

Daily Treasury Outlook

12 May 2020

Highlights

Global: Despite US president Trump's comment that "we have prevailed" on Covid-19 testing, related deaths exceeded 80,000 and the White House has now ordered all entrants to the West Wing to wear a face mask. The WHO also warned that the transmission risk will rise again as countries ease lockdowns. Meanwhile, Fed officials like Bostic opined he was "not a big fan of going into the negative rate territory" and Evans added that "at best, we'd have to study it more, but I don't anticipate that being a tool we would be using in the US". Bostic also poured cold water on the idea of the Fed buying stocks, saying "that kind of support is typically best done through the fiscal side". Wall Street closed mixed overnight with S&P500 flat at 0.02%, on Friday, while VIX edged down to 27.57. UST bonds bear-steepened again as the 10-year yield climbed to at 0.71% (+3bps) amid strong IG credit issuance including a \$11b offering by Disney. Saudi Arabia said it will cut 1m bpd from its output, the lowest since mid-2002.

Market watch: Asian markets are likely to range trade this morning, awaiting China's CPI/PPI data release. Today's economic data release also comprise of Malaysia's industrial production, as well as US' CPI and NFIB small business index. Scheduled speakers include Bullard, Kashkari, Harker, Quarles and Mester, as well as ECB's Stournaras.

US: President Trump said he is not interested in reopening negotiations with China for a trade deal, but "let's see if they lived up to the deal they signed". Meanwhile, House Democrats will not vote on the stimulus proposal before Friday as they are still drafting the bill which could top \$2 trillion and include another round of cash payout to individuals on top of the \$1,200 received from March.

EU: German Chancellor Merkel is said to be proposing a workaround the German court ruling on the ECB's QE program by asking the ECB to offer an explanation via the Bundesbank who would serve as an intermediary to the German parliament.

UK: The UK administration is considering extending the furlough program from end-June till end-September, with the 80% wage bill paid by the government being tapered back in the months ahead.

Singapore: MAS is auctioning \$2.9b of 28-day bills and \$9b of 84-day bills.

Oil: Saudi Arabia voluntarily cuts production by an additional 1mbpd for June, cutting its output to about 7.5mbpd for the month. This means global supply for June is expected to be reduced by 10.7mbpd by OPEC+ members. This move by Saudi Arabia adds another factor to a list of supporting bullish factors for the oil market, including rising crack spreads and refinery run rates in both the US and China.

Key Market Movements		
Equity	Value	% chg
S&P 500	2930.3	0.0%
DJIA	24222	-0.4%
Nikkei 225	20391	1.0%
SH Comp	2894.8	0.0%
STI	2611.3	0.7%
Hang Seng	24602	1.5%
KLCI	1382.3	0.0%
Currencies	Value	% chg
DXY	100.236	0.5%
USDJPY	107.66	0.9%
EURUSD	1.0807	-0.3%
GBPUSD	1.2335	-0.6%
USDIDR	14895	-0.2%
USDSGD	1.4171	0.3%
SGDMYR	3.0631	-0.1%
Rates	Value	chg (bp)
3M UST	0.10	1.01
10Y UST	0.71	2.68
1Y SGS	0.43	0.00
10Y SGS	0.88	-0.37
3M LIBOR	0.43	0.00
3M SIBOR	0.70	0.79
3M SOR	0.29	0.00
Commodities	Value	% chg
Brent	29.63	-4.3%
WTI	24.14	-2.4%
Gold	1698	-0.3%
Silver	15.49	0.1%
Palladium	1900	0.4%
Copper	5257	-0.3%
BCOM	61.78	-0.9%

Source: Bloomberg

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Major Markets

US: US markets traded mixed on Monday as major tech stocks led the S&P500 and NASDAQ indices into the green, but the Dow Jones Industrial Average closed 0.45% lower. The S&P500 index gained 0.02%. Investors will continue to monitor efforts to reopen the economy and are likely to take cues from there.

China: China's credit expansion remained strong in April underpinning China's recovery story. The stronger than expected new Yuan loan was mainly supported by bill financing and medium to long term loan to corporate. This shows that monetary condition in China continued to ease thanks to more flexible monetary policy. Household deposit fell by CNY799.6 billion while short term loan to household sector rose by CNY228 billion. The higher than expected decline of household deposit and increase of household short term debt showed that China's consumers may return to spending pattern after the resumption of the economic activities.

Fiscal deposit only increased by CNY52.9 billion, much smaller than that in April 2019. The weak fiscal deposit was partially due to the decline of fiscal revenues as a result of slow economic activities. Nevertheless, it also shows that China has stepped up its fiscal spending to support the growth.

The corporate bond issuance remained strong in April increasing by CNY901.5 billion after the record increase of CNY981.9 billion in March.

Given China is expected to issue at least CNY1 trillion local government special bond in May, we expect China's aggregate social financing to remain strong in May, which will provide support to growth.

Singapore: The STI added 0.75% to close at 2611.31 yesterday and may attempt to hold its head above the 2600 support amid unconvincing cues from Wall Street overnight and marginally positive cues from Kospi this morning amid concerns of a second wave of Covid-19 infections for re-opening economies. With the UST bond market bear-steepening as the supply of IG issuance picked up, longer-dated SGS bond may remain under pressure today. The 3-month SOR and SIBOR stood at 0.6382% and 0.68567% respectively.

Indonesia: Finance Minister Sri Mulyani said that the authorities are increasingly worried about financial stability due to capital exodus that is already twice larger than that during the GFC period. She spoke about a "domino effect" arising from the Covid-19 outbreak. The FSA (OJK) chief, Wimboh Santoso, added that there is already a spike in NPL, from 2.53% in December to 2.77% as of March. Meanwhile, BI Governor Perry Warjiyo said that rupiah remains "fundamentally undervalued", and that although BI sees room for rate cuts, further easing is contingent on market stability.

Malaysia: Malaysia saw unemployment rate increasing to 3.9% in March, the highest level in nearly a decade. On quarterly average basis, Q1 unemployment rate was at 3.5% compared to 3.2% of Q4 2019. The statistics office attributed it to the negative impact from the MCO restriction orders on the labor market.

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Bond Market Updates

Market Commentary: The SGD swap curve steepened yesterday, with the shorter tenors trading 0-3bps lower while the belly and the longer tenors traded 0-8bps higher. The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 3bps to 252bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 18bps to 973bps. The HY-IG Index Spread tightened 15bps to 720bps. Flows in SGD corporates were heavy, with flows in OLAMSP 6%'22s, STANLN 5.375%-PERPs, HPLSP 3.85%'21s, HSBC 4.7%-PERPs, LOGPH 6.125%'21s and SIASP 3.13%'27s. 10Y UST Yields gained 3bps to 0.71%, as a strong pace of IG corporate credit issuances was maintained with the lack of a strong catalyst.

New Issues: PT Indonesia Asahan Aluminium (Persero) priced a USD2.5bn deal across three tranches: (1) a USD1bn 5-year bond at 4.975%, (2) a USD1bn 10-year bond at 5.75%, and (3) a USD500mn 30-year bond at 6.325%, tightening from IPT of 5.5%, 6.25%, and 6.875% area respectively.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	100.236	0.50%	USD-SGD	1.4171	0.30%
USD-JPY	107.660	0.95%	EUR-SGD	1.5316	--
EUR-USD	1.0807	-0.30%	JPY-SGD	1.3163	-0.65%
AUD-USD	0.6489	-0.66%	GBP-SGD	1.7481	-0.29%
GBP-USD	1.2335	-0.60%	AUD-SGD	0.9196	-0.36%
USD-MYR	4.3340	--	NZD-SGD	0.8615	-0.66%
USD-CNY	7.0987	0.35%	CHF-SGD	1.4564	0.09%
USD-IDR	14895	-0.17%	SGD-MYR	3.0631	-0.13%
USD-VND	23320	-0.31%	SGD-CNY	5.0044	-0.14%

Equity and Commodity

Index	Value	Net change
DJIA	24,221.99	-109.33
S&P	2,930.32	0.52
Nasdaq	9,192.34	71.02
Nikkei 225	20,390.66	211.57
STI	2,611.31	19.43
KLCI	1,382.31	--
JCI	4,639.11	41.67
Baltic Dry	514.00	--
VIX	27.57	-0.41

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4510	0.30%	O/N	0.0610	--
2M	-0.3360	--	1M	0.1980	--
3M	-0.2460	--	2M	0.3543	--
6M	-0.1450	--	3M	0.4346	--
9M	-0.1940	--	6M	0.6880	--
12M	-0.0750	--	12M	0.7829	--

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	0.41 (-0.01)	0.17 (+0.02)
5Y	0.55 (--)	0.35 (+0.02)
10Y	0.88 (--)	0.71 (+0.03)
15Y	1.09 (+0.01)	--
20Y	1.23 (+0.01)	--
30Y	1.24 (--)	1.42 (+0.03)

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	% Hike/Cut	Implied Rate Change	Implied Rate
10/06/2020	-0.016	-1.6	-0.004	0.05
29/07/2020	-0.025	-0.9	-0.006	0.047
16/09/2020	-0.066	-4.1	-0.017	0.037
05/11/2020	-0.065	0.1	-0.016	0.038
16/12/2020	-0.143	-7.8	-0.036	0.018
27/01/2021	-0.185	-4.2	-0.046	0.008

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	22.43	-0.17
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	0.06
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Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	24.14	-2.4%	Corn (per bushel)	3.1850	-0.2%
Brent (per barrel)	29.63	-4.3%	Soybean (per bushel)	8.523	0.4%
Heating Oil (per gallon)	0.8687	-3.4%	Wheat (per bushel)	5.2475	-0.9%
Gasoline (per gallon)	0.9242	-2.9%	Crude Palm Oil (MYR/MT)	2,060.0	--
Natural Gas (per MMBtu)	1.8260	0.2%	Rubber (JPY/KG)	141.2	0.2%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,257	-0.3%	Gold (per oz)	1,697.9	-0.3%
Nickel (per mt)	12,354	0.2%	Silver (per oz)	15.490	0.1%

Source: Bloomberg, Reuters
(Note that rates are for reference only)

Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
05/12/2020 05/22	PH Overseas Remittances YoY	Feb 3.70%	--	6.60%	--
05/12/2020 05/22	PH BoP Overall	Mar --	--	\$839m	--
05/12/2020 05/22	PH Overseas Workers Remittances	Feb \$2418m	--	\$2648m	--
05/12/2020 09:30	CH CPI YoY	Apr 3.70%	--	4.30%	--
05/12/2020 09:30	CH PPI YoY	Apr -2.50%	--	-1.50%	--
05/12/2020 09:30	AU NAB Business Confidence	Apr --	--	-66	--
05/12/2020 09:30	AU NAB Business Conditions	Apr --	--	-21	--
05/12/2020 12:00	MA Industrial Production YoY	Mar -3.00%	--	5.80%	--
05/12/2020 13:00	JN Leading Index CI	Mar P 84.4	--	91.7	--
05/12/2020 18:00	US NFIB Small Business Optimism	Apr 83	--	96.4	--
05/12/2020 20:00	IN Industrial Production YoY	Mar -8.00%	--	4.50%	--
05/12/2020 20:00	IN CPI YoY	Apr 5.86%	--	5.91%	--
05/12/2020 20:30	US CPI Ex Food and Energy MoM	Apr -0.20%	--	-0.10%	--
05/12/2020 20:30	US CPI YoY	Apr 0.40%	--	1.50%	--
05/12/2020 20:30	US CPI MoM	Apr -0.80%	--	-0.40%	--

Source: Bloomberg

Treasury Research & Strategy

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