

Daily Treasury Outlook

3 June 2020

Highlights

Global: Wall Street sentiments remained buoyant even as New York extended its curfew for a second night. Stimulus hopes also ran high in Europe as German Chancellor Merkel is considering a second aid package of EUR50-100b in addition to the highly anticipated expansion of the ECB's emergency bond purchase program by EUR 500b tomorrow. South Korea is also planning a third extra budget of KRW35.3 trillion. Meanwhile, RBA kept both its cash target rate and 3-year yield target unchanged at 0.25% as expected, but stressed ongoing policy support and its preparedness to scale up asset purchases to control the yield curve. Elsewhere, China's PBOC also said that the temporary loan-purchase program announced earlier this week would not contradict cuts to reserve ratios and interest rates. The S&P500 added 0.82% and VIX declined to 26.84 (lowest since February 24th). UST bonds bear-steepened again with the 10-year yield at 0.69%. The 3- and 6-month bill sales over OIS have widened amid rising supply concerns even as the 3-month LIBOR eased to 0.3305%.

Market watch: Asian markets may be set to open a tad firmer this morning, awaiting Australia's 1Q20 GDP growth and the slew of services and composite PMIs from US, Europe and Asia. Today's economic data also comprises Eurozone's April PPI and unemployment rate, US' ADP employment rate, factory orders and mortgage applications, and S'pore's manufacturing and electronics PMIs. Bank of Canada is also tipped to keep its rates static at 0.25%.

US: The manufacturing ISM rebounded from 41.5 to 43.1 in May, but missed market expectations of 43.8 even though improvements were seen in the new orders (31.8 versus 27.1), employment (32.1 versus 27.5) and prices paid (40.8 versus 35.3). The Trump administration is beginning a section 301 probe by the USTR into digital tax plans across the EU, India, Indonesia, Italy, Spain and the UK etc.

EU: French Finance Minister pledged to not raise taxes amid an expected recession that will hit -11% this year. Meanwhile, German furloughs hit a record 7 million in May, according to IFO.

UK: PM Johnson is planning a major speech to set the government agenda while Chancellor Sunak is planning for another economic package in July.

Japan: Tokyo has issued an alert to urge greater caution after new Covid-19 cases spiked to 34 cases yesterday, the most since May 9th.

Singapore: Today's manufacturing and electronics PMIs may also show some modest stabilization from April's readings of 44.7 and 42.8, but is likely to stay subdued around current levels due to the extended Circuit Breaker period.

Oil: Crude oil continues rising, with Brent close to breaking above the \$40/bbl level on expectations that OPEC+ might extend the current output cuts by 1-3 months. At \$40/bbl, crude oil for August delivery is now the highest since the oil crash on 9 March. We see increased resistance for oil prices to rise above \$40/bbl within Q2, given the continued global oil glut.

Key Market Movements

Equity	Value	% chg
S&P 500	3080.8	0.8%
DJIA	25743	1.1%
Nikkei 225	22326	1.2%
SH Comp	2921.4	0.2%
STI	2611.6	2.4%
Hang Seng	23996	1.1%
KLCI	1507.7	1.2%
Currencies	Value	% chg
DX	97.673	-0.2%
USDJPY	108.68	1.0%
EURUSD	1.1170	0.3%
GBPUSD	1.2551	0.5%
USDIDR	14415	-1.3%
USDSGD	1.4004	-0.5%
SGDMYR	3.0533	-0.4%
Rates	Value	chg (bp)
3M UST	0.14	1.49
10Y UST	0.69	2.61
1Y SGS	0.28	1.10
10Y SGS	0.85	1.93
3M LIBOR	0.34	-0.69
3M SIBOR	0.56	0.00
3M SOR	0.17	-3.75
Commodities	Value	% chg
Brent	39.57	3.3%
WTI	36.81	3.9%
Gold	1728	-0.7%
Silver	18.07	-1.3%
Palladium	1975	0.7%
Copper	5529	0.8%
BCOM	63.78	0.4%

Source: Bloomberg

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Major Markets

US: US markets gained slightly with the S&P500 index closing 0.82% higher, the highest since early March. The energy sector posted gains as crude oil continued its rebound. Markets are likely to remain volatile in the short term. Broad market sentiment still looks to be risk-on for now although rising US-China tensions may cap gains.

China: China's government bonds were sold off in reaction to the setup of new credit facility for central bank to purchase the loans to smaller companies from small commercial banks due to concerns that the new facility may potentially replace the need for targeted reserve requirement ratio cut. However, PBoC deputy governor said yesterday that the new facility and RRR and interest rate cuts are not mutually exclusive, signalling that PBoC remains flexible.

Hong Kong: The government announced to extend travel restrictions and social distancing measures. This reinforces our view that economic recovery will be sluggish and more stimulus measures may be needed to support the affected industries and households.

Elsewhere, CCL index which tracks the secondary housing prices increased for the third straight week by 0.6% on weekly basis as of 24th May. Housing transaction volume rose for the 4th consecutive month by 45.9% mom in May. Also, the response to the new launches was strong lately. This could be attributed to the rally in investment sentiments, lowered local rates, persistent undersupply of land and homes, as well as pent-up demand from the higher-income group who has been less affected by the pandemic. That said, housing market is still facing downside risk. First, businessmen in urgent need of cash flow and homeowners who plan to move their assets abroad or migrate may sell property at deep discounted price. Second, weaker demand in the housing rental market amid global lockdown or local potential political risk may make property investment less appealing. Taken all together, we expect housing prices to retreat in the coming months.

Singapore: The STI gained another 2.38% to close up at 2611.63 yesterday. With a continued steepening bias in the UST curve led by the 20-30 year tenors amid a large supply deluge, SGS bonds may remain under selling pressure too ahead of the mini-auction of 30-year SGS bonds maturing on 1 March 2050 with the size announcement on 19 June and auction on 26 June. This will be a reopening of the 30-year SGS bond on 2 March which saw a median yield of 1.85% to cut off at 1.9% and a 2.36x bid-cover ratio, but is currently yielding 1.24%. The 28- and 84-day MAS bills also yielded 0.2% and 0.24% respectively.

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Indonesia: Indonesia reported CPI inflation of 2.19% yoy for the month of May. It marks the lowest level of inflation in nearly 2 decades, and came on the back of lower consumer demand and relatively subdued commodity prices. Meanwhile, Markit PMI saw manufacturing sentiment at 28.6, which is an improvement from 27.5 the month before but nonetheless still well within contractionary zone. Yesterday also saw the first government bond auction since the holiday. As a measure of favourable market sentiment, it was more than 4 times oversubscribed, raising IDR24.35tn with incoming bids of IDR105.27tn.

Malaysia: Ringgit continued to climb yesterday, to its best level in a month, on the back of continued overall USD weakness and supported by oil price rallies. USDMYR traded down 0.6% to 4.2935, which marks the lowest level since April 30. Sentiment should stay supported given the support coming from dollar weakness and oil price uptick today.

Bond Market Updates

Market Commentary: The SGD swap curve bear-steepened yesterday, with the shorter tenors trading 2-4bps higher while the belly and the longer tenors traded 3-5bps higher. The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 2bps to 222bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 12bps to 884bps. The HY-IG Index Spread tightened 10bps to 663bps. Flows in SGD corporates were heavy, with flows in HSBC 4.7%-PERPs, SOCGEN 6.125%-PERPs, BAERVX 5.9%-PERPs, UBS 4.85%-PERPs, CTRAIJ 4.85%'21s, HSBC 5%-PERPs, SGREIT 3.15%'25s, STANLN 5.375%-PERPs, HRINTH 3.8%'25s, CS 5.625%-PERPs and CMZB 4.875%'27s. 10Y UST Yields gained 3bps to 0.69% despite street protests and violence in the U.S., fuelled by a strong session for WTI futures and signs of economic recovery.

New Issues: Sands China Ltd priced a USD1.5bn debt offering in 2 parts: (1) a USD800mn 5-year bond at T+350bps, (2) a USD700mn 10-year bond at T+375bps, tightening from IPT of T+437.5bps and T+475bps area respectively. Hongkong Electric Finance Limited (Guarantor: The Hongkong Electric Company, Limited) priced a USD500mn 10-year bond at T+165bps, tightening from IPT of T+220bps area. Doosan Infracore Co Ltd has mandated banks for a possible USD bond offering.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	97.673	-0.16%	USD-SGD	1.4004	-0.50%
USD-JPY	108.680	1.01%	EUR-SGD	1.5640	-0.22%
EUR-USD	1.1170	0.31%	JPY-SGD	1.2881	-1.54%
AUD-USD	0.6897	1.46%	AUD-SGD	1.7577	-0.05%
GBP-USD	1.2551	0.47%	GBP-SGD	0.9656	0.93%
USD-MYR	4.2765	-0.95%	NZD-SGD	0.8918	0.69%
USD-CNY	7.1014	-0.37%	CHF-SGD	1.4546	-0.70%
USD-IDR	14415	-1.33%	SGD-MYR	3.0533	-0.39%
USD-VND	23256	0.00%	SGD-CNY	5.0703	0.18%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4980	-1.80%	O/N	0.0620	0.05%
2M	-0.3360	0.05%	1M	0.1781	-0.44%
3M	-0.3250	-0.44%	2M	0.2550	-2.40%
6M	-0.1630	-2.40%	3M	0.3371	-0.69%
9M	-0.1940	-0.69%	6M	0.4963	-1.35%
12M	-0.1030	-1.35%	12M	0.6375	-3.60%

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	% Hike/Cut	Implied Rate Change	Implied Rate
10/06/2020	-0.045	-4.5	-0.011	0.052
29/07/2020	-0.045	0	-0.011	0.052
16/09/2020	-0.096	-5.1	-0.024	0.04
05/11/2020	-0.153	-5.7	-0.038	0.025
16/12/2020	-0.149	0.4	-0.037	0.026
27/01/2021	-0.185	-3.6	-0.046	0.018

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	36.81	3.9%	Corn (per bushel)	3.2425	0.3%
Brent (per barrel)	39.57	3.3%	Soybean (per bushel)	8.505	1.2%
Heating Oil (per gallon)	1.0921	6.1%	Wheat (per bushel)	5.0800	-1.4%
Gasoline (per gallon)	1.1183	4.8%	Crude Palm Oil (MYR/MT)	2,460.0	3.0%
Natural Gas (per MMBtu)	1.7770	0.2%	Rubber (JPY/KG)	133.5	-1.1%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,529	0.8%	Gold (per oz)	1,727.7	-0.7%
Nickel (per mt)	12,853	1.8%	Silver (per oz)	18.068	-1.3%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Equity and Commodity

Index	Value	Net change
DJIA	25,742.65	267.63
S&P	3,080.82	25.09
Nasdaq	9,608.38	56.33
Nikkei 225	22,325.61	263.22
STI	2,611.63	60.77
KLCI	1,507.69	17.55
JCI	4,847.51	93.89
Baltic Dry	520.00	--
VIX	26.84	-1.39

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	0.29 (+0.05)	0.16 (+0.01)
5Y	0.47 (+0.03)	0.32 (+0.01)
10Y	0.85 (+0.02)	0.69 (+0.03)
15Y	1.03 (+0.02)	--
20Y	1.24 (+0.04)	--
30Y	1.24 (+0.07)	1.49 (+0.04)

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	14.56	0.11
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	0.06
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Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
06/03/2020 06:12	PH Overseas Remittances YoY	Mar	-0.80%	--	2.50%
06/03/2020 08:30	HK Markit Hong Kong PMI	May	--	--	36.9
06/03/2020 09:30	AU GDP SA QoQ	1Q	-0.40%	--	0.50%
06/03/2020 09:30	AU Building Approvals MoM	Apr	-10.70%	--	-4.00%
06/03/2020 09:30	AU GDP YoY	1Q	1.40%	--	2.20%
06/03/2020 09:45	CH Caixin China PMI Services	May	47.3	--	44.4
06/03/2020 16:00	EC Markit Eurozone Composite PMI	May F	30.5	--	30.5
06/03/2020 19:00	US MBA Mortgage Applications	May-29	--	--	2.70%
06/03/2020 20:15	US ADP Employment Change	May	-9000k	--	-20236k
06/03/2020 21:00	SI Purchasing Managers Index	May	45	--	44.7
06/03/2020 22:00	CA Bank of Canada Rate Decision	Jun-03	0.25%	--	0.25%
06/03/2020 22:00	US Durable Goods Orders	Apr F	-17.20%	--	-17.20%
06/03/2020 22:00	US Factory Orders	Apr	-13.40%	--	-10.30%
06/03/2020 22:00	US ISM Non-Manufacturing Index	May	44.4	--	41.8
06/03/2020 22:00	US Durables Ex Transportation	Apr F	-7.40%	--	-7.40%

Source: Bloomberg

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