

Daily Treasury Outlook

16 July 2020

Highlights

Global: Global risk appetite preferred to focus on the positives overnight, namely Oxford's vaccine developments and hints that US president Trump does not plan to escalate Chinese tensions further with more sanctions on officials. The Fed's Beige Book flagged that "almost all districts" saw an improvement through early July, albeit below pre-Covid levels. The S&P500 gained 0.9%, led by Goldman Sachs which reported its second-highest quarterly revenue at \$13.3b, while VIX eased to 27.76. The UST bonds ended mixed with the 10-year bond yield at 0.63%. The 3-month LIBOR stood at 0.2729%. Meanwhile, BOC also kept its benchmark rate unchanged at 0.2%, with new governor Tiff Macklem committing to hold its policy rate "until economic slack is absorbed so that the 2% inflation target is sustainably achieved".

Market watch: Asian markets may tread water this morning, awaiting China's 2Q20 GDP growth and June retail sales, industrial production and fixed asset investment data to validate its First-in-First-out hypothesis as well as the trifecta of central bank policy decisions due later today. ECB is likely to keep policy settings static today, but the focus may be on this weekend's EU leaders' summit discussion of the EU Recovery Fund. Separately, BI and BOK are also meeting today with the former leaning towards a 25bp rate cut whereas no change is tipped for the latter. Today's economic calendar releases also comprise of UK's ILO unemployment rate and jobless claims, Indonesia's May trade data, and US' retail sales, initial jobless claims, retail sales and NAHB housing market index. Fed's Williams, Bostic and Evans are also speaking.

US: Industrial production rose for the second consecutive month by 5.4% mom in June, marking its biggest jump in more than 74 years, beating market expectations and following a 1.4% gain in May. However, output is still roughly 11% below February's pre-Covid levels.

UK: Inflation surged 0.6% in June, after registering a 4-year low of 0.5% in May, amid higher prices for video game consoles during the lockdown period. Core CPI also accelerated from 1.2% to 1.4%. However, BOE's Teneyro opined that the recovery could be an "incomplete V" and the bounce back could lose steam.

JP: BOJ kept its policy settings static yesterday, albeit hinting they are still ready to move further if a resurgence in infections derails the recovery. Governor Kuroda seeing no change to its inflation goal at this juncture, but warned that the outlook was highly uncertain. The BOJ tips growth to contract 4.7% in the current FY before recovering to 3.3% in the next FY, while consumer prices will decline 0.5% this year and stay below the 2% target through early 2023.

SG: Resorts World Singapore held a one-off workforce rationalisation yesterday.

Key Market Movements

Equity	Value	% chg
S&P 500	3226.6	0.9%
DJIA	26870	0.9%
Nikkei 225	22946	1.6%
SH Comp	3361.3	-1.6%
STI	2648.9	1.1%
Hang Seng	25482	0.0%
KLCI	1585.6	-0.8%
Currencies	Value	% chg
DXY	96.081	-0.2%
USDJPY	106.94	-0.3%
EURUSD	1.1412	0.1%
GBPUSD	1.2587	0.3%
USDIDR	14588	1.0%
USDSGD	1.3893	-0.2%
SGDMYR	3.0698	0.2%
Rates	Value	chg (bp)
3M UST	0.13	-0.50
10Y UST	0.63	0.66
1Y SGS	0.28	0.10
10Y SGS	0.90	1.12
3M LIBOR	0.27	-0.41
3M SIBOR	0.44	0.00
3M SOR	0.17	1.14
Commodities	Value	% chg
Brent	43.79	2.1%
WTI	41.2	2.3%
Gold	1810	0.1%
Silver	19.42	1.0%
Palladium	1979	0.3%
Copper	6386	-1.7%
BCOM	66.67	0.7%

Source: Bloomberg

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Major Markets

US: The S&P 500 Index closed 0.9% higher overnight. Positive news flow on a Covid-19 vaccine buoyed risk sentiment pushing the benchmark index briefly into positive territory year-to-date during intra-day trading. We expect the market to be supported by positive risk sentiment and anticipation of fiscal support in the near-term. For today, China's GDP growth figure for Q2, where the median estimate on Bloomberg is for a 2.4% yoy expansion, is likely to shape risk sentiment.

China: China's State Council announced more measures to support job market including support to both new graduates and entrepreneurship. For those who returned to hometown to start their own business will receive one time subsidy from the government. Meanwhile, the PBoC rolled over CNY400 billion MLF at the same interest rate of 2.95.

HK: Visitor arrivals dropped by 99.7% yoy with Mainland visitors down by 99.8%. Due to the third wave of Covid-19, we expect the travel restrictions to remain in place for some time. The Tourism Board's plan to support local tourism and consumption will also be postponed. We are concerned that the tourism, hospitality, catering, retail and transportation sectors will remain mired in deep downturn. If this is the case, as relief measures fade with time, more companies in these hard-hit sectors may go bust and result in worsening unemployment.

Macau: Mainland visitors will be exempted from mandatory 14-day quarantine measures from 15 July if they have a negative result from the nucleic acid test effective within 7 days and have a health code to recognize their good health. Likewise, Macau residents will be allowed to travel to the nine cities in Guangdong of the Greater Bay Area without any requirement for quarantine in Zhuhai. The "travel bubble" formed between Guangdong and Macau may help to revive the growth of the regional tourism and the relevant sectors such as hospitality, catering, retail, etc. It may also help Macau's crucial gaming sector to bottom out. That said, due to the sharp slowdown of China's economy, a strong MOP and the tedious procedures needed to travel across the border, we think any recovery of Macau's gaming and tourism will be sluggish.

Singapore: The STI added 1.10% yesterday to close at 2648.90, but may range trade ahead of the key Chinese economic data releases and major central bank meetings due later today, despite positive overnight leads from Wall Street. The SGS bonds had sold off yesterday, but may take the cue from China's data dump later.

Malaysia: Malaysian ringgit traded stronger against the USD yesterday on the back of higher crude oil prices and broad USD weakness. A relative improvement in global risk sentiment has also helped emerging market currencies overall, including MYR. Given the absence of major data flow today, the same forces should help to bolster MYR strength as well.

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Indonesia: Bank Indonesia is due to announce its monetary policy decision today. We see a chance that BI would cut its policy rate further by 25bps to 4.0% in light of the more sombre global economic outlook as virus resurgence fears take hold. While there has been a relative uptick in rupiah volatility of late, on balance, it is probably not enough for them to pause at this stage.

Oil: Oil prices shrugged off the widely-expected decision by OPEC+ to reduce the current output cuts by 2mbpd from next month, with Brent rising 2.1% to \$43.79/bbl. An agreement by over-producing OPEC+ members to further reduce a combined total of 897kbpd, a drop in US weekly crude oil stockpiles, Trump's decision not to sanction Chinese officials and news that Moderna is in its last phase of trials for a Covid-19 vaccine all boosted oil prices. We expect oil prices to continue trading in a tight consolidation in the short term.

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Bond Market Updates

Market Commentary: The SGD swap curve was range bound yesterday, with tenors up to 12-years trading 0-1bp higher (the 15-year traded 2bps higher) while the 20-year traded slightly lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 197bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 1bps to 752bps. The HY-IG Index Spread remained mostly unchanged at 555bps. Flows in SGD corporates were heavy, with flows in NTUCSP 0%'50s, HSBC 5%-PERPs and MAPLSP 3.95%-PERPs. 10Y UST Yields gained 1bp to 0.63% as optimism about a coronavirus vaccine bolstered investor confidence and reduced demand for safe haven assets

New Issues: Greenland Global Investment Ltd. (Guarantor: Greenland Holding Group Co.) priced a USD400mn 2.75-year bond at 6.45%, tightening from IPT of 6.75% area and another USD250mn 4.5-year bond at 7.5%, tightening from IPT of 7.75% area respectively. Goodman HK Finance (Guarantors: Goodman Hong Kong Logistics Fund and Goodman HK Investments) priced a USD300mn 10-year bond at T+240bps, tightening from IPT of T+290bps area. GS Caltex Corporation and Globe Telecom have arranged investor calls commencing 15 July 2020 for their proposed USD bond offerings respectively

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	96.081	-0.18%	USD-SGD	1.3894	138.93%
USD-JPY	106.910	-0.03%	EUR-SGD	1.5862	158.54%
EUR-USD	1.142	0.04%	JPY-SGD	1.2996	129.92%
AUD-USD	0.701	0.01%	GBP-SGD	1.7493	174.88%
GBP-USD	1.259	0.03%	AUD-SGD	0.9738	97.37%
USD-MYR	4.263	-0.19%	NZD-SGD	0.9133	91.29%
USD-CNY	6.989	-0.24%	CHF-SGD	1.4718	147.13%
USD-IDR	14588	0.96%	SGD-MYR	3.0698	306.34%
USD-VND	23173	-0.01%	SGD-CNY	5.0305	503.11%

Equity and Commodity

Index	Value	Net change
DJIA	26,870.10	227.51
S&P	3,226.56	29.04
Nasdaq	10,550.49	61.91
Nikkei 225	22,945.50	358.49
STI	2,648.90	28.71
KLCI	1,585.56	-13.19
JCI	5,075.80	-3.32
Baltic Dry	1,742.00	-50.00
VIX	27.76	-1.76

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.5080	-0.50%	O/N	0.0775	0.08%
2M	-0.3360	-0.34%	1M	0.1766	0.17%
3M	-0.4330	-0.44%	2M	0.2273	0.24%
6M	-0.3300	-0.33%	3M	0.2709	0.28%
9M	-0.1940	-0.20%	6M	0.3414	0.34%
12M	-0.2710	-0.28%	12M	0.4810	0.48%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	0.24 (+0.01)	0.16(--)
5Y	0.52 (+0.01)	0.29(--)
10Y	0.9 (+0.01)	0.63 (-0.01)
15Y	1.17 (--)	--
20Y	1.21 (--)	--
30Y	1.24 (--)	1.33 (-0.02)

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	-0.176	-4.5	0.045	0.045
12/16/2020	-0.216	-4	0.036	0.036
01/27/2021	-0.288	-7.2	0.018	0.018

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	3.87	(--)
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	0.11
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Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	41.20	2.26%	Corn (per bushel)	3.263	-2.5%
Brent (per barrel)	43.79	2.07%	Soybean (per bushel)	8.863	0.5%
Heating Oil (per gallon)	124.48	1.97%	Wheat (per bushel)	5.508	5.0%
Gasoline (per gallon)	126.45	1.37%	Crude Palm Oil (MYR/MT)	25.400	0.0%
Natural Gas (per MMBtu)	1.78	1.83%	Rubber (JPY/KG)	1.470	0.8%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	6386.00	-1.73%	Gold (per oz)	1810.3	0.1%
Nickel (per mt)	13528.00	-0.42%	Silver (per oz)	19.4	1.0%

Economic Calendar

Date Time		Event		Survey	Actual	Prior	Revised
07/16/2020	SK	BoK 7-Day Repo Rate	42552	0.5%	--	0.5%	--
07/16/2020 06:45	NZ	CPI QoQ	2Q	-0.6%	-0.5%	0.8%	--
07/16/2020 09:30	AU	Unemployment Rate	Jun	7.3%	--	7.1%	--
07/16/2020 09:30	AU	Employment Change	Jun	100.0k	--	-227.7k	--
07/16/2020 09:30	AU	Participation Rate	Jun	63.3%	--	62.9%	--
07/16/2020 10:00	CH	GDP YoY	2Q	2.4%	--	-6.8%	--
07/16/2020 10:00	CH	Industrial Production YoY	Jun	4.8%	--	4.4%	--
07/16/2020 14:00	UK	Jobless Claims Change	Jun	--	--	528.9k	--
07/16/2020 14:00	UK	ILO Unemployment Rate 3Mths	May	4.2%	--	3.9%	--
07/16/2020 14:00	UK	Claimant Count Rate	Jun	--	--	7.8%	--
07/16/2020 15:20	ID	Bank Indonesia 7D Reverse Repo	42552	4.0%	--	4.3%	--
07/16/2020 19:45	EC	ECB Main Refinancing Rate	42552	0.0%	--	0.0%	--
07/16/2020 19:45	EC	ECB Deposit Facility Rate	42552	-0.005	--	-0.005	--
07/16/2020 20:30	US	Initial Jobless Claims	40725	1250k	--	1314k	--
07/16/2020 20:30	US	Retail Sales Advance MoM	Jun	5.0%	--	17.7%	--

Source: Bloomberg

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