

Daily Treasury Outlook

21 May 2020

Highlights

Global: Global risk appetite improved overnight as US retailers and energy stocks led Wall Street higher overnight amid hopes that US states were stepping up re-openings. However, casting a shadow on the optimism was the Senate's passage of a bill to delist Chinese companies from US stock exchanges if it cannot certify it is not under the control of a foreign government. FOMC minutes from the April meeting flagged that "economic effects of the pandemic created an extraordinary amount of uncertainty and considerable risks to economic activity in the medium term" and "a number of participants commented on potential risks to financial stability". The S&P500 gained 1.67% with VIX back below the 30 handle at 27.99. UST bonds edged up with the 10-year yield at 0.68% and the first 20-year UST bond auction since 1986 fetched a yield of 1.22%. The 3-month LIBOR eased to 0.3580%. Oil prices rallied on lower US inventories. Meanwhile, BOT cut 25bps to 0.5% as expected, whereas China kept its 1- and 5-year LPR unchanged at 3.85% and 4.65% respectively. China also took offense at US Secretary of State Pompeo's congratulatory statement to Taiwan president Tsai Ing-wen.

Market watch: Asian markets may trade with a firmer tone this morning. Today's economic data calendar comprises of services and composite PMIs from Europe and US, as well as US' initial jobless claims, existing home sales and the Philadelphia Fed business index. RBA's Lower, ECB's Panetta and Fed's Clarida, Williams and Powell are also speaking.

US: While FOMC minutes discussed monetary policy intentions "at upcoming meetings", with a few participants noting the option of yield curve control (but no discussion of negative rates!), while others suggested more explicit forward guidance "such as a certain level of the unemployment rate or of the inflation rate – that must be achieved before the committee would consider" hiking rates.

UK: UK-EU negotiations appear to have stalled, with EU's Barnier warning that "The UK cannot expect high-quality access to the EU single market if it is not prepared to accept guarantees to ensure that competition remains open and fair". Meanwhile, BOE governor Bailey told lawmakers he is not ruling tools in or out, but will keep the zero-lower bound for interest rates under active review. The UK sold GBP3.75b bonds of its existing gilts maturing in 2023 at negative yield for the first time at -0.003%. April inflation had slowed to just 0.8% yoy, the lowest since 2016 and the steepest drop since 2008.

Asian exports: Japan's April exports fell 21.9% yoy, while South Korea's exports fell 20% yoy in the first 20 days of May, following a 25% decline in April and suggesting the prognosis for global trade remained weak.

Singapore: Changi Airport will allow transit visitors from 2 June as part of the Phase 1 re-opening.

Key Market Movements		
Equity	Value	% chg
S&P 500	2971.6	1.7%
DJIA	24576	1.5%
Nikkei 225	20595	0.8%
SH Comp	2883.7	-0.5%
STI	2561.9	-0.8%
Hang Seng	24400	0.0%
KLCI	1435.1	0.8%
Currencies	Value	% chg
DXY	99.124	-0.2%
USDJPY	107.53	-0.2%
EURUSD	1.0980	0.5%
GBPUSD	1.2245	-0.1%
USDIDR	14710	-0.4%
USDSGD	1.413	-0.3%
SGDMYR	3.0727	0.1%
Rates	Value	chg (bp)
3M UST	0.11	0.00
10Y UST	0.68	-0.81
1Y SGS	0.23	0.00
10Y SGS	0.71	-2.53
3M LIBOR	0.37	-0.25
3M SIBOR	0.55	-6.90
3M SOR	0.19	-2.08
Commodities	Value	% chg
Brent	35.75	3.2%
WTI	33.49	4.8%
Gold	1748	0.2%
Silver	17.56	1.2%
Palladium	2101	3.8%
Copper	5443	1.6%
BCOM	63.60	0.6%

Source: Bloomberg

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Major Markets

US: US markets rose on Wednesday as investors shrugged off a rise in tensions between the US and China following another spat between both countries' officials. The S&P500 index rose 1.67%. We maintain our view that markets are likely to remain volatile as investors await for more clarity on how the reopening of the various economies will fare.

China: China kept its Loan Prime Rate (LPR) unchanged in its May fixing after leaving 1-year MLF rate intact last Friday. China may want to take a wait-and-see approach to see how the economy respond to 20bps LPR cut in April. Meanwhile, China's Ministry of Industry and Information Technology said yesterday that China's industrial companies have returned to normalcy with 99.1% has resumed its full production. Market focus will shift to two sessions which will kick off today.

Taiwan: President Tsai Ing-wen started her second term of presidency. There is a short summary of her inaugural speech. In terms of cross-strait relations, compared to her speech in 2016, there is one key difference. President Tsai mentioned that "We will not accept the Beijing authorities' use of "one country, two systems" to downgrade Taiwan and undermine the cross-strait status quo." It implies that Tsai' government is likely to continue a relatively pro-American stance and try to maintain a situation of "coexist" (refuse "one country, two systems") in the coming four years. The cross-strait relation in future might depend on the responses and further actions by Mainland China.

In terms of industrial development, Taiwan will continue to engage in six strategic industries on the back of 5+2 industrial innovation plan, including 1) Continue to develop Taiwan's information and digital industries. 2) Develop a cybersecurity industry that can integrate 5G, digital transformation, and national security. 3) Create biotech and medical technology industries that can synchronize with the rest of the world. 4) Develop national defense and strategic industries by integrating military and civilian capabilities. 5) Accelerate the development of green and renewable energy industries. 6) Ensure the provision of critical supplies, maintain a certain degree of self-sufficiency in the production of face masks, medical and daily supplies, energy, and food. From the perspective of international trade, Taiwan will keep working to sign trade or investment protection agreements with the United States, Japan, and European countries. Meanwhile, Taiwan will continue its New Southbound Policy and develop other potential markets encouraging firms to engage in international cooperation. Lastly, on the international participation front, Taiwan will fight for the participation in international organizations, strengthen mutually beneficial cooperation with allies, and intensify the ties with United States, Japan, Europe, and other like-minded countries.

Singapore: The STI slipped 0.75% to close at 2561.94 yesterday, but may benefit from positive cues from Wall Street overnight and morning gains in Kospi. SGS bond yields fell 1-3bps yesterday, but may range trade today. The 3-month SOR and SIBOR were at 0.15915% and 0.55941% respectively.

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Indonesia: At a time of higher fiscal deficit, it is a good thing that Indonesia has reported a decline in the other gap that investors look at - current account deficit. It narrowed in Q1 to USD3.9bn, at 1.4% of GDP compared to 2.8% in Q4 2019. While exports slumped and brought in fewer dollars, imports shrank considerably too amid Covid-crimped domestic demand.

Malaysia: Malaysia's April CPI headline inflation dipped considerably, posting -2.9% yoy print, compared to our estimate of -1.5% and March's -0.2%. It marks the sharpest yoy decline in prices since the comparable series started in 2010. The 21.5%yoy drop in prices for the transport segment - a proxy for fuel price - appears to be the main driver. Core inflation stayed relatively firm at +1.3% yoy.

Thailand: The Bank of Thailand unsurprisingly reduced its benchmark interest rate by 25bp yesterday. The reduction in the FIDF rate last month and Monday's poor GDP report were largely seen as supporting factors for the BoT to cut its key rate. The vote to cut the key rate was split 4-3, suggesting that there might be increasing resistance against further monetary easing within the MPC.

Oil: Crude oil staged another strong rally again yesterday, with Brent gaining 3.2% to close at \$35.75/bbl – the first time it has closed above the \$35 handle since 3 April. Data from the US EIA showed crude inventories declining for a second week in a row, including the Cushing hub. The spread between Brent and WTI has now narrowed to less than \$3/bbl.

Bond Market Updates

Market Commentary: With the exception of the 20-year trading at around 1bp higher, the SGD swap curve fell yesterday, with the shorter tenors trading 3-5bps lower while the belly and the longer tenors traded 0.5-4bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 5bps to 235bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 23bps to 917bps. The HY-IG Index Spread tightened 18bps to 682bps. Flows in SGD corporates were heavy, with flows in OLAMSP 6%'22s, CMZB 4.875%'27s, STANLN 4.4%'26s, UBS 5.875%-PERPs, CS 5.625%-PERPs, FPLSP 4.98%-PERPs, GUOLSP 3.4%'25s, HSBC 4.7%-PERPs, ARASP 5.2%-PERPs and HSBC 5%-PERPs. 10Y UST Yields fell 1bps to 0.68% by the end of the day despite the S&P index rallying, perhaps due to increased U.S.-China trade tensions.

New Issues: Henderson Land MTN Limited (Guarantor: Henderson Land Development Company Limited) priced a USD300mn 5-year bond at T+210bps, tightening from IPT of T+255bps area. Jining High Tech Urban Construction Investment Co. priced a USD118mn 3-year bond at 5.5%, tightening from IPT of 5.9% area. Industrial & Commercial Bank of China Limited of Dubai priced a USD100mn 3-year bond at 3m-US LIBOR+60bps. Korea Expressway Corporation priced a USD100mn 5-year bond at 3m-US LIBOR+120bps. Bank of East Asia arranged investor calls commencing 19 May for its proposed USD bonds.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	99.124	-0.25%	USD-SGD	1.4130	-0.26%
USD-JPY	107.530	-0.17%	EUR-SGD	1.5515	0.26%
EUR-USD	1.0980	0.52%	JPY-SGD	1.3140	-0.10%
AUD-USD	0.6597	0.92%	GBP-SGD	1.7304	-0.31%
GBP-USD	1.2245	-0.07%	AUD-SGD	0.9322	0.65%
USD-MYR	4.3525	-0.02%	NZD-SGD	0.8683	0.87%
USD-CNY	7.0935	-0.08%	CHF-SGD	1.4644	0.41%
USD-IDR	14710	-0.41%	SGD-MYR	3.0727	0.09%
USD-VND	23270	-0.18%	SGD-CNY	5.0227	0.21%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4540	0.90%	O/N	0.0604	0.06%
2M	-0.3360	0.06%	1M	0.1709	0.01%
3M	-0.2590	0.01%	2M	0.3054	0.61%
6M	-0.1380	0.61%	3M	0.3741	-0.25%
9M	-0.1940	-0.25%	6M	0.5904	-3.78%
12M	-0.0750	-3.78%	12M	0.7219	0.36%

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	% Hike/Cut	Implied Rate Change	Implied Rate
10/06/2020	0.006	0.6	0.002	0.053
29/07/2020	0.005	-0.1	0.001	0.052
16/09/2020	-0.036	-4.1	-0.009	0.042
05/11/2020	-0.035	0.1	-0.009	0.043
16/12/2020	-0.085	-5	-0.021	0.03
27/01/2021	-0.105	-2	-0.026	0.025

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	33.49	3.0%	Corn (per bushel)	3.1950	-0.5%
Brent (per barrel)	35.75	3.2%	Soybean (per bushel)	8.468	0.5%
Heating Oil (per gallon)	0.9906	1.7%	Wheat (per bushel)	5.1375	3.0%
Gasoline (per gallon)	1.0438	-0.1%	Crude Palm Oil (MYR/MT)	2,218.0	-0.5%
Natural Gas (per MMBtu)	1.7710	-3.2%	Rubber (JPY/KG)	141.6	1.1%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,443	1.6%	Gold (per oz)	1,748.2	0.2%
Nickel (per mt)	12,667	1.7%	Silver (per oz)	17.557	1.2%

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

Equity and Commodity

Index	Value	Net change
DJIA	24,575.90	369.04
S&P	2,971.61	48.67
Nasdaq	9,375.78	190.67
Nikkei 225	20,595.15	161.70
STI	2,561.94	-19.39
KLCI	1,435.12	11.15
JCI	4,545.95	-2.70
Baltic Dry	453.00	--
VIX	27.99	-2.54

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	0.20 (-0.01)	0.16 (--)
5Y	0.37 (-0.02)	0.34 (+0.01)
10Y	0.71 (-0.03)	0.68 (-0.01)
15Y	0.92 (-0.03)	--
20Y	1.10 (-0.03)	--
30Y	1.11 (-0.02)	1.40 (-0.01)

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	21.07	0.24
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	0.04
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Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
05/21/2020 07:50	JN Trade Balance	Apr	-¥503.1b	-¥930.4b	¥4.9b
05/21/2020 08:30	JN Jibun Bank Japan PMI Mfg	May P	--	--	41.9
05/21/2020 15:30	GE Markit/BME Germany Manufacturing PMI	May P	39.4	--	34.5
05/21/2020 15:30	GE Markit Germany Services PMI	May P	26	--	16.2
05/21/2020 16:00	EC Markit Eurozone Manufacturing PMI	May P	38	--	33.4
05/21/2020 16:00	EC Markit Eurozone Composite PMI	May P	27	--	13.6
05/21/2020 16:00	EC Markit Eurozone Services PMI	May P	25	--	12
05/21/2020 16:30	UK Markit UK PMI Manufacturing SA	May P	37.2	--	32.6
05/21/2020 16:30	HK CPI Composite YoY	Apr	1.80%	--	2.30%
05/21/2020 16:30	UK Markit/CIPS UK Services PMI	May P	24	--	13.4
05/21/2020 20:30	US Initial Jobless Claims	May-16	2400k	--	2981k
05/21/2020 20:30	US Philadelphia Fed Business Outlook	May	-40	--	-56.6
05/21/2020 21:45	US Markit US Manufacturing PMI	May P	39.5	--	36.1
05/21/2020 22:00	US Existing Home Sales	Apr	4.22m	--	5.27m
05/21/2020 22:00	US Leading Index	Apr	-5.40%	--	-6.70%

Source: Bloomberg

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