

Daily Treasury Outlook

24 June 2020

Highlights

Global: Is the US-China Phase 1 trade deal on or off – that is the question.

Markets nearly had a heart attack when White House adviser Peter Navarro said in a Fox News interview that “it’s over”, but this was quickly overridden by Trump’s tweet that the China trade deal is fully intact. The market jitters suggest that investor confidence may be vulnerable to pullbacks in the near-term. This is despite the relatively upbeat manufacturing PMI data that suggested many countries are restarting their economic engines again. The WTO also said its worst case scenario of global trade falling 32% may be avoided this year after merchandise trade fell 3% and 18.5% in 1Q and 2Q20 respectively and 2021 may see a 5-20% rebound if fiscal, monetary and trade policies keep pulling in the same direction. The S&P500 gained 0.43% amid hopes more US fiscal stimulus while VIX eased to 31.37 overnight. UST bonds reversed initial gains to close mixed with a steepening bias and the 10-year yield at 0.71% amid a strong 2-year auction. The 3-month LIBOR eased to 0.2969% (lowest since 2015). MSCI added 137 and deleted 181 names from its MSCI World Index. Gold also hit its highest since 2012.

Market watch: Asian markets may open mixed this morning while awaiting the RBNZ and BOT policy decisions with both tipped to be on hold at 0.25% and 0.5% respectively. Today’s economic data comprises of US’ mortgage applications, German IFO business climate, Malaysia’s May CPI, and Thailand’s May trade data. ECB’s Lane and Fed’s Evans and Bullard are also speaking.

Flash PMIs mostly signalled recovery in June: Australia’s composite PMI rebounded from 28.1 in May to 52.6 in June, with the new orders hitting a 5-month high. UK’s services PMI also rose from 29.0 to 47.0, but lagged behind the manufacturing PMI which returned to expansion territory of 50.1 in June. In Europe, the manufacturing, services and composite PMIs rose to 46.9, 47.3 and 47.5 in June, up from 39.4, 30.5 and 31.9 previously, with improvements seen across Germany and France.

US: Fed’s Bullard poured cold water on YCC, opining that “there are a lot more questions than answers around yield-curve control right now” and the Fed is “giving great forward guidance right now”. Meanwhile, Americans may not get non-essential travel to the EU when EU leaders meet to discuss based on “reciprocity”.

Singapore: PM Lee has dissolved Parliament with nomination date set for 30 June and polling date on 10 July to clear the decks and give the new government a fresh five-year mandate. Meanwhile, the May headline and core CPI both declined for the 2nd and 4th straight month by 0.8% and 0.2% yoy respectively, with soft private transport costs and retail prices amid the Circuit Breaker, with the exception of food prices (+2.2% yoy) due to global supply chain disruptions. MAS and MTI reiterated their 2020 headline and core CPI forecasts of 0% to -1%, citing that cost pressures are likely to remain low as some degree of spare capacity in the economy emerges, and we concur with a -0.4% yoy forecast for both CPIs.

Key Market Movements

Equity	Value	% chg
S&P 500	3131.3	0.4%
DJIA	26156	0.5%
Nikkei 225	22549	0.5%
SH Comp	2970.6	0.2%
STI	2634.9	0.2%
Hang Seng	24907	1.6%
KLCI	1507.0	-0.3%
Currencies	Value	% chg
DXY	96.646	-0.4%
USDJPY	106.52	-0.4%
EURUSD	1.1308	0.4%
GBPUSD	1.2520	0.4%
USDIDR	14162	0.1%
USDSGD	1.3911	-0.1%
SGDMYR	3.0724	0.2%
Rates	Value	chg (bp)
3M UST	0.13	-0.51
10Y UST	0.71	0.33
1Y SGS	0.26	0.10
10Y SGS	0.94	3.66
3M LIBOR	0.30	-0.85
3M SIBOR	0.54	1.00
3M SOR	0.18	0.26
Commodities	Value	% chg
Brent	42.63	-1.0%
WTI	40.37	-0.9%
Gold	1768	0.8%
Silver	17.94	1.3%
Palladium	1932	-0.6%
Copper	5905	0.4%
BCOM	64.71	-0.2%

Source: Bloomberg

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Major Markets

US: The S&P 500 index closed 0.43% higher as investors were buoyed by the possibility of another stimulus package that may be passed next month. The benchmark index, however, still ended the day lower than it started as gains faded later in the session on concerns over the continued spike in US infections. Markets are expected to remain volatile despite Wall Street's positive sentiment, as the bull run is checked by the sustained increase in new daily coronavirus cases.

Singapore: The STI added 0.20% to close at 2634.92 yesterday as investors heaved a sigh of relief that Navarro's comments that the Phase 1 trade deal being over was reversed. Longer-dated SGS bonds remain under pressure yesterday and upcoming auctions on 26 June for \$2.5b (MAS taking \$200m) re-opening of the 5-year SGS bond maturing 1 June 2025 and \$800m of the 30-year SGS bond maturing 1 March 2050.

UK: PM Johnson announced a new social distance rule of 1-meter plus as hotels, pubs, restaurants and cinemas will re-open on 4 July.

China: The inactivated Covid-19 vaccine developed by China's Wuhan Institute of Biological Products, affiliated with Sinopharm, received the approval from the United Arab Emirates (UAE) to start the phase three trial in the country. It is the first vaccine in the world entering phase three trial.

Taiwan: Industrial production grew by 1.51% yoy in May, lowered than expected. Specifically, the performance of high-tech products remained resilient, with the industrial production of electronic parts & components and integrated circuits increasing by 22.15% yoy and 36.01% yoy respectively. Nevertheless, it has been offset by the decline in metal, rubber and chemical products.

Malaysia: Malaysian ringgit saw some appreciation momentum, strengthening to its strongest level against USD in a week yesterday. Broad dollar weakness as well as oil price recovery helped to bolster the currency. Given that both factors remain in play today, the momentum might just continue. Separately, Malaysia is due to report its May headline CPI today. We reckon that inflation will come in at around -2.8% yoy, on the back of still-soft commodity prices and weak demand.

Indonesia: Finance Minister Sri Mulyani said in a Bloomberg interview that the government is still in talks with Bank Indonesia on how the central bank can share more of the burden of fiscal stimulus measures by the government. Few details were provided as to the type of instrument or yield structure of any financing mechanism that they have in mind at this stage. Thus far, BI has started to buy government bonds at the primary auction stage but has come under some criticism from some parliamentarians that the (market-based) interest rate that BI is getting from such bonds is too high.

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Thailand: The Bank of Thailand is widely expected to keep its benchmark rate constant at 0.50% today, with just 4 of 26 economists on Bloomberg expecting a 25bp rate cut. Having reduced the benchmark rate by 75bp in H1, we think the BoT may want to leave its benchmark rate at 0.50% in this meeting to assess the economic impact of loosened monetary policies and the numerous Covid-19 fiscal support packages.

Oil: Brent failed to close above the resistance of \$43.40/bbl yesterday, retreating to \$42.63/bbl after private estimates suggest US crude oil inventories may climb again this week from its current record high. We expect crude oil prices to consolidate from \$37-\$43/bbl in the short term as the market awaits further developments to determine its next direction.

Bond Market Updates

Market Commentary: The SGD swap curve rose yesterday, with the 30-year tenor remaining unchanged while the other tenors traded 1-4bps higher. The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 202bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 11bps to 769bps. The HY-IG Index Spread tightened 10bps to 567bps. Flows in SGD corporates were heavy, with flows in HSBC 4.7%-PERPs, SOCGEN 6.125%-PERPs, UBS 5.875%-PERPs, UOBSP 3.58%-PERPs, STANLN 5.375%-PERPs, DBSSP 3.98%-PERPs, MFCCN 3%'29s, FPLSP 3.95%-PERPs and FPLSP 4.98%-PERPs. 10Y UST Yields remain mostly unchanged at 0.71%, despite trade deal reassurances and upbeat economic data from the United States.

New Issues: Mega Wisdom Global Limited (Guarantor: Fortune Joy Ventures Limited and Sino-Ocean Capital Holding Limited) priced a USD300mn 364-day bond at 5.625%, tightening from IPT of 6.125% area. Ronshine China Holdings Limited priced a USD160mn re-tap of its 7.35%'23s, tightening from IPT of 7.30% area. Agile Group Holdings Limited priced a USD500mn 4.5NC2.5 bond at 5.75%, tightening from IPT of 6.125% area. NWD Finance BVI Ltd (Guarantor: New World Development Co Ltd) priced a USD200mn re-tap of its NWDEVL PerpNC6 at 5.25%. Jingrui Holdings Limited priced a USD40mn re-tap of its JINGRU 12%'22s at 12%. Swiss Re Finance (UK) Plc (Guarantor: Swiss Re Ltd.) has mandated banks for its proposed SGD bond offering. HPCL-Mittal Energy has arranged investor calls commencing 24 June 2020 for its proposed USD bond offering.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	96.646	-0.40%	USD-SGD	1.3911	-0.09%
USD-JPY	106.520	-0.36%	EUR-SGD	1.5731	0.33%
EUR-USD	1.1308	0.42%	JPY-SGD	1.3060	0.28%
AUD-USD	0.6930	0.32%	GBP-SGD	1.7417	0.32%
GBP-USD	1.2520	0.41%	AUD-SGD	0.9640	0.22%
USD-MYR	4.2752	-0.08%	NZD-SGD	0.9030	0.08%
USD-CNY	7.0581	-0.15%	CHF-SGD	1.4723	0.20%
USD-IDR	14162	0.08%	SGD-MYR	3.0724	0.19%
USD-VND	23203	0.01%	SGD-CNY	5.0814	0.12%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.5090	-1.00%	O/N	0.0699	-0.54%
2M	-0.3360	-0.54%	1M	0.1848	-0.54%
3M	-0.4000	-0.54%	2M	0.2579	-0.91%
6M	-0.2590	-0.91%	3M	0.2966	-0.85%
9M	-0.1940	-0.85%	6M	0.3945	-2.00%
12M	-0.1790	-2.00%	12M	0.5738	-0.20%

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	% Hike/Cut	Implied Rate Change	Implied Rate
07/29/2020	-0.043	-4.3	-0.011	0.067
09/16/2020	-0.084	-4.1	-0.021	0.057
11/05/2020	-0.131	-4.7	-0.033	0.045
12/16/2020	-0.137	-0.6	-0.034	0.044
01/27/2021	-0.183	-4.6	-0.046	0.032

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	40.37	-0.2%	Corn (per bushel)	3.2500	-1.0%
Brent (per barrel)	42.63	-1.0%	Soybean (per bushel)	8.750	-0.1%
Heating Oil (per gallon)	1.2030	-1.3%	Wheat (per bushel)	4.8600	0.2%
Gasoline (per gallon)	1.2994	0.6%	Crude Palm Oil (MYR/MT)	2,542.0	0.9%
Natural Gas (per MMBtu)	1.6370	-1.6%	Rubber (JPY/KG)	139.1	-0.3%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,905	0.4%	Gold (per oz)	1,768.4	0.8%
Nickel (per mt)	12,721	0.6%	Silver (per oz)	17.945	1.3%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
06/22/2020 06:26	PH Overseas Remittances YoY	Apr -8.10%	--	-4.70%	--
06/22/2020 06:26	PH BoP Overall	May --	--	\$1666m	--
06/22/2020 06:26	PH Overseas Workers Remittances	Apr --	--	\$2397m	--
06/24/2020 10:00	NZ RBNZ Official Cash Rate	Jun-24 0.25%	--	0.25%	--
06/24/2020 11:30	TH Customs Exports YoY	May -5.75%	--	2.12%	--
06/24/2020 11:30	TH Customs Imports YoY	May -18.00%	--	-17.13%	--
06/24/2020 12:00	MA CPI YoY	May -2.80%	--	-2.90%	--
06/24/2020 14:45	FR Manufacturing Confidence	Jun 79	--	70	--
06/24/2020 15:05	TH BoT Benchmark Interest Rate	Jun-24 0.50%	--	0.50%	--
06/24/2020 16:00	GE IFO Business Climate	Jun 85	--	79.5	--
06/24/2020 16:00	GE IFO Expectations	Jun 87	--	80.1	--
06/24/2020 16:00	GE IFO Current Assessment	Jun 84	--	78.9	--
06/24/2020 16:00	PD Unemployment Rate	May 6.10%	--	5.80%	--
06/24/2020 19:00	US MBA Mortgage Applications	Jun-19 --	--	8.00%	--
06/24/2020 21:00	US FHFA House Price Index MoM	Apr 0.30%	--	0.10%	--

Source: Bloomberg

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