

## Daily Treasury Outlook

16 June 2020

### Highlights

**Global:** Fed to the rescue again - risk appetite initially faltered overnight amid worries of a second wave of Covid infections, but the Fed announcement that it will start to buy individual corporate bonds under its Secondary Market Corporate Credit Facility (that so far had only bought ETFs) lent markets a risk-on tone. The S&P500 added 0.83% after initially being in the red, while VIX retreated to 34.40. UST bonds erased early gains with the 10-year yield closing flat at 0.70% and the curve a tad steeper. The 3-month LIBOR eased to 0.299%. So far, the global economic recovery appears to be in fits and starts despite market optimism - China's industrial production showed a positive yoy print while property investments data outperformed expectations, but retail sales disappointed at -2.8% yoy (YTD: -13.5% yoy) which suggest that the demand recovery will be sluggish. Elsewhere, Indonesia's exports also contracted a worse 28.95% yoy in May while imports plummeted 42.2% yoy and local auto sales slumped 55% from a month ago. India's May export contraction eased to 36.5% yoy (April: -60.3%), but imports continued to fall by 51.1% (April: -58.7%).

**Market watch:** Asian markets are likely to trade with a firmer tone today, while awaiting RBA's June minutes which are due this morning, as well as the BOJ policy meeting (likely static) and Fed chair Powell's testimony to the Senate Banking Committee (where a reiteration of his cautious economic assessment and dovish policy bias is likely). Today's economic data comprises of US' retail sales, industrial production and NAHB housing market index, Eurozone and German ZEW survey, German CPI, HK's May unemployment rate, and UK's jobless claims and ILO unemployment rate. ECB's Visco and Fed vice chair Clarida are also speaking.

**US:** The Empire manufacturing index improved more than expected from -48.5 in May to -0.2 in June, as firms turned more upbeat about orders, shipments and employment.

**UK:** PM Johnson told Britons to shop with confidence as some retail stores re-opened yesterday.

**Singapore:** Phase 2 of its re-opening from the Circuit Breaker will start from 19 June, with the resumption of most activities subject to safe distancing rules, but work-from-home remains the default for employees. Meanwhile, 1Q20 total and resident unemployment rates rose to 2.4% and 3.3% respectively in 1Q20, up from 2.3% and 3.3% in 4Q19, as the total employment fell by a sharper 25.6k (excluding FDW) in its biggest quarterly contraction on record and exceeded the 24k seen during the SARS period in 2Q03. 4,190 workers were also put on shorter work hours or temporary layoff in 1Q20, which is a fivefold jump from 840 in 4Q19, albeit still significantly lower than the 26,530 seen at the peak of the Global Financial Crisis. However, certain industries like financial and insurance, public administration and education and professional services were still hiring in 1Q20. Our end-2020 forecast for total and resident unemployment rate stands at 3.0-3.5% and 4.0-4.5% respectively. The Survey of Professional Forecasters now tip a 5.8% contraction in 2020 before rebounding to 4.8% growth in 2021.

Key Market Movements		
<b>Equity</b>	<b>Value</b>	<b>% chg</b>
S&P 500	3066.6	0.8%
DJIA	25763	0.6%
Nikkei 225	21531	-3.5%
SH Comp	2890.0	-1.0%
STI	2613.9	-2.6%
Hang Seng	23777	-2.2%
KLCI	1498.8	-3.1%
<b>Currencies</b>	<b>Value</b>	<b>% chg</b>
DXY	96.706	-0.6%
USDJPY	107.33	0.0%
EURUSD	1.1323	0.6%
GBPUSD	1.2605	0.5%
USDIDR	14115	-0.1%
USDSGD	1.3918	-0.1%
SGDMYR	3.0657	-0.1%
<b>Rates</b>	<b>Value</b>	<b>chg (bp)</b>
3M UST	0.15	0.26
10Y UST	0.72	1.81
1Y SGS	0.26	0.90
10Y SGS	0.92	-2.59
3M LIBOR	0.32	0.75
3M SIBOR	0.54	0.00
3M SOR	0.19	1.50
<b>Commodities</b>	<b>Value</b>	<b>% chg</b>
Brent	39.72	2.6%
WTI	37.12	2.4%
Gold	1725	-0.3%
Silver	17.38	-0.6%
Palladium	1937	0.3%
Copper	5708	-1.3%
BCOM	63.65	-0.1%

Source: Bloomberg

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### Major Markets

**US:** US markets rose on Monday on the Fed's announcement that it will begin buying individual corporate bonds under its Secondary Market Corporate Credit Facility. The S&P500 index closed 0.8% higher, recovering from an intraday loss of as much as 2.5%. Markets will remain volatile as investors take cue from the coronavirus outbreak, actions from the Fed and White house, and any news that could worsen the economic impacts of the pandemic.

**Singapore:** The STI declined 2.64% to close at 2613.88 yesterday amid the ongoing risk-off tone but may see some bargain hunting today on the Fed announcement. With the UST bonds reversing gains, the SGS bond yield curve which had flattened yesterday as well on the back of longer dated gains, may pause in its rally today.

**Malaysia:** Malaysia's statistics office said that unemployment rate ticked up to 5% in April, compared to 3.9% in March. As many as 778,800 people are said to be jobless in April as the country went through the most stringent part of the MCO restriction orders during the period. This marks the highest rate of unemployment since at least 1990. Services sector was the most hit, with impacts seen in hotels and F&B businesses in particular. The chief statistician said that May might see further effects as businesses were yet to be fully back in operation at that time.

**Indonesia:** Indonesia saw a hefty trade surplus of USD2.1bn in May compared to a deficit of over USD300mn the month before. While exports slumped (by 29%yoy), it was the heavier decline in imports (which dropped by 42%yoy) which drove the surplus. A shrinkage of raw materials and intermediate goods imports signal a rough patch for the country's manufacturing sector. Meanwhile, the import of consumer goods also dropped considerably (by 39.8%), pointing towards weak consumer demand.

**Oil:** Brent rose to \$39.72/bbl yesterday, overcoming early losses as the Fed's rescue programs spurred risk-on sentiment. The benchmark fell to as low as \$37.24/bbl yesterday but eventually closed 2.6% higher at \$39.72/bbl. Whether it can reverse last week's bearishness and embark on another bullish run remains to be seen, given that the contango spread is still relatively flat now compared to last month.

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### Bond Market Updates

**Market Commentary:** The SGD swap curve bull flattened yesterday, with the shorter tenors trading 1-2bps lower while the belly and longer tenors traded 2-5bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 2bps to 209bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 8bps to 816bps. The HY-IG Index Spread widened 7bps to 607bps. Flows in SGD corporates were heavy, with flows in STANLN5.375%-PERPs, HSBC 4.7%-PERPs, SOCGEN 6.125%-PERPs, CMZB 4.875%'27s, UBS5.875%-PERPs, KITSP 4.75%-PERPs, UBS 4.85%-PERPs and CELSP 3.9%-PERPs. 10Y UST Yields gained 2bps to 0.72% after the Federal Reserve expanded corporate bond purchases.

**New Issues:** Castle Peak Power Finance Co. (Guarantor: Castle Peak Power Co.) priced a USD350mn 10-year bond at T+162.5bps, tightening from IPT of T+210bps area. Industrial Bank of Korea priced a USD500mn 5-year social bond at T+72.5bps, tightening from IPT of T+115bps area. China Huadian Overseas Development 2018 Limited (Guarantor: China Huadian Corporation LTD.) priced a USD500mn Perp-NC5 at 3.375%, tightening from IPT of 3.95% area. Henderson Land MTN Limited priced a SGD100mn 5-year bond at 2.26%. Industrial & Commercial Bank of China Limited/Hong Kong priced a re-tap of its ICBCAS Float '23s at 3m-US LIBOR+60bps. OUE CT Treasury Pte. Ltd. (Guarantor: OUE Commercial Real Estate Investment Trust) priced a SGD100mn 5-year bond at 4%. PLDT Inc., Guangdong Hengjian Investment Holding Co., Ltd., China Gold International Resources Corp. Ltd., China Construction Bank Corp., Chailease Holding Company Limited and Ping An Real Estate Company Ltd. have mandated banks for their proposed USD bond offerings respectively.

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### Foreign Exchange

	Day Close	% Change		Day Close	% Change
<b>DXY</b>	96.706	-0.63%	<b>USD-SGD</b>	1.3918	-0.06%
<b>USD-JPY</b>	107.330	-0.05%	<b>EUR-SGD</b>	1.5760	0.55%
<b>EUR-USD</b>	1.1323	0.60%	<b>JPY-SGD</b>	1.2961	-0.06%
<b>AUD-USD</b>	0.6919	0.77%	<b>GBP-SGD</b>	1.7544	0.46%
<b>GBP-USD</b>	1.2605	0.52%	<b>AUD-SGD</b>	0.9628	0.70%
<b>USD-MYR</b>	4.2787	0.36%	<b>NZD-SGD</b>	0.9012	0.43%
<b>USD-CNY</b>	7.0908	0.09%	<b>CHF-SGD</b>	1.4656	0.25%
<b>USD-IDR</b>	14115	-0.13%	<b>SGD-MYR</b>	3.0657	-0.07%
<b>USD-VND</b>	23219	0.07%	<b>SGD-CNY</b>	5.0846	-0.01%

### Equity and Commodity

Index	Value	Net change
<b>DJIA</b>	25,763.16	157.62
<b>S&amp;P</b>	3,066.59	25.28
<b>Nasdaq</b>	9,726.02	137.21
<b>Nikkei 225</b>	21,530.95	-774.53
<b>STI</b>	2,613.88	-70.75
<b>KLCI</b>	1,498.83	-47.19
<b>JCI</b>	4,816.34	-64.02
<b>Baltic Dry</b>	923.00	--
<b>VIX</b>	34.40	-1.69

### Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
<b>1M</b>	-0.4820	-0.60%	<b>O/N</b>	0.0661	0.06%
<b>2M</b>	-0.3360	0.06%	<b>1M</b>	0.1951	1.04%
<b>3M</b>	-0.3660	1.04%	<b>2M</b>	0.2705	1.00%
<b>6M</b>	-0.1990	1.00%	<b>3M</b>	0.3209	0.75%
<b>9M</b>	-0.1940	0.75%	<b>6M</b>	0.4320	1.24%
<b>12M</b>	-0.1240	1.24%	<b>12M</b>	0.5934	-1.13%

### Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
<b>2Y</b>	0.30 (-0.01)	0.19 (--)
<b>5Y</b>	0.48 (-0.02)	0.34 (+0.01)
<b>10Y</b>	0.92 (-0.03)	0.72 (+0.02)
<b>15Y</b>	1.22 (-0.03)	--
<b>20Y</b>	1.27 (-0.04)	--
<b>30Y</b>	1.33 (-0.04)	1.46 (--)

### Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	% Hike/Cut	Implied Rate Change	Implied Rate
07/29/2020	-0.021	-2.1	-0.005	0.087
09/16/2020	-0.073	-5.1	-0.018	0.075
11/05/2020	-0.129	-5.7	-0.032	0.06
12/16/2020	-0.143	-1.4	-0.036	0.057
01/27/2021	-0.221	-7.8	-0.055	0.038

### Financial Spread (bps)

	Value	Change
<b>EURIBOR-OIS</b>	11.10	0.22
<b>TED</b>	35.36	--

### Secured Overnight Fin. Rate

<b>SOFR</b>	0.08
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### Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	37.12	2.4%	Corn (per bushel)	3.2925	-0.2%
Brent (per barrel)	39.72	2.6%	Soybean (per bushel)	8.690	-0.3%
Heating Oil (per gallon)	1.1370	3.2%	Wheat (per bushel)	5.0475	0.5%
Gasoline (per gallon)	1.1657	3.7%	Crude Palm Oil (MYR/MT)	2,422.0	-0.5%
Natural Gas (per MMBtu)	1.6690	-3.6%	Rubber (JPY/KG)	139.5	-0.8%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,708	-1.3%	Gold (per oz)	1,725.2	-0.3%
Nickel (per mt)	12,741	0.6%	Silver (per oz)	17.383	-0.6%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

## Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
06/16/2020	JN BOJ Policy Balance Rate	Jun-16	-0.10%	--	-0.10%
06/16/2020 04:00	US Net Long-term TIC Flows	Apr	--	-\$128.4b	-\$112.6b
06/16/2020 04:00	US Total Net TIC Flows	Apr	--	\$125.3b	\$349.9b
06/16/2020 14:00	UK Jobless Claims Change	May	--	--	856.5k
06/16/2020 14:00	UK ILO Unemployment Rate 3Mths	Apr	4.70%	--	3.90%
06/16/2020 14:00	GE CPI YoY	May F	0.60%	--	0.60%
06/16/2020 14:00	GE CPI MoM	May F	-0.10%	--	-0.10%
06/16/2020 14:00	UK Claimant Count Rate	May	--	--	5.80%
06/16/2020 14:00	GE CPI EU Harmonized YoY	May F	0.50%	--	0.50%
06/16/2020 16:30	HK Unemployment Rate SA	May	5.50%	--	5.20%
06/16/2020 17:00	GE ZEW Survey Expectations	Jun	60	--	51
06/16/2020 20:30	US Retail Sales Advance MoM	May	8.40%	--	-16.40%
06/16/2020 20:30	US Retail Sales Ex Auto MoM	May	5.50%	--	-17.20%
06/16/2020 21:15	US Industrial Production MoM	May	3.00%	--	-11.20%
06/16/2020 21:15	US Capacity Utilization	May	66.90%	--	64.90%

Source: Bloomberg

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