

Daily Treasury Outlook

29 May 2020

Highlights

Global: US-China tensions rise as China's NPC endorsed the security law for Hong Kong and US president Trump said he would announce "what we're doing" with respect to China as "we are not happy with what's happened". Still, US economic data suggests that the worst may be over for the US economy as initial jobless claims rose by 2.1 million to bring the 2.5 month total to above 40 million. The S&P500 reversed early gains to slip 0.21% while VIX rose to 28.59. UST bonds traded mixed following a messy 7-year auction and the 10-year yield ended at 0.69%. The 3-month LIBOR eased to 0.3500%. Meanwhile Chinese Premier Li said it is "practical and realistic" not to set a growth target and the focus will be on keeping jobs and protecting lives by spurring consumption instead of undertaking "large infrastructure construction projects". Elsewhere, BOK cut its 7-day repo rate by 25bps to a record low of 0.5% and also the 2020 growth forecast from +2.1% to -0.2% with inflation at just 0.3%, with BOK governor Lee opining that "should it be deemed necessary...we could actively respond with policy tools other than rates" as the policy rate is already close to the effective lower bound.

Market watch: Asian markets are likely to trade with a cautious tone into the month end as the ante is raised for US-China tensions over Hong Kong. Today's economic data calendar comprises S'pore's bank loans, India's 1Q GDP growth, Japan's housing starts, Thailand's April trade, and US' personal income and spending, core PCE deflator and University of Michigan sentiment index. Fed chair Powell and ECB's Visco are speaking.

US: Durable goods orders fell for a second month by 17.2% in April but beat estimates while continuing claims fell for the first time in the Covid period to 21.1 million. The US economy contracted 5.0% qoq annualised in 1Q20, with personal consumption down by 6.8%. Pending home sales also fell 21.8% mom in April. Still, Fed's Bullard opined that the US economy may have bottomed. Meanwhile, President Trump has signed an executive order to limit liability protection for social media companies after Twitter began selective fact checks of his posts.

EU: Eurozone economic sentiment rose less than expected from a record low of 64.9 in April to 67.5 in May, but services sentiments actually deteriorated from -38.6 to -43.6. Germany's IFO survey expects the economy to shrink 12.4% in 2Q and 6.6% this year (worst since reunification in 1990). Meanwhile in France, the number of people seeking jobs surged to 22.6% in April.

UK: BOE's Saunders opined that the UK economy may not fully recover from the "searing experience" of Covid in the next 2-3 years and if "unchecked, there are risks of a vicious circle".

Singapore: National Development Minister Lawrence Wong said Singapore could move to Phase 2 and reopen the entire economy by end-June if the community transmission remains low and stable.

Key Market Movements

Equity	Value	% chg
S&P 500	3029.7	-0.2%
DJIA	25401	-0.6%
Nikkei 225	21916	2.3%
SH Comp	2846.2	0.3%
STI	2515.2	-0.2%
Hang Seng	23133	-0.7%
KLCI	1457.5	0.4%
Currencies	Value	% chg
DXY	98.383	-0.7%
USDJPY	107.65	-0.1%
EURUSD	1.1077	0.6%
GBPUSD	1.2321	0.5%
USDIDR	14715	0.0%
USDSGD	1.4176	-0.2%
SGDMYR	3.0684	0.0%
Rates	Value	chg (bp)
3M UST	0.14	0.26
10Y UST	0.69	0.81
1Y SGS	0.27	-0.10
10Y SGS	0.83	-0.06
3M LIBOR	0.36	-0.88
3M SIBOR	0.56	0.82
3M SOR	0.24	1.67
Commodities	Value	% chg
Brent	35.29	1.6%
WTI	33.71	2.7%
Gold	1718	0.5%
Silver	17.37	0.6%
Palladium	1937	-0.4%
Copper	5333	1.4%
BCOM	62.77	0.2%

Source: Bloomberg

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Major Markets

US: US markets fell late in the session after recording gains of more than 1% on the back of an announcement from US President Trump that he will be holding a press conference on China on Friday. The S&P500 index fell 0.21%. For today, investors are likely to be cautious as they wait for more details on US' response on China over Hong Kong.

China: China's top legislature concluded 2020 two-sessions on 28 May. Premier Li said in his press conference that China is expected to achieve positive economic growth this year if six bottom lines defined could be achieved. One of the key takeaways from Premier Li Keqiang's press conference is that China's stimulus will be targeted and innovative. Liquidity is important, however, excessive liquidity will "induce froth in the marketplace where some people may attempt to muddy the waters and fish for arbitrage." As such, this reinforces our call that China will go down the path of "whatever it takes" policy mentality.

On policy innovation, Premier Li mentioned that China will be creative on where the money comes from and how to spend the time. He mentioned a new special transfer mechanism, which will allow central government to transfer the money to primary government directly bypassing the provincial government.

Taiwan: The final reading of GDP was revised upwardly to 1.59% yoy from 1.54% yoy in 1Q 2020. Moving forward, we expect Taiwan's GDP to keep a positive growth in 2020. Firstly, amid rising concerns over retrenchment and uncertain economic outlook, the private consumption might remain sluggish. Nevertheless, the downtrend of consumption may be eased by the relief measures (including stimulus voucher) and the resumption of economic activities partially. Secondly, with the effects of overseas investment repatriation and continuing investment of semiconductor industry, 5G and internet of thing (IOT), the growth of fixed investment is expected to remain resilient. Thirdly, trade outlook is expected to be mixed. As global travel restrictions are unlikely to be lifted completely any time soon, exports of services (including inbound tourism) may remain muted. On the flip side, global production activity resumption and emerging demand for electronic applications might continue to support the trade in goods. Nevertheless, we should keep a closer monitor on the development of US-China tension. Should it intensify, the global trade activities and Asian electronic supply chain might take a hard hit.

Singapore: The STI slipped 0.17% to close down at 2515.24 yesterday and investor confidence may remain shaky today amid the growing US-China tensions. With UST bonds trading mixed overnight, SGS bonds may remain supported into the month-end.

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Indonesia: Indonesia's OJK - or FSA-equivalent - announced a new stimulus package for banks to provide liquidity and capital amid the covid-19 challenges. Capital conservation buffer requirement is now delayed until 31 Mar 2021 for Cat 3 and Cat 4 banks. Alongside branches of foreign banks, these domestic banks will also see their liquidity coverage ratio and net stable funding ratio eased, although they must still be above 85% until March 2021. Basel III reforms implementation will be delayed to 1 Jan 2023.

Malaysia: Ringgit slipped yesterday on news of some foreign equity outflows and pullback in oil price, trading around 4.3535 level. Bursa data showed that global funds sold a net USD83.3mn of Malaysian equities on Wednesday, the largest pullback since March 17.

Oil: Brent rose 1.6% yesterday despite data showing a surprise US stock build of 7.93mn barrels against expectations of -1.94mn barrels. This also came amid a dip in US equities amid rising US-China tensions. Brent closed at \$35.29/bbl while WTI ended at \$33.71/bbl.

Bond Market Updates

Market Commentary: The SGD swap curve steepened yesterday, with the shorter tenors, belly and the 10-15 year tenors trading 1-2bps lower while longer tenors traded 3-5bps higher. The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 2bps to 224bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 3bps to 900bps. The HY-IG Index Spread tightened 1bps to 676bps. Flows in SGD corporates were heavy, with flows in STANLN 5.375%-PERPs, ARASP 5.6%-PERPs, HSBC 5%-PERPs, ARASP 5.65%-PERPs, HSBC 4.7%-PERPs, SOCGEN 6.125%-PERPs and STHSP 3.95%-PERPs. 10Y UST Yields gained 1bps to 0.69%, reacting minimally to different economic data (U.S. Q1 GDP, durable goods orders, initial jobless claims and pending home sales) released.

New Issues: Keppel Corporation Limited priced a USD300mn 5-year bond at T+210bps, tightening from IPT of T+250bps area. Hongkong Ideal Investment Ltd. (Parent Guarantor: Beijing Hongkun Weiye Real Estate Development Co.) priced a USD55mn re-tap of its BJHHWY 14.75%'22s at 14.75%. Blue Bright Ltd. (Guarantor: AVIC Capital Co.) priced a USD400mn 5-year bond at T+225bps area. Jiangsu Yueda Group Co.,Ltd priced a USD100mn 3-year bond at 5.7%. National University of Singapore priced a SGD300mn 10-year green bond at 1.565%.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	98.383	-0.69%	USD-SGD	1.4176	-0.20%
USD-JPY	107.650	-0.06%	EUR-SGD	1.5703	0.45%
EUR-USD	1.1077	0.65%	JPY-SGD	1.3174	-0.05%
AUD-USD	0.6637	0.23%	GBP-SGD	1.7465	0.29%
GBP-USD	1.2321	0.49%	AUD-SGD	0.9408	0.05%
USD-MYR	4.3535	0.13%	NZD-SGD	0.8807	0.22%
USD-CNY	7.1455	-0.31%	CHF-SGD	1.4708	0.29%
USD-IDR	14715	0.03%	SGD-MYR	3.0684	-0.01%
USD-VND	23308	-0.08%	SGD-CNY	5.0466	0.03%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4750	0.20%	O/N	0.0616	0.14%
2M	-0.3360	0.14%	1M	0.1736	0.41%
3M	-0.2800	0.41%	2M	0.2888	0.35%
6M	-0.1490	0.35%	3M	0.3625	-0.88%
9M	-0.1940	-0.88%	6M	0.5484	-2.33%
12M	-0.0760	-2.33%	12M	0.6805	0.08%

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	-0.046	-5.1	-0.012	0.04
05/11/2020	-0.079	-3.3	-0.02	0.032
16/12/2020	-0.08	-0.1	-0.02	0.031
27/01/2021	-0.135	-5.5	-0.034	0.018

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	33.71	2.7%	Corn (per bushel)	3.2750	2.2%
Brent (per barrel)	35.29	1.6%	Soybean (per bushel)	8.470	-0.2%
Heating Oil (per gallon)	0.9256	-4.8%	Wheat (per bushel)	5.1450	2.0%
Gasoline (per gallon)	0.9985	0.5%	Crude Palm Oil (MYR/MT)	2,334.0	-0.5%
Natural Gas (per MMBtu)	1.8270	6.1%	Rubber (JPY/KG)	138.0	0.1%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,333	1.4%	Gold (per oz)	1,718.3	0.5%
Nickel (per mt)	12,246	1.1%	Silver (per oz)	17.371	0.6%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Equity and Commodity

Index	Value	Net change
DJIA	25,400.64	-147.63
S&P	3,029.73	-6.40
Nasdaq	9,368.99	-43.37
Nikkei 225	21,916.31	497.08
STI	2,515.24	-4.24
KLCI	1,457.50	5.77
JCI	4,716.19	74.63
Baltic Dry	502.00	--
VIX	28.59	0.97

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	0.27 (-0.03)	0.17 (-0.01)
5Y	0.45 (-0.01)	0.34 (-0.01)
10Y	0.83 (--)	0.69 (+0.01)
15Y	1.02 (-0.02)	--
20Y	1.19 (-0.01)	--
30Y	1.17 (-0.01)	1.45 (+0.01)

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	19.28	0.23
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	0.06
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Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
05/29/2020 07:30	JN Jobless Rate	Apr 2.70%	2.60%	2.50%	--
05/29/2020 07:30	JN Tokyo CPI Ex-Fresh Food YoY	May -0.20%	0.20%	-0.10%	--
05/29/2020 07:30	JN Job-To-ApPLICANT Ratio	Apr 1.32	1.32	1.39	--
05/29/2020 07:50	JN Industrial Production MoM	Apr P -5.70%	-9.10%	-3.70%	--
05/29/2020 10:00	VN CPI YoY	May 2.56%	--	2.93%	--
05/29/2020 15:30	TH BoP Current Account Balance	Apr -\$750m	--	\$697m	--
05/29/2020 15:30	TH Foreign Reserves	May-22 --	--	\$235.2b	--
05/29/2020 16:00	EC M3 Money Supply YoY	Apr 8.20%	--	7.50%	--
05/29/2020 20:30	CA Quarterly GDP Annualized	1Q -10.00%	--	0.30%	--
05/29/2020 20:30	US Personal Spending	Apr -12.80%	--	-7.50%	--
05/29/2020 20:30	US Personal Income	Apr -6.00%	--	-2.00%	--
05/29/2020 20:30	CA GDP MoM	Mar -8.50%	--	0.00%	--
05/29/2020 20:30	US Wholesale Inventories MoM	Apr P -0.70%	--	-0.80%	--
05/29/2020 21:45	US MNI Chicago PMI	May 40	--	35.4	--
05/29/2020 22:00	US U. of Mich. Sentiment	May F 74	--	73.7	--

Source: Bloomberg

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