01)	--
20Y	1.21 (--)	--
30Y	1.15 (-0.01)	1.64(--)

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	% Hike/Cut	Implied Rate Change	Implied Rate
01/27/2021	-0.029	-2.9	0.077	0.077
03/17/2021	-0.039	-1	0.075	0.075
04/28/2021	-0.049	-1	0.072	0.072
06/16/2021	-0.05	-0.1	0.072	0.072
07/28/2021	-0.029	2.1	0.077	0.077
09/22/2021	-0.029	0	0.077	0.077
11/03/2021	-0.018	1.1	0.08	0.08

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	-6.71	(--)
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	0.09

Commodities Futures

Energy	**Futures**	**% chg**	**Soft Commodities**	**Futures**	**% chg**
WTI (per barrel)	48.52	0.25%	Corn (per bushel)	4.840	2.0%
Brent (per barrel)	51.80	0.90%	Soybean (per bushel)	13.153	0.9%
Heating Oil (per gallon)	147.63	-0.91%	Wheat (per bushel)	6.405	0.0%
Gasoline (per gallon)	140.84	-0.25%	Crude Palm Oil (MYR/MT)	38.910	0.3%
Natural Gas (per MMBtu)	2.54	4.83%	Rubber (JPY/KG)	2.688	0.4%

Base Metals	**Futures**	**% chg**	**Precious Metals**	**Futures**	**% chg**
Copper (per mt)	7766.00	-1.04%	Gold (per oz)	1898.7	0.0%
Nickel (per mt)	16613.00	-0.99%	Silver (per oz)	26.4	0.0%

Economic Calendar

Date Time		Event		Survey	Actual	Prior	Revised
01/04/2021 08:00	SI	GDP YoY	4Q A	-4.7%	--	-5.8%	--
01/04/2021 08:30	TA	Markit Taiwan PMI Mfg	Dec	--	--	56.9	--
01/04/2021 08:30	VN	Markit Vietnam PMI Mfg	Dec	--	--	49.9	--
01/04/2021 08:30	ID	Markit Indonesia PMI Mfg	Dec	--	--	50.6	--
01/04/2021 08:30	JN	Jibun Bank Japan PMI Mfg	Dec F	--	--	49.7	--
01/04/2021 08:30	SK	Markit South Korea PMI Mfg	Dec	--	--	52.9	--
01/04/2021 09:45	CH	Caixin China PMI Mfg	Dec	54.7	--	54.9	--
01/04/2021 12:00	ID	CPI YoY	Dec	1.6%	--	1.6%	--
01/04/2021 13:00	IN	Markit India PMI Mfg	Dec	--	--	56.3	--
01/04/2021 16:30	HK	Retail Sales Value YoY	Nov	-7.5%	--	-8.8%	--
01/04/2021 16:50	FR	Markit France Manufacturing PMI	Dec F	51.1	--	51.1	--
01/04/2021 16:55	GE	Markit/BME Germany Manufacturing PMI	Dec F	58.6	--	58.6	--
01/04/2021 17:00	EC	Markit Eurozone Manufacturing PMI	Dec F	55.5	--	55.5	--
01/04/2021 17:30	UK	Markit UK PMI Manufacturing SA	Dec F	57.3	--	57.3	--
01/04/2021 22:30	CA	Markit Canada Manufacturing PMI	Dec	--	--	55.8	--
01/04/2021 22:45	US	Markit US Manufacturing PMI	Dec F	56.3	--	56.5	--

Source:Bloomberg

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