

Daily Treasury Outlook

12 June 2020

Highlights

Global: Risk appetite took another step back overnight with growing concerns about a second Covid-19 wave in the US as infections crossed 2 million. Further profit-taking in the US equity market drove the S&P500 down more than 5% (largest decline since 16 March) while VIX rose to 40.79 (highest since 23 April) even though US Treasury Secretary Mnuchin opined that “we can’t shut down the economy again” even if there is another surge in Covid-19 cases. President Trump resumed his criticism of the Fed again. Meanwhile, on the vaccine development front, Moderna said it has selected a dose for final-stage clinical trial starting July while Regeneron Pharmaceuticals has started human trials of a new antibody cocktail. UST bonds saw a strong rally with the 10-year yield fell 9bps to touch 0.65% (lowest since 29 May) before closing at 0.67% and flattening the 2-10 year curve on flight to quality amid fears of a second wave of Covid-19 infections which contributed to a strong 30-year auction as well. The 3-month LIBOR eased to 0.31338.

Market watch: Asian markets look set to open and trade lower today amid the soft overnight cues from the US on renewed concerns about a second wave of Covid infections. Today’s economic data comprises industrial production data from UK, Eurozone, HK and India, India’s CPI, and US’ University of Michigan sentiments and import prices.

US: Initial jobless claims eased for the 10th straight week to 1.54m last week, down from 1.9m in the previous week, and continuing claims also fell to 20.9m. Meanwhile, PPI rose more than expected by 0.4% mom in May, rebounding from -1.3% in April, led by food and energy prices. The White House and Republicans plan to postpone formal stimulus talks to late July when Congress returns.

UK: The UK will introduce a soft border control with the EU next year, whether there is a post-Brexit deal or not. PM Johnson and EC president Ursula von der Leyen will hold a call on 15 June as talks intensify and the UK has ruled out another transition beyond the 31 December deadline.

China: PBoC took a step to improve communication with financial market. The inquiry of daily open market operation will be brought forward to 9-9:20am from previously 9:15-9:45am. The result will be published at 9:20am. Meanwhile, the central bank will report at 9am if there is no open market operation planned for the day.

Oil: Oil is set for its first weekly drop in seven weeks as risk-off sentiment increasingly grips the market. Brent closed at \$38.55/bbl yesterday and is likely to end below last Friday’s closing level of \$42.30/bbl. A surprise stock-build in the US last week as well as increasing concerns over a second wave of coronavirus cases in the US have been the main catalysts for oil’s slide.

Key Market Movements

Equity	Value	% chg
S&P 500	3002.1	-5.9%
DJIA	25128	-6.9%
Nikkei 225	22473	-2.8%
SH Comp	2920.9	-0.8%
STI	2704.2	-3.4%
Hang Seng	24480	-2.3%
KLCI	1557.3	-1.1%
Currencies	Value	% chg
DXY	96.733	0.8%
USDJPY	106.87	-0.2%
EURUSD	1.1299	-0.7%
GBPUSD	1.2602	-1.1%
USDIDR	14020	0.3%
USDSGD	1.3931	0.7%
SGDMYR	3.0643	-0.2%
Rates	Value	chg (bp)
3M UST	0.16	-0.51
10Y UST	0.67	-5.73
1Y SGS	0.25	-1.10
10Y SGS	0.94	-4.50
3M LIBOR	0.32	0.37
3M SIBOR	0.54	0.00
3M SOR	0.17	1.55
Commodities	Value	% chg
Brent	38.55	-7.6%
WTI	36.34	-8.2%
Gold	1728	-0.6%
Silver	17.65	-2.6%
Palladium	1941	-0.7%
Copper	5765	-2.4%
BCOM	64.09	-1.4%

Source: Bloomberg

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Major Markets

US: US stocks fell sharply on Thursday as investors become increasingly concerned of a second wave of coronavirus, with some US states such as Texas showing sharp daily increments. Initial jobless claims falling to 1.54 million last week did little to sooth jittery nerves in the market. The S&P500 index fall by 5.9%. For the week ahead, investors will likely focus on the number of new confirmed infections. A reduction in the rate is likely key for a rebound in asset prices.

Macau: Housing transaction volume rose for the second straight month by 21% mom to 484 deals in April. Average housing price rebounded by 5% mom from the lowest level since March 2017 to MOP 97,815/square meter in April. The rebound was mainly supported by several factors, including rally in risk sentiment, property developers' sweeteners, strong pent-up demand from higher-income residents as well as persistent undersupply of housing. However, the rebound was moderate as neither transaction volume nor average housing price returned to last year's levels. Going forward, the factors mentioned above are expected to sustain and keep supporting the rebound in the housing market. However, the upside of the housing market will likely be capped by the looming job uncertainty, housing control measures, lower rental yield and the mounting selling pressure from homeowners who are in urgent need of cash. In conclusion, we expect average housing price (-7.3% YTD) will drop by up to 10% yoy this year.

Singapore: The STI declined 3.44% to close at 2704.21 yesterday amid profit-taking post-FOMC, and the cautious market tone may extend today. With the UST bonds seeing a strong rally amid a weak equity tone, with longer-dated bonds leading gains, SGS bonds are likely to follow suit today. The \$3.8b sale of 182-day bills had fetched a yield of 0.24%.

Malaysia: Malaysia reported a soft manufacturing sales print, which saw April number slumping by 33% yoy compared to a decline of 2.9% the month before. Salaries and wages softened by 6.2% yoy and by 8.5% mom, while number of employees also dropped, by 3.2% yoy - signalling that challenges remain even though there are hopes that later data will show improvement, particularly after MCO measures were eased in May.

Indonesia: Indonesia reported a further jump in covid-19 cases and deaths. It saw 41 deaths yesterday, the most since June 7 as new cases increased by 979 to over 35k. Indonesia ranks the highest in terms of fatalities, although behind Singapore in terms of total number of detected cases. President Jokowi has officially called for steps to prevent a second wave of virus, but on the ground, most cities such as Jakarta have begun loosening mobility rules last week. Restaurants, retail stores, offices and religious places have been allowed to open at 50% capacity.

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Bond Market Updates

Market Commentary: The SGD swap curve bull-flattened yesterday, with the shorter and the belly tenors trading 2-4bps lower while the longer tenors traded 5-13bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 205bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 7bps to 788bps. The HY-IG Index Spread widened 6bps to 583bps. Flows in SGD corporates were heavy, with flows in CS 5.625%-PERPs, SPHSP 4%-PERPs, SOCGEN 6.125%-PERPs, ARASP 5.6%-PERPs, FPLSP 4.98%-PERPs, UBS 4.85%-PERPs, BACR 3.75%'30s, CMZB 4.875%'27s, ALLTSP 5.5%-PERPs, AREIT 4.75%-PERPs, CAPLSP 3.15%'29s, DBSSP 3.98%-PERPs, STANLN 5.375%-PERPs and UOBSP 3.58%-PERPs. 10Y UST Yields fell 6bps to 0.67%, with the S&P index down 5.9%, due to worries of a second wave of virus resurgence in the U.S. as well as uncertainty over whether the Fed would resort to yield curve controls in the near future.

New Issues: Thai Oil Treasury Center Co Ltd (Guarantor: Thai Oil Pcl) priced a USD400mn 10-year bond at T+185bps, and another USD600mn 30-year bond at 3.75%, tightening from IPT of T+245bps area and 4.30% area respectively. MGM China Holdings Ltd priced a USD500mn 5NC2 bond at 5.25%, tightening from IPT of 5.625% area. Sinic Holdings (Group) Company Limited priced a USD210mn 2-year bond at 11.375%, tightening from IPT of 11.875% area. Changxing Communications Investment Group Co Ltd priced a USD110mn 3-year bond at 4.1%. The Export-Import Bank of China priced a USD100mn 3-year bond at 0.9%. Tianjin State-Owned Capital Investment and Management Co. Ltd priced a 9.5-year bond at 1.55%.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	95.959	--	USD-SGD	1.3931	0.71%
USD-JPY	106.870	-0.23%	EUR-SGD	1.5740	0.04%
EUR-USD	1.1299	-0.66%	JPY-SGD	1.3036	0.95%
AUD-USD	0.6855	-2.04%	GBP-SGD	1.7557	-0.44%
GBP-USD	1.2602	-1.14%	AUD-SGD	0.9550	-1.35%
USD-MYR	4.2512	--	NZD-SGD	0.8958	-0.94%
USD-CNY	7.0610	--	CHF-SGD	1.4754	0.65%
USD-IDR	13980	--	SGD-MYR	3.0710	--
USD-VND	23185	--	SGD-CNY	5.0999	--

Equity and Commodity

Index	Value	Net change
DJIA	25,128.17	-1861.82
S&P	3,002.10	-188.04
Nasdaq	9,492.73	-527.62
Nikkei 225	23,124.95	--
STI	2,800.57	--
KLCI	1,575.27	--
JCI	4,920.68	--
Baltic Dry	714.00	--
VIX	40.79	13.22

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4870	--	O/N	0.0630	--
2M	-0.3360	--	1M	0.1879	--
3M	-0.3640	--	2M	0.2680	--
6M	-0.1940	--	3M	0.3146	--
9M	-0.1940	--	6M	0.4605	--
12M	-0.1330	--	12M	0.6328	--

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	0.29 (--)	0.17 (--)
5Y	0.51 (--)	0.32 (--)
10Y	0.98 (--)	0.73 (--)
15Y	1.29 (--)	--
20Y	1.34 (--)	--
30Y	1.40 (--)	1.51 (--)

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	% Hike/Cut	Implied Rate Change	Implied Rate
07/29/2020	-0.021	-2.1	-0.005	0.093
09/16/2020	-0.083	-6.1	-0.021	0.077
11/05/2020	-0.149	-6.7	-0.037	0.06
12/16/2020	-0.174	-2.5	-0.044	0.054
01/27/2021	-0.241	-6.7	-0.06	0.038

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	12.27	0.37
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	0.08
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Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	36.34	-8.2%	Corn (per bushel)	3.2625	--
Brent (per barrel)	41.73	0.0%	Soybean (per bushel)	8.655	--
Heating Oil (per gallon)	1.0880	-7.2%	Wheat (per bushel)	5.0625	--
Gasoline (per gallon)	1.1188	-7.5%	Crude Palm Oil (MYR/MT)	2,380.0	--
Natural Gas (per MMBtu)	1.8130	1.9%	Rubber (JPY/KG)	139.8	-0.1%

Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,907	--	Gold (per oz)	1,727.7	-0.6%
Nickel (per mt)	13,007	--	Silver (per oz)	17.652	-2.6%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
06/12/2020 12:30	JN Industrial Production MoM	Apr F	--	-9.10%	--
06/12/2020 14:45	FR CPI YoY	May F	0.20%	0.20%	--
06/12/2020 14:00	UK Industrial Production MoM	Apr	-15.00%	-4.20%	--
06/12/2020 14:00	UK Manufacturing Production MoM	Apr	-15.60%	-4.60%	--
06/12/2020 06:30	NZ BusinessNZ Manufacturing PMI	May	--	39.7	26.1
06/12/2020 20:30	US Import Price Index MoM	May	0.60%	--	-2.60%
06/12/2020 12:30	JN Industrial Production YoY	Apr F	--	--	-14.40%
06/12/2020 14:00	UK Trade Balance GBP/Mn	Apr	-£5500m	--	-£6676m
06/12/2020 14:00	UK Industrial Production YoY	Apr	-19.30%	--	-8.20%
06/12/2020 12:30	JN Capacity Utilization MoM	Apr	--	--	-3.60%
06/12/2020 14:00	UK Visible Trade Balance GBP/Mn	Apr	-£11000m	--	-£12508m
06/12/2020 14:00	UK Manufacturing Production YoY	Apr	-19.90%	--	-9.70%
06/12/2020 14:00	UK Trade Balance Non EU GBP/Mn	Apr	-£4433m	--	-£4880m
06/12/2020 17:00	EC Industrial Production SA MoM	Apr	-18.50%	--	-11.30%
06/12/2020 17:00	EC Industrial Production WDA YoY	Apr	-28.80%	--	-12.90%

Source: Bloomberg

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