

## Daily Treasury Outlook

1 October 2021

### Highlights

**Global:** The worst monthly selloff for the US equity market since March 2020 when Covid started, even though the House passed a nine-week spending bill to avert a government shutdown and President Biden has signed the bill, albeit this does not resolve the debt ceiling issue. US treasury secretary Yellen warned of only a few days of cash left after the 18 October date before a potential default. The S&P 500 closed down 1.19% to its lowest since July and extending its September losses to near 5%, dragged down by industrials and financials on twin concerns of a Fed taper and rising power prices (including in China) that could drive up inflation ahead. VIX still rose to 23.14. With the ensuing flight to quality, UST bonds rallied to push the 10-year bond yield back below the 1.5% handle to close at 1.49% and the usage of the reverse repo facility hit a record US\$1.605tn. Meanwhile, China's Vice Premier Han Zheng ordered top energy firms to secure supplies for this winter at all costs. China Evergrande Group has paid the first 10% instalment of wealth management products due September. Separately, the G7 transport and health ministers also agreed to work towards common standards to speed up long-haul travel but fell short of a concrete plan.

**Market watch:** Asian markets may meander today, with October trading likely to start on a soft tone. The economic data calendar comprises of manufacturing PMIs from Asia, Europe and UK, Indonesia's September CPI, Thailand's foreign reserves, Eurozone's CPI, and US' personal income and spending, core PCE deflator, University of Michigan sentiment index and the manufacturing ISM. Fed's Harker and Mester, and ECB's Schnabel are also speaking today.

**CN:** Despite China's recovery from the impact from delta variant outbreak in August with service sectors returned to expansion territory, the latest manufacturing PMI showed that Chinese companies are facing multiple headwinds including the disruption from power shortage and rising raw material prices. We have downgraded China's GDP forecast this year to 8.6% from 9% previously.

**US:** House Speaker Pelosi is pressing ahead with a vote for the bipartisan infrastructure bill even though Democrats had said they would stall it until the Senate agrees on a more generous tax and spending package under a reconciliation bill. Meanwhile, Fed chair Powell opined that "we have an expectation that high inflation will abate, because we think the factors that are causing it are temporary and tied to the pandemic and the reopening of the economy", but "these aren't things that we can control".

**Japan:** Incoming PM Fumio Kishida is planning to appoint a new finance minister.

### Key Market Movements

Equity	Value	% chg
S&P 500	4307.5	-1.2%
DJIA	33844	-1.6%
Nikkei 225	29453	-0.3%
SH Comp	3568.2	0.9%
STI	3086.7	0.4%
Hang Seng	24576	-0.4%
KLCI	1537.8	-0.6%
	Value	% chg
DXY	94.230	-0.1%
USDJPY	111.29	-0.6%
EURUSD	1.1580	-0.2%
GBPUSD	1.3474	0.4%
USDIDR	14313	0.1%
USDSGD	1.3577	-0.2%
SGDMYR	3.0768	-0.2%
	Value	chg (bp)
2Y UST	0.28	-1.37
10Y UST	1.49	-2.94
2Y SGS	0.59	0.30
10Y SGS	1.59	1.00
3M LIBOR	0.13	-0.06
3M SIBOR	0.43	0.00
3M SOR	0.22	0.00
3M SORA	0.13	0.02
3M SOFR	0.05	0.00
	Value	% chg
Brent	78.31	0.3%
WTI	75.03	0.3%
Gold	1757	1.8%
Silver	22.17	2.9%
Palladium	1913	2.8%
Copper	8937	-2.4%
BCOM	100.76	1.2%

Source: Bloomberg

## Daily Treasury Outlook

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### Major Markets

**SG:** Eligible seniors aged above 60 can now walk in for a Covid-19 booster shot without an appointment from today. The STI added 0.40% to close at 3086.70 yesterday but may consolidate today amid weak overnight cues from Wall Street. With the UST bond yields lower by up to 1-3bps overnight, SGS bonds may also see some reprieve today from the recent selling pressure.

**CN:** China's official manufacturing PMI fell to 49.6 in September, below the threshold line of 50 for the first time since the start of the pandemic. Non-manufacturing PMI, however, rebounded to 53.2 from 47.5 with service PMI rebounded to 52.4 from 45.2.

Both demand and supply moderated further in September. New orders fell to 49.3 while production fell to 49.5 from 50.90, below 50 for the first time since February 2020. The decline of production was mainly due to power shortage.

In addition, the breakdown of manufacturing PMI shows that PMI from large corporates rebounded to 50.4 from 50.3 while PMI for medium sized corporates and small corporates fell to 49.7 and 47.5 respectively from 51.2 and 48.2. This showed pressures are building up from rising raw material prices.

The raw material input price rebounded to 63.5 from 61.3. This implies that China's producer price index is likely to remain elevated in the coming months, which may continue to add pressures to companies' profitability in the downstream sectors.

**HK:** Retail sales growth surprised on the upside at 11.9% yoy in August thanks to the launch of e-consumption voucher, the continuous decline in jobless rate and the well-contained local epidemic which together have supported local consumption. However, the e-consumption vouchers could be used for not only goods but also services and transportation. In other words, the economic benefit of the vouchers may not be fully reflected in the retail sales data. Also notable is that most of the retail outlets' sales value remained well below the level of August 2018 due to the absence of visitor spending. As such, even with the distribution of another instalment of e-consumption voucher on 1st October, retail sales may not return to the pre-pandemic level amid ongoing border controls. In short, retail sales may grow 5-10% yoy this year depending on the timing of border reopening.

**Malaysia:** Malaysia's Finance Minister Zafrul Abdul Aziz said in a written parliamentary reply yesterday that the country's monetary policy space remains adequate to provide additional support to the economy if required. He added that other macroeconomic policies such as fiscal and labor market initiatives will help growth and prevent excessive reliance on a single policy instrument, hence reducing the need for BNM to implement unconventional monetary policy.

## Daily Treasury Outlook

1 October 2021

**Indonesia:** Indonesia's parliament had approved the government's Budget 2022 proposal at a plenary session yesterday. The spending is slated to be at IDR2714.2tn, slightly lower than the 2750tn that is set for this year. Growth is set to head up to 5.2% next year, while the budget deficit is seen to come down to 4.85% of GDP, compared to a projected 5.8% this year. A parliamentary commission had also approved a tax reform proposal that will introduce a carbon tax policy, expanded income tax brackets and an overhaul of the VAT system.

**Oil:** Oil prices ended the month almost 10% higher as a global energy shortage drove buying interest higher. Brent is now trading at around \$78, having breached the \$80 briefly in mid-week.

**Nat gas:** US Henry Hub prices rose again yesterday to close at \$5.91/mmbtu, while seaborne LNG JKM prices are at \$32.63/mmbtu for front month delivery.

## Daily Treasury Outlook

1 October 2021

### Bond Market Updates

**Market Commentary:** The SGD swap curve bear steepened yesterday, with shorter tenors trading 0-3bps higher, and belly and longer tenors trading 3-5bps higher. There were light flows in SGD Corporates yesterday, with flows in MAPLSP 3.7%-PERPs. UST 10Y Yields fell 3bps to 1.49% yesterday amidst inflation concerns propelled by supply-side factors and higher-than-expected weekly jobless claims released by the US Department of Labour. Weekly jobless claims came in at 362,000, higher than the consensus economists' forecast of 335,000.

**New Issues:** Yanan New Area Investment Development (Group) Co. priced a USD100mn 364-Day senior unsecured bond at 5%, tightening from an IPT of 5.2% area.

## Daily Treasury Outlook

1 October 2021

### Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	94.230	-0.11%	USD-SGD	1.3577	-0.24%
USD-JPY	111.290	-0.60%	EUR-SGD	1.5723	-0.39%
EUR-USD	1.158	-0.16%	JPY-SGD	1.2203	0.40%
AUD-USD	0.723	0.71%	GBP-SGD	1.8295	0.11%
GBP-USD	1.347	0.35%	AUD-SGD	0.9814	0.49%
USD-MYR	4.186	0.05%	NZD-SGD	0.9368	0.22%
USD-CNY	6.445	-0.40%	CHF-SGD	1.4573	0.03%
USD-IDR	14313	0.14%	SGD-MYR	3.0768	-0.18%
USD-VND	22761	0.04%	SGD-CNY	4.7493	-0.17%

### Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.5630	-0.56%	O/N	0.0668	0.07%
2M	-0.3360	-0.34%	1M	0.0818	0.08%
3M	-0.5460	-0.55%	2M	0.1076	0.10%
6M	-0.5300	-0.53%	3M	0.1284	0.13%
9M	-0.1940	-0.20%	6M	0.1534	0.15%
12M	-0.4970	-0.49%	12M	0.2241	0.23%

### Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	Implied Rate Change	Implied Rate
11/03/2021	0.006	0.078	0.078
12/15/2021	-0.007	0.074	0.074
01/26/2022	0.005	0.077	0.077
03/16/2022	0.015	0.08	0.08
05/04/2022	0.048	0.088	0.088
06/15/2022	0.158	0.116	0.116

### Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	75.03	0.27%	Corn (per bushel)	5.368	-0.4%
Brent (per barrel)	78.52	-0.15%	Soybean (per bushel)	12.560	-2.2%
Heating Oil (per gallon)	234.17	1.48%	Wheat (per bushel)	7.255	2.1%
Gasoline (per gallon)	225.36	1.09%	Crude Palm Oil (MYR/MT)	48.330	2.6%
Natural Gas (per MMBtu)	5.87	7.12%	Rubber (JPY/KG)	1.985	2.4%

Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	8936.50	-2.39%	Gold (per oz)	1757.0	1.8%
Nickel (per mt)	17936.00	-2.21%	Silver (per oz)	22.2	2.9%

### Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
10/01/2021 07:30	JN Jobless Rate	Aug 2.90%	2.80%	2.80%	--
10/01/2021 07:30	JN Job-To-Applicant Ratio	Aug 1.14	1.14	1.15	--
10/01/2021 07:50	JN Tankan Large Mfg Index	3Q 13.00	18.00	14.00	--
10/01/2021 08:00	SK Exports YoY	Sep 16.00%	--	34.90%	34.80%
10/01/2021 08:30	JN Jibun Bank Japan PMI Mfg	Sep F --	--	51.20	--
10/01/2021 08:30	ID Markit Indonesia PMI Mfg	Sep --	--	43.70	--
10/01/2021 08:30	VN Markit Vietnam PMI Mfg	Sep --	--	40.20	--
10/01/2021 08:30	SK Markit South Korea PMI Mfg	Sep --	--	51.20	--
10/01/2021 10:00	ID CPI YoY	Sep 1.66%	--	1.59%	--
10/01/2021 15:55	GE Markit/BME Germany Manufacturing PMI	Sep F 58.50	--	58.50	--
10/01/2021 16:00	EC Markit Eurozone Manufacturing PMI	Sep F 58.70	--	58.70	--
10/01/2021 16:30	UK Markit UK PMI Manufacturing SA	Sep F 56.30	--	56.30	--
10/01/2021 21:30	CA Markit Canada Manufacturing PMI	Sep --	--	57.20	--
10/01/2021 21:45	US Markit US Manufacturing PMI	Sep F 60.50	--	60.50	--
10/01/2021 22:00	US ISM Manufacturing	Sep 59.50	--	59.90	--
10/01/2021 22:00	US U. of Mich. Sentiment	Sep F 71.00	--	71.00	--

Source: Bloomberg

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