

Daily Treasury Outlook

1 July 2022

Highlights

Global: Worst half-year close since 1970 for the S&P 500 amid persistent inflation and emerging recession fears. The S&P 500 fell 0.88% overnight whereas Chinese shares extended gains after China's official manufacturing and services PMIs expanded in June to 50.2 and 54.7 respectively. With the tilt towards risk-off, UST bonds extended their rally, with the 2- and 10-year yields down 9bps and 8bps respectively to 2.95% and 3.01% (after briefly dipping below the 3% handle for the first time in three weeks), whereas the USD saw its best quarter since 2016. US' core PCE deflator moderated from 4.9% in April to 4.7% (0.3% MoM) in May, but personal spending also slowed from 0.6% to 0.2% (slowest this year) despite personal income holding steady at 0.5% in May and initial jobless claims falling 2k to 231k. Meanwhile, ECB rhetoric downplayed recession risks, with Wunsch opining that it was difficult to imagine having a deep recession without more negative shocks. Elsewhere, Japan's June large manufacturer Tankan turned less upbeat at 9 versus 14 three months ago and Bank of Thailand has removed the bank's dividend pay-out cap of 50% of annual profit but will have to pay an annual regular fee rate of 0.46% of their deposits to the FDIF after the lower 0.23% rate ends this year.

Market watch: With the risk-off bias dominating into the month/quarter-end, Asian markets are likely to start July on a mixed tone today amid renewed US slowdown concerns. Today's economic data calendar comprises of a host of manufacturing PMIs from Asia including China's Caixin, Indonesia's June CPI, Thailand's May trade and foreign reserves, and US' manufacturing ISM. ECB's Panetta and de Cos are also speaking.

CN: China's June manufacturing PMI rebounded further to 50.2 from 49.6 in May while the non-manufacturing PMI jumped strongly to 54.7 from 47.8. Both supply and demand in the manufacturing sector improved in June thanks to the relaxation of COVID lockdowns in Shanghai and Beijing. The relatively shallow recovery of manufacturing PMI was partially distorted by the improving delivery performance thanks to the relaxation of people movement control. Supplier's delivery time increased to 51.30 from 44.10. At face value, the shorter delivery time is normally a sign of a slowing economy, which tends to have a negative correlation with the PMI reading. Likewise, in China's case, the post lockdown improvement of delivery actually artificially dragged down the PMI reading. As such, it may underestimate the recovery of China's manufacturing in June.

Key Market Movements

Equity	Value	% chg
S&P 500	3785.4	-0.9%
DJIA	30775	-0.8%
Nikkei 225	26393	-1.5%
SH Comp	3398.6	1.1%
STI	3102.2	-1.0%
Hang Seng	21860	-0.6%
KLCI	1444.2	-0.5%
	Value	% chg
DXY	104.685	-0.4%
USDJPY	135.72	-0.6%
EURUSD	1.0484	0.4%
GBPUSD	1.2178	0.4%
USDIDR	14898	0.3%
USDSGD	1.3905	-0.2%
SGDMYR	3.1702	0.1%
	Value	chg (bp)
2Y UST	2.95	-8.52
10Y UST	3.01	-7.62
2Y SGS	2.68	-2.40
10Y SGS	2.98	-3.09
3M LIBOR	2.28	2.67
3M SIBOR	1.91	0.00
3M SOR	2.12	0.00
3M SORA	0.76	1.38
3M SOFR	0.70	1.36
	Value	% chg
Brent	109.03	-3.0%
WTI	105.76	-3.7%
Gold	1807	-0.6%
Silver	20.28	-2.2%
Palladium	1940	-1.3%
Copper	8258	-1.7%
BCOM	117.05	-4.3%

Source: Bloomberg

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Major Markets

SG: The STI slumped 1.04% to close at 3,102.21 yesterday and may range trade today. SGS bonds also saw yields rally by 1-5bps led by the belly of the curve, with the exception of the 30-year tenor. There is \$4.5bn of 182-day bills auction on 7 July.

MY: Malaysia's Minister of Finance said that the inflation rate for May could have accelerated to 11.4% without subsidies, compared to the actual 2.8%. He stated that the subsidy bill will increase by MYR370mn for July and August to reach a total of MYR77.7bn in 2022, adding that the additional subsidies are allocated for price control measures for chicken and eggs. He noted that subsidies have now increased to MYR1bn and that the government will disburse cash handouts amounting to MYR630mn to lower-income groups.

ID: Indonesia's parliamentary budget committee approved the 2023 state budget targets. GDP growth is assumed at 5.3-5.9%, while budget deficit is set at 2.61-2.85% of GDP. Elsewhere, crude oil price is assumed to be at USD90-110/bbl, while the yield on 10yr benchmark bonds at 7.34-9.16%. Rupiah is seen to be trading at a range of 14,300-14,800 against the USD next year – which would be a more favourable outturn compared to the actual exchange rate which threatened to cross above 14,900 level in the spot market yesterday.

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Bond Market Updates

Market Commentary: The SGD SORA curve traded mostly lower yesterday, with the curve trading 4-5bps lower across the curve (exception was the 1 year and 1.5-year tenor which traded 1bps and 2bps lower respectively). UST 10Y yields ended the day 8bps lower to 3.01% yesterday, hitting an intra-day low of 2.97% before paring back some of the gains. This follows inflation readings that came in slightly lower than expectations (though still on the high side) whilst consumption spending data is slowing. US Personal Consumption Expenditures increased 0.2% MoM versus 0.4% per expectations. The Personal Consumption Expenditure ("PCE") Core Deflator index which excludes food and energy, and the Fed's preferred inflation measure came in at 4.7% YoY versus 4.8% expected. On a MoM basis, this had risen 0.3%. PCE Deflator index though rose 0.6% MoM, higher than the 0.2% MoM reading in the previous month.

New Issues: Nanjing Jiangbei New Area Industrial Investment Group priced a USD270mn 364-day bond at 4.4%, tightening from IPT of 4.8%-area. Barclays Plc priced SGD450mn of Perpetual Subordinated Contingent Convertible NC5.5 at 8.3%, tightening from IPT of 8.6%-area. LG Chem Ltd has mandated banks to arrange a series of fixed income investor calls on 5 July 2022 of a proposed USD 3Y senior unsecured green bond.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	104.685	-0.40%	USD-SGD	1.3905	-0.23%
USD-JPY	135.720	-0.64%	EUR-SGD	1.4579	0.17%
EUR-USD	1.048	0.40%	JPY-SGD	1.0235	0.31%
AUD-USD	0.690	0.33%	GBP-SGD	1.6919	0.14%
GBP-USD	1.218	0.45%	AUD-SGD	0.9592	0.06%
USD-MYR	4.409	0.21%	NZD-SGD	0.8677	0.10%
USD-CNY	6.699	-0.02%	CHF-SGD	1.4550	-0.31%
USD-IDR	14898	0.32%	SGD-MYR	3.1702	0.09%
USD-VND	23282	0.12%	SGD-CNY	4.8156	0.09%

Equity and Commodity

Index	Value	Net change
DJIA	30,775.43	-253.88
S&P	3,785.38	-33.45
Nasdaq	11,028.74	-149.15
Nikkei 225	26,393.04	-411.56
STI	3,102.21	-32.66
KLCI	1,444.22	-7.26
JCI	6,911.58	-30.77
Baltic Dry	2,186.00	-18.00
VIX	28.71	0.55

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.5350	-0.54%	O/N	1.5703	1.57%
2M	-0.3360	-0.34%	1M	1.7131	1.67%
3M	-0.1910	-0.21%	2M	0.1525	0.15%
6M	0.2780	0.23%	3M	2.2771	2.25%
9M	-0.1940	-0.20%	6M	2.9467	2.88%
12M	1.0680	1.02%	12M	3.6136	3.61%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	2.68 (-0.02)	2.98(--)
5Y	2.8 (-0.05)	3.04 (-0.11)
10Y	2.98 (-0.03)	3.02 (-0.08)
15Y	3.09 (-0.02)	--
20Y	3.14 (-0.01)	--
30Y	2.97 (-0.01)	3.19 (-0.04)

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	Implied Rate Change	Implied Rate
07/27/2022	2.750	0.687	2.273
09/21/2022	4.916	1.229	2.814
11/02/2022	6.429	1.607	3.192
12/14/2022	7.260	1.815	3.400
02/01/2023	7.589	1.897	3.482
03/22/2023	7.710	1.927	3.512

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	29.70	(--)
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	1.51
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Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	105.76	-3.66%	Corn (per bushel)	7.438	-3.4%
Brent (per barrel)	114.81	-1.25%	Soybean (per bushel)	16.750	0.0%
Heating Oil (per gallon)	389.82	-3.43%	Wheat (per bushel)	8.688	-5.1%
Gasoline (per gallon)	364.98	-4.63%	Crude Palm Oil (MYR/MT)	50.880	0.4%
Natural Gas (per MMBtu)	5.42	-16.53%	Rubber (JPY/KG)	2.606	0.1%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	8258.00	-1.70%	Gold (per oz)	1807.3	-0.6%
Nickel (per mt)	22698.00	-4.52%	Silver (per oz)	20.3	-2.2%

Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
07/01/2022 07:30	JN Jobless Rate	May	2.50%	2.60%	2.50%
07/01/2022 07:30	JN Tokyo CPI Ex-Fresh Food YoY	Jun	2.10%	2.10%	1.90%
07/01/2022 07:50	JN Tankan Large Mfg Index	2Q	13.00	9.00	14.00
07/01/2022 08:00	SK Exports YoY	Jun	3.80%	5.40%	21.30%
07/01/2022 08:30	JN Jibun Bank Japan PMI Mfg	Jun F	--	--	52.70
07/01/2022 08:30	SK S&P Global South Korea PMI Mfg	Jun	--	--	51.80
07/01/2022 08:30	ID S&P Global Indonesia PMI Mfg	Jun	--	--	50.80
07/01/2022 08:30	VN S&P Global Vietnam PMI Mfg	Jun	--	--	54.70
07/01/2022 08:30	TA S&P Global Taiwan PMI Mfg	Jun	--	--	50.00
07/01/2022 09:45	CH Caixin China PMI Mfg	Jun	50.20	--	48.10
07/01/2022 13:00	IN S&P Global India PMI Mfg	Jun	--	--	54.60
07/01/2022 15:55	GE S&P Global/BME Germany Manufacturing PMI	Jun F	52.00	--	52.00
07/01/2022 16:00	EC S&P Global Eurozone Manufacturing PMI	Jun F	52.00	--	52.00
07/01/2022 16:30	UK S&P Global/CIPS UK Manufacturing PMI	Jun F	53.40	--	53.40
07/01/2022 21:45	US S&P Global US Manufacturing PMI	Jun F	52.40	--	52.40
07/01/2022 22:00	US ISM Manufacturing	Jun	54.50	--	56.10

Source: Bloomberg

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