

Daily Treasury Outlook

2 October 2019

Highlights

Global: Another risk-off session overnight as US' ISM manufacturing PMI (47.8) dropped to its weakest print in a decade spurred fears of a sharper slowdown. The WTO also slashed its 2019 global trade growth by more than half and warned of further pain from tariff escalation, slowing growth and a disorderly Brexit. Meanwhile, US president Trump blamed USD strength as the source of pain for manufacturers. North Korea also fired some ballistic missiles hours after indicating it would resume talks with the US. Wall Street tumbled overnight, while the flight to quality lifted UST bonds and the 10-year yield touched an intraday low of 1.61%. RBA delivered its widely anticipated 25bps cut to a record low of 0.75% and signalled its preparedness to do more if needed.

Market watch: Asian markets may embark on a consolidative streak this morning amid disappointing economic data signals. Escalating violent clashes among protestors and police in Hong Kong may also cast a shadow over the HSI when it reopens today.

US: The ISM manufacturing PMI slumped to 47.8 in September, the lowest since June 2009 and undershooting market expectations for an increase to 50.1. Fed's Evans (voter) opined that "solid" growth is expected and to let inflation modestly overshoot 2% for some time "would not be a policy error".

EU: The Eurozone's manufacturing PMI printed at 45.7 in September, the lowest since October 2012, as new orders and output slipped further. In particular, the German manufacturing PMI also retreated to 41.7, the lowest since the GFC. ECB's Draghi called for Eurozone-wide fiscal stimulus to boost investments, while Bundesbank's Weidmann advocated an "intensive discussion" among policymakers on the recent stimulus measures that is "absolutely necessary".

UK: UK PM Johnson is expected to issue an ultimatum to Brussels today. Meanwhile, the EU is said to be considering major Brexit concessions to avoid a no-deal Brexit on 31 October.

Singapore: MAS sold \$3b of 28-day bills at 1.95% yield with a bid-cover ratio of 2.09x and \$7.5b of 84-day bills at 1.95% yield with a bid-cover ratio of 1.95%.

Key Market Movements		
Equity	Value	% chg
S&P 500	2940.3	-1.2%
DJIA	26573	-1.3%
Nikkei 225	21885	0.6%
SH Comp	2905.2	0.0%
STI	3146.0	0.8%
Hang Seng	26092	0.0%
KLCI	1589.4	0.3%
Currencies	Value	% chg
DXY	99.128	-0.3%
USDJPY	107.75	-0.3%
EURUSD	1.0933	0.3%
GBPUSD	1.2302	0.1%
USDIDR	14216	0.1%
USDSGD	1.3849	0.2%
SGDMYR	3.0257	-0.2%
Rates	Value	chg (bp)
3M UST	1.76	-4.53
10Y UST	1.64	-2.93
1Y SGS	1.87	0.00
10Y SGS	1.75	1.03
3M LIBOR	2.09	-1.35
3M SIBOR	1.88	0.00
3M SOR	1.68	-0.95
Commodities	Value	% chg
Brent	58.89	-0.6%
WTI	53.62	-0.8%
Gold	1479	0.5%
Silver	17.24	1.4%
Palladium	1657	-1.1%
Copper	5686	-0.7%
BCOM	77.87	0.1%

Source: Bloomberg

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Major Markets

US: US markets tumbled last night, with the S&P 500 index ending the session down 1.2%. The drop was mainly attributed to the poor US manufacturing data, with the ISM manufacturing PMI printing a 10-year low of 47.8. Other factors include the poor September auto sales. We see immediate support for the S&P 500 index at the 2940 level, and a breakout on the downside could see the index revisiting August's lows around the 2825 level. For the rest of the week, we have the ADP employment numbers today and US nonfarm payrolls on Friday. Fed's Barkin and Harker also speak today.

Singapore: The STI added 0.83% to close at 3146.03 yesterday but may surrender those gains today amid weak economic data prints and risk-off market sentiments. STI's support and resistance are tipped at 3106 and 3155 respectively. With the UST bonds rallying to push yield up to 9bps lower, led by the front-end, SGS bonds may also see a flight to quality today.

South Korea: CPI in the month of September sunk to deflationary levels of -0.4% yoy. A deflation rate was widely expected, as seen in the median estimate of -0.3% on Bloomberg (OCBC: -0.2%). The worse-than-expected deflation rate, however, signals that price levels remain soft in the economy and that demand-led growth is likely to remain weak in the near-term. Our estimates suggest that South Korea is likely to remain in deflationary mode this month.

Thailand: CPI in September fell to 0.32% yoy, lower than the expected rate of 0.41% (OCBC 0.24%). Our estimate of 0.24% yoy was the lowest among the poll on Bloomberg; although the inflation rate came in higher than our forecast, it still is closer to our end of the range than the top end estimate of 0.60%, proving that our bearishness is not unwarranted. Our forecasts suggest that the inflation rate is likely to continue trending lower this month, before turning the corner in November.

Malaysia: Markit Manufacturing PMI for September came in at 47.9, still in contractionary territory albeit an improvement from 47.4 in August. It also marks the best reading since May 2019.

Indonesia: Headline CPI inflation for the month of September came in at 3.39% yoy, against expectation of over 3.5% and slightly lower than August's print. Clothing prices rose the most in yearly inflation data, according to the statistics bureau, but food prices fell sizably enough to offset it.

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Bond Market Updates

Market Commentary: The SGD swap curve bear-steepened yesterday, with the shorter tenors traded 2-3bps higher, while the belly and longer tenors traded 3-4bps higher. The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 2bps to 134bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 13bps to 524bps. 10Y USTs yields fell 3bps to close at 1.64% after yields rose to the 1.75% area earlier in the day. Yields plunged after the September ISM US manufacturing data was released, showing manufacturing activity fell to its lowest level since June 2009. Spread between 3-month treasury bills and 10-year treasury notes remains inverted, with the spread tightening to -12bps.

New Issues: Bharti Airtel Ltd has scheduled investor meetings/calls from 2 Oct for its proposed USD NC5.5-Perpetual bond issuance.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	99.128	-0.25%	USD-SGD	1.3849	0.22%
USD-JPY	107.750	-0.31%	EUR-SGD	1.5140	0.53%
EUR-USD	1.0933	0.31%	JPY-SGD	1.2852	0.51%
AUD-USD	0.6704	-0.68%	GBP-SGD	1.7037	0.31%
GBP-USD	1.2302	0.11%	AUD-SGD	0.9285	-0.46%
USD-MYR	4.1930	0.13%	NZD-SGD	0.8647	-0.10%
USD-CNY	7.1483	--	CHF-SGD	1.3941	0.66%
USD-IDR	14216	0.15%	SGD-MYR	3.0257	-0.16%
USD-VND	23203	--	SGD-CNY	5.1391	-0.15%

Equity and Commodity

Index	Value	Net change
DJIA	26,573.04	-343.79
S&P	2,940.25	-36.49
Nasdaq	7,908.69	-90.65
Nikkei 225	21,885.24	129.40
STI	3,146.03	26.04
KLCI	1,589.44	5.53
JCI	6,138.25	-30.85
Baltic Dry	1,823.00	--
VIX	18.56	2.32

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4570	-0.50%	O/N	1.8215	-0.56%
2M	-0.3360	-0.56%	1M	2.0156	-1.59%
3M	-0.4180	-1.59%	2M	2.0654	-0.55%
6M	-0.3860	-0.55%	3M	2.0851	-1.35%
9M	-0.1940	-1.35%	6M	2.0556	-0.74%
12M	-0.3300	-0.74%	12M	2.0321	-1.11%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.66 (--)	1.55 (-0.08)
5Y	1.68 (+0.01)	1.49 (-0.05)
10Y	1.75 (+0.01)	1.64 (-0.03)
15Y	1.87 (+0.01)	--
20Y	1.95 (+0.01)	--
30Y	2.10 (+0.03)	2.09 (-0.02)

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%	64.6%	0.0%	0.0%	64.6%
12/11/2019	0.0%	85.0%	0.0%	37.3%	47.7%
01/29/2020	0.0%	92.3%	18.0%	42.3%	31.9%
03/18/2020	0.0%	94.4%	24.7%	39.5%	25.2%
04/29/2020	0.0%	95.6%	27.9%	36.4%	21.0%
06/10/2020	0.0%	96.4%	29.4%	33.6%	18.0%

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	4.65	0.35
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	2.35
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Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	53.62	-0.8%	Corn (per bushel)	3.9250	1.2%
Brent (per barrel)	58.89	-3.1%	Soybean (per bushel)	9.195	1.5%
Heating Oil (per gallon)	1.8985	-0.4%	Wheat (per bushel)	4.9875	0.6%
Gasoline (per gallon)	1.5737	-1.9%	Crude Palm Oil (MYR/MT)	2,108.0	1.4%
Natural Gas (per MMBtu)	2.2830	-2.0%	Rubber (JPY/KG)	154.8	-1.1%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,686	-0.7%	Gold (per oz)	1,479.1	0.5%
Nickel (per mt)	17,220	1.0%	Silver (per oz)	17.236	1.4%

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

Economic Calendar

Date Time		Event	Survey	Actual	Prior	Revised
10/02/2019 20:00	US	Fed's Barkin Speaks at a Conference on the Rural Economy				
10/02/2019 21:00	US	Fed's Harker Speaks at Community Banking Conference				
10/02/2019 22:50	US	New York Fed's Williams Speaks in San Diego				
10/02/2019 14:30	EC	ECB's Villeroy speaks in Paris				
10/02/2019 00:45	EC	ECB's Draghi Speaks in Athens				
10/02/2019 16:30	HK	Retail Sales Value YoY	Aug	-14.00%	--	-11.40%
10/02/2019 19:00	US	MBA Mortgage Applications	Sep-27	--	--	-10.10%
10/02/2019 20:15	US	ADP Employment Change	Sep	140k	--	195k
10/02/2019 07:50	JN	Monetary Base YoY	Sep	--	3.00%	2.80%
10/02/2019 16:30	UK	Markit/CIPS UK Construction PMI	Sep	45	--	45
10/02/2019 00:00	NZ	QV House Prices YoY	Sep	--	2.40%	2.30%
10/02/2019 16:30	HK	Retail Sales Volume YoY	Aug	-17.80%	--	-13.00%

Source: Bloomberg

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