

Daily Treasury Outlook

27 July 2020

Highlights

Global: Re-escalating US-China tensions continued to weigh on global risk appetite, with the forced entry into the Chinese consulate in Houston raising fears of further retaliation. That said, the pace of Covid-19 spread appeared to be slowing somewhat in the US, whereas Europe is the reverse, with Spain being watched closely as the UK and Norway announced mandatory quarantines for anyone arriving from Spain. Elsewhere, North Korea also locked down a border city after a suspected Covid-19 case. The S&P500 declined 0.62%, dragged down by tech shares and rotation plays, while VIX also eased to 25.84. The UST bonds traded a tad weaker with the 10-year bond yield up at 0.59%, although the 5-year yield hit a record low of 0.2548%. The US will sell 2-, 5- and 7-year bonds this week in record size. Gold surged past \$1,900 per oz handle to a record high while bitcoin briefly tested \$10,000 for the first time in six weeks, amid a softer USD.

Market watch: Asian markets may open on an unconvincing tone this morning, as re-escalating US-China tensions weigh on investors' minds for now. Japanese markets reopen after a holiday and will likely play catch-up. Today's economic data calendar comprises of China's June industrial profits, Germany's July IFO business climate, HK's June trade data, and US' preliminary June durable goods orders. For the week ahead, watch for FOMC meeting on 28-29 July where the Fed is likely to maintain its commitment to near-zero interest rate policy but may be questioned on how to provide more explicit policy guidance, even as the 2Q20 GDP growth is likely to show a record contraction of up to 35% annualised due to Covid-19 whilst Congress dithers on the next round of fiscal stimulus (with the Republican bill planning to replace 70% of lost wages). Hong Kong is also reporting its 2Q20 GDP growth and key earnings results are due from LVMH, SAP, Apple, Alphabet, Amazon, Chevron, Exxon and Shell.

US: White House advisor Larry Kudlow opined that the V-shaped recovery is in place and it is going to be 20% growth rate in the third and fourth quarters.

UK: The UK Treasury is talking to banks to come up with a common code of conduct to deal with bad debt expected under the Covid loans program for small businesses, according to a FT report.

SG: S'pore and Malaysia have agreed on key aspects of a Reciprocal Green Lane and Periodic Commuting Arrangement.

Gold: Gold closed at a fresh high on Friday at \$1902.02/oz, beating the previous record close of \$1900.20/oz in late fall of 2011. Prices continue to rally during early Asian trading hours, besting the previous intraday record high of \$1921.17/oz at time of writing. The momentum in gold remains strong and we think it may continue to rally for the rest of this quarter, if not this year. \$2000/oz remains our target for the precious metal.

Key Market Movements		
Equity	Value	% chg
S&P 500	3215.6	-0.6%
DJIA	26470	-0.7%
Nikkei 225	22752	0.0%
SH Comp	3196.8	-3.9%
STI	2579.5	-1.3%
Hang Seng	24705	-2.2%
KLCI	1589.6	-1.0%
	Value	% chg
DXY	94.435	-0.3%
USDJPY	106.14	-0.7%
EURUSD	1.1656	0.5%
GBPUSD	1.2794	0.4%
USDIDR	14610	0.2%
USDSGD	1.3824	-0.3%
SGDMYR	3.0779	0.1%
	Value	chg (bp)
3M UST	0.10	0.25
10Y UST	0.59	1.14
1Y SGS	0.28	0.00
10Y SGS	0.81	-4.31
3M LIBOR	0.24	-1.90
3M SIBOR	0.44	0.00
3M SOR	0.19	0.40
	Value	% chg
Brent	43.34	0.1%
WTI	41.29	0.5%
Gold	1902	0.8%
Silver	22.77	0.8%
Palladium	2227	3.3%
Copper	6415	-2.0%
BCOM	68.15	0.0%

Source: Bloomberg

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Major Markets

US: The S&P500 index closed 0.6% lower on Friday amid dampened risk sentiment from rising US-China tensions, after the forced entry into the China consulate in Houston raised concerns about retaliation. We expect the benchmark equity index to trade sideways in the near term.

China: According to Civil Aviation Administration of China, 13059 flights have landed and took off from China's airports, returning to 80% of capacity pre Covid-19. In addition, passenger traffic flow has recovered to nearly 70% of the same period last year. Despite the recent mini outbreak in Beijing, Xinjiang and Dalian, the return of China's airline traffic flow is a confidence vote in Chinese government's ability to deal with the pandemic after China successfully contained the second wave of outbreak in Beijing.

HK: Exchange funds made up nearly all of the losses recorded in the first quarter with an income of HK\$101.4 billion in 2Q 2020. Income was seen in all kinds of investments as risk appetite improved on the resumption of global economic activities, a raft of stimulus measures and vaccine hopes. Moving into the third quarter, the upside of the bond market seems to be limited given the global recovery story and the low incentive of central banks to adopt negative interest rates. On the other hand, though the stock market continued to edge up on positive news surrounding economic recovery, vaccine development and fiscal stimulus, the outlook remains fluid amid pandemic uncertainty and heightened geopolitical risks. Finally, due to the upbeat sentiments and the sharp rebound of EUR, USD and HKD may be relatively weak if not depreciating further. In conclusion, we expect any loss or income made by the exchange fund in 3Q to be moderate.

Singapore: The STI retreated 1.26% on Friday to close at 2579.51 and may trade sideways today amid the ratcheting up of US-China tensions. The SGS bond yields had rallied by up to 4bps on Friday and may extend gains today amid the slight risk-off tone. Tomorrow, there is a \$2.7b (with MAS taking \$200m) re-opening of the 10-year SGS bond maturing on 1 Sep 2030.

Malaysia: Goldman Sachs has reportedly reached a legal settlement with the Malaysian government on 1MDB. The bank will pay USD2.5bn in cash and at least USD1.4bn in 1MDB assets that are seized by authorities around the world. It has been embroiled in the fiasco due to its role in arranging USD6.5bn of funding for 1MDB in 2012-13, and collecting fees of USD600mn along the way.

Indonesia: Indonesia's Finance Ministry will issue bonds with maturities of 5-8 years for private placement with Bank Indonesia, as part of the debt monetisation scheme to finance public goods that was announced previously. The government is setting up a special account in the central bank before issuing the bonds and expects the private placement to take place this week.

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Oil: Crude oil continues to trade in a narrow sideways range, with intensifying US-China tensions capping its recent advance.

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Bond Market Updates

Market Commentary: The SGD swap curve bull flattened last Friday, with the shorter tenors trading 0-2bps while the belly and longer tenors traded 2-4bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS remained mostly unchanged at 185bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 1bps to 717bps. The HY-IG Index Spread tightened 1bps to 531bps. Flows in SGD corporates were heavy, with flows in STTGDC 3.13%'28s, UBS 4.85%-PERPs, HSBC 4.7%-PERPs, STANLN 5.375%-PERPs, ARASP 5.65%-PERPs, CS 5.625%-PERPs, HSBC 5%-PERPs, OLAMSP 6%'22s and UOBSP 3.58%-PERPs. 10Y UST Yields gained 1bps to 0.59% as markets waited for a fresh round of coronavirus aid in the US and ahead of the Fed meeting this week

New Issues: Chong Hing Bank Limited has arranged investor calls commencing 24 July 2020 for its proposed USD green bond offering. China Construction Bank Corp. Hong Kong Branch has arranged investor calls commencing 27 July 2020 for its proposed USD green bond offering.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	94.435	-0.27%	USD-SGD	1.3824	-0.26%
USD-JPY	106.140	-0.67%	EUR-SGD	1.6114	0.26%
EUR-USD	1.166	0.52%	JPY-SGD	1.3026	0.43%
AUD-USD	0.711	0.10%	GBP-SGD	1.7689	0.17%
GBP-USD	1.279	0.42%	AUD-SGD	0.9823	-0.15%
USD-MYR	4.263	0.08%	NZD-SGD	0.9182	-0.15%
USD-CNY	7.018	0.20%	CHF-SGD	1.5019	0.28%
USD-IDR	14610	0.21%	SGD-MYR	3.0779	0.09%
USD-VND	23171	0.00%	SGD-CNY	5.0723	0.30%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.5130	-0.52%	O/N	0.0849	0.09%
2M	-0.3360	-0.34%	1M	0.1726	0.17%
3M	-0.4480	-0.45%	2M	0.2178	0.22%
6M	-0.3730	-0.37%	3M	0.2468	0.24%
9M	-0.1940	-0.20%	6M	0.3185	0.33%
12M	-0.2920	-0.29%	12M	0.4595	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	-0.142	-8.3	0.057	0.057
11/05/2020	-0.163	-2.1	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	26,469.89	-182.44
S&P	3,215.63	-20.03
Nasdaq	10,363.18	-98.24
Nikkei 225	22,751.61	-132.61
STI	2,579.51	-32.84
KLCI	1,589.61	-16.81
JCI	5,082.99	-62.02
Baltic Dry	1,317.00	-71.00
VIX	25.84	-0.24

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	0.22 (--)	0.15 (--)
5Y	0.5 (-0.02)	0.28 (--)
10Y	0.81 (-0.04)	0.59 (+0.01)
15Y	1.07 (-0.04)	--
20Y	1.13 (-0.04)	--
30Y	1.16 (-0.04)	1.23 (--)

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	1.90	(--)
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)	41.29	0.54%	Corn (per bushel)	3.263	-0.5%
Brent (per barrel)	43.34	0.07%	Soybean (per bushel)	9.048	-0.2%
Heating Oil (per gallon)	125.63	0.18%	Wheat (per bushel)	5.395	1.9%
Gasoline (per gallon)	128.48	2.08%	Crude Palm Oil (MYR/MT)	28.900	3.3%
Natural Gas (per MMBtu)	1.81	1.29%	Rubber (JPY/KG)	1.615	3.3%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	6415.00	-1.98%	Gold (per oz)	1902.0	0.8%
Nickel (per mt)	13656.00	-0.24%	Silver (per oz)	22.8	0.8%

Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
07/27/2020 07:31	PH Overseas Remittances YoY	May	-15.0%	--	-16.2%
07/27/2020 07:31	PH BoP Overall	Jun	--	--	\$2430m
07/27/2020 07:31	PH Overseas Workers Remittances	May	--	--	\$2046m
07/27/2020 07:50	JN Capital Spending YoY	1Q F	--	0.1%	4.3%
07/27/2020 12:30	JN All Industry Activity Index MoM	May	-3.5%	--	-6.4%
07/27/2020 13:00	JN Leading Index CI	May F	--	--	79.3
07/27/2020 16:00	GE IFO Business Climate	Jul	89.30	--	86.20
07/27/2020 16:00	EC M3 Money Supply YoY	Jun	9.3%	--	8.9%
07/27/2020 16:00	GE IFO Expectations	Jul	93.40	--	91.40
07/27/2020 16:00	GE IFO Current Assessment	Jul	85.00	--	81.30
07/27/2020 16:30	HK Exports YoY	Jun	4.2%	--	-7.4%
07/27/2020 16:30	HK Imports YoY	Jun	-5.5%	--	-12.3%
07/27/2020 20:30	US Durable Goods Orders	Jun P	7.0%	--	15.7%
07/27/2020 20:30	US Durables Ex Transportation	Jun P	3.5%	--	0.04
07/27/2020 22:30	US Dallas Fed Manf. Activity	Jul	-4.90	--	-6.10

Source: Bloomberg

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