

Daily Treasury Outlook

4 February 2020

Highlights

Global: Wall Street recovered somewhat overnight with the S&P500 up 0.73%, possibly as Chinese policy measures (including a CNY150b injection and a 10bp cut to the 7- and 14-day reverse repo rates) to mitigate the coronavirus' impact on markets reassured market players slightly, albeit Alphabet's revenue missed estimates. China policymakers are supposedly re-evaluating the 2020 growth targets and hoping for flexibility on Phase 1 trade deal pledges where China is committed to buy US\$76.7b in the first year and \$123.3b in the second year. Commodities also remained under pressure with Brent oil prices entering a bear market, with Saudi Arabia contemplating a short-term production cut amid China's declining demand. The 10-year UST bond yield rose 2bps to 1.52%.

Market watch: Asian markets are still likely to tread water today, amid mixed cues from US and China, as well as ongoing coronavirus headlines. Watch for the RBA policy decision (11.30am Spore time) where market consensus is leaning towards a hold for Australia's first monetary policy meeting with a cut to come later, while the results of the Iowa Caucuses may shed light on the 2020 Democratic presidential race, and US president Trump's State of the Union address. The economic data calendar comprises Malaysia's December trade data, HK retail sales, Eurozone's PPI, US' factory orders and durable goods orders.

US: The manufacturing ISM improved from 47.2 in December to a 6-month high of 50.9 in January, aided by new orders (52.0 versus 46.8). However, the prices paid gauge also rose from 51.7 to 53.3, whilst the employment gauge remained subdued at 46.6 versus 45.1.

Singapore: Singapore's manufacturing PMI rose for the second month by 0.2 points to 50.3 in January, marking its 2nd month in expansion territory after six straight months in contraction territory. The electronics PMI also finally popped its head back into expansion territory at 50.1 in January after 14 consecutive months in contraction, due to first-time expansions in new orders, new exports, factory output and order backlog gauges. However, the electronics inventory, finished goods and deliveries gauges saw some slippage compared to December readings, albeit they stayed above the key 50 handle. Going forward, the key to watch will be the supplier deliveries index which both slipped 0.1 point in January to 50.7 for the manufacturing sector and to 50.4 for the electronics sector. While this could be partly due to the factory closures for the Chinese New Year festive holidays, nevertheless the widening Coronavirus outbreak coupled with the travel restrictions and quarantine orders for affected Chinese workers may only start to show up more significantly in subsequent data and some caution may be. For instance, a reported 30,000 work pass holders of Chinese nationality who had left Singapore over the Chinese New Year break have not returned, which may imply some staffing issues, albeit it is unclear if the services firms may be more affected. If there are any disruptions to the regional supply chains due to the coronavirus outbreak, this may also potentially have a domino effect on the domestic manufacturing and electronics PMIs to sustain their uptick in coming months.

Key Market Movements		
Equity	Value	% chg
S&P 500	3248.9	0.7%
DJIA	28400	0.5%
Nikkei 225	22972	-1.0%
SH Comp	2746.6	-7.7%
STI	3116.3	-1.2%
Hang Seng	26357	0.2%
KLCI	1522.0	-0.6%
Currencies	Value	% chg
DXY	97.800	0.4%
USDJPY	108.69	0.3%
EURUSD	1.1060	-0.3%
GBPUSD	1.2995	-1.6%
USDIDR	13742	0.6%
USDSGD	1.3686	0.3%
SGDMYR	3.0076	0.1%
Rates	Value	chg (bp)
3M UST	1.55	1.53
10Y UST	1.53	2.04
1Y SGS	1.52	0.00
10Y SGS	1.60	-1.08
3M LIBOR	1.75	-1.21
3M SIBOR	1.71	0.00
3M SOR	1.57	-0.92
Commodities	Value	% chg
Brent	54.45	-3.8%
WTI	50.11	-2.8%
Gold	1577	-0.8%
Silver	17.68	-2.0%
Palladium	2326	1.7%
Copper	5525	-0.8%
BCOM	74.08	-1.0%

Source: Bloomberg

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Major Markets

US: US markets rebounded from Friday's sharp drop although fears over the impact of the coronavirus outbreak on the global economy continue to linger. The S&P500 index rose 0.7%. For today, we expect investors to remain cautious in the midst of the outbreak that does not seem to be abating soon, albeit risk sentiment seems to be improving slightly. Key corporate earnings today include Ford and Conocophillips.

EU: The wide gap between UK PM Johnson and EU chief negotiator Barnier for a "highly ambitious" future trade deal weighed on the GBP.

China: On Monday, China cut its 7-day reverse repo rate and 14-day reverse repo rate by 10bps in reaction to the sharp sell-off of China's equity market. The rate cut shows China's central bank remained flexible. Although it may be too early to argue that China's monetary stance has changed, we think the priority of monetary policy has clearly shifted to support the growth. Given the near term shock to Chinese economy is likely to be higher than that during the SARS outbreak, it is time for China's monetary policy to play a part.

Macau: Unemployment rate stabilized at 1.7% in 4Q 2019. Employed population increased from 387,600 to 389,800 while labour force participation rate picked up to 70.2% during the same period. Moving forward, as a lagging indicator, overall unemployment rate is expected to stay below 2% for a little while. Nevertheless, with the concerns over spreading of Wuhan virus and negative spill-over effects driven by Hong Kong's social unrest, the business environment of Macau's gaming and tourism industries might continue to deteriorate, in turns trimming the labor demand of the above-mentioned sectors. In addition to faltering economic outlook, the overall labor demand might remain sour. We do not rule out the possibility that the overall unemployment rate might stand above 2% in the coming months.

Gaming revenue dropped by 11.3% yoy in January. The poor gaming performance might be attributed to the impacts of the spreading of Wuhan coronavirus. Affected by the concerns over the Wuhan coronavirus, overall visitor arrivals dropped by 69% during the Chinese New Year holiday, amid the tighter regulations on entry requirement and the fears of virus spreading. Therefore, the gaming revenue continued to take significant hit. Moving forward, we expect that the visitor arrivals and gaming revenue might keep a downtrend in the coming months, mainly affected by the concerns over the spreading of Wuhan coronavirus.

Singapore: The STI declined another 1.19% to close at 3121.95 yesterday, moving in sympathy to the significant sell-off in Chinese equity markets that had re-opened. With the overnight bounce in Wall Street, it remains to be seen if Asian bourses will follow through. STI support is tipped at 3100 with resistance at 3144. With the longer-dated UST bonds buoyed slightly on the back of the better-than-expected manufacturing ISM data, SGS bond yields may also tread water in the interim.

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Hong Kong: GDP dropped by 2.9% yoy in the real terms in 4Q 2019, compared to the decline of 2.8% yoy (revised from 2.9% yoy) in 3Q 2019, amid the sluggish domestic consumption demand and external demand. GDP decreased by 1.2% yoy in the real terms for whole 2019, the first full year decline since 2009. Moving to 1Q 2020, the economic growth might not be able to reverse the downtrend. With the concerns over the spreading of Wuhan virus and prolonged social unrest, trade, retail, catering, tourism and hotel sectors might continue to take a significant hit, in turns lifting the unemployment rate of the above-mentioned sectors. Despite the easing US-China trade war risks and signs of global recovery, it might not be able to fully offset the negative impacts on investment sentiment. Therefore, another year-on-year contraction might be inevitable in 1Q 2020 and we will revise the GDP forecast downwardly for whole 2019 as well.

Malaysia: The relatively more upbeat global market should help support sentiment towards Malaysian assets today, even though Manufacturing PMI dropped to 48.8 from 50 before. Investors will be paying attention to the Dec trade data too, with exports expected to shrink by less than prior month at 2.5% yoy.

Indonesia: The relatively more upbeat global market should help support sentiment towards Indonesian assets today. In terms of data, Jan 2020 CPI was released yesterday, with headline inflation staying tame at 2.68% yoy compared to 2.84% that market expected. Core inflation declined slightly to 2.88% versus 3.0% expected.

Oil: Brent prices fell \$3.71/bbl overnight to \$54.45/bbl yesterday, a 6.4% decline. This followed hot on the heels of a sea of red in Chinese markets yesterday, with the Shanghai Composite falling 7.7% and the Shenzhen Component index declining 8.5%. OPEC+ is convening on an urgent meeting today to discuss measures for arresting the decline in oil due to the coronavirus. We think it is highly likely that they will extend the oil production curbs from March to June 2020.

Bond Market Updates

Market Commentary: The SGD swap curve traded 1-2bps lower yesterday. The Bloomberg Barclays Asia USD IG Bond Index average OAS remain mostly unchanged at 126bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 5bps to 522bps. The HY-IG Index Spread widened 5bps to 396bps. 10Y UST Yields gained 2bps to 1.53%, partly due to an unexpected rebound in January's factory activity in the U.S.

New Issues: GLL IHT Pte. Ltd. (Guarantor: GuocoLand Limited) priced a SGD200mn 3.4% 5.5-year bond, tightening from IPT of 3.5%.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	97.800	0.42%	USD-SGD	1.3686	0.28%
USD-JPY	108.690	0.31%	EUR-SGD	1.5137	-0.02%
EUR-USD	1.1060	-0.30%	JPY-SGD	1.2597	0.04%
AUD-USD	0.6692	--	GBP-SGD	1.7786	-1.30%
GBP-USD	1.2995	-1.60%	AUD-SGD	0.9160	0.33%
USD-MYR	4.1135	0.38%	NZD-SGD	0.8846	0.24%
USD-CNY	7.0215	1.14%	CHF-SGD	1.4170	0.04%
USD-IDR	13742	0.64%	SGD-MYR	3.0076	0.14%
USD-VND	23218	-0.02%	SGD-CNY	5.1324	1.26%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4540	-0.60%	O/N	1.5688	2.49%
2M	-0.3360	2.49%	1M	1.6619	0.69%
3M	-0.3930	0.69%	2M	1.7310	-1.03%
6M	-0.3380	-1.03%	3M	1.7511	-1.21%
9M	-0.1940	-1.21%	6M	1.7453	-1.81%
12M	-0.2840	-1.81%	12M	1.8066	-1.50%

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%	19.00%	0.00%	0.00%	19.00%
29/04/2020	0.00%	38.00%	0.00%	4.50%	33.60%
10/06/2020	0.00%	56.60%	1.30%	13.20%	42.10%
29/07/2020	0.00%	67.50%	4.30%	20.40%	42.40%
16/09/2020	0.00%	78.90%	10.00%	28.10%	38.90%
05/11/2020	0.00%	82.20%	12.80%	29.80%	36.20%

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	50.11	-2.8%	Corn (per bushel)	3.7875	-0.7%
Brent (per barrel)	54.45	-6.4%	Soybean (per bushel)	8.770	0.5%
Heating Oil (per gallon)	1.5779	-2.9%	Wheat (per bushel)	5.5550	0.3%
Gasoline (per gallon)	1.4737	-1.0%	Crude Palm Oil (MYR/MT)	2,670.0	1.1%
Natural Gas (per MMBtu)	1.8190	-1.2%	Rubber (JPY/KG)	152.0	-6.1%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,525	-0.8%	Gold (per oz)	1,576.7	-0.8%
Nickel (per mt)	12,725	-1.0%	Silver (per oz)	17.682	-2.0%

Source: Bloomberg, Reuters
(Note that rates are for reference only)

Equity and Commodity

Index	Value	Net change
DJIA	28,399.81	143.78
S&P	3,248.92	23.40
Nasdaq	9,273.40	122.47
Nikkei 225	22,971.94	-233.24
STI	3,116.31	-37.42
KLCI	1,521.95	-9.11
JCI	5,884.17	-55.88
Baltic Dry	487.00	--
VIX	17.97	-0.87

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.43 (--)	1.35 (+0.04)
5Y	1.43 (-0.01)	1.35 (+0.03)
10Y	1.60 (-0.01)	1.53 (+0.02)
15Y	1.74 (--)	--
20Y	1.86 (-0.01)	--
30Y	2.01 (-0.01)	2.01 (+0.01)

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	6.60	--
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	1.60
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Economic Calendar

Date Time		Event		Survey	Actual	Prior	Revised
02/04/2020 07:00	SK	CPI YoY	Jan	1.00%	1.50%	0.70%	--
02/04/2020 07:00	SK	CPI MoM	Jan	0.30%	0.60%	0.20%	--
02/04/2020 07:50	JN	Monetary Base YoY	Jan	--	2.90%	3.20%	--
02/04/2020 11:30	AU	RBA Cash Rate Target	Feb-04	0.75%	--	0.75%	--
02/04/2020 12:00	MA	Exports YoY	Dec	-2.50%	--	-5.50%	--
02/04/2020 12:00	MA	Trade Balance MYR	Dec	8.90b	--	6.54b	--
02/04/2020 16:30	HK	Retail Sales Value YoY	Dec	-22.60%	--	-23.60%	--
02/04/2020 16:30	HK	Retail Sales Volume YoY	Dec	-24.70%	--	-25.40%	--
02/04/2020 17:30	UK	Markit/CIPS UK Construction PMI	Jan	47.1	--	44.4	--
02/04/2020 18:00	EC	PPI YoY	Dec	-0.70%	--	-1.40%	--
02/04/2020 23:00	US	Durable Goods Orders	Dec F	2.40%	--	2.40%	--
02/04/2020 23:00	US	Factory Orders	Dec	1.20%	--	-0.70%	--
02/04/2020 23:00	US	Durables Ex Transportation	Dec F	-0.10%	--	-0.10%	--
02/04/2020 23:00	US	Cap Goods Orders Nondef Ex Air	Dec F	-0.90%	--	-0.90%	--
02/04/2020 23:00	US	Cap Goods Ship Nondef Ex Air	Dec F	--	--	-0.40%	--

Source: Bloomberg

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