

Daily Treasury Outlook

29 September 2020

Highlights

Global: US equities bounced back overnight, led by bank stocks. The S&P 500 jumped the most in two weeks by 1.61% while VIX fell to 26.19. UST bonds treaded water with the 10-year yield at 0.66% amid tepid bill auctions. The 3-month LIBOR rose a tad to 0.2204% and both oil and gold prices also climbed. Meanwhile, the Trump administration is said to be weighing fresh sanctions on Iran. Elsewhere, ECB's Lagarde signalled that the recovery was uncertain and incomplete and the central bank is still ready to do more, albeit the Euro is not a target.

Market watch: Asian markets may trade firmer again today, taking the direction from the overnight Wall Street rally. Today's economic data calendar comprises of Vietnam's 3Q20 GDP, German CPI, EZ consumer confidence, and US' wholesale inventories, consumer confidence and S&P CoreLogic house prices. Fed's Clarida, Williams, Quarles, and Harker, and BOE's Bailey are speaking.

SG: URA has curbed private housing developers from reissuing options. The three local banks' rating outlook was placed on negative by Fitch. The \$1.8b 20-year SGS bond reopening fetched a 1.71x bid-cover ratio and a cut-off yield of 1.27%.

CN: China's Politburo of the CPC Central Committee confirmed yesterday the 14th five year plan (2021-2025) for economic and social development and future targets for 2035 will be submitted at the fifth plenary of the 19th CPC Central Committee, which will be held from 26-29 October. In its 3Q monetary policy meeting, China's central bank reiterated that monetary policy should be more flexible and targeted.

Malaysia: Malaysia reported a dip in its August exports. Instead of an expansion as expected, exports contracted by 2.9% yoy. Imports fell more than expected as well. Overall, trade balance still remained comfortably in a surplus of MYR13.2bn, although lower than the 18bn expected. Given that the contraction came after two months of blockbuster performance, it should not be a major cause of concern, however, partly because the electronics section remains fairly healthy, with shipment of around MYR32bn for the month.

Oil: Brent rose 1.2% to \$42.43/bbl yesterday, as positive risk sentiment took hold of global assets. We continue to expect Brent to trade within a range of \$40-\$43/bbl in the short term.

Gold: Gold rose 1.1% as the dollar weakened. Prospects of further US fiscal stimulus, with House Speaker Nancy Pelosi due to discuss a \$2.4 trillion package with Treasury Secretary Steven Mnuchin, sent the precious metal higher.

| Key Market Movements | | |
|----------------------|--------|----------|
| Equity | Value | % chg |
| S&P 500 | 3351.6 | 1.6% |
| DJIA | 27584 | 1.5% |
| Nikkei 225 | 23512 | 1.3% |
| SH Comp | 3217.5 | -0.1% |
| STI | 2483.0 | 0.4% |
| Hang Seng | 23476 | 1.0% |
| KLCI | 1511.7 | 0.2% |
| | Value | % chg |
| DX | 94.642 | 0.3% |
| USDJPY | 105.5 | -0.1% |
| EURUSD | 1.1666 | 0.3% |
| GBPUSD | 1.2834 | 0.7% |
| USIDR | 14900 | 0.2% |
| USDSGD | 1.373 | -0.3% |
| SGDMYR | 3.0355 | 0.1% |
| | Value | chg (bp) |
| 3M UST | 0.09 | -0.26 |
| 10Y UST | 0.65 | -0.16 |
| 1Y SGS | 0.28 | 0.10 |
| 10Y SGS | 0.87 | 3.29 |
| 3M LIBOR | 0.22 | -1.54 |
| 3M SIBOR | 0.41 | 0.00 |
| 3M SOR | 0.17 | 0.00 |
| | Value | % chg |
| Brent | 42.43 | 1.2% |
| WTI | 40.6 | 0.9% |
| Gold | 1881 | 1.1% |
| Silver | 23.68 | 3.4% |
| Palladium | 2262 | 1.5% |
| Copper | 6572 | 0.4% |
| BCOM | 70.99 | 0.4% |

Source: Bloomberg

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Major Markets

US: US equities advanced further on bank share gains. The S&P 500 index rose 1.6% and the Nasdaq 100 Composite index closed 1.95 higher. The risk rally looks like it may have started to gain traction, but we remain wary of further downsides to US equities in the sessions ahead.

SG: The STI added 0.43% to close at 2483.01 yesterday and may trade higher again today. SGS bonds are likely to trade sideways again.

Macau: Unemployment rate rose to the highest since early 2011 of 2.8% for June-August. Meanwhile, the underemployment rate edged up 0.4 percentage point to 3.7%, the highest level since 4Q 2001. This could be attributed to the slow recovery of Macau's gaming and tourism-related sectors. Moving forward, as long as the pandemic uncertainty lingers, neither gaming nor tourism-related sectors will likely see full recovery despite the phased resumption of travel between Macau and Mainland China. On the other hand, China's economic slowdown and its tightening grip on cross-border money launching may weigh down the gaming sector as well. Since the employment of the gaming as well as hotels, restaurants and similar activities industry took up 32.7% of total employment, it is possible for the overall unemployment to remain elevated if not edging higher.

HK: Charles Li, Chief Executive of Hong Kong Exchange, stated that they are considering including biotech stocks to the lists of securities eligible for trading through the stock connect schemes. According to Charles Li, since the HKEX's revamp of IPO rules in 2018, 154 medical firms have launched IPO in Hong Kong with the market capitalization totaling HK\$2.6 trillion. The medical names' IPO so far has received strong response especially after the outbreak of Covid-19. Should these companies be included into the southbound trading of stock connects, we expect more medical companies to get listed in Hong Kong and more capital inflows from Mainland China through the stock connect schemes.

Indonesia: Bank Indonesia's governor, Perry Warjiyo, has reportedly told a parliamentary hearing to consider putting off the institutional reform agenda until 2021, to focus on the pandemic fight right now. "We're in a difficult economic condition. Why don't we focus on tackling the current condition and preventing the recession from spreading," he was quoted as saying. He added that the central bank's independence must be maintained to preserve investor confidence in Indonesia. As context, the parliament is considering a proposal to amend Bank Indonesia's law, which includes measures that may extend government's control over BI operations through setting up of a Monetary Board.

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Bond Market Updates

Market Commentary: The SGD swap curve bear steepened yesterday, with the shorter and belly tenors trading 0-1bps higher while the longer tenors traded 1-2bps higher. The Bloomberg Barclays Asia USD IG Bond Index average OAS remained mostly unchanged at 176bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 15bps to 779bps. The HY-IG Index Spread widened 14bps to 602bps. Flows in SGD corporates were heavy, with flows in HSBC 5%-PERPs, OLAMSP 4%'26s, OCBCSP 3%-PERPs, HSBC 4.7%-PERPs, STRTR 3.73%'21s, AREIT 3%-PERPs and STTGDC 3.13%'28s. 10Y UST Yields remain mostly unchanged at 0.65% as markets awaited the presidential debate on Tuesday.

New Issues: Government of Mongolia priced a USD600mn 5.5-year bond at 5.375%, tightening from IPT of 5.75% area. Hong Kong JY Flower Limited (Guarantor: Kunming Industrial Development & Investment Co., Ltd.) has arranged investor calls commencing 28 September 2020 for its proposed USD bond offering.

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Foreign Exchange

| | Day Close | % Change | | Day Close | % Change |
|---------|-----------|----------|---------|-----------|----------|
| DXY | 94.278 | -0.38% | USD-SGD | 1.3730 | -0.33% |
| USD-JPY | 105.500 | -0.08% | EUR-SGD | 1.6015 | -0.04% |
| EUR-USD | 1.167 | 0.30% | JPY-SGD | 1.3006 | -0.34% |
| AUD-USD | 0.707 | 0.57% | GBP-SGD | 1.7619 | 0.37% |
| GBP-USD | 1.283 | 0.69% | AUD-SGD | 0.9710 | 0.25% |
| USD-MYR | 4.175 | 0.11% | NZD-SGD | 0.8993 | -0.27% |
| USD-CNY | 6.811 | -0.18% | CHF-SGD | 1.4843 | 0.07% |
| USD-IDR | 14900 | 0.18% | SGD-MYR | 3.0355 | 0.12% |
| USD-VND | 23180 | -0.02% | SGD-CNY | 4.9595 | 0.19% |

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 | -0.03 | -3 | 0.076 | 0.076 |
| 12/16/2020 | -0.072 | -4.2 | 0.066 | 0.066 |
| 01/27/2021 | -0.105 | -3.3 | 0.058 | 0.058 |
| 03/17/2021 | -0.169 | -6.4 | 0.042 | 0.042 |
| 04/28/2021 | -0.165 | 0.4 | 0.043 | 0.043 |
| 06/16/2021 | -0.163 | 0.2 | 0.043 | 0.043 |
| 07/28/2021 | -0.205 | -4.2 | 0.032 | 0.032 |
| 09/22/2021 | -0.205 | 0 | 0.032 | 0.032 |
| 11/03/2021 | -0.216 | -1.1 | 0.03 | 0.03 |
| 12/15/2021 | -0.239 | -2.3 | 0.024 | 0.024 |
| 01/26/2022 | -0.245 | -0.6 | 0.023 | 0.023 |
| 0 | 0 | 0 | 0 | 0 |

Commodities Futures

| Energy | Futures | % chg | Soft Commodities | Futures | % chg |
|--------------------------|----------|--------|-------------------------|---------|-------|
| WTI (per barrel) | 40.60 | 0.87% | Corn (per bushel) | 3.668 | 0.4% |
| Brent (per barrel) | 42.43 | 1.22% | Soybean (per bushel) | 9.963 | -0.6% |
| Heating Oil (per gallon) | 113.95 | 1.18% | Wheat (per bushel) | 5.503 | 1.1% |
| Gasoline (per gallon) | 124.66 | 2.67% | Crude Palm Oil (MYR/MT) | 29.500 | 0.7% |
| Natural Gas (per MMBtu) | 2.10 | -1.78% | Rubber (JPY/KG) | 2.228 | 2.4% |
| Base Metals | Futures | % chg | Precious Metals | Futures | % chg |
| Copper (per mt) | 6572.00 | 0.41% | Gold (per oz) | 1881.5 | 1.1% |
| Nickel (per mt) | 14504.00 | 1.68% | Silver (per oz) | 23.7 | 3.4% |

Economic Calendar

| Date Time | Event | Survey | Actual | Prior | Revised |
|------------------|------------------------------------|--------|--------|-------|---------|
| 09/29/2020 05:00 | SK Business Survey Manufacturing | Oct | -- | 68 | 68 |
| 09/29/2020 07:00 | SK Industrial Production YoY | Aug | -3.0% | -3.0% | -2.5% |
| 09/29/2020 07:00 | SK Industrial Production SA MoM | Aug | 0.0% | -0.7% | 1.6% |
| 09/29/2020 07:30 | JN Tokyo CPI Ex-Fresh Food YoY | Sep | -0.3% | -- | -0.3% |
| 09/29/2020 07:30 | JN Tokyo CPI YoY | Sep | 0.1% | -- | 0.3% |
| 09/29/2020 10:00 | VN Retail Sales YTD YoY | Sep | -- | -- | 0.0% |
| 09/29/2020 14:45 | FR Consumer Confidence | Sep | 93 | -- | 94 |
| 09/29/2020 16:30 | UK Mortgage Approvals | Aug | 71.3k | -- | 66.3k |
| 09/29/2020 17:00 | EC Consumer Confidence | Sep F | -- | -- | -13.9 |
| 09/29/2020 20:00 | GE CPI YoY | Sep P | 0.0% | -- | 0.0 |
| 09/29/2020 20:00 | GE CPI MoM | Sep P | -0.1% | -- | -0.1% |
| 09/29/2020 20:00 | GE CPI EU Harmonized YoY | Sep P | -0.1% | -- | -0.1% |
| 09/29/2020 20:00 | GE CPI EU Harmonized MoM | Sep P | -0.1% | -- | -0.2% |
| 09/29/2020 20:30 | US Wholesale Inventories MoM | Aug P | -0.1% | -- | -0.3% |
| 09/29/2020 20:30 | CA Industrial Product Price MoM | Aug | 0.1% | -- | 0.7% |
| 09/29/2020 22:00 | US Conf. Board Consumer Confidence | Sep | 90.0 | -- | 84.8 |

Source: Bloomberg

Treasury Research & Strategy

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