

Daily Treasury Outlook

7 August 2020

Highlights

Global: Global risk sentiment is still relatively reluctant to hit the pause button even as the US Congress remains deadlocked over the fiscal stimulus talks. President Trump expects to sign an executive order later today or Saturday to extend unemployment benefits and impose a payroll tax holiday. The S&P500 gained 0.64% and Nasdaq crossed 11,000 for the first time, while VIX fell to 22.65. UST bonds declined slightly with the 10-year bond yield at 0.53%. The 3-month LIBOR edged up to 0.2433%. Elsewhere, RBI held rates with the governor citing that there remains policy room for easing. The Philippines shocked with a worse-than-expected 16.5% yoy (-15.2% qoq sa) contraction in 2Q20, marking its first recession in 29 years and prompting the government to downgrade its full year forecast to -5.5% (biggest annual decline in 35 years).

Market watch: Asian markets may tread water this morning, awaiting the key US labour market report due later tonight. Today's economic data calendar also comprises the US' July nonfarm payrolls, unemployment rate and average hourly earnings (forecast: 1.5m, 10.5% and 4.2% yoy/-0.5% mom) and wholesale inventories, trade data from Germany and Taiwan, industrial production data from Malaysia and Germany, and foreign reserves data from Indonesia and Malaysia. Fed's Rosengren is also due to testify on the Main Street Program.

US: Initial jobless claims fell to 1.186m, and continuing claims also slipped to 16.1m, but Challenger job cuts rose 576% in July, suggesting that the labour market could be running out of steam. Meanwhile, Fed's Barkin sounded more cautious on the longer than expected downturn and Kaplan warned that it was dangerous to assume the USD's status as the world's reserve currency will last indefinitely.

UK: BOE voted unanimously to keep its bank rate at 0.1% and its QE program at GBP745b, while citing that the outlook remains unusually uncertain and that GDP may not return to pre-Covid levels before end-2021. Inflation is tipped to fall further to 0.25% this year and only return to the 2% target two years later while unemployment is likely to rise to 7.5% by end-2020. The MPC will also keep policy options including negative rates under consideration, albeit Governor Bailey said there were no plans to use them.

SG: OCBC's 2Q net income fell 40% yoy to \$730m.

Gold: Gold rose 1.2% higher to \$2063.54/oz and inches closer to our resistance level of \$2100/oz. A weak NFP number tonight is highly likely to propel the yellow metal towards that level on heightened hopes of increased fiscal stimulus.

Key Market Movements

Equity	Value	% chg
S&P 500	3349.2	0.6%
DJIA	27387	0.7%
Nikkei 225	22418	-0.4%
SH Comp	3386.5	0.3%
STI	2559.1	1.0%
Hang Seng	24931	-0.7%
KLCI	1588.6	1.3%
	Value	% chg
DX	92.788	-0.1%
USDJPY	105.55	0.0%
EURUSD	1.1877	0.1%
GBPUSD	1.3143	0.2%
USDIDR	14585	0.2%
USDSGD	1.3688	-0.1%
SGDMYR	3.0572	-0.2%
	Value	chg (bp)
3M UST	0.09	-0.77
10Y UST	0.54	-1.15
1Y SGS	0.30	-1.00
10Y SGS	0.84	-1.27
3M LIBOR	0.24	-0.65
3M SIBOR	0.44	0.00
3M SOR	0.16	0.00
	Value	% chg
Brent	45.09	-0.2%
WTI	41.95	-0.6%
Gold	2064	1.2%
Silver	28.92	7.3%
Palladium	2231	1.9%
Copper	6479	-0.2%
BCOM	71.34	0.2%

Source: Bloomberg

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Major Markets

US: The S&P500 index rose for a fifth straight day, gaining 0.6% overnight and a cumulative 2.3% since last Friday's close. Bullish sentiment was driven by better-than-expected initial jobless claims last week (est: 1.5mn, act: 1.2mn). In the near term, bullish momentum may continue but attention for the rest of the day is firmly on tonight's US nonfarm payrolls report, where a soft number may send US equity markets higher on heightened expectations of more fiscal and monetary stimulus.

CN: China's central bank echoed the tone from last week's politburo in its 2Q monetary policy report. Although PBoC reiterated to keep its monetary policy more flexible, the focus has shifted to more targeted measures. In addition, the monetary policy report also highlighted the side effect of negative interest rate. This signals that the threshold for further conventional monetary policy tools such as outright interest rate cut and RRR cut may be higher. Meanwhile, the central bank also reckoned the constraints from the property market and step up its tone to ensure housing market is not for speculation. Overall, we think the latest tone from PBoC is likely to play down on market expectation on any imminent interest rate or RRR cut.

Taiwan: CPI declined by 0.52% yoy in July. The price of fuels and lubricants dropped by 18.41% yoy amid cheaper international oil prices. Meanwhile, the prices of vegetables and utility decreased by 9.29% yoy and 4.45% yoy respectively. Amid the charge reduction of hotel and amusement park admissions, the price of entertainment expenses fell by 4.14% yoy. Moving forward, we expect that inflation may regain growth momentum moderately in the coming months, as "Triple Stimulus Voucher" and promotion of domestic tourism may help to boost consumption. Nevertheless, given the uncertain economic outlook and labor market, it is unlikely to see sharp price adjustments in the near term.

Singapore: The STI added 1.04% to close at 2559.1 yesterday and may open on a firmer tone this morning. SGS bonds may range trade while investors await the US nonfarm payrolls report.

Malaysia: Malaysian government is reportedly seeking parliamentary approval to raise the government's debt ceiling to 60% of GDP, from the current 55%, according to a Bloomberg report quoting an MP's tweet. The Finance Minister had previously flagged such a move before, in view of the higher fiscal deficit due to stimulus measures

Indonesia: Finance Ministry is slated to be selling IDR20tn worth of bonds and bills on 11 August. This would come in four new series of papers, with tenors of up to 10.5 years, as well as a re-offer of three other bonds. The most recent auction has seen a relatively good demand, as Indonesia's high yield nature continues to attract flows that are seeking alternatives due to the global low rates environment.

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Bond Market Updates

Market Commentary: The SGD swap curve fell marginally yesterday, with all tenors trading 0-1bps lower while the 15-year traded 1bps higher. The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 171bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 6bps to 683bps. The HY-IG Index Spread tightened 5bps to 511bps. Flows in SGD corporates were heavy, with flows in UBS 4.85%-PERPs, HSBC 4.7%-PERPs, STTGDC 3.13%'28s, NTUCSP 3.1%'50s, CS 5.625%-PERPs, CAPLSP 3.65%-PERPs, FPLSP 4.98%-PERPs, KITSP 4.75%-PERPs, SINTEC 4.1%-PERPs and FPLSP 4.15%'27s. 10Y UST Yields fell 1bps to 0.54% ahead of Friday's federal jobs report for July.

New Issues: Huatong International Investment Holdings Co. (Guarantor: Qingdao China Prosperity State-owned Capital Operation (Group) Co., Ltd) priced a USD200mn 3-year bond at 3.35%, tightening from IPT of 3.9% area. AIMS APAC REIT Management Limited priced a SGD125mn PerpNC5 at 5.65%.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	92.788	-0.09%	USD-SGD	1.3688	-0.07%
USD-JPY	105.550	-0.05%	EUR-SGD	1.6256	0.02%
EUR-USD	1.188	0.12%	JPY-SGD	1.2968	-0.03%
AUD-USD	0.724	0.61%	GBP-SGD	1.7990	0.14%
GBP-USD	1.314	0.22%	AUD-SGD	0.9904	0.54%
USD-MYR	4.190	-0.03%	NZD-SGD	0.9154	0.53%
USD-CNY	6.954	0.24%	CHF-SGD	1.5043	-0.24%
USD-IDR	14585	0.24%	SGD-MYR	3.0572	-0.20%
USD-VND	23165	0.00%	SGD-CNY	5.0739	0.02%

Equity and Commodity

Index	Value	Net change
DJIA	27,386.98	185.46
S&P	3,349.16	21.39
Nasdaq	11,108.07	109.67
Nikkei 225	22,418.15	-96.70
STI	2,559.10	26.41
KLCI	1,588.57	20.44
JCI	5,178.27	51.22
Baltic Dry	1,475.00	12.00
VIX	22.65	-0.34

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.5150	-0.52%	O/N	0.0834	0.09%
2M	-0.3360	-0.34%	1M	0.1535	0.15%
3M	-0.4670	-0.47%	2M	0.2230	0.22%
6M	-0.4180	-0.42%	3M	0.2420	0.25%
9M	-0.1940	-0.20%	6M	0.2984	0.31%
12M	-0.3440	-0.34%	12M	0.4435	0.45%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	0.22 (-0.04)	0.11(--)
5Y	0.49 (-0.03)	0.21 (-0.01)
10Y	0.84 (-0.01)	0.53 (-0.01)
15Y	1.04 (-0.02)	--
20Y	1.1 (-0.01)	--
30Y	1.01 (-0.06)	1.2 (-0.02)

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	% Hike/Cut	Implied Rate Change	Implied Rate
09/16/2020	-0.101	-10.1	0.061	0.061
11/05/2020	-0.121	-2	0.056	0.056
12/16/2020	-0.15	-2.9	0.049	0.049
01/27/2021	-0.195	-4.5	0.038	0.038
03/17/2021	-0.236	-4.1	0.027	0.027

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	0.30	(--)
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	0.09
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Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	41.95	-0.57%	Corn (per bushel)	3.113	0.1%
Brent (per barrel)	45.09	-0.18%	Soybean (per bushel)	8.808	-0.1%
Heating Oil (per gallon)	124.99	-1.05%	Wheat (per bushel)	5.013	-1.9%
Gasoline (per gallon)	122.81	0.43%	Crude Palm Oil (MYR/MT)	28.950	1.8%
Natural Gas (per MMBtu)	2.17	-1.19%	Rubber (JPY/KG)	1.625	-0.1%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	6478.50	-0.25%	Gold (per oz)	2063.5	1.2%
Nickel (per mt)	14478.00	0.41%	Silver (per oz)	28.9	7.3%

Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
08/07/2020	CH Trade Balance	Jul \$42.60b	--	\$46.42b	--
08/07/2020	CH Exports YoY	Jul -0.6%	--	0.5%	--
08/07/2020	CH Imports YoY	Jul 0.9%	--	2.7%	--
08/07/2020	HK Foreign Reserves	Jul --	--	\$445.9b	--
08/07/2020	CH Foreign Reserves	Jul \$3140.00b	--	\$3112.33b	--
08/07/2020 11:00	ID Foreign Reserves	Jul --	--	\$131.70b	--
08/07/2020 12:00	MA Industrial Production YoY	Jun -10.4%	--	-22.1%	--
08/07/2020 14:00	GE Industrial Production SA MoM	Jun 8.2%	--	7.8%	--
08/07/2020 15:30	TH Foreign Reserves	31-Jul --	--	\$247.3b	--
08/07/2020 20:30	US Change in Nonfarm Payrolls	Jul 1480k	--	4800k	--
08/07/2020 20:30	CA Unemployment Rate	Jul 11.1%	--	12.3%	--
08/07/2020 20:30	US Unemployment Rate	Jul 10.6%	--	11.1%	--
08/07/2020 20:30	CA Net Change in Employment	Jul 390.0k	--	952.9k	--
08/07/2020 20:30	US Change in Manufact. Payrolls	Jul 261k	--	356k	--
08/07/2020 22:00	US Wholesale Inventories MoM	Jun F -2.0%	--	-2.0%	--

Source: Bloomberg

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