

Wednesday, March 13, 2019

## DAILY TREASURY OUTLOOK

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### Highlights

<b>Global</b>	<p><b>As expected, the UK Parliament rejected PM May's Brexit deal by a 391-242 vote (albeit less than the 230 margin in January), leaving the door open to fresh rounds of voting on no-deal Brexit and /or an extension to Article 50.</b> Our view is that a <b>no-deal Brexit</b> is likely to be rejected and an extension (aimed at avoiding the EU elections on 23 May) is the most likely outcome. Meanwhile, US trade representative Lighthizer also warned that "we have to maintain the right to be able to....raise tariffs in situations where there's violations of the agreement" for any deal with China and "if those issues are not resolved in a way that's beneficial to the United States, we will not have an agreement". Market reaction was relatively muted overnight – the FTSE still managed to edge higher. The S&amp;P500 and UST bonds both gained, with the 10-year bond yield at 2.60% as subdued inflation data suggested that the Fed can remain patient.</p> <p><b>Asian markets may attempt to rally today</b> to build on fragile Brexit hopes that may not sustain pending the result of the UK Parliament vote.</p> <p>The economic data calendar comprises of US' durable goods orders, PPI, construction spending and mortgage applications, and Eurozone's industrial production. ECB's Coeure is also speaking.</p>
<b>US</b>	<p>Headline CPI rose 0.2% mom in Feb, in line with market expectations, while the core CPI also edged up 0.1% which is slower than the 0.2% pace seen in the last five months. Whilst the latest labour market report suggested that wage costs is picking up, nevertheless the stronger USD has capped import prices so far despite US tariffs on Chinese imports. The NFIB small business optimism improved less than expected from 101.2 in Jan to 101.7 in Feb, snapping a five month decline, but the components on plans to hire and earnings actually declined which may explain some of the NFP weakness seen in the latest print of +20k.</p>
<b>SG</b>	<p>S'pore's retail sales rebounded more than expected by 7.6% yoy (0.2% mom sa) in January, up from December's revised print of -5.8% yoy (-2.3% mom sa). This is the highest on-year retail sales growth print seen since February 2018 which also coincided with the Chinese New Year (CNY) festive season. Excluding autos, retail sales also rose 5.3% yoy in January, up from a 2.8% decline in December. This was also the strongest reading since February last year (8.5% yoy). In particular, motor vehicle sales also surged 20.0% yoy (8.3% mom sa) in January, compared to -20.7% yoy (+3.7% mom sa) in December 2018. However, doubts still remain over if the retail sector is finally emerging from its slump. The key to watch would be if retail sales can sustain in positive growth territory in the coming months or it will quickly reverse back into the doldrums post-CNY, which is actually a high possibility given the high base in February 2018. That said, new upcoming retail space from Jewel Changi, Paya Lebar Quarter and Funan this year may introduce some novelty and new experiential concepts, but also potentially pose a challenge to existing retail malls.</p>

## Major Markets

- **US:** Wall Street ended mixed on Tuesday, with the S&P500 jumping 0.3%. The DJIA fell 0.4%, and the Nasdaq composite increased 0.4%.
- **Singapore:** Given that the CNY festive season fell in early February this year, the January retail sales was likely lifted by pre-CNY shopping, which could be seen in the stronger sales chalked up in segments like wearing apparel & footwear (10.5% yoy), department stores (8.9% yoy), supermarkets & hypermarkets (8.8% yoy) and food retailers (8.0% yoy). The only retail segments that remained depressed in January were computer & telecommunications equipment (-11.5% yoy), which was attributed to lower demand for mobile phones during this period, as well as optical goods & books (-1.6% yoy). Note that overall retail sales had declined for 6 out of the 12 months in 2018, partly due to disruption from e-commerce and reduced average tourist spending. Back in 2018, the CNY spike in retail sales in January did not last and March slipped back to a 1.0% yoy decline.
- The STI added 0.65% to close at 3212.25 yesterday, but may find it difficult to retain the 3200 support amid softer risk appetite post the UK Parliament's rejection of the Brexit deal. With UST bonds gaining overnight, the SGS bond market may also be better bid today.
- **China:** China's average mortgage rate for the first time borrower fell by 0.53% to 5.63% in February benefiting from the easing monetary policy.
- **Macau:** Housing transaction volume rebounded by 18.7% mom to 495 deals in January 2019, ending the downtrend over the past two months. During the same month, average housing price rose by 1% mom to MOP102,101/square meter while approved new mortgage loans surged by 20.2% mom or 21.5% yoy to MOP4.4 billion. This was probably due to the improved market sentiments on the back of eased trade tension and dovish central banks. Besides, the limited housing supply might have been another favourable factor to the property market. Nevertheless, the upside to the housing market may be limited this year. Average housing price and housing transaction volume were down by 18% yoy and 66.2% yoy respectively in January. Moving ahead, the upside of the property market may be capped by several unfavorable factors including property control measures, the diminishing effect of property supportive measures and the possibly unsustainable rebound in market sentiments against the backdrop of global economic slowdown and lingering trade war risks. In conclusion, we expect average housing price to oscillate around MOP100,000/square meter and housing transaction volume to remain subdued in 2019.
- **Malaysia:** Prime Minister Mahathir Mohamad has said that the government would "be studying and investigating as to whether" they should shut down, sell it off or refinance Malaysia Airlines Bhd. This comes after the state sovereign wealth fund Khazanah Nasional reported a pre-tax loss of RM6.3bn for 2018, which was its first since 2005. Most of the loss was attributed to an impairment of RM7.3bn, which was mainly due to a write-down on Khazanah's investment in Malaysia Airlines Bhd.
- **Indonesia:** The Ministry of Finance awarded a total of Rp18.05tn of government bonds, which exceeded the initial target of Rp15tn. Incoming bids were reported at Rp58.3tn, with 35.1% of them coming from foreign investors. Foreign investors eventually accounted for 30.7% of awarded bids.

## Bond Market Updates

- **Market Commentary:** The SGD swap curve steepened yesterday, with the shorter tenors trading 1bps higher (with the exception of the 1-year swap rate trading 1bps lower), while the belly and longer tenors traded 2-3bps higher. The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 139bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 5bps to 489bps. 10Y UST yields fell 4bps to 2.60% on the back of weak inflation data which further supports expectations that the Federal Reserve will hold interest rates steady. Safe haven demand arising from the uncertainty regarding Britain's exit from the European Union also contributed to the fall in yields.
- **New Issues:** Guorui Properties Ltd has priced a USD295mn re-tap of its existing GUOPRO 13.5%'22s (guarantor: certain of issuer's restricted subsidiaries outside the PRC) at 15.3% (reoffer at 97). ANZ New Zealand (Int'l) Ltd, London Branch, has priced a USD750mn 5-year bond (guarantor: ANZ Bank New Zealand Ltd) at CT5+100bps, tightening from IPT of +110bps area. Canara Bank has mandated banks for its potential USD bond issuance. Qatar Islamic Bank has scheduled investor meetings from 14 March for its potential USD bond issuance.

### Key Financial Indicators

#### Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	96.935	-0.29%	USD-SGD	1.3560	-0.15%
USD-JPY	111.360	0.13%	EUR-SGD	1.5305	0.23%
EUR-USD	1.1288	0.38%	JPY-SGD	1.2178	-0.26%
AUD-USD	0.7082	0.17%	GBP-SGD	1.7728	-0.72%
GBP-USD	1.3075	-0.57%	AUD-SGD	0.9602	0.01%
USD-MYR	4.0837	-0.16%	NZD-SGD	0.9303	0.30%
USD-CNY	6.7085	-0.27%	CHF-SGD	1.3455	0.13%
USD-IDR	14265	-0.18%	SGD-MYR	3.0119	0.06%
USD-VND	23199	--	SGD-CNY	4.9498	0.01%

#### Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD LIBOR	Change
1M	-0.3680	--	O/N	2.3903	--
2M	-0.3360	--	1M	2.4989	--
3M	-0.3080	--	2M	2.5715	--
6M	-0.2320	--	3M	2.6083	--
9M	-0.1940	--	6M	2.6793	--
12M	-0.1080	--	12M	2.8690	--

#### Fed Rate Hike Probability

Meeting	Prob Hike	Prob Cut	1.75-2%	2-2.25%	2.25-2.5%
03/20/2019	0.8%	0.0%	0.0%	0.0%	99.2%
05/01/2019	0.8%	2.1%	0.0%	2.1%	97.2%
06/19/2019	0.7%	11.1%	0.2%	10.9%	88.2%
07/31/2019	1.9%	11.0%	0.2%	10.8%	87.1%
09/18/2019	1.8%	16.6%	0.9%	15.7%	81.6%
10/30/2019	1.8%	17.9%	1.1%	16.7%	80.4%

#### Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	56.87	0.1%	Corn (per bushel)	3.5650	1.1%
Brent (per barrel)	66.67	0.1%	Soybean (per bushel)	8.848	0.8%
Heating Oil (per gallon)	1.9857	-0.4%	Wheat (per bushel)	4.4625	5.7%
Gasoline (per gallon)	1.8155	-0.6%	Crude Palm Oil (MYR/MT)	1,980.0	0.9%
Natural Gas (per MMBtu)	2.7840	0.4%	Rubber (JPY/KG)	182.0	0.4%

  

Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	6,407	--	Gold (per oz)	1,298.1	0.5%
Nickel (per mt)	12,900	--	Silver (per oz)	15.338	0.9%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

#### Equity and Commodity

Index	Value	Net change
DJIA	25,554.66	-96.22
S&P	2,791.52	8.22
Nasdaq	7,591.03	32.97
Nikkei 225	21,503.69	378.60
STI	3,212.25	20.83
KLCI	1,671.28	6.65
JCI	6,353.77	-12.66
Baltic Dry	647.00	2.00
VIX	13.77	-0.56

#### Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.97 (+0.01)	2.45 (-0.02)
5Y	2.05 (+0.02)	2.41 (-0.03)
10Y	2.22 (+0.03)	2.60 (-0.04)
15Y	2.45 (+0.03)	--
20Y	2.51 (+0.03)	--
30Y	2.66 (+0.04)	2.99 (-0.04)

#### Financial Spread (bps)

	Value	Change
EURIBOR-OIS	5.18	0.08
TED	35.36	--

### Economic Calendar

Date	Time	Event		Survey	Actual	Prior	Revised
03/12/2019	09:00	PH	Exports YoY	Jan	-4.30%	-1.70%	-12.30%
03/12/2019	13:00	SI	Retail Sales YoY	Jan	2.60%	7.60%	-6.00%
03/12/2019	17:30	UK	Trade Balance	Jan	-£3500m	-£3825m	-£3229m
03/12/2019	17:30	UK	Industrial Production MoM	Jan	0.20%	0.60%	-0.50%
03/12/2019	17:30	UK	Manufacturing Production MoM	Jan	0.20%	0.80%	-0.70%
03/12/2019	20:30	US	CPI MoM	Feb	0.20%	0.20%	0.00%
03/13/2019	19:00	US	MBA Mortgage Applications	Mar-08	--	--	-2.50%
03/13/2019	20:30	US	PPI Ex Food and Energy MoM	Feb	0.20%	--	0.30%
03/13/2019	20:30	US	PPI Final Demand YoY	Feb	1.90%	--	2.00%
03/13/2019	20:30	US	Durable Goods Orders	Jan P	-0.40%	--	1.20%
03/13/2019	22:00	US	Construction Spending MoM	Jan	0.50%	--	-0.60%

Source: Bloomberg

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