

Daily Treasury Outlook

3 December 2019

Highlights

Global: It looks like a risk-off day as US president Trump puts on his tariff man hat again ahead of the next tranche of scheduled tariffs against China on 15 December. Essentially the Trump administration is reinstating the steel and aluminium on Argentina and Brazil, proposed tariffs on around \$2.4b of French products in retaliation to its digital revenue tax (and exploring similar probes against Austria, Italy and Turkey). US Commerce Secretary Ross also opined that tariffs on China will rise if a trade deal is not struck. On the economic front, US' manufacturing ISM also disappointed with a fourth straight month of contraction to slip to 48.1 in November, albeit the Markit PMI rose for the third consecutive month to a seven-month high of 52.6. The S&P slumped 0.9% overnight, while the UST bond curve steepened with the 10-year bond yield up to a two-week high of 1.86%. Meanwhile, oversubscription for the second tranche of US term repo offering prompted another upsize to at least \$25b for next Monday's third offering.

Market watch: Asian markets are likely to trade with a soft tone today amid the resurfacing of trade war concerns. Investors are awaiting RBA's policy decision later this morning, but with no change to the 0.75% rate anticipated. Today's economic data calendar is very quiet with only S'pore's manufacturing and electronics PMIs on tap.

PMI: China's Caixin PMI edged higher from 51.7 to 51.8 while most of its Asian counterparts also generally improved with the exception of Thailand (49.3 versus 50 previously) and Philippines (51.4 versus 52.1).

US: Construction spending also unexpectedly fell 0.8% mom in October, while the September data was also revised lower from +0.5% to -0.3%, suggesting that the 3Q recovery was relatively short-lived.

Eurozone: ECB's Lagarde opined that the central bank's "accommodative policy stance has been a key driver of domestic demand during the recovery, and that stance remains in place" and will be "resolute" ahead of her first ECB policy meeting on 12 December. Meanwhile, the region's manufacturing PMI contracted for the 10th consecutive month in November, but edged up from 45.9 to 46.9, suggesting the worst may be over as well.

Singapore: Civil servants will get 0.1 month year-end bonus plus a one-off lump-sum payment of \$250-1,500, the lowest in 10 years, amid the weak economic outlook. Meanwhile, MND second minister Desmond Lee noted the property market is growing at a more sustainable pace, but cautioned of external risks and reiterated that the government cannot take a hands-off approach.

South Korea: Final Q3 GDP growth in the South Korea economy stayed constant at 2.0% yoy, consistent with market expectations.

Key Market Movements

Equity	Value	% chg
S&P 500	3113.9	-0.9%
DJIA	27783	-1.0%
Nikkei 225	23530	1.0%
SH Comp	2875.8	0.1%
STI	3188.0	-0.2%
Hang Seng	26445	0.4%
KLCI	1570.6	0.6%
Currencies	Value	% chg
DXY	97.856	-0.4%
USDJPY	108.98	-0.5%
EURUSD	1.1079	0.6%
GBPUSD	1.2939	0.1%
USIDR	14125	0.1%
USDSGD	1.3661	-0.1%
SGDMYR	3.0546	0.0%
Rates	Value	chg (bp)
3M UST	1.55	-1.79
10Y UST	1.82	4.31
1Y SGS	1.68	0.00
10Y SGS	1.77	3.05
3M LIBOR	1.91	-0.14
3M SIBOR	1.77	0.08
3M SOR	1.54	-4.98
Commodities	Value	% chg
Brent	60.92	0.7%
WTI	55.96	1.4%
Gold	1462	-0.1%
Silver	16.91	-0.7%
Palladium	1853	0.6%
Copper	5864	0.0%
BCOM	77.14	0.0%

Source: Bloomberg

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Major Markets

US: US markets were lower last night on the back of unexpected decline in the ISM Manufacturing PMI as well as an escalation of trade tensions. The S&P 500 index ended the session 0.9% lower. Looking ahead, investors are likely to remain cautious in the wake of heightened global trade tensions. We expect US markets to trade sideways as markets weigh the effects of Trump's tariffs and China's mild retaliation to the HK bill. We could possibly see support for the S&P 500 index at the 3100 handle.

Singapore: The STI slipped by 0.19% to close at 3187.97 yesterday and may trade a more consolidative session again with support tipped at 3160 (followed by 3134) on weak overnight cues from Wall Street and morning weakness in Nikkei and Kospi. With the sell-off extending in longer-dated UST bonds and the 30-year UST bond yield up around 6bps, the curve steepening bias may also repeat in the SGS bond market today.

Indonesia: November's headline inflation came in at 3.00% yoy, softer than 3.13% of the previous month. Core inflation was more subdued as well, coming in at 3.08% yoy compared to 3.2% in October. Meanwhile, Bank Indonesia's Senior Deputy Governor Destry Damayanti said that structural reform in domestic economy is expected to drive growth in 2021, to a range of 5.2-5.6%. For 2020, the central bank is expecting growth to be within the range of 5.1-5.5%. She reportedly added that infrastructure financing needs have reached substantial amount that could no longer be fulfilled by public sector alone and that traditional sources of financing from banking sector are limited by prudential constraints.

Malaysia: November PMI index rose to 49.5, still within contractionary territory, albeit an improvement from 49.3 the month before. While the output sub-index fell to 49.2 from 49.5 of October, new orders rose and printed its highest reading in over a year. Meanwhile, PKR party president Datuk Seri Anwar Ibrahim reportedly said that there can only be one party convention, which is scheduled to take place on December 6th in Melaka, as decided by the party's central leadership council. He said this in response to an earlier report by the Star that the group loyal to PKR deputy president Datuk Seri Azmin Ali is planning to hold a separate, parallel party conference, leading to suggestions of an increasingly serious split. As a singular entity, PKR controls 50 seats, the largest bloc in the parliament and is a major part of the Pakatan Harapan ruling coalition.

Thailand: Thailand's headline inflation rose 0.21% yoy in November from 0.11% in October, stemming a declining trend of four months. A slower than expected increase in food prices, particularly in the vegetables and fresh fruit segment, was a key driver in November's inflation figure failing to match market estimates. Separately, the country's manufacturing PMI last month recorded a contraction of 49.3 – the first contraction since February. Both readings can be partially attributed to the strong baht, which would have resulted in cheaper import prices and the lackluster exports of Thai manufactured goods throughout 2019.

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Oil: Brent prices rose yesterday, with prices on the February contract rising 0.7% after suffering a decline of 4.4% last Friday. The rebound in prices was probably a combination of the market buying on dips as well as its reaction to Iraq's comments that OPEC+ is mulling a production cut of 400k bpd in this week's meeting. We maintain our view that OPEC+ is unlikely to reduce production quotas significantly in the last meeting of 2019, instead seeking to extend the current production curbs from March 2020 to at least June 2020.

Bond Market Updates

Market Commentary: The SGD swap curve bear-steepened yesterday, with the shorter tenors around 2-3bps higher, and the belly and longer tenors around 4bps higher. The Bloomberg Barclays Asia USD IG Bond Index average OAS was little changed at 126bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 3bps to 509bps. The HY-IG Index spread tightened 4bps to 383bps. 10Y UST Yields ended the day with a 4bps increase to 1.82%. Intraday, 10Y yields reversed from a high of 1.86% after weaker than expected economic data was reported, with US factory activity and construction spending falling unexpectedly. Demand for safe haven treasuries were also slightly boosted by increase in trade tensions, after US President Donald Trump imposed steel tariffs on Brazil and Argentina.

New Issues: Phoenix Charm International Investment Limited (Guarantor: Danyang Investment Group Co., Ltd) priced a USD20mn re-tap of its existing PHCIL 7.0%'22s bond at 7.0%. Taixing Zhongxing State-owned Assets Management and Investment (Hong Kong) Co., Limited priced a USD200mn 3-year bond at 5.5%. China Resources Land Limited scheduled investor calls commencing 2 Dec for its proposed USD perpetual bond issuance.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	97.856	-0.42%	USD-SGD	1.3661	-0.12%
USD-JPY	108.980	-0.47%	EUR-SGD	1.5138	0.45%
EUR-USD	1.1079	0.55%	JPY-SGD	1.2539	0.39%
AUD-USD	0.6819	0.83%	GBP-SGD	1.7676	-0.06%
GBP-USD	1.2939	0.11%	AUD-SGD	0.9316	0.72%
USD-MYR	4.1792	0.03%	NZD-SGD	0.8884	1.14%
USD-CNY	7.0393	0.10%	CHF-SGD	1.3786	0.81%
USD-IDR	14125	0.12%	SGD-MYR	3.0546	-0.05%
USD-VND	23173	-0.10%	SGD-CNY	5.1524	0.18%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4370	1.00%	O/N	1.5425	0.29%
2M	-0.3360	0.29%	1M	1.6971	-1.14%
3M	-0.4010	-1.14%	2M	1.8399	0.41%
6M	-0.3430	0.41%	3M	1.9055	-0.14%
9M	-0.1940	-0.14%	6M	1.8969	0.17%
12M	-0.2730	0.17%	12M	1.9521	0.19%

Fed Rate Hike Probability

Meeting	Prob Hike	Prob Cut	0.75-1.00%	1.00-1.25%	1.25-1.50%
12/11/2019	0.00%	2.30%	0.00%	0.00%	2.30%
01/29/2020	0.00%	12.70%	0.00%	0.20%	12.50%
03/18/2020	0.00%	23.70%	0.00%	1.80%	21.90%
04/29/2020	0.00%	36.20%	0.30%	5.10%	30.80%
06/10/2020	0.00%	47.20%	1.10%	9.50%	36.50%
07/29/2020	0.00%	54.00%	2.20%	13.00%	38.60%

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	55.96	1.4%	Corn (per bushel)	3.7350	0.6%
Brent (per barrel)	60.92	-2.4%	Soybean (per bushel)	8.705	-0.7%
Heating Oil (per gallon)	1.8860	0.4%	Wheat (per bushel)	5.4325	-0.8%
Gasoline (per gallon)	1.5733	-1.5%	Crude Palm Oil (MYR/MT)	2,630.0	0.4%
Natural Gas (per MMBtu)	2.3290	2.1%	Rubber (JPY/KG)	167.1	-0.5%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,864	--	Gold (per oz)	1,462.4	-0.1%
Nickel (per mt)	13,670	--	Silver (per oz)	16.912	-0.7%

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

Equity and Commodity

Index	Value	Net change
DJIA	27,783.04	-268.37
S&P	3,113.87	-27.11
Nasdaq	8,567.99	-97.48
Nikkei 225	23,529.50	235.59
STI	3,187.97	-5.95
KLCI	1,570.55	8.81
JCI	6,130.06	118.23
Baltic Dry	1,528.00	--
VIX	14.91	2.29

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.53 (+0.01)	1.60 (-0.01)
5Y	1.64 (+0.01)	1.64 (+0.02)
10Y	1.77 (+0.03)	1.82 (+0.04)
15Y	1.87 (+0.02)	--
20Y	1.97 (+0.01)	--
30Y	2.10 (+0.01)	2.27 (+0.06)

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	4.77	-0.07
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	1.65
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Economic Calendar

Date Time		Event		Survey	Actual	Prior	Revised
12/03/2019 01:00	IT	New Car Registrations YoY	Nov	--	--	6.67%	--
12/03/2019 07:00	SK	GDP YoY	3Q F	2.00%	--	2.00%	--
12/03/2019 07:00	SK	GDP SA QoQ	3Q F	0.40%	--	0.40%	--
12/03/2019 07:50	JN	Monetary Base YoY	Nov	--	--	3.10%	--
12/03/2019 08:30	AU	BoP Current Account Balance	3Q	A\$6.1b	--	A\$5.9b	--
12/03/2019 11:30	AU	RBA Cash Rate Target	Dec-03	0.75%	--	0.75%	--
12/03/2019 15:45	FR	Budget Balance YTD	Oct	--	--	-109.0b	--
12/03/2019 16:00	SP	Unemployment Change	Nov	--	--	97.9k	--
12/03/2019 17:30	UK	Markit/CIPS UK Construction PMI	Nov	44.5	--	44.2	--
12/03/2019 18:00	EC	PPI YoY	Oct	-1.80%	--	-1.20%	--
12/03/2019 18:00	EC	PPI MoM	Oct	0.00%	--	0.10%	--
12/03/2019 21:00	SI	Purchasing Managers Index	Nov	49.8	--	49.6	--
12/03/2019 21:00	SI	Electronics Sector Index	Nov	--	--	49.3	--

Source: Bloomberg

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