

Daily Treasury Outlook

7 September 2020

Highlights

Global: US equity markets are in retreat, led by the tech stock sell-off on Friday which contributed to the worst week for Nasdaq since March, even though US nonfarm payrolls added 1.37m jobs (consensus forecast: 1.35m) in August and the US' unemployment rate fell from 10.2% to 8.4% (consensus forecast: 9.8%). Fed chair Powell opined that "the recovery is continuing" but "we do think it will get harder from here". The S&P500 retreated 0.81% despite paring earlier losses, while VIX declined to 30.75. The UST bond market bear-steepened with the 10-year yield at 0.72% as investors digested the robust labour market report and ahead of upcoming supply from both UST (including a \$50b 3-year, \$35b 10-year, and \$23b 30-year re-openings) and IG issuance (at least \$140b expected).

Market watch: Asian markets are likely to open on a soft tone this morning, today. With US markets out for Labor Day holiday today, market attention may turn to focus on Hong Kong after weekend protests and arrests. Today's economic data calendar also comprises China's August trade data, Eurozone's Sentix investor confidence for September and Germany's July industrial production. For the week ahead, there are BOC's policy decision (likely static at 0.25%) on Wednesday, BNM policy decision (where a 25bp cut to 1.5% cannot be fully discounted) and ECB policy meeting (policy settings are likely on hold but policymakers may reiterate downside risks amid likely dovish hints and updated growth forecasts) on Thursday. Friday's US' CPI data release may also be closely watched amid the bear-steepening bias in the UST bond market.

US: Treasury Secretary Mnuchin said that President Trump "couldn't be more pleased" with the US recovery but wanted more stimulus to move ahead. This comes ahead of the Senate returning tomorrow after stimulus talks stalled in early August. Meanwhile, a stopgap spending measure will need to be negotiated to prevent a government shutdown on 30 September. Average weekly earnings had accelerated to 0.4% mom (4.7% yoy) in August, while the underemployment rate fell from 16.5% to 14.25%.

UK: The next round of Brexit negotiations between the UK and EU today with PM Johnson is likely to play a brinkmanship game with a 15 October deadline for a deal.

SG: Retail sales beat market expectations to surge 27.4% mom sa (-8.5% yoy) in July, following a revised 50.7% mom sa (-24.0% yoy) print for June.

Oil: From its high of \$46.29/bbl on 25 August, Brent has lost about 10% at time of writing as risk sentiment around the energy complex starts to turn weaker. From the tech selloff last week to Saudi Aramco cutting its prices of its crude oil, the fundamentals are beginning to stack against oil. Support for Brent expected at \$40/bbl.

Key Market Movements		
Equity	Value	% chg
S&P 500	3427.0	-0.8%
DJIA	28133	-0.6%
Nikkei 225	23205	-1.1%
SH Comp	3355.4	-0.9%
STI	2509.6	-0.9%
Hang Seng	24695	-1.2%
KLCI	1515.9	0.0%
	Value	% chg
DXY	92.719	0.0%
USDJPY	106.24	0.0%
EURUSD	1.1838	-0.1%
GBPUSD	1.3279	0.0%
USIDR	14750	-0.2%
USDSGD	1.3647	0.0%
SGDMYR	3.0423	0.1%
	Value	chg (bp)
3M UST	0.10	0.00
10Y UST	0.72	8.33
1Y SGS	0.30	-0.10
10Y SGS	0.95	-2.16
3M LIBOR	0.25	-0.17
3M SIBOR	0.41	0.00
3M SOR	0.20	-1.55
	Value	% chg
Brent	42.66	-3.2%
WTI	39.77	-3.9%
Gold	1934	0.2%
Silver	26.91	1.2%
Palladium	2295	-0.5%
Copper	6710	2.2%
BCOM	72.39	0.1%

Source: Bloomberg

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Major Markets

US: The S&P 500 index and the Nasdaq 100 composite index closed 0.8% and 1.3% lower respectively. US nonfarm payrolls added 1.37mn jobs in August, marginally higher than expectations of 1.35mn while unemployment fell to 8.4% from 10.2%. Positive data from the US jobs report is likely to negate selling pressure from last week's tech selloff in the near term. Sentiment is expected to be mixed for now.

CN: China's Vice Chairman of security regulator Fang Xinghai said that there is great potential to attract foreign capital into China's equity market. The inflows of long term capital from foreign investors may also cap China's equity market volatility. In addition, Fang also announced that the regulator plans to expand the eligible securities for stock connect between Hong Kong and China. Meanwhile, China also plans to expand product offering in future market to give foreign investors more risk management tools. China's central bank deputy governor said that the negative list for foreign investment in financial sector has been fully eliminated. As of end July, financial assets held by foreign institutions and individuals has reached CNY7.74 trillion up by 37% yoy.

SG: The STI fell 0.87% to close at 2509.64 on Friday and may extend declines amid weak Friday cues from Wall Street. After SGS yields fell by 1-3bps on Friday, SGS bonds may track the bear-steepening bias in the UST bond market.

Malaysia: Malaysian market is likely to follow the lacklustre performance of US equities end of last week. With US market out tonight and lack of data onshore, the direction may not change as well. For the week ahead, market will be on the lookout for the outcome of the BNM MPC meeting on Thursday. We expect it to cut rate further to another historic low of 1.5%.

Indonesia: Indonesia's Ministry of Finance issued a press release on Friday to state that the government continues to support a credible, effective and independent central bank, following market concerns about a parliamentary proposal to set up, among other things, a Monetary Board helmed by the Minister of Finance to oversee BI operations. The statement also clarifies that the first kind of "burden sharing" of outright debt purchase by BI is to last for just this year, but the second portion of primary bond purchases is to last until end of 2022.

Gold: Gold had a choppy session on Friday, trading between \$1916.42/oz to \$1947.15/oz and eventually closing 0.2% higher at \$1933.94/oz. Prices are likely to remain in consolidation in the near term.

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Bond Market Updates

Market Commentary: The SGD swap curve bear flattened last Friday, with the shorter and belly tenors trading 0-2bps lower while the longer tenors traded 1-3bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS remained mostly unchanged at 166bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 3bps to 648bps. The HY-IG Index Spread widened 3bps to 481bps. Flows in SGD corporates were heavy, with flows in SOCGEN 6.125%-PERPs, STANLN 5.375%-PERPs, CMZB 4.875%'27s, MAPLSP 3.95%-PERPs, OLAMSP 4%'26s, CS 5.625%-PERPs and NTUCSP 3.1%'50s. 10Y UST Yields gained 8bps to 0.72% after data indicated that unemployment rate fell significantly from 10.2% in July to 8.4% in August, signalling a gradual US labour market recovery, additionally new treasury supply is also expected this week.

New Issues: Wending Zhongyuan Company Limited (Guarantor: Central China International Financial Holdings Company Limited) has arranged investor calls commencing 4 September 2020 for its proposed USD bond offering. Filinvest Development has mandated banks for its proposed USD bond offering.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	92.719	-0.02%	USD-SGD	1.3647	0.01%
USD-JPY	106.240	0.05%	EUR-SGD	1.6155	-0.11%
EUR-USD	1.184	-0.12%	JPY-SGD	1.2846	-0.04%
AUD-USD	0.728	0.12%	GBP-SGD	1.8123	-0.01%
GBP-USD	1.328	-0.02%	AUD-SGD	0.9938	0.12%
USD-MYR	4.148	0.08%	NZD-SGD	0.9173	0.14%
USD-CNY	6.843	-0.09%	CHF-SGD	1.4941	-0.43%
USD-IDR	14750	-0.19%	SGD-MYR	3.0423	0.14%
USD-VND	23169	0.02%	SGD-CNY	5.0010	-0.29%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.5170	-0.51%	O/N	0.0816	0.08%
2M	-0.3360	-0.34%	1M	0.1543	0.16%
3M	-0.4830	-0.48%	2M	0.1849	0.20%
6M	-0.4510	-0.46%	3M	0.2480	0.25%
9M	-0.1940	-0.20%	6M	0.2921	0.29%
12M	-0.4010	-0.39%	12M	0.4210	0.43%

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	% Hike/Cut	Implied Rate Change	Implied Rate
09/16/2020	-0.066	-6.6	0.077	0.077
11/05/2020	-0.09	-2.4	0.072	0.072
12/16/2020	-0.133	-4.3	0.061	0.061
01/27/2021	-0.166	-3.3	0.052	0.052
03/17/2021	-0.207	-4.1	0.042	0.042
04/28/2021	-0.226	-1.9	0.038	0.038
06/16/2021	-0.226	0	0.038	0.038
07/28/2021	-0.226	0	0.038	0.038
09/22/2021	-0.249	-2.4	0.032	0.032
11/03/2021	-0.236	1.4	0.035	0.035
12/15/2021	-0.254	-1.9	0.03	0.03
01/26/2022	-0.266	-1.1	0.027	0.027

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	39.77	-3.87%	Corn (per bushel)	3.473	0.8%
Brent (per barrel)	42.66	-3.20%	Soybean (per bushel)	9.695	0.1%
Heating Oil (per gallon)	115.15	-1.39%	Wheat (per bushel)	5.398	-0.6%
Gasoline (per gallon)	117.72	-2.30%	Crude Palm Oil (MYR/MT)	29.320	-1.6%
Natural Gas (per MMBtu)	2.59	4.06%	Rubber (JPY/KG)	1.990	-3.4%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	6710.00	2.23%	Gold (per oz)	1933.9	0.2%
Nickel (per mt)	15293.00	1.31%	Silver (per oz)	26.9	1.2%

Economic Calendar

Date Time		Event		Survey	Actual	Prior	Revised
09/07/2020	CH	Trade Balance	Aug	\$49.70b	--	\$62.33b	--
09/07/2020	CH	Exports YoY	Aug	7.5%	--	7.2%	--
09/07/2020	CH	Imports YoY	Aug	0.2%	--	-1.4%	--
09/07/2020	HK	Foreign Reserves	Aug	--	--	\$450.0b	--
09/07/2020	CH	Foreign Reserves	Aug	\$3170.50b	--	\$3154.39b	--
09/07/2020	PH	Foreign Reserves	Aug	--	--	\$98.0b	\$98.6b
09/07/2020	CH	Exports YoY CNY	Aug	12.4%	--	10.4%	--
09/07/2020	CH	Trade Balance CNY	Aug	386.00b	--	442.23b	--
09/07/2020 06:30	AU	AiG Perf of Services Index	Aug	--	42.5	44.0	--
09/07/2020 07:50	JN	Official Reserve Assets	Aug	--	--	\$1402.5b	--
09/07/2020 09:30	AU	ANZ Job Advertisements MoM	Aug	--	--	16.7%	--
09/07/2020 11:00	ID	Foreign Reserves	Aug	--	--	\$135.10b	--
09/07/2020 14:00	GE	Industrial Production SA MoM	Jul	4.5%	--	8.9%	--
09/07/2020 14:00	GE	Industrial Production WDA YoY	Jul	-7.4%	--	-11.7%	--
09/07/2020 14:30	AU	Foreign Reserves	Aug	--	--	A\$59.9b	A\$60.0b
09/07/2020 17:00	SI	Foreign Reserves	Aug	--	--	\$321.35b	--

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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