

Daily Treasury Outlook

30 July 2020

Highlights

Global: Look to fiscal policy for support appeared to be the Fed's key message even as they sought to affirm market expectations that monetary policy settings would remain accommodative for the foreseeable future. The FOMC statement noted its commitment to using its full range of tools to support the US economy amid the tremendous human and economic hardships and warned that the path of the economy will depend significantly on the course of the virus, with Fed chair Powell warning that the Covid resurgence was starting to "weigh". The Fed also said it will increase its holdings of UST and agency MBS to at least the current pace to sustain smooth market functioning, and it would extend the temporary liquidity swap lines to nine foreign central banks and the foreign repo program through 31 March 2021. On the other hand, US president Trump warned that Republicans and Democrats are "so far apart" on stimulus talks and suggested a short-term extension to the unemployment benefits and eviction protections that will lapse soon. Elsewhere, Fitch cut Japan's A sovereign rating outlook to negative citing rising public debt, while the Hong Kong economy contracted for the fourth straight quarter by 9.0% yoy (-0.1% qoq sa). The S&P500 added 1.24% overnight with the VIX declining to 24.10. The UST bonds ended mixed post-FOMC with the 5-year yield dipping below 0.25% for the first time whereas the longer tenors lagged with the 10-year bond yield around 0.57%. The 3-month LIBOR edged down to 0.2606%. Gold rose while USD extended its slump amid a dovish Fed.

Market watch: Asian markets may attempt to track US equities higher today, taking comfort in a supportive Fed policy stance and month-end position adjustments. Today's economic data calendar comprises of US' 2Q20 GDP growth (potentially a record 35% drop) and initial jobless claims, Germany's CPI and Eurozone's consumer confidence, Hong Kong's June retail sales and S'pore's bank loans growth (which could flatline after May's 0.5% yoy).

US: Pending home sales rose 16.6% in June to its highest since January 2006, aided by record low mortgage rates. The US will withdraw 12,000 troops from Germany. This followed earlier Trump's accusation that Germany had not met NATO spending targets. On the earnings front, Qualcomm rose on a strong forecast and Starbucks also rose after saying business was "steadily recovering" globally, whereas Boeing fell after reporting a bigger than expected losses and production cuts, GE also reported revenue fell 24% due to a loss in the aviation business.

SG: MAS has asked banks to cap their 2020 dividends at 60% of last year's levels. The total, resident and S'pore unemployment rates jumped to 2.9%, 3.5% and 4% respectively in 2Q20. Total employment excluding FDW fell by a record 121,800 which is more than 4x the 25,600 decline in 1Q20, even though retrenchments only rose to 12,760. The labour market is likely to deteriorate further, and total unemployment rate may rise to 3-3.5% by year-end, which may warrant more policy assistance.

Key Market Movements

| Equity | Value | % chg |
|------------|--------|----------|
| S&P 500 | 3258.4 | 1.2% |
| DJIA | 26540 | 0.6% |
| Nikkei 225 | 22397 | -1.1% |
| SH Comp | 3294.6 | 2.1% |
| STI | 2573.5 | -0.4% |
| Hang Seng | 24883 | 0.4% |
| KLCI | 1611.4 | 0.1% |
| | Value | % chg |
| DXY | 93.453 | -0.3% |
| USDJPY | 104.92 | -0.2% |
| EURUSD | 1.1792 | 0.6% |
| GBPUSD | 1.2997 | 0.5% |
| USDIDR | 14543 | 0.1% |
| USDSGD | 1.3737 | -0.4% |
| SGDMYR | 3.0884 | 0.2% |
| | Value | chg (bp) |
| 3M UST | 0.10 | -0.26 |
| 10Y UST | 0.57 | -0.49 |
| 1Y SGS | 0.32 | 1.00 |
| 10Y SGS | 0.83 | -2.72 |
| 3M LIBOR | 0.27 | -0.14 |
| 3M SIBOR | 0.44 | 0.00 |
| 3M SOR | 0.20 | 0.00 |
| | Value | % chg |
| Brent | 43.75 | 1.2% |
| WTI | 41.27 | 0.6% |
| Gold | 1971 | 0.6% |
| Silver | 24.31 | -0.4% |
| Palladium | 2179 | -4.7% |
| Copper | 6474 | 0.0% |
| BCOM | 68.99 | 0.7% |

Source: Bloomberg

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Major Markets

US: The S&P500 index closed 1.2% higher, after the FOMC left its benchmark rate unchanged as widely expected. Fed chairman Powell's clearly dovish rhetoric also aided the rally in the US equity markets. We expect risk sentiment to remain contained in the near term. US Q2 GDP data and US weekly jobless claims tonight will likely be key drivers for today's US trading session.

CN: China's State Council announced measures to stabilize foreign trade and jobs for migrant workers. Chinese government will encourage North-eastern part of China and central western part of China to take over labor intensive work. Meanwhile, it also reiterated to further open up to attract foreign investment. On jobs, the State Council unveiled new measures to help migrant workers to find jobs or start their own business.

HK: Hong Kong's economy shrank for the fourth consecutive quarter and missed expectation by contracting 9% yoy in 2Q. The decline narrowed a bit from the downwardly revised growth of -9.1% yoy in 1Q. Private consumption (-14.5% yoy, largest fall since record despite pandemic slowdown and relief measures), fixed investments (-20.6% yoy, the worst since 2Q 1999) and the exports of services (record -46.6% yoy) remained the main drags amid Covid-19 shock. The exports of goods turned out to be a bright spot with the decline narrowing from 9.7% yoy in 1Q to 2.1% yoy in 2Q. This could be attributed to the re-opening of global economy from May and the China's recovery. Moving into 3Q, the resurgence of Covid-19 is set to complicate the recovery. With most of the economic activities coming to a near-standstill amid the strictest containment measures, local consumption, fixed investments and exports of services may remain mired in a downtrend. On a positive note, the economic contraction in 3Q may still narrow from here given the low base effect and the benign recovery of other major economies. For the 4Q, the outlook will hinge largely on the Covid-19 development. In conclusion, we expect 2020 GDP growth to be -6% on the assumption that government's additional relief measures will provide the floor to the contraction.

Singapore: The STI slipped 0.37% to close at 2573.45 yesterday and may be conflicted today – while overnight cues from Wall Street and Nikkei and KOSPI are making morning gains, nevertheless bank shares may see some pressure given MAS' recommendation to cap dividends. With the overnight gains in UST bonds, SGS bonds may also stay supported into the month-end.

Indonesia: More details on the government bond auction on Tuesday were released. Demand for long-dated bonds due 2048 appears to be strong, drawing IDR11.3tn bids, the highest since the securities were available in 2017. This signals a robust offshore appetite for Indonesia's bonds, and a sign that market is relatively comfortable with the recent debt monetisation move.

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Malaysia: Bank Negara announced an extension of sorts of the 6-month loans moratorium that is scheduled to end on 30 September. To help prevent a “cliff effect” that comes from the sudden end of the measure, the new rule stipulates that the moratorium on payments of loan principals and interests will still be applicable for those who have lost their jobs this year, by 3 more months. Meanwhile, those who saw a salary reduction can apply to get a proportional reduction in their loan instalments for at least six months.

Gold: Gold closed at a new high of \$1970.79/oz yesterday and is now just 1.5% away from the \$2000 level.

Oil: Oil prices held firm on declining stockpiles and a dovish Fed. Brent once again ended the session little changed on the day, rising 1.2% to \$43.75/bbl. We expect the current low volatility environment to persist in the near term.

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Bond Market Updates

Market Commentary: The SGD swap curve bull flattened yesterday, with the shorter tenors trading 1-2bps lower while the belly and longer tenors traded 1-3bps lower and the 15-year traded 5bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 2bps to 182bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 2bps to 713bps. The HY-IG Index Spread remained relatively unchanged at 531bps. Flows in SGD corporates were heavy, with flows in CS 5.625%-PERPs, STTGDC 3.13%'28s, UBS 4.85%-PERPs, KITSP 4.75%-PERPs, NTUCSP 3.1%'50s, FPLSP 4.98%-PERPs, BAERVX 5.75%-PERPs, FPLSP 4.15%'27s, HSBC 4.7%-PERPs, OLAMSP 5.5%-PERPs and UBS 5.875%-PERPs. 10Y UST Yields remained mostly unchanged at 0.58% after Fed pledged to keep interest rate near zero and would use all tools available to help the economy to recover from COVID-19 fallout.

New Issues: State Grid Overseas Investment 2016 Ltd (Guarantor: State Grid Corp of China) priced a USD300mn 5-year bond at T+88bps, tightening from IPT of T+140bps area and another USD1.15bn 10-year bond at T+118bps, tightening from IPT of T+165bps area. Sunac China Holdings Ltd priced a USD500mn 4NC2 bond at 6.85%, tightening from IPT of 7.25% area. Ronshine China Holdings Ltd priced a USD200mn 4NC2 bond at 6.75%, tightening from IPT of 7.25% area. Chong Hing Bank Limited priced a USD50mn re-tap of its CHOHIN 5.50%'PerpNC5. CIFI Holdings Group Co Ltd. priced a USD200mn re-tap of its CIFIHG 5.95%'25s.

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Foreign Exchange

| | Day Close | % Change | | Day Close | % Change |
|----------------|-----------|----------|----------------|-----------|----------|
| DXY | 93.453 | -0.26% | USD-SGD | 1.3737 | -0.38% |
| USD-JPY | 104.920 | -0.16% | EUR-SGD | 1.6199 | 0.27% |
| EUR-USD | 1.179 | 0.65% | JPY-SGD | 1.3093 | -0.22% |
| AUD-USD | 0.719 | 0.42% | GBP-SGD | 1.7854 | 0.12% |
| GBP-USD | 1.300 | 0.50% | AUD-SGD | 0.9873 | 0.02% |
| USD-MYR | 4.243 | -0.24% | NZD-SGD | 0.9161 | -0.27% |
| USD-CNY | 7.002 | 0.01% | CHF-SGD | 1.5053 | 0.20% |
| USD-IDR | 14543 | 0.06% | SGD-MYR | 3.0884 | 0.21% |
| USD-VND | 23169 | 0.00% | SGD-CNY | 5.0904 | 0.23% |

Equity and Commodity

| Index | Value | Net change |
|-------------------|-----------|------------|
| DJIA | 26,539.57 | 160.29 |
| S&P | 3,258.44 | 40.00 |
| Nasdaq | 10,542.94 | 140.85 |
| Nikkei 225 | 22,397.11 | -260.27 |
| STI | 2,573.45 | -9.52 |
| KLCI | 1,611.42 | 1.48 |
| JCI | 5,111.11 | -1.88 |
| Baltic Dry | 1,264.00 | -29.00 |
| VIX | 24.10 | -1.34 |

Interbank Offer Rates (%)

| Tenor | EURIBOR | Change | Tenor | USD Libor | Change |
|------------|---------|--------|------------|-----------|--------|
| 1M | -0.5150 | -0.52% | O/N | 0.0848 | 0.09% |
| 2M | -0.3360 | -0.34% | 1M | 0.1669 | 0.17% |
| 3M | -0.4540 | -0.46% | 2M | 0.2189 | 0.21% |
| 6M | -0.3790 | -0.38% | 3M | 0.2683 | 0.27% |
| 9M | -0.1940 | -0.20% | 6M | 0.3175 | 0.32% |
| 12M | -0.3070 | -0.29% | 12M | 0.4605 | 0.46% |

Government Bond Yields (%)

| Tenor | SGS (chg) | UST (chg) |
|------------|--------------|--------------|
| 2Y | 0.25 (-) | 0.13 (-) |
| 5Y | 0.53 (-0.01) | 0.25 (-0.01) |
| 10Y | 0.83 (-0.03) | 0.58 (0) |
| 15Y | 1.08 (-0.03) | -- |
| 20Y | 1.13 (-0.02) | -- |
| 30Y | 1.14 (-0.03) | 1.24 (+0.02) |

Fed Rate Hike Probability

| Meeting | # of Hikes/Cuts | % Hike/Cut | Implied Rate Change | Implied Rate |
|------------|-----------------|------------|---------------------|--------------|
| 09/16/2020 | -0.083 | -8.3 | 0.062 | 0.062 |
| 11/05/2020 | -0.104 | -2.1 | 0.056 | 0.056 |
| 12/16/2020 | -0.178 | -7.4 | 0.038 | 0.038 |
| 01/27/2021 | -0.2 | -2.2 | 0.032 | 0.032 |
| 03/17/2021 | -0.241 | -4.1 | 0.022 | 0.022 |

Financial Spread (bps)

| | Value | Change |
|--------------------|-------|--------|
| EURIBOR-OIS | 1.40 | (-) |
| TED | 35.36 | -- |

Secured Overnight Fin. Rate

| | |
|-------------|------|
| SOFR | 0.10 |
|-------------|------|

Commodities Futures

| | Futures | % chg | Soft Commodities | Futures | % chg |
|--------------------------|----------|--------|-------------------------|---------|-------|
| Energy | | | | | |
| WTI (per barrel) | 41.27 | 0.56% | Corn (per bushel) | 3.155 | -1.4% |
| Brent (per barrel) | 43.75 | 1.23% | Soybean (per bushel) | 8.915 | -0.6% |
| Heating Oil (per gallon) | 125.33 | 0.90% | Wheat (per bushel) | 5.328 | 1.8% |
| Gasoline (per gallon) | 124.15 | -1.90% | Crude Palm Oil (MYR/MT) | 27.380 | 1.7% |
| Natural Gas (per MMBtu) | 1.85 | 3.00% | Rubber (JPY/KG) | 1.590 | -1.5% |
| Base Metals | | | Precious Metals | | |
| Copper (per mt) | 6474.00 | -0.05% | Gold (per oz) | 1970.8 | 0.6% |
| Nickel (per mt) | 13876.00 | 1.58% | Silver (per oz) | 24.3 | -0.4% |

Economic Calendar

| Date Time | | Event | | Survey | Actual | Prior | Revised |
|------------------|----|----------------------------------|--------|--------|--------|----------|---------|
| 07/30/2020 02:00 | US | FOMC Rate Decision (Upper Bound) | 25-Jul | 0.3% | 0.3% | 0.3% | -- |
| 07/30/2020 06:45 | NZ | Building Permits MoM | Jun | -- | 0.5% | 35.6% | -- |
| 07/30/2020 07:31 | PH | BoP Overall | Jun | -- | -- | \$2430m | -- |
| 07/30/2020 07:50 | JN | Retail Sales YoY | Jun | -5.7% | -1.2% | -12.3% | -0.125 |
| 07/30/2020 09:00 | NZ | ANZ Business Confidence | Jul F | -- | -- | -2980.0% | -- |
| 07/30/2020 09:30 | AU | Building Approvals MoM | Jun | -0.03 | -- | -0.16 | -- |
| 07/30/2020 15:55 | GE | Unemployment Change (000's) | Jul | 41.0k | -- | 69.0k | -- |
| 07/30/2020 16:00 | GE | GDP SA QoQ | 2Q P | -9.0% | -- | -2.2% | -- |
| 07/30/2020 16:30 | HK | Retail Sales Value YoY | Jun | -24.0% | -- | -32.8% | -- |
| 07/30/2020 20:00 | GE | CPI YoY | Jul P | 0.1% | -- | 0.9% | -- |
| 07/30/2020 20:00 | GE | CPI MoM | Jul P | -0.3% | -- | 0.6% | -- |
| 07/30/2020 20:00 | GE | CPI EU Harmonized YoY | Jul P | 0.3% | -- | 0.8% | -- |
| 07/30/2020 20:30 | US | Initial Jobless Claims | 01-Jul | 1445k | -- | 1416k | -- |
| 07/30/2020 20:30 | US | GDP Annualized QoQ | 2Q A | -34.5% | -- | -5.0% | -- |
| 07/30/2020 20:30 | US | GDP Price Index | 2Q A | 0.0% | -- | 1.4% | -- |

Source: Bloomberg

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