

## Daily Treasury Outlook

28 September 2020

### Highlights

**Global:** Wall Street closed higher on Friday, aided by tech stocks, despite indications that global equities may chalk up their first month of loss since March. The Democrat's proposal for \$2.4t of stimulus may continue to face opposition from Republicans and the Senate goes on recess on 9 October. The S&P 500 added 1.60% while VIX fell to 26.38. UST bonds pared gains with the 10-year yield at 0.66% ahead of the upcoming month/quarter-end amidst flush funding – note the 3-month LIBOR hit an historic low of 0.2179% despite the upcoming bills supply (\$54b 13-week and \$51b 26-week bills today, followed by \$30b each of 119-day and 42-day bills tomorrow). Meanwhile, China's industrial profits rose for a fourth month in August. Elsewhere, the Sabah state election over the weekend saw the PM's Perikatan Nasional party taking a majority. Separately, global trade also rose 4.8% in July, slower than June's 7.9%.

**Market watch:** Asian markets are likely to open on a firm tone this morning, taking the cue from Friday's Wall Street gains. Watch for any retaliation to US' imposition of export restrictions on China's SMIC due to "an unacceptable risk of diversion to a military end use", albeit it escaped the US entity list for now. Today's light economic data calendar comprises of Malaysia's August trade data, and US' Dallas Fed manufacturing activity index, whilst market will be watching for the outcome for the final scheduled negotiation talks between EU and UK. ECB's Lagarde, BOE's Bailey and Fed's Mester are also speaking today. For the week ahead, watch for the first US presidential debate between Trump and Biden tomorrow (where the gloves may come off), major PMIs, and culminating in the September payrolls report on Friday (last before the November elections) which is likely to reflect moderating jobs growth of ~850k (August: 1.027m), unemployment rate to improve further from 8.4% to 8.2% and average hourly earnings to grow 0.2% mom (4.8% yoy) compared to July's 0.4% mom (4.7% yoy). RBI and BSP are also meeting on 1 Oct, but are likely static. China's Golden Week holidays also start from Thursday. There is a slew of Fed speakers including Williams, Harker, Clarida, Quarles, Kashkari, Bowman, as well as ECB's Lagarde, Lane and Holzmann, and BOE's Haldane.

**US:** The August durable goods orders missed expectations at 0.4% (forecast: 1.5%), but this came after an outsized 11.4% surge in July. Capital goods orders excluding air transport fared better at 1.8% to a 2-year high versus 1.9% previously.

**EU:** The EU has told UK negotiators they must accept commitments in key areas such as state aid as a condition for progress ahead of the October deadline.

**UK:** BOE's Tenreyro opined that "there has been almost full pass-through of negative rates into lending rates in most countries" and "banks adapted well".

### Key Market Movements

Equity	Value	% chg
S&P 500	3298.5	1.6%
DJIA	27174	1.3%
Nikkei 225	23205	0.5%
SH Comp	3219.4	-0.1%
STI	2472.3	0.9%
Hang Seng	23235	-0.3%
KLCI	1509.1	0.6%
	Value	% chg
DX	94.642	0.3%
USDJPY	105.58	0.2%
EURUSD	1.1631	-0.4%
GBPUSD	1.2746	0.0%
USIDR	14873	-0.1%
USDSGD	1.3776	0.1%
SGDMYR	3.0320	0.0%
	Value	chg (bp)
3M UST	0.09	0.00
10Y UST	0.65	-1.15
1Y SGS	0.28	-0.10
10Y SGS	0.84	0.14
3M LIBOR	0.23	0.83
3M SIBOR	0.41	0.00
3M SOR	0.18	-1.20
	Value	% chg
Brent	41.92	0.0%
WTI	40.25	-0.1%
Gold	1862	-0.3%
Silver	22.89	-1.1%
Palladium	2228	-0.4%
Copper	6545	0.3%
BCOM	70.69	-0.3%

Source: Bloomberg

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### Major Markets

**US:** US equities closed higher last Friday on tech share gains. The S&P 500 index rose 1.6% and the Nasdaq 100 Composite index closed 2.3% higher. The US equity market is likely to remain wary of additional downside pressure ahead of the nonfarm payrolls report later this week.

**CN:** The contraction of China's industrial profit narrowed further to 4.4% yoy in the first eight months from the decline of 8.1% yoy in the first seven months. The recovery of industrial profit was mainly driven by strong demand for electronic products, which drove profit for computer, infocomm and electronic equipment rose by 26.1% yoy in the first eight months. The US-China tension continued to escalate with China's largest chip maker SMIC has been the latest target after media reported US companies needed to obtain export license to supply SMIC.

**SG:** The STI added 0.88% to close at 2472.28 on Friday and may extend gains today amid positive cues from Wall Street on Friday and morning gains in Kospi. SGS bonds are likely to trade sideways ahead of the \$1.8b 20-year SGS bond re-opening later today.

**HK:** The Financial Services Development Council announced to launch the first job creation scheme for the financial services industry under the government's relief fund. The scheme involves HK\$180 million and will be open for application from 30th September. The scheme aims to help create 1500 full-time jobs as the company in financial services industry will receive up to HK\$10,000 per month for 12 months for every eligible new hire. As one of the four pillar industries, financial services industry contributed 6.8% of total employment and 19.8% of GDP in terms of value added in 2018. This suggests that the job creation scheme may help ease the pressure on the labor market and support the fresh graduates and the unemployed.

**Indonesia:** Indonesia's parliament has reportedly removed the clauses on severance pay cuts in the jobs creation omnibus bill. According to a Reuters report, the legislative committee decided to keep the severance payment scheme as it stands, which is a maximum of 32 times of monthly salary compared to 19 times monthly salary that was in the earlier draft. Trade unions had protested against the cut and the bill is deliberated at a sensitive time of rising unemployment given the pandemic situation. The high severance payment has been a deterrent for FDI investors and its reduction had been touted as a way to make Indonesia more attractive to investors vis-a-vis its competitors such as Vietnam.

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**Malaysia:** Malaysia's ruling alliance won a majority in the Sabah state election on Saturday. PM Muhyiddin Yassin's position at the federal level looks stronger after his Perikatan Nasional parties won 38 out of the 73 seats in contest. He had suggested before that a strong performance in the state election could prompt him to call for a snap election at the federal level soon. Separately, Malaysia is due to report its August trade data today, with exports expected to post a 1.8% yoy increase, compared to 3.1% before.

**Oil:** Brent fell 2.9% last week as risk sentiment soured largely across most asset classes. Prospects of weakening crude oil demand as multiple economies contemplate re-imposing travel restrictions was the major catalyst for oil prices moving lower. We expect Brent to trade \$40-\$43/bbl in the near term.

**Gold:** Gold continues to struggle below \$1900/oz, falling 0.3% on Friday. We expect gold to face continued bearish pressures before the quarter ends.

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### Bond Market Updates

**Market Commentary:** The SGD swap curve flattened last Friday, with the shorter tenors trading 0-1bps higher while the belly and longer tenors traded 0-2bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 3bps to 176bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 66bps to 764bps. The HY-IG Index Spread widened 63bps to 588bps. Flows in SGD corporates were heavy, with flows in OCBCSP 3%-PERPs, STANLN 5.375%-PERPs, SOCGEN 6.125%-PERPs, UBS 4.85%-PERPs, HSBC 4.7%-PERPs, UOBSP 4%-PERPs and CS 5.625%-PERPs. 10Y UST Yields fell 1bps to 0.66% after the Commerce Department announced that US durable goods orders increased only 0.4%, well below estimates of 1.8% and the 11.7% jump in July. Separately, S&P 500 was up by 1.6%.

**New Issues:** Woori Card Co., Ltd. priced a USD100mn 5-year bond at 3m-US LIBOR+100bps. ZhongAn Online P & C Insurance Co., Ltd. priced a USD100mn re-tap of its ZHONAN 3.5%'26s.

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## Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	94.642	0.31%	USD-SGD	1.3776	0.12%
USD-JPY	105.580	0.16%	EUR-SGD	1.6022	-0.24%
EUR-USD	1.163	-0.35%	JPY-SGD	1.3050	0.02%
AUD-USD	0.703	-0.23%	GBP-SGD	1.7554	0.07%
GBP-USD	1.275	-0.01%	AUD-SGD	0.9686	-0.05%
USD-MYR	4.171	-0.01%	NZD-SGD	0.9017	0.13%
USD-CNY	6.824	-0.07%	CHF-SGD	1.4833	-0.11%
USD-IDR	14873	-0.11%	SGD-MYR	3.0320	0.02%
USD-VND	23185	0.04%	SGD-CNY	4.9500	-0.17%

## Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.5230	-0.52%	O/N	0.0801	0.08%
2M	-0.3360	-0.34%	1M	0.1461	0.14%
3M	-0.4980	-0.49%	2M	0.1844	0.19%
6M	-0.4680	-0.47%	3M	0.2179	0.23%
9M	-0.1940	-0.20%	6M	0.2713	0.27%
12M	-0.4330	-0.43%	12M	0.3693	0.37%

## 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	-0.056	-3.2	0.069	0.069
01/27/2021	-0.1	-4.4	0.058	0.058
03/17/2021	-0.131	-3.1	0.05	0.05
04/28/2021	-0.14	-0.9	0.047	0.047
06/16/2021	-0.16	-2	0.043	0.043
07/28/2021	-0.18	-2	0.038	0.038
09/22/2021	-0.185	-0.5	0.036	0.036
11/03/2021	-0.212	-2.7	0.029	0.029
12/15/2021	-0.217	-0.5	0.028	0.028
01/26/2022	-0.25	-3.3	0.02	0.02
0	0	0	0	0

## Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	40.25	-0.15%	Corn (per bushel)	3.653	0.5%
Brent (per barrel)	41.92	-0.05%	Soybean (per bushel)	10.025	0.2%
Heating Oil (per gallon)	112.62	0.85%	Wheat (per bushel)	5.443	-1.0%
Gasoline (per gallon)	121.42	1.55%	Crude Palm Oil (MYR/MT)	29.300	3.2%
Natural Gas (per MMBtu)	2.14	-4.85%	Rubber (JPY/KG)	2.175	-0.2%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	6545.00	0.33%	Gold (per oz)	1861.6	-0.3%
Nickel (per mt)	14264.00	0.01%	Silver (per oz)	22.9	-1.1%

## Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
09/28/2020 12:00	MA Exports YoY	Aug 1.8%	--	3.1%	--
09/28/2020 12:00	MA Trade Balance MYR	Aug 16.97b	--	25.15b	--
09/28/2020 12:30	NE Producer Confidence Index	Sep --	--	-5.4	--
09/28/2020 13:00	JN Leading Index CI	Jul F --	--	86.9	--
09/28/2020 14:00	LN Consumer Confidence Indicator	Sep --	--	-2	--
09/28/2020 15:00	SO Consumer Confidence	Sep --	--	-30.8	--
09/28/2020 15:00	SO PPI MoM	Aug --	--	0.4%	--
09/28/2020 15:30	SW Trade Balance	Aug --	--	2.9b	--
09/28/2020 15:30	SW Retail Sales WDA YoY	Aug --	--	4.8%	3.9%
09/28/2020 15:30	SW Retail Sales MoM	Aug --	--	1.9%	0.7%
09/28/2020 16:00	AS Bank Austria Manufacturing PMI	Sep --	--	51.0	--
09/28/2020 17:30	SA PPI YoY	Aug 2.1%	--	1.9%	--
09/28/2020 18:00	IR Retail Sales Volume MoM	Aug --	--	1.5%	--
09/28/2020 18:00	IR Retail Sales Volume YoY	Aug --	--	6.4%	--
09/28/2020 22:30	US Dallas Fed Manf. Activity	Sep 9.5	--	8.0	--
09/28/2020	SR M3 Money Supply YoY	Aug --	--	9.5%	--

Source: Bloomberg

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