

Daily Treasury Outlook

1 November 2019

Highlights

Global: The US House of Representatives has voted 232-196 to pass the impeachment inquiry into President Trump, while conflicting noise about the US-China trade deal is likely to weigh on near-term risk sentiments. Although US president Trump tweeted that China and the US are “working on selecting a new site for the signing of Phase One of Trade Agreement”, Chinese officials have cast doubt over a comprehensive long-term deal with US. Elsewhere, China’s manufacturing PMI declined for the sixth consecutive month to a worse than expected 49.3 in October, while Hong Kong has slipped into a technical recession in 3Q19. The S&P500 slipped 0.3% overnight, while UST bonds extended gains with the 10-year yield at 1.69%.

Market watch: Asian markets may adopt a wait and see attitude ahead of tonight’s US’ key nonfarm payrolls, unemployment rate and average hourly earnings (with market eyeing +85k, 3.6% and 0.3% mom respectively). Today’s economic data calendar also comprises manufacturing PMIs from Asia including China’s Caixin PMI, CPI from Indonesia and Thailand, HK retail sales and US’ manufacturing ISM. Fed’s Kaplan, Clarida, Quarles, Daly and Williams are also speaking today.

US: The US’ initial jobless claims rose 5k to 218k, while the core PCE deflator was unchanged (1.7% yoy) in September after rising 0.1% in August. Personal income slowed from a revised 0.5% to 0.3% in September, but personal spending rose at a stable clip of 0.2%. The Challenger job cuts fell 33.5% yoy in October, following a drop of 24.8% in September. Fresh after the FOMC’s pause signal, president Trump has voiced his unhappiness, indicating that “China is not our problem, the Federal Reserve is!” and “we should have lower interest rates than Germany, Japan and all others”.

EZ: Eurozone’s 3Q19 GDP growth defied expectations of a slowdown and came in at 0.2% qoq, the same pace as the previous quarter, while consumer prices eased to 0.7% in October with core inflation stable at 1.2%.

Japan: The BOJ kept its monetary policy settings static as expected, but guided that short- and long-term rates will remain at current or lower levels and dropped the reference to keeping rates low until at least spring of 2020. Governor Kuroda opined that “we still think it’s possible for Japan to cut negative rates deeper if needed and we don’t think negative 0.1% is the bottom”. Meanwhile, the unemployment rate unexpectedly climbed from a 27-year low by 0.2% points to 2.4% in September.

Singapore: Bank loans growth rose 2.2% yoy (-0.06% mom) in September, the same pace as August. Business loans fell 0.2% mom but consumer loans edged up 0.1% mom. The latest business surveys showed that for a net 5% of manufacturers anticipate a weaker 4Q19-1Q20 outlook, while only 1% of services companies are optimistic about the next six months (down from 2% three months ago).

Key Market Movements

Equity	Value	% chg
S&P 500	3037.6	-0.3%
DJIA	27046	-0.5%
Nikkei 225	22927	0.4%
SH Comp	2929.1	-0.3%
STI	3229.9	0.7%
Hang Seng	26907	0.9%
KLCI	1598.0	1.1%
Currencies	Value	% chg
DXY	97.352	-0.3%
USDJPY	108.03	-0.8%
EURUSD	1.1152	0.0%
GBPUSD	1.2942	0.3%
USIDR	14041	0.1%
USDSGD	1.3603	-0.1%
SGDMYR	3.0689	-0.1%
Rates	Value	chg (bp)
3M UST	1.52	-4.86
10Y UST	1.69	-8.05
1Y SGS	1.71	0.00
10Y SGS	1.78	-0.46
3M LIBOR	1.91	-1.80
3M SIBOR	1.81	-2.30
3M SOR	1.53	-0.52
Commodities	Value	% chg
Brent	59.62	-1.0%
WTI	54.18	-1.6%
Gold	1513	1.2%
Silver	18.11	1.4%
Palladium	1798	-0.6%
Copper	5797	-1.9%
BCOM	79.24	-0.5%

Source: Bloomberg

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Major Markets

US: US markets lost some steam last night as reports surfaced that Chinese officials are doubtful a meaningful long-term trade deal with the US may be reached. The S&P 500 index ended the session down 0.3% and Treasuries rallied. Investor focus is likely to shift to the US nonfarm payrolls and ISM manufacturing tonight. With the FOMC suggesting that the rate cuts are probably taking a hiatus for now, a poor nonfarm payroll tonight is likely to add selling pressure on US equity markets.

China: China's October PMI fell to 49.3 from 49.8 in September, weaker than market expectations. In addition, China's non-manufacturing PMI softened to 52.8 from 53.7. Both demand and supply softened in October. New order slipped to 49.6 from 50.5 while new export orders declined to 46.7 from 47.1. The softening demand may pour the cold water on risk sentiment which has benefited from the hopes on global recovery. The production slowed to 50.8 from 52.3 partly due to environmental protection as part of autumn clean to improve air quality prior to winter. Purchase price index eased again to 50.4 from 52.2. This may create the pressure on PPI again. We expect PPI to decline on month-on-month basis in October which may translate to decline of 1.8% yoy. On the positive note, the domestic facing manufacturing sector remained resilient. High-tech manufacturing PMI and consumer goods manufacturing PMI were at 51.4 and 50.8 above the threshold line of 50.

Singapore: The STI added 0.68% to close at 3229.88 yesterday but may see some profit-taking interest emerge ahead of the weekend and tonight's US unemployment report. STI's support and resistance are tipped at 3211 and 3251 respectively. With the UST bonds were supported into the month-end with yields 7-8bps lower led by the belly of the curve, which may lend SGS bonds a biddish tone as well, albeit yields were lower by a more muted 1-2bps yesterday.

South Korea: Inflation in October rebounded to 0.0% from -0.4% last month, proving that the bout with deflation was temporary. We expected the rebound in inflationary pressures to have only taken place from November onwards, having forecasted the South Korean economy to continue remaining in deflation territory of -0.4% in October. The pickup in inflation rate is expected to continue from here and we expect the headline CPI growth rate to rise to 0.6% by December.

Indonesia: The Investment Coordinating Board or BKPM said that Q3 FDI stood at USD7bn compared to USD6.6bn the year before. For the first three quarters of this year, the aggregate FDI came in at USD21.2bn compared to USD21.8bn of the same period the year before. BKPM's chief, Bahlil Lahadalia, added that he has been instructed to target moving Indonesia to the 50th rank on World Bank's Ease of Doing Business list, compared to 73rd currently. Meanwhile, Finance Minister Sri Mulyani said that government spending is set to accelerate in the next two months and that 2019 budget deficit is to top 2% of GDP to help stimulate the economy.

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Malaysia: Finance Minister Lim Guan Eng said that Malaysia has never intentionally devalued its currency, and that its value is purely determined by market forces. He said this in response to a parliamentary question regarding the impact of Malaysia's inclusion in the US Treasury's watch list of potential currency manipulators. He added that even though Malaysia runs a current account surplus of 3% of GDP, and a trade surplus of MYR25.7bn with the US between June 2018 and July this year, BNM is not engaged in purchasing foreign currency in excess of 2% of GDP, hence fulfilling only two out of three currency manipulator definitions of the US Treasury.

Hong Kong: The HKMA followed the Fed's step to cut base rate by another 25bps to 2% while Hong Kong's commercial banks also reduced the prime rate to 5%, the level seen before last September's hike. As the commercial banks have raised the prime cap of HIBOR-based mortgages lately, this may give them some room to cut the prime rate, in order to help ease the funding difficulty of the bank clients against weakening economic conditions and to reduce the cost of savings deposits. These moves, however, have barely affected HK's money market. Against the backdrop of low aggregate balance and uneven distribution of HKD liquidity across the banking system, HKD rates are likely to remain slightly elevated in anticipation of year-end effect, potential large IPOs (especially Alibaba's second listing) and virtual banks' upcoming soft launches. Given elevated HKD rates, the prime rate is unlikely to be cut further and therefore may not translate into a boost to the housing market.

The economy (-3.2% qoq seasonally adjusted) slipped into a technical recession in 3Q as widely expected but contracted more than anticipated by 2.9% yoy (the largest decline since 2Q 2009). On top of the prolonged trade war which continued to dent investment/consumer sentiment and drag down exports of goods (plunged for the second straight quarter by 7% yoy), the four months of social unrest further weighed on fixed investments (fell for the fourth consecutive quarter by the largest magnitude since 4Q 2008 of 16.3% yoy) and private consumption (dropped for the first time since 1Q 2009 by 3.5% yoy) while hitting hard on the exports of services (decreased by the most since 2Q 2003 by 13.7% yoy). Since August, the government has rolled out more than HK\$20 billion worth of off-cycle relief measures. This combined with a low base for 4Q, reduction in global risks as well as global monetary easing indicate that 4Q's economy may see a better performance than in 3Q. However, unless trade war and the protests come to an end, a full-year recession now looks possible this year as the economy contracted by 0.7% yoy during the first three quarters of 2019.

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Bond Market Updates

Market Commentary: The SGD swap curve flattened slightly yesterday, with the shorter tenors traded 0-1bps lower (and the 1-3Y tenors trading ~2bps higher), while the belly and longer tenors traded around 2bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 2bps to 131bps and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 10bps to 508bps. The HY-IG Index spread widened 7bps to 377bps. 10Y USTs fell 8bps to 1.69%, after US-China trade concerns were renewed again, with Chinese officials reportedly expressing doubts on the possibility of reaching a comprehensive long-term trade deal with the US.

New Issues: HPHT Finance (19) Limited (Guarantors: (1) Hutchison Port Holdings Trust acting through its trustee-manager, initially being Hutchison Port Holdings Management Pte. Limited; and (2) HPHT Limited) priced a USD500mn 5-year bond at T+137.5bps, tightening from IPT of T+160bps area. Central China Real Estate Limited (Subsidiary Guarantors: Certain of the Company's Restricted Subsidiaries outside the PRC) priced a USD200mn 4NC2 bond at 7.9%, tightening from IPT of 8.35% area. Changde Economic Development Investment Group Co. Ltd priced a USD100mn re-tap of its existing CHAECO 6.0%'22s bond at 100.74 to yield 6.3%, tightening from IPT of 6.5% area.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	97.352	-0.30%	USD-SGD	1.3603	-0.13%
USD-JPY	108.030	-0.75%	EUR-SGD	1.5171	-0.11%
EUR-USD	1.1152	0.01%	JPY-SGD	1.2594	0.69%
AUD-USD	0.6894	-0.13%	GBP-SGD	1.7605	0.18%
GBP-USD	1.2942	0.31%	AUD-SGD	0.9379	-0.23%
USD-MYR	4.1782	-0.05%	NZD-SGD	0.8724	0.30%
USD-CNY	7.0391	-0.23%	CHF-SGD	1.3790	0.20%
USD-IDR	14041	0.06%	SGD-MYR	3.0689	-0.07%
USD-VND	23202	--	SGD-CNY	5.1702	-0.16%

Equity and Commodity

Index	Value	Net change
DJIA	27,046.23	-140.46
S&P	3,037.56	-9.21
Nasdaq	8,292.36	-11.62
Nikkei 225	22,927.04	83.92
STI	3,229.88	21.96
KLCI	1,597.98	17.98
JCI	6,228.32	-67.43
Baltic Dry	1,731.00	-51.00
VIX	13.22	0.89

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4400	0.40%	O/N	1.8044	0.34%
2M	-0.3360	0.34%	1M	1.7814	-0.45%
3M	-0.4010	-0.45%	2M	1.8590	-0.41%
6M	-0.3390	-0.41%	3M	1.9091	-1.80%
9M	-0.1940	-1.80%	6M	1.9195	-1.04%
12M	-0.2760	-1.04%	12M	1.9799	-0.89%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.61 (--)	1.52 (-0.07)
5Y	1.64 (--)	1.52 (-0.09)
10Y	1.78 (--)	1.69 (-0.08)
15Y	1.86 (-0.01)	--
20Y	1.95 (-0.02)	--
30Y	2.10 (-0.01)	2.18 (-0.07)

Fed Rate Hike Probability

Meeting	Prob Hike	Prob Cut	0.75-1.00%	1.00-1.25%	1.25-1.50%
10/30/2019	0.00%	22.00%	0.00%	0.00%	22.00%
12/11/2019	0.00%	41.90%	0.00%	5.60%	36.30%
01/29/2020	0.00%	50.80%	0.90%	10.30%	39.60%
03/18/2020	0.00%	57.50%	2.20%	14.30%	40.90%
04/29/2020	0.00%	61.20%	3.20%	16.60%	41.10%
06/10/2020	0.00%	65.60%	4.70%	19.40%	40.80%

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	5.70	0.80
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	1.82
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Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	54.18	-1.6%	Corn (per bushel)	3.9000	-0.2%
Brent (per barrel)	60.23	-0.6%	Soybean (per bushel)	9.168	0.1%
Heating Oil (per gallon)	1.8780	-1.9%	Wheat (per bushel)	5.0875	-0.1%
Gasoline (per gallon)	1.6312	-2.0%	Crude Palm Oil (MYR/MT)	2,444.0	1.4%
Natural Gas (per MMBtu)	2.6330	-2.2%	Rubber (JPY/KG)	155.4	1.4%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,797	-1.9%	Gold (per oz)	1,513.0	1.2%
Nickel (per mt)	16,645	-0.8%	Silver (per oz)	18.107	1.4%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
11/01/2019 07:00	SK CPI YoY	Oct -0.30%	0.00%	-0.40%	--
11/01/2019 07:00	SK CPI MoM	Oct 0.00%	0.20%	0.40%	--
11/01/2019 07:30	JN Jobless Rate	Sep 2.20%	2.40%	2.20%	--
11/01/2019 08:00	SK Exports YoY	Oct -13.60%	-14.70%	-11.70%	--
11/01/2019 08:30	JN Jibun Bank Japan PMI Mfg	Oct F --	48.5	48.5	--
11/01/2019 09:45	CH Caixin China PMI Mfg	Oct 51	--	51.4	--
11/01/2019 10:00	ID CPI YoY	Oct 3.29%	--	3.39%	--
11/01/2019 11:30	TH CPI YoY	Oct 0.30%	--	0.32%	--
11/01/2019 15:30	TH Foreign Reserves	Oct-25 --	--	\$221.5b	--
11/01/2019 16:30	HK Retail Sales Value YoY	Sep -25.60%	--	-23.00%	--
11/01/2019 20:30	US Change in Nonfarm Payrolls	Oct 85k	--	136k	--
11/01/2019 20:30	US Unemployment Rate	Oct 3.60%	--	3.50%	--
11/01/2019 21:30	US Dallas Fed's Kaplan Speaks in Houston				
11/01/2019 22:00	US ISM Manufacturing	Oct 48.9	--	47.8	--
11/01/2019 22:00	US Construction Spending MoM	Sep 0.20%	--	0.10%	--

Source: Bloomberg

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