

Daily Treasury Outlook

16 September 2020

Highlights

Global: Tech stocks aided Wall Street higher overnight and offset weakness in financials. The S&P 500 added 0.52% with VIX easing further to 25.59. Meanwhile UST bonds closed slightly cheaper, with the 10-year yield at 0.68% despite a strong 20-year bond auction which was awarded at 1.213% with a bid-cover ratio of 2.39x. The 3-month LIBOR rose slightly to 0.24613%. WTO's ruling that US tariffs on China broke trading rules, but is unlikely to deter the US. Meanwhile, the US has removed 10% tariffs on raw Canadian aluminium imports if levels "normalise" over the next four months. On the data front, China impressed with August industrial production up 5.6% yoy and retail sales also expending 0.5% while property investments are up 4.6% for the year-to-date, which pointed to the ongoing First-In-First-Out recovery story. Separately, the ADB warned that 45 countries in developing Asia will contract for the first time since 1962 by 0.7%, but recover to 6.8% in 2021.

Market watch: Asian markets are likely to open a tad firmer this morning but may meander for the rest of the day, awaiting the slew of central bank meetings due tomorrow, but essentially centred on the FOMC who is expected to deliver a generally dovish stance, with some clarification of its average inflation targeting framework and guidance on where growth and inflation will be out through 2023. Also on tap are the BOJ, BOE, CBC and BI policy decisions. Today's economic data calendar is again lightweight with only US' retail sales and MBA mortgage applications, and CPI/PPI/RPI from the UK.

US: Industrial production rose for a fourth straight month by 0.4% mom in August, disappointing market expectations, but the New York Fed manufacturing index surged to 17 in September which beat expectations. Meanwhile, a bipartisan group of House members who proposed a \$1.5tn stimulus bill was rejected outright by House Democrats.

AU: RBA minutes noted that the central bank will maintain its highly accommodative settings as long as needed, but did not suggest further stimulus was imminent.

EU: The ZEW expectations survey improved to 77.4 in September, up from 71.5 in August, with the current conditions gauge rising from -81.3 to -66.2.

UK: The unemployment rate rose to 4.1% for the three months to July, which may pressure Chancellor Sunak to extend its job subsidy scheme that is due to expire next month.

SG: The government has rolled out an additional \$112m support package for taxi and private-hire drivers. Meanwhile, LTA has set a minimum age of 30 years for new private-hire driver license applicants for Singaporeans with a minimum of one year of driving experience.

Key Market Movements

Equity	Value	% chg
S&P 500	3401.2	0.5%
DJIA	27996	0.0%
Nikkei 225	23455	-0.4%
SH Comp	3295.7	0.5%
STI	2485.8	0.1%
Hang Seng	24733	0.4%
KLCI	1531.3	1.3%
	Value	% chg
DXY	93.050	0.0%
USDJPY	105.44	-0.3%
EURUSD	1.1847	-0.2%
GBPUSD	1.2889	0.3%
USDIDR	14845	-0.2%
USDSGD	1.361	-0.2%
SGDMYR	3.0360	0.1%
	Value	chg (bp)
3M UST	0.10	-0.50
10Y UST	0.68	0.66
1Y SGS	0.29	0.10
10Y SGS	0.91	0.24
3M LIBOR	0.24	-1.31
3M SIBOR	0.41	0.00
3M SOR	0.18	0.00
	Value	% chg
Brent	40.53	2.3%
WTI	38.28	2.7%
Gold	1954	-0.1%
Silver	27.14	0.1%
Palladium	2401	3.8%
Copper	6762	-0.5%
BCOM	71.80	0.1%

Source: Bloomberg

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Major Markets

US: US equities closed in the green for the third day, propelled higher by gains in tech stocks. The S&P 500 index rose 0.5% and the Nasdaq 100 Composite Index clinched a 1.2% gain. Risk sentiment appears to be gradually returning. Tonight's FOMC meeting is likely to set the direction for US equities in the following sessions ahead.

CN: China's August economic data confirmed China's recovery is more balanced with domestic demand started to pick up. Industrial production accelerated further to 5.6% from 4.8% while the contraction of fixed asset investment in the first eight months narrowed to 0.3% from the decline of 1.6% in the first seven months. Retail sales grew by 0.5% yoy in August, first positive growth in 2020. The stronger than expected production and investment was partially the result of acceleration of infrastructure investment. This drove raw material output to grow by 6.6% in August. Meanwhile, investment sentiment in manufacturing sector also improved despite rising US-China tension. Manufacturing investment grew by 5% yoy in August, first positive growth in 2020. The rebound of retail sales in August was in line with improvement seen in new orders from both manufacturing PMI and non-manufacturing PMI. In the absence of international travel in summer school holiday, some of consumption has been retained domestically. Overall, the recent strong rebound indicated a higher probability for Chinese economy to grow by about 6% yoy in the second half of 2020.

HK: The government announced the third round of HK\$24 billion anti-epidemic fund. This together with the previous relief measures totals more than HK\$300 billion, which is equivalent to about 11% of Hong Kong's GDP and will give a slightly more than 5% buffer to the GDP growth. The fresh relief fund includes provision of supports to the unemployed, 23 hardest-hit sectors and the Hospital Authority, rental concessions, fee waivers, vaccines purchase plan as well as enhancement of SME Financing Guarantee Scheme. Taking into account the new relief fund, budget deficit for 2020/21 is estimated to be more than HK\$300 billion. This will push fiscal reserve down to about HK\$800 billion, equivalent to 12-13 months of public expenditure which is similar to the case during SARS period in 2003. Still, the fiscal condition remains relatively strong that could allow the government to fight against any further wave of Covid-19 or the next crisis. With the support from several rounds of relief funds and the further easing of containment measures, we expect the economic activities to resume normalcy gradually in the coming months. However, the size of the new relief fund may not be big enough to fill the gap from the expiring Employment Support Scheme which ends in November. We expect the outlook of business, labour market and the economy to remain sluggish before effective vaccine is widely available. We hold onto our view that GDP will contract 6%-7% this year.

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SG: The STI gained 0.13% to close at 2485.83 yesterday and may try to trade higher today as well, given Wall Street's overnight rally and encouraging morning leads. Meanwhile, SGS bonds may range trade today, with market awaiting fresh Fed clues. There is an upcoming 20-year SGS bond re-opening on 28 September, with the size announcement on 21 September.

Indonesia: Indonesia reported its August trade numbers yesterday. Trade surplus came in higher than expected, with USD2.3bn printed against market expectation of \$2.2bn, although down from the \$3.3bn of July. Both exports and imports were softer than expected. Exports shrank by 8.4%yoy compared to 7.7% drop expected, and imports fell by 24.2% yoy versus estimated 22.6% drop.

Oil: Brent rose 2.3% to \$40.53/bbl yesterday as risk sentiment improved. API estimated US crude oil stockpiles declined 9.5 million barrels last week, which also boosted oil prices.

Gold: Gold declined 0.1% yesterday to \$1954.15/oz, but managed to close above the \$1950 handle for the second consecutive session. It also reached an intraday high of \$1972.30/oz, which is the highest since the start of September.

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Bond Market Updates

Market Commentary: The SGD swap curve rose yesterday, with most of the tenors trading 0-1bps higher while the 1-year traded 1bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 169bps, while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 3bps to 675bps. The HY-IG Index Spread tightened 4bps to 506bps. Flows in SGD corporates were heavy, with flows in CAPLSP 2.9%'32s, STANLN 5.375%-PERPs, UBS 4.85%-PERPs, SOCGEN 6.125%-PERPs, OLAMSP 4%'26s, LBBW 3.75%'27s, CS 5.625%-PERPs, SPHSP 3.2%'30s, CMZB 4.875%'27s and HSBC 5%-PERPs. 10Y UST Yields gained 1bps to 0.68%, on the back of a decent performance from the sale of USD22bn 20-year bonds and upbeat US manufacturing data and August import prices. Additionally, the Fed's two-day meeting kicked off yesterday.

New Issues: Hyundai Capital America priced a USD1.1bn 3-year bond at T+112bps, tightening from IPT of T+140-145bps, a USD750mn 5-year bond at T+157bps, tightening from IPT of T+185bps area and another USD650mn 7-year bond at T+192bps, tightening from IPT of T+220bps area respectively. Three Gorges Finance I Cayman Islands Ltd (Guarantor: China Three Gorges Corp) priced a USD500mn 5-year bond at T+115bps, tightening from IPT of T+145bps area and another USD500mn 10-year bond at T+150bps, tightening from IPT of T+185bps area. Times China Holdings Ltd priced a USD350mn 5.5NC3 bond at 6.2%, tightening from IPT of 6.45% area. Bangkok Bank PCL/Hong Kong priced a USD750mn PerpNC5 at 5%, tightening from IPT of 5.4% area. Henan Water Conservancy Investment Group Co., Ltd priced a USD500mn 5-year bond at 2.80%, tightening from IPT of 3.35% area. Tongyang Life Insurance Co., Ltd. priced a USD300mn 30NC5 hybrid bond at 5.25%, tightening from IPT of 5.375% area. AVIC International Finance & Investment Ltd priced a USD300mn 10-year bond at T+283bps, tightening from IPT of T+310bps area. Tingyi (Cayman Islands) Holding Corp. has arranged investor calls commencing 15 September 2020 for its proposed USD bond offering.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	93.050	0.00%	USD-SGD	1.3610	-0.25%
USD-JPY	105.440	-0.27%	EUR-SGD	1.6123	-0.41%
EUR-USD	1.185	-0.16%	JPY-SGD	1.2908	0.03%
AUD-USD	0.730	0.19%	GBP-SGD	1.7542	0.08%
GBP-USD	1.289	0.33%	AUD-SGD	0.9938	-0.06%
USD-MYR	4.133	-0.28%	NZD-SGD	0.9137	-0.05%
USD-CNY	6.783	-0.41%	CHF-SGD	1.4988	-0.21%
USD-IDR	14845	-0.24%	SGD-MYR	3.0360	0.12%
USD-VND	23167	0.00%	SGD-CNY	4.9810	-0.30%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.5260	-0.52%	O/N	0.0839	0.08%
2M	-0.3360	-0.34%	1M	0.1521	0.15%
3M	-0.4840	-0.48%	2M	0.2003	0.20%
6M	-0.4600	-0.46%	3M	0.2373	0.25%
9M	-0.1940	-0.20%	6M	0.2745	0.28%
12M	-0.4030	-0.40%	12M	0.4026	0.41%

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	% Hike/Cut	Implied Rate Change	Implied Rate
09/16/2020	-0.066	-6.6	0.082	0.082
11/05/2020	-0.09	-2.4	0.076	0.076
12/16/2020	-0.131	-4.2	0.066	0.066
01/27/2021	-0.186	-5.4	0.052	0.052
03/17/2021	-0.227	-4.1	0.042	0.042
04/28/2021	-0.246	-1.9	0.038	0.038
06/16/2021	-0.265	-1.9	0.033	0.033
07/28/2021	-0.296	-3.1	0.025	0.025
09/22/2021	-0.301	-0.5	0.024	0.024
11/03/2021	-0.306	-0.5	0.023	0.023
12/15/2021	-0.323	-1.8	0.018	0.018
01/26/2022	-0.346	-2.2	0.012	0.012

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	38.28	2.74%	Corn (per bushel)	3.660	2.4%
Brent (per barrel)	40.53	2.32%	Soybean (per bushel)	9.915	-2.7%
Heating Oil (per gallon)	109.93	0.54%	Wheat (per bushel)	5.383	-1.9%
Gasoline (per gallon)	113.81	2.83%	Crude Palm Oil (MYR/MT)	29.300	-0.4%
Natural Gas (per MMBtu)	2.36	2.25%	Rubber (JPY/KG)	2.009	3.1%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	6761.50	-0.51%	Gold (per oz)	1954.2	-0.1%
Nickel (per mt)	15198.00	-0.50%	Silver (per oz)	27.1	0.1%

Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
09/16/2020 07:50	JN Trade Balance	Aug -¥15.0b	--	¥11.6b	¥10.9b
09/16/2020 07:50	JN Trade Balance Adjusted	Aug ¥23.3b	--	-¥34.8b	--
09/16/2020 08:30	AU Westpac Leading Index MoM	Aug --	--	0.05%	--
09/16/2020 14:00	UK CPI YoY	Aug 0.0%	--	1.0%	--
09/16/2020 14:00	UK CPI MoM	Aug -0.6%	--	0.4%	--
09/16/2020 14:00	UK CPI Core YoY	Aug 0.5%	--	1.8%	--
09/16/2020 14:00	UK PPI Output NSA MoM	Aug 0.2%	--	0.3%	--
09/16/2020 14:00	UK PPI Output NSA YoY	Aug -0.7%	--	-0.9%	--
09/16/2020 14:00	UK RPI MoM	Aug -0.3%	--	0.5%	--
09/16/2020 14:00	UK RPI YoY	Aug 0.6%	--	1.6%	--
09/16/2020 14:00	UK Retail Price Index	Aug 293.5	--	294.2	--
09/16/2020 14:00	UK RPI Ex Mort Int.Payments (YoY)	Aug 0.9%	--	1.9%	--
09/16/2020 19:00	US MBA Mortgage Applications	40787	--	2.9%	--
09/16/2020 20:30	US Retail Sales Advance MoM	Aug 1.0%	--	1.2%	--
09/16/2020 20:30	US Retail Sales Ex Auto MoM	Aug 1.0%	--	1.9%	--
09/16/2020 20:30	US Retail Sales Ex Auto and Gas	Aug 0.9%	--	1.5%	--

Source: Bloomberg

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