

Daily Treasury Outlook

1 July 2024

Highlights

Global: Election focus. The first presidential debate between Biden and Trump left investors concerned about a potential Trump victory at the November polls, while the first round of the French elections is underway and polls suggest the Far-Right may be leading. The S&P500 slipped 0.41% on Friday, marking a soft close to a blockbuster 1H24 performance, partly due to the drag from Nike on an unexpected sales decline and gloomy guidance. Meanwhile the 10-year UST bond yield surged 11bps to 4.396% even as the May core PCE price index rose 2.6% YoY (0.1% mom) in line with market expectations. Separately, US personal income and spending printed at 0.5% and 0.2% respectively, which is an improvement from April's 0.3% and 0.1%, while the University of Michigan 1-year and 5-10 year inflation gauges were both lower at 3.0%. Elsewhere, ECB's Holzmann (the sole dissenter at the June rate cut decision) opined that "it's being underestimated how sticky inflation is" and warned that increasing divergence with the Fed would "very likely have effects on the exchange rate and as a result on the inflation rate". Japan's Tankan Manufacturing Index climbed to 13 in 2Q24, up from 11 in 1Q24, while non-manufacturing came in at 33, within estimates but below 1Q24's 34. Asian manufacturing PMIs this morning were a mixed bag, starting with soft China, Malaysia (back in contraction territory at 49.9 from 50.2 previously), Indonesia and Philippines readings, whereas others like South Korea, Taiwan (likely on the back of AI-related demand) Thailand and Vietnam improved.

Market Watch: Asian markets are likely to tread water today for the first trading day of 2H24. Today's economic data releases comprise of June manufacturing PMIs from US, Europe, Asia including of China's Caixin PMIs, inflation data from Germany and Indonesia, UK's Nationwide house prices, and US manufacturing ISM. ECB's Lagarde and Nagel are also speaking. For the week head, watch for RBA's June policy minutes tomorrow, the ECB's Central Bank Sinatra forum also starting tomorrow (where officials may weigh in on the interest rate intentions given heightened uncertainties over the French elections), FOMC and ECB's June policy minutes both due on Thursday, and US' June non farm payrolls, unemployment rate and average hourly earnings on Friday (with market eyeing 190k, 4.0% and 3.9% YoY/0.3% mom versus May readings of 272k, 4.0% and 4.1% YoY/0.4% mom respectively).

SG: The 2Q24 URA private home price index climbed a slower 1.1% QoQ, down from 1.4% in 4Q23. The STI closed down 0.32% at 3332.80 on Friday, with some large-caps under pressure.

Key Market Movements

| Equity | Value | % chg |
|------------|--------|-------|
| S&P 500 | 5460.5 | -0.4% |
| DJIA | 39119 | -0.1% |
| Nikkei 225 | 39583 | 0.6% |
| SH Comp | 2967.4 | 0.7% |
| STI | 3332.8 | -0.3% |
| Hang Seng | 17719 | 0.0% |
| KLCI | 1590.1 | 0.3% |

| | Value | % chg |
|--------|---------|-------|
| DXY | 105.866 | 0.0% |
| USDJPY | 160.88 | 0.1% |
| EURUSD | 1.0713 | 0.1% |
| GBPUSD | 1.2645 | 0.0% |
| USDIDR | 16375 | -0.1% |
| USDSGD | 1.356 | -0.2% |
| SGDMYR | 3.4806 | 0.1% |

| | Value | chg (bp) |
|---------|-------|----------|
| 2Y UST | 4.75 | 4.15 |
| 10Y UST | 4.40 | 10.97 |
| 2Y SGS | 3.34 | -3.00 |
| 10Y SGS | 3.21 | -4.86 |
| 3M SORA | 3.64 | -0.50 |
| 3M SOFR | 5.35 | 0.00 |

| | Value | % chg |
|-----------|--------|-------|
| Brent | 85 | -0.3% |
| WTI | 81.54 | -0.2% |
| Gold | 2327 | 0.0% |
| Silver | 29.14 | 0.6% |
| Palladium | 977 | 4.3% |
| Copper | 9599 | 0.9% |
| BCOM | 100.99 | -0.3% |

Source: Bloomberg

Oil: WTI edged marginally lower by 0.2% while Brent held steady on Friday to close at USD81.5/bbl and USD86.4/bbl respectively. This is the third consecutive weekly gain for crude oil as escalating geopolitical tensions in the Middle East and Europe have more than offset swelling US oil supplies. Markets are concerned that a broader regional war in the Middle East could lead to a disruption in global oil supply.

Major Markets

CN: China's manufacturing PMI remained unchanged at 49.5 in June, staying below 50 for the second straight month. Production softened further to 50.6 from 50.8, still higher than new orders, which moderated to 49.5 from 49.6. Finished goods inventory rebounded to 48.3 from 46.5, likely due to the positive gap between production and demand. However, raw material prices fell sharply to 51.7 from 56.9. This decline indicates that the month-on-month rebound of the PPI in May may not be sustainable, and the PPI may fall again sequentially in June. China's non-manufacturing PMI moderated further to 50.5 from 51.1, with the service PMI slowing to 50.2 and the construction PMI softening to 52.3 from 54.4. New orders remained weak for both construction PMI at 44.1 and service PMI at 47.1, indicating that domestic demand remains weak and the pass-through effect from easing property measures to construction may still take some time.

ID: Trade Minister Zulkifli Hasan has announced plans to impose safeguard duties of 100% to 200% on a range of Chinese imports, including footwear, ceramics, clothing, textiles, cosmetics, and more according to Antara News. The objective is to implement safeguard measures for the textile industry and provide support to micro, small, and medium enterprises (MSMEs) in response to the increasing influx of imported goods. This effort will require coordination among multiple ministries, including the Ministry of Trade, Ministry of Industry, and Ministry of Finance.

MY: Fitch Ratings affirmed Malaysia's BBB+ sovereign rating with a stable outlook, citing strong medium-term growth but highlighting high public debt, a low revenue base relative to current expenditure, and "political considerations that may hinder long-term policymaking and reform implementation." The rating agency noted that budget flexibility is limited due to notable budget allocations for salaries, pensions, debt servicing, and subsidies and social assistance, while non-petroleum revenue is expected to remain limited without new measures. Fitch's announcement follows S&P's Thursday announcement to maintain Malaysia's sovereign rating at A- with a stable outlook on Thursday (27/6).

PH: Headline inflation for June 2024 is expected to “settle within the 3.4%-4.2% range”, according to Bangko Sentral ng Pilipinas (BSP). BSP revealed that the primary sources of upward price pressures in June will come from higher prices of agricultural products such as rice, vegetables, meat, and fish. Additionally, higher domestic oil prices and the depreciation of the Peso should also contribute to upward price pressure. Meanwhile, lower prices of fruits and utilities are expected to offset upward price pressures. Moving forward, the BSP states that it will “continue to monitor developments affecting the outlook for inflation and growth in line with its data-dependent approach to monetary policy formulation”.

TH: May’s economic activity showed a mixed performance relative to April. On the domestic demand front, growth in the private consumption index eased to 1.2% YoY versus 2.2% in April. Government spending, which had been a drag on growth due to the delay in budget disbursement, jumped to 120.8% YoY versus -11.4% in April. By contrast, the private investment index declined by 3.0% YoY versus +6.5% in April. On the external front, export growth remained resilient at 7.8% YoY in May (April: 5.8%) while import growth contracted (2.3% YoY versus +6.4% in April). Consequently, the trade surplus widened to USD2.8bn in May versus USD0.3bn in April, while the current account balance flipped into a small surplus of USD0.7bn in May.

VN: 2Q24 GDP growth improved to 6.9% YoY versus 5.7% in 1Q24 driven by improvements in the manufacturing and services sectors. This underscores better electronics exports and industrial production, stabilising retail sales and better tourism and allied sector support. This brings 1H24 GDP growth to 6.4% and is broadly supportive of our 2024 GDP growth forecast of 6.0%. Our forecast is for the State Bank of Vietnam (SBV) to cut its policy rate by a cumulative 50bp in late 2H24 but there may be a reduced need for cuts should growth improvements continue.

ESG Updates

Rest of the World: Denmark, a key dairy and pork exporter, will be the first country to impose a carbon tax on livestock carbon dioxide emissions from 2030. The proposed tax is US\$43.16 (300 Danish crowns) per tonne of CO₂ in 2030 and aims to increase it to US\$107 (750 crowns) by 2035. To ease the tax burden, there will be income tax deductions and subsidies made available to farmers. While subject to approval by parliament, political experts expect a bill to pass following the broad-based consensus. New Zealand has scrapped similar plans after facing criticism from farmers and will instead find other ways to reduce agricultural emissions.

Credit Market Updates

Market Commentary: The SGD SORA curve traded lower last Friday, with short tenors trading 0-3bps lower, belly tenors trading 3-4bps lower and 10Y trading 3bps lower. Times China Holdings Ltd. has announced that it has preliminarily agreed with a group of creditors, just before the initial court hearing that could potentially result in the liquidation of the defaulted construction company. The Guangdong-based developer stated in a filing on Friday evening that this development is a "significant milestone" and involves a group of offshore creditors who collectively possess or oversee more than 25% of the principal amount of six-dollar bonds. The agreement in principle covers the essential commercial terms of a comprehensive proposal, although discussions are ongoing regarding the final terms of a debt restructuring plan. Bloomberg Asia USD Investment Grade tightened by 1bps to 82bps while Bloomberg Asia USD High Yield tightened by 5bps to 490bps. (Bloomberg, OCBC)

New Issues:

There was no notable issue in the Asiadollar market last Friday.

There was no notable issue in the Singdollar market last Friday.

Mandates:

- There are no Asiadollar mandates last Friday.

Foreign Exchange

| | Day Close | % Change | | Day Close | % Change |
|---------|-----------|----------|---------|-----------|----------|
| DXY | 105.866 | -0.04% | USD-SGD | 1.3560 | -0.18% |
| USD-JPY | 160.880 | 0.07% | EUR-SGD | 1.4527 | -0.10% |
| EUR-USD | 1.071 | 0.08% | JPY-SGD | 0.8428 | -0.25% |
| AUD-USD | 0.667 | 0.35% | GBP-SGD | 1.7147 | -0.13% |
| GBP-USD | 1.265 | 0.05% | AUD-SGD | 0.9045 | 0.18% |
| USD-MYR | 4.718 | 0.00% | NZD-SGD | 0.8260 | -0.02% |
| USD-CNY | 7.267 | -0.02% | CHF-SGD | 1.5089 | -0.17% |
| USD-IDR | 16375 | -0.14% | SGD-MYR | 3.4806 | 0.09% |
| USD-VND | 25455 | 0.00% | SGD-CNY | 5.3601 | 0.14% |

SOFR

| Tenor | EURIBOR | Change | Tenor | USD SOFR | Change |
|-------|---------|--------|-------|----------|--------|
| 1M | 3.6320 | -0.87% | 1M | 5.3339 | -0.01% |
| 3M | 3.7110 | 0.43% | 2M | 5.3343 | 0.02% |
| 6M | 3.6820 | 0.11% | 3M | 5.3218 | 0.00% |
| 12M | 3.5780 | 0.08% | 6M | 5.2542 | -0.06% |
| | | | 1Y | 5.0447 | -0.18% |

Fed Rate Hike Probability

| Meeting | # of Hikes/Cuts | Implied Rate Change | Expected Effective Fed Funds Rate |
|------------|-----------------|---------------------|-----------------------------------|
| 06/12/2024 | -0.013 | -0.003 | 5.327 |
| 07/31/2024 | -0.105 | -0.026 | 5.302 |
| 09/18/2024 | -0.683 | -0.171 | 5.158 |
| 11/07/2024 | -1.037 | -0.259 | 5.069 |
| 12/18/2024 | -1.782 | -0.446 | 4.883 |
| 01/29/2025 | -2.315 | -0.579 | 4.750 |

Commodities Futures

| Energy | Futures | % chg | Soft Commodities | Futures | % chg |
|--------------------------|----------|--------|-------------------------|---------|-------|
| WTI (per barrel) | 81.54 | -0.24% | Corn (per bushel) | 3.973 | -4.0% |
| Brent (per barrel) | 86.41 | 0.02% | Soybean (per bushel) | 11.505 | -0.2% |
| Heating Oil (per gallon) | 251.69 | -1.21% | Wheat (per bushel) | 5.535 | -1.1% |
| Gasoline (per gallon) | 252.91 | -0.65% | Crude Palm Oil (MYR/MT) | 39.760 | 0.8% |
| Natural Gas (per MMBtu) | 2.60 | -3.13% | Rubber (JPY/KG) | 309.500 | 2.8% |
| Base Metals | Futures | % chg | Precious Metals | Futures | % chg |
| Copper (per mt) | 9599.00 | 0.88% | Gold (per oz) | 2326.8 | 0.0% |
| Nickel (per mt) | 17291.00 | 1.10% | Silver (per oz) | 29.1 | 0.6% |

Source: Bloomberg, Reuters
(Note that rates are for reference only)

Equity and Commodity

| Index | Value | Net change |
|------------|-----------|------------|
| DJIA | 39,118.86 | -45.20 |
| S&P | 5,460.48 | -22.39 |
| Nasdaq | 17,732.60 | -126.08 |
| Nikkei 225 | 39,583.08 | 241.54 |
| STI | 3,332.80 | -10.55 |
| KLCI | 1,590.09 | 5.15 |
| JCI | 7,063.58 | 95.63 |
| Baltic Dry | 2,050.00 | 19.00 |
| VIX | 12.44 | 0.20 |

Government Bond Yields (%)

| Tenor | SGS (chg) | UST (chg) |
|-------|--------------|--------------|
| 2Y | 3.34 (-0.03) | 4.75(--) |
| 5Y | 3.19 (-0.04) | 4.38 (+0.08) |
| 10Y | 3.21 (-0.05) | 4.41 (+0.11) |
| 15Y | 3.21 (-0.05) | -- |
| 20Y | 3.11 (-0.06) | -- |
| 30Y | 3.07 (-0.08) | 4.58 (+0.13) |

Financial Spread (bps)

| | Value | Change |
|-------------|----------|--------|
| EURIBOR-OIS | #N/A N/A | (--) |
| TED | 35.36 | -- |

Secured Overnight Fin. Rate

| | |
|------|------|
| SOFR | 5.34 |
|------|------|

Economic Calendar

| Date | Country | Item | Period | Survey | Actual | Prior | Revised |
|------------------|---------|---------------------------------|--------|--------|--------|--------|---------|
| 07/01/2024 07:50 | JN | Tankan Large Mfg Index | 2Q | 11 | 13 | 11 | -- |
| 07/01/2024 08:00 | SK | Exports YoY | Jun | 4.40% | 5.10% | 11.70% | 11.50% |
| 07/01/2024 08:30 | ID | S&P Global Indonesia PMI Mfg | Jun | -- | -- | 52.1 | -- |
| 07/01/2024 08:30 | JN | Jibun Bank Japan PMI Mfg | Jun F | -- | -- | 50.1 | -- |
| 07/01/2024 08:30 | SK | S&P Global South Korea PMI Mfg | Jun | -- | -- | 51.6 | -- |
| 07/01/2024 08:30 | TA | S&P Global Taiwan PMI Mfg | Jun | -- | -- | 50.9 | -- |
| 07/01/2024 08:30 | VN | S&P Global Vietnam PMI Mfg | Jun | -- | -- | 50.3 | -- |
| 07/01/2024 09:45 | CH | Caixin China PMI Mfg | Jun | 51.5 | -- | 51.7 | -- |
| 07/01/2024 13:00 | IN | HSBC India PMI Mfg | Jun F | -- | -- | 58.5 | -- |
| 07/01/2024 15:55 | GE | HCOB Germany Manufacturing PMI | Jun F | 43.4 | -- | 43.4 | -- |
| 07/01/2024 16:00 | EC | HCOB Eurozone Manufacturing PMI | Jun F | 45.6 | -- | 45.6 | -- |
| 07/01/2024 16:30 | UK | S&P Global UK Manufacturing PMI | Jun F | 51.4 | -- | 51.4 | -- |
| 07/01/2024 20:00 | GE | CPI YoY | Jun P | 2.30% | -- | 2.40% | -- |
| 07/01/2024 20:00 | GE | CPI MoM | Jun P | 0.20% | -- | 0.10% | -- |
| 07/01/2024 21:45 | US | S&P Global US Manufacturing PMI | Jun F | 51.7 | -- | 51.7 | -- |
| 07/01/2024 22:00 | US | ISM Manufacturing | Jun | 49.1 | -- | 48.7 | -- |

Source: Bloomberg

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