

## Daily Treasury Outlook

22 July 2020

### Highlights

**Global:** Eurozone leaders clinched their EUR750b recovery fund deal which lifted the EUR overnight, whereas US-China tensions appeared to notch higher after the US Justice Department accused two Chinese hackers of stealing data including Covid-19 research and Mike Pompeo called for a “coalition” to resist China in a meeting with Dominic Raab. Senator Mitch McConnell also cast doubt on whether a fresh stimulus deal can be reached this week, while President Trump warned the pandemic could get worse before it gets better in an about-turn. The S&P500 index added 0.2% to its highest since February amid higher oil prices, while VIX rose to 24.84. The UST bonds again traded a tad firmer with the 10-year bond yield at 0.60%. The 3-month LIBOR eased to 0.2555%. Gold is also inching towards its 2011 record of \$1921.17 per ounce.

**Market watch:** Asian markets may open on a mixed tone this morning amid the ratcheting up of US-China tensions and doubts if the US’ next fiscal stimulus package could come in time. Today’s economic data calendar comprises of Malaysia’s June CPI and foreign reserves, Taiwan’s unemployment, Singapore’s COE tender, Philippines’ budget balance, and US’ existing home sales. ECB’s Lagarde and Guidos are also speaking.

**US:** Fed’s Kohn expects the US economy to stabilize in the second half of this year in a gradual recovery, but with sizeable risks on both sides of the inflation forecast. Meanwhile President Trump’s Fed nominee Judy Shelton was confirmed by the Senate Banking Committee and now faces the full Senate confirmation vote, while Christopher Waller also advanced. On the earnings front, Texas Instruments’ profit forecast beat estimates, and Coca-Cola also tips things to improve. Microsoft, Blackstone Group, Intel, Unilever and Tesla are also reporting next.

**SG:** MAS will re-open \$2.7b (with MAS taking \$200m) of the 10-year SGS bond maturing 1st September 2030. The bond is currently yielding 0.91%.

**HK:** Inflation decelerated to 0.7% in June, the weakest level since March 2017 despite the rally in oil price. For the two most heavily-weighted items, food inflation and housing inflation slowed down to 2.7% (the lowest level since January 2018) and 1.4% (the weakest level since January 2020) respectively. The slowdown of food inflation was mainly driven by the high base effect associated with last year’s port shortage while the moderation in housing inflation was due to rental concession. Moving forward, imported inflationary pressure could be contained by a relatively strong HKD and weak external demand. Meanwhile, local price pressures may remain muted amid a new wave of Covid-19 and the relief funds. Taken all together, we further revised our inflation forecast from about 1.5% to around 1% for 2020.

### Key Market Movements

Equity	Value	% chg
S&P 500	3257.3	0.2%
DJIA	26840	0.6%
Nikkei 225	22884	0.7%
SH Comp	3320.9	0.2%
STI	2629.5	0.5%
Hang Seng	25636	2.3%
KLCI	1595.9	0.4%
	Value	% chg
DX	95.117	-0.7%
USDJPY	106.8	-0.4%
EURUSD	1.1527	0.7%
GBPUSD	1.2731	0.6%
USDIDR	14741	-0.3%
USDSGD	1.383	-0.4%
SGDMYR	3.0668	0.0%
	Value	chg (bp)
3M UST	0.11	0.00
10Y UST	0.60	-0.98
1Y SGS	0.28	-0.10
10Y SGS	0.88	1.01
3M LIBOR	0.26	-1.36
3M SIBOR	0.44	0.00
3M SOR	0.17	0.00
	Value	% chg
Brent	44.32	2.4%
WTI	41.92	2.4%
Gold	1842	1.3%
Silver	21.30	7.0%
Palladium	2145	4.6%
Copper	6535	0.7%
BCOM	67.29	1.5%

Source: Bloomberg

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### Major Markets

**US:** The S&P500 Index closed 0.2% higher in a volatile intraday trading session amid disagreements between the White House and Senate Republicans on the next coronavirus fiscal stimulus. The index was up as high as 3277.29, but selling in the last hour saw the index eventually close at 3257.30 due to a selloff in big tech shares. The Nasdaq Composite index also closed 0.81% lower. We expect the market to remain supported in the near term.

**China:** In his meeting with Chinese entrepreneurs, Chinese President Xi Jinping called for more policy-based support to boost the vitality of market entities. Meanwhile, he also reiterated the need to adopt more proactive fiscal policies and prudent monetary policy with more flexibility to keep macro policies more targeted and timely. Xi also urged to widen market access to foreign investors via firmly implementing the negative list for market access and foreign investment law.

**Singapore:** The STI advanced 0.5% yesterday to close at 2629.45 but may trade sideways to softer today amid a mixed market tone. The SGS bonds may range trade today.

**Malaysia:** Malaysia is due to report its June CPI print today. We expect the headline inflation to tick up, relatively speaking, to -1.8% yoy compared to the -2.9% yoy prints we saw in the previous two months. A relative normalisation of consumer demand over the period would help stabilise prices. Mid-July foreign reserves numbers are due out too, having printed USD103.4bn previously.

**Indonesia:** Bank Indonesia's governor, Perry Warjiyo, said that the recent rate cut does not signal a change in its policy strategy, after market concerns that BI might adopt further outright easing stance to help growth, resulting in a relative currency weakness. He added that the rupiah remains fundamentally undervalued. To us, as the recent episode suggests, the room for further rate cuts by BI will be more limited due to currency stability and fund flow concerns. It would opt to emphasise its quantitative easing policies instead of cutting rate outright.

**Oil:** Oil prices rose, with Brent finally breaking above its range and closing above the \$44/bbl resistance at \$44.32/bbl. Given the raft of positive news from the media, especially with regards to optimistic developments over the coronavirus vaccine, this might yet be the start of a sustained uptrend in oil. The price action from the rest of this week may be an indicator on whether Brent prices may fall back within its consolidation range or attempt to test \$45/bbl.

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### Bond Market Updates

**Market Commentary:** The SGD swap curve slightly steepened yesterday, with the shorter tenors traded 1bp higher while the belly and longer tenors traded 2bps higher and the 30-year traded 2.5bps higher. The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 4bps to 189bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 12bps to 740bps. The HY-IG Index Spread tightened 8bps to 551bps. Flows in SGD corporates were heavy, with flows in NTUCSP 3.1%'50s, SINTEC 4.1%-PERPs, HSBC 5%-PERPs and UBS 5.875%-PERPs. 10Y UST Yields fell 1bp to 0.6% despite stocks trading higher as investors bet on further stimulus.

**New Issues:** Horse Gallop Finance Limited (Guarantor: ICBC International Holdings Limited) priced a USD700mn 5-year bond at CT5+150bps, tightening from IPT of CT5+200bps area. Malayan Banking Berhad priced a USD300mn 40-year bond at 3.07%. SPIC MTN Company Ltd. (Guarantor: State Power Investment Corporation Limited) has arranged investor calls commencing 21 July 2020 for its proposed USD bond offering. Korea South-East Power Co. and Megaworld Corp. have arranged investor calls commencing 22 July 2020 for their proposed USD bond offerings respectively.

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### Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	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%

### 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	-0.037	-3.7	0.082	0.082
09/16/2020	-0.12	-8.3	0.062	0.062
11/05/2020	-0.165	-4.5	0.051	0.051
12/16/2020	-0.232	-6.6	0.034	0.034
01/27/2021	-0.277	-4.6	0.023	0.023

### 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

### 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)

### 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)	41.96	2.82%	Corn (per bushel)	3.228	-1.7%
Brent (per barrel)	44.32	2.40%	Soybean (per bushel)	8.965	-0.7%
Heating Oil (per gallon)	128.00	3.60%	Wheat (per bushel)	5.278	1.1%
Gasoline (per gallon)	127.97	4.17%	Crude Palm Oil (MYR/MT)	27.330	-0.8%
Natural Gas (per MMBtu)	1.68	2.07%	Rubber (JPY/KG)	1.563	2.3%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	6534.50	0.72%	Gold (per oz)	1841.9	1.3%
Nickel (per mt)	13466.00	1.74%	Silver (per oz)	21.3	7.0%

### 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	--
07/22/2020 08:30	JN Jibun Bank Japan PMI Mfg	Jul P --	42.60	40.10	--
07/22/2020 08:30	AU Westpac Leading Index MoM	Jun --	0.4%	0.2%	--
07/22/2020 08:30	JN Jibun Bank Japan PMI Services	Jul P --	45.20	45.00	--
07/22/2020 08:30	JN Jibun Bank Japan PMI Composite	Jul P --	43.90	40.80	--
07/22/2020 12:00	MA CPI YoY	Jun -1.8%	--	-2.9%	--
07/22/2020 15:00	MA Foreign Reserves	Jul-15 --	--	\$103.4b	--
07/22/2020 16:00	SI Automobile COE Open Bid Cat A	44743 --	--	33520.00	--
07/22/2020 19:00	US MBA Mortgage Applications	42917 --	--	5.1%	--
07/22/2020 20:30	CA CPI YoY	Jun 0.2%	--	-0.4%	--
07/22/2020 20:30	CA CPI NSA MoM	Jun 0.4%	--	0.3%	--
07/22/2020 21:00	US FHFA House Price Index MoM	May 0.3%	--	0.2%	--
07/22/2020 22:00	US Existing Home Sales	Jun 4.75m	--	3.91m	--

Source: Bloomberg

## Treasury Research & Strategy

### Macro Research

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

### Credit Research

**Andrew Wong***Credit Research Analyst*[WongVKAM@ocbc.com](mailto:WongVKAM@ocbc.com)**Ezien Hoo***Credit Research Analyst*[EzienHoo@ocbc.com](mailto:EzienHoo@ocbc.com)**Wong Hong Wei***Credit Research Analyst*[WongHongWei@ocbc.com](mailto:WongHongWei@ocbc.com)**Seow Zhi Qi***Credit Research Analyst*[ZhiQiSeow@ocbc.com](mailto:ZhiQiSeow@ocbc.com)

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