

Daily Treasury Outlook

27 February 2020

Highlights

Global: Well, at least they tried. Major US equity indices tried to stage a relief rally at the start of the overnight session. However, the valiant attempt couldn't keep up with renewed concerns about the virus. S&P 500 ended down for the 5th day - albeit closing at a relatively mild -0.4%. Nasdaq did retain its gains but was up by a negligible margin. UST10y yield stayed around 1.34% level. Crude sold off further, however, with WTI down by 2.4%.

The lingering jitters came as concerns about the global spread of the virus continued to dominate. Brazil confirmed a case, which is the first in Latin America. This comes as cases are reported in countries as far afield as Spain and Pakistan. As WHO noted, most new cases are emerging outside of China than inside the epicentre. US FDA warned that we are "on the cusp" of a global pandemic. Trump is scheduled to address the nation on the issue, although his recent comments about how media has been playing up the risk suggests that he might be keen to downplay the issue.

Bank of Korea surprised the market by keeping its policy rate unchanged at 1.25%. It had been slated to ease its policy rate to help cushion the economy from both global slowdown and the domestic hit from its local infection fear. The hold suggests that the central bank is keen to preserve some ammunition at this stage.

Market watch: The economic data calendar comprises US 4Q GDP, US initial jobless claims, US durable goods orders and eurozone consumer confidence.

China: China's Commerce Ministry said 22% companies in accommodation and FNB industries have received the respective support from the government such as the bank loan. Meanwhile, the Ministry also vowed to stabilize the trade.

Hong Kong: 2019-20 budget balance came in at a deficit of HK\$37.8 billion (about 1.3% of GDP) for 2019-20, the first deficit since the fiscal year 2003-2004 when the economy grappled with SARS virus outbreak. On a positive note, the sizeable fiscal reserve of HK\$1.13 trillion by the end of March 2020 allows the government to announce unprecedentedly expansionary fiscal policy to contain the epidemic and revive the economy. As a result, a record fiscal deficit of HK\$139.1 billion is expected for 2020-21 (4.8% of total GDP, a level unseen since 2002-03). The stimulus measures could be divided into three parts. First, supporting enterprises, safeguarding jobs and relieving burden with counter-cyclical measures of over HK\$120 billion including HK\$71 billion for cash handouts. Second, reviving and diversifying the economy by offering support to the tourism, trade, financial as well as innovation and technology sectors. Third, supporting sustainable livelihood by taking measures to protect environment, build a smart city, enhance the healthcare system and tackle the prolonged housing problems.

Singapore: The new 30-year SGS bond auction yesterday fetched a bid cover ratio of 2.36x and a cut-off yield of 1.9%.

Key Market Movements		
Equity	Value	% chg
S&P 500	3116.4	-0.4%
DJIA	26958	-0.5%
Nikkei 225	22426	-0.8%
SH Comp	2987.9	-0.8%
STI	3117.5	-1.3%
Hang Seng	26696	-0.7%
KLCI	1495.2	-0.4%
Currencies	Value	% chg
DXY	98.996	0.0%
USDJPY	110.43	0.2%
EURUSD	1.0881	0.0%
GBPUSD	1.2905	-0.8%
USDIDR	13940	0.4%
USDSGD	1.3977	-0.1%
SGDMYR	3.0241	-0.1%
Rates	Value	chg (bp)
3M UST	1.51	-0.26
10Y UST	1.34	-1.50
1Y SGS	1.60	-1.10
10Y SGS	1.51	-7.84
3M LIBOR	1.64	-0.90
3M SIBOR	1.71	0.10
3M SOR	1.46	-1.24
Commodities	Value	% chg
Brent	53.43	-2.8%
WTI	48.73	-2.3%
Gold	1641	0.4%
Silver	17.92	-0.4%
Palladium	2780	2.4%
Copper	5670	-0.3%
BCOM	73.63	-0.8%

Source: Bloomberg

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Major Markets

US: US equity indices attempted to rally at the beginning of yesterday's session but failed as worries over a possible global pandemic outweighed the attempt. The S&P500 index fell by 0.38%. We expect any upside moves to be capped for now by the coronavirus while markets will take their cues from the pace of the spread of infections.

Hong Kong: On the back of the stronger than expected fiscal stimulus, we will keep our current 2020 GDP forecast of -0.2% unchanged although the downside risks remain high due to uncertainty from the global spread of covid-19. We will revisit our forecast next month pending on the situation of covid-19. The government estimates that GDP growth will fall in the range of -1.5% to +0.5% in 2020. Going forward, the government forecasts deficits of between HK\$7.4 billion and HK\$17 billion for each year during 2021-22 to 2024-25. Fiscal reserves are estimated at \$937.1 billion by the end of March 2025, representing 26.5% of GDP, equivalent to 15 months of government expenditure. This suggests that the government is still financially capable to support the economy with expansionary fiscal policy. Therefore, we do not expect the recent negative factors to translate into any structural change to the economy.

Singapore: The STI fell by 1.3% yesterday as concerns over the coronavirus outbreak continued to outweigh risk sentiment. The STI is likely to trade lower today following soft openings in Nikkei and Kospi indices. We do not expect any upsides in the near term as risk sentiment continues to be subdued by the coronavirus.

Malaysia: Pakatan Harapan parties proclaimed their support for Anwar Ibrahim as the next PM, after declaring their support for Mahathir earlier in the week. The latter has reportedly been attempting to form a new government across party lines, based on "meritocracy" - a notion that does not seem to be popular among political parties. PH's move follows a switch by UMNO, from supporting Mahathir to calling for a snap election.

Indonesia: Hit by torrential downpour and atrocious flood management, the capital city Jakarta, has been impacted yet again by massive flood. It has resulted in 5 deaths and 3 people are still missing. Road closures have also resulted in massive traffic jams throughout the city.

South Korea: As of 26 Feb, the number of Covid-19 cases have swelled to over 1200 from just 51 a week ago. The South Korean economy is thus suffering from two fronts - the affected supply chains from China and a hampered domestic economy from within. Policy makers are likely to act sooner than later to shore up the economy, although the BoK has chosen to keep its benchmark rate on hold at 1.25% in this morning's policy meeting.

Oil: Oil is within a shade of testing its recent lows. Brent closed at \$53.40/bbl yesterday, 13 points from its Feb low of \$53.27/bbl. Meanwhile WTI sunk below \$50/bbl, closing at \$48.31/bbl to register a new low since 28 December 2018.

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Bond Market Updates

Market Commentary: The SGD swap curve bull-flattened yesterday, with the shorter tenors trading 4-7bps lower, while the belly and the longer tenors traded 8-9bps lower (with the exception of the 7-year tenor trading 6bps lower and 12-year tenor trading 2bps lower). The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1.5bps to 126bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 9bps to 514bps. The HY-IG Index Spread widened 7bps to 388bps. 10Y UST Yields fell 1.5bps to 1.34% and at one point hit a record low of 1.299% intraday, as investors continue to be worried about the global spread of COVID-19 and the accompanying economic risks. Officials in Nassau County, a New York City suburb, said they were monitoring over 80 people who had visited China and may have come in contact with COVID-19. The German health minister also predicted a possible epidemic in the country.

New Issues: XiAn Qujiang Culture Holdings Co. priced a USD300mn 3-year bond at 5.5%, tightening from IPT of 5.8% area. Bank of China Limited priced a USD2.82bn AT1 PERPNC5 at 3.6%, tightening from IPT of 3.95% area. Modern Land (China) Co., Ltd priced a USD150mn 4-year bond at 12.85%.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	98.996	0.03%	USD-SGD	1.3977	-0.08%
USD-JPY	110.430	0.21%	EUR-SGD	1.5211	-0.07%
EUR-USD	1.0881	-0.01%	JPY-SGD	1.2657	-0.28%
AUD-USD	0.6544	-0.91%	GBP-SGD	1.8036	-0.86%
GBP-USD	1.2905	-0.77%	AUD-SGD	0.9146	-0.96%
USD-MYR	4.2255	-0.20%	NZD-SGD	0.8794	-0.54%
USD-CNY	7.0229	0.13%	CHF-SGD	1.4308	-0.15%
USD-IDR	13940	0.38%	SGD-MYR	3.0241	-0.14%
USD-VND	23244	-0.03%	SGD-CNY	5.0261	0.21%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4740	-1.10%	O/N	1.5690	-0.65%
2M	-0.3360	-0.65%	1M	1.6126	-0.35%
3M	-0.4170	-0.35%	2M	1.6356	-0.13%
6M	-0.3580	-0.13%	3M	1.6376	-0.90%
9M	-0.1940	-0.90%	6M	1.6286	0.10%
12M	-0.2950	0.10%	12M	1.6458	1.10%

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	Prob Hike/Cut	Implied Rate Change	Implied Rate
18/03/2020	-0.371	-37.10%	-0.093	1.491
29/04/2020	-0.925	-55.40%	-0.231	1.352
10/06/2020	-1.524	-59.90%	-0.381	1.203
29/07/2020	-1.945	-42.10%	-0.486	1.097
16/09/2020	-2.317	-37.20%	-0.579	1.004
05/11/2020	-2.457	-14%	-0.614	0.97

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	48.73	-2.3%	Corn (per bushel)	3.7050	-0.5%
Brent (per barrel)	53.43	-2.8%	Soybean (per bushel)	8.810	0.2%
Heating Oil (per gallon)	1.4994	-4.4%	Wheat (per bushel)	5.4025	0.2%
Gasoline (per gallon)	1.4549	-5.1%	Crude Palm Oil (MYR/MT)	2,460.0	-0.8%
Natural Gas (per MMBtu)	1.8210	-1.4%	Rubber (JPY/KG)	178.3	-1.5%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,670	-0.3%	Gold (per oz)	1,641.0	0.4%
Nickel (per mt)	12,550	0.8%	Silver (per oz)	17.921	-0.4%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Equity and Commodity

Index	Value	Net change
DJIA	26,957.59	-123.77
S&P	3,116.39	-11.82
Nasdaq	8,980.77	15.16
Nikkei 225	22,426.19	-179.22
STI	3,117.52	-40.72
KLCI	1,495.19	-5.69
JCI	5,688.92	-98.22
Baltic Dry	508.00	--
VIX	27.56	-0.29

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.44 (-0.04)	1.16 (-0.06)
5Y	1.44 (-0.05)	1.16 (-0.02)
10Y	1.51 (-0.08)	1.34 (-0.02)
15Y	1.62 (-0.09)	--
20Y	1.65 (-0.1)	--
30Y	1.93 (--)	1.82 (--)

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	5.80	0.40
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	1.59
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Economic Calendar

Date Time		Event		Survey	Actual	Prior	Revised
02/27/2020	SK	BoK 7-Day Repo Rate	Feb-27	1.00%	--	1.25%	--
02/27/2020 02:29	VN	CPI YoY	Feb	5.88%	--	6.43%	--
02/27/2020 05:45	NZ	Trade Balance NZD	Jan	-549m	-340m	547m	384m
02/27/2020 08:00	NZ	ANZ Business Confidence	Feb	--	-19.4	-13.2	--
02/27/2020 17:00	EC	M3 Money Supply YoY	Jan	5.30%	--	5.00%	--
02/27/2020 18:00	EC	Consumer Confidence	Feb F	--	--	-6.6	--
02/27/2020 21:30	US	GDP Annualized QoQ	4Q S	2.10%	--	2.10%	--
02/27/2020 21:30	US	Durable Goods Orders	Jan P	-1.50%	--	2.40%	--
02/27/2020 21:30	US	GDP Price Index	4Q S	1.40%	--	1.40%	--
02/27/2020 21:30	US	Durables Ex Transportation	Jan P	0.20%	--	-0.10%	--
02/27/2020 21:30	US	Initial Jobless Claims	Feb-22	212k	--	210k	--
02/27/2020 21:30	US	Continuing Claims	Feb-15	1719k	--	1726k	--
02/27/2020 21:30	US	Personal Consumption	4Q S	1.70%	--	1.80%	--
02/27/2020 21:30	US	Core PCE QoQ	4Q S	1.30%	--	1.30%	--
02/27/2020 23:00	US	Pending Home Sales MoM	Jan	3.00%	--	-4.90%	--

Source: Bloomberg

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