

Daily Treasury Outlook

3 February 2020

Highlights

Global: All eyes on the Chinese financial markets re-opening today, especially with the first reported death from the coronavirus outside China in the Philippines and China's death toll hit at least 361, albeit China's PBOC plans to inject CNY150b into the money markets. Wall Street declined on Friday, with the S&P500 down by 1.77%, whereas UST bonds rallied to push the 10-year yield down to 1.50%. Other risk assets like crude oil prices also declined on reports that Chinese oil demand had fallen by around 20% or 3 million barrels a day on the coronavirus outbreak also lent a risk-off tone. As we had warned earlier, the January rally is now giving way to a February slump.

Market watch: Asian markets are likely to brace for the return of Chinese financial markets to play catch-up to the risk-off arising from the coronavirus outbreak. The economic data calendar comprises the slew of manufacturing PMIs across US, Europe, UK and Asia including China's Caixin manufacturing PMI and US' manufacturing ISM, Indonesia's CPI and Hong Kong's 4Q19 GDP growth.

For the week ahead, apart from the developing coronavirus outbreak and potential de-risking which could herald future Chinese policy response, watch for the Iowa caucuses starting today, the RBA policy decision tomorrow (where Governor Lowe may have to explain the case for no change if the market majority is right), US President Trump's State of the Union address tomorrow, and Friday's key US' labour market report (namely the nonfarm payrolls, unemployment rate and average wage growth with market consensus tipping 160k, 3.5% and 3.0% mom).

US: The Chicago PMI fell 5.3 points to 42.9, its lowest in four years. Meanwhile, the core PCE deflator rose 0.2% mom in December whilst the employment cost index rose 0.7% qoq in 4Q19.

EU: The regional growth hit a 6-year low of 0.1% qoq sa (1.0% yoy) in 4Q19, down from 0.3% in 3Q19, amid unexpected contractions in France and Italy.

UK: PM Johnson is expected to threaten to walk away from trade talks with the EU.

Singapore: Bank loans growth expanded 3.1% yoy in December, the same pace as in November. The recent expectations survey also showed that a net 12% of manufacturers expect improved business prospects in 1H20, whereas a net weighted 2% of services firms anticipate deteriorating business prospects. MTI Minister Chan warned that the coronavirus may have a much wider and deeper impact on the global economy than SARS. The STB will waive license fees for hotels, travel agents and tourist guides, as well as defray up to 50% of cleaning and disinfection costs of hotels with confirmed/suspected cases. Note 30,000 work pass holders from China have yet to return to Singapore.

Key Market Movements

Equity	Value	% chg
S&P 500	3225.5	-1.8%
DJIA	28256	-2.1%
Nikkei 225	23205	1.0%
SH Comp	2976.5	0.0%
STI	3153.7	-0.5%
Hang Seng	26313	-0.5%
KLCI	1531.1	-0.9%
Currencies	Value	% chg
DX	97.390	-0.5%
USDJPY	108.35	-0.6%
EURUSD	1.1093	0.6%
GBPUSD	1.3206	0.9%
USDIDR	13655	0.0%
USDSGD	1.3648	0.2%
SGDMYR	3.0035	0.1%
Rates	Value	chg (bp)
3M UST	1.54	-1.30
10Y UST	1.51	-7.88
1Y SGS	1.52	1.00
10Y SGS	1.61	1.92
3M LIBOR	1.76	-1.39
3M SIBOR	1.71	-1.89
3M SOR	1.58	6.10
Commodities	Value	% chg
Brent	56.62	-1.2%
WTI	51.56	-1.1%
Gold	1589	0.9%
Silver	18.04	1.1%
Palladium	2288	-0.5%
Copper	5567	-0.4%
BCOM	74.84	-0.4%

Source: Bloomberg

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Major Markets

US: US markets fell sharply on Friday, wiping out January's gains as investors' worries over the impact of the coronavirus outbreak on the global economy grew. The S&P500 index dropped 1.8%. In the week ahead, we expect volatility in the markets as investors continue to be on risk-off mode in the midst of the outbreak that shows no signs of being contained. Key corporate earnings today include Alphabet and Walt Disney.

China: China's central bank said on Sunday ahead of market opening that it will inject CNY1.2 trillion liquidity into the system on Monday via open market operation to ensure liquidity is "reasonably ample" during the outbreak. We think the rare preview of liquidity injection is a way to calm market sentiment. The amount of the net injection isn't huge. The PBOC may want to retain some flexibility, which means it can add more liquidity in the rest of the week if the sentiment is too bad.

Hong Kong: Hong Kong's total loans and advances grew by 6.73% yoy in December 2019. Despite that the HK's trade performance improved in December, with total trade reversing the downtrend and picking up by 0.5% yoy, the trade finance dropped by 0.7% yoy. Moving forward, with easing US-China trade war risks, restoring the trade sentiment gradually, trade finance might improve in January. Nevertheless, we will keep monitoring the impacts of coronavirus on HK's trade performance in the coming months. The loans for use in Hong Kong (excluding trade finance) accelerated to 7.7% yoy, amid easing US-China trade war risks and local social unrest in December, improving the local loan demands. Meanwhile, new mortgage loans picked up by 13.21% yoy in December and drove up the overall loans for use in Hong Kong. In a nutshell, we expect the growth of total loans and advances to see single-digit year-on-year growth in the first half of 2020.

HKD loan-to-deposit ratio rebounded to 90.3% in December 2019 as Hong Kong-dollar deposits declined while Hong Kong-dollar loans stayed unchanged. Moving forward, we expect that the current trend of HKD deposit's distribution might persist in the coming months. As HKD interest rates remained relatively strong in January, it might continue to provide incentives for depositors to hold more HKD fixed deposits. Nevertheless, the percentage share of HKD deposit's composition is unlikely to have drastic change.

Singapore: The STI declined 0.53% to close at 3153.73 on Friday and may take the cue from China whose stock market had been closed since 24 January but re-opens today. STI support is tipped at 3134, followed by 3110. With the bull-steepening in the UST bond market into the month-end as yields declined by 5-9bps, SGS bond yields may also unwind the 3-4bps sell-off seen on Friday.

Malaysia: With less-than-supportive global sentiment, Malaysian assets may be on a more pressured tone today as well. Market may take into account Jan PMI reading of 48.8 as well, a decline in manufacturing sentiment, compared to the breakeven level of 50.0 of last month.

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Indonesia: With less-than-supportive global sentiment, Indonesian assets may be on a more pressured tone today as well. Market will be on the lookout for inflation data this morning as well. Headline inflation is expected to print 2.9% yoy compared to 2.7% the month before. Core is expected to stay around 3.0% yoy.

Bond Market Updates

Market Commentary: The SGD swap curve rose last Friday, with almost all tenors trading around 2bps higher. The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 126bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 8bps to 516bps. The HY-IG Index Spread widened 7bps to 390bps. 10Y UST Yields fell 8bps to 1.51%, due to continued uncertainties regarding the Wuhan coronavirus as investors brace for a likely decline in the Chinese markets on Monday when the onshore financial markets resume following the Lunar New Year break.

New Issues: There were no new issues or mandates.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	97.390	-0.49%	USD-SGD	1.3648	0.18%
USD-JPY	108.350	-0.56%	EUR-SGD	1.5140	0.75%
EUR-USD	1.1093	0.55%	JPY-SGD	1.2592	0.74%
AUD-USD	0.6692	-0.45%	GBP-SGD	1.8020	1.03%
GBP-USD	1.3206	0.86%	AUD-SGD	0.9130	-0.27%
USD-MYR	4.0980	0.21%	NZD-SGD	0.8825	-0.12%
USD-CNY	6.9426	--	CHF-SGD	1.4164	0.82%
USD-IDR	13655	-0.01%	SGD-MYR	3.0035	0.09%
USD-VND	23223	0.19%	SGD-CNY	5.0687	-0.22%

Equity and Commodity

Index	Value	Net change
DJIA	28,256.03	-603.41
S&P	3,225.52	-58.14
Nasdaq	9,150.94	-148.00
Nikkei 225	23,205.18	227.43
STI	3,153.73	-16.95
KLCI	1,531.06	-14.53
JCI	5,940.05	-117.55
Baltic Dry	487.00	-11.00
VIX	18.84	3.35

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4540	-0.90%	O/N	1.5688	1.43%
2M	-0.3360	1.43%	1M	1.6619	0.98%
3M	-0.3930	0.98%	2M	1.7310	-2.11%
6M	-0.3380	-2.11%	3M	1.7511	-1.39%
9M	-0.1940	-1.39%	6M	1.7453	-1.59%
12M	-0.2840	-1.59%	12M	1.8066	-2.55%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.43 (+0.02)	1.31 (-0.1)
5Y	1.44 (+0.02)	1.31 (-0.09)
10Y	1.61 (+0.02)	1.51 (-0.08)
15Y	1.75 (+0.02)	--
20Y	1.87 (+0.02)	--
30Y	2.02 (+0.03)	2.00 (-0.05)

Fed Rate Hike Probability

Meeting	Prob Hike	Prob Cut	0.75-1.00%	1.00-1.25%	1.25-1.50%
18/03/2020	0.00%	28.70%	0.00%	0.00%	28.70%
29/04/2020	0.00%	46.40%	0.00%	7.10%	39.30%
10/06/2020	0.00%	64.00%	2.30%	17.70%	44.00%
29/07/2020	0.00%	73.80%	6.50%	24.80%	41.80%
16/09/2020	0.00%	83.00%	12.90%	30.80%	36.30%
05/11/2020	0.00%	85.80%	15.90%	31.70%	33.10%

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	6.60	0.80
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	1.58
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Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	51.56	-1.1%	Corn (per bushel)	3.8125	0.5%
Brent (per barrel)	58.16	-0.2%	Soybean (per bushel)	8.725	-0.4%
Heating Oil (per gallon)	1.6245	-0.9%	Wheat (per bushel)	5.5375	-1.2%
Gasoline (per gallon)	1.4887	-0.3%	Crude Palm Oil (MYR/MT)	2,640.0	-1.6%
Natural Gas (per MMBtu)	1.8410	0.7%	Rubber (JPY/KG)	161.9	1.2%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,567	-0.4%	Gold (per oz)	1,589.2	0.9%
Nickel (per mt)	12,850	1.8%	Silver (per oz)	18.043	1.1%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Economic Calendar

Date Time		Event		Survey	Actual	Prior	Revised
02/03/2020 08:30	VN	Markit Vietnam PMI Mfg	Jan	--	50.6	50.8	--
02/03/2020 08:30	ID	Markit Indonesia PMI Mfg	Jan	--	49.3	49.5	--
02/03/2020 08:30	SK	Markit South Korea PMI Mfg	Jan	--	49.8	50.1	--
02/03/2020 08:30	TA	Markit Taiwan PMI Mfg	Jan	--	51.8	50.8	--
02/03/2020 08:30	JN	Jibun Bank Japan PMI Mfg	Jan F	--	48.8	49.3	--
02/03/2020 09:45	CH	Caixin China PMI Mfg	Jan	51	--	51.5	--
02/03/2020 12:00	ID	CPI YoY	Jan	2.85%	--	2.72%	--
02/03/2020 16:30	HK	GDP YoY	4Q A	-3.90%	--	-2.90%	--
02/03/2020 17:00	EC	Markit Eurozone Manufacturing PMI	Jan F	47.8	--	47.8	--
02/03/2020 17:30	UK	Markit UK PMI Manufacturing SA	Jan F	49.8	--	49.8	--
02/03/2020 21:00	SI	Purchasing Managers Index	Jan	50	--	50.1	--
02/03/2020 22:45	US	Markit US Manufacturing PMI	Jan F	51.7	--	51.7	--
02/03/2020 23:00	US	Construction Spending MoM	Dec	0.50%	--	0.60%	--
02/03/2020 23:00	US	ISM Manufacturing	Jan	48.5	--	47.2	47.8
02/03/2020 23:00	US	ISM Prices Paid	Jan	51.5	--	51.7	--

Source: Bloomberg

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