

Daily Treasury Outlook

16 March 2020

Highlights

Global: The Fed is throwing the kitchen sink to ease the economic hardships from Covid-19, including another emergency 100bps rate cut of the Fed Funds Target Rate to 0-0.25%, reducing the primary credit rate for its discount window by 150bps to 0.25% effective today, slashing the RRR to 0% from 26 March, and will buy \$500b in Treasury securities and \$200b in mortgage backed securities. The Fed also announced a coordinated enhancement of its USD liquidity swap line arrangements with the BOC, BOE, BOJ and ECB by cutting its pricing to the overnight index swap (OIS) rate minus 25bps, with the foreign central banks offering USD weekly with 84-day maturities starting this week. These unprecedented measures by the Fed underpins the “economic hardships” caused by the Covid-19 outbreak and may buy some time for financial markets, but again the financial market reaction appears to be overwhelmingly one of fear (“does the Fed know something we don’t?”) and disappointment (could there have been a stronger US fiscal and health response?). With more travel restrictions internationally and panicky financial markets, the global economy is at risk of stalling as further policy accommodation may have run out of ammunition after the Fed’s bazooka. **Will the ECB be the next ones to capitulate? The BOJ is holding an emergency meeting at noon to discuss money control measures.** PBOC had already cut targeted RRR by 50-150bps on Friday, while the US had extended its European travel ban to the UK and Ireland. Friday’s market action saw S&P500 stage a late session rally of 9.3% while the 10-year UST bond yield jumped 15bps to 0.96%, but S&P futures had limit down post-Fed move. **Brace yourself.**

Market watch: Asian markets are likely to open on a nervous tone this morning and test fresh downside amid concerns of a perfect Covid-19 storm and why the Fed is doing its second emergency cuts in less than two weeks. Today’s economic data releases will take a backseat to market headlines today, but comprises of Indonesia’s February trade data and US’ Empire manufacturing.

US: US president Trump, who tested negative for Covid-19, had declared a national emergency and \$50 billion package with aid for small businesses.

NZ: RBNZ did an emergency 75bps rate cut to 0.25% and pledged to keep it there for a year and opined that “should further stimulus be required, a Large Scale Asset Purchase program of NZ government bonds would be preferable to further OCR reductions”. RBNZ also decided to delay the start of increased capital requirements for bank by 12 months to 1 July 2021 to support credit availability.

Singapore: MAS opined that the S\$ money market and FX markets are “functioning normally in the face of heightened volatility” and the SGD interest rates have eased in tandem with global interest rates and the S\$NEER has also eased in an orderly manner within the MAS policy band in line with weakening economic conditions. MAS also left a “higher level of liquidity in the banking system” and stands ready to ensure the orderly functioning of financial markets and the stability of the financial system in Singapore.

Key Market Movements		
Equity	Value	% chg
S&P 500	2711.0	9.3%
DJIA	23186	9.4%
Nikkei 225	17431	-6.1%
SH Comp	2887.4	-1.2%
STI	2634.0	-1.7%
Hang Seng	24033	-1.1%
KLCI	1344.8	-5.3%
Currencies	Value	% chg
DXY	98.749	1.3%
USDJPY	107.62	2.8%
EURUSD	1.1107	-0.7%
GBPUSD	1.2278	-2.3%
USDIDR	14778	1.8%
USDSGD	1.415	0.4%
SGDMYR	3.0437	0.1%
Rates	Value	chg (bp)
3M UST	0.24	-5.86
10Y UST	0.96	15.61
1Y SGS	1.00	-0.10
10Y SGS	1.48	21.83
3M LIBOR	0.74	-3.20
3M SIBOR	1.32	-3.29
3M SOR	0.46	-22.33
Commodities	Value	% chg
Brent	33.85	1.9%
WTI	31.73	0.7%
Gold	1530	-2.9%
Silver	14.72	-7.0%
Palladium	1813	-2.1%
Copper	5460	0.4%
BCOM	65.31	-1.3%

Source: Bloomberg

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Major Markets

US: US equity markets rebounded from their steep losses last week as they staged a massive rally, the biggest since October 2008, on the back of more clarity on the measures the US government is implementing to combat the coronavirus outbreak. The S&P500 index rose by 9.3%. For the week ahead, we expect volatility to continue in the markets, with the worsening coronavirus outbreak in Europe and the US to remain as a concern among investors.

EZ: Countries within the Schengen free-travel zone is considering restricting access to foreigners and asking residents to refrain from leaving, according to officials.

China: China announced a new round of targeted RRR cut on 13 Mar unlocking CNY550 billion liquidity to the system. The targeted RRR cut is within market expectation as it has been previewed by Premier Li Keqiang during the State Council meeting on 10 March. The targeted RRR cut set the tone that China may help lower the funding costs for banks further so that banks will lower the LPR to support the real economy. It may pave the way for PBoC to eventually cut its benchmark deposit rate though we think the chance of imminent deposit rate cut is low due to still elevated CPI.

Singapore: The STI slumped 1.67% to close at 2634.00 on Friday and may remain vulnerable today post-emergency Fed move and fragile risk sentiments. With the volatile trading in UST bond markets, SGS bonds may be whipsawed again today. The 3-month SIBOR and SOR have eased to 1.21683% and 0.58096% respectively.

Malaysia: New Covid-19 cases recorded as high as 190 over the weekend, pushing the total to 428. The government said that the pandemic is set to cost the Malaysian economy as much as MYR17.3bn (USD4bn). PM Muhyiddin Yassin said that growth might suffer by 0.8-1.2ppt, signalling growth expectation of 3.6-4.0% in 2020.

Indonesia: As Covid-19 cases spike to 117 in Indonesia officially, the government ordered the closure of schools across major provinces in the country including Jakarta. Civil servants will be allowed to work from home starting today, as well. Separately, news that Transportation Minister has tested positive prompted many top officials to test for the virus. The government announced a second stimulus package earlier, worth IDR22.92tn, which pushes deficit to 2.5% of GDP, compared to 1.76% that was expected earlier.

Oil: Oil markets are set for another volatile session this week after the Fed inexplicably cut its benchmark rate by 100bp before Asian markets open. The emergency rate cut is largely viewed as an act of no confidence by the US central bank despite its intended consequences to boost economic activity and is likely to drag oil prices down today.

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Bond Market Updates

Market Commentary: The SGD swap curve bear-steepened yesterday, with the shorter tenors trading 16-23bps higher, while the belly and the longer tenors traded 24-30bps higher. The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 11bps to 191bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 84bps to 803bps. The HY-IG Index Spread widened 74bps to 612bps. Flows in SGD corporates were heavy, with flows in SOCGEN 6.125%-PERPs, HSBC 4.7%-PERPs, STANLN 5.375%-PERPs, CAPLSP 3.65%-PERPs, SRBJNG 4.11%'25s, BAERVX 5.75%-PERPs, BNP 4.35%'29s, HSBC 5%-PERPs and SINTEC 5%-PERPs. 10Y UST Yields gained 16bps to 0.96% with liquidity still seen as an issue in the Treasuries market. Risk sentiments was stronger on Friday in risky assets following President Trump declaration of a national emergency over COVID-19 and the Federal Reserve announced that it will be buying back Treasuries across all durations. On Sunday, the Federal Reserve cut interest rates to zero in another emergency move, announced a reduction in required reserve ratio and that it would purchase additional USD700mn in bonds.

New Issues: Export-Import Bank of Korea priced a USD425mn bond at 1.375%. PCGI Intermediate Limited (Guarantor: PCGI Ltd) priced a USD137.46mn re-tap of its PCGIIN 4.75%'24s at 4.75%.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	98.749	1.31%	USD-SGD	1.4150	0.40%
USD-JPY	107.620	2.85%	EUR-SGD	1.5718	-0.33%
EUR-USD	1.1107	-0.70%	JPY-SGD	1.3098	-2.83%
AUD-USD	0.6203	-0.53%	GBP-SGD	1.7369	-1.99%
GBP-USD	1.2278	-2.33%	AUD-SGD	0.8778	-0.14%
USD-MYR	4.2775	0.30%	NZD-SGD	0.8636	0.58%
USD-CNY	7.0086	-0.30%	CHF-SGD	1.4868	-0.50%
USD-IDR	14778	1.76%	SGD-MYR	3.0437	0.06%
USD-VND	23214	0.10%	SGD-CNY	4.9616	-0.56%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4800	-2.90%	O/N	1.0849	0.26%
2M	-0.3360	0.26%	1M	0.8001	-9.20%
3M	-0.4280	-9.20%	2M	0.8210	-6.04%
6M	-0.3970	-6.04%	3M	0.8431	-3.20%
9M	-0.1940	-3.20%	6M	0.8214	-0.61%
12M	-0.2870	-0.61%	12M	0.8216	1.33%

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	% Hike/Cut	Implied Rate Change	Implied Rate
29/04/2020	4.129	412.9	1.032	0.093
10/06/2020	4.094	-3.5	1.024	0.084
29/07/2020	4.089	-0.5	1.022	0.082
16/09/2020	4.058	-3.1	1.014	0.075
05/11/2020	4.105	4.7	1.026	0.086
16/12/2020	4.129	2.4	1.032	0.092

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	31.73	0.7%	Corn (per bushel)	3.7075	0.3%
Brent (per barrel)	33.85	1.9%	Soybean (per bushel)	8.468	-1.0%
Heating Oil (per gallon)	1.1374	-1.9%	Wheat (per bushel)	5.1475	1.3%
Gasoline (per gallon)	0.8992	0.2%	Crude Palm Oil (MYR/MT)	2,302.0	--
Natural Gas (per MMBtu)	1.8690	1.5%	Rubber (JPY/KG)	150.5	-2.9%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,460	0.4%	Gold (per oz)	1,529.8	-2.9%
Nickel (per mt)	12,320	4.1%	Silver (per oz)	14.721	-7.0%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Equity and Commodity

Index	Value	Net change
DJIA	23,185.62	1985.00
S&P	2,711.02	230.38
Nasdaq	7,874.88	673.07
Nikkei 225	17,431.05	-1128.58
STI	2,634.00	-44.64
KLCI	1,344.75	-74.68
JCI	4,907.57	11.82
Baltic Dry	631.00	-2.00
VIX	57.83	-17.64

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	0.89 (+0.07)	0.49 (+0.01)
5Y	1.08 (+0.15)	0.72 (+0.11)
10Y	1.48 (+0.22)	0.96 (+0.16)
15Y	1.61 (+0.23)	--
20Y	1.67 (+0.23)	--
30Y	1.67 (+0.17)	1.53 (+0.09)

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	7.70	4.90
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	1.20
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Economic Calendar

Date Time		Event		Survey	Actual	Prior	Revised
03/16/2020	PH	Overseas Remittances YoY	Jan	3.60%	--	1.90%	--
03/16/2020	PH	Overseas Workers Remittances	Jan	\$2597m	--	\$2902m	--
03/16/2020 03:00	NZ	RBNZ Official Cash Rate	Mar-16	--	0.25%	1.00%	--
03/16/2020 05:00	US	FOMC Rate Decision (Upper Bound)	Mar-15	--	0.25%	1.25%	--
03/16/2020 07:50	JN	Core Machine Orders MoM	Jan	-1.00%	2.90%	-12.50%	-11.90%
03/16/2020 07:50	JN	Core Machine Orders YoY	Jan	-1.10%	-0.30%	-3.50%	--
03/16/2020 08:01	UK	Rightmove House Prices MoM	Mar	--	1.00%	0.80%	--
03/16/2020 08:01	UK	Rightmove House Prices YoY	Mar	--	3.50%	2.90%	--
03/16/2020 10:00	CH	Industrial Production YTD YoY	Feb	-3.00%	--	--	--
03/16/2020 10:00	CH	Retail Sales YTD YoY	Feb	-4.00%	--	--	--
03/16/2020 10:00	CH	Fixed Assets Ex Rural YTD YoY	Feb	-2.00%	--	--	--
03/16/2020 12:00	ID	Exports YoY	Feb	-5.79%	--	-3.71%	--
03/16/2020 12:00	ID	Trade Balance	Feb	\$109m	--	-\$864m	--
03/16/2020 14:30	IN	Wholesale Prices YoY	Feb	2.30%	--	3.10%	--
03/16/2020 20:30	US	Empire Manufacturing	Mar	4.9	--	12.9	--

Source: Bloomberg

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