

Daily Treasury Outlook

16 October 2019

Highlights

Global: Global risk sentiments may be off to a shaky start today after the IMF downgraded its global growth forecast for the fifth straight time by 0.2% points to 3% for 2019 and by 0.1% point to 3.4% for 2020, citing the familiar trade tensions. News that China wants a rollback of tariffs before purchasing up to \$50b of US agricultural goods suggests that the road ahead is never smooth when it comes to trade. Separately, Indonesia also saw a surprise trade deficit of \$161m in September as exports shrank for the 11th straight month. Meanwhile, Brexit optimism prompted GBP higher on hopes that EU and UK leaders are closing in on a deal ahead of the EU Council meeting tomorrow. The S&P500 rallied to four-week highs overnight on earnings optimism led by JPMorgan and Johnson & Johnson, whilst UST bonds also skidded with the 2- and 10-year yields up to 1.62% and 1.77% respectively.

Market watch: For Asian markets this morning, watch for the BOK policy decision where a 25bp rate cut to 1.25% has already been discounted, as well as HK Chief Executive Carrie Lam's annual policy address at 11am. Today's economic data calendar comprises US' retail sales, mortgage applications and NAHB housing market, and UK's CPI/PPI/RPI. Speakers include ECB's Knot and Lane, Fed's Evans, Kaplan and Brainard, BOE's Carney, Bundesbank's Weidmann, and RBA's Debelle. US' 3Q earnings season also continues with Bank of America and Netflix tonight.

US: Fed's Bullard called for further rate cuts as "additional insurance" amid downside risks, while Daly opined that US growth is "solid" but faces structural barriers in the labour market.

EU: German ZEW expectations gauge slipped from -22.5 to -22.8 in October while the current situation index also retreated from -19.9 to -25.3, suggesting that investor confidence remain weighed down by recession and trade concerns. However, German Finance minister Olaf Scholz opined that Germany intends to stick to its balanced budget rules for now and refrain from new debt for time to come, barring a real economic crisis.

China: China's CPI hit 3% for the first time since November 2013. The surge in CPI recently was mainly driven by rising pork prices due to the outbreak of African swine flu. Given that pork prices rose further by close to 20% in the first half of October according to the daily nationwide wholesale prices monitored by agriculture department, the pork prices may further create upward pressure on China's CPI in the coming sessions. We think that there is a risk for CPI to hit 4% in January 2020.

Singapore: PM Lee reiterated that there will be help for workers to train for new roles to remain employable.

Key Market Movements		
Equity	Value	% chg
S&P 500	2995.7	1.0%
DJIA	27025	0.9%
Nikkei 225	22207	1.9%
SH Comp	2991.0	-0.6%
STI	3116.2	-0.3%
Hang Seng	26504	-0.1%
KLCI	1566.2	-0.1%
Currencies	Value	% chg
DXY	98.288	-0.2%
USDJPY	108.86	0.4%
EURUSD	1.1033	0.1%
GBPUSD	1.2787	1.4%
USDIDR	14166	0.2%
USDSGD	1.3708	0.1%
SGDMYR	3.0581	0.0%
Rates	Value	chg (bp)
3M UST	1.65	-1.29
10Y UST	1.77	4.20
1Y SGS	1.79	-2.10
10Y SGS	1.69	-0.45
3M LIBOR	2.00	0.00
3M SIBOR	1.87	-0.01
3M SOR	1.56	-0.35
Commodities	Value	% chg
Brent	58.74	-1.0%
WTI	52.81	-1.5%
Gold	1481	-0.8%
Silver	17.41	-1.4%
Palladium	1737	1.4%
Copper	5773	-0.8%
BCOM	78.41	-0.2%

Source: Bloomberg

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Major Markets

US: US markets were risk-on on Tuesday, as the S&P 500 index closed 1.0% higher in the session and the 10Y UST yields climbed 4.2bps to 1.77%. Positive market sentiment was accredited to optimism that a Brexit deal is near, as well as the earnings results of US firms. Looking ahead, however, investors might be cautious on hints that the US-China trade talks may not be progressing as smoothly as markets have hoped. China tied agricultural purchases to removal of US tariffs, which complicates negotiations, while the US passed a bill supporting Hong Kong, which is likely to rub China the wrong way. We expect the rally for S&P 500 index to be capped at the 3000 level in the immediate near term.

China: Non-pork inflationary pressure in China remains modest. Together with the deeper negative reading of PPI, it seems like disinflationary pressure and inflationary pressure coexist in China. This leads to a more complicated backdrop for monetary policy. Although disinflationary pressures in producer prices argues for an easing in monetary policy, the jump of headline CPI above government's target may give PBoC more reason to keep its modest policy reaction intact. In addition, China's credit expansion in September beat market expectation. New Yuan loans increased by CNY1.69 trillion, up from CNY1.21 trillion in August, while aggregate social financing increased by CNY2.27 trillion, up from CNY2.017 trillion in August. Looking ahead, China's social financing growth may decelerate slightly for three reasons. Firstly, off-balance sheet lending is unlikely to rebound due to falling demand for non-standard investment products. Secondly, the property market is expected to slow down further, which may affect the financing. Lastly, the issuance of special bonds is also likely to slow down given most of the quota has been filled. Nevertheless, despite the weak prospects on credit expansion, the current resilient data is not strong enough to call for more monetary easing

Singapore: The STI declined 0.27% to close at 3116.17 yesterday and positive cues from Wall Street overnight and morning gains by Kospi may suggest a firmer open as well. STI's support is tipped at 3100 with resistance at 3146. With the broad sell-off in UST bonds overnight, SGS bond yields may remain under pressure as well.

Indonesia: September exports came in at -5.74%yoy, slightly better than the median estimate of -6.5%yoy. Imports shrank by 2.41%yoy, less drastically than expected. Trade balance came in at a deficit of USD160.5mn, compared to expectation of a surplus of USD123.5mn.

Malaysia: Finance Minister Lim Guan Eng said that the Inland Revenue Board will utilize big data technology to detect taxpayers that are not recorded in the system. According to Bloomberg, he provided estimates that the shadow economy that has evaded tax authorities so far comprises around 21% of GDP.

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Bond Market Updates

Market Commentary: The SGD swap curve bull-flattened yesterday, with the shorter tenors traded 0-1bps lower, while the belly and longer tenors traded 0-2bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 132bps and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 7bps to 523bps. Reversing from the fall in rates during the earlier part of the trading day, 10Y USTs yields rose 4bps on the back of improved risk sentiment, with optimism on a Brexit deal between the EU and the UK, and a strong start to the US's 3Q earnings season.

New Issues: China Construction Bank Corporation Hong Kong Branch priced a USD1.0bn 3-year FRN at 3m-US LIBOR+66bps, tightening from IPT of 3m-US LIBOR+95bps area. HPCL-Mittal Energy Ltd priced a USD300mn 7NC4 bond at 5.45%, tightening from IPT of 5.75% area. Kaisa Group Holdings Ltd priced a USD400mn 11.95% 3NC2 bond at 12.25%. China Development Bank Corporation of Hong Kong priced a USD100mn 2-year 4-month FRN at 3m-US LIBOR+45bps. PT Adaro Energy Tbk scheduled investor meetings commencing 16 Oct for its potential USD bond issuance.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	98.288	-0.17%	USD-SGD	1.3708	0.09%
USD-JPY	108.860	0.42%	EUR-SGD	1.5122	0.13%
EUR-USD	1.1033	0.05%	JPY-SGD	1.2591	-0.34%
AUD-USD	0.6753	-0.32%	GBP-SGD	1.7527	1.50%
GBP-USD	1.2787	1.42%	AUD-SGD	0.9257	-0.25%
USD-MYR	4.1920	0.08%	NZD-SGD	0.8626	-0.01%
USD-CNY	7.0817	0.20%	CHF-SGD	1.3724	-0.07%
USD-IDR	14166	0.18%	SGD-MYR	3.0581	0.03%
USD-VND	23201	--	SGD-CNY	5.1663	0.08%

Equity and Commodity

Index	Value	Net change
DJIA	27,024.80	237.44
S&P	2,995.68	29.53
Nasdaq	8,148.71	100.06
Nikkei 225	22,207.21	408.34
STI	3,116.17	-8.28
KLCI	1,566.23	-1.36
JCI	6,158.17	31.29
Baltic Dry	1,916.00	--
VIX	13.54	-1.03

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4680	0.20%	O/N	1.7989	--
2M	-0.3360	--	1M	1.8908	-2.27%
3M	-0.4160	-2.27%	2M	1.9655	-0.91%
6M	-0.3530	-0.91%	3M	2.0009	--
9M	-0.1940	--	6M	1.9780	0.24%
12M	-0.3010	0.24%	12M	1.9731	1.76%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.58 (--)	1.62 (+0.03)
5Y	1.60 (-0.01)	1.60 (+0.04)
10Y	1.69 (--)	1.77 (+0.04)
15Y	1.78 (--)	--
20Y	1.89 (--)	--
30Y	2.01 (--)	2.23 (+0.04)

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%	81.3%	0.0%	25.5%	55.8%
01/29/2020	0.0%	86.5%	7.1%	34.0%	45.4%
03/18/2020	0.0%	88.5%	11.1%	35.7%	40.7%
04/29/2020	0.0%	89.9%	14.1%	36.3%	37.1%
06/10/2020	0.0%	91.2%	16.8%	36.4%	33.8%

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	3.78	-0.52
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	1.85
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Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	52.81	-1.5%	Corn (per bushel)	3.9325	-1.1%
Brent (per barrel)	58.74	-1.0%	Soybean (per bushel)	9.340	-0.7%
Heating Oil (per gallon)	1.9100	-0.3%	Wheat (per bushel)	5.0700	-0.8%
Gasoline (per gallon)	1.6144	0.1%	Crude Palm Oil (MYR/MT)	2,088.0	--
Natural Gas (per MMBtu)	2.3390	2.6%	Rubber (JPY/KG)	150.6	-0.3%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,773	-0.8%	Gold (per oz)	1,481.0	-0.8%
Nickel (per mt)	16,995	2.7%	Silver (per oz)	17.414	-1.4%

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

Economic Calendar

Date Time		Event		Survey	Actual	Prior	Revised
10/16/2019 05:45	NZ	CPI QoQ	3Q	0.60%	0.70%	0.60%	--
10/16/2019 05:45	NZ	CPI YoY	3Q	1.40%	1.50%	1.70%	--
10/16/2019 07:00	SK	Unemployment rate SA	Sep	3.30%	3.40%	3.10%	--
10/16/2019 07:30	AU	Westpac Leading Index MoM	Sep	--	-0.08%	-0.28%	-0.19%
10/16/2019 09:00	SK	BoK 7-Day Repo Rate	Oct-16	1.25%	--	1.50%	--
10/16/2019 16:30	UK	CPI YoY	Sep	1.80%	--	1.70%	--
10/16/2019 16:30	UK	CPI MoM	Sep	0.20%	--	0.40%	--
10/16/2019 16:30	UK	CPI Core YoY	Sep	1.70%	--	1.50%	--
10/16/2019 16:30	UK	PPI Output NSA MoM	Sep	0.10%	--	-0.10%	--
10/16/2019 16:30	UK	PPI Output NSA YoY	Sep	1.30%	--	1.60%	--
10/16/2019 17:00	EC	CPI YoY	Sep F	0.90%	--	1.00%	--
10/16/2019 17:00	EC	CPI MoM	Sep	0.20%	--	0.10%	--
10/16/2019 19:00	US	MBA Mortgage Applications	Oct-11	--	--	5.20%	--
10/16/2019 20:30	US	Retail Sales Advance MoM	Sep	0.30%	--	0.40%	--

Source: Bloomberg

Treasury Research & Strategy

Macro Research

Selena Ling*Head of Research & Strategy*LingSSSelena@ocbc.com**Emmanuel Ng***Senior FX Strategist*NqCYEmmanuel@ocbc.com**Tommy Xie Dongming***Head of Greater China Research*XieD@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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