

## Daily Treasury Outlook

15 July 2020

### Highlights

**Global:** The tug-of-war continues with global risk appetite surging amid the start of US earnings season despite rising Covid-19 cases, especially in Florida. US banks reported a mixed bag of earnings with near record loan loss provisions of almost \$28b for JPMorgan, Citigroup and Wells Fargo alone. Wells Fargo reported its first quarterly loss since 2008 and cut its dividend, and Citigroup also fell, whereas JPMorgan rose on a record trading revenue. Meanwhile, the Trump administration has rescinded new rules on foreign students studying online after lawsuits filed by Harvard and MIT, but President Trump has signed into law a bill sanctioning Chinese officials who contributed to the erosion of Hong Kong autonomy. The S&P500 index gained 1.35% while the VIX eased to 29.52. UST bonds ended flat with the 10-year bond yield at 0.62%. The 3-month LIBOR edged marginally lower to 0.2709%.

**Market Watch:** Asian markets may open with a firmer tone this morning, taking the overnight cue from Wall Street amid optimism about US earnings season, while investors await the BOJ and BOC policy decisions later today. BOJ is likely to remain static but may downgrade its economic assessment. Today's economic data calendar comprises of Indonesia and India's June trade data, UK' CPI/PPI/RPI, and US' import prices, existing home sales and industrial production. Today is also the US tax deadline which could contribute to large bank and money market fund outflows and a kneejerk reaction in repo and other short-term funding rates.

**US:** CPI rose by 0.6% in June, the most since 2012 on higher gasoline prices. Separately, Fed's Brainard warned of a possible wave of insolvencies and a "thick fog of uncertainty" and opined the Fed should pivot its forward guidance and asset purchase program to longer-run accommodation. Barkin also warned that unemployment could rise again amid a longer recession than anticipated.

**EU:** German ZEW sentiments slipped from 63.4 in June to 59.3 in July while the Eurozone industrial production rose by 12.4% mom in May due to higher durable consumer goods.

**Oil:** Oil prices rose with the OPEC+ meeting ongoing. Despite heavy expectations that the cartel is set to ease its current output cuts beginning next month, prices are holding steady on news that the oil bloc is seeking an additional 842kbpd of supply cuts in August and September from the errant members of Iraq, Nigeria and Kazakhstan. In theory, this could ease almost half the additional oil supply coming back onstream. We expect prices to continue its consolidation in the short term.

### Key Market Movements

Equity	Value	% chg
S&P 500	3197.5	1.3%
DJIA	26643	2.1%
Nikkei 225	22587	-0.9%
SH Comp	3414.6	-0.8%
STI	2620.2	-0.4%
Hang Seng	25478	-1.1%
KLCI	1598.8	-0.5%
Currencies	Value	% chg
DXY	96.259	-0.2%
USDJPY	107.24	0.0%
EURUSD	1.1400	0.5%
GBPUSD	1.2553	0.0%
USDIDR	14450	0.2%
USDSGD	1.392	0.1%
SGDMYR	3.0634	-0.1%
Rates	Value	chg (bp)
3M UST	0.13	0.47
10Y UST	0.62	0.49
1Y SGS	0.28	1.00
10Y SGS	0.89	-0.90
3M LIBOR	0.28	0.69
3M SIBOR	0.44	-0.02
3M SOR	0.16	0.34
Commodities	Value	% chg
Brent	42.9	0.4%
WTI	40.29	0.5%
Gold	1809	0.4%
Silver	19.22	0.7%
Palladium	1974	-1.1%
Copper	6499	-1.1%
BCOM	66.18	-0.5%

Source: Bloomberg

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### Major Markets

**US:** The S&P500 Index closed 1.3% higher, led by an uptick in the materials and energy sector. Stocks rallied following Fed official Brainard's hints of additional monetary stimulus, including the introduction of YCTs. US banks also reported an uptick of loan loss provisions, pointing to potentially heightened levels of NPLs ahead. We expect markets to remain volatile as investors continue to digest the grim earnings season ahead.

**China:** China's June trade data surprised on the upside. Exports in dollar term rose by 0.5% yoy while imports in dollar term rose by 2.7% yoy after declining for three consecutive months. There are two main takeaways from the trade data. First, despite the trade war, China's exports to the US and imports from the US both rebounded in June with imports from the US rose by 11.3% yoy. This reinforced the belief that the phase one trade deal is still on track. China's goods trade surplus with the US widened to close to 30 billion. Second, China's rebound of imports in June was attributed to strong demand for iron ore and electronic integrated circuits. The imports of electronic integrated circuits have been strong since 4Q last year as companies in China are stocking up in preparation for the tech war. The strong demand for iron ore showed that china's stimulus is working, which lifted the capex. The strong credit flows in the past few months may also support a further pickup in imports which are good news for global cyclical story.

**HK:** US President Trump signed the bill to sanction Chinese officials and signed an executive order to revoke Hong Kong's special status as a response to Hong Kong issue. Following the enactment of the legislation, US State Secretary will identify a list of Chinese officials to be sanctioned within 90 days and the Treasury Secretary will then identify the financial institutions that knowingly conducted a significant transaction with these officials within 60 days. Then US President could then wait another year before imposing sanctions on these financial institutions. This means that it will take some time for the legislation to have any material impact. Also, it looks unlikely for the US President Trump to take any action that could harm US' own interest ahead of November election. For the executive order, it would revoke special treatment for Hong Kong passport holders and that for Hong Kong to import American sensitive technologies. This will likely hinder the development of the high-tech sector of HK and China. Nevertheless, as the US' move has not yet threatened US-China phase one trade deal or HK's financial stability and is somehow within expectations, market did not have much reaction to it this morning.

**Singapore:** The STI slipped 0.41% to close at 2620.19 yesterday after flash 2Q20 growth estimates disappointed but may attempt to trade higher today amid positive overnight cues from Wall Street. With UST bonds rangebound, SGS bonds may also be side-lined with the uptick in equity risk appetite today. Investors are waiting for the size announcement on 21 July for the 10-year SGS re-opening on 28 July.

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**Malaysia:** In a press interview, Shafie Apdal, said that Malaysia should hold a general election to break the political impasse, given that the slim margin controlled by PM Muhyiddin Yassin shows that there is effectively a hung parliament. The leader of the Sabah-based Warisan Party has been touted as a potential compromise PM candidate for the opposition, given that constituent members of the previous Pakatan Harapan government have not been able to agree on whether to support Mahathir Mohamad or Anwar Ibrahim. If he wins the PM seat, it will be the first time that an East Malaysian helms the country.

**Indonesia:** Indonesia's finance ministry held a debt auction yesterday, in which it saw IDR61.16tn worth of incoming bids for the 20tn target. In the end, it sold IDR22tn of papers. While the bid-to-cover ratio remains respectable, it is lower than previous auctions and may be an indication of a more tentative global risk sentiment yesterday. Foreign investors accounted for 21.23% of the total awarded bids.

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### Bond Market Updates

**Market Commentary:** The SGD swap curve flattened yesterday, with short and belly tenors trading 0-1bp lower while the 1-year traded 1bp higher and the longer tenors traded 1-2bps lower with the exception of the 15-year traded 4bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS remained mostly unchanged at 199bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 3bps to 753bps. The HY-IG Index Spread widened 2bps to 555bps. Flows in SGD corporates were heavy, with flows in NTUCSP 0%'50s, SINTEC 4.1%-PERPs, HSBC 5%-PERPs, CMZB 4.875%'27s, UBS 4.85%-PERPs, UOBSP 3.58%-PERPs, SRENVX 3.125%'35s and STANLN 5.625%-PERPs. 10Y UST Yields gained 1bp to 0.62% despite concerns about the rollback of California's reopening process.

**New Issues:** Skyfame International Holdings Limited (Guarantor: Skyfame Realty (Holdings) Limited) priced a USD87.5mn 364-day bond at 13%. Doosan Infracore Co., Ltd. (Guarantor: The Korea Development Bank) priced a USD300mn 3-year bond at T+87.5bps, tightening from IPT of T+110bps area. CCBL (Cayman) 1 Corporation Limited (Guarantor: CCB Leasing (International) Corporation Designated Activity Company) priced a USD500mn 5-year bond at CT5+175bps, tightening from IPT of CT5+220bps area. Yun-Top International Investment Co. (BVI) Ltd. (Guarantor: Yunnan Construction and Investment Holding Group Co.) priced a USD500mn 3-year bond at 5.1%, tightening from IPT of 5.55% area. Melco Resorts Finance Limited priced a USD500mn 8NC3 bond at 5.75%, tightening from IPT of 6.125% area. Goodman HK Finance (Guarantors: Goodman Hong Kong Logistics Fund and Goodman HK Investments) has arranged investor calls commencing 14 July 2020 for its proposed USD bond offering.

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### Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	96.127	-0.14%	USD-SGD	1.3909	139.20%
USD-JPY	107.240	0.00%	EUR-SGD	1.5872	158.68%
EUR-USD	1.141	0.11%	JPY-SGD	1.2969	129.79%
AUD-USD	0.699	0.20%	GBP-SGD	1.7486	174.75%
GBP-USD	1.257	0.15%	AUD-SGD	0.9720	97.10%
USD-MYR	4.266	-0.13%	NZD-SGD	0.9100	90.92%
USD-CNY	7.006	0.12%	CHF-SGD	1.4797	148.09%
USD-IDR	14450	0.17%	SGD-MYR	3.0668	306.34%
USD-VND	23175	0.02%	SGD-CNY	5.0311	504.14%

### Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.5030	-0.50%	O/N	0.0820	0.08%
2M	-0.3360	-0.34%	1M	0.1748	0.18%
3M	-0.4350	-0.44%	2M	0.2438	0.23%
6M	-0.3320	-0.33%	3M	0.2750	0.27%
9M	-0.1940	-0.20%	6M	0.3393	0.35%
12M	-0.2800	-0.28%	12M	0.4813	0.48%

### 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	-0.131	-8.3	0.057	0.057
11/05/2020	-0.152	-2.1	0.052	0.052
12/16/2020	-0.223	-7.1	0.034	0.034
01/27/2021	-0.288	-6.5	0.018	0.018

### Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	40.46	0.47%	Corn (per bushel)	3.340	0.2%
Brent (per barrel)	43.01	0.26%	Soybean (per bushel)	8.780	0.7%
Heating Oil (per gallon)	121.99	-0.22%	Wheat (per bushel)	5.293	0.5%
Gasoline (per gallon)	125.96	-2.04%	Crude Palm Oil (MYR/MT)	25.400	2.3%
Natural Gas (per MMBtu)	1.75	0.40%	Rubber (JPY/KG)	1.459	0.1%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	6571.00	-1.10%	Gold (per oz)	1809.4	-0.1%
Nickel (per mt)	13711.00	-0.92%	Silver (per oz)	19.2	0.3%

### Equity and Commodity

Index	Value	Net change
DJIA	26,642.59	556.79
S&P	3,197.52	42.30
Nasdaq	10,488.58	97.74
Nikkei 225	22,871.94	284.93
STI	2,620.19	-10.89
KLCI	1,598.75	-7.68
JCI	5,079.12	14.68
Baltic Dry	1,792.00	-18.00
VIX	29.52	-2.67

### Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	0.23 (+0.01)	0.16(-)
5Y	0.51 (-)	0.29(-)
10Y	0.89 (-0.01)	0.63 (-0.01)
15Y	1.16 (-0.02)	--
20Y	1.21 (-0.02)	--
30Y	1.24 (-0.01)	1.33 (-0.01)

### Financial Spread (bps)

	Value	Change
EURIBOR-OIS	3.80	(--)
TED	35.36	--

### Secured Overnight Fin. Rate

SOFR	0.10
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### Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
07/15/2020	IN Exports YoY	Jun	--	-36.5%	--
07/15/2020	JN BOJ Policy Balance Rate	Jul	-0.1%	-0.1%	--
07/15/2020 07:17	PH Overseas Remittances YoY	Apr	-9.6%	-4.7%	--
07/15/2020 07:00	SK Unemployment rate SA	Jun	4.5%	4.5%	--
07/15/2020 08:30	AU Westpac Consumer Conf SA MoM	Jul	--	6.3%	--
07/15/2020 14:00	UK CPI YoY	Jun	0.4%	0.5%	--
07/15/2020 14:00	UK CPI MoM	Jun	0.0%	0.0%	--
07/15/2020 14:00	UK CPI Core YoY	Jun	1.2%	1.2%	--
07/15/2020 14:00	UK PPI Output NSA MoM	Jun	0.3%	-0.3%	--
07/15/2020 14:00	UK PPI Output NSA YoY	Jun	-1.1%	-1.4%	--
07/15/2020 19:00	US MBA Mortgage Applications	Jul	--	2.2%	--
07/15/2020 20:30	US Empire Manufacturing	Jul	10	-0.2	--
07/15/2020 20:30	US Import Price Index MoM	Jun	1.0%	1.0%	--
07/15/2020 21:15	US Industrial Production MoM	Jun	4.3%	1.4%	--
07/15/2020 22:00	CA Bank of Canada Rate Decision	Jul-15	0.3%	0.3%	--

Source: Bloomberg

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