

## Daily Treasury Outlook

19 February 2020

### Highlights

**Global:** Risk appetite appeared to struggle overnight, with S&P500 closing lower post-Apple's earlier guidance warning, and UST bonds bull-flattened with yields generally 2-4bps lower and the 10-year yield at 1.55%. China reported 132 new deaths to bring the death toll to 2,000, albeit Hubei added 1,693 new cases (lowest since the methodology change last week). Meanwhile, US president Trump tweeted that the US "cannot, & will not become such as difficult place to deal with in terms of foreign countries buying out product, including for the always used National Security excuse, that our companies will be forced to leave in order to remain competitive". This verbal jawboning came ahead of potential administration moves to block sale of get engines to China.

**Market watch:** Asian markets may start on a firmer tone this morning, taking the cue from a more China-friendly sounding Trump, but the key is whether momentum can sustain. Today's economic data calendar comprises US' housing starts, building permits, mortgage applications and PPI, UK's CPI/PPI/RPI, and Singapore's COE tender results. Speakers include Fed's Bostic, Mester, Kashkari, Kaplan and Barkin, and the FOMC minutes from 29 January is also due but may not shed much fresh light.

**US:** The NAHB housing market index edged down 1 point to 74, underscoring the strength in the construction sector amid lower mortgage rates, and the Empire manufacturing also improved from 4.8 in January to 12.9 in February, with the new orders gauge surging to its highest since September 2017. These data prints suggested the Covid-19 had not impacted the US economy yet. Fed's Kaplan opined that "growth is likely to remain sluggish but will show signs of stabilization due to some calming of trade uncertainties" and the Covid-19 outbreak will "likely mean slower growth in China and risks to the downside for global growth" and is a "meaningful risk" to oil demand growth, but it is "too soon to predict with confidence the ultimate impact of this virus on the US and global economies".

**EU:** Eurozone's ZEW survey expectations eased from 25.6 to 10.4 in February while the German expectations gauge also fell more than expected to 8.7 in February, suggesting that the Covid-19 outbreak is taking a toll.

**China:** China has expedited the resumption of productions outside Hubei province. China's state-owned Asset Supervision and Administration Commission said yesterday that all the targets set for major SOEs in the beginning of the year will not be altered. The production capacity for SOEs have recovered to 80% of that in normal time. Meanwhile, Yiwu, the world's largest wholesale market, has also reopened from yesterday to welcome foreign buyers.

**Singapore:** Budget 2020 plans for an expansionary \$10.9b deficit (2.1% of GDP), comprising of \$5.6b for two special packages, namely the Stabilisation and Support Package for workers and enterprises (\$4b), and a Care and Support Package to help households with living costs (\$1.6b).

### Key Market Movements

Equity	Value	% chg
S&P 500	3370.3	-0.3%
DJIA	29232	-0.6%
Nikkei 225	23194	-1.4%
SH Comp	2985.0	0.0%
STI	3196.6	-0.5%
Hang Seng	27530	-1.5%
KLCI	1537.1	0.0%
Currencies	Value	% chg
DXY	99.440	0.4%
USDJPY	109.87	0.0%
EURUSD	1.0792	-0.4%
GBPUSD	1.2998	-0.1%
USDIDR	13694	0.2%
USDSGD	1.3926	0.2%
SGDMYR	2.9819	0.0%
Rates	Value	chg (bp)
3M UST	1.57	-0.01
10Y UST	1.56	-2.38
1Y SGS	1.60	0.00
10Y SGS	1.65	-1.01
3M LIBOR	1.69	0.11
3M SIBOR	1.71	-0.02
3M SOR	1.53	-2.71
Commodities	Value	% chg
Brent	57.75	0.1%
WTI	52.05	0.0%
Gold	1602	1.3%
Silver	18.17	2.7%
Palladium	2629	4.3%
Copper	5773	-0.7%
BCOM	76.11	1.0%

Source: Bloomberg

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### Major Markets

**US:** US equity markets with the exception of NASDAQ fell last night on the back of Apple announcing that they expect challenges in meeting revenue guidance for 1Q20 due to supply constraints caused by the Covid-19 outbreak in China. This sparked investors' worries over the Covid-19 impact on the global economy and corporate profits. The S&P500 fell 0.3%. Looking ahead, we expect equity markets to trade in a range as the Covid-19 continues to be a downside risk.

**Singapore:** The STI slipped 0.51% to close below the 3200 support to 3196.63 yesterday and may range trade amid mixed cues from Wall Street overnight and a firmer morning start from Nikkei and Kospi. STI may continue to flirt around the 3200 handle for now. Expect SGS bonds to continue to trade with a supportive tone, while investors await MAS's issue size announcement later today for the new 30-year SGS bond that will be auctioned on 26 February for issue on 2 March. The \$10.9b budget deficit for Budget 2020 is neither a draw on past reserves nor will imply higher SGS bond issuance, so the impact from the Budget announcement is likely to be muted.

**Hong Kong:** Unemployment rate inched up further to 3.4% during the three-month period from Nov 2019 to Jan 2020, the highest level since late 2016. It might be attributed to some unfavorable factors, including weak domestic consumption sentiment, sluggish visitor spending and fragile trade sentiment. Moving forward, we expect the overall unemployment rate to rise further in the coming months. Firstly, affected by the concerns over local spreading of Coronavirus, with the sharp decline of visitor arrivals, it might dent the domestic consumption and visitor spending further, which might continue to drive up the unemployment rate of the sector of retail, accommodation and food services. Secondly, with the spreading of Coronavirus, the business activities and the operation of factories in China have ceased temporarily, which might harm the trade activities between HK and China. In addition to the concerns over uncertain economic outlook, the trade sentiment is expected to be more prudent. If this is the case, the unemployment situation of trade and logistics sector might deteriorate further.

**Malaysia:** Deputy Trade Minister Ong Kian Ming said that market may be more accepting of deviations in budget deficit, given that a lot of countries in the region are announcing stimulus packages. He said this in response to Bloomberg query about Singapore's budget. Malaysia itself is slated to announced a stimulus to counter Covid-19 on Feb 27.

**Indonesia:** US markets closed on a softer tone overnight, with S&P down 0.3%, as Apple dipped 1.8% on earlier supply shortage news. Gains by other major tech names such as Amazon did help, however. The overall tone for Asian markets including Indonesia is likely to be one of tentative optimism, as Covid-19's impact remains the focus.

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**Oil:** Oil bounced back sharply during US hours yesterday, with Brent recovering to end the day higher at \$57.77/bbl despite sinking to as low as \$56.31/bbl during intraday trading. News that the White House has imposed sanctions on a unit of Russia's Rosneft on alleged links with Venezuela's Maduro led the recovery in Brent.

**Gold:** Prices closed above \$1600/oz yesterday to signify continued bullish momentum in the precious metal.

## Bond Market Updates

**Market Commentary:** The SGD swap curve rose yesterday, with the shorter tenors trading 0-2bps higher, while the belly and the longer tenors traded 0-0.5bps higher. The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 119bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 5bps to 471bps. The HY-IG Index Spread tightened 4bps to 352bps. 10Y UST yields fell 3 bps to 1.56%, as risk appetite shrunk after Apple Inc said it would miss forecasts due to manufacturing slowdowns caused by COVID-19. Apple's share price though only fell 1.8% on the back of this announcement.

**New Issues:** Delhi International Airport priced a USD150mn re-tap of its DIALIN 6.45%'29s at 108%. Citic Ltd priced a USD300mn 5-year bond at T+110bps and a USD700mn 10-year bond at T+132.5bps, tightening from IPT of T+150bps and T+170bps area respectively. Yango Justice International Ltd (Guarantor: Yango Group Co., Ltd) priced a USD300mn 3.75NC2 at 8.625%, tightening from IPT of 9.25% area. Hong Kong JY Flower Limited (Guarantor: Kunming Industrial Development & Investment Co., Ltd) priced a USD300mn 3-year bond at 6.1%, tightening from IPT of 6.5%.

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### Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	99.440	0.44%	USD-SGD	1.3926	0.24%
USD-JPY	109.870	-0.01%	EUR-SGD	1.5028	-0.18%
EUR-USD	1.0792	-0.41%	JPY-SGD	1.2674	0.24%
AUD-USD	0.6686	-0.42%	GBP-SGD	1.8100	0.16%
GBP-USD	1.2998	-0.08%	AUD-SGD	0.9310	-0.19%
USD-MYR	4.1535	0.24%	NZD-SGD	0.8893	-0.55%
USD-CNY	6.9967	0.22%	CHF-SGD	1.4161	-0.03%
USD-IDR	13694	0.25%	SGD-MYR	2.9819	0.00%
USD-VND	23233	0.01%	SGD-CNY	5.0258	-0.03%

### Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4800	-0.10%	O/N	1.5761	--
2M	-0.3360	--	1M	1.6468	-1.15%
3M	-0.4130	-1.15%	2M	1.6458	-1.68%
6M	-0.3530	-1.68%	3M	1.6929	0.11%
9M	-0.1940	0.11%	6M	1.7249	1.49%
12M	-0.2940	1.49%	12M	1.7928	-0.56%

### Fed Rate Hike Probability

Meeting	Prob Hike	Prob Cut	0.75-1.00%	1.00-1.25%	1.25-1.50%
18/03/2020	0.00%	10.30%	0.00%	0.00%	10.30%
29/04/2020	0.00%	27.50%	0.00%	2.00%	25.50%
10/06/2020	0.00%	47.80%	0.60%	8.60%	38.70%
29/07/2020	0.00%	59.80%	2.40%	15.50%	41.80%
16/09/2020	0.00%	71.00%	6.00%	22.80%	41.30%
05/11/2020	0.00%	74.50%	8.10%	25.00%	39.90%

### Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	52.05	--	Corn (per bushel)	3.8300	1.4%
Brent (per barrel)	57.75	0.1%	Soybean (per bushel)	8.923	-0.2%
Heating Oil (per gallon)	1.6724	-1.5%	Wheat (per bushel)	5.6675	4.4%
Gasoline (per gallon)	1.6148	2.0%	Crude Palm Oil (MYR/MT)	2,730.0	0.2%
Natural Gas (per MMBtu)	1.9810	7.8%	Rubber (JPY/KG)	164.7	1.9%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,773	-0.7%	Gold (per oz)	1,601.6	1.3%
Nickel (per mt)	12,820	-2.2%	Silver (per oz)	18.173	2.7%

### Equity and Commodity

Index	Value	Net change
DJIA	29,232.19	-165.89
S&P	3,370.29	-9.87
Nasdaq	9,732.74	1.57
Nikkei 225	23,193.80	-329.44
STI	3,196.63	-16.37
KLCI	1,537.08	--
JCI	5,886.96	19.44
Baltic Dry	434.00	--
VIX	14.83	1.15

### Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.50 (-)	1.41 (-0.02)
5Y	1.53 (-)	1.40 (-0.02)
10Y	1.65 (-0.01)	1.56 (-0.02)
15Y	1.76 (-0.01)	--
20Y	1.83 (-0.02)	--
30Y	2.00 (-0.02)	2.01 (-0.03)

### Financial Spread (bps)

	Value	Change
EURIBOR-OIS	4.45	-0.05
TED	35.36	--

### Secured Overnight Fin. Rate

SOFR	1.58
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Source: Bloomberg, Reuters

(Note that rates are for reference only)

## Economic Calendar

Date Time		Event		Survey	Actual	Prior	Revised
02/19/2020	PH	BoP Overall	Jan	--	--	\$1572m	--
02/19/2020 02/21	CH	Money Supply M2 YoY	Jan	8.60%	--	8.70%	--
02/19/2020 02/21	CH	New Yuan Loans CNY	Jan	3100.0b	--	1140.0b	--
02/19/2020 05:00	US	Net Long-term TIC Flows	Dec	--	\$85.6b	\$22.9b	\$27.1b
02/19/2020 07:30	AU	Westpac Leading Index MoM	Jan	--	0.05%	0.05%	0.01%
02/19/2020 07:50	JN	Core Machine Orders MoM	Dec	-8.90%	-12.50%	18.00%	--
02/19/2020 07:50	JN	Trade Balance	Jan	-¥1684.8b	-¥1312.6b	-¥152.5b	-¥154.6b
02/19/2020 17:30	UK	CPI YoY	Jan	1.60%	--	1.30%	--
02/19/2020 17:30	UK	CPI MoM	Jan	-0.40%	--	0.00%	--
02/19/2020 17:30	UK	CPI Core YoY	Jan	1.50%	--	1.40%	--
02/19/2020 17:30	UK	PPI Output NSA MoM	Jan	0.10%	--	0.00%	--
02/19/2020 17:30	UK	PPI Output NSA YoY	Jan	1.00%	--	0.90%	--
02/19/2020 20:00	US	MBA Mortgage Applications	Feb-14	--	--	1.10%	--
02/19/2020 21:30	US	Housing Starts	Jan	1428k	--	1608k	--
02/19/2020 21:30	US	PPI Final Demand MoM	Jan	0.10%	--	0.10%	0.20%

Source: Bloomberg

## Treasury Research & Strategy

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