

## Daily Treasury Outlook

10 September 2020

### Highlights

**Global:** Risk on again as Wall Street recovered after three days of losses amid bargain hunting interest. The S&P 500 index and the Nasdaq 100 Composite index rose 2.01% and 2.71% respectively, with European bourses also trading higher (despite LVMH pulling out of Tiffany bid), whereas Asian bourses mostly declined and VIX was lower at 28.81. Meanwhile, UST bonds bear-steepened after a soft \$35b 10-year auction and ahead of the 30-year auction today, with the 10-year yield up 2bps to 0.70%. The 3-month LIBOR was a tad higher at 0.2503%. Elsewhere, China's PPI fell 0.2% in August (the least in five months) while CPI rose a slower 2.4% yoy compared to 2.7% in July. Jakarta will also tighten measures to combat the spread of Covid-19 cases and GBP continued to be weighed down by the prospect of a no-deal Brexit talks as EU leaders rebuked UK for its Internal Market Bill.

**Market watch:** Asian markets are primed for gains this morning, tracking the US equity reversal from its recent tech rout, but investors are also awaiting the ECB and BNM policy decisions due later today. While ECB may be static, the signalling from their refreshed growth and inflation forecasts may hint of further easing intentions and any views on the recent Euro movements will also be closely parsed, whereas BNM may be tempted to squeeze in an insurance cut ahead of the upcoming loans moratorium expiry. Today's economic data calendar comprises of US' initial jobless claims, PPI and wholesale inventories and Philippines' July trade data. ECB's Lagarde and Villeroy, and BOC's Macklem are also speaking.

**US:** The JOLTs job openings rose from a revised 6.0m in June to 3.6m in July, with more people (2.9m) voluntarily quitting their jobs even though hiring fell by 1.2m to 5.8m.

**CA:** BOC held its overnight interest rate steady at 0.25%, but noted that as the Canadian economy transits into the recuperation phase, it will still require extraordinary support and the central bank will calibrate its large-scale asset purchase program as necessary to support the recovery.

**SG:** The S'pore government will step up pilot contact tracing which may pave the way for larger gatherings.

**Oil:** Oil prices rebounded yesterday, with Brent adding 2.5% to return above the \$40/bbl level. WTI rose 3.5%. Today's weekly EIA data will be keenly watched to see if US crude oil inventories can stay below 500mn barrels. Expectations are for a 3mn reduction in stock.

**Gold:** Gold rebounded 0.8% to \$1946.84/oz yesterday after the dollar index weakened. This increase came amid a rise in 10Y Treasury yields and shows the close inverse correlation between gold and the dollar currently.

Key Market Movements		
Equity	Value	% chg
S&P 500	3399.0	2.0%
DJIA	27940	1.6%
Nikkei 225	23033	-1.0%
SH Comp	3254.6	-1.9%
STI	2499.3	-0.2%
Hang Seng	24469	-0.6%
KLCI	1496.7	-1.5%
	Value	% chg
DXY	93.255	-0.2%
USDJPY	106.18	0.1%
EURUSD	1.1803	0.2%
GBPUSD	1.3002	0.2%
USDIDR	14799	0.2%
USDSGD	1.3664	-0.3%
SGDMYR	3.0440	0.0%
	Value	chg (bp)
3M UST	0.10	-0.79
10Y UST	0.70	2.13
1Y SGS	0.29	-0.10
10Y SGS	0.93	-1.58
3M LIBOR	0.25	0.78
3M SIBOR	0.41	0.00
3M SOR	0.19	0.00
	Value	% chg
Brent	40.79	2.5%
WTI	38.05	3.5%
Gold	1947	0.8%
Silver	26.98	1.2%
Palladium	2303	0.6%
Copper	6734	1.0%
BCOM	71.70	0.4%

Source: Bloomberg

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### Major Markets

**US:** US equities closed in the green after rebounding from its three day tech rout. The S&P 500 index rose 2% and the Nasdaq 100 Composite index closed 3% higher. We remain wary that the rebound yesterday may have just been a technical bounce and that it is too early to call for an end to the tech rout.

**CN:** Headline inflation decelerated to 2.4% in August from 2.7% in July due to the abated impact of flood and the high base associated with last year's pork shortage. Meanwhile, core CPI (excluding food and energy) growth stabilized at 0.5% yoy as fiscal stimulus may have supported a moderate recovery of internal demand. On the other hand, PPI growth improved from -2.4% yoy in July to -2% yoy in August amid rising commodity prices. Going forward, due to the fading weather effect and the high base, we expect headline inflation will decelerate towards zero growth in 4Q. Meanwhile, the decline of PPI is expected to narrow further given the resilient commodity market and the low base effect. Despite that, inflation dynamic may have played a less vital role in monetary policy decision making at this juncture given the PBOC's increasingly prudent stance.

**SG:** The STI retreated 0.22% to close at 2499.33 yesterday, but may retake the 2500 support turned resistance handle today given the overnight rebound in Wall Street. SGS bonds, which had rallied some 1-3bps yesterday, are likely to be put on the backburner today as risk appetite recovers.

**Malaysia:** Bank Negara is scheduled to announce its monetary policy decision today. We expect the MPC to decide to cut its overnight policy rate by another 25bps to 1.5%. While economic activities have picked up pace – as evidenced by July's exports uptick for instance – the outlook remains clouded with uncertainties and presents a case for an 'insurance cut.' The decision may be timely too as well, given that the blanket loans moratorium is scheduled to end in a few weeks' time and a lower interest rate cost should help households and businesses re-adjust to the need to service their loans once more.

**Indonesia:** Jakarta's governor announced a tightening of measures to combat covid-19 spread in the Indonesian capital city last night. Starting from Monday, only 11 essential business and service sectors are allowed to open to public; including healthcare and banking. The newly tightened measure is similar to the full-scaled PSBB that the government adopted at the start of the pandemic, and came after Jakarta reported another surge in cases that threaten to overwhelm the healthcare system. Without this new measure, the governor said that Jakarta would run out of isolation wards in a week.

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### Bond Market Updates

**Market Commentary:** The SGD swap curve bull flattened yesterday, with the shorter tenors trading 1-2bps lower (with the exception of 1-year trading 1bps higher) while the belly and longer tenors traded 3-4bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS remained mostly unchanged at 167bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 14bps to 667bps. The HY-IG Index Spread widened 13bps to 501bps. Flows in SGD corporates were heavy, with flows in WINGTA 4.7%'24s, WINGTA 4.25%'23s, STTGDC 3.13%'28s, HSBC 4.7%-PERPs, NOLSP 4.4%'21s, SOCGEN 6.125%-PERPs, CS 5.625%-PERPs, SINTEC 4.1%-PERPs, UBS 4.85%-PERPs, WINGTA 4.5%'22s and WINGTA 4.35%-PERPs. 10Y UST Yields gained 2bps to 0.7%, after the auction of USD35bn 10-year notes drew weak demand and markets awaited the 30-year bond auction on Thursday.

**New Issues:** The Republic of Korea priced a USD625mn 10-year bond at T+50bps, tightening from IPT of T+90bps area. AIA Group Ltd priced a USD1.75bn 20-year bond at T+175bps, tightening from IPT of T+200bps area. Yi Bright International Limited (Guarantor: Linyi City Construction Investment Group Co) priced a USD300mn 3-year bond at 3.0%, tightening from IPT of 3.5% area. Transurban Finance Co Pty Ltd priced a USD900mn 10.5-year bond at T+175bps, tightening from IPT of T+212.5bps area. Bank of China Ltd of Qatar Financial Centre priced a USD100mn 3.5-year bond at 3m-US LIBOR+78bps. Guangzhou Metro Group Co. has mandated banks for its proposed USD bond offering.

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## Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	93.255	-0.20%	USD-SGD	1.3664	-0.32%
USD-JPY	106.180	0.14%	EUR-SGD	1.6128	-0.11%
EUR-USD	1.180	0.21%	JPY-SGD	1.2869	-0.46%
AUD-USD	0.728	0.96%	GBP-SGD	1.7766	-0.17%
GBP-USD	1.300	0.15%	AUD-SGD	0.9952	0.63%
USD-MYR	4.171	0.07%	NZD-SGD	0.9134	0.67%
USD-CNY	6.833	-0.19%	CHF-SGD	1.4976	0.27%
USD-IDR	14799	0.23%	SGD-MYR	3.0440	-0.01%
USD-VND	23170	0.01%	SGD-CNY	5.0000	0.02%

## Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.5150	-0.51%	O/N	0.0794	0.08%
2M	-0.3360	-0.34%	1M	0.1555	0.16%
3M	-0.4880	-0.49%	2M	0.2041	0.18%
6M	-0.4590	-0.46%	3M	0.2495	0.24%
9M	-0.1940	-0.20%	6M	0.3010	0.29%
12M	-0.4020	-0.40%	12M	0.4270	0.42%

## Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	% Hike/Cut	Implied Rate Change	Implied Rate
09/16/2020	-0.047	-4.7	0.082	0.082
11/05/2020	-0.071	-2.4	0.076	0.076
12/16/2020	-0.114	-4.3	0.066	0.066
01/27/2021	-0.147	-3.3	0.058	0.058
03/17/2021	-0.188	-4.1	0.047	0.047
04/28/2021	-0.207	-1.9	0.043	0.043
06/16/2021	-0.217	-1	0.04	0.04
07/28/2021	-0.227	-1	0.038	0.038
09/22/2021	-0.256	-2.9	0.03	0.03
11/03/2021	-0.247	0.9	0.032	0.032
12/15/2021	-0.256	-0.9	0.03	0.03
01/26/2022	-0.277	-2.1	0.025	0.025

## Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	38.05	3.51%	Corn (per bushel)	3.500	-0.3%
Brent (per barrel)	40.79	2.54%	Soybean (per bushel)	9.798	0.7%
Heating Oil (per gallon)	110.61	2.72%	Wheat (per bushel)	5.340	0.1%
Gasoline (per gallon)	111.93	1.50%	Crude Palm Oil (MYR/MT)	29.000	-1.6%
Natural Gas (per MMBtu)	2.41	0.25%	Rubber (JPY/KG)	1.974	-1.3%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	6734.00	0.99%	Gold (per oz)	1946.8	0.8%
Nickel (per mt)	14921.00	0.22%	Silver (per oz)	27.0	1.2%

## Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
09/10/2020 07:50	CH Money Supply M2 YoY	Aug 10.7%	--	10.7%	--
09/10/2020 07:50	CH New Yuan Loans CNY	Aug 1250.0b	--	992.7b	--
09/10/2020 20:30	ES Unemployment Rate	Aug --	--	7.8%	--
09/10/2020 07:50	JN Core Machine Orders MoM	Jul 2.0%	--	-7.6%	--
09/10/2020 07:50	JN Core Machine Orders YoY	Jul -18.1%	--	-22.5%	--
09/10/2020 09:00	PH Exports YoY	Jul -10.0%	--	-13.3%	--
09/10/2020 14:45	FR Industrial Production MoM	Jul 5.0%	--	12.7%	--
09/10/2020 14:45	FR Industrial Production YoY	Jul -8.0%	--	-11.7%	--
09/10/2020 19:45	EC ECB Main Refinancing Rate	Sep-10 0.0%	--	0.0%	--
09/10/2020 19:45	EC ECB Deposit Facility Rate	40422 -0.5%	--	-0.5%	--
09/10/2020 19:45	EC ECB Marginal Lending Facility	40422 0.25%	--	0.25%	--
09/10/2020 20:30	US PPI Final Demand MoM	Aug 0.2%	--	0.6%	--
09/10/2020 20:30	US Continuing Claims	47331 12904k	--	13254k	--
09/10/2020 20:30	US PPI Final Demand YoY	Aug -0.3%	--	-0.4%	--
09/10/2020 20:30	US Initial Jobless Claims	38596 850k	--	881k	--
09/10/2020 22:00	US Wholesale Inventories MoM	Jul F -0.1%	--	-0.1%	--

Source: Bloomberg

## Treasury Research & Strategy

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