

## Markets apprehensive on virus variants

### THE DAY AHEAD

- China prints June's Caixin services and composite purchasing managers' index.

### OVERVIEW

- US stocks climb amid hawkish Fed bets.
- One of Europe's biggest e-Sports startup targets the US.
- China stocks slump the most in four months after Party centenary.
- Brent oil holds gain as OPEC+ tension builds.
- Pound takes the spotlight.

### DEVELOPED MARKETS EQUITIES

#### US

Stocks climbed on speculation the economy is recovering at a pace that will not make the Federal Reserve imminently take away the liquidity punch bowl that has helped push the market to a record.

In a feat not seen since 1997, the S&P 500 Index closed at an all-time high for a seventh straight day, surging 0.75% to 4,352.34. That was after data showed US job growth surged the most in 10 months, while the unemployment rate edged up to 5.9%. The report bolstered views the central bank will not rush to taper its stimulus programme any time soon. Tech shares consolidated last week's (ended 2 July) leadership position, while economically sensitive companies underperformed. The dollar fell alongside 10Y Treasury yields.

Among corporate highlights, International Business Machines Corporation sank as President Jim Whitehurst is stepping down after three years at the century-old tech company. Lordstown Motors Corporation is being probed by the US Justice Department in relation to claims that the company exaggerated potential sales of its electric Endurance pickup truck, a person familiar with the matter said. The shares tumbled. – **Bloomberg News**.

The Dow Jones Industrial Average gained 0.44% to 34,786.35 while the Nasdaq Composite Index climbed 0.81% to 14,639.32.

#### EUROPE

Video gaming entrepreneur Carlos "Ocelote" Rodriguez is turning to the US entertainment market after building one of Europe's biggest e-Sports franchises.

Rodriguez is in talks with several streaming platforms there to develop and sell content based on his Berlin-based G2 e-Sports teams, their star athletes and Samurai warrior brand, the former professional gamer told Bloomberg.

He is joining a growing band of competitive gaming businesses that are pushing beyond tournaments livestreamed on platforms like Twitch into TV shows, social media videos, and even films.

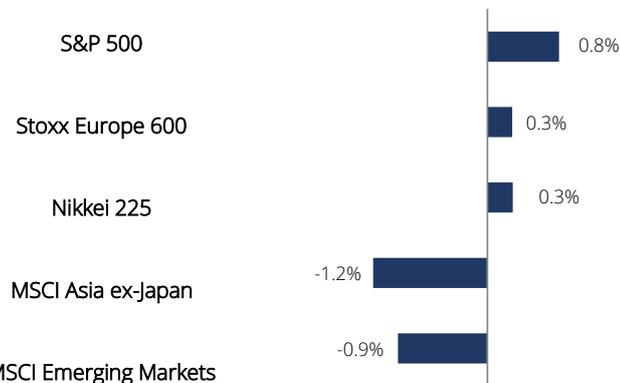
The US pivot will test whether foreign teams can gain traction in an industry that tends to be dominated by local players. It will compete for attention with plenty of established and well-funded organisations including Los Angeles-based TSM, FaZe Clan, and NRG e-Sports, backed by former NBA player Shaquille O'Neal.

Last month G2 announced another series of its gaming reality TV show "Making the Squad." The company has sponsorship deals with Adidas, Ralph Lauren, and online bookmaker Betway, and last month said it will offer non-fungible tokens (NFT) in partnership with NFT platform Bondly.

e-Sports has grown from a narrow community of enthusiasts into a global business. Major sponsors including Coca Cola Co, LVMH, and BMW AG have

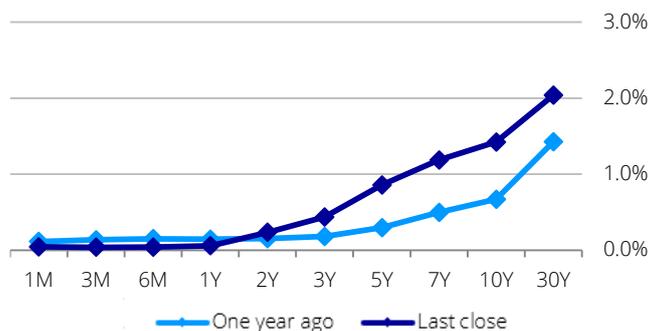
### Equity markets

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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piled in to try to reach younger audiences that have turned away from traditional media.

Fans use Amazon.com Inc's Twitch and rival services such as Google's YouTube to watch professional gamers. The easing of the pandemic and return of outdoor sports in many regions has not arrested the industry's growth: Average viewer numbers on Twitch roughly doubled in June from two years ago.

While G2 already has a US following, there is more money to be made by establishing a stronger local presence. Asia is the biggest e-Sports market in terms of its fan base, but the US tends to come top in prize money, brand partnerships, and merchandise sales. It is also where the industry is pushing hardest to monetise media rights.

US company Allied e-Sports has set up a production studio to develop a library of content for video-on-demand platforms, drawing on repackaged live tournament play, the stories of different e-Sports teams, and the lives of their top players. – **Bloomberg News.**

The Stoxx 600 Europe Index gained 0.26% to 456.81 by the close in London. 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

## JAPAN

Japanese Prime Minister Yoshihide Suga's party gained seats in a Tokyo assembly vote weeks before the Olympics but his ruling bloc failed to score a majority, delivering a mixed result ahead of a national vote expected after the games.

Suga's Liberal Democratic Party (LDP), which previously had 25 seats in the 127-seat assembly, took 33 spots in the Sunday (4 July) election, according to data from national public broadcaster NHK. Coalition partner Komeito stayed at 23 seats with the two falling short of a majority in the assembly that represents the city's nearly 14m residents.

When markets open on Monday, investors will be looking to see whether the result was a sign of political stability, after Suga's ruling Liberal Democratic Party suffered three special election defeats in a single day in April. The vote came as virus numbers have been ticking up in Tokyo, raising worries about whether the government can stem infections before the 23 July opening ceremony.

Tokyoites First, which had called for holding the Olympics without spectators, suffered the biggest defeat, with its seats dropping from 45 to 31, according to NHK. In the last assembly vote in 2017, the LDP lost to what was then an upstart party riding on the coattails of its founder, Tokyo Governor Yuriko Koike.

Suga has pressed ahead with holding the Olympics despite widespread concern about staging the global sports spectacle during a pandemic. Any serious fallout from the games could mean Suga joins a long list of short-serving Japanese premiers, given voters are already disenchanted with the games. A survey from the Mainichi newspaper among Tokyo residents June 26 found 58% said they opposed the Olympics, compared with 30% in favour. – **Bloomberg News.**

The Nikkei 225 Index fell 0.46% to 28,651.00 at the open on Monday. It rose 0.27% to 28,783.28 on Friday.

## ASIA EQUITIES

### MANLAND CHINA & HONG KONG

Chinese equities slid the most since early March as investors rushed to offload shares, with a perceived period of safety seen ending after the ruling Communist Party's 100th anniversary celebrations.

The CSI 300 Index finished the session 2.8% lower. Liquor giant Kweichow Moutai Co Ltd and China Merchants Bank Co Ltd were among the top drags on the benchmark. Foreign investors are also dumping mainland shares via trading links in Hong Kong, with net outflows hitting CNY8.6b (USD1.3b), the most since September.

## Equity Markets

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

	Index	Close	Overnight	YTD
US	DJIA	34786.35	0.44%	13.66%
	S&P 500	4352.34	0.75%	15.87%
	NASDAQ	14639.33	0.81%	13.59%
Europe	Stoxx Europe 600	456.81	0.26%	14.48%
	Germany	DAX	15650.09	0.30%
France	CAC 40	6552.86	-0.01%	18.04%
UK	FTSE 100	7123.27	-0.03%	10.26%
Asia	MSCI AxJ	874.78	-1.20%	3.78%
Japan	Nikkei 225	28783.28	0.27%	4.88%
China	SHCOMP	3518.76	-1.95%	1.32%
Hong Kong	Hang Seng	28310.42	-1.80%	3.96%
Taiwan	TWSE	17710.15	-0.02%	20.21%
South Korea	Kospi	3281.78	-0.01%	14.21%
Indonesia	JCI	6023.01	0.28%	0.73%
Malaysia	KLCI	1533.35	-0.06%	-5.77%
Singapore	STI	3128.95	0.15%	10.03%
India	Sensex	52484.67	0.32%	9.91%
Emerg. Mkt	MSCI EM	1355.38	-0.94%	4.97%

## Government Bonds

Benchmark yields of major 10-year government bonds.

	Latest yield	Previous yield	Change (bps)
US	1.42%	1.46%	-3.40
Germany	-0.24%	-0.20%	-3.40
Japan	0.05%	0.04%	0.30
China	3.08%	3.09%	-1.00
Taiwan	0.42%	0.42%	0.00
South Korea	2.11%	2.10%	0.50
Indonesia	6.59%	6.58%	0.40
Singapore	1.54%	1.58%	-3.13
India	6.07%	6.04%	2.60

## 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)	75.16	-0.09%	76.22	33.64
Gold (\$/oz.)	1783.30	0.37%	2063.00	1673.30
Copper (\$/ton)	9358.02	0.58%	10737.50	6333.00
Corn (cents/bu.)	697.25	-3.13%	775.00	307.25
Soybean (cents/bu.)	1451.75	0.35%	1677.25	869.50
Wheat (cents/bu.)	645.75	-1.94%	773.00	485.75
Coffee (cents/lb)	153.05	-2.14%	168.65	104.60
Sugar (cents/lb)	471.00	0.30%	482.60	345.10

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

YTD refers to year-to-date returns.

"There were some funds betting on a safety window and stability in the market leading up to the centennial," said a fund manager. "Now that the event has passed, they are retreating without that perceived layer of safety."

The CSI 300 gained nearly 3% over the 11 sessions through Thursday (1 July), led by information technology and health care stocks. With the slump on Friday, the index closed just below its 200-day moving average. The tech heavy ChiNext plunged 3.5%, the Shanghai Composite Index tumbled 1.95% to 3,518.76, and Hong Kong's Hang Seng Index fell as much as 1.80% to 28,310.42%, led by tech giants such as Alibaba Group Holding Ltd.

Authorities were targeting financial stability before Thursday's ceremony and amid the tightening interbank funding environment at the end of the second quarter. The People's Bank of China in the week ended 25 June increased its short-term cash injection for the first time since March to soothe liquidity concerns. But it scaled back the additions as soon as the new quarter began, leading to net drainage of funds from the financial system.

However, the sharp drop could be short lived, some analysts say, given that China's economic growth has been stable while foreign markets are recovering, boding well for corporate earnings.

"Stocks will soon get back on course and there will be long-term outperformance in high-tech and growth sectors," the fund manager said. – **Bloomberg News.**

#### REST OF ASIA

Sydney Airport received a AUD22.3b (USD17b) takeover offer from a group including IFM Investors, in one of the boldest bets since the pandemic on a recovery of global travel.

The consortium offered AUD8.25 a share, Sydney Airport said in a statement Monday (5 July). It said it is assessing the proposal, which is 42% higher than Friday's closing price of AUD5.81. The stock traded close to AUD9.00 in late 2019, before Covid-19 devastated aviation.

The suitors are seeking to capitalise on the slump in market value at Australia's largest airport, which is also the country's main overseas gateway, before global travel starts to pick up. Australia's international border, which has been mostly closed since March last year, is expected to open in mid-2022 after the nation's vaccination programme is completed.

Sydney Airport said it's considering "whether the proposal is reflective of the underlying value of the airport given its long-term remaining concession and the expected short-term impact of the pandemic."

One of the conditions of the offer is that UniSuper Ltd, which owns about 15% of Sydney Airport, agrees to reinvest its equity interest for an equivalent stake in the consortium's holding vehicle, according to the statement. – **Bloomberg News.**

Australia's S&P/ASX 200 Index crept up 0.02% to 7,310.30 at the open on Monday after rising 0.59% to 7,308.60 on Friday.

South Korea's Kospi Index opened 0.28% higher at 3,291.12 on Monday. It was little changed on Friday.

The Taiwan Stock Exchange Weighted Index inched 0.02% lower to 17,710.15.

#### COMMODITIES

Brent oil held gains near USD76.00 a barrel ahead of another round of critical Organization of Petroleum Exporting Countries+ (OPEC+) talks to break a stalemate over raising production, with tension rising over the weekend between two long-time allies.

Negotiations are set to resume later Monday (5 July) after ending Friday without a deal to boost output due to demands from the United Arab Emirates (UAE) for better terms for itself. The impasse has led to a rare diplomatic spat between Saudi Arabia and the UAE, and leaves the market guessing how much oil it will get next month. Futures in London were steady after whipsawing earlier.

Brent crude jumped more than 8% last month, capping a powerful first half rally, aided by a steady demand recovery in key economies including the US, Europe, and China. That advance was also underpinned by OPEC+ keeping a tight rein over supplies. Elevated energy prices are stoking concern about inflation, and the White House is already voicing concern about rising gasoline prices.

Most OPEC+ members backed a proposal to increase output by 400,000 barrels a day each month from August and push back the expiry of the broader supply deal into late 2022. The UAE, however, is seeking to change the baseline that is used to calculate its quota, a move that could allow it to boost daily production an extra 700,000 barrels. It is also refusing to back an extension of the pact.

A failure by the cartel to agree to raise production may further squeeze the market, while a breakdown in their unity could result in a free-for-all that crashes prices – just as it did during a price war between the allies last year.

With the UAE refusing to give any ground, the prospect of a no-deal outcome as well as an exit from OPEC "has risen materially even if it has not yet fully entered into firm base case territory," according to market analysts. The prospect of USD100-a-barrel oil is so politically unpalatable that US officials may appeal to prevent a virtual fireworks display on Monday, the bank said. – **Bloomberg News.**

West Texas Intermediate for August delivery slipped 0.09% to USD75.16 a barrel on the New York Mercantile Exchange. Brent for September settlement gained 0.44% to USD76.17 a barrel on the ICE Futures Europe exchange.

#### CURRENCIES

Traders the world over are turning their eyes to the UK and its currency to see how resistant the developed world will be to highly transmissible virus variants.

As the world's first major economy where the delta strain meets a widely vaccinated population, Britain offers a roadmap for currency traders trying to navigate lingering Covid.

The pound took a drubbing in recent weeks on a decision to postpone economic reopening, and the currency's path after "Freedom Day" – when restrictions end on 19 July – is stirring debate. The median call in a Bloomberg survey of strategists is for sterling to end the year a bit stronger at USD1.42 vs a level of around USD1.38 Friday.

While Covid cases are at their highest since January, rates of hospitalisations and deaths are contained, and that has delivered tangible proof that vaccines are working. About half the UK's population is fully vaccinated, according to Bloomberg's Vaccine Tracker.

Still, there is usually a lag between data on cases, hospitalisations, and deaths, so the next few weeks will be crucial.

The risk to currency markets is that the spread of more contagious variants might lead to postponed policy normalisation. That could upend bets on countries with central banks seen as most likely to deliver early rate increases, like the Bank of England (BOE).

Traders have been expecting the BOE to be near the front of the pack as central banks around the world move toward reversing the emergency bond purchase programmes and interest rate cuts enacted during the height of the coronavirus crisis. Now, that key support for the pound could be fading.

Governor Andrew Bailey last week (ended 2 July) pushed back on speculation that he will soon move to tighten monetary policy. Money markets pared BOE rate hike bets after Bailey's remarks. A 15 bps rise is expected by August next year, a drop of 7 bps compared to the end of last month.

FX Round-up (as of New York close)

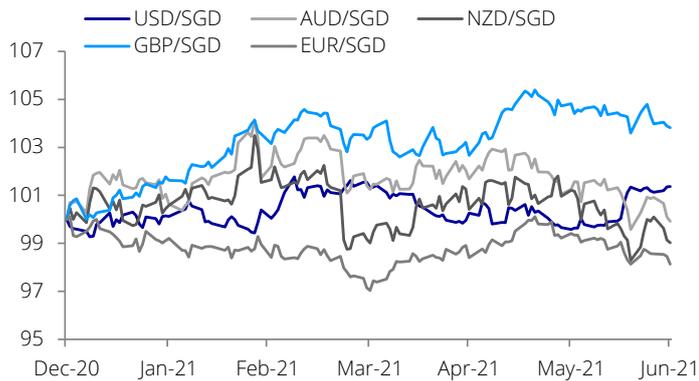
	Last	Overnight change	Day high	Day low
EUR/USD	1.1865	0.13%	1.1874	1.1808
GBP/USD	1.3824	0.41%	1.3845	1.3733
USD/JPY	111.05	-0.43%	111.66	110.95
AUD/USD	0.7526	0.75%	0.7533	0.7445
NZD/USD	0.7026	0.75%	0.7037	0.6948
USD/CAD	1.2322	-0.92%	1.2450	1.2309
USD/SGD	1.3467	-0.16%	1.3521	1.3458
AUD/SGD	1.0137	0.60%	1.0141	1.0060
NZD/SGD	0.9466	0.67%	0.9478	0.9386
GBP/SGD	1.8620	0.27%	1.8638	1.8542
EUR/SGD	1.5978	-0.04%	1.5997	1.5940
AUD/NZD	1.0709	-0.05%	1.0728	1.0698
USD/IDR	14533	0.21%	14568	14498
USD/INR	74.7500	0.26%	74.8775	74.6600
XAU/USD	1787.30	0.59%	1795.19	1774.36

Source: Bloomberg, as of last business day.

No matter how policymakers and the pound ultimately react to virus developments, investors are not anticipating any sudden moves. Volatility for the currency is expected to remain low in July. – **Bloomberg News.**

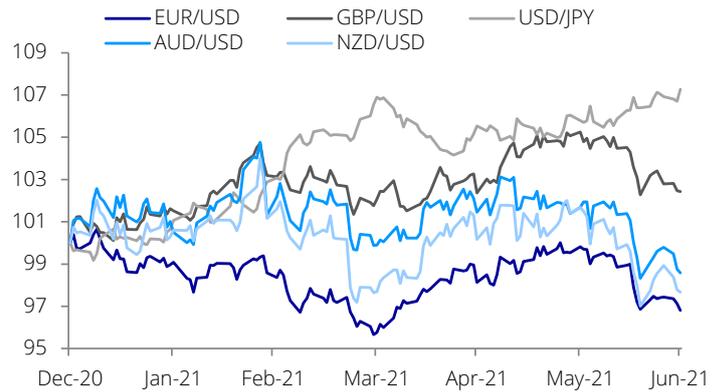
The US Dollar Index slipped 0.40% to 92.226, the euro added 0.13% to USD1.1865, the pound climbed 0.41% to USD1.3824, and the yen strengthened 0.43% to 111.05 per dollar.

SGD Against Major Currencies



Source: Bloomberg, as of last business day.

USD Against Major Currencies



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