

Daily Treasury Outlook

6 March 2020

Highlights

Global: The Fed's emergency 50bps rate cut only provided temporary salve and Wall Street tanked again overnight and UST bonds saw a choppy session amid a bull flattening rally as Covid-19 concerns re-emerged, especially for the US. The S&P500 closed down 3.39%, with software, media and capital stocks driving the declines, while the flight to safety drove the bull-flattening in the UST bonds with the 10-year bond yield down to a record low of 0.898% and the 30-year real yield below 0% for the first time. Meanwhile, OPEC has proposed a 1.5m barrel output cut, pending Russia's decision. Separately, Elizabeth Warren has dropped out of the US presidential race. If financial markets persist in a free-fall, the Fed may find itself under pressure to cut again (another 50bps?) at the upcoming 18 March FOMC meeting. Note Fed's Kaplan (voter) opined "I am going to be watching very, very carefully the path of diagnosed cases...to judge what's appropriate and whether we can wait longer". At this juncture, the rapid deterioration of the US sentiments as the cases of Covid-19 grow suggests that recession fears will continue to drive the Fed's playbook and we may be closer to the 0% bound for the US faster than expected.

Market watch: With the return to a risk-off tone, Asian markets may tumble following the elevated market volatility seen in the US session overnight. Today's economic data calendar also comprises of FX reserves from Indonesia and Malaysia, German factory orders, Taiwan's CPI, and US' nonfarm payrolls, unemployment rate and average hourly earnings (consensus forecasts: 175k, 3.6% and 0.3% mom where any downside surprises will exaggerate Covid-19 market fears again). Fed's Evans, Mester, Bullard, Williams and George are also speaking and may weigh in on what quantum of rate cuts to expect for the March FOMC.

US: Initial jobless claims fell 3k to 216k, while January factory orders fell more than expected by 0.5% (-0.1% excluding transportation).

EZ: Italy has doubled the amount of Covid-19 stimulus to EUR7.5b, exceeding its budget deficit commitments by EUR6.35b (0.35% of GDP).

Japan: Household spending fell for the fourth consecutive month by 3.9% yoy following the sales tax hike in October and even before the Covid-19 impact, which may pressure PM Abe to implement additional stimulus. Chinese president Xi has cancelled his visit to Japan.

Singapore: January retail sales shrank a worse than expected 5.3% yoy (lowest since June 0219), but actually expanded marginally by 0.1% mom. Excluding motor vehicle sales, retail sales rose 0.6%. Motor vehicle sales tanked 33.6%, accompanied by department store sales (-6.9%), furniture & household equipment (-16.0%) and optical goods & books (-9.4%). Since the ban on all new visitor arrivals from China started on 31 January, and the Singapore government raised the Dorscon level from yellow to orange on 7 February, the February retail sales print may be even worse, with double digit declines possible towards the end of Q1. This marked the 12th consecutive contractions and may extend till August.

Key Market Movements

Equity	Value	% chg
S&P 500	3023.9	-3.4%
DJIA	26121	-3.6%
Nikkei 225	21329	1.1%
SH Comp	3071.7	2.0%
STI	3018.3	-0.2%
Hang Seng	26768	2.1%
KLCI	1491.0	0.1%
Currencies	Value	% chg
DX	96.820	-0.5%
USDJPY	106.16	-1.3%
EURUSD	1.1237	0.9%
GBPUSD	1.2954	0.6%
USDIDR	14175	0.4%
USDSGD	1.383	-0.1%
SGDMYR	3.0008	-0.6%
Rates	Value	chg (bp)
3M UST	0.61	-9.95
10Y UST	0.91	-14.02
1Y SGS	1.20	-25.60
10Y SGS	1.35	-0.36
3M LIBOR	1.00	-31.36
3M SIBOR	1.58	-4.79
3M SOR	0.94	-14.13
Commodities	Value	% chg
Brent	49.99	-2.2%
WTI	45.9	-1.9%
Gold	1672	2.2%
Silver	17.44	1.3%
Palladium	2545	0.1%
Copper	5674	-0.2%
BCOM	72.68	-0.7%

Source: Bloomberg

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Major Markets

US: US equity markets plunged last night, giving up most of their gains from Thursday's session as fears over a coronavirus-induced slowdown in the global economy continued to grip markets. The S&P500 index fell by 3.4%. Looking ahead, we expect investors to remain risk-off as the US records more confirmed coronavirus infections and as the virus continues to spread in Europe.

Canada: BOC governor Poloz warned that "there is a real risk that business and consumer confidence will erode further" after the central bank cut 50 bps recently.

China: China's Commerce Ministry said that the retail sales of 1000 key retailers it monitored rebounded by 5.6% in the second half of Feb from the trough in mid-Feb. In addition, Guangdong province unveiled its key projects for 2020 with estimated CNY5.9 trillion total investment amount.

Singapore: The STI closed down again yesterday, losing 0.2% at closing as losses across the board largely outweighed gains in the REIT sector. The losses came despite a strong performance from Wall Street the night before; given yet another sea of red in US equities yesterday, it is likely the selling on Singapore equities will continue today. The 3000 handle on the STI is a crucial support to watch out for.

Malaysia: Malaysia's head of the anti-corruption agency Latheefa Koya has reportedly resigned yesterday. She was appointed into the role last year by previous PM Mahathir Mohamad, and has overseen a number of high-profile investigations into graft cases allegedly involving Najib Razak and UMNO president Ahmad Zahid Hamidi. UMNO is part of the coalition supporting the new PM, Muhyiddin Yassin, now.

Indonesia: Economics Minister, Airlangga Hartarto, met with heads of major SOE banks to urge them to lower interest rates and boost lending to sectors hit by the virus. Banks should pass on the benefits of the lower policy rates and RRR cuts done by the central bank, he reportedly added. Credit growth has remained sluggish, growing by just 6.1% in 2019.

Oil: Oil prices sunk again yesterday, with Brent closing at \$49.99/bbl on Russia's continued hesitation towards further oil production cuts. OPEC has proposed a total of 1.5mbpd to be reduced across the bloc, with Russia taking on a 500kbpd reduction and OPEC performing the remaining 1mbpd. It still remains to be seen if Russia is agreeable to the proposal and they are due for a decision by the end of today. If Russia fails to agree to the proposal, it is unlikely OPEC will go ahead with its share of 1mbpd supply cut, leaving the market heavily oversupplied during this coronavirus episode and further depressing crude oil prices.

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Bond Market Updates

Market Commentary: The SGD swap curve steepened yesterday, with the shorter tenors trading 0-4bps lower, while the belly and the longer tenors traded 1-3bps higher (with the exception of the 5-year tenor trading 1 bps lower). The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 145bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 1bps to 573bps. The HY-IG Index Spread tightened 2bps to 428bps. 10Y UST Yields fell 14bps to 0.91%, and at one point reached an intra-day record low of 0.898%, as risk aversion dragged stocks lower. S&P fell 3.4% while safe havens such as gold, JPY and CHF all rallied. Investors are still worried about the global economic impact of COVID-19 as workers around the globe are asked to work from home.

New Issues: Haitong International Finance Holdings 2015 Limited (Guarantor: Haitong Securities Co.,Ltd.) priced a USD670mn 5-year bond at T+142.5bps, tightening from IPT of T+180bps area. MCC Holding (Hong Kong) Corporation Limited (Guarantor: Metallurgical Corporation of China Ltd.) priced a USD400mn PERPNC3 at 3.25%, tightening from IPT of 3.55% area. Lodha Developers International Ltd. (Guarantors: Macrotech Developers Limited and Lodha Developers UK limited) priced a USD200mn 3NC1 bond at 14%, widening from IPT of 13% area.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	96.820	-0.53%	USD-SGD	1.3830	-0.12%
USD-JPY	106.160	-1.27%	EUR-SGD	1.5543	0.80%
EUR-USD	1.1237	0.91%	JPY-SGD	1.3027	1.16%
AUD-USD	0.6614	-0.20%	GBP-SGD	1.7915	0.50%
GBP-USD	1.2954	0.64%	AUD-SGD	0.9147	-0.32%
USD-MYR	4.1630	-0.38%	NZD-SGD	0.8716	-0.06%
USD-CNY	6.9361	0.17%	CHF-SGD	1.4627	1.09%
USD-IDR	14175	0.44%	SGD-MYR	3.0008	-0.55%
USD-VND	23215	0.02%	SGD-CNY	5.0066	0.06%

Equity and Commodity

Index	Value	Net change
DJIA	26,121.28	-969.58
S&P	3,023.94	-106.18
Nasdaq	8,738.60	-279.49
Nikkei 225	21,329.12	229.06
STI	3,018.27	-6.76
KLCI	1,491.03	1.08
JCI	5,638.13	-12.01
Baltic Dry	562.00	--
VIX	39.62	7.63

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.5020	0.30%	O/N	1.0878	-48.79%
2M	-0.3360	-48.79%	1M	1.0163	-36.05%
3M	-0.4680	-36.05%	2M	1.0191	-35.65%
6M	-0.4180	-35.65%	3M	1.0006	-31.36%
9M	-0.1940	-31.36%	6M	0.9889	-26.31%
12M	-0.3590	-26.31%	12M	0.9675	-27.81%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.06 (-0.08)	0.60 (-0.1)
5Y	1.16 (-0.07)	0.68 (-0.1)
10Y	1.35 (-)	0.91 (-0.14)
15Y	1.51 (+0.01)	--
20Y	1.59 (+0.02)	--
30Y	1.78 (+0.01)	1.54 (-0.16)

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	% Hike/Cut	Implied Rate Change	Implied Rate
18/03/2020	-2.112	-211.2	-0.528	0.653
29/04/2020	-2.816	-70.3	-0.704	0.478
10/06/2020	-3.22	-40.4	-0.805	0.371
29/07/2020	-3.366	-14.6	-0.841	0.338
16/09/2020	-3.527	-16.1	-0.882	0.297
05/11/2020	-3.448	7.9	-0.862	0.312

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	7.02	-0.08
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	1.23
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Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	45.90	-1.9%	Corn (per bushel)	3.8450	-0.6%
Brent (per barrel)	49.99	-2.2%	Soybean (per bushel)	8.890	-1.1%
Heating Oil (per gallon)	1.4885	-2.9%	Wheat (per bushel)	5.2425	0.5%
Gasoline (per gallon)	1.5218	-2.2%	Crude Palm Oil (MYR/MT)	2,532.0	1.2%
Natural Gas (per MMBtu)	1.7720	-3.0%	Rubber (JPY/KG)	171.3	1.2%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,674	-0.2%	Gold (per oz)	1,672.2	2.2%
Nickel (per mt)	12,890	1.7%	Silver (per oz)	17.435	1.3%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Economic Calendar

Date Time		Event		Survey	Actual	Prior	Revised
03/06/2020 07:30	JN	Labor Cash Earnings YoY	Jan	0.20%	1.50%	0.00%	-0.20%
03/06/2020 08:30	AU	Retail Sales MoM	Jan	0.00%	--	-0.50%	--
03/06/2020 11:00	ID	Foreign Reserves	Feb	--	--	\$131.70b	--
03/06/2020 15:00	GE	Factory Orders MoM	Jan	1.30%	--	-2.10%	--
03/06/2020 15:00	MA	Foreign Reserves	Feb-28	--	--	\$104.3b	--
03/06/2020 15:30	TH	Foreign Reserves	Feb-28	--	--	\$228.6b	--
03/06/2020 16:00	TA	CPI YoY	Feb	0.65%	--	1.85%	--
03/06/2020 21:30	CA	Unemployment Rate	Feb	5.60%	--	5.50%	--
03/06/2020 21:30	US	Change in Nonfarm Payrolls	Feb	175k	--	225k	--
03/06/2020 21:30	US	Unemployment Rate	Feb	3.60%	--	3.60%	--
03/06/2020 21:30	CA	Net Change in Employment	Feb	11.0k	--	34.5k	--
03/06/2020 21:30	US	Trade Balance	Jan	-\$46.1b	--	-\$48.9b	--
03/06/2020 21:30	US	Change in Manufact. Payrolls	Feb	-3k	--	-12k	--
03/06/2020 21:30	CA	Int'l Merchandise Trade	Jan	-0.78b	--	-0.37b	--
03/06/2020 23:00	US	Wholesale Inventories MoM	Jan F	-0.20%	--	-0.20%	--

Source: Bloomberg

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