

Daily Treasury Outlook

21 April 2020

Highlights

Global: Volatile oil prices were seen overnight, with the soon expiring May delivery contract plunging below zero for the first time to **-\$37.63 per barrel amid concerns that the oil glut was running out of storage space amid weak global demand, albeit the June contract is still trading above \$22 per barrel.** The S&P500 retreated 1.8% overnight (even though Amazon and Netflix rose), pushing VIX up to 43, while UST bonds gained and pushed the 10-year bond yield down to 0.61% on flight to safety. China cut its LPR fixings yesterday as widely anticipated. Elsewhere, New Zealand extended its lockdown measures for another week until 27 April and RBNZ proposed to remove mortgage loan-to-value ratio restrictions for a year due to the Covid-19 induced downturn.

Market watch: Asian markets may take the cue from the oil price slump and volatility and trade with a nervous tone today, especially for oil-exporters. There is Australia's RBA minutes release and RBA governor Lowe's speech later today. The relatively light economic data calendar comprises of South Korea's 20-day April trade data, Thailand's March trade data, and UK's jobless claims and ILO unemployment rate. Coca-Cola Co, Netflix and Lockheed are reporting earnings today. Note IBM just joined the bandwagon of companies withdrawing its 2020 earnings guidance due to COvid-19 uncertainty after announcing sales fell 3.4% to \$17.6b.

US: The Chicago Fed national activity index slipped to -4.19 in March. The 3-month LIBOR also eased to 1.09763%. Meanwhile, Shake Shack will return the \$10m government loan for small businesses.

EU: German Chancellor Merkel appears to be open to the issuance of EU bonds to finance EU countries hard hit by Covid-19.

UK: BOE's Broadbent warned that "even if the government-imposed lockdown is lifted, demand may remain weak in some areas just out of people's natural action" and a 35% contraction in 2Q did not look implausible.

China: China lowered its 1-year LPR rate by 20bps in April fixing as expected. Meanwhile, 5-year LPR was lowered by 10bps. Profit for China's State-owned Enterprises fell by 58.8% yoy in the first quarter.

Japan: The government has boosted its stimulus package to a record \$1.1 trillion to expand the cash payout to its citizens.

Singapore: MAS will lend SGD at 0.1% interest rate p.a. to eligible financial institutions who can then offer cheaper 2-year loans to cash-strapped SMEs amid the Covid-19 outbreak.

Indonesia: Indonesia's state-owned oil and gas company, Pertamina, is reportedly sourcing for oil imports now to take advantage of the low prices. It has hired tankers to store refined fuels at sea. Indonesia ranks among the biggest importers of refined oil as it is still trying to build up domestic oil refining capabilities.

Key Market Movements

| Equity | Value | % chg |
|-------------|--------|----------|
| S&P 500 | 2823.2 | -1.8% |
| DJIA | 23650 | -2.4% |
| Nikkei 225 | 19669 | -1.1% |
| SH Comp | 2852.6 | 0.5% |
| STI | 2597.9 | -0.6% |
| Hang Seng | 24330 | -0.2% |
| KLCI | 1413.1 | 0.4% |
| Currencies | Value | % chg |
| DXY | 99.955 | 0.2% |
| USDJPY | 107.62 | 0.1% |
| EURUSD | 1.0862 | -0.1% |
| GBPUSD | 1.2442 | -0.5% |
| USDIDR | 15413 | -0.3% |
| USDSGD | 1.421 | -0.1% |
| SGDMYR | 3.0791 | 0.3% |
| Rates | Value | chg (bp) |
| 3M UST | 0.07 | -1.52 |
| 10Y UST | 0.61 | -3.64 |
| 1Y SGS | 0.63 | -2.00 |
| 10Y SGS | 1.04 | -0.14 |
| 3M LIBOR | 1.11 | -2.63 |
| 3M SIBOR | 0.99 | -0.05 |
| 3M SOR | 0.86 | -0.79 |
| Commodities | Value | % chg |
| Brent | 25.57 | -8.9% |
| WTI | -37.63 | -306.0% |
| Gold | 1696 | 0.8% |
| Silver | 15.32 | 0.9% |
| Palladium | 2171 | 0.2% |
| Copper | 5184 | -0.5% |
| BCOM | 61.98 | -0.2% |

Source: Bloomberg

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Major Markets

US: US equity markets fell on Monday along with a plunge in oil prices for the May futures contract as demand concerns due to the coronavirus pandemic remains. The S&P500 index fell by 1.79%. Markets are expected to remain volatile today. Netflix, Philip Morris and Lockheed Martin are among the companies to report earnings today.

Hong Kong: Fitch cut HK's sovereign rating for the second time since last September from AA to AA- while revising the outlook from negative to stable, citing a second blow from the prolonged Covid-19 outbreak, the unresolved political problems and the closer relationship between HK and China. As Hong Kong has virtually no public debt, the downgrade is unlikely to hurt the government's fiscal condition. For HK companies, the downgrade may have some impact on their funding costs which however have already been elevated amid tight credit in the run-up to global recession. Also notable is that the tight relationship with China is not necessarily unfavorable to HK's economy especially given the possible trend of de-globalization post pandemic. Elsewhere, with the outlook being revised to stable, Fitch may not downgrade HK's sovereign rating further in the near term. That said, like Fitch, we are also concerned about the consequence of launching generous relief measures. With fiscal deficit poised to soar and fiscal reserves set to shrink, the government may strive to increase revenue post pandemic probably by broadening the tax base.

On the other hand, HK's unemployment rate rose faster than expected to 4.2% during the three months through March 2020, a level last seen since August to October 2010. Meanwhile, the underemployment rate edged up to a nearly 10-year high of 2.1%. Also, total employed population and labor force dropped by record 3.6% yoy and 2.2% yoy respectively. Unemployment was worsening on a broad basis amid Covid-19 pandemic, led by manufacturing, construction as well as retail, accommodation and food services sectors. Moving forward, a slew of relief measures may help to prevent unemployment from worsening rapidly. However, given the uncertainty about Covid-19 pandemic, containment measures may remain in place for some time and continue to weigh down a wide range of industries. Taking previous recessions as reference, unemployment rate tends to peak post crisis. As such, we think the worst is yet to come. Overall unemployment rate is expected to jump over 5% in the coming months.

Taiwan: Export Orders grew by 4.3% yoy to USD 40.26 billion in March, much better than expected. It was mainly attributed to the production resumption gradually in China since March, with the effect of order deferral. Specifically, the export orders of electronic products and information & communication products increased by 23.8% yoy and 6.9% yoy respectively. Moving forward, as lockdown measures of many countries are expected to be extended, the production activities might delay further, leading to sluggish external demands. As the pandemic is persisting in April, with no sign of appeasement within the short period of time, the export orders of Taiwan might shrink in the coming months.

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Singapore: The STI declined 0.64% to close at 259785 yesterday and may see further selling interest today amid overnight slippage by Wall Street and volatile oil prices. Given the flight to quality into longer-tenor UST bonds, SGS bonds may also catch a bid today.

Malaysia: Malaysia reported 36 new Covid-19 cases yesterday, in what is the smallest daily increase since March 12 before the MCO restriction orders were imposed. Total number now stands at 5425, with more than 60% discharged from the hospital.

Oil: -\$37.63 per barrel. Yes you read that right, WTI prices ended the day at negative \$37.63 per barrel yesterday – meaning suppliers are paying buyers to take the cargo away. What happened? Fingers have been pointed at WTI May futures expiring today (21 Apr). With a lack of storage space, physical buyers are unable to take delivery, thus opting to roll over their purchases to June or beyond. The selloff was made worse by speculators and algo trading. Note that only the May contract is trading at negative prices – the June contract traded above \$20/bbl, suggesting it was a storage issue more than a demand problem. That said, the situation of global crude storage remains dire, and by the same rationale it is reasonable to presume the same selloff might happen again when the June contract expires unless the US (and the world) can find places to house their inventories.

Bond Market Updates

Market Commentary: The SGD swap curve steepened yesterday, with the shorter and the belly tenors trading 0-2bps lower (with the exception of the 1-year tenor trading 1bp higher), while longer tenors traded 1-4bps higher. The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 257bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 7bps to 944bps. The HY-IG Index Spread tightened 6bps to 686bps. Flows in SGD corporates were heavy yesterday, with flows seen in HSBC 4.7%-PERPs, CS 5.625%-PERPs, UBS 5.875%-PERPs, SOCGEN 6.125%-PERPs and MAPLSP 3.95%-PERPs. 10Y UST Yields fell 4bps to 0.61% as oil contracts collapsed, with WTI crude oil futures prices falling below zero for the first time.

New Issues: Export-Import Bank of Korea priced a USD700mn 3-year bond at 3m-US LIBOR+120bps. BOC Aviation Ltd arranged fixed income calls commencing 20 April for its proposed USD bond offering. Xiaomi Best Time International Limited, and its guarantor Xiaomi Corporation, arranged fixed income calls commencing 20 April for its proposed USD bond offering. Singapore Technologies Engineering Ltd arranged investor calls commencing 20 April for its proposed USD bond offering.

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Foreign Exchange

| | Day Close | % Change | | Day Close | % Change |
|----------------|-----------|----------|----------------|-----------|----------|
| DX | 99.955 | 0.17% | USD-SGD | 1.4210 | -0.15% |
| USD-JPY | 107.620 | 0.07% | EUR-SGD | 1.5436 | -0.25% |
| AUR-USD | 1.0862 | -0.12% | JPY-SGD | 1.3204 | -0.15% |
| EUR-USD | 0.6336 | -0.47% | GBP-SGD | 1.7683 | -0.55% |
| GBP-USD | 1.2442 | -0.46% | AUD-SGD | 0.9004 | -0.56% |
| USD-MYR | 4.3720 | 0.05% | NZD-SGD | 0.8579 | 0.03% |
| USD-CNY | 7.0734 | 0.00% | CHF-SGD | 1.4681 | -0.17% |
| USD-IDR | 15413 | -0.34% | SGD-MYR | 3.0791 | 0.34% |
| USD-VND | 23450 | 0.30% | SGD-CNY | 4.9827 | 0.23% |

Equity and Commodity

| Index | Value | Net change |
|-------------------|-----------|------------|
| DJIA | 23,650.44 | -592.05 |
| S&P | 2,823.16 | -51.40 |
| Nasdaq | 8,560.73 | -89.41 |
| Nikkei 225 | 19,669.12 | -228.14 |
| STI | 2,597.85 | -16.75 |
| KLCI | 1,413.12 | 5.78 |
| JCI | 4,575.91 | -58.92 |
| Baltic Dry | 751.00 | -- |
| VIX | 43.83 | 5.68 |

Interbank Offer Rates (%)

| Tenor | EURIBOR | Change | Tenor | USD Libor | Change |
|------------|---------|--------|------------|-----------|--------|
| 1M | -0.4340 | -0.70% | O/N | 0.0670 | -- |
| 2M | -0.3360 | -- | 1M | 0.6728 | -4.55% |
| 3M | -0.2430 | -4.55% | 2M | 0.9524 | -2.34% |
| 6M | -0.1950 | -2.34% | 3M | 1.1090 | -2.63% |
| 9M | -0.1940 | -2.63% | 6M | 1.1025 | -2.25% |
| 12M | -0.1050 | -2.25% | 12M | 0.9819 | 0.06% |

Government Bond Yields (%)

| Tenor | SGS (chg) | UST (chg) |
|------------|--------------|--------------|
| 2Y | 0.52 (-0.07) | 0.20 (--) |
| 5Y | 0.66 (-0.03) | 0.34 (-0.02) |
| 10Y | 1.04 (--) | 0.61 (-0.04) |
| 15Y | 1.27 (-0.01) | -- |
| 20Y | 1.41 (--) | -- |
| 30Y | 1.43 (-0.01) | 1.22 (-0.04) |

Fed Rate Hike Probability

| Meeting | # of Hikes/Cuts | % Hike/Cut | Implied Rate Change | Implied Rate |
|------------|-----------------|------------|---------------------|--------------|
| 29/04/2020 | 0.109 | 10.9 | 0.027 | 0.077 |
| 10/06/2020 | 0.11 | 0.1 | 0.027 | 0.078 |
| 29/07/2020 | 0.069 | -4.1 | 0.017 | 0.067 |
| 16/09/2020 | 0.069 | 0 | 0.017 | 0.067 |
| 05/11/2020 | 0.045 | -2.4 | 0.011 | 0.062 |
| 16/12/2020 | 0.06 | 1.5 | 0.015 | 0.065 |

Financial Spread (bps)

| | Value | Change |
|--------------------|-------|--------|
| EURIBOR-OIS | 21.73 | -0.17 |
| TED | 35.36 | -- |

Secured Overnight Fin. Rate

| | |
|-------------|------|
| SOFR | 0.03 |
|-------------|------|

Commodities Futures

| Energy | Futures | % chg | Soft Commodities | Futures | % chg |
|--------------------------|---------|---------|-------------------------|---------|-------|
| WTI (per barrel) | -37.63 | -306.0% | Corn (per bushel) | 3.1425 | -2.5% |
| Brent (per barrel) | 25.57 | -8.9% | Soybean (per bushel) | 8.265 | -0.7% |
| Heating Oil (per gallon) | 0.8878 | -7.2% | Wheat (per bushel) | 5.4875 | 2.9% |
| Gasoline (per gallon) | 0.6683 | -6.0% | Crude Palm Oil (MYR/MT) | 2,290.0 | 0.2% |
| Natural Gas (per MMBtu) | 1.9240 | 9.8% | Rubber (JPY/KG) | 143.4 | -0.1% |
| Base Metals | Futures | % chg | Precious Metals | Futures | % chg |
| Copper (per mt) | 5,184 | -0.5% | Gold (per oz) | 1,695.7 | 0.8% |
| Nickel (per mt) | 12,514 | 3.9% | Silver (per oz) | 15.317 | 0.9% |

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

Economic Calendar

| Date Time | Event | Survey | Actual | Prior | Revised |
|------------------|-----------------------------------|--------|---------|---------|---------|
| 04/21/2020 11:00 | NZ Non Resident Bond Holdings | Mar | -- | 52.10% | -- |
| 04/21/2020 11:30 | TH Customs Exports YoY | Mar | -5.80% | -4.47% | -- |
| 04/21/2020 11:30 | TH Customs Imports YoY | Mar | -8.00% | -4.30% | -- |
| 04/21/2020 11:30 | TH Customs Trade Balance | Mar | \$2753m | \$3897m | -- |
| 04/21/2020 14:00 | UK Jobless Claims Change | Mar | -- | 17.3k | -- |
| 04/21/2020 14:00 | UK ILO Unemployment Rate 3Mths | Feb | 3.90% | 3.90% | -- |
| 04/21/2020 14:00 | UK Claimant Count Rate | Mar | -- | 3.50% | -- |
| 04/21/2020 14:00 | JN Machine Tool Orders YoY | Mar F | -- | -40.80% | -- |
| 04/21/2020 14:00 | UK Average Weekly Earnings 3M/YoY | Feb | 3.00% | 3.10% | -- |
| 04/21/2020 17:00 | GE ZEW Survey Expectations | Apr | -42 | -49.5 | -- |
| 04/21/2020 17:00 | GE ZEW Survey Current Situation | Apr | -77.5 | -43.1 | -- |
| 04/21/2020 17:00 | EC ZEW Survey Expectations | Apr | -- | -49.5 | -- |
| 04/21/2020 20:30 | CA Retail Sales MoM | Feb | 0.30% | 0.40% | -- |
| 04/21/2020 20:30 | CA Retail Sales Ex Auto MoM | Feb | 0.30% | -0.10% | -- |
| 04/21/2020 22:00 | US Existing Home Sales | Mar | 5.25m | 5.77m | -- |

Source: Bloomberg

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