

Daily Treasury Outlook

9 October 2019

Highlights

Global: Fed chair Powell commented that the central bank will soon announce measures to add to the supply of reserves over time, likely to be in Treasury bills for reserve management purposes, but stressed this was not Quantitative Easing. During the Q&A, he also referred to two instances in the 1990s when the Fed cut rates twice, which could be a hint that another rate cut is forthcoming. Still, US-China trade tensions loomed large – the US is imposing visa bans on Chinese officials linked to Uighur issues, while China issued a strong statement about the US move on the latest blacklist additions, and Bloomberg also reported the US administration is moving ahead on discussions to restrict capital flows to China. Elsewhere, UK PM Johnson also told German Chancellor Angela Merkel that a deal was “essentially impossible”, if the EU demands that Northern Ireland remains as part of the customs union. The S&P500 slumped 1.5% while Treasury bills and UST bonds rallied with the 10-year yield slipping 3bps to 1.53%.

Market watch: Asian markets are likely to tread cautiously today awaiting the next move in the US-China trade negotiations. As today’s economic data calendar is light and only comprises US’ mortgage applications and wholesale inventories and S’pore’s COE premiums, market focus is likely to be on the release of the FOMC minutes.

US: US’ NFIB small business optimism softened from 103.1 to 101.8 in September, while core PPI unexpectedly fell 0.3% mom (+2.0% yoy) amid weak demand.

China: China’s Commerce Ministry issued a statement last night in reaction to the latest entity list issued by the US Commerce Department. Except defending China’s position in Xinjiang region and criticizing US’s interference on China’s internal affairs, there were little details on whether if China will launch any tit-for-tat retaliatory measures. Market will continue to watch out for the headline news in the coming days leading to the trade talk.

Singapore: Singapore has overtaken the US to pole position at the WEF world competitiveness report. Separately, bus and train fares will increase by 7% from 28 December, which will translate into a maximum increase of 9c for adult commuters.

Gold: Total known ETF holdings of gold have continued to rise and is currently at 81.56mil oz. This is now just 1.16mil oz away from topping the record high of 82.72mil oz set in December 2012. With the latest QE-lite measures, we expect inflow of funds into gold-backed ETFs to continue, which is likely to push gold prices higher. We maintain that gold prices may test as high as \$1,600/oz in this period of uncertainty.

Key Market Movements		
Equity	Value	% chg
S&P 500	2893.1	-1.6%
DJIA	26164	-1.2%
Nikkei 225	21588	1.0%
SH Comp	2913.6	0.3%
STI	3110.9	0.4%
Hang Seng	25893	0.3%
KLCI	1558.8	0.0%
Currencies	Value	% chg
DX	99.133	0.2%
USDJPY	107.09	-0.2%
EURUSD	1.0957	-0.1%
GBPUSD	1.2219	-0.6%
USDIDR	14160	0.0%
USDSGD	1.3825	0.1%
SGDMYR	3.0379	0.1%
Rates	Value	chg (bp)
3M UST	1.67	-3.58
10Y UST	1.53	-2.91
1Y SGS	1.83	-2.00
10Y SGS	1.67	3.02
3M LIBOR	2.01	-1.50
3M SIBOR	1.88	0.00
3M SOR	1.64	-3.55
Commodities	Value	% chg
Brent	58.24	-0.2%
WTI	52.63	-0.2%
Gold	1506	0.8%
Silver	17.73	1.7%
Palladium	1675	0.7%
Copper	5676	-0.8%
BCOM	77.88	0.2%

Source: Bloomberg

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Major Markets

US: US markets were in apparent risk-off mode last night as investors continue to digest the deterioration in US-China relations. The S&P 500 index fell 1.6%, while 10Y yields lost 2.9bps. Reconciliation prospects between the US and China have further dimmed, with the White House slapping visa bans on Chinese officials and reportedly resuming talks to restrict capital flows into Chinese firms. Investors are likely to be cautious today. We expect the near-term support for the S&P 500 index at the 200-day moving average, while any upside is likely capped at the 2980 level.

Singapore: The STI added another 0.37% to close at 3110.85 yesterday but it remains to be seen if investors will continue to shrug off Wall Street's underperformance and escalating US-China trade tensions. STI resistance is tipped at 3146, with the 3100 handle as interim support amid weak morning cues from Nikkei. UST bonds had bull steepened overnight on Powell's comments, but note SGS bonds preferred to bear steepen yesterday.

Indonesia: President Joko Widodo was in Singapore for a joint leaders' retreat. Among other things, the leaders from the two countries oversaw an extension of an agreement between BI and MAS to renew their bilateral financial arrangement to support monetary and financial stability.

Malaysia: PM Mahathir Mohamad said in the parliament that there is no reason for Malaysia to return to GST, and that the tax system should not be changed too often as it will reduce investor confidence. He added the government is in the midst of improving sales and services tax, which replaced the GST system in 2018 after the current ruling coalition took power.

Thailand: The World Bank said yesterday that the Bank of Thailand may find it challenging in its attempt to curb the baht strength. The baht's appreciation has been one of the top concerns for the BoT this year, which has dampened export competitiveness and tourism attraction amid inflows from investors seeking haven assets. The World Bank, however, did say that the baht's strength is a good sign for Thailand as it signals the economy is stable and safe.

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Bond Market Updates

Market Commentary: The SGD swap curve was higher across the board yesterday, with all the tenors traded around 2-3higher. The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 137bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 2bps to 549bps. 10Y USTs yields fell 3bps to 1.53% after rising tensions between the US and China (eg: US President Donald Trump included more Chinese firms to the trade blacklist, US travel ban on Chinese officials) while US producer prices also unexpectedly fell in September. The spread between 3-month treasury bills and 10-year treasury notes tightening to -13bps and remains inverted.

New Issues: Network i2i Ltd (Guarantor: Bharti Airtel Ltd) priced a USD750mn NC5.5-Perpetual bond at 5.65%, tightening from IPT of 6% area. The Export-Import Bank of China, Paris Branch priced a USD300mn 3-year FRN at 3m-US LIBOR+48bps, tightening from IPT of 3m-US LIBOR+75bps area. Macquarie Bank Ltd priced a USD1.25bn 3-year bond at T+75bps, tightening from IPT of T+85bps area. Tuspark Forward Ltd (Guarantor: Tus-Holdings Co., Ltd) priced a USD50mn re-tap of its existing THSCPA 7.95%'21s at 8.875%, in line with IPT. Commonwealth Bank of Australia (Covered Bond Guarantor: Perpetual Corporate Trust Ltd., in its capacity as trustee of the CBA Covered Bond Trust) priced a USD1.25bn 3-year covered bond at MS+30bps, tightening from IPT of MS+33bps area. Bank of China Ltd., Macau Branch scheduled investor meetings from 8 Oct for its potential USD, EUR or CNH bond issuance. E-House (China) Enterprise Holdings Ltd scheduled investor meetings and calls from 8 Oct for its potential USD bond issuance.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	99.133	0.17%	USD-SGD	1.3825	0.11%
USD-JPY	107.090	-0.16%	EUR-SGD	1.5149	-0.01%
EUR-USD	1.0957	-0.13%	JPY-SGD	1.2911	0.24%
AUD-USD	0.6728	-0.07%	GBP-SGD	1.6894	-0.48%
GBP-USD	1.2219	-0.60%	AUD-SGD	0.9302	0.05%
USD-MYR	4.1920	-0.01%	NZD-SGD	0.8707	0.24%
USD-CNY	7.1444	-0.05%	CHF-SGD	1.3923	0.30%
USD-IDR	14160	-0.02%	SGD-MYR	3.0379	0.10%
USD-VND	23202	--	SGD-CNY	5.1675	-0.19%

Equity and Commodity

Index	Value	Net change
DJIA	26,164.04	-313.98
S&P	2,893.06	-45.73
Nasdaq	7,823.78	-132.51
Nikkei 225	21,587.78	212.53
STI	3,110.85	11.37
KLCI	1,558.79	-0.21
JCI	6,039.60	39.02
Baltic Dry	1,770.00	--
VIX	20.28	2.42

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4680	--	O/N	1.8083	-1.25%
2M	-0.3360	-1.25%	1M	1.9403	-3.78%
3M	-0.4230	-3.78%	2M	2.0021	-0.22%
6M	-0.3890	-0.22%	3M	2.0120	-1.50%
9M	-0.1940	-1.50%	6M	1.9604	0.98%
12M	-0.3360	0.98%	12M	1.8678	1.46%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.59 (--)	1.42 (-0.04)
5Y	1.58 (+0.01)	1.35 (-0.04)
10Y	1.67 (+0.03)	1.53 (-0.03)
15Y	1.74 (+0.02)	--
20Y	1.85 (+0.03)	--
30Y	1.95 (+0.03)	2.03 (-0.02)

Fed Rate Hike Probability

Meeting	Prob Hike	Prob Cut	1.00-1.25%	0.0%	1.5-1.75%
10/30/2019	0.0%	85.3%	0.0%	55.2%	85.3%
12/11/2019	0.0%	94.8%	0.0%	47.0%	39.6%
01/29/2020	0.0%	94.8%	28.8%	39.5%	21.6%
03/18/2020	0.0%	98.3%	34.3%	34.0%	15.9%
04/29/2020	0.0%	98.7%	35.5%	29.9%	12.6%
06/10/2020	0.0%	98.9%	35.2%	26.1%	10.5%

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	4.50	--
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	1.83
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Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	52.63	-0.2%	Corn (per bushel)	3.9575	2.3%
Brent (per barrel)	58.24	-0.2%	Soybean (per bushel)	9.205	0.6%
Heating Oil (per gallon)	1.9101	0.4%	Wheat (per bushel)	5.0025	2.2%
Gasoline (per gallon)	1.5809	0.7%	Crude Palm Oil (MYR/MT)	2,118.0	0.7%
Natural Gas (per MMBtu)	2.2880	-0.7%	Rubber (JPY/KG)	149.5	0.3%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,676	-0.8%	Gold (per oz)	1,505.5	0.8%
Nickel (per mt)	17,570	-0.9%	Silver (per oz)	17.733	1.7%

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%	--
10/09/2019 07:30	AU	Westpac Consumer Conf SA MoM	Oct	--	-5.50%	-1.70%	--
10/09/2019 10:12	US	Monthly Budget Statement	Sep	\$93.0b	--	\$119.1b	--
10/09/2019 10:15	CH	Money Supply M2 YoY	Sep	8.20%	--	8.20%	--
10/09/2019 10:15	CH	New Yuan Loans CNY	Sep	1360.0b	--	1210.0b	--
10/09/2019 10:15	CH	Money Supply M1 YoY	Sep	3.40%	--	3.40%	--
10/09/2019 10:00	TH	Bank of Thailand's MPC Minutes					
10/09/2019 14:00	JN	Machine Tool Orders YoY	Sep P	--	--	-37.00%	--
10/09/2019 16:00	SI	Automobile COE Open Bid Cat A	Oct-09	--	--	31759	--
10/09/2019 19:00	US	MBA Mortgage Applications	Oct-04	--	--	8.10%	--
10/09/2019 22:00	US	Wholesale Inventories MoM	Aug F	0.40%	--	0.40%	--
10/09/2019 22:30	US	Powell Takes Part in Fed Listens Event in Kansas City					

Source: Bloomberg

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