

Daily Treasury Outlook

22 January 2020

Highlights

Global: As the number of cases and geographical spread (with the first case in US confirmed) of the Wuhan coronavirus increase, this could potentially pose a dark cloud to the nascent green shoots theme, leading to rising concerns that the January market rally may not be able to sustain. With the dampened global risk appetite, Wall Street declined overnight, and UST bonds rallied with the 10-year yield falling to 1.77%. While US president Trump is hopeful of a “tremendous new deal” with the UK and “we’re going to talk about a big trade deal” with the EU, and Treasury Secretary Mnuchin suggested US growth could beat forecast this year, Chinese Vice Premier Han Zheng told WEF audience that China will open its door wider and downplayed concerns that the Phase 1 deal will be at the expense of other nations. South Korea’s 4Q19 GDP growth came in at 1.2% qoq (market forecast: 0.7%), its fastest pace since 3Q17, due to business investment and government spending.

Market watch: Asian markets may see a stronger risk-off trading tone this morning on the Wuhan coronavirus concerns, especially ahead of the Chinese New Year festive holidays where travel may contribute to an escalation of the reported cases. EM stock markets had slipped 1.7% yesterday, the most since August. Apart from the news headlines about the coronavirus, watch the BNM rate decision (OPR likely unchanged at 3%) and the BOC rate decision (also likely static at 1.75%) due later today. Key economic releases to watch today include US’ existing home sales and mortgage applications, Thai trade data, Malaysia’ CPI and foreign reserves, and S’pore’s COE tender results.

US: The impeachment trial against President Trump started yesterday, but Trump (currently in Davos) dismissed it as a “hoax”.

EU: Germany’s ZEW economic sentiments rose from 10.7 in December to 26.7 in January, beating expectations and reaching mid-2015 highs.

UK: Employment rose by 208k to 32.90 million in November, the highest in nearly a year, whilst the unemployment rate remained at 3.8% (lowest since early 1975). However, the healthy labor market condition may not prevent the BOE from executing an imminent insurance rate cut.

Singapore: MAS will re-open \$2.5b (with MAS taking \$200m) of the 10-year SGS bond maturing 1 July 2029 with the auction on 29 January.

China: Chinese equity market was sold off while bonds rallied on Tuesday as a result of rising risk-off sentiment due to deteriorating coronavirus situation in China. As of this morning, 324 cases have been confirmed in China across 14 provinces. The World Health Organization will decide today whether to designate the outbreak as an internal public health emergency. On the positive note, China has taken bolder action to control the situation advising 11 million residents of Wuhan not to leave the city. The development of outbreak is likely to dominate the headline in the global market in the coming days.

Key Market Movements

| Equity | Value | % chg |
|-------------|--------|----------|
| S&P 500 | 3320.8 | -0.3% |
| DJIA | 29196 | -0.5% |
| Nikkei 225 | 23865 | -0.9% |
| SH Comp | 3052.1 | -1.4% |
| STI | 3247.2 | -1.0% |
| Hang Seng | 27985 | -2.8% |
| KLCI | 1587.3 | -0.1% |
| Currencies | Value | % chg |
| DX | 97.531 | -0.1% |
| USDJPY | 109.87 | -0.3% |
| EURUSD | 1.1082 | -0.1% |
| GBPUSD | 1.3050 | 0.3% |
| USIDR | 13669 | 0.2% |
| USDSGD | 1.3499 | 0.2% |
| SGDMYR | 3.0166 | 0.1% |
| Rates | Value | chg (bp) |
| 3M UST | 1.53 | -2.05 |
| 10Y UST | 1.77 | -4.72 |
| 1Y SGS | 1.60 | -1.20 |
| 10Y SGS | 1.71 | -1.45 |
| 3M LIBOR | 1.80 | -1.70 |
| 3M SIBOR | 1.74 | 0.00 |
| 3M SOR | 1.53 | -1.44 |
| Commodities | Value | % chg |
| Brent | 64.59 | -0.9% |
| WTI | 58.38 | -0.3% |
| Gold | 1558 | -0.2% |
| Silver | 17.79 | -1.6% |
| Palladium | 2402 | -5.6% |
| Copper | 6160 | -1.6% |
| BCOM | 79.21 | -0.8% |

Source: Bloomberg

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Major Markets

US: US markets fell last night as investors' risk appetite was dented by the spread of the Wuhan coronavirus globally, with US confirming its first case. The S&P500 index was down by 0.3%. For today, investors are likely to continue to remain cautious as they monitor the outbreak of the Wuhan coronavirus, which might worsen as China heads into the Chinese New Year holidays. Support and resistance levels for the S&P500 index are likely at the 3250 and 3280 handles respectively.

Japan: BOJ kept its monetary policy settings and forward guidance static but nudged its growth forecast up to 0.9% (previously 0.7%) for FY20 as expected. BOJ governor Kuroda remained cautious and reiterated that "the overseas downside risks may have eased a little from a while ago.... we need to continue to pay sufficient attention to those risks with a monetary policy that has a conscious easing bias".

Singapore: The STI lost 1.0% to close at 3247.17 yesterday, joining the sea of red ink across Asian bourses on fears of the spreading coronavirus, and is likely to face further selling pressure today given soft leads from Wall Street overnight and Kospi this morning (notwithstanding better than expected 4Q19 GDP growth estimates out). STI may see support at 3225 followed by 3200. With the flight to quality in the UST bond market overnight, we are likely to see the SGS bond market also catch a bid tone today and yields may extend lower after ending 1-2bps softer yesterday.

Hong Kong: Inflation decelerated from August's 3.5% to 3.2% in September, mainly due to high base effect. For the two most heavily weighted sections, food inflation though slowed down to 6% remained high amid persistent pork shortage while housing inflation edged lower to 3.2% as the effect of upward adjustment in public housing rentals in last 2019 abated. On the other hand, due to the electricity charge subsidy provided by the government, the utility price index dropped for nine consecutive months by 5.6% in September. Moving forward, as the outbreak of African swine flu will likely keep pork price elevated, it may continue to boost food inflation. Nevertheless, overall inflationary pressure may be contained given the muted imported inflation on a stronger HKD, government's one-off relief measures as well as subdued local consumption. Still, as the overall CPI rose by 2.8% yoy during the first nine months of 2019, we revise our forecast on 2019 CPI growth from 2.6% to 2.8%.

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Macau: The number of visitor arrivals decreased by 13.63% yoy to 3,083,406 in December, despite the Christmas holiday. Specifically, same-day visitors and overnight visitors dropped for the second consecutive month and the fifth consecutive month by 12.07% yoy and 15.25% yoy respectively. The weak performance of visitor arrivals might be attributed to several unfavorable factors, including negative spillover effect driven by HK's prolonged social unrest, high accommodation costs and lack of new entertainment projects. Nevertheless, infrastructure improvement continued to attract visitors from neighbouring regions.

In a nutshell, the growth of total visitor arrivals might reverse the downtrend in the coming months, amid low base effect and upcoming Chinese New Year holiday. Nevertheless, the growth of overnight visitor arrivals might be still under pressure due to China's economic slowdown, a strong MOP and spill-over effect of Hong Kong's social unrest. This may feed through to restaurant, retail and gaming sectors

Malaysia: Malaysia's Dec19 CPI is due out today; likely still mild at 1.0% yoy. While this would provide room for BNM to cut rate, we expect the central bank to hold out a bit more for Q4 GDP data (out 12 Feb) for clarity on whether a monetary stimulus is needed. We see an OPR hold at 3.0% today.

Indonesia: The government has ordered airports and airlines to take precautionary measures such as thermal screening to anticipate the outbreak of the coronavirus. Overall, the less supportive risk sentiment may put some relative pressure on EM assets, including Rupiah today, although market is still on a wait-and-see mode.

South Korea: South Korea GDP growth in Q4 2019 grew 2.2% yoy, beating estimates of 1.9%.

Thailand: The Constitutional Court has ruled that the Future Forward Party is not guilty of its monarchy charge, citing a lack of evidence to back up the accusation. Separately, Thailand has confirmed two cases of the Wuhan virus, which might add more woes to their tourism industry that is already facing headwinds from a strong baht and a slowing Chinese economy.

Oil: Oil prices fell as fears of the Wuhan coronavirus spread to as far as the United States. Brent closed -0.9% on the day to \$64.59/bbl. Developments over the virus is likely to drive oil's direction in the immediate short term, especially with the risks of contagion rising ahead of Lunar New Year festivities in China.

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Bond Market Updates

Market Commentary: The SGD swap curve bull-flattened yesterday, with the shorter tenors trading 0-1bps lower while the longer tenors traded 2bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 117bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 8bps to 445bps. The HY-IG Index Spread widened 7bps to 327bps. 10Y UST Yields fell by 5bps to 1.77%, after a report that the Wuhan coronavirus had migrated to the U.S.

New Issues: Helenbergh China Holdings Limited priced a USD250mn retap of its HLBCHN 12.875%'21s at 12.25%, tightening from IPT of 12.75% area. ReNew Power Pvt Ltd priced a USD450mn 5.5-year-WAL green bond at 5.875%, tightening from IPT of 6.125% area. Swire Pacific MTN Financing (HK) Limited priced a USD500mn 10-year bond (guaranteed by Swire Pacific Limited) at T+120bps, tightening from IPT of T+145bps area. Korea South-East Power Co Ltd priced a USD300mn 5-year green bond at T+62.5bps, tightening from IPT of T+90bps area. Shangri-La Hotel Limited priced a SGD250mn 10-year bond at 3.5%, tightening from IPT of 3.7% area.

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Foreign Exchange

| | Day Close | % Change | | Day Close | % Change |
|---------|-----------|----------|---------|-----------|----------|
| DX | 97.531 | -0.08% | USD-SGD | 1.3499 | 0.24% |
| USD-JPY | 109.870 | -0.28% | EUR-SGD | 1.4961 | 0.13% |
| EUR-USD | 1.1082 | -0.12% | JPY-SGD | 1.2287 | 0.53% |
| AUD-USD | 0.6845 | -0.41% | GBP-SGD | 1.7615 | 0.55% |
| GBP-USD | 1.3050 | 0.31% | AUD-SGD | 0.9240 | -0.17% |
| USD-MYR | 4.0715 | 0.30% | NZD-SGD | 0.8905 | 0.07% |
| USD-CNY | 6.9058 | 0.57% | CHF-SGD | 1.3937 | 0.22% |
| USD-IDR | 13669 | 0.22% | SGD-MYR | 3.0166 | 0.14% |
| USD-VND | 23171 | -- | SGD-CNY | 5.1157 | 0.41% |

Interbank Offer Rates (%)

| Tenor | EURIBOR | Change | Tenor | USD Libor | Change |
|-------|---------|--------|-------|-----------|--------|
| 1M | -0.4630 | -0.20% | O/N | 1.5311 | -- |
| 2M | -0.3360 | -- | 1M | 1.6534 | -0.10% |
| 3M | -0.3920 | -0.10% | 2M | 1.7864 | -0.61% |
| 6M | -0.3330 | -0.61% | 3M | 1.8021 | -1.70% |
| 9M | -0.1940 | -1.70% | 6M | 1.8295 | -1.54% |
| 12M | -0.2440 | -1.54% | 12M | 1.9246 | 0.16% |

Fed Rate Hike Probability

| Meeting | Prob Hike | Prob Cut | 0.75-1.00% | 1.00-1.25% | 1.25-1.50% |
|------------|-----------|----------|------------|------------|------------|
| 29/01/2020 | 12.30% | 0.00% | 0.00% | 0.00% | 0.00% |
| 18/03/2020 | 12.20% | 0.80% | 0.00% | 0.00% | 0.80% |
| 29/04/2020 | 11.10% | 8.70% | 0.00% | 0.10% | 8.60% |
| 10/06/2020 | 9.20% | 22.00% | 0.00% | 1.50% | 20.50% |
| 29/07/2020 | 7.80% | 32.60% | 0.20% | 4.40% | 27.90% |
| 16/09/2020 | 6.00% | 46.80% | 1.20% | 10.00% | 35.50% |

Commodities Futures

| Energy | Futures | % chg | Soft Commodities | Futures | % chg |
|--------------------------|---------|-------|-------------------------|---------|-------|
| WTI (per barrel) | 58.34 | -0.3% | Corn (per bushel) | 3.8750 | -0.4% |
| Brent (per barrel) | 64.59 | -0.9% | Soybean (per bushel) | 9.160 | -1.5% |
| Heating Oil (per gallon) | 1.8292 | -1.6% | Wheat (per bushel) | 5.8150 | 1.9% |
| Gasoline (per gallon) | 1.6365 | -0.2% | Crude Palm Oil (MYR/MT) | 2,960.0 | -0.4% |
| Natural Gas (per MMBtu) | 1.8950 | -5.4% | Rubber (JPY/KG) | 168.2 | -0.5% |
| Base Metals | Futures | % chg | Precious Metals | Futures | % chg |
| Copper (per mt) | 6,160 | -1.6% | Gold (per oz) | 1,558.2 | -0.2% |
| Nickel (per mt) | 13,665 | -2.5% | Silver (per oz) | 17.788 | -1.6% |

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Equity and Commodity

| Index | Value | Net change |
|------------|-----------|------------|
| DJIA | 29,196.04 | -152.06 |
| S&P | 3,320.79 | -8.83 |
| Nasdaq | 9,370.81 | -18.14 |
| Nikkei 225 | 23,864.56 | -218.95 |
| STI | 3,247.17 | -32.92 |
| KLCI | 1,587.33 | -1.55 |
| JCI | 6,238.15 | -6.89 |
| Baltic Dry | 729.00 | -- |
| VIX | 12.85 | 0.75 |

Government Bond Yields (%)

| Tenor | SGS (chg) | UST (chg) |
|-------|--------------|--------------|
| 2Y | 1.43 (-0.01) | 1.53 (-0.03) |
| 5Y | 1.49 (-0.02) | 1.58 (-0.04) |
| 10Y | 1.71 (-0.01) | 1.77 (-0.05) |
| 15Y | 1.83 (-0.01) | -- |
| 20Y | 1.92 (-0.01) | -- |
| 30Y | 2.08 (-0.02) | 2.24 (-0.04) |

Financial Spread (bps)

| | Value | Change |
|-------------|-------|--------|
| EURIBOR-OIS | 5.70 | -0.20 |
| TED | 35.36 | -- |

Secured Overnight Fin. Rate

| | |
|------|------|
| SOFR | 1.54 |
|------|------|

Economic Calendar

| Date Time | | Event | | Survey | Actual | Prior | Revised |
|------------------|----|--------------------------------|--------|--------|--------|---------|---------|
| 01/22/2020 07:00 | SK | GDP YoY | 4Q P | 1.90% | 2.20% | 2.00% | -- |
| 01/22/2020 07:00 | SK | GDP SA QoQ | 4Q P | 0.70% | 1.20% | 0.40% | -- |
| 01/22/2020 07:30 | AU | Westpac Consumer Conf SA MoM | Jan | -- | -1.80% | -1.90% | -- |
| 01/22/2020 11:30 | TH | Customs Exports YoY | Dec | -1.25% | -- | -7.39% | -- |
| 01/22/2020 11:30 | TH | Customs Imports YoY | Dec | 2.00% | -- | -13.78% | -- |
| 01/22/2020 12:00 | MA | CPI YoY | Dec | 1.00% | -- | 0.90% | -- |
| 01/22/2020 15:00 | MA | BNM Overnight Policy Rate | Jan-22 | 3.00% | -- | 3.00% | -- |
| 01/22/2020 16:00 | TA | Industrial Production YoY | Dec | 3.70% | -- | 2.15% | -- |
| 01/22/2020 16:00 | TA | Unemployment Rate | Dec | 3.71% | -- | 3.73% | -- |
| 01/22/2020 17:30 | UK | PSNB ex Banking Groups | Dec | 5.3b | -- | 5.6b | -- |
| 01/22/2020 20:00 | US | MBA Mortgage Applications | Jan-17 | -- | -- | 30.20% | -- |
| 01/22/2020 21:30 | US | Chicago Fed Nat Activity Index | Dec | 0.13 | -- | 0.56 | -- |
| 01/22/2020 22:00 | US | FHFA House Price Index MoM | Nov | 0.30% | -- | 0.20% | -- |
| 01/22/2020 23:00 | US | Existing Home Sales | Dec | 5.43m | -- | 5.35m | -- |
| 01/22/2020 23:00 | CA | Bank of Canada Rate Decision | Jan-22 | 1.75% | -- | 1.75% | -- |

Source: Bloomberg

Treasury Research & Strategy

Macro Research

Selena Ling*Head of Research & Strategy*LingSSSelena@ocbc.com**Tommy Xie Dongming***Head of Greater China Research*XieD@ocbc.com**Wellian Wiranto***Malaysia & Indonesia*WellianWiranto@ocbc.com**Terence Wu***FX Strategist*TerenceWu@ocbc.com**Howie Lee***Thailand & Commodities*HowieLee@ocbc.com**Carie Li***Hong Kong & Macau*carierli@ocbcwh.com**Dick Yu***Hong Kong & Macau*dicksnyu@ocbcwh.com

Credit Research

Andrew Wong*Credit Research Analyst*WongVKAM@ocbc.com**Ezien Hoo***Credit Research Analyst*EzienHoo@ocbc.com**Wong Hong Wei***Credit Research Analyst*WongHongWei@ocbc.com**Seow Zhi Qi***Credit Research Analyst*ZhiQiSeow@ocbc.com

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