

Daily Treasury Outlook

11 June 2020

Highlights

Global: The FOMC remained clearly dovish by affirming it would purchase assets at “at least at the current pace” of around \$80 billion a month for UST and \$40b for MBS and the dot plot reflected all but two members with no intention of rate hikes until 2023, with Fed chair Powell emphasizing that “we’re not even thinking about raising rates” and that yield curve control remains under consideration but its efficacy “remains an open question”. The S&P500 slipped 0.53% even though Nasdaq notched up another record and closed above 10,000 for the first time while VIX was flat at 2.57. UST bonds pushed higher post-FOMC with a bull-steepening bias and the 10-year yield closed 8bps lower at 0.74%, while the USD was softer. The 3-month LIBOR edged up slightly to 0.3184% amid the recent \$217b supply of Treasury bills. Meanwhile, the OECD forecast the global economy will contract by 6% this year, with a second wave of infections potentially pushing the recession to -7.6%, whereas China’s aggregate financing picked up in May.

Market watch: Asian markets may meander today as investors digest the FOMC outcome and the still weak global economic prognosis. Today’s economic data comprises US’ initial jobless claims and PPI, and Malaysia’s April industrial production.

US: The Fed expects 2020 growth to contract 6.5% before rebounding to 5.0% next year, while unemployment will reach 9.3% before subsiding to 6.5% next year, with core PCE inflation remaining subdued at 1.0% this year and 1.5% next year. The Fed Funds rate is tipped to remain at around 0.1% unanimously through 2021 with only 2 outliers looking at rate hikes in 2022. Headline CPI also fell for a third month by 0.1% mom in May (0.1% yoy), while core inflation also declined 0.1% mom (1.2% yoy) amid curtailed demand due to the Covid-19 pandemic.

EU: The EU is planning a gradual and partial easing of non-essential travel from 15 June, and blamed China and Russia for disinformation over Covid-19.

Singapore: The drug Remdesivir has been approved for emergency Covid-19 treatment. New private home sales surged 74.7% mom to 484 units in May, but is still a far cry from the 952 units seen in May last year.

Indonesia: Bank Indonesia has reportedly stepped into the market to stabilise the currency yesterday, after Rupiah fell by more than 1%. The currency saw some weakness after BI Governor Perry Warjiyo mentioned that he will be mindful of the how exporters might be affected by the recent rupiah strength, despite adding that the currency remains fundamentally undervalued.

Oil: Oil rose yesterday, overcoming early losses during early Asian trading hours. Brent added 1.3% to close at \$41.73/bbl. Data showing a rise in US crude inventories last night has added downward pressure on prices this morning. Brent may look to trade between \$40-\$42/bbl for now until a clearer catalyst emerges.

Key Market Movements

Equity	Value	% chg
S&P 500	3190.1	-0.5%
DJIA	26990	-1.0%
Nikkei 225	23125	0.1%
SH Comp	2943.8	-0.4%
STI	2800.6	0.2%
Hang Seng	25050	0.0%
KLCI	1575.3	0.0%
Currencies	Value	% chg
DXY	95.959	-0.4%
USDJPY	107.12	-0.6%
EURUSD	1.1374	0.3%
GBPUSD	1.2747	0.1%
USDIDR	13980	0.6%
USDSGD	1.3833	-0.4%
SGDMYR	3.0710	0.0%
Rates	Value	chg (bp)
3M UST	0.17	0.77
10Y UST	0.73	-9.90
1Y SGS	0.26	0.00
10Y SGS	0.98	-0.69
3M LIBOR	0.31	0.49
3M SIBOR	0.54	-0.30
3M SOR	0.15	0.12
Commodities	Value	% chg
Brent	41.73	1.3%
WTI	39.6	1.7%
Gold	1739	1.4%
Silver	18.11	3.3%
Palladium	1955	0.0%
Copper	5907	2.3%
BCOM	65.00	0.4%

Source: Bloomberg

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Major Markets

US: The S&P500 index closed down by 0.53%, ending the day lower despite posting gains earlier in the session earlier turned positive. The FOMC has maintained the benchmark interest rate in the range of 0%-0.25%, in line with market expectations. Fed Chairman's Jerome Powell has re-emphasised the Fed's commitment to using all tools to support the economy and expects rates to remain at near zero until 2022. After an over-extended rally, we expect some profit taking in the short term as quarter-end draws nearer.

China: The deceleration of CPI in May was faster than expectation mainly due to falling food prices such as vegetable prices and pork prices on month-on-month basis. Although non-food prices recovered from a small dip in April to flat in May, the overall decline of CPI on month-on-month reading clearly deviated from the usual seasonal pattern. Looking ahead, I think China's CPI will slip to 1% range in 3Q and negative in 4Q after the high base effect fades in the second half of the year. China's credit expansion remained strong with total aggregate social financing increased by CNY3.19 trillion, CNY1.48 trillion more than that in May 2019. The strong aggregate social financing was mainly attributable to local government special bond issuance which increased by CNY1.14 trillion to support infrastructure projects. However, credit bond issuance in May slowed down significantly after strong issuance in March and April.

Singapore: The STI added 0.23% to close at 2800.57 yesterday, but a dovish Fed signal may lend a modestly firm tone today. With the UST bonds continuing to bull flatten overnight, SGS bonds may also extend gains after yields pushed lower by 1-2bps led by the 20-year tenor yesterday.

Malaysia: Malaysia is due to report its industrial production figure for April, with expectation that it will register a 15.4%yoy drop compared to 4.9% drop the month prior. With much of the country, including most of the manufacturing sector still under MCO restriction orders during period, such drop would not come as a big surprise.

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Bond Market Updates

Market Commentary: The SGD swap curve bull flattened yesterday, with the 1Y to 15Y part of the curve trading 1-3bps lower while 20Y and 30Y traded 3bps and 6bps higher respectively. The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 2bps to 204bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 12bps to 781bps. The HY-IG Index Spread widened 10bps to 577bps. 10Y UST Yields fell 10bps to 0.73%, as the Federal Reserve repeated its promise of continued extraordinary support for the economy and did not change the size of its bond purchase programme.

New Issues: China Mengniu Dairy Company Limited priced a USD500mn 5-year bond at T+160bps, tightening from IPT of T+240bps area and another USD300mn 10-year bond at T+175bps, tightening from IPT of 255bps area. Radiance Capital Investments Limited (Guarantor: Radiance Group Co., Ltd.) priced a USD250mn 3.25NCNP2 bond at 9.25%, tightening from IPT of 9.5% area. International Container Terminal Services Inc. priced a USD400mn 10-year bond at 4.8%, tightening from IPT of 5.25% area. Powerlong Real Estate Holdings Limited priced a USD250mn re-tap of its PWRLNG 6.95%'23s at 7%, tightening from IPT of 7.5% area. Zhengzhou Airport Economy Zone Xinggang Investment Group Co., Ltd. priced a USD300mn 3-year bond at 3.4%, tightening from IPT of 4% area.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	95.959	-0.38%	USD-SGD	1.3833	-0.42%
USD-JPY	107.120	-0.59%	EUR-SGD	1.5734	-0.14%
EUR-USD	1.1374	0.30%	JPY-SGD	1.2913	0.15%
AUD-USD	0.6998	0.53%	GBP-SGD	1.7634	-0.28%
GBP-USD	1.2747	0.15%	AUD-SGD	0.9681	0.04%
USD-MYR	4.2512	-0.60%	NZD-SGD	0.9043	-0.09%
USD-CNY	7.0610	-0.23%	CHF-SGD	1.4658	0.31%
USD-IDR	13980	0.65%	SGD-MYR	3.0710	0.03%
USD-VND	23185	-0.09%	SGD-CNY	5.0999	0.04%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4870	-1.30%	O/N	0.0630	0.23%
2M	-0.3360	0.23%	1M	0.1879	1.13%
3M	-0.3640	1.13%	2M	0.2680	0.68%
6M	-0.1940	0.68%	3M	0.3146	0.49%
9M	-0.1940	0.49%	6M	0.4605	-2.29%
12M	-0.1330	-2.29%	12M	0.6328	0.29%

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	% Hike/Cut	Implied Rate Change	Implied Rate
07/29/2020	-0.021	-2.1	-0.005	0.067
09/16/2020	-0.083	-6.1	-0.021	0.052
11/05/2020	-0.125	-4.3	-0.031	0.041
12/16/2020	-0.137	-1.2	-0.034	0.039
01/27/2021	-0.191	-5.4	-0.048	0.025

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	39.60	1.7%	Corn (per bushel)	3.2625	-0.4%
Brent (per barrel)	41.73	1.3%	Soybean (per bushel)	8.655	0.3%
Heating Oil (per gallon)	1.1730	1.6%	Wheat (per bushel)	5.0625	0.3%
Gasoline (per gallon)	1.2099	0.0%	Crude Palm Oil (MYR/MT)	2,380.0	-1.4%
Natural Gas (per MMBtu)	1.7800	0.7%	Rubber (JPY/KG)	139.9	1.5%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,907	2.3%	Gold (per oz)	1,738.7	1.4%
Nickel (per mt)	13,007	0.7%	Silver (per oz)	18.114	3.3%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
06/10/2020 06:19	PH Overseas Remittances YoY	Mar	-0.80%	--	2.50%
06/10/2020 06:19	PH Overseas Workers Remittances	Mar	\$2255m	--	\$2358m
06/10/2020 06:19	PH Foreign Reserves	Apr	--	--	\$89.0b
06/11/2020 02:00	US FOMC Rate Decision (Upper Bound)	Jun-10	0.25%	0.25%	0.25%
06/11/2020 02:00	US Monthly Budget Statement	May	-\$504.0b	-\$398.8b	-\$207.8b
06/11/2020 07:50	JN Japan Buying Foreign Bonds	Jun-05	--	¥1065.5b	¥499.3b
06/11/2020 07:50	JN Foreign Buying Japan Stocks	Jun-05	--	¥268.7b	¥38.0b
06/11/2020 07:50	JN Foreign Buying Japan Bonds	Jun-05	--	¥738.8b	¥157.9b
06/11/2020 12:00	MA Industrial Production YoY	Apr	-15.40%	--	-4.90%
06/11/2020 20:30	US Initial Jobless Claims	Jun-06	1550k	--	1877k
06/11/2020 20:30	US PPI Final Demand MoM	May	0.10%	--	-1.30%
06/11/2020 20:30	US Continuing Claims	May-30	20000k	--	21487k
06/11/2020 20:30	US PPI Final Demand YoY	May	-1.20%	--	-1.20%
06/11/2020 20:30	US PPI Ex Food and Energy MoM	May	-0.10%	--	-0.30%
06/11/2020 20:30	US PPI Ex Food and Energy YoY	May	0.40%	--	0.60%

Source: Bloomberg

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