

Daily Treasury Outlook

18 June 2020

Highlights

Global: The battle between fear and greed will likely sustain. US president Trump signed a bill to punish Chinese officials responsible for oppression of Uighurs and this came amid news of John Bolton's critical book about Trump. Meanwhile, new Covid-19 cases rose to 137 in Beijing with the cluster spreading further from the city, while Brazil saw a record 34,918 new infections and Indonesia overtook Singapore in infection numbers as testing ramps up. The European Commission is also planning tighten rules against market distortions stemming from state-subsidized foreign firms that is seen as targeting state-owned Chinese firms for transactions above EUR100b. The S&P500 slipped 0.36% while VIX was marginally softer at 33.47. UST bonds edged higher with the 10-year yield down to 0.74%. The 3-month LIBOR edged up to 0.3163%. Fed speech remained dovish - Fed vice chair Clarida opined that "at minimum, the easing of financial conditions is buying some time until the economy begins to recover". Meanwhile, Fed chair Powell said "I don't see us as wanting to run through the bond market like an elephant" when questioned about the Fed's \$250b program to purchase corporate bonds.

Market watch: Asian markets may open with a slight risk-off tone today. Three central bank meetings to watch include BI (market is debating if BI would cut 25bps to 4.25%), BOE (where at least a GBP100b addition to its asset purchase program is forthcoming, given that two members Haskel and Saunders had already voted for it last month) and CBC (with market speculation of a 12.5bp rate cut to 1.0%). US Trade Representative Robert Lighthizer is also testifying at two congressional hearings on trade issues including decoupling from China and the need to renegotiate its tariff commitment at the WTO. Today's economic data comprises of US' initial jobless claims and Philadelphia Fed business outlook, as well as ECB's economic bulletin.

US: Housing starts rose less than forecast by 4.3% to a 974k annualized rate in May, the second lowest since 2015 and suggesting a slow recovery in the construction sector. However, mortgage applications rose 3.5% to its highest level since the start of 2009 as the 30-year mortgage rate fell to 3.3% (lowest since 1990).

EU: The German cabinet approved EUR62.5b debt to finance the stimulus program, bringing the net borrowing to EUR218.5b this year but would require parliamentary approval.

Singapore: SM Tharman warned of the "major and urgent challenge" of job losses ahead and the need for Singapore to "defy the loss of social cohesion, the polarization".

Key Market Movements		
Equity	Value	% chg
S&P 500	3113.5	-0.4%
DJIA	26120	-0.6%
Nikkei 225	22456	-0.6%
SH Comp	2935.9	0.1%
STI	2669.6	0.1%
Hang Seng	24481	0.6%
KLCI	1526.3	0.6%
Currencies	Value	% chg
DXY	97.158	0.2%
USDJPY	107.01	-0.3%
EURUSD	1.1244	-0.2%
GBPUSD	1.2555	-0.1%
USDIDR	14083	0.0%
USDSGD	1.3934	-0.1%
SGDMYR	3.0708	-0.1%
Rates	Value	chg (bp)
3M UST	0.15	-0.50
10Y UST	0.74	-1.48
1Y SGS	0.26	0.00
10Y SGS	0.93	0.90
3M LIBOR	0.31	0.89
3M SIBOR	0.53	-1.25
3M SOR	0.16	1.31
Commodities	Value	% chg
Brent	40.71	-0.6%
WTI	37.96	-1.1%
Gold	1727	0.0%
Silver	17.51	0.3%
Palladium	1931	-0.4%
Copper	5770	0.7%
BCOM	64.07	0.2%

Source: Bloomberg

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Major Markets

US: The S&P 500 index closed 0.4% lower yesterday as concerns over a second wave of contagion in the US continued to grip markets. Texas reported an 11% increase in virus hospitalizations, the biggest 24-hour increase in two weeks. Markets are expected to remain volatile as investors take cues from the development of the pandemic in the US.

Singapore: The STI edged up 0.10% to close at 2669.62 yesterday, and may face consolidation pressures today amid weak cues from Wall Street overnight. Given the slight risk-off tone in markets, UST bonds were supported amid a strong 20-year bond auction, which may imply that SGS bonds could be biddish today as well.

China: China's State Council reiterated in its regular meeting that China will keep its interbank liquidity abundant via RRR cut and relending. This may be a relief to bond traders who have been into the guessing game of PBoC's policy direction. US Trade representative Lighthizer's comments about the US-China phase one trade deal is on track also alleviated the concerns about rollback of trade deal.

Malaysia: The two biggest Pakatan Harapan constituent parties have reportedly held talks to decide on their prime ministerial candidate, but effectively agreed to disagree. While PKR is keen to see its president Datuk Seri Anwar Ibrahim taking the helm, DAP is said to favour Tun Dr Mahathir Mohamad alongside other smaller constituent parties. The opposition bloc was supposed to decide on its PM candidate yesterday.

Indonesia: Bank Indonesia is due to announce its MPC decision today, with some market expectations for a cut given the recent growth outlook downgrade by the government to 0-1% from 2.3%. While the potential for a cut is there, we reckon that BI may hold it unchanged because it views the need to preserve interest rate differentials to be more important, given the need to anchor fund inflows to finance wider fiscal deficit.

Oil: Oil prices declined yesterday, with Brent falling 0.6% to \$40.71/bbl. The drop in prices came after data showed US crude stockpiles increased for a second week in a row by more than 1.2mn barrels to 539.3mn barrels. We maintain our view that while we expect prices to continue increasing through the year, oil is expected to see short-term bearish pressures as we head towards the end of Q2.

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Bond Market Updates

Market Commentary: The SGD swap curve bull steepened yesterday, with the shorter tenors trading 2bps lower while the longer tenors traded 0-1bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 204bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 12bps to 791bps. The HY-IG Index Spread tightened 11bps to 587bps. Flows in SGD corporates were heavy, with flows in CMZB 4.875%'27s, OUECT 4%'25s, CS 5.625%-PERPs, UBS 5.875%-PERPs, FPLSP 4.98%-PERPs, MAPLSP 3.95%-PERPs, OLAMSP 5.5%-PERPs, GUOLSP 4.6%-PERPs and CAPLSP 3.65%-PERPs. 10Y UST Yields fell 2bps to 0.74%, as the resurgence of COVID-19 and rising regional geopolitical tensions in Asia boosted demand for safe assets.

New Issues: Standard Chartered PLC priced a USD1bn PerpNC5 AT1 at 6%, tightening from IPT of 6.5% area. Shengzhou Investment Holdings Co., Ltd. priced a USD250mn 3-year bond at 4.08%, tightening from IPT of mid 4% area. China Construction Bank Corporation priced a USD2bn 10NC5 T2 bond at T+215bps, tightening from IPT of T+250bps area. Bluestar Finance Holdings Limited (Guarantor: China National Bluestar (Group) Co., Ltd.) priced a USD500mn PERPNC3 bond at 3.875%, tightening from IPT of 4.4% area. Zhongliang Holdings Group Company Limited priced a USD250mn 364-day bond at 9.25%, tightening from IPT of 9.5% area. NEJIANG INVESTMENT HOLDING GROUP CO., LTD. priced a USD95mn 3-year bond at 7.5%. Taiyuan Longcheng Development Investment Group Co., Ltd., Jollibee Worldwide and China Oilfield Services Limited have arranged investor calls commencing 17 June 2020 for their proposed USD bond offerings respectively.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	97.158	0.21%	USD-SGD	1.3934	-0.09%
USD-JPY	107.010	-0.29%	EUR-SGD	1.5667	-0.27%
EUR-USD	1.1244	-0.18%	JPY-SGD	1.3022	0.20%
AUD-USD	0.6884	-0.07%	GBP-SGD	1.7496	-0.22%
GBP-USD	1.2555	-0.14%	AUD-SGD	0.9593	-0.16%
USD-MYR	4.2830	0.14%	NZD-SGD	0.8998	--
USD-CNY	7.0855	-0.01%	CHF-SGD	1.4689	0.20%
USD-IDR	14083	-0.05%	SGD-MYR	3.0708	-0.08%
USD-VND	23208	--	SGD-CNY	5.0826	-0.06%

Equity and Commodity

Index	Value	Net change
DJIA	26,119.61	-170.37
S&P	3,113.49	-11.25
Nasdaq	9,910.53	14.66
Nikkei 225	22,455.76	-126.45
STI	2,669.62	2.77
KLCI	1,526.32	8.61
JCI	4,987.78	1.32
Baltic Dry	1,054.00	--
VIX	33.47	-0.20

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4810	--	O/N	0.0716	0.19%
2M	-0.3360	0.19%	1M	0.1938	-0.01%
3M	-0.3720	-0.01%	2M	0.2844	0.64%
6M	-0.2060	0.64%	3M	0.3079	0.89%
9M	-0.1940	0.89%	6M	0.4298	-0.11%
12M	-0.1350	-0.11%	12M	0.5855	-0.52%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	0.30 (+0.01)	0.20 (--)
5Y	0.49 (+0.01)	0.34 (--)
10Y	0.93 (+0.01)	0.74 (-0.01)
15Y	1.23 (--)	--
20Y	1.27 (--)	--
30Y	1.33 (--)	1.53 (-0.01)

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	% Hike/Cut	Implied Rate Change	Implied Rate
07/29/2020	-0.021	-2.1	-0.005	0.077
09/16/2020	-0.083	-6.1	-0.021	0.062
11/05/2020	-0.125	-4.3	-0.031	0.052
12/16/2020	-0.133	-0.7	-0.033	0.05
01/27/2021	-0.171	-3.9	-0.043	0.04

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	11.10	-0.22
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)	37.96	-1.1%	Corn (per bushel)	3.3025	0.4%
Brent (per barrel)	40.71	-0.6%	Soybean (per bushel)	8.713	0.5%
Heating Oil (per gallon)	1.1820	0.0%	Wheat (per bushel)	4.8875	-1.5%
Gasoline (per gallon)	1.2153	0.7%	Crude Palm Oil (MYR/MT)	2,447.0	-0.3%
Natural Gas (per MMBtu)	1.6380	1.5%	Rubber (JPY/KG)	139.4	0.0%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,770	0.7%	Gold (per oz)	1,727.0	0.0%
Nickel (per mt)	12,871	-1.2%	Silver (per oz)	17.505	0.3%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
06/18/2020 06:19	HK Composite Interest Rate	May	--	0.90%	--
06/18/2020 06:45	NZ GDP SA QoQ	1Q	-1.00%	-1.60%	0.50%
06/18/2020 06:45	NZ GDP YoY	1Q	0.30%	-0.20%	1.80%
06/18/2020 09:30	AU Unemployment Rate	May	6.90%	--	6.20%
06/18/2020 09:30	AU Employment Change	May	-78.8k	--	-594.3k
06/18/2020 09:30	AU Participation Rate	May	63.60%	--	63.50%
06/18/2020 09:30	AU Full Time Employment Change	May	--	--	-220.5k
06/18/2020 15:20	ID Bank Indonesia 7D Reverse Repo	Jun-18	4.25%	--	4.50%
06/18/2020 19:00	UK Bank of England Bank Rate	Jun-18	0.10%	--	0.10%
06/18/2020 20:30	US Initial Jobless Claims	Jun-13	1290k	--	1542k
06/18/2020 20:30	US Philadelphia Fed Business Outlook	Jun	-21.4	--	-43.1
06/18/2020 20:30	US Continuing Claims	Jun-06	19850k	--	20929k
06/18/2020 20:30	CA Wholesale Trade Sales MoM	Apr	-10.60%	--	-2.20%
06/18/2020 21:45	US Bloomberg Consumer Comfort	Jun-14	--	--	38.7
06/18/2020 22:00	US Leading Index	May	2.40%	--	-4.40%

Source: Bloomberg

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