

Daily Treasury Outlook

30 June 2020

Highlights

Global: Global risk sentiments continued to be held at ransom by US second wave concerns and re-opening uncertainties. Note New Jersey has halted indoor dining plans with New York potentially following in its footsteps. The S&P500 whipsawed overnight to close up at 1.5% with gainers including Boeing Co (on news that US aviation regulators have approved a critical set of certification test flights for the 737 Max) and Gilead Sciences (with plans to charge \$390 per vial of remdesivir of \$2340 for a five-day treatment course). VIX fell to 31.78. UST bonds ended mixed overnight, but month-end positioning may see the 10-year bond yield rangebound around 0.62% as Fed chair Powell warned that “while this bounceback in economic activity is welcome, it also presents new challenges – notably the need to keep the virus “in check” and the “path forward for the economy is extraordinarily uncertain”. Elsewhere, China kicked off its Wealth management Connect to promote the opening up of the Mainland’s financial markets as well as the mutual social and economic development of the Mainland, and Hong Kong and Macau. However, US Commerce Secretary Ross said Hong Kong’s special status, including the availability of export license exceptions, were suspended with China’s imposition of new security measures.

Market watch: Asian markets may try to open on a firm tone this morning, with investors awaiting China’s release of June manufacturing and non-manufacturing PMIs. Today’s economic data also comprises of US’ Conference Board consumer confidence for June and S&P CoreLogic house prices, Eurozone’s June CPI, Hong Kong’s May retail sales, Thailand’s May trade data, UK’s final 1Q20 GDP print, and Singapore’s May bank loans data. Speakers include RBA’s Debelle, BOE’s Haldane (note he was the dissenter at the recent BOE meeting) and Cunliffe, ECB’s Schnabel and Guindos, Fed’s Williams, Kashkari and last but not least, Fed chair Powell and Treasury Secretary Mnuchin.

US: Pending home sales surged 44.3% mom (-10.4% yoy) in May, following a 21.8% mom (-34.6% yoy) contraction whilst the Dallas Fed manufacturing activity index also eased from -49.2 in May to -6.1 in June

EU: German inflation rose more than expected by 0.8% yoy (0.7% mom) amid higher prices for services including hair and cosmetic services and restaurants and cafes, likely due to more stringent hygiene costs. Meanwhile, the Euro-area economic confidence rose less than expected to 75.7 in June.

UK: Brexit talks are gearing up for more intense negotiations as 30 June marks the final deadline for extending the transition period beyond 31 December and any agreement should be nailed down before the EU leaders meeting in Brussels on 15-16 October.

Singapore: Bank loans growth is likely to remain tepid in May and could ease from the April pace of 2.0% yoy with the extended Circuit Breaker period. Today is nomination day and this is likely to garner most attention for now.

Key Market Movements

Equity	Value	% chg
S&P 500	3053.2	1.5%
DJIA	25596	2.3%
Nikkei 225	21995	-2.3%
SH Comp	2961.5	-0.6%
STI	2574.1	-1.2%
Hang Seng	24301	-1.0%
KLCI	1494.4	0.4%
Currencies	Value	% chg
DXY	97.536	0.1%
USDJPY	107.58	0.3%
EURUSD	1.1242	0.2%
GBPUSD	1.2298	-0.3%
USDIDR	14245	0.2%
USDSGD	1.3935	0.0%
SGDMYR	3.0774	-0.2%
Rates	Value	chg (bp)
3M UST	0.12	-1.52
10Y UST	0.62	-1.79
1Y SGS	0.27	0.00
10Y SGS	0.92	-1.75
3M LIBOR	0.31	0.19
3M SIBOR	0.56	0.00
3M SOR	0.20	-1.66
Commodities	Value	% chg
Brent	41.71	1.7%
WTI	39.7	3.1%
Gold	1773	0.1%
Silver	17.86	0.3%
Palladium	1900	0.9%
Copper	5962	0.1%
BCOM	64.24	1.6%

Source: Bloomberg

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Major Markets

US: Sentiments turned positive on Monday with the S&P500 index closing 1.5% higher due to better than expected US housing data. The US markets will likely take its cue from Powell's and Mnuchin's testimony before the US House of Representatives Financial Services Committee today.

China: The rating agency S&P affirmed China's credit rating with stable outlook. The rating agency still expects China to grow at a fast pace over the next 3-4 years.

HK: Trade data surprised on the downside in May with exports and imports plunging at a faster rate by 7.4% yoy and 12.3% yoy respectively. This was due to the ongoing travel restrictions as well as the weak local and external demand. Going forward, the outlook of the trade sector remains mixed. On one hand, the low base from last year may allow the decline in exports and imports to moderate. On the other hand, any rebound in trade activities may be curbed by the soft demand and the global containment measures as both of which look likely to persist amid the second wave of Covid-19. As such, we hold onto our view that exports and imports will show single-digit decrease for the second consecutive year in 2020. Elsewhere, the Trump administration announced to suspend exports of American sensitive technology to Hong Kong and warned that they are evaluating further actions to revoke special treatments to Hong Kong. As Hong Kong has been the key re-export port connecting China and the rest of the world while 64.5% of total trade in HK were high-tech related in 2019, the trade sector and the high-tech sector of both HK and China could feel some pain as a result of the US' move. That said, financial market was rather calmed early this morning. Despite the heightened US-China tensions, the PBOC, HKMA and AMCM together announced to launch a wealth management connect pilot scheme in the Greater Bay Area. This is expected to support RMB internationalization and to meet the increasing needs of Mainland investors to diversify their portfolio with overseas financial products

Macau: Unemployment rate edged up from 2.2% in the prior period to 2.4% during the three-month to May, the highest level since 3Q 2011. The underemployed rate also surged to a nearly 17-year high of 2.6%. Except for construction sector which resumed normalcy from March, the employed population of other key sectors including gaming (-1.6% mom), retail (-2.1% mom) as well as hotels, restaurants and similar activities (-2.7% mom) all decreased on a monthly basis as tourism and gaming sector remained at a standstill. Moving forward, we expect overall unemployment rate to edge higher towards 2.5% or even 3% as gaming sector, tourism-related sectors and retail sector may find it hard to recover from the pandemic which is still fraught with uncertainty. This could translate into demand shock to the local economy.

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Singapore: The STI slipped 1.17% to surrender the 2600 handle and closed at 2574.10 yesterday, but may attempt to trade with a firmer tone into the month end following positive overnight cues from Wall Street. With the tilt towards risk-off, SGS bond yields fell 1-3bps yesterday after digesting the two recent bond auctions and may remain supported into the month end as well.

Malaysia: Malaysia's trade balance bounced back to a surplus of MYR10.4bn in May, compared to the deficit of 3.6bn the month before. Exports continued to slump, declining by 25.5% yoy compared to expectation of 20.2% contraction. E&E products shipment remained challenged at -20% yoy. Imports shrank by a hefty 30.4% yoy, vs. expectation of -18.6%. Imports of intermediate goods did pick up, however, to 30.8bn vs 28.3bn the month before, signalling a nascent recovery in the manufacturing sector.

Indonesia: Bank Indonesia is planning to buy IDR397.6tn (~USD27.6bn) of government bonds at 0% interest rate, to help finance expanded health care and social safety net budget, Finance Minister Sri Mulyani told the parliament yesterday. They are also discussing a purchase of government bonds at 1% discount to BI benchmark rate worth IDR123.5tn to release funds for SME sectors. Such financing mechanism forms part of the so-called burden sharing agreement between the government and central bank that aims to provide more funding for the economy at a time of fiscal constraints.

Thailand: Thailand has announced it will extend its state of emergency to end-July, marking it the fourth consecutive month and the third extension that the country is under its emergency decree. This comes even as Thailand proceeds with its final phase of lockdown easing measures, including the reopening of schools, bars and other entertainment venues on 1 July.

Oil: Oil prices rose yesterday, with Brent rising 1.7% to \$41.71/bbl, buoyed by better than expected housing data from the US. The energy market may trade with caution today as it awaits Powell's and Mnuchin's speech before the US House of Representatives Financial Services Committee. In the short term we maintain our view that prices are likely to consolidate.

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Bond Market Updates

Market Commentary: The SGD swap curve fell yesterday, with the shorter and belly tenors trading 1-3bps lower while the longer tenors traded 4bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 204bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 8bps to 778bps. The HY-IG Index Spread widened 6bps to 573bps. Flows in SGD corporates were heavy, with flows in SINTEC 4.1%-PERPs, CS5.625%-PERPs, HSBC 5%-PERPs, HSBC 4.7%-PERPs and PINGIN 2.25%'21s. 10Y UST Yields fell 2bps to 0.62% after data on Monday showed pending home sales spiked in May, which increased 44.3%, more than double the median estimate.

New Issues: Times China Holdings Limited priced a USD300mn 5NC3 bond at 6.75%, tightening from IPT of 7% area. Golden Wheel Tiandi Holdings Company Limited priced a USD170mn 2.5NP1.5Y bond at 14.25%. Xingchang International Co. (Guarantor: Zhejiang Changxing Financial Holdings Group Co.) priced a USD160mn 3-year bond at 5.5%. AC Energy Finance International Ltd (Guarantor: AC Energy Inc) priced a USD60mn re-tap of its ACNRGY 4.75%'24s at 4.875%. National Group Corporation Pty Ltd has arranged investor calls commencing 30 June 2020 for its proposed USD bond offering. Zhejiang Changxing Financial Holdings Group Co. has mandated banks for a possible USD bond offering.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	97.536	0.11%	USD-SGD	1.3935	--
USD-JPY	107.580	0.34%	EUR-SGD	1.5666	0.22%
EUR-USD	1.1242	0.21%	JPY-SGD	1.2954	-0.32%
AUD-USD	0.6866	0.01%	GBP-SGD	1.7139	-0.29%
GBP-USD	1.2298	-0.31%	AUD-SGD	0.9569	0.03%
USD-MYR	4.2835	-0.16%	NZD-SGD	0.8948	-0.02%
USD-CNY	7.0811	0.04%	CHF-SGD	1.4649	-0.34%
USD-IDR	14245	0.18%	SGD-MYR	3.0774	-0.21%
USD-VND	23192	-0.05%	SGD-CNY	5.0776	0.01%

Equity and Commodity

Index	Value	Net change
DJIA	25,595.80	580.25
S&P	3,053.24	44.19
Nasdaq	9,874.15	116.93
Nikkei 225	21,995.04	-517.04
STI	2,574.10	-30.41
KLCI	1,494.43	6.29
JCI	4,901.82	-2.27
Baltic Dry	1,749.00	--
VIX	31.78	-2.95

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.5040	-1.10%	O/N	0.0711	-0.45%
2M	-0.3360	-0.45%	1M	0.1783	-0.54%
3M	-0.4030	-0.54%	2M	0.2426	-0.66%
6M	-0.2830	-0.66%	3M	0.3079	0.19%
9M	-0.1940	0.19%	6M	0.3614	-0.33%
12M	-0.1990	-0.33%	12M	0.5663	-0.41%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	0.29 (-0.03)	0.15 (-0.02)
5Y	0.55 (+0.06)	0.27 (-0.03)
10Y	0.92 (-0.02)	0.62 (-0.02)
15Y	1.25 (-0.02)	--
20Y	1.29 (-0.01)	--
30Y	1.30 (--)	1.37 (--)

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	-6.1	-0.025	0.047
11/05/2020	-0.145	-4.3	-0.035	0.036
12/16/2020	-0.15	-2.1	-0.041	0.031
01/27/2021	-0.217	-7.5	-0.059	0.012

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	7.00	-0.27
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	0.08
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Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	39.70	3.1%	Corn (per bushel)	3.2625	2.9%
Brent (per barrel)	41.71	1.7%	Soybean (per bushel)	8.665	0.2%
Heating Oil (per gallon)	1.1654	2.6%	Wheat (per bushel)	4.8550	2.4%
Gasoline (per gallon)	1.1841	2.7%	Crude Palm Oil (MYR/MT)	2,428.0	-1.8%
Natural Gas (per MMBtu)	1.7090	14.3%	Rubber (JPY/KG)	140.6	-0.6%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,962	0.1%	Gold (per oz)	1,772.8	0.1%
Nickel (per mt)	12,806	1.0%	Silver (per oz)	17.858	0.3%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
06/29/2020 07:03	PH Overseas Remittances YoY	Apr	-9.60%	--	-4.70%
06/30/2020 07:00	SK Industrial Production YoY	May	-4.50%	-9.60%	-4.50%
06/30/2020 07:30	JN Jobless Rate	May	2.80%	2.90%	2.60%
06/30/2020 07:30	JN Job-To-ApPLICANT Ratio	May	1.22	1.2	1.32
06/30/2020 07:50	JN Industrial Production MoM	May P	-5.90%	-8.40%	-9.80%
06/30/2020 09:00	CH Manufacturing PMI	Jun	50.5	--	50.6
06/30/2020 14:00	UK GDP QoQ	1Q F	-2.00%	--	-2.00%
06/30/2020 14:00	UK GDP YoY	1Q F	-1.60%	--	-1.60%
06/30/2020 15:00	SP GDP QoQ	1Q F	-5.20%	--	-5.20%
06/30/2020 15:30	TH BoP Current Account Balance	May	-\$595m	--	-\$654m
06/30/2020 16:30	HK Retail Sales Value YoY	May	-31.80%	--	-36.10%
06/30/2020 17:00	EC CPI MoM	Jun P	0.20%	--	-0.10%
06/30/2020 20:30	CA GDP MoM	Apr	-12.20%	--	-7.20%
06/30/2020 21:45	US MNI Chicago PMI	Jun	45	--	32.3
06/30/2020 22:00	US Conf. Board Consumer Confidence	Jun	91.4	--	86.6

Source: Bloomberg

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