

Daily Treasury Outlook

13 May 2020

Highlights

Global: More gloomy warnings from Dr Fauci about a second wave of Covid-19 infections with premature re-openings, coupled with Fed warnings about massive business failures (Bullard) and depression risks, as well as banks' impacted ability to pay dividends (Quarles), weighed on market sentiments overnight. Meanwhile, US inflation fell 0.8% mom (+0.3% yoy) in April, with core CPI slumping by a record 0.4% mom amid the Covid-induced demand shock. Negative rate speculation also persisted despite recent Fed pushback and as President Trump suggested negative rates could be a "gift" to the US economy. The S&P500 declined 2.05% while VIX jumping to 33.04. UST bonds gained with the 10-year yield down 4bps to 0.67%.

Market watch: Asian markets are likely to open on a more cautious note this morning, awaiting the RBNZ policy decision (more QE even if the OCR stays unchanged at 0.25%) and Fed chair Powell's speech. Today's economic data release comprise of Malaysia's 1Q20 GDP growth (likely to print weaker than the Bloomberg consensus forecast of -1.0% yoy), UK's 1Q20 GDP growth (forecast: -2.2% yoy) and other March data, US' PPI and Eurozone's industrial production. Other scheduled speakers include ECB's Lane and Guindos. Tencent is also reporting results later today.

US: While Kashkari was hopeful of a "gradual, muted recovery", Mester said it isn't difficult to imagine a "more pessimistic scenario" if unemployment exceeds 20%, and Kaplan opined that the US economy would need more fiscal stimulus if the unemployment rate continued to rise. Meanwhile, House Democrats have proposed a \$3 trillion stimulus bill which includes \$1 trillion for states and local governments, but is likely to face challenges in the Senate. Republican Senator Lindsey Graham also introduced a measure to sanction China if the latter does not provide a full accounting to any Covid-19 investigation.

EU: German constitutional court judge Peter Huber opined that the ECB should not see itself as the "master of the Universe" and we want the EU top court to "do its job better" after it ruled 7-1 that the ECB is violating EU law by failing to justify its bond purchase program.

UK: The UK government plans to reopen the housing market from today.

China: China's CPI rose by 3.3% yoy in April, weaker than expectation. On sequential basis, China's CPI fell by 0.9% mom led by the decline of food prices as pork prices fell for two consecutive months. China's core CPI excluding food and energy prices decelerated to 1.1% in April, down from 1.2% in March although the headline CPI reading remained above 3%. Looking ahead, we think China has entered disinflation trend due to the demand gap. The headline CPI is expected to slow down further to below 3% in the coming months. The risk for China's CPI to turn negative yoy reading in 4Q cannot be ruled out after high base effect of food prices kicks in.

Singapore: MAS sold \$9b of 84-day bills at 0.25% yield with a 2.34x bid-cover ratio.

Key Market Movements

Equity	Value	% chg
S&P 500	2870.1	-2.1%
DJIA	23765	-1.9%
Nikkei 225	20366	-0.1%
SH Comp	2891.6	-0.1%
STI	2587.8	-0.9%
Hang Seng	24246	-1.4%
KLCI	1379.9	-0.2%
Currencies	Value	% chg
DXY	99.933	-0.3%
USDJPY	107.14	-0.5%
EURUSD	1.0848	0.4%
GBPUSD	1.2260	-0.6%
USDIDR	14905	0.1%
USDSGD	1.4178	0.0%
SGDMYR	3.0563	-0.2%
Rates	Value	chg (bp)
3M UST	0.12	1.53
10Y UST	0.67	-4.48
1Y SGS	0.38	-5.00
10Y SGS	0.87	-1.82
3M LIBOR	0.43	-0.11
3M SIBOR	0.69	-1.31
3M SOR	0.26	-2.18
Commodities	Value	% chg
Brent	29.98	1.2%
WTI	25.78	6.8%
Gold	1703	0.3%
Silver	15.45	-0.3%
Palladium	1855	-2.3%
Copper	5257	0.0%
BCOM	61.55	-0.4%

Source: Bloomberg

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Major Markets

US: US markets tumbled on Tuesday, weighed down by warnings from the country's top Covid-19 health official that a premature reopening of the economy may trigger an outbreak that might not be controllable. The S&P500 index fell by 2.05%. Moving forward, investors will await the reopening of the economy and monitor if there is an uptick of infections.

Macau: Housing transaction volume rebounded by 148.4% mom from record low to 400 deals in March as economic activities resumed normality. However, on yearly basis, the volume dropped for the third consecutive month by 30.1%. Likewise, approved residential mortgage loans declined for the fifth straight month by 8% yoy to MOP3.11 billion. Also, average housing price fell for the third month in a row by 15.7% yoy or 11.7% YTD to MOP93,133/square meter, the lowest since March 2017. The weakness of the housing market was partially due to the soft sentiment on stock market rout in March. Moving into April, investment sentiment might have rallied on the back of stock market rebound and property developers' sweeteners and in turn supported the housing market to regain some steam. However, we doubt that rebound could sustain given the worsening growth outlook, housing control measures, heightened job uncertainty and mounting selling pressure from homeowners who are in urgent needs of cash. In conclusion, we expect housing transaction to remain sluggish and average housing price to drop up to 15% this year.

Singapore: The STI slipped 0.90% to close at 2587.81 yesterday and may tread lower today amid soft overnight cues from Wall Street amid Fed warnings. With the UST bond market bull-flattening amid strong demand for its 10-year auction, SGS bond may trade with a biddish tone today. The 3-month SOR and SIBOR were at 0.25429% and 0.68542% respectively.

Indonesia: President Jokowi warned that the lifting of partial lockdowns should be undertaken cautiously. He added that any opening of the lockdowns - affecting about 100mn people in a country of over 250mn - "must be based on data." His government has come under criticism for unclear policies against covid-19 outbreak, that is driven in part by tussles between central and provincial authorities on the extent and scope of lockdowns.

Malaysia: Malaysia is due to report its Q1 GDP today. While market is expecting a relatively subdued contraction of 1%, we are concerned that growth might be more lacklustre than that, with the risk of -4% yoy potentially. Even before the covid-19 impact started to be felt more fully in March, the economy was already suffering from weak momentum, supply chain disruptions and political uncertainties in Jan-Feb. Be watchful for any sharp slowdown in consumption, in particular, given that it is likely to be even more pronounced in Q2.

Oil: Prices rebounded on Tuesday, with Brent adding 1.2% and WTI closing above \$25/bbl to register a 6.8% gain. It is the first time that WTI has closed above \$25/bbl in almost three weeks, erasing all the losses from the negative price episode on 21 April. The Brent-WTI spread has also now narrowed to below \$5/bbl.

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Bond Market Updates

Market Commentary: The SGD swap curve bull-flattened yesterday, with the shorter tenors trading 1-3bps lower while the belly and the longer tenors traded 3-4bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 2bps to 251bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 9bps to 964bps. The HY-IG Index Spread tightened 7bps to 713bps. Flows in SGD corporates were heavy, with flows in FPLSP 4.98%-PERPs, HSBC 4.7%-PERPs, CS 5.625%-PERPs, SPHSP 4.5%-PERPs, STANLN 5.375%-PERPs and UBS 4.85%-PERPs. 10Y UST Yields fell 4bps to 0.67%, after Anthony Fauci, U.S. top COVID-19 health official warned that states reopening too quickly may be extremely dangerous and a U.S. Republican senator introduced a China sanctions bill related to the outbreak of COVID-19.

New Issues: REC Ltd priced a USD500mn 3-year bond at 4.86%. NWD (MTN) Ltd. (Guarantor: New World Development Co.) priced a USD600mn 10-year bond at T+380bps, tightening from IPT of T+420bps area. International Islamic Liquidity Management Corp. sold USD600mn of Sukuk in two tranches: (1) a USD300mn 1-month tenor at profit rate of 0.33%, and (2) a USD300mn 3-month tenor at profit rate of 0.5%. Tuan Sing Holdings Limited priced a SGD65mn 2NC1 bond at 7.75%. City Developments Limited priced a SGD200mn 5-year bond at 2.3%. Greenland Holding Group arranged investor calls commencing 15 May.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	99.933	-0.30%	USD-SGD	1.4178	0.05%
USD-JPY	107.140	-0.48%	EUR-SGD	1.5381	0.42%
EUR-USD	1.0848	0.38%	JPY-SGD	1.3235	0.55%
AUD-USD	0.6471	-0.28%	GBP-SGD	1.7383	-0.56%
GBP-USD	1.2260	-0.61%	AUD-SGD	0.9180	-0.17%
USD-MYR	4.3295	-0.10%	NZD-SGD	0.8619	0.05%
USD-CNY	7.0835	-0.21%	CHF-SGD	1.4627	0.43%
USD-IDR	14905	0.07%	SGD-MYR	3.0563	-0.22%
USD-VND	23326	0.03%	SGD-CNY	5.0060	0.03%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4460	-1.00%	O/N	0.0616	0.06%
2M	-0.3360	0.06%	1M	0.1909	-0.71%
3M	-0.2580	-0.71%	2M	0.3391	-1.51%
6M	-0.1470	-1.51%	3M	0.4335	-0.11%
9M	-0.1940	-0.11%	6M	0.6589	-2.91%
12M	-0.0850	-2.91%	12M	0.7656	-1.73%

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	% Hike/Cut	Implied Rate Change	Implied Rate
10/06/2020	0.007	0.7	0.002	0.053
29/07/2020	-0.015	-2.2	-0.004	0.047
16/09/2020	-0.056	-4.1	-0.014	0.037
05/11/2020	-0.055	0.1	-0.014	0.038
16/12/2020	-0.143	-8.8	-0.036	0.015
27/01/2021	-0.195	-5.2	-0.049	0.002

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	25.78	6.8%	Corn (per bushel)	3.2375	1.6%
Brent (per barrel)	29.98	1.2%	Soybean (per bushel)	8.493	-0.4%
Heating Oil (per gallon)	0.8384	-3.5%	Wheat (per bushel)	5.2175	-0.6%
Gasoline (per gallon)	0.9185	-0.6%	Crude Palm Oil (MYR/MT)	2,036.0	-1.2%
Natural Gas (per MMBtu)	1.7200	-5.8%	Rubber (JPY/KG)	140.8	-0.3%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,257	0.0%	Gold (per oz)	1,702.7	0.3%
Nickel (per mt)	12,324	-0.2%	Silver (per oz)	15.449	-0.3%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Equity and Commodity

Index	Value	Net change
DJIA	23,764.78	-457.21
S&P	2,870.12	-60.20
Nasdaq	9,002.55	-189.79
Nikkei 225	20,366.48	-24.18
STI	2,587.81	-23.50
KLCI	1,379.93	-2.38
JCI	4,588.73	-50.37
Baltic Dry	474.00	--
VIX	33.04	5.47

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	0.38 (-0.03)	0.16 (-0.02)
5Y	0.52 (-0.03)	0.32 (-0.03)
10Y	0.87 (-0.02)	0.67 (-0.04)
15Y	1.07 (-0.02)	--
20Y	1.21 (-0.02)	--
30Y	1.22 (-0.03)	1.37 (-0.05)

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	21.48	0.25
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	0.06
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Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
05/13/2020 02:00	US Monthly Budget Statement	Apr	-\$737.0b	-\$737.9b	\$160.3b
05/13/2020 07:00	SK Unemployment rate SA	Apr	4.10%	3.80%	3.80%
05/13/2020 07:50	JN BoP Current Account Balance	Mar	¥2034.2b	¥1971.0b	¥3168.8b
05/13/2020 08:30	AU Westpac Consumer Conf SA MoM	May	--	--	-17.70%
05/13/2020 10:00	NZ RBNZ Official Cash Rate	May-13	0.25%	--	0.25%
05/13/2020 12:00	MA GDP YoY	1Q	-1.00%	--	3.60%
05/13/2020 14:00	UK GDP QoQ	1Q P	-2.60%	--	0.00%
05/13/2020 14:00	UK GDP YoY	1Q P	-2.20%	--	1.10%
05/13/2020 14:00	UK Industrial Production MoM	Mar	-5.60%	--	0.10%
05/13/2020 14:00	UK Manufacturing Production MoM	Mar	-6.00%	--	0.50%
05/13/2020 14:00	UK Trade Balance GBP/Mn	Mar	-£2500m	--	-£2793m
05/13/2020 14:00	UK Industrial Production YoY	Mar	-9.10%	--	-2.80%
05/13/2020 19:00	US MBA Mortgage Applications	May-08	--	--	0.10%
05/13/2020 20:30	US PPI Final Demand MoM	Apr	-0.50%	--	-0.20%
05/13/2020 20:30	US PPI Final Demand YoY	Apr	-0.40%	--	0.70%

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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