

Daily Treasury Outlook

1 October 2019

Highlights

Global: Global risk appetite was likely caught between optimism over the stronger-than-expected official manufacturing and Caixin PMIs which rose to 49.8 and 51.4 respectively, versus news of US president Trump's personal attorney Rudy Giuliani being subpoenaed for documents. Meanwhile, Trump told reporters that "we're trying to find out about a whistleblower" even as Secretary of State Michael Pompeo and Attorney General William Barr are being drawn deeper into the House impeachment inquiry. Elsewhere, Saudi Arabia's credit rating was downgraded for a third time since 2016 by Fitch from A+ to A due to its entrenched budget deficit and vulnerability to military threats. Wall Street rose overnight, aided by Apple, Microsoft and Merck & Co, while UST bonds were little changed with the 10-year yield at 1.67%. However, the quarter-end funding needs contributed to a brief spike in US repo rates but eased after the New York Fed's repo operation was undersubscribed.

Market watch: Asian markets may open with a firmer tone this morning, but investors are awaiting the RBA policy decision (where a 25bp rate cut to 0.75% has been pencilled in) and the slew of manufacturing PMIs from Europe and Asia due later. Markets in Hong Kong and China are closed today. Also on tap are US' manufacturing ISM Mfg PMI, and Indonesia's September CPI. RBA's Lowe, Fed's Evans, Clarida and Bowman, and ECB's Lane, Draghi and Bundesbank's Weidmann are also speaking today.

US: The Chicago PMI sank from 50.4 to 47.1 in September, while the Dallas Fed manufacturing activity index also moderated from 2.7 to 1.5 amid slower orders and production and a softer outlook.

China: Both China's official PMI and Caixin PMI beat market expectations. The rebound of Caixin PMI to 51.4, highest since Feb 2018, is encouraging. We think the recovery of manufacturing sentiment was mainly due to the positive development of trade talk and benefits from the tax cut and fee reduction. As mentioned by China's Finance Minister Liu Kun last week, the manufacturing sector has gotten 31% of the tax cut in the first seven months, making it the biggest beneficiary of the proactive fiscal policy. The outlook of China's manufacturing sentiment will hinge on the progress of the US-China trade talks on 10 Oct. Should there be no further escalation, we think that the manufacturing sector may find its bottom soon.

EU: The unemployment rate fell to 7.5% in August, the lowest in more than 11 years. Meanwhile, the UK economy contracted 0.2% qoq (1.3% yoy) in 2Q19 and Finance minister Javid pledged the "full armoury of economic policy" if needed in case of a no-deal Brexit.

Singapore: Bank loans growth expanded 2.2% yoy (+0.6% mom) in August, faster than the 2.0% yoy growth seen in July. While business loans rose 1.1% mom, consumer loans softened 0.2% mom due to the drag from housing loans (-0.2% mom).

Key Market Movements

Equity	Value	% chg
S&P 500	2976.7	0.5%
DJIA	26917	0.4%
Nikkei 225	21756	-0.6%
SH Comp	2905.2	-0.9%
STI	3120.0	-0.2%
Hang Seng	26092	0.5%
KLCI	1583.9	0.0%
Currencies	Value	% chg
DXY	99.377	0.3%
USDJPY	108.08	0.1%
EURUSD	1.0899	-0.4%
GBPUSD	1.2289	0.0%
USDIDR	14195	0.2%
USDSGD	1.3819	0.0%
SGDMYR	3.0304	0.0%
Rates	Value	chg (bp)
3M UST	1.81	2.81
10Y UST	1.66	-1.55
1Y SGS	1.87	0.00
10Y SGS	1.74	-0.40
3M LIBOR	2.10	-0.57
3M SIBOR	1.88	0.00
3M SOR	1.69	1.17
Commodities	Value	% chg
Brent	59.25	-2.9%
WTI	54.07	-3.3%
Gold	1472	-1.6%
Silver	17.00	-3.1%
Palladium	1676	-0.5%
Copper	5725	-0.7%
BCOM	77.78	-0.7%

Source: Bloomberg

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Major Markets

US: The US markets ended the day higher on Monday, with the S&P 500 index closing the session up 0.5%. Better-than-expected official manufacturing numbers, bolstered by news of Saudi Aramco restoring full output likely helped to stoke risk sentiment. For the week ahead we continue to monitor US data releases, starting with the US ISM Mfg PMI later. We see the S&P 500 index continuing to trade within the 2960-3020 range.

Japan: The September tankan large manufacturing index came in at a better-than-expected 5, although this was softer than the 7 printed a quarter ago.

Singapore: The STI declined 0.18% to close at 3119.99 yesterday and may open a tad firmer this morning but continue to trade sideways between 3106-3155 range in the interim. With the UST bonds seeing modest gains yesterday, SGS bonds may also extend gains today as well.

Hong Kong: HKD deposits showed the largest mom drop of -1.6% in Aug. In the meantime, USD deposits (excluding those placed by HKMA's exchange fund) and RMB deposits rose by 0.2% mom and 4.6% mom respectively. This indicates that investors might have transferred their HKD deposits to RMB or USD deposits, probably due to the less attractive yield of HKD and concern about capital outflows which could threaten the currency peg system. On a positive note, with commercial banks raising HKD fixed deposit rates and Budweiser resuming IPO in HK, HKD deposits showed a slight increase during the first three months of September. Going forward, as long as HKD deposits (+1.8% yoy in August) sustain year-on-year growth unlike what happened in 2003 and 2008, we may not read too much into any month-on-month volatility of HKD deposits.

Elsewhere, HKD CASA deposits dropped by 3.2% mom while HKD fixed deposits rose by 0.5% mom. As such, the percentage share of HKD CASA deposits in total HKD deposits retreated to the lowest since January 2009 at 55.6%. This coupled with the high HKD loan-to-deposit ratio suggests that the funding pressure on commercial banks remains high and why commercial banks chose to keep prime rates unchanged in September despite the Fed's rate cuts. Moving ahead, the downside of HKD rates is expected to be limited given low aggregate balance, fierce competition from new licensed banks including virtual banks, potential large IPOs and seasonal factors. On the other hand, though loan growth could slow down in the near term, deposits growth may also remain muted given internal and external uncertainties. High HKD loan-to-deposit ratio and lower ratio of HKD CASA deposits may continue to prevent commercial banks from cutting prime rate.

Malaysia: The authorities have reportedly requested a one-month extension in the suspension period for the Johor-Singapore high speed rail project, to October 31st. Singapore has agreed to the request and will waive any reimbursement of additional costs incurred during the period.

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Indonesia: September CPI headline inflation data is due out today. We expect it to pick up just a tad to 3.55% yoy, compared to 3.49% of the month before. Elsewhere, Jakarta police said that it is deploying at least 26000 security personnel in preparation for another day of student-led protests against criminal code revision.

Oil: Saudi Aramco is back at full operating capacity and has restored oil production to 9.7mil bpd or higher to replenish inventories, according to CEO of its trading arm, Ibrahim Al-Buainain.

Bond Market Updates

Market Commentary: The SGD swap curve bull-flattened yesterday, with the shorter tenors traded around 1bps lower, while the belly and longer tenors traded 1-1.3bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 132bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 1bps to 537bps. 10Y USTs yields fell 1bps to 1.67% on low volumes, reversing the rise in yields earlier in the day. Outgoing ECB President Mario Draghi said, during an interview with the Financial Times, that there is a need for fiscal policy easing to support the EU's growth prospects. Spread between 3-month treasury bills and 10-year treasury notes remains inverted, with the spread widening to -14bps.

New Issues: Doosan Infracore mandated banks for its potential USD bond issuance.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	99.377	0.27%	USD-SGD	1.3819	0.01%
USD-JPY	108.080	0.15%	EUR-SGD	1.5060	-0.36%
EUR-USD	1.0899	-0.37%	JPY-SGD	1.2787	-0.08%
AUD-USD	0.6750	-0.21%	GBP-SGD	1.6984	0.02%
GBP-USD	1.2289	-0.02%	AUD-SGD	0.9328	-0.19%
USD-MYR	4.1877	0.05%	NZD-SGD	0.8656	-0.49%
USD-CNY	7.1483	0.36%	CHF-SGD	1.3849	-0.67%
USD-IDR	14195	0.16%	SGD-MYR	3.0304	0.00%
USD-VND	23203	0.01%	SGD-CNY	5.1470	0.08%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4620	-0.10%	O/N	1.8271	-0.28%
2M	-0.3360	-0.28%	1M	2.0315	-1.20%
3M	-0.4120	-1.20%	2M	2.0709	-1.56%
6M	-0.3770	-1.56%	3M	2.0986	-0.57%
9M	-0.1940	-0.57%	6M	2.0630	-0.14%
12M	-0.3250	-0.14%	12M	2.0433	2.31%

Fed Rate Hike Probability

Meeting	Prob Hike	Prob Cut	1.00-1.25%	1.25-1.50%	1.5-1.75%
10/30/2019	0.0%	39.8%	0.0%	0.0%	39.8%
12/11/2019	0.0%	74.6%	0.0%	23.0%	51.6%
01/29/2020	0.0%	84.8%	9.2%	34.5%	41.1%
03/18/2020	0.0%	88.8%	16.0%	36.2%	34.2%
04/29/2020	0.0%	91.1%	20.1%	35.8%	29.5%
06/10/2020	0.0%	92.6%	22.8%	34.7%	26.0%

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	54.07	-3.3%	Corn (per bushel)	3.8800	4.4%
Brent (per barrel)	60.78	-1.8%	Soybean (per bushel)	9.060	2.6%
Heating Oil (per gallon)	1.9056	-1.9%	Wheat (per bushel)	4.9575	1.7%
Gasoline (per gallon)	1.6049	-2.8%	Crude Palm Oil (MYR/MT)	2,078.0	-0.6%
Natural Gas (per MMBtu)	2.3300	-3.1%	Rubber (JPY/KG)	156.5	-0.7%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,725	-0.7%	Gold (per oz)	1,472.5	-1.6%
Nickel (per mt)	17,050	-0.9%	Silver (per oz)	16.996	-3.1%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Equity and Commodity

Index	Value	Net change
DJIA	26,916.83	96.58
S&P	2,976.74	14.95
Nasdaq	7,999.34	59.71
Nikkei 225	21,755.84	-123.06
STI	3,119.99	-5.64
KLCI	1,583.91	-0.23
JCI	6,169.10	-27.79
Baltic Dry	1,857.00	--
VIX	16.24	-0.98

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.66 (-0.01)	1.62 (-0.01)
5Y	1.66 (-0.01)	1.54 (-0.02)
10Y	1.74 (-)	1.66 (-0.02)
15Y	1.86 (-)	--
20Y	1.94 (+0.01)	--
30Y	2.07 (+0.01)	2.11 (-0.02)

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	4.90	--
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	1.82
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Economic Calendar

Date Time		Event		Survey	Actual	Prior	Revised
10/01/2019 07:30	JN	Jobless Rate	Aug	2.30%	2.20%	2.20%	--
10/01/2019 07:50	JN	Tankan Large Mfg Index	3Q	1	5	7	--
10/01/2019 08:00	SK	Exports YoY	Sep	-9.60%	-11.70%	-13.60%	-13.80%
10/01/2019 08:30	TA	Markit Taiwan PMI Mfg	Sep	--	--	47.9	--
10/01/2019 08:30	SK	Markit South Korea PMI Mfg	Sep	--	--	49	--
10/01/2019 08:30	ID	Markit Indonesia PMI Mfg	Sep	--	--	49	--
10/01/2019 08:30	VN	Markit Vietnam PMI Mfg	Sep	--	--	51.4	--
10/01/2019 08:30	JN	Jibun Bank Japan PMI Mfg	Sep F	--	--	48.9	--
10/01/2019 11:30	TH	CPI YoY	Sep	0.41%	--	0.52%	--
10/01/2019 12:30	AU	RBA Cash Rate Target	Oct-01	0.75%	--	1.00%	--
10/01/2019 16:00	EC	Markit Eurozone Manufacturing PMI	Sep F	45.6	--	45.6	--
10/01/2019 16:30	UK	Markit UK PMI Manufacturing SA	Sep	47	--	47.4	--
10/01/2019 21:45	US	Markit US Manufacturing PMI	Sep F	51	--	51	--
10/01/2019 22:00	US	ISM Manufacturing	Sep	50	--	49.1	--

Source: Bloomberg

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