

## Daily Treasury Outlook

14 October 2019

### Highlights

**Global:** Putting aside the question of why it took them this long only to get to a “Phase 1” deal, the fact that there was some trade truce between the US and China over the weekend will allow Asian markets to breathe more easily this week. In exchange for China’s doubling its purchase of American agricultural goods (as much as \$50bn according to Trump, but yet to be confirmed by China), US will not carry out the Oct 15<sup>th</sup> tariff increase of 5ppt more on USD250bn worth of imports from China. There is no news, however, on the Dec 15<sup>th</sup> round of tariff for a host of consumer goods worth USD160bn. Moreover, the existing tit-for-tat tariffs that had been put in place by both sides since the trade war started in July 2018 will remain.

**Market watch:** For the immediate week ahead, markets will be looking out for whether there is another deal or not between the UK and the EU as Brexit’s Oct 31<sup>st</sup> deadline breathes down their necks. While the market was soothed by seemingly positive outcome in the talks between the British and Irish PMs last week, the week opens to an unfortunate start with EU negotiators warning that UK’s plans are not yet good enough to be the basis for an exit agreement. In terms of data, look out for China’s trade data today and GDP numbers on Friday. The Fed has a roster of speakers this week ahead of the blackout period before their Oct 29-30<sup>th</sup> FOMC meeting and will be releasing its Beige Book on Wednesday. Bank of Korea is due to announce its monetary policy decision on Wednesday, where market is expecting it to cut by 25bps to the historically low level of 1.25% to aid the economy.

**US:** Looking ahead, the two sides are expected to work out the details of the mini agreement in the coming month, with the expectation of President Trump and Xi signing it on the sidelines of the APEC summit in Chile on November 16-17. Overall, given the increasingly acrimonious atmosphere between the two sides in the lead-up to Liu He’s trip to Washington, D.C., the fact that the latter has returned to Beijing with some kind of deal is a plus. However, no one will be faulted for being a bit wary of assuming that all is well, and this drama might go on for a bit more.

**Singapore:** Singapore’s economy in Q3 expanded 0.1% yoy, matching Q2’s growth rate and below market expectations of 0.2%. The continued contraction in manufacturing and slowing growth in the services sector were the main factors for Singapore’s sluggish growth rate. On a qoq saar basis, the economy expanded 0.6%, hence averting a technical recession. We expect the weakness in growth to extend into Q4 and have downgraded full-year 2019 growth to 0.3%. Separately, MAS has decided to slightly reduce the rate of appreciation of the S\$NEER policy band, as widely expected. There are no changes to the width and level of the bands. The central bank says that it will continue to closely monitor economic developments and may recalibrate its monetary policy if inflation and growth continues to weaken significantly.

Key Market Movements		
<b>Equity</b>	<b>Value</b>	<b>% chg</b>
S&P 500	2970.3	1.1%
DJIA	26817	1.2%
Nikkei 225	21799	1.1%
SH Comp	2973.7	0.9%
STI	3114.0	0.8%
Hang Seng	26308	2.3%
KLCI	1556.8	0.3%
<b>Currencies</b>	<b>Value</b>	<b>% chg</b>
DXY	98.301	-0.4%
USDJPY	108.29	0.3%
EURUSD	1.1042	0.3%
GBPUSD	1.2668	1.8%
USDIDR	14138	-0.1%
USDSGD	1.3733	-0.2%
SGDMYR	3.0468	0.1%
<b>Rates</b>	<b>Value</b>	<b>chg (bp)</b>
3M UST	1.66	-0.28
10Y UST	1.73	6.09
1Y SGS	1.82	-1.10
10Y SGS	1.68	2.51
3M LIBOR	1.99	0.19
3M SIBOR	1.88	-0.02
3M SOR	1.58	0.67
<b>Commodities</b>	<b>Value</b>	<b>% chg</b>
Brent	60.51	2.4%
WTI	54.7	2.1%
Gold	1489	-0.3%
Silver	17.54	0.2%
Palladium	1700	-0.1%
Copper	5796	0.3%
BCOM	78.83	1.1%

Source: Bloomberg

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### Major Markets

**US:** US markets climbed on Friday on the back of news that the US and China had made progress on trade talks, and that a verbal agreement had been struck between the two parties. The S&P 500 index ended the session up 1.1%. In the week ahead, investors are likely to trade with cautious optimism, wary of a backtrack before the deal is inked. We expect resistance for the S&P 500 index to be at the 3000 level in the immediate short term.

**China:** A phase one trade deal has been reached on Friday, which will delay the additional tariff hike previously scheduled on 15 Oct. Five areas have been covered in phase one including agriculture purchase, opening of China's financial services, currency agreement, intellectual property and technology transfer. The first three areas have been covered entirely in phase one while the latter two will be discussed further in phase two. The documentation of the phase one deal is expected to take about one month. Ideally, the deal will be signed formally by both leaders during the APEC meeting in Chile in mid-November. Five uncertainties remain including the delay of December tariff hike, Huawei, the new US entity list, currency manipulation designation and removal of existing tariff. On currency, we think RMB has not fully priced in the cease of trade war probably due to the memory about previous back-and-forth. Market will watch closely whether a partial deal will be documented in the next one month for both leaders to sign officially in mid-Nov.

**Singapore:** The STI rose 0.8% to 3113.97 on Friday and is expected to inch higher today following positive developments on the US-China negotiations over the weekend. Statement from the MAS policy this morning, saying that the central bank stands ready to recalibrate monetary policy if growth and inflation continues to weaken significantly, may likely add a further boost to the STI today, despite the poorer than expected Singapore Q3 GDP. Resistance is expected at around the 3,150 level, with near-term support at 3,065.

**Macau:** Average housing price dropped for the second consecutive month by 7.1% mom to MOP102,220/square meter in August, the lowest since February. During the same month, approved new residential mortgage loans fell by the seventh consecutive month by 44.1% yoy to MOP4.1 billion whereas housing transaction volume (+7.8% yoy) decreased slightly from July's 898 deals to 894 deals. The year-on-year growth of housing transaction was due to the property developers' sweeteners which boosted new home sales as well as the low base of late 2018. That said, the housing market still slowed down from mid-2019, mainly attributed to summer holiday effect, negative wealth effect from stock market correction, rising concerns about labor market outlook and a bleak economic outlook. On top of these unfavorable factors, the housing control measures continued to take effect in suppressing speculative demand. Though measures supporting first-home local buyers continued to bolster the housing market, the support is poised to wane gradually. Going ahead, these factors will likely continue to slow down the housing market. We expect housing prices (+1% YTD as of August) to drop 1.5% yoy by end of this year.

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**Malaysia:** Budget 2020 was announced on Friday. The government pencilled in a deficit target of 3.2% of GDP, in line with our expectation. While it marks a tighter fiscal stance compared to the 3.4% deficit ratio expected this year, it is nonetheless looser than the 3.0% that had been originally anticipated for 2020. FinMin Lim Guan Eng stated that there will be not any re-introduction of GST, while marking SST to contribute 11.6% of total revenue. Growth is expected to come in at a relatively lofty 4.8% yoy in 2020, against a revised 4.7% in 2019.

**Indonesia:** Bank Indonesia's Governor Perry Warjiyo said that current account deficit is expected to be at 2.5-3% in Q3 and through 2019. BI's overall assessment is that Indonesia's external stability remains under control, with help from FDI and portfolio inflows.

## Bond Market Updates

**Market Commentary:** The SGD swap curve bear-steepened last Friday, with the shorter tenors traded 0-3bps higher (with the exception of the 1-year tenor which traded 2bps lower), and the belly and longer tenors traded 3-5bps higher. The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 3bps to 132bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 14bps to 530bps. 10Y USTs yields rose 6bps to 1.73% after a partial trade deal was reached by the US and China. The spread between 3-month treasury bills and 10-year treasury notes ceased to be inverted, with the spread at +7bps.

**New Issues:** Jiayuan International Group Ltd priced a USD200mn 3-year 4-month NP2 bond at 13.763%. Health & Happiness (H&H) International Holdings Ltd scheduled investor meetings commencing 14 Oct for its potential USD300mn bond issuance. CLP Power Hong Kong Ltd scheduled investor meetings commencing 14 Oct for its potential USD bond issuance. AVIC International Leasing Co., Ltd scheduled investor meetings commencing 14 Oct for its potential USD perp issuance.

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### Foreign Exchange

	Day Close	% Change		Day Close	% Change
<b>DX</b>	98.301	-0.41%	<b>USD-SGD</b>	1.3733	-0.17%
<b>USD-JPY</b>	108.290	0.29%	<b>EUR-SGD</b>	1.5167	0.19%
<b>EUR-USD</b>	1.1042	0.34%	<b>JPY-SGD</b>	1.2662	-0.61%
<b>AUD-USD</b>	0.6794	0.49%	<b>GBP-SGD</b>	1.7380	1.55%
<b>GBP-USD</b>	1.2668	1.81%	<b>AUD-SGD</b>	0.9327	0.28%
<b>USD-MYR</b>	4.1865	-0.07%	<b>NZD-SGD</b>	0.8705	0.15%
<b>USD-CNY</b>	7.0883	-0.39%	<b>CHF-SGD</b>	1.3772	-0.18%
<b>USD-IDR</b>	14138	-0.10%	<b>SGD-MYR</b>	3.0468	0.13%
<b>USD-VND</b>	23201	--	<b>SGD-CNY</b>	5.1693	-0.06%

### Equity and Commodity

Index	Value	Net change
<b>DJIA</b>	26,816.59	319.92
<b>S&amp;P</b>	2,970.27	32.14
<b>Nasdaq</b>	8,057.04	106.26
<b>Nikkei 225</b>	21,798.87	246.89
<b>STI</b>	3,113.97	24.49
<b>KLCI</b>	1,556.84	4.97
<b>JCI</b>	6,105.80	82.16
<b>Baltic Dry</b>	1,924.00	-5.00
<b>VIX</b>	15.58	-1.99

### Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
<b>1M</b>	-0.4730	0.70%	<b>O/N</b>	1.7989	0.26%
<b>2M</b>	-0.3360	0.26%	<b>1M</b>	1.9135	-0.61%
<b>3M</b>	-0.4180	-0.61%	<b>2M</b>	1.9746	-1.31%
<b>6M</b>	-0.3580	-1.31%	<b>3M</b>	2.0009	0.19%
<b>9M</b>	-0.1940	0.19%	<b>6M</b>	1.9756	-0.72%
<b>12M</b>	-0.3030	-0.72%	<b>12M</b>	1.9555	1.41%

### Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
<b>2Y</b>	1.57 (+0.01)	1.59 (+0.05)
<b>5Y</b>	1.59 (+0.02)	1.55 (+0.07)
<b>10Y</b>	1.68 (+0.03)	1.73 (+0.06)
<b>15Y</b>	1.77 (+0.03)	--
<b>20Y</b>	1.88 (+0.03)	--
<b>30Y</b>	1.99 (+0.03)	2.19 (+0.03)

### 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%	70.8%	0.0%	0.0%	70.8%
12/11/2019	0.0%	83.0%	0.0%	29.6%	53.4%
01/29/2020	0.0%	87.6%	8.0%	36.1%	43.5%
03/18/2020	0.0%	89.2%	11.6%	37.0%	39.6%
04/29/2020	0.0%	90.4%	14.5%	37.3%	36.3%
06/10/2020	0.0%	91.7%	17.6%	37.2%	32.6%

### Financial Spread (bps)

	Value	Change
<b>EURIBOR-OIS</b>	4.30	-0.20
<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)	54.70	2.1%	Corn (per bushel)	3.9775	4.6%
Brent (per barrel)	60.51	2.4%	Soybean (per bushel)	9.360	1.4%
Heating Oil (per gallon)	1.9576	1.9%	Wheat (per bushel)	5.0800	3.0%
Gasoline (per gallon)	1.6388	1.0%	Crude Palm Oil (MYR/MT)	2,118.0	-0.8%
Natural Gas (per MMBtu)	2.2140	-0.2%	Rubber (JPY/KG)	151.0	0.5%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,796	0.3%	Gold (per oz)	1,489.0	-0.3%
Nickel (per mt)	17,550	-0.4%	Silver (per oz)	17.541	0.2%

Source: Bloomberg, Reuters  
(Note that rates are for reference only)

## Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
10/14/2019	SI Singapore MAS Monetary Policy Statement				
10/14/2019	CH Trade Balance	Sep \$34.75b	--	\$34.84b	--
10/14/2019	CH Exports YoY	Sep -2.80%	--	-1.00%	--
10/14/2019	CH Imports YoY	Sep -6.00%	--	-5.60%	--
10/14/2019 08:00	SI GDP YoY	3Q A 0.20%	0.10%	0.10%	--
10/14/2019 08:00	SI GDP SAAR QoQ	3Q A 1.20%	0.60%	-3.30%	-2.70%
10/14/2019 15:15	EC ECB's De Guindos, Hernandez de Cos speak in Madrid				
10/14/2019 17:00	EC Industrial Production WDA YoY	Aug -2.50%	--	-2.00%	--
10/14/2019 20:00	IN CPI YoY	Sep 3.81%	--	3.21%	--
10/14/2019 20:10	UK BOE's Cunliffe Speaks on Monetary Policy in London				

Source: Bloomberg

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