

Daily Treasury Outlook

8 August 2022

Highlights

Global: Strong surprise from US' July nonfarm payrolls which printed at a blockbuster 5-month high of 528k, beating market expectations of 250k, while the June estimate was also revised higher to 398k with the net two-month upward revision at 28k. The unemployment rate also unexpectedly fell from 3.6% to a 50-year low of 3.5% while the average hourly earnings accelerated from an upwardly revised 0.4% MoM in June to 0.5% in July. The labour participation rate also eased. Consequently, the S&P 500 declined 0.2% on Friday while UST bond yields surged, led by the shorter tenors as market players repriced the Fed rate hike expectations. The 2- and 10-year bond yields jumped 19bps and 14bps to 3.23% and 2.83% respectively, hence pushing the inversion to some 40+bps. The Fed Funds future market is also leaning towards a 75bps rather than a 50bps rate hike at this juncture, reinforcing the recent pushback from Fed officials who continue to emphasize the need to push on with the frontloading of rate hikes to combat inflation till the year-end. In fact, there is some speculation of an inter-meeting hike before the next scheduled 20-21 September FOMC meeting. The Senate also passed a tax, climate and healthcare bill. Meanwhile, RBI also hiked more than expected by 50bps to 5.4% for its RBI purchase rate while keeping its cash reserve ratio unchanged at 4.5%. Elsewhere, China's trade surplus also hit a record high of US\$101.26bn in July, with exports beating estimates at 18% YoY while imports expanded 2.3% YoY. China is also shortening the suspension period for inbound airline flights that have 5 COVID-positive passengers (4% of total) to 1 week from Sunday.

Market watch: Asian markets are likely to react negatively to the stronger than expected US labour market report and heightened hawkish Fed rate hike expectations coming back into play. Today's economic data calendar comprises of Japan's Eco Watchers Survey, Indonesia's July consumer confidence, Taiwan's July trade balance, and Eurozone's Sentix investor confidence. For the week ahead, BOT is tipped to initiate its first 25bps rate hike to 1.75% on Wednesday as June headline CPI well exceeds its 1-3% inflation target, with the US' July CPI likely to ebb from 9.1% to 8.7% as energy prices retreat but core CPI may accelerate from 5.9% to 6.1%. The US Treasury department is also selling 3-year notes tomorrow, 10-year notes on 10 August and 30-year bonds on 11 August.

CN: China's July goods trade surprised to the upside with total trade growth accelerating by more than 11%. China's trade surplus widened to a record high of US\$101.27bn as a result of stronger than expected export growth, which rose by 18% YoY. The strong demand from ASEAN and EU offset the moderate export growth to the US. China's trade surplus with ASEAN hit a record high of US\$19.4bn with the share of China-ASEAN trade in China's total trade rising to 15%, a sign of increasing economic integration within Asia.

Key Market Movements

Equity	Value	% chg
S&P 500	4145.2	-0.2%
DJIA	32803	0.2%
Nikkei 225	28176	0.9%
SH Comp	3227.0	1.2%
STI	3282.9	0.4%
Hang Seng	20202	0.1%
KLCI	1501.6	-0.4%
	Value	% chg
DXY	106.621	0.9%
USDJPY	135.01	1.6%
EURUSD	1.0183	-0.6%
GBPUSD	1.2073	-0.7%
USDIDR	14893	-0.3%
USDSGD	1.3813	0.4%
SGDMYR	3.2369	0.1%
	Value	chg (bp)
2Y UST	3.23	18.30
10Y UST	2.83	13.85
2Y SGS	2.57	2.40
10Y SGS	2.62	-0.23
3M LIBOR	2.87	3.10
3M SIBOR	2.48	0.22
3M SOR	2.68	1.69
3M SORA	1.31	0.96
3M SOFR	1.25	1.68
	Value	% chg
Brent	94.92	0.8%
WTI	89.01	0.5%
Gold	1776	-0.9%
Silver	19.90	-1.4%
Palladium	2129	2.9%
Copper	7871	1.9%
BCOM	117.85	-0.2%

Source: Bloomberg

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Major Markets

SG: Retail sales rose 14.8% YoY in June, slower than May's 17.8% print, but fell 1.4% MoM. Looking ahead, the retail sales outlook should still remain positive on-year assuming that the visitor arrivals remain healthy with more international events including F1, various pop concerts and also the flurry of MICE events in the pipeline for the rest of the year. For motor sales, the COE quota is still going to be 11.5% less for the August-October period compared to the previous quarter, so supply is still constrained, albeit the latest tender has started to see some stabilization in the Category B and open Category COE premiums. However, as long as consumer sentiments hold up amid the strong labour market conditions and overseas visitor arrivals remain resilient, sales for discretionary items including those at department stores, food & alcohol, watches & jewellery, and recreational goods should hold up well. We upgrade our full-year 2022 retail sales forecast from 7-8% to 9-10% YoY, close to the 11.1% seen in 2021.

MY: Malaysia's Finance Minister, Tengku Zafrul Abdul Aziz said that the government still has some fiscal space to manage inflation pressures. He noted that as the statutory debt ceiling limit has been increased from 60 to 65% of GDP, there is still room for the government to subsidize. He added that the government is not planning to reduce subsidies this year, given that the country is slowly recovering from the COVID-19 pandemic.

ID: The Indonesian economy managed to grow at a robust clip of 5.44% YoY in Q2, against expectation of around 5.2% YoY. Domestic driver proved to be strong, with private consumption at 5.51% YoY (vs. 4.34% before), but the GDP print signalled significant uplift from global commodities demand too, which helped to propel exports up by nearly 20% over the period.

ESG Updates

CN: China called on its SOEs for greater efforts in promoting energy conservation, as well as ecological environmental protection. A guideline was published that encourages central SOEs to develop green and low-carbon sectors related to their main business.

ID: State-controlled refiner Pertamina is targeting to launch a green hydrogen pilot project in the Ulubelu geothermal working area by 2023.

Rest of the world: China halted bilateral talks on climate change with the US because of the US House Speaker Nancy Pelosi's visit to Taiwan, creating concerns over climate efforts from the two biggest greenhouse gas emitters.

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Bond Market Updates

Market Commentary: The SGD SORA curve traded unevenly last Friday, with shorter tenors trading 1-3bps higher, belly tenors trading 1ps lower (with the exception of the 7Y which traded flat), and longer tenors traded 1bps higher (with the exception of 15Y and 30Y which traded flat while 20Y traded 1bps lower). UST 10Y yields traded 14bps higher to 2.83% last Friday amidst the release of strong labour data, renewing pressure for the Federal Reserve ("Fed") to deliver another 75bps rate hike in September's Federal Open Market Committee ("FOMC") meeting to raise borrowing costs and control soaring inflation. Per the US Labour Department, unemployment rate for July came in at 3.5%, tied for the lowest since 1969 and below Bloomberg median estimates of 3.6% while Nonfarm payrolls for July came in at 528,000, more than double of Bloomberg median estimates at 258,000. For the week ahead, investors will be looking ahead to the release of key inflation data with Consumer Price Index ("CPI") for July on Wednesday, Producer Price Index for June on Thursday and University of Michigan consumer sentiment report for July on Friday in order to further assess future Fed monetary policy which has become increasingly hinged on incoming economic data.

New Issues: Mercedes-Benz International Finance B.V. has mandated banks for its proposed Renminbi-denominated public bond issuance.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	106.621	0.88%	USD-SGD	1.3813	0.36%
USD-JPY	135.010	1.60%	EUR-SGD	1.4068	-0.24%
EUR-USD	1.018	-0.61%	JPY-SGD	1.0227	-1.24%
AUD-USD	0.691	-0.86%	GBP-SGD	1.6677	-0.36%
GBP-USD	1.207	-0.72%	AUD-SGD	0.9547	-0.49%
USD-MYR	4.451	-0.15%	NZD-SGD	0.8621	-0.61%
USD-CNY	6.762	0.19%	CHF-SGD	1.4362	-0.34%
USD-IDR	14893	-0.27%	SGD-MYR	3.2369	0.13%
USD-VND	23389	0.00%	SGD-CNY	4.8913	-0.20%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.0410	-0.04%	O/N	2.3120	2.31%
2M	-0.3360	-0.34%	1M	2.3694	2.37%
3M	0.2770	0.27%	2M	0.1525	0.15%
6M	0.6780	0.69%	3M	2.8667	2.86%
9M	-0.1940	-0.20%	6M	3.4256	3.39%
12M	1.0230	1.01%	12M	3.8599	3.88%

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	Implied Rate Change	Implied Rate
09/21/2022	2.804	0.701	3.042
11/02/2022	4.274	1.069	3.410
12/14/2022	5.045	1.261	3.602
02/01/2023	5.315	1.329	3.670
03/22/2023	5.385	1.346	3.688
05/03/2023	5.153	1.288	3.629

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	89.01	0.53%	Corn (per bushel)	6.103	1.3%
Brent (per barrel)	94.92	0.85%	Soybean (per bushel)	16.148	0.0%
Heating Oil (per gallon)	321.59	-3.63%	Wheat (per bushel)	7.758	-0.9%
Gasoline (per gallon)	285.56	2.22%	Crude Palm Oil (MYR/MT)	40.200	2.0%
Natural Gas (per MMBtu)	8.06	-0.71%	Rubber (JPY/KG)	2.401	0.3%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	7870.50	1.85%	Gold (per oz)	1775.5	-0.9%
Nickel (per mt)	22216.00	0.03%	Silver (per oz)	19.9	-1.4%

Equity and Commodity

Index	Value	Net change
DJIA	32,803.47	76.65
S&P	4,145.19	-6.75
Nasdaq	12,657.55	-63.03
Nikkei 225	28,175.87	243.67
STI	3,282.88	13.02
KLCI	1,501.55	-6.16
JCI	7,084.66	27.31
Baltic Dry	1,560.00	-43.00
VIX	21.15	-0.29

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	2.57 (+0.02)	3.26(--)
5Y	2.5 (+0.02)	2.96 (+0.16)
10Y	2.62 (--)	2.84 (+0.14)
15Y	2.75 (+0.02)	--
20Y	2.86 (+0.03)	--
30Y	2.85 (--)	3.08 (+0.1)

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	76.50	(--)
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	2.29
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Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
08/08/2022 07:50	JN BoP Current Account Balance	Jun	-¥706.2b	-¥132.4b	¥128.4b
08/08/2022 07:50	JN BoP Current Account Adjusted	Jun	-¥27.6b	¥838.3b	¥8.2b
08/08/2022 07:50	JN Trade Balance BoP Basis	Jun	-¥985.9b	-¥1114.0b	-¥1951.2b
08/08/2022 07:50	JN Bank Lending Incl Trusts YoY	Jul	--	1.80%	1.30%
08/08/2022 07:50	JN Bank Lending Ex-Trusts YoY	Jul	--	2.10%	1.50%
08/08/2022 09:00	PH Unemployment Rate	Jun	--	--	6.00%
08/08/2022 10:00	VN Domestic Vehicle Sales YoY	Jul	--	--	7.30%
08/08/2022 10:00	ID Consumer Confidence Index	Jul	--	--	128.20
08/08/2022 11:00	NZ 2Yr Inflation Expectation	3Q	--	--	3.29%
08/08/2022 14:30	AU Foreign Reserves	Jul	--	--	A\$79.9b
08/08/2022 16:00	TA Exports YoY	Jul	11.10%	--	15.20%
08/08/2022 16:00	TA Imports YoY	Jul	20.10%	--	19.20%
08/08/2022 16:00	TA Trade Balance	Jul	\$3.87b	--	\$4.64b
08/08/2022 16:30	EC Sentix Investor Confidence	Aug	-29.00	--	-26.40
08/08/2022 17:00	SI Foreign Reserves	Jul	--	--	\$314.32b
08/08/2022 20:00	CA Bloomberg Nanos Confidence	Aug-05	--	--	46.20

Source: Bloomberg

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