

## Daily Treasury Outlook

2 June 2020

### Highlights

**Global:** Risk sentiments remained supported as global manufacturing PMIs signalled some stabilization from April lows in May as economies re-open and China's Caixin PMI rebounded from 49.4 in April to cross the 50 handle at 50.7 in May. This was notwithstanding civil unrest in parts of the US and earlier news reports that China had told agricultural companies to pause some US agricultural goods purchases that could threaten the Phase one trade deal. The S&P500 added 0.38% but VIX rose to 28.23. UST bonds bear-steepened as the 30-year yield pushed 5bps higher amid a heavy supply calendar and as investors piled into the stock market, albeit the 10-year yield was little changed at 0.66%. The 3-month LIBOR eased to 0.3371%. Other Asian manufacturing PMIs were mixed, with Vietnam, Malaysia, Myanmar, Philippines and Thailand improving slightly in May, but South Korea and Taiwan registering further deceleration.

**Market watch:** Asian markets may open with a firm tone this morning, awaiting RBA's policy decision (where the cash target rate is likely to be static at 0.25%) and also US President Trump's comments amid the violent protests over the killing of George Floyd. Today's economic data calendar is light and only comprises Indonesia's May CPI and UK's mortgage approvals.

**US:** US' manufacturing ISM rebounded from an 11-year low of 41.5 in April to 43.1 in May, but remained deep in contraction territory for the third straight month. Construction spending also fell less than expected by 2.9% mom in April.

**EU:** May PMIs rebounded from April's 33.4 to 39.4 in May, with Germany also registering an improvement from 34.5 to 36.6.

**UK:** The UK's manufacturing PMIS rose from April's record low of 32.6 to 40.7, but also remained deep in contraction territory.

**China:** China's central bank announced a new lending facility to enhance its credit support to smaller and micro companies. The central bank will allocate 400bn quota to purchase loans to smaller companies from smaller commercial banks at 40% share. This will potentially boost the lending to smaller companies by additional CNY1 trillion. This may reduce the imminent need for China to roll out more targeted reserve requirement ratio cut.

**Singapore:** Today marks the gradual re-opening of the Singapore economy as students return to school.

**Oil:** Brent rose again yesterday, rising 1.3% to \$38.32/bbl on the first trading day of June – the highest in more than two months. Expectations of an extension of the current supply cuts by OPEC+ when they meet this week is keeping prices buoyed. If OPEC+ can deliver on the reported extension, we expect Brent to possibly test \$40/bbl.

Key Market Movements		
<b>Equity</b>	<b>Value</b>	<b>% chg</b>
S&P 500	3055.7	0.4%
DJIA	25475	0.4%
Nikkei 225	22062	0.8%
SH Comp	2915.4	2.2%
STI	2550.9	1.6%
Hang Seng	23733	3.4%
KLCI	1490.1	1.1%
<b>Currencies</b>	<b>Value</b>	<b>% chg</b>
DXY	97.830	-0.5%
USDJPY	107.59	-0.2%
EURUSD	1.1136	0.3%
GBPUSD	1.2492	1.2%
USDIDR	14610	0.0%
USDSGD	1.4074	-0.4%
SGDMYR	3.0654	-0.4%
<b>Rates</b>	<b>Value</b>	<b>chg (bp)</b>
3M UST	0.12	0.00
10Y UST	0.66	0.65
1Y SGS	0.27	-0.10
10Y SGS	0.83	0.15
3M LIBOR	0.34	-0.60
3M SIBOR	0.56	0.03
3M SOR	0.20	-2.20
<b>Commodities</b>	<b>Value</b>	<b>% chg</b>
Brent	38.32	1.3%
WTI	35.44	-0.1%
Gold	1740	0.5%
Silver	18.30	2.4%
Palladium	1961	1.1%
Copper	5484	2.0%
BCOM	63.51	0.0%

Source: Bloomberg

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### Major Markets

**US:** US markets gained on Monday despite protests happening across the US as well as heightened US-China tensions as investors focused on the reopening of the economy. The S&P500 index closed 0.38% higher. Markets are likely to be volatile in the coming days as the domestic protests and rising tensions between the US and China act as downside risks to the reopening economy.

**Hong Kong:** Retail sales dropped for the 15th consecutive month albeit at a slower pace by 36.1% yoy in April. On one hand, the decline in sales of food, alcoholic, drinks and tobacco (-14% yoy) and consumer durable goods (-18.2% yoy) and goods in department stores (-18% yoy) all moderated. As local coronavirus outbreak has been almost contained while Easter Holiday and Birthday of the Buddha fell in April, households came out to consume and released some pent-up demand. On the other hand, sales of clothing, footwear and allied products (-62.6% yoy), jewelry, watches and clocks, and valuable gifts (-76.6 yoy) and medicines and cosmetics (-62.9% yoy) all continued to drop notably. Moving ahead, the government is likely to ease the containment measures and support a comeback of tourism and retail sector. However, recovery will take time as job concerns will prompt visitors and local consumers to tighten the purse strings while concerns about second wave of infections may hinder the rebound of travelling activities.

**Macau:** Gaming revenue dropped for the eighth consecutive month by 93.2% yoy in May. The year-on-year decrease has been over 75% for four straight months. Due to ongoing lockdowns, gaming activities remained at an almost standstill. Travel restrictions between Macau, HK and Mainland China are rumored to be lifted in June. If this is the case, the gaming sector may have bottomed out. Going forward, however, it looks unlikely for the sector to regain strong momentum any time soon. On one hand, mass market segment's recovery may be sluggish as inbound tourism may remain subdued amid external demand shock. On the other hand, high-roller demand may stay muted due to China's economic slowdown and lingering policy risk. Furthermore, a stronger MOP and concerns about second wave of infections could also weigh on gambling demand. In conclusion, we hold onto our view that gaming revenue will decrease over 50% this year.

**Taiwan:** Manufacturing PMI declined to 41.9 in May from 42.2 in April, the lowest level since global financial crisis in Jan 2009, as the negative impacts of epidemic continued to weigh on the manufacturing sector of Taiwan. Specifically, both outputs and total new orders dropped substantially, while the export sales declined at the steepest rate since Jan 2009. Given that the global restrictions on travel and business operations are unlikely to be lifted completely any time soon, it might continue to exert some downside pressures on the manufacturing sector of Taiwan. Nevertheless, as the global pandemic seems to be under control gradually, with the resumption of production and economic activities, it might help to ease the uncertainties partially.

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**Singapore:** The STI rallied 1.60% to close up at 2550.86 yesterday and may open firmer this morning as well, taking the cue from the overnight gains in the S&P500. With 5-30 year UST yield curve continuing to steepen to a 3-year high of 114bps in anticipation of a supply deluge and moderating Fed bond purchases, SGS bonds may face pressure today as well.

**Indonesia:** Economics Minister Airlangga Hartarto said that Indonesia would need to reopen its economy despite the threat of the virus outbreak, due to rising unemployment and social unrest risks. He said that 2mn people are already out of work on top of the 9mn already unemployed before. He added that “We cannot stay at home until next year. There will be more people hungry and they will become angry,” in a Bloomberg interview.

**Malaysia:** IHS Markit Malaysia manufacturing PMI survey showed a relative improvement. The reading rebounded from a record-low 31.1 in April to 45.6 in May. While it remains within contractionary territory, the improvement has nonetheless helped to anchor hopes of an economic recovery, however tentative. The ringgit gained partly on the news and alongside other Asian currencies against USD. USDMYR traded 0.3% lower to 4.3333 level yesterday.

## Bond Market Updates

**Market Commentary:** The SGD swap curve steepened yesterday, with the 1-year and 2-year tenors trading 0-2bps lower while the 3-year to 10-year tenors traded 0-1bp higher and the longer tenors traded 3-10bps higher. 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 widened 1bp to 896bps. The HY-IG Index Spread widened 1bp to 672bps. Flows in SGD corporates were heavy, with flows in HSBC 4.7%-PERPs, STANLN 5.375%-PERPs, SOCGEN 6.125%-PERPs, UBS 5.875%-PERPs, BAERVX 5.9%-PERPs, AREIT 4.75%-PERPs, KREITS 4.98%-PERPs, OLAMSP 6%'22s, SOCGEN 4.3%'26s and CMZB 4.875%'27s. 10Y UST Yields gained 1bps to 0.66%, while U.S. stocks rallied due to signs of economic recovery.

**New Issues:** Industrial & Commercial Bank of China Ltd. of Sydney priced a USD100mn 3-year bond at 3m-US LIBOR+60bps. Starhill Global REIT MTN Pte Ltd (Guarantor: Starhill Global REIT) priced a SGD100mn 5-year bond at 3.15%, tightening from IPT of 3.35% area.

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### Foreign Exchange

	Day Close	% Change		Day Close	% Change
<b>DX</b>	97.830	-0.52%	<b>USD-SGD</b>	1.4074	-0.43%
<b>USD-JPY</b>	107.590	-0.22%	<b>EUR-SGD</b>	1.5674	-0.08%
<b>EUR-USD</b>	1.1136	0.32%	<b>JPY-SGD</b>	1.3082	-0.17%
<b>AUD-USD</b>	0.6798	1.96%	<b>GBP-SGD</b>	1.7586	0.79%
<b>GBP-USD</b>	1.2492	1.21%	<b>AUD-SGD</b>	0.9567	1.54%
<b>USD-MYR</b>	4.3175	-0.67%	<b>NZD-SGD</b>	0.8857	1.06%
<b>USD-CNY</b>	7.1278	-0.13%	<b>CHF-SGD</b>	1.4648	-0.32%
<b>USD-IDR</b>	14610	--	<b>SGD-MYR</b>	3.0654	-0.40%
<b>USD-VND</b>	23255	-0.12%	<b>SGD-CNY</b>	5.0613	0.24%

### Equity and Commodity

Index	Value	Net change
<b>DJIA</b>	25,475.02	91.91
<b>S&amp;P</b>	3,055.73	11.42
<b>Nasdaq</b>	9,552.05	62.18
<b>Nikkei 225</b>	22,062.39	184.50
<b>STI</b>	2,550.86	40.11
<b>KLCI</b>	1,490.14	16.89
<b>JCI</b>	4,753.61	--
<b>Baltic Dry</b>	504.00	--
<b>VIX</b>	28.23	0.72

### Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
<b>1M</b>	-0.4820	-0.70%	<b>O/N</b>	0.0615	-0.15%
<b>2M</b>	-0.3360	-0.15%	<b>1M</b>	0.1825	0.99%
<b>3M</b>	-0.3070	0.99%	<b>2M</b>	0.2790	0.19%
<b>6M</b>	-0.1580	0.19%	<b>3M</b>	0.3440	-0.60%
<b>9M</b>	-0.1940	-0.60%	<b>6M</b>	0.5098	-0.52%
<b>12M</b>	-0.0850	-0.52%	<b>12M</b>	0.6735	-0.34%

### Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
<b>2Y</b>	0.25 (--)	0.16 (--)
<b>5Y</b>	0.44 (--)	0.31 (--)
<b>10Y</b>	0.83 (--)	0.66 (+0.01)
<b>15Y</b>	1.01 (--)	--
<b>20Y</b>	1.20 (+0.01)	--
<b>30Y</b>	1.17 (+0.01)	1.45 (+0.04)

### 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	-0.076	-6.1	-0.019	0.037
05/11/2020	-0.131	-5.5	-0.033	0.023
16/12/2020	-0.144	-1.3	-0.036	0.02
27/01/2021	-0.195	-5.1	-0.049	0.008

### Financial Spread (bps)

	Value	Change
<b>EURIBOR-OIS</b>	16.25	0.15
<b>TED</b>	35.36	--

### Secured Overnight Fin. Rate

<b>SOFR</b>	0.06
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### Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	35.44	-0.1%	Corn (per bushel)	3.2325	-0.8%
Brent (per barrel)	38.32	8.5%	Soybean (per bushel)	8.405	0.0%
Heating Oil (per gallon)	1.0290	6.7%	Wheat (per bushel)	5.1525	-1.1%
Gasoline (per gallon)	1.0667	4.0%	Crude Palm Oil (MYR/MT)	2,388.0	0.6%
Natural Gas (per MMBtu)	1.7740	-4.1%	Rubber (JPY/KG)	135.0	-1.4%

  

Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,484	2.0%	Gold (per oz)	1,739.6	0.5%
Nickel (per mt)	12,626	2.5%	Silver (per oz)	18.303	2.4%

Source: Bloomberg, Reuters  
(Note that rates are for reference only)

## Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
06/02/2020 06:45	NZ Building Permits MoM	Apr	--	-6.50%	-21.30%
06/02/2020 07:00	SK GDP YoY	1Q F	1.30%	1.40%	1.30%
06/02/2020 07:00	SK CPI YoY	May	-0.30%	-0.30%	0.10%
06/02/2020 07:00	SK GDP SA QoQ	1Q F	-1.40%	-1.30%	-1.40%
06/02/2020 07:00	SK CPI MoM	May	-0.20%	-0.20%	-0.60%
06/02/2020 07:50	JN Monetary Base YoY	May	--	3.90%	2.30%
06/02/2020 08:30	ID Markit Indonesia PMI Mfg	May	--	--	27.5
06/02/2020 09:30	AU BoP Current Account Balance	1Q	A\$6.1b	--	A\$1.0b
06/02/2020 12:00	ID CPI YoY	May	2.20%	--	2.67%
06/02/2020 12:30	AU RBA Cash Rate Target	Jun-02	0.25%	--	0.25%
06/02/2020 14:00	UK Nationwide House PX MoM	May	-1.00%	--	0.70%
06/02/2020 14:00	UK Nationwide House Px NSA YoY	May	2.80%	--	3.70%
06/02/2020 16:30	UK Mortgage Approvals	Apr	24.0k	--	56.2k
06/02/2020 16:30	UK Money Supply M4 MoM	Apr	--	--	2.80%
06/01/2020 06/12	PH Overseas Remittances YoY	Mar	-0.80%	--	2.50%

Source: Bloomberg

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