

## Daily Treasury Outlook

29 June 2020

### Highlights

**Global:** Global risk sentiments retreated on Friday amid a surge in Covid-19 cases in the US as Texas and Florida halting drinking at bars and also globally with total cases crossing the 10 million mark. Meanwhile, China's PBOC will increase the proportion of smaller company loans, credit loans and manufacturing loans, and continue to lower lending rates through reform. The S&P500 fell 2.42% on Friday while VIX surged to 34.73. UST bonds bull-flattened with the 10-year yield falling 5bps to 0.64% and the 30-year yield falling to 1.37%. The 3-month LIBOR edged up to 0.3079% ahead of the month-end.

**Market watch:** Asian markets may tread cautiously this morning. Today's economic data comprises of US' pending home sales and Dallas Fed manufacturing activity index, German CPI, Eurozone's consumer confidence, Hong Kong's May trade data, and Thailand's May manufacturing production. BOE's Bailey, and Vlieghe, Fed's Daly and Williams are also speaking. For the week ahead, Fed chair Powell and Treasury Secretary Mnuchin are speaking before the House Financial Panel on 1 July, the FOMC 10 June minutes are due on 2 July, the slew of manufacturing PMIs are due on 1 July and US' June labour market report is out on 2 July (with market eyeing +3m for nonfarm payrolls, the unemployment rate to ease from 13.3% to 12.4% and average hourly earnings to fall 0.8% mom).

**US:** Personal income fell 4.2% in May, following the record April increase on the back of \$1,200 refundable tax credit distributions, but personal spending jumped 8.2% as Americans spent their \$600 weekly benefit payments with the re-opening of stores and restaurants. Meanwhile, the core PCE deflator added 0.1% mom (1.0% yoy) in May, and the University of Michigan sentiment index stumbled to 78.1, down from a preliminary reading of 78.9, amid softer current conditions (87.1) and expectations (72.3) gauges, and the share of consumers reporting income gains fell to just 28% (some 19% below its February peak).

**EU:** German Chancellor Merkel reiterated "it's important that we agree as quickly as possible on the new EU budget and recovery measures" ahead of the next EU summit on 17 July. Meanwhile, ECB's Schnabel warned that "inflation could remain at close to 0% well into the next year, and even negative inflation rates are possible" and without new bond purchases, we would probably have found ourselves by now in the middle of a severe financial crisis with unforeseeable consequences".

**China:** Industrial profits rebounded 6% mom to CNY582.34b in May, marking its first increase since November 2019 but fell 19.3% yoy for January-May 2020.

**Singapore:** May industrial production unexpectedly plunged 7.4% yoy (-16.5% mom sa), reversing the revised 13.6% yoy (-0.5% mom sa) print from April as electronics output declined 1.0% yoy and biomedical output moderated to 5.9% yoy (April: 100.8%). Tourist attractions like the two casinos, the zoo and Universal Studios will reopen from 1 July.

### Key Market Movements

Equity	Value	% chg
S&P 500	3009.1	-2.4%
DJIA	25016	-2.8%
Nikkei 225	22512	1.1%
SH Comp	2979.6	0.0%
STI	2604.5	0.6%
Hang Seng	24550	-0.9%
KLCI	1488.1	-0.1%
Currencies	Value	% chg
DX	97.433	0.0%
USDJPY	107.22	0.0%
EURUSD	1.1219	0.0%
GBPUSD	1.2336	-0.7%
USDIDR	14220	0.3%
USDSGD	1.3935	0.2%
SGDMYR	3.0840	0.3%
Rates	Value	chg (bp)
3M UST	0.14	0.00
10Y UST	0.64	-4.43
1Y SGS	0.27	-1.00
10Y SGS	0.94	2.61
3M LIBOR	0.31	2.23
3M SIBOR	0.56	0.31
3M SOR	0.22	2.51
Commodities	Value	% chg
Brent	41.02	-0.1%
WTI	38.49	-0.6%
Gold	1771	0.4%
Silver	17.81	0.0%
Palladium	1884	2.0%
Copper	5957	1.1%
BCOM	63.22	-0.4%

Source: Bloomberg

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### Major Markets

**US:** Markets closed lower on Friday, with the S&P500 index closing 2.4% lower due to the rising daily rate of new Covid-19 cases in the US. A series of travel restriction measures in and against various states, such as Texas and Florida, have been re-implemented. A continued increase in the daily rate of US confirmed coronavirus cases may dampen sentiment and pressure the S&P 500 index lower.

**UK:** PM Johnson opined “we are absolutely not going back to the austerity of 10 years ago” and will “build our way back” through “shovel-ready” projects, while Chancellor Sunak said there is an “exceptionally high” bar for company bailouts.

**China:** Despite improving covid-19 outlook in Beijing, China’s tourism sector took a heavy toll in June. China’s inter-provincial tourism during the dragon boat festival holiday fell by 59.3% yoy while income from tourism fell by 68.8% yoy to CNY12.28 billion. The decline widened from that observed during May labour day holiday. On positive note, China’s industrial profit rebounded by 6% yoy in May improving from a contraction of 4.3% yoy in April due to rebound of commodity prices and improving cost structure. In its second quarter monetary policy meeting, China’s central bank reiterated to strike the balance between promoting growth and safeguarding the risk. “Innovative” and “targeted” are two key words for China’s monetary policy in 2020.

**HK:** It is reported that the details of wealth management connect will be unveiled on Monday at the earliest. The connect scheme will be closed-ended like the stock connect scheme and there will be a quota of RMB150 billion for both southbound and northbound investment. Banks in Hong Kong will corporate with banks in the Guangdong cities of the Greater Bay Area on a one-on-one basis to sell each other’s wealth management products. If this comes true, it could be seen as a follow-up action after the PBOC unveiled measures to support the financial integration of the Greater Bay Area. Also, it would reinforce the fact that China still view Hong Kong as a key platform for the opening-up of onshore financial market and the RMB internationalization.

**Singapore:** The STI added 0.55% to close at 2604.51 on Friday, but ended the week 1.15% lower amid see-saw concerns about a second Covid-19 wave globally. Longer-dated SGS bonds outperformed on Friday, with the \$2.5b (MAS taking \$200m) re-opening of the 5-year SGS bond maturing 1 June 2025 fetching a bid-cover ratio of 2.04x and a cut-off yield of 0.58% and a 6bp tail, whilst the \$800m of the 30-year SGS bond maturing 1 March 2050 fetched a bid-cover ratio of 2.85x and a cut-off and average yields of 1.28% and 1% respectively.

**Malaysia:** S&P, the ratings agency, lowered Malaysia’s outlook to negative from stable on Friday evening, even as it affirmed the sovereign rating at A-. It cautioned that net indebtedness may increase beyond 60% of GDP due to a higher fiscal deficit and a GDP contraction of 2%. Fitch has cut the outlook in April, while Moody’s has not thus far.

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**Indonesia:** Indonesia's president, Jokowi, has threatened to reshuffle the cabinet. He noted a "lack of a sense of crisis" in how the cabinet has handled the covid-19 pandemic. In particular, he expressed disappointment in how slow the disbursement of funds has been for various stimulus measures, noting that the health ministry had spent only 1.5% of the IDR75tn emergency funds.

**Thailand:** Foreigner nationals from China, Japan, South Korea and Singapore with Thai work permits may begin seeking permission to re-enter Thailand from July. Long-term permit holders will be subjected to a 14-day quarantine, but those on short-term business trips won't have to go into quarantine but be tested thrice and tracked by an application. Meanwhile, the National Security Council is considering another extension of the state of emergency by one month to 31 July.

**Oil:** The US increased its oil production for the first time in 14 weeks. Crude oil production in the US rose from 10.5mbpd in the week of 12 June to 11mbpd in the week of 19 June, in a sign that prices are now healthy enough to encourage the return of marginal producers. The market appears to be balancing itself, with the high prices encouraging a supply comeback in the US.

**Gold:** Gold closed above the crucial resistance level of \$1750/oz for the entire of last week, suggesting that buying momentum remains strong. Our model's upper bound has also been continuously pushed higher from both lower US treasury yields and the dollar. Fears of a second wave contagion in the US are likely to keep prices of gold elevated in the short term.

## Bond Market Updates

**Market Commentary:** The SGD swap curve fell slightly last Friday, with the shorter and belly tenors trading 1-2bps lower while the 20-year and 30-year traded 1-2 bps higher. The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 203bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 2bps to 770bps. The HY-IG Index Spread widened 1bps to 567bps. Flows in SGD corporates were heavy, with flows in SINTEC 4.1%-PERPs, SRENVX 0%'35s, STANLN5.375%-PERPs, HSBC 4.7%-PERPs, BACR 3.75%'30s, FPLSP 4.98%-PERPs, UOBSP 3.58%-PERPs, ANZ 3.75%'27s, PINGIN 2.25%'21s and UBS 4.85%-PERPs. 10Y UST Yields fell 4bps to 0.64% due to continuing COVID-19 concerns despite a rebound in consumer spending.

**New Issues:** There is no new issue last Friday.

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### Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	97.433	0.00%	USD-SGD	1.3935	0.15%
USD-JPY	107.220	0.03%	EUR-SGD	1.5632	0.15%
EUR-USD	1.1219	0.01%	JPY-SGD	1.2996	0.12%
AUD-USD	0.6865	-0.32%	GBP-SGD	1.7189	-0.53%
GBP-USD	1.2336	-0.67%	AUD-SGD	0.9566	-0.18%
USD-MYR	4.2905	0.29%	NZD-SGD	0.8950	0.04%
USD-CNY	7.0782	--	CHF-SGD	1.4699	0.20%
USD-IDR	14220	0.32%	SGD-MYR	3.0840	0.32%
USD-VND	23204	0.03%	SGD-CNY	5.0772	-0.20%

### Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.5040	-0.40%	O/N	0.0711	0.14%
2M	-0.3360	0.14%	1M	0.1783	0.41%
3M	-0.4030	0.41%	2M	0.2426	0.74%
6M	-0.2830	0.74%	3M	0.3079	2.23%
9M	-0.1940	2.23%	6M	0.3614	-1.48%
12M	-0.1990	-1.48%	12M	0.5663	0.66%

### Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	% Hike/Cut	Implied Rate Change	Implied Rate
07/29/2020	-0.037	-3.7	-0.009	0.063
09/16/2020	-0.089	-5.1	-0.022	0.05
11/05/2020	-0.145	-5.7	-0.036	0.036
12/16/2020	-0.15	-0.5	-0.038	0.034
01/27/2021	-0.217	-6.7	-0.054	0.018

### Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	38.49	-0.6%	Corn (per bushel)	3.1700	-0.1%
Brent (per barrel)	41.02	-0.1%	Soybean (per bushel)	8.650	-0.5%
Heating Oil (per gallon)	1.1363	-1.7%	Wheat (per bushel)	4.7400	-2.6%
Gasoline (per gallon)	1.1533	-3.4%	Crude Palm Oil (MYR/MT)	2,473.0	-1.6%
Natural Gas (per MMBtu)	1.4950	0.9%	Rubber (JPY/KG)	141.5	-0.1%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,957	1.1%	Gold (per oz)	1,771.3	0.4%
Nickel (per mt)	12,684	2.0%	Silver (per oz)	17.805	0.0%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

### Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
06/26/2020 07:03	PH Overseas Remittances YoY	Apr -9.60%	--	-4.70%	--
06/26/2020 07:03	PH BoP Overall	May --	--	\$1666m	--
06/29/2020 07:50	JN Retail Sales YoY	May -11.60%	--	-13.70%	-13.90%
06/29/2020 07:50	JN Retail Sales MoM	May 3.00%	--	-9.60%	-9.90%
06/29/2020 15:00	SP CPI YoY	Jun P -0.50%	--	-0.90%	--
06/29/2020 16:30	HK Exports YoY	May -5.20%	--	-3.70%	--
06/29/2020 16:30	UK Mortgage Approvals	May 25.0k	--	15.8k	--
06/29/2020 17:00	EC Consumer Confidence	Jun F --	--	-14.7	--
06/29/2020 20:00	GE CPI YoY	Jun P 0.60%	--	0.60%	--
06/29/2020 20:00	GE CPI MoM	Jun P 0.30%	--	-0.10%	--
06/29/2020 20:00	GE CPI EU Harmonized YoY	Jun P 0.60%	--	0.50%	--
06/29/2020 20:00	GE CPI EU Harmonized MoM	Jun P 0.40%	--	0.00%	--
06/29/2020 20:30	CA Building Permits MoM	May 10.40%	--	-17.10%	--
06/29/2020 20:30	CA Industrial Product Price MoM	May 2.70%	--	-2.30%	--
06/29/2020 22:00	US Pending Home Sales MoM	May 18.00%	--	-21.80%	--

Source: Bloomberg

## Treasury Research & Strategy

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