

DAILY TREASURY OUTLOOK



Friday, January 19, 2018

Highlights

Global	Global risk appetite took a breather ahead of today's deadline for the Senate to pass a continuing resolution with 60 votes in order to avert a government shutdown. UST bond yields crept higher overnight with the 10-year hitting 2.62%. Asian bourses may trade with a mixed tone this morning, awaiting China's 4Q17 GDP growth came in a notch better than expected at 6.8%, with the full-year 2017 growth reaching 6.9% yoy (1.6% qoq sa), but the risks remain that policy tightening could slow the Chinese economy further this year. Both BOK and BI were static yesterday, keeping their policy rates at 1.5% and 4.25% as anticipated. Today's economic calendar is relatively light with only US' prelim. Jan University of Michigan sentiments, UK' retail sales and German PPI. Speakers include Fed's Bostic and Quarles.
US	Housing starts fell more than expected by 8.2% mom in Dec to 1.19m, while building permits also contracted 0.1% mom to 1.30m. Initial jobless claims fell 41k to 220k (lowest since 1973), but is attributed to year-end seasonality. The Philadelphia Fed business index eased from 26.2 in Dec17 to 22.2 in Jan18. Meanwhile, Fed's Mester opined her preference for "three to four fed funds increases this year, three to four next year". Separately, the White House is supposedly considering John Williams as the Fed vice chair.
CN	The Chinese economy reaccelerated to 6.9% yoy in 2017 from 6.7% yoy in 2016. The rebound was mainly driven by improving external demand as well as resilient domestic consumption. The contribution from the net export to growth reached 0.63% in 2017, highest since China published this data from 2009 with external demand accounting for 9.1% of total growth. Nevertheless, to breakdown, private consumption weakened in the last quarter of 2017. Retail sales decelerated to 9.4% yoy in December from double digit growth. In addition, infrastructure investment growth also decelerated probably due to China's tightening on local government financing. The recent fake data scandal on local government level may put China's data quality under test again, however, we think the impact on China's national GDP growth may be limited as the discrepancy between national GDP and aggregate local GDP was always quite large. Looking ahead, we expect China's growth to slow down to 6.5% in 2018 as a result of tighter monetary policy and spillover effect from environmental protection.
ID	Bank Indonesia (BI) held policy rates unchanged at 4.25% in the first meeting of 2018. It also tweaked its reserve requirement ratios, lowering the daily minimum reserve requirement to fall from 5.0% to 4.5%. However, the average reserve ratio of 6.5% over a two-week period is retained. Overall, this is a modest attempt to spur loans growth, and to push it towards to 10-12% growth target. However, its impact may be limited in the near term. Assistant Governor Dody Budi Waluyo reiterated that the window to cut policy rates is closing. At this point, inflation prints continue to be firmly within the BI's target range. We think there is no impetus for the BI to cut rates unless headline inflation reaches the lower bound of the BI's tolerance range, which currently stands at 3.5% +/- 1%.

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Major Markets

- **US:** Equities saw a slight pull-back on Thursday after a strong showing on Wednesday. A mixed set of housing and labour data also did not provide support. Most losses were recorded in the energy and real estate sectors, eight of eleven S&P 500 sectors were in the red. Overall, the S&P 500 shed 0.16%, and the Dow lost 0.38%. The Nasdaq Composite was marginally lower. VIX climbed further to 12.22, compared to 11.91 previously.
- Meanwhile, US Treasuries bear steepened, with the 2y yield unchanged at 2.043%, but the 10y yield gaining 3.5 bps to 2.626%. The 10y yield is standing at recent highs, and has failed to break meaningfully beyond this level in the last two attempts in late-2016 and early-2017. It remains to be seen if this level holds this time around. Moving above current levels will open up the way towards 3.0%.
- **Singapore:** The STI consolidated for a second session by 0.58% to close at 3521.31 yesterday, and may range trade between 3500-3525 today amid weak overnight cues from Wall Street, albeit Kospo opened a tad firmer. STI's resistance is tipped at 3557, with support at 3520. With the UST bond yields steepening further led by the long-dated bonds, the SGS bond market will likely follow suit again today.
- **Hong Kong:** Unemployment rate dropped to a near two-decade low at 2.9% in the fourth quarter of 2017. Employment has improved on a broad basis. First, jobless rates of the trade and financial sectors decreased to 2.3% and 1.9% respectively, both hitting their lowest level since 1998 amid resilient global economic growth. Second, construction sector's unemployment rate improved to the strongest level since Dec 2016-Feb 2017 at 4.1%, owing to robust property and infrastructure construction activities. Moving forward, we expect benign global economic growth to continue supporting HK's trade and tourism sectors. On the other hand, tight labour market, moderate wage growth as well as wealth effect from stock and housing markets will support local consumption. Besides, property developers are likely to accelerate construction before local rate hikes curb demand while fiscal stimulus will continue to support infrastructure construction. All in all, positive outlook of the major sectors will continue to support their labour demand and help to sustain a tight labour market at least in the first half of 2018.

Bond Market Updates

- **Market Commentary:** The SGD swap curve bear-steepened yesterday, with swap rates for the shorter tenors trading 2-4bps higher while the longer tenors traded 5-6bps higher. In the broader dollar space, both the Bloomberg Barclays Asia USD IG Bond Index average OAS and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 1bps to 107bps and 325bps respectively. 10Y UST yields rose by 3.25bps to 2.63%, with fears of a potential U.S government shutdown rising.
- **New Issues:** Azure Orbit IV International Finance Ltd has priced a deal (guaranteed by BOCOM Leasing Management Hong Kong Company Ltd) across three-tranches, with the USD300mn 3-year bond priced at CT3+135-140bps, tightening from its initial guidance of CT3+160bps area; the USD 950mn 5-year bond priced at CT5+142.5bps, tightening from its initial guidance of CT5+165bps area and the USD250mn 10-year bond priced at CT10+150bps area, tightening from its initial guidance of CT10+175bps area. The expected issue ratings are 'A-/NR/A'. Tata Steel Ltd has priced its USD300mn 5.5-year bond at 4.45% and USD1bn 10-year bond at 5.45%, tightening

from its initial guidance of 4.875% and 5.875% respectively. The expected issue ratings are 'BB-/NR/NR'. Sino Trendy Investment Ltd has priced its USD200mn 3-year bond (guaranteed by Guangxi Communications Investment Group Co Ltd) at CT3+182.5bps, tightening from its initial guidance of CT3+215bps area. The expected issue ratings are 'NR/NR/BBB'. Geely Automobile Holdings Ltd has priced its USD300mn 5-year bond at CT5+130bps, tightening from its initial guidance of CT5+150bps area. The expected issue ratings are 'BBB-/NR/NR'. Housing & Development Board has priced a SGD515mn 10-year bond at 2.32%. Triceratops Capital Co Ltd has priced its EUR500mn 3-year bond (keepwell provider: Jinjiang Internation Holding Co) at MS+77bps, tightening from its initial guidance of MS+95bps area. The expected issue ratings are 'NR/A1/NR'. China South City Holdings Ltd has set final guidance for its USD 3-year bond (guaranteed by certain restricted subsidiaries incorporated outside of PRC) at 7.625%, tightening from its initial guidance of 7%. The expected issue ratings are 'B-/NR/B'.

- **Rating Changes:** Fitch has downgraded Inner Mongolia High-Grade Highway Construction and Development Company Ltd's (IMHCD) issuer default ratings to 'BBB-' from 'BBB', placing the ratings on Rating Watch Negative. The rating action follows the downgrade of Fitch's internal creditworthiness assessment of China's Inner Mongolia Autonomous Region, as the ratings on IMHCD are credit linked to the creditworthiness of the autonomous region's government given the strategic importance of IMHCD's public-sector business and mid-range integration with the regional government's budget.

Key Financial Indicators

Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	90.498	-0.05%	USD-SGD	1.3209	-0.28%
USD-JPY	111.110	-0.16%	EUR-SGD	1.6166	0.15%
EUR-USD	1.2238	0.43%	JPY-SGD	1.1889	-0.13%
AUD-USD	0.8001	0.39%	GBP-SGD	1.8353	0.19%
GBP-USD	1.3894	0.46%	AUD-SGD	1.0566	0.09%
USD-MYR	3.9550	0.04%	NZD-SGD	0.9644	0.12%
USD-CNY	6.4200	-0.22%	CHF-SGD	1.3775	0.46%
USD-IDR	13347	-0.09%	SGD-MYR	2.9899	0.13%
USD-VND	22725	0.12%	SGD-CNY	4.8604	-0.09%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD LIBOR	Change
1M	-0.3690	--	O/N	1.4375	--
2M	-0.3410	--	1M	1.5575	--
3M	-0.3280	--	2M	1.6348	--
6M	-0.2740	--	3M	1.7392	--
9M	-0.2230	--	6M	1.9130	--
12M	-0.1860	--	12M	2.2144	--

Fed Rate Hike Probability

Meeting	Prob Hike	1.5-1.75	1.75-2	2-2.25	2.25-2.5
01/31/2018	0.3%	0.3%	0.0%	0.0%	0.0%
03/21/2018	88.2%	87.9%	0.3%	0.0%	0.0%
05/02/2018	88.5%	85.8%	2.8%	0.0%	0.0%
06/13/2018	96.2%	36.2%	58.1%	1.8%	0.0%
08/01/2018	96.5%	33.6%	56.4%	6.3%	0.2%
09/26/2018	98.2%	18.9%	45.3%	30.8%	3.2%

Commodities Futures

Energy	Futures	% chg	Base Metals	Futures	% chg
WTI (per barrel)	63.95	-0.03%	Copper (per mt)	7,052.6	0.31%
Brent (per barrel)	69.31	-0.10%	Nickel (per mt)	12,434.0	0.52%
Heating Oil (per gallon)	2.0617	-0.36%	Aluminium (per mt)	2,247.0	2.29%
Gasoline (per gallon)	1.8835	1.35%			
Natural Gas (per MMBtu)	3.1890	-1.33%	Asian Commodities	Futures	% chg
			Crude Palm Oil (MYR/MT)	2,476.0	-0.44%
Precious Metals	Futures	% chg	Rubber (JPY/KG)	212.0	1.19%
Gold (per oz)	1,327.2	-0.90%			
Silver (per oz)	16.954	-1.23%			

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Equity and Commodity

Index	Value	Net change
DJIA	26,017.81	-97.84
S&P	2,798.03	-4.53
Nasdaq	7,296.05	-2.23
Nikkei 225	23,763.37	-104.97
STI	3,521.31	-20.60
KLCI	1,821.60	-7.03
JCI	6,472.67	28.15
Baltic Dry	1,164.00	--
VIX	12.22	0.31

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.44 (+0.01)	2.04 (--)
5Y	1.73 (+0.03)	2.42 (+0.01)
10Y	2.12 (+0.04)	2.63 (+0.04)
15Y	2.39 (+0.03)	--
20Y	2.45 (+0.03)	--
30Y	2.58 (+0.03)	2.90 (+0.05)

Financial Spread (bps)

	Value	Change
LIBOR-OIS	24.43	-0.35
EURIBOR-OIS	2.29	0.05
TED	30.71	--

Economic Calendar

Date	Time	Event	Survey	Actual	Prior	Revised
01/18/2018	03:00	US Federal Reserve Releases Beige Book				
01/18/2018	04:00	NZ REINZ House Sales YoY	Dec	--	-10.10%	-8.90%
01/18/2018	05:00	US Total Net TIC Flows	Nov	--	\$33.8b	\$151.2b
01/18/2018	05:00	US Net Long-term TIC Flows	Nov	--	\$57.5b	\$23.2b
01/18/2018	07:50	JN Japan Buying Foreign Bonds	Jan-12	--	¥953.5b	¥173.0b
01/18/2018	07:50	JN Japan Buying Foreign Stocks	Jan-12	--	¥89.2b	¥217.1b
01/18/2018	07:50	JN Foreign Buying Japan Bonds	Jan-12	--	¥86.8b	-¥128.3b
01/18/2018	07:50	JN Foreign Buying Japan Stocks	Jan-12	--	¥498.7b	¥597.9b
01/18/2018	08:01	UK RICS House Price Balance	Dec	-1%	8%	0%
01/18/2018	08:30	AU Employment Change	Dec	15.0k	34.7k	61.6k
01/18/2018	08:30	AU Unemployment Rate	Dec	5.40%	5.50%	5.40%
01/18/2018	08:30	AU Full Time Employment Change	Dec	--	15.1k	41.9k
01/18/2018	08:30	AU Part Time Employment Change	Dec	--	19.5k	19.7k
01/18/2018	08:30	AU Participation Rate	Dec	65.50%	65.70%	65.50%
01/18/2018	08:30	AU RBA FX Transactions Market	Dec	--	A\$1279m	A\$343m
01/18/2018	08:57	SK BoK 7-Day Repo Rate	Jan-18	1.50%	1.50%	1.50%
01/18/2018	12:30	JN Industrial Production MoM	Nov F	--	0.50%	0.60%
01/18/2018	12:30	JN Capacity Utilization MoM	Nov	--	0.00%	0.20%
01/18/2018	15:00	CH GDP YoY	4Q	6.70%	6.80%	6.80%
01/18/2018	15:00	CH Retail Sales YoY	Dec	10.20%	9.40%	10.20%
01/18/2018	15:00	CH Industrial Production YoY	Dec	6.10%	6.20%	6.10%
01/18/2018	15:00	CH Fixed Assets Ex Rural YTD YoY	Dec	7.10%	7.20%	7.20%
01/18/2018	16:30	HK Unemployment Rate SA	Dec	3.00%	2.90%	3.00%
01/18/2018	16:32	HK Composite Interest Rate	Dec	--	0.38%	0.32%
01/18/2018	19:25	ID Bank Indonesia 7D Reverse Repo	Jan-18	4.25%	4.25%	4.25%
01/18/2018	21:30	US Housing Starts	Dec	1275k	1192k	1297k
01/18/2018	21:30	US Building Permits	Dec	1295k	1302k	1298k
01/18/2018	21:30	US Philadelphia Fed Business Outlook	Jan	25	22.2	26.2
01/18/2018	21:30	US Initial Jobless Claims	Jan-13	249k	220k	261k
01/18/2018	21:30	US Continuing Claims	Jan-06	1900k	1952k	1867k
01/18/2018	22:45	US Bloomberg Economic Expectations	Jan	--	52.5	47
01/18/2018	22:45	US Bloomberg Consumer Comfort	Jan-14	--	53.8	53.5
01/19/2018	05:30	NZ BusinessNZ Manufacturing PMI	Dec	--	51.2	57.7
01/19/2018	15:00	GE PPI MoM	Dec	0.20%	--	0.10%
01/19/2018	15:30	TH Foreign Reserves	Jan-12	--	--	\$204.0b
01/19/2018	17:00	EC ECB Current Account SA	Nov	--	--	30.8b
01/19/2018	17:30	UK Retail Sales Ex Auto Fuel MoM	Dec	-1.00%	--	1.20%
01/19/2018	17:30	UK Retail Sales Inc Auto Fuel MoM	Dec	-1.00%	--	1.10%
01/19/2018	17:30	IT Current Account Balance	Nov	--	--	6551m
01/19/2018	21:30	CA Manufacturing Sales MoM	Nov	2.00%	--	-0.40%
01/19/2018	21:30	CA Int'l Securities Transactions	Nov	--	--	20.81b
01/19/2018	23:00	US U. of Mich. Sentiment	Jan P	97	--	95.9
01/19/2018	PH	BoP Overall	Dec	--	--	-\$44m
01/19/2018 01/26	PH	Budget Balance PHP	Dec	--	--	-8.6b

Source: Bloomberg

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