

## Daily Treasury Outlook

19 August 2020

### Highlights

**Global:** The S&P 500 has closed at a fresh record high of 3389.78, adding 51.5% (more than a thousand points) since it sunk to its pandemic-low of 2237.40. This has come at a time when the US is still grappling with the coronavirus and the next fiscal stimulus still very much in the air with Congress, with liquidity provided by the Fed since March proving more than ample in fuelling the recovery of the US equity market. The dollar continued its decline, with the dollar index falling to its lowest in almost 27 months and the euro hitting a two year high against the greenback. Gold advanced 1% and Treasury yields declined 2bp – cross-asset moves that begin to seem all too familiar in the current risk-on setup. Meanwhile, US-China tensions continue with Trump remarking he has no wish to talk to China right now, but that has been largely overlooked.

**Market watch:** Asian markets are likely to open on a firmer foot this morning, as positive spill-over effects from the S&P 500 index closing at a new high may lend some bullish momentum to Asian risk assets.

**US:** US-China tensions continue to remain elevated, with Trump claiming he called off last weekend's trade talks with China and that he "does not want to talk to China right now". Meanwhile, the White House administration has advised US university endowments to divest holdings of Chinese assets in a written letter, warning of potentially more onerous measures to come on Chinese firms, according to Bloomberg.

**AU:** In the latest RBA meeting, RBA has maintained its accommodative stance with members reaffirming that there was "no need to adjust the package of measures in Australia in the current environment". The Board affirmed that yield targets for 3-year bonds would be maintained at 0.25% until progress is made towards full employment and inflation.

**CN:** China has launched anti-dumping probe into imports of Australian wine. The news wiped down more than 15% market cap of world's largest standalone winemaker yesterday. China's Foreign Ministry spokesman said the investigation was launched at the request of domestic wine maker and it will be conducted in a fair manner. However, it also showed that US's allies have been caught in the crossfire between US-China tensions.

**Gold:** Gold returned above the \$2000/oz level during early European hours yesterday, rising as high as \$2015.67/oz in intraday trading although it eventually closed at \$2004.97/oz. The precious metal spent five days below the \$2000/oz level and its quick return above this critical resistance suggests demand for the safe haven asset remains intact.

### Key Market Movements

Equity	Value	% chg
S&P 500	3389.8	0.2%
DJIA	27778	-0.2%
Nikkei 225	23051	-0.2%
SH Comp	3451.1	0.4%
STI	2563.1	-0.3%
Hang Seng	25367	0.1%
KLCI	1577.9	1.1%
	Value	% chg
DX	92.271	-0.6%
USDJPY	105.41	-0.6%
EURUSD	1.1931	0.5%
GBPUSD	1.3239	1.0%
USDIDR	14845	0.3%
USDSGD	1.3646	-0.2%
SGDMYR	3.0647	0.1%
	Value	chg (bp)
3M UST	0.09	0.51
10Y UST	0.67	-1.95
1Y SGS	0.30	-0.10
10Y SGS	0.90	0.71
3M LIBOR	0.27	-0.26
3M SIBOR	0.44	0.00
3M SOR	0.21	0.00
	Value	% chg
Brent	45.46	0.2%
WTI	42.89	0.0%
Gold	2002	0.9%
Silver	27.67	0.7%
Palladium	2203	0.0%
Copper	6568	1.9%
BCOM	72.47	0.6%

Source: Bloomberg

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### Major Markets

**US:** The S&P500 index closed 0.2% higher overnight to a record high of 3,389.78 as risk sentiment was buoyed by better-than-expected housing starts data. In the near term we expect bullish momentum to continue, barring any negative surprises in stimulus talks or a sharp decline in existing US-China relations.

**HK:** As the ongoing containment measures are set to take heavy toll on the already damaged economy, HK's leader Carrie Lam hinted that the government will soon announce the third round to anti-epidemic fund. We expect the key focus of the fresh relief measures would be an extension to the Employment Support Scheme which will expire by end of November and further support to the hardest-hit sectors and SMEs.

**Singapore:** The STI registered its third consecutive decline yesterday, falling 0.3% to 2563.09 after testing and failing to break above the 2600 resistance level in the prior two sessions. Bullish momentum from overnight US markets may lead the STI higher today, but gains are likely to be capped. Support is seen at 2478 in the short-term.

**Malaysia:** Malaysia reported its July CPI data yesterday, which saw its headline print falling by 1.3% yoy, in line with market expectation. It marks a relative normalisation compared to the -1.9% of June and -2.9% of the previous two months, as commodity price ticked up and consumer demand recovered some grounds from the depth of the coronavirus pandemic lockdown period.

**Indonesia:** Bank Indonesia is due to announce its latest monetary policy decision today, ahead of a long holiday weekend. We expect the central bank to keep its 7day reverse repo policy rate unchanged at 4.0%. While recent Q2 GDP print showed a downside surprise, the central bank is likely to focus on liquidity measures rather than touching the policy rate further, with yield differential in mind to attract foreign fund inflows.

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**Bond Market Updates**

**Market Commentary:** The SGD swap curve rose slightly yesterday, with most of the tenors trading 0-1bps higher while the 20-year and 30-year remained unchanged. The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 2bps to 170bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 1bps to 664bps. The HY-IG Index Spread tightened 1bps to 495bps. Flows in SGD corporates were heavy, with flows in OLAMSP 4%'26s, OLAMSP 6%'22s, SINTEC 4.1%-PERPs, AREIT 2.65%'30s, OLAMSP 5.5%-PERPs, STANLN 5.375%-PERPs, NTUCSP 3.1%'50s, CMZB 4.875%'27s, UBS 4.85%-PERPs and SIASP 3.13%'27s. 10Y UST Yields fell 2bps to 0.67% as the market awaited auction of the 20-year bonds on Wed and looked ahead to the FOMC minutes for July's meeting.

**New Issues:** Yibin Grace Group Co (Guarantor: Yibin State-owned Assets Management Co Ltd) priced a USD140mn 3-year bond at 3.9%, tightening from IPT of 4.3% area. ICBCIL Finance Co. (Guarantor: ICBC Financial Leasing Co.) priced a USD900mn 5-year bond at T+147.5bps, tightening from IPT of T+200bps area. Elect Global Investments Ltd. (Guarantor: Hysan Development Co.) priced a USD300mn PerpNC3 bond at 4.85%, tightening from IPT of 5.3% area. Yangzhou Urban Construction State-owned Asset Holding Group Co Ltd priced a USD300mn 3-year bond at 3.02%, tightening from IPT of 3.7% area. Li & Fung Limited priced a USD100mn re-tap of its LIFUNG 4.5%'25s. China Jianyin Investment Ltd. has arranged investor calls commencing 18 August 2020 for its proposed USD bond offering. KT Corp. has arranged investor calls commencing 19 August 2020 for its proposed USD bond offering.

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### Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	92.271	-0.62%	USD-SGD	1.3646	-0.24%
USD-JPY	105.410	-0.56%	EUR-SGD	1.6281	0.26%
EUR-USD	1.193	0.51%	JPY-SGD	1.2946	0.32%
AUD-USD	0.724	0.40%	GBP-SGD	1.8065	0.78%
GBP-USD	1.324	1.04%	AUD-SGD	0.9884	0.15%
USD-MYR	4.182	-0.21%	NZD-SGD	0.9007	0.40%
USD-CNY	6.922	-0.16%	CHF-SGD	1.5100	0.08%
USD-IDR	14845	0.34%	SGD-MYR	3.0647	0.14%
USD-VND	23166	0.00%	SGD-CNY	5.0699	0.05%

### Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.5190	-0.52%	O/N	0.0848	0.09%
2M	-0.3360	-0.34%	1M	0.1614	0.15%
3M	-0.4800	-0.48%	2M	0.2089	0.21%
6M	-0.4330	-0.43%	3M	0.2678	0.27%
9M	-0.1940	-0.20%	6M	0.3196	0.33%
12M	-0.3550	-0.35%	12M	0.4604	0.46%

### 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	-0.123	-2.7	0.066	0.066
12/16/2020	-0.128	-0.5	0.064	0.064
01/27/2021	-0.195	-6.7	0.047	0.047
03/17/2021	-0.231	-3.6	0.038	0.038

### Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	42.89	0.00%	Corn (per bushel)	3.270	-1.2%
Brent (per barrel)	45.46	0.20%	Soybean (per bushel)	9.120	-0.1%
Heating Oil (per gallon)	126.04	1.72%	Wheat (per bushel)	5.075	-1.7%
Gasoline (per gallon)	128.30	1.02%	Crude Palm Oil (MYR/MT)	28.130	1.4%
Natural Gas (per MMBtu)	2.42	3.33%	Rubber (JPY/KG)	1.676	-1.8%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	6567.50	1.88%	Gold (per oz)	2002.4	0.9%
Nickel (per mt)	14675.00	0.52%	Silver (per oz)	27.7	0.7%

### Equity and Commodity

Index	Value	Net change
DJIA	27,778.07	-66.84
S&P	3,389.78	7.79
Nasdaq	11,210.84	81.11
Nikkei 225	23,051.08	-45.67
STI	2,563.09	-8.46
KLCI	1,577.85	17.11
JCI	5,295.17	47.48
Baltic Dry	1,598.00	3.00
VIX	21.51	0.16

### Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	0.24 (-)	0.14 (-)
5Y	0.47 (-)	0.28 (-0.01)
10Y	0.9 (+0.01)	0.67 (-0.02)
15Y	1.18 (+0.02)	--
20Y	1.24 (+0.02)	--
30Y	1.13 (+0.03)	1.4 (-0.04)

### Financial Spread (bps)

	Value	Change
EURIBOR-OIS	-1.30	(-)
TED	35.36	--
Secured Overnight Fin. Rate		
SOFR	0.10	

### Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
08/19/2020 07:50	JN Core Machine Orders MoM	Jun	2.0%	-7.6%	1.7%
08/19/2020 08:21	PH BoP Overall	Jul	--	--	\$80m
08/19/2020 08:30	AU Westpac Leading Index MoM	Jul	--	--	0.4%
08/19/2020 14:00	UK CPI YoY	Jul	0.6%	--	0.6%
08/19/2020 14:00	UK CPI MoM	Jul	-0.1%	--	0.1%
08/19/2020 14:00	UK CPI Core YoY	Jul	1.2%	--	1.4%
08/19/2020 14:00	UK PPI Output NSA MoM	Jul	0.2%	--	0.3%
08/19/2020 14:00	UK PPI Output NSA YoY	Jul	-0.9%	--	-0.8%
08/19/2020 15:20	ID Bank Indonesia 7D Reverse Repo	Aug-19	4.0%	--	4.0%
08/19/2020 16:30	HK Unemployment Rate SA	Jul	6.4%	--	6.2%
08/19/2020 17:00	EC CPI YoY	Jul F	0.4%	--	0.3%
08/19/2020 17:00	EC CPI MoM	Jul F	-0.3%	--	-0.3%
08/19/2020 19:00	US MBA Mortgage Applications	Aug-14	--	--	6.8%
08/19/2020 20:30	CA CPI YoY	Jul	0.6%	--	0.7%
08/19/2020 20:30	CA CPI NSA MoM	Jul	0.4%	--	0.8%

Source: Bloomberg

## Treasury Research & Strategy

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