

Daily Treasury Outlook

16 October 2020

Highlights

Global: Equity markets slumped again overnight as several European cities went into restriction mode to combat the uptick in Covid cases, while US initial jobless claims unexpectedly rose to 898k (highest since late August). VP candidate Kamala Harris and Eurozone's Ursula von der Leyen also self-isolated after staff members tested positive. The S&P 500 pared losses to end lower by 0.2% as Morgan Stanley reported higher FICC revenue. VIX rose to 26.97. UST bonds cheapened and erased a bull-flattening move led by the Bund and Gilt market, with the 10-year yield little changed at 0.73%. The 3-month LIBOR hit a record low of 0.21775%.

Market watch: Asian markets are likely to tread cautiously today. Today's economic data calendar comprises of Eurozone's trade data and CPI, US retail sales, industrial production and University of Michigan sentiment index. Fed's Bullard and Williams are also speaking. Meanwhile, NZ PM Arden appears to be set for a resounding election victory tomorrow.

US: Treasury Secretary Mnuchin told House Speaker Pelosi that President Trump would weigh in on Senate Majority Leader McConnell if a fiscal agreement is reached. Meanwhile, Fed's Clarida warned that the runs on prime money funds and CP were "particularly disappointing" and "it is worth asking whether there may be other steps needed to secure these very important sources of liquidity".

UK: EU leaders have warned UK PM Johnson to make concessions else risk a crisis in their relationship with talks due to conclude today and Johnson may decide to walk away.

SG: Singapore and Hong Kong will establish an air travel bubble. September NODX rose less than expected by 5.9% yoy (-11.3% mom sa), even though electronics exports accelerated by 21.4%. The drag came from pharmaceuticals exports that plunged 27.3% yoy (-26.9%). For the top 10 NODX markets, NODX growth was strong at 60.5% yoy to the EU 27, rebounded to positive territory at 28.8% yoy for Malaysia, but slowed to just 0.3% yoy for China and also 3.7% yoy for US. Given the Covid uptick in Europe and the CMCO in Malaysia, it remains to be seen if NODX growth can be sustained in the months ahead.

TH: Thailand declared a State of Emergency in Bangkok yesterday as political uncertainty increases. Gatherings of more than 5 people are prohibited under this measure. Thousands of Thais, however, have continued to gather outside the Government House.

Key Market Movements

Equity	Value	% chg
S&P 500	3483.3	-0.2%
DJIA	28494	-0.1%
Nikkei 225	23507	-0.5%
SH Comp	3332.2	-0.3%
STI	2523.6	-1.3%
Hang Seng	24159	-2.1%
KLCI	1514.0	-0.6%

	Value	% chg
DXY	93.856	0.5%
USDJPY	105.45	0.3%
EURUSD	1.1708	-0.3%
GBPUSD	1.2909	-0.8%
USDIDR	14690	-0.2%
USDSGD	1.3599	0.2%
SGDMYR	3.0528	-0.2%

	Value	chg (bp)
3M UST	0.09	-0.51
10Y UST	0.73	0.66
1Y SGS	0.28	0.00
10Y SGS	0.88	-0.92
3M LIBOR	0.23	-0.68
3M SIBOR	0.40	0.00
3M SOR	0.18	0.00

	Value	% chg
Brent	43.16	-0.4%
WTI	40.96	-0.2%
Gold	1909	0.4%
Silver	24.30	0.2%
Palladium	2362	0.4%
Copper	6749	0.5%
BCOM	73.44	0.6%

Source: Bloomberg

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Major Markets

US: US equities retreated further as markets weigh on Europe virus concerns and a weaker than expected US jobs report. The S&P 500 index fell 0.2% and the Nasdaq 100 Composite index declined 0.5%. Risk sentiment remains weak and the US equity market is likely to trade with a cautious tone in the sessions ahead.

CN: China's CPI growth decelerated further to 1.7% yoy in September from 2.4% yoy in August. PPI contracted by 2.1% yoy in September. Core CPI rose by 0.5% yoy, remaining at the lowest level since China published the data from 2013 for three consecutive months. Given the mounting disinflationary pressure and falling pork prices, we expect China's CPI reading to fall below 1% in October and will stay below 1% in 4Q. This will further drive up China's real interest rate. We expect China-US real yield differential to converge towards nominal yield differential. This may remain the key driver to attract capital inflows, which may further underpin RMB.

SG: The STI fell again by 1.25% to close at 2523.62 yesterday and may extend declines today amid weak overnight leads from Wall Street and Europe on second wave concerns. SGS bonds may stay supported by the flight to quality in the interim.

HK: On 14th October, 90 days after US President signed Hong Kong Autonomy Act into law, US Department of State submitted a report to the Congress which proposes to sanction against ten Hong Kong officials who are regarded undermining the autonomy of Hong Kong. As these ten Hong Kong officials have already been sanctioned under the Executive Order 13936 in early August, the decision of US Department of State is somehow within expectations and therefore did not cause much volatility in the HKD market. Starting from 14th October, the US Department of Treasury will have to come up with a list of foreign financial institutions that have knowingly conducted significant transactions with those 10 officials within 30-60 days. Before that, financial institutions could cut tie with the officials in order to avoid being sanctioned. Also, we think it is unlikely for the US to cut HK off from US clearing system or SWIFT as such a move could hurt US' own interests as well. As such, the potential political risk may have limited impact on HK's financial market and economy at least at this juncture. Elsewhere, Hong Kong announced to have reached an agreement with Singapore to create a travel bubble. Instead of a mandatory quarantine, visitors from both regions are only required to get a negative result from Covid-19 testing. This would be good news for the aviation and tourism-related industries of the two regions. However, it may not be a game changer at this juncture given the softening labor market and the persistent pandemic uncertainty.

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Malaysia: Malaysian government has extended its movement restriction orders to the offshore financial centre of Labuan. Travel into and out of the federal territory will be restricted from October 17-30. This comes after a continuous surge in cases there and follows a conditional MCO restriction order for the neighbouring state of Sabah in East Malaysia, alongside Selangor and KL in the peninsular area. Separately, on happier front, Genting announced that it plans to hire more than 100 staff as some cruise services are slated to resume.

Indonesia: Indonesia reported its September trade data yesterday, in which it saw another month of considerable trade surplus, coming in at USD2.44bn, compared to 2.1bn expected and 2.33bn of August. Exports performed much better than expected, coming in at -0.51%yoy vs. -7.5% expected. Shipments to China in particular surged 6.63% from September, in line with what Bank Indonesia mentioned in terms of upticks in exports of commodities in its MPC statement earlier. Meanwhile, imports contraction was less sharp than expected, at growth of -18.88% yoy vs. -25% that was anticipated.

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Bond Market Updates

Market Commentary: The SGD swap curve fell yesterday, with most of the tenors trading 1-2bps lower, while the 1-year traded almost flat. The Bloomberg Barclays Asia USD IG Bond Index average OAS remained mostly unchanged at 164bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 8bps to 756bps. The HY-IG Index Spread widened 8bps to 592bps. Flows in SGD corporates were heavy, with flows in SIASP 3.13%'27s, AREIT 3%-PERPs, STANLN 5.375%-PERPs, CMZB 4.875%'27s, LBBW 3.75%'27s and NOLSP 4.4%'21s. 10Y UST Yields gained 1bps to 0.73% despite the Labor Department reporting that initial jobless claims were higher than previously forecasted.

New Issues: Country Garden Holdings Co Ltd priced a USD500mn 5-year bond at T+285bps, tightening from IPT of T+330bps area and a USD500mn 10-year bond at T+320bps, tightening from T+365bps. CMHI Finance (BVI) Co., Ltd (China Merchants Port Holdings Company Limited) priced a USD200mn retap of CMHI 3.5% PerpNC3 at 3.35%, tightening from IPT of 3.45% area. Indika Energy Capital IV Pte. Ltd. (PT Indika Energy Tbk.) priced a USD450mn 5NC2 bond at 8.25%, tightening from IPT of 8.625% area. Agricultural Bank of China Ltd/Hong Kong priced a USD500mn 3-year bond at T+90bps, tightening from IPT of T+130bps area, and a USD350mn 5-year bond at T+100bps, tightening from IPT of T+140bps area. Union Bank of the Philippines priced a USD300mn 5-year bond at T+195bps, tightening from IPT of T+230bps. Amipeace Ltd (Bank of China Ltd/Macau) priced a USD400mn 5-year bond at T+125bps, tightening from IPT of T+165bps area, and a USD500mn 10-year bond at T+160bps, tightening from IPT of T+200bps area. Blossom Joy Limited (Guarantor: COFCO Hong Kong Ltd) priced a USD500mn 10-year bond at T+150bps, tightening from IPT of T+190bps area, and a USD500mn PerpNC5 bond. Chailease International Finance Corp (Guarantor: Chailease Holding Co Ltd) priced a USD300mn 3-year bond at 3.75%, tightening from IPT of 4.125% area. DaFa Properties Group Ltd priced a re-tap of its DAFAPG 12.375%'22s at 13.625%, tightening from IPT of 13.625% area. Taizhou Construction Investment Group Co. Ltd. priced a USD500mn 3-year bond at 2.65%.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	93.856	0.51%	USD-SGD	1.3599	0.19%
USD-JPY	105.450	0.27%	EUR-SGD	1.5921	-0.13%
EUR-USD	1.171	-0.32%	JPY-SGD	1.2897	-0.08%
AUD-USD	0.709	-0.95%	GBP-SGD	1.7556	-0.60%
GBP-USD	1.291	-0.79%	AUD-SGD	0.9647	-0.76%
USD-MYR	4.154	0.13%	NZD-SGD	0.8972	-0.70%
USD-CNY	6.725	0.15%	CHF-SGD	1.4870	0.08%
USD-IDR	14690	-0.19%	SGD-MYR	3.0528	-0.16%
USD-VND	23169	0.01%	SGD-CNY	4.9427	-0.22%

Equity and Commodity

Index	Value	Net change
DJIA	28,494.20	-19.80
S&P	3,483.34	-5.33
Nasdaq	11,713.87	-54.86
Nikkei 225	23,507.23	-119.50
STI	2,523.62	-31.97
KLCI	1,513.95	-9.30
JCI	5,105.15	-70.95
Baltic Dry	1,732.00	-75.00
VIX	26.97	0.57

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.5350	-0.54%	0/N	0.0800	0.08%
2M	-0.3360	-0.34%	1M	0.1484	0.14%
3M	-0.5080	-0.51%	2M	0.1809	0.19%
6M	-0.4830	-0.49%	3M	0.2369	0.23%
9M	-0.1940	-0.20%	6M	0.2545	0.24%
12M	-0.4670	-0.47%	12M	0.3455	0.35%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	0.21 (-)	0.14 (-)
5Y	0.47 (-)	0.31 (+0.01)
10Y	0.88 (-0.01)	0.73 (+0.01)
15Y	1.15 (-0.02)	--
20Y	1.21 (-0.03)	--
30Y	1.16 (-0.02)	1.51 (+0.01)

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	% Hike/Cut	Implied Rate Change	Implied Rate
11/05/2020	-0.006	-0.6	0.087	0.087
12/16/2020	-0.074	-6.8	0.07	0.07
01/27/2021	-0.085	-1.1	0.067	0.067
03/17/2021	-0.117	-3.2	0.059	0.059
04/28/2021	-0.105	1.2	0.063	0.063
06/16/2021	-0.135	-3	0.055	0.055
07/28/2021	-0.145	-1	0.052	0.052
09/22/2021	-0.155	-1	0.05	0.05
11/03/2021	-0.176	-2.1	0.045	0.045

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	-2.62	(-)
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	0.09
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Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	40.96	-0.19%	Corn (per bushel)	4.038	1.8%
Brent (per barrel)	43.16	-0.37%	Soybean (per bushel)	10.623	0.6%
Heating Oil (per gallon)	118.87	-0.32%	Wheat (per bushel)	6.183	3.6%
Gasoline (per gallon)	118.00	-1.43%	Crude Palm Oil (MYR/MT)	30.490	0.0%
Natural Gas (per MMBtu)	2.78	5.27%	Rubber (JPY/KG)	2.288	1.6%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	6749.00	0.49%	Gold (per oz)	1908.7	0.4%
Nickel (per mt)	15422.00	0.53%	Silver (per oz)	24.3	0.2%

Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
10/16/2020 7:00	SK Unemployment rate SA	Sep 3.7%	3.9%	3.2%	--
10/16/2020 08:30	SI Non-oil Domestic Exports YoY	Sep 11.5%	--	7.7%	--
10/16/2020 08:30	SI Non-oil Domestic Exports SA MoM	Sep -4.4%	--	10.5%	--
10/16/2020 08:30	SI Electronic Exports YoY	Sep 19.8%	--	5.7%	--
10/16/2020 14:00	EC EU27 New Car Registrations	Sep --	--	-18.9%	--
10/16/2020 15:30	TH Foreign Reserves	Oct-09 --	--	\$250.6b	--
10/16/2020 17:00	EC CPI YoY	Sep F -0.3%	--	-0.3%	--
10/16/2020 17:00	EC CPI MoM	Sep F 0.10%	--	0.10%	--
10/16/2020 17:00	EC CPI Core YoY	Sep F 0.2%	--	0.2%	--
10/16/2020 20:30	US Retail Sales Advance MoM	Sep 0.8%	--	0.6%	--
10/16/2020 20:30	US Retail Sales Ex Auto MoM	Sep 0.4%	--	0.7%	--
10/16/2020 20:30	US Retail Sales Ex Auto and Gas	Sep 0.5%	--	0.7%	--
10/16/2020 21:15	US Industrial Production MoM	Sep 0.5%	--	0.4%	--
10/16/2020 21:15	US Capacity Utilization	Sep 71.8%	--	71.4%	--
10/16/2020 22:00	US U. of Mich. Sentiment	Oct P 80.5	--	80.4	--
10/16/2020 22:30	US Monthly Budget Statement	Sep -\$124.0b	--	\$82.8b	--

Source: Bloomberg

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