

Daily Treasury Outlook

9 June 2020

Highlights

Global: The irony of the US being in an official recession, but the S&P500 wiping out its 2020 losses! Global risk momentum remained largely intact overnight as Nasdaq hit a record and the S&P500 erased 2020 losses on recovery hopes even as the World Bank warned of the worst recession since WW2, Saudi Arabia said it would not sustain additional output curbs after June, and North Korea said it will shut down communications with South Korea. The Fed expanded its Main Street Lending Program which will be open to eligible lenders soon with lower minimum loan and extending the principle payment deferral, ahead of its policy decision later tonight. The S&P500 extended gains by 1.20% while VIX rose to 25.81. UST bonds gained with the 10-year yield at 0.87% ahead of FOMC. The 3-month LIBOR eased to 0.3098% and the Treasury sold \$63b of 3-month bills at 0.17% and \$54b of 6-month bills at 0.185%.

Market watch: Asian markets may tread water today while awaiting the FOMC meeting and Fed chair Powell's press conference. The Fed is not expected to shift its policy settings today but commit to the zero-interest rate for longer and potentially hint at some yield curve control options but continue to draw the line against negative interest rates for now. If Fed chair Powell also assesses that the worst being past for the US economy, this may give additional impetus to the bond bears, but he will more likely to stick to being cautious at this juncture. Today's economic data comprises Australia's NAB business confidence, German trade data for April and 1Q20 labor costs, Japan's preliminary May machine tool orders, Eurozone's final 1Q20 GDP growth, and US' NFIB small business optimism, JOLTS job openings and wholesale inventories. ECB's Schnabel and Luis de Guindos are speaking.

US: The NBER said that the US economy peaked in February 2020 and the unprecedented magnitude of the decline in employment and production warrants the current downturn as a recession, even if it turns out to be briefer than earlier contractions. Meanwhile, Joe Biden accused Trump of squandering the economic expansion from the Obama-Biden administration.

EU: German industrial production fell more than expected by 25.3% yoy (-17.9% mom sa) in April, worse than the revised contraction of -11.3 yoy (-8.9% mom sa) in March. Meanwhile, the Eurozone's Sentix investor confidence index improved from -41.8 in May to -24.8% in June, with the expectations gauge for six months ahead leading the way at 21.8 (previously -3) whereas the current situation gauge remained depressed at -61.5 (previously -73). ECB chief Lagarde said the central bank will "provide any support and assistance" to help solve the German court crisis.

UK: UK and Japan have begun post-Brexit trade talks.

Singapore: Sembcorp Marine plans a \$2.1b rights issue.

Key Market Movements

Equity	Value	% chg
S&P 500	3232.4	1.2%
DJIA	27572	1.7%
Nikkei 225	23178	1.4%
SH Comp	2937.8	0.2%
STI	2797.0	1.7%
Hang Seng	24777	0.0%
KLCI	1556.3	0.0%
Currencies	Value	% chg
DXY	96.618	-0.3%
USDJPY	108.43	-1.1%
EURUSD	1.1294	0.0%
GBPUSD	1.2724	0.4%
USDIDR	13885	0.1%
USDSGD	1.3879	-0.4%
SGDMYR	3.0675	0.1%
Rates	Value	chg (bp)
3M UST	0.16	1.01
10Y UST	0.88	-1.99
1Y SGS	0.27	0.00
10Y SGS	1.06	2.42
3M LIBOR	0.31	-0.48
3M SIBOR	0.56	-0.31
3M SOR	0.18	-0.17
Commodities	Value	% chg
Brent	40.8	-3.5%
WTI	38.19	-3.4%
Gold	1699	0.8%
Silver	17.77	2.1%
Palladium	2009	2.9%
Copper	5700	0.2%
BCOM	64.64	-0.1%

Source: Bloomberg

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Major Markets

US: The S&P500 index rose by 1.2%, wiping out 2020 loss. Energy shares drove the rally. The upward movement continues to be backed by the optimism from the reopening of the US economy, improving economic releases and the liquidity provided by the Fed.

China: Although PBoC did not rollover the maturing CNY500 billion medium term lending facility (MLF) on Monday, it said in the statement that the central bank will conduct the MLF on 15 June. The preview was considered as a good move to enhance the communication with markets and also gives market hope that the PBoC may lower the MLF rate further ahead of LPR fixing on 20 June. As a result, China's bond prices rebounded after massive sell-off last week.

TW: Taiwan's May exports fell less than expected by 2.0% yoy (April: -1.3%) amid increased electronics demand globally, while imports shrank at a faster pace of 3.5% yoy (April: -41.8%) as oil prices plunged. Taiwan's exports to HK & China grew by double-digits for the second month by 10.3% yoy in May.

Singapore: The STI added 1.65% to close up at 2796.97 (highest since 11 March) yesterday, but may flirt with the 2800 handle today while awaiting further cues from the FOMC. With the UST bonds trading mixed and the yield curve flattening overnight following a solid 3-year auction, SGS bond yields may also range trade ahead of FOMC. MAS is also selling \$7.8b of 84-day bills.

Indonesia: Indonesia saw an increase in its foreign reserves, from April's USD127.9bn to 130.5bn in May. BI said the reserves are equivalent to 8.3 months of imports or 8 months of imports plus government's external debt payment. Rupiah saw some profit taking yesterday, after a good run which saw USDIDR crossing below 14000 level for the first time in 3 months.

Malaysia: Malaysia reported a slight uptick in its foreign reserves on Friday. As of end-May, reserves were at USD102.9bn, compared to 102.6bn two weeks before. According to BNM, this is sufficient to finance 8.1 months of retained imports and is 1.1 times of short-term external debt. Together with the broad USD weakness overnight, this should help to bolster sentiment towards Malaysian assets today.

Thailand: Thailand may lift its ban on incoming passenger flights by the end of June and is meeting with local airlines in the next week to find out if they are ready to resume international services. Deputy PM Wissanu Krea-ngam said the current Covid-19 situation is acceptable and the government may ease restrictions in Phase 4, including the reopening of schools on 1 July.

Oil: Saudi Arabia and its Gulf allies – Kuwait and UAE – will end its voluntary production cuts of an additional 1.18mbpd in July. OPEC+ had earlier announced the extension of the current supply cuts of 9.7mbpd to end-July,

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but Saudi and its two allies had cut an additional 1.2mbpd in June. This means that in June, the total supply cuts are almost 11mbpd, which had helped to bolster the current oil bull run. Saudi Aramco had, over the weekend, increased its July prices of crude oil to all destinations, a move that it hopes would help to discourage inventory stockpiling globally.

Bond Market Updates

Market Commentary: The SGD swap curve steepened yesterday, with the shorter tenors trading 0-1bps lower (with the exception of the 3-year trading around 1bp higher) while the belly and the longer tenors traded 2-3bps higher. The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 4bps to 204bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 30bps to 778bps. The HY-IG Index Spread tightened 26bps to 574bps. Flows in SGD corporates were heavy, with flows in CS 5.625%-PERPs, UBS 4.85%-PERPs, SOCGEN 6.125%-PERPs, UOBSP 3.58%-PERPs, STANLN 5.375%-PERPs, ABNANV 4.75%'26s, KITSP 4.75%-PERPs, ICICI 5.375%'28s and UBS 5.875%-PERPs. 10Y UST Yields fell 2bps to 0.88%, with no specific catalyst while the Fed sold USD44bn of 3-year notes with a higher than average bid-to-cover ratio of 2.55 times.

New Issues: Korea Electric Power Corporation priced a USD500mn 5-year green bond at T+75bps, tightening from IPT of T+120bps area. Central China Real Estate Limited priced a USD400mn 3.2NC2.2 bond at 7.8%, tightening from IPT of 8.35% area. Greenland Global Investment Ltd (Guarantor: Greenland Holding Group Co. Ltd) priced a USD500mn 2.5NP1.5 bond at 6.45%, tightening from IPT of 7% area. Champion MTN Ltd. (Guarantor: Champion Real Estate Investment Trust) priced a USD300mn 10-year bond at T+220bps, tightening from IPT of T+260bps area

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	96.618	-0.33%	USD-SGD	1.3879	-0.40%
USD-JPY	108.430	-1.06%	EUR-SGD	1.5676	-0.36%
EUR-USD	1.1294	0.02%	JPY-SGD	1.2800	0.66%
AUD-USD	0.7021	0.75%	GBP-SGD	1.7659	0.01%
GBP-USD	1.2724	0.44%	AUD-SGD	0.9745	0.31%
USD-MYR	4.2668	--	NZD-SGD	0.9105	0.41%
USD-CNY	7.0716	-0.17%	CHF-SGD	1.4494	0.10%
USD-IDR	13885	0.05%	SGD-MYR	3.0675	0.14%
USD-VND	23241	-0.08%	SGD-CNY	5.0901	0.00%

Equity and Commodity

Index	Value	Net change
DJIA	27,572.44	461.46
S&P	3,232.39	38.46
Nasdaq	9,924.75	110.66
Nikkei 225	23,178.10	314.37
STI	2,796.97	45.47
KLCI	1,556.33	--
JCI	5,070.56	122.78
Baltic Dry	679.00	--
VIX	25.81	1.29

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4830	-0.80%	O/N	0.0625	0.28%
2M	-0.3360	0.28%	1M	0.1801	0.49%
3M	-0.3530	0.49%	2M	0.2658	0.61%
6M	-0.1960	0.61%	3M	0.3129	-0.48%
9M	-0.1940	-0.48%	6M	0.4813	0.08%
12M	-0.1200	0.08%	12M	0.6340	0.62%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	0.36 (+0.01)	0.23 (+0.02)
5Y	0.60 (+0.01)	0.45 (-0.02)
10Y	1.06 (+0.02)	0.88 (-0.02)
15Y	1.38 (+0.03)	--
20Y	1.44 (+0.02)	--
30Y	1.48 (+0.04)	1.64 (-0.02)

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	% Hike/Cut	Implied Rate Change	Implied Rate
06/10/2020	0.019	1.9	0.005	0.078
07/29/2020	-0.002	-2.1	-0.001	0.072
09/16/2020	-0.054	-5.1	-0.013	0.06
11/05/2020	-0.086	-3.3	-0.022	0.052
12/16/2020	-0.089	-0.2	-0.022	0.051
01/27/2021	-0.122	-3.4	-0.031	0.043

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	11.70	0.10
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	0.07
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Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	38.19	-3.4%	Corn (per bushel)	3.3375	0.8%
Brent (per barrel)	40.80	-3.5%	Soybean (per bushel)	8.648	-0.3%
Heating Oil (per gallon)	1.1213	-2.5%	Wheat (per bushel)	5.1150	-0.7%
Gasoline (per gallon)	1.1950	-1.5%	Crude Palm Oil (MYR/MT)	2,405.0	--
Natural Gas (per MMBtu)	1.7890	0.4%	Rubber (JPY/KG)	136.6	2.3%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,700	0.2%	Gold (per oz)	1,698.5	0.8%
Nickel (per mt)	13,064	0.6%	Silver (per oz)	17.774	2.1%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

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
06/09/2020 07:30	JN Labor Cash Earnings YoY	Apr -1.00%	-0.60%	0.10%	--
06/09/2020 07:50	JN Money Stock M2 YoY	May 4.00%	5.10%	3.70%	--
06/09/2020 07:50	JN Money Stock M3 YoY	May 3.10%	4.10%	3.00%	--
06/09/2020 09:00	NZ ANZ Business Confidence	Jun P --	--	-41.8	--
06/09/2020 09:30	AU NAB Business Confidence	May --	--	-46	--
06/09/2020 09:30	AU NAB Business Conditions	May --	--	-34	--
06/09/2020 14:00	GE Trade Balance	Apr 11.6b	--	17.4b	--
06/09/2020 14:00	GE Exports SA MoM	Apr -15.60%	--	-11.80%	-11.70%
06/09/2020 14:00	GE Current Account Balance	Apr 14.1b	--	24.4b	--
06/09/2020 14:00	GE Imports SA MoM	Apr -16.00%	--	-5.10%	-5.00%
06/09/2020 18:00	US NFIB Small Business Optimism	May 92.5	--	90.9	--

Source: Bloomberg

Treasury Research & Strategy

Macro Research

Selena Ling*Head of Research & Strategy*LingSSSelena@ocbc.com**Tommy Xie Dongming***Head of Greater China Research*XieD@ocbc.com**Wellian Wiranto***Malaysia & Indonesia*WellianWiranto@ocbc.com**Terence Wu***FX Strategist*TerenceWu@ocbc.com**Howie Lee***Thailand & Commodities*HowieLee@ocbc.com**Carie Li***Hong Kong & Macau*carierli@ocbcwh.com**Dick Yu***Hong Kong & Macau*dicksnyu@ocbcwh.com

Credit Research

Andrew Wong*Credit Research Analyst*WongVKAM@ocbc.com**Ezien Hoo***Credit Research Analyst*EzienHoo@ocbc.com**Wong Hong Wei***Credit Research Analyst*WongHongWei@ocbc.com**Seow Zhi Qi***Credit Research Analyst*ZhiQiSeow@ocbc.com

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