

## Daily Treasury Outlook

3 August 2021

### Highlights

**Global:** US' manufacturing ISM unexpectedly missed expectations at 59.5 in July, down from 60.6 in June, amid supply chain bottlenecks and input shortages which exacerbated market concerns about a slowing US growth momentum. This coupled with the Delta variant outbreak concerns lent a risk-off tilt to markets overnight, even though the US has hit 70% of adults receiving at least one vaccine dose. The S&P 500 slipped 0.18% as materials, software and consumer services stocks underperformed, while VIX jumped to 19.46. UST bonds bull-flattened and pushed the 10-year bond yield down to 1.18% and the real yield to a fresh low of -1.22%. Meanwhile, usage of the Fed's overnight reverse repo agreement saw its biggest one-day decline in a month to US\$921.3bn after the record US\$1.04tn seen last Friday. The Treasury Department has begun using additional special measures after the debt ceiling was reinstated on Sunday. Separately, Fed's Waller opined that if the next two months of employment data continue to improve, he would back a taper announcement by September. The 3-month LIBOR edged up to 0.1238%.

**Market watch:** Asian markets may open with a softer tone this morning, awaiting RBA policy decision today where a delay or a walking back of the recent taper plan is anticipated. Today's economic data calendar only comprises of US' factory orders and durable goods orders. Fed's Bowman is also speaking.

**US:** The Treasury Department announced it would borrow US\$673bn for July-September, which is US\$148bn lower than announced in May, assuming an end -September cash balance of US\$750bn and also an enactment of a debt-limit suspension or increase. The current cash balance on 30 July was US\$459bn.

**SG:** The manufacturing and electronics PMIs continued to eke out gains in July, rising 0.2 points each to 51.0 (highest since December 2018) and 50.8 respectively. This marked the 13th and 12th consecutive month of expansion, suggesting some longevity to the momentum despite initial concerns that the return to Phase 2 (Heightened Alert) conditions and renewed lockdowns and tighter restrictions in other regional economies due to the Delta variant spread could potentially impact the manufacturing and electronics supply chains. At this juncture, Singapore's manufacturing and electronics sectors remain fairly resilient and should continue to provide a key pillar of support for near-term growth. While the domestic manufacturing sector is likely to see a moderation to single-digit growth rates in 2H21 as the low base effects subside, full-year 2021 manufacturing growth is still likely to exceed 10% yoy, and this in turn should support 2021 GDP growth minimally at the 6% yoy handle.

### Key Market Movements

Equity	Value	% chg
S&P 500	4387.2	-0.2%
DJIA	34838	-0.3%
Nikkei 225	27781	1.8%
SH Comp	3464.3	2.0%
STI	3161.2	-0.2%
Hang Seng	26236	1.1%
KLCI	1493.0	-0.1%
	Value	% chg
DX	92.048	-0.1%
USDJPY	109.31	-0.4%
EURUSD	1.1870	0.0%
GBPUSD	1.3883	-0.2%
USDIDR	14423	-0.3%
USDSGD	1.353	-0.1%
SGDMYR	3.1248	0.0%
	Value	chg (bp)
2Y UST	0.17	-1.17
10Y UST	1.18	-4.50
2Y SGS	0.37	-0.10
10Y SGS	1.30	-0.34
3M LIBOR	0.12	-0.80
3M SIBOR	0.43	0.00
3M SOR	0.17	0.00
3M SORA	0.13	0.21
3M SOFR	0.03	0.13
	Value	% chg
Brent	72.89	-3.3%
WTI	71.26	-3.6%
Gold	1813	0.0%
Silver	25.41	-0.3%
Palladium	2682	0.7%
Copper	9701	-0.3%
BCOM	95.75	-0.5%

Source: Bloomberg

## Daily Treasury Outlook

3 August 2021

### Major Markets

**US:** US equities closed lower yesterday on the back of the worse than expected ISM manufacturing numbers and rising concerns over the Delta variant. The S&P 500 closed down 0.18%. 10Y UST bond yields closed at 1.18%. For the day ahead, look out for the US durable goods orders report for more cues on the country's manufacturing activity. A weak print could result in another bout of risk aversion tonight.

**CN:** Both China's equity market and bond market rallied together on Monday. Equity rallied on the back of expectations on policy support following the Politburo meeting while bond rallied due to growth concerns. China's zero tolerance policy for Covid is likely to be double edged sword. The sporadic outbreaks of more transmissible Delta variant have disrupted the service activities in the summer holiday season, which may pose potential downside risk to our forecast.

**SG:** The STI slipped 0.18% to close at 3161.22 yesterday and may consolidate further today. With the bull-flattening in the UST bond market overnight due to the risk-off tilt, SGS bonds may also gain today.

**HK:** Retail sales missed expectations with a growth of 5.8% yoy in June, probably due to the ongoing social distancing measures. Also, it also reaffirms the fact that the rebound in local consumption is insufficient to offset the plunge of tourist spending. Moving ahead, given the faster-than-expected decrease in unemployment rate, the well-contained local epidemic, the high vaccination rate and the launch of e-consumption vouchers, we expect local consumption to rebound further. However, the effect of e-consumption vouchers may be undermined by the substitute effect. Also, some may use the vouchers for transportation or services rather than goods. More notably, the government extended the social distancing measures by another two weeks to 18 August and tightened the Covid-19 testing requirement for the restaurant staff. In a nutshell, we hold onto our view that retail sales will grow by about 15% yoy this year on assumption of conditional border reopening between HK and Macau as well as Mainland China in 2H.

**Malaysia:** Malaysia's Manufacturing PMI came in at 40.1 for July. Even though it is slightly higher than the 39.9 print of June, the print remains well below the 50-breakeven threshold and continues to signal a difficult operating environment for the manufacturing sector as it grapples with the MCO restriction orders amid the stubborn pandemic bout.

**Indonesia:** Indonesia's Manufacturing PMI print came in at 40.1 for the month of July, significantly lower than the 53.5 posted the month before. The slump is a manifestation of the hit to manufacturing sentiment from the ongoing Covid-19 bout and the corresponding restriction measures that have been imposed by the authorities. Elsewhere, Indonesia reported July CPI print, whose headline number came slightly higher than expected at 1.52% yoy.

## Daily Treasury Outlook

3 August 2021

**Oil:** Brent sunk 3.3% yesterday to close at \$72.89, the lowest in eight sessions. Concerns over the spread of the Delta variant and slowing growth momentum globally weighed on risk sentiment, pressuring oil prices lower. If risk sentiment continues to soften, we expect Brent to retrace back towards the \$70 level in the very short term.

**Gold:** Gold closed virtually unchanged yesterday but endured a volatile session, swinging from a low of about \$1805 to a high of almost \$1820. We expect gold to continue trading above \$1800 as the Delta variant's impact on global economic growth continues to intensify.

## Daily Treasury Outlook

3 August 2021

### Bond Market Updates

**Market Commentary:** The SGD swap curve was mostly lower yesterday, with shorter and belly trading 0-2bps lower, and longer tenors trading 1-2bps lower. There were heavy flows in SGD corporates on Friday, with flows in SPHSP 3.2%'30s, and VRTVEN 3.3%'28s. 10Y UST Yields fell 4bps yesterday to 1.18% as investors reposition their portfolios with safe-haven bonds amidst the release of disappointing July Manufacturing PMI data numbers and the rapid spread of the delta variant. 10Y UST nominal yields fell 4bps yesterday to 1.18% (intraday low of 1.15%) as investors reposition their portfolios with safe-haven bonds amidst the release of disappointing July Manufacturing PMI data numbers and the rapid spread of the delta variant. 10Y UST real yields have also fallen to a fresh low of -1.22%.

**New Issues:** Korea Midland Power Co Ltd priced a USD300mn 5-year senior unsecured bond at T+62.5bps, tightening from an IPT of T+100bps area. Bank of China Ltd has arranged investor calls commencing 02 August for its proposed USD bond offering. China Ping An Insurance Overseas has arranged investor calls commencing 02 August for its proposed USD bond offering.

## Daily Treasury Outlook

3 August 2021

## Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	92.048	-0.14%	USD-SGD	1.3530	-0.10%
USD-JPY	109.310	-0.37%	EUR-SGD	1.6058	-0.11%
EUR-USD	1.187	0.00%	JPY-SGD	1.2382	0.28%
AUD-USD	0.736	0.25%	GBP-SGD	1.8786	-0.22%
GBP-USD	1.388	-0.15%	AUD-SGD	0.9963	0.17%
USD-MYR	4.225	0.10%	NZD-SGD	0.9437	-0.08%
USD-CNY	6.462	0.01%	CHF-SGD	1.4951	-0.05%
USD-IDR	14423	-0.28%	SGD-MYR	3.1248	0.04%
USD-VND	22956	0.04%	SGD-CNY	4.7782	0.14%

## Equity and Commodity

Index	Value	Net change
DJIA	34,838.16	-97.31
S&P	4,387.16	-8.10
Nasdaq	14,681.07	8.39
Nikkei 225	27,781.02	497.43
STI	3,161.22	-5.72
KLCI	1,493.00	-1.60
JCI	6,096.54	26.50
Baltic Dry	3,292.00	78.00
VIX	19.46	1.22

## Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.5560	-0.56%	O/N	0.0769	0.08%
2M	-0.3360	-0.34%	1M	0.0905	0.10%
3M	-0.5440	-0.54%	2M	0.1034	0.11%
6M	-0.5230	-0.52%	3M	0.1178	0.13%
9M	-0.1940	-0.20%	6M	0.1531	0.15%
12M	-0.5020	-0.50%	12M	0.2351	0.24%

## Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	0.37 (--)	0.17 (--)
5Y	0.75 (--)	0.65 (-0.04)
10Y	1.3 (--)	1.18 (-0.04)
15Y	1.59 (--)	--
20Y	1.66 (--)	--
30Y	1.67 (--)	1.85 (-0.04)

## Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	Implied Rate Change	Implied Rate
09/22/2021	-0.059	0.079	0.079
11/03/2021	-0.047	0.082	0.082
12/15/2021	-0.044	0.083	0.083
01/26/2022	-0.045	0.082	0.082
03/16/2022	-0.014	0.09	0.09
05/04/2022	-0.025	0.087	0.087

## Financial Spread (bps)

	Value	Change
EURIBOR-OIS	-6.13	(--)
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)	71.26	-3.64%	Corn (per bushel)	5.588	2.1%
Brent (per barrel)	72.89	-4.51%	Soybean (per bushel)	14.188	0.3%
Heating Oil (per gallon)	213.58	-2.89%	Wheat (per bushel)	7.295	3.7%
Gasoline (per gallon)	227.47	-3.85%	Crude Palm Oil (MYR/MT)	44.450	-4.5%
Natural Gas (per MMBtu)	3.94	0.54%	Rubber (JPY/KG)	2.118	0.0%

## Base Metals

	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	9700.50	-0.28%	Gold (per oz)	1813.5	0.0%
Nickel (per mt)	19516.00	-0.18%	Silver (per oz)	25.4	-0.3%

## Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
08/03/2021 07:00	SK CPI YoY	Jul 2.40%	2.60%	2.40%	--
08/03/2021 07:00	SK CPI MoM	Jul 0.00%	0.20%	-0.10%	--
08/03/2021 07:00	SK CPI Core YoY	Jul 1.50%	1.70%	1.50%	--
08/03/2021 07:30	JN Tokyo CPI Ex-Fresh Food YoY	Jul 0.00%	0.10%	0.00%	--
08/03/2021 07:30	JN Tokyo CPI YoY	Jul 0.10%	-0.10%	0.00%	--
08/03/2021 07:50	JN Monetary Base YoY	Jul --	15.40%	19.10%	--
08/03/2021 09:00	PH Unemployment Rate	Jun --	--	7.70%	--
08/03/2021 09:30	AU Building Approvals MoM	Jun -4.00%	--	-7.10%	--
08/03/2021 12:30	AU RBA Cash Rate Target	Aug-03 0.10%	--	0.10%	--
08/03/2021 14:30	AU Commodity Index SDR YoY	Jul --	--	49.10%	--
08/03/2021 17:00	EC PPI YoY	Jun 10.30%	--	9.60%	--
08/03/2021 21:30	CA Markit Canada Manufacturing PMI	Jul --	--	56.5	--
08/03/2021 22:00	US Durable Goods Orders	Jun F 0.80%	--	0.80%	--
08/03/2021 22:00	US Factory Orders	Jun 1.00%	--	1.70%	--
08/03/2021 22:00	US Durables Ex Transportation	Jun F 0.30%	--	0.30%	--
08/03/2021 22:00	US Cap Goods Orders Nondef Ex Air	Jun F --	--	0.50%	--

Source: Bloomberg

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