

## Daily Treasury Outlook

6 August 2020

### Highlights

**Global:** Global risk sentiments remained buoyant overnight amid hopes that the US Congress will agree on the fiscal stimulus package soon and positive vaccine developments. Fed's Clarida also opined that "it does look like that we're going to get another fiscal package from the Congress, and also that will provide some important support as well" and he is hopeful that the US could return to pre-Covid levels by end-2021. The S&P500 gained 0.64%, led by capital goods, retail, and software names, while VIX fell to 22.99. UST bonds bear-steepened with the 10-year bond yield up at 0.55% after the Treasury Department announced larger-than-expected auctions starting with next week's record \$112b refunding, especially for longer-dated issuances. Gold surged further while the USD weakened. The 3-month LIBOR retreated to 0.2420%, the lowest since December 2014. Over in Asia, BOT kept its policy rate unchanged at 0.5% and the Indonesian economy contracted by 5.3% yoy in 2Q20.

**Market watch:** Asian markets may open on a firm tone this morning, awaiting the Philippines' 2Q GDP growth print, and policy decisions from RBI (expected to cut 25bps for its repo and reverse repo rates to 3.75% and 3.1% respectively) as well as BOE (likely to be static but with a dovish slant). Today's economic data calendar also comprises the US' initial jobless claims and Challenger job cuts, Taiwan's July CPI and German factory orders for June. Fed's Kaplan is also speaking.

**US:** The ADP employment rose by 167k in July, following a 4.314m surge in June, while the services ISM also improved from 57.1 to 58.1 (highest since March 2019), and the trade deficit narrowed 7.5% to \$50.7b in June. Fed's Mester also opined that other tools "including forward guidance about the future path of policy and the purchases of longer-term Treasuries and agency mortgage-backed securities, can be used to provide additional accommodation", but "it's clear that more fiscal support is needed". Meanwhile, the Democrats have introduced a bill to amend the Federal Reserve Act and mandate the central bank to target inequality by eliminating gaps in jobs, wages, wealth, and credit access.

**EU:** The Eurozone's services PMI was a tad softer than initially estimated at 54.7, but the composite PMI rose to 54.9 in July.

**JP:** BOJ governor Kuroda reiterated the central bank's willingness to ramp up monetary stimulus "without hesitation" if needed.

**SG:** Retail sales fell 27.8% yoy (+51.1% mom sa) in June amid pent-up demand after the re-opening of the Spore economy post-Circuit Breaker, but the strong momentum may not sustain in the coming months amid a softening labour market and growing resurgence of global Covid-19 cases. DBS and UOB announced that net income fell 22% yoy and 40% yoy to \$1.25b and \$703m respectively.

Key Market Movements		
Equity	Value	% chg
S&P 500	3327.8	0.6%
DJIA	27202	1.4%
Nikkei 225	22515	-0.3%
SH Comp	3377.6	0.2%
STI	2532.7	0.7%
Hang Seng	25103	0.6%
KLCI	1568.1	-0.5%
	Value	% chg
DXY	92.868	-0.6%
USDJPY	105.6	-0.1%
EURUSD	1.1863	0.5%
GBPUSD	1.3114	0.3%
USDIDR	14550	-0.5%
USDSGD	1.3698	-0.2%
SGDMYR	3.0634	-0.2%
	Value	chg (bp)
3M UST	0.09	0.77
10Y UST	0.55	4.08
1Y SGS	0.31	-1.00
10Y SGS	0.85	-1.84
3M LIBOR	0.25	-0.05
3M SIBOR	0.44	0.00
3M SOR	0.17	0.00
	Value	% chg
Brent	45.17	1.7%
WTI	42.19	1.2%
Gold	2038	0.9%
Silver	26.96	3.7%
Palladium	2188	2.2%
Copper	6495	0.6%
BCOM	71.19	0.9%

Source: Bloomberg

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### Major Markets

**US:** The S&P500 index gained for a fourth straight day, closing 0.6% higher overnight. The upward momentum continues to be backed by hopes of US fiscal stimulus as well as positive vaccine news. For the remainder of the week, markets would be keenly awaiting Friday's US nonfarm payroll report, which would likely shape risk sentiment in the near term.

**CN:** China's Caixin service PMI fell to 54.1 in July from a multi-year high of 58.4 in June. The rising volatility of service PMI showed that service sector is more sensitive to the resurgence of virus. China's PBoC monetary policy committee member Ma Jun said yesterday that there is no need to step up counter cyclical measures further and China will save ammunition of conventional monetary policy for future shock. This reinforces our previous view that there is limited room for marginal easing in the near term.

**HK:** Housing price index rose 0.1% mom in June to the highest since last August. Housing transaction volume increased for the second consecutive month by 27.6% yoy to 6133 deals in July. However, recent virus resurgence may have put a lid on the housing market rally. On the one hand, austere business environment may again prompt small businessmen to sell their property at deeply discounted price. On the other hand, the fear of infections and rising job uncertainty may deter some potential homebuyers. As such, we expect overall transaction volume to shrink sharply in the coming months. That said, the downside of residential property price may be capped by the low rates as well as the severe undersupply of land and homes. We hold onto our view that housing price will drop up to 5% yoy by end of this year. Elsewhere, PMI retreated from 49.6 in June to 44.5 in July amid virus resurgence which led to a decline in business activity and new order index.

**Singapore:** The STI added 0.68% to close at 2532.69 yesterday but may range trade today amid mixed morning cues from Nikkei and KOSPI despite an overnight Wall Street rally. SGS bonds may unwind some of yesterday's 1-2bp gains amid the overnight bear-steepening in the UST bond market.

**Malaysia:** Malaysia reported the highest number of new coronavirus infections in a week. The health ministry said that 21 new cases have been confirmed, of which 15 were foreigners who entered the country recently. That is the highest number of incremental cases since July 28. A recent rule change mandates new arrival to be quarantined at selected facilities, rather than at home.

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**Indonesia:** Indonesia reported its Q2 GDP data yesterday, which showed that the economy contracted by 5.32% yoy, more sharply than market and we expected. It also marked the weakest economic performance since the Asian Financial Crisis. Weakness can be seen across the board, with the key private consumption component shrinking by over 5.5% yoy and investment activities by 8.6% yoy. Government spending, which should have been supportive with the launch of the stimulus packages, was a disappointment. It was a negative contributor, pulling down headline growth by 0.53 ppt.

**Gold:** Gold continued its ascent and closed at \$2038.12/oz overnight on prospects of more fiscal stimulus from the US. \$2100/oz remains our first key resistance level.

**Oil:** Oil broke out of its trading range, with Brent finally closing above \$45/bbl after hitting a particularly tough resistance of \$44/bbl in the past two months. The prevailing risk on sentiment is likely to continue lifting risk assets higher in the near term.

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### Bond Market Updates

**Market Commentary:** The SGD swap curve bull flattened yesterday, with the shorter and belly tenors trading 1-3bps lower while the longer tenors traded 3-4bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 3bps to 173bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 7bps to 689bps. The HY-IG Index Spread tightened 4bps to 516bps. Flows in SGD corporates were heavy, with flows in UBS 5.875%-PERPs, STTGDC 3.13%'28s, HSBC 5%-PERPs, KITSP 4.75%-PERPs, NTUCSP 3.1%'50s and BAERVX 5.9%-PERPs. 10Y UST Yields gained 4bps to 0.55% after the Treasury Department announced it would increase the debt issuance in the third quarter and focus on longer-dated debt.

**New Issues:** CMB International Leasing Management Limited priced a USD800mn 5-year bond at T+170bps, tightening from IPT of T+225bps area and another USD400mn 10-year bond at T+228bps, tightening from IPT of T+280bps area. Central China Real Estate Ltd priced a USD300mn 4NC2 bond at 7.35%. China South City Holdings Limited priced a USD200mn 364-day bond at 13.5%, tightening from IPT of 13.75% area. Seazen Group Ltd priced a USD250mn 4-year bond at 6%, tightening from IPT of 6.45% area. Yuzhou Group Holdings Co Ltd priced a USD300mn 6NC4 green bond at 7.85%, tightening from IPT of 8.35% area. Zhongtai International Finance (BVI) Company Limited (Guarantor: Zhongtai Financial International Limited) priced a USD300mn 3-year bond at 3.85%, tightening from IPT of 4.25% area. Industrial and Commercial Bank of China Limited of Luxembourg priced a USD100mn 3-year bond at 3m-US LIBOR+75bps. Export-Import Bank of Korea priced a USD150mn 2-year bond at 0.617%. Aspiat Treasury Pte. Ltd. (Guarantor: Aspiat Corp Ltd) priced a SGD55mn re-tap of its ASPSP 6.25%'21s. Qingdao China Prosperity State-owned Capital Operation (Group) Co., Ltd has arranged investor calls commencing 5 August 2020 for its proposed USD bond offering.

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### Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	92.868	-0.55%	USD-SGD	1.3698	-0.25%
USD-JPY	105.600	-0.11%	EUR-SGD	1.6252	0.28%
EUR-USD	1.186	0.51%	JPY-SGD	1.2972	-0.13%
AUD-USD	0.719	0.45%	GBP-SGD	1.7965	0.08%
GBP-USD	1.311	0.33%	AUD-SGD	0.9851	0.18%
USD-MYR	4.191	-0.67%	NZD-SGD	0.9106	0.14%
USD-CNY	6.937	-0.53%	CHF-SGD	1.5079	0.31%
USD-IDR	14550	-0.51%	SGD-MYR	3.0634	-0.21%
USD-VND	23166	0.00%	SGD-CNY	5.0731	-0.02%

### Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.5210	-0.52%	O/N	0.0890	0.08%
2M	-0.3360	-0.34%	1M	0.1493	0.16%
3M	-0.4720	-0.47%	2M	0.2205	0.20%
6M	-0.4210	-0.42%	3M	0.2485	0.25%
9M	-0.1940	-0.20%	6M	0.3055	0.30%
12M	-0.3380	-0.34%	12M	0.4509	0.45%

### Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	% Hike/Cut	Implied Rate Change	Implied Rate
09/16/2020	-0.106	-10.6	0.06	0.06
11/05/2020	-0.119	-1.3	0.056	0.056
12/16/2020	-0.162	-4.3	0.046	0.046
01/27/2021	-0.195	-3.3	0.038	0.038
03/17/2021	-0.268	-7.3	0.019	0.019

### Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	42.19	1.18%	Corn (per bushel)	3.110	0.9%
Brent (per barrel)	45.17	1.67%	Soybean (per bushel)	8.820	-0.2%
Heating Oil (per gallon)	126.31	0.37%	Wheat (per bushel)	5.108	0.5%
Gasoline (per gallon)	122.28	0.70%	Crude Palm Oil (MYR/MT)	28.450	-1.6%
Natural Gas (per MMBtu)	2.19	-0.09%	Rubber (JPY/KG)	1.627	-0.1%
<b>Base Metals</b>	<b>Futures</b>	<b>% chg</b>	<b>Precious Metals</b>	<b>Futures</b>	<b>% chg</b>
Copper (per mt)	6494.50	0.64%	Gold (per oz)	2038.1	0.9%
Nickel (per mt)	14419.00	2.17%	Silver (per oz)	27.0	3.7%

### Equity and Commodity

Index	Value	Net change
DJIA	27,201.52	373.05
S&P	3,327.77	21.26
Nasdaq	10,998.40	57.23
Nikkei 225	22,514.85	-58.81
STI	2,532.69	16.99
KLCI	1,568.13	-7.81
JCI	5,127.05	52.05
Baltic Dry	1,463.00	78.00
VIX	22.99	-0.77

### Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	0.26 (-)	0.12 (-)
5Y	0.52 (-0.01)	0.22 (+0.03)
10Y	0.85 (-0.02)	0.55 (+0.04)
15Y	1.06 (-0.01)	--
20Y	1.1 (-0.01)	--
30Y	1.07 (-0.01)	1.23 (+0.04)

### Financial Spread (bps)

	Value	Change
EURIBOR-OIS	-0.10	(-)
TED	35.36	--

### Secured Overnight Fin. Rate

SOFR	0.09
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## Economic Calendar

Date Time		Event		Survey	Actual	Prior	Revised
08/06/2020 07:00	SK	BoP Current Account Balance	Jun	--	\$6880.0m	\$2286.1m	--
08/06/2020 10:00	PH	GDP YoY	2Q	-9.4%	--	-0.2%	--
08/06/2020 11:00	NZ	2Yr Inflation Expectation	3Q	--	--	1.2%	--
08/06/2020 12:00	TH	CPI YoY	Jul	-1.5%	--	-1.6%	--
08/06/2020 12:00	TH	CPI Core YoY	Jul	0.0%	--	-0.1%	--
08/06/2020 12:30	IN	RBI Repurchase Rate	38930	3.8%	--	4.0%	--
08/06/2020 12:30	IN	RBI Reverse Repo Rate	Aug-06	3.1%	--	3.4%	--
08/06/2020 12:30	IN	RBI Cash Reserve Ratio	38930	3.0%	--	3.0%	--
08/06/2020 14:00	UK	Bank of England Bank Rate	01-Aug	0.1%	--	0.1%	--
08/06/2020 14:00	GE	Factory Orders MoM	Jun	10.1%	--	10.4%	--
08/06/2020 16:00	IT	Industrial Production MoM	Jun	5.0%	--	42.1%	--
08/06/2020 16:30	UK	Markit/CIPS UK Construction PMI	Jul	57.0	--	55.3	--
08/06/2020 20:30	US	Initial Jobless Claims	37104	1400k	--	1434k	--
08/06/2020 20:30	US	Continuing Claims	45839	16900k	--	17018k	--
08/06/2020 21:45	US	Bloomberg Consumer Comfort	01-Aug	--	--	44.30	--

Source: Bloomberg

## Treasury Research & Strategy

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