

Daily Treasury Outlook

4 May 2020

Highlights

Global: Global risk appetite is likely to start on the back foot today on news that North and South Korean troops exchanged fire at the DMZ whilst US Secretary of State Michael Pompeo accused China saying that there is “enormous evidence” the Covid-19 started in a Wuhan facility and president Trump is weighing a Chinese stock ban for \$50b of federal savings. The S&P500 retreated 2.8% on Friday amid a relatively grim earnings picture from Amazon.com, Apple and Exxon Mobil which pushed the S&P to its second straight weekly loss after rallying 12.7% in April. VIX rose to 37. Meanwhile UST bonds gained with the 10-year bond yield down to 0.61%. The 3-month LIBOR eased further to 0.55613% while LIBOR-OIS narrowed to 51bps. Elsewhere, India extended its nationwide lockdown for two weeks from 4 May.

Market watch: Sell in May and go away? Asian markets are likely to open softer this morning with heightened tensions in the Korean peninsula and also concerns for US-China relations. China, Japan and Thai markets are still closed, with China returning on Wednesday. The economic data calendar comprises of the slew of PMIs from Asia including S'pore, Malaysia's March trade data, Indonesia's CPI and Hong Kong's 1Q20 GDP growth. For the week ahead, watch for BNM (where a 50bp rate cut to 2% has been discounted) and RBA tomorrow, and BOE on Thursday. The earnings calendar this week includes AIG, BMW, Fiat Chrysler, GM, Air France-KLM, Disney, DuPont etc.

US: The manufacturing ISM beat estimates at 41.5 versus 36, but the underlying new orders and employment gauges tumbled further to 27.1 (with the spread to inventories down to a record -22.6) and 27.5 (lowest since 1949). Meanwhile, initial jobless claims moderated to 3.839m, but still brought the six-week total to more than 30 million, which points to downside risk for the upcoming NFP and unemployment data (market consensus forecast looking at ~21.3m and 16% respectively). Meanwhile, Fed will ease its UST buying pace further to \$8b for this week, down from \$10b last week. Meanwhile, Fed's Bullard warned of lasting deep economic damage from the Covid-19 outbreak. Presidential candidate Biden also denied sexual assault allegations saying they “never happened”.

EU: A German court ruling due tomorrow that would determine if Italy can draw on ECB's QE program and deviate from its capital key, coupled with an 8 May ratings review by Moody's, may jeopardise Italian debt in the near-term. The ECB had added PELTROS (pandemic emergency longer-term refinancing operations) to the alphabet soup, to provide an additional source of funding for banks starting from May at an interest rate 25bps below the main refi rate. The Eurozone reported 1Q20 GDP growth of -3.8% qoq (biggest contraction since series started in 1995) and 2020 growth is expected to shrink by 5-12%.

Singapore: The government will gradually re-open some workplaces and services from 12 May.

Key Market Movements

Equity	Value	% chg
S&P 500	2830.7	-2.8%
DJIA	23724	-2.6%
Nikkei 225	19619	-2.8%
SH Comp	2860.1	0.0%
STI	2624.2	0.0%
Hang Seng	24644	0.0%
KLCI	1407.8	0.0%
Currencies	Value	% chg
DXY	99.079	0.1%
USDJPY	106.91	-0.3%
EURUSD	1.0981	0.2%
GBPUSD	1.2506	-0.7%
USDIDR	14882	0.0%
USDSGD	1.4155	0.4%
SGDMYR	3.0426	-0.4%
Rates	Value	chg (bp)
3M UST	0.10	2.03
10Y UST	0.61	-2.75
1Y SGS	0.45	0.00
10Y SGS	0.90	0.00
3M LIBOR	0.56	-13.05
3M SIBOR	0.86	-3.02
3M SOR	0.38	-19.42
Commodities	Value	% chg
Brent	26.44	-0.2%
WTI	19.78	5.0%
Gold	1700	0.8%
Silver	14.98	0.0%
Palladium	1918	-2.7%
Copper	5110	-1.5%
BCOM	60.71	-0.3%

Source: Bloomberg

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Major Markets

US: US equity markets fell on Friday as investors reassess the reopening of the various economies as well as a rise in tension between the US and China over the origin of the virus. The S&P500 fell 2.81%. Looking ahead, markets are likely to be cautious over a rise in geopolitical tensions and a potential resurgence in the spread of the virus as countries lift lockdown restrictions. Wyndham Hotels & Resorts and Shake Shack are among the companies to report earnings on Monday.

UK: The UK is expected to publish back to work plans for companies within days.

China: The offshore RMB market ended the first trading day of May in déjà vu. CNH weakened against the dollar by about 1% on 1 May in the absence of onshore market which was closed for Labour Day golden week after President Trump escalated war of words with China over the coronavirus outbreak. Trump Administration's plan to punish China over coronavirus outbreak did not bode well for risk sentiment in May. Though we think the hurdle for debt cancellation is extremely high, the risk of reescalation of trade war is heightening after Trump threatened to get US\$1 trillion from China via tariff.

China's official PMI softened in April to 50.8, down from 52 in March. The PMI surprised on the upside in April despite the collapse of new export orders again to 33.5 from 46.4 due to demand shock as a result of sudden stop of global economy in April. The still resilient April PMI was mainly attributable to steady production. Looking ahead, May could be a critical month as the impact of demand shock on Chinese manufacturers may be more visible.

Macau: Gross gaming revenue dropped by 96.8% yoy or 85.7% mom to record low of MOP754 million in April, mainly due to the stronger travel restrictions imposed by both Mainland China and Macau. Should the travelling between Macau and Mainland China resume gradually in May, the worse may be over for the gaming sector. That said, gambling demand could still remain subdued amid China's economic slowdown, rising unemployment, weak wage prospect, a strong MOP and prolonged fears of infections. As such, gross gaming revenue may drop more than we previously expected by over 50% yoy in 2020.

Singapore: The STI added 1.92% to close at 2624.23 on Thursday and may trade lower amid heightened US-China tensions and following weak cues from Wall Street on Friday. SGS bonds may remain supported past the month-end to start May on a firmer tone today. The 3-month SIBOR and SOR declined to 0.85808% and 0.38494% respectively.

Indonesia: Indonesia is due to announce its April inflation print today. We reckon that headline inflation is likely to come in at around 2.8% yoy level, a slight downtick from 2.96% we saw in March. While prices tend to pick up during the Ramadan festive period, the uptick may remain curbed by softer demand as consumers hold back due to Covid-19 uncertainties.

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Malaysia: PM Muhyiddin Yassin announced a conditional lifting of MCO restriction orders starting today. Nearly all economic activities can be resumed, although they have to follow guidelines ensuring no large gatherings. Given that schools and kindergartens would remain closed, the PM had also urged businesses to continue letting employees to work from home if possible. With the risk of a resurgence in mind, 8 state governments have adopted a more gingerly approach, by delaying the opening of businesses in their jurisdictions.

Thailand: Thailand has begun easing some lockdown measures, including the reopening of markets and restaurants outside of malls. A 14-day assessment period is in place to determine if measures need to be further tightened or eased. Over the weekend, at least three countries – Singapore, Malaysia and Thailand – have announced measures to partially ease travel restrictions.

Oil: Latest data shows that the USO now has zero holdings of June WTI futures contracts, while the remaining futures are largely in accordance with their new holding mandate. Selling pressure from the fund should therefore dissipate from here on. Brent closed at \$26.44/bbl last Friday, up 6.6% on the week and 16.3% from its low on Tuesday. Meanwhile WTI traded above \$20/bbl briefly last Friday – the first time it has breached that level since that fateful day when the May delivery contract went into negative territory.

Bond Market Updates

Market Commentary: With the exception of tenors 20 years and beyond, the SGD swap curve traded lower last Thursday, with the shorter and the belly tenors trading 3-5bps lower while the longer tenors traded 1-4bps lower. Friday 1st May 2020 was a public holiday in Singapore. The Bloomberg Barclays Asia USD IG Bond Index average OAS on Friday remained mostly unchanged at 258bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 3bps to 992bps. The HY-IG Index Spread tightened 3bps to 734bps. Flows in SGD corporates were heavy on Thursday, with flows in SOCGEN 6.125%-PERPs, CS 5.625%-PERPs, KITSP 4.75%-PERPs, HSBC 4.7%-PERPs, PINGIN 2.25%'21s, STANLN 5.375%-PERPs, UBS 5.875%-PERPs, OLAMSP 6%'22s, ARASP 5.2%-PERPs, UBS 4.85%-PERPs and HSBC 5%-PERPs. 10Y UST Yields on Friday fell 3bps by the end of the day to 0.61%, as the S&P fell 2.8%, with investors worried about the U.S.-China trade war when President Trump blamed China for the spread of COVID-19 and threatened tariffs.

New Issues: FCT MTN Pte. Ltd. (Guarantor: Frasers Centrepoint Trust) priced a SGD200mn 3-year bond at 3.2% last Thursday, tightening from IPT of 3.35% area.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	99.079	0.06%	USD-SGD	1.4155	0.40%
USD-JPY	106.910	-0.25%	EUR-SGD	1.5544	0.61%
EUR-USD	1.0981	0.24%	JPY-SGD	1.3242	0.60%
AUD-USD	0.6418	-1.44%	GBP-SGD	1.7692	-0.39%
GBP-USD	1.2506	-0.70%	AUD-SGD	0.9088	-1.10%
USD-MYR	4.3022	--	NZD-SGD	0.8579	-0.71%
USD-CNY	7.0633	--	CHF-SGD	1.4725	0.77%
USD-IDR	14882	--	SGD-MYR	3.0426	-0.36%
USD-VND	23427	0.00%	SGD-CNY	4.9907	-0.50%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4600	1.30%	O/N	0.0584	0.56%
2M	-0.3360	0.56%	1M	0.3034	-4.05%
3M	-0.2730	-4.05%	2M	0.5398	-4.71%
6M	-0.1700	-4.71%	3M	0.5409	-13.05%
9M	-0.1940	-13.05%	6M	0.7130	-4.54%
12M	-0.1180	-4.54%	12M	0.8355	-3.40%

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	% Hike/Cut	Implied Rate Change	Implied Rate
10/06/2020	-0.004	-0.4	-0.001	0.045
29/07/2020	-0.015	-1.1	-0.004	0.043
16/09/2020	-0.015	0	-0.004	0.043
05/11/2020	-0.027	-1.2	-0.007	0.04
16/12/2020	-0.039	-1.2	-0.01	0.036
27/01/2021	-0.035	0.4	-0.009	0.038

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	19.78	5.0%	Corn (per bushel)	3.1150	--
Brent (per barrel)	26.44	4.6%	Soybean (per bushel)	8.473	-0.4%
Heating Oil (per gallon)	0.7961	8.8%	Wheat (per bushel)	5.2150	-1.6%
Gasoline (per gallon)	0.7663	9.8%	Crude Palm Oil (MYR/MT)	2,102.0	--
Natural Gas (per MMBtu)	1.8900	-3.0%	Rubber (JPY/KG)	139.0	-1.3%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,110	-1.5%	Gold (per oz)	1,700.4	0.8%
Nickel (per mt)	11,955	-1.9%	Silver (per oz)	14.977	0.0%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Equity and Commodity

Index	Value	Net change
DJIA	23,723.69	-622.03
S&P	2,830.71	-81.72
Nasdaq	8,604.95	-284.60
Nikkei 225	19,619.35	-574.34
STI	2,624.23	--
KLCI	1,407.78	--
JCI	4,716.40	--
Baltic Dry	617.00	-18.00
VIX	37.19	3.04

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	0.43 (--)	0.19 (-0.01)
5Y	0.54 (--)	0.35 (-0.01)
10Y	0.90 (--)	0.61 (-0.03)
15Y	1.11 (--)	--
20Y	1.24 (--)	--
30Y	1.28 (--)	1.25 (-0.04)

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	20.40	--
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	0.04
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Economic Calendar

Date Time		Event		Survey	Actual	Prior	Revised
05/04/2020 07:00	SK	CPI YoY	Apr	0.40%	0.10%	1.00%	--
05/04/2020 07:00	SK	CPI MoM	Apr	-0.30%	-0.60%	-0.20%	--
05/04/2020 08:30	ID	Markit Indonesia PMI Mfg	Apr	--	--	45.3	--
05/04/2020 08:30	SK	Markit South Korea PMI Mfg	Apr	--	--	44.2	--
05/04/2020 08:30	TA	Markit Taiwan PMI Mfg	Apr	--	--	50.4	--
05/04/2020 08:30	VN	Markit Vietnam PMI Mfg	Apr	--	--	41.9	--
05/04/2020 09:00	AU	Melbourne Institute Inflation MoM	Apr	--	--	0.20%	--
05/04/2020 09:30	AU	Building Approvals MoM	Mar	-15.00%	--	19.90%	--
05/04/2020 12:00	ID	CPI YoY	Apr	2.76%	--	2.96%	--
05/04/2020 13:00	IN	Markit India PMI Mfg	Apr	--	--	51.8	--
05/04/2020 15:55	GE	Markit/BME Germany Manufacturing PMI	Apr F	34.4	--	34.4	--
05/04/2020 16:00	EC	Markit Eurozone Manufacturing PMI	Apr F	33.6	--	33.6	--
05/04/2020 16:30	HK	GDP YoY	1Q A	-6.50%	--	-2.90%	--
05/04/2020 22:00	US	Durable Goods Orders	Mar F	-14.40%	--	-14.40%	--
05/04/2020 22:00	US	Factory Orders	Mar	-9.40%	--	0.00%	--

Source: Bloomberg

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