

## Daily Treasury Outlook

7 July 2020

### Highlights

**Global:** Risk on - US equity markets rallied on economic optimism after the US' non-manufacturing ISM surprised on the upside by surging from 45.4 in May to a four-month high of 57.1 in June amid the re-openings. The S&P500 gained 1.59% while Nasdaq hit another record high with gainers like Amazon.com and Tesla, which prompted the VIX to decline to 27.94. The UST bond market traded lower with the 10-year bond yield at 0.68%. The USD also fell to a one-month low, while the 3-month LIBOR was little changed at 0.2759%.

**Market watch:** Asian markets are likely to open on a firmer trading tone this morning, with market awaiting the RBA (likely static at 0.25%) and BNM (market consensus is leaning towards a 25bp cut to 1.75%) policy decisions later. The economic data calendar due today include German industrial production Indonesia's foreign reserves, Taiwan's June trade and CPI data, and JOLTS job openings. Fed's Daly and Barkin, and ECB's Haldane are also speaking.

**US:** The new orders gauge for the non-manufacturing ISM index jumped from 41.9 to 61.6 in June, accompanied by the employment gauge also rising from 31.8 to 43.1. However, the improvement in the Markit services PMI was less spectacular at 47.9 in June, versus 37.5 in May, and still mired in contraction territory. Meanwhile, US president Trump is said to be preparing to issue a series of executive orders on China, manufacturing, immigration and prescription drug prices.

**EU:** French president Macron reshuffled his government yesterday but retained his finance minister Bruno Le Maire with a "recovery" portfolio.

**UK:** China has warned the US of consequences amid news that UK PM Johnson is preparing to phase out Huawei equipment from its 5G network.

**JP:** Household spending fell by a record 16.2% yoy in May even as the nationwide state of emergency was lifted and businesses began to re-open.

**CN:** The massive risk on sentiment in China was mainly supported by four factors from macro perspective. First, easing credit is one of the key drivers. Historically, easing credit was in favor China's equity market while easing money was considered as supporting factor to bond market. Since June, consensus has been reached that PBoC relies more on easing credit rather than easing money to support China's post pandemic recovery. Second, China's swift reaction to Beijing's mini outbreak of covid-19 reinforced market's confidence in government's capability to deal with the potential second wave infection. Third, US's reaction towards Hong Kong's national security law has been fairly measured for now. Fourth, China's latest economic indicators showed that the economic recovery is still on track.

**SG:** PM Lee stressed the need for a strong mandate and the need for a good government to fight Covid-19 in his speech yesterday.

### Key Market Movements

Equity	Value	% chg
S&P 500	3179.7	1.6%
DJIA	26287	1.8%
Nikkei 225	22714	1.8%
SH Comp	3332.9	5.7%
STI	2689.6	1.4%
Hang Seng	26339	3.8%
KLCI	1576.9	1.6%
Currencies	Value	% chg
DX	96.725	-0.5%
USDJPY	107.35	-0.1%
EURUSD	1.1309	0.5%
GBPUSD	1.2492	0.1%
USDIDR	14490	-0.2%
USDSGD	1.3921	-0.2%
SGDMYR	3.0756	0.0%
Rates	Value	chg (bp)
3M UST	0.14	0.00
10Y UST	0.68	0.66
1Y SGS	0.27	-0.10
10Y SGS	0.89	0.48
3M LIBOR	0.28	-2.79
3M SIBOR	0.55	-0.12
3M SOR	0.20	-3.36
Commodities	Value	% chg
Brent	43.1	0.7%
WTI	40.63	0.0%
Gold	1785	0.5%
Silver	18.27	1.4%
Palladium	1935	0.4%
Copper	6129	1.9%
BCOM	66.18	0.8%

Source: Bloomberg

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### Major Markets

**US:** The S&P 500 index closed 1.59% higher on Monday, driven higher by a global risk-on sentiment. Fuelling the rally in the US market was a better than expected ISM non-manufacturing index report, which showed June's number at 57.1 vs expectations of 50.2. The bullish momentum with equities remains intact at present although we remain wary of the increasing daily rate of Covid-19 cases in the US.

**HK:** Markit PMI rose to the highest since March 2018 at 49.6 in June. Notably, output and new orders both rebounded to the highest since April 2018. This was mainly attributed to the resumption of global supply chain and the strong pent-up demand. Nevertheless, due to a second wave of Covid-19 and the persistent pandemic uncertainty, governments may be hesitant to further relax the restriction measures and therefore complicate the global recovery story. Also, a sluggish labor market may continue to dampen local and external demand. As such, we think neither PMI nor the economy will be able to show strong uptick in the coming months. Elsewhere, HKD was rather strong despite lowered HIBOR, mainly driven by broad dollar weakness, strong southbound equity inflows, dividend payouts and a vibrant IPO pipeline.

**Singapore:** The STI extended gains by 1.38% to close at 2689.61 yesterday and may extend gains today amid the overnight rally by Wall Street amid encouraging US economic data releases. SGS bonds traded mixed yesterday, but may come under some pressure today amid the modest sell-off in UST bond market overnight

**Malaysia:** Bank Negara is due to announce its MPC decision today. While low inflation prints and still-nascent economic recovery may compel BNM to trim its OPR further by 25bps to 1.75%, we reckon that it might wait it out this time round to get a better read on the economic momentum, before potentially cutting in September closer to the end of the loans moratorium period.

**Indonesia:** Bank Indonesia has reportedly agreed on a burden sharing plan with the government. Finance Minister Sri Mulyani said yesterday that BI will purchase IDR397.56tn (\$27bn) of government bonds directly at the benchmark 7d reverse repo rate (currently at 4.25%). The government will issue another IDR123.46tn of bonds for SME stimulus, with BI bearing some of the interest cost. While the move would mark another step in non-traditional fiscal deficit financing mechanism involving the central bank, it comes a lot less radical compared to the potential 0% interest rate scheme that was discussed before. Hence, viewed from that angle, it should be a net market positive.

**Oil:** Brent rose last night, consistent with the general risk-on momentum that swept global markets last night. The benchmark crude oil rose 0.7% to end at \$43.10/bbl, although it did rally to as high as \$43.71/bbl during intraday. The resistance for Brent currently is seen at \$44/bbl.

**Gold:** Gold clocked a fresh seven year high of \$1764.68/oz last night, despite the risk on sentiment across global markets.

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### Bond Market Updates

**Market Commentary:** The SGD swap curve bear steepened, with the shorter tenors trading 0-2bps higher while the belly and longer tenors traded 3-4bps higher. The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 3bps to 201bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 21bps to 753bps. The HY-IG Index Spread tightened 19bps to 552bps. Flows in SGD corporates were heavy, with flows in STANLN5.375%-PERPs, KEPSP 3%'26s, SINTEC 4.1%-PERPs and UBS 5.875%-PERPs. 10Y UST Yields gained 1bp to 0.68% as better than expected economic data signalled an economic rebound from the COVID-19 pandemic.

**New Issues:** Shinhan Financial Group Co Ltd priced a USD500mn 5.5-year Covid-19 bond at T+105bps, tightening from IPT of T+145bps area. BDO Unibank, Inc. priced a USD600mn 5.5-year USD bond at T+190bps. Shanghai Port Group (BVI) Development 2 Co., Limited (Guarantor: Shanghai International Port (Group) Co., Ltd.) priced a USD300mn 5-year bond at T+125bps, tightening from IPT of T+185bps area and another USD700mn 10-year bond at T+172.5bps, tightening from IPT of T+225bps area. Shimao Group Holdings Limited priced a USD300mn 10NC5 bond at 4.6%, tightening from IPT of 5.1% area. Modern Land (China) Co., Limited priced a USD250mn 2Y4M green bond at 12.375%, tightening from IPT of 12.75% area. Sunac China Holdings Limited priced a USD600mn 3NC2 at 6.75%, tightening from IPT of 7.30% area and another USD400mn 5NC3 bond at 7.3%, tightening from IPT of 7.85% area. South Korea has mandated banks for possible offshore USD bond offering. ZhongAn Online P&C Online Insurance Company Limited arranged investor calls commencing 6 July for its proposed USD bond offering. Overseas Chinese Town Enterprises Limited Company arranged investor calls commencing 6 July 2020 for its proposed USD bond offering. International Container Terminal Services Inc. and the issuer Royal Capital BV arranged investor calls commencing 6 July for its proposed USD bond offering. TCL Technology Group Corporation arranged investor calls commencing 6 July for its proposed USD bond offering. Bank of Communications Financial Leasing Co., Ltd. and the issuer Bocom Leasing Management Hong Kong Company Limited arranged investor calls commencing 6 July for its proposed USD bond offering. Yankuang Group Company Limited arranged investor calls commencing 7 July for its proposed USD bond offering. Doosan Infracore Co., Ltd. arranged investor calls commencing 8 July 2020 for its proposed USD bond offering.

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### Foreign Exchange

	Day Close	% Change		Day Close	% Change
<b>DXY</b>	96.725	-0.46%	<b>USD-SGD</b>	1.3921	-0.17%
<b>USD-JPY</b>	107.350	-0.15%	<b>EUR-SGD</b>	1.5744	0.36%
<b>EUR-USD</b>	1.1309	0.54%	<b>JPY-SGD</b>	1.2963	-0.06%
<b>AUD-USD</b>	0.6973	0.49%	<b>GBP-SGD</b>	1.7391	-0.08%
<b>GBP-USD</b>	1.2492	0.07%	<b>AUD-SGD</b>	0.9708	0.30%
<b>USD-MYR</b>	4.2780	-0.22%	<b>NZD-SGD</b>	0.9125	0.12%
<b>USD-CNY</b>	7.0188	-0.68%	<b>CHF-SGD</b>	1.4775	0.20%
<b>USD-IDR</b>	14490	-0.23%	<b>SGD-MYR</b>	3.0756	0.04%
<b>USD-VND</b>	23193	-0.03%	<b>SGD-CNY</b>	5.0417	-0.52%

### Equity and Commodity

Index	Value	Net change
<b>DJIA</b>	26,287.03	459.67
<b>S&amp;P</b>	3,179.72	49.71
<b>Nasdaq</b>	10,433.65	226.02
<b>Nikkei 225</b>	22,714.44	407.96
<b>STI</b>	2,689.61	36.67
<b>KLCI</b>	1,576.90	24.25
<b>JCI</b>	4,988.87	15.07
<b>Baltic Dry</b>	1,894.00	--
<b>VIX</b>	27.94	0.26

### Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
<b>1M</b>	-0.5020	-0.10%	<b>O/N</b>	0.0829	--
<b>2M</b>	-0.3360	--	<b>1M</b>	0.1626	-0.11%
<b>3M</b>	-0.4350	-0.11%	<b>2M</b>	0.2338	--
<b>6M</b>	-0.3140	--	<b>3M</b>	0.2759	-2.79%
<b>9M</b>	-0.1940	-2.79%	<b>6M</b>	0.3663	0.01%
<b>12M</b>	-0.2380	0.01%	<b>12M</b>	0.5056	-3.30%

### Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
<b>2Y</b>	0.26 (-0.02)	0.16 (--)
<b>5Y</b>	0.52 (--)	0.30 (+0.01)
<b>10Y</b>	0.89 (--)	0.68 (+0.01)
<b>15Y</b>	1.22 (+0.01)	--
<b>20Y</b>	1.27 (+0.01)	--
<b>30Y</b>	1.26 (+0.01)	1.44 (+0.01)

### Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	% Hike/Cut	Implied Rate Change	Implied Rate
07/29/2020	-0.048	-4.8	-0.012	0.072
09/16/2020	-0.11	-6.1	-0.027	0.057
11/05/2020	-0.152	-4.3	-0.038	0.047
12/16/2020	-0.195	-4.3	-0.049	0.036
01/27/2021	-0.228	-3.3	-0.057	0.027

### Financial Spread (bps)

	Value	Change
<b>EURIBOR-OIS</b>	4.18	0.08
<b>TED</b>	35.36	--

### Secured Overnight Fin. Rate

<b>SOFR</b>	0.11
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### Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	10.63	0.00%	Corn (per bushel)	3.4250	0.00%
Brent (per barrel)	43.10	0.70%	Soybean (per bushel)	907.250	0.10%
Heating Oil (per gallon)	1.231	--	Wheat (per bushel)	4.9200	-0.25%
Gasoline (per gallon)	1.259	--	Crude Palm Oil (MYR/MT)	2,391.0	1.40%
Natural Gas (per MMBtu)	1.734	--	Rubber (JPY/KG)	157.5	1.74%

  

Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	6,017.0	-0.92%	Gold (per oz)	1,784.7	0.50%
Nickel (per mt)	12,996	0.38%	Silver (per oz)	18.270	1.40%

### Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
07/07/2020	HK Foreign Reserves	Jun	--	\$442.3b	--
07/07/2020	CH Foreign Reserves	Jun	\$3118.50b	\$3101.69b	--
07/07/2020 07/17	PH Overseas Remittances YoY	Apr	-0.096	-0.047	--
07/07/2020 07/17	PH Overseas Workers Remittances	Apr	\$2243m	\$2397m	--
07/07/2020 07:00	SK BoP Current Account Balance	May	--	\$2286.1m	-\$3124.3m
07/07/2020 07:30	JN Labor Cash Earnings YoY	May	-1.0%	-2.10%	-0.6%
07/07/2020 07:30	JN Household Spending YoY	May	-11.8%	-16.2%	-11.1%
07/07/2020 09:00	PH CPI YoY 2012=100	Jun	2.2%	--	2.1%
07/07/2020 11:00	ID Foreign Reserves	Jun	--	\$130.50b	--
07/07/2020 12:30	AU RBA Cash Rate Target	39264	0.0	--	0.3%
07/07/2020 13:00	JN Leading Index CI	May P	79.30	--	77.70
07/07/2020 14:00	GE Industrial Production SA MoM	May	0.111	--	-0.179
07/07/2020 14:00	GE Industrial Production WDA YoY	May	-0.17	--	-0.25
07/07/2020 15:00	MA BNM Overnight Policy Rate	39264	1.75%	--	0.02
07/07/2020 15:00	MA Foreign Reserves	11110	--	\$102.8b	--

Source: Bloomberg

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