

## Daily Treasury Outlook

6 July 2020

### Highlights

**Global:** With the US markets shut for Independence Day holidays, the market focus is on the Covid-19 pandemic and the implications for slowing down the re-openings in some US states. The WHO reported a record number of cases over the weekend as the global number topped 11.3 million and deaths exceeded 532k. The S&P500 had risen 0.45% on 2 July while VIX eased to 27.68. The UST bond market ended Thursday slightly bid with the 10-year bond yield at 0.67%. The 3-month LIBOR fell to a 5-year low of 0.27588% (lowest since May 2015).

**Market watch:** Asian markets may open mixed this morning amid growing concern about the acceleration in global Covid-19 cases. The economic data calendar due today include German factory orders, Eurozone's retail sales, US' non-manufacturing ISM, services and composite PMI. For the week ahead, watch for RBA tomorrow (likely static at 0.25%) and BNM on Wednesday (market consensus leaning towards a 25bp cut to 1.75%, but we have a non-consensus call for no change), as well as the Singapore general elections on Friday.

**Singapore:** Retail sales plunged 52.1% yoy which is close to our forecast of -53.2% yoy in May, and a deterioration from the April retail sales data as the S'pore economy entered the second month of the Circuit Breaker amid tightened measures, a softening labour market and dampened consumer appetite. As expected, supermarket/hypermarket sales as well as minimarts outperformed as more people stayed and worked from home, whereas the worst hit segments were the discretionary spending items including watches & jewellery (-96.9% yoy), department stores (-93.7% yoy), apparel & footwear (-89.1% yoy), motor vehicle sales (-85.7% yoy) and recreational goods (-74.2% yoy) as retail shops and car showrooms were all closed. Even excluding car sales, retail sales still contracted 45.2% yoy in May. The silver lining continued to be online sales which accounted for 24.5% of total retail sales, driven still mainly by supermarkets, computer & telecommunications equipment, and furniture & household equipment. Our forecast for June retail sales is a much milder contraction of 10.5% yoy and the trend should continue to improve with a possibility that retail sales may edge back into positive growth territory by 4Q20. That said, retail sales are still likely to contract by 9.5% yoy for the whole of 2020, signifying a Covid-19 induced recession for Singapore.

**Oil:** Oil prices continued to consolidate on Friday, with Brent falling 0.8% to \$42.80/bbl. Without clearer signs on a slowdown in the second wave contagion of the coronavirus, we expect Brent to face headwinds in rallying past the \$45/bbl level.

Key Market Movements		
Equity	Value	% chg
S&P 500	3130.0	0.0%
DJIA	25827	0.0%
Nikkei 225	22306	0.7%
SH Comp	3152.8	2.0%
STI	2652.9	0.6%
Hang Seng	25373	1.0%
KLCI	1552.7	1.1%
Currencies	Value	% chg
DX	97.172	-0.1%
USDJPY	107.51	0.0%
EURUSD	1.1248	0.1%
GBPUSD	1.2483	0.1%
USDIDR	14523	1.0%
USDSGD	1.3945	0.0%
SGDMYR	3.0743	-0.1%
Rates	Value	chg (bp)
3M UST	0.14	0.00
10Y UST	0.67	0.00
1Y SGS	0.27	-1.00
10Y SGS	0.89	-0.48
3M LIBOR	0.30	0.53
3M SIBOR	0.55	-0.20
3M SOR	0.24	2.47
Commodities	Value	% chg
Brent	42.8	-0.8%
WTI	40.65	0.0%
Gold	1772	-0.2%
Silver	18.02	0.3%
Palladium	1927	0.8%
Copper	6017	-0.9%
BCOM	65.63	0.0%

Source: Bloomberg

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**Major Markets**

**US:** US markets were mostly closed on Friday for Fourth of July. The WHO reported a one-day high in global infections across the weekend, with the US posting a 1.2% increase in cases on Sunday. The Independence Day celebrations is expected to lead to a further spike in US cases and that may keep the markets volatile in the short term. Near-term resistance for the S&P 500 index is seen at the 3200 level, while support is expected at 3000.

**China:** China's fixed asset investment in railway jumped up by 11.4% yoy in the second quarter after contracting by 21% yoy in the first quarter disrupted by the Covid-19. For the first half of 2020, railway investment went up by 1.2% yoy. The sharp recovery of railway investment in the second quarter of 2020 was in line with China's reopening of economic activities. This also shows that the negative shock to investment from the Covid-19 has been fading away gradually. China's Ministry of Water Resources raised the flooding emergency response to level three from level two after 26 provinces have reported floods during this monsoon rainy season. However, historically, the impact of floods on GDP is limited. For this week, market will continue to watch out for key economic indicators for June such as inflation data. We expect the decline of PPI is likely to narrow due to rebound of commodity prices.

**HK:** Property price index rebounded by 1.9% mom in May to the highest since last November. Housing transaction volume surged by 51% yoy to an over one-year high of 6987 deals in June, led by the 77% yoy increase in the transaction of flats priced between HK\$5-10 million. Furthermore, the latest launch of a new home project received strong response with an oversubscription rate of more than 25 times. Taken all together, it points to upbeat investment sentiments on the back of positive development of local pandemic and global monetary and fiscal stimulus. The housing market was also supported by the lowered local rates, the persistent imbalance between supply and demand as well as the pent-up demand from the higher-income group who has been less affected by the pandemic. Still, we remain wary of the potential downside risk ahead given the limited fiscal stimulus, persistent pandemic uncertainty and lowered housing rentals. In conclusion, we expect property price index (+1.5% YTD) to drop 5% yoy in 2020.

**Singapore:** The STI added 0.62% to close at 2652.94 yesterday, and more investors may jump on the bandwagon today following positive vibes from overnight cues by Wall Street post-NFP. SGS bonds rallied on Friday by around 1bp with the exception of the 5-year SGS bond, but may range trade today.

**Malaysia:** Barisan Nasional candidate has reportedly won a huge majority in a by-election at Chini in the Malaysian state of Pahang. The BN candidate received 13,872 votes which is 10 times more than the other two contenders combined. One of the losing candidates was backed by former PM Mahathir Mohamad. With market increasingly looking at the spectre of potential snap election, the win could be seen as an indication of still-strong support for UMNO, a key component party of the former ruling BN coalition.

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**Indonesia:** S&P says it does not see any imminent risk to Indonesia's sovereign rating from a debt funding plan that has been recently flagged. The government has previously said that it may sell close to IDR400tn of bonds to Bank Indonesia on 0% interest rate to fund healthcare and social stimulus. S&P recently put a negative outlook on Indonesia's rating, but it said that it does not make a distinction between debt issued by the government to the market or to the central bank in its fiscal assessment.

### Bond Market Updates

**Market Commentary:** The SGD swap curve slightly fell last Friday, with the 30-year trading 3bps lower while the other tenors traded 1-2bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS remained mostly unchanged at 203bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS remained mostly unchanged at 774bps. The HY-IG Index Spread remained mostly unchanged at 571bps. Flows in SGD corporates were heavy, with flows in UBS 4.85%-PERPs, SINTEC 4.1%-PERPs, FPLSP 4.98%-PERPs, STANLN5.375%-PERPs, SOCGEN 6.125%-PERPs, SRENVX 3.125%'35s, OLAMSP 5.5%-PERPs, TMGSP 4.05%'25s, UOBSP 3.58%-PERPs and F 4.125%'24s. 10Y UST Yields remained unchanged at 0.67% as the US market was closed last Friday to observe Independence Day..

**New Issues:** Dangdai International Investments Ltd (Guarantor: Wuhan Dangdai Science & Technology Industries (Group) Co., Ltd) price a USD200.5mn re-tap of its DANDAI 10.5%'23s bond at 8.75%, tightening from IPT of 9% area.

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### Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	97.172	-0.15%	USD-SGD	1.3945	-0.01%
USD-JPY	107.510	0.01%	EUR-SGD	1.5688	0.08%
EUR-USD	1.1248	0.08%	JPY-SGD	1.2971	-0.02%
AUD-USD	0.6939	0.22%	GBP-SGD	1.7405	0.09%
GBP-USD	1.2483	0.12%	AUD-SGD	0.9679	0.23%
USD-MYR	4.2873	0.03%	NZD-SGD	0.9114	0.37%
USD-CNY	7.0665	-0.01%	CHF-SGD	1.4746	-0.06%
USD-IDR	14523	1.01%	SGD-MYR	3.0743	-0.13%
USD-VND	23201	-0.02%	SGD-CNY	5.0683	0.03%

### Equity and Commodity

Index	Value	Net change
DJIA	25,827.36	--
S&P	3,130.01	--
Nasdaq	10,207.63	--
Nikkei 225	22,306.48	160.52
STI	2,652.94	16.25
KLCI	1,552.65	16.37
JCI	4,973.79	7.01
Baltic Dry	1,894.00	71.00
VIX	27.68	--

### Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.5020	-0.40%	O/N	0.0829	0.62%
2M	-0.3360	0.62%	1M	0.1626	-0.25%
3M	-0.4350	-0.25%	2M	0.2338	0.04%
6M	-0.3140	0.04%	3M	0.2759	0.53%
9M	-0.1940	0.53%	6M	0.3663	-1.81%
12M	-0.2380	-1.81%	12M	0.5056	0.54%

### Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	0.27 (-0.01)	0.15 (--)
5Y	0.52 (--)	0.30 (--)
10Y	0.89 (--)	0.67 (--)
15Y	1.20 (-0.01)	--
20Y	1.26 (-0.01)	--
30Y	1.24 (-0.01)	1.43 (--)

### Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	% Hike/Cut	Implied Rate Change	Implied Rate
07/29/2020	-0.037	-3.7	-0.009	0.072
09/16/2020	-0.099	-6.1	-0.025	0.057
11/05/2020	-0.165	-6.7	-0.041	0.041
12/16/2020	-0.17	-0.5	-0.043	0.039
01/27/2021	-0.237	-6.7	-0.059	0.023

### Financial Spread (bps)

	Value	Change
EURIBOR-OIS	4.10	-0.30
TED	35.36	--

### Secured Overnight Fin. Rate

SOFR	0.11
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### Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	40.65	--	Corn (per bushel)	3.4250	--
Brent (per barrel)	42.80	-0.8%	Soybean (per bushel)	8.925	--
Heating Oil (per gallon)	1.2311	--	Wheat (per bushel)	4.9000	--
Gasoline (per gallon)	1.2592	--	Crude Palm Oil (MYR/MT)	2,421.0	-0.1%
Natural Gas (per MMBtu)	1.7340	--	Rubber (JPY/KG)	142.0	0.0%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	6,017	-0.9%	Gold (per oz)	1,772.1	-0.2%
Nickel (per mt)	12,996	0.4%	Silver (per oz)	18.015	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	-0.1	--	-4.7%	--
07/02/2020 07:17	PH	Overseas Workers Remittances	Apr	\$2243m	--	\$2397m	--
07/06/2020 08:30	HK	Markit Hong Kong PMI	Jun	--	49.60	43.90	--
07/06/2020 09:00	AU	Melbourne Institute Inflation MoM	Jun	--	--	-1.2%	--
07/06/2020 09:00	NZ	ANZ Commodity Price	Jun	--	--	-0.001	--
07/06/2020 09:00	AU	Melbourne Institute Inflation YoY	Jun	--	--	0.1%	--
07/06/2020 09:30	AU	ANZ Job Advertisements MoM	Jun	--	--	0.01	--
07/06/2020 14:00	GE	Factory Orders MoM	May	15.4%	--	-25.8%	--
07/06/2020 14:00	GE	Factory Orders WDA YoY	May	-24.0%	--	-36.6%	--
07/06/2020 15:00	SP	Industrial Output NSA YoY	May	-13.6%	--	-33.6%	--
07/06/2020 16:30	UK	Markit/CIPS UK Construction PMI	Jun	46.0	--	28.9	--
07/06/2020 17:00	EC	Retail Sales MoM	May	15.0%	--	-11.7%	--
07/06/2020 21:45	US	Markit US Composite PMI	Jun F	--	--	46.8	--
07/06/2020 21:45	US	Markit US Services PMI	Jun F	47.00	--	46.70	--
07/06/2020 22:00	US	ISM Non-Manufacturing Index	Jun	50.00	--	45.40	--

Source: Bloomberg

## Treasury Research & Strategy

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