

Daily Treasury Outlook

26 May 2022

Highlights

Global: Fed minutes signal “strong commitment and determination” to restore price stability by continuing with 50bps rate hikes at the “next couple of meetings” and noted that a “restrictive stance of policy may well become appropriate”. While there was increased commodity market risks from the Ukraine war and “potential for unanticipated effects on financial market conditions” from the balance sheet reduction, “many participants judged that expediting the removal of policy accommodation would leave the committee well positioned later this year to assess the effects of policy firming”. The Fed tips PCE will rise 4.3% this year before moderating to 2.5% in 2023. The S&P 500 gained 0.95% while VIX eased to 28.37. UST bonds were relieved that the FOMC minutes were not explicitly more hawkish than what has been priced into the markets (i.e. 75bps rather than 50bps) and the 10-year yield ended at 2.75%. The US\$48b 5-year bond auction fetched 2.736%. Meanwhile, the largest US chipmaker Nvidia cited China’s supply chain problems and the Ukraine war for hurting its sales forecast. Elsewhere, Chinese Premier Li Keqiang opined that the economy is in some respects faring worse than in 2020 during the pandemic.

Market watch: Asian markets may open on a firm tone today while awaiting the BOK policy rate decision (likely to hike at least 25bps to 1.75%). The economic data to watch include S’pore’s April industrial production, HK’s trade data, and US’ 1Q22 GDP growth, initial jobless claims, pending home sales and Kansas City Fed manufacturing activity index. ECB’s de Cos and Centeno are also speaking.

US: Fed’s Brainard opined that “the recent turmoil in crypto financial markets makes clear that the actions we take now – whether on the regulatory framework or a digital dollar – should be robust to the future evolution of the financial system”.

SG: April industrial production may shrink 1.7% YoY after expanding 3.4% YoY in March due to the China Covid-related lockdowns and relatively high base last year.

CN: China’s Premier Li underlined the urgency to get economic growth back on track quickly in his national teleconference with economic planning agencies. Premier Li said development is the key to solving all problems in China given China’s status as a developing economy. He also said that China should strive for positive growth in the second quarter which requires more policy supports given the still weak data month to date in May. Task forces will be sent to 12 provinces from today onwards to oversee local work in implementing state policies. It seems that China is moving towards a mentality of “whatever it takes” to support growth. We expect more fiscal and monetary easing in the coming months.

Key Market Movements

Equity	Value	% chg
S&P 500	3978.7	0.9%
DJIA	32120	0.6%
Nikkei 225	26678	-0.3%
SH Comp	3107.5	1.2%
STI	3179.6	-0.5%
Hang Seng	20171	0.3%
KLCI	1535.6	0.3%
	Value	% chg
DXY	102.056	0.2%
USDJPY	127.32	0.4%
EURUSD	1.0681	-0.5%
GBPUSD	1.2574	0.3%
USDIDR	14633	-0.2%
USDSGD	1.3758	0.3%
SGDMYR	3.1938	0.0%
	Value	chg (bp)
2Y UST	2.49	1.32
10Y UST	2.75	-0.54
2Y SGS	2.17	-2.40
10Y SGS	2.56	-4.51
3M LIBOR	1.53	0.71
3M SIBOR	1.34	0.00
3M SOR	1.55	0.00
3M SORA	0.50	0.66
3M SOFR	0.34	0.81
	Value	% chg
Brent	114.03	0.4%
WTI	110.33	0.5%
Gold	1853	-0.7%
Silver	21.99	-0.6%
Palladium	2009	0.0%
Copper	9373	-0.9%
BCOM	132.11	0.1%

Source: Bloomberg

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Major Markets

SG: The STI fell 0.48% to close at 3,179.58 yesterday but may fare better today amid market relief that the FOMC minutes were not more hawkish than expected. SGS bond rallied yesterday with yields lower by 2-5bps and may extend gains today.

MY: Malaysia reported its inflation data for April. The headline print was at 2.3% YoY, right in line with market expectations. Core prices went up by 2.1% YoY compared to 2.0% of the month before. According to the statistics department, the price increase was driven by food inflation, which posted an increase of 4.1% YoY, with the sub-category of milk, cheese and eggs posting the highest increase among others, recording a gain of 7.2% YoY.

ID: Indonesia's Coordinating Minister for Investment, Luhut Pandjaitan, said that the government will conduct an audit of palm oil companies. The minister, who has been tasked recently by President Jokowi to tackle the seemingly intractable issue of high cooking oil prices, said that the companies will be audited regarding its land holding size, operating permit, production capacity as well as the location of headquarters. He added that palm oil companies which are operating in Indonesia should be headquartered in the country for tax purposes.

ESG Updates

CN: China announced that it will plant and conserve 70 billion trees by 2030 together with the World Economic Forum and China Green Foundation.

ID: It was announced at the 2022 World Economic Forum (WEF) that Indonesia has prepared two industrial areas for green industry development (Batang, Central Java, and Tanah Kuning, North Kalimantan).

Rest of the world: John Kerry said that the US and China are making progress on putting together a group of experts from both countries to work toward quickly reducing greenhouse gas emissions, as the world's largest emitters of emissions.

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Bond Market Updates

Market Commentary: The SGD SORA curve traded mostly lower yesterday, with shorter tenors trading 2-4bps lower, belly tenors trading 4bps lower, and longer tenors trading 3bps lower. UST 10Y yields traded relatively flat at 2.75% yesterday, following the release of the May 3-4 Federal Open Market Committee (“FOMC”) meeting minutes, where the market likely took comfort regarding the absence of a more hawkish policy turn. The meeting minutes revealed the agreement among Federal Reserve officials on the need to increase the main interest rate by 50bps “at the next couple of meetings”, alongside officials’ “strong commitment and determination” to restore price stability. These moves are intended to provide officials with flexibility to “assess the effects of policy firming” and any required “policy adjustments” later in the year. While discussions regarding a “restrictive” stance to curb inflation through more aggressive rate hikes were unveiled, concerns were also raised regarding the “challenges” of doing so “while also maintaining strong labour market conditions”. Separately, Federal Reserve Vice Chairman Lael Brainard commented that high inflation is the Fed’s “most pressing challenge” and that the Fed is “taking strong actions” to bring it back down.

New Issues: Xianning Urban Development Group (SBLC Provider: China Bohai Bank Co Ltd/Wuhan) priced a USD70.5mn 3-year senior unsecured credit enhanced bond at 4.5%. Korea Development Bank/The priced a USD300mn 3-year senior unsecured bond at T+52.5bps, tightening from an IPT of T+80bps area. CMHI Finance BVI Co Ltd (Guarantor: China Merchants Port Holdings) priced a USD500mn 5-year senior unsecured bond at T+130bps, tightening from an IPT of T+175bps area. Singapore Management University priced a SGD150mn 5-year senior unsecured bond at 2.85%. Zhangzhou Transportation Development Group Co. has arranged investor calls commencing on 25 May for its proposed USD senior unsecured green bonds offering.

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	Day Close	% Change		Day Close	% Change
DXI	102.056	0.20%	USD-SGD	1.3758	0.28%
USD-JPY	127.320	0.39%	EUR-SGD	1.4698	-0.22%
EUR-USD	1.068	-0.51%	JPY-SGD	1.0804	-0.06%
AUD-USD	0.709	-0.21%	GBP-SGD	1.7298	0.62%
GBP-USD	1.257	0.34%	AUD-SGD	0.9754	0.06%
USD-MYR	4.395	-0.05%	NZD-SGD	0.8911	0.58%
USD-CNY	6.693	0.59%	CHF-SGD	1.4303	0.20%
USD-IDR	14633	-0.17%	SGD-MYR	3.1938	0.00%
USD-VND	23199	0.04%	SGD-CNY	4.8648	0.34%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.5430	-0.54%	O/N	0.8239	0.82%
2M	-0.3360	-0.34%	1M	1.0166	1.01%
3M	-0.3560	-0.36%	2M	0.1525	0.15%
6M	-0.0730	-0.09%	3M	1.5310	1.52%
9M	-0.1940	-0.20%	6M	2.0711	2.06%
12M	0.3640	0.35%	12M	2.6889	2.72%

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	Implied Rate Change	Implied Rate
06/15/2022	2.074	0.519	1.352
07/27/2022	3.957	0.989	1.823
09/21/2022	5.322	1.331	2.164
11/02/2022	6.335	1.584	2.417
12/14/2022	7.217	1.804	2.637
02/01/2023	7.736	1.934	2.767

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	110.33	0.51%	Corn (per bushel)	7.723	0.1%
Brent (per barrel)	114.03	0.41%	Soybean (per bushel)	16.810	-0.7%
Heating Oil (per gallon)	386.64	2.24%	Wheat (per bushel)	11.483	-0.6%
Gasoline (per gallon)	383.17	0.54%	Crude Palm Oil (MYR/MT)	69.600	-1.3%
Natural Gas (per MMBtu)	8.97	1.99%	Rubber (JPY/KG)	2.507	3.4%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	9373.00	-0.85%	Gold (per oz)	1853.5	-0.7%
Nickel (per mt)	26788.00	0.90%	Silver (per oz)	22.0	-0.6%

Equity and Commodity

Index	Value	Net change
DJIA	32,120.28	191.66
S&P	3,978.73	37.25
Nasdaq	11,434.74	170.29
Nikkei 225	26,677.80	-70.34
STI	3,179.58	-15.46
KLCI	1,535.56	4.26
JCI	6,883.50	-30.64
Baltic Dry	3,253.00	-116.00
VIX	28.37	-1.08

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	2.17 (-0.02)	2.5(--)
5Y	2.44 (-0.04)	2.72 (-0.02)
10Y	2.56 (-0.05)	2.75 (-0.01)
15Y	2.68 (-0.03)	--
20Y	2.74 (-0.03)	--
30Y	2.56 (-0.04)	2.97(--)

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	13.20	(--)
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	0.78
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Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
05/26/2022 07:50	JN Japan Buying Foreign Bonds	May-20	--	¥627.0b	¥370.8b
05/26/2022 08:00	SK BoK 7-Day Repo Rate	May-26	1.75%	--	1.50%
05/26/2022 09:30	AU Private Capital Expenditure	1Q	1.50%	--	1.10%
05/26/2022 13:00	SI Industrial Production YoY	Apr	4.30%	--	3.40%
05/26/2022 13:00	SI Industrial Production SA MoM	Apr	5.00%	--	-12.60%
05/26/2022 16:30	HK Exports YoY	Apr	-6.90%	--	-8.90%
05/26/2022 16:30	HK Imports YoY	Apr	-6.90%	--	-6.00%
05/26/2022 20:30	CA Retail Sales Ex Auto MoM	Mar	2.10%	--	2.10%
05/26/2022 20:30	CA Retail Sales MoM	Mar	1.40%	--	0.10%
05/26/2022 20:30	US GDP Annualized QoQ	1Q S	-1.30%	--	-1.40%
05/26/2022 20:30	US GDP Price Index	1Q S	8.00%	--	8.00%
05/26/2022 20:30	US Initial Jobless Claims	May-21	215k	--	218k
05/26/2022 20:30	US Continuing Claims	May-14	1310k	--	1317k
05/26/2022 20:30	US Core PCE QoQ	1Q S	5.20%	--	5.20%
05/26/2022 20:30	US Personal Consumption	1Q S	2.80%	--	2.70%
05/26/2022 22:00	US Pending Home Sales MoM	Apr	-2.00%	--	-1.20%

Source: Bloomberg

Treasury Research & Strategy

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