

Daily Treasury Outlook

21 February 2020

Highlights

Global: Market sentiment is likely to be softer today given that the concerns about Covid-19's impact on the global economy resurfaced again. S&P 500 was down by 0.4% and the tech-heavy Nasdaq was down by 0.7%. US Treasury rose as well with 10-year yield down by 5bps to trade at 1.52%. As a mark of further safe haven search, gold continued its climb to 7-year high level of \$1620. USD rose against every single G10 peer, except CHF. The resurgence of market concerns about the virus came as the global airline association warned that global passenger demand may drop this year, for the first time in 11 years. It also follows the fact that companies ranging from Norwegian Cruise Line to P&G, and Yum Brands to 3M, issued warnings about softer demand or disrupted supply affecting their Q1 earnings projections. News that China's Hubei province has barred companies from reopening for business until mid March did not help as well. The overall sense that Covid-19 will be with us for a while more continued to prompt easing bias by policymakers, with Bank Indonesia the latest to join the fray in cutting policy rate yesterday.

Market watch: Key things to watch include Jibun Bank PMI Mfg, Eurozone, UK and the US Market Mfg PMI. The economic data calendar comprises Japan, Malaysia and Eurozone CPI, and US existing home sales.

China: China's credit growth surged in January. Aggregate social financing increased by a record high of CNY5.07 trillion. New Yuan loan also increased by a record high of CNY3.34 trillion. The stronger than expected credit expansion was mainly due to four reasons. First, on seasonal pattern, banks usually frontload their loan in the beginning of the month. Second, on supply side factor, the easing monetary condition helped in January after China cut the RRR in the beginning of the year. Third, on demand side, the demand from Chinese companies rebounded in anticipation of restock activity as a result of improving US-China trade relationship ahead of the Covid-19 outbreak. Fourth, the earlier issuance of government special bond also supported the credit expansion. Looking ahead, the credit data are also likely to be disrupted by the virus outbreak as a result of stall of economic activities. Loan to household is expected to slow significantly due to the stall of property sales. The delayed resumption of industrial activity will also affect the loan demand from corporate though the demand for working capital is likely to surge to pay for wages despite the shutdown of business. China cut 1-year Loan Prime Rate (LPR) by 10bps to 4.05% as expected. The 5-year LPR fixing was lowered by 5bps to 4.75%. The LPR cut will help lower the funding costs to the real economy before the swap of loan rate to LPR based floating rate from March to August.

Malaysia: Given the softer market sentiment overnight, Malaysian assets may experience similar concerns today, particularly because of a relative lack of expected news flow and data. Separately, Health Minister said that the government has discussed a plan to temporarily suspend entries of Chinese tourists into Malaysia.

Key Market Movements

Equity	Value	% chg
S&P 500	3373.2	-0.4%
DJIA	29220	-0.4%
Nikkei 225	23479	0.3%
SH Comp	3030.2	1.8%
STI	3198.7	-0.5%
Hang Seng	27609	-0.2%
KLCI	1535.0	0.1%
Currencies	Value	% chg
DXY	99.865	0.2%
USDJPY	112.1	0.7%
EURUSD	1.0785	-0.2%
GBPUSD	1.2882	-0.3%
USDIDR	13750	0.4%
USDSGD	1.401	0.5%
SGDMYR	2.9868	-0.2%
Rates	Value	chg (bp)
3M UST	1.57	0.25
10Y UST	1.52	-5.09
1Y SGS	1.60	0.10
10Y SGS	1.66	0.08
3M LIBOR	1.70	0.14
3M SIBOR	1.71	-0.02
3M SOR	1.53	-1.76
Commodities	Value	% chg
Brent	59.31	0.3%
WTI	53.88	0.7%
Gold	1620	0.5%
Silver	18.37	-0.4%
Palladium	2699	-0.7%
Copper	5728	-0.7%
BCOM	76.21	-0.5%

Source: Bloomberg

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Major Markets

US: US equity markets fell last night as worries over the Covid-19 impact on the global economy resurfaced again on the back of firms issuing profit warnings. The S&P500 index fell 0.4%. The Covid-19 outbreak is set to remain as a headwind to financial markets, particularly as the potential impact of the Covid-19 on markets is still an unknown. Support handle for the S&P500 index remains at 3300.

Hong Kong: Inflation decelerated to 1.4% in Jan 2020, an unseen level since 3Q 2017. Food inflation remained strong (+7.4%), amid Chinese New Year factor and higher food prices. Nevertheless, the overall inflation has been dragged down by weaker housing and utility inflation. Moving forward, we expect that the overall inflation might be well-contained in the coming months, as weakening economic outlook might relieve the price pressure. Specifically, amid the concerns over uncertain economic outlook, rising unemployment and local spreading of coronavirus, it might dent consumption sentiments. If this is the case, the corporates might cut the price in order to promote sales. Housing market correction might induce spill-over effect to rental market, in turns limiting the housing inflation. Meanwhile, as the shortage of fresh pork eased, the upside of food inflation is expected to be contained.

Singapore: The STI fell -0.5% despite China's 10bp cut in the LPR yesterday. Declines in Wall Street overnight are likely to pressure the benchmark Singapore equity index further today. We see likely support for the STI at 3100 in the short term.

Indonesia: Bank Indonesia opted to cut its policy rate by 25 bps to 4.75% yesterday. It cited Covid-19's impact in a reassessment of the outlook, which saw it trimming the 2020 growth forecasts by 10bps to 5.0-5.4%. It also loosened macro prudential regulation, allowing banks to include funding from its overseas branches in regulatory calculations.

Oil: Crude oil prices rose to a 4-week high yesterday, closing at \$59.31/bbl after reports showed US added inventories at a slower than expected pace. Private estimates had earlier estimated a weekly increase in US crude stockpiles of 3.2mil barrels, but official numbers released yesterday placed that at only 0.4mil barrels. An OPEC+ meeting early next month has raised expectations that the oil cartel might go ahead with more supply cuts, with Saudi Arabia previously suggesting 600kbpd more in production restriction from the bloc.

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Bond Market Updates

Market Commentary: The SGD swap curve bull-steepened yesterday, with the shorter tenors trading 1-2bps lower, while the belly and the longer tenors traded 0-0.5bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS was relatively flat at 118bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 2bps to 473bps. The HY-IG Index Spread widened 2bps to 354bps. 10Y UST Yields fell 5bps to 1.52%, driven by COVID-19 fears as the number of COVID-19 cases in the capital city of China and outside of China rose.

New Issues: Shui On Development (Holding) Limited (Guarantor: Shui On Land Limited) priced a USD400mn 5NC3 bond at 5.5%, tightening from IPT of 5.875%. Semiconductor Manufacturing International Corp. priced a USD600mn 5-year bond at T+133bps, tightening from IPT of T+170bps area. Kunming Municipal Urban Construction Investment & Development Co., Ltd. priced a USD200mn re-tap of its KMCONS 5.8%'22s at 5.95%, tightening from IPT of 6.3% area. DBS Group Holdings Ltd. priced a USD1bn PERPNC5 AT1 bond at 3.3%, tightening from IPT of 3.65% area. UPL Corporation Limited priced a USD400mn PERPNC5.25 bond at 5.25%, tightening from IPT of 5.625% area. Muthoot Finance Ltd priced a USD550mn 3.5-year bond at 4.4%, tightening from IPT of 4.75% area. Bank of Communications (Hong Kong) Ltd arranged investor calls commencing 21 Feb for its proposed USD bond offering. LVGEM (China) Real Estate Investment Company Limited arranged investor calls commencing 21 Feb for its proposed USD bond offering.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	99.865	0.16%	USD-SGD	1.4010	0.46%
USD-JPY	112.100	0.66%	EUR-SGD	1.5111	0.27%
AUR-USD	1.0785	-0.19%	JPY-SGD	1.2498	-0.21%
AUD-USD	0.6615	-0.90%	GBP-SGD	1.8048	0.16%
GBP-USD	1.2882	-0.29%	AUD-SGD	0.9262	-0.54%
USD-MYR	4.1820	0.50%	NZD-SGD	0.8875	-0.35%
USD-CNY	7.0238	0.36%	CHF-SGD	1.4235	0.44%
USD-IDR	13750	0.40%	SGD-MYR	2.9868	-0.16%
USD-VND	23236	-0.01%	SGD-CNY	5.0174	-0.04%

Equity and Commodity

Index	Value	Net change
DJIA	29,219.98	-128.05
S&P	3,373.23	-12.92
Nasdaq	9,750.97	-66.22
Nikkei 225	23,479.15	78.45
STI	3,198.68	-15.03
KLCI	1,534.98	0.82
JCI	5,942.49	13.70
Baltic Dry	465.00	--
VIX	15.56	1.18

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4670	0.40%	O/N	1.5769	1.35%
2M	-0.3360	1.35%	1M	1.6394	-0.76%
3M	-0.4020	-0.76%	2M	1.6888	2.84%
6M	-0.3530	2.84%	3M	1.6960	0.14%
9M	-0.1940	0.14%	6M	1.6988	-1.61%
12M	-0.2880	-1.61%	12M	1.7689	-0.30%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.48 (-0.01)	1.39 (-0.03)
5Y	1.52 (--)	1.36 (-0.04)
10Y	1.66 (--)	1.52 (-0.05)
15Y	1.77 (--)	--
20Y	1.82 (-0.01)	--
30Y	2.02 (--)	1.96 (-0.05)

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	Prob Hike/Cut	Implied Rate Change	Implied Rate
18/03/2020	-0.059	-5.90%	-0.015	1.569
29/04/2020	-0.285	-22.60%	-0.071	1.512
10/06/2020	-0.586	-30.10%	-0.147	1.437
29/07/2020	-0.865	-27.90%	-0.216	1.368
16/09/2020	-1.201	-33.60%	-0.3	1.284
05/11/2020	-1.335	-13.40%	-0.334	1.25

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	5.30	-0.10
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	1.59
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Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	53.78	0.9%	Corn (per bushel)	3.7850	-0.5%
Brent (per barrel)	59.31	0.3%	Soybean (per bushel)	8.928	-0.5%
Heating Oil (per gallon)	1.6976	-0.5%	Wheat (per bushel)	5.6000	-0.9%
Gasoline (per gallon)	1.6697	0.4%	Crude Palm Oil (MYR/MT)	2,669.0	0.9%
Natural Gas (per MMBtu)	1.9200	-1.8%	Rubber (JPY/KG)	161.0	-0.6%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,728	-0.7%	Gold (per oz)	1,619.6	0.5%
Nickel (per mt)	12,670	-1.2%	Silver (per oz)	18.366	-0.4%

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

Economic Calendar

Date Time		Event		Survey	Actual	Prior	Revised
02/21/2020 07:30	JN	Natl CPI YoY	Jan	0.70%	0.70%	0.80%	--
02/21/2020 07:30	JN	Natl CPI Ex Fresh Food YoY	Jan	0.80%	0.80%	0.70%	--
02/21/2020 08:30	JN	Jibun Bank Japan PMI Mfg	Feb P	--	--	48.8	--
02/21/2020 12:00	MA	CPI YoY	Jan	1.70%	--	1.00%	--
02/21/2020 12:30	JN	All Industry Activity Index MoM	Dec	0.30%	--	0.90%	--
02/21/2020 15:30	TH	Foreign Reserves	Feb-14	--	--	\$228.8b	--
02/21/2020 16:30	GE	Markit/BME Germany Manufacturing PMI	Feb P	44.8	--	45.3	--
02/21/2020 17:00	EC	Markit Eurozone Manufacturing PMI	Feb P	47.4	--	47.9	--
02/21/2020 17:00	EC	Markit Eurozone Composite PMI	Feb P	51	--	51.3	--
02/21/2020 17:30	UK	Markit UK PMI Manufacturing SA	Feb P	49.7	--	50	--
02/21/2020 17:30	UK	PSNB ex Banking Groups	Jan	-11.4b	--	4.8b	--
02/21/2020 18:00	EC	CPI YoY	Jan	1.40%	--	1.40%	--
02/21/2020 18:00	EC	CPI MoM	Jan F	-1.00%	--	-1.00%	--
02/21/2020 22:45	US	Markit US Manufacturing PMI	Feb P	51.5	--	51.9	--
02/21/2020 23:00	US	Existing Home Sales	Jan	5.44m	--	5.54m	--

Source: Bloomberg

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