

Daily Treasury Outlook

10 October 2019

Highlights

Global: Fed minutes from the September meeting suggested that members are increasingly divided rather than united in their views on the rate path ahead, but agreed they would soon need to discuss whether to increase its balance sheet size following the repo market volatility. Note “a few” participants suggested pushing back against market pricing for future rate cuts while “several” wanted more clarity on the end of policy adjustments. **Meanwhile, optimism of a partial US-China trade deal continued to wax and wane** on the back of a FT report that suggested China will offer to increase annual purchases of US agricultural goods by \$10b and make changes to non-tariff barriers, whereas SCMP later reported that deputy-level trade talks saw no progress. Turkey also launched a military ground incursion into Syria. The S&P500 rose 0.91% overnight, led by tech stocks like Microsoft and Apple, while UST bonds sold off across the curve around 5bps ahead of upcoming supply, with the 10-year yield at 1.58%. Our view remains that another 25bps Fed rate cut is baked in for the remainder of 2019, but whether it is frontloaded to October or delayed to December is mainly dependent on the signal that the FOMC wants to send ie. pushback against dovish market expectations or to err on the side of caution.

Market watch: With global risk appetite caught between the crosswinds of US-China trade tensions and other headlines, Asian markets may again trade with a cautious tone today, awaiting ECB minutes. Today’s economic data calendar comprises US’ CPI and initial jobless claims, UK’s industrial production and trade data, and trade data from Germany and Philippines as well.

US: US’ job openings fell by 123k to a 1.5-year low of 7.05m in August, led by manufacturing, suggesting that the labour market momentum is slowing. Meanwhile, wholesale inventories rose by 0.2% in August. Separately Fed chair Powell opined that “because Congress has granted the Federal Reserve significant protections from short-term political pressures, we have an obligation to clearly explain what we are doing and why”.

EU: The ongoing search for yield saw Italy raising \$7b in its first USD bond since 2010, while Greece also sold EUR487.5m of 13-week bills at a yield of -0.02%.

UK: PM Johnson will hold talks with Irish counterpart Leo Varadkar to explore compromises ahead of the 31 October Brexit deadline.

Singapore: S’pore’s COE premiums rose across the board to \$34,001, \$41,361 and \$41,001 for Categories A/B/E respectively in the latest tender.

Indonesia: Going by the World Economic Forum’s reckoning, Indonesia’s competitiveness has fallen this year. Indonesia now ranks 50th out of 141 economies, down 5 spots compared to last year. The decline is said to be primarily due to categories such as “enabling environment”, “human capital” and “markets”.

Key Market Movements		
Equity	Value	% chg
S&P 500	2919.4	0.9%
DJIA	26346	0.7%
Nikkei 225	21456	-0.6%
SH Comp	2924.9	0.4%
STI	3089.9	-0.7%
Hang Seng	25683	-0.8%
KLCI	1551.2	-0.5%
Currencies	Value	% chg
DX	99.118	0.0%
USDJPY	107.48	0.4%
EURUSD	1.0971	0.1%
GBPUSD	1.2206	-0.1%
USDIDR	14175	0.1%
USDSGD	1.3808	-0.1%
SGDMYR	3.0392	0.0%
Rates	Value	chg (bp)
3M UST	1.67	0.76
10Y UST	1.58	5.47
1Y SGS	1.83	0.00
10Y SGS	1.66	-0.45
3M LIBOR	2.01	-0.25
3M SIBOR	1.88	0.00
3M SOR	1.59	-4.59
Commodities	Value	% chg
Brent	58.32	0.1%
WTI	52.59	-0.1%
Gold	1506	0.0%
Silver	17.73	0.0%
Palladium	1683	0.4%
Copper	5684	0.1%
BCOM	77.92	0.1%

Source: Bloomberg

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Major Markets

US: US markets climbed on Wednesday, with the S&P 500 index up 0.9% at the end of the session. The positive risk sentiment was credited to the belief that some progress will be made on the trade war front, given China's willingness to make a small trade deal. However, that optimism was somewhat dampened later in the session as reports came out that Chinese Vice Premier Liu He may leave earlier than expected due to a lack of progress at the deputy level talks. We expect markets to be cautious in the short-term.

Singapore: The STI slid 0.67% to close down at 3089.90 yesterday, suggesting that the 3100 handle remains fragile for the interim, and may continue to see consolidation amid weak morning leads from Nikkei and Kospi. STI's support is tipped at 3078, followed by 3056. With UST bonds holding near intraday session lows post a relatively non-eventful FOMC minutes, SGS bonds may also unwind some of yesterday's gain, with the longer-tenors likely under pressure today. Note the 3- and 6-month SOR eased further to 1.57% and 1.58% respectively, tracking the USD T-bill market yields after Fed chair Powell's comments that the US central bank is re-expanding its balance sheet to normalise the repo market.

Hong Kong: S&P affirmed Hong Kong's AA+ sovereign rating with a stable outlook and did not follow the action taken by Fitch and Moody's. S&P pointed out that Hong Kong's strong economic and financial metrics will allow the government's credit standing to withstand the fallout from the ongoing social unrest. Meanwhile, S&P said "abrupt changes in HK's relationship with Chinese central government could weaken the outlook." We believe that as long as there is no substantial change to HK's status as an international financial hub with separate customs territory, independent regulatory system and free capital flows, its financial market will be able to weather the external and internal headwinds with its healthy reserves. In other words, there may not be massive capital outflows or any huge shock to the stability of HK's market and the currency peg system in the near term.

Malaysia: Going by the World Economic Forum's reckoning, Indonesia's competitiveness has fallen this year. Indonesia now ranks 50th out of 141 economies, down 5 spots compared to last year. The decline is said to be primarily due to categories such as "enabling environment", "human capital" and "markets".

Thailand: The Bank of Thailand says it may consider implementing more measures to curb the baht's strength, recent MPC minutes revealed. The MPC said that the strong baht is creating additional pressure on weakening domestic demand, especially in the export-related manufacturing and services sectors. The BoT has already taken steps this year to limit the baht's appreciation, including reducing the limit on non-resident baht accounts to 200mn baht from 300mn baht, but the currency remains one of the best performing against the USD in the region. The country's current account surplus and sizeable reserves remain the biggest attractions for hot money inflows.

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Bond Market Updates

Market Commentary: The SGD swap curve was little change yesterday, with the short end 1bps lower and the belly and longer end lower by less than 0.5bps. The Bloomberg Barclays Asia USD IG Bond Index average OAS was also relatively unchanged at 137bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 1bps to 551bps. 10Y USTs yields rose to 5bps to 1.58% ahead of supply concerns with the reopening of 10 year treasury notes on Wednesday and 30 year treasury bonds scheduled for Thursday.

New Issues: Bank of China Ltd., Macau Branch priced a USD350mn 3-year Green bond at SOFR+95bps, tightening from IPT of SOFR+120bps area. Three Gorges Finance I (Guarantor: China Three Gorges Corporation) priced a USD500mn 5-year bond at T+95bps, tightening from T+110bps area and a USD350mn 30-year bond at 3.2%, tightening from 3.4% area. Ronshine China Holdings Ltd priced a USD265mn re-tap of its existing RONXIN 8.75% '22s at 8.75%, tightening from IPT of 9% area. Central Japan Railway Company priced a USD750mn 5-year at 2.2%, tightening from IPT of T+105bps area. PT Sri Rejeki Isman Tbk priced a USD225mn 5.25YNC3 bond at 7.25%, tightening from IPT of 7.5% area. Thailoil Treasury Centre Company Ltd (Guarantor: Thai Oil PCL) priced a USD565mn 30Y Bond at T+145bps, tightening from IPT of T+180bps area.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	99.118	-0.02%	USD-SGD	1.3808	-0.12%
USD-JPY	107.480	0.36%	EUR-SGD	1.5149	--
EUR-USD	1.0971	0.13%	JPY-SGD	1.2849	-0.48%
AUD-USD	0.6725	-0.04%	GBP-SGD	1.6855	-0.23%
GBP-USD	1.2206	-0.11%	AUD-SGD	0.9286	-0.17%
USD-MYR	4.1965	0.11%	NZD-SGD	0.8690	-0.20%
USD-CNY	7.1322	-0.17%	CHF-SGD	1.3866	-0.41%
USD-IDR	14175	0.11%	SGD-MYR	3.0392	0.04%
USD-VND	23201	0.00%	SGD-CNY	5.1656	-0.04%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4630	0.60%	O/N	1.8055	-0.28%
2M	-0.3360	-0.28%	1M	1.9388	-0.15%
3M	-0.4170	-0.15%	2M	1.9986	-0.35%
6M	-0.3870	-0.35%	3M	2.0095	-0.25%
9M	-0.1940	-0.25%	6M	1.9634	0.30%
12M	-0.3300	0.30%	12M	1.8885	2.08%

Fed Rate Hike Probability

Meeting	Prob Hike	Prob Cut	1.00-1.25%	1.25-1.50%	1.50-1.75%
10/30/2019	0.0%	88.4%	0.0%	0.0%	88.4%
12/11/2019	0.0%	95.4%	0.0%	53.6%	41.9%
01/29/2020	0.0%	97.4%	23.8%	48.4%	25.3%
03/18/2020	0.0%	98.1%	30.3%	42.2%	19.3%
04/29/2020	0.0%	98.5%	32.9%	37.3%	15.5%
06/10/2020	0.0%	98.8%	33.8%	32.8%	12.7%

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	52.59	-0.1%	Corn (per bushel)	3.9425	-0.4%
Brent (per barrel)	58.32	0.1%	Soybean (per bushel)	9.238	0.4%
Heating Oil (per gallon)	1.9193	0.5%	Wheat (per bushel)	5.0025	--
Gasoline (per gallon)	1.5871	0.4%	Crude Palm Oil (MYR/MT)	2,140.0	1.0%
Natural Gas (per MMBtu)	2.2340	-2.4%	Rubber (JPY/KG)	149.9	0.3%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,684	0.1%	Gold (per oz)	1,505.6	0.0%
Nickel (per mt)	17,360	-1.2%	Silver (per oz)	17.734	0.0%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Equity and Commodity

Index	Value	Net change
DJIA	26,346.01	181.97
S&P	2,919.40	26.34
Nasdaq	7,903.74	79.97
Nikkei 225	21,456.38	-131.40
STI	3,089.90	-20.95
KLCI	1,551.23	-7.56
JCI	6,029.16	-10.44
Baltic Dry	1,801.00	--
VIX	18.64	-1.64

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.58 (--)	1.47 (+0.05)
5Y	1.59 (--)	1.40 (+0.05)
10Y	1.66 (--)	1.58 (+0.05)
15Y	1.74 (--)	--
20Y	1.85 (--)	--
30Y	1.96 (--)	2.08 (+0.05)

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	5.02	-0.08
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	1.85
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Economic Calendar

Date Time		Event		Survey	Actual	Prior	Revised
10/09/2019 10:15	CH	New Yuan Loans CNY	Sep	1360.0b	--	1210.0b	--
10/10/2019 07:50	JN	Core Machine Orders MoM	Aug	-1.00%	-2.40%	-6.60%	--
10/10/2019 07:50	JN	PPI YoY	Sep	-1.10%	-1.10%	-0.90%	--
10/10/2019 08:00	JN	BOJ Deputy Governor Amamiya Speech					
10/10/2019 09:00	PH	Exports YoY	Aug	1.30%	--	3.50%	--
10/10/2019 10:15	NZ	REINZ House Sales YoY	Sep	--	--	-6.10%	--
10/10/2019 16:00	IT	Industrial Production WDA YoY	Aug	-1.80%	--	-0.70%	--
10/10/2019 16:30	UK	Industrial Production MoM	Aug	0.10%	--	0.10%	--
10/10/2019 16:30	UK	Manufacturing Production MoM	Aug	0.20%	--	0.30%	--
10/10/2019 16:30	UK	Trade Balance GBP/Mn	Aug	-£1050m	--	-£219m	--
10/10/2019 19:30	EC	ECB Account of September Policy Meeting					
10/10/2019 20:30	US	Initial Jobless Claims	Oct-05	220k	--	219k	--
10/10/2019 20:30	US	CPI MoM	Sep	0.10%	--	0.10%	--
10/10/2019 20:30	US	CPI Ex Food and Energy MoM	Sep	0.20%	--	0.30%	--
10/10/2019 20:30	US	CPI YoY	Sep	1.80%	--	1.70%	--

Source: Bloomberg

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