

Daily Treasury Outlook

1 August 2022

Highlights

Global: Strong market headwinds loom ahead for the week as China's official manufacturing PMI unexpectedly contracted to 49 in July from 50.2 in June, while the non-manufacturing PMI also eased from 54.7 to 53.8. The S&P 500 rallied 1.42% on Friday to cap the best month since 2020 as market players hope the Fed will slow rate hikes after the US economy entered a technical recession in 1H22. Both Apple and Amazon.com reported higher revenues. Shorter-dated UST bonds had a choppy session as the PCE deflator (+1% MoM and 6.8% YoY, the highest since January 1982) and employment cost index (+1.3% in 2Q) data reinforced inflation concerns, although this did not hinder the 10-year bond yield from ending lower by 3bps to 2.65% (lowest since 6 April) and flattened the yield curve into the month-end. Oil prices also fell on the Chinese PMI weakness, with WTI below US\$98 per barrel. Fed's Kashkari opined that the central bank is "committed to bringing inflation down and we're going to do what we need to do" as "we are a long way away from achieving an economy that is back to 2% inflation", while Bostic also noted the US economy was "a ways" from entering a recession and needed to tighten monetary policy further to contain inflation. Meanwhile, China's Politburo meeting flagged to strive for the best growth outcome and de-emphasized the 5.5% growth target. Separately, the China Evergrande Group also disappointed market expectations to deliver "preliminary restructuring principles" rather than a plan.

Market watch: Asian markets may be off to a choppy start for the week as investors await the slew of manufacturing PMIs due from Asia (including China's Caixin), Eurozone and UK, Indonesia's July CPI, and 2Q22 GDP growth from Hong Kong. For the week ahead, key central bank meetings to watch include the RBA policy decision tomorrow (where 50bps hike to 1.85% is likely), BOK minutes also due tomorrow, BoE policy decision on Thursday (likely 50bps hike to 1.75%) with governor Bailey's press conference to draw market attention on the inflation and interest rate trajectory ahead even as former Foreign Secretary Lix Truss is leading the race to become the next PM, RBI policy decision (likely to hike 50bps to 5.4% for the RBI repurchase rate) on Friday as well as the key US labour market report where the July nonfarm payrolls and unemployment rate are tipped to be 250k and 3.6% respectively (compared to 372k and 3.6% in June). OPEC+ is also meeting this week to set the quota for September. In addition, there is a deluge of US corporate earnings (including AMD, Airbnb, Caterpillar, PayPal, Starbucks, Uber, eBay, Yum! and Alibaba Group etc), while OCBC and DBS are also announcing results on Wednesday and Thursday respectively. US House Speaker Nancy Pelosi is also travelling in Asia (S'pore, Malaysia, South Korea and Japan) this week, but her itinerary does not mention Taiwan.

US: June personal spending reaccelerated to 1.1%, up from a revised 0.3% in May, mainly boosted by rising prices, while the core PCE deflator also picked up speed to 4.8% YoY (0.6% MoM) in June.

Key Market Movements

Equity	Value	% chg
S&P 500	4130.3	1.4%
DJIA	32845	1.0%
Nikkei 225	27802	0.0%
SH Comp	3253.2	-0.9%
STI	3211.6	-0.3%
Hang Seng	20157	-2.3%
KLCI	1492.2	0.1%
	Value	% chg
DXY	105.903	-0.4%
USDJPY	133.27	-0.7%
EURUSD	1.0220	0.2%
GBPUSD	1.2171	-0.1%
USDIDR	14833	-0.7%
USDSGD	1.3805	0.0%
SGDMYR	3.2269	0.1%
	Value	chg (bp)
2Y UST	2.88	2.22
10Y UST	2.65	-2.72
2Y SGS	2.55	-9.40
10Y SGS	2.66	-3.33
3M LIBOR	2.79	-2.36
3M SIBOR	2.48	-5.50
3M SOR	2.66	0.92
3M SORA	1.23	1.85
3M SOFR	1.11	2.23
	Value	% chg
Brent	103.97	2.1%
WTI	98.62	2.3%
Gold	1766	0.6%
Silver	20.36	1.7%
Palladium	2131	2.4%
Copper	7918	2.0%
BCOM	121.83	1.3%

Source: Bloomberg

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Major Markets

SG: The STI closed down 0.28% at 3,211.56 on Friday, but may attempt to trade on a firmer tone this morning. SGS bonds also rallied into the month-end with yields down by 5-11bps, but may start August on a fresh slate. There is a \$4.6bn 6-month bill auction on 4 August.

CN: On the data front, China's manufacturing PMI fell to 49 in July from 50.2 although non-manufacturing PMI remained resilient above 50. Business expectation fell to 52 from 55.2, below April's 53.3 when part of China was under lockdown. This showed expectation remained sensitive to those negative headlines. Raw material input prices tumbled to 40.4 from 52 due to recent correction of commodity prices. This implies the sequential contraction of producer prices index (PPI). We expect PPI to decelerate to below 5% in July from 6.1% in June.

MY: Bank Negara Malaysia said that the country's headline inflation is projected to remain within the 2.2-3.2% range for the year, even though the June print increased to 3.4% from 2.8% of the prior month.

ID: Indonesia is due to release its July inflation reading today. We expect the headline inflation to reach 4.9% YoY due to high food prices, compared to the median market estimate of 4.82% and prior month's 4.35%. The core inflation is likely to reach 2.9% YoY, compared to 2.63% before, as price pressures broaden.

ESG Updates

SG: The MAS expects to cut the emissions intensity of its equities investments by up to 50% by financial year 2030.

CN: Xiaomi is facing difficulties getting regulatory approval for its electric vehicle project in China. China has been stepping up scrutiny of the EV sector, after a rush into the industry led to a spate of high-profile bankruptcies.

Rest of the world: The Irish government agreed to targets to limit carbon emissions in key sectors of the economy after the leaders of coalition partners the Green Party, Fianna Fail and Fine Gael compromised on a 25% cut for the agricultural sector.

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Bond Market Updates

Market Commentary: The SGD SORA curve traded mostly lower last Friday, with shorter tenors trading 8-12bps lower, belly tenors trading 9-11bps lower, and longer tenors traded 5-8bps lower. UST 10Y yields traded 3bps lower to 2.65% last Friday, continuing its downward movement from Thursday as markets continued to ponder over the implications of two consecutive negative Gross Domestic Product ("GDP") readings on Federal Reserve ("Fed") policy and financial markets. Separately, Personal Consumption Expenditure ("PCE") price index for June, came in at 6.8% YoY, marking its highest level reached since January 1982 while PCE core (excluding food and energy) came in at 4.8% YoY. The final reading of the University of Michigan's consumer sentiment index for July came in as well at 51.5, a slight improvement over its preliminary reading and higher than prior month's all-time low of 50. For the week ahead, investors will be closely following key economic data releases given Fed Chairman Jerome Powell's recent comments that monetary policy at the next few meetings will largely be hinged on the outcome of incoming economic data. Key economic data releases for this week include Institute of Supply Management's ("ISM") manufacturing index for July on Monday, ISM services report for July on Wednesday and nonfarm payrolls and unemployment rate for July as well as Consumer Credit for June later in the week.

New Issues: NH Investment & Securities Co. has mandated banks to arrange a series of fixed income investor calls commencing 1 August 2022 for its proposed USD senior unsecured bond offering.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	105.903	-0.42%	USD-SGD	1.3805	0.04%
USD-JPY	133.270	-0.74%	EUR-SGD	1.4110	0.28%
EUR-USD	1.022	0.23%	JPY-SGD	1.0364	0.83%
AUD-USD	0.699	-0.06%	GBP-SGD	1.6816	0.05%
GBP-USD	1.217	-0.07%	AUD-SGD	0.9652	0.07%
USD-MYR	4.451	-0.06%	NZD-SGD	0.8685	0.09%
USD-CNY	6.745	-0.04%	CHF-SGD	1.4507	0.40%
USD-IDR	14833	-0.67%	SGD-MYR	3.2269	0.11%
USD-VND	23343	-0.08%	SGD-CNY	4.8806	-0.11%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.0710	-0.04%	O/N	2.3216	2.30%
2M	-0.3360	-0.34%	1M	2.3623	2.37%
3M	0.2320	0.27%	2M	0.1525	0.15%
6M	0.6530	0.66%	3M	2.7883	2.78%
9M	-0.1940	-0.20%	6M	3.3299	3.34%
12M	0.9210	1.04%	12M	3.7073	3.76%

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	Implied Rate Change	Implied Rate
09/21/2022	2.322	0.580	2.913
11/02/2022	3.486	0.872	3.204
12/14/2022	3.960	0.990	3.323
02/01/2023	3.987	0.997	3.329
03/22/2023	3.800	0.950	3.283
05/03/2023	3.368	0.842	3.175

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	98.62	2.28%	Corn (per bushel)	6.163	0.2%
Brent (per barrel)	110.01	2.68%	Soybean (per bushel)	16.370	1.7%
Heating Oil (per gallon)	362.47	-1.67%	Wheat (per bushel)	8.078	-1.1%
Gasoline (per gallon)	348.81	0.68%	Crude Palm Oil (MYR/MT)	43.550	8.1%
Natural Gas (per MMBtu)	8.23	1.17%	Rubber (JPY/KG)	2.518	0.1%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	7917.50	2.00%	Gold (per oz)	1765.9	0.6%
Nickel (per mt)	23619.00	7.68%	Silver (per oz)	20.4	1.7%

Equity and Commodity

Index	Value	Net change
DJIA	32,845.13	315.50
S&P	4,130.29	57.86
Nasdaq	12,390.69	228.10
Nikkei 225	27,801.64	-13.84
STI	3,211.56	-9.09
KLCI	1,492.23	1.03
JCI	6,951.12	-5.69
Baltic Dry	1,895.00	-50.00
VIX	21.33	-1.00

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	2.55 (-0.09)	2.91(--)
5Y	2.57 (-0.11)	2.68 (-0.02)
10Y	2.66 (-0.03)	2.66 (-0.03)
15Y	2.74 (-0.06)	--
20Y	2.83 (-0.05)	--
30Y	2.84 (-0.04)	3.02 (-0.01)

Financial Spread (bps)

Value	Change	
EURIBOR-OIS	72.00	(--)
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	2.28
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Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
08/01/2022 06:45	NZ Building Permits MoM	Jun	--	-2.30%	-0.50%
08/01/2022 08:00	SK Exports YoY	Jul	10.00%	9.40%	5.20%
08/01/2022 08:30	JN Jibun Bank Japan PMI Mfg	Jul F	--	--	52.20
08/01/2022 08:30	SK S&P Global South Korea PMI Mfg	Jul	--	--	51.30
08/01/2022 08:30	ID S&P Global Indonesia PMI Mfg	Jul	--	--	50.20
08/01/2022 08:30	VN S&P Global Vietnam PMI Mfg	Jul	--	--	54.00
08/01/2022 08:30	TA S&P Global Taiwan PMI Mfg	Jul	--	--	49.80
08/01/2022 09:45	CH Caixin China PMI Mfg	Jul	51.50	--	51.70
08/01/2022 12:00	ID CPI YoY	Jul	4.82%	--	4.35%
08/01/2022 13:00	IN S&P Global India PMI Mfg	Jul	--	--	53.90
08/01/2022 15:55	GE S&P Global/BME Germany Manufacturing PMI	Jul F	49.20	--	49.20
08/01/2022 16:00	EC S&P Global Eurozone Manufacturing PMI	Jul F	49.60	--	49.60
08/01/2022 16:30	HK GDP YoY	2Q A	0.30%	--	-4.00%
08/01/2022 16:30	UK S&P Global/CIPS UK Manufacturing PMI	Jul F	52.20	--	52.20
08/01/2022 21:45	US S&P Global US Manufacturing PMI	Jul F	52.30	--	52.30
08/01/2022 22:00	US ISM Manufacturing	Jul	52.00	--	53.00

Source: Bloomberg

Treasury Research & Strategy

Macro Research

Selena Ling

Head of Strategy & Research
LingSSSelena@ocbc.com

Tommy Xie Dongming

Head of Greater China Research
XieD@ocbc.com

Wellian Wiranto

Malaysia & Indonesia
WellianWiranto@ocbc.com

Herbert Wong

Hong Kong & Macau
herberthwong@ocbcwh.com

Ong Shu Yi

Environmental, Social &
 Governance (ESG)
ShuyiOng1@ocbc.com

FX/Rates Strategy

Frances Cheung

Rates Strategist
FrancesCheung@ocbc.com

Credit Research

Andrew Wong

Credit Research Analyst
WongVKAM@ocbc.com

Ezien Hoo

Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei

Credit Research Analyst
WongHongWei@ocbc.com

Toh Su-N

Credit Research Analyst
TohSN@ocbc.com

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