

## Daily Treasury Outlook

11 October 2019

### Highlights

**Global:** Market sentiments improved overnight after US President Trump opined that trade talks went “very well” and he will be meeting Chinese Vice Premier Liu He today. Should a mini US-China trade truce materialise, then the upcoming 15 October tariff truce (raising the tariffs from 25% to 30% on a \$250b) stands a good chance of being postponed, but the longer-term bilateral relations may remain fragile on the tech, human rights and other hotspots. **On the Brexit front, GBP also rose on optimism of a possible “pathway” for a Brexit deal between UK and Irish leaders.** Notwithstanding this, our view remains that the EU leaders will also likely grant a Brexit extension to avoid being the potential scapegoats for a no-deal Brexit. The S&P500 rose overnight, with gainers like Apple and Bath Bed & Beyond, while UST bonds skidded amid the global bond rout (which was led by gilts on Brexit optimism) with the 10-year yield at 1.67%. The 30-year UST bond auction still fetched a record low yield of 2.17%.

**Market watch:** Asian markets are likely to open with a firmer tone today, awaiting the outcome of the US-China trade talks and the Malaysian Budget due later this afternoon. Today's economic data calendar comprises US' University of Michigan sentiments and import prices, German CPI, S'pore retail sales (our forecast: -4.7% yoy and -1.1% mom sa, excluding autos: -0.8% yoy), Malaysia's industrial production, and Thai foreign reserves. Speakers include Fed's Kashkari, Rosengren and Kaplan, and ECB's Guindos.

**US:** US' headline CPI was flat in September, while core CPI also eased from 0.3% mom in August to 0.1% mom in September, suggesting that inflationary pressures remain tame and should not pose a deterrent to the upcoming Fed rate cut. Initial jobless claims also fell 10k to 210k. Meanwhile, Kaplan opined an “open mind” on rate cuts but warned further cuts should be limited and modest, whereas Kashkari (non-voter) noted that “downside risks are increasing and monetary policy is currently around neutral to potentially slightly contractionary, hence I'm going to be supportive of another 25bp rate cut”. However, Mester (non-voter) said her preferred strategy is to take action only if there is material deterioration in the outlook and not merely on heightened risks and she expects to avoid a more serious downturn.

**EU:** ECB minutes revealed the deep-seated divergence of views, with opponents of Draghi's bazooka warning that restarting bond purchases could breach self-imposed limits and may not be effective given already very low bond yields. Meanwhile, German exports slumped a worse-than-expected 1.8% mom in August, suggesting that manufacturing weakness extended into 3Q and could push the economy into a recession.

**Singapore:** S'pore government plans to implement a total ban on ads for packaged drinks with very high sugar content. Separately, Dyson has scrapped its electric car project, but disruption to its operations and workforce in Singapore is said to be minimal.

### Key Market Movements

Equity	Value	% chg
S&P 500	2938.1	0.6%
DJIA	26497	0.6%
Nikkei 225	21552	0.4%
SH Comp	2947.7	0.8%
STI	3089.5	0.0%
Hang Seng	25708	0.1%
KLCI	1551.9	0.0%
Currencies	Value	% chg
DX	98.701	-0.4%
USDJPY	107.98	0.5%
EURUSD	1.1005	0.3%
GBPUSD	1.2443	1.9%
USDIDR	14152	-0.2%
USDSGD	1.3757	-0.4%
SGDMYR	3.0428	0.1%
Rates	Value	chg (bp)
3M UST	1.66	-1.04
10Y UST	1.67	8.45
1Y SGS	1.83	0.00
10Y SGS	1.66	-0.35
3M LIBOR	1.98	-2.53
3M SIBOR	1.88	-0.03
3M SOR	1.57	-1.55
Commodities	Value	% chg
Brent	59.1	1.3%
WTI	53.55	1.8%
Gold	1494	-0.8%
Silver	17.51	-1.2%
Palladium	1702	1.1%
Copper	5781	1.7%
BCOM	77.94	0.0%

Source: Bloomberg

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### Major Markets

**US:** Investor sentiment improved slightly last night after Trump's positive comments about the US-China trade talks. The S&P 500 index ended the session up 0.6% while 10Y UST yields rose 8.5 bps to 1.67%. There is growing optimism that both the US and China may agree on a partial trade deal, with Chinese Vice Premier Liu He expected to meet Trump on Friday despite earlier reports that the former would be leaving Washington a day earlier. Investors will likely continue to practise caution in the near-term.

**China:** The US-China trade talk resumed on Thursday. President Trump confirmed that he will meet Vice Premier Liu He in his office on Friday, dispelling the rumour that Liu He will shorten his trip and go back to China earlier. RMB has been volatile yesterday. It weakened initially due to rumors on shortened trip and rebounded later after the news broke out that a currency pact could be one of the low-hanging fruit to reach a partial deal. The current pact, though with limited details, could be reference to the exchange rate practices from the USMCA, which require all parties to refrain from competitive devaluation and increase transparency on data sharing such as intervention on spot and forward etc.

**Singapore:** The STI closed nearly flat (-0.01%) at 3089.48 yesterday, but may trade a tad firmer today amid positive leads from Wall Street overnight and morning gains in Kospi on rising optimism about a potential US-China trade deal and progress in Brexit talks. STI's support is tipped at 3078 with resistance still at 3100 handle. While UST bonds had trimmed its losses after the record low yield 30-year bond auction, SGS bonds are likely to come under selling pressure today.

**Malaysia:** Finance Minister Lim Guan Eng is due to table his Budget 2020 proposal to the parliament this afternoon. We expect him to show some fiscal consolidation posture by cutting the deficit from the current level of 3.4% of GDP to 3.2%, not all the way to 3.0% that was previously telegraphed given the need to juice up growth amid global concerns.

**Indonesia:** Coordinating Economic Affairs Minister Darmin Nasution, said that the government is planning to issue revised rule on tax holiday for special economic zones in a bid to attract more investment. Under the new scheme, tax holidays will be determined by investment amount and period on a graduated scale. Investments between IDR100-500bn will get 5 years' tax holiday, whereas investments of more than IDR20tn will enjoy tax holiday of 20 years, for instance.

**Thailand:** Thailand's consumer confidence index fell to 72.2 last month, the lowest since June 2016. External weaknesses in the global economy have taken a toll on Thailand's export-oriented industries, especially the manufacturing sector which has reportedly been hiring less workers. The drop in employment rate in the manufacturing sector has, in turn, reduced domestic disposable spending. Until there is a pickup in export fortunes, consumer confidence in Thailand is expected to remain low.

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**Oil:** OPEC says it will do “whatever it takes” to prevent another oil rout similar to the end of 2018. Sec Gen Mohammad Barkindo said that he is “cautiously optimistic” on a deal within OPEC+ that will ensure the market remains in supply deficit. He also noted that the US-China trade dispute has overshadowed the energy market, with persistent bearishness masking the fact that the market is in a likely supply deficit at this stage.

## Bond Market Updates

**Market Commentary:** The SGD swap curve steepened yesterday, with the shorter tenors traded around 0-1bps lower, while the belly and longer tenors traded around 1bps higher. 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 7bps to 543bps. 10Y USTs yields rose 8bps to 1.67% as trade talks between the US and China are set to resume, with Chinese Vice Premier Liu He saying that China was willing to reach an agreement with the US on matters that both sides cared about to prevent any escalation. The spread between 3-month treasury bills and 10-year treasury notes has ceased to be inverted, with the spread at +1bps.

**New Issues:** Industrial & Commercial Bank of China Ltd, Dubai (DIFC) Branch priced a USD500mn 3-year FRN at 3m-US LIBOR+66bps (tightening from IPT of 3m-US LIBOR+95bps area), and a USD500mn 5-year FRN at 3m-US LIBOR+77bps (tightening from IPT of 3m-US LIBOR+105bps). E-House (China) Enterprise Holdings Ltd (Subsidiary Guarantors: Certain of the Issuer’s existing subsidiaries incorporated outside the PRC) priced a USD200m 2.5-year bond at 8.375%, tightening from IPT of 8.625% area. SDSC International Development Ltd priced a USD200mn 3-year bond at 6.0%, tightening from guidance of 6.4% area. Oriental Capital Co., Ltd (Guarantor: Yancheng Oriental Investment & Development Group Co., Ltd) priced a USD360mn 3-year bond at 7.0%, tightening from IPT of 7.25% area. CapitaLand Treasury Ltd (Guarantor: CapitaLand Ltd) priced a SGD500mn NC5-Perpetual bond at 3.65%, tightening from IPT of 3.85% area.

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### Foreign Exchange

	Day Close	% Change		Day Close	% Change
<b>DX</b>	98.701	-0.42%	<b>USD-SGD</b>	1.3757	-0.37%
<b>USD-JPY</b>	107.980	0.47%	<b>EUR-SGD</b>	1.5138	-0.07%
<b>EUR-USD</b>	1.1005	0.31%	<b>JPY-SGD</b>	1.2740	-0.85%
<b>AUD-USD</b>	0.6761	0.54%	<b>GBP-SGD</b>	1.7114	1.54%
<b>GBP-USD</b>	1.2443	1.94%	<b>AUD-SGD</b>	0.9301	0.16%
<b>USD-MYR</b>	4.1895	-0.17%	<b>NZD-SGD</b>	0.8692	0.02%
<b>USD-CNY</b>	7.1163	-0.22%	<b>CHF-SGD</b>	1.3797	-0.50%
<b>USD-IDR</b>	14152	-0.16%	<b>SGD-MYR</b>	3.0428	0.12%
<b>USD-VND</b>	23201	--	<b>SGD-CNY</b>	5.1725	0.13%

### Equity and Commodity

Index	Value	Net change
<b>DJIA</b>	26,496.67	150.66
<b>S&amp;P</b>	2,938.13	18.73
<b>Nasdaq</b>	7,950.78	47.04
<b>Nikkei 225</b>	21,551.98	95.60
<b>STI</b>	3,089.48	-0.42
<b>KLCI</b>	1,551.87	0.64
<b>JCI</b>	6,023.64	-5.52
<b>Baltic Dry</b>	1,873.00	--
<b>VIX</b>	17.57	-1.07

### Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
<b>1M</b>	-0.4640	-0.30%	<b>O/N</b>	1.7900	-1.55%
<b>2M</b>	-0.3360	-1.55%	<b>1M</b>	1.9274	-1.14%
<b>3M</b>	-0.4180	-1.14%	<b>2M</b>	1.9785	-2.01%
<b>6M</b>	-0.3840	-2.01%	<b>3M</b>	1.9843	-2.53%
<b>9M</b>	-0.1940	-2.53%	<b>6M</b>	1.9428	-2.06%
<b>12M</b>	-0.3330	-2.06%	<b>12M</b>	1.8819	-0.66%

### Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
<b>2Y</b>	1.55 (-0.03)	1.54 (+0.08)
<b>5Y</b>	1.58 (-0.01)	1.49 (+0.08)
<b>10Y</b>	1.66 (--)	1.67 (+0.08)
<b>15Y</b>	1.74 (--)	--
<b>20Y</b>	1.84 (--)	--
<b>30Y</b>	1.96 (--)	2.16 (+0.08)

### 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%	76.0%	0.0%	0.0%	76.0%
12/11/2019	0.0%	88.3%	0.0%	38.8%	49.4%
01/29/2020	0.0%	92.8%	15.1%	42.9%	34.8%
03/18/2020	0.0%	94.3%	20.8%	41.3%	29.1%
04/29/2020	0.0%	95.3%	24.4%	39.1%	25.0%
06/10/2020	0.0%	96.0%	26.6%	37.1%	22.0%

### Financial Spread (bps)

	Value	Change
<b>EURIBOR-OIS</b>	4.50	-0.42
<b>TED</b>	35.36	--

### Secured Overnight Fin. Rate

<b>SOFR</b>	1.85
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### Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	53.55	1.8%	Corn (per bushel)	3.8025	-3.6%
Brent (per barrel)	59.10	1.3%	Soybean (per bushel)	9.235	0.0%
Heating Oil (per gallon)	1.9208	0.1%	Wheat (per bushel)	4.9300	-1.4%
Gasoline (per gallon)	1.6233	2.3%	Crude Palm Oil (MYR/MT)	2,135.0	-0.2%
Natural Gas (per MMBtu)	2.2180	-0.7%	Rubber (JPY/KG)	150.3	0.3%
<b>Base Metals</b>	<b>Futures</b>	<b>% chg</b>	<b>Precious Metals</b>	<b>Futures</b>	<b>% chg</b>
Copper (per mt)	5,781	1.7%	Gold (per oz)	1,494.0	-0.8%
Nickel (per mt)	17,625	1.5%	Silver (per oz)	17.514	-1.2%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

## Economic Calendar

Date Time		Event	Survey	Actual	Prior	Revised
10/11/2019 18:30	EC	ECB's Guindos, Hernandez de Cos Speak in Madrid				
10/11/2019 20:00	US	Fed's Kashkari Speaks in Moderated Q&A on Economy in New York				
10/11/2019 22:00	US	U. of Mich. Sentiment	Oct P	92	--	93.2
10/11/2019 14:00	GE	CPI YoY	Sep F	1.20%	--	1.20%
10/11/2019 14:00	GE	CPI MoM	Sep F	0.00%	--	0.00%
10/11/2019 13:00	SI	Retail Sales YoY	Aug	-4.30%	--	-1.80%
10/11/2019 10:15	NZ	REINZ House Sales YoY	Sep	--	--	-6.10%
10/11/2019 14:00	GE	CPI EU Harmonized YoY	Sep F	0.90%	--	0.90%
10/11/2019 20:30	US	Import Price Index MoM	Sep	0.00%	--	-0.50%
10/11/2019 07:50	JN	Money Stock M2 YoY	Sep	2.40%	2.40%	2.40%
10/11/2019 12:00	MA	Industrial Production YoY	Aug	2.00%	--	1.20%
10/11/2019 13:00	SI	Retail Sales SA MoM	Aug	0.00%	--	2.60%

Source: Bloomberg

## Treasury Research & Strategy

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