

Daily Treasury Outlook

25 January 2021

Highlights

Global: Global risk appetite closed on a slightly cautious note on Friday amid the increasing Covid cases and concerns about the more virulent strains emerging. The UK had warned that vaccines may be less effective against the new variants and is considering tightening measures, while France may be set to go into lockdown soon. The S&P 500 closed 0.30% lower on Friday, while VIX rose to 21.91. UST bonds traded mixed and little changed last week, with the 10-year yield at 1.09%, while awaiting the record auctions of \$60bn 2-year, \$61bn 5-year and \$62bn of 7-year bonds this week. Meanwhile, we expect the FOMC to hold the line that it is premature to talk of any taper plans while acknowledging the recent softening in the US economic data, especially on the labour market front. As such, Fed chair Powell is likely to retain his overall dovish tone while sounding generally supportive of upcoming fiscal support. Note incoming Budget Committee chairman Sanders had backed the use of reconciliation to pass a bill without Republican support if necessary. Elsewhere, Hong Kong has lifted its lockdown over the weekend after testing some 7k residents in Kowloon's Yau Ma Tei and Jordan areas.

Market watch: Asian markets may open the week to trade with a soft tone today, as market attention turns to the FOMC cues mid-week and also the progress of the highly anticipated Biden's \$1.9tn fiscal stimulus plan, be it through budget reconciliation or otherwise. Today's economic data calendar comprises S'pore's December CPI, Taiwan's industrial production, German IFO business climate and US' Chicago and Dallas Fed national activity indices. Also on tap are Chinese president Xi who is also speaking at the World Economic Forum's "The Davos Agenda 2021" online event, PBOC governor Yi Gang, ECB chief economist Philip Lane, Weidmann and Panetta, and BOE's Bailey who are also speaking today. For the week ahead, watch for more US corporate earnings including Apple, Tesla, Facebook and Microsoft, 4Q20 GDP growth estimates from the US, Taiwan, South Korea, Hong Kong and the Philippines.

US: The manufacturing and services PMIs improved in January to 59.1 and 57.5 respectively, with the composite index at 58.0 (second-fastest pace since 2015) and suggesting a good start to 2021.

EU: Eurozone's manufacturing, services and composite PMIs retreated in January to 54.7, 45.0 and 47.5 respectively, led by the retreat in Germany at 57.0, 46.8, and 50.8.

SG: December headline and core CPI are tipped at 0.0% yoy (0.3% mom nsa) and -0.1% respectively, compared to November's -0.2% yoy (0.4% mom nsa) and -0.1% yoy previously. Meanwhile, Singapore has limited people to two household visits, with each household capped at 8 visitors from 26 January, while work from home remains the default arrangement to combat Covid.

Key Market Movements

Equity	Value	% chg
S&P 500	3841.5	-0.3%
DJIA	30997	-0.6%
Nikkei 225	28631	-0.4%
SH Comp	3606.8	-0.4%
STI	2991.5	-0.8%
Hang Seng	29448	-1.6%
KLCI	1596.7	0.1%
	Value	% chg
DXY	90.238	0.1%
USDJPY	103.78	0.3%
EURUSD	1.2171	0.1%
GBPUSD	1.3686	-0.3%
USIDR	14035	0.2%
USDSGD	1.3286	0.4%
SGDMYR	3.0484	0.1%
	Value	chg (bp)
3M UST	0.07	0.00
10Y UST	1.09	-2.03
1Y SGS	0.33	-1.00
10Y SGS	1.01	-1.56
3M LIBOR	0.22	-0.46
3M SIBOR	0.41	0.00
3M SOR	0.20	-0.30
	Value	% chg
Brent	55.41	-1.2%
WTI	52.27	-1.6%
Gold	1856	-0.8%
Silver	25.49	-1.7%
Palladium	2361	-0.4%
Copper	7998	-0.3%
BCOM	79.11	-1.5%

Source: Bloomberg

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Major Markets

US: US equities closed lower last Friday on rising virus concerns. The S&P 500 index fell 0.30% and the Nasdaq 100 Composite index declined 0.29%. The overnight sell off is likely to be a technical correction and we think the risk rally remains intact. As such, we stay bullish on the US equity market in the near term ahead of the US FOMC meeting and the six-day online Davos Agenda Summit 2021 this week.

CN: The delicate balance for RMB demand and supply matrix has been broken in December 2020 at an unprecedented pace. Chinese banks have net settled a record of US\$97 billion foreign exchange via both spot and derivatives on behalf of clients. This number is 10 times higher than the monthly average of US\$9.4 billion net settlement of foreign exchange from November to January. Customer's willingness to sell foreign currency jumped to 71% in December from 62% in November while customer's willingness to buy foreign currency fell to 60% in December from 65% in November.

SG: The STI slipped 0.85% to close at 2991.53 on Friday and may range trade today amid mixed leads – S&P 500 closed lower on Friday, but morning leads from Kospi are mildly positive. With UST bond yields flat to 2bps lower, SGS bonds may remain supported today, but the upcoming 30-year SGS bond re-opening this week may keep the back-end of the curve pressured.

HK: Last Friday, HKEX announced the inclusion of eligible A-shares listed on the Shanghai Stock Exchange's Sci-Tech Innovation Board and the corresponding H-shares into Stock Connect, starting 1 February 2021. For A-shares listed on Shenzhen Stock Exchange, their corresponding H-shares will be included in Southbound trading of Stock Connect as well, effective from 1 February 2021. Going forward, with the southbound stock connect trading probably further expanding to include the secondary-listed firms and the new economy companies of China, Hong Kong equity may become more appealing to Mainland investors. Elsewhere, the government has strengthened the mandatory Covid-19 testing and imposed a 2-day lockdown on a small part of Kowloon, in an effort to contain the virus.

Macau: CPI declined for the fourth consecutive month by 0.87% yoy in December 2020. Food inflation remained muted at 0.54% amid high base effect while housing inflation stayed around multi-year low of 0.18% due to the suppressed housing rental. For the first quarter of this year, the CPI growth may remain in the negative territory amid high base effect and the lingering economic impact of Covid-19. During the rest of the year, the inflation will likely pick up gradually given the waning base effect and the expected economic recovery on vaccine roll-out. In conclusion, we expect overall inflation to be around 1.2% in 2021 after printing 0.8% in 2020.

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Malaysia: Malaysia's Finance Minister, Tengku Zafrul Abdul Aziz, said that economic growth this year will likely be at the lower end of its forecast due to renewed movement restrictions. The economy is expected to lose MYR700mn (~USD143mn) a day due to the measures. He noted, however, that because five essential sectors remain open, the hit from the lockdown is lower than last year's MYR2.4bn cost a day. The government had forecast growth to be at 6.5-7.5% this year.

Indonesia: Indonesia's Finance Minister, Sri Mulyani Indrawati, said that the government sees downside risks for economic growth in Q1 due to coronavirus restriction measures. She said that the first quarter is "very tough", especially in January although she is still hopeful for growth to catch up in the later months. Still, she expects the full-year 5% growth target to remain achievable, as the mass vaccination program gives "hope and optimism".

Oil: Brent fell 1.2% to \$55.41/bbl on Friday. Prices dipped to as low as \$54.48/bbl, but staged a late rally to close above the \$55 handle.

Gold: Gold declined 0.8% on Friday, falling to as low as \$1837.46/oz but ultimately closing above the \$1850 handle. On the week, gold rose 1.5%.

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Bond Market Updates

Market Commentary: The SGD swap curve slightly rose last Friday, with belly tenors trading 1bps higher and longer tenors trading 1-2bps higher, except for the 20-year which traded almost flat. The Bloomberg Barclays Asia USD IG Bond Index average OAS remained mostly unchanged at 145bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 4bps to 644bps. The HY-IG Index Spread tightened 4bps to 499bps. Flows in SGD corporates were heavy, with flows in OLAMSP 5.375%-PERPs, AVSING 3.375%'31s, OLAMSP 6%'22s, SOCGEN 6.125%-PERPs, UBS 4.85%-PERPs, F 4.125%'24s and MAPLSP 4.5%-PERPs. 10Y UST fell 2bps to 1.09% amidst critiques of the proposed stimulus plans and concerns regarding an extended economic recovery due to the coronavirus pandemic.

New Issues: AVIC International Finance & Investment Ltd (Guarantor: AVIC International Holding Corp) priced a USD200mn Will Not Grow 5-year bond at T+253bps, tightening from IPT of T+295bps area. Korea Development Bank Singapore branch priced a USD100mn 3-year bond at 0.47%. DBS Bank Ltd. priced a USD150mn zero-coupon 40-year bond. PT Bukit Makmur Mandiri Utama has arranged investor calls commencing 22 January for its proposed USD bond offering. GMR Hyderabad International Airport Limited has arranged investor calls commencing 22 January for its proposed USD bond offering.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	90.238	0.12%	USD-SGD	1.3286	0.44%
USD-JPY	103.780	0.27%	EUR-SGD	1.6174	0.53%
EUR-USD	1.217	0.06%	JPY-SGD	1.2804	0.21%
AUD-USD	0.772	-0.63%	GBP-SGD	1.8186	0.12%
GBP-USD	1.369	-0.34%	AUD-SGD	1.0250	-0.18%
USD-MYR	4.043	0.35%	NZD-SGD	0.9541	-0.06%
USD-CNY	6.482	0.30%	CHF-SGD	1.5013	0.50%
USD-IDR	14035	0.25%	SGD-MYR	3.0484	0.12%
USD-VND	23074	0.00%	SGD-CNY	4.8832	-0.09%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.5570	-0.56%	O/N	0.0863	0.09%
2M	-0.3360	-0.34%	1M	0.1248	0.13%
3M	-0.5400	-0.54%	2M	0.1604	0.17%
6M	-0.5250	-0.53%	3M	0.2153	0.22%
9M	-0.1940	-0.20%	6M	0.2360	0.23%
12M	-0.4980	-0.51%	12M	0.3123	0.32%

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	% Hike/Cut	Implied Rate Change	Implied Rate
01/27/2021	-0.052	-5.2	0.077	0.077
03/17/2021	-0.083	-3.1	0.07	0.07
04/28/2021	-0.092	-0.9	0.067	0.067
06/16/2021	-0.091	0.1	0.068	0.068
07/28/2021	-0.112	-2.1	0.063	0.063
09/22/2021	-0.083	2.9	0.07	0.07

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	52.27	-1.62%	Corn (per bushel)	5.005	-4.5%
Brent (per barrel)	55.41	-1.23%	Soybean (per bushel)	13.118	-4.3%
Heating Oil (per gallon)	157.60	-1.54%	Wheat (per bushel)	6.345	-4.0%
Gasoline (per gallon)	154.87	0.05%	Crude Palm Oil (MYR/MT)	35.830	0.9%
Natural Gas (per MMBtu)	2.45	-1.81%	Rubber (JPY/KG)	3.380	0.0%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	7997.50	-0.30%	Gold (per oz)	1855.6	-0.8%
Nickel (per mt)	18269.00	-0.68%	Silver (per oz)	25.5	-1.7%

Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
01/25/2021 08:00	SK Department Store Sales YoY	Dec	--	-4.30%	--
01/25/2021 08:00	SK Discount Store Sales YoY	Dec	--	-4.10%	--
01/22/2021 10:00	TH Car Sales	Dec	--	79177	--
01/25/2021 10:00	VN CPI YoY	Jan	-0.45%	0.19%	--
01/25/2021 10:00	VN Retail Sales YTD YoY	Jan	--	2.60%	--
01/25/2021 10:00	VN Industrial Production YoY	Jan	--	9.50%	--
01/25/2021 12:00	JN Tokyo Condominiums for Sale YoY	Dec	--	-15.30%	--
01/25/2021 13:00	SI CPI YoY	Dec	-0.10%	-0.10%	--
01/25/2021 13:00	SI CPI NSA MoM	Dec	0.20%	0.40%	--
01/25/2021 14:00	FI PPI MoM	Dec	--	0.7%	--
01/25/2021 16:00	TA Industrial Production YoY	Dec	6.00%	7.84%	--
01/25/2021 17:00	GE IFO Expectations	Jan	93.6	92.8	--
01/25/2021 17:00	GE IFO Current Assessment	Jan	90.6	91.3	--
01/25/2021 17:00	GE IFO Business Climate	Jan	91.4	92.1	--
01/25/2021 21:30	US Chicago Fed Nat Activity Index	Dec	0.1	0.27	--
01/25/2021 23:30	US Dallas Fed Manf. Activity	Jan	12	9.7	--

Source: Bloomberg

Treasury Research & Strategy

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