

## Daily Treasury Outlook

26 February 2020

### Highlights

**Global:** Another big risk off bout sent the S&P500 down 3% overnight and the 10-year UST bond yield to a fresh record low of 1.31% after the US CDC warned Americans to prepare for a Covid-19 outbreak. Notably, Nasdaq has also erased year-to-date gains. Whilst the WHO has warned of growing covid-19 risks, Fed's Claudia still opined it is too soon to determine if the virus poses a material change to the US outlook.

**Market watch:** Asian markets are likely to still reel from the flight to safety bid. Watch for Hong Kong's 4Q19 GDP print and Budget announcement, S'pore's industrial production, Thai manufacturing production, and US new home sales. ECB's Lagarde, Panetta and Holzmman are also speaking.

**China:** China's State Council announced more measures in its regular meeting to support the small and micro companies. On financial support, China will encourage financial institutions to provide the bridging loan to those smaller companies with cashflow problem. Meanwhile, China will increase the amount of re-lending by CNY500 billion for small and medium sized banks to lend to small and micro companies. Policy banks will also increase its special loan quota by another CNY350 billion to support smaller companies. On fiscal side, the value added tax for small scale taxpayers in Hubei will be exempted from 1 March to end May. The VAT for small scale taxpayers outside Hubei will be lowered from 3% to 1%. Meanwhile, China encourages local governments to lower or exempt the urban land use tax and support the landlord to lower the rental for smaller business.

**Singapore:** From 2 March, companies in the manufacturing and services industries impacted by the covid-19 related labour disruptions will be allowed to hire Chinese workers already in Singapore for six months. There is a \$2.3b auction (with MAS taking \$200m) of the new 30-year SGS bond today.

**Malaysia:** UMNO and PAS, which were slated to join the so-called backdoor coalition as an alternative to the Pakatan Harapan (ex) government, came out and said no. Now, they want to see a snap election instead. The manoeuvre came as the now-interim, but also former, PM Mahathir was reportedly trying to form an unity government that would include all political parties. The plot thickens further.

**Indonesia:** Finance Minister Sri Mulyani announced a Covid-19 relief package yesterday amounting to IDR10.3tn (\$740mn). This aims to help domestic businesses and consumers counter the economic impact. This includes cash handouts to about 15mn lower-income households. Other measures include discounts for travellers to the top 10 destinations across the country, with locals enjoying 30% off plane tickets.

**Oil:** Brent closed marginally below the critical \$55/bbl level, ending the session at \$54.95/bbl. A continued selloff on Wall Street has put pressure on energy prices. The Apr-May Brent spread, however, remains in backwardation, suggesting that near term supply remains tight.

### Key Market Movements

Equity	Value	% chg
S&P 500	3128.2	-3.0%
DJIA	27081	-3.1%
Nikkei 225	22605	-3.3%
SH Comp	3013.1	-0.6%
STI	3158.2	0.5%
Hang Seng	26893	0.3%
KLCI	1500.9	0.7%
Currencies	Value	% chg
DX	98.968	-0.4%
USDJPY	110.2	-0.5%
EURUSD	1.0882	0.3%
GBPUSD	1.3005	0.6%
USDIDR	13887	0.1%
USDSGD	1.3988	-0.1%
SGDMYR	3.0283	0.5%
Rates	Value	chg (bp)
3M UST	1.51	-1.50
10Y UST	1.35	-1.84
1Y SGS	1.61	1.00
10Y SGS	1.59	0.84
3M LIBOR	1.65	-3.26
3M SIBOR	1.71	0.00
3M SOR	1.47	-2.76
Commodities	Value	% chg
Brent	54.95	-2.4%
WTI	49.9	-3.0%
Gold	1635	-1.5%
Silver	18.00	-3.4%
Palladium	2714	2.8%
Copper	5685	-0.1%
BCOM	74.21	-0.9%

Source: Bloomberg

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### Major Markets

**US:** US equity markets plunged for a fourth consecutive session as investors contemplated of a possible Covid-19 outbreak in the US after the CDC warned of a possible coronavirus outbreak in the US. The S&P500 index tumbled by 3%. Downside risks remain and selling momentum looks relatively intact at the moment, especially if the Covid-19 global outbreak shows no signs of stopping.

**Hong Kong:** Exports (-22.7% yoy) and imports (-16.4% yoy) both surprised to the downside in January due to the base effect caused by the different timing of Lunar New Year between this year and last year. Exports to Asia and the USA fell by 21% yoy and 33% yoy respectively. Imports from Mainland China and the USA decreased by 25.1% yoy and 16.6% yoy respectively. By commodity, exports of electrical machinery, telecommunications and office machines fell by 15.4% yoy, 24.2% yoy and 24.1% yoy respectively. Imports of telecommunications and office machines tumbled by 22.1% yoy and 31% yoy respectively. Taken all together, it indicates that aside from the base effect, the prolonged US-China trade war might have remained a drag on Hong Kong's trading activities. Also, as local economy has been fraught with double whammy, weakening domestic demand has led to the fourteenth consecutive month of negative growth in imports. Moving into the coming months, despite easing trade tensions, Hong Kong's trading activities are expected to soften further as the outbreak of coronavirus has disrupted the tightly integrated global supply chains, clouded global growth outlook and dented global demand.

**Singapore:** The STI rose 0.51% yesterday. For today, the STI is expected to trade lower after US equity markets endured a heavy selloff overnight while the Nikkei and Kospi also opened lower. We expect the STI to continue to face selling pressure in the near term as investors take a risk-off stance.

**South Korea:** With the country raising its coronavirus alert to red yesterday, we now think the chances of a BoK rate cut this Thursday is relatively high. We expect a 25bp cut on the benchmark rate to 1.00%.

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### Bond Market Updates

**Market Commentary:** The SGD swap curve steepened yesterday, with the shorter tenors trading 0-1bps higher (with the exception of the 1-year tenor trading 2bps lower), while the belly and the longer tenors traded 2-3bps higher. The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 2bps to 125bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 9bps to 506bps. The HY-IG Index Spread widened 7bps to 381bps. Playing its safe-haven role, 10Y UST Yields fell 2bps to 1.35% though at one point touched 1.31% intraday, which was a record low since 2016 on the back of lower than street's forecasted consumer confidence index and rising concerns that the outbreak of COVID-19 will have a larger global impact. The Centers for Disease Control and Prevention ("CDC") outlined steps which schools and businesses would likely need to do in the event of an epidemic in the USA while adding that it expects COVID-19 to begin community spreading in the USA.

**New Issues:** Minmetals Bounteous Finance (BVI) Limited (Guarantor: China Minmetals Corporation) priced a USD1bn PERPNC4.5 bond at 3.375%, tightening from IPT of 3.7% area. Bank of Communications (Hong Kong) Limited priced a USD500mn AT1 PERPNC5 at 3.725%, tightening from IPT of 4.1% area. Elect Global Investments Ltd. (Guarantor: Hysan Development Co.) priced a USD850mn PERPNC5.5 at 4.1%, tightening from IPT of 4.4% area.

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### Foreign Exchange

	Day Close	% Change		Day Close	% Change
<b>DX</b>	98.968	-0.39%	<b>USD-SGD</b>	1.3988	-0.07%
<b>USD-JPY</b>	110.200	-0.47%	<b>EUR-SGD</b>	1.5221	0.19%
<b>EUR-USD</b>	1.0882	0.26%	<b>JPY-SGD</b>	1.2692	0.41%
<b>AUD-USD</b>	0.6604	-0.02%	<b>GBP-SGD</b>	1.8192	0.55%
<b>GBP-USD</b>	1.3005	0.63%	<b>AUD-SGD</b>	0.9235	-0.10%
<b>USD-MYR</b>	4.2338	0.17%	<b>NZD-SGD</b>	0.8842	-0.35%
<b>USD-CNY</b>	7.0135	-0.24%	<b>CHF-SGD</b>	1.4330	0.23%
<b>USD-IDR</b>	13887	0.11%	<b>SGD-MYR</b>	3.0283	0.45%
<b>USD-VND</b>	23251	--	<b>SGD-CNY</b>	5.0157	-0.20%

### Equity and Commodity

Index	Value	Net change
<b>DJIA</b>	27,081.36	-879.44
<b>S&amp;P</b>	3,128.21	-97.68
<b>Nasdaq</b>	8,965.61	-255.67
<b>Nikkei 225</b>	22,605.41	-781.33
<b>STI</b>	3,158.24	16.04
<b>KLCI</b>	1,500.88	10.82
<b>JCI</b>	5,787.14	-19.91
<b>Baltic Dry</b>	506.00	--
<b>VIX</b>	27.85	2.82

### Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
<b>1M</b>	-0.4770	0.30%	<b>O/N</b>	1.5755	0.52%
<b>2M</b>	-0.3360	0.52%	<b>1M</b>	1.6161	-1.06%
<b>3M</b>	-0.4140	-1.06%	<b>2M</b>	1.6369	-3.99%
<b>6M</b>	-0.3570	-3.99%	<b>3M</b>	1.6466	-3.26%
<b>9M</b>	-0.1940	-3.26%	<b>6M</b>	1.6276	-4.71%
<b>12M</b>	-0.2840	-4.71%	<b>12M</b>	1.6348	-9.39%

### Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
<b>2Y</b>	1.48 (+0.01)	1.22 (-0.02)
<b>5Y</b>	1.49 (+0.01)	1.18 (-0.03)
<b>10Y</b>	1.59 (+0.01)	1.35 (-0.02)
<b>15Y</b>	1.70 (+0.01)	--
<b>20Y</b>	1.75 (+0.01)	--
<b>30Y</b>	1.93 (+0.01)	1.83 (-0.01)

### Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	Prob Hike/Cut	Implied Rate Change	Implied Rate
18/03/2020	-0.22	-22%	-0.055	1.529
29/04/2020	-0.625	-40.50%	-0.156	1.427
10/06/2020	-1.113	-48.80%	-0.278	1.306
29/07/2020	-1.505	-39.20%	-0.376	1.208
16/09/2020	-1.856	-35.10%	-0.464	1.12
05/11/2020	-2.009	-15.30%	-0.502	1.082

### Financial Spread (bps)

	Value	Change
<b>EURIBOR-OIS</b>	5.70	1.00
<b>TED</b>	35.36	--

### Secured Overnight Fin. Rate

<b>SOFR</b>	1.58
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### Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	49.90	-3.0%	Corn (per bushel)	3.7250	0.1%
Brent (per barrel)	54.95	-2.4%	Soybean (per bushel)	8.790	0.5%
Heating Oil (per gallon)	1.5685	-2.8%	Wheat (per bushel)	5.3900	0.5%
Gasoline (per gallon)	1.5324	-4.8%	Crude Palm Oil (MYR/MT)	2,480.0	-4.5%
Natural Gas (per MMBtu)	1.8470	1.1%	Rubber (JPY/KG)	181.0	10.3%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,685	-0.1%	Gold (per oz)	1,635.1	-1.5%
Nickel (per mt)	12,450	0.2%	Silver (per oz)	18.001	-3.4%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

## Economic Calendar

Date Time		Event		Survey	Actual	Prior	Revised
02/26/2020	PH	Budget Balance PHP	Dec	--	--	-60.9b	--
02/26/2020 05:00	SK	Business Survey Manufacturing	Mar	--	69	77	--
02/26/2020 05:00	SK	Business Survey Non-Manufacturing	Mar	--	68	74	--
02/26/2020 08:30	AU	Construction Work Done	4Q	-1.00%	--	-0.40%	--
02/26/2020 11:00	HK	GDP YoY	4Q F	-2.90%	--	-2.90%	--
02/26/2020 11:00	HK	GDP SA QoQ	4Q F	-0.40%	--	-0.40%	--
02/26/2020 13:00	SI	Industrial Production YoY	Jan	-5.80%	--	-0.70%	--
02/26/2020 13:00	SI	Industrial Production SA MoM	Jan	-0.70%	--	4.10%	--
02/26/2020 16:00	AS	ECB's Holzmann Speaks at Conference in Vienna					
02/26/2020 16:00	EC	ECB's Panetta Speaks in Frankfurt					
02/26/2020 20:00	US	MBA Mortgage Applications	Feb-21	--	--	-6.40%	--
02/26/2020 21:30	EC	ECB President Lagarde Speaks in Wiesbaden, Germany					
02/26/2020 23:00	US	New Home Sales	Jan	718k	--	694k	--
02/26/2020 23:00	US	New Home Sales MoM	Jan	3.50%	--	-0.40%	--

Source: Bloomberg

## Treasury Research & Strategy

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