

Daily Treasury Outlook

11 October 2021

Highlights

Global: Another big miss on Friday's US nonfarm payrolls report which came in at a disappointing 194k (the smallest increase this year), versus market hopes of 500k (consensus), albeit the unemployment rate fell further from 5.2% to 4.8% and average hourly earnings also jumped 0.6% mom (4.6% yoy) in September in its biggest increase since April. The 2-month revision in nonfarm payrolls data was also +169k and the average hourly workweek also hit a four-month high of 34.8 hours, although the labour force participation rate also dipped to 61.6%, which was partly due to a decline among women. This suggests that the US labour market remained caught between employers who want to hire but challenged by a slow return of unemployed after Federal unemployment benefits expired. Whether this latest US labour market report would deter the Fed from proceeding with its taper later this year remains to be seen, as such, upcoming Fed speeches would be key to watch. The S&P 500 fell 0.19% on Friday in a choppy session, with the VIX also lower at 18.77. The UST bond market also fell, pushing the 10-year bond yield past the 1.6% handle to close at 1.61% (highest in over four months) amid higher inflationary concerns fuelled by rising energy costs and wage gains. Meanwhile, Taiwan president Tsai noted "unprecedented challenges" amid a complex regional landscape following Chinese leader Xi's comments about reunification. Elsewhere, BOE's Saunders opined that market players were right to expect "significantly earlier" rate hike expectations, reinforcing that the coming policy meetings from November were in play. With oil hovering near the US\$80 per barrel handle, the ongoing energy crisis is likely to keep inflationary concerns on the boil for now.

Market watch: Asian markets may be off to a soft start this morning, given the mixed US labour market report. The US bond market is out for Columbus Day holiday today, but there will be US\$58b of 3-year notes and US\$38b of 10-year note auctions tomorrow and US\$24b of 30-year bonds on Wednesday. Today's economic data calendar is non-consequential, but watch for ECB's Lane, Centeno, Holzmann, Elderson and De Cos who are speaking today. For the week ahead, there are Bank of Korea policy decision (likely unchanged at 0.75%) tomorrow, the start of US earnings season kicking off with banks announcing from Wednesday onwards, US' FOMC minutes and inflation readings on Wednesday, the IMF-World Bank annual meetings, and China's inflation readings as well as S'pore's 3Q21 GDP and MAS monetary policy decision on Thursday.

CN: China's State Council announced more measures to ease pressure on coal production and electricity supply. On electricity supply, the fluctuation range for market-based electricity prices will be allowed to expand to 20% from the benchmark price from previously 10% ceiling and 15% floor. In addition, for energy intensive industries, the 20% fluctuation cap will be removed. The reform of electricity pricing mechanism could be inflationary.

Key Market Movements

Equity	Value	% chg
S&P 500	4391.3	-0.2%
DJIA	34746	0.0%
Nikkei 225	28049	1.3%
SH Comp	3592.2	0.7%
STI	3112.8	0.4%
Hang Seng	24838	0.6%
KLCI	1563.9	0.2%
	Value	% chg
DXY	94.067	-0.2%
USDJPY	112.24	0.5%
EURUSD	1.1569	0.1%
GBPUSD	1.3615	0.0%
USDIDR	14223	0.0%
USDSGD	1.3545	-0.3%
SGDMYR	3.0788	-0.1%
	Value	chg (bp)
2Y UST	0.32	1.23
10Y UST	1.61	3.89
2Y SGS	0.60	2.40
10Y SGS	1.72	8.07
3M LIBOR	0.12	-0.04
3M SIBOR	0.43	0.00
3M SOR	0.20	0.33
3M SORA	0.13	0.04
3M SOFR	0.05	0.00
	Value	% chg
Brent	82.39	0.5%
WTI	79.35	1.3%
Gold	1757	0.1%
Silver	22.68	0.3%
Palladium	2079	5.8%
Copper	9361	0.9%
BCOM	102.62	0.3%

Source: Bloomberg

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Major Markets

SG: Our forecast for 3Q21 GDP growth, which is due at 8am on Thursday, is 6.4% yoy (1.1% qoq sa), which is a moderation from 2Q21's 14.7% yoy (-1.8% qoq sa), partly due to the return to P2(HA) amid the uptick in Delta cases. MAS is likely to keep its monetary policy settings unchanged at this juncture, given that the rise in headline and core CPI are within their forecast ranges, but may signal a need for recalibration in 2022.

The STI added 0.38% to close at 3112.81 on Friday but is likely to consolidate today amid weak leads from Wall Street on Friday after the disappointing nonfarm payrolls and a slow start in Nikkei this morning. SGS bonds may tack the bear-steepening bias in the UST bond market from Friday too.

US: More on the labour market report – government employment fell by 123k, the largest decline in 11 months, while private payrolls rose 317k (smallest increase since April) as leisure and hospitality hiring slowed. The wholesale inventories rose 1.2% in August.

CN: The meeting between Chinese Vice Premier Liu He and US trade negotiator Katherine Tai covered a wide range of topics including China's lodge for removal of trade tariff, implementation of phase one trade deal and US's concern about China's state-led industrial policies.

China is likely to boost its purchase of US goods under phase one deal ahead of the virtual meeting between leaders. However, China is unlikely to respond to US's complain about China's industrial policies. Although some US officials think the engagement with China about industrial policy was the basis of the trading relationship, Chinese media hardly reported any news about industrial policy, showing understanding gap between two countries.

Malaysia: Malaysia's PM Ismail Sabri said that the country will resume interstate and international travel from today onward, as 90% of its adult population have been fully vaccinated. Malaysian citizens who are fully vaccinated will be permitted to travel overseas without having to apply for the MyTravelPass permit, although they will still have to serve the quarantine order upon their return to the country.

Indonesia: Indonesia reported 894 new Covid-19 cases, the lowest case count since June 21st. Meanwhile, the fatality rate appears to be well on the decline as well, with 39 deaths reported, the lowest since June 28th. Separately, the capital city of Jakarta, which was hit badly by the pandemic wave before, sees its monthly death rate almost returning to its pre-pandemic levels, signalling the worse is indeed over for now.

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Oil: Crude oil was undeterred by the seemingly poor US NFP numbers, with Brent rising 0.5% on the day to close at \$82.39/bbl. Brent closed above the \$80 handle the entire week and appears to signal that price may stay above that support level for the time being.

Natural gas: Europe TTF price collapsed big again on Friday, declining 15.8% in a day to \$28.40/mmbtu. Since peaking at \$40.08/mmbtu on Tuesday, European gas prices have tumbled 30% after Russia said it would supply Europe with more gas.

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Bond Market Updates

Market Commentary: The SGD swap curve traded higher on Friday, with shorter tenors trading 1-3bps higher, belly tenors trading 4-8bps higher, and longer tenors trading 7bps higher. There were very light flows in SGD Corporates on Friday. Hitting its highest levels since June 2021, UST 10Y Yields rose 4bps to 1.61% on Friday amidst a mix jobs report. September jobs data showed that nonfarm payrolls increased by 194,000 in September, much lower than the consensus Dow Jones estimate of 500,000. Unemployment rate though declined to 4.8% from 5.2%, better than the expected 5.1%. Inflation expectations has also risen in the US.

New Issues: There were no issuances on Friday.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	94.067	-0.16%	USD-SGD	1.3545	-0.30%
USD-JPY	112.240	0.55%	EUR-SGD	1.5673	-0.13%
EUR-USD	1.157	0.15%	JPY-SGD	1.2070	-0.83%
AUD-USD	0.731	-0.04%	GBP-SGD	1.8447	-0.29%
GBP-USD	1.362	-0.03%	AUD-SGD	0.9898	-0.37%
USD-MYR	4.178	-0.12%	NZD-SGD	0.9390	-0.23%
USD-CNY	6.444	0.00%	CHF-SGD	1.4608	-0.12%
USD-IDR	14223	0.04%	SGD-MYR	3.0788	-0.08%
USD-VND	22763	0.01%	SGD-CNY	4.7566	0.20%

Equity and Commodity

Index	Value	Net change
DJIA	34,746.25	-8.69
S&P	4,391.34	-8.42
Nasdaq	14,579.54	-74.48
Nikkei 225	28,048.94	370.73
STI	3,112.81	11.66
KLCI	1,563.90	2.61
JCI	6,481.77	65.37
Baltic Dry	5,526.00	-124.00
VIX	18.77	-0.77

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.5610	-0.56%	O/N	0.0726	0.07%
2M	-0.3360	-0.34%	1M	0.0836	0.09%
3M	-0.5480	-0.55%	2M	0.1054	0.11%
6M	-0.5180	-0.53%	3M	0.1211	0.12%
9M	-0.1940	-0.20%	6M	0.1565	0.16%
12M	-0.4820	-0.48%	12M	0.2470	0.24%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	0.6 (+0.02)	0.32(--)
5Y	1.06 (+0.08)	1.06 (+0.04)
10Y	1.72 (+0.08)	1.61 (+0.04)
15Y	2.03 (+0.08)	--
20Y	2.09 (+0.07)	--
30Y	2.06 (+0.06)	2.16 (+0.04)

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	0.005	0.077	0.077
01/26/2022	0.005	0.077	0.077
03/16/2022	0.046	0.088	0.088
05/04/2022	0.091	0.099	0.099
06/15/2022	0.242	0.137	0.137

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	-6.50	(--)
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)	79.35	1.34%	Corn (per bushel)	5.305	-0.7%
Brent (per barrel)	82.39	0.54%	Soybean (per bushel)	12.430	-0.3%
Heating Oil (per gallon)	247.37	0.57%	Wheat (per bushel)	7.340	-1.0%
Gasoline (per gallon)	236.62	1.36%	Crude Palm Oil (MYR/MT)	51.520	2.3%
Natural Gas (per MMBtu)	5.57	-1.97%	Rubber (JPY/KG)	2.010	2.0%

Base Metals

	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	9361.00	0.87%	Gold (per oz)	1757.1	0.1%
Nickel (per mt)	19221.00	5.24%	Silver (per oz)	22.7	0.3%

Economic Calendar

Date Time		Event		Survey	Actual	Prior	Revised
10/11/2021 04:00	NZ	REINZ House Sales YoY	Sep	--	--	-0.27	--
10/11/2021 09:00	CH	New Yuan Loans CNY	Sep	1820.0b	--	1220.0b	--
10/11/2021 09:00	CH	Money Supply M1 YoY	Sep	4.10%	--	4.20%	--
10/11/2021 09:00	CH	Money Supply M0 YoY	Sep	6.00%	--	6.30%	--
10/11/2021 09:00	CH	Aggregate Financing CNY	Sep	3100.0b	--	2960.0b	2955.8b
10/11/2021 11:30	SL	Imports YoY	Aug	--	--	32.20%	--
10/11/2021 11:30	SL	Exports YoY	Aug	--	--	1.70%	--
10/11/2021 14:00	JN	Machine Tool Orders YoY	Sep P	--	--	85.20%	--
10/11/2021 14:00	LN	PPI YoY	Sep	--	--	12.30%	--
10/11/2021 14:00	LN	PPI MoM	Sep	--	--	0.90%	--
10/11/2021 14:00	ES	Unemployment Rate	Sep	--	--	7.10%	--
10/11/2021 15:00	FR	Bank of France Ind. Sentiment	Sep	103.00	--	104.00	104.00
10/11/2021 16:00	IT	Industrial Production WDA YoY	Aug	-0.30%	--	7.00%	--
10/11/2021 16:00	IT	Industrial Production MoM	Aug	-0.20%	--	0.80%	--
10/11/2021 18:00	LV	Trade Balance	Aug	--	--	-399.5m	--

Source: Bloomberg

Treasury Research & Strategy

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