

Daily Treasury Outlook

9 December 2019

Highlights

Global: No ifs and buts. The US nonfarm payrolls figure for November came in very strongly, at 266k compared to market expectation of 180k. Furthermore, it came with some rainbow sprinkles on top with 41k upward revisions in the jobs figures for the prior two months. Jobless rate fell to 3.5%, in line with the lowest rate in half a century. Average hourly earnings went up by 3.1% yoy, higher than the 3.0% expected. In short, it was an all-around encouraging set of employment prints that would help to counter concerns of how weakness in manufacturing sector might impact the services sector which is the core of the US economy. For good measure, Michigan's consumer sentiment index hit a 7-month high level of 99.2 for the December's preliminary readings, compared to 96.8 in November. Such numbers will help the FOMC members – who are meeting for the last time this year on Dec 11-12 – to continue their recent narrative of how the US economy is in a good place and does not require any additional monetary accommodation beyond the three rate cuts that they have decided upon.

On the US-China trade negotiations front, not much new has transpired, with the exception of perhaps some largely empty jaw-jaw from White House economic adviser Larry Kudlow saying that both sides are trying to agree on the amount of agricultural goods purchases by China. On the progress of the talks, he said that “The final strokes are not there, we’re coming down to short strokes.” On the prospect of the imposition of Dec 15th tariffs, he added that it is “a very important date, because if the agreement isn’t complete, our current laws will restore tariffs.”

Meanwhile, China has reported unfavourable exports figures for November, which showed a contraction of 1.1%yoy against market expectation of growth of 0.8%. The report also shows a 23% decline in exports to US, which is the worst since February and marks a full year of monthly decline. On balance, given that China's weak numbers came against the backdrop of resilient US prints, the US side might feel that it has a stronger hand at the negotiating table at this stage.

Market watch: For the week ahead, market will be watching out for Dec 12th UK general election, with Boris Johnson's Tories continuing to poll ahead of the Labour party and others. On the same day, ECB is meeting with the expectation that it will stay on hold under Christine Lagarde's first policy meeting, but market will be awaiting the initial parameters on the planned strategic review.

Indonesia: Bank Indonesia's Senior Deputy Governor Destry Damayanti reportedly said that Indonesia needs an acceleration in growth, further cuts in the policy rate “is not the only weapon.” She also added that Indonesian assets should remain attractive to investors, suggesting that yield differential against major sovereign bonds needs to be preserved. The central bank is said to be still gauging the impact of the recent round of rate cuts. Overall, our sense is that even though BI would retain a dovish bias into 2020, it will be extra cautious in cutting its policy rate until the global situation becomes clearer.

| Key Market Movements | | |
|----------------------|--------|----------|
| Equity | Value | % chg |
| S&P 500 | 3145.9 | 0.9% |
| DJIA | 28015 | 1.2% |
| Nikkei 225 | 23354 | 0.2% |
| SH Comp | 2912.0 | 0.4% |
| STI | 3194.7 | 0.6% |
| Hang Seng | 26498 | 1.1% |
| KLCI | 1568.4 | 0.3% |
| Currencies | Value | % chg |
| DXY | 97.700 | 0.3% |
| USDJPY | 108.58 | -0.2% |
| EURUSD | 1.1060 | -0.4% |
| GBPUSD | 1.3140 | -0.1% |
| USIDR | 14038 | -0.2% |
| USDSGD | 1.3606 | 0.0% |
| SGDMYR | 3.0590 | -0.1% |
| Rates | Value | chg (bp) |
| 3M UST | 1.50 | -2.07 |
| 10Y UST | 1.84 | 2.60 |
| 1Y SGS | 1.69 | 0.00 |
| 10Y SGS | 1.76 | 0.51 |
| 3M LIBOR | 1.89 | -0.21 |
| 3M SIBOR | 1.77 | 0.25 |
| 3M SOR | 1.49 | -2.86 |
| Commodities | Value | % chg |
| Brent | 64.39 | 1.6% |
| WTI | 59.2 | 1.3% |
| Gold | 1460 | -1.1% |
| Silver | 16.58 | -2.3% |
| Palladium | 1880 | 0.3% |
| Copper | 5990 | 1.7% |
| BCOM | 78.24 | 0.2% |

Source: Bloomberg

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Major Markets

US: Markets rose on Friday night as US jobs jumped 266,000, indicating that the US economy is still performing well in spite of the global trade tensions. The S&P500 index was up 0.9%. On the trade front, Kudlow said that there is no guarantee of a trade deal happening before 15 Dec and the US and China are still negotiating over the amount of agriculture purchases. We expect market gains to be capped as markets exercise caution ahead of the ECB and FOMC meetings due to happen this week.

Singapore: The STI rose 0.6% last Friday and is likely to inch higher this morning, following the better-than-expected US nonfarm payrolls number last Friday. Resistance is expected at the 3250 level, especially given that the FOMC meeting is due to happen this week. The SGS yield curve is expected steepen in today's session to follow mirror US bond market movements from last Friday.

Malaysia: Finance Ministry said that Malaysia's Debt Management Committee has endorsed its 2020 borrowing program, including the plan to issue another tranche of Samurai bonds, according to Bloomberg. The government is targeting a reduction in debt and liabilities from 77.1% of GDP as of June 2019 to 65% by end of 2025.

Thailand: Thailand's FX reserves fell to \$221.0bn as of 29 November, a decrease of \$1.2bn on the week. The reserve levels are still relatively abundant despite the decline, with the record high of \$222.73bn just less than 1% away from the latest level.

Oil: Oil prices rose after Saudi Arabia said it would pump 400k barrels less than its new mandate. OPEC+ met last week to discuss production levels for 2020, with the bloc agreeing to increase the supply curb by another 500k bpd. While that announcement did not move the oil market, primarily because the group is already producing below its 2019 baseline, Saudi Arabia then sprang a surprise by saying it would further reduce production by 400k bpd from its new mandate. Brent futures for February delivery closed at \$64.39/bbl last Friday, the highest since mid-July 2019. In the short term, we think the surprise supply cut by Saudi Arabia is likely to give the market an upside boost; however, if non-compliance continues to be an issue, we expect the rally to be short-lived.

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Bond Market Updates

Market Commentary: The SGD swap curve steepened last Friday, with the shorter tenors around 1bps lower, and the belly and longer tenors little changed. The Bloomberg Barclays Asia USD IG Bond Index average OAS was unchanged at 126bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 2bps to 533bps. The HY-IG Index spread widened 2bps to 408bps. 10Y UST Yields rose 3bps to close at 1.84%, after the US Labour Department reported job growth increased by the most in 10 months in November, signalling a strong US economy and boosting investor risk appetite.

New Issues: REC Limited priced a USD400mn 5-year bond at T+192.5bps, tightening from IPT of T+220bps area. Xingang International Holding Limited (Guarantor: Xinyi City Investment & Development Co., Ltd) priced a USD100mn 3-year bond at 7.0%, in line with price guidance. Shangrao Investment Holding Group Co Ltd scheduled investor teleconference calls on 9 Dec for its proposed USD bond issuance.

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Foreign Exchange

| | Day Close | % Change | | Day Close | % Change |
|---------|-----------|----------|---------|-----------|----------|
| DX | 97.700 | 0.30% | USD-SGD | 1.3606 | -0.01% |
| USD-JPY | 108.580 | -0.17% | EUR-SGD | 1.5045 | -0.41% |
| EUR-USD | 1.1060 | -0.40% | JPY-SGD | 1.2529 | 0.17% |
| AUD-USD | 0.6841 | 0.10% | GBP-SGD | 1.7874 | -0.16% |
| GBP-USD | 1.3140 | -0.13% | AUD-SGD | 0.9308 | 0.13% |
| USD-MYR | 4.1590 | -0.23% | NZD-SGD | 0.8934 | 0.33% |
| USD-CNY | 7.0350 | -0.14% | CHF-SGD | 1.3737 | -0.32% |
| USD-IDR | 14038 | -0.23% | SGD-MYR | 3.0590 | -0.14% |
| USD-VND | 23177 | 0.03% | SGD-CNY | 5.1688 | -0.09% |

Interbank Offer Rates (%)

| Tenor | EURIBOR | Change | Tenor | USD Libor | Change |
|-------|---------|--------|-------|-----------|--------|
| 1M | -0.4560 | -0.20% | O/N | 1.5291 | -0.01% |
| 2M | -0.3360 | -0.01% | 1M | 1.7151 | -0.30% |
| 3M | -0.3930 | -0.30% | 2M | 1.8218 | -0.26% |
| 6M | -0.3330 | -0.26% | 3M | 1.8905 | -0.21% |
| 9M | -0.1940 | -0.21% | 6M | 1.8868 | 0.06% |
| 12M | -0.2690 | 0.06% | 12M | 1.9231 | 0.56% |

Fed Rate Hike Probability

| Meeting | Prob Hike | Prob Cut | 0.75-1.00% | 1.00-1.25% | 1.25-1.50% |
|------------|-----------|----------|------------|------------|------------|
| 12/11/2019 | 3.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| 01/29/2020 | 2.70% | 8.30% | 0.00% | 0.00% | 8.30% |
| 03/18/2020 | 2.30% | 20.60% | 0.00% | 1.10% | 19.40% |
| 04/29/2020 | 2.00% | 30.80% | 0.20% | 3.60% | 27.00% |
| 06/10/2020 | 1.70% | 41.10% | 0.70% | 7.20% | 33.20% |
| 07/29/2020 | 1.50% | 48.90% | 1.60% | 10.70% | 36.50% |

Commodities Futures

| Energy | Futures | % chg | Soft Commodities | Futures | % chg |
|--------------------------|---------|-------|-------------------------|---------|-------|
| WTI (per barrel) | 59.20 | 1.3% | Corn (per bushel) | 3.6650 | 0.3% |
| Brent (per barrel) | 64.39 | 1.6% | Soybean (per bushel) | 8.895 | 0.6% |
| Heating Oil (per gallon) | 1.9521 | 1.0% | Wheat (per bushel) | 5.3250 | 0.1% |
| Gasoline (per gallon) | 1.6474 | 1.6% | Crude Palm Oil (MYR/MT) | 2,757.0 | 1.5% |
| Natural Gas (per MMBtu) | 2.3340 | -3.8% | Rubber (JPY/KG) | 173.5 | -0.1% |
| Base Metals | Futures | % chg | Precious Metals | Futures | % chg |
| Copper (per mt) | 5,990 | 1.7% | Gold (per oz) | 1,460.2 | -1.1% |
| Nickel (per mt) | 13,475 | 1.5% | Silver (per oz) | 16.577 | -2.3% |

Equity and Commodity

| Index | Value | Net change |
|------------|-----------|------------|
| DJIA | 28,015.06 | 337.27 |
| S&P | 3,145.91 | 28.48 |
| Nasdaq | 8,656.53 | 85.83 |
| Nikkei 225 | 23,354.40 | 54.31 |
| STI | 3,194.71 | 20.52 |
| KLCI | 1,568.44 | 4.86 |
| JCI | 6,186.87 | 34.75 |
| Baltic Dry | 1,558.00 | -17.00 |
| VIX | 13.62 | -0.90 |

Government Bond Yields (%)

| Tenor | SGS (chg) | UST (chg) |
|-------|--------------|--------------|
| 2Y | 1.55 (+0.01) | 1.61 (+0.02) |
| 5Y | 1.63 (+0.01) | 1.66 (+0.03) |
| 10Y | 1.76 (+0.01) | 1.84 (+0.03) |
| 15Y | 1.86 (+0.01) | -- |
| 20Y | 1.95 (--) | -- |
| 30Y | 2.11 (+0.01) | 2.28 (+0.02) |

Financial Spread (bps)

| | Value | Change |
|-------------|-------|--------|
| EURIBOR-OIS | 5.80 | 0.20 |
| TED | 35.36 | -- |

Secured Overnight Fin. Rate

| | |
|------|------|
| SOFR | 1.55 |
|------|------|

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Economic Calendar

| Date Time | | Event | | Survey | Actual | Prior | Revised |
|------------------|----|-----------------------------|------|----------|----------|-----------|---------|
| 12/09/2019 07:50 | JN | GDP SA QoQ | 3Q F | 0.20% | 0.40% | 0.10% | -- |
| 12/09/2019 07:50 | JN | GDP Annualized SA QoQ | 3Q F | 0.60% | 1.80% | 0.20% | -- |
| 12/09/2019 07:50 | JN | BoP Current Account Balance | Oct | ¥1806.8b | ¥1816.8b | ¥1612.9b | -- |
| 12/09/2019 07:50 | JN | GDP Deflator YoY | 3Q F | 0.60% | 0.60% | 0.60% | -- |
| 12/09/2019 07:50 | JN | Trade Balance BoP Basis | Oct | ¥138.8b | ¥254.0b | ¥1.1b | -- |
| 12/09/2019 07:50 | JN | GDP Nominal SA QoQ | 3Q F | 0.40% | 0.60% | 0.30% | -- |
| 12/09/2019 12:15 | CH | Money Supply M2 YoY | Nov | 8.40% | -- | 8.40% | -- |
| 12/09/2019 12:15 | CH | New Yuan Loans CNY | Nov | 1200.0b | -- | 661.3b | -- |
| 12/09/2019 12:15 | CH | Money Supply M1 YoY | Nov | 3.90% | -- | 3.30% | -- |
| 12/09/2019 15:00 | GE | Trade Balance | Oct | 19.3b | -- | 21.1b | -- |
| 12/09/2019 15:00 | GE | Exports SA MoM | Oct | -0.30% | -- | 1.50% | -- |
| 12/09/2019 16:00 | TA | Exports YoY | Nov | 1.10% | -- | -1.50% | -- |
| 12/09/2019 16:00 | TA | Trade Balance | Nov | \$4.19b | -- | \$3.95b | -- |
| 12/09/2019 16:00 | TA | Imports YoY | Nov | 3.20% | -- | -4.10% | -- |
| 12/09/2019 17:00 | SI | Foreign Reserves | Nov | -- | -- | \$276.80b | -- |

Source: Bloomberg

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