

Daily Treasury Outlook

13 July 2020

Highlights

Global: Global risk appetite remained buoyant amid Gilead Sciences' suggestion that remdesivir appeared to help reduce Covid-19 mortality rate, notwithstanding US president Trump's warning that a Phase 2 trade deal with China was unlikely at this point and Peter Navarro's comments that China had weaponized the virus. The S&P500 gained 1.05% while VIX fell to 27.29. The UST bonds initially rallied, led by the longer tenors with the 10-year bond yield touching 0.57% (lowest since 21 April) before backing up to close at 0.65%. The 3-month LIBOR edged up to 0.2681%. Elsewhere, Chinese state fund moved to trim stock holdings and China Economic Times warned of the dangers of a "crazy" bull market after the Chinese stock market added \$1 trillion in the past week. Meanwhile, Hong Kong is shutting schools again from today amid a surge in Covid-19 cases.

Market watch: Asian markets may try to start the week on a firm tone, but a busy week ahead awaits even though today's economic data calendar comprises of only India's CPI and China's June FDI. BOE governor Bailey, Fed's Williams and Kaplan are also speaking today. For the week ahead, watch for China's 2Q20 GDP growth due Thursday, a slew of central bank policy decisions including BOJ and BOC on Wednesday (with both likely static but BOJ is tipped to downgrade its growth forecast), ECB, BOK and BI on Thursday (with market anticipating the former two to be unchanged whereas BI may cut 25bps if IDR volatility settles), upcoming 2Q earnings season (with Goldman Sachs, JPMorgan, BofA, Wells Fargo and Citigroup etc on tap), the Fed's Beige Book and US' 15 July tax deadline, as well as lingering uncertainty if the US Congress can pass an additional fiscal stimulus package by end-July before they go on recess. The EU leaders' summit on 17-18 July will also discuss the EU Recovery Fund, but Austria, Denmark, Sweden and Netherlands are unlikely to accede easily. Malaysia's Parliament sits again on Friday and will face a key vote to allow its debt-to-GDP ratio to breach 55% while PM Muhyiddin Yassin is seeking to remove speaker Mohamad Ariff Md Yusof who was appointed by the previous administration.

US: PPI unexpectedly fell 0.2% mom in June, reversing a 0.4% gain in May, marking the fourth drop in five months, while core PPI also fell 0.3%. Meanwhile, Florida broke the daily record for Covid-19 cases with more than 15,000 new cases.

JP: Japan is pushing ahead with re-openings even as Tokyo reported a daily record of 243 cases on Friday.

UK: The UK will spend GBP705m on new border infrastructure ahead of the 1 January 2021 expiry of temporary Brexit arrangements with the EU.

SG: 2Q20 GDP growth likely shrank a record 40.2% qoq saar (-10% yoy) due to economic activities grinding to a near-halt during the Circuit Breaker period.

Key Market Movements

Equity	Value	% chg
S&P 500	3185.0	1.0%
DJIA	26075	1.4%
Nikkei 225	22291	-1.1%
SH Comp	3383.3	-1.9%
STI	2652.7	0.0%
Hang Seng	25727	-1.8%
KLCI	1591.8	0.5%
Currencies	Value	% chg
DX	96.652	0.0%
USDJPY	106.93	-0.3%
EURUSD	1.1300	0.1%
GBPUSD	1.2622	0.1%
USDIDR	14435	0.3%
USDSGD	1.391	-0.1%
SGDMYR	3.0642	0.1%
Rates	Value	chg (bp)
3M UST	0.12	0.00
10Y UST	0.64	3.12
1Y SGS	0.28	0.00
10Y SGS	0.90	0.00
3M LIBOR	0.27	-0.66
3M SIBOR	0.44	-0.20
3M SOR	0.15	-0.15
Commodities	Value	% chg
Brent	43.24	2.1%
WTI	40.55	2.3%
Gold	1799	-0.3%
Silver	18.72	0.4%
Palladium	1969	1.0%
Copper	6412	1.8%
BCOM	66.64	0.4%

Source: Bloomberg

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Major Markets

US: The S&P500 Index appeared to be supported by risk-on sentiment after Gilead's claim that remdesivir may reduce Covid-19 mortality rate. The benchmark Index gained 1.0% last Friday and finished the week with a 1.8% gain. Markets are likely to remain volatile in the short term and investors await the upcoming earnings season to assess the impact of the lockdown on corporate profitability. Rising new Covid-19 cases may cap market gains.

China: The latest China financial stability and development committee meeting chaired by Vice Premier Liu He reiterated to deepen its reform on delisting mechanism in China's equity market. This is in line with China's capital reform push. In the first half of 2020, China has seen a record high of 22 firms delisted. This shows China's commitment to push for transparency and openness of capital market. In addition, it also shows market is playing an increasing role in allocating resources. China's credit expansion remained strong in June. Total new Yuan loan increased by CNY1.81 trillion. Aggregate social financing increased by CNY3.43 trillion, much higher than market expectation. As such, the stock of aggregate social financing rose by 12.8% yoy, fastest since February 2018. Broad money supply M2 rose by 11.1% yoy, intact from the growth in May. The divergence between flat M2 growth and rising aggregate social financing growth suggested that more liquidity has been channelled to the real economy.

Macau: Average housing price rose for the second consecutive month by 8.8% mom to MOP106,394/ square meter in May, the highest since last November. During the same month, housing transaction volume and approved new residential mortgage loan rose by 18% mom and 34.7% mom respectively to 571 deals and MOP2.7 billion. The rebound in housing market could be attributed to the resumption of economic activities, the pent-up demand from the higher income households, the property developers' sweeteners and the upbeat sentiments across the globe. Going forwards, these factors will likely continue to support the housing market. However, the market looks unlikely to return to pre-virus levels due to fragile investment sentiments, bleak local economic growth outlook, lingering jobs uncertainty and housing control measures. Taken all together, we expect average housing price (+0.9% YTD as of May) to drop up to 10% in 2020.

Singapore: The STI slipped 0.63% to close at 2652.65 last Thursday as investors took some positions off the table ahead of polling day, but may be caught between digesting the election results and Friday's positive cue from Wall Street. With UST bonds extending its rally on Friday, SGS bonds may attempt to follow suit, but gains may be capped ahead of the upcoming size announcement on 21 July for the 10-year SGS re-opening on 28 July.

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Malaysia: Malaysia is gearing up for the reconvening of its parliament this week, on 13 July. The previous meeting lasted just half a day on 18 May for the King's speech. This week may see PM Muhyiddin Yassin and his supporting coalition, Perikatan Nasional, attempt to remove Moh Ariff Md Yusof, the speaker of the parliament that was appointed by the previous ruling coalition. It will be seen as a key test for the PM to gauge whether he has the parliamentary majority support to stay in power and push through his agenda including a suspension or amendment of the debt-ceiling rule.

Indonesia: Indonesia continued to report further upticks in virus infections as the total number of cases exceeded 75,000 over the weekend. Sunday saw 1681 new cases, a tad higher than Saturday's tally. Meanwhile, death rates remain high with the overall death toll at 3606, leaving Indonesia with the highest case and death counts in Southeast Asia. More than half of new cases come from the two hotspots of Jakarta and East Java.

Oil: All eyes will be on the OPEC+ meeting this Wednesday, which we expect the oil cartel to ease its output cuts by almost 2mbpd to 7.7mbpd from August onwards. The record high inventories in the US and a second wave contagion around the globe have added speculation that OPEC+ might yet throw a surprise decision this week by extending the 9.6mbpd output cuts by a further month, but we think that is unlikely given how prices have almost doubled from its lows in April. In the short-term, we expect oil prices to remain within its consolidation phase.

Gold: Prices closed slightly below \$1800/oz on Friday but has largely traded above that level in early Asian hours this morning.

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Bond Market Updates

Market Commentary: The SGD swap curve steepened, with all tenors trading 1bp lower while the 20-year traded 5bps higher and the 30-year traded 3bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS remained mostly unchanged at 200bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 5bps to 747bps. The HY-IG Index Spread widened 5bps to 547bps. There were no flows in SGD corporates last Friday. 10Y UST Yields gained 3bps to 0.65% as optimism about antiviral drug to treat Covid-19 ebbed concerns about the impact of rising coronavirus cases in the US.

New Issues: There were no issues or mandates last Friday.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	96.571	-0.08%	USD-SGD	1.3907	139.10%
USD-JPY	106.880	-0.05%	EUR-SGD	1.5732	157.18%
EUR-USD	1.131	0.11%	JPY-SGD	1.3012	130.08%
AUD-USD	0.695	0.01%	GBP-SGD	1.7563	175.55%
GBP-USD	1.263	0.05%	AUD-SGD	0.9667	96.66%
USD-MYR	4.267	0.00%	NZD-SGD	0.9143	91.43%
USD-CNY	7.002	0.11%	CHF-SGD	1.4788	147.74%
USD-IDR	14435	0.28%	SGD-MYR	3.0642	306.42%
USD-VND	23172	-0.07%	SGD-CNY	5.0323	502.28%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.5030	-0.50%	O/N	0.0814	0.08%
2M	-0.3360	-0.34%	1M	0.1754	0.18%
3M	-0.4400	-0.44%	2M	0.2313	0.23%
6M	-0.3300	-0.33%	3M	0.2681	0.27%
9M	-0.1940	-0.20%	6M	0.3454	0.35%
12M	-0.2840	-0.26%	12M	0.4801	0.48%

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	% Hike/Cut	Implied Rate Change	Implied Rate
07/29/2020	-0.037	-3.7	0.077	0.077
09/16/2020	-0.13	-9.3	0.054	0.054
11/05/2020	-0.185	-5.5	0.041	0.041
12/16/2020	-0.242	-5.6	0.026	0.026
01/27/2021	-0.307	-6.6	0.01	0.01

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	40.18	-0.91%	Corn (per bushel)	3.335	-2.1%
Brent (per barrel)	42.87	-0.86%	Soybean (per bushel)	8.915	-0.8%
Heating Oil (per gallon)	123.58	-0.45%	Wheat (per bushel)	5.358	1.8%
Gasoline (per gallon)	126.19	-1.68%	Crude Palm Oil (MYR/MT)	24.670	0.5%
Natural Gas (per MMBtu)	1.78	-1.27%	Rubber (JPY/KG)	1.440	0.8%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	6300.00	1.78%	Gold (per oz)	1798.7	0.1%
Nickel (per mt)	13249.00	2.01%	Silver (per oz)	18.7	0.5%

Economic Calendar

Date Time		Event		Survey	Actual	Prior	Revised
07/09/2020 07/15	VN	Domestic Vehicle Sales YoY	Jun	--	--	-29.1%	--
07/09/2020 07/17	PH	Overseas Remittances YoY	Apr	-9.60%	--	-0.05	--
07/09/2020 07/17	PH	Overseas Workers Remittances	Apr	\$2243m	--	\$2397m	--
07/10/2020 07/18	CH	Foreign Direct Investment YoY CNY	Jun	--	--	0.075	--
07/13/2020 06:45	NZ	Food Prices MoM	Jun	--	0.01	-0.01	--
07/13/2020 07/17	PH	Foreign Reserves	Jun	--	--	\$93.3b	--
07/13/2020 12:30	JN	Tertiary Industry Index MoM	May	-0.037	--	-0.06	--
07/13/2020 14:00	GE	Wholesale Price Index MoM	Jun	--	--	-0.6%	--
07/13/2020 14:00	GE	Wholesale Price Index YoY	Jun	--	--	-0.043	--
07/13/2020 20:00	IN	CPI YoY	Jun	5.3%	--	--	--
07/13/2020 20:00	CA	Bloomberg Nanos Confidence	40360	--	--	46.20	--

Source: Bloomberg

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