

Daily Treasury Outlook

19 June 2020

Highlights

Global: Global risk sentiments remained mixed after China's chief epidemiologist said the peak of Beijing's outbreak has passed with only sporadic infections, but US president Trump threatened a complete decoupling from China. The S&P500 was nearly flat at 0.06% while VIX eased to 32.94. UST bonds bull-flattened with the 10-year yield down to 0.70%. On the central bank front, BOE voted 8-1 to expand its bond purchase program by GBP100b to GBP745b which would be completed by the end of the year while holding its benchmark interest rate at a record 0.1% as expected, with chief economist Andy Haldane favouring keeping QE unchanged and that was interpreted as slightly hawkish. However, BOE governor Bailey said policymakers did not discuss negative rates and is not targeting the yield curve. Meanwhile, BI cut its 7-day reverse repo rate by 25bps to 4.25% while CBC kept its benchmark interest rate unchanged at 1.125%.

Market watch: Asian markets may trade sideways today amid weak cues from Wall Street last night. Today's economic data comprises of US' 1Q20 current account balance, UK' retail sales and German PPI. Fed's Mester, Bullard, Daly, Rosengren, Quarles and Powell, as well as ECB's Holzmann, are also speaking.

US: Initial jobless claims declined from a revised 1.566m to 1.508m, but still higher than the 1.29m expected. Meanwhile, the Philadelphia Fed business outlook rebounded more than expected from -43.1 in May to 27.5 in June as the lockdown eased.

EU: The ECB's economic bulletin highlighted that there has been an abrupt drop-in economic activity as a result of the Covid-19 pandemic and the measures to contain it, and the governing council sees the balance of risks tilted to the downside. Wirecard delayed publication of its annual financial results for the fourth time and admitted that EUR1.9b of cash was missing weighed on EuroStoxx50.

Singapore: Phase 2 starts today and shops and restaurant dining in will be allowed with social distancing restrictions. Meanwhile, the government announced no mid-year bonus for civil servants and 0.5-1.0 month one time pay cut for senior officers.

Oil: Prices rose last night, rising 2.0% to \$41.51/bbl after OPEC+ reported the compliance rate to the output cuts have improved to 87%. Iraq and Kazakhstan – two members who constantly flout their quotas – are also in talks to compensate for their prior over-production. Upward momentum on oil remains intact for the time-being.

Key Market Movements		
Equity	Value	% chg
S&P 500	3115.3	0.1%
DJIA	26080	-0.2%
Nikkei 225	22355	-0.4%
SH Comp	2939.3	0.1%
STI	2665.7	-0.1%
Hang Seng	24465	-0.1%
KLCI	1504.9	-1.4%
Currencies	Value	% chg
DX	97.421	0.3%
USDJPY	106.97	0.0%
EURUSD	1.1205	-0.3%
GBPUSD	1.2424	-1.0%
USDIDR	14078	0.0%
USDSGD	1.3941	0.1%
SGDMYR	3.0724	0.1%
Rates	Value	chg (bp)
3M UST	0.14	-0.26
10Y UST	0.71	-2.96
1Y SGS	0.26	-0.10
10Y SGS	0.88	-4.70
3M LIBOR	0.32	0.84
3M SIBOR	0.54	1.25
3M SOR	0.18	2.11
Commodities	Value	% chg
Brent	41.51	2.0%
WTI	38.84	2.3%
Gold	1723	-0.2%
Silver	17.38	-0.7%
Palladium	1908	-1.2%
Copper	5805	0.6%
BCOM	64.12	0.1%

Source: Bloomberg

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Major Markets

US: US markets remained largely unchanged. This comes as the number of coronavirus cases continues to increase in Texas, California, Arizona and Florida, all reporting the biggest jump in a single day, and initial jobless claim only fell slightly as compared to the week before, disappointing estimates at 1.56m. The S&P500 index closed 0.06% higher. Markets are likely to remain volatile as the economic and pandemic situation continues to evolve.

Singapore: The STI slipped 0.15% to close at 2665.66 yesterday, and may trade sideways today. UST bonds extended gains and bull-flattened as initial jobless claims disappointed by rising to 1.5 million with upward revisions to earlier weeks as well. This may prompt SGS bonds to unwind some of the selling interest in the front end of the curve seen yesterday.

China: China started to issue its off the budget 1 trillion Yuan special government bond to fight the pandemic yesterday. It is expected to complete the issuance of all 1 trillion by the end of July. There are two surprises about this issuance. First, all the special bonds will be publicly issued. This adds supply concerns into the market. Second, the auction yields for two tranches issued yesterday were much lower than previous day's close. 5-year down by 24 bps and 7-year down by 22bps. In order to ease the supply shock to the bond market. Monetary policy needs to coordinate with the bond issuance to maintain liquidity abundant and funding costs stable at a low level. China resumed its 14-day reverse repo operation yesterday to support the special treasury bond issuance. Meanwhile, 14-day reverse repo rate was lowered by 20bps, which is a catchup move. Expectation on RRR cut is heightening again.

Macau: Visitor arrivals dropped by over 90% yoy for the fourth consecutive month and decreased by 99.5% yoy in May due to travel restrictions. In particular, same-day visitors and overnight visitors decreased by 99.6% yoy and 99.4% yoy respectively. Notably, Mainland visitors (-99.4% yoy) and Hong Kong visitors (-99.8% yoy) together took up 99% of total visitor arrivals. As such, should HK, Macau and Guangdong Province form a travel bubble, it could help the regional tourism to bottom out on the back of pent-up travelling demand. However, we are concerned that this plan will be put on hold amid Beijing's coronavirus outbreak. Even if the travel bubble is formed shortly, the travelling across the Greater Bay Area may still be subject to conditions such as health code due to the pandemic uncertainty. This combined with the relatively strong MOP, the high accommodation cost and the looming job concerns may hinder the recovery of Macau's tourism.

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Taiwan: CBC kept the key interest rate unchanged at 1.125% while the forecast of GDP and CPI for 2020 has been revised downwardly to 1.52% (from 1.92%) and 0.01% (from 0.59%) respectively. From the domestic perspective, as the risks of Covid-19 has been well-contained in Taiwan, the domestic economic condition remained normal, thanks to the effective containment measures. CBC expected that private consumption will stabilize in the second half of this year. Externally, with the reopening of economic activities across the globe, global economy may bottom out gradually. Nevertheless, as the uncertainties of global pandemic still exist, it may harm the stability of financial market. CBC said it may hold emergency meetings if needed. Meanwhile, CBC reiterated that negative interest rate may damage the profitability of banking system and the effectiveness of monetary policy transmission will be affected. Therefore, negative interest rates may not be a viable option. Moving to the rest of 2020, CBC is possible to have another insurance cut in the fourth quarter of 2020 should the external uncertainties intensify. Nevertheless, the magnitude of rate cut may be capped at 12.5 bps, instead of 25 bps.

Malaysia: In a sign that some degree of normalisation is returning to Malaysia's daily lives - where virus cases have declined to more manageable level at 14 cases yesterday - Emirates announced that it has resumed flight operations from KL. Travellers from Malaysia can now connect to the airline's network of 39 destinations in the Middle East, Asia Pacific, Europe and Americas.

Indonesia: Bank Indonesia opted to cut its policy rate by 25bps, bringing it to 4.25% yesterday, in line with median market consensus. We had expected BI to tread more gingerly and keep rate unchanged to keep yield differential to anchor more bond fund inflows, but it appears that the poorer growth outturn in the early part of Q2 has tipped the balance. BI revised down its 2020 growth forecast to 0.9-1.9% versus 2.3% earlier, coming a tad more optimistic than the government's 0-1% range.

Thailand: Prime Minister Prayuth Chan-Ocha said the country's Covid-19 situation is under control. Separately, May car sales fell 54.1% yoy from -65.0% yoy in April and -41.7% yoy in March.

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Bond Market Updates

Market Commentary: The SGD swap curve bull flattened yesterday, with the shorter tenors trading 0-1bp lower while the belly and longer tenors traded 2-3bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS remained mostly unchanged at 204bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 2bps to 789bps. The HY-IG Index Spread tightened 2bps to 584bps. Flows in SGD corporates were heavy, with flows in STANLN 5.375%-PERPs, HSBC 4.7%-PERPs, BACR 3.75%'30s, STHSP 3.95%-PERPs, OLAMSP 5.5%-PERPs, OUECT 4%'25s and CAPLSP 3.65%-PERPs. 10Y UST Yields fell 3bps to 0.71% after U.S. reported surges in new COVID-19 cases in several states after re-opening their economies.

New Issues: COSL Singapore Capital Ltd. (Guarantor: China Oilfield Services Limited) priced a USD500mn 5-year bond at T+158bps, tightening from IPT of T+225bps area and another USD300mn 10-year bond at T+190bps, tightening from IPT of T+250bps area. Taiyuan Longcheng Development Investment Group Co., Ltd. priced a USD300mn 3-year bond at 3.70%, tightening from IPT of 4.2% area. Haitong International Securities Group Ltd. priced a USDD400mn 3-year bond at T+195bps, tightening from IPT of T+235bps area. Jollibee Worldwide Pte. Ltd (Guarantor: Jollibee Foods Corporation) priced a USD300mn long 5-year bond at 4.125%, tightening from IPT of 4.375% area and another USD300mn 10-year bond at 4.75%, tightening from IPT of 5.0% area. Bank of China Limited, Hong Kong Branch priced a USD400mn 3-year FRN at 3mL+75bps, tightening from IPT of 3mL+110bps area and another USD600mn 5-year Fixed at T+103bps, tightening from IPT of T+140bps area. Minor International PCL has arranged investor calls commencing 18 June 2020 for its proposed USD Perp-NC3 offering.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	97.421	0.27%	USD-SGD	1.3941	0.05%
USD-JPY	106.970	-0.04%	EUR-SGD	1.5621	-0.29%
EUR-USD	1.1205	-0.35%	JPY-SGD	1.3033	0.08%
AUD-USD	0.6852	-0.46%	GBP-SGD	1.7320	-1.01%
GBP-USD	1.2424	-1.04%	AUD-SGD	0.9552	-0.43%
USD-MYR	4.2782	-0.11%	NZD-SGD	0.8963	-0.39%
USD-CNY	7.0893	0.05%	CHF-SGD	1.4653	-0.25%
USD-IDR	14078	-0.04%	SGD-MYR	3.0724	0.05%
USD-VND	23202	-0.03%	SGD-CNY	5.0876	0.10%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4920	0.50%	O/N	0.0755	0.39%
2M	-0.3360	0.39%	1M	0.1939	0.01%
3M	-0.3960	0.01%	2M	0.2825	-0.19%
6M	-0.2150	-0.19%	3M	0.3163	0.84%
9M	-0.1940	0.84%	6M	0.4248	-0.50%
12M	-0.1300	-0.50%	12M	0.5839	-0.16%

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	% Hike/Cut	Implied Rate Change	Implied Rate
07/29/2020	-0.021	-2.1	-0.005	0.072
09/16/2020	-0.063	-4.1	-0.016	0.062
11/05/2020	-0.109	-4.7	-0.027	0.051
12/16/2020	-0.106	0.4	-0.026	0.051
01/27/2021	-0.141	-3.6	-0.035	0.043

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	38.84	2.3%	Corn (per bushel)	3.3100	0.2%
Brent (per barrel)	41.51	2.0%	Soybean (per bushel)	8.730	0.2%
Heating Oil (per gallon)	1.1986	1.4%	Wheat (per bushel)	4.8350	-1.1%
Gasoline (per gallon)	1.2577	3.5%	Crude Palm Oil (MYR/MT)	2,454.0	0.3%
Natural Gas (per MMBtu)	1.6380	--	Rubber (JPY/KG)	139.4	0.0%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,805	0.6%	Gold (per oz)	1,722.9	-0.2%
Nickel (per mt)	12,894	0.2%	Silver (per oz)	17.383	-0.7%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Economic Calendar

Date Time		Event		Survey	Actual	Prior	Revised
06/18/2020 06:30	IN	BoP Current Account Balance	1Q	-\$3.05b	--	-\$1.40b	--
06/19/2020	PH	BoP Overall	May	--	--	\$1666m	--
06/19/2020 07:01	UK	GfK Consumer Confidence	Jun P	--	-30	-36	--
06/19/2020 07:30	JN	Natl CPI YoY	May	0.20%	--	0.10%	--
06/19/2020 14:00	UK	Retail Sales Inc Auto Fuel MoM	May	6.30%	--	-18.10%	--
06/19/2020 14:00	UK	Retail Sales Inc Auto Fuel YoY	May	-16.40%	--	-22.60%	--
06/19/2020 14:00	UK	Retail Sales Ex Auto Fuel MoM	May	4.10%	--	-15.20%	--
06/19/2020 14:00	GE	PPI MoM	May	-0.30%	--	-0.70%	--
06/19/2020 14:00	GE	PPI YoY	May	-2.00%	--	-1.90%	--
06/19/2020 14:00	UK	Public Finances (PSNCR)	May	--	--	89.5b	--
06/19/2020 14:00	UK	Public Sector Net Borrowing	May	49.3b	--	61.4b	--
06/19/2020 15:30	TH	Foreign Reserves	Jun-12	--	--	\$239.4b	--
06/19/2020 20:30	CA	Retail Sales MoM	Apr	-15.10%	--	-10.00%	--
06/19/2020 20:30	CA	Retail Sales Ex Auto MoM	Apr	-12.00%	--	-0.40%	--
06/19/2020 20:30	US	Current Account Balance	1Q	-\$102.9b	--	-\$109.8b	--

Source: Bloomberg

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