

Daily Treasury Outlook

5 May 2020

Highlights

Global: Sabre-rattling in the form of US Treasury Secretary Mnuchin's comments that President Trump is reviewing options to penalise China and warned China to meet its obligations of the Phase 1 trade deal did not keep Wall Street from climbing overnight. S&P500 saw a late rally to add 0.4%, led by tech stocks including Apple and amid higher oil prices, while Carnival is planning to begin sailing on 1 August. Meanwhile UST bonds traded lower with the 10-year bond yield at 0.63% amid a deluge of corporate and government bond supply. The Treasury sold a record \$60b of 3-month bills at 0.11%, \$51b of 6-month bills at 0.13% and \$30b of 105-day cash management bills at 0.115%. The 3-month LIBOR fell to 0.50088% (lowest since December 2015) and LIBOR-OIS narrowed to 46bps.

Market watch: Asian markets are likely to attempt to open on a firmer tone this morning, awaiting the RBA and BNM policy decision for further direction and notwithstanding the slew of weak Asian manufacturing PMIs yesterday and Hong Kong's 8.9% yoy contraction in 1Q20. RBA may remain static but comments on its economic assessment may be closely watched, whereas market is split over whether BNM will cut and by how much (25 or 50bps). The economic data calendar comprises of Indonesia's 1Q20 GDP growth, Thai CPI, and S'pore's and HK's retail sales. China, Japan and South Korean markets remain closed. Also watch the German court ruling on participation in ECB's asset purchase program. Earnings results are also due from Disney, DuPont, Newmont and BNP Paribas.

US: Factory orders fell more than expected by a record 10.3% in March, after a 0.1% dip in February. The Trump administration's "turbocharging" of an initiative to extract global supply chains from China may include tax and re-shoring incentives. The New York Fed will start to buy ETFs in early May, while the Treasury expects to issue \$2.999 trillion of debt in 2Q to finance pandemic-related government stimulus. California reported the lowest number of Covid-19 deaths in three weeks and Governor Newsom said some lower-risk businesses could reopen as early as Friday.

EU: The manufacturing PMI sank from 44.5 in March to 33.4 in April, the lowest since the survey began in mid-1997, with the German PMI posting a record contraction of 34.5 (lowest since March 2009) down from 45.4 in March. Meanwhile the Sentix index edged up slightly from -42.9 to -41.8 aided by the expectations gauge at -3.0 (previously -15.8).

Singapore: The manufacturing and electronics PMIs retreated further in April to 44.7 (-0.7 points) and 42.8 (-1.3 points) respectively amid the Circuit Breaker. This is the third consecutive month of contraction for the manufacturing PMI and the lowest since November 2008 (44.3) while the electronics PMI is also the lowest since December 2008, albeit their declines were less severe compared to some regional PMIs which have dipped to below the 20 handle. April may not have been the bottom with the extension of the Circuit Breaker and the further tightening of essential services in May. In particular, anecdotal evidence suggest global order cancellations were already materialising in April and the latest escalation of US-China tensions may exacerbate.

Key Market Movements

Equity	Value	% chg
S&P 500	2842.7	0.4%
DJIA	23750	0.1%
Nikkei 225	19619	0.0%
SH Comp	2860.1	0.0%
STI	2563.7	-2.3%
Hang Seng	23614	-4.2%
KLCI	1376.6	-2.2%
Currencies	Value	% chg
DXY	99.484	0.4%
USDJPY	106.74	-0.2%
EURUSD	1.0907	-0.7%
GBPUSD	1.2443	-0.5%
USDIDR	15100	1.5%
USDSGD	1.4168	0.1%
SGDMYR	3.0469	0.1%
Rates	Value	chg (bp)
3M UST	0.10	0.00
10Y UST	0.63	2.18
1Y SGS	0.45	0.00
10Y SGS	0.88	-2.39
3M LIBOR	0.54	-1.53
3M SIBOR	0.86	0.00
3M SOR	0.38	0.00
Commodities	Value	% chg
Brent	27.2	2.9%
WTI	20.39	3.1%
Gold	1702	0.1%
Silver	14.78	-1.3%
Palladium	1859	-3.1%
Copper	5123	0.3%
BCOM	60.97	0.4%

Source: Bloomberg

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Major Markets

US: US equity markets eked out slight gains yesterday after markets initially fell at the open as worries over rising US-China tensions dented risk sentiment. The S&P500 index eventually recovered to close 0.43% higher. Investors are likely to remain cautious and will focus on the reopening of the various economies. Electronic Arts and Beyond Meat are among the companies to report earnings on Tuesday.

Hong Kong: The economy contracted at the fastest pace on record by 8.9% yoy in 1Q. It is much weaker than market consensus of -6.4% and our expectation of -6.7% as Covid-19 outbreak has dented local consumption (-10.2% yoy), curbed exports of goods (-9.7% yoy) and services (-37.8% yoy, largest decline on record) and took a heavy toll of investment (-13.9% yoy). That said, we think the bottom may only be seen in 2Q as stronger containment measures have been imposed domestically and externally since late March. In other words, though a slew of relief measures and the plan to partially relax the containment measures from May could help to ease some downside risk, we still expect the economy to contract at a faster pace by 9.2% yoy in 2Q. For the second half of this year, any rebound is likely to be moderate given the demand shock and prolonged fears of infections amid uncertainty about the pandemic. In conclusion, as the first quarter's GDP surprised on the downside, we further downgrade our 2020 GDP growth forecast from -4% yoy to -5% yoy on assumption that global economic activities will resume gradually from May. Downside risks are still high should there be another wave of Covid-19 infections after lifting the lockdown. On top of that, we are also concerned about the possible return of social unrest post pandemic and the renewed US-China tensions which could threaten HK's special trade status.

Taiwan: Manufacturing PMI dropped to 42.2 in April, the lowest level since Jan 2009, mainly affected by the global pandemic. Specifically, both output and new business sub-index dropped at the quickest rates since 2009 while new export orders index declined with the greatest extent in over 11 years. It was affected by two factors. Firstly, amid the epidemic, worldwide temporary business closures and lockdown measures dented the overall demand. Secondly, the supply chain disruption and transportation disruption were affected by global travel restrictions. Moving forward, as most of the economies are still implementing social distancing measures and lockdown policies, the demand is expected to remain sluggish in the coming months. We expect manufacturing PMI might continue to be under pressure.

Singapore: The STI fell 2.31% to close at 2563.69 yesterday but may try to recover some lost ground today amid positive overnight cues from Wall Street. SGS bonds may also tread water to slightly lower in line with overnight UST market action.

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Indonesia: Indonesia is due to release its Q1 GDP print today. We expect growth to print 4.0% yoy, lower than 4.97% of Q4 2019, but not as drastic a slowdown as the others in the region, as Indonesia was yet to be hit badly by the Covid-19 outbreak during the period. Q2 will be a vastly different story, however, with April manufacturing PMI already printing its lowest-on-record level of 27.5 compared to 45.3 before.

Malaysia: Bank Negara is scheduled to announce its MPC decision today at 3pm KL time, with consensus calling for a cut of as much as 50bps. While we agree there is a need to cut to boost growth - and the space to do it as well given subdued inflation - we are of the view that it might hold rate unchanged. The benefit of any cut now is limited by the suspended monetary policy transmission due to the 6m loans moratorium. Instead of cutting rate, it might opt to trim the SRR further from the current 2% to help the banking sector's liquidity.

Gold: Gold stayed above the \$1700/oz level for the second consecutive session, ending yesterday at \$1702.07/oz.

Oil: Crude oil gained last night, with Brent adding 2.9% to \$27.20/bbl and WTI rising 3.1% to \$20.39/bbl. The latter is now at its highest since 20 April – before prices turned negative on the May futures contract. Looking forward, the key risks to crude oil include renewed US-China hostilities and the persistent issue of storage, especially in the US.

Bond Market Updates

Market Commentary: The SGD swap curve fell yesterday, with the shorter tenors trading 4-7bps lower, while the belly and the longer tenors traded 4-6bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 259bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 12bps to 1004bps. The HY-IG Index Spread widened 11bps to 745bps. Flows in SGD corporates were heavy, with flows in BAERVX 5.9%-PERPs, CMZB 4.875%'27s, DBSSP 3.98%-PERPs, UBS 5.875%-PERPs, UOBSP 3.58%-PERPs and FCTSP 3.2%'23s. 10Y UST Yields gained 2bps to 0.64% by the end of the day, as heavy corporate debt issuance weighed on Treasury prices with a lack of any strong catalyst.

New Issues: PT Hutama Karya (Persero) (Guarantor: The Government of the Republic of Indonesia) priced a USD600mn 10-year bond at 3.8%, tightening from IPT of 4.25% area.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	99.484	0.41%	USD-SGD	1.4168	0.09%
USD-JPY	106.740	-0.16%	EUR-SGD	1.5456	-0.57%
EUR-USD	1.0907	-0.67%	JPY-SGD	1.3275	0.25%
AUD-USD	0.6428	0.16%	GBP-SGD	1.7631	-0.34%
GBP-USD	1.2443	-0.50%	AUD-SGD	0.9103	0.17%
USD-MYR	4.3165	0.33%	NZD-SGD	0.8569	-0.12%
USD-CNY	7.0633	--	CHF-SGD	1.4679	-0.31%
USD-IDR	15100	1.46%	SGD-MYR	3.0469	0.14%
USD-VND	23439	0.05%	SGD-CNY	4.9835	-0.14%

Equity and Commodity

Index	Value	Net change
DJIA	23,749.76	26.07
S&P	2,842.74	12.03
Nasdaq	8,710.72	105.77
Nikkei 225	19,619.35	--
STI	2,563.69	-60.54
KLCI	1,376.59	-31.19
JCI	4,605.49	-110.92
Baltic Dry	617.00	--
VIX	35.97	-1.22

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4600	--	O/N	0.0584	-0.21%
2M	-0.3360	-0.21%	1M	0.3034	-2.63%
3M	-0.2730	-2.63%	2M	0.5398	-5.08%
6M	-0.1700	-5.08%	3M	0.5409	-1.53%
9M	-0.1940	-1.53%	6M	0.7130	-4.65%
12M	-0.1180	-4.65%	12M	0.8355	-2.91%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	0.41 (-0.02)	0.18 (-0.01)
5Y	0.52 (-0.02)	0.36 (+0.01)
10Y	0.88 (-0.02)	0.63 (+0.02)
15Y	1.09 (-0.03)	--
20Y	1.21 (-0.02)	--
30Y	1.25 (-0.04)	1.28 (+0.03)

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	-0.015	0	-0.004	0.043
16/12/2020	-0.025	-1	-0.006	0.04
27/01/2021	-0.035	-1	-0.009	0.038

Financial Spread (bps)

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

Secured Overnight Fin. Rate

SOFR	0.03
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Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	20.39	3.1%	Corn (per bushel)	3.1075	-0.2%
Brent (per barrel)	27.20	2.9%	Soybean (per bushel)	8.340	-1.6%
Heating Oil (per gallon)	0.8031	0.9%	Wheat (per bushel)	5.2425	0.5%
Gasoline (per gallon)	0.8215	7.2%	Crude Palm Oil (MYR/MT)	2,035.0	-3.2%
Natural Gas (per MMBtu)	1.9930	5.4%	Rubber (JPY/KG)	139.0	0.0%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,123	0.3%	Gold (per oz)	1,702.1	0.1%
Nickel (per mt)	11,812	-1.2%	Silver (per oz)	14.778	-1.3%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
05/05/2020 06:45	NZ Building Permits MoM	Mar	--	-21.30%	4.70%
05/05/2020 09:00	PH CPI YoY 2012=100	Apr	2.10%	--	2.50%
05/05/2020 11:30	TH CPI YoY	Apr	-1.20%	--	-0.54%
05/05/2020 11:30	TH CPI Core YoY	Apr	0.0045	--	0.0054
05/05/2020 12:00	ID GDP YoY	1Q	4.00%	--	4.97%
05/05/2020 12:30	AU RBA Cash Rate Target	May-05	0.25%	--	0.25%
05/05/2020 13:00	SI Retail Sales YoY	Mar	-16.80%	--	-8.60%
05/05/2020 15:00	MA BNM Overnight Policy Rate	May-05	2.00%	--	2.50%
05/05/2020 16:30	HK Retail Sales Value YoY	Mar	-48.00%	--	-44.00%
05/05/2020 16:30	UK Markit/CIPS UK Services PMI	Apr F	12.3	--	12.3
05/05/2020 16:30	UK Markit/CIPS UK Composite PMI	Apr F	12.9	--	12.9
05/05/2020 20:30	US Trade Balance	Mar	-\$44.2b	--	-\$39.9b
05/05/2020 21:45	US Markit US Composite PMI	Apr F	--	--	27.4
05/05/2020 21:45	US Markit US Services PMI	Apr F	27	--	27
05/05/2020 22:00	US ISM Non-Manufacturing Index	Apr	37.9	--	52.5

Source: Bloomberg

Treasury Research & Strategy

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