CIO Weekly

13 October 2020

Key Points

- **Equities:** US elections and 3Q earnings season to dominate the narratives for S&P 500
- **FX:** Downward pressure on DXY from improved risk appetite was offset by firmness in UST 10Y yield
- **Rates:** Upward drift in the implied volatility of USD rates reflects US elections anxiety
- **Thematics:** Unearthing gems in ASEAN's logistics industry
- **The Week Ahead:** Keep a lookout for US change in initial jobless claims; China gross domestic product numbers

Global cross assets

Returns of cross assets around the world

Index	Close	Overnight	YTD
DJIA	28,837.52	0.9%	1.0%
S&P 500	3,534.22	1.6%	9.4%
NASDAQ	11,876.26	2.6%	32.4%
Stoxx Europe 600	373.00	0.7%	-10.3%
DAX	13,138.41	0.7%	-0.8%
CAC 40	4,979.29	0.7%	-16.7%
FTSE 100	6,001.38	-0.3%	-20.4%
MSCI AxJ	750.77	1.5%	9.1%
Nikkei 225	23,558.69	-0.3%	-0.4%
SHCOMP	3,358.47	2.6%	10.1%
Hang Seng	24,649.68	2.2%	-12.6%
MSCI EM	1,137.17	1.3%	2.0%
UST 10-yr yield*	0.77	0.0%	-114.4
JGB 10-yr yield*	0.03	-6.7%	4.8
Bund 10-yr yield*	-0.55	3.4%	-35.8
US HY spread*	4.69	0.0%	133.0
EM spread*	373.91	0.0%	96.5
WTI (USD)	39.43	-2.9%	-35.4%
LMEX	3,037.20	0.0%	6.8%
Gold (USD)	1,922.77	-0.4%	26.7%

Source: Bloomberg
* Changes in basis points

Equities: US elections and 3Q earnings season to dominate the narratives for S&P 500

Probability of a "blue wave" Democrats clean sweep on the rise. The chaotic presidential debate, coupled with US President Donald Trump's mishandling of coronavirus messaging, have handed Democrat Biden a clear lead in 2020 presidential race. According to RealClearPolitics, Biden currently leads Republican Trump 51.6% vs 42% in the national poll and this constitutes a spread of 9.6 %pts (as of 9 October).

Importantly, Biden is also leading in all swing states and those which he commands a sizeable lead include Pennsylvania, Michigan, Wisconsin, and Florida. In the senate race, data from PredictIt show that the Democrats is also amassing a sizeable lead over the Republicans. There is indeed a rising possibility of a Democrats clean sweep in the upcoming elections.

S&P 500 reacting positively to a Democrats clean sweep. Contrary to conventional thinking, markets are increasingly warming up to the idea that a Democrats clean sweep may turn out to be positive for risk assets given that: (a) A Democrats clean sweep reduces the likelihood of a contested election, (b) Democrats' proposal in fiscal spending (at c.USD2.2t) is far larger than the package put forward by the Republicans (at c.USD1.6t), and (c) Near-term concerns of a Biden tax hike are unfounded because should he win the election, the initial focus will be on the pandemic.

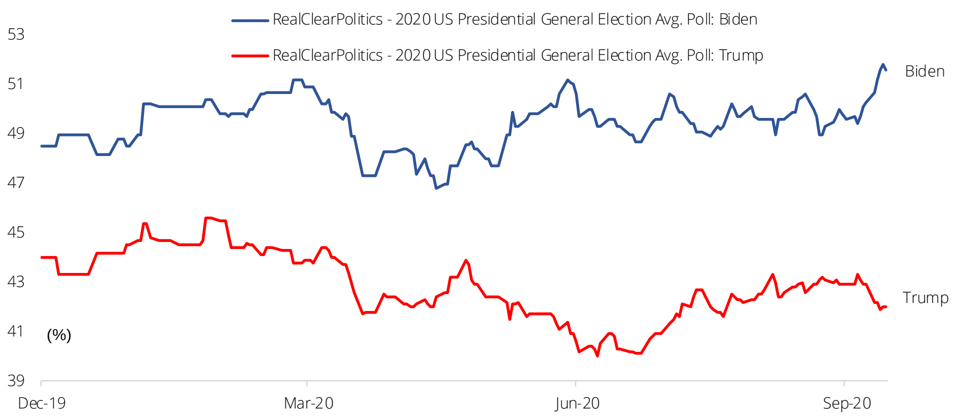
The S&P 500 Index has rebounded substantially since late-September and we expect this momentum to persist if the narrative for a Democratic sweep persist in the coming weeks.

3Q US earnings season in focus. A major focus for investors in the month ahead will be the US earnings season. Several major banks will be announcing this week (ending 16 October) and that include JPMorgan Chase (JPM US) and Bank of America (BAC US). We expect third quarter earnings to display "bifurcation" – with sectors that managed to re-open successfully (post-lockdown) to register stronger numbers than those that did not. Meanwhile, management guidance will be scant given uncertainties over the coronavirus pandemic and fiscal stimulus in the US.

Upcoming volatility presents buying opportunities. Market volatility will rise in coming weeks as the election looms. This presents investors with the opportunity to gain exposure to long-term secular themes in US Technology and Health Care.

Dylan Cheang | Strategist

Figure 1: Democrat Biden firmly in the lead



Source: Bloomberg, DBS

Figure 2: DXY holding its ground

Source: Bloomberg, DBS

FX: DXY dynamics

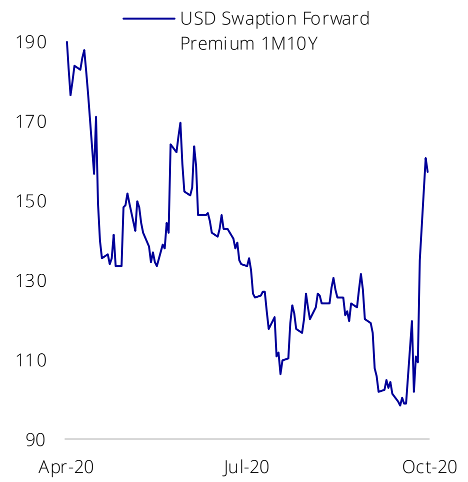
The US Dollar Index (DXY) held its ground around 93. The downward pressure on the DXY from improved risk appetite was offset by the firmness of the US 10Y treasury yield at 0.77% from higher US equities. Gold prices edged lower to USD1923/oz from USD1930 last Friday (9 October), as it lost some allure as a hedge against election-related volatility amidst lower inflation expectations. Consensus expects tonight's US Consumer Price Index (CPI) to slow to 0.2% m/m in September from 0.4% a month earlier.

The downward momentum in the two major USD indices for Developed Markets and Emerging Asia **have been stalled by their largest components**, EUR and CNY, respectively. European Central Bank (ECB) Vice President Luis de Guindos warned yesterday that **high frequency data have signalled a loss in momentum in the Eurozone's recovery**. Today's ZEW Survey will provide a first glimpse on how the coronavirus resurgence has weighed on European Union (EU)'s growth prospects in 4Q. Consensus expects ZEW to improve to 74.1 in October from 73.9 a month earlier. **The ECB is dovish and weighing if more easing will be required in December.** Against this background, the ECB still considers EUR strength a hurdle to achieving its inflation mandate. Hence, the dampened EU outlook does not favour a higher but **a lower EUR/USD below 1.18**.

CNY was the worst performing currency on Monday; it shed 0.8% to 6.7459 per USD. The surprise decision by the People's Bank of China to cut the reserve requirement to 0% from 20% for some FX forwards trading came after the strong 1.6% rise in CNY last Friday, the day China's markets returned from its Golden Week holiday. China is vigilant against a new COVID-19 outbreak from the 600m domestic trips made during this eight-day holiday. Despite the upside surprises in exports, there is little room for complacency because of the coronavirus resurgence in its best performing markets, the US and the Eurozone. The 7% appreciation in CNY from late May to early October could be justified by the growth rebound to +11.5% q/q sa in 2Q from -10.0% in 1Q. Looking ahead, consensus expects growth to slow to 3.1% and 2.0%, respectively, in 3Q and 4Q, and with CPI inflation also projected to return below 2% y/y, it probably makes sense for CNY to digest the strong gains of the past months. **A weaker CNY is likely to weigh on commodity currencies especially AUD**.

Philip Wee | Strategist

Figure 3: Implied volatility on the rise



Source: Bloomberg, DBS

Rates: Rates are waking up

Implied volatility in USD rates have been drifting higher over the past few weeks, reflecting some anxiety on the US elections. Notably, the 1M10Y ATM swaption premium has risen to 160, from around 98 at the end of September. Current levels are slightly elevated compared to the five-year average (and higher than where we were just before US President Donald Trump won in 2016) as market participants price in an increased probability of a Democrat sweep. US Treasuries have also bear steepened accordingly as a slight reduction in election uncertainty and increased odds that another sizable fiscal stimulus gets announced.

We remain in the pay on dips camp for USD rates but acknowledge that further steepening may prove difficult in the immediate term. As mentioned previously, there are still three hurdles – fiscal stimulus, elections, and the COVID-19 vaccine – that are still unresolved and are unlikely to be resolved until the end of the year. Even if polls are showing that Biden has a significant lead over Trump, it would still depend on the Senate elections and whether either candidate would concede when the results are largely known. The risk of a constitutional crisis is non-negligible, and we doubt that the market would dare to price in too high of a probability that Biden would win at this point. Upside to longer-term rates would probably be more apparent towards the end of the year and early 2021.

Eugene Leow | Strategist

Thematics: Unearthing gems in ASEAN's logistics industry

- ASEAN offers the right recipe to fuel an explosive growth in e-Commerce
- The above will, in turn, drive long-term growth in the region's logistics industry
- Strategic shifts in manufacturing value chains will see rise of hubs in Vietnam, Indonesia, and Thailand
- Singapore and Malaysia remain key logistics hubs

ASEAN offers the right recipe to fuel an explosive growth in e-Commerce. ASEAN's rising affluence and sizeable and young population are key factors that make it one of the most attractive consumer markets. With the population increasingly plugged in to the digital economy and with high mobile penetration rates, e-Commerce players are also casting an eye on the immense growth potential that the region offers. DBS Group Research views Indonesia, Vietnam, the Philippines, and Thailand as key countries to benefit from this trend.

"China + 1" strategy will accelerate the manufacturing shift to Southeast Asia. Growing geopolitical tensions between China and the US has fuelled a strategic shift in manufacturing and logistics value chains to Southeast Asia. ASEAN's lower labour cost, as well as growing market, are drawing multinational companies to further invest in growing their presence in the region. Singapore and Malaysia will remain as key hubs given their established trade and logistics networks, but we see a long runway of growth in the manufacturing hubs in Vietnam, Thailand, and Indonesia – thanks to significant government infrastructure investments to boost accessibility over time.

Plenty of room and opportunities for the logistics sector to flourish in ASEAN. Singapore, Malaysia, and Thailand will continue to support ASEAN's growth while up-and-coming cities/areas for logistics investment would include Vietnam (North and South Key Economic Zones) and Indonesia (Jakarta, Greater Jakarta, and Borneo). The Indonesian and Vietnamese governments' commitment to invest in infrastructure projects will make them more attractive for foreign direct investments and boost the logistics sector. Companies that have a large exposure to the logistics sector in the core ASEAN markets of Singapore, Malaysia, and Thailand, such as Mapletree Logistics Trust (MLT SP), Westports (WPRTS MK), ESR Cayman (1821 HK), AMATA (AMATA TB), Hermaraj REIT (HREIT TB), and WHA Premium REIT (WHART TB), are wellplaced to ride on this growth story.

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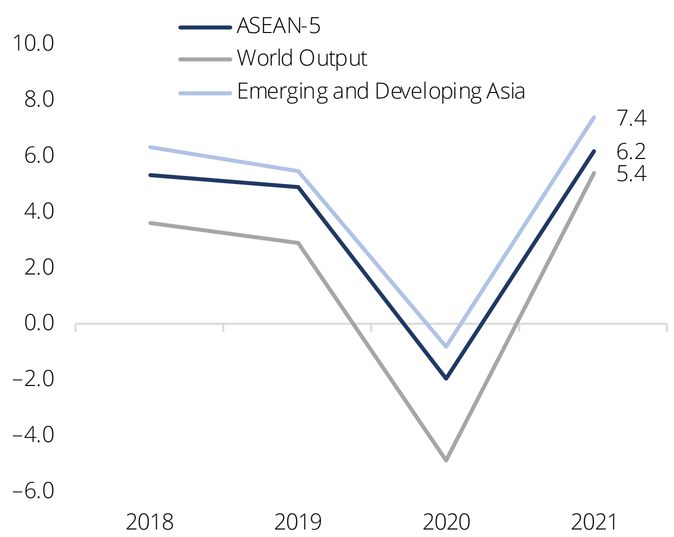
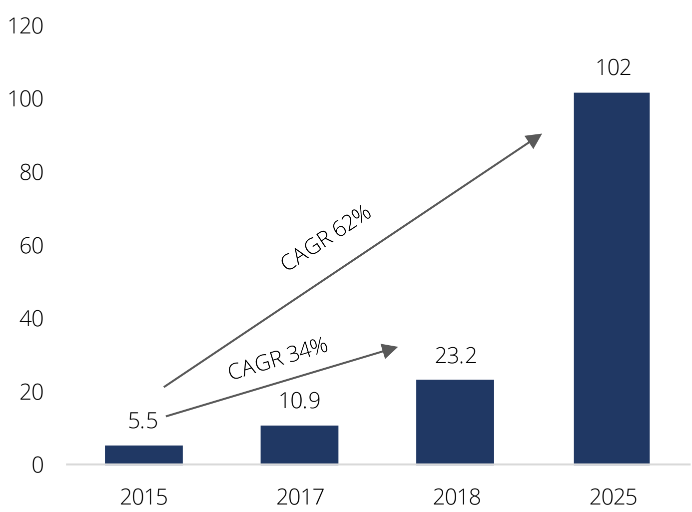
Figure 4: GDP Growth of ASEAN-5 vs global GDP



Source: IMF

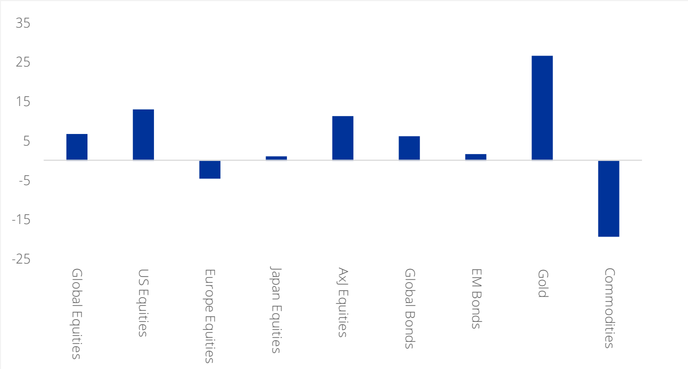
Figure 5: SEA e-Commerce market size: Expected to grow with CAGR of 34% reaching USD102b in 2025



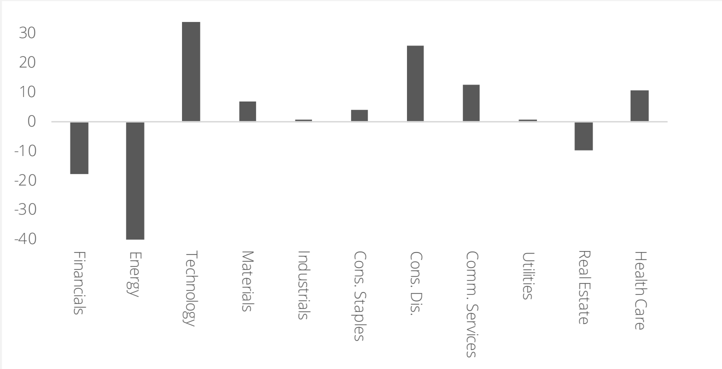
Source: Google/Temasek Study

CIO Markets Watch

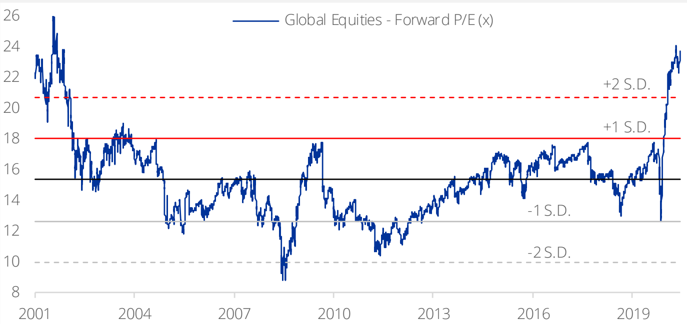
Global Cross Assets YTD Returns



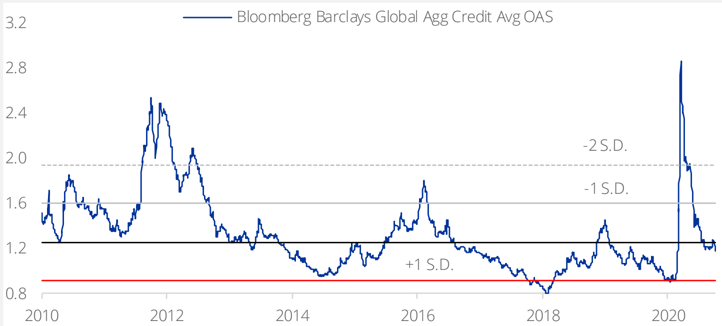
Global Sector YTD Returns



Global Equity Valuation



US Corporate Spreads



Index Returns

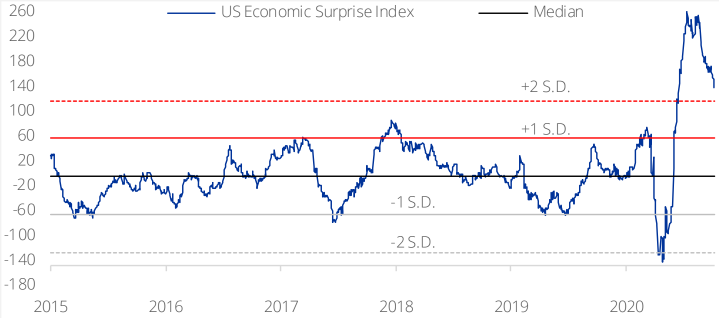
	1 week	MTD	QTD	YTD
Equities				
S&P 500	3.7%	5.1%	5.1%	9.4%
NASDAQ	4.8%	6.3%	6.3%	32.4%
Stoxx Europe 600	4.2%	9.4%	9.4%	-1.2%
DAX	2.0%	3.3%	3.3%	-10.3%
Nikkei 225	1.1%	1.6%	1.6%	-0.4%
MSCI WORLD	3.1%	4.7%	4.7%	5.1%
MSCI ACWI	3.2%	4.7%	4.7%	4.7%
MSCI Asia ex-Japan	4.3%	5.4%	5.4%	9.1%
MSCI EM	4.2%	5.1%	5.1%	2.0%
HSCEI	4.6%	5.1%	5.1%	-11.5%
SHCOMP	4.4%	4.4%	4.4%	10.1%
Hang Seng	3.7%	5.1%	5.1%	-12.6%
Straits Times	1.4%	3.5%	3.5%	-20.8%
Fixed Income				
Barclays Global Aggregate	0.4%	0.4%	0.4%	6.2%
Barclays US Aggregate	0.1%	-0.2%	-0.2%	6.6%
Barclays US High Yield	0.8%	1.4%	1.4%	2.0%
Barclays Euro Aggregate	0.4%	0.5%	0.5%	3.3%
Barclays Euro High Yield	0.6%	1.2%	1.2%	-2.3%
JPM EMBI Global	1.1%	1.4%	1.4%	1.7%
JPM EMBI Global Diversified	1.3%	1.4%	1.4%	2.0%

Prices & Spreads

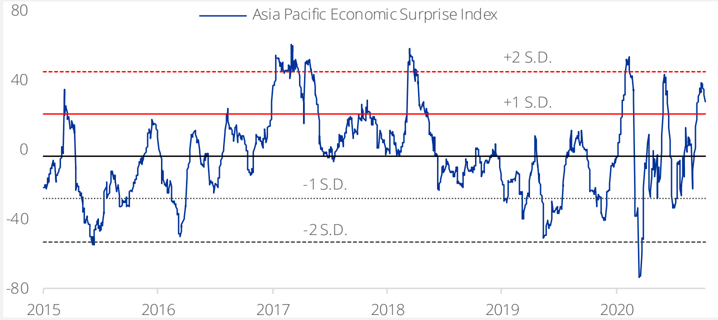
	Spot	2Q20	1Q20	4Q19
Rates				
Fed Funds Target	0.25	0.25	0.25	0.25
ECB Main Refinancing Rate	0.00	0.00	0.00	0.00
BOJ Policy Balance Rate	-0.10	-0.10	-0.10	-0.10
US Treasury 10-yr	0.78	0.69	0.66	0.67
Japanese Govt Bond 10-yr	0.03	0.01	0.02	0.01
German Bunds 10-yr	-0.55	-0.52	-0.46	-0.47
Spreads				
US Agg Corporate Spread	1.26	1.36	1.50	2.72
US Corporate HY Spread	4.69	5.17	6.26	8.80
Euro Agg Corporate Spread	1.16	1.23	1.53	2.41
EM USD Agg Spread	3.16	3.34	3.93	6.19
Currencies				
US Dollar Index (DXY)	93.1	93.9	97.4	99.0
EUR/USD	1.18	1.17	1.12	1.10
USD/JPY	105.3	105.5	107.9	107.5
USD/CNY	6.7	6.8	7.1	7.1
Commodities				
WTI Oil	39	40	39	20
London Metal Exchange (LMEX)	3037	2968	2682	2335
TR/CC CRB Commodity	150	149	138	122
Gold	1923	1886	1781	1577

CIO Economics Watch

US Economic Surprise Index



Asia Pacific Economic Surprise Index



Macro Calendar

	Date	Period	Survey	Prior
United States & Eurozone				
Initial Jobless Claims (US)	15-Oct	Oct	825k	840k
CPI m/m (US)	13-Oct	Sep	0.20%	0.40%
CPI y/y (EU)	16-Oct	Sep	-0.30%	-0.30%
U. of Mich. Sentiment (US)	16-Oct	Oct	80.5	80.4
MBA Mortgage Applications (US)	14-Oct	Oct	--	4.60%
Retail Sales Advance m/m (US)	16-Oct	Sep	0.80%	0.60%
Industrial Production m/m (US)	16-Oct	Sep	0.60%	0.40%
PPI Final Demand m/m (US)	14-Oct	Sep	0.20%	0.30%

Macro Calendar

	Date	Period	Survey	Prior
Asia				
Industrial Production m/m (JP)	14-Oct	Aug	--	1.70%
GDP y/y (CN)	18-Oct	3Q	5.50%	3.20%
CPI y/y (CN)	14-Oct	Sep	1.90%	2.40%
Non-oil Domestic Exports y/y (SG)	15-Oct	Sep	11.50%	7.70%
Tertiary Industry Index m/m (JP)	15-Oct	Aug	1.50%	-0.50%
PPI y/y (CN)	14-Oct	Sep	-1.80%	-2.00%
GDP y/y (SG)	13-Oct	3Q	-6.80%	-13.20%
Industrial Production y/y (CN)	18-Oct	Sep	5.80%	5.60%