

Daily Treasury Outlook

3 March 2020

Highlights

Global: Hopes for a coordinated monetary policy easing: Wall Street bounced overnight on news that the G7 Finance ministers would be having an emergency meeting today to discuss a response to the Covid-19 outbreak. This follows the OECD's downgrade of its 2020 global growth forecast from 2.9% to 2.4% with the warning that a longer-lasting outbreak could result in growth of just 1.5%. ECB's Lagarde also pledged to "stand ready to take appropriate and targeted measures, as necessary and commensurate with the underlying risks." Similar supportive noises from the BOJ and BOE aided the risk recovery. Market players are now anticipating a 50bp cut at the March FOMC meeting and more cuts to follow. The Dow bounced 5.09%, while UST bonds bull-steepened with the 2-year bond yield at 0.91% and the 10-year yield at 1.16%, albeit not before the latter touched a record low of 1.03% intra-day.

Market watch: Asian markets are likely to take a breather from the selling today and play catch up on hopes that central banks would again save the day and stave off increasing downside growth risks. Note the manufacturing PMIs readings yesterday from China's Caixin and Asia were mostly grim as expected. Market focus will be on the RBA and BNM policy meetings today where at least the latter should deliver a 25bp rate cut, but also watch for headlines follow-through on the G7 finance ministers' teleconference. Today's economic data calendar comprises Japan's consumer confidence, Eurozone's CPI/PPI and unemployment rate, and Singapore's manufacturing and electronics PMI. Fed's Mester and ECB's Holzmann are also speaking.

US: The manufacturing ISM fell from 50.9 in January to 50.1 in February, barely escaping the contraction territory after pulling above the 50 handle very recently in January. This likely reflected business concerns about the Covid-19 and its supply chain disruptions that may impact the US economy.

China: Situation of covid-19 continued to improve in China. The number of newly confirmed cases fell to 125, lowest since 21 January before China locked down the city of Wuhan. This may continue to support China's risk sentiment. RMB appreciated against the dollar as a result of weaker dollar in anticipation of possible rate cut.

Singapore: It will be important to watch if the February prints for the manufacturing and electronics succumb to the weight of the covid-19 outbreak and sink below the 50 handle back into contraction territory for February, down from January's 50.3 and 50.1 readings.

Gold: Gold performed a 'dead cat bounce' yesterday, rising 0.24% to \$1589.44/oz after enduring a sharp selloff last Friday of 3.2%. With global risk appetite set to perhaps return briefly this week after the selling bloodbath in risky assets, gold might find itself under pressure this week.

Oil: Brent rose 4.5% to \$51.50/bbl yesterday, consistent with the rebound in most other risky assets. Market participants will be keenly watching this week's OPEC+ meeting to see if the reported 1mbdp production cut will ultimately be fulfilled.

Key Market Movements		
Equity	Value	% chg
S&P 500	3090.2	4.6%
DJIA	26703	5.1%
Nikkei 225	21344	1.0%
SH Comp	2970.9	3.1%
STI	3007.7	-0.1%
Hang Seng	26292	0.6%
KLCI	1466.9	-1.1%
Currencies	Value	% chg
DX	97.360	-0.8%
USDJPY	108.33	0.4%
EURUSD	1.1134	1.0%
GBPUSD	1.2754	-0.5%
USIDR	14265	-0.4%
USDSGD	1.3905	-0.2%
SGDMYR	3.0240	0.0%
Rates	Value	chg (bp)
3M UST	1.19	-7.93
10Y UST	1.16	1.46
1Y SGS	1.55	-1.10
10Y SGS	1.41	2.67
3M LIBOR	1.46	-11.76
3M SIBOR	1.69	-0.02
3M SOR	1.24	-16.50
Commodities	Value	% chg
Brent	51.9	4.5%
WTI	46.75	4.4%
Gold	1589	0.2%
Silver	16.73	0.4%
Palladium	2542	-2.8%
Copper	5700	1.2%
BCOM	72.47	2.1%

Source: Bloomberg

Daily Treasury Outlook

3 March 2020

Major Markets

US: US equity markets rocketed back from the coronavirus sell-off last week and closed above correction territory as news that G7 finance ministers and central bank governors are holding a teleconference to discuss their response to the coronavirus outbreak sparked the rally. The S&P500 index rose by 4.6%, its best one-day performance since 26 Dec 2018. For today, much will hinge on the proposed actions from the G7 teleconference and the markets will likely take cues from there.

Hong Kong: Retail sales decreased consecutively for a whole year and were down by 21.4% yoy in January, mainly due to the social unrest, the faltering economic growth outlook, and the high base caused by the different timing of the Lunar New Year between this year and last year. What's notable is that as social unrest has refrained households from going out which instead boosted the sales of goods in supermarkets (+10.2 yoy). The same might have been true in February when households rushed to store up goods from supermarkets in face of coronavirus outbreak. However, this might have not been able to offset the expectedly significant decline in the sales in other segments as the covid-19 epidemic has further scared off potential visitors while denting local consumption by causing a wave of layoffs and keeping households away from the street. As such, we expect retail sales to show double-digit year-on-year decreases in the coming months and to drop by around 7% in 2020.

Macau: Gaming revenue dropped by a record 87.8% yoy in February as the covid-19 outbreak caused an unprecedented 15-day casino shutdown and scared away potential visitors. Also notable is that gaming revenue has seen negative year-on-year growth for five consecutive months. This indicates that the gaming sector has already lost some momentum since last year due to China's economic slowdown, prolonged policy risk, a relatively strong MOP and the spill-over effect of HK's social unrest. As such, even if the epidemic is to be contained, we may not see a sharp rebound in gaming growth due to two reasons. First, VIP segment will find it hard to regain traction given China's faltering growth outlook and the lingering policy risks. Second, in the absence of new mega entertainment projects, the boost from new infrastructure project to the tourism sector will likely wane due to the high accommodation cost and the relatively strong MOP. In conclusion, we expect gross gaming revenue to drop by around 11.5% yoy in 2020 should the covid-19 epidemic be contained in the near term.

Singapore: The STI was down 0.11% yesterday, falling for the fourth consecutive day as the global coronavirus outbreak continued to weigh on risk sentiment. For today, STI is likely to open stronger today following the strong overnight rally in US equity markets as well as the positive openings in the Nikkei and Kospi.

Daily Treasury Outlook

3 March 2020

Malaysia: Bank Negara is due to announce its MPC decision today. We expect it to cut the OPR by 25 bps to 2.5%, following January's easing. With a double whammy of impacts from virus outbreak and political drama, BNM appears to be the only game in town and would do what it can to help growth. Market will look out for any guidance on rate trajectory beyond today as well to see whether there remains a strong easing bias.

Indonesia: Amid global risk-off sentiment, Indonesian assets had suffered impacts as well, compelling Bank Indonesia to lower RRRs yesterday. FX reserve requirement ratio was cut from 8% to 4%, releasing USD3.2bn additional liquidity, according to the Governor. RRR for banks with trade financing activities was lowered by 50bps starting from April 1, for nine months, to help lower costs for imports and exports activities.

Bond Market Updates

Market Commentary: The SGD swap curve steepened yesterday, with the shorter and the belly tenors trading 1-18bps lower (with the exception of the 10-year tenor trading 1 bps higher), while the longer tenors traded 2-3bps higher. The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 3.5bps to 142bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 8bps to 573bps. The HY-IG Index Spread widened 4bps to 431bps. 10Y UST Yields gained 1.5bps to 1.165%, while the stock market soared, as investors welcomed stimulus measures from global central banks to help ease the economic impact of COVID-19.

New Issues: There were no new issues or mandates.

Daily Treasury Outlook

3 March 2020

Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	97.360	-0.79%	USD-SGD	1.3905	-0.19%
USD-JPY	108.330	0.41%	EUR-SGD	1.5480	0.77%
EUR-USD	1.1134	0.98%	JPY-SGD	1.2836	-0.40%
AUD-USD	0.6537	0.34%	GBP-SGD	1.7732	-0.72%
GBP-USD	1.2754	-0.54%	AUD-SGD	0.9091	0.22%
USD-MYR	4.2030	-0.28%	NZD-SGD	0.8704	0.02%
USD-CNY	6.9609	-0.44%	CHF-SGD	1.4489	0.39%
USD-IDR	14265	-0.37%	SGD-MYR	3.0240	0.02%
USD-VND	23231	-0.04%	SGD-CNY	5.0113	0.04%

Equity and Commodity

Index	Value	Net change
DJIA	26,703.32	1293.96
S&P	3,090.23	136.01
Nasdaq	8,952.17	384.80
Nikkei 225	21,344.08	201.12
STI	3,007.72	-3.36
KLCI	1,466.94	-15.70
JCI	5,361.25	-91.46
Baltic Dry	535.00	--
VIX	33.42	-6.69

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4880	-0.80%	O/N	1.5678	-0.62%
2M	-0.3360	-0.62%	1M	1.5153	-6.59%
3M	-0.4240	-6.59%	2M	1.5026	-9.48%
6M	-0.3860	-9.48%	3M	1.4628	-11.76%
9M	-0.1940	-11.76%	6M	1.3973	-13.60%
12M	-0.3110	-13.60%	12M	1.3815	-15.58%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.22 (-0.05)	0.90 (-0.01)
5Y	1.29 (+0.01)	0.94 (+0.01)
10Y	1.41 (+0.03)	1.16 (+0.01)
15Y	1.50 (+0.03)	--
20Y	1.55 (+0.03)	--
30Y	1.93 (--)	1.72 (+0.05)

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	% Hike/Cut	Implied Rate Change	Implied Rate
18/03/2020	-1.061	-106.1	-0.265	1.134
29/04/2020	-1.785	-72.4	-0.446	0.952
10/06/2020	-2.284	-49.9	-0.571	0.828
29/07/2020	-2.525	-24.1	-0.631	0.767
16/09/2020	-2.763	-23.8	-0.691	0.708
05/11/2020	-2.825	-6.2	-0.706	0.692

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	11.72	4.12
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	1.60
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Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	46.75	4.4%	Corn (per bushel)	3.7475	2.3%
Brent (per barrel)	51.90	2.7%	Soybean (per bushel)	8.905	0.8%
Heating Oil (per gallon)	1.5287	2.6%	Wheat (per bushel)	5.2625	-0.5%
Gasoline (per gallon)	1.5396	10.3%	Crude Palm Oil (MYR/MT)	2,358.0	0.0%
Natural Gas (per MMBtu)	1.7560	4.3%	Rubber (JPY/KG)	168.4	0.2%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,700	1.2%	Gold (per oz)	1,589.4	0.2%
Nickel (per mt)	12,700	3.6%	Silver (per oz)	16.735	0.4%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Economic Calendar

Date Time		Event		Survey	Actual	Prior	Revised
03/03/2020 07:00	SK	GDP YoY	4Q F	2.20%	2.30%	2.20%	--
03/03/2020 07:00	SK	CPI YoY	Feb	1.30%	1.10%	1.50%	--
03/03/2020 07:00	SK	GDP SA QoQ	4Q F	1.20%	1.30%	1.20%	--
03/03/2020 07:00	SK	CPI MoM	Feb	0.00%	0.00%	0.60%	--
03/03/2020 07:50	JN	Monetary Base YoY	Feb	--	3.60%	2.90%	--
03/03/2020 08:30	AU	Building Approvals MoM	Jan	1.00%	--	-0.20%	--
03/03/2020 08:30	AU	BoP Current Account Balance	4Q	A\$2.4b	--	A\$7.9b	--
03/03/2020 08:30	AU	Building Approvals YoY	Jan	2.40%	--	2.70%	--
03/03/2020 11:30	AU	RBA Cash Rate Target	Mar-03	0.63%	--	0.75%	--
03/03/2020 15:00	MA	BNM Overnight Policy Rate	Mar-03	2.50%	--	2.75%	--
03/03/2020 17:30	UK	Markit/CIPS UK Construction PMI	Feb	49	--	48.4	--
03/03/2020 18:00	EC	CPI MoM	Feb P	0.20%	--	-1.00%	--
03/03/2020 18:00	EC	CPI Estimate YoY	Feb	1.20%	--	1.40%	--
03/03/2020 18:00	EC	Unemployment Rate	Jan	7.40%	--	7.40%	--
03/03/2020 21:00	SI	Purchasing Managers Index	Feb	49.5	--	50.3	--

Source: Bloomberg

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