

Daily Treasury Outlook

1 November 2021

Highlights

Global: Disappointments from Apple and Microsoft failed to hinder the S&P 500's 0.19% ascent on Friday. VIX also retreated to 16.26. The UST bond market remained wary of the highly anticipated Fed taper and elevated inflation outlook, flattening the yield curve with the 10-year yield at 1.55% amid an uncertain growth outlook. This followed the hawkish surprise last week from the Bank of Canada and also the Reserve Bank of Australia which appeared to have given up on defending its yield target for the 3-year bond. In addition, ECB's Lagarde had acknowledged that inflation would stay high for an even longer period. Elsewhere, China's official manufacturing PMI contracted for the second month at 49.2 in October amid power shortages and rising commodity prices, while the non-manufacturing PMI also moderated to 52.4 amid the latest Covid outbreak. Meanwhile, G20 leaders struck a climate deal that fell short of market hopes for the COP26 summit in Glasgow this week, by pledging to "significantly reduce" greenhouse gas emissions without giving details and also backpedalled on commitments to phase out domestic coal usage.

Market watch: Asian markets may start the week on a firm tone this morning, but advances are likely limited ahead of a heavy week ahead with some event risks. Today's economic data calendar comprises of manufacturing PMIs from Europe, UK and Asia, including China's Caixin PMI, Indonesia's CPI, German retail sales, and Hong Kong's 3Q21 GDP growth. UK Chancellor Sunak is also speaking. For the week ahead, watch for RBA policy meeting on Tuesday (likely unchanged at 0.10% for the cash rate target and the 3-year yield targets), the FOMC meeting on Wednesday (Thursday morning SGT) where market players are bracing for the taper announcement with details on the pace, timing and composition (tipped at US\$10b UST and US\$5b MBS monthly to be completed by mid-2022) and any forward guidance on the potential rate hike trajectory (which is likely to allow for some flexibility depending on the inflation outlook), BNM policy decision (likely static at 1.75%) on Wednesday, as well as Friday's US labour market report where market consensus has pencilled in nonfarm payrolls and the unemployment rate at 450k and 4.7% respectively. The Treasury department's refunding announcement is also due on Wednesday, while the Bank of England policy decision is also scheduled on Thursday (with market split over whether a hike is a done deal).

CN: China's manufacturing PMI moderated further to 49.2 in October from 49.6 in September. Both supply and demand softened in October. The decline of production was mainly the result of recent power shortage. Uneven recovery remains the key challenge for China. Production for medium sized companies and small companies fell to 47.7 and 45.8 respectively from 48.8 and 47.7 while production for large corps rebounded to 50.1 from 49.9. In addition, new export orders for smaller companies fell sharply to 41.3 from 45.9 while new export orders for large and medium sized companies rebounded.

Key Market Movements

Equity	Value	% chg
S&P 500	4605.4	0.2%
DJIA	35820	0.2%
Nikkei 225	28893	0.3%
SH Comp	3547.3	0.8%
STI	3198.2	-0.2%
Hang Seng	25377	-0.7%
KLCI	1562.3	-0.3%
	Value	% chg
DXY	94.123	0.8%
USDJPY	113.95	0.3%
EURUSD	1.1558	-1.1%
GBPUSD	1.3682	-0.8%
USDIDR	14168	0.0%
USDSGD	1.3488	0.3%
SGDMYR	3.0789	0.0%
	Value	chg (bp)
2Y UST	0.50	0.79
10Y UST	1.55	-2.79
2Y SGS	0.89	2.90
10Y SGS	1.84	5.83
3M LIBOR	0.13	0.30
3M SIBOR	0.44	0.00
3M SOR	0.28	0.00
3M SORA	0.16	0.02
3M SOFR	0.05	0.00
	Value	% chg
Brent	83.72	0.1%
WTI	83.57	0.9%
Gold	1783	-0.9%
Silver	23.90	-0.7%
Palladium	2004	0.6%
Copper	9496	-1.8%
BCOM	103.36	-0.9%

Source: Bloomberg

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Major Markets

US: PCE inflation accelerated from 4.2% to 4.4%, while core PCE was steady at 3.6%. Meanwhile, the University of Michigan Consumer Sentiment Index declined from 77.9 to 77.7 in October, with the 5–10-year inflation gauge accelerating from 2.8% to 2.9%. Personal income fell more than expected by 1% in September, but personal spending rose 0.6%.

SG: Fully vaccinated Singaporeans will be allowed to travel to Australia without quarantine from 21 November starting with New South Wales and Victoria.

The STI slipped 0.18% to close at 3198.17 on Friday and may range trade today. Shorter-dated SGS bonds are likely to be pressured ahead the highly anticipated Fed taper decision later this week.

Malaysia: Malaysia's government has tabled its Budget 2022 in the parliament on Friday. A record MYR322.1bn of expenditure is planned to help boost the economic recovery, with growth expected to pick up speed to 5.5-6.5% next year. Its deficit target is left quite high at 6.0% of GDP. The government has also announced a windfall tax of 33% for any company earning more than MYR100mn next year, and an imposition of taxes on global earnings.

Indonesia: Indonesia's President Jokowi has gone abroad for the first time in 20 months, with three major meetings in the pipeline. He has attended the G20 summit in Rome as Indonesia prepares to take over the presidency from Italy. Thereafter, he is due to fly to Glasgow for the COP26 climate summit, before attending the World Expo in Dubai on Nov 3-4.

Oil: Brent fell 1.1% on the week as it continues to find resistance at the \$85 handle. Prospects of a resumption in Europe-Iran nuclear talks proved to be the catalyst in sending oil prices lower last week. We expect Brent to continue trading at \$80-\$85 for now.

Natural gas: European gas prices tumbled more than 10% last Friday on month-end volatility and prospects of increased gas supply from Russia. Dutch TTF prices are now trading at about \$22/mmbtu, almost half of the record high of \$40/mmbtu in early October. Asian gas prices remain heavily elevated at \$33/mmbtu, close to the record high of \$35/mmbtu.

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Bond Market Updates

Market Commentary: The SGD swap curve traded higher on Friday, with shorter tenors trading 0-3bps higher, belly tenors trading 4-8bps higher, and longer tenors trading 5-8bps higher. There were heavy flows in SGD corporates on Friday, with flows in MLTSP 3.725%-PERPs, SPHSP 3.2%'30s, HSBC 5%-PERPs, and AAREIT 5.375%-PERPs. UST 10Y Yields traded 2bps lower to 1.56% on Friday amidst an as-expected PCE Deflator reading and a slightly higher-than-expected University of Michigan consumer sentiment reading. The PCE deflator, which is the Federal Reserve's favourite inflation gauge, came in at 0.3% m/m and 4.4% y/y respectively. Separately, the consumer sentiment index released by the University of Michigan came in at 71.7, higher than the 71.4 number forecasted by economists but still near its 5-year low.

New Issues: Yunnan Communications Investment & Construction Group Co. has arranged investor calls commencing 29 October for its proposed USD bond offering. VNET Group Inc has arranged investor calls commencing 01 November for its proposed USD bond offering.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	94.123	0.83%	USD-SGD	1.3488	0.31%
USD-JPY	113.950	0.33%	EUR-SGD	1.5595	-0.69%
EUR-USD	1.156	-1.05%	JPY-SGD	1.1830	-0.04%
AUD-USD	0.752	-0.34%	GBP-SGD	1.8460	-0.45%
GBP-USD	1.368	-0.78%	AUD-SGD	1.0142	-0.01%
USD-MYR	4.140	-0.24%	NZD-SGD	0.9676	-0.03%
USD-CNY	6.406	0.22%	CHF-SGD	1.4732	-0.06%
USD-IDR	14168	-0.04%	SGD-MYR	3.0789	-0.01%
USD-VND	22752	-0.02%	SGD-CNY	4.7465	-0.20%

Equity and Commodity

Index	Value	Net change
DJIA	35,819.56	89.08
S&P	4,605.38	8.96
Nasdaq	15,498.39	50.27
Nikkei 225	28,892.69	72.60
STI	3,198.17	-5.65
KLCI	1,562.31	-4.55
JCI	6,591.35	67.27
Baltic Dry	3,630.00	-178.00
VIX	16.26	-0.27

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.5580	-0.56%	O/N	0.0695	0.07%
2M	-0.3360	-0.34%	1M	0.0870	0.09%
3M	-0.5560	-0.55%	2M	0.1008	0.10%
6M	-0.5360	-0.53%	3M	0.1286	0.14%
9M	-0.1940	-0.20%	6M	0.1796	0.18%
12M	-0.4730	-0.47%	12M	0.3323	0.32%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	0.89 (+0.03)	0.48(--)
5Y	1.46 (+0.04)	1.18(--)
10Y	1.84 (+0.06)	1.56 (-0.03)
15Y	2.14 (+0.06)	--
20Y	2.18 (+0.04)	--
30Y	2.12 (+0.06)	1.96 (-0.05)

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	Implied Rate Change	Implied Rate
11/03/2021	-0.017	0.076	0.076
12/15/2021	-0.022	0.074	0.074
01/26/2022	0.05	0.093	0.093
03/16/2022	0.233	0.138	0.138
05/04/2022	0.434	0.188	0.188
06/15/2022	0.875	0.299	0.299

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	uesting Data...	(--)
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	0.05
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Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	83.57	0.92%	Corn (per bushel)	5.683	1.0%
Brent (per barrel)	84.38	0.07%	Soybean (per bushel)	12.358	0.2%
Heating Oil (per gallon)	249.64	-0.80%	Wheat (per bushel)	7.728	0.0%
Gasoline (per gallon)	246.20	1.11%	Crude Palm Oil (MYR/MT)	54.020	1.7%
Natural Gas (per MMBtu)	5.43	-6.16%	Rubber (JPY/KG)	2.195	1.1%

Base Metals

	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	9496.00	-1.76%	Gold (per oz)	1783.4	-0.9%
Nickel (per mt)	19448.00	-0.64%	Silver (per oz)	23.9	-0.7%

Economic Calendar

Date Time		Event		Survey	Actual	Prior	Revised
11/01/2021 08:00	AU	Melbourne Institute Inflation MoM	Oct	--	0.20%	0.30%	--
11/01/2021 08:30	JN	Jibun Bank Japan PMI Mfg	Oct F	--	--	53.00	--
11/01/2021 08:30	ID	Markit Indonesia PMI Mfg	Oct	--	--	52.20	--
11/01/2021 08:30	VN	Markit Vietnam PMI Mfg	Oct	--	--	40.20	--
11/01/2021 08:30	SK	Markit South Korea PMI Mfg	Oct	--	--	52.40	--
11/01/2021 09:45	CH	Caixin China PMI Mfg	Oct	50.00	--	50.00	--
11/01/2021 12:00	ID	CPI YoY	Oct	1.65%	--	1.60%	--
11/01/2021 13:00	IN	Markit India PMI Mfg	Oct	--	--	53.70	--
11/01/2021 13:30	AU	Commodity Index SDR YoY	Oct	--	--	37.40%	--
11/01/2021 16:30	HK	GDP YoY	3Q A	5.70%	--	7.60%	--
11/01/2021 17:30	UK	Markit UK PMI Manufacturing SA	Oct F	57.70	--	57.70	--
11/01/2021 21:45	US	Markit US Manufacturing PMI	Oct F	59.20	--	59.20	--
11/01/2021 22:00	US	ISM Manufacturing	Oct	60.50	--	61.10	--
11/01/2021 22:00	US	Construction Spending MoM	Sep	0.40%	--	0.00%	--
11/01/2021 22:30	CA	Markit Canada Manufacturing PMI	Oct	--	--	57.00	--
11/01/2021 08:00	SK	Exports YoY	Oct	28.50%	24.00%	16.70%	--

Source: Bloomberg

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