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Market Newsfeed

2 July 2021

Investors grapple with varied pace of vaccine rollouts globally

THE DAY AHEAD

- The Euro Area posts May's producer price index.
- The US releases June's nonfarm payrolls and May's balance of trade.

OVERVIEW

- Stock traders ride Growth-into-Value rotation.
- Ryanair sees nearly double capacity on vaccine boost.
- Funds flee Southeast Asia stocks as vaccine rollout gets urgent.
- Oil holds gains after output deal delayed.
- China's digital yuan is key risk for the euro, ECB says.

DEVELOPED MARKETS EQUITIES

US

Another batch of strong economic reports added fuel to the rotation into stocks that stand to benefit the most from a US reopening.

Almost every major group in the S&P 500 Index advanced, while technology companies underperformed. The benchmark gauge of American equities rose for a sixth straight day – the longest winning streak since February. The dollar strengthened against all of its G-10 currency peers. Oil climbed, with an Organization of Petroleum Exporting Countries+ deal left in limbo after producers earlier signalled a tentative agreement to gradually increase supplies through the end of the year.

US manufacturing expanded at a solid, yet slightly slower pace in June, with a measure of prices paid for materials hitting an almost 42-year high. Applications for state unemployment insurance fell last week (ended 25 June) by more than projected, reaching a fresh pandemic low. The figures come ahead of Friday's (2 July) monthly payrolls report, which will help shape expectations of when the Federal Reserve might start tapering stimulus.

Among corporate highlights, Robinhood Markets Inc filed for an initial public offering, disclosing it became profitable last year only to have its losses skyrocket in the first quarter. Walgreens Boots Alliance Inc sank after the drugstore chain signalled a slowdown in earnings growth and an increase in investments over the coming months. – **Bloomberg News.**

The S&P 500 Index added 0.52% to 4,319.94. The Dow Jones Industrial Average gained 0.38% to 34,633.53, while the Nasdaq Composite Index inched 0.13% higher to 14,522.38.

EUROPE

Ryanair Holdings Plc Chief Executive Officer Michael O'Leary said the Irish carrier could almost double its passenger capacity through the rest of the summer as the European Union (EU) reopens for travel.

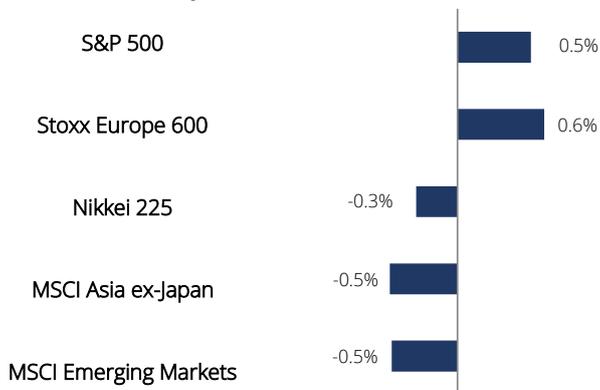
Europe's biggest discount airline expects to attract up to 9m passengers in July and August compared with 5m in June and just 1.7m in May, O'Leary told Bloomberg Television in an interview Thursday (1 July).

"We're seeing a very strong recovery in bookings, German leisure, Benelux leisure, Scandinavian leisure, heading to the beaches of Portugal, Spain, Greece, and Italy," O'Leary said. "We expect that to continue into July and August, which should make for a reasonable recovery."

Demand has been spurred as the EU rolls out its Digital Covid Certificate from 1 July, allowing travellers to move between member states provided they are fully vaccinated, have recovered from the virus, or can show a negative test

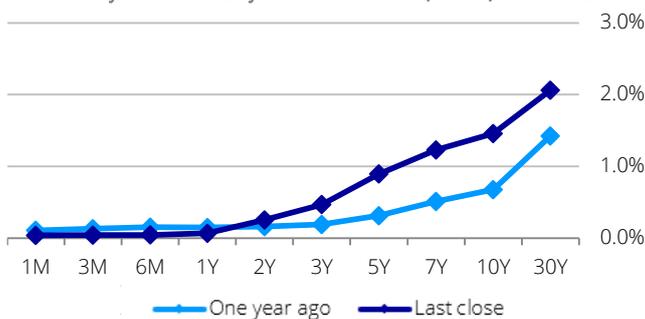
Equity markets

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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result. The reopening marks a step toward securing vital summer revenue after a series of false starts amid the spread of new viral variants.

Still, only about 50% of available seats have been booked for July and 30% for August, compared with up to 70% normally, putting the focus on luring back passengers to maximise sales and leading fares to be cut, O'Leary said.

The CEO said that the UK and Ireland are lagging behind the recovery in mainland Europe. Britain has been overly cautious in limiting movement in response to the delta variant of the virus, he said, while predicting that more countries will be added to its quarantine-free "green list" from 19 July.

Allowing unfettered travel for vaccinated passengers, something currently under discussion in the UK, would spur "a very strong recovery" in demand and Ryanair would restore capacity to the country that has been deployed elsewhere, he said, while cautioning that the EU could impose limits of its own.

– **Bloomberg News.**

The Stoxx 600 Europe Index gained 0.62% to 455.63 by the close in London.

JAPAN

Confidence among Japan's large manufacturers rebounded to the highest since 2018 and big businesses of all stripes ramped up investment plans in a sign that companies see an end to the pandemic even as virus restrictions grind on at home.

Sentiment at Japan's big product makers climbed higher into positive territory and improved for a fourth consecutive quarter, as large firms of all types said they plan to boost investment by nearly 10%, the Bank of Japan's (BOJ) Tankan survey showed Thursday (1 July).

While gains among service companies were more muted amid continued restrictions on bars and restaurants to contain the virus, economists said the overall results suggest a stronger recovery for Japan after a weak first half of the year.

The Tankan continued to show a sharp divide between Japan's service companies and its manufacturers. Exporters are benefiting from a global recovery and weakness in the yen, while consumer facing businesses have been casualties of the country's drawn out fight against the virus.

Weak consumer spending is the big reason the economy is seen just barely eking out growth in the three months through June after shrinking in the first quarter.

Still, an index of the mood at large non-manufacturers showed some improvement, edging into positive territory for the first time since March 2020. Pessimism eased among providers of personal services, but hotels and eateries continued to register deeply negative numbers.

While Thursday's Tankan results may feed into higher growth forecasts from the BOJ later this month, they are not likely to change the path of easing for the central bank, which is grappling with persistent price weakness. The BOJ does not see inflation reaching its 2% target any time before 2024. – **Bloomberg News.**

The Nikkei 225 Index was 0.03% weaker at 28,698.50 at the open on Friday. It fell 0.29% to 28,707.04 on Thursday.

ASIA EQUITIES

REST OF ASIA

Foreign funds are rushing out of Southeast Asia equities on concerns a coronavirus resurgence will dent the region's economic recovery, and a slow vaccine rollout means the selloff may not reverse anytime soon.

Thailand, the Philippines, and Malaysia had combined outflows of USD2.7b from their equities in the April-June period, the biggest exodus since the quarter ended September 2020, according to data compiled by Bloomberg. Funds bought the countries' bonds instead due to attractive yields.

Investors' expectations that vaccine rollouts will help reopen economies in Southeast Asia are being dashed for now as countries struggle to contain the highly transmissible delta variant of the virus. Inoculations have also stalled in

Equity Markets

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

	Index	Close	Overnight	YTD
US	DJIA	34633.53	0.38%	13.16%
	S&P 500	4319.94	0.52%	15.01%
	NASDAQ	14522.38	0.13%	12.68%
Europe	Stoxx Europe 600	455.63	0.62%	14.18%
Germany	DAX	15603.81	0.47%	13.74%
France	CAC 40	6553.82	0.71%	18.06%
UK	FTSE 100	7125.16	1.25%	10.29%
Asia	MSCI AxJ	885.39	-0.48%	5.04%
Japan	Nikkei 225	28707.04	-0.29%	4.60%
China	SHCOMP	3588.78	-0.07%	3.33%
Hong Kong	Hang Seng	28827.95	0.00%	5.86%
Taiwan	TWSE	17713.94	-0.23%	20.24%
South Korea	Kospi	3282.06	-0.44%	14.22%
Indonesia	JCI	6005.96	0.34%	0.45%
Malaysia	KLCI	1534.23	0.10%	-5.71%
Singapore	STI	3124.19	-0.20%	9.86%
India	Sensex	52318.60	-0.31%	9.56%
Emerg. Mkt	MSCI EM	1368.22	-0.47%	5.96%

Government Bonds

Benchmark yields of major 10-year government bonds.

	Latest yield	Previous yield	Change (bps)
US	1.46%	1.47%	-1.02
Germany	-0.20%	-0.21%	0.60
Japan	0.04%	0.06%	-1.60
China	3.09%	3.09%	-0.10
Taiwan	0.42%	0.42%	0.00
South Korea	2.10%	2.10%	0.50
Indonesia	6.58%	6.59%	-0.80
Singapore	1.58%	1.58%	0.00
India	6.04%	6.05%	-1.20

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)	75.23	2.40%	76.22	33.64
Gold (\$/oz.)	1776.80	0.29%	2063.00	1673.30
Copper (\$/ton)	9303.75	-0.64%	10737.50	6333.00
Corn (cents/bu.)	719.75	-0.03%	775.00	307.25
Soybean (cents/bu.)	1446.75	-0.22%	1677.25	869.50
Wheat (cents/bu.)	658.50	-1.94%	773.00	485.75
Coffee (cents/lb)	156.40	-2.10%	168.65	104.60
Sugar (cents/lb)	450.70	0.67%	483.80	345.30

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

YTD refers to year-to-date returns.

the region that is home to more than 600m people: less than 10% of the population in Indonesia, the Philippines, and Thailand are fully vaccinated for Covid, while about 11% of Malaysians have received doses, Bloomberg-compiled data show.

“Many ASEAN economies are still dealing with the pandemic and recent spikes in cases leading to new restrictions have delayed the expected recovery,” said a strategist. “We do not expect this situation to persist, but this does depend on a pickup in vaccination developments.”

Indonesia, Southeast Asia’s biggest economy, is the only major market in the region where foreigners were net buyers of its equities, with USD345m inflows in the second quarter. But stricter Covid-19 restrictions that are set to go into effect could damp the mood of investors who had been buying the nation’s shares partly on expectations its lack of a lockdown would support economic growth.

The other major economies in the area are strengthening virus-related curbs.

Thailand, the region’s second biggest economy, on Monday (28 June) banned all dine-in services at restaurants and sealed residential camps at construction sites in Bangkok and nearby provinces for a month. Malaysia’s government extended a nationwide lockdown that was originally due to end Monday, while Philippine President Rodrigo Duterte lengthened the existing movement restrictions in the capital region and nearby provinces through 15 July.

The key equity gauge in Thailand was little changed and in Malaysia it dropped 2.6% in the second quarter, lagging a 2.2% increase in the MSCI Asia Pacific Index. Despite outflows of foreign funds, the Philippine stock index rose 7.1%, rebounding from a 9.8% slide in the first quarter.

For the area’s share markets, the outlook hinges on whether vaccinations accelerate as authorities have promised. – **Bloomberg News.**

Australia’s S&P/ASX 200 Index crept 0.07% higher to 7,271.00 at the open on Friday, after erasing 0.65% to 7,265.60 on Thursday.

South Korea’s Kospi Index was little changed at the open on Friday. It fell 0.44% to 3,282.06 on Thursday.

The Taiwan Stock Exchange Weighted Index lost 0.23% to 17,713.94.

MAINLAND CHINA & HONG KONG

Energy giants China Petroleum and Chemical Corporation and PetroChina Co Ltd both forecast a sharp improvement in net income for the first half of 2021 thanks to stronger crude oil prices as the Covid-19 crisis eased and the global economy improved.

In filings Thursday (1 July), PetroChina and the company known as Sinopec said the better conditions drove a significant increase in demand for oil, gas, and petrochemical products and helped them improve efficiency.

Sinopec expects net income of between CNY36.5b (USD5.6b) and CNY38.5b for the first half, recovering from a CNY22.9b loss in the same period last year. The forecast is also higher than in the opening half of 2019, when Sinopec reported net income of CNY31.3b.

PetroChina said its earnings will increase by CNY75-90b in the first half, “turning losses into profit”.

Sinopec’s shares have risen 13% in Hong Kong this year and 7.4% in Shanghai. PetroChina is up 58% in Hong Kong and 26% in Shanghai. – **Bloomberg News.**

The Shanghai Composite Index shed 0.07% to 3,588.78 and the Hang Seng Index fell 0.57% to 28,827.95.

COMMODITIES

Oil held its overnight gains in Asia after infighting within the Organization of Petroleum Exporting Countries+ (OPEC+) delayed a much anticipated decision on output levels, risking an inflationary spike in prices if the group cannot come to an agreement.

Futures in New York traded near USD75.00 after jumping 2.4% on Thursday (1 July). The alliance was forced to postpone its monthly decision on production

after the United Arab Emirates (UAE) blocked a deal at the last minute. The standoff could ultimately lead to OPEC+ not increasing output at all, according to a delegate, which would mean the cartel would fall back on existing terms that call for production to remain unchanged until April 2022.

Prior to the meeting breaking down, the alliance appeared to have an agreement in principle to boost output by 400,000 barrels a day each month from August through December. OPEC+ ministers will reconvene on Friday as the dramatic turn of events leaves the market in limbo and tarnishes the cartel’s carefully reconstructed reputation, raising the spectre of the destructive Saudi-Russia price war of last year.

If OPEC+ cannot reach an agreement, it raises the possibility that crude will surge higher and add to mounting inflationary pressures in the global economy. Oil had just finished its best half since 2009 as the rapid rebound in energy demand in major economies outpaced the supply response.

The UAE said it would only give its support to a deal if the baseline for its own cuts was raised considerably, delegates said, asking not to be named because the talks were private. The nation’s reductions are measured from a starting point in 2018, which set its maximum capacity at 3.168m barrels a day. But expansion projects have since raised that number to about 4m barrels a day. Reflecting that new capacity in its baseline could allow it to pump hundreds of thousands of barrels a day of extra crude. – **Bloomberg News.**

West Texas Intermediate for August delivery surged 2.40% to USD75.23 a barrel on the New York Mercantile Exchange. Brent for August settlement slipped 0.26% to USD75.64 a barrel on the ICE Futures Europe exchange.

CURRENCIES

China’s rapid progress in developing a digital yuan poses a key risk in preserving the euro’s international role, said European Central Bank (ECB) Governing Council member Francois Villeroy de Galhau.

The Bank of France governor urged policymakers in Europe to act quickly on their own equivalent efforts and more innovative payment solutions, “or risk an erosion of our monetary sovereignty – something we cannot tolerate.”

Villeroy identified “the progress made by extra-European CBDCs and notably by the digital yuan” as part of a “triangle of risks” challenging the ECB’s control over payments. He also highlighted the declining use of cash and the rise of crypto assets.

“The risk is clearly that Europe will lose momentum not just in its drive to strengthen the international role of the euro, but even in preserving it,” he said at an event in Paris on Tuesday (1 July). “The challenge here is also a geopolitical concern.”

China’s plan to create a digital version of the yuan has drawn scrutiny from governments and central banks alike, with US President Joe Biden’s administration studying its potential threat to the dollar. The People’s Bank of China has tried to allay fears by saying its goal is not to replace currencies, and that its efforts are aimed at domestic use.

The ECB is among central banks taking the fastest steps with their own such efforts, though it will not officially decide until July whether to move forward with practical experiments. While its researchers have warned over taking longer than other monetary authorities, President Christine Lagarde has said the project may take about four years. – **Bloomberg News.**

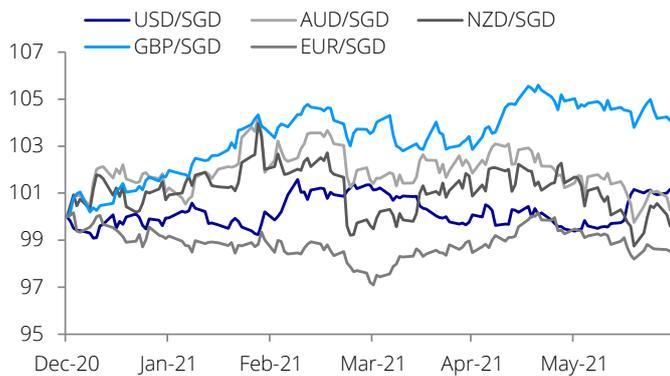
The US Dollar Index inched 0.17% higher to 92.597, the euro slipped 0.07% to USD1.1850, the pound lost 0.46% to USD1.3767, and the yen weakened 0.38% to 111.53 per dollar.

FX Round-up (as of New York close)

	Last	Overnight change	Day high	Day low
EUR/USD	1.1850	-0.07%	1.1884	1.1838
GBP/USD	1.3767	-0.46%	1.3835	1.3753
USD/JPY	111.53	0.38%	111.64	111.03
AUD/USD	0.7470	-0.37%	0.7508	0.7460
NZD/USD	0.6974	-0.13%	0.7010	0.6962
USD/CAD	1.2437	0.31%	1.2446	1.2365
USD/SGD	1.3488	0.25%	1.3494	1.3443
AUD/SGD	1.0077	-0.11%	1.0100	1.0062
NZD/SGD	0.9403	0.05%	0.9431	0.9390
GBP/SGD	1.8569	-0.19%	1.8615	1.8542
EUR/SGD	1.5984	0.20%	1.5994	1.5936
AUD/NZD	1.0714	-0.22%	1.0739	1.0702
USD/IDR	14503	0.02%	14550	14503
USD/INR	74.5587	0.31%	74.6350	74.3362
XAU/USD	1776.84	0.38%	1782.88	1765.78

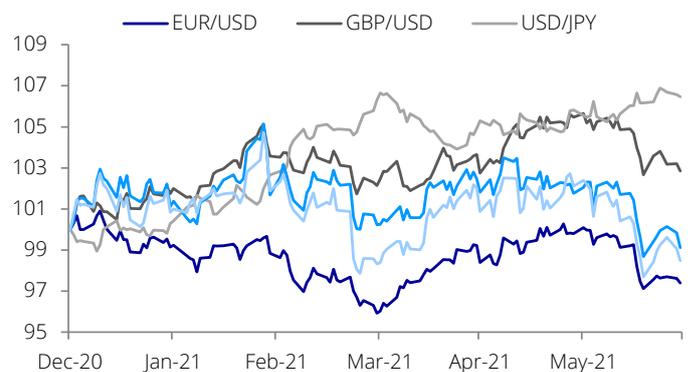
Source: Bloomberg, as of last business day.

SGD Against Major Currencies



Source: Bloomberg, as of last business day.

USD Against Major Currencies



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