

## Daily Treasury Outlook

3 July 2020

### Highlights

**Global:** Another blockbuster US labour market report with nonfarm payrolls adding 4.8 million jobs in June and the unemployment rate falling by 2.2% points to 11.1%. The June improvement was led by leisure, hospitality and retail, and followed an upwardly revised 2.7 million jobs added in May (+90k for previous two months), which prompted US president Trump to gloat “our economy is roaring back”. Average hourly earnings fell 1.2% mom and the average workweek also slipped from 34.7 to 34.5 hours. The underemployment rate also fell to 18% while the participation rate rose from 60.8% to 61.5% with the addition of 1.7 million into the labour force. The S&P500 pared earlier gains to end 0.45% higher, led by retailers and airlines, with VIX falling to 27.68. The UST bond market erased post-NFP gains ahead of the long holiday weekend after stocks pared gains with the 10-year bond yield at 0.67%. Meanwhile, Texas mandated face masks in public after virus cases jumped 4.7%, and the US Senate passed the bill to sanction Chinese officials for Hong Kong’s security law and it now heads to US president Trump for signing. Fed’s Bullard also warned of Covid-19 “twists and turns” and “it’s probably prudent to keep our lending facilities in place for now” to “make sure the markets don’t freeze up entirely”.

**Market watch:** Asian markets may open on a firmer tone this morning following overnight optimism fuelled by US’ labour market report, while awaiting the non-manufacturing PMIs from China’s Caixin and Europe. Other economic data due today include the Thailand’s June CPI, Singapore’s retail sales and manufacturing and electronics PMIs. ECB’s Lagarde and Knot are also speaking.

**US:** Initial jobless claims fell less than expected to 1.43 million while continuing claims rose slightly to 19.3 million. Meanwhile, the trade deficit widened to \$54.6b in May, as exports fell 4.4% to \$144.5b (lowest since 09 Nov) and imports shrank 0.9% to \$199.1b (low since 10 Jul). Factory orders rebounded 8.0% in May, versus a revised 13.5% drop in April, but factory orders excluding transportation missed expectations and rose a more modest 2.6%. The US economy will contract 5.9% with unemployment seen at 10.5% by year-end, according to CBO.

**Singapore:** Retail sales likely plunged a worse 53.2% yoy (-71.8% mom sa) in May, versus -40.5% yoy (-23.3% mom sa) in April, amid the softening labour market and dampened consumer appetite during the Circuit Breaker. Apart from supermarkets & minimart sales, other segments like department stores and discretionary spending are likely to have taken a bigger hit in May, but may see some improvement from June with the re-opening of stores during Phase 2, albeit this may not fully compensate for the April-May shortfall. Meanwhile, the manufacturing and electronics PMIs are likely to improve from their April prints of 46.8 and 46.2 respectively, it remains to be seen if they can regain the 50 handle to tip back into expansion territory.

Key Market Movements		
Equity	Value	% chg
S&P 500	3130.0	0.5%
DJIA	25827	0.4%
Nikkei 225	22146	0.1%
SH Comp	3090.6	2.1%
STI	2636.7	1.0%
Hang Seng	25124	2.9%
KLCI	1536.3	1.4%
Currencies	Value	% chg
DX	97.317	0.1%
USDJPY	107.5	0.0%
EURUSD	1.1239	-0.1%
GBPUSD	1.2468	-0.1%
USDIDR	14378	0.7%
USDSGD	1.3947	0.1%
SGDMYR	3.0782	0.1%
Rates	Value	chg (bp)
3M UST	0.14	0.76
10Y UST	0.67	-0.65
1Y SGS	0.28	0.10
10Y SGS	0.89	-0.69
3M LIBOR	0.30	-0.35
3M SIBOR	0.55	-0.31
3M SOR	0.21	1.24
Commodities	Value	% chg
Brent	43.14	2.6%
WTI	40.65	2.1%
Gold	1775	0.3%
Silver	17.96	-0.3%
Palladium	1912	-0.6%
Copper	6073	0.2%
BCOM	65.63	0.7%

Source: Bloomberg

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### Major Markets

**US:** The S&P500 index rose 0.45% amid surprises in the US jobs report. Weekly jobless claims indicate an uptick in hiring in restaurants and retailers as states gradually reopen. However, the recent spike in coronavirus infections has placed a dampener on optimism as more major states re-implement restriction measures. We expect the market to continue trading range bound as the divergence in the jobs data and Covid-19 developments continue to pull the market in opposite directions.

**EU:** EU and UK negotiations ended early amid “serious divergences”. Meanwhile, Eurozone unemployment rate rose to a four-month high of 7.4% in May but was below market expectations.

**China:** China’s Commerce Ministry said it is working with respective Ministry to roll out new measures to stabilize foreign trade and support foreign direct investment.

**Singapore:** The STI extended gains to rise 1.02% to close at 2636.69 yesterday, and more investors may jump on the bandwagon today following positive vibes from overnight cues by Wall Street post-NFP. SGS bonds sold off by 1-5bps with longer-dated bonds under pressure yesterday and with the improvement in global risk appetite post-NFP, SGS bonds may continue to see selling pressure today.

**Malaysia:** Malaysia’s government announced an extension of the discount period for electricity bills of domestic users by another 3 months, to Dec 31st. A total of 7.66mn domestic users in the peninsula is said to see a 2-5% discount from Oct 1 to end of the year. More than 1mn Sabah and Sarawak users will have a 2% discount over the period.

**Indonesia:** President Jokowi is reportedly contemplating a return of banking sector supervision role to Bank Indonesia, from OJK, apparently due to dissatisfaction over the latter’s performance. OJK had assumed the banking supervision role in 2013 after it was set up in 2011. Going by the Reuters report, alongside the addition of the new-old role of banking supervision to its list of responsibilities, BI will have to assume tackling unemployment, alongside currency and price stability to its mandate as well.

**Oil:** Brent rose 2.6% to close at \$43.14/bbl, near its recent double top. The rally in oil has continued from Q2 into July, with yesterday’s better than expected US nonfarm payroll numbers providing a boost to the energy complex. We expect Brent to face heavy resistance as it approaches the double top of \$44/bbl.

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### Bond Market Updates

**Market Commentary:** The SGD swap curve steepened yesterday, with the shorter and belly tenors trading 1-2bps higher while the longer tenors traded 2-6bps higher with the exception of 15-year trading 1bp lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 203bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 6bps to 774bps. The HY-IG Index Spread tightened 5bps to 571bps. Flows in SGD corporates were heavy, with flows in SINTEC 4.1%-PERPs, FPLSP 4.98%-PERPs, BACR3.75%'30s, STANLN 5.375%-PERPs and TMGSP 4.8%'22s. 10Y UST Yields fell 1bps to 0.67% despite strong US jobs data as the labour market could struggle to recover swiftly if the nation failed to contain the COVID-19 spread.

**New Issues:** JGSH Philippines, Limited (Guarantor: JG Summit Holdings, Inc.) priced a USD600mn 10-year bond at 4.125%, tightening from IPT of 4.5% area. Wuhan Dangdai Science & Technology Industries (Group) Company Limited has arranged investor calls commencing 2 July 2020 for its proposed USD bond offering.

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### Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	97.317	0.12%	USD-SGD	1.3947	0.07%
USD-JPY	107.500	0.03%	EUR-SGD	1.5676	-0.03%
EUR-USD	1.1239	-0.11%	JPY-SGD	1.2974	0.05%
AUD-USD	0.6924	0.13%	GBP-SGD	1.7389	0.02%
GBP-USD	1.2468	-0.06%	AUD-SGD	0.9657	0.20%
USD-MYR	4.2860	-0.01%	NZD-SGD	0.9080	0.60%
USD-CNY	7.0670	-0.05%	CHF-SGD	1.4755	0.13%
USD-IDR	14378	0.67%	SGD-MYR	3.0782	0.05%
USD-VND	23205	--	SGD-CNY	5.0667	-0.12%

### Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.5120	-0.80%	O/N	0.0766	-0.42%
2M	-0.3360	-0.42%	1M	0.1663	0.40%
3M	-0.4170	0.40%	2M	0.2334	0.46%
6M	-0.2950	0.46%	3M	0.2985	-0.35%
9M	-0.1940	-0.35%	6M	0.3843	1.50%
12M	-0.2330	1.50%	12M	0.5333	-1.25%

### Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	% Hike/Cut	Implied Rate Change	Implied Rate
07/29/2020	-0.027	-2.7	-0.007	0.072
09/16/2020	-0.12	-9.3	-0.03	0.049
11/05/2020	-0.151	-3.1	-0.038	0.041
12/16/2020	-0.162	-1.1	-0.04	0.039
01/27/2021	-0.227	-6.5	-0.057	0.023

### Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	40.65	2.1%	Corn (per bushel)	3.4250	-1.7%
Brent (per barrel)	43.14	2.6%	Soybean (per bushel)	8.925	-0.1%
Heating Oil (per gallon)	1.2311	2.6%	Wheat (per bushel)	4.9000	-1.8%
Gasoline (per gallon)	1.2592	3.5%	Crude Palm Oil (MYR/MT)	2,423.0	1.2%
Natural Gas (per MMBtu)	1.7340	3.8%	Rubber (JPY/KG)	142.0	0.4%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	6,073	0.2%	Gold (per oz)	1,775.4	0.3%
Nickel (per mt)	12,947	0.8%	Silver (per oz)	17.957	-0.3%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

### Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
07/02/2020 07:17	PH Overseas Remittances YoY	Apr -9.6%	--	-4.7%	--
07/03/2020 08:30	JN Jibun Bank Japan PMI Composite	Jun F --	--	37.9	--
07/03/2020 09:30	AU Retail Sales MoM	May 16.3%	--	-17.7%	--
07/03/2020 09:45	CH Caixin China PMI Services	Jun 53.2	--	55.0	--
07/03/2020 09:45	CH Caixin China PMI Composite	Jun --	--	54.5	--
07/03/2020 11:30	TH CPI YoY	Jun -3.1%	--	-3.4%	--
07/03/2020 13:00	SI Retail Sales YoY	May -47.0%	--	-40.5%	--
07/03/2020 15:30	TH Foreign Reserves	46174	--	\$240.7b	--
07/03/2020 15:55	GE Markit Germany Services PMI	Jun F 45.8	--	45.8	--
07/03/2020 15:55	GE Markit/BME Germany Composite PMI	Jun F 45.8	--	45.8	--
07/03/2020 16:00	EC Markit Eurozone Composite PMI	Jun F 47.5	--	47.5	--
07/03/2020 16:00	EC Markit Eurozone Services PMI	Jun F 47.3	--	47.3	--
07/03/2020 16:30	UK Markit/CIPS UK Services PMI	Jun F 47.0	--	47.0	--
07/03/2020 16:30	UK Markit/CIPS UK Composite PMI	Jun F 47.6	--	47.6	--
07/03/2020 21:00	SI Purchasing Managers Index	Jun 47.6	--	46.8	--

Source: Bloomberg

## Treasury Research & Strategy

### Macro Research

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