

Daily Treasury Outlook

27 January 2022

Highlights

Global: “A hiking we will go” appears to be the theme of Fed chair Powell’s tune. While the unanimous 9-0 vote was to keep the Fed Funds rate unchanged at 0-0.25%, the rhetoric was unabashedly hawkish with the FOMC statement characterising inflation as “well above” 2% and a rate hike may be appropriate “soon”. Notably, the US labour market is “very, very strong” and the recent sharp rise in Omicron cases did not impact its growth assessment. In addition, Powell opined that the majority of Fed members tip a March lift-off and was non-committal on the potential for hikes at consecutive meetings, thus retaining policy flexibility but also enhancing market uncertainty. The addendum for the principles of balance sheet normalization also suggests the run-off of its enlarged US\$8.9tn size will start once the rates lift-off “has begun” (as contrasted to “well underway” in the previous cycle). It would come as no surprise then that US equity markets surrendered gains to close lower, with the S&P500 closing down 0.15% (despite Tesla reporting revenue and net income that beat estimates) while VIX rose to 31.96. Meanwhile UST bond yields surged. The 2Y and 10Y UST bond yields jumped to 1.15% (+13bps in its biggest one-day jump since March 2020) and 1.86% respectively, flattening the yield curve. Futures market also priced in more than a 25bps rate hike at the March FOMC and more than 115bps of cumulative hikes by the end of the year. Elsewhere, North Korea fired a missile this morning. China Evergrande Group is also hoping to present an initial restructuring debt plan in six months.

Market watch: Asian markets may be in for a spin cycle today as investors digest the Fed’s hawkish intentions. Today’s market attention will turn to 4Q21 GDP growth estimates from the Philippines and Taiwan, Hong Kong’s December trade data, US’ initial jobless claims, durable goods orders, and pending home sales.

US: New home sales rose more than expected by 11.9% mom to a 9-month high in December despite high prices and limited inventory.

SG: Manufacturing output rose 15.6% yoy in December, aided by biomedical (+87.7% due largely to pharmaceuticals) despite the drag from electronics (-2.9% yoy), and bringing 2021 growth to 13.5% yoy. While manufacturing momentum will likely ease to 4-5% this year, the \$11.8bn of fixed asset investments received last year should bode well for prospects beyond 2022.

Oil: Brent closed marginally below \$90 overnight, although it did trade as high as \$90.47 during intraday trading. We remain bullish on the crude oil complex as supply challenges mount and Russia-Ukraine tensions intensify.

Key Market Movements

Equity	Value	% chg
S&P 500	4349.9	-0.1%
DJIA	34168	-0.4%
Nikkei 225	27011	-0.4%
SH Comp	3455.7	0.7%
STI	3271.6	0.7%
Hang Seng	24290	0.2%
KLCI	1515.8	0.5%
	Value	% chg
DXY	96.478	0.6%
USDJPY	114.64	0.7%
EURUSD	1.1240	-0.5%
GBPUSD	1.3463	-0.3%
USDIDR	14353	0.0%
USDSGD	1.347	0.2%
SGDMYR	3.1171	0.0%
	Value	chg (bp)
2Y UST	1.15	13.30
10Y UST	1.86	9.48
2Y SGS	1.00	0.40
10Y SGS	1.77	-0.11
3M LIBOR	0.27	0.04
3M SIBOR	0.44	0.00
3M SOR	0.31	0.00
3M SORA	0.19	-0.06
3M SOFR	0.05	0.00
	Value	% chg
Brent	89.96	2.0%
WTI	87.35	2.0%
Gold	1820	-1.5%
Silver	23.53	-1.2%
Palladium	2333	6.0%
Copper	9917	1.2%
BCOM	106.63	1.0%

Source: Bloomberg

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Major Markets

SG: STI rose 0.73% to close at 3,271.57 yesterday but may consolidate today on concerns of a more hawkish Fed. SGS bonds may track the sell-off in UST bond market overnight.

MY: The Federation of Malaysian Manufacturers (FMM) said that the government should prioritize economic recovery given the weak domestic and external environments posed by Covid-19. Its leader pointed out the association welcomes the government's plan to study the possibility of reinstating the Goods and Services Tax (GST). He noted that the fiscal situation is a concern with debt expected to reach 66% of GDP, and the servicing burden at a significant level of 17.2% of the total projected revenues for the year, at a time of no stable inflow but high outflow of expenditure.

ID: Bank Indonesia's Deputy Governor Dody Budi Waluyo said that the central bank will conduct a preemptive, ahead-of-the-curve, front-loading monetary policy mix this year to maintain stability amid growing pressure from global normalization policies. He noted that BI will sequence all measures based on the exchange rate stability, liquidity management and interest rate policy. A data-dependent approach will be used, depending on developments in domestic inflation and the rupiah exchange rate.

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ESG Updates

SG: Singapore will be investing S\$12.4bn to support green investment and build a logistics port hub in Indonesia. The investment will go towards funding renewable energy projects in Batam, Riau Islands, and in Sumba Island and West Manggarai in East Nusa Tenggara province. This was one of the developments at the Singapore-Indonesia Leaders' Retreat on 25 Jan.

CN: China announced a comprehensive plan on 24 Jan to conserve energy and reduce emissions, by urging energy-intensive industries to deploy green projects and undertake upgrades to meet certain targets by 2025 to support its 2060 carbon neutral goal. By 2025, China's energy consumption per unit of GDP is expected to drop by 13.5% compared to 2020 levels, according to the plan.

MY: Sabah aims to earn up to RM5.6bn annually by monetising its natural assets e.g. leveraging on its forests in carbon credits. Sabah recently came under scrutiny from conservation groups for a controversial carbon credit deal, called the Nature Conservation Agreement, that could see up to two million hectares of Sabah's forests being put up for a pilot project. It was criticised for its lack of transparency and failure to address the implications on local communities living in the area.

ID: During the last decade, Indonesia continued to record a constant decline in poverty and inequality rates, but the COVID-19 pandemic halted the trend i.e. the pandemic sent 2.4mn people below the poverty line over the last two years. Head of the Finance Ministry's Fiscal Policy Agency Febrio Kacaribu said that social protection programs implemented under the country's economic recovery mission were successful in suppressing the poverty rate to 9.71% by Sep 2021 from 10.19% in Sep 2020.

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Bond Market Updates

Market Commentary: The SGD swap curve traded higher yesterday, with shorter tenors trading 2-3bps higher, belly tenors trading 1-3bps higher and longer tenors trading 1-4bps higher. UST 10Y yields jumped 9bps higher to 1.86% yesterday following the FOMC monetary policy decision and press conference which the market interpreted with a hawkish take. While some specifics as to the exact pace of subsequent rate hikes or quantitative tightening were left unclear, Powell did note the risk of prolonged inflation, and signalled that the Fed is ready to hike rates in March – mentioning that the committee is “of a mind to raise the Federal Funds rate at the March meeting, assuming that the conditions are appropriate for doing so”. He also conveyed intentions to undertake quantitative tightening following the hike, and notably declined to mention that the Fed would rule out tightening at every meeting this year.

New Issues: Kia Corporation has arranged investor calls commencing 27 January for its proposed USD senior unsecured green bond offering.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	96.478	0.55%	USD-SGD	1.3470	0.20%
USD-JPY	114.640	0.67%	EUR-SGD	1.5140	-0.35%
EUR-USD	1.124	-0.54%	JPY-SGD	1.1756	-0.42%
AUD-USD	0.712	-0.50%	GBP-SGD	1.8136	-0.10%
GBP-USD	1.346	-0.28%	AUD-SGD	0.9585	-0.30%
USD-MYR	4.191	0.01%	NZD-SGD	0.8963	-0.30%
USD-CNY	6.321	-0.08%	CHF-SGD	1.4578	-0.42%
USD-IDR	14353	0.01%	SGD-MYR	3.1171	-0.02%
USD-VND	22649	-0.08%	SGD-CNY	4.7001	-0.10%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.5630	-0.56%	O/N	0.0767	0.07%
2M	-0.3360	-0.34%	1M	0.1084	0.11%
3M	-0.5430	-0.55%	2M	0.1525	0.15%
6M	-0.5220	-0.52%	3M	0.2671	0.26%
9M	-0.1940	-0.20%	6M	0.4486	0.44%
12M	-0.4630	-0.46%	12M	0.7936	0.80%

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	Implied Rate Change	Implied Rate
03/16/2022	1.159	0.29	0.372
05/04/2022	1.849	0.462	0.545
06/15/2022	2.682	0.671	0.753
07/27/2022	3.11	0.777	0.86
09/21/2022	3.763	0.941	1.023
11/02/2022	4.116	1.029	1.111

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	87.35	2.04%	Corn (per bushel)	6.270	1.1%
Brent (per barrel)	89.96	2.00%	Soybean (per bushel)	14.400	2.3%
Heating Oil (per gallon)	274.40	2.81%	Wheat (per bushel)	7.950	-2.8%
Gasoline (per gallon)	252.29	2.58%	Crude Palm Oil (MYR/MT)	55.060	1.0%
Natural Gas (per MMBtu)	4.28	5.53%	Rubber (JPY/KG)	2.237	-2.0%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	9916.50	1.18%	Gold (per oz)	1819.6	-1.5%
Nickel (per mt)	22695.00	1.59%	Silver (per oz)	23.5	-1.2%

Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
01/27/2022 03:00	US FOMC Rate Decision (Upper Bound)	Jan-26	0.25%	0.25%	0.25%
01/27/2022 05:00	SK Business Survey Manufacturing	Feb	--	90.00	92.00
01/27/2022 05:45	NZ CPI QoQ	4Q	1.30%	1.40%	2.20%
01/27/2022 05:45	NZ CPI YoY	4Q	5.70%	5.90%	4.90%
01/27/2022 07:30	AU Westpac Leading Index MoM	Dec	--	-0.03%	0.12%
01/27/2022 09:00	PH Exports YoY	Dec	7.50%	--	6.60%
01/27/2022 10:00	PH GDP YoY	4Q	6.30%	--	7.10%
01/27/2022 14:00	JN Machine Tool Orders YoY	Dec F	--	--	40.50%
01/27/2022 15:00	GE GfK Consumer Confidence	Feb	-8.00	--	-6.80
01/27/2022 16:30	HK Exports YoY	Dec	16.30%	--	25.00%
01/27/2022 21:30	US Durables Ex Transportation	Dec P	0.30%	--	0.90%
01/27/2022 21:30	US Initial Jobless Claims	Jan-22	265k	--	286k
01/27/2022 21:30	US GDP Annualized QoQ	4Q A	5.50%	--	2.30%
01/27/2022 21:30	US Durable Goods Orders	Dec P	-0.60%	--	2.60%
01/27/2022 21:30	US GDP Price Index	4Q A	6.00%	--	6.00%
01/27/2022 23:00	US Pending Home Sales MoM	Dec	-0.40%	--	-2.20%

Equity and Commodity

Index	Value	Net change
DJIA	34,168.09	-129.64
S&P	4,349.93	-6.52
Nasdaq	13,542.12	2.83
Nikkei 225	27,011.33	-120.01
STI	3,271.57	23.81
KLCI	1,515.76	6.85
JCI	6,600.82	32.65
Baltic Dry	1,391.00	-24.00
VIX	31.96	0.80

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1 (--)	1.02(--)
5Y	1.56 (--)	1.68 (+0.13)
10Y	1.77 (--)	1.77 (+0.09)
15Y	1.99 (--)	--
20Y	2.06 (+0.01)	--
30Y	2.09 (--)	2.11 (+0.05)

Financial Spread (bps)

Value	Change
EURIBOR-OIS	-5.50
TED	35.36

Secured Overnight Fin. Rate

SOFR	0.04
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Source: Bloomberg

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