

Daily Treasury Outlook

20 August 2020

Highlights

Global: Global risk appetite may take a backseat today as the FOMC minutes warned that the Covid-19 pandemic would “weigh heavily on economic activity, employment and inflation in the near-term” with “considerable risks to the economic outlook over the medium term”. The Fed also noted it would sharpen its guidance “at some point” and did not mention any yield curve control options even though it believed “additional accommodation could be required”. The S&P500 erased early gains to close down 0.4% for the first time this week (even though Apple’s market cap touched \$2 trillion) while VIX rose to 22.54. Meanwhile, UST bonds rose across the curve led by the longer dated bonds with the 10-year yield up at 0.65% amid lacklustre \$25b 20-year bond auction. Elsewhere, BI held rates static yesterday, and the WTO said the outlook was too murky to hope for a V-shaped trade recovery.

Market watch: Asian markets may tread water and see some consolidative pressure today amid the more tempered mood post-FOMC minutes and while awaiting China’s 1- and 5-year Loan Prime Rate fixings, as well as the BSP policy decision (likely static at 2.25% and 1.75% for its overnight borrowing rate and the standing overnight deposit facility rate respectively) due later today. Today’s economic data calendar also comprises of Taiwan’s export orders, Hong Kong’s July CPI, US’ initial jobless claims and Philadelphia Fed index. Malaysian and Indonesian markets are closed today.

US: The US has ended three agreements with Hong Kong for extradition and tax exemptions to “underscore our deep concern regarding Beijing’s decision to impose the National Security Law”.

Oil: Oil inventories in the US declined a fourth consecutive week to 512.5mn barrels last week from 514.1mn barrels the week before. The OPEC+ meeting ended yesterday with Russia Energy Minister Alexander Novak claiming that the oil bloc may relax its supply curbs earlier than expected if demand recovery continues to beat their estimated trajectory. We remain bullish crude oil in the short and medium term.

Gold: Gold endured another sharp sell off after last Tuesday’s, falling 3.7% yesterday to \$1928.98/oz after the Fed minutes played down the need for yield curve control.

CN: China’s Foreign ministry said that the number of freight trains between China and the EU increased by 36% yoy in the first half of 2020 to 5122 transporting 461000 containers. The freight train between China and the EU has played an important role amid the global pandemic offsetting the affected air and shipping transportation.

Key Market Movements

Equity	Value	% chg
S&P 500	3374.9	-0.4%
DJIA	27693	-0.3%
Nikkei 225	23111	0.3%
SH Comp	3408.1	-1.2%
STI	2561.0	-0.1%
Hang Seng	25179	-0.7%
KLCI	1575.4	-0.2%
	Value	% chg
DXY	92.887	0.7%
USDJPY	106.12	0.7%
EURUSD	1.1838	-0.8%
GBPUSD	1.3098	-1.1%
USDIDR	14773	-0.5%
USDSGD	1.3701	0.4%
SGDMYR	3.0615	-0.1%
	Value	chg (bp)
3M UST	0.09	0.25
10Y UST	0.68	1.14
1Y SGS	0.31	1.10
10Y SGS	0.89	-0.99
3M LIBOR	0.25	-1.48
3M SIBOR	0.41	0.00
3M SOR	0.21	0.00
	Value	% chg
Brent	45.37	-0.2%
WTI	42.93	0.1%
Gold	1929	-3.7%
Silver	26.70	-3.5%
Palladium	2156	-2.1%
Copper	6685	1.8%
BCOM	72.33	-0.2%

Source: Bloomberg

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Major Markets

US: Risk sentiment pulled back on the release of July's FOMC meeting minutes which showed a sombre tone as well as lingering concerns over the pandemic. The S&P500 index closed 0.4% lower and the NASDAQ composite index fell 0.6%. In the near term, we expect bullish momentum on US equities to remain intact.

HK: The unemployment rate for the three months to July unexpectedly fell to 6.1% from 2Q's 6.2%. The underemployment rate also dropped by 0.2 percentage point to 3.5%. Besides, the decline of total employment and labor force narrowed to 5.7% yoy and 2.4% yoy respectively. The improvement in the labor market could be attributed to the relief measures, the receding local pandemic, the easing of social distancing measures and the re-opening of global economy during the period. Going forward, given the virus resurgence in July and the resultant strictest containment measures yet, we expect to see a rebound in overall jobless rate towards or even above 7%. On a positive note, as some of the sectors like financial services and public sector have been less affected by the Covid-19 shock while the relief measures continue to save jobs (refresh relief fund is on the way), we expect the overall unemployment rate will increase at a moderate rate and will not re-test the historical high of 8.5%. Elsewhere, the HKMA raised the loan-to-value ratio caps for mortgage loans on non-residential properties from 40% to 50%, effective from 20 August 2020 as the retail shop and commercial property market has been hit hard by the pandemic.

Singapore: The STI slipped 0.08% to close at 2561.04 yesterday and may surrender more ground today amid soft cues from Wall Street overnight. SGS bonds may trade with a more supported tone as global risk sentiments took a step back post-FOMC minutes.

Malaysia: Goldman Sachs has reportedly submitted its Form 8-K filing to the SEC to finalise a deal with the Malaysian government of its \$3.9bn settlement in the 1MDB scandal yesterday. The settlement includes a \$2.5bn cash payment in 10 days and a guarantee to return \$1.4bn of 1MDB's seized assets around the world. In total, the payment would equate to around 1/3 of 2019's budget deficit and equivalent to 1.07% of 2019 GDP, according to Bloomberg calculations.

Indonesia: Bank Indonesia kept its policy rate unchanged at 4.0%, as expected by us and the market. It emphasised the focus on providing liquidity support to the economy and maintaining an accommodative monetary policy stance but refrained from tweaking its policy rate further in view of currency stability and yield differential considerations. The central bank did tweak its macro prudential measures, by cutting the down payment requirement for environmentally-friendly vehicles to 0% from 5-10% previously.

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Bond Market Updates

Market Commentary: The SGD swap curve slightly flattened yesterday, with the shorter and belly tenors trading 0-1bps higher while the longer tenors traded 0-2bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 168bps, while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 4bps to 669bps. The HY-IG Index Spread widened 6bps to 500bps. Flows in SGD corporates were heavy, with flows in OLAMSP 4%'26s, UBS 4.85%-PERPs, STANLN 5.375%-PERPs, NTUCSP 3.1%'50s, MAPLSP 4.5%-PERPs, STTGDC 3.13%'28s, SOCGEN 6.125%-PERPs and SPHSP 4%-PERPs. 10Y UST Yields gained 1bps to 0.68% after minutes from FOMC's July meeting indicated that the Fed will not engage in yield curve control for the time being, but it will keep it as an option for the future.

New Issues: Wynn Macau Ltd priced a USD250mn re-tap of its WYNMAC 5.5%'26s at 5.443% and another USD600mn 8NC3 bond at 5.625%. Nan Fung Treasury Limited (Guarantor: Nan Fung International Holdings Limited) 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	92.887	0.67%	USD-SGD	1.3701	0.40%
USD-JPY	106.120	0.67%	EUR-SGD	1.6221	-0.37%
EUR-USD	1.184	-0.78%	JPY-SGD	1.2911	-0.27%
AUD-USD	0.718	-0.84%	GBP-SGD	1.7945	-0.66%
GBP-USD	1.310	-1.07%	AUD-SGD	0.9845	-0.39%
USD-MYR	4.174	-0.21%	NZD-SGD	0.8988	-0.21%
USD-CNY	6.921	-0.02%	CHF-SGD	1.4973	-0.84%
USD-IDR	14773	-0.49%	SGD-MYR	3.0615	-0.10%
USD-VND	23165	0.00%	SGD-CNY	5.0661	-0.07%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.5170	-0.52%	O/N	0.0836	0.08%
2M	-0.3360	-0.34%	1M	0.1580	0.16%
3M	-0.4830	-0.48%	2M	0.2028	0.21%
6M	-0.4400	-0.43%	3M	0.2530	0.27%
9M	-0.1940	-0.20%	6M	0.3153	0.32%
12M	-0.3650	-0.36%	12M	0.4471	0.46%

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	% Hike/Cut	Implied Rate Change	Implied Rate
09/16/2020	-0.128	-12.8	0.064	0.064
11/05/2020	-0.119	0.9	0.067	0.067
12/16/2020	-0.152	-3.3	0.058	0.058
01/27/2021	-0.175	-2.3	0.052	0.052
03/17/2021	-0.216	-4.1	0.042	0.042

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	42.93	0.09%	Corn (per bushel)	3.250	-0.6%
Brent (per barrel)	45.37	-0.20%	Soybean (per bushel)	9.125	0.1%
Heating Oil (per gallon)	125.10	-0.75%	Wheat (per bushel)	5.120	0.9%
Gasoline (per gallon)	129.05	0.58%	Crude Palm Oil (MYR/MT)	28.310	0.6%
Natural Gas (per MMBtu)	2.43	0.37%	Rubber (JPY/KG)	1.694	1.1%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	6685.00	1.79%	Gold (per oz)	1929.0	-3.7%
Nickel (per mt)	14725.00	0.34%	Silver (per oz)	26.7	-3.5%

Equity and Commodity

Index	Value	Net change
DJIA	27,692.88	-85.19
S&P	3,374.85	-14.93
Nasdaq	11,146.46	-64.38
Nikkei 225	23,110.61	59.53
STI	2,561.04	-2.05
KLCI	1,575.38	-2.47
JCI	5,272.81	-22.36
Baltic Dry	1,586.00	-12.00
VIX	22.54	1.03

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	0.24 (-)	0.14 (-)
5Y	0.47 (-)	0.28 (+0.01)
10Y	0.89 (-0.01)	0.68 (+0.01)
15Y	1.18 (-)	--
20Y	1.23 (-0.01)	--
30Y	1.13 (-)	1.42 (+0.03)

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	-1.56	(-)
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	0.09
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Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
08/19/2020 08/20	HK Composite Interest Rate	Jul	--	0.7%	--
08/19/2020 08/21	PH BoP Overall	Jul	--	\$80m	--
08/19/2020 08/23	TH Car Sales	Jul	--	5801300.0%	--
08/20/2020 07:50	JN Japan Buying Foreign Bonds	01-Aug	--	¥1434.9b	--
08/20/2020 07:50	JN Foreign Buying Japan Stocks	01-Aug	--	¥233.8b	--
08/20/2020 09:30	AU RBA FX Transactions Market	Jul	--	A\$1281m	--
08/20/2020 12:00	JN Tokyo Condominiums for Sale YoY	Jul	--	-31.7%	--
08/20/2020 14:00	GE PPI MoM	Jul	0.1%	0.0%	--
08/20/2020 16:00	PH BSP Overnight Borrowing Rate	Aug-20	2.3%	2.3%	--
08/20/2020 16:30	HK CPI Composite YoY	Jul	0.5%	0.7%	--
08/20/2020 20:30	US Initial Jobless Claims	42217	920k	963k	--
08/20/2020 20:30	US Philadelphia Fed Business Outlook	Aug	20.8	24.1	--
08/20/2020 20:30	US Continuing Claims	Aug-08	15000k	15486k	--
08/20/2020 21:45	US Bloomberg Consumer Comfort	Aug-16	--	43.7	--
08/20/2020 22:00	US Leading Index	Jul	1.1%	2.0%	--

Source: Bloomberg

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