

Daily Treasury Outlook

20 July 2020

Highlights

Global: Risk sentiments in EM wavered on Friday but did not appear to deter US markets even as new Covid-19 infections surged to a fresh daily record of more than 70,000 cases and Florida and Texas posting record deaths. Elsewhere, the EU leaders summit failed to reach an agreement on the recovery fund amid disagreement over a large package with primarily grants or a smaller package with a higher proportion of loans. The S&P500 added 0.29% while VIX fell to 26. The UST bonds bear-steepened with the 10-year bond yield up at 0.62%, and there are \$17b of 20-year and \$14b of 10-year TIPS this week. The 3-month LIBOR stood at 0.2714%. USD and oil prices slipped while gold rose.

Market watch: Asian markets may range trade today, waiting China's 1-year and 5-year Loan Prime Rate fixings. Today's economic data calendar comprises Taiwan's export orders and Hong Kong's unemployment rate. ECB's Lane Haldane and Tenreiro are also speaking. For the week ahead, watch for the RBA's July minutes and Governor Lowe's speech on Tuesday, South Korea's 2Q GDP growth on Thursday, and US earnings season continues with IBM, Microsoft, Intel, Texas Instruments, Amex, Tesla and Twitter etc.

US: The IMF tips the US economy to contract 6.6% in 2020, but see significant risks from a reversal or partial shutdowns, and a long road to recovery from the Covid-19 shock. Meanwhile, the University of Michigan sentiments fell to 73.2, dragged down by the expectations gauge due to the widespread resurgence of Covid-19 cases, while housing starts surged 17.3% to 1.86m in June.

EU: The ECB survey tips a 2020 contraction of 8.3% before recovering to grow 5.7% in 2021.

UK: The UK may spend more than GBP3 billion to prepare the NHS for the second peak of Covid-19.

AU: Treasurer Frydenberg is expected to unveil a budget deficit of A\$191.5b (around 10% of GDP) for the twelve months through June 2021.

Oil: Oil prices continue to consolidate in a tight range, with Brent falling 0.5% on Friday to close at \$43.14/bbl. Implied volatility on Brent has also continued declining and are now below pre-oil crash levels in March. We expect the consolidation to continue in the near term.

Gold: Gold prices returned above the \$1800/oz level on Friday.

Key Market Movements		
Equity	Value	% chg
S&P 500	3224.7	0.3%
DJIA	26672	-0.2%
Nikkei 225	22696	-0.3%
SH Comp	3214.1	0.1%
STI	2618.5	-0.2%
Hang Seng	25089	0.5%
KLCI	1596.3	2.0%
	Value	% chg
DX	95.942	-0.4%
USDJPY	107.02	-0.2%
EURUSD	1.1428	0.4%
GBPUSD	1.2568	0.1%
USDIDR	14703	0.5%
USDSGD	1.3902	-0.2%
SGDMYR	3.0686	0.1%
	Value	chg (bp)
3M UST	0.10	-0.01
10Y UST	0.63	0.98
1Y SGS	0.28	-0.10
10Y SGS	0.86	-1.22
3M LIBOR	0.27	-0.11
3M SIBOR	0.44	0.00
3M SOR	0.18	-0.77
	Value	% chg
Brent	43.14	-0.5%
WTI	40.59	-0.4%
Gold	1810	0.7%
Silver	19.33	0.9%
Palladium	2020	1.5%
Copper	6448	0.2%
BCOM	66.49	0.0%

Source: Bloomberg

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Major Markets

US: The S&P500 Index closed 0.3% higher on Friday amid positive sentiment. However, coronavirus developments over the weekend could dampen risk sentiment with US cases rising 2.2% over the last week. LA Mayor Garcetti warned of yet another round of lockdown measures as new cases in California accelerate. We expect market to be volatile as investors eye a fresh batch of earnings releases as well as Covid-19 developments.

China: A new wave of new infections has hit Urumqi, capital city of China's Xinjiang Autonomous Region since 16 July after the city has reported zero confirmed cases for 149 consecutive days. The city announced to enter the "wartime mode" after more than 30 confirmed cases and 40 asymptomatic cases have been identified over the past few days. Most of the infections have been traced to a wedding party in early July. However, the actual origin of the cluster remains unknown. Market will be interesting to find out whether Beijing's mass testing model will work to contain the outbreak in Urumqi within 1-2 months.

Macau: 2Q gaming revenue plunged for the sixth consecutive quarter by 96% yoy to MOP3.23 billion, the largest decline since record. Mass-market revenue and VIP revenue dropped by 96.3% yoy and 95.7% yoy respectively. This reinforces the fact that the gaming sector remained at a standstill due to the strong containment measures. On a positive note, the worst looks set to be over for both the tourism and gaming sectors as Macau has formed a "travel bubble" with Mainland China. However, given the daily limit on the number of Mainlanders visiting Macau, China's economic slowdown and a strong MOP, we suspect that gaming demand could make any strong comeback. As such, we revised our 2020 GDP growth forecast down from -25% to -37%. Elsewhere, inflation decelerated to 0.94% in June, the weakest level since April 2017. Moving forward, the relief measures rolled out by the government may contain inflationary pressure. This coupled with the high base from 2H 2019, a strong MOP, soft local demand, and weak external price pressures, may translate into weaker inflation over the coming months.

Singapore: The STI fell 0.20% on Friday to close at 2618.48 and may range trade today. The SGS bonds may also meander while awaiting the upcoming supply of the re-opened 10-year SGS bond, with the size announcement on 21 July for auction on 28 July.

Malaysia: Malaysia's Top Glove company appeared to have resolved the US customs issue that prompted the stock to sell off on Thursday. On Friday, the stock rebounded by 15%. Year-to-date, the stock has gained around 375% amid higher demand during the ongoing global health crisis.

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Indonesia: Febrio Kacaribu, head of the fiscal office at the MOF, said that Indonesia's fiscal deficit is expected to be at 4.5-4.7% of GDP in 2021. He added that the government is fully committed to returning to fiscal discipline in 2023. This year's deficit is expected to be at 6.24% of GDP, after the government imposed a temporary suspension of the 3% fiscal deficit-to-GDP rule to allow for stimulus amid the pandemic challenges.

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Bond Market Updates

Market Commentary: The SGD swap curve fell last Friday, with the shorter dated tenors trading 1-2bps lower while the belly and longer dated tenors traded 3-4bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bp to 195bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 1bp to 755bps. The HY-IG Index Spread widened 2bps to 560bps. Flows in SGD corporates were heavy, with flows in NTUCSP 3.1%'50s, SINTEC 4.1%-PERPs, FPLSP 4.98%-PERPs, STANLN5.375%-PERPs and UBS 4.85%-PERPs. 10Y UST Yields gained 1bp to 0.63% amid growing concerns about the risk of inflation as suggested by the US economic data.

New Issues: China Huarong Financial Leasing has arranged investor calls commencing 17 July 2020 for its proposed USD bond offering.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	95.953	0.01%	USD-SGD	1.3897	-0.04%
USD-JPY	107.070	0.05%	EUR-SGD	1.5896	0.06%
EUR-USD	1.144	0.09%	JPY-SGD	1.2979	-0.07%
AUD-USD	0.700	0.03%	GBP-SGD	1.7464	-0.05%
GBP-USD	1.257	-0.01%	AUD-SGD	0.9725	0.01%
USD-MYR	4.265	-0.09%	NZD-SGD	0.9114	-0.01%
USD-CNY	6.992	0.03%	CHF-SGD	1.4807	-0.02%
USD-IDR	14703	0.53%	SGD-MYR	3.0686	0.10%
USD-VND	23181	0.03%	SGD-CNY	5.0306	0.00%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.5060	-0.50%	O/N	0.0856	0.09%
2M	-0.3360	-0.34%	1M	0.1799	0.19%
3M	-0.4430	-0.45%	2M	0.2174	0.22%
6M	-0.3510	-0.35%	3M	0.2714	0.27%
9M	-0.1940	-0.20%	6M	0.3336	0.34%
12M	-0.2900	-0.28%	12M	0.4700	0.48%

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	% Hike/Cut	Implied Rate Change	Implied Rate
07/29/2020	-0.059	-5.9	0.077	0.077
09/16/2020	-0.12	-6.1	0.062	0.062
11/05/2020	-0.163	-4.3	0.052	0.052
12/16/2020	-0.235	-7.2	0.033	0.033
01/27/2021	-0.279	-4.4	0.023	0.023

Equity and Commodity

Index	Value	Net change
DJIA	26,671.95	-62.76
S&P	3,224.73	9.16
Nasdaq	10,503.19	29.36
Nikkei 225	22,696.42	-73.94
STI	2,618.48	-5.19
KLCI	1,596.33	23.02
JCI	5,079.59	-18.79
Baltic Dry	1,710.00	11.00
VIX	25.68	-2.32

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	0.24 (--)	0.15 (--)
5Y	0.5 (--)	0.28 (-0.01)
10Y	0.86 (-0.01)	0.63 (-0.01)
15Y	1.11 (-0.03)	--
20Y	1.16 (-0.03)	--
30Y	1.18 (-0.03)	1.33 (-0.02)

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	2.60	(--)
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	0.12
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Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	40.59	-0.39%	Corn (per bushel)	3.330	0.8%
Brent (per barrel)	43.14	-0.53%	Soybean (per bushel)	8.980	0.5%
Heating Oil (per gallon)	121.91	-0.72%	Wheat (per bushel)	5.348	-0.1%
Gasoline (per gallon)	122.45	-0.76%	Crude Palm Oil (MYR/MT)	26.990	3.6%
Natural Gas (per MMBtu)	1.72	-0.29%	Rubber (JPY/KG)	1.506	1.3%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	6448.00	0.18%	Gold (per oz)	1810.4	0.7%
Nickel (per mt)	13220.00	-1.78%	Silver (per oz)	19.3	0.9%

Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
07/17/2020 07/23	TH Car Sales	Jun	--	40418	--
07/20/2020	PH BoP Overall	Jun	--	\$2430m	--
07/20/2020 07/31	PH Overseas Remittances YoY	May	-15.9%	-16.2%	--
07/20/2020 07/31	PH Overseas Workers Remittances	May	--	\$2046m	--
07/20/2020 07:50	JN Trade Balance	Jun	-¥7.6b	-¥833.4b	-¥838.2b
07/20/2020 07:50	JN Trade Balance Adjusted	Jun	-¥331.1b	-¥601.0b	--
07/20/2020 07:50	JN Exports YoY	Jun	-24.7%	-28.3%	--
07/20/2020 07:50	JN Imports YoY	Jun	-17.6%	-26.2%	--
07/20/2020 13:00	JN Convenience Store Sales YoY	Jun	--	-10.0%	--
07/20/2020 14:00	GE PPI MoM	Jun	0.2%	-0.4%	--
07/20/2020 14:00	GE PPI YoY	Jun	-1.7%	-2.2%	--
07/20/2020 16:00	TA Export Orders YoY	Jun	1.2%	0.4%	--
07/20/2020 16:30	HK Unemployment Rate SA	Jun	6.4%	5.9%	--
07/20/2020 20:30	CA Teranet/National Bank HPI MoM	Jun	--	1.1%	--
07/20/2020 20:30	CA Teranet/National Bank HPI YoY	Jun	--	6.0%	--

Source: Bloomberg

Treasury Research & Strategy

Macro Research

Selena Ling*Head of Research & Strategy*LingSSSelena@ocbc.com**Tommy Xie Dongming***Head of Greater China Research*XieD@ocbc.com**Wellian Wiranto***Malaysia & Indonesia*WellianWiranto@ocbc.com**Terence Wu***FX Strategist*TerenceWu@ocbc.com**Howie Lee***Thailand & Commodities*HowieLee@ocbc.com**Carie Li***Hong Kong & Macau*carierli@ocbcwh.com**Dick Yu***Hong Kong & Macau*dicksnyu@ocbcwh.com

Credit Research

Andrew Wong*Credit Research Analyst*WongVKAM@ocbc.com**Ezien Hoo***Credit Research Analyst*EzienHoo@ocbc.com**Wong Hong Wei***Credit Research Analyst*WongHongWei@ocbc.com**Seow Zhi Qi***Credit Research Analyst*ZhiQiSeow@ocbc.com

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