

## Daily Treasury Outlook

11 May 2020

### Highlights

**Global:** US nonfarm payrolls plunged by 20.5m in April, 10 times worse than the previous record in 1945, whilst the unemployment rate spiked to 14.7%. However, this was not as bad as initially feared, with US president Trump opining “we’re in no rush” for Congress to pass more stimulus measures, hence Wall Street actually gained on Friday as investors looked ahead to upcoming US-China trade talks due this week. S&P500 added 1.69% on Friday, while VIX fell 11% to 27.98 (lowest since 26 February), and UST bonds bear-steepened with the 10-year yield at 0.68%. That said, the April NFP is probably not the trough yet as nearly 11 million people were working part time because they could not find full-time work, and if the number of those classified as employed but absent from work were included, the unemployment rate would have been closer to 20%. In Asia, China’s quarterly monetary report pledged a “more powerful” policy response, while Malaysia will extend its lockdown by four weeks to 9 June but allow for limited interstate travel for families for Eid al-Fitr celebration, and South Korea may be seeing a potential second wave of infections.

**Market watch:** Asian markets may trade with a mixed tone this morning. Today’s economic data release is very light with only Indonesia’s 1Q20 current account balance and Italy’s March industrial production data due. For the week ahead, watch for Fed speakers (eg. Bullard, Kashkari, Harker, Quarles, Mester, but the key one is Powell on 13 May where he may downplay negative Fed Fund rate intentions), RBNZ policy decision on 13 May (with OCR to stay at 0.25%?) and Malaysia’s 1Q20 GDP growth (market consensus forecast is for a 2.5% yoy, but any downside surprise will reinforce speculation of more rate cuts after BNM’s 50bps cut last week, especially with potential elevated political uncertainties ahead of the 18 May Parliament sitting), Bank of Canada’s Financial System review on 14 May and China’s data dump including CPI/PPI, industrial production and retail sales. Earnings are also due from Tencent and Petrobras.

**US:** Fed’s Kashkari warned that “the worst is yet to come on the job front, unfortunately” and “it’s really around 23, 24% of people who are out of work today”, hence “I think Congress is going to need to continue to give assistance to workers who’ve lost their jobs”. Meanwhile, the Fed eased its Treasury buying from \$8b to \$7b a day for this week and New York governor Cuomo will release details on state re-opening today.

**EU:** France may ease its lockdown earlier than expected. Meanwhile European Commission president Ursula von der Leyen said the EU executive arm will consider possible next steps after the German constitutional court’s 5 May ruling on ECB’s QE program may be unconstitutional.

**UK:** PM Boris Johnson emphasized that there would be no immediate end to the lockdown despite initial steps to kickstart the economy.

**Singapore:** 8,663 business entities ceased business in April, more than twice the number in March amid the Covid-19 outbreak.

### Key Market Movements

| Equity      | Value  | % chg    |
|-------------|--------|----------|
| S&P 500     | 2929.8 | 1.7%     |
| DJIA        | 24331  | 1.9%     |
| Nikkei 225  | 20179  | 2.6%     |
| SH Comp     | 2895.3 | 0.8%     |
| STI         | 2591.9 | 0.0%     |
| Hang Seng   | 24230  | 1.0%     |
| KLCI        | 1382.3 | 0.4%     |
| Currencies  | Value  | % chg    |
| DX          | 99.734 | -0.2%    |
| USDJPY      | 106.65 | 0.3%     |
| EURUSD      | 1.0839 | 0.0%     |
| GBPUSD      | 1.2410 | 0.4%     |
| USIDR       | 14920  | -0.5%    |
| USDSGD      | 1.4129 | -0.1%    |
| SGDMYR      | 3.0671 | 0.7%     |
| Rates       | Value  | chg (bp) |
| 3M UST      | 0.09   | 1.02     |
| 10Y UST     | 0.68   | 4.22     |
| 1Y SGS      | 0.43   | -1.00    |
| 10Y SGS     | 0.89   | -4.59    |
| 3M LIBOR    | 0.43   | -1.30    |
| 3M SIBOR    | 0.69   | 0.00     |
| 3M SOR      | 0.29   | 0.00     |
| Commodities | Value  | % chg    |
| Brent       | 30.97  | 5.1%     |
| WTI         | 24.74  | 5.1%     |
| Gold        | 1703   | -0.8%    |
| Silver      | 15.48  | 0.9%     |
| Palladium   | 1892   | 1.5%     |
| Copper      | 5274   | 0.0%     |
| BCOM        | 62.32  | 0.5%     |

Source: Bloomberg

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**Major Markets**

**US:** US markets rose on Friday as investors' optimism amid the prospects of an impending reopening of the global economy led stocks higher. The S&P500 index gained 1.69%. Looking ahead, watch out for any hints of a second wave of infections in countries that have eased lockdown restrictions, which would dent risk sentiment.

**China:** PBoC said it will strengthen the counter cyclical measures to support growth. Meanwhile, PBoC reiterated that M2 growth or aggregate social financing growth should match China's nominal GDP growth though PBoC added that it will allow M2 growth to be above nominal GDP growth, signalling China is ready for more easing. On housing policy, PBoC departed from previous tone that housing policy can be tailored to "one city one policy". Instead, the central bank highlighted the importance of policy continuation, consistency and stability, a more hawkish tone. This hints that China is unlikely to take "whatever it takes" approach due to constraints from China's property market.

**Taiwan:** Taiwan's exports dropped by 1.3% yoy while imports grew by 0.5 yoy in April. The sluggish exports were mainly attributed to weaker demand due to global lockdown measures and oil market crash in April. Specifically, exports to Euro Area plummeted by 20.1% yoy amid more restrictive lockdown measures imposed in April, causing the closure of economic activities. On the positive notes, the exports to China edged up sharply by 14% yoy amid production resumption while exports to Japan grew by 17.5% yoy, probably due to rising demand for chips of game machine driven by global lockdown measures. By commodity, the exports of parts of electronic product (24.3% yoy), information, communication and audio-video products (12.9% yoy) remained robust. It helped to offset the decline in total exports partly.

Moving forward, we expect that the exports of Taiwan might continue to be under pressure in the coming months due to three factors including the return of trade tension between US and China, weak demand as a result of slow resumption of global production and economic activities and concerns over global economic slowdown.

**Singapore:** The STI ended nearly flat at 0.01% to close at 2591.88 on Friday. With the UST bond market bear-steepening as the supply of IG issuance picked up, longer-dated SGS bond may also come under pressure today. The 3-month SOR and SIBOR stabilized around 0.28565% and 0.69875 respectively.

**Indonesia:** The Indonesian government is considering a 5-step reopening plan to limit the economic damage caused by the covid-19 outbreak. Under the plan, some industries including B2B services and healthcare manufacturing sector will be reopening on June 1st, followed by daily and wet markets a week after. Spas and salons are slated to reopen on June 15, together with schools in shifts. Some flights, cafes and bars may be allowed to reopen from July 6th. A full resumption of all economic activities are said to be possible by July 20-27.

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**Malaysia:** Former PM Mahathir Mohamad and former PM-in-waiting Anwar Ibrahim issued a joint statement yesterday stating that they do not recognise the government led by PM Muhyiddin Yassin, heralding another potential uptick in political uncertainties. The statement claims that the government does not have the mandate of the people, and called for the mandate to govern to be returned to the “right party”. It was issued on the 2nd anniversary of the election which saw the Pakatan Harapan coalition led by the two rise to power.

**Thailand:** Big redemptions of Thai bonds will be more difficult to redeem, under new rules set by the Securities & Exchange Commission. Investors will have to inform bond funds of their intention to redeem sizeable bond holdings days in advance. This is to prevent the same kind of massive withdrawals witnessed during March, which led to the Bank of Thailand acting as a backstop to stabilise the bond market. Details are still in the works.

**Oil:** Crude oil posted a second consecutive week of gains, with Brent rising 17.1% and WTI adding 25.1%. WTI closed last week at \$24.74/bbl, another 1.2% away from returning to levels seen before the collapse of the May futures into negative price territory. We think oil prices may find support from here as economies gradually reopen and supply from both within and beyond OPEC+ gets increasingly tighter.

**Bond Market Updates**

**Market Commentary:** The SGD swap curve bull-flattened last Friday, with the shorter and the belly tenors trading 5-8bps lower while the longer tenors traded around 8bps lower (with the exception of the 20-year trading around 1bp higher). The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 2bps to 255bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 11bps to 991bps. The HY-IG Index Spread tightened 9bps to 736bps. Flows in SGD corporates were heavy, with flows in HSBC 4.7%-PERPs, FPLSP 4.98%-PERPs, LBBW 3.75%'27s, BAERVX 5.75%-PERPs, CMZB 4.875%'27s, SIASP 3.13%'27s, SOCGEN 6.125%-PERPs and HRINTH 3.8%'25s. 10Y UST Yields gained 4bps to 0.69%, mainly due to optimism that various economies are easing lockdown measures. The drop in U.S. payrolls of 20.5mn in April were better than median market expectations.

**New Issues:** Tuan Sing Holdings Ltd has arranged investor calls commencing 11 May for a possible SGD bond offering.

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### Foreign Exchange

|                | Day Close | % Change |                | Day Close | % Change |
|----------------|-----------|----------|----------------|-----------|----------|
| <b>DX</b>      | 99.734    | -0.16%   | <b>USD-SGD</b> | 1.4129    | -0.13%   |
| <b>USD-JPY</b> | 106.650   | 0.35%    | <b>EUR-SGD</b> | 1.5316    | -0.08%   |
| <b>EUR-USD</b> | 1.0839    | 0.05%    | <b>JPY-SGD</b> | 1.3249    | -0.43%   |
| <b>AUD-USD</b> | 0.6532    | 0.57%    | <b>GBP-SGD</b> | 1.7531    | 0.23%    |
| <b>GBP-USD</b> | 1.2410    | 0.39%    | <b>AUD-SGD</b> | 0.9229    | 0.44%    |
| <b>USD-MYR</b> | 4.3340    | 0.24%    | <b>NZD-SGD</b> | 0.8672    | 0.76%    |
| <b>USD-CNY</b> | 7.0742    | -0.14%   | <b>CHF-SGD</b> | 1.4551    | 0.14%    |
| <b>USD-IDR</b> | 14920     | -0.50%   | <b>SGD-MYR</b> | 3.0671    | 0.67%    |
| <b>USD-VND</b> | 23392     | -0.08%   | <b>SGD-CNY</b> | 5.0116    | 0.31%    |

### Interbank Offer Rates (%)

| Tenor      | EURIBOR | Change | Tenor      | USD Libor | Change |
|------------|---------|--------|------------|-----------|--------|
| <b>1M</b>  | -0.4510 | 1.00%  | <b>O/N</b> | 0.0610    | -0.15% |
| <b>2M</b>  | -0.3360 | -0.15% | <b>1M</b>  | 0.1980    | -2.36% |
| <b>3M</b>  | -0.2460 | -2.36% | <b>2M</b>  | 0.3543    | -3.11% |
| <b>6M</b>  | -0.1450 | -3.11% | <b>3M</b>  | 0.4346    | -1.30% |
| <b>9M</b>  | -0.1940 | -1.30% | <b>6M</b>  | 0.6880    | -0.64% |
| <b>12M</b> | -0.0750 | -0.64% | <b>12M</b> | 0.7829    | -1.54% |

### Fed Rate Hike Probability

| Meeting    | # of Hikes/Cuts | % Hike/Cut | Implied Rate Change | Implied Rate |
|------------|-----------------|------------|---------------------|--------------|
| 10/06/2020 | 0.002           | 0.2        | 0.001               | 0.052        |
| 29/07/2020 | -0.035          | -3.7       | -0.009              | 0.043        |
| 16/09/2020 | -0.045          | -1         | -0.011              | 0.04         |
| 05/11/2020 | -0.055          | -1         | -0.014              | 0.038        |
| 16/12/2020 | -0.176          | -12.1      | -0.044              | 0.007        |
| 27/01/2021 | -0.175          | 0.1        | -0.044              | 0.008        |

### Commodities Futures

| Energy                   | Futures        | % chg        | Soft Commodities        | Futures        | % chg        |
|--------------------------|----------------|--------------|-------------------------|----------------|--------------|
| WTI (per barrel)         | 24.74          | 5.1%         | Corn (per bushel)       | 3.1900         | 0.9%         |
| Brent (per barrel)       | 30.97          | 5.1%         | Soybean (per bushel)    | 8.488          | 0.9%         |
| Heating Oil (per gallon) | 0.8993         | 7.4%         | Wheat (per bushel)      | 5.2950         | 0.1%         |
| Gasoline (per gallon)    | 0.9522         | 2.2%         | Crude Palm Oil (MYR/MT) | 2,060.0        | 3.0%         |
| Natural Gas (per MMBtu)  | 1.8230         | -3.7%        | Rubber (JPY/KG)         | 140.9          | -0.1%        |
| <b>Base Metals</b>       | <b>Futures</b> | <b>% chg</b> | <b>Precious Metals</b>  | <b>Futures</b> | <b>% chg</b> |
| Copper (per mt)          | 5,274          | --           | Gold (per oz)           | 1,702.7        | -0.8%        |
| Nickel (per mt)          | 12,330         | --           | Silver (per oz)         | 15.482         | 0.9%         |

Source: Bloomberg, Reuters

(Note that rates are for reference only)

### Equity and Commodity

| Index             | Value     | Net change |
|-------------------|-----------|------------|
| <b>DJIA</b>       | 24,331.32 | 455.43     |
| <b>S&amp;P</b>    | 2,929.80  | 48.61      |
| <b>Nasdaq</b>     | 9,121.32  | 141.66     |
| <b>Nikkei 225</b> | 20,179.09 | 504.32     |
| <b>STI</b>        | 2,591.88  | 0.28       |
| <b>KLCI</b>       | 1,382.31  | 5.38       |
| <b>JCI</b>        | 4,597.43  | -11.36     |
| <b>Baltic Dry</b> | 514.00    | --         |
| <b>VIX</b>        | 27.98     | -3.46      |

### Government Bond Yields (%)

| Tenor      | SGS (chg)    | UST (chg)    |
|------------|--------------|--------------|
| <b>2Y</b>  | 0.42 (-0.03) | 0.16 (+0.02) |
| <b>5Y</b>  | 0.55 (-0.03) | 0.33 (+0.03) |
| <b>10Y</b> | 0.89 (-0.05) | 0.68 (+0.04) |
| <b>15Y</b> | 1.08 (-0.04) | --           |
| <b>20Y</b> | 1.22 (-0.03) | --           |
| <b>30Y</b> | 1.24 (-0.04) | 1.38 (+0.05) |

### Financial Spread (bps)

|                    | Value | Change |
|--------------------|-------|--------|
| <b>EURIBOR-OIS</b> | 22.60 | 1.20   |
| <b>TED</b>         | 35.36 | --     |

### Secured Overnight Fin. Rate

|             |      |
|-------------|------|
| <b>SOFR</b> | 0.05 |
|-------------|------|

## Economic Calendar

| Date Time        | Event                                | Survey | Actual   | Prior    | Revised |
|------------------|--------------------------------------|--------|----------|----------|---------|
| 05/11/2020       | PH Budget Balance PHP                | Mar    | --       | -37.6b   | --      |
| 05/11/2020 05/15 | CH New Yuan Loans CNY                | Apr    | 1300.0b  | 2850.0b  | --      |
| 05/11/2020 05/15 | CH Money Supply M0 YoY               | Apr    | 10.00%   | 10.80%   | --      |
| 05/11/2020 05/15 | CH Money Supply M1 YoY               | Apr    | 5.70%    | 5.00%    | --      |
| 05/11/2020 05/15 | CH Money Supply M2 YoY               | Apr    | 10.30%   | 10.10%   | --      |
| 05/11/2020 05/15 | CH Aggregate Financing CNY           | Apr    | 2775.0b  | 5150.0b  | 5149.2b |
| 05/11/2020 05/16 | US Mortgage Delinquencies            | 1Q     | --       | 3.77%    | --      |
| 05/11/2020 05/16 | US MBA Mortgage Foreclosures         | 1Q     | --       | 0.78%    | --      |
| 05/11/2020 05/18 | CH Foreign Direct Investment YoY CNY | Apr    | --       | -14.10%  | --      |
| 05/11/2020 06:45 | NZ Card Spending Total MoM           | Apr    | --       | -8.70%   | -8.60%  |
| 05/11/2020 06:45 | NZ Card Spending Retail MoM          | Apr    | -50.00%  | -46.80%  | -4.60%  |
| 05/11/2020 09:00 | NZ ANZ Business Confidence           | May P  | --       | -66.6    | --      |
| 05/11/2020 09:00 | NZ ANZ Activity Outlook              | May P  | --       | -55.1    | --      |
| 05/11/2020 11:00 | ID BoP Current Account Balance       | 1Q     | -\$3851m | -\$8122m | --      |
| 05/11/2020 20:00 | CA Bloomberg Nanos Confidence        | May-08 | --       | 37.7     | --      |

Source: Bloomberg

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