

Daily Treasury Outlook

9 April 2020

Highlights

Global: Global risk sentiments improved overnight on hints that Russia may be ready to cut its oil output by 1.6mbpd and Algeria confirmed that the OPEC+ meeting will proceed today and consider a 10mbpd cut. The March FOMC minutes revealed that the worst case scenario envisaged a recovery only in 2021, while US health officials continue to talk about re-opening the US economy in the coming weeks. The S&P500 gained 3.38% overnight to edge back into bull-market territory with a 23% rally from its 23 March low, while VIX retreated to 43. UST bonds also traded mixed with a steepening bias and the 10-year bond yield rose 5bps to 0.77% to digest the latest bond auction supply ahead of the holiday-shortened week. There is a \$90bn four-week bill and \$70bn eight-week bill auction today. Separately, the WTO warned that global trade could contract 32% this year.

Market watch: Asian markets may open with a firmer tone this morning, but investors may prefer not to chase too much ahead of the long Easter weekend. Today's market focus will be on the BOK policy rate decision which is likely unchanged at 0.75%. The economic data calendar comprises of UK' industrial production, trade data from UK and Germany, Japan's machine tool orders, US' initial jobless claims, PPI and University of Michigan sentiment. Fed's Powell is speaking today and may shed light on the Fed's intentions ahead.

US: The total number of Covid-19 infections has crossed 400,000 while MBA mortgage applications slumped 17.9% for the week ending 3 April. Meanwhile, Bernie Sanders has thrown in the towel on his presidential campaign, leaving Joe Biden as the resumed Democratic Party's presidential nominee.

EU: European finance ministers failed to agree on a coordinated policy response.

UK: PM Johnson is said to be improving in intensive care while the country's lockdown may be extended with a record 938 deaths in the 24 hour period.

Singapore: IMDA will bolster telecommunications infrastructure to ensure consistent Internet services island-wide to facilitate work and study from home during the one-month circuit breaker.

Oil: Oil prices are receiving a massive boost on news that Russia is ready to cut production by up to 1.6mbpd, according to Russia's energy minister Alexander Novak. Algeria has also said that the OPEC+ coalition will discuss a "massive output reduction" in today's meeting, with 10-15mbpd of combined output cuts a possibility. Russia's public commitment was important going into this meeting because their reluctance to cut output in March precipitated the price war. Both Saudi Arabia and Russia, however, would still want the US to take part in this exercise in one form or another. WTI has since risen 11.1% at time of writing since its close at \$23.63/bbl on Wednesday; Brent has risen 5.9% in the same period.

Key Market Movements		
Equity	Value	% chg
S&P 500	2750.0	3.4%
DJIA	23434	3.4%
Nikkei 225	19353	2.1%
SH Comp	2815.4	-0.2%
STI	2539.4	-1.3%
Hang Seng	23970	-1.2%
KLCI	1361.4	-0.6%
Currencies	Value	% chg
DXY	100.119	0.2%
USDJPY	108.83	0.1%
EURUSD	1.0858	-0.3%
GBPUSD	1.2383	0.4%
USIDDR	16250	0.3%
USDSGD	1.4258	0.2%
SGDMYR	3.0470	0.0%
Rates	Value	chg (bp)
3M UST	0.16	4.83
10Y UST	0.77	6.00
1Y SGS	0.80	1.10
10Y SGS	1.10	-0.79
3M LIBOR	1.32	-3.25
3M SIBOR	0.99	0.20
3M SOR	1.05	2.32
Commodities	Value	% chg
Brent	32.84	3.0%
WTI	25.09	6.2%
Gold	1646	-0.1%
Silver	14.96	-0.4%
Palladium	2168	-0.7%
Copper	5003	-0.7%
BCOM	63.15	-0.1%

Source: Bloomberg

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Major Markets

US: US markets surged overnight, as risk sentiment improved on the back of a potential increase in oil prices and a possible stabilization in the coronavirus outbreak in the US. The S&P500 index ended 3.41% higher. For today, investors will be looking out for the weekly jobless claims release, which will provide a clearer indication of the damage the outbreak has done to the economy.

China: In the latest politburo meeting yesterday, Chinese President Xi Jinping reiterated to resume production and activity against the backdrop of containing the virus.

Hong Kong: The government announced the second round of relief fund, totaling HK\$137.5 billion. This adds to the previous two rounds of stimulus measures will amount to HK\$287.5 billion, about 10% of GDP. The 2020/21 budget deficit will widen to HK\$276.6 billion, about 9.5% of GDP. In particular, the relief fund focuses mainly on safeguarding jobs by launching HK\$80 billion unprecedented employment support scheme. This includes wage subsidy for employers making MPF contributions in private sector and one-off cash subsidy for the self-employed MPF contributors. Meanwhile, the government will enhance the CSSA for the unemployed and create 30,000 time-limited jobs. Aside from saving jobs, the government will support a wider range of struggling industries, including earmarking HK\$21 billion to support 16 sectors not covered by the first round of anti-epidemic fund, such as aviation, tutorial centers and school bus operators. Besides, the government will enhance the SME Financing Guarantee Scheme, increase rental concessions, and extend the waiver of water and sewage charges. Furthermore, Airport Authority will announce HK\$2 billion measures for aviation industry.

The new measures may help to prevent unemployment from worsening rapidly, which is important to an economy with private consumption taking up over 65% of total GDP. In addition, the support to the hard-hit sectors and the SMEs will ease their huge cash-flow pressure and therefore buy some time for them to survive the coronavirus outbreak. The government estimates that the four rounds of stimulus measures announced since last September will provide a 5% buffer to the GDP growth. We also believe that the fiscal stimulus will help mitigate the downside pressure on growth but will not be able to reverse the downturn, especially if the Covid-19 pandemic persists for longer. As such, we hold our 2020 GDP growth forecast unchanged at -2.1%.

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Macau: The government announced second round of relief measures to combat the virus, totaling MOP10 billion and aiming to save jobs and tide hard-hit sectors over. This will bring the budget deficit up to MOP48.95 billion, over 10% of GDP. In particular, for the employees, the government will provide three-month wage subsidy totaling MOP15,000 for all qualified local employees. Meanwhile, training allowance will cover both unemployed and the employed. For the self-employed including taxi driver and hawkers, there will be one-off cash subsidy and interest subsidy. For companies, there will be one-off cash subsidy as well. Companies receiving subsidy must pledge not to lay off employees in 6 months. Finally, for households, on top of the previous MOP3,000 spending vouchers, there will be additional MOP5,000 handed out during August to December. The new measures are expected to support those SMEs under huge cashflow pressure and to save jobs as unemployment rate has surged to a nearly two-year high of 1.9%. Also, the spending vouchers may render some support to local consumption which has been disrupted by covid-19 outbreak and suppressed by concern about job uncertainty. However, due to the over-reliance on external demand, Macau's economy may not be able to escape from a second consecutive year of recession in 2020 even with the relief measures.

Taiwan: The trade performance surprised on the upside in March. Despite that exports dropped by 0.6% yoy while the growth of imports decelerated to 0.5% yoy, the data still stood above market's estimates. Nevertheless, affected by the travel restrictions and social distancing measures amid the pandemic, consumption, investment and manufacturing activities took a heavy toll. Therefore, global trade activities slowed down significantly. Moving forward, despite that global supply chain showed gradual recovery, external demands remained sluggish amid global lockdown activities. Therefore, the trade performance is expected to be muted in the coming months.

CPI was merely unchanged in March, declining by 0.01% yoy. It was mainly attributed to weaker inflation of fuels and lubricants (-16.96% yoy) amid the drop in international oil prices. Meanwhile, affected by the epidemic and rising travel restrictions, entertainment expenses declined by 1.01% yoy. Moving forward, we expect that the inflation will remain muted in the coming months, amid the sluggish oil prices and tardy economic activities affected by epidemic and rising travel restrictions.

In terms of relief measures, Ministry Of Finance announced that the tax rebate will antedate in June with the amount of TWD 45.5 billion and expected that 2.94 million units will be benefited.

Singapore: The STI declined 1.26% to close at 2539.44 yesterday but may trade with a firmer tone today amid stronger overnight signals from Wall Street. With the UST bond market losing its appeal as a safe-haven, SGS bonds may also flounder.

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Indonesia: Bank Indonesia's Governor Perry Warjiyo said that he expects capital inflows to be strong in Q4 when the coronavirus pandemic eases, even as he acknowledges that there will be "fluctuations" in the quarters leading to that. He added that the central bank is ready to ease more either through rate cut or lower RRR.

Malaysia: Moody's, the credit rating agency, affirmed Malaysia's A3 sovereign ratings with a stable outlook, despite forecasting its budget deficit to balloon to 4.9% of GDP in 2020, compared to 4.0% expected by the government and 3.4% of last year. Growth is expected to fall to 0.5%. It said that Malaysia's credit profile is underpinned by diversified, competitive economy, ample natural resources and strong medium-term growth prospects.

Bond Market Updates

Market Commentary: The SGD swap curve mostly fell yesterday, with the shorter and the belly tenors trading 0-4bps lower (with the exception of the 1-year tenor trading around 2bps higher), while the longer tenors traded 0-7bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 2bps to 274bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 8bps to 1116bps. The HY-IG Index Spread tightened 10bps to 843bps. Flows in SGD corporates were heavy, with flows in UBS 4.85%-PERPs, HSBC 4.7%-PERPs, CMZB 4.2%'28s and BREAD 4%'23s. 10Y UST Yields gained 6bps to 0.77% by the end of the day, due to reports that Russia is ready to cut oil production and an announcement that Trump Administration's request to help small businesses would be backed by the Democratic leaders in the U.S. Congress.

New Issues: Shinhan Bank priced a USD500mn 5-year bond at 3m-US LIBOR+170bps, tightening from IPT of US-3m LIBOR+210bps area. The Emirate of Abu Dhabi priced a USD7bn deal across three tranches: (1) a USD2bn 5-year bond at T+220bps, (2) a USD2bn 10-year bond at T+240bps, and (3) a USD3bn 30-year bond at 4.1%, tightening from IPT of T+265bps, T+285bps, and 4.55% area respectively.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	100.119	0.22%	USD-SGD	1.4258	0.18%
USD-JPY	108.830	0.06%	EUR-SGD	1.5481	-0.14%
EUR-USD	1.0858	-0.31%	JPY-SGD	1.3099	0.11%
AUD-USD	0.6230	0.97%	GBP-SGD	1.7660	0.62%
GBP-USD	1.2383	0.41%	AUD-SGD	0.8883	1.17%
USD-MYR	4.3465	0.07%	NZD-SGD	0.8566	0.72%
USD-CNY	7.0658	0.29%	CHF-SGD	1.4667	-0.10%
USD-IDR	16250	0.31%	SGD-MYR	3.0470	0.03%
USD-VND	23527	0.27%	SGD-CNY	4.9582	0.10%

Equity and Commodity

Index	Value	Net change
DJIA	23,433.57	779.71
S&P	2,749.98	90.57
Nasdaq	8,090.90	203.64
Nikkei 225	19,353.24	403.06
STI	2,539.44	-32.45
KLCI	1,361.39	-8.53
JCI	4,626.70	-151.94
Baltic Dry	596.00	--
VIX	43.35	-3.35

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4060	1.20%	O/N	0.0770	0.25%
2M	-0.3360	0.25%	1M	0.8635	-5.78%
3M	-0.2930	-5.78%	2M	1.0991	-1.09%
6M	-0.2320	-1.09%	3M	1.3199	-3.25%
9M	-0.1940	-3.25%	6M	1.2245	-1.38%
12M	-0.1220	-1.38%	12M	1.0448	0.21%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	0.65 (+0.01)	0.25 (-0.01)
5Y	0.77 (--)	0.47 (+0.01)
10Y	1.10 (-0.01)	0.77 (+0.06)
15Y	1.35 (-0.01)	--
20Y	1.49 (-0.01)	--
30Y	1.51 (-0.01)	1.38 (+0.08)

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	% Hike/Cut	Implied Rate Change	Implied Rate
29/04/2020	0.103	10.3	0.026	0.082
10/06/2020	0.093	-1	0.023	0.08
29/07/2020	0.083	-1	0.021	0.077
16/09/2020	0.047	-3.6	0.012	0.068
05/11/2020	0.065	1.8	0.016	0.073
16/12/2020	0.069	0.3	0.017	0.074

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	16.70	0.10
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	0.01
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Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	25.09	6.2%	Corn (per bushel)	3.3000	-0.5%
Brent (per barrel)	32.84	3.0%	Soybean (per bushel)	8.545	0.0%
Heating Oil (per gallon)	1.0107	-1.6%	Wheat (per bushel)	5.4825	-0.2%
Gasoline (per gallon)	0.6780	4.6%	Crude Palm Oil (MYR/MT)	2,433.0	1.7%
Natural Gas (per MMBtu)	1.7830	-3.7%	Rubber (JPY/KG)	138.7	1.2%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,003	-0.7%	Gold (per oz)	1,646.1	-0.1%
Nickel (per mt)	11,507	0.3%	Silver (per oz)	14.960	-0.4%

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

Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
04/09/2020	SK BoK 7-Day Repo Rate	Apr-09	0.75%	--	0.75%
04/09/2020 14:00	UK Industrial Production MoM	Feb	0.10%	--	-0.10%
04/09/2020 14:00	UK Manufacturing Production MoM	Feb	0.10%	--	0.20%
04/09/2020 14:00	UK Trade Balance GBP/Mn	Feb	£1000m	--	£4212m
04/09/2020 14:00	UK Industrial Production YoY	Feb	-3.00%	--	-2.90%
04/09/2020 14:00	JN Machine Tool Orders YoY	Mar P	--	--	-29.60%
04/09/2020 20:00	IN Industrial Production YoY	Feb	3.40%	--	2.00%
04/09/2020 20:30	CA Unemployment Rate	Mar	7.50%	--	5.60%
04/09/2020 20:30	US PPI Final Demand MoM	Mar	-0.40%	--	-0.60%
04/09/2020 20:30	CA Net Change in Employment	Mar	-500.0k	--	30.3k
04/09/2020 20:30	US Initial Jobless Claims	Apr-04	5500k	--	6648k
04/09/2020 20:30	US Continuing Claims	Mar-28	8236k	--	3029k
04/09/2020 20:30	US PPI Final Demand YoY	Mar	0.50%	--	1.30%
04/09/2020 22:00	US U. of Mich. Sentiment	Apr P	75	--	89.1
04/09/2020 22:00	US Wholesale Inventories MoM	Feb F	-0.50%	--	-0.50%

Source: Bloomberg

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