

Daily Treasury Outlook

28 May 2020

Highlights

Global: With the US Secretary of State Mike Pompeo saying that the US no longer considers Hong Kong as autonomous from China, global risk appetite may be volatile today given the potential market ramifications of HK losing its special trading status amid growing US-China tensions. Meanwhile, the Fed's Beige Book flagged that "economic activity declined in all districts – falling sharply in most". Elsewhere, The European Commission proposal for EUR750bn recovery fund surprised markets, but may meet opposition from some EU members. The S&P500 still gained 1.5% led by chipmakers after Micron Technology's earnings forecast exceeded estimates, with VIX edging lower to 27.62. UST bonds gain from the flight to safety and a soft 5-year auction, with the 10-year yield at 0.69%. The 3-month LIBOR eased to 0.3625%, but the bumper T-bill issuance may pressure short-term funding markets as illustrated by the LIBOR-OIS spread that has widened.

Market watch: Asian markets may be on edge this morning as investors digest implications for Hong Kong's role amid renewed concerns of US-China tensions. BOK meets today and may cut its policy rate by 25bps and China's NPC will vote on the HK national security law. Today's economic data calendar comprises US' durable goods orders, initial jobless claims and pending home sales, Germany's CPI and Eurozone's May consumer confidence. ECB's Villeroy, BOE's Saunders, and Fed's Williams and Harker are also speaking.

US: Meanwhile, Fed's Williams said policymakers are "thinking very hard" about targeting specific UST yields and "yield curve control...is I think a tool", but did not see any urgency and the US economy could bottom in May or June and see a strong second half recovery. On yield curve control, Bullard also noted that "I doubt that it would be real impactful at this stage because rates are low and expected to stay low". The US House also voted 413-1 to authorize sanctions against Chinese officials for Uighur human right abuses. US's Covid-related fatality has crossed 100,000.

EU: Germany's IFO employment gauge improved slightly from 86.3 in April to 88.3 in May, whereas France may contract 20% qoq in 2Q and 8% for the full-year according to INSEE.

UK: BOE governor Bailey said we stand ready to do more" and it is right we "consider what further options, such as cutting interest rates into unprecedented territory".

Japan: The government approved a second supplementary budget of JPY1.1 trillion that will take total spending to JPY234 trillion (or 40% of GDP).

Singapore: DPM Heng opined that the sooner a general election is held, the better placed to focus on the longer-term challenges ahead. He acknowledged that fiscal position will be a lot weaker in coming years and will need to find ways to manage the difficult financial situation.

| Key Market Movements | | |
|----------------------|--------|----------|
| Equity | Value | % chg |
| S&P 500 | 3036.1 | 1.5% |
| DJIA | 25548 | 2.2% |
| Nikkei 225 | 21419 | 0.7% |
| SH Comp | 2836.8 | -0.3% |
| STI | 2519.5 | -0.4% |
| Hang Seng | 23301 | -0.4% |
| KLCI | 1451.7 | 1.0% |
| Currencies | Value | % chg |
| DXY | 99.062 | 0.2% |
| USDJPY | 107.72 | 0.2% |
| EURUSD | 1.1006 | 0.2% |
| GBPUSD | 1.2261 | -0.6% |
| USDIDR | 14710 | -0.3% |
| USDSGD | 1.4204 | 0.3% |
| SGDMYR | 3.0687 | -0.2% |
| Rates | Value | chg (bp) |
| 3M UST | 0.14 | 2.29 |
| 10Y UST | 0.68 | -1.46 |
| 1Y SGS | 0.27 | 4.00 |
| 10Y SGS | 0.84 | 10.33 |
| 3M LIBOR | 0.37 | 0.20 |
| 3M SIBOR | 0.55 | -0.82 |
| 3M SOR | 0.22 | 1.28 |
| Commodities | Value | % chg |
| Brent | 34.74 | -4.0% |
| WTI | 32.81 | -4.5% |
| Gold | 1709 | -0.1% |
| Silver | 17.26 | 0.7% |
| Palladium | 1944 | -0.6% |
| Copper | 5260 | -1.9% |
| BCOM | 62.67 | -1.1% |

Source: Bloomberg

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Major Markets

US: US markets rose for a third consecutive day in a volatile trading session as investors shrugged off concerns over rising US-China tensions. The S&P500 index had at one point given up more than 1% of its gains before closing 1.48% higher. With a response by the US to China's actions over Hong Kong expected in the coming days, investors are likely to remain cautious as they monitor the situation.

China: China's April profit for industrial companies fell by 4.3% yoy, improving from the double-digit decline in the first quarter thanks to resumption of the activities. However, challenge remains due to still sluggish demand and higher costs. China will conclude its two sessions today and market will watch out for the press conference by Premier Li Keqiang this afternoon.

Hong Kong: US Secretary of State declared Hong Kong no longer autonomous from China. Whether this will lead to any change to HK's special treatments under the US-HK Policy Act needs close monitoring. Though US\$HKD forward points edged higher as a knee-jerk reaction, the spot retraced lower to 7.7523, a level close to the strong end of trading band. Market may remain in a wait-and-see mode. That said, it confirms that HK has become the battleground for US-China relationship which turns more fluid following the coronavirus blame game.

Singapore: The STI declined 0.43% to close down at 2519.48 yesterday, but it remains to be seen if Asian bourses can ignore the Hong Kong-related uncertainty to trade firmer today. With the tinge of market caution seeping in this morning, SGS bonds may unwind some of yesterday's losses. The \$2b of 15-year SGS bond re-opening fetched a cut-off yield of 1.2% with a long tail of 17bps.

Indonesia: Indonesia is planning to offer more retail bonds to local investors, in a bid to help plug the wider fiscal gap. It is targeting IDR50-60tn from retail securities sales this year, compared to the initial target of IDR35-55tn. Overall, it has raised its borrowing target from IDR1289.3tn to 1439.8tn of issuance this year, as it sees a widening of deficit to 6.27% of GDP, compared to 5.07% in early April and vastly bigger than the 1.76% that was initially targeted.

Malaysia: Malaysia's Finance Ministry estimates 2020 fiscal deficit to be between 4.7% and 5.0% of GDP. Finance Minister Tengku Zafrul Aziz said that the government will be announcing an economic recovery plan soon. It is slated to include measures to help create jobs and boost capacity, increase consumption through digital platforms, and supporting SMEs through adoption of digital technology.

Oil: Oil prices fell yesterday as risk sentiment faltered on rising US-China tensions. Brent for July delivery expires tomorrow but we see the occurrence of negative prices extremely low. Eyes will be on OPEC+ meeting next month for further directions on the market.

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Bond Market Updates

Market Commentary: The SGD swap curve mostly rose yesterday, with the shorter tenors trading around 4bps higher while the belly and the longer tenors traded 3-5bps higher (with the exception of the 20-year trading 6bps lower). The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 226bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 6bps to 903bps. The HY-IG Index Spread tightened 5bps to 677bps. Flows in SGD corporates were heavy, with flows in GSHSP 5.15%'20s, STANLN 4.4%'26s, STHSP 3.95%-PERPs, ARASP 5.2%-PERPs, HSBC 5%-PERPs, ARASP 5.65%-PERPs, CAPLSP 3.65%-PERPs, CS 5.625%-PERPs, PINGIN 2.25%'21s, UBS 4.85%-PERPs, BAERVX 5.9%-PERPs, STANLN 5.375%-PERPs and CMZB 4.875%'27s. 10Y UST Yields fell 1.5bps to 0.68% by the end of the day, with risk sentiments softening after the U.S. Secretary of State Mike Pompeo said the U.S. government could no longer certify HKSAR's political autonomy from China.

New Issues: Tencent Holdings Ltd priced a USD6bn debt offering in 4 parts: (1) a USD1bn 5-year bond at T+145bps, (2) a USD2.25bn 10-year bond at T+170bps, (3) a USD2bn 30-year bond at T+180bps, and (4) a USD750mn 40-year bond at T+185bps, tightening from IPT of T+175bps, T+200bps, T+220bps and T+240bps area respectively. Fantasia Holdings Group Co., Limited priced a USD300mn 3NC2 bond at 12.1%, tightening from IPT of 12.5% area. Taiyuan State-owned Investment Group Company Limited priced a USD145mn re-tap of its TYSTOW 6.2%'22s at 4.5%, tightening from IPT of 4.7% area. CITIC Securities Finance MTN Co., Ltd. (Guarantor: CITIC Securities Company Limited) priced a USD500mn 3-year bond at T+155bps, and a USD500mn 5-year bond at T+170bps area, tightening from IPT of T+210bps and T+235bps area respectively. Coastal Emerald Ltd. (Guarantor: China Shandong Hi-Speed Financial Group Ltd.) priced a USD800mn 363-day bond at 3.8%, tightening from IPT of 4.15% area. The Korea Development Bank priced a USD1bn 5-year bond at T+90bps, tightening from IPT of T+125bps area. Macquarie Bank Ltd priced a USD750mn 10-year bond at T+295bps, tightening from IPT of T+325bps area. New Development Bank has mandated banks for its proposed USD COVID-19 bond offering. Beijing Hongkun Weiye Real Estate Development Co has mandated banks for its proposed USD bond offering.

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Foreign Exchange

| | Day Close | % Change | | Day Close | % Change |
|----------------|-----------|----------|----------------|-----------|----------|
| DX | 99.062 | 0.16% | USD-SGD | 1.4204 | 0.30% |
| USD-JPY | 107.720 | 0.17% | EUR-SGD | 1.5632 | 0.51% |
| EUR-USD | 1.1006 | 0.22% | JPY-SGD | 1.3181 | 0.08% |
| AUD-USD | 0.6622 | -0.47% | GBP-SGD | 1.7414 | -0.30% |
| GBP-USD | 1.2261 | -0.59% | AUD-SGD | 0.9403 | -0.25% |
| USD-MYR | 4.3480 | -0.33% | NZD-SGD | 0.8788 | 0.10% |
| USD-CNY | 7.1680 | 0.46% | CHF-SGD | 1.4665 | -0.03% |
| USD-IDR | 14710 | -0.30% | SGD-MYR | 3.0687 | -0.20% |
| USD-VND | 23326 | 0.03% | SGD-CNY | 5.0451 | 0.16% |

Interbank Offer Rates (%)

| Tenor | EURIBOR | Change | Tenor | USD Libor | Change |
|------------|---------|--------|------------|-----------|--------|
| 1M | -0.4620 | 0.50% | O/N | 0.0603 | -0.05% |
| 2M | -0.3360 | -0.05% | 1M | 0.1695 | -0.42% |
| 3M | -0.2740 | -0.42% | 2M | 0.2853 | 0.36% |
| 6M | -0.1330 | 0.36% | 3M | 0.3713 | 0.20% |
| 9M | -0.1940 | 0.20% | 6M | 0.5716 | 0.16% |
| 12M | -0.0780 | 0.16% | 12M | 0.6798 | -0.20% |

Fed Rate Hike Probability

| Meeting | # of Hikes/Cuts | % Hike/Cut | Implied Rate Change | Implied Rate |
|------------|-----------------|------------|---------------------|--------------|
| 10/06/2020 | 0.006 | 0.6 | 0.002 | 0.053 |
| 29/07/2020 | 0.005 | -0.1 | 0.001 | 0.052 |
| 16/09/2020 | -0.025 | -3 | -0.006 | 0.045 |
| 05/11/2020 | -0.079 | -5.4 | -0.02 | 0.032 |
| 16/12/2020 | -0.081 | -0.2 | -0.02 | 0.031 |
| 27/01/2021 | -0.115 | -3.4 | -0.029 | 0.023 |

Commodities Futures

| Energy | Futures | % chg | Soft Commodities | Futures | % chg |
|--------------------------|----------------|--------------|-------------------------|----------------|--------------|
| WTI (per barrel) | 32.81 | -4.5% | Corn (per bushel) | 3.2050 | 0.5% |
| Brent (per barrel) | 34.74 | -4.0% | Soybean (per bushel) | 8.485 | 0.2% |
| Heating Oil (per gallon) | 0.9721 | -1.9% | Wheat (per bushel) | 5.0450 | -0.4% |
| Gasoline (per gallon) | 0.9933 | -5.3% | Crude Palm Oil (MYR/MT) | 2,345.0 | 4.7% |
| Natural Gas (per MMBtu) | 1.7220 | -4.0% | Rubber (JPY/KG) | 137.8 | -0.2% |
| Base Metals | Futures | % chg | Precious Metals | Futures | % chg |
| Copper (per mt) | 5,260 | -1.9% | Gold (per oz) | 1,709.5 | -0.1% |
| Nickel (per mt) | 12,116 | -1.8% | Silver (per oz) | 17.260 | 0.7% |

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Equity and Commodity

| Index | Value | Net change |
|-------------------|-----------|------------|
| DJIA | 25,548.27 | 553.16 |
| S&P | 3,036.13 | 44.36 |
| Nasdaq | 9,412.36 | 72.14 |
| Nikkei 225 | 21,419.23 | 148.06 |
| STI | 2,519.48 | -10.82 |
| KLCI | 1,451.73 | 14.97 |
| JCI | 4,641.56 | 14.76 |
| Baltic Dry | 506.00 | -- |
| VIX | 27.62 | -0.39 |

Government Bond Yields (%)

| Tenor | SGS (chg) | UST (chg) |
|------------|--------------|--------------|
| 2Y | 0.29 (+0.08) | 0.18 (+0.01) |
| 5Y | 0.45 (+0.08) | 0.35 (--) |
| 10Y | 0.84 (+0.1) | 0.68 (-0.01) |
| 15Y | 1.04 (+0.12) | -- |
| 20Y | 1.21 (+0.11) | -- |
| 30Y | 1.17 (+0.06) | 1.44 (--) |

Financial Spread (bps)

| | Value | Change |
|--------------------|-------|--------|
| EURIBOR-OIS | 19.65 | 0.15 |
| TED | 35.36 | -- |

Secured Overnight Fin. Rate

| | |
|-------------|------|
| SOFR | 0.06 |
|-------------|------|

Economic Calendar

| Date Time | Event | Survey | Actual | Prior | Revised |
|------------------|--------------------------------|--------|---------|-------|---------|
| 05/28/2020 | SK BoK 7-Day Repo Rate | May-28 | 0.50% | -- | 0.75% |
| 05/28/2020 06:03 | UK Nationwide House PX MoM | May | -1.00% | -- | 0.70% |
| 05/28/2020 06:03 | UK Nationwide House Px NSA YoY | May | 2.80% | -- | 3.70% |
| 05/28/2020 09:00 | NZ ANZ Business Confidence | May F | -- | -- | -45.6 |
| 05/28/2020 16:00 | TA GDP YoY | 1Q F | 1.50% | -- | 1.54% |
| 05/28/2020 20:00 | GE CPI YoY | May P | 0.60% | -- | 0.90% |
| 05/28/2020 20:00 | GE CPI MoM | May P | -0.10% | -- | 0.40% |
| 05/28/2020 20:00 | GE CPI EU Harmonized YoY | May P | 0.40% | -- | 0.80% |
| 05/28/2020 20:00 | GE CPI EU Harmonized MoM | May P | -0.10% | -- | 0.40% |
| 05/28/2020 20:30 | US Initial Jobless Claims | May-23 | 2100k | -- | 2438k |
| 05/28/2020 20:30 | US GDP Annualized QoQ | 1Q S | -4.80% | -- | -4.80% |
| 05/28/2020 20:30 | US Durable Goods Orders | Apr P | -19.10% | -- | -14.70% |
| 05/28/2020 20:30 | US GDP Price Index | 1Q S | 1.30% | -- | 1.30% |
| 05/28/2020 20:30 | US Durables Ex Transportation | Apr P | -15.00% | -- | -0.40% |
| 05/28/2020 22:00 | US Pending Home Sales MoM | Apr | -17.00% | -- | -20.80% |

Source: Bloomberg

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