

Daily Treasury Outlook

17 September 2020

Highlights

Global: “Zero forever” when it comes to the Fed? The FOMC “expects to maintain an accommodative stance” and will “aim to achieve inflation moderately above 2% for some time so that inflation averages 2% over time and longer-term inflation expectations remain well anchored at 2%”. In addition, the Fed will keep the target Fed Funds rate at 0-0.25% until maximum employment levels has been reached. However, the decision was not unanimous, with Kaplan and Kashkari dissenting, with the former preferring “greater policy rate flexibility beyond” whilst the latter prefers indicating to maintain until core inflation has hit 2% on a sustained basis. The updated Fed forecasts reveal the Fed Funds target rate will stay at 0-0.25% through 2023, with upward adjustments to 2020 forecasts, namely GDP growth (-3.7% versus -6.5% in June), unemployment (7.6% versus 9.3%) and core PCE inflation (1.5% versus 1.0%), but with a milder 2021 growth rebound (4.0% versus 5.0%) and both headline and core PCE inflation does not return to 2% until 2023. The S&P 500 index fell 0.46%, with VIX rising to 26.04, and the UST yield curve steepened slightly with the 10-year yield at 0.69% as the Fed disappointed some market quarters by not signalling any intentions to target longer maturities in its asset purchase program.

Market watch: Asian markets may open with a cautious tone this morning as investors digest the Fed’s ruminations and await the BOE, BOK, BI and CBC policy decisions due later today. To recap, all four central banks are likely to stay static but their economic assessment and policy pronouncements are likely to be closely scrutinised for hints of future intentions given idiosyncratic factors including the UK where a Brexit brinkmanship is again on the cards, Japan where new PM Suga has signalled policy continuity, and BI is grappling with recent IDR volatility. Today’s economic data calendar comprises Hong Kong’s August unemployment rate, US’ initial jobless claims, housing starts, building permits and Philadelphia’s Fed business index. Speakers include ECB’s Guindos and Muller.

US: Although Fed Chair Powell has said the central bank is not out of ammo, still president Trump has urged Senate Republicans to “go for the higher numbers” to break a deadlock over the \$1.5t stimulus bipartisan House proposal.

OECD: The OECD tips a less severe global contraction of 4.5% compared to -6% in June amid re-openings of economies, with upward revisions to the US (forecast: -3.8%) and China (1.8%, but also the only G20 economy to see growth this year). However, the OECD downgraded 2020 forecasts for India (-10.2%).

SG: NODX beat expectations to expand 7.7% yoy (+10.5% mom sa) in August, while the July data was revised down marginally by 0.1% point to 5.9% yoy. Both non-electronics (mainly non-monetary gold and specialised machinery) and electronics exports grew by 8.3% and 5.7% yoy respectively.

Key Market Movements		
Equity	Value	% chg
S&P 500	3385.5	-0.5%
DJIA	28032	0.1%
Nikkei 225	23476	0.1%
SH Comp	3283.9	-0.4%
STI	2505.2	0.8%
Hang Seng	24726	0.0%
KLCI	1531.3	0.0%
	Value	% chg
DXY	93.214	0.2%
USDJPY	104.95	-0.5%
EURUSD	1.1816	-0.3%
GBPUSD	1.2967	0.6%
USDIDR	14843	0.0%
USDSGD	1.3586	-0.2%
SGDMYR	3.0441	0.3%
	Value	chg (bp)
3M UST	0.09	-0.51
10Y UST	0.70	1.80
1Y SGS	0.29	0.00
10Y SGS	0.90	-0.91
3M LIBOR	0.25	0.89
3M SIBOR	0.41	0.00
3M SOR	0.20	0.00
	Value	% chg
Brent	42.22	4.2%
WTI	40.16	4.9%
Gold	1959	0.3%
Silver	27.16	0.1%
Palladium	2399	-0.1%
Copper	6777	0.2%
BCOM	72.30	0.7%

Source: Bloomberg

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Major Markets

US: US equities retreated once again as initial gains were later pared back by the decline in tech stocks. The S&P 500 index fell 0.2% and the Nasdaq 100 Composite index closed 1.7% lower. Positive US recovery news from the Fed and its dovish rate forecasts are expected to support risk assets in the short to medium term.

CN: China's State Council reiterated that China is expected to deliver a positive growth this year. China will shift its focus on policy implementation away from policy innovation. This hints that China is unlikely to announce a new round of stimulus in the near term.

SG: The STI added 0.78% to close at 2505.15, but may not be able to sustain above the 2500 handle today amid weak overnight cues from Wall Street post-FOMC and morning slippage by Nikkei and Kospi. Meanwhile, SGS bonds had fallen by up to 7bps yesterday, may continue to be supported today amid the post-FOMC dampening in risk appetite levels. There is an upcoming 20-year SGS bond re-opening on 28 September, with the size announcement on 21 September.

HK: HKD spot frequently touched the strong side of the trading band due to retreat of broad dollar index, rally of RMB and more importantly the busy IPO pipeline. HKMA has sold totally HK\$4.65 billion so far this week which will drive the aggregate balance up to three-year high of HK\$211 billion. As more companies are set to start public offering ahead of Ant Group's large IPO which is expected to come in late October or early November, this combined with the quarter-end effect will likely keep HKD rates and HKD spot elevated in the coming month. However, with strong HKD demand pushing up aggregate balance further, the upside of HKD rates is expected to be capped.

Malaysia: Malaysia is back in action today, after a holiday yesterday. Earlier, PM Muhyiddin Yassin said in a televised speech that Malaysia will not hesitate to reinstate lockdown measures or impose stricter rules in areas that have high Covid infections. The warning came as new virus clusters formed in parts of Malaysia, with the highest daily increase in cases in more than 3 months.

Indonesia: Bank Indonesia is due to announce its monetary policy decision today. We expect it to keep policy rate unchanged at 4.0%. While the renewed lockdown has rekindled growth concerns, BI is most likely going to continue telegraphing that it remains active in helping the economy via quantitative easing measures even if it keeps the rate unchanged. It will be interesting to note if there is any comment regarding the recent push to amend the legislative bedrock of BI independence, as well.

UK: PM Johnson has agreed to give the House of Commons a veto over the Internal Markets bill. Meanwhile, Biden has warned that a US-UK trade deal may be at risk.

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NZ: 2Q growth contracted 12.2% qoq (-12.4% yoy), marking its worst slump since quarterly records began in 1977, but beat market expectations of -12.5% qoq. This is the first recession since 2010, but is unlikely to dent PM Ardern's chances at the upcoming 17 October elections.

Oil: Brent rose 4.2% to \$42.22/bbl after data showed US crude oil inventories declined almost 4 million barrels on the week. Dovishness from the FOMC meeting overnight also lifted oil prices as risk sentiment improved.

Gold: Gold rose 0.3% to \$1959.26/oz, the third consecutive session that it has closed above the \$1950 handle, as the Fed's commitment to keep rates low boosted demand for gold as an anti-inflationary hedge.

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Bond Market Updates

Market Commentary: The SGD swap curve fell yesterday, with most of the tenors trading 2bps lower while the 30-year traded 3bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS remained mostly unchanged at 169bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 6bps to 669bps. The HY-IG Index Spread tightened 6bps to 499bps. Flows in SGD corporates were heavy, with flows in CAPLSP 2.9%'32s, SIASP 3.16%'23s, ARTSP 3.07%-PERPs, CMZB 4.875%'27s, CS 5.625%-PERPs, HSBC 5%-PERPs and OLAMSP 4%'26s. 10Y UST Yields gained 2bps to 0.7%, after the Fed's dovish announcement of keeping rates near zero and it would keep its Treasury purchases at current levels.

New Issues: Industrial and Commercial Bank of China Ltd. priced USD2.9bn in PerpNC5 Additional Tier 1 capital non-cumulative perpetual offshore preference shares at 3.58%, tightening from IPT of 3.95% area. Trafigura Funding SA (Guarantors: Trafigura Group Pte. Ltd. and Trafigura Trading LLC & Trafigura Pte Ltd) priced a USD400mn 5-year bond at 5.875%, tightening from IPT of 6.375% area. Scentre Group Trust 2 priced a USD1.5bn 60NC6 bond at 4.75%, tightening from IPT of 4.875% area and another USD1.5bn 60NC10 bond at 5.125%, tightening from IPT of 5.25% area. Taiwan Semiconductor Manufacturing Company, Ltd. priced a USD1bn 40NC5 bond at 2.7%. Xianjin Industry Investment Company Limited (Guarantor: Hefei Industry Investment Holding (Group) Co., Ltd.) has arranged investor calls commencing 16 September 2020 for its proposed USD bond offering.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	93.214	0.18%	USD-SGD	1.3586	-0.18%
USD-JPY	104.950	-0.46%	EUR-SGD	1.6054	-0.43%
EUR-USD	1.182	-0.26%	JPY-SGD	1.2945	0.29%
AUD-USD	0.731	0.05%	GBP-SGD	1.7617	0.43%
GBP-USD	1.297	0.61%	AUD-SGD	0.9925	-0.13%
USD-MYR	4.133	-0.28%	NZD-SGD	0.9147	0.11%
USD-CNY	6.755	-0.41%	CHF-SGD	1.4939	-0.33%
USD-IDR	14843	-0.01%	SGD-MYR	3.0441	0.27%
USD-VND	23169	0.01%	SGD-CNY	4.9784	-0.05%

Equity and Commodity

Index	Value	Net change
DJIA	28,032.38	36.78
S&P	3,385.49	-15.71
Nasdaq	11,050.47	-139.85
Nikkei 225	23,475.53	20.64
STI	2,505.15	19.32
KLCI	1,531.28	19.92
JCI	5,058.48	-42.38
Baltic Dry	1,289.00	7.00
VIX	26.04	0.45

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.5230	-0.53%	O/N	0.0833	0.08%
2M	-0.3360	-0.34%	1M	0.1505	0.15%
3M	-0.4850	-0.48%	2M	0.1963	0.20%
6M	-0.4580	-0.46%	3M	0.2461	0.24%
9M	-0.1940	-0.20%	6M	0.2733	0.27%
12M	-0.4150	-0.40%	12M	0.3858	0.40%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	0.21 (-)	0.14(-)
5Y	0.45 (-0.01)	0.28 (+0.01)
10Y	0.9 (-0.01)	0.7 (+0.02)
15Y	1.17 (-0.01)	--
20Y	1.27 (-0.01)	--
30Y	1.23 (-)	1.46 (+0.03)

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	% Hike/Cut	Implied Rate Change	Implied Rate
11/05/2020	-0.024	-2.4	0.076	0.076
12/16/2020	-0.066	-4.2	0.066	0.066
01/27/2021	-0.12	-5.4	0.052	0.052
03/17/2021	-0.151	-3.1	0.045	0.045
04/28/2021	-0.17	-1.9	0.04	0.04
06/16/2021	-0.174	-0.4	0.039	0.039
07/28/2021	-0.2	-2.6	0.032	0.032
09/22/2021	-0.224	-2.4	0.027	0.027
11/03/2021	-0.232	-0.8	0.024	0.024
12/15/2021	-0.237	-0.5	0.023	0.023
01/26/2022	-0.27	-3.3	0.015	0.015
0	0	0	0	0

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	-1.03	(-)
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	0.10
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Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	40.16	4.91%	Corn (per bushel)	3.718	1.6%
Brent (per barrel)	42.22	4.17%	Soybean (per bushel)	10.113	2.0%
Heating Oil (per gallon)	111.63	1.55%	Wheat (per bushel)	5.420	0.7%
Gasoline (per gallon)	118.89	4.46%	Crude Palm Oil (MYR/MT)	29.300	-0.4%
Natural Gas (per MMBtu)	2.27	-4.02%	Rubber (JPY/KG)	1.971	-1.9%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	6777.00	0.23%	Gold (per oz)	1959.3	0.3%
Nickel (per mt)	15226.00	0.18%	Silver (per oz)	27.2	0.1%

Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised	
09/17/2020 02:00	US FOMC Rate Decision (Upper Bound)	Sep-16	0.25%	0.25%	0.25%	--
09/17/2020 04:00	US Net Long-term TIC Flows	Jul	--	\$10.8b	\$113.0b	--
09/17/2020 08:30	SI Non-oil Domestic Exports YoY	Aug	3.3%	--	6.0%	--
09/17/2020 09:30	JN BOJ Policy Balance Rate	Sep-17	-0.1%	--	-0.1%	--
09/17/2020 09:30	AU Unemployment Rate	Aug	7.7%	--	7.5%	--
09/17/2020 09:30	AU Employment Change	Aug	-35.0k	--	114.7k	--
09/17/2020 09:30	AU Participation Rate	Aug	64.6%	--	64.7%	--
09/17/2020 15:20	ID Bank Indonesia 7D Reverse Repo	Sep-17	4.0%	--	4.0%	--
09/17/2020 16:30	HK Unemployment Rate SA	Aug	6.3%	--	6.1%	--
09/17/2020 17:00	EC CPI YoY	Aug F	-0.2%	--	-0.2%	--
09/17/2020 17:00	EC CPI MoM	Aug F	-0.4%	--	-0.4%	--
09/17/2020 19:00	UK Bank of England Bank Rate	Sep-17	0.1%	--	0.1%	--
09/17/2020 20:30	US Initial Jobless Claims	Sep-12	850k	--	884k	--
09/17/2020 20:30	US Housing Starts	Aug	1483k	--	1496k	--
09/17/2020 20:30	US Philadelphia Fed Business Outlook	Sep	15.0	--	17.2	--
09/17/2020 20:30	US Continuing Claims	Sep-05	13000k	--	13385k	--

Source: Bloomberg

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