

## Daily Treasury Outlook

1 June 2020

### Highlights

**Global:** The clash of the titans continues as US and China traded virtual swords – US president Trump vowed “strong” and “meaningful” action if China pushes ahead with the security law for Hong Kong, but did not go into specifics. Trump also said the US will terminate its relationship with the World Health Organisation. Meanwhile, civil unrest spread across US cities amid protests over the death of George Floyd. Elsewhere, China’s manufacturing PMI slipped back from 50.8 in April to 50.6 in May, missing market expectations for 51.1, as export orders improved to 35.3 whereas the employment gauge fell to 49.4. Meanwhile, the non-manufacturing PMI rose to 53.6, but the employment gauge was at 48.5. The S&P500 added 0.48% while VIX declined to 27.51. UST bonds rallied into the month-end with the 2-10 curve flattening as the 10-year yield led the rally to close at 0.65%. The 3-month LIBOR eased to 0.344%.

**Market watch:** Asian markets may begin trading June on a cautious tone.

Today’s economic data calendar comprises Eurozone and Asian manufacturing PMIs, HK retail sales, and US’ manufacturing ISM and construction spending. For the week ahead, watch for the RBA policy decision (cash target rate is likely static at 0.25%) on 2 June, BOC policy meeting (likely static at 0.25% on 3 June) with a new governor Tiff Macklem taking over from Stepehn Poloz, and ECB policy meeting on 4 June (where a EUR500b boost to the pandemic emergency bond buying fund is expected with maybe a tweak in the tiering system to help banks cope with the negative interest rates) with Lagarde due to speak as well. The UK and EU will engage in the next round of Brexit negotiations, while Las Vegas casinos are set to reopen on Thursday and Friday will bring the US’ May labour market report (with the nonfarm payrolls and unemployment rate tipped to come in at -8m and 19.6% respectively after printing at -20.5m and 14.7% in April).

**US:** US’ personal income unexpectedly rose 10.5% in April amid the CARES Act fiscal stimulus payments, but personal spending slumped more than expected by 13.6% (the sharpest decline in more than six decades) and this drove the personal savings rate to a record 33% (previously 12.7%). Separately, the PCE deflator rose 0.5% yoy (slowest since 1961) with the core PCE deflator at 1.0% yoy (-0.4% mom) in April and the University of Michigan sentiment index also stumbled from 73.7 to 72.3 in May.

**EU:** Spanish PM will ask Parliament to vote on Wednesday to approve a final extension of the state of emergency until 21 June.

**Singapore:** April bank loans growth slowed to 2.0% yoy (slowest since July 2019) but actually declined for the second month by 0.4% mom (also lowest since July 2019). Consumer loans fell for the 12th straight month by 3.3% yoy in April (worst print from at least 2005) and by 0.9% mom (third consecutive month of mom contraction) with the start of the Circuit Breaker. Business loans declined 0.1% from March, but still grew from a year ago albeit a tad slower at 5.4% yoy (March: 5.5% yoy). With the lifting of the Circuit Breaker from 2 June consumer loans may rebound, but full-year bank loans growth may remain soft at 2% yoy.

### Key Market Movements

Equity	Value	% chg
S&P 500	3044.3	0.5%
DJIA	25383	-0.1%
Nikkei 225	21878	-0.2%
SH Comp	2852.4	0.2%
STI	2510.8	-0.2%
Hang Seng	22961	-0.7%
KLCI	1473.3	1.1%
Currencies	Value	% chg
DXY	98.344	0.0%
USDJPY	107.83	0.2%
EURUSD	1.1101	0.2%
GBPUSD	1.2343	0.2%
USDIDR	14610	-0.7%
USDSGD	1.4135	-0.3%
SGDMYR	3.0777	0.3%
Rates	Value	chg (bp)
3M UST	0.12	-1.78
10Y UST	0.65	-3.74
1Y SGS	0.27	0.10
10Y SGS	0.83	-0.88
3M LIBOR	0.35	-1.25
3M SIBOR	0.56	0.02
3M SOR	0.23	-1.55
Commodities	Value	% chg
Brent	37.84	5.0%
WTI	35.49	5.3%
Gold	1730	0.7%
Silver	17.87	2.8%
Palladium	1939	0.1%
Copper	5377	0.8%
BCOM	63.54	1.2%

Source: Bloomberg

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### Major Markets

**US:** US markets ended mixed in a volatile session on Friday, as the Dow Jones Industrial Average index fell slightly while the S&P500 and NASDAQ indices gained. Stocks initially fell but regained their losses after US President Trump announced US' response on China's actions over Hong Kong, which did not include any drastic measures. The S&P500 index gained 0.48%. Looking ahead, investors are likely to turn their attention back to the reopening of the economy while the violent protests in the US may also act as a potential downside risk.

**China:** China's official manufacturing PMI softened slightly to 50.60 in May from 50.80 in April, but still well above the threshold line. The key takeaway from May's data was the rebound of demand. New orders rebounded from 50.20 to 50.90 while new export orders also rose to 35.3 from 33.50. Raw material input prices jumped to 51.60 from 42.50 due to rebound of commodity prices. This may suggest that PPI may recover in the coming months. The key disappointment was that PMI for both medium and small companies fell with the PMI for medium sized companies dipped below 50 again for the first time in three months while PMI reading for big companies rose by 0.5. This suggested that China's stimulus measures may be channelled to big companies first.

**Hong Kong:** US President Trump vowed to take action to revoke HK's special treatments and sanction Chinese and HK officials. Due to the lack of details, market did not react much to Trump's words with US\$HKD spot even moving towards 7.75 on broad dollar weakness. In the near term, we will watch out for the details of US' response regarding HK issue as the actions could threaten the HK's crucial trade sector and financial sector and add pressure to the damaged economy.

On a positive note, loan growth remained resilient at 7.2% yoy or 0.7% mom in April. In fact, loans for use in HK (excluding trade finance) expanded at a slower pace by 7.7% yoy (-0.2% mom) as local loan growth supported by stimulus measures and lowered rates failed to offset the weaker household loan demand. However, the growth of loans for use outside of Hong Kong unexpectedly accelerated to 7.3% yoy, probably due to favorable HKD and USD rates. Going forward, we expect the local loan demand to soften amid faltering growth outlook. Meanwhile, PBOC's likely further easing may bring Mainland companies back to onshore market for funding. We expect total loans and advances to show single-digit growth this year.

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**Macau:** GDP contracted by a record 48.7% yoy in 1Q. Exports of services (64.9% of total GDP) and private consumption (41.8% of total GDP) plunged by 60% yoy and 15.2% yoy respectively, both marking the sharpest decrease since record amid pandemic. Moving into 2Q, we expect the economic contraction to deepen amid strong restriction measures imposed from late March. In the second half of this year, the possible relaxation of containment measures may help the tourism and gaming sectors to regain some growth traction. However, any recovery is expected to be sluggish amid fears of second wave of infections, a strong MOP as well as persistent demand shock associated with global recession. Internally, looming job concerns could also dent consumer sentiments while the likely increase in bankruptcies may curb growth of fixed investments. In conclusion, as 1Q GDP surprised on the downside, we further downgrade our 2020 GDP forecast from -20% to around -25%.

**India:** India's 1Q GDP growth surprised on the upside at 3.1% yoy (consensus forecast: 1.8% yoy), albeit still a moderation from the revised 3.5% in 4Q19.

**Singapore:** The STI slipped 0.18% to close down at 2510.75 on Friday and may continue to range trade today awaiting further US-China cues. With UST bonds rallying into the month-end, SGS bonds which had also gained 1-4bps on Friday, may also range trade today.

**Indonesia:** Indonesia's chief economics minister, Airlangga Hartarto, said that Q2 GDP may post negative growth, although the contraction is expected to be less than 3%. For the full year, the government is still standing by the earlier estimate of 2.3% positive growth, though he warned that a contraction of 0.4% may be possible under a worst-case scenario. He added that additional stimulus is being prepared, including a IDR9.4tn for the agriculture sector, on top of the IDR642tn that the government had announced. He mentioned that a further increase in the budget shortfall - already projected to be at 6.27% of GDP - may have to increase further.

**Malaysia:** Malaysia's head statistician said that the economy is set to slip into a recession in the next 4-6 months, given border closures, trade standstill and pressure on tourism and aviation industries. He added that Q1's 0.7% growth was significantly less than the 3.9-4.2% expected, indicating a loss of MYR22.8bn (USD5.3bn) in output. Thus far, early indicators in April and May suggest that the environment remains "unfavourable" to the businesses, with "a sharp contraction to the economy like never before", he said.

**Thailand:** Thailand's parliament has approved a 1.9 trillion baht package – the latest measure from the country to counter the economic fallout from the coronavirus. 1 trillion baht will be government expenditure, funded primarily by borrowing. The other 900 billion baht will be support measures from the Bank of Thailand. The opposition bloc is calling for deeper oversight of the program.

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**Oil:** The OPEC+ meeting this month is likely to be brought forward by a week to 4 June. Members are set to discuss the extension of the current output cut of 9.7mbpd by 1-3 months. The current supply reduction of 9.7mbpd is originally due to last until end June, after which will be reduced to 7.7mbpd from July to December. Saudi Arabia reportedly is in favour of extending the current output cuts until the end of the year, although that is likely to be met with opposition by Russia, who is not in favour of any extension.

## Bond Market Updates

**Market Commentary:** The SGD swap curve fell last Friday, with the shorter and the belly tenors trading 2-4bps lower, while the longer tenors traded 4-5bps lower (with the exception of the 30-year trading 10bps lower). The Bloomberg Barclays Asia USD IG Bond Index average OAS remained mostly unchanged at 224bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 4bps to 896bps. The HY-IG Index Spread tightened 4bps to 672bps. Flows in SGD corporates were heavy, with flows in MAPLSP 3.95%-PERPs, CS 5.625%-PERPs, SOCGEN 6.125%-PERPs, STHSP 3.95%-PERPs, HSBC 4.7%-PERPs, HSBC 5%-PERPs, MLTSP 3.65%-PERPs, SPHSP 4.5%-PERPs, ARASP 5.6%-PERPs, CAPLSP 3.15%'29s, MAPLSP 4.5%-PERPs, OCBCSP 4%-PERPs and OLAMSP 6%'22s. 10Y UST Yields fell 4bps to 0.65%, as President Trump announced the end of the U.S.' ties with the World Health Organisation (WHO) while on the other hand the President seem to have kept the U.S.-China Phase 1 deal intact.

**New Issues:** Bank of Communications Co., Ltd. Hong Kong Branch priced a USD100mn 3-year bond at 3m-US LIBOR+75bps.

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### Foreign Exchange

	Day Close	% Change		Day Close	% Change
<b>DX</b>	98.344	-0.04%	<b>USD-SGD</b>	1.4135	-0.29%
<b>USD-JPY</b>	107.830	0.17%	<b>EUR-SGD</b>	1.5687	-0.10%
<b>EUR-USD</b>	1.1101	0.22%	<b>JPY-SGD</b>	1.3104	-0.53%
<b>AUD-USD</b>	0.6667	0.45%	<b>GBP-SGD</b>	1.7448	-0.10%
<b>GBP-USD</b>	1.2343	0.18%	<b>AUD-SGD</b>	0.9422	0.15%
<b>USD-MYR</b>	4.3465	-0.16%	<b>NZD-SGD</b>	0.8764	-0.49%
<b>USD-CNY</b>	7.1372	-0.12%	<b>CHF-SGD</b>	1.4695	-0.09%
<b>USD-IDR</b>	14610	-0.71%	<b>SGD-MYR</b>	3.0777	0.30%
<b>USD-VND</b>	23282	-0.11%	<b>SGD-CNY</b>	5.0494	0.06%

### Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
<b>1M</b>	-0.4820	-0.20%	<b>O/N</b>	0.0615	0.14%
<b>2M</b>	-0.3360	0.14%	<b>1M</b>	0.1825	-0.10%
<b>3M</b>	-0.3070	-0.10%	<b>2M</b>	0.2790	-1.16%
<b>6M</b>	-0.1580	-1.16%	<b>3M</b>	0.3440	-1.25%
<b>9M</b>	-0.1940	-1.25%	<b>6M</b>	0.5098	-3.34%
<b>12M</b>	-0.0850	-3.34%	<b>12M</b>	0.6735	-0.36%

### Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	% Hike/Cut	Implied Rate Change	Implied Rate
10/06/2020	0.015	1.5	0.004	0.052
29/07/2020	0.015	0	0.004	0.052
16/09/2020	-0.078	-9.3	-0.019	0.029
05/11/2020	-0.085	-0.7	-0.021	0.027
16/12/2020	-0.123	-3.8	-0.031	0.018
27/01/2021	-0.155	-3.2	-0.039	0.01

### Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	35.49	5.3%	Corn (per bushel)	3.2575	-0.5%
Brent (per barrel)	35.33	0.1%	Soybean (per bushel)	8.408	-0.7%
Heating Oil (per gallon)	0.9647	4.2%	Wheat (per bushel)	5.2075	1.2%
Gasoline (per gallon)	1.0259	2.7%	Crude Palm Oil (MYR/MT)	2,373.0	1.7%
Natural Gas (per MMBtu)	1.8490	1.2%	Rubber (JPY/KG)	136.9	-0.8%
<b>Base Metals</b>	<b>Futures</b>	<b>% chg</b>	<b>Precious Metals</b>	<b>Futures</b>	<b>% chg</b>
Copper (per mt)	5,377	0.8%	Gold (per oz)	1,730.3	0.7%
Nickel (per mt)	12,324	0.6%	Silver (per oz)	17.866	2.8%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

### Equity and Commodity

Index	Value	Net change
<b>DJIA</b>	25,383.11	-17.53
<b>S&amp;P</b>	3,044.31	14.58
<b>Nasdaq</b>	9,489.87	120.88
<b>Nikkei 225</b>	21,877.89	-38.42
<b>STI</b>	2,510.75	-4.49
<b>KLCI</b>	1,473.25	15.75
<b>JCI</b>	4,753.61	37.43
<b>Baltic Dry</b>	504.00	15.00
<b>VIX</b>	27.51	-1.08

### Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
<b>2Y</b>	0.24 (-0.02)	0.16 (-0.01)
<b>5Y</b>	0.44 (-0.01)	0.30 (-0.03)
<b>10Y</b>	0.83 (-0.01)	0.65 (-0.04)
<b>15Y</b>	1.01 (-0.01)	--
<b>20Y</b>	1.19 (-0.01)	--
<b>30Y</b>	1.16 (-0.01)	1.41 (-0.05)

### Financial Spread (bps)

	Value	Change
<b>EURIBOR-OIS</b>	16.10	-2.18
<b>TED</b>	35.36	--

### Secured Overnight Fin. Rate

<b>SOFR</b>	0.06
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## Economic Calendar

Date Time	Event			Survey	Actual	Prior	Revised
06/01/2020 07:50	JN	Capital Spending YoY	1Q	-5.00%	4.30%	-3.50%	--
06/01/2020 08:00	SK	Exports YoY	May	-25.10%	-23.70%	-24.30%	-25.10%
06/01/2020 08:30	JN	Jibun Bank Japan PMI Mfg	May F	--	--	38.4	--
06/01/2020 08:30	VN	Markit Vietnam PMI Mfg	May	--	--	32.7	--
06/01/2020 08:30	SK	Markit South Korea PMI Mfg	May	--	--	41.6	--
06/01/2020 08:30	TA	Markit Taiwan PMI Mfg	May	--	--	42.2	--
06/01/2020 09:45	CH	Caixin China PMI Mfg	May	49.6	--	49.4	--
06/01/2020 13:00	IN	Markit India PMI Mfg	May	--	--	27.4	--
06/01/2020 15:55	GE	Markit/BME Germany Manufacturing PMI	May F	36.8	--	36.8	--
06/01/2020 16:00	EC	Markit Eurozone Manufacturing PMI	May F	39.5	--	39.5	--
06/01/2020 16:30	HK	Retail Sales Value YoY	Apr	-38.50%	--	-42.00%	--
06/01/2020 16:30	UK	Markit UK PMI Manufacturing SA	May F	40.8	--	40.6	--
06/01/2020 21:30	CA	Markit Canada Manufacturing PMI	May	--	--	33	--
06/01/2020 21:45	US	Markit US Manufacturing PMI	May F	40	--	39.8	--
06/01/2020 22:00	US	ISM Manufacturing	May	43.7	--	41.5	--

Source: Bloomberg

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