

Daily Treasury Outlook

18 May 2020

Highlights

Global: Fear and greed may continue to battle for the mindshare of investors as US-China trade tensions return to the fore amid growing concerns that key nations are also racing to obtain first rights to any Covid-19 vaccine. Japan also slipped into a recession as 1Q20 growth contracted 3.4% annualised qoq, whereas China's industrial production had surprised on the upside at 3.9% yoy even though retail sales (-7.5% yoy) and fixed asset investments (-10.3% yoy) remain weak. Meanwhile, India also extended its lockdown until 31 May even as Italy, Belgium and Portugal prepared to lift some restrictions. Separately, China and South Korea have also requested Japan to allow business travel. The S&P500 rose 0.39% on Friday with VIX lower at 31.89, while UST bonds drifted lower amid a steepening bias as the 10-year yield rose to 0.64%. The 3-month LIBOR stood at 0.38050%.

Market watch: Asian markets may tread water today, awaiting fresh economic, Covid-19 and US-China cues. Today's economic data is relatively light with only Thailand's 1Q20 GDP growth and US' NAHB housing market index. For the week ahead, watch for flash May PMIs, Fed chair Powell's testimony to the Senate Banking Committee on Tuesday (where he may reiterate his call to "use the great fiscal power of the US"), with a slew of other Fed speakers including Bostic, Bullard, Williams, Kashkari, Rosengren, Clarida and Brainard, as well as the April FOMC minutes on Wednesday together with the US Treasury's issue of \$20b of 20-year bonds for the first since the 1980s. On the central bank front, RBA's May minutes and BI policy decision (with a 25bp rate cut to 4.25% likely if USDIDR remains contained below 15,000) are also due on 19 May, followed by BOT policy decision (with a 25bp rate cut to 0.5% expected) on 20 May and ECB's minutes on 22 May. China's National People's Congress is also scheduled for 22 May.

US: House Democrats passed a \$3 trillion tax cut and spending bill on Friday, but is likely to face President Trump's veto. Retail sales plunged again by 16.4% in April in its biggest drop since 1992, following a 8.3% contraction in March, while industrial production also slumped by 11.2%. Fed chair Powell opined that "for the economy to fully recover people will have to fully confident, and that may have to await the arrival of a vaccine", "but I will say that we're not out of ammunition by a long shot".

EU: The Eurozone shrank 3.8% qoq (-3.2% yoy) in 1Q20, compared to +0.1% qoq (+1.0% yoy) in 4Q19, and the European Commission tips a full-year contraction of 7.7%. Employment fell 0.2% in 1Q20, marking its first contraction since 2013 amid the Covid-19 outbreak.

Singapore: April NODX surprised with a 9.7% growth, following 17.6% in March, with non-electronics leading the expansion led by pharmaceuticals due to a low base a year ago, whereas electronics fell. NODX to top 10 markets also rose for half of them led by US, EU and Japan, whilst NODX to regional markets like China, HK, Malaysia, Indonesia and Thailand contracted.

Key Market Movements		
Equity	Value	% chg
S&P 500	2863.7	0.4%
DJIA	23685	0.3%
Nikkei 225	20037	0.6%
SH Comp	2868.5	-0.1%
STI	2523.6	0.0%
Hang Seng	23797	-0.1%
KLCI	1403.4	0.4%
Currencies	Value	% chg
DX	100.402	-0.1%
USDJPY	107.06	-0.2%
EURUSD	1.0820	0.1%
GBPUSD	1.2116	-0.9%
USDIDR	14860	-0.2%
USDSGD	1.4268	0.2%
SGDMYR	3.0561	0.2%
Rates	Value	chg (bp)
3M UST	0.10	-1.02
10Y UST	0.64	2.10
1Y SGS	0.26	-0.10
10Y SGS	0.72	-1.91
3M LIBOR	0.39	-0.68
3M SIBOR	0.62	-3.10
3M SOR	0.24	0.65
Commodities	Value	% chg
Brent	32.5	4.4%
WTI	29.43	6.8%
Gold	1744	0.8%
Silver	16.61	4.6%
Palladium	1882	2.1%
Copper	5182	-0.4%
BCOM	61.66	0.6%

Source: Bloomberg

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Major Markets

US: US markets gained on Friday as investors shrugged off a worse than expected plunge in retail sales as well as a rise in the US and China trade tensions. The S&P 500 index rose by 0.39%. Looking ahead, potential downside risks include a spike in infections in countries that have reopened and a further rise in tensions between the US and China.

UK: BOE chief economist Haldane said negative interest rate is “something we’ll need to look at – and are looking at – with somewhat greater immediacy”. Meanwhile, both UK and EU trade talks have stalled.

China: The US Commerce Department’s extension of 90-day temporarily general license for Huawei was fully overshadowed by its decision to block Huawei’s access to non-US chipmakers. This marked the significant escalation of US-China tension. The direct impact in the near term is limited due to 120 day grace period and Huawei’s high inventory of chips. Nevertheless, the risk of ripple effects cannot be underestimated during the period of great decoupling between US and China. In the short-term run, the world’s largest contract chipmaker Taiwan’s TSMC will be caught in crossfire between US and China and will be forced to pick a side. This may also lead to more ripple effect, which may further dampen the political stability in East Asia.

For this week ahead of NPC meeting, the debate about whether China will go down the path of debt monetization is likely to dominate the headline and will be a key driver to China’s bond market. We think the chance of debt monetization is low for three reasons. First, China still has room for its conventional monetary easing. Second, China’s strong credit data in April showed that transmission mechanism remained smooth. Third, China is able to finance its deficit via financial market without compromising its debt discipline.

Hong Kong: The final reading of 1Q GDP remained unchanged at -8.9% yoy as the growth of private consumption was revised up slightly while that of fixed investment and exports of goods was revised down. As HK recorded three new local infections after 23 consecutive days with only imported cases, the government may have to reconsider its plan of further relaxation on the restriction measures. Adding that global lockdowns have not been fully lifted yet, exports of services may take a harder hit (visitor arrivals dropped significantly by 99.9% yoy in April). We hold onto our view that GDP will contract at a faster pace in 2Q by 9.2% yoy and any recovery in 2H will be sluggish amid possibly renewed social unrest, US-China tensions and the demand shock (unemployment rate at over 9-year high while real growth of household income fell 5.7% yoy in 1Q). For the GDP in 2020 as a whole, we pencil in a contraction of 5%.

Singapore: The STI ended nearly flat at 2523.55 (+0.05%) on Friday, but may range trade today between 2500-2560. SGS bonds may track the UST steepening bias on Friday. The 3-month SOR and SIBOR were at 0.23236% and 0.62225% respectively.

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Indonesia: The Indonesian government is planning a IDR128tn (USD8.6bn) bailout for 12 SOEs, mainly in the form of cash compensation and working capital investments. For instance, National airline Garuda is slated to receive IDR8.5tn of working capital injections, and power company PLN to get cash compensation of IDR35.4tn. The numbers are according to Reuters, which sighted a government proposal submitted to the parliament.

Malaysia: Malaysia's parliament is due to reopen after a months-long hiatus. While a no-confidence motion was tabled by former PM Mahathir Mohamad and was already accepted by the speaker, it is not scheduled to take place today. The only agenda for the one-day sitting of the parliament is a speech by the king. Nothing else takes place.

Oil: Crude oil posted a third consecutive week of gains last week, with Brent and WTI closing the week at \$32.50/bbl and \$29.43/bbl respectively. Both benchmarks, since their low on 28 April, have rallied a staggering 42% and 138% as of last Friday. In the coming week, we expect profit-taking in the complex to materialise, as crack margins have failed to keep up with last week's gains while Shandong posted a first decline in refinery run rate in 12 weeks.

Gold: The precious metal closed at a fresh seven year high of \$1743.67/oz last week and is close to testing our upper bound estimate of \$1750/oz as indicated by our model.

Bond Market Updates

Market Commentary: The SGD swap curve fell last Friday, with the shorter tenors trading 1-2bps lower while the belly and the longer tenors traded around 2bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 3bps to 249bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 1bps to 962bps. The HY-IG Index Spread widened 4bps to 713bps. Flows in SGD corporates were heavy, with flows in SOCGEN 6.125%-PERPs, UOBSP 3.58%-PERPs, HSBC 4.7%-PERPs, CMZB 4.875%'27s, HRINTH 3.2%'21s, CS 5.625%-PERPs and HSBC 5%-PERPs. 10Y UST Yields gained 2bps to 0.64%, driven by surging oil prices and claims of COVID-19 antibody development.

New Issues: There were no new issues or mandates.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	100.402	-0.06%	USD-SGD	1.4268	0.23%
USD-JPY	107.060	-0.18%	EUR-SGD	1.5438	0.37%
EUR-USD	1.0820	0.14%	JPY-SGD	1.3330	0.43%
AUD-USD	0.6413	-0.76%	GBP-SGD	1.7288	-0.68%
GBP-USD	1.2116	-0.93%	AUD-SGD	0.9153	-0.49%
USD-MYR	4.3510	0.28%	NZD-SGD	0.8468	-0.89%
USD-CNY	7.1019	0.09%	CHF-SGD	1.4688	0.41%
USD-IDR	14860	-0.17%	SGD-MYR	3.0561	0.15%
USD-VND	23349	-0.06%	SGD-CNY	4.9763	-0.04%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4670	-1.00%	O/N	0.0620	0.05%
2M	-0.3360	0.05%	1M	0.1724	-0.15%
3M	-0.2660	-0.15%	2M	0.2945	-1.31%
6M	-0.1310	-1.31%	3M	0.3805	-0.68%
9M	-0.1940	-0.68%	6M	0.6590	-0.98%
12M	-0.0780	-0.98%	12M	0.7554	-0.76%

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	% Hike/Cut	Implied Rate Change	Implied Rate
10/06/2020	0.006	0.6	0.002	0.053
29/07/2020	0.005	-0.1	0.001	0.052
16/09/2020	-0.068	-7.3	-0.017	0.034
05/11/2020	-0.079	-1.1	-0.02	0.032
16/12/2020	-0.13	-5.1	-0.032	0.019
27/01/2021	-0.205	-7.5	-0.051	0

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	29.43	6.8%	Corn (per bushel)	3.1925	-0.3%
Brent (per barrel)	32.50	4.4%	Soybean (per bushel)	8.385	0.4%
Heating Oil (per gallon)	0.9204	2.9%	Wheat (per bushel)	5.0025	-2.0%
Gasoline (per gallon)	0.9702	6.1%	Crude Palm Oil (MYR/MT)	2,115.0	1.6%
Natural Gas (per MMBtu)	1.6460	-2.1%	Rubber (JPY/KG)	140.3	0.6%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,182	-0.4%	Gold (per oz)	1,743.7	0.8%
Nickel (per mt)	11,855	-1.8%	Silver (per oz)	16.611	4.6%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Equity and Commodity

Index	Value	Net change
DJIA	23,685.42	60.08
S&P	2,863.70	11.20
Nasdaq	9,014.56	70.84
Nikkei 225	20,037.47	122.69
STI	2,523.55	1.24
KLCI	1,403.44	6.19
JCI	4,507.61	-6.23
Baltic Dry	407.00	14.00
VIX	31.89	-0.72

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	0.25 (--)	0.15 (--)
5Y	0.41 (-0.01)	0.31 (--)
10Y	0.72 (-0.02)	0.64 (+0.02)
15Y	0.95 (-0.02)	--
20Y	1.12 (-0.01)	--
30Y	1.12 (-0.01)	1.33 (+0.04)

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	20.22	-0.48
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	0.02
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Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
05/18/2020 05:20	HK Composite Interest Rate	Apr	--	0.95%	--
05/18/2020 05:26	PH BoP Overall	Mar	--	\$839m	--
05/18/2020 05:29	PH Foreign Reserves	Apr	--	\$89.0b	--
05/18/2020 07:50	JN GDP SA QoQ	1Q P	-1.10%	-0.90%	-1.80%
05/18/2020 07:50	JN GDP Annualized SA QoQ	1Q P	-4.50%	-3.40%	-7.10%
05/18/2020 07:50	JN GDP Deflator YoY	1Q P	0.70%	0.90%	1.20%
05/18/2020 07:50	JN GDP Nominal SA QoQ	1Q P	-1.30%	-0.80%	-1.50%
05/18/2020 08:30	SI Non-oil Domestic Exports YoY	Apr	-5.00%	--	17.60%
05/18/2020 08:30	SI Non-oil Domestic Exports SA MoM	Apr	-19.80%	--	12.80%
05/18/2020 08:30	SI Electronic Exports YoY	Apr	-16.80%	--	5.80%
05/18/2020 09:30	CH New Home Prices MoM	Apr	--	--	0.13%
05/18/2020 10:30	TH GDP YoY	1Q	-3.30%	--	1.60%
05/18/2020 10:30	TH GDP SA QoQ	1Q	-3.80%	--	0.20%
05/18/2020 12:30	JN Tertiary Industry Index MoM	Mar	-3.70%	--	-0.50%
05/18/2020 22:00	US NAHB Housing Market Index	May	34	--	30

Source: Bloomberg

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