

Markets close out the quarter softer on virus worries

THE DAY AHEAD

- China posts June's Caixin manufacturing purchasing managers' index (PMI).
- The US prints June's ISM manufacturing PMI and initial jobless claims for the week ended 26 June.

OVERVIEW

- Stock euphoria abates at end of big first half.
- Europe shares decline as delta strain hit cyclicals.
- Indonesia close to IPO overhaul to lure mega tech listings.
- US crude supplies fall at record rates.
- Gold heads for worst month since 2016.

DEVELOPED MARKETS EQUITIES

US

The end of one of the best first halves since 1998 for US stocks was marked by small moves and slow trading.

Solid economic data tempered concern about elevated valuations and the spread of a more contagious coronavirus variant, with the S&P 500 Index closing slightly higher, adding 0.13% to 4,297.50. The gauge notched its longest streak of quarterly gains since 2017 and has rallied 14% so far this year. The Dow Jones Industrial Average outperformed major benchmarks Wednesday (30 June), gaining 0.61% to 34,502.51, while the Nasdaq Composite Index slipped 0.17% to 14,503.95. The dollar had its best month since March 2020.

Investors are assessing hopes for an imminent return to normalcy amid worries that runaway inflation or further Covid-19 restrictions could derail the economic rebound. Interestingly enough, companies that stand to benefit the most from a recovery in activity – like energy, industrial, and financial shares – rose on Wednesday, beating the tech giants that had fuelled the stay-at-home trade.

Dallas Fed President Robert Kaplan said the tapering of asset purchases, which he hopes will start “soon,” should run smoother this time around as investors already know that a move is being discussed. His Atlanta counterpart Raphael Bostic noted the US has “actually fully recovered” from the pandemic on a gross domestic product basis, but “it is going to take some time to get back” on employment. – **Bloomberg News.**

EUROPE

Europe stocks retreated Wednesday (30 June) as investors balked at risks from a highly infectious coronavirus strain and exited assets that benefit the most from economic reopenings.

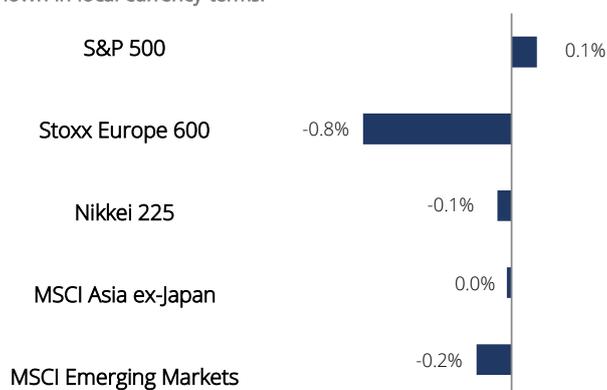
The Stoxx 600 Europe Index fell 0.77% to 452.84 by the close in London, with all but one of the sectors declining. The automotive sub-index fell to the lowest in a month, while travel stocks declined on fears that the more contagious delta variant of Covid-19 could hit tourism as the summer season starts in Europe.

The investor mood soured amid concerns about the pick up in virus cases and imposition of some travel restrictions after a rally that has seen the Stoxx 600 jump more than 13% this year and post the longest streak of monthly gains since 2013. Market participants are weighing prospects of an economic and profit rebound against inflation and monetary tightening risks.

Among individual moves, GrandVision NV jumped 14% after EssilorLuxottica SA said it will proceed with its planned EUR7.3b (USD8.7b) purchase of the

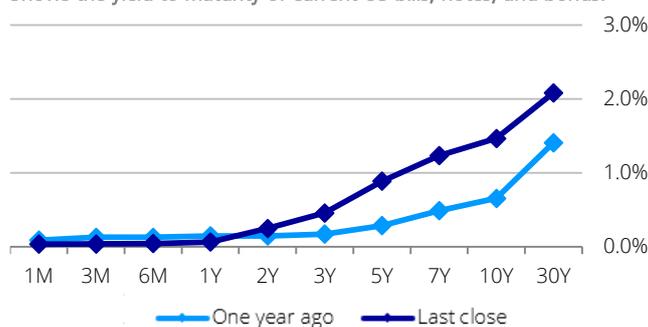
Equity markets

Shown in local currency terms.



US Treasury Yield Curve

Shows the yield to maturity of current US bills, notes, and bonds.



Source: DBS, Bloomberg, as of the last business day.

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Dutch eyewear retailer. Wm Morrison Supermarkets Plc climbed 4.5%, with Clayton Dubilier & Rice said to be lining up more financing banks as it considers raising its GBP5.5b (USD7.6b) offer for the British grocer. – **Bloomberg News.**

JAPAN

Helping big polluters transform into greener enterprises is one of the biggest challenges facing Japanese banks, and simply cutting off funding for “brown” companies could jeopardise those transition efforts, said the head of the country’s banking group.

“Discussions often lead to a rather dualistic thinking of lending money to green companies and not to brown ones,” Makoto Takashima, chairman of the Japanese Bankers Association, said in an interview. “We need to provide financial support to transition.”

Takashima’s push to back firms making this pivot underscores the delicate balancing act facing global lenders as they shift from financing fossil fuel industries to greener companies and projects. Green bonds and loans from the global banking sector exceeded the value of fossil financing for the first time this year, an unprecedented reversal since the clinching of the Paris Agreement in 2015.

That shift is playing out more slowly in some Asian countries such as India, Japan, and Indonesia, whose economies and energy supplies are still linked to coal, among the dirtiest of fuel sources. Some 70% of Japan’s electricity is generated by fossil fuels.

Takashima, who is also chief executive officer of Sumitomo Mitsui Banking Corporation – a unit of Japan’s second largest lender – said there are some banks in Europe and elsewhere that have stopped funding companies deemed large emitters. These moves could choke off investment necessary to achieve carbon neutrality, he said.

“Without necessary investment, there will be stranded assets and nobody can do anything about them,” said Takashima, who takes over Thursday (1 July) as head of the banking group until 31 March.

The Bank of Japan this month expressed similar caution over ESG policy. The central bank discussed the need for its new climate change program to be flexible because there is still no broad agreement on what projects will be considered environmentally friendly.

Prime Minister Yoshihide Suga has set a goal for Japan to reach net zero emissions by 2050. The costs involved in making the transition will be about USD3.2t, according to a credit researcher.

Japan’s three biggest banks, including Sumitomo Mitsui, have long been criticised by environmental groups and others for financing coal-fired power generating projects in Asia’s emerging markets.

Responding to growing investor demand for sustainable lending, the banks are now adopting stricter environmental policies and ramping up targets for green finance. – **Bloomberg News.**

The Nikkei 225 Index opened 0.06% lower at 28,774.50 on Thursday. It slipped 0.07% to 28,791.53 on Wednesday.

ASIA EQUITIES

REST OF ASIA

Indonesia is close to finalising a sweeping revamp of listing rules, paving the way for Southeast Asian startup giants from Bukalapak.com to ride hailing leader GoTo to go public from August.

Authorities are finalising details of new regulations that will allow firms to go public with multiple classes of shares carrying different voting rights, said Pandu Sjahrir, a commissioner at the Indonesia Stock Exchange (IDX). They will also relax curbs on loss making firms, among other changes. Online marketplace Bukalapak.com will become the first unicorn to take advantage of the new regime and list around August, he said. GoTo, the country’s biggest tech startup valued at USD18b, should follow soon after, he said in an interview.

Equity Markets

Returns of equity indices around the world, in local currency terms.

	Index	Close	Overnight	YTD
US	DJIA	34502.51	0.61%	12.73%
	S&P 500	4297.50	0.13%	14.41%
	NASDAQ	14503.95	-0.17%	12.54%
Europe	Stoxx Europe 600	452.84	-0.77%	13.49%
	Germany	DAX	15531.04	-1.02%
France	CAC 40	6507.83	-0.91%	17.23%
UK	FTSE 100	7037.47	-0.71%	8.93%
Asia	MSCI AxJ	889.66	-0.02%	5.54%
Japan	Nikkei 225	28791.53	-0.07%	4.91%
China	SHCOMP	3591.20	0.50%	3.40%
Hong Kong	Hang Seng	28827.95	-0.57%	5.86%
Taiwan	TWSE	17755.46	0.89%	20.52%
South Korea	Kospi	3296.68	0.30%	14.73%
Indonesia	JCI	5985.49	0.61%	0.11%
Malaysia	KLCI	1532.63	-1.01%	-5.81%
Singapore	STI	3130.46	1.33%	10.08%
India	Sensex	52482.71	-0.13%	9.91%
Emerg. Mkt	MSCI EM	1374.64	-0.18%	6.46%

Government Bonds

Benchmark yields of major 10-year government bonds.

	Latest yield	Previous yield	Change (bps)
US	1.47%	1.47%	-0.17
Germany	-0.21%	-0.17%	-3.70
Japan	0.06%	0.06%	-0.40
China	3.09%	3.10%	-0.70
Taiwan	0.42%	0.42%	-0.55
South Korea	2.10%	2.10%	-0.50
Indonesia	6.59%	6.61%	-1.80
Singapore	1.58%	1.60%	-2.38
India	6.05%	6.04%	1.50

Commodity futures

Prices of one-month futures contracts, grouped by commodity type.

	Close	1-day change	1-yr high	1-yr low
WTI crude (\$/bbl)	73.47	0.67%	74.45	33.64
Gold (\$/oz.)	1771.60	0.45%	2063.00	1673.30
Copper (\$/ton)	9363.50	0.43%	10737.50	6333.00
Corn (cents/bu.)	720.00	3.67%	775.00	307.25
Soybean (cents/bu.)	1450.00	6.64%	1677.25	869.50
Wheat (cents/bu.)	671.50	4.96%	773.00	485.75
Coffee (cents/lb)	159.75	-0.28%	168.65	104.60
Sugar (cents/lb)	447.70	3.54%	483.80	345.30

Source: Bloomberg, as at the close of the last business day.

YTD refers to year-to-date returns.

From Hong Kong to London, stock exchanges around the world are trying to capture a slice of a global initial public offering (IPO) boom. Indonesia joins its fellow bourses in relaxing regulations to entice often loss making but highly sought after fast-growth startups. Bukalapak is going public as Southeast Asia's startup scene matures and investors seek exits: the region's most valuable private firm, Grab Holdings Inc, aims to go public via a blank cheque firm in the second half of the year.

The US became the go-to venue for tech companies since the New York Stock Exchange allowed dual class shares in the late 1980s. After missing out on blockbuster deals including that of Alibaba Group Holding Ltd in 2014, the Hong Kong and Singapore bourses changed their rules in 2018 to allow multi-class listings. Since then, 146 New Economy or tech companies have listed in Hong Kong, accounting for 61% of IPO funds raised, according to Hong Kong Exchanges & Clearing Ltd.

Indonesia – whose USD450b stock market value eclipses that of Singapore's – is headed for a bumper year. There have been 22 IPOs so far this year, while another 24 are in the pipeline, IDX Director I Gede Nyoman Yetna told reporters on Tuesday (29 June). Besides Bukalapak and GoTo, three other local firms with a combined value of roughly USD2b are looking to float shares, Sjahrir said without elaborating.

All these could push this year's IPO haul above the USD1.02b recorded in all of 2019, data compiled by Bloomberg show. That would make 2021 one of the best years for Indonesian IPOs in the past decade. Both the stock exchange and the financial regulator view tech IPOs as a "game changer" that will draw more retail investors, Sjahrir said. – **Bloomberg News.**

Australia's S&P/ASX 200 Index opened little changed on Thursday after gaining 0.16% to 7,313.00 on Wednesday.

South Korea's Kospi Index fell 0.16% to 28,774.50 at the open on Thursday. It rose 0.30% to 3,296.68 on Wednesday.

The Taiwan Stock Exchange Weighted Index advanced 0.89% to 17,755.46.

MAINLAND CHINA & HONG KONG

China is pausing industrial activity from coal mining and steel making to even some port operations to clear air pollution ahead of the Chinese Communist Party's 100th anniversary celebration later this week.

Some, such as coal mining, will be closed for as long as a week in the country's key producing hubs. Others like steel are being put on hold for just one day. Port operations are also being suspended, with trucks delaying loading fuel until Thursday (1 July) afternoon in some refineries.

The country's Communist Party is gearing up to celebrate 100 years since its founding, culminating in a speech from President Xi Jinping on Thursday on China's return to wealth and power. Highly polluting industrial activity such as steel making and coal mining are often paused during important events to avoid polluted air or accidents that could spark public criticism.

Coal has been the biggest target of cleaning up the air around Beijing ahead of the anniversary. In Shanxi, the country's biggest coal producing province, 128 of the fossil fuel mines accounting for nearly a quarter of the region's capacity have suspended operations, according to industry website coal.in-en.com.

The industrial action is not expected to have any lingering impact on demand or output, although a slowdown in coal production could worsen an already tight market, according to an analyst.

With tight supplies, thermal coal futures on the Zhengzhou Commodity Exchange have increased for five straight weeks and added 1.7% higher to CNY793.00 a tonne on Wednesday.

Steel production, which is also heavily polluting, has been rolled back. Some steel producers in the cities of Tangshan and Handan have lowered output, according to analysts with GF Futures Co., while ports near Beijing including Tangshan, Jingtang, and Caofeidian also halted work until Thursday afternoon, coal.in-en.com said.

In Shandong, dozens of independent oil refiners suspended fuel loading onto trucks until Thursday afternoon, according to executives at privately owned oil refiners in the province. The celebrations may also slow transport networks as some areas ban trucks carrying coal from entering, according to the analyst. – **Bloomberg News.**

The Shanghai Composite Index rose 0.50% to 3,591.20 while the Hang Seng Index fell 0.57% to 28,827.95.

COMMODITIES

Crude inventories in the US are falling at the fastest rate in decades as demand continues to rebound, prompting a rally in the oil futures market.

Over the last four weeks total stockpiles, including the Strategic Petroleum Reserve, have fallen at a rate of 1.15m barrels a day marking the largest four-week decline on a rolling basis in Energy Information Administration (EIA) data going back to 1982. Meanwhile, Nymex calendar spreads rallied Wednesday (30 June), with the September West Texas Intermediate (WTI) futures contract rising to USD1.00 a barrel premium over October for the second time this month, pointing to expectations for ongoing supply tightness through the summer.

The record rate of drawdowns underscores the strength of the US oil demand recovery just ahead of a critical meeting between the Organization of Petroleum Exporting Countries (OPEC) and its allies on Thursday to debate a potential output increase.

Americans are taking to the roads and skies at increasing numbers as the country emerges from months of lockdowns. To meet demand, oil refiners boosted crude processing to levels only seen before the pandemic. Earlier this month, California, America's most populous state, reopened its economy, while New York ended most of its curbs. At the same time US drillers have been slow to respond to the oil prices, which are up more than 50% so far this year. Domestic crude production is holding at roughly 15% below peak levels seen early last year.

Further supporting the so-called time spreads are stockpile levels in Cushing, Oklahoma, the delivery point for WTI futures. Inventories in the hub are at the lowest levels in over a year. Analysts are estimating and traders are betting that supplies will drop to multi-year lows by the end of the summer.

The global supply situation looks set to remain tight as OPEC and its allies have yet to come to a consensus on how much shut-in oil to return to the market at a time when there is much demand uncertainty. That has delayed preliminary talks between ministers by a day to allow more time for a compromise before a critical meeting on Thursday. The International Energy Agency has warned of supply deficits in the second half of this year unless the group acts fast to add more crude. – **Bloomberg News.**

WTI for August delivery climbed 0.67% to USD73.47 a barrel on the New York Mercantile Exchange. Brent for August settlement gained 0.49% to USD75.13 a barrel on the ICE Futures Europe exchange.

CURRENCIES

Gold headed for the biggest monthly drop in more than four years on the back of gains in the dollar following the Federal Reserve's hawkish shift.

The metal is trading near the lowest since April after the Fed pulled forward its forecasts for interest rate hikes. A stronger dollar has added much of the pressure, with the currency on course for its best month since March 2020, and investors have trimmed holdings in bullion-backed exchange-traded funds.

FX Round-up (as of New York close)

	Last	Overnight change	Day high	Day low
EUR/USD	1.1858	-0.33%	1.1909	1.1845
GBP/USD	1.3831	-0.04%	1.3873	1.3799
USD/JPY	111.11	0.52%	111.12	110.42
AUD/USD	0.7498	-0.19%	0.7527	0.7492
NZD/USD	0.6983	-0.13%	0.7007	0.6965
USD/CAD	1.2398	-0.02%	1.2424	1.2356
USD/SGD	1.3454	0.01%	1.3457	1.3436
AUD/SGD	1.0088	-0.18%	1.0119	1.0075
NZD/SGD	0.9398	-0.11%	0.9417	0.9366
GBP/SGD	1.8605	-0.06%	1.8644	1.8564
EUR/SGD	1.5952	-0.33%	1.6015	1.5934
AUD/NZD	1.0738	-0.06%	1.0761	1.0728
USD/IDR	14500	0.10%	14544	14500
USD/INR	74.3313	0.13%	74.4538	74.2300
XAU/USD	1770.11	0.50%	1774.49	1753.44

Source: Bloomberg, as of last business day.

Traders will focus on economic data and comments from Fed officials for more clues on the timing of stimulus tapering. Richmond Fed President Thomas Barkin said Tuesday (29 June) he wants to see much more US labour market progress before taking action, while Governor Christopher Waller said economic performance warrants thinking about pulling back on some stimulus.

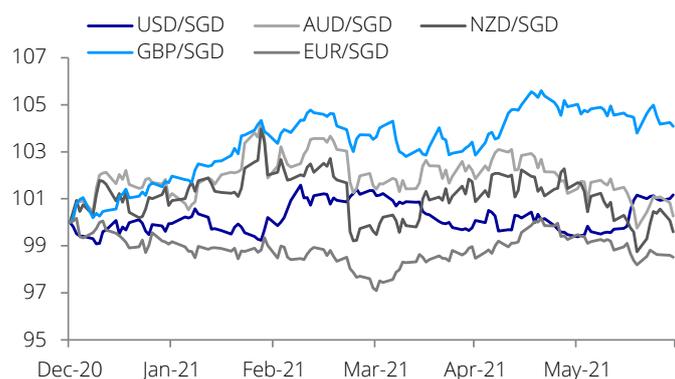
Spot gold rose 0.6% to USD1,771.46 an ounce at 3:45 pm in New York, and is down 7.1% this month, the most since November 2016. Futures for August delivery rose 0.5% to settle at USD1,771.60. Spot silver, platinum, and palladium all advanced. The Bloomberg Dollar Spot Index is up 2.3% in June.

Investors are also weighing the fallout from the more contagious delta variant of Covid-19, and broader economic data. Euro Area economic confidence has climbed to the highest level in more than two decades, and US consumers are more upbeat than at any point since the pandemic began. US nonfarm payroll figures due Friday will be a key data point eyed by traders.

There are other signs that investor interest has waned, with hedge funds cutting net long positions on gold futures to a seven-week low. – **Bloomberg News.**

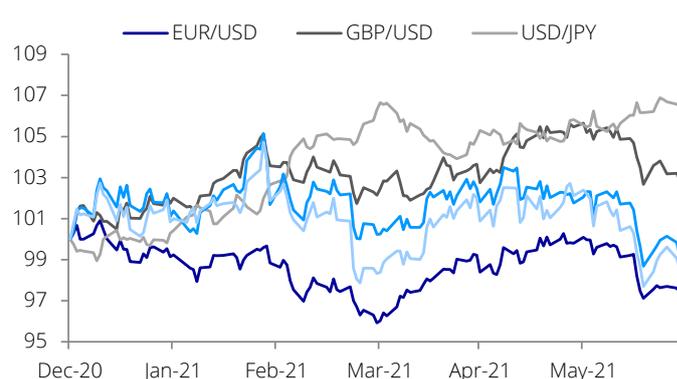
The US Dollar Index gained 0.42% to 92.436, the euro fell 0.33% to USD1.1858, the pound slipped 0.04% to USD1.3831, and the yen weakened 0.52% to 111.11 per dollar.

SGD Against Major Currencies



Source: Bloomberg, as of last business day.

USD Against Major Currencies



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