

Daily Treasury Outlook

24 May 2022

Highlights

Global: Some recovery in risk appetite overnight after US president Biden signalled for some concession on China tariffs – the S&P 500 gained 1.86% while VIX edged lower to 28.48. However, Snap Inc's warning that it would miss 2Q profit and revenue forecasts amid deteriorating macroeconomic trends saw other social media giants lower as well. UST bonds retreated and pushed the 10-year bond yield up 7bps to 2.85%. While details of the potential China tariff removal will only be discussed with Treasury Secretary Yellen upon Biden's return, this move may help to shade down the rampant inflationary pressure in the US economy. Meanwhile, China also announced more than CNY140b additional tax relief for businesses, which represent about 0.1% of GDP, will bring the total tax relief this year to CNY2.64t which exceeds the amount offered in 2020 during the pandemic. Over in Europe, ECB's Lagarde signalled that its policy rate could be raised out of negative territory by end-September and rise further, whereas BOE's Pill warned that "the balance of risk is tilted towards inflation proving stronger and more persistent than anticipated in that baseline" and more rate hikes is necessary with quantitative tightening in "the background". Separately, RBA assistant governor Kent said only around A\$4b of bonds are maturing this year and another A\$13b next year, so the central bank balance sheet holdings will only slowly mature.

Market watch: Asian markets may consolidate sideways this morning, awaiting BI rate decision where a 25bps rate hike to 3.75% may come later this afternoon. On the economic data front, watch for the slew of May PMIs from Eurozone/UK/US, and US' April new home sales and Richmond Fed manufacturing index. ECB's Villeroy, Fed's Powell and RBA's Ellis are also speaking.

SG: Headline and core CPI printed at 5.4% YoY (-0.1% MoM) and 3.3% YoY (0.4% MoM) in April, but more upside lies ahead amid buoyant external and domestic price pressures with core CPI likely to exceed 4.0% from June while headline CPI stay elevated above 5.0% for the foreseeable future. While there was no change to the official headline and core CPI forecasts of 4.5-5.5% and 2.5-3.5% YoY, we see the persistent global supply chain problems, elevated food and energy prices, unresolved Russian-Ukraine tensions and China's Covid-related lockdowns due to its zero-Covid strategy, not to mention the local labour market straining at its seams as firms position for the demand uptick as pushing our revised 2022 headline CPI forecast to 5.5% (previously 5.0% YoY) and core CPI may come in closer to the 4.0% YoY handle (previously 3.5% YoY). This reinforces our expectation that the window is still open for another monetary policy tightening at the October MPS while more targeted fiscal measures may be forthcoming to assist lower income households and vulnerable individuals with their cost of living issues. Meanwhile, Malaysia will halt chicken exports from 1 June. About 34% of S'pore's chicken imports last year came from Malaysia, so the question is whether imports from other sources like

Key Market Movements

Equity	Value	% chg
S&P 500	3973.8	1.9%
DJIA	31880	2.0%
Nikkei 225	27002	1.0%
SH Comp	3146.9	0.0%
STI	3213.7	-0.8%
Hang Seng	20470	-1.2%
KLCI	1542.5	-0.4%
	Value	% chg
DXY	102.076	-1.0%
USDJPY	127.9	0.0%
EURUSD	1.0691	1.2%
GBPUSD	1.2588	0.9%
USDIDR	14674	0.2%
USDSGD	1.3734	-0.5%
SGDMYR	3.1910	0.1%
	Value	chg (bp)
2Y UST	2.62	3.97
10Y UST	2.85	7.03
2Y SGS	2.19	-1.70
10Y SGS	2.68	-5.41
3M LIBOR	1.51	0.16
3M SIBOR	1.23	0.00
3M SOR	1.52	0.00
3M SORA	0.49	2.73
3M SOFR	0.33	2.44
	Value	% chg
Brent	113.42	0.8%
WTI	110.29	0.0%
Gold	1854	0.4%
Silver	21.79	0.1%
Palladium	1999	1.7%
Copper	9548	1.3%
BCOM	132.35	1.4%

Source: Bloomberg

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Brazil (49%) and US (12%) can rise to cover the shortfall. Food comprises 21% of the CPI basket, but meat items only accounts for 0.1% of the CPI basket, so the inflation impact is likely limited for now, but would depend on how long the chicken supply disruptions lasts. But more worrying is the recent emergence of protectionistic measures in various countries due to growing food inflation and security concerns.

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Major Markets

SG: The STI declined 0.83% to 3,213.65 yesterday but may trade sideways today. SGS bonds were supported yesterday with yields lower by up to 5-6bps for the longer tenors, but may come under pressure today amid the uptick in risk appetite. The 5-year SGS bond re-opening to be auctioned on 27 May is not challenging in terms of issue size at \$2.1b with MAS taking \$300m, so supply is less of a concern for now.

US: Fed's Bostic opined it "might make sense" for a rate pause in September after the two anticipated 50bps rate hike in June-July to assess the impact on inflation and the economy.

EU: German IFO unexpectedly rose from 91.9 to 93.0 in May due to an improvement in the services sector. Both the current assessment and the expectations gauges also improved.

CN: China's state council unveiled more fiscal stimulus to bring the economy back to track quickly. China increased its quota for tax credit rebate by CNY140b to CNY2.64t from CNY2.5t pencilled in March. In addition, China will also relax car purchase restrictions and lower the tax on car purchase by CNY60b. This will be one of the most effective ways to boost car demand. Elsewhere, China will also start a new round of rural highway construction projects and support the issuance of CNY300 billion railway construction bond.

HK: Hong Kong's headline composite CPI rose by a moderated 1.3% YoY in April, down from 1.7% in March, due to moderation in basic food prices and falling housing cost. Nonetheless, prices of energy-related items and meals out and takeaway food saw some pickup. Going forward, we expect the inflation to stay moderate on the back of falling rent and mild domestic price pressure.

MY: Malaysia's foreign reserves declined from USD112.5b as of April 29th to USD111.4b as of May 13th. Going by Bank Negara's announcement yesterday, the reserves were sufficient to finance 5.6 months' worth of retained imports and is equivalent to 1.1 times the country's short-term external debt.

ID: Bank Indonesia is due to announce its monetary policy decision today. While the broad market consensus is still calling for a hike to come only in H2, we think there is an underappreciated chance that the central bank may opt to start its hiking cycle today. The fact that it may want to undertake pre-emptive actions to counter the rising price pressures will feature in the consideration, even if inflation rates are technically still within the central bank target range of 2-4%.

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Bond Market Updates

Market Commentary: Shorter tenors traded 1-3bps lower (with the exception of the 1-year which traded 2bps higher), belly tenors traded 2-3bps lower, and longer tenors traded 3bps lower yesterday. UST 10Y yields traded 7bps higher to 2.85% yesterday, amidst an uptick in market sentiment on the back of US President Joe Biden's signal to potentially remove some tariffs on Chinese imports. This came following US Treasury Secretary Janet Yellen's comments last week arguing for the removal of some tariffs adding that, while likely not a "game changer" to inflation, these tariff removals could help to ease inflation slightly. While the US government is unlikely to remove all tariffs at once, any removal should help to support market sentiment.

New Issues: KODIT Global 2022-1 Co. (Guarantor: Korea Credit Guarantee Fund) priced a USD300mn 3-year senior unsecured social bond at T+85bps, tightening from an IPT of T+120bps area. OUE CT Treasury Pte Ltd (Guarantor: DBS Trustee Ltd) priced a SGD50mn re-tap of its OUECT 4.2%'27s at 4.2%. Chongqing Hechuan City Construction Investment (Group) Co., Ltd. has mandated banks for its proposed USD bonds offering.

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	Day Close	% Change		Day Close	% Change
DX	102.076	-1.04%	USD-SGD	1.3734	-0.51%
USD-JPY	127.900	0.02%	EUR-SGD	1.4684	0.51%
EUR-USD	1.069	1.20%	JPY-SGD	1.0737	-0.49%
AUD-USD	0.711	0.98%	GBP-SGD	1.7289	0.28%
GBP-USD	1.259	0.87%	AUD-SGD	0.9762	0.53%
USD-MYR	4.390	0.01%	NZD-SGD	0.8885	0.54%
USD-CNY	6.650	-0.65%	CHF-SGD	1.4222	0.44%
USD-IDR	14674	0.15%	SGD-MYR	3.1910	0.13%
USD-VND	23166	-0.02%	SGD-CNY	4.8425	-0.06%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.5350	-0.54%	O/N	0.8247	0.82%
2M	-0.3360	-0.34%	1M	0.9736	0.96%
3M	-0.3480	-0.35%	2M	0.1525	0.15%
6M	-0.0780	-0.10%	3M	1.5064	1.50%
9M	-0.1940	-0.20%	6M	2.0656	2.03%
12M	0.3530	0.34%	12M	2.7300	2.71%

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	Implied Rate Change	Implied Rate
06/15/2022	2.13	0.533	1.364
07/27/2022	4.105	1.026	1.858
09/21/2022	5.644	1.411	2.242
11/02/2022	6.771	1.693	2.524
12/14/2022	7.755	1.939	2.77
02/01/2023	8.326	2.081	2.913

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	110.29	-2.60%	Corn (per bushel)	7.863	1.0%
Brent (per barrel)	113.42	0.77%	Soybean (per bushel)	16.870	-1.1%
Heating Oil (per gallon)	376.88	0.79%	Wheat (per bushel)	11.900	1.8%
Gasoline (per gallon)	379.77	-1.02%	Crude Palm Oil (MYR/MT)	68.340	2.2%
Natural Gas (per MMBtu)	8.74	8.18%	Rubber (JPY/KG)	2.452	0.3%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	9548.00	1.34%	Gold (per oz)	1853.6	0.4%
Nickel (per mt)	27732.00	-0.86%	Silver (per oz)	21.8	0.1%

Equity and Commodity

Index	Value	Net change
DJIA	31,880.24	618.34
S&P	3,973.75	72.39
Nasdaq	11,535.27	180.65
Nikkei 225	27,001.52	262.49
STI	3,213.65	-26.93
KLCI	1,542.53	-6.59
JCI	6,840.78	-77.37
Baltic Dry	3,344.00	55.00
VIX	28.48	-0.95

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	2.19 (-0.02)	2.61(--)
5Y	2.52 (-0.05)	2.87 (+0.07)
10Y	2.68 (-0.05)	2.84 (+0.07)
15Y	2.81 (-0.06)	--
20Y	2.83 (-0.07)	--
30Y	2.66 (-0.05)	3.04 (+0.07)

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	14.00	(--)
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	0.78
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Economic Calendar

Date Time		Event	Survey	Actual	Prior	Revised
05/24/2022 08:30	JN	Jibun Bank Japan PMI Mfg	May P	--	53.50	--
05/24/2022 08:30	JN	Jibun Bank Japan PMI Composite	May P	--	51.10	--
05/24/2022 14:00	UK	PSNB ex Banking Groups	Apr	18.9b	18.1b	--
05/24/2022 15:20	ID	Bank Indonesia 7D Reverse Repo	May-24	3.50%	3.50%	--
05/24/2022 15:30	GE	S&P Global/BME Germany Manufacturing PMI	May P	54.00	54.60	--
05/24/2022 15:30	GE	S&P Global Germany Services PMI	May P	57.10	57.60	--
05/24/2022 15:30	GE	S&P Global Germany Composite PMI	May P	53.90	54.30	--
05/24/2022 16:00	EC	S&P Global Eurozone Manufacturing PMI	May P	54.70	55.50	--
05/24/2022 16:00	EC	S&P Global Eurozone Composite PMI	May P	55.10	55.80	--
05/24/2022 16:00	EC	S&P Global Eurozone Services PMI	May P	57.40	57.70	--
05/24/2022 16:30	UK	S&P Global/CIPS UK Manufacturing PMI	May P	55.00	55.80	--
05/24/2022 16:30	UK	S&P Global/CIPS UK Services PMI	May P	57.00	58.90	--
05/24/2022 16:30	UK	S&P Global/CIPS UK Composite PMI	May P	56.50	58.20	--
05/24/2022 21:45	US	S&P Global US Manufacturing PMI	May P	57.70	59.20	--
05/24/2022 21:45	US	S&P Global US Composite PMI	May P	55.70	56.00	--
05/24/2022 22:00	US	New Home Sales	Apr	750k	763k	--

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