

Daily Treasury Outlook

18 September 2019

Highlights

Global: Global risk appetite should be supportive going into the FOMC policy decision tonight. The New York Fed has injected liquidity to calm the repo market, while Saudi Arabia has partially restarted production at the damaged Abqaiq oil plant and assured that capacity will normalise by the end of the month. The S&P500 index edged higher, while UST bonds also gained in anticipation of the Fed's 25bp rate cut tonight, which saw the 10-year yield close at 1.80%.

Market Watch: Asian markets may open a tad firmer this morning but remains likely to tread water ahead of the deluge of central bank meetings including FOMC tonight, followed by CBC, BOE, BOJ and BI tomorrow. Today's economic data comprises of the US' housing starts, building permits and MBA mortgage applications, Eurozone & UK CPI, and Singapore's COE premiums. Speakers include ECB's Guindos and Villeroy.

US: Industrial production rebounded a better than expected 0.6% mom in August, the strongest in a year, despite the trade war. Meanwhile, the NAHB housing market index also improved from 67 to an 11-month high of 68 in September, as lower mortgage rates aided sales. Japan remained the biggest foreign owner of UST bonds, adding \$7.9b to \$1.13t (largest since October 2016), ahead of China which sold \$2.2b to \$1.11t in July.

EU: German ZEW survey of expectations for the next six months improved from -44.1 to -22.5 amid ECB's bazooka of policy easing and easing geopolitical tensions, but the current conditions gauge deteriorated amid recession concerns. Meanwhile, former Italian PM Renzi has quit the Democratic Party, which could imply more political instability ahead.

AU: Exports fell for the ninth straight month by 8.2% yoy in August, while imports slumped 12%. Exports to China and the US fell 12.1% and 4.4% respectively.

China: China injected an additional CNY200 billion of liquidity via a rollover of the MLF but kept interest rates intact. Risk sentiment weakened in reaction to China's reluctance to cut the MLF rate. It seems that China will try to refrain from cutting RRR and MLF rate together to follow its prudent monetary policy narrative. On a positive note, the CNY200bn liquidity injection is higher than our expectations. The additional liquidity injection one day after the RRR cut took effect was probably a reaction to China's weak economic data. It shows that China remains flexible to support the growth.

Key Market Movements		
Equity	Value	% chg
S&P 500	3005.7	0.3%
DJIA	27111	0.1%
Nikkei 225	22001	0.1%
SH Comp	2978.1	-1.7%
STI	3183.0	-0.7%
Hang Seng	26790	-1.2%
KLCI	1604.3	0.2%
Currencies	Value	% chg
DXY	98.261	-0.4%
USDJPY	108.13	0.0%
EURUSD	1.1073	0.7%
GBPUSD	1.2500	0.6%
USDIDR	14099	0.4%
USDSGD	1.374	-0.1%
SGDMYR	3.0368	0.1%
Rates	Value	chg (bp)
3M UST	1.97	-0.45
10Y UST	1.80	-4.54
1Y SGS	1.86	0.00
10Y SGS	1.78	-1.72
3M LIBOR	2.15	0.57
3M SIBOR	1.88	0.00
3M SOR	1.78	3.71
Commodities	Value	% chg
Brent	64.55	-6.5%
WTI	59.34	-5.7%
Gold	1501	0.2%
Silver	18.02	0.9%
Palladium	1599	-0.4%
Copper	5821	-0.8%
BCOM	79.90	-1.8%

Source: Bloomberg

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Major Markets

US: US equities and treasuries both inched higher on Tuesday as investors prepare for an anticipated US rate cut tonight. Positive news from Aramco that 2 mbpd of supply has been restored also helped to soothe fears of a prolonged oil supply disruption. The S&P 500 index closed up 0.3%, while 10Y UST yields dropped 4.5bps. Looking ahead, investors will be closely watching the FOMC meeting tonight, where a rate cut of 25bp is widely expected.

Singapore: The STI extended declines by another 0.65% to close at 3183.00 yesterday and may tread water ahead of tonight's FOMC meeting. With UST bond yields lower by up to 5bps led by longer tenors, SGS bonds may also follow through today while waiting for the issue size announcements for the upcoming 2- and 15-year SGS bonds re-openings which will be auctioned on 26 September.

Hong Kong: Jobless rate stabilized at 2.9% in the three months through August rather than ticking up further, despite the ongoing social unrest. The unemployment rate of the financial sector remained unchanged at 2.3% while that of the trade sector decreased further to 2.4%. This suggests that these sectors have felt a milder pain from the local political uncertainty. However, with trade war re-escalation in August and the persistent weakness in the trade sector, we expect the trade sector's unemployment rate to go up in the coming months. The latest property market correction may also add some downward pressure to the labor market of the financial sector. More notably, as the retail and tourism-related sectors have taken a hard hit from local political turmoil, a weaker RMB and trade war fears, the unemployment rate of retail, accommodation and food services sector increased to 4.6% (the highest since mid-2017) and could edge higher over the coming months. In conclusion, we expect the overall unemployment rate to rise gradually towards 3%. The increasing concerns about retrenchment may further hit local consumption sentiments and housing demand.

Indonesia: Parliament has approved a bill to establish a supervisory board for the Corruption Eradication Commission ("KPK"). Under the new rule, the commission will require a written permit from the board to wiretap corruption suspects. The move has come under scrutiny by anti-corruption campaigners on concerns that it could jeopardize the country's fight against graft.

Malaysia: PM Mahathir Mohamad reportedly said that most of the country's revenue is spent towards paying down the national debt that has been incurred by former PM Najib Razak. He offered that "We are lacking funds so we have to spend wisely".

Thailand: Thailand's Energy Ministry said yesterday that it plans to reduce levies for its Oil Fund to keep domestic fuel prices stable. This comes on the back of a sharp rise in crude oil prices, following drone attacks on Saudi Arabia that took out half of the key producer's supply. The Oil Fund will forgo an estimated 813m baht once the waiver goes into effect.

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Oil: Saudi Arabia has restored almost half of its lost output, with the damaged Abqaiq plant now processing 2mbpd against the original 5.7mbpd. Aramco CEO Amin Nasser said that the plant is expected to return to pre-attack levels of 4.9 mbpd by end of this month, while President Trump added to the optimism by saying that the US does not need to tap into its SPR yet. Brent tumbled -6.5% to \$64.50/bbl, which probably is a fairer reflection of a market on high alert from further drone attacks as compared to the high \$50's that Brent was trading for most of August.

Bond Market Updates

Market Commentary: The SGD swap curve bull-flattened yesterday, with the shorter tenors traded 1-3bps lower, while the longer tenors (>5yr) traded 3bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS was unchanged at 129bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS was also unchanged at 518bps. 10Y USTs yields fell 4.5bps to close at 1.80% ahead of the FOMC meeting, on the back of cautiousness over volatility in the US money-market rates and lingering concerns over possible conflict in the Middle East. Spread between 3-month treasury bills and 10-year treasury notes remains inverted, with the spread widening to -16bps.

New Issues: Wuhan Metro Group Co., Ltd has priced a USD300mn 5-year bond at T+129bps, tightening from IPT of T+165bps area. Joy Treasure Assets Holdings Inc (Guarantor: China Orient Asset Management (International) Holding Ltd) has priced a USD400mn 5-year bond at T+145bps (tightening from IPT of T+165bps area), and a USD500mn 10-year bond at T+185bps (tightening from IPT of T+220bps area). Azure Power Solar Energy Private Ltd has priced a USD350.1mn 5.25NC3 bond at 5.65%, tightening from IPT of 6.0% area.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	98.261	-0.35%	USD-SGD	1.3740	-0.11%
USD-JPY	108.130	0.01%	EUR-SGD	1.5214	0.55%
EUR-USD	1.1073	0.65%	JPY-SGD	1.2708	-0.09%
AUD-USD	0.6866	0.01%	GBP-SGD	1.7175	0.46%
GBP-USD	1.2500	0.56%	AUD-SGD	0.9430	-0.14%
USD-MYR	4.1815	0.42%	NZD-SGD	0.8737	0.14%
USD-CNY	7.0922	0.35%	CHF-SGD	1.3837	-0.12%
USD-IDR	14099	0.42%	SGD-MYR	3.0368	0.12%
USD-VND	23227	0.03%	SGD-CNY	5.1515	0.30%

Equity and Commodity

Index	Value	Net change
DJIA	27,110.80	33.98
S&P	3,005.70	7.74
Nasdaq	8,186.02	32.47
Nikkei 225	22,001.32	13.03
STI	3,183.00	-20.93
KLCI	1,604.30	3.05
JCI	6,236.69	17.25
Baltic Dry	2,311.00	--
VIX	14.44	-0.23

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4490	1.60%	O/N	2.1116	1.69%
2M	-0.3360	1.69%	1M	2.0409	1.61%
3M	-0.3940	1.61%	2M	2.1234	0.82%
6M	-0.3610	0.82%	3M	2.1451	0.57%
9M	-0.1940	0.57%	6M	2.0780	0.77%
12M	-0.3090	0.77%	12M	2.0696	2.05%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.65 (-0.01)	1.72 (-0.03)
5Y	1.70 (--)	1.66 (-0.04)
10Y	1.78 (-0.02)	1.80 (-0.05)
15Y	1.87 (-0.03)	--
20Y	1.98 (-0.01)	--
30Y	2.12 (-0.01)	2.27 (-0.05)

Fed Rate Hike Probability

Meeting	Prob Hike	Prob Cut	1.25-1.50%	1.5-1.75%	1.75-2%
09/18/2019	0.0%	100.0%	0.0%	13.8%	86.2%
10/30/2019	0.0%	100.0%	5.3%	41.5%	53.3%
12/11/2019	0.0%	100.0%	24.1%	47.6%	25.6%
01/29/2020	0.0%	100.0%	34.4%	37.9%	14.3%
03/18/2020	0.0%	100.0%	35.6%	29.8%	9.4%
04/29/2020	0.0%	100.0%	34.7%	26.4%	7.8%

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	5.80	-0.05
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	2.43
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Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	59.34	-5.7%	Com (per bushel)	3.6800	-1.6%
Brent (per barrel)	64.55	-6.5%	Soybean (per bushel)	8.938	-0.7%
Heating Oil (per gallon)	1.9896	-4.5%	Wheat (per bushel)	4.8425	-0.9%
Gasoline (per gallon)	1.6751	-4.4%	Crude Palm Oil (MYR/MT)	2,213.0	5.1%
Natural Gas (per MMBtu)	2.6680	-0.5%	Rubber (JPY/KG)	173.5	4.6%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,821	-0.8%	Gold (per oz)	1,501.4	0.2%
Nickel (per mt)	17,025	-2.0%	Silver (per oz)	18.017	0.9%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
09/18/2019 04:00	US Net Long-term TIC Flows	Jul	--	\$84.3b	\$99.1b
09/18/2019 07:50	JN Trade Balance	Aug	-¥365.4b	-¥136.3b	-¥249.6b
09/18/2019 08:30	AU Westpac Leading Index MoM	Aug	--	--	0.14%
09/18/2019 16:30	UK CPI YoY	Aug	1.90%	--	2.10%
09/18/2019 16:30	UK CPI MoM	Aug	0.50%	--	0.00%
09/18/2019 16:30	UK CPI Core YoY	Aug	1.80%	--	1.90%
09/18/2019 16:30	UK PPI Output NSA MoM	Aug	0.20%	--	0.30%
09/18/2019 16:30	UK PPI Output NSA YoY	Aug	1.70%	--	1.80%
09/18/2019 16:30	UK RPI MoM	Aug	0.70%	--	0.00%
09/18/2019 17:00	EC CPI YoY	Aug F	1.00%	--	1.00%
09/18/2019 17:00	EC CPI MoM	Aug	0.20%	--	-0.50%
09/18/2019 17:00	EC CPI Core YoY	Aug F	0.90%	--	0.90%
09/18/2019 19:00	US MBA Mortgage Applications	Sep-13	--	--	2.00%
09/18/2019 20:30	US Housing Starts	Aug	1250k	--	1191k

Source: Bloomberg

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