

## Daily Treasury Outlook

11 November 2021

### Highlights

**Global:** Retreat was the key main action driving the US equity markets overnight after US CPI surprised markets to print at 6.2% yoy (0.9% mom) in October, the fastest annual print since 1990 and the largest jump on-month in four months, underpinned by energy, shelter, food and auto prices. This came after China's factory gate inflation (PPI) also hit a 26-year high of 13.5% yoy (2.5% mom) in October. Meanwhile, US initial jobless claims also fell 4k to 267k, the lowest since mid-March 2020, signalling labour market tightness. However, Fed's Daly opined that high inflation driven by supply chain bottlenecks should pass as Covid subsidies and it would be "quite premature" to hike rates now or speed up the taper. The S&P 500 fell 0.82%, weighed down by tech stocks, while VIX rose to 18.73. UST bond yields rose on inflation concerns, with the 10-year bond yield at 1.57% as the 5- and 10-year breakeven rates hit 3.113% (record high) and 2.72% (highest since May 2006) respectively. The 2-10 year yield spread also collapsed to as low as 97 bps as traders frontloaded their first Fed rate hike from September to July 2022. The US\$25bn 30-year UST bond auction also fetched a high yield of 1.94% with a bid-cover ratio of 2.20x. The USD also rose on hawkish Fed rate hike trajectory expectations. Elsewhere, German advisers have cut their 2021 growth from 3.1% to 2.7% and warned that supply chain bottlenecks could keep inflation elevated at 3.1% and 2.6% this and next year respectively.

**Market watch:** Asian markets are likely to face consolidative pressure today as investors reassess the potential inflation impact on the major central banks' expected rate hike trajectory. Today's economic data calendar is relatively light and only comprises UK's 3Q GDP growth, industrial production and trade data, so watch central bank speeches from ECB's Lane, Makhoul, Schnabel and de Cos, as well as BOE's Mann.

**CN:** China's CPI accelerated to 1.5% yoy while PPI surged to 13.5% yoy. Although there is early sign of passthrough effect from higher PPI to CPI, the stable core CPI, which grew by 0.1% mom and 1.3% yoy, showed the inflation is not a key concern for policy makers. On credit data, there are three takeaways. First, the acceleration of local government bond issuance in October helped put a brake on the deceleration of aggregate social financing. However, the sharp increase of CNY1.11 trillion fiscal deposits showed local governments remained cautious in terms of expenditure despite rise of funding. Second, loan structure remained weak as demand for medium to long term loan softened. Third, the deceleration of M1 growth showed the falling appetite for investment due to rising costs.

**US:** Core CPI rose 4.6% yoy (0.6% mom), suggesting widespread price increases.

**Oil:** Oil prices fell yesterday, with Brent clocking a loss of 2.5% on the day, after a surprise increase in crude oil inventories. We think oil prices are trading undervalued at the moment and may rise to \$85 in the near term.

### Key Market Movements

Equity	Value	% chg
S&P 500	4646.7	-0.8%
DJIA	36080	-0.7%
Nikkei 225	29107	-0.6%
SH Comp	3492.5	-0.4%
STI	3231.3	-0.4%
Hang Seng	24996	0.7%
KLCI	1520.7	-0.2%
	Value	% chg
DX	94.850	1.0%
USDJPY	113.91	0.9%
EURUSD	1.1479	-1.0%
GBPUSD	1.3405	-1.1%
USDIDR	14253	0.1%
USDSGD	1.3529	0.4%
SGDMYR	3.0806	-0.1%
	Value	chg (bp)
2Y UST	0.51	9.21
10Y UST	1.55	11.35
2Y SGS	0.81	0.30
10Y SGS	1.73	-0.33
3M LIBOR	0.15	0.39
3M SIBOR	0.43	0.00
3M SOR	0.27	0.00
3M SORA	0.15	-0.13
3M SOFR	0.05	0.00
	Value	% chg
Brent	82.64	-2.5%
WTI	81.34	-3.3%
Gold	1850	1.0%
Silver	24.64	1.4%
Palladium	2028	0.0%
Copper	9553	0.0%
BCOM	102.02	-0.4%

Source: Bloomberg

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### Major Markets

**SG:** The STI slipped 0.37% to close at 3231.32, joining many other regional bourses in the red yesterday. SGS bonds are likely to also come under selling pressure as investors recalibrate their inflation and hence global monetary policy tightening expectations.

**CN:** On sequential basis, CPI rose by 0.7% mom, higher than seasonal pattern. The stronger than expected mom reading was mainly driven by both rising food prices and non-food prices. Food prices rose by 1.7% mom due to surging vegetable prices as a result of heavy rain in some parts of China.

The rise of non-food prices was mainly driven by rising energy prices with transportation lifted CPI up by 0.8%. Although there are early signs of passthrough effect from higher PPI to CPI, the stable core CPI, which grew by 0.1% mom and 1.3% yoy, showed the inflation is not a key concern for policy makers.

Looking ahead, we expect CPI to rise further to above 2% yoy in November due to base effect. Nevertheless, it is likely to fall below 2% in the coming months.

The widening gap between PPI and CPI to a record of 12% called for more policy supports to SMEs. Nevertheless, given China is relying more on structural monetary tool and fiscal policy, the latest inflation reading is unlikely to change market expectation on monetary policy.

**MY/Indo:** Malaysia and Indonesia have agreed to allow fully vaccinated travellers to fly between the two countries. The vaccinated travel lanes will be between Kuala Lumpur International airport to Jakarta and Bali. The agreement was made during the visit by Malaysia's PM Ismail Sabri to Jakarta. The two countries are aiming to start the plan early next year. The initiative will be Indonesia's first travel lane, and Malaysia's second.

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### Bond Market Updates

**Market Commentary:** The SGD swap curve traded mostly higher yesterday, with shorter, belly, and longer tenors (with the exception of the 15-year trading 1bps lower) trading 1-2bps higher. There were mostly light flows in SGD corporates yesterday. UST 10Y Yields spiked 11bps higher to 1.55% yesterday amidst the release of a higher-than-expected Consumer Price Index (CPI) reading by the US Labour Department. October's CPI came in at +6.2% y/y and +0.9% m/m, higher than the +5.9% y/y and +0.6% m/m Dow Jones consensus respectively. Additionally, core CPI, which excludes volatile items such as food and energy, came in at +4.6% y/y and +0.6% m/m respectively as well.

**New Issues:** The Kingdom of Bahrain priced a USD1.0bn 7.5-year senior unsecured Sukuk bond at 3.875%, tightening from an IPT of 4.25%-4.375% area and a USD1.0bn 12.5-year senior unsecured Sukuk bond at 5.625%, tightening from an IPT of 6%-6.125% area. ICTSI Treasury BV (Guarantor: International Container Terminal Services Inc.) priced a USD300mn 10-year senior unsecured bond at 3.5%, tightening from an IPT of 3.7% area.

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## Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	94.850	0.95%	USD-SGD	1.3529	0.41%
USD-JPY	113.910	0.92%	EUR-SGD	1.5530	-0.58%
EUR-USD	1.148	-0.98%	JPY-SGD	1.1879	-0.48%
AUD-USD	0.733	-0.69%	GBP-SGD	1.8137	-0.72%
GBP-USD	1.341	-1.12%	AUD-SGD	0.9913	-0.27%
USD-MYR	4.153	0.08%	NZD-SGD	0.9553	-0.53%
USD-CNY	6.389	-0.06%	CHF-SGD	1.4737	-0.32%
USD-IDR	14253	0.07%	SGD-MYR	3.0806	-0.14%
USD-VND	22657	0.00%	SGD-CNY	4.7312	-0.25%

## 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%

## Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	Implied Rate Change	Implied Rate
12/15/2021	-0.008	0.077	0.077
01/26/2022	0.016	0.082	0.082
03/16/2022	0.189	0.126	0.126
05/04/2022	0.403	0.179	0.179
06/15/2022	0.785	0.275	0.275
07/27/2022	1.076	0.348	0.348

## Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	81.34	-3.34%	Corn (per bushel)	5.693	2.6%
Brent (per barrel)	82.64	-2.52%	Soybean (per bushel)	12.035	0.3%
Heating Oil (per gallon)	245.21	-2.23%	Wheat (per bushel)	8.030	3.1%
Gasoline (per gallon)	229.72	-3.28%	Crude Palm Oil (MYR/MT)	53.980	2.6%
Natural Gas (per MMBtu)	4.88	-1.99%	Rubber (JPY/KG)	2.077	-0.2%

## Base Metals

	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	9553.00	-0.88%	Gold (per oz)	1849.6	1.0%
Nickel (per mt)	19401.00	-1.22%	Silver (per oz)	24.6	1.4%

## Equity and Commodity

Index	Value	Net change
DJIA	36,079.94	-240.04
S&P	4,646.71	-38.54
Nasdaq	15,622.71	-263.83
Nikkei 225	29,106.78	-178.68
STI	3,231.32	-12.10
KLCI	1,520.74	-3.29
JCI	6,683.15	13.22
Baltic Dry	3,630.00	-178.00
VIX	18.73	0.95

## Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	0.81 (--)	0.48 (--)
5Y	1.33 (--)	1.22 (+0.13)
10Y	1.73 (--)	1.56 (+0.11)
15Y	1.94 (-0.01)	--
20Y	2.02 (--)	--
30Y	1.99 (--)	1.96 (+0.09)

## Financial Spread (bps)

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

## Secured Overnight Fin. Rate

SOFR	0.05
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## Economic Calendar

Date Time		Event		Survey	Actual	Prior	Revised
11/11/2021 03:00	US	Monthly Budget Statement	Oct	-\$179.0b	-\$165.1b	-\$284.1b	--
11/11/2021 04:00	NZ	REINZ House Sales YoY	Oct	--	-21.70%	-37.90%	--
11/11/2021 05:45	NZ	Food Prices MoM	Oct	--	-0.90%	0.50%	--
11/11/2021 07:50	JN	PPI YoY	Oct	7.00%	8.00%	6.30%	6.40%
11/11/2021 08:30	AU	Unemployment Rate	Oct	4.80%	--	4.60%	--
11/11/2021 08:30	AU	Employment Change	Oct	50.0k	--	-138.0k	--
11/11/2021 08:30	AU	Participation Rate	Oct	64.80%	--	64.50%	--
11/11/2021 11/13	VN	Domestic Vehicle Sales YoY	Oct	--	--	-54.20%	--
11/11/2021 15:00	UK	Industrial Production MoM	Sep	0.20%	--	0.80%	--
11/11/2021 15:00	UK	Manufacturing Production MoM	Sep	0.20%	--	0.50%	--
11/11/2021 15:00	UK	Trade Balance GBP/Mn	Sep	-£3256m	--	-£3716m	--
11/11/2021 15:00	UK	Industrial Production YoY	Sep	3.10%	--	3.70%	--
11/11/2021 15:00	UK	Visible Trade Balance GBP/Mn	Sep	-£14350m	--	-£14927m	--
11/11/2021 15:00	UK	GDP QoQ	3Q P	1.50%	--	5.50%	--
11/11/2021 15:00	UK	Manufacturing Production YoY	Sep	3.10%	--	4.10%	--
11/11/2021 22:45	US	Langer Consumer Comfort	Nov-07	--	--	49.20	--

Source: Bloomberg

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