DAILY TREASURY OUTLOOK

OCBC Bank

**Thursday, January 21, 2016**


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## Highlights

| | |
|---|---|
| **Global** | As global growth and deflationary fears (with crude oil prices dipped below the US$28 per barrel handle) seeped back to taint market sentiments, we saw another day of blood-letting across the global bourses and driving the flight to safety.<br>Meanwhile, BOC maintained its benchmark interest rate at 0.5% as expected and opined risks to the inflation profile as "roughly balanced" even though oil is a "setback to the Canadian economy" and financial "vulnerabilities" continue to edge higher. Nevertheless, BOC governor Poloz suggested that "the protracted process of reorientation towards non-resource activity is underway, helped by stronger US demand, the lower Canadian dollar, and accommodative monetary and financial conditions". He is also anticipating fiscal support from the Canada's budget, albeit the pared 2016 growth forecast of 1.4% (previously 2%) does not factor in a fiscal deficit.<br>For today, market focus will be on BNM and ECB where market is anticipating no change but some potential guidance of future direction given the softening economic fundamentals and oil price slump, especially from ECB's Draghi. Key data to watch include US' initial jobless claims and Philadelphia Fed business index, Eurozone's consumer confidence and Japan's all industry index for Nov. |
| **US** | US' CPI disappointed at -0.1% mom (+0.7% yoy) in Dec, while core CPI also eased to +0.1% mom (+2.1% yoy). Meanwhile, Dec housing starts also unexpectedly declined 2.5% mom to an annual pace of 1149k, bringing the full-year 2015 starts to 1.11m (+10.8%) which is the strongest year since 2007. Building permits also fell 3.9% mom to 1232k, reflecting a 11.4% slump in multi-family projects. |
| **EZ** | UK' jobless change unexpectedly fell 4.3% in Dec, as the claimant count rate rose 2.3%. While average weekly earnings were a tad softer at 2.0% in Nov, down from +2.4% previously, the ILO unemployment rate also dipped to 5.1% in Nov, contrary to market expectations, amid a 267k increase in the 3M/3M employment. |
| **S'pore** | The 5-year SGS bond re-opening will be $2.1b in issue size (with MAS taking $300m), which is in line with market expectations. The auction will be close on 27 Jan noon for issue on 1 Feb. Meanwhile, COE tender results saw category B premiums dipping below categories A and E. |
| **Malaysia** | Bank Negara is due to announce its monetary policy decision today, whereby we and the market expect it to leave its overnight policy rate unchanged at 3.25%. Part of the reason is that inflation remains relatively sticky. Yesterday's data showed that headline CPI inflation printed 2.7% yoy in December, compared to 2.6% the month before, as effects from tobacco tax hikes continue to be felt. |
| **Commo-dities** | Crude oil prices remained extremely volatile while safe haven assets reigned. WTI fell 6.7% to $26.55/bbl before erasing the losses this morning with a 7.8% gain as market-watchers eye closely on Friday's US oil inventory print. Elsewhere, gold rallied past its $1,100/oz handle on safe haven demand. |

## Major Market

- **US:** Wall Street's slump worsened overnight - Dow -1.56%, S&P500 -1.17% (to a 21-month low) and Nasdaq -0.12%. VIX +5.91% to 27.59. The flight to safety came back with a vengeance to lift the UST bond market, pushing the 2-year yield down to 0.83%, whilst the 10-year also dipped its toes below the 2% handle to 1.98%.

- **Singapore:** The STI dumped another 2.98% to close at 2559.77 yesterday, awash in a sea of red in Asian bourses as market confidence ebbed. Given the poor guidance from Wall Street overnight, it remains to be seen if global risk appetite will stabilise and any bargain-hunting interest will emerge. The STI's support and resistance are tipped at 2500 and 2600 respectively today. Expect the SGS bond market to stay well-bid on the de-risking from commodities and equities, especially given the issue size of the upcoming 5-year SGS bond is within market expectations.

- **China:** According to onshore media, China further tightened its control on capital outflows from both individuals and corporates. Individuals who send money abroad by breaking up forex purchase may be penalized. Meanwhile, outbound direct investment of more than US$50 million by companies in Shanghai Free Trade Zone must be reviewed by SAFE before the purchase of foreign currency, down from previously US$300 million.

- **Hong Kong:** Pessimism among investors intensified in Hong Kong after data shows that China had its weakest year since 1990. Hang Seng Index closed at 18886.3, the lowest since July 2012. Also, HKD climbed, with USD/HKD hovering around 7.8200, the highest since 2007.

- **Indonesia:** Bank Indonesia appears to continue highlighting the chance of another rate cut. Juda Agung, executive director of monetary policy, was quoted as saying that falling crude price means inflation may ease, which will give more room for the central bank to loosen monetary policy.

## Bond Market Updates

- **Market Commentary:** The SGD swap curve bull flattened yesterday, with the short-end rates traded 4bps lower while the belly-to-longer-end rates traded 6 bps lower. Sellers dominated market flows yesterday on weak overall sentiment. In the broader dollar space, JACI IG corporates spread widened by 7bps to 237bps while the yield on the JACI HY corporates increased by 3bps to 8.15%. 10y UST yield fell by 7bps to 1.98%.

- **New Issues:** China Nonferrous Metal Co Ltd priced a USD500mn 3-year bond at CT3+145bps, tightening from an initial guidance of CT3+170bps. KEB Hana Bank provided an initial guidance of CT5+125bps for a USD 5-year bond they are planning to issue.

- **Rating Changes:** Moody's downgraded Wynn Resorts Ltd (WYNN) to "Ba2" from "Ba1", citing demand challenges in Macau's gaming industry. Moody's is of the view that the industry will pressure Wynn's ability to reduce its consolidated leverage to the level required to maintain a Ba1 Corporate Family Rating. The outlook of Wynn Resorts and three of its primary operating subsidiaries, Wynn Macau LLC, Wynn Las Vegas LLC and Wynn America LLC is negative.

# Key Financial Indicators

**Foreign Exchange**

| | Day Close | % Change | | Day Close | % Change |
|---|---|---|---|---|---|
| **DXY** | 99.091 | 0.10% | **USD-SGD** | 1.4378 | 0.07% |
| **USD-JPY** | 116.940 | -0.60% | **EUR-SGD** | 1.5654 | -0.13% |
| **EUR-USD** | 1.0890 | -0.17% | **JPY-SGD** | 1.2293 | 0.65% |
| **AUD-USD** | 0.6908 | -0.01% | **GBP-SGD** | 2.0403 | 0.27% |
| **GBP-USD** | 1.4192 | 0.24% | **AUD-SGD** | 0.9931 | 0.04% |
| **USD-MYR** | 4.3950 | 0.69% | **NZD-SGD** | 0.9245 | 0.36% |
| **USD-CNY** | 6.5784 | 0.00% | **CHF-SGD** | 1.4318 | -0.01% |
| **USD-IDR** | 13964 | 0.81% | **SGD-MYR** | 3.0500 | 0.33% |
| **USD-VND** | 22421 | 0.00% | **SGD-CNY** | 4.5724 | -0.15% |

**Equity and Commodity**

| Index | Value | Net change |
|---|---|---|
| **DJIA** | 15,766.74 | -249.30 |
| **S&P** | 1,859.33 | -22.00 |
| **Nasdaq** | 4,471.69 | -5.30 |
| **Nikkei 225** | 16,416.19 | -632.20 |
| **STI** | 2,559.77 | -78.70 |
| **KLCI** | 1,618.83 | -10.40 |
| **JCI** | 4,427.99 | -63.80 |
| **Baltic Dry** | 358.00 | -5.00 |
| **VIX** | 27.59 | 1.50 |

**Interbank Offer Rates (%)**

| Tenor | EURIBOR | Change | Tenor | USD LIBOR | Change |
|---|---|---|---|---|---|
| **1M** | -0.2220 | -- | **O/N** | 0.3660 | -- |
| **2M** | -0.1820 | -- | **1M** | 0.4250 | -- |
| **3M** | -0.1430 | -- | **2M** | 0.5138 | -- |
| **6M** | -0.0560 | -- | **3M** | 0.6243 | -- |
| **9M** | -0.0110 | -- | **6M** | 0.8578 | -- |
| **12M** | 0.0480 | -- | **12M** | 1.1505 | -- |

**Government Bond Yields (%)**

| Tenor | SGS (chg) | UST (chg) |
|---|---|---|
| **2Y** | 1.14 (+0.01) | 0.82 (-0.05) |
| **5Y** | 1.87 (-0.03) | 1.42 (-0.07) |
| **10Y** | 2.38 (-0.03) | 1.98 (-0.07) |
| **15Y** | 2.71 (-0.02) | -- |
| **20Y** | 2.73 (-0.02) | -- |
| **30Y** | 2.82 (-0.02) | 2.75 (-0.07) |

**Eurozone & Russia Update**

| | 2Y Bond Ylds (bpschg) | | 10Y Bond Ylds (bpschg) | | 10Y Bund Spread % |
|---|---|---|---|---|---|
| **Portugal** | 0.17 | 4.80 | 2.93 | 15.90 | 2.44 |
| **Italy** | 0.05 | 3.20 | 1.65 | 9.10 | 1.17 |
| **Ireland** | -0.29 | -0.80 | 1.10 | -2.20 | 0.62 |
| **Greece*** | 12.99 | 147.50 | 10.15 | 98.00 | 9.67 |
| **Spain** | 0.01 | 0.30 | 1.79 | 8.10 | 1.30 |
| **Russia^** | 4.32 | 6.00 | 6.31 | 4.20 | 5.83 |

**Financial Spread (bps)**

| | Value | Change |
|---|---|---|
| **LIBOR-OIS** | 24.23 | -0.65 |
| **EURIBOR-OIS** | 12.90 | 1.25 |
| **TED** | 36.19 | -2.34 |

* Greece's bond yields data reflect 3-year (instead of 2-year) tenor
^ Russia's bond yields data reflects 3-year and 15-year tenors instead

**Commodities Futures**

| **Energy** | **Futures** | **% chg** | **Soft Commodities** | **Futures** | **% chg** |
|---|---|---|---|---|---|
| WTI (per barrel) | 26.55 | -6.71% | Coffee (per lb) | 1.116 | -3.50% |
| Brent (per barrel) | 27.88 | -3.06% | Cotton (per lb) | 0.6197 | -0.80% |
| Heating Oil (per gallon) | 0.866 | -4.73% | Sugar (per lb) | 0.1418 | -3.86% |
| Gasoline (per gallon) | 1.02 | -0.83% | Orange Juice (per lb) | 1.2005 | -4.00% |
| Natural Gas (per MMBtu) | 2.118 | 1.29% | Cocoa (per mt) | 2,810 | -4.23% |
| | | | | | |
| **Base Metals** | **Futures** | **% chg** | **Grains** | **Futures** | **% chg** |
| Copper (per mt) | 4,359.0 | -1.11% | Wheat (per bushel) | 4.7150 | -0.63% |
| Nickel (per mt) | 8,533 | -0.50% | Soybean (per bushel) | 8.740 | -1.08% |
| Aluminium (per mt) | 1,468.5 | -0.86% | Corn (per bushel) | 3.6875 | 0.27% |
| | | | | | |
| **Precious Metals** | **Futures** | **% chg** | **Asian Commodities** | **Futures** | **% chg** |
| Gold (per oz) | 1,106.2 | 1.57% | Crude Palm Oil (MYR/MT) | 2,358.0 | -0.59% |
| Silver (per oz) | 14.160 | 0.28% | Rubber (JPY/KG) | 146.3 | -0.88% |

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

# Key Economic Indicators

| Date Time | | Event | | Survey | Actual | Prior | Revised |
|---|---|---|---|---|---|---|---|
| 01/20/2016 05:00 | US | Total Net TIC Flows | Nov | -- | -$3.2b | $68.9b | $61.0b |
| 01/20/2016 05:00 | US | Net Long-term TIC Flows | Nov | -- | $31.4b | -$16.6b | -$17.7b |
| **01/20/2016 05:45** | **NZ** | **CPI QoQ** | **4Q** | **-0.20%** | **-0.50%** | **0.30%** | **--** |
| **01/20/2016 05:45** | **NZ** | **CPI YoY** | **4Q** | **0.30%** | **0.10%** | **0.40%** | **--** |
| **01/20/2016 06:05** | **NZ** | **REINZ House Sales YoY** | **Dec** | **--** | **3.50%** | **8.50%** | **--** |
| **01/20/2016 07:30** | **AU** | **Westpac Consumer Conf SA MoM** | **Jan** | **--** | **-3.50%** | **-0.80%** | **--** |
| **01/20/2016 10:00** | **CH** | **Foreign Direct Investment YoY CNY** | **Dec** | **3.10%** | **-5.80%** | **1.90%** | **--** |
| **01/20/2016 12:00** | **MA** | **CPI YoY** | **Dec** | **2.70%** | **2.70%** | **2.60%** | **--** |
| 01/20/2016 15:00 | GE | PPI MoM | Dec | -0.40% | -0.50% | -0.20% | -- |
| 01/20/2016 15:00 | GE | PPI YoY | Dec | -2.20% | -2.30% | -2.50% | -- |
| **01/20/2016 16:00** | **TA** | **Export Orders YoY** | **Dec** | **-7.00%** | **-12.30%** | **-6.30%** | **--** |
| 01/20/2016 16:00 | SI | Automobile COE Open Bid Cat A | Jan-20 | -- | 51301 | 45002 | -- |
| 01/20/2016 16:00 | SI | Automobile COE Open Bid Cat B | Jan-20 | -- | 50089 | 54920 | -- |
| **01/20/2016 17:30** | **UK** | **Claimant Count Rate** | **Dec** | **2.30%** | **2.30%** | **2.30%** | **--** |
| **01/20/2016 17:30** | **UK** | **Jobless Claims Change** | **Dec** | **2.8k** | **-4.3k** | **3.9k** | **-2.2k** |
| **01/20/2016 17:30** | **UK** | **ILO Unemployment Rate 3Mths** | **Nov** | **5.20%** | **5.10%** | **5.20%** | **--** |
| **01/20/2016 20:00** | **US** | **MBA Mortgage Applications** | **Jan-15** | **--** | **9.00%** | **21.30%** | **--** |
| 01/20/2016 21:30 | CA | Wholesale Trade Sales MoM | Nov | 0.40% | 1.80% | -0.60% | -0.50% |
| 01/20/2016 21:30 | CA | Manufacturing Sales MoM | Nov | 0.50% | 1.00% | -1.10% | -1.30% |
| **01/20/2016 21:30** | **US** | **Housing Starts** | **Dec** | **1200k** | **1149k** | **1173k** | **1179k** |
| 01/20/2016 21:30 | US | Building Permits | Dec | 1200k | 1232k | 1289k | 1282k |
| **01/20/2016 21:30** | **US** | **CPI MoM** | **Dec** | **0.00%** | **-0.10%** | **0.00%** | **--** |
| **01/20/2016 21:30** | **US** | **CPI Ex Food and Energy MoM** | **Dec** | **0.20%** | **0.10%** | **0.20%** | **--** |
| 01/20/2016 21:30 | US | CPI YoY | Dec | 0.80% | 0.70% | 0.50% | -- |
| **01/20/2016 21:30** | **US** | **CPI Ex Food and Energy YoY** | **Dec** | **2.10%** | **2.10%** | **2.00%** | **--** |
| **01/20/2016 23:00** | **CA** | **Bank of Canada Rate Decision** | **Jan-20** | **0.50%** | **0.50%** | **0.50%** | **--** |
| | | | | | | | |
| **01/21/2016 05:30** | **NZ** | **BusinessNZ Manufacturing PMI** | **Dec** | **--** | **56.7** | **54.7** | **54.9** |
| 01/21/2016 07:50 | JN | Foreign Buying Japan Stocks | Jan-15 | -- | -- | -¥746.5b | -- |
| 01/21/2016 08:00 | AU | HIA New Home Sales MoM | Nov | -- | -- | -3.00% | -- |
| 01/21/2016 08:01 | UK | RICS House Price Balance | Dec | 50% | -- | 49% | -- |
| 01/21/2016 08:30 | AU | RBA FX Transactions Market | Dec | -- | -- | 485m | -- |
| **01/21/2016 12:30** | **JN** | **All Industry Activity Index MoM** | **Nov** | **-0.70%** | **--** | **1.00%** | **--** |
| **01/21/2016 15:45** | **FR** | **Manufacturing Confidence** | **Jan** | **103** | **--** | **103** | **--** |
| **01/21/2016 16:30** | **HK** | **CPI Composite YoY** | **Dec** | **2.40%** | **--** | **2.40%** | **--** |
| **01/21/2016 18:00** | **MA** | **BNM Overnight Policy Rate** | **Jan-21** | **3.25%** | **--** | **3.25%** | **--** |
| **01/21/2016 20:45** | **EC** | **ECB Main Refinancing Rate** | **Jan-21** | **0.05%** | **--** | **0.05%** | **--** |
| **01/21/2016 20:45** | **EC** | **ECB Deposit Facility Rate** | **Jan-21** | **-0.30%** | **--** | **-0.30%** | **--** |
| 01/21/2016 20:45 | EC | ECB Marginal Lending Facility | Jan-21 | 0.30% | -- | 0.30% | -- |
| **01/21/2016 21:30** | **US** | **Philadelphia Fed Business Outlook** | **Jan** | **-5.9** | **--** | **-5.9** | **-10.2** |
| **01/21/2016 21:30** | **US** | **Initial Jobless Claims** | **Jan-16** | **278k** | **--** | **284k** | **--** |
| 01/21/2016 21:30 | US | Continuing Claims | Jan-09 | 2250k | -- | 2263k | -- |
| 01/21/2016 22:45 | US | Bloomberg Economic Expectations | Jan | -- | -- | 43.5 | -- |
| 01/21/2016 22:45 | US | Bloomberg Consumer Comfort | Jan-17 | -- | -- | 44.4 | -- |
| **01/21/2016 23:00** | **EC** | **Consumer Confidence** | **Jan A** | **-5.7** | **--** | **-5.7** | **--** |
| 01/21/2016 | MU | CPI Composite YoY | Dec | -- | -- | 3.77% | -- |

Source: Bloomberg

| OCBC Treasury Research | | |
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