

Daily Treasury Outlook

7 October 2019

Highlights

Global: News that Chinese officials are narrowing the scope of trade negotiations for the upcoming trade talks with the US this week to exclude commitments to reform Chinese industrial policy and government subsidies may add to market jitters to start the week. This may take the shine off Friday's US labour market report which saw September nonfarm payrolls disappointing at 136k (with manufacturing payrolls shrinking for the first time since March by 2k), albeit with a +45k upward revision for the previous two months data and the unemployment rate hitting a 50-year low of 3.5%, whilst average hourly earnings were muted at 0% mom (2.9% yoy). Wall Street rose on Friday, together with UST bonds with the 10-year yield at 1.53%. Elsewhere, UK PM Johnson threatened to be "packing our bags and walking out" on 31 October even with no deal, while Hong Kong saw further protests over the weekend. Adding to the volatile mix were the failure of US-North Korean talks as well as the stalling of union talks at General Motors Co, market expectations for another 25bp Fed rate cut at the upcoming October FOMC meeting has been largely priced in even as the Fed announced it will extend overnight repo operations through 4 November and eight new term offerings.

Market watch: Asian markets are likely to open with a risk-off tone this morning, as market players digest the odds of a US-China mini trade deal ahead and Fed rhetoric in the run-up to the 31 October FOMC. Today's economic data calendar comprises German factor orders, Taiwan's trade data, Indonesia's foreign reserves and Japan's leading index. Market focus for the week ahead may centre on Fed chair Powell's speech at the NABE conference tomorrow, FOMC minutes on Thursday and US-China trade talks.

US: Fed's George said should incoming data point to a broadly weaker economy, she would then favour a rate cut. Meanwhile, Fed chair Powell opined that the US economy is in a "good place" and "our job is to keep it there as long as possible". Our view remains intact that the Fed will deliver another 25bps rate cut before the year is out, notwithstanding the latest NFP report.

India: RBI delivered a 25bp rate cut for the repo and reverse repo rates as expected and also trimmed its FY20 GDP growth forecast from 6.9% to 6.1%. Of the six MPC members, five voted to cut the repo rate by 25bps while one favoured 40bps.

Singapore: PM Lee opined most countries in Asia would be very unhappy if they have to choose between the US and China, according to an interview with CNN.

Gold: China added about 190k oz of gold in September, marking a tenth consecutive month of purchases and totalling about 3mil oz. This news is expected to add further bullishness to the gold market, which climbed from a low of \$1,472.50/oz on 30 September to \$1,504.70/oz last Friday.

Key Market Movements		
Equity	Value	% chg
S&P 500	2952.0	1.4%
DJIA	26574	1.4%
Nikkei 225	21410	0.3%
SH Comp	2905.2	0.0%
STI	3078.4	-0.3%
Hang Seng	25821	-1.1%
KLCI	1557.7	-0.4%
Currencies	Value	% chg
DX	98.808	-0.1%
USDJPY	106.94	0.0%
EURUSD	1.0979	0.1%
GBPUSD	1.2331	0.0%
USDIDR	14138	-0.2%
USDSGD	1.3787	-0.1%
SGDMYR	3.0343	0.2%
Rates	Value	chg (bp)
3M UST	1.69	-0.28
10Y UST	1.53	-0.51
1Y SGS	1.85	-1.00
10Y SGS	1.64	-4.35
3M LIBOR	2.04	-1.32
3M SIBOR	1.88	-0.03
3M SOR	1.67	1.00
Commodities	Value	% chg
Brent	58.37	1.1%
WTI	52.81	0.7%
Gold	1505	0.0%
Silver	17.55	-0.1%
Palladium	1667	0.5%
Copper	5643	-0.3%
BCOM	77.93	0.2%

Source: Bloomberg

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Major Markets

US: US markets ended the week on a positive note, with the S&P 500 index closing the session up 1.4%. A mixed labour market report on Friday, despite poorer than expected NFP numbers, allayed fears that the US economy was headed for a recession, especially after last Tuesday's soft manufacturing release. Reports of China's reluctance to agree to a broad trade deal, with industrial policy and government subsidy reforms excluded from their trade offer, could possibly result in some unease to start the week.

Singapore: The STI declined 0.31% to close at 3078.36 on Friday and may trade sideways today amid mixed cues. STI's next support is tipped at 3056 while resistance is at 3100. SGS bonds are likely to be supported today.

Indonesia: Bank Indonesia said that it is maintaining its CPI headline inflation estimate at below 3.5% this year. Governor Perry Warjiyo, citing data from its weekly prices survey, stated that inflation is seen at 3.13%yoy as of the first week of October.

Malaysia: August trade data was released on Friday, with exports shrinking by 0.8% yoy, against market consensus of a 2.7% gain. Meanwhile, imports dropped by 12.5% - a considerably steeper drop compared to expectation of 8%. In particular, imports of capital goods shrank by 31%, driven by contractions in purchases of machinery parts and mechanical appliances. Trade balance posted a surplus of MYR10.9bn, compared to 14.3bn the month before.

Hong Kong: After the Hong Kong government invoked emergency powers to ban masks at protests, markets started fretting about capital outflows once again. Hang Seng Index tumbled by as much as 1.9% today while USDHKD spot rose to as high as 7.8443. USDHKD forward swap points also narrowed across the curve with 12-month forward swap points moving to premium levels. Potential escalation of protests over the long weekend could intensify the concerns about outflows next week. We will closely monitor the developments and whether the US Congress will accelerate the process of passing the HK Human Rights and Democracy Act in the near term. If this is the case, 1M HIBOR and 3M HIBOR which dropped by 4.25bps and 0.5bps respectively to 1.73% and 2.24% may rebound in the coming sessions.

South Korea: Presidential economic aide Lee Ho-seung said he does not see South Korea slipping into deflation despite last month's inflation rate of -0.4%. This is consistent with our views that South Korea's inflation rate should return to positive before the end of 2019. Lee also said that the South Korean economy is likely to see a technical rebound by early 2020

Oil: Brent prices climbed 1.1% on Friday, after a mixed US jobs report allayed fears that the US economy was headed for a sharp slowdown.

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Bond Market Updates

Market Commentary: The SGD swap curve bull-flattened last Friday, with the shorter tenors traded 6-8bps lower, while the belly and longer tenors broadly traded 8bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 137bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 5bps to 552bps. 10Y USTs yields were little changed, closing at 1.53% after the September jobs report showed unemployment in the US dropped to a near 50-year low of 3.5%, moderated by continued expectations of the Fed cutting interest rates at the next FOMC meeting. The spread between 3-month treasury bills and 10-year treasury notes tightened to -16bps and remains inverted.

New Issues: Helenbergh China Holdings Ltd (Subsidiary Guarantors: Certain of the Company's Restricted Subsidiaries outside the PRC) has priced a USD300mn 2-year bond at 13.5%, tightening from IPT of 13.75% area. Fullerton India Credit Co., Ltd priced a SGD150mn 3.5-year bond at 3.7%.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	98.808	-0.06%	USD-SGD	1.3787	-0.10%
USD-JPY	106.940	0.02%	EUR-SGD	1.5136	0.02%
EUR-USD	1.0979	0.13%	JPY-SGD	1.2892	-0.19%
AUD-USD	0.6771	0.43%	GBP-SGD	1.7008	-0.12%
GBP-USD	1.2331	-0.01%	AUD-SGD	0.9334	0.32%
USD-MYR	4.1850	-0.04%	NZD-SGD	0.8712	0.15%
USD-CNY	7.1483	--	CHF-SGD	1.3850	0.20%
USD-IDR	14138	-0.25%	SGD-MYR	3.0343	0.17%
USD-VND	23203	--	SGD-CNY	5.1764	0.51%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4740	-0.50%	O/N	1.8208	-2.89%
2M	-0.3360	-2.89%	1M	1.9780	-0.77%
3M	-0.4230	-0.77%	2M	2.0044	-1.15%
6M	-0.3890	-1.15%	3M	2.0270	-1.32%
9M	-0.1940	-1.32%	6M	1.9506	-3.20%
12M	-0.3360	-3.20%	12M	1.8531	-4.40%

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%	79.6%	0.0%	0.0%	79.6%
12/11/2019	0.0%	93.2%	0.0%	53.1%	40.1%
01/29/2020	0.0%	97.3%	32.0%	45.3%	20.0%
03/18/2020	0.0%	98.3%	36.8%	36.1%	13.7%
04/29/2020	0.0%	98.7%	36.6%	30.4%	10.7%
06/10/2020	0.0%	99.0%	35.4%	26.5%	8.8%

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	52.81	0.7%	Corn (per bushel)	3.8475	-1.0%
Brent (per barrel)	58.37	1.1%	Soybean (per bushel)	9.163	0.5%
Heating Oil (per gallon)	1.8945	1.0%	Wheat (per bushel)	4.9050	0.4%
Gasoline (per gallon)	1.5734	1.1%	Crude Palm Oil (MYR/MT)	2,096.0	0.5%
Natural Gas (per MMBtu)	2.3520	1.0%	Rubber (JPY/KG)	149.0	0.3%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,643	-0.3%	Gold (per oz)	1,504.7	0.0%
Nickel (per mt)	17,790	0.9%	Silver (per oz)	17.548	-0.1%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Equity and Commodity

Index	Value	Net change
DJIA	26,573.72	372.68
S&P	2,952.01	41.38
Nasdaq	7,982.47	110.21
Nikkei 225	21,410.20	68.46
STI	3,078.36	-9.61
KLCI	1,557.67	-6.45
JCI	6,061.25	22.72
Baltic Dry	1,767.00	10.00
VIX	17.04	-2.08

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.60 (-0.04)	1.40 (+0.01)
5Y	1.59 (-0.04)	1.35 (-)
10Y	1.64 (-0.04)	1.53 (-0.01)
15Y	1.74 (-0.06)	--
20Y	1.83 (-0.06)	--
30Y	1.94 (-0.07)	2.02 (-0.02)

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	4.50	0.22
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	1.84
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Economic Calendar

Date Time		Event		Survey	Actual	Prior	Revised
10/06/2019 10:13	VN	Domestic Vehicle Sales YoY	Sep	--	--	6.30%	--
10/07/2019	CH	Foreign Reserves	Sep	\$3105.60b	\$3092.43b	\$3107.18b	--
10/07/2019	PH	Foreign Reserves	Sep	--	--	\$85.6b	--
10/07/2019 05:30	AU	AiG Perf of Construction Index	Sep	--	42.6	44.6	--
10/07/2019 10:12	US	Monthly Budget Statement	Sep	\$82.5b	--	\$119.1b	--
10/07/2019 11:00	ID	Foreign Reserves	Sep	--	--	\$126.40b	--
10/07/2019 13:00	JN	Leading Index CI	Aug P	91.8	--	93.7	--
10/07/2019 14:00	GE	Factory Orders MoM	Aug	-0.30%	--	-2.70%	--
10/07/2019 15:00	MA	Foreign Reserves	Sep-30	--	--	\$103.5b	--
10/07/2019 16:00	TA	Exports YoY	Sep	1.00%	--	2.60%	--
10/07/2019 16:00	TA	Trade Balance	Sep	\$5.78b	--	\$5.98b	--
10/07/2019 16:00	TA	Imports YoY	Sep	-3.70%	--	-2.70%	--
10/07/2019 17:00	SI	Foreign Reserves	Sep	--	--	\$272.37b	--
10/07/2019 22:20	US	Kashkari Discusses Fed's Work on Native American Reservations					

Source: Bloomberg

Treasury Research & Strategy

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