

Daily Treasury Outlook

5 December 2019

Highlights

Global: Risk aversion retreated overnight as unidentified sources insist that the US-China Phase 1 trade deal talks are still proceeding despite recent elevated noise levels about human rights issues in Hong Kong and Xinjiang, notwithstanding that the non-manufacturing ISM slipped to a weaker-than-expected 53.9 in November. US President Trump also sounded a tad more upbeat that “discussions are going very well”. Meanwhile, GBP saw a seven month high against the USD amid market speculation that UK PM Boris Johnson’s Conservative Party will win a clear majority at the 12 December polls and boost his Brexit agreement chances with the lawmakers. The S&P climbed 0.6% overnight, while the UST bond yield curve bear steepened by 4-6bps to push the 10-year bond yield up to 1.78%.

Market watch: Asian markets may find some solace today following a more positive US session overnight amid re-emergent US-China Phase 1 trade deal, but gains may be hesitant ahead of tomorrow’s key US labour market report where market consensus is eyeing a +190k for nonfarm payrolls. Today’s market focus will include the RBI policy decision where a 25bp rate cut for the repo and reverse repo rates to 4.9% and 4.65% respectively is likely, followed by economic data such as German factory orders, Taiwan’s CPI, Eurozone’s final 3Q19 GDP growth and retail sales, US’ initial jobless claims, factory orders, trade balance and durable goods orders.

US: The non-manufacturing ISM production index slipped to 51.6, while the ADP employment data also saw a disappointing addition of only 67k jobs in November (the smallest increase since May). Meanwhile, Fed’s Quarles said the central bank is reviewing some areas in the existing supervision of the regulatory framework that may have created some incentive that contributed to the recent repo market issues.

Canada: Bank of Canada kept its 1.75% rate static yesterday, but the statement was more hawkish than expected as it noted “nascent evidence that the global economy is stabilizing” and unexpectedly strong investment growth. This contrasted with its October assessment of “weakening” growth and contributed to a paring back of a potential rate cut in 2020.

EU: The region’s services PMI dipped from 52.2 to 51.9 whilst the composite PMI was steady at 50.6 in November, which may pose a weak backdrop to the ECB’s ongoing efforts to stimulate growth and inflation. The UK services PMI shrank to 49.3 in November from October’s 50 print, marking its third month in contraction territory.

Singapore: COE premiums were mixed in the latest tender with category A higher at \$33,009, but Categories B and E both lower at \$37,900 and \$38,889 respectively.

Key Market Movements

Equity	Value	% chg
S&P 500	3112.8	0.6%
DJIA	27650	0.5%
Nikkei 225	23135	-1.0%
SH Comp	2878.1	-0.2%
STI	3159.8	-0.4%
Hang Seng	26063	-1.2%
KLCI	1560.9	-0.1%
Currencies	Value	% chg
DXY	97.648	-0.1%
USDJPY	108.86	0.2%
EURUSD	1.1078	0.0%
GBPUSD	1.3104	0.8%
USIDR	14105	-0.1%
USDSGD	1.3633	-0.1%
SGDMYR	3.0618	0.1%
Rates	Value	chg (bp)
3M UST	1.54	-2.31
10Y UST	1.77	5.83
1Y SGS	1.69	0.10
10Y SGS	1.74	-3.05
3M LIBOR	1.89	-0.86
3M SIBOR	1.77	0.14
3M SOR	1.52	-1.96
Commodities	Value	% chg
Brent	63	3.6%
WTI	58.43	4.2%
Gold	1475	-0.2%
Silver	16.86	-1.8%
Palladium	1870	0.7%
Copper	5885	1.2%
BCOM	77.85	0.6%

Source: Bloomberg

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Major Markets

US: Markets were up last night after Bloomberg reported that the US and China are closer to agreeing the amount of tariffs to be rolled back while Trump said that trade talks are “going very well”. The S&P500 index was up 0.6%. Despite the renewed optimism, we expect caution in the market to linger until a trade deal is announced before 15 Dec, when a fresh set of tariffs will be imposed on China. Support for S&P500 index is seen around the 3100 handle.

Singapore: Positive overnight leads from Wall Street may prompt the STI to claw back some of the 0.42% declines seen yesterday, especially amid morning gains seen in both Nikkei and Kospi. STI support and resistance are tipped at 3146 and 3292 respectively. With UST bonds giving back some gains yesterday, the SGS market which traded rallied 1-3bps yesterday may find today's improvement in risk appetite weighing on demand.

Hong Kong: PMI dropped to 38.5 in November, the worst performance since the SARS epidemic in early 2003. The sluggish business activity in Hong Kong was mainly attributed to the trade war uncertainties and the prolonged social unrest. As those unfavorable factors persist, we do not expect to see significant recovery in December. Therefore, the possibility of further deceleration of GDP in 4Q cannot be ruled out. Government announced the fourth wave of relief measures worth HKD 3.3 billion with nine measures in total, focusing on small and medium-sized enterprises. Notably, individual and companies will be allowed to pay their tax bills in instalments within one year. Meanwhile, government will provide subsidies for commercial users. Lastly, commercial users will be exempted from paying 75% of their water and sewage charges. The government suggested that the measures altogether might help to generate 2% growth for HK's GDP. Nevertheless, those measures might only lend short-term supports to commercial departments. Amid the prolonged social unrest and trade war fears, the 4Q GDP might remain sluggish.

Indonesia: Moody's said that even though Indonesia's growth is slowing, there is no immediate upward or downward pressure on Indonesia's credit rating at the moment. It sees GDP growth at 4.9% in 2019, 4.7% in 2020 and 4.8% in 2021, according to Bloomberg.

Malaysia: Exports print for October came in better than market expected, contracting by 6.7% yoy against consensus expectation of a 12.3% drop. With another month of shrinking imports, trade balance was strongly in the black, posting a surplus of MYR17.3bn – the highest point since at least 1990. The October data is encouraging to be sure but may be reflecting the mini bounce in global trade sentiment that is looking increasingly threatened now.

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Oil: Iraq has shifted its position on crude oil production ahead of the OPEC+ meeting beginning today. Having said that the bloc was considering a further production cut of 400k bpd on Sunday, Iraq now says the country would prefer an extension of the current supply curbs for one year. Oil prices rose yesterday largely due to trade optimism, with Brent rising 3.6% to \$63/bbl. Volatility is expected ahead of OPEC+'s announcement on its 2020 production quotas in the next 48 hours.

Bond Market Updates

Market Commentary: The SGD swap curve bull-flattened yesterday, with the shorter tenors around 2bps lower, and the belly and longer tenors around 3-4bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 126bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 4bps to 528bps. The HY-IG Index spread tightened 3bps to 402bps. 10Y UST Yields rose 6bps to close at 1.77%, after the US-China trade rhetoric flipped again, with US President Donald Trump saying that trade talks with China were going "very well", boosting risk appetite.

New Issues: Huafa 2019 I Company Limited (Guarantor: Zhuhai Huafa Group Co., Ltd) priced a USD200mn 364-day bond at 3.7%, tightening from IPT of 4.1% area. China Everbright Bank Co., Ltd., Hong Kong Branch priced a USD500mn 3-year FRN at 3m-US LIBOR+70bps, tightening from IPT of 3m-US LIBOR+100bps area. JD.com, Inc., scheduled investor calls commencing 4 Dec for its potential USD bond issuance.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	97.648	-0.09%	USD-SGD	1.3633	-0.08%
USD-JPY	108.860	0.21%	EUR-SGD	1.5102	-0.12%
EUR-USD	1.1078	-0.04%	JPY-SGD	1.2523	-0.29%
AUD-USD	0.6849	0.03%	GBP-SGD	1.7866	0.78%
GBP-USD	1.3104	0.84%	AUD-SGD	0.9342	-0.04%
USD-MYR	4.1755	0.01%	NZD-SGD	0.8900	0.04%
USD-CNY	7.0499	-0.16%	CHF-SGD	1.3789	-0.23%
USD-IDR	14105	-0.07%	SGD-MYR	3.0618	0.06%
USD-VND	23170	-0.03%	SGD-CNY	5.1745	0.03%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4480	0.70%	O/N	1.5385	-0.21%
2M	-0.3360	-0.21%	1M	1.7036	0.99%
3M	-0.3970	0.99%	2M	1.8356	0.18%
6M	-0.3330	0.18%	3M	1.8915	-0.86%
9M	-0.1940	-0.86%	6M	1.8954	-1.08%
12M	-0.2630	-1.08%	12M	1.9366	-2.59%

Fed Rate Hike Probability

Meeting	Prob Hike	Prob Cut	0.75-1.00%	1.00-1.25%	1.25-1.50%
12/11/2019	1.30%	0.00%	0.00%	0.00%	0.00%
01/29/2020	1.10%	14.80%	0.00%	0.00%	14.80%
03/18/2020	0.90%	28.60%	0.00%	2.40%	26.20%
04/29/2020	0.80%	39.60%	0.40%	6.10%	33.10%
06/10/2020	0.60%	50.80%	1.50%	11.20%	38.10%
07/29/2020	0.50%	57.70%	2.80%	15.00%	39.60%

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	58.43	4.2%	Corn (per bushel)	3.6875	-0.9%
Brent (per barrel)	63.00	3.6%	Soybean (per bushel)	8.780	0.8%
Heating Oil (per gallon)	1.9229	2.3%	Wheat (per bushel)	5.3500	0.8%
Gasoline (per gallon)	1.6042	2.6%	Crude Palm Oil (MYR/MT)	2,673.0	1.0%
Natural Gas (per MMBtu)	2.3990	-1.7%	Rubber (JPY/KG)	167.4	-0.9%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,885	1.2%	Gold (per oz)	1,474.6	-0.2%
Nickel (per mt)	13,120	-1.9%	Silver (per oz)	16.856	-1.8%

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

Equity and Commodity

Index	Value	Net change
DJIA	27,649.78	146.97
S&P	3,112.76	19.56
Nasdaq	8,566.67	46.03
Nikkei 225	23,135.23	-244.58
STI	3,159.79	-13.29
KLCI	1,560.93	-1.34
JCI	6,112.88	-21.02
Baltic Dry	1,606.00	--
VIX	14.80	-1.16

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.53 (-0.01)	1.57 (+0.03)
5Y	1.61 (-0.02)	1.60 (+0.06)
10Y	1.74 (-0.03)	1.77 (+0.06)
15Y	1.84 (-0.03)	--
20Y	1.94 (-0.02)	--
30Y	2.07 (-0.02)	2.23 (+0.06)

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	5.40	0.18
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	1.55
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Economic Calendar

Date Time		Event		Survey	Actual	Prior	Revised
12/05/2019 07:00	SK	BoP Current Account Balance	Oct	--	\$7827.2m	\$7477.2m	\$7759.1m
12/05/2019 08:30	AU	Retail Sales MoM	Oct	0.30%	--	0.20%	--
12/05/2019 08:30	AU	Trade Balance	Oct	A\$6500m	--	A\$7180m	--
12/05/2019 09:00	PH	CPI YoY 2012=100	Nov	1.20%	--	0.80%	--
12/05/2019 14:15	IN	RBI Repurchase Rate	Dec-05	4.90%	--	5.15%	--
12/05/2019 15:00	GE	Factory Orders MoM	Oct	0.40%	--	1.30%	--
12/05/2019 16:00	TA	CPI YoY	Nov	0.70%	--	0.39%	--
12/05/2019 18:00	EC	GDP SA QoQ	3Q F	0.20%	--	0.20%	--
12/05/2019 18:00	EC	GDP SA YoY	3Q F	1.20%	--	1.20%	--
12/05/2019 21:30	US	Initial Jobless Claims	Nov-30	215k	--	213k	--
12/05/2019 21:30	US	Trade Balance	Oct	-\$48.5b	--	-\$52.5b	--
12/05/2019 21:30	US	Continuing Claims	Nov-23	1660k	--	1640k	--
12/05/2019 23:00	US	Durable Goods Orders	Oct F	0.60%	--	0.60%	--
12/05/2019 23:00	US	Factory Orders	Oct	0.30%	--	-0.60%	--
12/05/2019 23:00	US	Durables Ex Transportation	Oct F	0.60%	--	0.60%	--

Source: Bloomberg

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