

Daily Treasury Outlook

2 July 2020

Highlights

Global: FOMC minutes noted that “as long as the committee’s forward guidance remained credible on its own, it was not clear that there would be a need for the committee to reinforce...with the adoption of a YCT policy” and also a risk that fiscal support “may prove insufficient”. Meanwhile, the US House of Representatives also passed a bill to sanction banks that do business with China officials involved with the security law. S&P500 remained buoyant overnight on hopes of early trial vaccine developments by Pfizer Inc and BioNtech SE, and rose for a third day by 0.5%. Nasdaq hit another record, while VIX was lower at 28.62. The UST bonds drifted lower post-FOMC minutes with the 10-year bond yield up at 0.68%. The 3-month LIBOR eased to 0.2985%. Airbus SE also announced plans to cut 15,000 jobs globally, and UNCTAD warned the global tourism industry will lose at least \$1.2t this year (equivalent to 1.5% of world GDP) and could grow to \$3.3t if the leisure travel hit persists till March 2021. Riksbank raised its asset purchase limit from SEK300b to SEK500b and cut its corporate loan rate to 0.1%, but kept its repo rate unchanged at 0%.

Market watch: Asian markets may try to open firmer this morning, but market participants are waiting for tonight’s key US’ June nonfarm payrolls, unemployment rate and average hourly earnings with consensus eyeing 3.0m, 12.5% and 5.3%/-0.8% mom respectively. Also on tap are US’ initial jobless claims, factory orders, durable goods orders and the May trade balance, in addition Eurozone’s unemployment rate and Thailand’s consumer confidence.

PMIs: China’s Caixin manufacturing PMI picked up from 50.7 in May to 51.2 in June, the highest this year and points to stronger new orders. The Eurozone PMI also rose to a 4-month high of 47.4 in June from 39.4 in May, whilst over in Asia, the PMI improvements were led by Malaysia (51.0 versus 45.6 previously) and Vietnam (51.1 versus 42.7 previously) which is back in expansion territory, whereas those for Japan (40.1), South Korea (43.4), Taiwan (46.2), Philippines (49.7), India (47.2), Thailand (43.5) and Indonesia (39.1) remain mired in contraction territory.

US: ADP employment data showed employers added 2.37m jobs in June, following a 3.07m gain in May. The manufacturing ISM also rose from 43.1 to a 14-month high of 52.6 on re-opening optimism, with the new orders gauge surging a record 24.6 points to 56.4 (highest since Jan194 while the production gauge also saw its strongest monthly increase since 1952 by climbing to 57.3 (highest since Nov18), albeit the employment gauge is still at a muted 42.1.

Singapore: Private residential home prices fell for a second straight quarter by 1.1% in 2Q20, extending the 1% decline seen in 1Q20. Developer sales fell nearly 38% to 1,343 units in 2Q, while secondary sales fell some 65% yoy to 725 units.

Key Market Movements		
Equity	Value	% chg
S&P 500	3115.9	0.5%
DJIA	25735	-0.3%
Nikkei 225	22122	-0.7%
SH Comp	3026.0	1.4%
STI	2610.2	0.8%
Hang Seng	24427	0.0%
KLCI	1514.4	0.9%
Currencies	Value	% chg
DX	97.196	-0.2%
USDJPY	107.47	-0.4%
EURUSD	1.1251	0.2%
GBPUSD	1.2475	0.6%
USDIDR	14283	0.1%
USDSGD	1.3937	0.0%
SGDMYR	3.0766	0.3%
Rates	Value	chg (bp)
3M UST	0.13	0.00
10Y UST	0.68	1.97
1Y SGS	0.28	0.00
10Y SGS	0.90	-0.47
3M LIBOR	0.30	0.59
3M SIBOR	0.56	-0.31
3M SOR	0.20	-0.36
Commodities	Value	% chg
Brent	42.03	1.8%
WTI	39.82	1.4%
Gold	1770	-0.6%
Silver	18.01	-1.1%
Palladium	1924	-1.0%
Copper	6061	0.8%
BCOM	65.18	0.3%

Source: Bloomberg

Daily Treasury Outlook

2 July 2020

Major Markets

US: The S&P500 Index rallied for a third straight day by 0.5% to 3115.9 on the back of positive sentiment arising from the possibility of a Covid-19 vaccine. June Fed meetings signals a dovish fed. Moving forward, markets are likely to remain supported by the Fed's dovish tilt, although that may be capped by the increasing rate of coronavirus cases in the US.

EU: ECB chief Lagarde reiterated that "the worst is behind us and the hardest is yet to come" as the recovery is going to be "as uncertain and as uneven as the shock was decisive and across the board". Meanwhile, Germany's unemployment also surged to 678k in 2Q and German Chancellor Merkel warned that EU member states remain "far apart" in recovery fund talks.

UK: House prices saw their first annual drop since 2012, falling 0.1% yoy to an average of GBP216,403.

China: China's State Council reiterated its support to smaller companies in its regular meeting. Meanwhile, it also allowed the local government special bond to be used to replenish the capital for smaller banks. Meanwhile, China's Caixin manufacturing PMI also rebounded further to 51.2, above 50 for the second consecutive months, a sign that the supply side disruption has eased.

HK: US House passed the sanctions bill on China regarding Hong Kong issue. Whether it will be signed by President Trump will be closely monitored.

Macau: Gross gaming revenue fell by another 97% yoy to the lowest since record of MOP0.716 billion. This brought the gaming revenue down by 77.4% yoy for the first seven months of this year. As travel restriction looks set to remain in place for some time amid a second wave of COVID-19, both the gaming and tourism sectors may remain at a standstill in the short run. Even if travel bubble is formed among HK, Macau and Guangdong province, we doubt the gaming sector would regain strong momentum given the strong MOP and prolonged external demand shock. As such, we are concerned that the economic contraction for 2020 could be worse than we previously expected (-25%).

Singapore: The STI rose 0.78% to close at 2610.17 yesterday, and following positive overnight cues by Wall Street, may attempt to trade with a firmer tone today. SGS bonds traded to close little changed yesterday with the exception of the 30-year tenor which saw yields fall by 3bps. SGS bonds may meander today ahead of US' unemployment report due later.

Malaysia: Malaysia reported Manufacturing PMI print for the month of June yesterday, which saw a hefty uptick to 51.0 compared to 45.6 the month before. This is the highest print since Sept 2018, and should herald a gingerly-but-steady recovery in the manufacturing sector. The figure is in line with the uptick in the imports of intermediate goods that we saw in the trade data earlier.

Daily Treasury Outlook

2 July 2020

Indonesia: Jakarta's governor, Anies Baswedan, has announced a delay in exiting fully from the partial lockdown for the capital city, as the city continued to report hundreds of new coronavirus cases per day. The transition period to exit fully is now extended by two weeks. Jakarta was the first major city in Indonesia to ease mobility restrictions in June, by allowing retail stores, restaurants, shopping malls and places of worship to operate at limited capacity. It has since continued to see high number of cases, with 217 new cases yesterday, the highest among all provinces.

Oil: Oil bulls once again prevailed, with Brent rising 1.8% higher to close yesterday at \$42.03/bbl. Brent continues to trade in a range of \$38-\$43/b as the market awaits fresh cues for its next direction.

Gold: Gold rose to as high as \$1789/oz yesterday, but failed to hold on to its gains as it eventually closed at \$1770/oz.

Bond Market Updates

Market Commentary: The SGD swap curve bear-steepened yesterday, with the 7-year, 10-year and 15-year trading 4-6bps higher while the other tenors traded 1-3bps higher. 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 remained mostly unchanged at 780bps. The HY-IG Index Spread remained mostly unchanged at 576bps. Flows in SGD corporates were heavy, with flows in SINTEC 4.1%-PERPs, OLAMSP5.5%-PERPs, STANLN 5.375%-PERPs, TMGSP 4.05%'25s, SRENVX 0%'35s, DBSSP 3.98%-PERPs, CS 5.625%-PERPs, METRO 4%'21s, SPHSP 4%-PERPs and CAPLSP 3.65%-PERPs. 10Y UST Yields gained 2bps to 0.68% after data showed US manufacturing activity jumped in June and FOMC minutes showed that yield curve control would not be used anytime soon.

New Issues: There were no new issues or mandates.

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2 July 2020

Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	97.196	-0.20%	USD-SGD	1.3937	0.01%
USD-JPY	107.470	-0.43%	EUR-SGD	1.5681	0.17%
EUR-USD	1.1251	0.15%	JPY-SGD	1.2968	0.44%
AUD-USD	0.6915	0.17%	GBP-SGD	1.7386	0.60%
GBP-USD	1.2475	0.60%	AUD-SGD	0.9638	0.19%
USD-MYR	4.2863	--	NZD-SGD	0.9026	0.33%
USD-CNY	7.0708	0.10%	CHF-SGD	1.4736	0.17%
USD-IDR	14283	0.13%	SGD-MYR	3.0766	0.29%
USD-VND	23205	0.04%	SGD-CNY	5.0729	0.09%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.5100	-2.00%	O/N	0.0809	-0.09%
2M	-0.3360	-0.09%	1M	0.1623	-0.88%
3M	-0.4220	-0.88%	2M	0.2288	-0.85%
6M	-0.3080	-0.85%	3M	0.3020	0.59%
9M	-0.1940	0.59%	6M	0.3693	0.24%
12M	-0.2250	0.24%	12M	0.5458	-1.01%

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	% Hike/Cut	Implied Rate Change	Implied Rate
07/29/2020	-0.027	-2.7	-0.007	0.067
09/16/2020	-0.088	-6.1	-0.022	0.052
11/05/2020	-0.131	-4.3	-0.033	0.041
12/16/2020	-0.158	-2.7	-0.039	0.035
01/27/2021	-0.207	-4.9	-0.052	0.023

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	39.82	1.4%	Corn (per bushel)	3.4825	2.9%
Brent (per barrel)	42.03	2.1%	Soybean (per bushel)	8.938	1.1%
Heating Oil (per gallon)	1.1996	1.8%	Wheat (per bushel)	4.9875	1.8%
Gasoline (per gallon)	1.2169	1.4%	Crude Palm Oil (MYR/MT)	2,395.0	0.7%
Natural Gas (per MMBtu)	1.6710	-4.6%	Rubber (JPY/KG)	141.5	-0.5%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	6,061	0.8%	Gold (per oz)	1,770.1	-0.6%
Nickel (per mt)	12,847	0.3%	Silver (per oz)	18.012	-1.1%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Equity and Commodity

Index	Value	Net change
DJIA	25,734.97	-77.91
S&P	3,115.86	15.57
Nasdaq	10,154.63	95.86
Nikkei 225	22,121.73	-166.41
STI	2,610.17	20.26
KLCI	1,514.43	13.46
JCI	4,914.39	9.00
Baltic Dry	1,799.00	--
VIX	28.62	-1.81

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	0.29 (--)	0.16 (+0.01)
5Y	0.54 (--)	0.31 (+0.02)
10Y	0.90 (--)	0.68 (+0.02)
15Y	1.22 (-0.01)	--
20Y	1.27 (--)	--
30Y	1.26 (-0.04)	1.42 (+0.01)

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	5.22	0.34
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	0.10
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Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
07/01/2020 07:03	PH Overseas Remittances YoY	Apr -9.6%	--	-4.7%	--
07/02/2020 07:00	SK CPI YoY	Jun -0.2%	0.0%	-0.3%	--
07/02/2020 07:00	SK CPI MoM	Jun 0.0	0.2%	-0.2%	--
07/02/2020 07:50	JN Monetary Base YoY	Jun --	--	3.9%	--
07/02/2020 09:30	AU Trade Balance	May A\$9000m	--	A\$8800m	--
07/02/2020 20:30	US Change in Nonfarm Payrolls	Jun 3058k	--	2509k	--
07/02/2020 20:30	US Initial Jobless Claims	46539 1350k	--	1480k	--
07/02/2020 20:30	US Unemployment Rate	Jun 12.50%	--	13.3%	--
07/02/2020 20:30	US Trade Balance	May -\$53.2b	--	-\$49.4b	--
07/02/2020 20:30	US Change in Manufact. Payrolls	Jun 438k	--	225k	--
07/02/2020 20:30	US Continuing Claims	43983 19000k	--	19522k	--
07/02/2020 21:30	CA Markit Canada Manufacturing PMI	Jun --	--	40.6	--
07/02/2020 22:00	US Durable Goods Orders	May F 15.80%	--	0.158	--
07/02/2020 22:00	US Factory Orders	May 8.7%	--	-13.0%	--
07/02/2020 22:00	US Durables Ex Transportation	May F 4.00%	--	4.00%	--

Source: Bloomberg

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