

Daily Treasury Outlook

21 July 2020

Highlights

Global: A tech-fuelled rally overnight, with the likes of Amazon.com and Zoom Technologies driving the Nasdaq to another record high, is likely to set a positive tone for Asian markets this morning. This was coupled with investor optimism over the vaccine development from Oxford University and AstraZeneca, as well as hopes for additional US fiscal stimulus. The S&P500 index added 0.84%, wiping out the year's losses, while VIX fell to 24.46 (lowest since 21 February). The UST bonds traded a tad firmer with the 10-year bond yield at 0.61% ahead of \$17b of 20-year and \$14b of 10-year TIPS this week. The 3-month LIBOR eased to 0.2578%. Separately, China kept its 1-year and 5-year LPR fixings unchanged yesterday and is said to be mulling retaliation against Nokia and Ericsson if EU leaders follow US and UK decisions to bar Huawei from 5G networks.

Market watch: Asian markets today are likely to open on a firmer tone this morning while awaiting RBA minutes and Governor Lowe's remarks. Today's economic data calendar comprises of HK's CPI and US' Chicago Fed national activity index. South Korea's early July peek at its export and import data suggest a larger contraction of -12.8% and -13.7% yoy respectively, compared to -7.5% and -12.0% for the previous month, which could dampen hopes for a quick recovery.

US: The House will vote a seven-bill FY21 spending package next week. The Treasury Secretary Mnuchin said the next round of relief will focus on getting kids back to schools and workers back to jobs, as well as developing a vaccine.

UK: An imminent Eurozone compromise agreement on a revised EUR750 recovery package that will comprise EUR390b of grants also drove Italian 10-year spreads over German bunds to its lowest since March.

UK: BOE chief economist Haldane said the economic recovery appears to be V-shaped and has recovered about half of its lost output from March and April.

SG: There is a \$3.9b of 28-day and \$8.3b of 84-day bills today.

Oil: Oil prices rose overnight on a host of positive news, including optimistic developments on the coronavirus vaccine front and a potential additional fiscal stimulus from the US. We expect oil prices to continue trading in its range in the short term.

| Key Market Movements | | |
|----------------------|--------|----------|
| Equity | Value | % chg |
| S&P 500 | 3251.8 | 0.8% |
| DJIA | 26681 | 0.0% |
| Nikkei 225 | 22717 | 0.1% |
| SH Comp | 3314.1 | 3.1% |
| STI | 2616.3 | -0.1% |
| Hang Seng | 25058 | -0.1% |
| KLCI | 1589.5 | -0.4% |
| | Value | % chg |
| DXY | 95.832 | -0.1% |
| USDJPY | 107.27 | 0.2% |
| EURUSD | 1.1448 | 0.2% |
| GBPUSD | 1.2661 | 0.7% |
| USDIDR | 14785 | 0.6% |
| USDSGD | 1.3889 | -0.1% |
| SGDMYR | 3.0655 | -0.1% |
| | Value | chg (bp) |
| 3M UST | 0.11 | 0.51 |
| 10Y UST | 0.61 | -1.64 |
| 1Y SGS | 0.28 | 0.10 |
| 10Y SGS | 0.87 | 1.01 |
| 3M LIBOR | 0.27 | -0.04 |
| 3M SIBOR | 0.44 | 0.00 |
| 3M SOR | 0.17 | 0.00 |
| | Value | % chg |
| Brent | 43.28 | 0.3% |
| WTI | 40.81 | 0.5% |
| Gold | 1818 | 0.4% |
| Silver | 19.91 | 3.0% |
| Palladium | 2051 | 1.5% |
| Copper | 6488 | 0.6% |
| BCOM | 66.31 | -0.3% |

Source: Bloomberg

Daily Treasury Outlook

21 July 2020

Major Markets

US: The S&P 500 index closed 0.8% higher overnight. Risk sentiment was supported by positive news on a Covid-19 vaccine as well as on the fiscal front in both the US and EU, pushing the benchmark index to close higher on a year-to-date basis. Tech stocks are also at a 5-month high with the NASDAQ composite Index up 2.5%. Looking ahead, markets would likely build on the momentum. However, re-imposition of lockdown measures remains a key risk.

HK: The unemployment rate rose for the ninth consecutive month to the highest since 2003 of 6.2% during the three months to June. During the same period, the underemployed rate increased to a nearly 17-year high of 3.7%. The jobs data beat market expectation as local pandemic showed signs of slowdown while the Employment Support Scheme started to materialize. However, we are not optimistic about the outlook of the labor market as Hong Kong is now in its third wave of Covid-19. To combat the virus, the government re-imposed stricter containment measures. In anticipation of bleak business outlook amid soft local and external demand, more SMEs in the hardest-hit sectors may go bust going forward and result in waves of layoffs. That said, the worsening of unemployment may vary from sector to sector. Also, the government may roll out third round of relief funds. As such, though we do expect the overall jobless rate to rise further towards 7%, it may not re-test the highest level since 2003 of 8.5%.

Macau: Visitor arrivals dropped by over 90% yoy for the fifth consecutive month and plunged by 99.3% yoy in June. On a positive note, as Macau formed a “travel bubble” with Guangdong, the worst may be over for Macau’s tourism sector on the back of the pent-up traveling demand of Mainland visitors who accounted for 93.4% of total visitors of the gambling hub in June. Nevertheless, entry to Macau by Mainlanders is still subject to conditions including negative result of nucleic acid testing and health code. Worse still, due to the new wave of Covid-19 in Hong Kong and the other countries of the world, strong travel restrictions may remain in place for some time. As such, any rebound in inbound tourism is expected to be muted in the near term.

Singapore: The STI fell 0.08% yesterday to close at 2616.30 but may trade firmer today amid positive leads from Wall Street overnight and morning gains by the KOSPI. The SGS bond yields rose about 1bp yesterday but may unwind today. Market players are waiting for the re-opening of the 10-year SGS bond, with the size announcement on 21 July for auction on 28 July.

Daily Treasury Outlook

21 July 2020

Malaysia: Senior representatives of Goldman Sachs are reportedly in Malaysia to hold talks with the government regarding 1MDB issues. Finance Minister Tengku Zafrul Aziz said that the government is looking to recover 1MDB assets and hope that the talks are fruitful. The American bank has been accused by the government for misleading investors when it arranged bond sales for 1MDB.

Taiwan: Export orders increased by 6.5% yoy in June, the largest increase since Sep 2018. By commodity, the demand for those ICT products remained resilient, with the export orders of "information & communication products" and electronic products picking up by 17.1% yoy and 23.9% yoy respectively. The buoyant performance was mainly supported by the persistent demand for remote service equipment, 5G infrastructure and semiconductors. Nevertheless, the export orders of those traditional commodities stayed sluggish. By country, the export orders from US and China grew by 13.6% yoy and 13.0% yoy respectively. Moving forward, the resilient demand for ICT products may continue to lend supports to the performance of exports in the coming months. Nevertheless, the trade performance of those traditional commodities may highly depend on the path of global recovery and development of Covid-19.

Indonesia: The Finance Ministry and Bank Indonesia has formally signed the deal on the burden-sharing scheme that would see the central bank finance part of the government's stimulus package. With yesterday's signing, the schemes are now formally operational. Separately, an MOF official said that the government would propose private placement of bonds with BI when there is a need, and that it would remain opportunistic and flexible in issuing more global bonds in H2 amid continued market uncertainty.

Daily Treasury Outlook

21 July 2020

Bond Market Updates

Market Commentary: The SGD swap curve steepened yesterday, with the shorter tenors traded 1-2bps higher while the belly and longer tenors traded 2-3bps higher. The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 2bps to 193bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 2bps to 753bps. The HY-IG Index Spread remained mostly unchanged at 560bps. Flows in SGD corporates were heavy, with flows in UBS 4.85%-PERPs, NTUCSP 3.1%'50s, SOCGEN 6.125%-PERPs, CS 5.625%-PERPs, GUOLSP 4.6%-PERPs, PINGIN 2.25%'21s, STANLN 5.375%-PERPs, CATHAY 3.375%'23s, DBSSP 3.98%-PERPs, UOBSP 3.58%-PERPs, OLAMSP 5.5%-PERPs and HSBC 4.7%-PERPs. 10Y UST Yields fell 2bps to 0.61% despite an equities rally (from progress towards a coronavirus vaccine) while investors awaited details on additional fiscal stimulus in the US and EU.

New Issues: Huarong Leasing Management Hong Kong Company Limited priced a USD300mn 363-day bond at 2.75%, tightening from IPT of 3.25% area. Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch priced a USD500mn 3-year FRN at 3m-US LIBOR+85bps, tightening from IPT of 3m-US LIBOR+125bps area. GS Caltex Corp. priced a USD300mn 5-year bond T+142.5bps, tightening from IPT of T+190bps area. Horse Gallop Finance Limited (Guarantor: ICBC International Holdings Limited), Empire Resorts Inc. and San Miguel have arranged investor calls commencing 20 July 2020 for their proposed USD bond offerings respectively. Mirae Asset Daewoo Co. has arranged investor calls commencing 21 July 2020 for its proposed USD bond offering.

Daily Treasury Outlook

21 July 2020

Foreign Exchange

| | Day Close | % Change | | Day Close | % Change |
|----------------|-----------|----------|----------------|-----------|----------|
| DXY | 95.832 | -0.11% | USD-SGD | 1.3886 | -0.02% |
| USD-JPY | 107.230 | -0.04% | EUR-SGD | 1.5907 | 0.05% |
| EUR-USD | 1.146 | 0.07% | JPY-SGD | 1.2950 | 0.02% |
| AUD-USD | 0.702 | 0.11% | GBP-SGD | 1.7582 | -0.02% |
| GBP-USD | 1.266 | 0.01% | AUD-SGD | 0.9754 | 0.08% |
| USD-MYR | 4.264 | -0.02% | NZD-SGD | 0.9138 | 0.04% |
| USD-CNY | 6.984 | -0.13% | CHF-SGD | 1.4789 | -0.03% |
| USD-IDR | 14785 | 0.56% | SGD-MYR | 3.0655 | -0.10% |
| USD-VND | 23180 | 0.00% | SGD-CNY | 5.0281 | -0.05% |

Equity and Commodity

| Index | Value | Net change |
|-------------------|-----------|------------|
| DJIA | 26,680.87 | 8.92 |
| S&P | 3,251.84 | 27.11 |
| Nasdaq | 10,767.09 | 263.90 |
| Nikkei 225 | 22,717.48 | 21.06 |
| STI | 2,616.30 | -2.18 |
| KLCI | 1,589.45 | -6.88 |
| JCI | 5,051.11 | -28.48 |
| Baltic Dry | 1,710.00 | 11.00 |
| VIX | 24.46 | -1.22 |

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% |

Government Bond Yields (%)

| Tenor | SGS (chg) | UST (chg) |
|------------|--------------|--------------|
| 2Y | 0.23 (-0.01) | 0.15(-) |
| 5Y | 0.51 (+0.01) | 0.28(-) |
| 10Y | 0.87 (+0.01) | 0.61 (+0.02) |
| 15Y | 1.13 (+0.01) | -- |
| 20Y | 1.17 (+0.01) | -- |
| 30Y | 1.19 (+0.01) | 1.31 (+0.02) |

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 | -0.224 | -6.1 | 0.036 | 0.036 |
| 01/27/2021 | -0.279 | -5.5 | 0.023 | 0.023 |

Financial Spread (bps)

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

Secured Overnight Fin. Rate

| | |
|-------------|------|
| SOFR | 0.12 |
|-------------|------|

Commodities Futures

| Energy | Futures | % chg | Soft Commodities | Futures | % chg |
|--------------------------|----------|--------|-------------------------|---------|-------|
| WTI (per barrel) | 40.81 | 0.54% | Corn (per bushel) | 3.283 | -1.4% |
| Brent (per barrel) | 43.28 | 0.32% | Soybean (per bushel) | 9.030 | 0.6% |
| Heating Oil (per gallon) | 123.55 | 1.35% | Wheat (per bushel) | 5.220 | -2.4% |
| Gasoline (per gallon) | 122.85 | 0.33% | Crude Palm Oil (MYR/MT) | 27.540 | 2.0% |
| Natural Gas (per MMBtu) | 1.64 | -4.48% | Rubber (JPY/KG) | 1.528 | 1.5% |
| Base Metals | Futures | % chg | Precious Metals | Futures | % chg |
| Copper (per mt) | 6487.50 | 0.61% | Gold (per oz) | 1817.8 | 0.4% |
| Nickel (per mt) | 13236.00 | 0.12% | Silver (per oz) | 19.9 | 3.0% |

Economic Calendar

| Date Time | Event | Survey | Actual | Prior | Revised |
|------------------|-----------------------------------|------------|--------|---------|---------|
| 07/20/2020 07/31 | PH Overseas Remittances YoY | May -15.9% | -- | -16.2% | -- |
| 07/20/2020 07/31 | PH BoP Overall | Jun -- | -- | \$2430m | -- |
| 07/20/2020 07/31 | PH Overseas Workers Remittances | May -- | -- | \$2046m | -- |
| 07/21/2020 05:00 | SK PPI YoY | Jun -- | -0.9% | -1.7% | -- |
| 07/21/2020 07:30 | JN Natl CPI YoY | Jun 0.1% | 0.1% | 0.1% | -- |
| 07/21/2020 07:30 | JN Natl CPI Ex Fresh Food YoY | Jun -0.1% | 0.0% | -0.2% | -- |
| 07/21/2020 11:00 | NZ Credit Card Spending YoY | Jun -- | -- | -21.1% | -- |
| 07/21/2020 13:30 | JN Nationwide Dept Sales YoY | Jun -- | -- | -65.6% | -- |
| 07/21/2020 14:00 | UK PSNB ex Banking Groups | Jun 38.0b | -- | 55.2b | -- |
| 07/21/2020 14:00 | JN Machine Tool Orders YoY | Jun F -- | -- | -32.0% | -- |
| 07/21/2020 14:00 | UK Public Finances (PSNCR) | Jun -- | -- | 71.4b | -- |
| 07/21/2020 16:30 | HK CPI Composite YoY | Jun 1.1% | -- | 1.5% | -- |
| 07/21/2020 20:30 | CA Retail Sales MoM | May 20.0% | -- | -26.4% | -- |
| 07/21/2020 20:30 | CA Retail Sales Ex Auto MoM | May 11.9% | -- | -22.0% | -- |
| 07/21/2020 20:30 | US Chicago Fed Nat Activity Index | Jun 4.00 | -- | 2.61 | -- |

Source: Bloomberg

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