

Daily Treasury Outlook

8 June 2020

Highlights

Global: The worst is over for the US? An upside surprise in Friday's US labour market report, where the unemployment rate dropped from 14.7% to 13.3% in May as the US economy added 2.5 million jobs for the first time since February (versus market expectations of -7.5 million), lent a risk-on mode. That said, the job gains were contributed to a 2.7 million decline in the number of workers on temporary layoffs, led by leisure, hospitality, construction, education and health services, and average hourly earnings plunged by 1.0% after being artificially elevated in March and April, whilst a data misclassification would have put the unemployment rate some 3% points higher. US president Trump also said he will ask Congress for "additional stimulus money" and "we'll be going for a payroll tax cut". The S&P500 rallied 2.62% while VIX dipped to 24.52 on Friday. UST bonds slumped post-NFP with the 10-year yield closing up 7bps to 0.89% after touching 0.96% (highest since 20 March and the market now eyeing the 1% handle), and up 25bps from a week ago. The 3-month LIBOR eased to 0.3129%. Meanwhile, China's trade surplus surged to a record in May as imports slumped 16.7% but exports fell only 3.3% in USD terms. Malaysia will relax restrictions on almost all activities including domestic tourism even as borders remain closed and overseas travel is still restricted.

Market watch: The Asian market may start on a firm trading tone today, following the more upbeat US labour market report. Today's economic data comprises German industrial production, Taiwan's May trade data, and foreign reserves data from S'pore and Indonesia. For the week ahead, the FOMC policy meeting starting on Wednesday with Fed chair Powell's press conference will be closely watched for potential hints that the worst is over for the US economy (even if it omits the quarterly forecasts again) and if the central bank will potentially move towards yield curve control as it transits from emergency to a medium-term strategy to support the economy. The World Bank and the OECD are also due to publish their economic forecast updates. China's PPI and CPI data are also due on 10 June.

US: The employment share of the population remained low at 52.8% compared to a post-WW2 low of 51.3% in April.

EU: US president Trump's plan to pull 9,500 troops from Germany has stunned German Chancellor Merkel.

Singapore: Retail sales plunged 40.5% yoy (-31.7% mom sa) in April with the start of the Circuit Breaker, while motor vehicle sales declined 32.8% yoy with the suspension of COE bidding and the closure of physical car showrooms. Retail sales excluding autos also slumped 32.8% yoy (-26.0% mom sa), with the worst hit segments in discretionary items like watches & jewellery, department stores, and wearing apparel & footwear due to the sharp drop-off in tourists and domestic consumption. Online sales accelerated to 17.8% in April. Retail sales may only gradually start to recover from Phase 2 and contact 9.5% yoy in 2020, which is more than three times the -2.8% seen in 2019.

Key Market Movements		
Equity	Value	% chg
S&P 500	3193.9	2.6%
DJIA	27111	3.2%
Nikkei 225	22864	0.7%
SH Comp	2930.8	0.4%
STI	2751.5	1.6%
Hang Seng	24770	1.7%
KLCI	1556.3	-0.4%
Currencies	Value	% chg
DXY	96.937	0.3%
USDJPY	109.59	0.4%
EURUSD	1.1292	-0.4%
GBPUSD	1.2668	0.6%
USDIDR	13878	-1.5%
USDSGD	1.3935	-0.3%
SGDMYR	3.0631	0.5%
Rates	Value	chg (bp)
3M UST	0.15	0.51
10Y UST	0.90	7.17
1Y SGS	0.27	-0.10
10Y SGS	1.04	8.12
3M LIBOR	0.32	-0.90
3M SIBOR	0.56	0.00
3M SOR	0.18	-1.43
Commodities	Value	% chg
Brent	42.3	5.8%
WTI	39.55	5.7%
Gold	1685	-1.7%
Silver	17.42	-1.7%
Palladium	1952	0.8%
Copper	5690	2.8%
BCOM	64.69	0.5%

Source: Bloomberg

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Major Markets

US: US markets gained on Friday as surprise jobs surge boosts recovery bets. The S&P500 index rose by 2.62%, ending the week with a 4.9% gain in total. The upward movement has put the S&P500 index down just 1.1% for 2020. Short-term we expect bullishness across asset class to continue, supported by ample Fed liquidity and the strong jobs number on Friday.

UK: The UK should prepare for a potential second wave of Covid-19 infections, according to National Health Service officials. PM Johnson had signed off on new measures to be unveiled this week to allow easing of lockdown measures for pubs, restaurants and permit weddings and funerals from early July.

China: Similar to unexpected improvement of US non-farm payroll data, China's May export data was also a big surprise in our view as we observed two divergences. First, there is a diverging trend between China's strong export number and weak regional export numbers such as the double digit contraction in South Korea and Vietnam. Second, there is also a gap between China's strong export number and weak new export index under PMI. The second consecutive growth of exports in RMB term in May was probably due to two factors. First, it was due to higher demand for China's medical resources to fight covid-19 pandemic. As of 31 May, China has exported 70.6 billion masks, 304 million PPEs, 115 million goggles, 96.7K ventilators, 225 million test kits and 40.29 million infrared thermometers. Second, China may also benefit from the diversion demand due to shutdown of global industrial activities in most advanced economies in May.

Taiwan: Taiwanese government is planning a seven-year blueprint to spend more than NTD 10 billion in order to woo the foreign chipmakers to set up R&D facilities in the island. Government may subsidize as much as half of the research and development cost should the investment of chip company fulfill the following two requirements. Firstly, in terms of investment for manufacturing, the investment amount must be above NTD 100 billion with the number of new recruits more than 1000 within the next five years. Secondly, in terms of investment for R&D, investment amount must be more than NTD 10 billion with hiring more than 200 researchers within the next five years. Government expects that it may boost a NTD 40 billion research investment and train up 6350 researchers and operation talents every year.

Singapore: The STI added 1.64% to close up at 2751.50 (highest since 12 March) on Friday and may trade firmer again today amid the market euphoria over the US labour market report. With bond bears out in force on Friday for the UST market amid the NFP-fuelled risk-on mode, SGS bond yields may also test higher today with the upcoming mini-auction of the 30-year SGS bond adding to a steepening bias.

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Indonesia: Rupiah's strength. Bank Indonesia's Governor Perry Warjiyo said that the Rupiah still has potential to strengthen further. The currency surged to 13850 per USD on Friday, the strongest level in more than 3 months. He said that, despite the surge, Rupiah remains undervalued, adding that the easing of lockdown measures in Jakarta should be positive for growth. BI is said to offer new updates on its growth expectation - now at 2.3% baseline - once more data is available.

Malaysia: More stimulus. Malaysia's PM, Muhyiddin Yassin, announced a fourth stimulus package on Friday. Headline number is worth MYR35bn, with MYR10bn direct fiscal spending outlay, offering an extension of various measures such as wage subsidy schemes and digitalisation grants for SMEs. Fiscal deficit is expected to reach 5.8-6.0% of GDP, compared to 4.8-5.0% before. With that, debt-to-GDP ratio is to go up from the current 52% to 55.6%. A parliamentary approval will thus be required since there is a 55% debt-to-GDP ratio cap.

Oil: OPEC+ will maintain its current production cuts of 9.7mbpd by one more month to July. The supply cut beginning July was originally slated for 7.7mbpd, under the deal set in April. Brent for July delivery closed on Friday at \$42.30/bbl – we think it may test \$46/bbl this week, potentially knocking on the doors of price levels not seen since the oil price crash in March. Additionally, the exceptional US jobs data on Friday should add a broad risk-on momentum to asset classes worldwide, which crude oil should benefit from.

Bond Market Updates

Market Commentary: The SGD swap curve bear-steepened last Friday, with the shorter and the belly tenors trading 2-9bps higher while the longer tenors traded 10-12bps higher. The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 5bps to 208bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 17bps to 808bps. The HY-IG Index Spread tightened 12bps to 600bps. Flows in SGD corporates were heavy, with flows in HSBC 5%-PERPs, UBS 5.875%-PERPs, SOCGEN 6.125%-PERPs, OLAMSP 6%'22s, STANLN 5.375%-PERPs, SPHSP 4%-PERPs, BACR 3.75%'30s, FPLSP 4.25%'26s and HSBC 4.7%-PERPs. 10Y UST Yields gained 7bps to 0.9%, driven by a lower than expected May unemployment rate in the U.S. as businesses reopened.

New Issues: Malayan Banking Berhad priced a USD200mn 40NC5 bond at 0%.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	96.937	0.27%	USD-SGD	1.3935	-0.34%
USD-JPY	109.590	0.40%	EUR-SGD	1.5733	-0.76%
EUR-USD	1.1292	-0.41%	JPY-SGD	1.2716	-0.74%
AUD-USD	0.6969	0.39%	GBP-SGD	1.7657	0.25%
GBP-USD	1.2668	0.56%	AUD-SGD	0.9715	0.07%
USD-MYR	4.2668	-0.31%	NZD-SGD	0.9068	0.33%
USD-CNY	7.0835	-0.39%	CHF-SGD	1.4480	-1.06%
USD-IDR	13878	-1.54%	SGD-MYR	3.0631	0.46%
USD-VND	23260	-0.02%	SGD-CNY	5.0900	0.12%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4830	-0.70%	O/N	0.0625	-0.21%
2M	-0.3360	-0.21%	1M	0.1801	0.16%
3M	-0.3530	0.16%	2M	0.2658	1.99%
6M	-0.1960	1.99%	3M	0.3129	-0.90%
9M	-0.1940	-0.90%	6M	0.4813	0.40%
12M	-0.1200	0.40%	12M	0.6340	0.52%

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	% Hike/Cut	Implied Rate Change	Implied Rate
06/10/2020	-0.045	-4.5	-0.011	0.063
07/29/2020	-0.045	0	-0.011	0.063
09/16/2020	-0.055	-1	-0.014	0.06
11/05/2020	-0.089	-3.4	-0.022	0.052
12/16/2020	-0.091	-0.2	-0.023	0.051
01/27/2021	-0.125	-3.4	-0.031	0.043

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	39.55	5.7%	Corn (per bushel)	3.3125	0.7%
Brent (per barrel)	42.30	5.8%	Soybean (per bushel)	8.678	--
Heating Oil (per gallon)	1.1506	7.1%	Wheat (per bushel)	5.1525	-1.6%
Gasoline (per gallon)	1.2136	5.6%	Crude Palm Oil (MYR/MT)	2,405.0	0.4%
Natural Gas (per MMBtu)	1.7820	-2.2%	Rubber (JPY/KG)	133.5	2.9%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,690	2.8%	Gold (per oz)	1,685.1	-1.7%
Nickel (per mt)	12,991	1.7%	Silver (per oz)	17.415	-1.7%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Equity and Commodity

Index	Value	Net change
DJIA	27,110.98	829.16
S&P	3,193.93	81.58
Nasdaq	9,814.08	198.27
Nikkei 225	22,863.73	167.99
STI	2,751.50	44.30
KLCI	1,556.33	-5.51
JCI	4,947.78	31.08
Baltic Dry	679.00	47.00
VIX	24.52	-1.29

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	0.35 (+0.02)	0.21 (+0.01)
5Y	0.60 (+0.06)	0.46 (+0.05)
10Y	1.04 (+0.08)	0.90 (+0.07)
15Y	1.36 (+0.1)	--
20Y	1.42 (+0.09)	--
30Y	1.44 (+0.09)	1.67 (+0.03)

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	11.60	-0.15
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	0.07
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Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
06/08/2020 06:19	PH Overseas Remittances YoY	Mar -0.80%	--	2.50%	--
06/08/2020 06:19	PH Overseas Workers Remittances	Mar \$2255m	--	\$2358m	--
06/08/2020 06:19	PH Foreign Reserves	Apr --	--	\$89.0b	\$88.9b
06/08/2020 07:50	JN GDP SA QoQ	1Q F -0.50%	-0.60%	-0.90%	--
06/08/2020 07:50	JN GDP Annualized SA QoQ	1Q F -2.10%	-2.20%	-3.40%	--
06/08/2020 07:50	JN BoP Current Account Balance	Apr ¥377.2b	¥262.7b	¥1971.0b	--
06/08/2020 07:50	JN GDP Deflator YoY	1Q F 0.90%	0.90%	0.90%	--
06/08/2020 07:50	JN Trade Balance BoP Basis	Apr -¥965.6b	-¥966.5b	¥103.1b	--
06/08/2020 07:50	JN GDP Nominal SA QoQ	1Q F -0.40%	-0.50%	-0.80%	--
06/08/2020 07:50	JN BoP Current Account Adjusted	Apr ¥331.6b	¥252.4b	¥942.3b	--
06/08/2020 11:00	ID Foreign Reserves	May --	--	\$127.88b	--
06/08/2020 14:00	GE Industrial Production SA MoM	Apr -16.50%	--	-9.20%	--
06/08/2020 14:00	GE Industrial Production WDA YoY	Apr -24.80%	--	-11.60%	--
06/08/2020 17:00	SI Foreign Reserves	May --	--	\$301.77b	--
06/08/2020 20:15	CA Housing Starts	May 160.0k	--	171.3k	--

Source: Bloomberg

Treasury Research & Strategy

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