

Daily Treasury Outlook

8 July 2020

Highlights

Global: Risk retreat? The S&P500 broke a 5-day winning streak and retreated 1.08%, led by airlines, while VIX rose to 29.43. Fed's Bostic warned that business leaders and consumers are getting worried about the second Covid-19 wave as there is a "real sense that this might go on longer than we had hoped". Fed's Mester suggested "if we don't get further fiscal support things won't come back as well as they could", whereas Clarida also opined that "there is more that we can do" if we need to, whether in terms of forward guidance or balance sheet. The UST bonds bull-flattened with the 10-year bond yield down to 0.65%. The \$46b of 3-year notes fetched a record low yield of 1.39%. The 3-month LIBOR fell to a fresh 5-year low of 0.2684% amid likely unwinding of quarter-end funding pressures. Elsewhere, RBA kept its policy rate static at 0.25% as widely anticipated, while affirming its bond buying program, albeit it warned that the outlook remains "highly uncertain" and accommodative policies will be maintained for as long as required. Meanwhile, BNM cut 25bps to 1.75%.

Market watch: Asian markets are likely to extend declines today amid soft overnight cues from Wall Street and more US' sabre-rattling on potential undermining of the Hong Kong dollar peg to the USD. The economic data calendar is relatively light with only Japan's Eco Watchers survey and US' MBA mortgage applications. Fed's Bostic and ECB's Luis de Guindos are speaking.

US: The White House wants Congress to pass another stimulus package by the first week of August before the summer recess. Meanwhile, US has formally withdrawn from the World Health Organisation. The JOLTS job openings unexpectedly rose from a revised 4.996m in April to 5.397m in May, mostly in accommodation and food services, retail, and construction.

UK: BOE chief economist Haldane warned that Covid-19 has been "dramatic, traumatic" for the UK economy and "there is a huge amount of uncertainty about what paths the economy might take from here".

SG: Singapore is not necessarily seeing a second wave of Covid-19 infections at this point as the increased community cases reflects increased social interactivity, according to the Health Ministry's Director of Medical Services.

Oil: oil was little changed, with Brent declining 0.05%. Saudi Aramco raised its Arab Light crude spread to the Oman/Dubai average by a dollar on Tuesday morning, which has continued to support prices despite increasingly bearish fundamentals.

Key Market Movements

Equity	Value	% chg
S&P 500	3145.3	-1.1%
DJIA	25890	-1.5%
Nikkei 225	22615	-0.4%
SH Comp	3345.3	0.4%
STI	2661.4	-1.0%
Hang Seng	25976	-1.4%
KLCI	1566.7	-0.6%
Currencies	Value	% chg
DXY	96.881	0.2%
USDJPY	107.52	0.2%
EURUSD	1.1274	-0.3%
GBPUSD	1.2542	0.4%
USDIDR	14440	-0.3%
USDSGD	1.3951	0.2%
SGDMYR	3.0635	-0.4%
Rates	Value	chg (bp)
3M UST	0.14	0.29
10Y UST	0.64	-3.62
1Y SGS	0.27	0.10
10Y SGS	0.88	-0.69
3M LIBOR	0.28	0.06
3M SIBOR	0.55	0.12
3M SOR	0.18	-2.26
Commodities	Value	% chg
Brent	43.08	0.0%
WTI	40.62	0.0%
Gold	1795	0.6%
Silver	18.27	0.0%
Palladium	1931	-0.2%
Copper	6188	1.0%
BCOM	66.54	0.5%

Source: Bloomberg

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Major Markets

US: The S&P500 Index closed 1.1% lower, breaking its 5-day streak amid growing pandemic concerns. We expect the market to remain volatile as investors eye developments on Covid-19 and await more details regarding fiscal and monetary support. Lockdown measures have tightened with NJ, NY and Delaware added to the quarantine list.

HK: It is reported that some top advisers proposed to US President Trump to undermine the HK's linked exchange rate system. This will be unfavourable to both HK and the US as HK is the third largest US dollar trading center in the world while the peg system provides solid ground for HK's flourish financial system. As such, we think the possibility of Trump administration taking such a move is low at this moment. Elsewhere, there are signs of a third wave of Covid-19 infection in Hong Kong which may prompt the government to tighten the containment measures and in turn pose renewed downward pressure on local consumption as well as the economy.

Taiwan: CPI grew by 0.79% yoy in June, better than expected. The rising inflation was attributed to three reasons. Firstly, as global oil prices rebounded, price growth of fuels and lubricants rose by 15.62% yoy. Secondly, utility inflation picked up by 13.31% yoy, amid the summer electricity rates. Thirdly, food inflation edged up due to heavy rains in May leading to higher price of vegetables. Moving forward, we expect that inflation continue to grow moderately, as "Triple Stimulus Voucher" and promotion of domestic tourism may help to boost consumption. Nevertheless, given the uncertain economic outlook and labour market, it is unlikely to see sharp price adjustments in the near term. Exports and imports declined by 3.8% yoy and 8.6% yoy respectively in June, worse than expected. The sluggish trade performance was mainly attributed to strong TWD, fragile recovery of global economy and the concerns over second wave outbreak of Covid-19. By commodity, the trade performance of high-tech products remained resilient, with the exports of parts of electronic product, information, communication, and audio-video products growing by 23.9% yoy and 13.8% yoy respectively. Nevertheless, it has been offset by the decline in traditional commodity trading. By country, exports to Mainland China and US grew by 13.8% yoy and 3.7% yoy respectively. Nevertheless, exports to ASEAN, Japan and Europe remained weak, dropping by 12.1% yoy, 11.2% yoy and 18.2% yoy respectively. Moving forward, stronger TWD and fragile global recovery may continue to weigh on the trade performance of Taiwan in the coming months. As the exports dropped for the fourth consecutive month, which might be affected by stronger TWD, it may provide more rationales for CBC to suppress the trend of appreciation of TWD. If this is the case, the further upside of TWD should be limited.

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Singapore: The STI fell again by 1.05% to close at 2661.42 yesterday and may slide further today amid negative overnight cues by Wall Street, especially ahead of polling day tomorrow. SGS bonds should be better bid today amid the slight risk-off tone prevailing today.

Malaysia: Bank Negara decided to cut its Overnight Policy Rate by 25bps to a historically low level of 1.75% yesterday. While BNM appears to be heartened by the recovery in economic activities since early May, it repeatedly highlights the continued spectre of downside risks, the risk of a pandemic resurgence that might bring about the reintroduction of containment measures. Given the resolute dovishness and newly uncertain outlook in H2 due to virus resurgence fears, the bar for another cut later this year has gotten lower than before. 1.75% may not be historic low for long, since September may invite another cut, especially if global conditions suffer a relapse.

Indonesia: Indonesian assets saw a good day, with gains in both Rupiah and bonds yesterday. Details about debt monetisation plan that were released the day before proved to be less radical than feared and helped to anchor sentiment. The lower supply of bonds to market, now that BI is slated to finance the bulk of the fiscal deficit, was also taken as a positive sign by the market. For the period ahead, any renewed risk-off sentiment globally will be the key thing to watch.

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Bond Market Updates

Market Commentary: The SGD swap curve fell yesterday, with all tenors trading 2-3bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS remained mostly unchanged at 200bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 7bps to 745bps. The HY-IG Index Spread tightened 7bps to 545bps. Flows in SGD corporates were heavy, with flows in SINTEC 4.1%-PERPs, CS 5.375%-PERPs, HSBC 5%-PERPs, HSBC 4.7%-PERPs, FPLSP 4.98%-PERPs, METRO 4.3%'24s and STANLN 5.375%-PERPs. 10Y UST Yields fell 4bps to 0.64% as the US struggled to balance worsening the COVID-19 situation with the need of economic reopening.

New Issues: TCL Technology Investments Limited priced a USD300mn 5-year bond at T+157.5bps, tightening from IPT of T+215bps area. Bocom Leasing Management Hong Kong Company Limited priced a USD350mn 3-year bond at T+165bps, tightening from IPT of T+200bps area and another USD450mn 5-year FRN at 3m-US LIBOR+170bps, tightening from IPT of 3m-US LIBOR+210bps area. Royal Capital BV (Guarantor: International Container Terminal Services Inc.) priced a USD300mn Perp-NC 2026 bond at 5.2%, tightening from IPT of 5.625% area. Metropolitan Bank & Trust Company priced a USD500mn 5.5-year bond at T+200bps, tightening from IPT of T5+235bps area. Greentown China Holdings Ltd. priced a USD300mn 5NC3Y bond at 5.65%, tightening from IPT of 6.20% area. ABC International Holdings Ltd. has mandated banks for possible USD bond offering

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX1	96.881	0.16%	USD-SGD	1.3951	0.22%
USD-JPY	107.520	0.16%	EUR-SGD	1.5728	-0.10%
EUR-USD	1.127	-0.31%	JPY-SGD	1.2976	0.10%
AUD-USD	0.695	-0.37%	GBP-SGD	1.7498	0.62%
GBP-USD	1.254	0.40%	AUD-SGD	0.9692	-0.16%
USD-MYR	4.276	-0.05%	NZD-SGD	0.9133	0.09%
USD-CNY	7.019	-0.68%	CHF-SGD	1.4804	0.20%
USD-IDR	14490	-0.23%	SGD-MYR	3.0635	-0.39%
USD-VND	23193	-0.03%	SGD-CNY	5.0417	-0.52%

Equity and Commodity

Index	Value	Net change
DJIA	25,890.18	25890.18
S&P	3,145.32	3145.32
Nasdaq	10,343.89	10343.89
Nikkei 225	22,614.69	-99.75
STI	2,661.42	8.48
KLCI	1,566.72	14.07
JCI	4,987.08	13.29
Baltic Dry	1,956.00	1956.00
VIX	29.43	29.43

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.5020	-0.51%	O/N	0.0829	0.08%
2M	-0.3360	-0.34%	1M	0.1626	0.16%
3M	-0.4350	-0.43%	2M	0.2338	0.23%
6M	-0.3140	-0.30%	3M	0.2759	0.30%
9M	-0.1950	-0.20%	6M	0.3663	0.37%
12M	-0.2380	-0.24%	12M	0.5056	0.54%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	0.24 (-0.02)	0.16(--)
5Y	0.51 (-0.01)	0.29 (+0.02)
10Y	0.88 (-0.01)	0.64 (+0.04)
15Y	1.19 (-0.02)	--
20Y	1.25 (-0.02)	--
30Y	1.25 (-0.01)	1.37 (+0.06)

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	% Hike/Cut	Implied Rate Change	Implied Rate
07/29/2020	-0.059	-5.9	-0.015	0.072
09/16/2020	-0.12	-6.1	-0.03	0.057
11/05/2020	-0.163	-4.3	-0.041	0.047
12/16/2020	-0.216	-5.3	-0.054	0.033
01/27/2021	-0.259	-4.3	-0.065	0.023

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	3.58	0.00
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	0.10
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Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	40.62	-0.15%	Corn (per bushel)	3.465	-0.4%
Brent (per barrel)	43.08	-0.19%	Soybean (per bushel)	8.985	-0.4%
Heating Oil (per gallon)	124.33	-0.35%	Wheat (per bushel)	4.895	0.6%
Gasoline (per gallon)	127.50	0.01%	Crude Palm Oil (MYR/MT)	2445.0	-0.9%
Natural Gas (per MMBtu)	1.88	-0.32%	Rubber (JPY/KG)	142.0	-0.2%

Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	6128.50	0.97%	Gold (per oz)	1794.9	0.0%
Nickel (per mt)	13336.00	1.00%	Silver (per oz)	18.3	0.1%

Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
07/07/2020 07:17	PH Overseas Remittances YoY	Apr -9.60%	--	-4.7%	--
07/07/2020 07:17	PH Overseas Workers Remittances	Apr \$2243m	--	\$2397m	--
07/07/2020 07:17	PH Foreign Reserves	Jun --	--	\$93.3b	--
07/07/2020 07:17	PH Bank Lending YoY	May --	10.3%	10.9%	--
07/07/2020 07:17	PH Bank Lending Net of RRP's YoY	May --	11.3%	12.7%	--
07/07/2020 07:17	PH Money Supply M3 SRF YoY	May --	16.6%	16.2%	--
07/08/2020 01:00	NZ QV House Prices YoY	Jun --	7.4%	7.7%	--
07/08/2020 07:50	JN BoP Current Account Balance	May ¥1083.6b	¥1176.8b	¥262.7b	--
07/08/2020 07:50	JN Trade Balance BoP Basis	May -¥639.0b	-¥556.8b	-¥966.5b	--
07/08/2020 07:50	JN BoP Current Account Adjusted	May ¥716.8b	¥821.1b	¥252.4b	--
07/08/2020 07:50	JN Bank Lending Incl Trusts YoY	Jun --	6.2%	4.8%	--
07/08/2020 07:50	JN Bank Lending Ex-Trusts YoY	Jun --	6.5%	5.1%	--
07/08/2020 12:30	JN Bankruptcies YoY	Jun --	--	-54.8%	--
07/08/2020 13:00	JN Eco Watchers Survey Current SA	Jun 24.30	--	15.50	--
07/08/2020 19:00	US MBA Mortgage Applications	Jul - 3	--	-1.8%	--

Source: Bloomberg

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