

Daily Treasury Outlook

14 July 2020

Highlights

Global: Global risk appetite retreated as the uptick in Covid-19 cases appeared to roll back re-opening plans in some US states such as California which closed all indoor dining and bars. The S&P500 declined 0.94% while Nasdaq also fell 2.1% as VIX surged to 32.19. The UST bonds pared initial losses to benefit from the late flight to safety with the 10-year bond yield closing at 0.64%. The 3-month LIBOR edged up again to 0.2750%. US-China tensions may also re-escalate after the US denounced China's claims to the South China Sea as "unlawful". Fed's Kaplan opined he would not advocate withdrawing the Fed's emergency 13(3) programs while unemployment may tick up to 9-10%, while Barkin noted that "recovery is a confidence game" and he is watching if the death rates stabilise or creep higher and the upcoming potential fiscal stimulus package.

Market watch: Asian markets may open with a cautious tone today given the slight risk-off tone from concerns about second Covid-19 waves and US-China tensions. Today's economic calendar releases comprise of China's June trade data, US' CPI and NFIB small business optimism, German CPI and ZEW survey.

SG: 2Q20 GDP growth shrank a record 41.2% qoq saar (-12.6% yoy) due to the Covid-19 pandemic and Circuit Breaker restrictions, tipping the S'pore economy into technical recession even though 1Q20 GDP growth was also revised higher to -3.3% qoq saar (-0.3% yoy). This is close to our forecast of -40.2% qoq saar (-10% yoy) and a tad worse than the Bloomberg consensus forecast of -35.9% qoq saar (-10.5% yoy). While manufacturing grew 2.5% yoy (-23.1% qoq saar) aided by the biomedical cluster (mainly pharmaceuticals), the main drags came from construction which slumped a record 54.7% yoy (-95.6% qoq saar) and services also contracted a record 13.6% yoy (-37.7% qoq saar) due to workplace disruptions and business closures during the Circuit Breaker period. With 1H growth already contracting 6.5% yoy, 3Q may see some stabilization from the 2Q growth trough as the S'pore economy re-opens, but will likely still continue to contract on-year. Hence, full-year GDP growth is likely to remain mired deep in recession at around our forecast of -5.5% yoy. Given significant frontloading of fiscal and monetary policy, there is a relatively high bar for additional stimulus from here, especially since the June economic indicators are already showing tentative signs of stabilization and improvement, barring any potential further deterioration in the global/domestic Covid-19 developments and the ongoing tenuous US-China relations.

Oil: Oil prices continued consolidating in a tight range, with Brent closing 1.2% lower yesterday to end the session at \$42.72/bbl. The OPEC+ meeting will begin today, and we expect the current output reduction to ease by about 2mbpd to 7.7mbpd.

Key Market Movements

Equity	Value	% chg
S&P 500	3155.2	-0.9%
DJIA	26086	0.0%
Nikkei 225	22785	2.2%
SH Comp	3443.3	1.8%
STI	2631.1	-0.8%
Hang Seng	25772	0.2%
KLCI	1606.4	0.9%
Currencies	Value	% chg
DXY	96.464	-0.2%
USDJPY	107.29	0.3%
EURUSD	1.1344	0.4%
GBPUSD	1.2555	-0.5%
USDIDR	14425	-0.1%
USDSGD	1.3905	0.0%
SGDMYR	3.0654	0.0%
Rates	Value	chg (bp)
3M UST	0.13	0.25
10Y UST	0.62	-2.63
1Y SGS	0.27	-1.00
10Y SGS	0.90	-0.11
3M LIBOR	0.27	0.19
3M SIBOR	0.44	0.00
3M SOR	0.15	0.00
Commodities	Value	% chg
Brent	42.72	-1.2%
WTI	40.1	-1.1%
Gold	1803	0.2%
Silver	19.08	1.9%
Palladium	1995	1.3%
Copper	6571	2.5%
BCOM	66.49	-0.2%

Source: Bloomberg

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Major Markets

US: The S&P500 Index closed 0.9% lower as Covid-19 fears re-emerge. California's reinstated lockdown measures increased speculation that a potential second lockdown may compromise economic recovery. US officials are still in the midst of drafting a new aid package which would be unveiled next week. We expect markets to remain volatile as investors weigh the developments in Covid-19, earnings releases, and fiscal stimulus.

China: China's State Council reiterated China will try its best to achieve the targets for economic and social development for 2020 in the meeting with private sector business owners and experts. China will step up to cut tax and administration fees for companies.

HK: The government further tightened the containment measures due to the surging COVID-19 cases. First, the maximum number of people in public group gathering will be reduced to 4. Second, restaurants are not allowed to provide services during 6pm to 5am and available seats must be less than halved. Third, twelve kinds of businesses including gaming centers and gyms must be closed for seven days. Fourth, every passenger on public transport must wear mask. We will closely monitor the development of local pandemic in the coming weeks. Should the situation worsen further, 3Q's GDP growth may be weaker than we expected.

Singapore: The STI slipped 0.81% yesterday to close at 2631.08, but may face some consolidation pressure today amid weak overnight leads from Wall Street and morning declines in Nikkei and KOSPI. SGS bonds may be supported today from the slight risk-off tone as well.

Malaysia: Malaysian PM Muhyiddin Yassin succeeded in removing the speaker in the parliament's re-opening session yesterday. In a razor-thin vote of 111 out of 221 parliamentarians present, the PM led a vote to replace the speaker (who was chosen by the previous PH government) with his own candidate. 109 voted against, 1 abstained, and 1 was absent from the chamber that houses 222 parliamentarians. The ultra-thin margin may continue to raise concerns about how strong a grip the PM has over the parliamentary support.

Indonesia: President Jokowi said that he wants to see more the country's covid-19 testing capacity raised to 30,000 from the previous target of 20,000 a day. This comes as the country continues to see uptick in cases. Indonesia has reported over 77,000 infections as hotspots in Jakarta and East Java continue to flare up. Jakarta's governor said that he may tighten the social-distancing measures in a so-called 'emergency brake policy' to re-impose a stop on most activities given the resurgence risks.

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Bond Market Updates

Market Commentary: The SGD swap curve slightly rose, with all tenors trading 1-2bps higher while the 20-year traded 3bps lower and the 30-year traded 5bps higher. The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 199bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 4bps to 751bps. The HY-IG Index Spread widened 5bps to 552bps. Flows in SGD corporates were heavy, with flows in HSBC 4.7%-PERPs, HSBC 5%-PERPs, CMZB 4.875%'27s, SINTEC 4.1%-PERPs and STANLN 5.375%-PERPs. 10Y UST Yields fell 3bps to 0.62% despite U.S. stock prices remaining firm

New Issues: VLL International Inc. (Guarantor: Vista Land & Lifescapes Inc.) priced a USD200mn 7NC4 bond at 7.25%, tightening from IPT of 7.375% area. Bank of Communications Co., Ltd. Hong Kong Branch priced a USD650mn 3-year FRN at 3m-US LIBOR+80bps, tightening from IPT of 3m-US LIBOR+120bps and another USD400mn 5-year FRN at 3m-US LIBOR+90bps, tightening from IPT of 3m-US LIBOR+130bps area. RongXingDa Development (BVI) Limited (Guarantor: RiseSun Real Estate Development Co., Ltd.) priced a USD250mn 364-day bond at 9.25%, tightening from IPT of 9.375% area. NongHyup Bank priced a USD500mn 5-year bond at T+100bps, tightening from IPT of T+140bps area. Industrial and Commercial Bank of China Limited, Hong Kong Branch priced a USD800mn 3-year bond at T+93bps, tightening from IPT of CT3+130bps area and another USD800mn 5-year bond at T+103bps, tightening from IPT of CT5+140bps area. CIFI Holdings (Group) Co. Ltd. priced a USD300mn 5.25NC3 green bond at 5.95%, tightening from IPT of 6.40% area. Jiu An Finance Co., Ltd (Guarantor: Tongchuangjiuding Investment Management Group Co., Ltd.) priced a USD300mn 3-year bond at 9.5%. The Government of the Emirate of Sharjah, Adani Ports and Special Economic Zone Ltd. and Yunnan Construction and Investment Holding Group Co. have arranged investor calls commencing 13 July 2020 for their proposed USD bond offerings respectively.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	96.464	-0.19%	USD-SGD	1.3900	139.05%
USD-JPY	107.270	-0.02%	EUR-SGD	1.5774	157.71%
EUR-USD	1.135	0.04%	JPY-SGD	1.2957	129.59%
AUD-USD	0.694	0.03%	GBP-SGD	1.7453	174.55%
GBP-USD	1.256	0.01%	AUD-SGD	0.9649	96.50%
USD-MYR	4.264	-0.07%	NZD-SGD	0.9091	90.93%
USD-CNY	6.997	-0.06%	CHF-SGD	1.4761	147.65%
USD-IDR	14425	-0.07%	SGD-MYR	3.0654	306.42%
USD-VND	23171	0.00%	SGD-CNY	5.0414	503.23%

Equity and Commodity

Index	Value	Net change
DJIA	26,085.80	10.50
S&P	3,155.22	-29.82
Nasdaq	10,390.84	-226.60
Nikkei 225	22,784.74	493.93
STI	2,631.08	-21.57
KLCI	1,606.43	14.59
JCI	5,064.45	33.19
Baltic Dry	1,810.00	0.00
VIX	32.19	4.90

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%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	0.22 (--)	0.15(--)
5Y	0.51 (--)	0.28 (+0.02)
10Y	0.9 (--)	0.62 (+0.03)
15Y	1.18 (--)	--
20Y	1.23 (--)	--
30Y	1.25 (--)	1.31 (+0.03)

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	% Hike/Cut	Implied Rate Change	Implied Rate
07/29/2020	-0.048	-4.8	0.077	0.077
09/16/2020	-0.141	-9.3	0.054	0.054
11/05/2020	-0.172	-3.1	0.047	0.047
12/16/2020	-0.234	-6.2	0.031	0.031
01/27/2021	-0.308	-7.4	0.012	0.012

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	3.30	(--)
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	0.10
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Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	39.57	-1.32%	Corn (per bushel)	3.340	-1.9%
Brent (per barrel)	42.72	-1.20%	Soybean (per bushel)	8.765	-1.7%
Heating Oil (per gallon)	121.61	-0.60%	Wheat (per bushel)	5.248	-2.1%
Gasoline (per gallon)	124.70	-2.07%	Crude Palm Oil (MYR/MT)	24.830	0.6%
Natural Gas (per MMBtu)	1.72	-0.92%	Rubber (JPY/KG)	1.460	0.8%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	6412.00	2.48%	Gold (per oz)	1802.8	0.0%
Nickel (per mt)	13515.00	1.45%	Silver (per oz)	19.1	0.3%

Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
07/14/2020	CH Trade Balance	Jun \$59.60b	--	\$62.93b	--
07/14/2020	CH Exports YoY	Jun -2.0%	--	-0.03	--
07/14/2020	CH Imports YoY	Jun -9.00%	--	-0.167	--
07/14/2020 05:00	NZ REINZ House Sales YoY	Jun --	0.071	-46.6%	--
07/14/2020 07:17	PH Overseas Remittances YoY	Apr -0.1	--	-0.047	--
07/14/2020 08:00	SI GDP YoY	2Q A -0.105	-0.126	-0.007	-0.003
07/14/2020 08:00	SI GDP SAAR QoQ	2Q A -35.9%	-41.2%	-4.7%	-0.033
07/14/2020 12:30	JN Industrial Production MoM	May F --	--	-8.4%	--
07/14/2020 14:00	UK Industrial Production MoM	May 0.07	--	-0.20	--
07/14/2020 14:00	UK Manufacturing Production MoM	May 0.08	--	-0.24	--
07/14/2020 14:00	GE CPI YoY	Jun F 0.9%	--	0.9%	--
07/14/2020 14:00	GE CPI MoM	Jun F 0.006	--	0.006	--
07/14/2020 14:00	GE CPI EU Harmonized YoY	Jun F 0.01	--	0.01	--
07/14/2020 20:30	US CPI MoM	Jun 0.50%	--	0.00	--
07/14/2020 20:30	US CPI Ex Food and Energy MoM	Jun 0.0	--	-0.1%	--

Source: Bloomberg

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