

Daily Treasury Outlook

17 August 2020

Highlights

Global: Delayed US-China trade talks and disappointing US retail sales which missed market forecasts, coupled with the continued US Congressional impasse on fresh fiscal stimulus, may keep a lid on risk sentiments to start the week. The S&P500 closed slightly lower by 0.02% on Friday, while VIX also slide to 22.05. UST bonds treaded water with the 10-year yield down 1bp at 0.71%, but at least the \$112b of supply is out of the way. The 3-month LIBOR eased to 0.2704%. Elsewhere, 2Q GDP cues were also weak with Japan at -27.8% qoq sa annualised and Malaysia at -17.1% yoy. Separately, New Zealand also delayed its national election by four weeks to 17 October due to the Covid-19 resurgence, whilst the state of Victoria in Australia also extended its state of emergency.

Market watch: Asian markets may be off to a somewhat soft start this morning, as investors take stock of the global resurgence of Covid-19 cases, softening economic data and the stalemate in both the US-China relations and US stimulus plans. Today's economic data calendar also comprises of Thailand's 2Q20 GDP growth, and US' Empire manufacturing index, NAHB housing and TIC capital flows. Fed's Bostic is also speaking on inclusive innovation. For the week ahead, watch for RBA minutes due tomorrow, BI policy decision (likely static at 4.00% on 19 Aug), FOMC minutes due 20 Aug, BSP rate decision (likely unchanged on 20 Aug at 2.25% and 1.75% respectively for the overnight borrowing rate and the standing overnight deposit facility rate), and RBI and ECB minutes on 20 Aug.

US: With the indefinite postponement of US-China trade talks which were supposed to be the 6-month review of the Phase 1 agreement, other flash points include the Trump administration's approval of F-16 military jet sale to Taiwan as well as Trump's order for TikTok to sell its US assets. Retail sales rose 1.2% mom in July, led by online sales and grocery stores, but the University of Michigan sentiment index remained weak in August at 72.8 (near its pandemic low of 71.8 in April), whereas industrial production rose for the third month by 3.0% mom in July following a 5.7% gain in June.

SG: July NODX moderated to 6.0% yoy (1.2% mom sa), beating market and our forecasts, compared to 13.9% yoy in June. Notably, electronics exports also slowed significantly from 22.2% yoy in June to 2.8% in July. Non-electronics exports grew 6.9%, led by pharmaceuticals (15.5%). Five of the top ten NODX markets saw growth in July, led by US (98.7%), South Korea (+56.3%), Taiwan (18.7%), Japan (14.5%) and Malaysia (4.0%), whereas NODX to China reverted to contraction of 5.1% after resurfacing at +0.6% in June.

Key Market Movements

Equity	Value	% chg
S&P 500	3372.9	0.0%
DJIA	27931	0.1%
Nikkei 225	23289	0.2%
SH Comp	3360.1	1.2%
STI	2581.3	-0.6%
Hang Seng	25183	-0.2%
KLCI	1564.6	-0.8%
	Value	% chg
DXY	93.096	-0.3%
USDJPY	106.6	-0.3%
EURUSD	1.1842	0.2%
GBPUSD	1.3086	0.1%
USDIDR	14795	0.1%
USDSGD	1.3709	-0.1%
SGDMYR	3.0579	0.0%
	Value	chg (bp)
3M UST	0.09	-0.51
10Y UST	0.71	-1.14
1Y SGS	0.30	0.10
10Y SGS	0.91	3.45
3M LIBOR	0.28	1.54
3M SIBOR	0.44	0.00
3M SOR	0.22	-0.44
	Value	% chg
Brent	44.8	-0.4%
WTI	42.01	-0.5%
Gold	1945	-0.4%
Silver	26.45	-3.8%
Palladium	2121	-2.7%
Copper	6367	1.8%
BCOM	70.81	0.0%

Source: Bloomberg

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Major Markets

US: The S&P500 traded sideways on Friday, closing slightly lower at -0.02%. Market sentiment was dampened by soft July retail sales and industrial production prints. In the near term we expect investors to remain cautious ahead of the release of Walmart, Target, and Kohl's earnings as well as rising US-China tensions.

CN: China's industry led V shaped recovery continued in July. However, domestic demand remained the weakest link, which could be attributed to two main reasons including the falling real income due to pandemic and disruption from three rounds of mini resurgence of virus in different parts of China. This, coupled with the deceleration of core CPI to a record low of 0.5% yoy in July, showed that there is no sign of quick recovery of domestic demand. Looking ahead, the uncertain outlook on pandemic is likely to continue to cap the rebound of domestic demand. We revised down China's 2020 GDP forecast to 2.2.

HK: The final reading of 2Q GDP growth remains unchanged at -9.0% yoy as the growth of private consumption (-14.2% yoy) and exports of services (-46.1% yoy) was revised up while the growth of fixed assets investment (-21.4% yoy) and exports of goods (-2.4% yoy) was revised lower. Moving into 2H 2020, we expect the economic growth to remain mired in negative territory as the ongoing containment measures and the virus concerns are set to continue taking a heavy toll on the local consumption, business sentiment and exports of services. That said, we expect the economic contraction to narrow in 2H as compared to the 1H given the low base effect and the global benign recovery. In conclusion, for 2020 GDP, we tip a recession of 6%-7% depending on Covid-19 development while the government expects a contraction of 6% to 8%, down from the prior estimate of -4% to -7%. Also, the government cut the headline inflation forecast from 1.4% to 0.8% while our forecast is 1% for 2020. In anticipation of weakening growth outlook, we expect the government will roll out additional stimulus measures.

Taiwan: The decline of GDP's final reading narrowed to 0.58% yoy. As the domestic situation of Covid-19 has been under control largely in 2Q, in addition to the stimulus packages imposed by government, the domestic consumption sentiments improved. Therefore, the decline of private consumption was milder compared to previous forecast. The Directorate General of Budget, Accounting & Statistics expected the GDP to grow by 2.01% yoy in 3Q, mainly supported by improving trade outlook and the resumption of private consumption activities amid the effect of triple stimulus voucher and the promotion of domestic travel. In terms of whole 2020, the forecast of GDP has been revised downwardly from 1.67% yoy to 1.56% yoy. The uncertainty of pandemic still affects the economic outlook of Taiwan. Nevertheless, with the effective containment measures, the domestic economic activities are less affected relatively. From the perspective of fixed investment, supported by the continuing investment of semiconductor industry and overseas investment repatriation, it may

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continue to be the major growth engine in the rest of 2020. Other than that, Taiwanese authority expected that GDP may grow by 3.92% yoy in 2021. Overall speaking, despite that the economic outlook of Taiwan is improving, external headwinds may still impede the path of recovery. Therefore, we keep our views unchanged that Taiwan's GDP is expected to grow by 1% - 1.6% yoy in 2020. The development of Covid-19 will remain the major uncertainty in the second half of this year.

Singapore: The STI retreated 0.56% to close at 2581.32 on Friday and may continue to consolidate today amid weak cues from Friday's Wall Street action. SGS bond yields may continue to be pressured today after creeping up 2-4bps on Friday.

Malaysia: Malaysia reported its Q2 GDP on Friday, with a 17.1% yoy contraction, considerably worse than we and market had expected. Private consumption slumped, and investment pulled back sharply as well, even as exports were hit by production shutdown and demand evaporation. Bank Negara revised its 2020 growth forecast to -5.5 to -3.5%, from -2.0 to 0.5% previously, although it did highlight that the economy had started to recover encouragingly since June.

Oil: The OPEC+ meeting this week is expected to yield little surprises, with production curbs expected to continue as outlined in April.

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Bond Market Updates

Market Commentary: The SGD swap curve bear steepened last Friday, with the shorter and belly tenors trading 1-4bps higher while the longer tenors traded 3-5bps higher. The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 167bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 1bps to 661bps. The HY-IG Index Spread widened 1bps to 494bps. Flows in SGD corporates were heavy, with flows in NTUCSP 3.1%'50s, UBS 4.85%-PERPs, KEPSP 4%'42s and STTGDC 3.13%'28s. 10Y UST Yields fell 1bps to 0.71%, though remained relatively elevated after the USD112bn record supply of bonds completed on last Thursday

New Issues: Lotte Shopping Co., Ltd. (Guarantor: Kookmin Bank) priced a USD100mn 3-year bond at 3m-US LIBOR+140bps. ICBC Financial Leasing Co. has arranged investor calls commencing 14 August 2020 for its proposed USD bond offering.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	93.096	-0.26%	USD-SGD	1.3709	-0.14%
USD-JPY	106.600	-0.31%	EUR-SGD	1.6234	0.10%
EUR-USD	1.184	0.24%	JPY-SGD	1.2861	0.18%
AUD-USD	0.717	0.31%	GBP-SGD	1.7940	0.01%
GBP-USD	1.309	0.15%	AUD-SGD	0.9830	0.16%
USD-MYR	4.193	0.03%	NZD-SGD	0.8968	-0.22%
USD-CNY	6.950	0.07%	CHF-SGD	1.5080	-0.07%
USD-IDR	14795	0.14%	SGD-MYR	3.0579	0.02%
USD-VND	23176	0.00%	SGD-CNY	5.0710	0.13%

Equity and Commodity

Index	Value	Net change
DJIA	27,931.02	34.30
S&P	3,372.85	-0.58
Nasdaq	11,019.30	-23.20
Nikkei 225	23,289.36	39.75
STI	2,581.32	-14.65
KLCI	1,564.59	-11.83
JCI	5,247.69	8.44
Baltic Dry	1,540.00	30.00
VIX	22.05	-0.08

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.5110	-0.51%	O/N	0.0854	0.09%
2M	-0.3360	-0.34%	1M	0.1580	0.16%
3M	-0.4860	-0.48%	2M	0.2221	0.22%
6M	-0.4280	-0.43%	3M	0.2648	0.25%
9M	-0.1940	-0.20%	6M	0.3368	0.34%
12M	-0.3530	-0.36%	12M	0.4579	0.46%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	0.26 (+0.02)	0.16(-)
5Y	0.49 (+0.02)	0.29 (-0.03)
10Y	0.91 (+0.03)	0.72 (-0.01)
15Y	1.16 (+0.04)	--
20Y	1.23 (+0.04)	--
30Y	1.11 (+0.02)	1.43 (+0.02)

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	% Hike/Cut	Implied Rate Change	Implied Rate
09/16/2020	-0.096	-9.6	0.072	0.072
11/05/2020	-0.099	-0.3	0.072	0.072
12/16/2020	-0.142	-4.3	0.061	0.061
01/27/2021	-0.175	-3.3	0.052	0.052
03/17/2021	-0.228	-5.3	0.039	0.039

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	-1.52	(-)
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	0.09
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Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	42.01	-0.54%	Corn (per bushel)	3.245	-0.2%
Brent (per barrel)	44.80	-0.36%	Soybean (per bushel)	9.035	-0.4%
Heating Oil (per gallon)	123.67	-0.11%	Wheat (per bushel)	5.000	0.7%
Gasoline (per gallon)	124.46	0.79%	Crude Palm Oil (MYR/MT)	28.030	-2.7%
Natural Gas (per MMBtu)	2.36	7.97%	Rubber (JPY/KG)	1.660	0.1%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	6366.50	1.77%	Gold (per oz)	1945.1	-0.4%
Nickel (per mt)	14366.00	1.88%	Silver (per oz)	26.4	-3.8%

Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
08/17/2020 07:01	UK Rightmove House Prices MoM	Aug	--	-0.2%	--
08/17/2020 07:50	JN GDP SA QoQ	2Q P	-7.5%	--	-0.6%
08/17/2020 07:50	JN GDP Annualized SA QoQ	2Q P	-26.9%	--	-2.2%
08/17/2020 07:50	JN GDP Deflator YoY	2Q P	1.7%	--	0.9%
08/17/2020 07:50	JN GDP Nominal SA QoQ	2Q P	-6.5%	--	-0.5%
08/17/2020 08/19	HK Composite Interest Rate	Jul	--	--	0.7%
08/17/2020 08/21	PH Overseas Remittances YoY	Jun	-7.2%	--	-19.3%
08/17/2020 08/21	PH Overseas Workers Remittances	Jun	\$2063m	--	\$2106m
08/17/2020 08:30	SI Non-oil Domestic Exports YoY	Jul	3.6%	--	16.1%
08/17/2020 10:30	TH GDP YoY	2Q	-13.0%	--	-1.8%
08/17/2020 10:30	TH GDP SA QoQ	2Q	-11.2%	--	-2.2%
08/17/2020 12:30	JN Industrial Production MoM	Jun F	--	--	2.7%
08/17/2020 12:30	JN Industrial Production YoY	Jun F	--	--	-17.7%
08/17/2020 12:30	JN Capacity Utilization MoM	Jun	--	--	-11.6%
08/17/2020 20:30	US Empire Manufacturing	Aug	15.00	--	17.20

Source: Bloomberg

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