

Daily Treasury Outlook

14 May 2020

Highlights

Global: Fed chair Powell's warning that US outlook is "both highly uncertain and subject to significant downside risks" and "additional fiscal support could be costly, but worth it" succeeded in dampening investor risk appetite overnight. He also dismissed negative rates as "not something that we're considering", which prompted the futures market to pare back but did not fully price out the possibility. The S&P500 declined 1.7% (after briefly dipping below the 2800 handle) while VIX edged up to 35.28 and UST bonds bull-flattened with the 10-year yield at 0.65% amid a 30-year auction. Elsewhere, RBNZ expanded the size of its Large Scale Asset Purchase Program (LSAP) from \$33b to \$60b and added it "remains prepared to do whatever it takes" including adding other asset types to LSAP and reducing the OCR further from the current 0.25%. The MPC minutes also noted a negative OCR "will become an option in future, although at present financial institutions are not yet operationally ready".

Market watch: Asian markets are set to likely to open on a softer note this morning amid the somewhat gloomy warnings from Fed chair Powell. Today's economic data includes Australia's unemployment rate and unemployment change, German CPI, and US' initial jobless claims and import price index. Canada's financial system review is also due, and speakers include BOE's Bailey, ECB's Guindos, BOC's Poloz, and Fed's Kashkari, Bostic and Kaplan who will likely toe the line against negative rates.

US: President Trump disagreed with Dr Fauci's warning that re-opening the economy too quickly could lead to more Covid-19 cases. Meanwhile, Los Angeles and San Francisco have relaxed some business restrictions for business even as country-wide cases rose 1.6% from the previous day to 1.38m.

EU: Italy has approved a EUR55b stimulus package which includes emergency income, extra funding for companies and tax cuts. Meanwhile, EC president Ursula von der Leyen said EU officials are working on an "ambitious" economic recovery plan.

China: China's State Council in its regular meeting said yesterday that China will step up its macro policy to counter the negative impact from the global pandemic. Meanwhile, fiscal policy, monetary policy and other policies to support job market will work together to support growth. The increasing collaboration between fiscal policy and monetary policy may also fuel speculation on debt monetization in future.

Singapore: Home buyers will get a temporary reprieve to defer progress payments and down payments until 19 October under the Covid-19 (Temporary Measures) Act for contracts entered into before 25 March with payments due on or after 1 February.

Key Market Movements		
Equity	Value	% chg
S&P 500	2820.0	-1.7%
DJIA	23248	-2.2%
Nikkei 225	20267	-0.5%
SH Comp	2898.1	0.2%
STI	2572.0	-0.6%
Hang Seng	24180	-0.3%
KLCI	1397.1	1.2%
Currencies	Value	% chg
DXY	100.242	0.3%
USDJPY	107.03	-0.1%
EURUSD	1.0818	-0.3%
GBPUSD	1.2232	-0.2%
USDIDR	14865	-0.3%
USDSGD	1.42	0.2%
SGDMYR	3.0528	-0.1%
Rates	Value	chg (bp)
3M UST	0.11	-1.02
10Y UST	0.65	-1.26
1Y SGS	0.34	-4.10
10Y SGS	0.79	-7.11
3M LIBOR	0.42	-0.95
3M SIBOR	0.69	-0.02
3M SOR	0.25	-0.95
Commodities	Value	% chg
Brent	29.19	-2.6%
WTI	25.29	-1.9%
Gold	1716	0.8%
Silver	15.58	0.9%
Palladium	1832	-1.2%
Copper	5224	-0.6%
BCOM	60.62	-1.5%

Source: Bloomberg

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Major Markets

US: US markets tumbled again on Wednesday as risk sentiment was dented by warnings from Fed Chairman Powell that the future is highly uncertain and subject to significant downside risk and more needs to be done on the fiscal side. The S&P500 index fell 1.75%. Risk sentiment has turned lower in recent days and investors are likely to remain cautious as they monitor the reopening of the economy.

Hong Kong: Lands Department announced to reject all the four tenders received for the sites in Kai Tak, Kowloon as the bid did not meet the government's reserve price. The first failed land tender this year signals that the developers might have become less optimistic about the property market outlook. Since the economic fundamental has not yet improved given the ongoing restriction measures and the Covid-induced demand shock, we doubt the sustainability of recent housing rebound.

Singapore: The STI slipped 0.61% to close at 2572.01 yesterday and may consolidate further today amid the overnight retreat in Wall Street post-Powell. With the UST bond market bull-flattening again amid a decent showing for its 30-year auction, SGS bond may stay bid today even after the longer-dated tenors led gains yesterday. The 3-month SOR and SIBOR softened slightly to 0.23103% and 0.65426% respectively.

Indonesia: Indonesia reported its highest daily increase in covid-19 cases yesterday. As many as 689 cases were reported, taking the total to over 15000. The spike came as the government talked up the possibility of reopening the economy to limit the impact, even as President Jokowi talked the talk of how any reopening decision should be "based on data".

Malaysia: Malaysia reported its Q1 GDP yesterday, with growth at 0.7% against expectation that it would dip into negative territory. While exports and investment slumped considerably during the period, private consumption largely held up, growing at 6.7% yoy compared to 7.6% on average last year. Despite the positive print, it nevertheless marks the lowest growth Malaysia has seen since 2009, and suggests a challenging Q2 ahead, with BNM saying that it is likely to be a negative print.

Oil: Oil prices declined yesterday, with Brent falling 2.6% to \$29.19/bbl. WTI fell 1.9% to \$25.29/bbl. Risk sentiment abated yesterday after Fed Chair Jerome Powell warned of broad virus danger. We think Brent is likely to continue hovering around \$30/bbl in the short term.

Gold: The precious metal closed 0.8% higher to \$1716.28/oz yesterday, as demand increased on the back of Fed Chair Jerome Powell's stark warning about the prolonged impacts of the coronavirus on the economy.

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Bond Market Updates

Market Commentary: Excluding the 1-year tenor which rose around 1bp, the SGD swap curve bull-flattened yesterday, with the shorter tenors trading 0-3bps lower while the belly and the longer tenors traded 4-10bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 252bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 6bps to 958bps. The HY-IG Index Spread tightened 7bps to 706bps. Flows in SGD corporates were heavy, with flows in HSBC 4.7%-PERPs, SOCGEN 6.125%-PERPs, NOLSP 4.65%'20s, STANLN 5.375%-PERPs, FPLSP 4.15%'27s, CS 5.625%-PERPs, DBSSP 3.98%-PERPs, HSBC 5%-PERPs, OLAMSP 6%'22s, UBS 4.85%-PERPs, UOBSP 3.58%-PERPs and BAERVX 5.9%-PERPs. 10Y UST Yields fell 2bps to 0.65% by the end of the day, after Fed Chairman Powell said that the outbreak of COVID-10 puts the U.S. economy at risk of a lasting economic damage but he also said that negative rates are currently not under consideration.

New Issues: Korea Electric Power Corp has mandated banks for a possible USD ESG bonds. NongHyup Bank has mandated banks for a proposed USD bond.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	100.242	0.31%	USD-SGD	1.4200	0.16%
USD-JPY	107.030	-0.10%	EUR-SGD	1.5362	-0.12%
EUR-USD	1.0818	-0.28%	JPY-SGD	1.3267	0.24%
AUD-USD	0.6455	-0.25%	GBP-SGD	1.7369	-0.08%
GBP-USD	1.2232	-0.23%	AUD-SGD	0.9171	-0.10%
USD-MYR	4.3278	-0.04%	NZD-SGD	0.8513	-1.23%
USD-CNY	7.0926	0.13%	CHF-SGD	1.4604	-0.16%
USD-IDR	14865	-0.27%	SGD-MYR	3.0528	-0.11%
USD-VND	23339	0.06%	SGD-CNY	4.9997	-0.13%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4480	1.20%	O/N	0.0606	-0.10%
2M	-0.3360	-0.10%	1M	0.1839	-0.70%
3M	-0.2450	-0.70%	2M	0.3319	-0.72%
6M	-0.1470	-0.72%	3M	0.4240	-0.95%
9M	-0.1940	-0.95%	6M	0.6586	-0.02%
12M	-0.0730	-0.02%	12M	0.7688	0.31%

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	-0.066	-5.1	-0.017	0.035
05/11/2020	-0.099	-3.3	-0.025	0.027
16/12/2020	-0.118	-1.9	-0.03	0.022
27/01/2021	-0.215	-9.7	-0.054	-0.002

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	25.29	-1.9%	Corn (per bushel)	3.2025	-1.1%
Brent (per barrel)	29.19	-2.6%	Soybean (per bushel)	8.360	-1.6%
Heating Oil (per gallon)	0.8314	-0.8%	Wheat (per bushel)	5.1050	-2.2%
Gasoline (per gallon)	0.8527	-7.2%	Crude Palm Oil (MYR/MT)	2,070.0	1.7%
Natural Gas (per MMBtu)	1.6160	-6.0%	Rubber (JPY/KG)	140.0	-0.6%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,224	-0.6%	Gold (per oz)	1,716.3	0.8%
Nickel (per mt)	12,254	-0.6%	Silver (per oz)	15.581	0.9%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Equity and Commodity

Index	Value	Net change
DJIA	23,247.97	-516.81
S&P	2,820.00	-50.12
Nasdaq	8,863.17	-139.38
Nikkei 225	20,267.05	-99.43
STI	2,572.01	-15.80
KLCI	1,397.13	17.20
JCI	4,554.36	-34.38
Baltic Dry	433.00	--
VIX	35.28	2.24

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	0.34 (-0.04)	0.16 (--)
5Y	0.49 (-0.03)	0.32 (-0.01)
10Y	0.79 (-0.07)	0.65 (-0.01)
15Y	1.01 (-0.06)	--
20Y	1.16 (-0.05)	--
30Y	1.16 (-0.06)	1.35 (-0.02)

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	22.50	-0.28
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	0.06
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Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
05/14/2020 07:50	JN Money Stock M2 YoY	Apr 3.40%	3.70%	3.30%	--
05/14/2020 07:50	JN Money Stock M3 YoY	Apr 2.80%	3.00%	2.70%	--
05/14/2020 09:30	AU Unemployment Rate	Apr 8.20%	--	5.20%	--
05/14/2020 09:30	AU Employment Change	Apr -575.0k	--	5.9k	--
05/14/2020 09:30	AU Participation Rate	Apr 65.30%	--	66.00%	--
05/14/2020 14:00	GE CPI YoY	Apr F 0.80%	--	0.80%	--
05/14/2020 14:00	GE CPI MoM	Apr F 0.30%	--	0.30%	--
05/14/2020 14:00	GE CPI EU Harmonized YoY	Apr F 0.80%	--	0.80%	--
05/14/2020 14:00	GE CPI EU Harmonized MoM	Apr F 0.40%	--	0.40%	--
05/14/2020 14:00	JN Machine Tool Orders YoY	Apr P --	--	-40.70%	--
05/14/2020 14:30	IN Wholesale Prices YoY	Apr 0.25%	--	1.00%	--
05/14/2020 20:30	US Initial Jobless Claims	May-09 2500k	--	3169k	--
05/14/2020 20:30	US Import Price Index MoM	Apr -3.20%	--	-2.30%	--
05/14/2020 20:30	CA Manufacturing Sales MoM	Mar -4.50%	--	0.50%	--
05/14/2020 05/15	PH Overseas Remittances YoY	Feb 3.70%	--	6.60%	--

Source: Bloomberg

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