

Daily Treasury Outlook

1 July 2020

Highlights

Global: Global risk sentiments remained in a flux - Chinese president Xi signed an order to impose the security law on Hong Kong, while the US vowed “strong actions” and UK PM Johnson said he was “deeply concerned”. Meanwhile, infectious disease expert Anthony Fauci warned that new cases could rise to 100,000 a day as the US is going in the wrong direction in efforts to combat Covid. The Federal Communications Commission also designated Huawei and ZTE Corp as national security threats. Nonetheless, the S&P500 surged 1.54% to end its best quarter since 1998 and extended its 2Q rally to 20% as the Conference Board’s consumer confidence rallied 12.2 points to 98.1 in its biggest one-month gain since late 2011. FedEx also rose on surprise profit amid cost cuts and Covid-fuelled health shipments. VIX also fell to 30.43. The UST bonds bear-steepened into the month-end with the 10-year bond yield up at 0.65%. The 3-month LIBOR edged up to 0.302%.

Market watch: Asian markets may start 3Q on a mixed tone as investors digest the newsflow. Today’s economic data calendar comprises the slate of European and Asian manufacturing PMIs including China’s Caixin, Indonesia’s June CPI, UK’ Nationwide house prices, US’ ADP employment change, manufacturing ISM and Challenger job cuts. Speakers include BOE’s Haskel and Fed’s Evans.

US: Fed chair Powell sounded more cautious compared to US Treasury Secretary Mnuchin’s comment that “we are seeing additional signs that conditions will improve significantly in the third and fourth quarters of this year”. Meanwhile, Williams also warned that the “economy is still far from healthy and a full recovery will likely take years to achieve”. The Conference Board’s present and expectations gauges bounced to 86.2 and 106.0 respectively in June as Americans turned more upbeat about the re-opening, albeit the second wave has halted or rolled back some plans in certain states.

EU: The EU governments extended a travel ban for US residents, but will lift travel restrictions for Chinese residents from 1 July on a reciprocal basis.

UK: PM Johnson pledged a “New Deal” with GBP12b to support 180,000 new and affordable homes over the next eight years and GBP5b for hospital maintenance, school repairs and road improvements.

Singapore: Bank loans growth slowed to 0.5% yoy in May, the slowest since September 2016 (-0.8%). In on-month terms, bank loans fell for the third straight month by 0.6% in May. Business loans expanded by 3.0% yoy but fell for the second straight month by 0.7% mom, led by double-digit yoy growth to businesses services as well as transport, storage & communications. However, consumer loans declined for the 13th consecutive month by 3.5% yoy in May as consumption appetite took a nosedive amid the domestic growth downturn. Looking ahead, bank loans growth is likely to remain tepid in the coming months and consumer loans may remain a drag into 3Q.

Key Market Movements		
Equity	Value	% chg
S&P 500	3100.3	1.5%
DJIA	25813	0.8%
Nikkei 225	22288	1.3%
SH Comp	2984.7	0.8%
STI	2589.9	0.6%
Hang Seng	24427	0.5%
KLCI	1501.0	0.4%
Currencies	Value	% chg
DXY	97.391	-0.1%
USDJPY	107.93	0.3%
EURUSD	1.1234	-0.1%
GBPUSD	1.2401	0.8%
USDIDR	14265	0.1%
USDSGD	1.3936	0.0%
SGDMYR	3.0676	-0.3%
Rates	Value	chg (bp)
3M UST	0.13	0.76
10Y UST	0.66	3.27
1Y SGS	0.28	0.90
10Y SGS	0.90	-1.44
3M LIBOR	0.30	-1.18
3M SIBOR	0.56	0.00
3M SOR	0.20	0.00
Commodities	Value	% chg
Brent	41.27	-1.4%
WTI	39.27	-1.1%
Gold	1781	0.5%
Silver	18.21	2.0%
Palladium	1944	2.3%
Copper	6015	0.9%
BCOM	64.98	1.1%

Source: Bloomberg

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Major Markets

US: The S&P500 Index closed 1.5% higher following strong economic data, ending a turbulent Q2 with its best quarter in 20 years. This has come even though the US was placed in lockdown and unemployment levels had surged to record highs. The market is likely to remain volatile as investors weigh between developments in the pandemic and continued support from monetary and fiscal policies.

China: PBoC announced to lower the interest rate on relending and rediscount rate for agriculture and small business by 25bps effective from 1 July. The relending rate for financial stability will be lowered by 50bps. This is the first rate cut for relending and rediscount since 2010. The move is in line with PBoC's innovative monetary policy stance to put the money in business hand directly and lower the funding costs for smaller companies directly. The move is positive for equity market, however, the impact on bond market could be limited due to concerns that the role of interbank money market may be downplayed. In addition, China's PMI continued to improve to 50.9 in June due to strong production and rebound of overall demand. However, external demand remains weak albeit new export index increased to 42.6 from 35.3.

HK: Retail sales dropped at a slower rate by 32.8% yoy in May, driven by pent-up demand. However, the recovery in local consumption may have been constrained by the worsening unemployment and faltering economic growth outlook. Meanwhile, the stalling inbound tourism continued to weigh. Going forward, any rebound in local consumption may be slow amid the rising jobs concerns and pandemic uncertainty. Meanwhile, external demand is expected to remain soft amid global recession and travel restrictions which were extended again by HK government on 30 June. Elsewhere, HKD loan-to-deposit ratio decreased to a one-year low of 88.4% in May as HKD deposits rose by 0.1% mom while HKD loans fell by 0.3% mom. Moving ahead, HKD CASA deposits look set to take a larger share as investors have been upbeat on IPOs and banks have cut time deposit rates. This combined with the falling HKD loan-to-deposit ratio suggests that banks' funding pressure may have been easing.

Singapore: The STI gained 0.61% to close at 2589.91 yesterday. SGS bond yields fell 1-2bps yesterday, so it remains to be seen if with the bear-steepening in UST bonds into the month end, SGS bonds would come under some selling pressure today.

Malaysia: Malaysia's EPF pension fund, with about USD216bn in assets, is reportedly seeking opportunities offshore to look for higher gains. In an interview with Bloomberg, EPF's CEO, Alizakri Alias, said that the fund expects to beat 4-5% returns in 2020 and over the next 5 years. He added that, in the face of limited opportunities onshore, EPF has been expanding its global portfolio to maintain high dividends for Malaysian workers.

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Indonesia: Indonesia's government is reportedly still keen on pushing through its plan to build a new capital city in Kalimantan, despite the ongoing coronavirus pandemic crisis. Planning Minister Suharso Monoarfa said that the government is finalising a master-plan for the new city, adding that it would be a new locomotive that can create a lot of jobs and with broad multiplier effects.

Oil: Brent ended Q2 with gains of 21%. It has been an eventful Q2 for crude oil, with WTI plunging into negative price territory briefly and OPEC+ enacting the largest output reduction in its history. In Q3, we think oil prices may continue to rise, but at a much slower pace than Q2. The path to recovery is unlikely to be smooth or linear.

Bond Market Updates

Market Commentary: The SGD swap curve slightly bull-flattened yesterday, with the shorter tenors trading 0-1bps lower while the belly and the longer tenors traded 1-2bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS remained mostly unchanged at 204bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 2bps to 780bps. The HY-IG Index Spread widened 3bps to 576bps. Flows in SGD corporates were heavy, with flows in SINTEC 4.1%-PERPs, CS 5.625%-PERPs, HSBC 5%-PERPs, HSBC 4.7%-PERPs and PINGIN 2.125%'21s. 10Y UST Yields gained 3bps to 0.66% as the U.S.' stronger June consumer confidence data boosted risk-on sentiments.

New Issues: Weibo Corp priced a USD750mn 10-year bond at T+280bps, tightening from IPT of T+320bps area. Neijiang Investment Holding Group Co. Ltd. (Guarantor: Sichuan Development Financing Guarantee Co. Ltd.) priced a USD75mn 3-year bond at 4.5%. JG Summit Holdings Inc has mandated banks for its proposed USD bond offering. GS Caltex Corp has mandated banks for a possible USD bond offering.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	97.391	-0.15%	USD-SGD	1.3936	0.01%
USD-JPY	107.930	0.33%	EUR-SGD	1.5654	-0.08%
EUR-USD	1.1234	-0.07%	JPY-SGD	1.2911	-0.33%
AUD-USD	0.6903	0.54%	GBP-SGD	1.7282	0.83%
GBP-USD	1.2401	0.84%	AUD-SGD	0.9620	0.53%
USD-MYR	4.2863	0.07%	NZD-SGD	0.8996	0.54%
USD-CNY	7.0640	-0.24%	CHF-SGD	1.4711	0.42%
USD-IDR	14265	0.14%	SGD-MYR	3.0676	-0.32%
USD-VND	23196	0.02%	SGD-CNY	5.0682	-0.19%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.5070	-0.60%	O/N	0.0818	1.06%
2M	-0.3360	1.06%	1M	0.1710	-0.72%
3M	-0.4130	-0.72%	2M	0.2373	-0.54%
6M	-0.2870	-0.54%	3M	0.2961	-1.18%
9M	-0.1940	-1.18%	6M	0.3669	0.55%
12M	-0.2050	0.55%	12M	0.5559	-1.04%

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	% Hike/Cut	Implied Rate Change	Implied Rate
07/29/2020	-0.037	-3.7	-0.009	0.063
09/16/2020	-0.099	-6.1	-0.025	0.047
11/05/2020	-0.141	-4.3	-0.035	0.036
12/16/2020	-0.162	-2.1	-0.041	0.031
01/27/2021	-0.237	-7.5	-0.059	0.012

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	39.27	-1.1%	Corn (per bushel)	3.3850	3.8%
Brent (per barrel)	41.15	-1.3%	Soybean (per bushel)	8.843	2.0%
Heating Oil (per gallon)	1.1781	1.1%	Wheat (per bushel)	4.9000	0.9%
Gasoline (per gallon)	1.2001	1.4%	Crude Palm Oil (MYR/MT)	2,379.0	-2.0%
Natural Gas (per MMBtu)	1.7510	2.5%	Rubber (JPY/KG)	142.2	1.1%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	6,015	0.9%	Gold (per oz)	1,781.0	0.5%
Nickel (per mt)	12,805	0.0%	Silver (per oz)	18.207	2.0%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Economic Calendar

Date Time	Event			Survey	Actual	Prior	Revised
07/01/2020 08:00	SK	Exports YoY	Jun	-9.10%	-10.90%	-23.70%	-23.60%
07/01/2020 08:30	JN	Jibun Bank Japan PMI Mfg	Jun F	--	40.1	37.8	--
07/01/2020 08:30	VN	Markit Vietnam PMI Mfg	Jun	--	51.1	42.7	--
07/01/2020 08:30	ID	Markit Indonesia PMI Mfg	Jun	--	39.1	28.6	--
07/01/2020 08:30	SK	Markit South Korea PMI Mfg	Jun	--	43.4	41.3	--
07/01/2020 08:30	TA	Markit Taiwan PMI Mfg	Jun	--	46.2	41.9	--
07/01/2020 09:30	AU	Building Approvals MoM	May	-7.80%	--	-0.018	--
07/01/2020 09:45	CH	Caixin China PMI Mfg	Jun	50.5	--	50.7	--
07/01/2020 13:00	IN	Markit India PMI Mfg	Jun	--	--	30.8	--
07/01/2020 15:55	GE	Markit/BME Germany Manufacturing PMI	Jun F	44.6	--	44.6	--
07/01/2020 16:00	EC	Markit Eurozone Manufacturing PMI	Jun F	46.9	--	46.9	--
07/01/2020 16:30	UK	Markit UK PMI Manufacturing SA	Jun F	50.1	--	50.1	--
07/01/2020 19:00	US	MBA Mortgage Applications	Jun-26	--	--	-8.70%	--
07/01/2020 21:45	US	Markit US Manufacturing PMI	Jun F	49.6	--	49.6	--
07/01/2020 22:00	US	ISM Manufacturing	Jun	49.70	--	43.10	--

Source: Bloomberg

Treasury Research & Strategy

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