

Daily Treasury Outlook

25 June 2020

Highlights

Global: Risk-off sentiment intensified overnight as fears of a second wave contagion grows, with both Florida and California reporting daily records for new cases. Houston said it has almost run out of intensive-care unit beds, while New York, New Jersey and Connecticut are imposing quarantine to all who have visited virus hotspots for 14 days. All eleven sectors in the S&P 500 index sank, with the benchmark equity index declining 2.6%. The dollar firmed while 10Y Treasury yields fell 3.4bp to 0.68%, signals of an increase in safe haven demand. Fed's Charles Evans weighed in, noting that recurring outbreaks will hurt US growth while intermittent spikes of infections might be made worse by faster than expected reopenings. Meanwhile the IMF slashed its estimate of 2020 global GDP growth to -4.9% yoy from the -3.0% yoy estimate in April, with the US potentially clocking a growth rate of -8.0% yoy and the Eurozone at -10.2% yoy. Dampening the already fragile risk sentiment is the US weighing new tariffs on exports from the UK and selected countries from the Eurozone, including new tariffs on olives, beer and gin, and increasing existing duties on aircraft, cheese and yoghurt. With the quarter-end looming around the corner, the increasing volume of pessimism might precipitate increased bearishness and profit-taking in the very short term, with the VIX potentially running higher.

Market watch: Asian markets are likely to tread on caution today, following the 2.6% decline in the S&P 500 last night and the VIX having inched higher from 31.4 to 33.8. The BSP meets today for their monetary policy meeting, in which we expect them to leave its benchmark rate unchanged at 2.75%. US durable goods orders, jobless claims and the third estimate of Q1 US GDP growth are likely to set the tone for the US market tonight.

Singapore: The Elections Department (ELD) has confirmed that candidates and political parties are allowed to conduct walkabouts and door-to-door campaigning for the upcoming general elections, but must still practise safe-distancing measures and ensure no crowds should form around candidates.

Oil: Oil prices declined yesterday, with Brent trending lower after failing to break its double top resistance of \$43.40/bbl on Tuesday. Brent lost 5.4% yesterday but still closed above \$40/bbl. The resurgence of coronavirus cases in the US, in addition to US crude inventories adding another 1.4mn barrels to hit a fresh record high of 540.7mn barrels last week, sent oil prices tumbling. We maintain our view that oil prices are likely to undergo a consolidation in the near term.

Key Market Movements

Equity	Value	% chg
S&P 500	3050.3	-2.6%
DJIA	25446	-2.7%
Nikkei 225	22534	-0.1%
SH Comp	2979.6	0.3%
STI	2628.6	-0.2%
Hang Seng	24782	-0.5%
KLCI	1502.6	-0.3%
Currencies	Value	% chg
DXY	97.148	0.5%
USDJPY	107.04	0.5%
EURUSD	1.1251	-0.5%
GBPUSD	1.2419	-0.8%
USDIDR	14130	-0.2%
USDSGD	1.3933	0.2%
SGDMYR	3.0777	0.2%
Rates	Value	chg (bp)
3M UST	0.14	0.25
10Y UST	0.68	-3.28
1Y SGS	0.26	0.00
10Y SGS	0.94	0.16
3M LIBOR	0.30	0.02
3M SIBOR	0.55	1.13
3M SOR	0.20	2.34
Commodities	Value	% chg
Brent	40.31	-5.4%
WTI	38.01	-5.8%
Gold	1761	-0.4%
Silver	17.50	-2.5%
Palladium	1881	-2.6%
Copper	5865	-0.7%
BCOM	63.71	-1.5%

Source: Bloomberg

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Major Markets

US: US stock markets declined after new daily cases of Covid-19 continues to increase, with new records set in Florida and California. Investors are increasingly worried that the resurgence of the coronavirus cases in multiple states will hamper economic recovery. This is consistent with our expectations that a risk-off posture may set in if new daily cases in the US do not begin to taper or fall. Markets are likely to remain volatile in the near-term as we head towards quarter-end.

Singapore: The STI fell 0.2% yesterday and is expected to face selling pressure in today's session on weak cues from Wall Street overnight. The benchmark equity index has been finding much support at the 50-day moving average. A break below its current level might see the index fall towards 2490 in the short term.

Malaysia: Malaysia reported its May CPI inflation yesterday, with headline coming in at -2.9%yoy, slightly lower than expectation and in line with April's print. While food prices did pick up by 1.2% yoy as the festive period ahead of Eid was a factor, headline inflation was driven more by continued softness in petrol prices. Overall, soft consumer demand is likely to continue keeping Malaysia's inflation in check for a while.

Indonesia: Indonesia's government is planning to place IDR30tn (~USD2.1bn) of funds at state-owned banks. The likes of BRI, BNI, Mandiri will be able to borrow these government funds at an interest rate equivalent to 80% of the Bank Indonesia's policy rate, which now stands at 4.25%. The move aims to encourage SOE banks to extend credit support to the real sectors of the economy, Fin Min Sri Mulyani said, adding that the funds cannot be used to buy bonds or for FX transactions. She further said that the president has instructed her ministry to examine if the program can be extended to private commercial banks as well.

Thailand: The Bank of Thailand has kept its benchmark interest rate constant at 0.50%, as widely expected by economists and ourselves. The central bank slashed Thailand's 2020 GDP growth forecast to -8.1% yoy from -6.0% yoy, which would put it at an even deeper contraction than what was witnessed in 1998 during the AFC (-7.6% yoy).

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Bond Market Updates

Market Commentary: The SGD swap curve fell slightly yesterday, with all tenors trading 1-2bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS remained mostly unchanged at 202bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 2bps to 767bps. The HY-IG Index Spread tightened 2bps to 565bps. Flows in SGD corporates were heavy, with flows in STANLN5.375%-PERPs, CS 5.625%-PERPs, FPLSP 4.98%-PERPs, UBS 4.85%-PERPs, OLAMSP 5.5%-PERPs, SOCGEN 6.125%-PERPs, CELSP 3.9%-PERPs and UBS 5.875%-PERPs. 10Y UST Yields fell 3bps to 0.68%, as fears of a COVID-19 resurgence boosted demand for safe-haven assets.

New Issues: China Aoyuan Group Limited priced a USD460mn 3.6NC2.6 bond at 6.35%, tightening from IPT of 6.75% area. NagaCorp Limited (Guarantors: NagaCorp (HK) Limited, Nagaworld Limited, NagaCity Walk Limited, Naga 2 Land Limited and Naga 3 Company Limited) priced a USD350mn 4NC2 bond at 8.5%, tightening from IPT of 8.75% area. New Oriental Education & Technology Group, Inc. priced a USD300mn 5-year bond at T+185bps, tightening from IPT of T+220bps area. Swiss Re Finance (UK) PLC (Guarantor: Swiss Re Ltd.) priced a SGD350mn 15NC5 bond at 3.125%, tightening from IPT of 3.60% area.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	97.148	0.52%	USD-SGD	1.3933	0.16%
USD-JPY	107.040	0.49%	EUR-SGD	1.5677	-0.34%
EUR-USD	1.1251	-0.50%	JPY-SGD	1.3017	-0.33%
AUD-USD	0.6869	-0.88%	GBP-SGD	1.7305	-0.64%
GBP-USD	1.2419	-0.81%	AUD-SGD	0.9571	-0.72%
USD-MYR	4.2720	-0.07%	NZD-SGD	0.8932	-1.09%
USD-CNY	7.0782	0.28%	CHF-SGD	1.4697	-0.18%
USD-IDR	14130	-0.23%	SGD-MYR	3.0777	0.17%
USD-VND	23203	--	SGD-CNY	5.0871	0.11%

Equity and Commodity

Index	Value	Net change
DJIA	25,445.94	-710.16
S&P	3,050.33	-80.96
Nasdaq	9,909.17	-222.20
Nikkei 225	22,534.32	-14.73
STI	2,628.62	-6.30
KLCI	1,502.63	-4.41
JCI	4,964.74	85.60
Baltic Dry	1,617.00	--
VIX	33.84	2.47

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.5080	-0.90%	O/N	0.0711	0.13%
2M	-0.3360	0.13%	1M	0.1845	-0.03%
3M	-0.4090	-0.03%	2M	0.2520	-0.59%
6M	-0.2690	-0.59%	3M	0.2969	0.02%
9M	-0.1940	0.02%	6M	0.3826	-1.19%
12M	-0.1880	-1.19%	12M	0.5654	-0.84%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	0.31 (-0.02)	0.19 (--)
5Y	0.50 (-0.02)	0.32 (-0.01)
10Y	0.94 (-)	0.68 (-0.03)
15Y	1.29 (--)	--
20Y	1.33 (-)	--
30Y	1.42 (-)	1.43 (-0.06)

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	% Hike/Cut	Implied Rate Change	Implied Rate
07/29/2020	-0.021	-2.1	-0.005	0.067
09/16/2020	-0.073	-5.1	-0.018	0.055
11/05/2020	-0.105	-3.3	-0.026	0.047
12/16/2020	-0.149	-4.4	-0.037	0.036
01/27/2021	-0.171	-2.2	-0.043	0.03

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	7.00	-0.20
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	0.07
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Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	38.01	-5.8%	Corn (per bushel)	3.2425	-0.2%
Brent (per barrel)	40.31	-5.4%	Soybean (per bushel)	8.708	-0.5%
Heating Oil (per gallon)	1.1508	-4.3%	Wheat (per bushel)	4.8125	-1.0%
Gasoline (per gallon)	1.1964	-7.9%	Crude Palm Oil (MYR/MT)	2,542.0	--
Natural Gas (per MMBtu)	1.5970	-2.4%	Rubber (JPY/KG)	135.1	-2.9%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,865	-0.7%	Gold (per oz)	1,761.2	-0.4%
Nickel (per mt)	12,547	-1.4%	Silver (per oz)	17.501	-2.5%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Economic Calendar

Date	Time	Event	Survey	Actual	Prior	Revised
06/23/2020	07:03	PH Overseas Remittances YoY	Apr	-10.00%	--	-4.70%
06/23/2020	07:03	PH BoP Overall	May	--	--	\$1666m
06/23/2020	07:03	PH Overseas Workers Remittances	Apr	\$2242m	--	\$2397m
06/25/2020	00:30	JN All Industry Activity Index MoM	Apr	-6.50%	--	-3.80%
06/25/2020	02:00	GE GfK Consumer Confidence	Jul	-12	--	-18.9
06/25/2020	04:00	PH BSP Overnight Borrowing Rate	Jun-25	2.75%	--	2.75%
06/25/2020	08:30	US Initial Jobless Claims	Jun-20	1320k	--	1508k
06/25/2020	08:30	US GDP Annualized QoQ	1Q T	-5.00%	--	-5.00%
06/25/2020	08:30	US Durable Goods Orders	May P	10.50%	--	-17.70%
06/25/2020	08:30	US Wholesale Inventories MoM	May P	0.40%	--	0.30%
06/25/2020	08:30	US GDP Price Index	1Q T	1.40%	--	1.40%
06/25/2020	08:30	US Durables Ex Transportation	May P	2.10%	--	-7.70%
06/25/2020	08:30	US Continuing Claims	Jun-13	20000k	--	20544k
06/25/2020	19:30	JN Tokyo CPI Ex-Fresh Food YoY	Jun	0.20%	--	0.20%
06/25/2020	19:30	JN Tokyo CPI YoY	Jun	0.30%	--	0.40%

Source: Bloomberg

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