

Daily Treasury Outlook

12 March 2020

Highlights

Global: Another turbulent Thursday appears to be on the cards after US markets tanked overnight following the WHO's pronouncement of Covid-19 as a pandemic and US President Trump hesitated to give details of his fiscal stimulus plans ahead of the Senate's week long break. The Dow entered a bear market, ending 20% below its February peak, whilst UST bonds also swung to a loss, lifting the 10-year yield by 7bps to 0.87%, even as the New York Fed boosted its overnight repo and 1-month term offerings to \$175bn and the Fed pledged to provide more than \$500b cash to stabilise funding markets. The double stimulus offered by the UK yesterday in the form of an emergency 50bps cut to a record low of 0.25% by the BOE with the introduction of a new term funding scheme and Chancellor Sunak announced a GBP30b stimulus plan (almost 3% of GDP) also failed to stabilise market sentiments.

Market watch: Asian markets are likely to open on a weak tone this morning and stumble lower amid the ongoing de-risking, while awaiting fresh cues including that from the ECB. Note ECB chief Lagarde has urged EU leaders to loosen their purse strings even as the Central Bank prepares to cut its policy interest rate and unveil a new funding scheme targeted at smaller companies as part of doing whatever it takes. Market attention may then turn to other major central banks including the BOJ and even the Fed may come under fresh pressure to do more ahead of the 17-18 March FOMC meeting. Today's economic calendar comprises of Thai consumer confidence, Eurozone's industrial production, India's CPI and industrial production, and US' initial jobless claims and PPI.

China: China's new Yuan loan increased by CNY905.7 billion while China's aggregate social financing increased by CNY850 billion in February. The February credit data was distorted by the covid-19 outbreak. Loan to household sector contracted by CNY450.4 billion led by the decline of short term loan to household, which fell by CNY654.9 billion. The household sector was forced to deleverage as a result of a stall of economic activity. Medium to long term loan to household sector increased by marginally CNY37.1 billion. The sluggish long term loan growth was mainly the result of weak property sales. Loan to corporate, however, surged. Short term loan to corporate increased by CNY654.9 billion as a result of supporting measures to companies, which offset the decline of loan to household sector.

Oil: The battle for market share continues. Saudi Arabia is reportedly aiming to boost its capacity by about 1mbpd to 13mbpd, in addition to pumping out its current maximum capacity of 12mbpd from April onwards. Meanwhile UAE said it will pump 4mbpd of crude oil next month from about 3mbpd in February. The situation remains fluid and appear to have deviated away from economic reasoning at the moment. It is premature to speculate that this price war will be short-lived.

Key Market Movements		
Equity	Value	% chg
S&P 500	2741.4	-4.9%
DJIA	23553	-5.9%
Nikkei 225	19416	-2.3%
SH Comp	2968.5	-0.9%
STI	2783.7	-1.7%
Hang Seng	25232	-0.6%
KLCI	1443.8	0.9%
Currencies	Value	% chg
DXY	96.507	0.1%
USDJPY	104.54	-1.0%
EURUSD	1.1270	-0.1%
GBPUSD	1.2820	-0.7%
USDIDR	14374	0.2%
USDSGD	1.3951	0.3%
SGDMYR	3.0416	-0.3%
Rates	Value	chg (bp)
3M UST	0.39	-3.83
10Y UST	0.87	6.65
1Y SGS	1.04	0.00
10Y SGS	1.19	1.85
3M LIBOR	0.78	1.60
3M SIBOR	1.35	-0.72
3M SOR	0.73	-4.76
Commodities	Value	% chg
Brent	35.79	-3.8%
WTI	32.98	-4.0%
Gold	1635	-0.9%
Silver	16.75	-0.8%
Palladium	2312	-4.4%
Copper	5529	-0.7%
BCOM	68.30	-1.4%

Source: Bloomberg

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Major Markets

US: US equity markets plunged last night, with the Dow Jones Industrial Average index tumbling into bear market territory on the back of WHO declaring the Covid-19 a global pandemic. The S&P500 index fell by 4.89%, just short of entering bear market territory. Investors will be watching out for the stimulus measures that President Trump may announce on Thursday morning SGT, and an uncertain stimulus package may drive markets down lower.

Hong Kong: The current diffusion index of SMEs' business situation dropped to record low of 20.3 in February. The sub-index for the retail trade, restaurants and logistics also plunged to 16.6, 13.1 and 13.2 respectively. This was even worse than the levels seen in last August when social unrest escalated, suggesting that business situation has been weighed down heavily by the supply shock and demand shock amid covid-19 outbreak. Due to the deteriorating business situation, private investment (decreasing for the fifth consecutive quarter by 19.4% yoy in 4Q 2019) is likely to soften further while the labor market could take a hard hit. This reinforces our view that economic contraction caused by covid-19 epidemic in 1Q 2020 would be much worse than that resulted from trade war and social unrest in 2H 2019. Also notable is that the outlook diffusion index slid to record low of 36.7 as well, even worse than 39.7 in last September despite a raft of stimulus measures aiming to support the SMEs. As such, we may not see strong recovery in the economy anytime soon.

Singapore: The STI fell 1.7% as uncertainty over the size of the US' fiscal economic measures and the worsening coronavirus outbreak continue to dent risk sentiment. The index had risen as high as 0.9% earlier in the session, only to reverse their gains to end lower. The STI is likely to open on a soft footing today after the Dow Jones Industrial Average index plunged into bear market territory while the Nikkei and ASX 200 indices fell 2% at the time of writing.

Malaysia: PM Muhyiddin Yassin announced the formation of Economic Action Council, comprising key finance and economic ministers plus BNM chief. First task is to reassess the MYR20bn stimulus package announced by interim PM Mahathir on Feb 28. GST re-introduction may be assessed as well. Although political calculations may nip it in the bud, if oil price slump continues, they might be left with little choice.

Indonesia: Bank Indonesia's governor, Perry Warjiyo, said that it is revising down growth forecast in the next policy meeting. It is revising down global growth expectation to 2.7-2.8% from 3.0% currently. He added that Rupiah weakening is still "relatively good", and that it has bought around IDR130tn in government bonds year-to-date to support the market.

Thailand: The Democrat party, part of the pro-military coalition in the Lower House, has threatened to pull out of the alliance, which could weaken the hold of the pro-military faction on government. We think, however, that the possibility is relatively low, with an extraordinary general meeting within the Democrat party yet to be called to discuss this issue.

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12 March 2020

Bond Market Updates

Market Commentary: The SGD swap curve bull-steepened yesterday, with the shorter and the belly tenors trading 1-7bps lower, while the longer tenors traded 0-1bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 2bps to 163bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 1bps to 661bps. The HY-IG Index Spread tightened 3bps to 498bps. 10Y UST Yields gained 7bps to 0.87% despite the World Health Organization classifying the outbreak of COVID-19 as a pandemic and stocks slumping, possibly suggesting that investors are being forced to unload their most easily traded assets in stressed market conditions.

New Issues: China Cinda (2020) I Management Ltd. (Guarantor: China Cinda (HK) Holdings Co.) priced a deal across four tranches: (1) a USD700mn 3-year bond at T+160bps, (2) a USD500mn 5-year bond at T+195bps, (3) a USD300mn 7-year bond at T+240bps, and (4) a USD500mn 10-year bond at T+255bps, tightening from IPT of T+190bps, T+225bps, T+255bps, T+275bps area respectively. Beijing Capital Polaris Investment Co. Ltd. (Guarantor: Beijing Capital Group Co. Ltd.) priced a USD300mn 3-year green bond at 2.8%, tightening from IPT of 3.15% area. Xiang Sheng Holding Limited (Guarantor: Shinsun Real Estate Group Co. Ltd.) priced a USD53mn re-tap of its SHXREG 12.5%'22s at 12.5%. Jiangsu Zhongnan Construction Group Co. arranged investor calls commencing 11 Mar for its proposed USD bond offering.

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12 March 2020

Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	96.507	0.10%	USD-SGD	1.3951	0.26%
USD-JPY	104.540	-1.04%	EUR-SGD	1.5722	0.15%
EUR-USD	1.1270	-0.10%	JPY-SGD	1.3350	1.37%
AUD-USD	0.6484	-0.32%	GBP-SGD	1.7884	-0.45%
GBP-USD	1.2820	-0.70%	AUD-SGD	0.9046	-0.07%
USD-MYR	4.2325	-0.14%	NZD-SGD	0.8746	0.25%
USD-CNY	6.9606	0.04%	CHF-SGD	1.4869	0.45%
USD-IDR	14374	0.15%	SGD-MYR	3.0416	-0.27%
USD-VND	23190	--	SGD-CNY	5.0031	-0.19%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.5130	-0.60%	O/N	1.0820	0.09%
2M	-0.3360	0.09%	1M	0.8114	8.65%
3M	-0.4820	8.65%	2M	0.7904	8.00%
6M	-0.4380	8.00%	3M	0.7841	1.60%
9M	-0.1940	1.60%	6M	0.7696	3.43%
12M	-0.3580	3.43%	12M	0.7921	4.86%

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	% Hike/Cut	Implied Rate Change	Implied Rate
18/03/2020	-3.297	-329.7	-0.824	0.266
29/04/2020	-3.69	-39.3	-0.923	0.168
10/06/2020	-3.904	-21.4	-0.976	0.114
29/07/2020	-3.95	-4.6	-0.988	0.103
16/09/2020	-3.929	2.1	-0.982	0.108
05/11/2020	-3.866	6.3	-0.966	0.123

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	32.98	-4.0%	Corn (per bushel)	3.7925	-0.2%
Brent (per barrel)	35.79	-3.8%	Soybean (per bushel)	8.678	-0.6%
Heating Oil (per gallon)	1.2380	-1.0%	Wheat (per bushel)	5.1725	-1.8%
Gasoline (per gallon)	1.1103	-4.0%	Crude Palm Oil (MYR/MT)	2,370.0	1.3%
Natural Gas (per MMBtu)	1.8780	-3.0%	Rubber (JPY/KG)	161.0	0.3%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,529	-0.7%	Gold (per oz)	1,635.0	-0.9%
Nickel (per mt)	12,420	-2.1%	Silver (per oz)	16.755	-0.8%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Equity and Commodity

Index	Value	Net change
DJIA	23,553.22	-1464.94
S&P	2,741.38	-140.85
Nasdaq	7,952.05	-392.20
Nikkei 225	19,416.06	-451.06
STI	2,783.72	-48.82
KLCI	1,443.83	13.36
JCI	5,154.11	-66.72
Baltic Dry	631.00	4.00
VIX	53.90	6.60

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	0.89 (+0.03)	0.52 (-0.01)
5Y	0.95 (-0.01)	0.70 (+0.04)
10Y	1.19 (+0.02)	0.87 (+0.07)
15Y	1.30 (+0.03)	--
20Y	1.35 (+0.04)	--
30Y	1.42 (--)	1.39 (+0.11)

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	11.77	3.97
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	1.11
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Economic Calendar

Date Time		Event		Survey	Actual	Prior	Revised
03/12/2020 02:00	US	Monthly Budget Statement	Feb	-\$236.8b	-\$235.3b	-\$234.0b	--
03/12/2020 04:00	NZ	REINZ House Sales YoY	Feb	--	9.20%	3.20%	--
03/12/2020 07:50	JN	PPI YoY	Feb	1.10%	0.80%	1.70%	1.50%
03/12/2020 20:00	IN	Industrial Production YoY	Jan	0.50%	--	-0.30%	--
03/12/2020 20:00	IN	CPI YoY	Feb	6.70%	--	7.59%	--
03/12/2020 20:30	US	PPI Final Demand MoM	Feb	-0.10%	--	0.50%	--
03/12/2020 20:30	US	Initial Jobless Claims	Mar-07	220k	--	216k	--
03/12/2020 20:30	US	Continuing Claims	Feb-29	1733k	--	1729k	--
03/12/2020 20:30	US	PPI Final Demand YoY	Feb	1.80%	--	2.10%	--
03/12/2020 20:30	US	PPI Ex Food and Energy MoM	Feb	0.10%	--	0.50%	--
03/12/2020 20:30	US	PPI Ex Food and Energy YoY	Feb	1.70%	--	1.70%	--
03/12/2020 20:45	EC	ECB Main Refinancing Rate	Mar-12	0.00%	--	0.00%	--
03/12/2020 20:45	EC	ECB Deposit Facility Rate	Mar-12	-0.50%	--	-0.50%	--
03/12/2020 20:45	EC	ECB Marginal Lending Facility	Mar-12	0.25%	--	0.25%	--
03/12/2020 21:45	US	Bloomberg Consumer Comfort	Mar-08	--	--	63	--

Source: Bloomberg

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