

Daily Treasury Outlook

13 December 2019

Highlights

Global: Global market is on track to a peaceful festive season as all three major tail risks including the US-China trade war, Brexit and China's policy miscalculation for its economy dialed down at the same time yesterday. On US-China trade talk, after President Trump tweeted that "getting very close to a big deal with China. They want it, and so do we" last night, more details emerged. Both WSJ and Reuters reported that the US has agreed to roll back some existing tariff and cancel the new tariff set to take effect on 15 December. Meanwhile, China has also agreed to purchase US\$50 billion US agriculture products in 2020. Market will continue to wait for more details from both sides today for the limited trade deal.

UK: At time of writing, the Conservative party led by Boris Johnson is set for a landslide victory in the UK elections. The pound has rallied as a result. A clear majority in parliament will give Johnson a good chance of formalising Brexit by 31 January 2020 on his previously negotiated deal with the EU. The deal also includes a transition window for the UK to negotiate a trade agreement with the EU – in the meantime the UK will continue operating under the EU's rule and regulations for trade until the end of 2020.

China: China concluded its annual central economic working conference on Thursday setting the policy tone for next year. Although China reiterated its proactive fiscal policy and prudent monetary policy as well as its famous slogan for housing market that "housing is for living not for speculating", the change of fine print under each policy shows that China is likely to be more flexible and lean towards easing in 2020. For example, on monetary policy, China added the word "more flexibility" while on housing market, China will also focus on long term expectation management to stabilize land price and housing price. We expect China to be more supportive towards growth in 2020, though a big stimulus is unlikely. This may keep risk sentiment supported in the near term.

ECB: Benchmark interest rates were left unchanged in yesterday's policy meeting as widely expected but that was largely overshadowed by Christine Lagarde's presiding over her first monetary policy press conference as ECB Chief. To that extent, we think she held up well in her first attempt in explaining the central bank's monetary policies to the press. She declared herself to be her own person and to not compare her with Jean-Claude Trichet or Mario Draghi, the two Presidents before her, and refused to be cowed into being labelled a dove or hawk, adopting the term "wise old owl" instead. More importantly she laid out the initial roadmap for a strategic review of the ECB's mandate, saying it should be completed before the end of 2020. We think the ECB has been due for a rethink of its mandate for a while now because unlike the Fed, the ECB just concentrates on managing inflation expectations. To the extent that the ECB is now spreading its outreach to cryptocurrency, green bonds and a possible reconfiguration of its inflation composition, we think that might be a boost for Lagarde's credibility as head of ECB going forward.

Key Market Movements

Equity	Value	% chg
S&P 500	3168.6	0.9%
DJIA	28132	0.8%
Nikkei 225	23425	0.1%
SH Comp	2915.7	-0.3%
STI	3194.7	0.7%
Hang Seng	26994	1.3%
KLCI	1567.3	0.3%
Currencies	Value	% chg
DXY	97.397	0.3%
USDJPY	109.31	0.7%
EURUSD	1.1130	0.0%
GBPUSD	1.3161	-0.3%
USDIDR	14033	-0.1%
USDSGD	1.3544	-0.2%
SGDMYR	3.0661	0.1%
Rates	Value	chg (bp)
3M UST	1.55	-1.54
10Y UST	1.89	10.08
1Y SGS	1.72	0.00
10Y SGS	1.74	0.19
3M LIBOR	1.89	0.01
3M SIBOR	1.77	0.00
3M SOR	1.54	-2.81
Commodities	Value	% chg
Brent	64.2	0.8%
WTI	59.18	0.7%
Gold	1470	-0.3%
Silver	16.93	0.4%
Palladium	1941	1.5%
Copper	6156	0.0%
BCOM	79.07	0.9%

Source: Bloomberg

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Major Markets

US: Markets rose to record highs last night on the back of trade optimism and improved risk sentiment as investors cheered the news that US and China have a phase one trade deal agreement. The S&P500 index closed the session up 0.9% at an all-time high of 3168.57. Following the positive trade news, we expect risk-on sentiment to continue and markets to continue their march up to new all-time highs.

UK: If no trade deal is forthcoming between the UK and the EU by end 2020, Boris Johnson has said he would prefer no trade agreement than continue negotiations. That would mean a “no-deal trade Brexit” is possible, even though Brexit may have already occurred on 31 January 2020. The pound and other risky assets would continue to be swayed by these trade talks in the coming year.

Singapore: The STI is likely to produce a strong showing today, given the alleviation of risks from the US-China tariffs and a high probability of a Conservative landslide victory in the elections. The S&P 500 index closed 0.9% higher while the Dow rose as much as 300 points at one stage yesterday. The STI is expected to follow US equity indices higher overnight, having traded with a huge degree of caution through the week over the trade deal apprehension.

Macau: Macau’s average housing price dropped by 12.3% yoy (or -1.6% mom) to MOP 101,813/square meter in October. Approved new residential mortgage loans ended the downtrend for the past few months and grew by 4.4% yoy to MOP3.52 billion in October. Despite that, the housing transaction edged lower by 12.3% yoy to 659 deals during the same period. The data showed that the downtrend of Macau’s housing market persisted. It might be attributed to several unfavorable factors, including rising concerns over bleak economic outlook and retrenchment and negative spill-over effects from HK’s social unrest. Moving forward, we expect that the housing market of Macau will likely continue to slow down in the coming months. The housing prices (+0.6% YTD as of October) may drop by 1.5% yoy by end of this year. In the longer term, the housing market correction might be limited. In terms of supply, the housing start and completion dropped by 78% yoy and 33% yoy respectively for the first ten months of 2019, reflecting that the long-term supply remained limited. We will continue to watch out what the new government will do to ease the housing supply shortage.

Oil: Brent prices inched 0.8% higher last night on optimism over the US-China trade deal. Prices closed at \$64.20/bbl and is expected to continue rallying today as the feel-good factor continues to linger in the market.

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Bond Market Updates

Market Commentary: The SGD swap curve traded slightly higher yesterday, with all tenors across the curve trading unchanged to 1bps higher. The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 3bps to 123bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 23bps to 527bps. The HY-IG Index spread tightened 20bps to 405bps. 10Y UST Yields rose decisively by 10bps to close at 1.89%, after reports emerged that the US has offered to cut existing tariffs by as much as 50%, and suspend tariffs scheduled to take effect 15 Dec on Chinese goods, signalling good progress for a phase one trade deal and boosting risk sentiment.

New Issues: Hydoo International Holding Limited (Subsidiary Guarantors: Certain offshore Restricted Subsidiaries) priced a USD193.5mn 2-year bond at 14.0%, USD111.673mn of which is issued in partial exchange of HYDOO 12.0%'20s and USD81.827mn of new money issued concurrently. Zensun Enterprises Limited (Parent Guarantor: Zensun Group Limited; Subsidiary Guarantors: Certain of the Parent Guarantor's Restricted Subsidiaries incorporated outside the PRC) priced a USD120mn re-tap of its existing ZENENT 12.8%'21s at 13.0%, tightening from IPT of 13.25% area.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	97.397	0.33%	USD-SGD	1.3544	-0.21%
USD-JPY	109.310	0.69%	EUR-SGD	1.5079	-0.19%
EUR-USD	1.1130	--	JPY-SGD	1.2392	-0.89%
AUD-USD	0.6909	0.48%	GBP-SGD	1.7829	-0.45%
GBP-USD	1.3161	-0.27%	AUD-SGD	0.9358	0.27%
USD-MYR	4.1610	-0.08%	NZD-SGD	0.8936	-0.02%
USD-CNY	6.9849	-0.77%	CHF-SGD	1.3753	-0.39%
USD-IDR	14033	-0.09%	SGD-MYR	3.0661	0.10%
USD-VND	23171	-0.02%	SGD-CNY	5.1629	-0.31%

Equity and Commodity

Index	Value	Net change
DJIA	28,132.05	220.75
S&P	3,168.57	26.94
Nasdaq	8,717.32	63.27
Nikkei 225	23,424.81	32.95
STI	3,194.67	21.77
KLCI	1,567.34	4.15
JCI	6,139.40	-40.70
Baltic Dry	1,460.00	--
VIX	13.94	-1.05

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4560	-0.30%	O/N	1.5254	-0.36%
2M	-0.3360	-0.36%	1M	1.7405	0.49%
3M	-0.3930	0.49%	2M	1.8240	-0.21%
6M	-0.3380	-0.21%	3M	1.8874	0.01%
9M	-0.1940	0.01%	6M	1.8883	0.96%
12M	-0.2720	0.96%	12M	1.9433	1.04%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.55 (+0.01)	1.66 (+0.04)
5Y	1.59 (--)	1.73 (+0.09)
10Y	1.74 (--)	1.89 (+0.1)
15Y	1.85 (+0.01)	--
20Y	1.93 (+0.01)	--
30Y	2.09 (+0.01)	2.31 (+0.08)

Fed Rate Hike Probability

Meeting	Prob Hike	Prob Cut	0.75-1.00%	1.00-1.25%	1.25-1.50%
29/01/2020	0.00%	0.00%	0.00%	0.00%	0.00%
18/03/2020	0.00%	2.90%	0.00%	0.00%	2.90%
29/04/2020	0.00%	13.70%	0.00%	0.30%	13.40%
10/06/2020	0.00%	22.90%	0.00%	1.70%	21.20%
29/07/2020	0.00%	31.60%	0.20%	3.90%	27.50%
09/16/2020	0.00%	39.00%	0.60%	6.50%	31.90%

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	6.10	0.33
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	1.54
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Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	59.18	0.7%	Corn (per bushel)	3.6700	2.6%
Brent (per barrel)	64.20	0.8%	Soybean (per bushel)	8.983	0.5%
Heating Oil (per gallon)	1.9508	1.1%	Wheat (per bushel)	5.3925	1.6%
Gasoline (per gallon)	1.6283	0.1%	Crude Palm Oil (MYR/MT)	2,816.0	0.5%
Natural Gas (per MMBtu)	2.3280	3.8%	Rubber (JPY/KG)	176.0	-0.2%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	6,156	--	Gold (per oz)	1,469.8	-0.3%
Nickel (per mt)	13,850	--	Silver (per oz)	16.929	0.4%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Economic Calendar

Date Time		Event		Survey	Actual	Prior	Revised
12/13/2019 07:50	JN	Tankan Large Mfg Index	4Q	3	0	5	--
12/13/2019 07:50	JN	Tankan Large All Industry Capex	4Q	6.00%	6.80%	6.60%	--
12/13/2019 07:50	JN	Tankan Large Mfg Outlook	4Q	3	0	2	--
12/13/2019 07:50	JN	Tankan Large Non-Mfg Index	4Q	16	20	21	--
12/13/2019 07:50	JN	Tankan Large Non-Mfg Outlook	4Q	16	18	15	--
12/13/2019 12:30	JN	Industrial Production MoM	Oct F	--	--	-4.20%	--
12/13/2019 12:30	JN	Industrial Production YoY	Oct F	--	--	-7.40%	--
12/13/2019 12:30	JN	Capacity Utilization MoM	Oct	--	--	1.00%	--
12/13/2019 15:30	TH	Foreign Reserves	Dec-06	--	--	\$221.0b	--
12/13/2019 16:30	HK	Industrial Production YoY	3Q	--	--	0.30%	--
12/13/2019 21:30	US	Retail Sales Advance MoM	Nov	0.50%	--	0.30%	--
12/13/2019 21:30	US	Import Price Index MoM	Nov	0.20%	--	-0.50%	--
12/13/2019 21:30	US	Retail Sales Ex Auto MoM	Nov	0.40%	--	0.20%	--
12/13/2019 21:30	US	Retail Sales Ex Auto and Gas	Nov	0.40%	--	0.10%	--
12/13/2019 23:00	US	Business Inventories	Oct	0.20%	--	0.00%	--

Source: Bloomberg

Treasury Research & Strategy

Macro Research

Selena Ling

Head of Research & Strategy

LingSSSelena@ocbc.com

Tommy Xie Dongming

Head of Greater China Research

XieD@ocbc.com

Wellian Wiranto

Malaysia & Indonesia

WellianWiranto@ocbc.com

Terence Wu

FX Strategist

TerenceWu@ocbc.com

Howie Lee

Thailand, Korea & Commodities

HowieLee@ocbc.com

Carie Li

Hong Kong & Macau

carierli@ocbcwh.com

Dick Yu

Hong Kong & Macau

dicksnyu@ocbcwh.com

Credit Research

Andrew Wong

Credit Research Analyst

WongVKAM@ocbc.com

Ezien Hoo

Credit Research Analyst

EzienHoo@ocbc.com

Wong Hong Wei

Credit Research Analyst

WongHongWei@ocbc.com

Seow Zhi Qi

Credit Research Analyst

ZhiQiSeow@ocbc.com

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