

Daily Treasury Outlook

2 March 2020

Highlights

Global: Global financial markets slumped on Friday and may open on a weak tone today, marking a choppy start to March trading amid growing fears that the Covid-19 outbreak will dent the US economy and has taken a heavy toll on the Chinese economy. Fed Chair Powell has opined that as “the coronavirus poses evolving risks to economy activity”, the Fed is “closely monitoring developments” and will “act as appropriate to support the economy”, which raised market speculation of a 25bp rate cut at the March FOMC meeting. Still, China’s manufacturing and non-manufacturing PMI both plunged to 35.7 and 29.6 respectively in February, down from 50 and 54.1 in January, reflecting the sharp stalling of its economy. On Friday, the S&P500 closed down 0.82%, bringing its weekly decline to 11.5%, while the UST bond rally extended by up to another 15bps and driving the 2-year bond yield below 1% and the 10-year bond yield to 1.15%.

Market watch: Asian markets are likely to gap lower this morning amid the growing Covid-19 anxiety and any downside surprises for Asian manufacturing PMIs, including China’s Caixin, are likely to add to market concerns. Today’s economic data calendar also comprises of US’ manufacturing ISM and construction spending, EU manufacturing PMIs, Hong Kong’s retail sales and Indonesia’s CPI. For the week ahead, BNM is tipped to cut its OPR by 25bps to 2.5% tomorrow while RBA may waver if to still hold out at 0.75%, followed by BOC (likely static at 1.75% on 4 March), the Fed’s Beige Book on 5 March, and with a slew of Fed speakers including Mester, Logan, Evans, Bullard, Kaplan, Kashkari, Williams and George which may shed light on rate cut intentions for the 18 March FOMC meeting.

US: Personal spending halved from a revised 0.4% in December to 0.2% in January, despite a 0.6% surge in personal income. The core PCE deflator also rose a muted 0.1% mom (1.6% yoy) in January.

Singapore: Total bank loans fell for the first time since September 2019 by 0.2% on-month in January 2020, even though the on-year print is still a very decent 3.0% compared to the 3.1% yoy readings in both November and December 2019. The drag came from business loans which also shrank for the first time since September 2019 by 0.3% mom (+5.6% yoy) in January, due to softer loans to the manufacturing (-3.2% mom), general commerce (-1.3% mom) and financial institutions (-1.0% mom), amongst others. Meanwhile, consumer loans also flatlined in January (0% mom) and actually shrank for the 9th consecutive month by 1.0% yoy as housing and bridging loans remained lacklustre (0% mom and -1.7% yoy). Given that the full brunt of the Covid-19 outbreak may not have been felt in January and with the seasonal effects of the Chinese New Year holidays, the February and also the March data prints may be a better reflection of whether the Covid-19’s economic impact would have translated into greater loan demand caution. In particular, businesses, especially those in tourism and hospitality sectors and even the manufacturing sector, may have turned more cautious due to the uncertainties over visitor arrivals and spending, and also returning overseas workers’ travel restrictions and the impact of supply chain disruptions for the latter.

Key Market Movements		
Equity	Value	% chg
S&P 500	2954.2	-0.8%
DJIA	25409	-1.4%
Nikkei 225	21143	-3.7%
SH Comp	2880.3	-3.7%
STI	3011.1	-3.2%
Hang Seng	26130	-2.4%
KLCI	1482.6	-1.5%
Currencies	Value	% chg
DX	98.132	-0.4%
USDJPY	107.89	-1.6%
EURUSD	1.1026	0.2%
GBPUSD	1.2823	-0.5%
USDIDR	14318	2.1%
USDSGD	1.3932	-0.1%
SGDMYR	3.0233	0.2%
Rates	Value	chg (bp)
3M UST	1.27	-15.37
10Y UST	1.15	-11.21
1Y SGS	1.56	-4.10
10Y SGS	1.38	-7.76
3M LIBOR	1.58	-3.29
3M SIBOR	1.69	-2.27
3M SOR	1.41	-3.57
Commodities	Value	% chg
Brent	49.67	-4.0%
WTI	44.76	-4.9%
Gold	1586	-3.6%
Silver	16.67	-6.2%
Palladium	2617	-8.7%
Copper	5635	0.3%
BCOM	70.98	-2.2%

Source: Bloomberg

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Major Markets

US: US equity indices with the exception of NASDAQ continued their decline on Friday as investors' fears of a global coronavirus pandemic continued to manifest. The S&P500 index fell by 0.82%. Looking ahead, US markets are likely to open mixed today as investors weigh the impacts of Covid-19 against expectations of a US Fed rate cut. A deluge of manufacturing PMI data released today would also be indicative of the extent of damage that the coronavirus outbreak has caused.

China: China's record low February manufacturing PMI offered us a first glimpse of the impact of covid-19 outbreak on Chinese economy. The sub-index of production fell to 27.8, much lower than the trough of 35.5 during the global financial crisis in late 2008. This showed that the near-term shock from the Covid-19 to China's production is much higher than that from the global financial crisis as a result of the stall of economic activities due to China's shock therapy.

Looking ahead, unlike a demand driven shock during global financial crisis when market was unsure about the trajectory of the recovery, it is almost certain that February will mark the bottom for this year as the restrictions on supply side factors were being removed gradually. Given China resumed the production gradually in late February, we expect March PMI to return to above 40 range.

Hong Kong: Total loans and advances increased by 6.4% yoy in January, the weakest since last September. As total trade fell notably by 19.5% yoy in January, trade finance dropped by 5.1% yoy. Loans for use in HK (excluding trade finance) rose by 7.9% yoy. On the other hand, loans for use outside of HK increased at the weakest rate since August 2019 by 5% yoy. With the outbreak of covid-19 denting business sentiments and investment sentiments, we expect local loan demand to soften in the coming months despite the retracement in HKD rates. Also, trade finance is likely to remain weak as the epidemic has disrupted the tightly integrated global supply chain and is set to take a heavy toll on global trade albeit easing trade tension. Furthermore, as China's authorities stepped up efforts to ease the financing difficulties in the onshore market, offshore loan demand of Mainland companies is poised to weaken. Taken all together, we expect total loans and advances to remain benign and record single-digit growth in 2020.

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Macau: GDP contracted for the fourth consecutive quarter by 8.1% yoy in 4Q 2019. As a result, the economy slipped into the first full-year recession since 2016 with a growth of -4.7% yoy in 2019 due to the plunge in investment and exports of services which respectively took up 14.2% and about 80% of GDP. Moving into 2020, things seem to get worse before they get better. First, as only a few mega projects are under construction and business sentiments have been souring, investment is expected to remain weak. Second, the outbreak of covid-19 has put a lid on businesses and consumption. The resultant increase in layoffs may take a toll on local spending as well. Third, the covid-19 epidemic has sidelined potential tourists while causing an unprecedented 15-day casino shutdown in February. As a result, we expect gaming revenue to plunge further and the tourism sector to lose some momentum in the near term. On a positive note, the government's decision to advance cash payouts and a slew of fiscal stimulus measures may render some support to investment and domestic consumption. Taken all together, we expect Macau see another year of recession with a growth of -3.5% yoy in 2020.

Singapore: The STI declined 3.23% to close at 3011.08 on Friday, the lowest since December 2018, and may break the 3000 handle today amid very weak cues from Wall Street on Friday and weak cues from ASX this morning. The October 2018 low of 2966 is increasingly within sight if the selling pressure does not abate. With the persistent risk-off tone, SGS bonds are likely to extend gains today after yields had already declined by around 10bps on Friday. With the 10-year SGS bond yield already at 1.38% (lowest since May 2013) on Friday, the December 2012 low of 1.29% looks increasingly within reach if the Covid-19 concerns grow. Note the 3-month SOR has eased further to 1.24071 (lowest since February 2018), with the 3-month SIBOR still relatively stable at 1.68908%. The 3-month LIBOR has already retreated to 1.4628%.

Malaysia: After days of political twists and turns, Malaysia finally swore in a new PM, although the winner might have come as a surprise to many. Former DPM under Najib Razak and Home Affairs Minister under the previous Mahathir administration, Muhyiddin Yassin was sworn in by the Agong yesterday, with the backing of UMNO and PAS. The drama might not be over, however, with Mahathir insisting he has the support to be the PM if a parliament vote takes place.

Indonesia: Given the unsettled global situation, Indonesian assets would likely to continue to come under pressure this week. Bank Indonesia has been actively intervening in the market to provide support, including through purchases of government bonds in the secondary market. BI Governor has indicated a year-to-date purchase of IDR100tn thus far, including as much as 78tn since the outbreak scare began.

Oil: OPEC+ meets this week in a scheduled meeting to decide on supply policy, with the cartel heavily tipped to cut 1mbpd at this meeting. Saudi Arabia had urged members to consider a 600kbpd cut in an urgent meeting during February, but Russia ultimately hesitated. As the coronavirus becomes more widespread and threatens to derail energy demand, a deeper cut than the one proposed in February is now needed.

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Gold: Gold prices fell as much as 5% last Friday, despite the Federal Reserve hinting that the possibility of a rate cut has increased. Fingers were pointed at margin calls in equities, where traders who were desperate to cover losses as part of month-end dressing were forced to take profit and liquidate their gold holdings. With the coronavirus spreading globally and the Fed looking at the possibility of a rate cut, the upward momentum in gold prices is likely to remain intact in the near term.

Bond Market Updates

Market Commentary: The SGD swap curve bull-steepened yesterday, with the shorter tenors trading 11-15bps lower, while the belly and the longer tenors traded 9-11bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 8bps to 139bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 42bps to 565bps. The HY-IG Index Spread widened 35bps to 426bps. 10Y UST Yields fell 11bps to 1.15%, as Fed Chairman Jerome Powell said COVID-19 “poses evolving risks” to U.S. growth. Several banks also adjusted their Fed calls, hence further underpinning Treasuries. Investors, fearing for a global recession, dumped equities and flocked to safe-haven U.S. treasuries.

New Issues: The Bank of East Asia Limited priced a USD140mn 3-year bond at 3m-US LIBOR+60bps.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	98.132	-0.38%	USD-SGD	1.3932	-0.14%
USD-JPY	107.890	-1.55%	EUR-SGD	1.5362	0.10%
EUR-USD	1.1026	0.23%	JPY-SGD	1.2888	1.24%
AUD-USD	0.6515	-0.82%	GBP-SGD	1.7861	-0.67%
GBP-USD	1.2823	-0.50%	AUD-SGD	0.9071	-1.04%
USD-MYR	4.2150	0.09%	NZD-SGD	0.8702	-1.10%
USD-CNY	6.9920	-0.18%	CHF-SGD	1.4433	0.11%
USD-IDR	14318	2.09%	SGD-MYR	3.0233	0.23%
USD-VND	23240	--	SGD-CNY	5.0093	-0.29%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4880	0.30%	O/N	1.5678	0.25%
2M	-0.3360	0.25%	1M	1.5153	-2.23%
3M	-0.4240	-2.23%	2M	1.5026	-2.16%
6M	-0.3860	-2.16%	3M	1.4628	-3.29%
9M	-0.1940	-3.29%	6M	1.3973	-5.70%
12M	-0.3110	-5.70%	12M	1.3815	-7.29%

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	Prob Hike/Cut	Implied Rate Change	Implied Rate
18/03/2020	-1.191	-119.10%	-0.298	1.098
29/04/2020	-1.894	-70.30%	-0.474	0.923
10/06/2020	-2.545	-65.10%	-0.636	0.76
29/07/2020	-2.884	-33.90%	-0.721	0.675
16/09/2020	-3.081	-19.60%	-0.77	0.626
05/11/2020	-3.18	-10%	-0.795	0.601

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	44.76	-4.9%	Corn (per bushel)	3.6650	0.5%
Brent (per barrel)	50.52	-3.2%	Soybean (per bushel)	8.835	-0.3%
Heating Oil (per gallon)	1.4906	0.1%	Wheat (per bushel)	5.2900	0.0%
Gasoline (per gallon)	1.3955	-1.1%	Crude Palm Oil (MYR/MT)	2,357.0	-5.6%
Natural Gas (per MMBtu)	1.6840	-3.9%	Rubber (JPY/KG)	168.0	-4.4%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,635	0.3%	Gold (per oz)	1,585.7	-3.6%
Nickel (per mt)	12,255	-1.0%	Silver (per oz)	16.665	-6.2%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Equity and Commodity

Index	Value	Net change
DJIA	25,409.36	-357.28
S&P	2,954.22	-24.54
Nasdaq	8,567.37	0.89
Nikkei 225	21,142.96	-805.27
STI	3,011.08	-100.62
KLCI	1,482.64	-22.95
JCI	5,452.70	-82.99
Baltic Dry	535.00	6.00
VIX	40.11	0.95

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.28 (-0.1)	0.91 (-0.15)
5Y	1.28 (-0.09)	0.94 (-0.13)
10Y	1.38 (-0.08)	1.15 (-0.11)
15Y	1.47 (-0.1)	--
20Y	1.52 (-0.09)	--
30Y	1.93 (--)	1.68 (-0.08)

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	7.60	2.05
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	1.58
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Economic Calendar

Date Time		Event		Survey	Actual	Prior	Revised
03/02/2020 07:50	JN	Capital Spending YoY	4Q	-2.50%	-3.50%	7.10%	--
03/02/2020 08:30	ID	Markit Indonesia PMI Mfg	Feb	--	--	49.3	--
03/02/2020 08:30	SK	Markit South Korea PMI Mfg	Feb	--	--	49.8	--
03/02/2020 08:30	TA	Markit Taiwan PMI Mfg	Feb	--	--	51.8	--
03/02/2020 08:30	JN	Jibun Bank Japan PMI Mfg	Feb F	--	--	47.6	--
03/02/2020 09:45	CH	Caixin China PMI Mfg	Feb	46	--	51.1	--
03/02/2020 12:00	ID	CPI YoY	Feb	2.90%	--	2.68%	2.68%
03/02/2020 13:30	AU	Commodity Index SDR YoY	Feb	--	--	-3.60%	--
03/02/2020 16:30	HK	Retail Sales Value YoY	Jan	-20.50%	--	-19.40%	--
03/02/2020 16:55	GE	Markit/BME Germany Manufacturing PMI	Feb F	47.8	--	47.8	--
03/02/2020 17:00	EC	Markit Eurozone Manufacturing PMI	Feb F	49.1	--	49.1	--
03/02/2020 17:30	UK	Markit UK PMI Manufacturing SA	Feb F	51.9	--	51.9	--
03/02/2020 17:30	UK	Mortgage Approvals	Jan	68.0k	--	67.2k	--
03/02/2020 22:45	US	Markit US Manufacturing PMI	Feb F	50.8	--	50.8	--
03/02/2020 23:00	US	ISM Manufacturing	Feb	50.5	--	50.9	--

Source: Bloomberg

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