

Daily Treasury Outlook

4 June 2021

Highlights

Global: Optimism came on the back of healthy US economic data (namely initial jobless claims, ADP and services ISM) as well as US President Biden's willingness to compromise on tax hikes to get his infrastructure bill passed and instead pitched his global minimum corporate tax rate of 15% with strengthened IRS enforcement efforts. However, S&P 500 still slipped 0.36% and VIX rose to 18.04 amid concerns that the strong economic data may prompt the Fed to taper earlier rather than later, even though Fed's Williams opined that "we're still quite a ways off from reaching the substantial progress that we're really looking for" for adjustments to our purchases. Meanwhile, demand for the overnight reverse repo rose for the first time in a week to US\$479.1bn and the 3-month LIBOR stood at 0.1308%. The USD rose, while UST bonds underperformed, weighed down by the belly of the curve, and the 10-year closed around 1.62%. The Biden administration also added to the blacklist of Chinese companies from US investments to a total of 59.

Market watch: Asian markets are likely to tread water today as investors await tonight's US nonfarm payrolls report for confirmation as market expectations vary widely after last month's surprise. On the cards today are RBI policy decision (likely to be static at a record low 4.0% for the 6th straight meeting), Taiwan's 1Q21 GDP growth, Thailand's May CPI, S'pore's retail sales, and US' nonfarm payrolls, unemployment rate and average earnings with consensus eyeing 674k, 5.9% and 1.6% yoy respectively in May versus 266k, 6.1%, and 0.7% in April. Fed's Powell and ECB's Villeroy are speaking at a climate conference while G7 finance ministers are also meeting in London today, ahead of the summit next week.

US: ADP added 978k in May, the most in nearly a year, while initial jobless claims fell below the 400k handle for the first time since the Covid pandemic started to just 385k. Our model suggests the US may have added almost one million nonfarm payrolls in May (due to release tonight), following yesterday's outstanding ADP employment numbers. The services ISM also increased more than expected from 62.7 in April to a record 64.0 in May, suggesting economic activity continues to improve.

SG: Retail sales likely rebounded 60.4% yoy (3.2% mom sa) in April, largely reflecting the low base last year during the Covid pandemic, and compared to the 6.2% yoy (3.0% mom sa) seen in March. Excluding autos, retail sales likely rose 42.2% yoy.

Oil: Brent was almost unchanged on the day, falling less than 0.1% to close at \$71.31. This is the third consecutive day that Brent has managed to trade above the \$70 handle, further entrenching the \$70 as a new support. The oil market will probably take its cue from the US nonfarm payroll report tonight.

Key Market Movements

Equity	Value	% chg
S&P 500	4192.9	-0.4%
DJIA	34577	-0.1%
Nikkei 225	29058	0.4%
SH Comp	3584.2	-0.4%
STI	3165.0	0.1%
Hang Seng	28966	-1.1%
KLCI	1590.6	-0.5%
	Value	% chg
DXY	90.512	0.7%
USDJPY	110.29	0.7%
EURUSD	1.2127	-0.7%
GBPUSD	1.4106	-0.5%
USDIDR	14285	0.0%
USDSGD	1.3277	0.4%
SGDMYR	3.1123	-0.1%
	Value	chg (bp)
2Y UST	0.15	0.99
10Y UST	1.63	3.75
2Y SGS	0.36	-0.20
10Y SGS	1.50	-0.26
3M LIBOR	0.13	0.55
3M SIBOR	0.44	0.00
3M SOR	0.25	0.00
3M SORA	0.17	0.10
3M SOFR	0.01	-0.01
	Value	% chg
Brent	71.31	-0.1%
WTI	68.81	0.0%
Gold	1871	-2.0%
Silver	27.43	-2.6%
Palladium	2844	-0.5%
Copper	9789	-3.5%
BCOM	93.26	-1.3%

Source: Bloomberg

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Major Markets

US: US equities retreated last night on tech share loss as market sentiment was likely weighed by tapering concerns, fanned by the firm May ADP jobs print and lower initial jobless claims. The S&P 500 index fell 0.37% and the Nasdaq 100 Composite index declined 1.03%. 10Y UST bond yields jumped 3.75bps to close at 1.63%. With the May ADP report adding the most jobs in nearly a year (+978k jobs), the nonfarm payrolls report due later may report a solid figure which could heighten volatility in the US equity market.

CN: China's Ministry of Commerce said yesterday that both China and US have started normal communication in the economic and trade fields and will work together to solve specific problems in a practical manner. This fuelled expectation possible rollback of trade tariff.

SG: STI gained 0.13% to close at 3165.00 yesterday, but may range trade ahead of tonight's US labour market report. SGS bonds may react to the overnight UST bond market underperformance and come under some selling pressure on concerns about Fed's potential taper ahead.

HK: PMI for the private sector has stayed in the expansion territory for the fourth consecutive month, reaching the highest since February 2014 at 52.5 in May. Output grew at the fastest pace since February 2018 while new orders including export orders increased. More notably, new business from Mainland China rose for the first time in three years. Taken all together, it suggests that private sector's business conditions continued to improve as further relaxation of social distancing measures has supported the resumption of economic activities and external demand has revived further. However, firms reported lower staffing levels on average, the first decline in four months. This reinforces our view that the improvement in the labor market may remain moderate. Also notable is that the PMI data showed signs that supply constraints started to add inflationary pressure. This coupled with the low base effect may push CPI growth up above 3% yoy in 3Q.

Malaysia: Malaysia's Health Minister Datuk Seri Dr Adham Baba said that the nation's healthcare system only had days before it would have collapsed if total lockdown was not imposed. He referred to the record-high 9020 daily cases on May 29th and said that it was evident that the healthcare system could have been severely affected by June 5th without a lockdown, given that the response capacity is at 13,000 cases. He said that the two-week Phase 1 should provide relief to the healthcare system.

Indonesia: Indonesia's government did a USD sukuk auction which largely went well yesterday. It raised USD3bn, with record-low interest rates of 1.50% for 5yr, 2.55% for the 10yr, and 3.55% yields for the 30yr instruments, respectively. Proceeds from the 30-year note will be used to finance green projects. Total orders came in at more than USD10.3bn, around 3.4 times of demand, lower than 6.7 times in a sukuk auction last year.

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Gold: Gold fell 2% to close at \$1870.76 yesterday, the first time in five sessions that it has closed below the \$1900 level. We maintain that relative to other assets (equities, bonds and breakevens), gold appears to be trading rich and may require a correction.

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Bond Market Updates

Market Commentary: The SGD swap curve mostly traded lower yesterday. Shorter, belly and longer tenors traded 0-1bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 138bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 6bps to 618bps. The HY-IG Index Spread widened 7bps to 480bps. There were heavy flows in SGD corporates yesterday including in STSP 3.3%-PERPs, SIASP 3.13%'27s, OLAMSP 4%'26s, WINGTP 4.35%-PERPs, CS 5.625%-PERPs, ESRCA 5.65%-PERPs, HSBC 4.7%-PERPs and MINTSP 3.15%-PERPs. UST 10Y Yields gained 4bps to 1.63% on the back of better-than-expected ADP private payrolls in May as companies hired 978,000 workers, up from April's 654,000. Meanwhile, weekly jobless claims that came in near expectations at 385,000.

New Issues: Shinsun Holdings (Group) Co. priced a USD200mn 364-day sustainability bond at 11%, tightening from IPT of 11.25% area. CSCIF Asia Ltd (Guarantor: CSC Financial Co., Ltd.) priced a USD500mn 3-year bond at T+92.5bps, tightening from IPT of T+140bps area. Chongqing Nan'an Urban Construction & Development Group Co Ltd priced a USD350mn 5-year senior unsecured bond at 4.7%, tightening from IPT of 5% area. Industrial Bank Co., Ltd. Hong Kong Branch priced a USD600mn 3-year senior unsecured green bond at T+58bps, tightening from IPT of T+95bps area.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	90.512	0.67%	USD-SGD	1.3277	0.39%
USD-JPY	110.290	0.67%	EUR-SGD	1.6102	-0.29%
EUR-USD	1.213	-0.69%	JPY-SGD	1.2038	-0.27%
AUD-USD	0.766	-1.24%	GBP-SGD	1.8728	-0.06%
GBP-USD	1.411	-0.46%	AUD-SGD	1.0170	-0.81%
USD-MYR	4.124	-0.01%	NZD-SGD	0.9488	-0.87%
USD-CNY	6.404	0.36%	CHF-SGD	1.4698	-0.21%
USD-IDR	14285	0.04%	SGD-MYR	3.1123	-0.14%
USD-VND	23035	-0.05%	SGD-CNY	4.8240	-0.02%

Equity and Commodity

Index	Value	Net change
DJIA	34,577.04	-23.34
S&P	4,192.85	-15.27
Nasdaq	13,614.51	-141.82
Nikkei 225	29,058.11	111.97
STI	3,165.00	3.96
KLCI	1,590.57	-7.37
JCI	6,091.51	59.93
Baltic Dry	2,530.00	-38.00
VIX	18.04	0.56

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.5560	-0.56%	O/N	0.0550	0.05%
2M	-0.3360	-0.34%	1M	0.0855	0.09%
3M	-0.5430	-0.55%	2M	0.1105	0.12%
6M	-0.5160	-0.52%	3M	0.1340	0.13%
9M	-0.1940	-0.20%	6M	0.1674	0.17%
12M	-0.4850	-0.49%	12M	0.2449	0.25%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	0.36 (--)	0.15 (--)
5Y	0.87 (-0.01)	0.84 (+0.05)
10Y	1.5 (--)	1.63 (+0.04)
15Y	1.85 (+0.01)	--
20Y	1.86 (--)	--
30Y	1.88 (--)	2.3 (+0.02)

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	Implied Rate Change	Implied Rate
06/16/2021	0.062	0.077	0.077
07/28/2021	0.084	0.082	0.082
09/22/2021	0.084	0.082	0.082
11/03/2021	0.084	0.082	0.082
12/15/2021	0.084	0.082	0.082
01/26/2022	0.084	0.082	0.082

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	-5.85	(--)
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	0.01
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Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	68.81	-0.03%	Corn (per bushel)	6.620	-1.9%
Brent (per barrel)	71.31	-0.06%	Soybean (per bushel)	15.493	-0.8%
Heating Oil (per gallon)	210.17	-0.26%	Wheat (per bushel)	6.763	-1.6%
Gasoline (per gallon)	220.18	0.35%	Crude Palm Oil (MYR/MT)	42.620	2.3%
Natural Gas (per MMBtu)	3.04	-1.11%	Rubber (JPY/KG)	2.419	2.5%

Base Metals

	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	9788.50	-3.54%	Gold (per oz)	1870.8	-2.0%
Nickel (per mt)	17891.00	-1.89%	Silver (per oz)	27.4	-2.6%

Economic Calendar

Date Time		Event		Survey	Actual	Prior	Revised
06/04/2021 00:30	IN	RBI Reverse Repo Rate	Jun-04	3.35%	--	3.35%	--
06/04/2021 00:30	IN	RBI Cash Reserve Ratio	Jun-04	4.00%	--	4.00%	--
06/04/2021 00:30	IN	RBI Repurchase Rate	Jun-04	4.00%	--	4.00%	--
06/04/2021 01:00	SI	Retail Sales YoY	Apr	58.60%	--	6.20%	--
06/04/2021 03:30	TH	Foreign Reserves	May-28	--	--	\$250.7b	--
06/04/2021 04:30	UK	Markit/CIPS UK Construction PMI	May	62.0	--	61.6	--
06/04/2021 05:00	TA	GDP YoY	1Q F	8.20%	--	8.16%	--
06/04/2021 08:30	CA	Unemployment Rate	May	8.20%	--	8.10%	--
06/04/2021 08:30	CA	Net Change in Employment	May	-22.5k	--	-207.1k	--
06/04/2021 08:30	US	Unemployment Rate	May	5.90%	--	6.10%	--
06/04/2021 08:30	US	Change in Nonfarm Payrolls	May	655k	--	266k	--
06/04/2021 08:30	US	Change in Manufact. Payrolls	May	21k	--	-18k	--
06/04/2021 10:00	US	Durable Goods Orders	Apr F	-1.30%	--	-1.30%	--
06/04/2021 10:00	US	Factory Orders	Apr	-0.30%	--	1.10%	--
06/04/2021 10:00	US	Durables Ex Transportation	Apr F	1.00%	--	1.00%	--
06/04/2021 10:00	US	Cap Goods Orders Nondef Ex Air	Apr F	2.30%	--	2.30%	--

Source: Bloomberg

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