

Daily Treasury Outlook

8 October 2019

Highlights

Global: News that US has placed another eight Chinese technology companies (including Hikvision, Sense Time and iFlytek) under the blacklist for human rights violations in Xinjiang on the eve of trade talks suggest that the odds of an interim or mini US-China trade deal has fallen further. US president Trump also warned that a “bad” outcome in Hong Kong would hurt China trade talks. It is plausible that China retaliates through its Unreliable Entities List, which may in turn mean the US pushes through with its planned 15 October tariffs hikes. S&P500 closed down 0.5%, while UST bonds sold off with the 10-year yield +3bps at 1.56%.

Market watch: Asian markets are likely to be caught off-guard by this latest escalation of US-China trade tensions overnight, especially with China and Hong Kong markets due to re-open today. Today’s economic data calendar comprises China’s Caixin services and composite PMIs, German industrial production for August, US’ NFIB small business optimism and PPI. Fed chair Powell’s speech at the NABE conference will be in focus, together with Evans and Kashkari, BOE’s Carney and Tenreyro, and ECB’s Lane.

US: Fed’s Kashkari opined that “we should be supporting the economy, not tapping the brakes” but “how much more do we have to cut? I don’t know yet”.

EU: European leaders sound downbeat about a Brexit deal ahead of its informal deadline on 11 October. Meanwhile, the UK government has decided not to publish the legal text of its latest proposals to the EU. The key dates to watch are 14 October with the Queen’s speech, 17-18 October with the EU Council Summit, 19 October which is the Benn Act deadline and Boris Johnson must seek an extension if Parliament has not approved a deal, 21-25 October where a potential no-confidence vote and 31 October which is the scheduled Brexit date.

China: China reopened the market with a series of bad news. According to Reuters news, 28 Chinese public bureaus and companies including eight commercial companies, such as China-listed video surveillance company Hikvision, on a US entity list due to human rights violation in Xinjiang region. The Chinese technology companies such as Hikvision and Dahua will be cut off from the US suppliers such as Intel, Nvidia, Ambarella etc when they are put in the entity list which may affect their operations. The new entity list signalled the re-escalation of technology war, which will cloud the outlook of the upcoming trade talk. It remains to be seen whether China wants to take a holistic view of the whole tech war and trade war to negotiate with the US counterparty this week.

Singapore: PM Lee is meeting Indonesian president Jokowi today for a leaders’ retreat.

Key Market Movements		
Equity	Value	% chg
S&P 500	2938.8	-0.4%
DJIA	26478	-0.4%
Nikkei 225	21375	-0.2%
SH Comp	2905.2	0.0%
STI	3099.5	0.7%
Hang Seng	25821	0.0%
KLCI	1559.0	0.1%
Currencies	Value	% chg
DXY	98.967	0.2%
USDJPY	107.26	0.3%
EURUSD	1.0971	-0.1%
GBPUSD	1.2293	-0.3%
USDIDR	14163	0.2%
USDSGD	1.381	0.2%
SGDMYR	3.0349	0.0%
Rates	Value	chg (bp)
3M UST	1.70	1.52
10Y UST	1.56	2.90
1Y SGS	1.85	-0.10
10Y SGS	1.64	-0.61
3M LIBOR	2.03	-1.61
3M SIBOR	1.88	-0.12
3M SOR	1.67	-0.12
Commodities	Value	% chg
Brent	58.35	0.0%
WTI	52.75	-0.1%
Gold	1494	-0.7%
Silver	17.44	-0.6%
Palladium	1663	-0.2%
Copper	5722	1.4%
BCOM	77.71	-0.3%

Source: Bloomberg

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Major Markets

US: US markets slid last night, with the S&P 500 index closing the session down 0.4%. The weak showing was attributed to investor caution ahead of the US-CN trade talks. The blacklisting of 8 Chinese tech companies by the US after the New York markets closed is likely to dampen risk sentiment further when US markets reopen tonight. We expect to see support for the S&P 500 index at the 2850 level.

Singapore: The STI added 0.69% to close at 3099.48 yesterday, but it remains to be seen if the 3100 handle can be decisively conquered amid mixed cues from Wall Street's overnight slippage and morning gains by Kospi. With UST bonds bear flattening overnight amid supply pressures, SGS bonds may come under some pressure to unwind yesterday's gains.

Indonesia: Forex reserves for the month of September came in at USD124.3bn, lower than the USD126.4bn of the previous month, and the lowest since June. Bank Indonesia noted that the reserves have fallen due to government debt repayments and decline of FX deposited at the central bank. The amount is equivalent to 7.2 months of imports or 7 months of imports plus repayment of government's external borrowings.

Malaysia: Reserves fell to USD103bn as of end-September, compared to USD103.5bn of half a month before. According to BNM, the amount is sufficient to finance 7.6 months of retained imports and is equivalent to 1.1 times of short-term external debt. Meanwhile, the government is reportedly seeking to recover about MYR420mn (USD100mn) from 80 individuals and entities, which have allegedly received funds from 1MDB.

Gold: Gold prices fell -0.7% yesterday to close below \$1,500/oz, two days after it returned above that level. The impending US-China trade talks are putting markets on a cautious tone, which means gold prices are likely to hover close to \$1,500/oz until more clarity emerges from the trade negotiations.

Bond Market Updates

Market Commentary: The SGD swap curve bull-flattened yesterday, with the shorter tenors traded around 3bps lower, while the belly and longer tenors broadly traded 3-5bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 136bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 5bps to 547bps. 10Y USTs yields rose 3bps, closing at 1.56% with a large supply of Treasury notes and bills coming up for auction this week. The FOMC meeting minutes for September will also be released this week. The spread between 3-month treasury bills and 10-year treasury notes tightened to -15bps and remains inverted.

New Issues: There were no new issues or mandates yesterday.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	98.967	0.16%	USD-SGD	1.3810	0.17%
USD-JPY	107.260	0.30%	EUR-SGD	1.5151	0.10%
EUR-USD	1.0971	-0.07%	JPY-SGD	1.2880	-0.09%
AUD-USD	0.6733	-0.56%	GBP-SGD	1.6976	-0.19%
GBP-USD	1.2293	-0.31%	AUD-SGD	0.9297	-0.40%
USD-MYR	4.1923	0.17%	NZD-SGD	0.8686	-0.30%
USD-CNY	7.1483	--	CHF-SGD	1.3882	0.23%
USD-IDR	14163	0.18%	SGD-MYR	3.0349	0.02%
USD-VND	23202	0.00%	SGD-CNY	5.1773	0.02%

Equity and Commodity

Index	Value	Net change
DJIA	26,478.02	-95.70
S&P	2,938.79	-13.22
Nasdaq	7,956.29	-26.18
Nikkei 225	21,375.25	-34.95
STI	3,099.48	21.12
KLCI	1,559.00	1.33
JCI	6,000.58	-60.67
Baltic Dry	1,767.00	--
VIX	17.86	0.82

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4740	-0.80%	O/N	1.8208	-0.16%
2M	-0.3360	-0.16%	1M	1.9780	-1.15%
3M	-0.4230	-1.15%	2M	2.0044	-1.80%
6M	-0.3890	-1.80%	3M	2.0270	-1.61%
9M	-0.1940	-1.61%	6M	1.9506	-3.44%
12M	-0.3360	-3.44%	12M	1.8531	-6.11%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.59 (-0.01)	1.46 (+0.06)
5Y	1.58 (-0.02)	1.39 (+0.04)
10Y	1.64 (-0.01)	1.56 (+0.03)
15Y	1.72 (-0.02)	--
20Y	1.82 (-0.01)	--
30Y	1.92 (-0.02)	2.05 (+0.03)

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%	70.8%	0.0%	0.0%	70.8%
12/11/2019	0.0%	87.9%	0.0%	41.6%	46.4%
01/29/2020	0.0%	94.8%	23.8%	44.3%	26.7%
03/18/2020	0.0%	96.4%	29.8%	39.2%	20.4%
04/29/2020	0.0%	97.1%	31.8%	35.1%	16.8%
06/10/2020	0.0%	97.6%	32.4%	31.9%	14.3%

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	4.50	--
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)	52.75	-0.1%	Corn (per bushel)	3.8700	0.6%
Brent (per barrel)	58.35	0.0%	Soybean (per bushel)	9.153	-0.1%
Heating Oil (per gallon)	1.9033	0.5%	Wheat (per bushel)	4.8925	-0.3%
Gasoline (per gallon)	1.5694	-0.3%	Crude Palm Oil (MYR/MT)	2,104.0	0.4%
Natural Gas (per MMBtu)	2.3030	-2.1%	Rubber (JPY/KG)	149.0	0.0%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,722	1.4%	Gold (per oz)	1,493.5	-0.7%
Nickel (per mt)	17,725	-0.4%	Silver (per oz)	17.439	-0.6%

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

Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
10/06/2019 10:13	VN Domestic Vehicle Sales YoY	Sep	--	6.30%	--
10/08/2019	HK Foreign Reserves	Sep	--	\$432.8b	--
10/08/2019 07:00	SK BoP Current Account Balance	Aug	--	\$5265.6m	\$6949.4m
10/08/2019 07:50	JN BoP Current Account Balance	Aug	¥2069.5b	¥2157.7b	¥1999.9b
10/08/2019 08:30	AU NAB Business Confidence	Sep	--	1	--
10/08/2019 09:45	CH Caixin China PMI Services	Sep	52	52.1	--
10/08/2019 10:12	US Monthly Budget Statement	Sep	\$96.5b	--	\$119.1b
10/08/2019 12:00	UK BOE's Carney Speaks on Climate Change in Tokyo				
10/08/2019 14:00	GE Industrial Production SA MoM	Aug	0.00%	--	-0.60%
10/08/2019 17:30	UK BOE's Tenreyro Speaks on Panel in Frankfurt				
10/08/2019 17:30	EC ECB's Lane, Hernandez de Cos, BOE's Tenreyro in Frankfurt				
10/08/2019 20:30	US PPI Final Demand MoM	Sep	0.10%	--	0.10%
10/08/2019 20:30	US PPI Final Demand YoY	Sep	1.80%	--	1.80%

Source: Bloomberg

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