

Daily Treasury Outlook

3 August 2020

Highlights

Global: Notwithstanding Fitch's downgrade of US' AAA sovereign ratings outlook to negative amid a deterioration in public finances and the absence of a credible fiscal consolidation plan, coupled with a record 32.9% annualised contraction in 1Q and the ongoing impasse in Congress over the next stimulus plan, US equity markets still closed higher on Friday. Meanwhile, US State Secretary Mike Pompeo suggested impending measures against a "broad array" of Chinese software companies even as President Trump is weighing plans to ban TikTok in the US. The S&P500 added 0.77% on Friday with the VIX declining to 24.46, even as upbeat tech earnings offset weak earnings from oil majors like Chevron. The UST bonds rallied into the month-end, with the 10-year bond yield touching a low of 0.52% before closing at 0.53%, but market players are anticipating a refunding announcement this week. The 3-month LIBOR eased to 0.2488%. Elsewhere, Australia's Victoria state declared a state of disaster and the Philippines's capital Manila has tightened lockdown restrictions as Covid-19 cases rise. Meanwhile, Japan's economy contracted an annualised 2.2% (revised data) in 1Q20, similar to 4Q19.

Market watch: Asian markets may open on a mixed tone this morning amid escalating US-China tensions and renewed Covid-19 concerns, while awaiting the slew of manufacturing PMI cues from Asia, including China's Caixin. Today's economic data calendar also comprises of Indonesia's July CPI, US' manufacturing ISM, S'pore's manufacturing and electronics PMIs. Speakers include Fed's Bullard, Evans and Barkin. For the week ahead, watch for central bank meetings including RBA (likely to be static at 0.25% for both the cash target rate and the 3-year yield, albeit with a dovish bias as the Covid-19 developments worsen) tomorrow, BOT (tip no change at 0.5%) on Wednesday, RBI (possible 25bp cut to its repo and reverse repo rates to 3.75% and 3.1% respectively) and BOE (static at 0.1%) on Thursday, and US' July nonfarm payrolls and unemployment report (market is eyeing 1.5m and 10.5% respectively, versus 4.8m and 11.1% in June) on Friday.

US: Initial jobless claims rose for the second consecutive week by 12k to 1.43m. Personal income shrank 1.1% in June, but personal spending rose again by 5.6%. The core PCE deflator also rose 0.2% mom (0.9% yoy) in June, while the Chicago PMI surged from 36.6 in June to 51.9 in July.

SG: The S'pore government will extend an additional \$320m of support to extend foreign worker levy rebates for firms in the construction, marine shipyard, and process sectors. The July manufacturing and electronics PMIs are likely to improve from June's 48.0 and 47.6 prints and potentially approach the 50-expansion handle.

Key Market Movements		
Equity	Value	% chg
S&P 500	3271.1	0.8%
DJIA	26428	0.4%
Nikkei 225	21710	-2.8%
SH Comp	3310.0	0.7%
STI	2529.8	0.0%
Hang Seng	24595	-0.5%
KLCI	1603.8	0.0%
	Value	% chg
DXY	93.349	0.4%
USDJPY	105.83	1.1%
EURUSD	1.1778	-0.6%
GBPUSD	1.3085	-0.1%
USDIDR	14600	0.0%
USDSGD	1.3745	0.2%
SGDMYR	3.0916	0.3%
	Value	chg (bp)
3M UST	0.08	-0.25
10Y UST	0.53	-1.80
1Y SGS	0.31	0.00
10Y SGS	0.80	0.00
3M LIBOR	0.25	-0.96
3M SIBOR	0.44	0.00
3M SOR	0.16	0.00
	Value	% chg
Brent	43.52	0.6%
WTI	40.27	0.9%
Gold	1976	1.0%
Silver	24.39	3.8%
Palladium	2091	0.1%
Copper	6413	-0.3%
BCOM	68.68	0.6%

Source: Bloomberg

Daily Treasury Outlook

3 August 2020

Major Markets

US: The S&P500 index rose 0.8% on Friday and closed 0.98% higher for the week, despite US GDP growth posting a contraction of 32.9% qoq saar for Q2 vs expectations of -34.5%. US initial jobless claims data also ticked up for a second consecutive week, rising 12k to 1.42mn. In the near term, we expect the market to trade sideways as investors weigh developments in the US fiscal package negotiations and a global economic recovery that appears to have stagnated.

CN: China's top policy making body Politburo concluded its mid-year economic assessment last week laying the groundwork for 14th five-year plan from 2021-2025. On economic assessment, the politburo admitted that 2Q economic growth was higher than expectation. As such, the meeting said China should put efforts to ensure the annual economic and social development goals to be met. On international environment. Although China's top leaders believe that peace and development are still the themes of the times, the international environment has been more complex with significant increase of uncertainty. This will lead to change of opportunities and challenges.

HK: HKD loan-to-deposit ratio decreased by 2 percentage points mom to the lowest since November 2018 at 86.4% in June as HKD deposits rose by 2% mom while HKD loans fell by 0.3% mom. Going forward, as loans for use outside of HK are likely to remain moderate growth, local loans growth on yearly basis may continue to slow down especially given the Covid-19 resurgence which once again clouds the economic outlook. We hold onto our view that total loans (+5.5% yoy) will show single-digit growth this year. On deposits front, total deposits grew by 3.5% yoy in June, the strongest since last November. This was probably attributed to the large IPOs and the rally in risk sentiments on global recovery hopes. Moving ahead, total deposits are likely to increase further with strong equity inflows in July. As such, HKD LDR may fall further. Meanwhile, HKD CASA deposits look set to take a larger share given the decreasing local rates and the still upbeat sentiments.

Singapore: The STI fell 1.70% to close at 2529.82 on Friday and may stay subdued today amid a soft morning cue from Kospi. SGS bonds may stay supported past the month-end, awaiting cues on the domestic manufacturing and electronics PMI data.

Malaysia: Malaysia posted reserves data of USD 104 bn as of 15 July, an uptick compared to USD103.4bn end of June. According to Bank Negara, the reserves position is sufficient to finance 8.5 months of retained imports and is 1.1 times total short-term external debt. For the day ahead, look out for the July PMI print to see if the manufacturing sentiment can continue to hold up above the 50 breakeven line as a gauge of recovery. The last print was 51.0.

Daily Treasury Outlook

3 August 2020

Taiwan: GDP declined by 0.73% yoy in 2Q 2020, worse than expected. It was mainly attributed to sluggish exports and private consumption. Moving to the third and fourth quarter, economic growth may accelerate sustainably. With the improving labor market and the positive effects supported by the scheme of Triple Stimulus Vouchers, domestic consumption is likely to reverse the downtrend. Fixed investment is poised to remain robust, amid strong demand for high-tech products and persistent overseas investment repatriation. The picture of trade will be mixed. In terms of exports of services, it will continue to be uncertain, which is highly hinge on the development of Covid-19. Nevertheless, exports of goods are likely to improve amid improving external demand for both ICT products and those traditional commodities, supported by the resumption of global economic activities and China economic recovery. Overall speaking, despite that the reading of GDP was slightly lowered than expected in 2Q, we keep our views unchanged that Taiwan's GDP is expected to grow by 1% - 1.6% yoy in 2020, with the assumptions of improving domestic and external economic outlook in the rest of this year. Nevertheless, the development of Covid-19 will remain the major uncertainty in the second half of this year.

Indonesia: The July PMI data is due out, and market will be on the lookout to see if Indonesia can continue to see an improvement in PMI, which has been languishing among the lowest within the region in the last few months. The last print in June was 39.1, a far cry from the 50 breakeven line, indicating that the manufacturing sentiment remained poor.

Gold: Gold clocked a new record high on Friday, closing the week at \$1975.86/oz to beat the previous record close of \$1970.79/oz on Wednesday. The precious metal's bull run shows no sign of relenting, with early Asian hours this morning seeing prices rise to an intraday high of \$1988.40/oz. We maintain our view that gold may hit \$2000/oz by this quarter.

Oil: Brent lost 0.4% to close at \$43.33/bbl on Friday, to clock four daily losses in the past five sessions.

Daily Treasury Outlook

3 August 2020

Bond Market Updates

Market Commentary: The SGD swap curve was range bound last Friday, with most tenors trading almost flat. The Bloomberg Barclays Asia USD IG Bond Index average OAS remained mostly unchanged at 180bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 1bps to 706bps. The HY-IG Index Spread widened 1bps to 526bps. There were no flows in SGD corporates last Friday. 10Y UST Yields fell 2bps to 0.53%, beating the previous record lows on March 9, despite stocks continued to rally.

New Issues: Future Days Limited priced a USD125mn 5-year zero coupon bond.

Daily Treasury Outlook

3 August 2020

Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	93.349	0.35%	USD-SGD	1.3745	0.17%
USD-JPY	105.830	1.05%	EUR-SGD	1.6191	-0.41%
EUR-USD	1.178	-0.58%	JPY-SGD	1.2986	-0.89%
AUD-USD	0.714	-0.72%	GBP-SGD	1.7988	0.11%
GBP-USD	1.309	-0.08%	AUD-SGD	0.9819	-0.54%
USD-MYR	4.239	-0.09%	NZD-SGD	0.9113	-0.88%
USD-CNY	6.975	-0.48%	CHF-SGD	1.5053	-0.29%
USD-IDR	14600	0.39%	SGD-MYR	3.0916	0.27%
USD-VND	23167	0.00%	SGD-CNY	5.0832	-0.15%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.5100	-0.52%	O/N	0.0873	0.09%
2M	-0.3360	-0.34%	1M	0.1549	0.16%
3M	-0.4630	-0.46%	2M	0.1961	0.21%
6M	-0.4070	-0.40%	3M	0.2488	0.25%
9M	-0.1940	-0.20%	6M	0.3061	0.31%
12M	-0.3330	-0.33%	12M	0.4486	0.46%

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	% Hike/Cut	Implied Rate Change	Implied Rate
09/16/2020	-0.077	-7.7	0.061	0.061
11/05/2020	-0.114	-3.7	0.052	0.052
12/16/2020	-0.167	-5.3	0.038	0.038
01/27/2021	-0.21	-4.3	0.027	0.027
03/17/2021	-0.282	-7.2	0.009	0.009

Equity and Commodity

Index	Value	Net change
DJIA	26,428.32	114.67
S&P	3,271.12	24.90
Nasdaq	10,745.27	157.46
Nikkei 225	21,710.00	-629.23
STI	2,529.82	-43.63
KLCI	1,603.75	-7.67
JCI	5,149.63	38.51
Baltic Dry	1,350.00	2.00
VIX	24.46	-0.30

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	0.25 (-0.01)	0.11(--)
5Y	0.5 (-0.02)	0.2 (-0.03)
10Y	0.8 (-0.03)	0.55 (-0.02)
15Y	1.05 (-0.03)	--
20Y	1.1 (-0.04)	--
30Y	1.06 (-0.08)	1.21 (-0.01)

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	0.70	(--)
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	0.10
------	------

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	40.27	0.88%	Corn (per bushel)	3.160	0.1%
Brent (per barrel)	43.30	0.84%	Soybean (per bushel)	8.975	0.6%
Heating Oil (per gallon)	121.71	0.43%	Wheat (per bushel)	5.313	0.3%
Gasoline (per gallon)	118.71	-2.73%	Crude Palm Oil (MYR/MT)	27.800	1.5%
Natural Gas (per MMBtu)	1.80	-1.64%	Rubber (JPY/KG)	1.628	0.5%

Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	6413.00	-0.27%	Gold (per oz)	1975.9	1.0%
Nickel (per mt)	13786.00	0.44%	Silver (per oz)	24.4	3.8%

Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
08/03/2020 07:50	JN GDP SA QoQ	1Q F	-0.7%	-0.6%	-0.6%
08/03/2020 07:50	JN GDP Annualized SA QoQ	1Q F	-2.8%	-2.2%	-2.2%
08/03/2020 07:50	JN GDP Deflator YoY	1Q F	0.9%	0.9%	0.9%
08/03/2020 08:30	VN Markit Vietnam PMI Mfg	Jul	--	47.60	51.10
08/03/2020 08:30	ID Markit Indonesia PMI Mfg	Jul	--	46.90	39.10
08/03/2020 08:30	SK Markit South Korea PMI Mfg	Jul	--	46.90	43.40
08/03/2020 08:30	JN Jibun Bank Japan PMI Mfg	Jul F	--	45.2	42.60
08/03/2020 09:45	CH Caixin China PMI Mfg	Jul	51.10	--	51.20
08/03/2020 12:00	ID CPI YoY	Jul	1.7%	--	2.0%
08/03/2020 13:00	IN Markit India PMI Mfg	Jul	--	--	47.20
08/03/2020 15:55	GE Markit/BME Germany Manufacturing PMI	Jul F	50.00	--	50.00
08/03/2020 16:00	EC Markit Eurozone Manufacturing PMI	Jul F	51.10	--	51.10
08/03/2020 16:30	UK Markit UK PMI Manufacturing SA	Jul F	53.60	--	53.60
08/03/2020 21:45	US Markit US Manufacturing PMI	Jul F	51.30	--	51.30
08/03/2020 22:00	US ISM Manufacturing	Jul	53.50	--	52.60

Source: Bloomberg

Treasury Research & Strategy

Macro Research

Selena Ling*Head of Research & Strategy*LingSSSelena@ocbc.com**Tommy Xie Dongming***Head of Greater China Research*XieD@ocbc.com**Wellian Wiranto***Malaysia & Indonesia*WellianWiranto@ocbc.com**Terence Wu***FX Strategist*TerenceWu@ocbc.com**Howie Lee***Thailand & Commodities*HowieLee@ocbc.com**Carie Li***Hong Kong & Macau*carierli@ocbcwh.com**Dick Yu***Hong Kong & Macau*dicksnyu@ocbcwh.com

Credit Research

Andrew Wong*Credit Research Analyst*WongVKAM@ocbc.com**Ezien Hoo***Credit Research Analyst*EzienHoo@ocbc.com**Wong Hong Wei***Credit Research Analyst*WongHongWei@ocbc.com**Seow Zhi Qi***Credit Research Analyst*ZhiQiSeow@ocbc.com

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC Bank, its related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial services to such issuers. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).