

Daily Treasury Outlook

20 May 2020

Highlights

Global: Global risk appetite took a step back overnight as doubts emerged over a potential Covid-19 vaccine from Moderna and amid cautious official rhetoric – US Treasury Secretary Mnuchin told the Senate Committee that he was prepared to provide more money as “there is the risk of permanent damage” and Fed chair Powell signalled that “we need to be prepared to act further and I would say we are, if the need is there” and “there’s no limit”. ECB chief economist Lane also opined “we are fully prepared to further adjust our instruments if warranted”. Meanwhile, US president Trump also threatened to permanently cut funding for the World Health Organisation. The S&P500 fell 1.05% with VIX back above the 30 handle at 30.53. With the return to flight to safety, UST bonds gained with the 10-year yield at 0.69% while awaiting the \$20b 20-year UST bond auction and another busy USD IG issuance slate today. The 3-month LIBOR was at 0.3741%, while USD and crude oil prices also edged lower. Elsewhere, BI chose to stay pat at 4.5% yesterday.

Market watch: Asian markets may start on a soft footing this morning, awaiting the BOT policy rate decision where a 25bp rate cut to 0.5% is widely anticipated, as well as China’s LPR fixing. Today’s economic data calendar comprises of Malaysia and Eurozone’s April CPI, UK’s CPI/RPI/PPI, Taiwan’s April export orders and FOMC’s April minutes. Speakers include BOE’s Bailey, Boradent and Cunliffe and Fed’s Bostic and Bullard.

US: President Trump tips a “really great third quarter” as Republican leaders are betting on restrictions being lifted soon. The US economy may expand by 4.2% yoy in 2021 (previously 2.8%), but unemployment may only recede from 11.5% this year to 9.3% next year.

EU: The German ZEW investor confidence saw a surprise jump to a 5-year high of 51.0, up from 28.2 previously, whereas the current conditions gauge slipped to -91.5 (lowest since 2003). The ZEW picture for the Euro region was similar with a surge from 25.2 to 46.0 amid optimism about the economic outlook given the EUR500b relief fund.

UK: The UK announced plans for GBP30b tariff cuts, by eliminating tariffs on 60% of global imports, after Brexit on 31 December. Chancellor Sunak warned that “we are likely to face a severe recession, the likes of which we haven’t seen”. The 3-month GBP LIBOR fell to 0.27488% (lowest since at least 1987) amid expectations of upcoming negative rates by the BOE.

Japan: BOJ will hold a monetary policy meeting on Friday at 9am to discuss a possible new measure to provide funds to financial institutions.

Singapore: Restrictions will be lifted in three phases, with businesses in manufacturing and production facilities and services to resume from 2 June, and DPM Heng will announce a fourth stimulus package on 26 May in Parliament. MAS plans to re-open \$2b (of which it is taking \$200m) of the 15-year SGS bond maturing on 1 Aug 2036, with the auction on 27 May.

Key Market Movements

Equity	Value	% chg
S&P 500	2922.9	-1.0%
DJIA	24207	-1.6%
Nikkei 225	20433	1.5%
SH Comp	2898.6	0.8%
STI	2581.3	1.7%
Hang Seng	24388	1.9%
KLCI	1424.0	1.0%
Currencies	Value	% chg
DX	99.371	-0.3%
USDJPY	107.71	0.3%
EURUSD	1.0923	0.1%
GBPUSD	1.2253	0.5%
USDIDR	14770	-0.5%
USDSGD	1.4167	-0.1%
SGDMYR	3.0698	0.2%
Rates	Value	chg (bp)
3M UST	0.11	1.02
10Y UST	0.69	-3.75
1Y SGS	0.23	-4.10
10Y SGS	0.73	1.90
3M LIBOR	0.38	-0.39
3M SIBOR	0.62	0.00
3M SOR	0.21	-2.61
Commodities	Value	% chg
Brent	34.65	-0.5%
WTI	31.96	1.0%
Gold	1745	0.7%
Silver	17.35	2.3%
Palladium	2024	1.3%
Copper	5355	0.7%
BCOM	63.24	0.3%

Source: Bloomberg

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Major Markets

US: US markets retraced some of their gains on Monday as risk sentiment was dented on the back of a report that said Moderna's positive vaccine trial results lacked sufficient data. The S&P500 index fell 1.05%. Markets are likely to remain volatile as there is uncertainty around a potential Covid-19 vaccine as well as how economies will fare after they have reopened.

China: China's banking and insurance regulator said China has reduced the size of shadow banking by CNY16 trillion over the past three years to contain the financial risk.

Hong Kong: Unemployment rate soared to the highest since 2009 of 5.2% during February to April from 4.2% for January to March, much worse than expected. During the same period, the underemployment rate jumped by one percentage point to an over 15-year high of 3.1%. Worse still, both total employment and labor force dropped at fastest pace since record by 5.4% yoy and 3% yoy respectively. Moving forward, we expect the unemployment rate to edge higher towards 6% in 2H. Small businesses especially those in hardest hit sectors will remain under pressure given the prolonged pandemic, the heightened US-China trade tensions and the renewed social unrest. Adding that relief measures are not unlimited while landlords have refrained from significant rental concessions, more SMEs may go bust in 2H and result in more retrenchments. Headcount freeze will also leave the unemployed and fresh grads out of work. This together with possible wage cuts is expected to dent local consumer demand and make the recent housing rebound unsustainable.

Singapore: The STI extended gains by 1.66% to close at 2581.33 yesterday, but may give back some gains today amid doubts over Moderna's potential vaccine and soft cues from Wall Street overnight. SGS bonds may be supported today amid the slippage in overall risk appetite. The 3-month SOR and SIBOR softened further to 0.18548% and 0.55325% respectively.

Indonesia: Bank Indonesia opted to keep its policy rate unchanged at 4.5%, against expectation by us and the market median for a 25bps cut. While it continues to talk about need and the room to ease rates further, BI governor said that the focus is on external stability now. He reiterates that the rupiah remains undervalued due to lower current account deficit and decline in global risk premium. The tone suggests that BI is not ready to cut rate in the immediate month or two ahead, unless bond inflows strengthen more significantly to help plug the wider fiscal gap.

Malaysia: Malaysia is due to report its April inflation today. We expect headline inflation to decline further to -1.5% yoy compared to -0.2% of March. Soft demand and low commodity prices are likely to continue to dampen inflationary pressure in Malaysia in the coming months, even as the economy re-opens after the relaxation of restriction measures.

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Oil: Brent rose as much as \$35.76/bbl yesterday, but ultimately ended the day 0.5% down at \$34.65/bbl. WTI for June delivery expired yesterday with little fanfare, closing at \$32.50/bbl, with no clear signs that the contract was ever going into negative territory. With Brent hitting the resistance level of \$35/bbl over the past two days, we think it will require a stronger catalyst for oil to edge higher from here.

Bond Market Updates

Market Commentary: The SGD swap curve steepened yesterday, with the shorter tenors trading 0-2bps lower while the belly and the longer tenors traded 2-5bps higher (with the exception of the 20-year trading around 0.5bps lower). The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 6bps to 240bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 17bps to 940bps. The HY-IG Index Spread tightened 11bps to 700bps. Flows in SGD corporates were heavy, with flows in HSBC 5%-PERPs, ARASP 5.2%-PERPs, HSBC 4.7%-PERPs, CS 5.625%-PERPs, FPLSP 4.98%-PERPs, GUOLSP 4.6%-PERPs, STANLN 5.375%-PERPs, IOCLIN 4.1%'22s, LBBW 3.75%'27s, MAPLSP 3.95%-PERPs, SPHSP 4.5%-PERPs, SPHSP 4%-PERPs, STANLN 4.4%'26s and UBS 5.875%-PERPs. 10Y UST Yields fell 4bps to 0.69% while U.S. equities fluctuated, as market sentiment softened and the UST showed muted reaction towards Fed Chairman Powell's senate hearing.

New Issues: Redco Properties Group Limited priced a USD150mn 3NC2P2 bond at 14.875% (yield to put), tightening from IPT of 15% area (yield to put). Country Garden Holdings Company Limited priced a USD544mn 5NC3 bond at 5.4%, tightening from IPT of 6.1% area. The Hongkong Land Finance (Cayman Islands) Co. (Guarantor: The Hongkong Land Co.) priced a USD600mn 10-year bond at T+220bps, tightening from IPT of T+265bps area. Suntec REIT MTN Pte. Ltd priced a SGD200mn 5-year bond at 2.6%.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	99.371	-0.29%	USD-SGD	1.4167	-0.11%
USD-JPY	107.710	0.34%	EUR-SGD	1.5474	-0.03%
EUR-USD	1.0923	0.09%	JPY-SGD	1.3153	-0.46%
AUD-USD	0.6537	0.20%	GBP-SGD	1.7358	0.37%
GBP-USD	1.2253	0.48%	AUD-SGD	0.9262	0.10%
USD-MYR	4.3533	-0.43%	NZD-SGD	0.8608	0.48%
USD-CNY	7.0990	-0.15%	CHF-SGD	1.4584	-0.13%
USD-IDR	14770	-0.54%	SGD-MYR	3.0698	0.19%
USD-VND	23311	-0.12%	SGD-CNY	5.0124	0.07%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4780	-0.60%	O/N	0.0598	-0.23%
2M	-0.3360	-0.23%	1M	0.1708	-0.16%
3M	-0.2760	-0.16%	2M	0.2993	0.48%
6M	-0.1370	0.48%	3M	0.3766	-0.39%
9M	-0.1940	-0.39%	6M	0.6281	-3.09%
12M	-0.0840	-3.09%	12M	0.7183	-3.71%

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	% Hike/Cut	Implied Rate Change	Implied Rate
10/06/2020	0.056	5.6	0.014	0.065
29/07/2020	0.045	-1.1	0.011	0.063
16/09/2020	-0.006	-5.1	-0.002	0.05
05/11/2020	-0.015	-0.9	-0.004	0.047
16/12/2020	-0.066	-5.1	-0.016	0.035
27/01/2021	-0.075	-0.9	-0.019	0.032

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	32.50	2.1%	Corn (per bushel)	3.2125	0.2%
Brent (per barrel)	34.65	-0.5%	Soybean (per bushel)	8.425	-0.3%
Heating Oil (per gallon)	0.9736	-3.3%	Wheat (per bushel)	4.9875	0.4%
Gasoline (per gallon)	1.0452	1.9%	Crude Palm Oil (MYR/MT)	2,230.0	2.0%
Natural Gas (per MMBtu)	1.8300	2.6%	Rubber (JPY/KG)	140.0	1.0%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,355	0.7%	Gold (per oz)	1,745.1	0.7%
Nickel (per mt)	12,453	1.7%	Silver (per oz)	17.350	2.3%

Source: Bloomberg, Reuters
(Note that rates are for reference only)

Equity and Commodity

Index	Value	Net change
DJIA	24,206.86	-390.51
S&P	2,922.94	-30.97
Nasdaq	9,185.10	-49.72
Nikkei 225	20,433.45	299.72
STI	2,581.33	42.05
KLCI	1,423.97	13.81
JCI	4,548.66	37.60
Baltic Dry	427.00	--
VIX	30.53	1.23

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	0.22 (-0.02)	0.17 (-0.01)
5Y	0.39 (-)	0.33 (-0.04)
10Y	0.73 (+0.02)	0.69 (-0.04)
15Y	0.95 (+0.01)	--
20Y	1.12 (+0.02)	--
30Y	1.13 (+0.02)	1.41 (-0.03)

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	19.13	-0.17
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	0.04
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Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
05/20/2020 06:45	NZ Food Prices MoM	Apr	--	1.00%	0.70%
05/20/2020 07:50	JN Core Machine Orders MoM	Mar	-6.70%	-0.40%	2.30%
05/20/2020 08:30	AU Westpac Leading Index MoM	Apr	--	--	-0.84%
05/20/2020 14:00	UK CPI YoY	Apr	0.90%	--	1.50%
05/20/2020 14:00	UK CPI MoM	Apr	-0.10%	--	0.00%
05/20/2020 14:00	UK CPI Core YoY	Apr	1.40%	--	1.60%
05/20/2020 14:00	UK PPI Output NSA MoM	Apr	-0.50%	--	-0.20%
05/20/2020 14:00	UK PPI Output NSA YoY	Apr	-0.50%	--	0.30%
05/20/2020 15:05	TH BoT Benchmark Interest Rate	May-20	0.50%	--	0.75%
05/20/2020 16:00	TA Export Orders YoY	Apr	-3.70%	--	4.30%
05/20/2020 17:00	EC CPI YoY	Apr F	0.40%	--	0.70%
05/20/2020 17:00	EC CPI MoM	Apr F	0.30%	--	0.30%
05/20/2020 19:00	US MBA Mortgage Applications	May-15	--	--	0.30%
05/20/2020 20:30	CA CPI YoY	Apr	-0.10%	--	0.90%
05/20/2020 20:30	CA CPI NSA MoM	Apr	-0.60%	--	-0.60%

Source: Bloomberg

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