

Daily Treasury Outlook

5 May 2022

Highlights

Global: 50bps hikes will be the pace going ahead according to the Fed. The FOMC unanimously hiked 50bps for the first time since 2000 to 0.75-1.0% and announced it will start to roll off its balance sheet in June by US\$30b for UST and US\$17.5b for MBS for a cumulative monthly amount of US\$47.5b before increasing to US\$95b over three months. Fed chair Powell opined that there is a “broad sense on the committee that additional 50bps increases should be on the table for the next couple of meetings” and that 75bps is “not something that the committee is actively considering” – this was music to the market who chose to sell the rumour and buy the fact so the S&P500 rallied 2.99%, while the 2- and 3-year UST bond yields both fell 14bps to 2.65% and 2.82% respectively. The 10-year UST bond yield lagged the rally and was only down 4bps to 2.93%. Powell also noted that neutral Fed Funds rate is around 2-3%, which is in sync with market expectations, and tips that inflation will flatten out. The USD slipped while the swap market pricing for the June, July and September FOMC meetings have been pared back to less than 150bps, indicating some scepticism that the Fed will hike by 50bps each. Meanwhile, the EU plans to ban Russian oil (whether seaborne or pipeline, crude or refined) over the next six months which casts market attention on today’s OPEC+ meeting. Elsewhere, RBI did a surprise 40bps hike ahead of the FOMC decision for its benchmark repurchase rate to 4.4% and also hiked its cash reserve ratio by 50bps to 4.5% effective from 21 May to drain INR870b of liquidity from the banking system, citing the need to tame persistent inflation especially for food, while Brazil’s central bank hiked by 1% to 12.75%. India is said to be considering wheat export limits, which could exacerbate global food inflation.

Market watch: Asian markets are likely to heave a big sigh of relief as well and trade firmer on the post-FOMC momentum. Watch for Chinese markets that resume trading today as market sentiments remain soft, especially for tech stocks, as well as the BOE rate decision where another rate hike and some clarification of its plans to pare down its GBP847b bond holdings may be due. Japanese markets are closed today. The economic data calendar kicks off with services and composite PMIs from China’s Caixin and India, German factory orders, HK’ March retail sales, and US’ initial jobless claims, Challenger job cuts and 1Q22 nonfarm productivity. BOE governor Bailey and ECB’s Holzmann are also speaking.

US: The Biden administration is preparing to impose human rights-related sanctions on Hikvision, according to the FT.

SG: The first batch of Novavax Covid vaccine will be offered at 21 locations by end-May.

Oil: Brent and WTI jumped more than 5% each overnight after the EU said it would implement a phased ban on Russian oil imports. If Brent manages to extend and sustain its price past \$115/bbl today, we expect a technical breakout to possibly unfold to the upside.

Key Market Movements

| Equity | Value | % chg |
|------------|---------|----------|
| S&P 500 | 4300.2 | 3.0% |
| DJIA | 34061 | 2.8% |
| Nikkei 225 | 26819 | 0.0% |
| SH Comp | 3047.1 | 0.0% |
| STI | 3349.3 | -0.2% |
| Hang Seng | 20870 | -1.1% |
| KLCI | 1600.4 | 0.0% |
| | Value | % chg |
| DXY | 102.587 | -0.8% |
| USDJPY | 129.09 | -0.8% |
| EURUSD | 1.0622 | 1.0% |
| GBPUSD | 1.2631 | 1.1% |
| USDIDR | 14497 | 0.0% |
| USDSGD | 1.3742 | -0.7% |
| SGDMYR | 3.1437 | -0.1% |
| | Value | chg (bp) |
| 2Y UST | 2.64 | -14.03 |
| 10Y UST | 2.93 | -3.68 |
| 2Y SGS | 2.09 | 7.60 |
| 10Y SGS | 2.63 | 10.19 |
| 3M LIBOR | 1.36 | 2.84 |
| 3M SIBOR | 1.09 | 0.00 |
| 3M SOR | 1.27 | 0.00 |
| 3M SORA | 0.32 | 1.62 |
| 3M SOFR | 0.18 | 0.28 |
| | Value | % chg |
| Brent | 110.14 | 4.9% |
| WTI | 107.81 | 5.3% |
| Gold | 1881 | 0.7% |
| Silver | 22.98 | 1.8% |
| Palladium | 2261 | -0.1% |
| Copper | 9474 | 0.7% |
| BCOM | 131.44 | 2.2% |

Source: Bloomberg

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Major Markets

SG: The STI declined 0.23% to close at 3,349.27 yesterday, but may bounce today amid positive overnight leads from Wall Street following less hawkish cues from FOMC. SGS bonds are likely to gain today, tracking the overnight rally in UST bond market, and unwinding some of the 5-10bps yield increase seen yesterday. MAS will sell \$4.3b of 182-day T-bills on 11 May.

CN: China's banking regulator said it will guide banks with high loan provision coverage to lower the ratio to unfreeze more resources for credit expansion. In addition, China's central bank announced to increase its targeted relending quota for the coal industry by CNY100 billion to support the clean and efficient use of coal.

MY: Fitch Ratings said that Malaysia's new digital banks are unlikely to shake up the banking sector. The agency said that in response to news that licenses have been granted to 5 new digital banks last week. It noted that these new entrants are likely to assume niche market roles rather than disrupt the banking sector in the medium term.

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Bond Market Updates

Market Commentary: Between last Friday and yesterday, the SGD SORA curve shorter tenors traded 11-13bps higher, belly tenors traded 9-12bps higher while longer tenors traded 7-9bps higher. UST 10Y yields traded 4bps lower to 2.93% yesterday. This comes following the rates decision and Powell's press conference concluding the end of the 2-day Federal Open Market Committee ("FOMC") meeting early this morning (Singapore time), where the Federal Reserve hiked its policy rates by 50bps for the first time since 2000. It was also the first time that the Federal Reserve has executed back-to-back rate hikes over two consecutive meetings since 2006. Although the 50bps rate hike was in line with broad market expectations, the market focused on Powell's comment that a 75bps hike was "not something that the committee is actively considering". The quantitative tightening plans were also largely in line with market expectations, with an initial balance sheet run-off of USD30bn per month for Treasuries and USD17.5bn per month for mortgage-backed securities ("MBS"), before increasing the thresholds over 3 months to USD60bn per month and USD35bn per month respectively.

New Issues: There were no new issues yesterday.

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| | Day Close | % Change | | Day Close | % Change |
|---------|-----------|----------|---------|-----------|----------|
| DXY | 102.587 | -0.85% | USD-SGD | 1.3742 | -0.73% |
| USD-JPY | 129.090 | -0.81% | EUR-SGD | 1.4596 | 0.23% |
| EUR-USD | 1.062 | 0.96% | JPY-SGD | 1.0642 | 0.02% |
| AUD-USD | 0.726 | 2.31% | GBP-SGD | 1.7355 | 0.31% |
| GBP-USD | 1.263 | 1.06% | AUD-SGD | 0.9973 | 1.52% |
| USD-MYR | 4.354 | 0.00% | NZD-SGD | 0.8992 | 0.88% |
| USD-CNY | 6.609 | 0.00% | CHF-SGD | 1.4134 | -0.11% |
| USD-IDR | - | 0.00% | SGD-MYR | 3.1437 | -0.08% |
| USD-VND | 22967 | 0.00% | SGD-CNY | 4.7847 | 0.15% |

Interbank Offer Rates (%)

| Tenor | EURIBOR | Change | Tenor | USD Libor | Change |
|-------|---------|--------|-------|-----------|--------|
| 1M | -0.5430 | -0.53% | O/N | 0.3303 | 0.33% |
| 2M | -0.3360 | -0.34% | 1M | 0.8317 | 0.80% |
| 3M | -0.4250 | -0.42% | 2M | 0.1525 | 0.15% |
| 6M | -0.1980 | -0.20% | 3M | 1.3633 | 1.33% |
| 9M | -0.1940 | -0.20% | 6M | 1.9809 | 1.91% |
| 12M | 0.2250 | 0.21% | 12M | 2.6949 | 2.63% |

Fed Rate Hike Probability

| Meeting | # of Hikes/Cuts | Implied Rate Change | Implied Rate |
|------------|-----------------|---------------------|--------------|
| 06/15/2022 | 2.099 | 0.525 | 1.37 |
| 07/27/2022 | 4.04 | 1.01 | 1.855 |
| 09/21/2022 | 5.593 | 1.398 | 2.243 |
| 11/02/2022 | 6.766 | 1.692 | 2.537 |
| 12/14/2022 | 7.65 | 1.912 | 2.757 |
| 02/01/2023 | 8.293 | 2.073 | 2.918 |

Commodities Futures

| Energy | Futures | % chg | Soft Commodities | Futures | % chg |
|--------------------------|----------|--------|-------------------------|---------|-------|
| WTI (per barrel) | 107.81 | 5.27% | Corn (per bushel) | 7.985 | -0.3% |
| Brent (per barrel) | 110.14 | 4.93% | Soybean (per bushel) | 16.698 | 0.6% |
| Heating Oil (per gallon) | 419.70 | 2.80% | Wheat (per bushel) | 10.660 | 3.1% |
| Gasoline (per gallon) | 365.23 | 4.32% | Crude Palm Oil (MYR/MT) | 76.830 | 0.0% |
| Natural Gas (per MMBtu) | 8.42 | 5.80% | Rubber (JPY/KG) | 2.478 | -0.4% |
| Base Metals | Futures | % chg | Precious Metals | Futures | % chg |
| Copper (per mt) | 9473.50 | 0.67% | Gold (per oz) | 1881.2 | 0.7% |
| Nickel (per mt) | 30638.00 | -1.09% | Silver (per oz) | 23.0 | 1.8% |

Equity and Commodity

| Index | Value | Net change |
|------------|-----------|------------|
| DJIA | 34,061.06 | 932.27 |
| S&P | 4,300.17 | 124.69 |
| Nasdaq | 12,964.86 | 401.10 |
| Nikkei 225 | 26,818.53 | 26818.53 |
| STI | 3,349.27 | -7.63 |
| KLCI | 1,600.43 | 1600.43 |
| JCI | 0.00 | 0.00 |
| Baltic Dry | 2,412.00 | 8.00 |
| VIX | 25.42 | -3.83 |

Government Bond Yields (%)

| Tenor | SGS (chg) | UST (chg) |
|-------|--------------|--------------|
| 2Y | 2.09 (+0.08) | 2.64(--) |
| 5Y | 2.49 (+0.09) | 2.91 (-0.11) |
| 10Y | 2.63 (+0.1) | 2.93 (-0.04) |
| 15Y | 2.77 (+0.08) | -- |
| 20Y | 2.83 (+0.06) | -- |
| 30Y | 2.69 (+0.05) | 3.03 (+0.03) |

Financial Spread (bps)

| Value | Change | |
|-------------|--------|------|
| EURIBOR-OIS | 6.30 | (--) |
| TED | 35.36 | -- |

Secured Overnight Fin. Rate

| | |
|------|------|
| SOFR | 0.30 |
|------|------|

Economic Calendar

| Date Time | Event | Survey | Actual | Prior | Revised |
|------------------|-------------------------------------|--------|----------|-------|----------|
| 05/05/2022 02:00 | US FOMC Rate Decision (Upper Bound) | May-04 | 1.00% | 1.00% | 0.50% |
| 05/05/2022 08:30 | HK S&P Global Hong Kong PMI | Apr | -- | -- | 42.00 |
| 05/05/2022 09:00 | PH CPI YoY 2018=100 | Apr | 4.60% | -- | 4.00% |
| 05/05/2022 09:30 | AU Building Approvals MoM | Mar | -12.00% | -- | 43.50% |
| 05/05/2022 09:30 | AU Trade Balance | Mar | A\$8400m | -- | A\$7457m |
| 05/05/2022 09:45 | CH Caixin China PMI Services | Apr | 40.00 | -- | 42.00 |
| 05/05/2022 11:30 | TH CPI YoY | Apr | 4.81% | -- | 5.73% |
| 05/05/2022 11:30 | TH CPI Core YoY | Apr | 2.01% | -- | 2.00% |
| 05/05/2022 13:00 | SI Retail Sales YoY | Mar | 0.70% | -- | -3.40% |
| 05/05/2022 13:00 | IN S&P Global India PMI Services | Apr | -- | -- | 53.60 |
| 05/05/2022 13:00 | IN S&P Global India PMI Composite | Apr | -- | -- | 54.30 |
| 05/05/2022 16:30 | HK Retail Sales Value YoY | Mar | -12.60% | -- | -14.60% |
| 05/05/2022 16:30 | UK S&P Global/CIPS UK Services PMI | Apr F | 58.30 | -- | 58.30 |
| 05/05/2022 16:30 | UK S&P Global/CIPS UK Composite PMI | Apr F | 57.60 | -- | 57.60 |
| 05/05/2022 19:00 | UK Bank of England Bank Rate | May-05 | 1.00% | -- | 0.75% |
| 05/05/2022 20:30 | US Initial Jobless Claims | Apr-30 | 180k | -- | 180k |

Source: Bloomberg

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