

Daily Treasury Outlook

24 July 2020

Highlights

Global: Risk sentiments stumbled after the US initial jobless claims data rose for the first time since March from 1.3m to 1.42m which could suggest the US recovery was stalling, and amid the ratcheting higher in US-China tensions. The Republicans have dropped Trump's payroll tax cut plan and Treasury Secretary Mnuchin hinted there was a "fundamental agreement" on the \$1tn stimulus plan. Meanwhile, US Secretary of State Mike Pompeo stepped up the war of words, criticising Chinese Premier Xi for totalitarian ideology. The S&P500 slid from a four-month high by 1.23% while VIX also rose to 26.08. The UST bonds bull-flattened with the 10-year bond yield dipping below 0.58% while the \$14b 10-year TIPS auction fetched a record -0.93%. Fed's Dudley had suggested that the central bank could extend the duration of its bond purchases. The USD was mostly weaker as well.

Market watch: Asian markets may consolidate today given the slight risk-off tone imparted by the softer US initial jobless claims data and the notching higher in US-China tensions where market players will be awaiting the potential retaliatory move by China to Pompeo's criticism. Today's economic data calendar comprises S'pore's June industrial production, Thailand's June trade data, UK's retail sales, Eurozone/Germany/UK's services and composite PMIs, as well as US' new home sales and services PMI. Japan's market is closed today for a holiday.

US: President Trump has scrapped his Republican convention in Jackson Hole, Florida next month as the state reported record Covid-19 deaths. Meanwhile, on the earnings front, Intel slipped due to a delay in its new 7-nanometer production despite beating estimates, while Twitter reported 186m daily users but revenue missed on disappointing ads. Adding to the tech sell-off, Apple is also under investigation in various states according to a tech watchdog report.

UK: BOE's Haskel warned that re-opening the UK economy too early could risk it getting stuck in a very difficult self-defeating cycle amid lingering fears of Covid-19.

SG: Industrial production likely rebounded 1.7% yoy (10.3% mom sa) in June, up from May's print of -7.4% yoy (-16.5% mom sa), as electronics output improves.

Gold: Gold prices came close to its record high last night, touching an intraday high of \$1898.34/oz and 1.2% from its all-time intraday high of \$1921.17/oz. The intraday high has also beat the record close of \$1900.20/oz. We expect gold to set a new record high in the coming days given the strong bullish momentum and weakening economic outlook.

Oil: Oil prices declined yesterday, with Brent falling 2.2% to \$43.31/bbl, and in doing so re-entered its recent consolidation range after the breakout three days ago.

Key Market Movements		
Equity	Value	% chg
S&P 500	3235.7	-1.2%
DJIA	26652	-1.3%
Nikkei 225	22752	0.0%
SH Comp	3325.1	-0.2%
STI	2612.4	0.7%
Hang Seng	25263	0.8%
KLCI	1606.4	1.2%
	Value	% chg
DX	94.692	-0.3%
USDJPY	106.86	-0.3%
EURUSD	1.1596	0.2%
GBPUSD	1.2741	0.1%
USIDR	14580	-0.5%
USDSGD	1.386	0.0%
SGDMYR	3.0751	0.1%
	Value	chg (bp)
3M UST	0.10	-1.02
10Y UST	0.58	-1.97
1Y SGS	0.28	0.10
10Y SGS	0.86	-1.97
3M LIBOR	0.26	0.80
3M SIBOR	0.44	0.00
3M SOR	0.20	0.00
	Value	% chg
Brent	43.31	-2.2%
WTI	41.07	-2.0%
Gold	1887	0.9%
Silver	22.59	-1.8%
Palladium	2155	-0.1%
Copper	6545	0.9%
BCOM	68.12	0.6%

Source: Bloomberg

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Major Markets

US: The S&P500 closed 1.2% lower as risk sentiment weakened overnight amid heightened geopolitical tensions and disappointing initial jobless claims (actual: 1.41mn, expected: 1.30mn), indicating a stalling economic recovery in the US. VIX also climbed while gold closed in on a record high. We expect markets to remain supported as investors await upcoming fiscal stimulus, but further disappointment on that front and intensifying US-China tensions may send the equity benchmark index downwards.

China: China announced that all imported meat products are required to have proof of negative nucleic acid test results before being processed. Epidemic prevention measures will be strengthened in meat processing factories in slaughterhouse, meat cutting and packaging workshops.

Taiwan: Industrial production increased by 7.34% yoy significantly in June, much higher than market expectations. By industrial division, manufacturing, mining & quarrying and electricity & gas supply grew by 7.81% yoy, 21.31% yoy and 1.31% yoy respectively. In particular, electronic parts & components and computers, electronic & optical products surged by 23.82% yoy and 19.42% yoy respectively, mainly attributed to the persistently strong demand for remote service equipment, 5G infrastructure and semiconductors. Moving forward, the resilient demand for ICT products may continue to fuel the growth momentum of overall industrial production. Still, the outlook of industrial production of those traditional commodities (e.g. rubber products, plastic products and base metals) may highly depend on the path of global recovery and development of Covid-19.

Singapore: The STI gained 0.69% yesterday to close at 2612.35 but may face some profit taking interest today. The 2600 support handle will be key. With the overnight UST bond market rally and the risk-off tone, expect SGS bonds to be supported today.

Malaysia: Amid the economic challenges, it may be easy to forget about pockets of strength in the Malaysian economy. News that Top Glove managed to become the second most valuable stock in the KLCI index serves as a reminder that some industries have gained from the crisis. It closed yesterday at a market cap of MYR70.4bn, surpassing Public Bank's 69.5bn. Meanwhile, pharma shares have also been on a roar, with a few firms seen as candidates for packing the vaccines, when they are ready.

Indonesia: President Jokowi said that the economy is gradually recovering from the pandemic hit, judging from a rebound in some key indicators. He pointed out that household consumption, purchasing power and money circulation in rural areas have been recovering. While Q2 GDP was probably -4.3 to -5% yoy, such upticks should help recovery. Still, he rightly cautioned that the global outlook remains uncertain and it is becoming difficult to estimate growth projections.

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Bond Market Updates

Market Commentary: The SGD swap curve bull flattened yesterday, with all tenors trading 0-2bps lower while the 1-year traded 1bp higher. The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 2bps to 185bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 6bps to 717bps. The HY-IG Index Spread tightened 4bps to 532bps. Flows in SGD corporates were heavy, with flows in STTGDC 3.13%'28s, SINTEC 4.1%-PERPs, OUECT 4%'25s, NTUCSP 3.1%'50s, SPHSP 3.2%'30s, SRENVX 3.125%'35s, CMZB 4.875%'27s and CS 5.625%-PERPs. 10Y UST Yields fell 2bps to 0.58%, the lowest close since April 21 as stocks softened and auction yields for 10-year TIPS drifted to an all-time low.

New Issues: Taihu Pearl Oriental Company Limited (Guarantor: Huzhou City Investment Development Group Co., Ltd.) priced a USD300mn 3-year bond at 3.15%, tightening from IPT of 3.8% area. Megaworld Corp. priced a USD350mn 7-year bond at 4.375%, tightening from IPT of 4.625% area. Manila Water Company, Inc. priced a USD500mn 10NC5 sustainability bond at 4.5%, tightening from IPT of 4.75% area. Mirae Asset Daewoo Co., Ltd. priced a USD300mn 3-year bond at T+205bps, tightening from IPT of T+250bps area and another USD300mn 5-year bond at T+245bps, tightening from IPT of T+290bps area. Fantasia Holdings Group Co., Limited priced a USD350mn 3NC2 bond at 9.45%, tightening from IPT of 10% area.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	94.692	-0.31%	USD-SGD	1.3860	0.03%
USD-JPY	106.860	-0.27%	EUR-SGD	1.6073	0.26%
EUR-USD	1.160	0.22%	JPY-SGD	1.2970	0.30%
AUD-USD	0.710	-0.59%	GBP-SGD	1.7659	0.09%
GBP-USD	1.274	0.05%	AUD-SGD	0.9838	-0.56%
USD-MYR	4.260	0.18%	NZD-SGD	0.9196	-0.39%
USD-CNY	7.004	0.06%	CHF-SGD	1.4977	0.49%
USD-IDR	14580	-0.48%	SGD-MYR	3.0751	0.13%
USD-VND	23172	-0.05%	SGD-CNY	5.0571	-0.03%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.5100	-0.50%	O/N	0.0859	0.09%
2M	-0.3360	-0.34%	1M	0.1790	0.18%
3M	-0.4540	-0.45%	2M	0.2190	0.22%
6M	-0.3550	-0.35%	3M	0.2635	0.26%
9M	-0.1940	-0.20%	6M	0.3275	0.34%
12M	-0.2830	-0.28%	12M	0.4633	0.46%

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	-0.225	-6.2	0.036	0.036
01/27/2021	-0.259	-3.4	0.027	0.027

Equity and Commodity

Index	Value	Net change
DJIA	26,652.33	-353.51
S&P	3,235.66	-40.36
Nasdaq	10,461.42	-244.71
Nikkei 225	22,751.61	-132.61
STI	2,612.35	17.82
KLCI	1,606.42	19.44
JCI	5,145.01	34.82
Baltic Dry	1,473.00	-121.00
VIX	26.08	1.76

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	0.22 (--)	0.15 (--)
5Y	0.52 (--)	0.27 (--)
10Y	0.86 (-0.02)	0.58 (-0.02)
15Y	1.11 (-0.01)	--
20Y	1.17 (-0.01)	--
30Y	1.2 (-0.01)	1.23 (+0.06)

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	1.30	(--)
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	0.10
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Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	41.07	-1.98%	Corn (per bushel)	3.280	0.2%
Brent (per barrel)	43.31	-2.21%	Soybean (per bushel)	9.063	0.8%
Heating Oil (per gallon)	125.41	-1.31%	Wheat (per bushel)	5.295	-0.9%
Gasoline (per gallon)	125.86	-1.89%	Crude Palm Oil (MYR/MT)	27.990	2.0%
Natural Gas (per MMBtu)	1.79	6.19%	Rubber (JPY/KG)	0.000	-100.0%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	6544.50	0.90%	Gold (per oz)	1887.4	0.9%
Nickel (per mt)	13689.00	4.21%	Silver (per oz)	22.6	-1.8%

Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
07/24/2020 22:00	US New Home Sales	700k	--	676k	--
07/24/2020 15:30	GE Markit/BME Germany Manufacturing PMI	48.00	--	45.20	--
07/24/2020 21:45	US Markit US Manufacturing PMI	52.00	--	49.80	--
07/24/2020 16:30	UK Markit UK PMI Manufacturing SA	52.00	--	50.10	--
07/24/2020 16:00	EC Markit Eurozone Manufacturing PMI	50.10	--	47.4	--
07/24/2020 06:45	NZ Trade Balance NZD	450m	426m	1253m	1286m
07/24/2020 13:00	SI Industrial Production YoY	Jun -2.6%	--	-7.4%	--
07/22/2020 07:31	PH Overseas Remittances YoY	May -15.5%	--	-16.2%	--
07/24/2020 15:30	TH Foreign Reserves	Jul-17 --	--	\$243.1b	--
07/24/2020 14:00	UK Retail Sales Inc Auto Fuel MoM	Jun 0.08	--	0.12	--
07/24/2020 14:00	UK Retail Sales Ex Auto Fuel MoM	Jun 7.9%	--	0.10	--
07/22/2020 07:31	PH BoP Overall	Jun --	--	\$2430m	--
07/24/2020 11:30	TH Customs Exports YoY	Jun -15.0%	--	-22.5%	--
07/24/2020 16:00	EC Markit Eurozone Composite PMI	Jul P 51.1	--	48.5	--
07/24/2020 15:30	GE Markit Germany Services PMI	Jul P 50.5	--	47.3	--

Source: Bloomberg

Treasury Research & Strategy

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