

Daily Treasury Outlook

4 March 2020

Highlights

Global: The Fed unanimously cut the fed funds rate by an emergency 50bps, citing a material change to the US outlook due to covid-19 outbreak. This came earlier than the scheduled March FOMC meeting, but clearly illustrates what we said yesterday about the Fed being cornered by market into a 50bp rate cut. The question that remains is where the Fed will go from here, especially since the G7 meeting of finance chiefs yesterday failed to reveal more than verbal jawboning. Look to the market reaction - Wall Street quickly sold off, while US Treasury bond market got an adrenaline boost, with the 2-year yield falling to 0.7% and the 10-year yield dipping its toes to the 1% handle overnight, and VIX is still hovering around 36 handle. Market is now anticipating another 50bps by June, so Fed rhetoric (eg. Evans today) may take greater prominence on whether the Fed will deliver again. The key to watch will be the demand side of things, since the Fed's over-reaction last night suggests something a bit more sinister at work than purely a virus outbreak and some supply chain disruptions.

Market watch: Asian markets may be in for a choppy session this morning, with Asian bourses likely off to a shaky start. The flight to safety will likely lend a supportive bid to Asian bond markets as they recalibrate to the Fed's move, but look to those with less limited policy room to outperform. Today's economic calendar comprises the services and composite PMIs from China Caixin, Japan, Hong Kong and Spore, Malaysia's trade data, Spore's COE tender results, and US' ADP employment and services/composite PMI. Bank of Canada may also feel the market heat to cut interest rates in the wake of the Fed.

China: China stepped up its support to local government's fiscal position to allow them to retain more revenue to support the expenditure to contain the spread of virus. Meanwhile, China's tax authority also extended the deadline for company to submit the tax reporting to support companies to resume production as soon as possible.

Singapore: Singapore imposed more travel restrictions yesterday to reduce the risk of imported cases. From Wednesday onwards, Singapore will deny entry and transit for visitors who have travel history to Iran, northern Italy or South Korea within the last 14 days, while Stay-Home Notices will be issued to Singapore citizens, permanent residents and long-term pass holders with recent travel history to those countries within the last 14 days.

Gold: Gold rose higher after the Fed's shocking 50bp cut. It closed yesterday at \$1640.90/oz. Upward momentum remains intact and it will not be surprising to see it test the resistance of \$1700/oz in the near term.

Oil: Oil prices rose after OPEC+ Joint Technical Committee put in a supply cut proposal of 600kbpd to 1mbpd ahead of tomorrow's meeting. We think that anything less than 1mbpd supply cut would disappoint the energy market and result in Brent slipping back towards the \$50/bbl handle.

Key Market Movements

Equity	Value	% chg
S&P 500	3003.4	-2.8%
DJIA	25917	-2.9%
Nikkei 225	21083	-1.2%
SH Comp	2992.9	0.7%
STI	3019.6	0.4%
Hang Seng	26285	0.0%
KLCI	1478.6	0.8%
Currencies	Value	% chg
DX	97.153	-0.2%
USDJPY	107.13	-1.1%
EURUSD	1.1173	0.4%
GBPUSD	1.2811	0.4%
USDIDR	14283	0.1%
USDSGD	1.3883	-0.2%
SGDMYR	3.0173	-0.2%
Rates	Value	chg (bp)
3M UST	0.92	-26.80
10Y UST	1.00	-16.42
1Y SGS	1.49	-6.20
10Y SGS	1.46	4.59
3M LIBOR	1.25	-20.90
3M SIBOR	1.63	-5.90
3M SOR	1.03	-21.51
Commodities	Value	% chg
Brent	51.86	-0.1%
WTI	47.18	0.9%
Gold	1641	3.2%
Silver	17.22	2.9%
Palladium	2503	-1.5%
Copper	5667	-0.6%
BCOM	73.19	1.0%

Source: Bloomberg

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Major Markets

US: US equity markets tumbled in a volatile trading session last night despite the Fed announcing an emergency rate cut by 50bps and G7 finance ministers and central bank governors pledging to act when necessary. The S&P500 index fell by 2.81%. Looking ahead, there may be more downside risks in the coming days as the spread of the coronavirus in the US quickens, with more states reporting their first confirmed case.

Singapore: The STI rose for the first time in five sessions yesterday as investors were expecting more stimulus measures by central banks to combat the economic impacts of the coronavirus. The STI rose by 0.39%. The STI is likely to open on a weaker footing today following the sharp drop in US markets overnight and soft openings in Nikkei and ASX.

Malaysia: Bank Negara, in a more formal and scheduled manner, announced its decision to cut the OPR by 25bps to 2.5%, a level last seen about a decade ago. It cited downside risks to global and domestic growth outlooks stemming from the viral outbreak. It continued to note commodities supply weaknesses as well in its decision. The overall dovish tone suggests that more rate cut might be coming.

Indonesia: President Jokowi warned against hoarding of essential items such as food and masks. There have been signs of panic buying in supermarkets as the country reported first two cases of Covid-19. Separately, in a sign of debt market functioning well despite the volatility, the government sold IDR17.5tn of bonds yesterday, exceeding 15tn target. Bids came in at 78.4tn.

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Bond Market Updates

Market Commentary: The SGD swap curve steepened yesterday, with the shorter and the belly tenors trading 4-7bps higher, while the longer tenors traded 0-1bps higher (with the exception of the 20-year tenor trading 2 bps lower). The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 2bps to 144bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 4bps to 569bps. The HY-IG Index Spread tightened 6bps to 425bps. 10Y UST Yields fell 16bps to a record low of 1.0%, despite the Federal Reserve cutting rates by 50bps in an emergency move to combat the global economic risks brought about by the outbreak of COVID-19. 10Y UST Yields at one point fell below 1.0% intra-day for the first time.

New Issues: Jinxinyue Development (BVI) Co., Limited (Keepwell provider: Ji'an Jinggangshan Development Zone Jinluling Economic Development Co., Ltd) priced a USD200mn 3-year bond at 4.0%. CNAC (HK) Finbridge Company Limited (Guarantor: China National Chemical Corporation Limited) priced a USD200mn re-tap of its HAOHUA 3.375%'24s at 2.65%. Gemstones International Ltd (Guarantors: LVGEM (China) Real Estate Investment Company Ltd. and certain of its offshore subsidiaries) priced a USD450mn 3-year bond at 12.0%, which comprises of USD222.6mn new notes and USD227.4mn exchange notes. Korea Development Bank Singapore priced a USD100mn 2-year bond at 3m-US LIBOR+33.5bps.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	97.153	-0.21%	USD-SGD	1.3883	-0.16%
USD-JPY	107.130	-1.11%	EUR-SGD	1.5511	0.20%
EUR-USD	1.1173	0.35%	JPY-SGD	1.2960	0.97%
AUD-USD	0.6584	0.72%	GBP-SGD	1.7783	0.29%
GBP-USD	1.2811	0.45%	AUD-SGD	0.9139	0.53%
USD-MYR	4.2065	0.08%	NZD-SGD	0.8710	0.07%
USD-CNY	6.9676	0.10%	CHF-SGD	1.4512	0.16%
USD-IDR	14283	0.13%	SGD-MYR	3.0173	-0.22%
USD-VND	23221	-0.04%	SGD-CNY	5.0224	0.22%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4880	-1.60%	O/N	1.5746	0.69%
2M	-0.3360	0.69%	1M	1.3558	-15.95%
3M	-0.4340	-15.95%	2M	1.3049	-19.78%
6M	-0.4000	-19.78%	3M	1.2538	-20.90%
9M	-0.1940	-20.90%	6M	1.1984	-19.89%
12M	-0.3270	-19.89%	12M	1.1539	-22.76%

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	% Hike/Cut	Implied Rate Change	Implied Rate
18/03/2020	-1.649	-164.9	-0.412	0.769
29/04/2020	-2.167	-51.7	-0.542	0.64
10/06/2020	-2.498	-33.1	-0.624	0.557
29/07/2020	-2.747	-24.9	-0.687	0.495
16/09/2020	-2.896	-14.9	-0.724	0.458
05/11/2020	-2.965	-6.9	-0.741	0.441

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	47.18	0.9%	Corn (per bushel)	3.8175	1.9%
Brent (per barrel)	51.86	-0.1%	Soybean (per bushel)	8.930	0.3%
Heating Oil (per gallon)	1.5330	0.3%	Wheat (per bushel)	5.2875	0.5%
Gasoline (per gallon)	1.5313	-0.5%	Crude Palm Oil (MYR/MT)	2,405.0	2.0%
Natural Gas (per MMBtu)	1.8000	2.5%	Rubber (JPY/KG)	172.5	2.4%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,667	-0.6%	Gold (per oz)	1,640.9	3.2%
Nickel (per mt)	12,560	-1.1%	Silver (per oz)	17.219	2.9%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Equity and Commodity

Index	Value	Net change
DJIA	25,917.41	-785.91
S&P	3,003.37	-86.86
Nasdaq	8,684.09	-268.08
Nikkei 225	21,082.73	-261.35
STI	3,019.56	11.84
KLCI	1,478.64	11.70
JCI	5,518.63	157.38
Baltic Dry	539.00	--
VIX	36.82	3.40

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.24 (+0.02)	0.70 (-0.2)
5Y	1.32 (+0.03)	0.74 (-0.2)
10Y	1.46 (+0.05)	1.00 (-0.16)
15Y	1.57 (+0.07)	--
20Y	1.62 (+0.08)	--
30Y	1.82 (+0.07)	1.61 (-0.11)

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	10.50	-0.22
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	1.59
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Economic Calendar

Date Time		Event		Survey	Actual	Prior	Revised
03/04/2020 08:30	AU	GDP SA QoQ	4Q	0.40%	--	0.40%	--
03/04/2020 08:30	AU	GDP YoY	4Q	2.00%	--	1.70%	--
03/04/2020 08:30	HK	Markit Hong Kong PMI	Feb	--	--	46.8	--
03/04/2020 08:30	JN	Jibun Bank Japan PMI Services	Feb F	--	--	46.7	--
03/04/2020 08:30	JN	Jibun Bank Japan PMI Composite	Feb F	--	--	47	--
03/04/2020 09:45	CH	Caixin China PMI Composite	Feb	--	--	51.9	--
03/04/2020 09:45	CH	Caixin China PMI Services	Feb	48	--	51.8	--
03/04/2020 16:55	GE	Markit/BME Germany Composite PMI	Feb F	51.1	--	51.1	--
03/04/2020 17:00	EC	Markit Eurozone Composite PMI	Feb F	51.6	--	51.6	--
03/04/2020 17:00	EC	Markit Eurozone Services PMI	Feb F	52.8	--	52.8	--
03/04/2020 17:30	UK	Markit/CIPS UK Services PMI	Feb F	53.3	--	53.3	--
03/04/2020 20:00	US	MBA Mortgage Applications	Feb-28	--	--	1.50%	--
03/04/2020 21:15	US	ADP Employment Change	Feb	170k	--	291k	--
03/04/2020 23:00	US	ISM Non-Manufacturing Index	Feb	54.9	--	55.5	--
03/04/2020 23:00	CA	Bank of Canada Rate Decision	Mar-04	1.50%	--	1.75%	--

Source: Bloomberg

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