

Daily Treasury Outlook

21 January 2021

Highlights

Global: With all eyes on US President Biden and his inauguration plea to end the “uncivil war” and called for “unity”, risk appetite was supported overnight in anticipation of more fiscal stimulus and a slew of executive orders unwinding some of Trump’s policies. The latter included mandating masks on federal property, revoking a permit for the Keystone XL oil pipeline and reversing a travel ban on several Muslim and African countries. The S&P 500 gained 1.39% to a fresh record high, led by tech shares, while VIX sank to 21.58. UST bonds erased initial declines despite a soft \$24b 20-year bond auction, with the 10-year bond yield at 1.08%. The 3-month LIBOR eased to 0.22241% while the USD also traded softer. Elsewhere, BNM and BOC kept their policy rates steady at 1.75% and 0.25% respectively while generally sounding cautious of downside growth risks. China’s 1- and 5-year LPR fixings were also unchanged.

Market watch: Asian markets are likely to open on a firm tone this morning, taking the overnight cue from Wall Street. Key market focus will be whether stasis also applies to the ECB, BOJ and BI policy decisions due later today – BOJ is expected to keep its yield curve control targets at -0.1% for short-term rates and around 0% for 10-year bond yields, but may hint at what’s upcoming at the March review given the tightening measures to curb the Covid spread. ECB’s Lagarde will also have to strike a fine balance between holding its firepower while dealing with a resurgent Covid outbreak, 1Q21 lockdown, Italian political uncertainties and EUR strength. Today’s economic data calendar comprises HK’s Dec CPI, US’ Dec housing starts, building permits, initial jobless claims and the Philadelphia Fed business index.

US: The NAHB homebuilders’ confidence unexpectedly fell from 86 to 83 in January. With a unified Democratic control of the government for the first time in a decade, market hopes are for Biden’s \$1.9tn fiscal stimulus to come quickly to the aid of the US economy.

EU: The Italian parliament has approved an extra deficit spending of up to EUR32bn in fresh stimulus, but will bring the budget shortfall to close to 9% of GDP and debt rising close to 160% of GDP, according to the parliamentary budget office.

UK: BOE governor Bailey tips a “pronounced recovery” amid vaccination and opined that “we have not taken any decision, in fact we’ve not actually discussed whether or not to introduce negative rates”. The UK had suffered its deadliest day with more than 1,800 Covid deaths recorded in a single day.

SG: Singapore attracted \$17.2bn in fixed asset investments in 2020 despite the pandemic, with local companies doubling their share from 8.2% in 2019 to 17.3% last year. The US was the top FAI contributor with 53.4%. \$3.1bn (with MAS taking \$300m) of the 30-year SGS bond maturing on 1 March 2050 will be auctioned on 27 January.

Key Market Movements

Equity	Value	% chg
S&P 500	3851.9	1.4%
DJIA	31188	0.8%
Nikkei 225	28523	-0.4%
SH Comp	3583.1	0.5%
STI	2998.8	0.1%
Hang Seng	29962	1.1%
KLCI	1601.5	0.0%
	Value	% chg
DXY	90.475	0.0%
USDJPY	103.54	-0.3%
EURUSD	1.2106	-0.2%
GBPUSD	1.3654	0.2%
USIDR	14035	-0.2%
USDSGD	1.3248	-0.3%
SGDMYR	3.0491	0.1%
	Value	chg (bp)
3M UST	0.07	0.25
10Y UST	1.08	-0.84
1Y SGS	0.34	1.00
10Y SGS	1.04	6.06
3M LIBOR	0.22	-0.04
3M SIBOR	0.41	0.00
3M SOR	0.21	0.00
	Value	% chg
Brent	56.08	0.3%
WTI	53.31	0.6%
Gold	1872	1.7%
Silver	25.84	2.4%
Palladium	2374	0.5%
Copper	7954	0.0%
BCOM	80.30	0.3%

Source: Bloomberg

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Major Markets

US: US equities advanced on tech share gains, as Biden was sworn in as the 46th President of the United States. The S&P 500 index rose 1.39% and the Nasdaq 100 Composite index closed 1.97% higher. Market sentiment was elevated on rising expectations for more fiscal stimulus from the Biden administration. This is likely to be supportive for the risk rally and we expect the US equity market to maintain its bullish tilt in the near term.

CN: China kept its benchmark Loan Prime Rate fixing unchanged for both 1-year and 5-year as expected. Meanwhile, China rolled out more measures to contain the virus for the upcoming Chinese New Year holiday. Travellers returning to hometown need to show negative nucleic acid test result within 7 days before the trips and must undergo 14-day health monitoring at home after arrival. This stricter measures may further discourage people from travelling in the coming weeks. According to government estimation, this year's annual migration is likely to be 40% lower than that in 2019 but 10% higher than that in 2020 when Covid-19 first emerged.

SG: The STI added 0.10% to close at 2998.77 yesterday, but may retry the 3000 handle again today amid more positive cues from Wall Street overnight and morning advances in Nikkei and Kospi. The SGS bond market also may track the overnight UST bond market's modest gains.

Macau: Visitor arrivals dropped for the 14th consecutive month by 78.6% yoy in December 2020 while the month-on-month growth also narrowed further from 9.3% in November to 3.6% in December. The very slow recovery of Macau's inbound tourism may be due to two reasons. First, Mainland visitors may have not been very keen on cross-border travel given the lingering virus concerns, the sluggish labour market, and the reluctance to have Covid-19 test. Second, Macau has tightened the travel restrictions on the countries/regions including Hong Kong that have been fighting Covid-19 resurgence. Moving ahead, as vaccine roll-out has been taken place only slowly and many countries/regions are still in lockdown mode, international travel may not resume any time soon. As such, we are concerned that Macau's inbound tourism will remain subdued in 1Q or even 1H of 2021. If this is the case, the tourism-related sectors, retail sectors and gaming sector may remain sluggish as well. This may in turn weigh on the labour market and the overall economy.

Malaysia: Bank Negara Malaysia opted to leave its policy rate unchanged at 1.75% yesterday. We and some in the market had expected a cut due to the likely adverse impact of the renewed MCO imposition. While BNM saw this softness too, its statement suggests a sanguine outlook predicated on Q2 recovery that will be backed by successful vaccine rollout. It has left the room open for rate cuts in the future, however, signalling the readiness to use all policy levers when necessary.

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Indonesia: Bank Indonesia is due to announce its monetary policy decision today. We expect the central bank to cut rate further to aid growth. While some of the indicators suggest a nascent recovery, the presence of downside risks and continuing pandemic resurgence may compel it to ease further to help growth.

CA: BOC warned of a 2.5% annualised contraction in 1Q21, with governor Macklem warning that “we are moving in the wrong direction right now”, and inflation would not return sustainably to its 2% target until 2023.

Oil: Oil prices rose yesterday, with Brent adding 0.3% to close at \$56.08/bbl. We still expect the uptrend in crude oil prices to remain intact in the short to mid-term.

Gold: Gold prices rose 1.7% yesterday, fuelled higher by increased hopes of more aggressive fiscal stimulus from the newly inaugurated Biden administration. As have been repeatedly telegraphed by us, we remain bullish on gold.

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Bond Market Updates

Market Commentary: The SGD swap curve bear steepened yesterday, with shorter tenors trading 1-3bps higher and belly tenors trading 3-4bps higher. Longer tenors traded 5-6bps higher. The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 146bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 8bps to 656bps. The HY-IG Index Spread tightened 8bps to 510bps. There were very minimal flows in SGD corporates yesterday. 10Y UST fell 1bps to 1.08% on the back of President Biden's inauguration while a USD24bn sale of 20-year treasury bonds yielded slightly weak demand.

New Issues: Fortune Star BVI Ltd (Guarantor: Fosun International Limited) priced a USD500mn 6NC4 bond at 5.05%, tightening from IPT of 5.45% area. Champion Path Holdings Ltd. (Guarantor: SJM Holdings Ltd.) priced a USD500mn 5NC3 bond at 4.5%, tightening from IPT of 5% area and a USD500mn 7NC4 bond at 4.85%, tightening from IPT of 5.375% area. Indonesia Infrastructure Finance PT priced a USD150mn 5-year bond at 1.75%, tightening from IPT of 2.125% area. Korea Southern Power Co Ltd priced a USD450mn 5-year green bond at T+40bps, tightening from IPT of T+75bps area. Guangzhou Fineland Real Estate Development Co Ltd priced a USD103.75mn 2.5-year bond at 13.6%, tightening from IPT of 13.85% area. Asian Infrastructure Investment Bank/The priced a USD3bn 5-year sustainability bond at MS+6bps, tightening from IPT of MS+8bps area. Li & Fung Limited priced a USD100mn re-tap of its LIFUNG 4.5%'25s at T+423.4bps.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	90.475	-0.03%	USD-SGD	1.3248	-0.35%
USD-JPY	103.540	-0.35%	EUR-SGD	1.6038	-0.53%
EUR-USD	1.211	-0.19%	JPY-SGD	1.2795	0.04%
AUD-USD	0.775	0.68%	GBP-SGD	1.8092	-0.15%
GBP-USD	1.365	0.18%	AUD-SGD	1.0263	0.34%
USD-MYR	4.044	-0.17%	NZD-SGD	0.9500	0.33%
USD-CNY	6.466	-0.21%	CHF-SGD	1.4891	-0.43%
USD-IDR	14035	-0.21%	SGD-MYR	3.0491	0.14%
USD-VND	23077	0.07%	SGD-CNY	4.8793	0.08%

Equity and Commodity

Index	Value	Net change
DJIA	31,188.38	257.86
S&P	3,851.85	52.94
Nasdaq	13,457.25	260.07
Nikkei 225	28,523.26	-110.20
STI	2,998.77	2.85
KLCI	1,601.54	-0.34
JCI	6,429.76	107.90
Baltic Dry	1,766.00	26.00
VIX	21.58	-1.66

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.5610	-0.57%	O/N	0.0851	0.09%
2M	-0.3360	-0.34%	1M	0.1295	0.13%
3M	-0.5480	-0.55%	2M	0.1661	0.17%
6M	-0.5280	-0.53%	3M	0.2236	0.22%
9M	-0.1940	-0.20%	6M	0.2359	0.24%
12M	-0.5020	-0.50%	12M	0.3130	0.31%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	0.32 (+0.03)	0.13(--)
5Y	0.52 (+0.02)	0.44(--)
10Y	1.04 (+0.06)	1.08 (-0.01)
15Y	1.33 (+0.08)	--
20Y	1.39 (+0.09)	--
30Y	1.45 (+0.13)	1.83(--)

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	% Hike/Cut	Implied Rate Change	Implied Rate
01/27/2021	-0.029	-2.9	0.082	0.082
03/17/2021	-0.071	-4.2	0.072	0.072
04/28/2021	-0.069	0.2	0.072	0.072
06/16/2021	-0.1	-3.1	0.065	0.065
07/28/2021	-0.089	1.1	0.067	0.067
09/22/2021	-0.089	0	0.067	0.067

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	-6.50	(--)
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	0.07
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Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	53.24	0.49%	Corn (per bushel)	5.220	-0.8%
Brent (per barrel)	56.08	0.32%	Soybean (per bushel)	13.695	-1.2%
Heating Oil (per gallon)	160.04	0.11%	Wheat (per bushel)	6.678	-0.7%
Gasoline (per gallon)	154.39	0.38%	Crude Palm Oil (MYR/MT)	34.700	-1.0%
Natural Gas (per MMBtu)	2.54	-0.27%	Rubber (JPY/KG)	3.366	4.0%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	7954.00	-0.22%	Gold (per oz)	1871.8	1.7%
Nickel (per mt)	18215.00	0.88%	Silver (per oz)	25.8	2.4%

Economic Calendar

Date Time		Event		Survey	Actual	Prior	Revised
01/21/2021	ID	Bank Indonesia 7D Reverse Repo	Jan-21	3.75%	--	3.75%	--
01/21/2021	JN	BOJ Policy Balance Rate	Jan-21	-0.10%	--	-0.10%	--
01/21/2021 07:50	JN	Trade Balance	Dec	¥930.5b	--	¥366.8b	¥366.1b
01/21/2021 08:30	AU	Unemployment Rate	Dec	6.7%	--	6.80%	--
01/21/2021 08:30	AU	Employment Change	Dec	50.0k	--	90.0k	--
01/21/2021 08:30	AU	Participation Rate	Dec	66.2%	--	66.1%	--
01/21/2021 14:00	JN	Machine Tool Orders YoY	Dec F	--	--	8.70%	--
01/21/2021 16:30	HK	CPI Composite YoY	Dec	-0.30%	--	-0.20%	--
01/21/2021 20:45	EC	ECB Main Refinancing Rate	Jan-21	0.00%	--	0.00%	--
01/21/2021 20:45	EC	ECB Deposit Facility Rate	44197	-0.50%	--	-0.50%	--
01/21/2021 20:45	EC	ECB Marginal Lending Facility	Jan-21	0.25%	--	0.25%	--
01/21/2021 21:30	US	Housing Starts	Dec	1560k	--	1547k	--
01/21/2021 21:30	US	Philadelphia Fed Business Outlook	Jan	11.8	--	11.1	9.1
01/21/2021 21:30	US	Continuing Claims	Jan-09	5300k	--	5271k	--
01/21/2021 21:30	US	Initial Jobless Claims	42370	935k	--	965k	--
01/21/2021 23:00	EC	Consumer Confidence	Jan A	-15.0	--	-13.9	--

Source: Bloomberg

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