

Daily Treasury Outlook

8 May 2020

Highlights

Global: Wall Street appeared to be impervious to the rising number of US infections as market players focused on the prospect of US-China trade talks on telephone next week (after Trump tweeted “now they have to buy...if they don’t buy, we’ll terminate the deal, very simple”) and as initial jobless claims applicants eased to 3.17m last week. The S&P500 added 1.15% overnight, aided by energy, financial and material stocks, with the Nasdaq back in positive territory for the first time in two months. Meanwhile, UST bonds gained with the 2-year bond yield at a record low of 0.129% (overtaking the September 2011 low of 0.157%), 5-year yield also at a record 0.291% and the 10-year yield at 0.64%. The futures market is already pricing in negative US rates by early next year, albeit Barkin opined that it was not worth attempting negative rates. The 3-month LIBOR eased again to 0.43463% (lowest since December 2015) and LIBOR-OIS narrowed to 39bps. Elsewhere, BOE kept its policy rate static at 0.1% and maintained its QE program at GBP645b, albeit 2 of its 9 members had voted to expand QE and Governor Bailey signalling more money to be pumped into the bond market. China’s Caixin services PMI rebounded to 44 in April and exports also unexpectedly rose in April, but may see US-China trade tensions re-exert in coming months.

Market watch: Asian markets are poised to range trade this morning, with market waiting for the upcoming US’ nonfarm payrolls and unemployment report which are likely to hit record levels in recent history (forecast: 22m and 18%). RBA monetary policy statement will kick off, with the economic data calendar also comprising of Malaysia’s industrial production, German and Taiwan’s trade data, Thai consumer confidence, and US’s labour market report.

US: Fed’s Kashkari tips devastating unemployment data, while Bostic leaned towards the central bank err on providing more support than less and that the Fed will employ the full arsenal. Meanwhile, 1Q20 productivity fell 2.5% annualised versus +1.5% in 4Q19. Separately, Neiman Marcus has filed for Chapter 11 bankruptcy protection.

EU: ECB chief Lagarde continued to sound dovish on the EU economy and reiterated that the central bank will do whatever it takes.

Singapore: OCBC reported 1Q net income fell 43% to \$698m.

Oil: Oil dipped for a second day in a row, with Brent declining 0.9% to \$29.46/bbl and WTI falling 1.8% to \$23.55/bbl. Prices have improved considerably in the past two week, with WTI having almost doubled from a low of \$12.78/bbl on 28 April to \$24.56/bbl on the Tuesday past. As prices rise, this is likely to result in the unloading of floating cargo onto shore as carry trade becomes less attractive, depressing front month prices.

Key Market Movements		
Equity	Value	% chg
S&P 500	2881.2	1.2%
DJIA	23876	0.9%
Nikkei 225	19675	0.3%
SH Comp	2871.5	-0.2%
STI	2591.6	0.0%
Hang Seng	23981	-0.6%
KLCI	1376.9	0.0%
Currencies	Value	% chg
DX	99.889	-0.2%
USDJPY	106.28	0.2%
EURUSD	1.0834	0.4%
GBPUSD	1.2362	0.1%
USDIDR	14995	0.0%
USDSGD	1.4148	-0.4%
SGDMYR	3.0467	0.1%
Rates	Value	chg (bp)
3M UST	0.08	-2.29
10Y UST	0.64	-6.21
1Y SGS	0.44	0.00
10Y SGS	0.93	0.00
3M LIBOR	0.45	-2.64
3M SIBOR	0.69	-5.97
3M SOR	0.29	-0.69
Commodities	Value	% chg
Brent	29.46	-0.9%
WTI	23.55	-1.8%
Gold	1716	1.8%
Silver	15.35	3.3%
Palladium	1864	3.3%
Copper	5274	1.5%
BCOM	62.00	0.9%

Source: Bloomberg

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Major Markets

US: US markets rose on Thursday as investors' risk appetite continued to increase with bets of an impending reopening of the US economy. The NASDAQ Composite index turned positive for the year, while the S&P500 index rose 1.15%. Investors will be looking ahead to the release of the nonfarm payrolls tonight, and worse than expected numbers may dent risk sentiment.

China: China's export in RMB term unexpectedly rose by 8.2% yoy in April while imports fell by 10.2% yoy. As a result, China's trade surplus widened to CNY318.1 billion, up by 260% yoy. The stronger than expected export in April was probably the result of pent-up demand due to shutdown of factory in February and early March in China. The weaker than expected imports in April was attributable to two reasons. First, the sudden stop of global economy in March and April may affect global supply to Chinese manufactures which led to the decline of imports. Second, China's manufactures may reduce their demand for intermediate goods in anticipation of weaker demand in the coming months. Looking ahead, we think the recovery of export is not sustainable as China's exporters will face the challenge from demand shock in May.

China announced to further open its domestic financial market to foreign investors via removing QFII and RQFII quota. The move is more symbolic as previous quota has not been fully utilized.

Hong Kong: PMI rebounded only slightly from 34.9 in March to 36.9 in April, which is still close to the record low of 33.1 seen in February. New orders sub-index rose from 23.3 in March to 26.8 in April while production sub-index edged higher to 30.5 from the prior month's 26.0. However, both remain in deep contraction territory. As the government will partially relax the containment measures from 8 May, PMI may continue to tick up albeit at a slow pace due to worldwide demand shock and uncertainty about Covid-19 crisis.

Taiwan: CPI declined by 0.97% yoy in April, mainly dragged down by fuel inflation. Amid the sharp decline in international oil prices, the prices of fuels and lubricants plummeted by 35.5% yoy. Hence, the inflation of transportation & communication dropped by 8.56% yoy. Meanwhile, affected by Covid-19, some hotels offered discounts to promote sales. Therefore, entertainment expenses edged lower by 3.72% yoy. Moving forward, we expect that the CPI might remain sluggish in the May, amid muted local consumption sentiment and cheaper energy prices compared to previous year.

Singapore: The STI added 0.75% to close at 2591.60 on Wednesday, but may open with a slightly firmer tone today amid positive noises over the upcoming US-China trade talks next week. With the overnight rally in UST bond market, SGS bond yields may also trade with a more positive tone and unwind some of the 2-4bps losses seen on Wednesday. The 3-month SOR and SIBOR both eased further to 0.28565% and 0.69083%.

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Indonesia: Bank Indonesia's Governor Perry Warjiyo said that the central bank estimates that its primary market government bond purchase to be at a maximum of IDR125tn. He added that, together with the reduction in reserve requirement ratio, the primary purchase constitutes above-the-line financing support. BI would help below-the-line financing by buying via private placement. It is said to be considering incentives for banks to participate in the government's economic recovery program as well via RRR - suggesting an allowance of any recovery bond to be counted in fulfilling the reserve requirement.

Malaysia: Even as the Malaysian economy is reopening up, however tentatively, after weeks of restriction orders to combat the virus, market might have to countenance a resurgence of another kind - that of political uncertainties. Former PM Mahathir Mohamad is reportedly still keen to see a no-confidence motion against current PM Muhyiddin Yassin when the parliament reconvenes on May 18th. The parliamentary sitting will be the first since the political drama took hold in late February.

Bond Market Updates

Market Commentary: The SGD swap curve bear-steepened on Wednesday, with the shorter and the belly tenors trading 3-7bps higher while the longer tenors traded 7-11bps higher. On Thursday 7th May 2020 the curve bull flattened with the shorter and the belly tenors trading ~0-3bps lower while the longer tenors traded 3-4bps lower (with the exception of the 15yr tenor which traded ~1bps lower. Overall the curve bear steepened over the past two days. The Bloomberg Barclays Asia USD IG Bond Index average OAS yesterday widened 1bps to 257bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 3bps to 1003bps. The HY-IG Index Spread widened 2bps to 745bps. Flows in SGD corporates were heavy, with flows in BAERVX 5.9%-PERPs, CMZB 4.875%'27s, FPLSP 4.98%-PERPs, GUOLSP 4%'22s, HSBC 4.7%-PERPs, SIASP 3.13%'27s, SOCGEN 6.125%-PERPs and STANLN 5.375%-PERPs. 10Y UST Yields fell 6bps to 0.64% by the end of day yesterday, as investors priced in the possibility of the Fed adopting negative interest rates and weighed the impact of an increase in supply of longer-dated debt against continuing Fed bond purchases.

New Issues: Sun Hung Kai Properties (Capital Market) Limited (Guarantor: Sun Hung Kai Properties Limited) priced a USD500mn 10-year bond at T+210bps, tightening from IPT of T+260bps area. Sinopec Group Overseas Development (2018) Limited (Guarantor: China Petrochemical Corporation) priced a USD1bn 5-year bond at T+180bps, a USD1.5bn 10-year bond at T+205bps and a USD500mn 30-year bond at 3.35%, tightening from IPT of T+235bps area, T+255bps area and 3.9% area. Lenovo Group Ltd priced a USD350mn re-tap of its LENOVO 5.875%'25s at 5.64%.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	99.889	-0.20%	USD-SGD	1.4148	-0.41%
USD-JPY	106.280	0.15%	EUR-SGD	1.5328	-0.05%
EUR-USD	1.0834	0.36%	JPY-SGD	1.3306	-0.63%
AUD-USD	0.6495	1.48%	GBP-SGD	1.7490	-0.31%
GBP-USD	1.2362	0.10%	AUD-SGD	0.9189	0.98%
USD-MYR	4.3238	--	NZD-SGD	0.8607	0.77%
USD-CNY	7.0842	-0.29%	CHF-SGD	1.4531	-0.34%
USD-IDR	14995	--	SGD-MYR	3.0467	0.07%
USD-VND	23410	-0.01%	SGD-CNY	4.9963	-0.10%

Equity and Commodity

Index	Value	Net change
DJIA	23,875.89	211.25
S&P	2,881.19	32.77
Nasdaq	8,979.66	125.27
Nikkei 225	19,674.77	55.42
STI	2,591.60	--
KLCI	1,376.93	--
JCI	4,608.79	--
Baltic Dry	534.00	--
VIX	31.44	-2.68

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4690	2.00%	O/N	0.0625	0.48%
2M	-0.3360	0.48%	1M	0.2216	-2.56%
3M	-0.2660	-2.56%	2M	0.3854	-2.80%
6M	-0.1360	-2.80%	3M	0.4476	-2.64%
9M	-0.1940	-2.64%	6M	0.6944	-0.58%
12M	-0.0880	-0.58%	12M	0.7983	-3.30%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	0.45 (--)	0.14 (-0.04)
5Y	0.58 (--)	0.31 (-0.07)
10Y	0.93 (--)	0.64 (-0.06)
15Y	1.12 (--)	--
20Y	1.25 (--)	--
30Y	1.27 (--)	1.33 (-0.06)

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	% Hike/Cut	Implied Rate Change	Implied Rate
10/06/2020	-0.027	-2.7	-0.007	0.044
29/07/2020	-0.075	-4.8	-0.019	0.032
16/09/2020	-0.148	-7.3	-0.037	0.014
05/11/2020	-0.183	-3.5	-0.046	0.005
16/12/2020	-0.292	-10.9	-0.073	-0.022
27/01/2021	-0.295	-0.3	-0.074	-0.023

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	20.60	0.08
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	0.05
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Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	23.55	-1.8%	Corn (per bushel)	3.1600	1.4%
Brent (per barrel)	29.46	-0.9%	Soybean (per bushel)	8.415	1.3%
Heating Oil (per gallon)	0.8371	1.6%	Wheat (per bushel)	5.2900	0.8%
Gasoline (per gallon)	0.9314	6.2%	Crude Palm Oil (MYR/MT)	2,000.0	--
Natural Gas (per MMBtu)	1.8940	-2.6%	Rubber (JPY/KG)	141.0	1.4%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,274	1.5%	Gold (per oz)	1,716.1	1.8%
Nickel (per mt)	12,330	0.2%	Silver (per oz)	15.346	3.3%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Economic Calendar

Date Time		Event		Survey	Actual	Prior	Revised
05/08/2020 07:30	JN	Labor Cash Earnings YoY	Mar	0.10%	0.10%	1.00%	0.70%
05/08/2020 08:30	JN	Jibun Bank Japan PMI Composite	Apr F	--	--	27.8	--
05/08/2020 08:30	JN	Jibun Bank Japan PMI Services	Apr F	--	--	22.8	--
05/08/2020 11:00	ID	Foreign Reserves	Apr	--	--	\$120.97b	--
05/08/2020 12:00	MA	Industrial Production YoY	Mar	-2.50%	--	5.80%	--
05/08/2020 15:30	TH	Foreign Reserves	May-01	--	--	\$232.3b	--
05/08/2020 16:00	TA	Exports YoY	Apr	0.60%	--	-0.60%	--
05/08/2020 20:15	CA	Housing Starts	Apr	105.0k	--	195.2k	--
05/08/2020 20:30	CA	Unemployment Rate	Apr	18.10%	--	7.80%	--
05/08/2020 20:30	US	Change in Nonfarm Payrolls	Apr	-22000k	--	-701k	--
05/08/2020 20:30	US	Unemployment Rate	Apr	16.00%	--	4.40%	--
05/08/2020 20:30	CA	Net Change in Employment	Apr	-4000.0k	--	-1010.7k	--
05/08/2020 20:30	CA	Building Permits MoM	Mar	-20.00%	--	-7.30%	--
05/08/2020 20:30	US	Change in Manufact. Payrolls	Apr	-2500k	--	-18k	--
05/08/2020 22:00	US	Wholesale Inventories MoM	Mar F	-1.00%	--	-1.00%	--

Source: Bloomberg

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