

Daily Treasury Outlook

16 December 2019

Highlights

Global: Risk sentiment improved further last Friday after both the US and China announced to reach a "historic" phase one trade deal. According to the USTR factsheet, the deal will cover longstanding issues in the areas of intellectual property, technology transfer, agriculture, financial services and currency. Meanwhile, the US also said China has committed to increase imports of US goods and services over the next two years by no less than US\$200 billion from the annual level in 2017. Although the rollback of existing tariff was smaller than expected – only 15% additional tariff on US\$120 billion products which took effect from September will be cut by half to 7.5%, the cancellation of planned additional tariff from 15 December – this was still supportive of global risk sentiment. What's next? US trade negotiator Lighthizer said on Friday that both sides are aiming to sign a phase one deal in early January in Washington DC. However, the signing ceremony will not involve President Trump and President Xi.

In the last episode of Game of Thrones, Tyrion Lannister gave a great ending with his best line that "No one is very happy, which means it's a good compromise, I suppose". This line probably fit into the phase one deal as well. The phase one trade deal is probably seen as a good compromise, which will buy global markets peaceful time for a few months. However, this is a truce deal rather than a peace deal in our opinion, as discrepancies about rollback of tariff between both sides remain. As mentioned by the US chief trade negotiator, there is no guarantee on additional rollback of tariff although most officials in China including China's foreign minister Wang Yi believe that the existing tariff will be phased out gradually.

Market watch: For this week, market will watch out for China's November growth data and flash PMI in EU and US due today. Attention also shifts back to the Bank of England monetary policy meeting after the political dust settles. However, the rate cut expectation on BoE has diminished following a landslide victory by Boris Johnson. Although the major tail risks for the global market has faded, during this festive season, market will also watch out for two development including the chance of Scotland Independence Referendum and the development of North Korean situation after North Korea conducted another test over the weekend.

US: The US November retail sales data missed expectation. Retail sales rose by 0.2% mom while core retail sales excluding auto rose by 0.1% mom weaker than market expectation. This was partially due to late Thanksgiving holiday which pushed the Cyber Monday into December. The weaker than expected data also fuelled concerns about the transmission mechanism from stronger labor market to higher discretionary spending.

UK: After a landslide victory in the election on 12 December, PM Boris Johnson is expected to bring the Withdrawal Agreement Bill back to parliament before Christmas to allow the UK to leave EU by 31 January 2020. Meanwhile, Johnson's ministers state they are confident of reaching a trade deal with the EU by end of 2020.

Key Market Movements

Equity	Value	% chg
S&P 500	3168.8	0.0%
DJIA	28135	0.0%
Nikkei 225	24023	2.6%
SH Comp	2967.7	1.8%
STI	3214.1	0.6%
Hang Seng	27688	2.6%
KLCI	1571.2	0.2%
Currencies	Value	% chg
DXY	97.172	-0.2%
USDJPY	109.38	0.1%
EURUSD	1.1121	-0.1%
GBPUSD	1.3331	1.3%
USDIDR	13990	-0.3%
USDSGD	1.3533	-0.1%
SGDMYR	3.0596	-0.2%
Rates	Value	chg (bp)
3M UST	1.56	1.01
10Y UST	1.82	-6.96
1Y SGS	1.72	0.00
10Y SGS	1.79	4.41
3M LIBOR	1.89	0.63
3M SIBOR	1.77	0.00
3M SOR	1.54	0.23
Commodities	Value	% chg
Brent	65.22	1.6%
WTI	60.07	1.5%
Gold	1476	0.4%
Silver	16.93	0.0%
Palladium	1933	-0.4%
Copper	6130	-0.4%
BCOM	79.41	0.4%

Source: Bloomberg

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Major Markets

US: Wall Street was flat last Friday despite a confirmed trade deal agreement between the US and China. The initial positivity surrounding the deal quickly evaporated as the trade deal did not live up to expectations in terms of its details. The S&P500 index closed the session flat at 0%. Looking ahead, we can expect the US markets to be mixed in the following days while investors continue to proceed with caution ahead of year-end volatility.

Singapore: The STI rose 0.6% yesterday and following a mixed opening in the KOSPI this morning, is expected to endure a wobbly session after details on the US-China phase one trade deal proved to be scant. The next resistance is seen at 3250, while support is expected at 3100.

Thailand: Thailand's Election Commission has petitioned to dissolve the country's Future Forward party, the latter which is led by Thanathorn Juangroongruangkit who was recently convicted of breaching rules during the recent election. The court now has to decide whether to accept the petition. Thousands of protesters gathered in Bangkok over the weekend to protest that petition. The Future Forward party is relatively new to the political arena in Thailand but did better than expected in voting during the 2019 elections. There are concerns that breaking up the party may result in a repeat of the street demonstrations that marred the country's economy back in 2013/14.

Oil: Brent prices closed at \$65.22/bbl on Friday as the feel-good factor from last week's US-China phase one trade deal sent prices higher. Prices are expected to come under pressure this week as details on the trade deal is shown to be light on details, with a support seen at \$62.50/bbl. The upward trend formed on oil prices since the beginning of October, however, remains intact and the improved risk appetite is expected to outlast any scepticism on the trade deal that may result in a temporary pull back in prices on crude oil.

Bond Market Updates

Market Commentary: The SGD swap curve bear-steepened last Friday, with the shorter tenors trading 0-3bps higher, while the belly and longer tenors traded 4-6bps higher. The Bloomberg Barclays Asia USD IG Bond Index average OAS remained unchanged at 123bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 2bps to 525bps. The HY-IG Index spread tightened 2bps to 402bps. 10Y UST Yields fell by 7bps to close at 1.82%, with investors buying after the steep fall in Treasury prices, having already priced in the US-China Phase one trade deal. The US retail sales report for November was also lacklustre, showing that retail sales in the US grew by a lower-than-expected 0.2%.

New Issues: Excellence Commercial Management Ltd priced a USD100mn 3-year bond at 6.8%, tightening from IPT of 7.0% area. China Construction Bank Corporation of Luxembourg priced a USD300mn 2.5-year bond at 3m-US LIBOR+3bps.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	97.172	-0.23%	USD-SGD	1.3533	-0.08%
USD-JPY	109.380	0.06%	EUR-SGD	1.5059	-0.13%
EUR-USD	1.1121	-0.08%	JPY-SGD	1.2379	-0.10%
AUD-USD	0.6876	-0.48%	GBP-SGD	1.8049	1.23%
GBP-USD	1.3331	1.29%	AUD-SGD	0.9306	-0.56%
USD-MYR	4.1345	-0.64%	NZD-SGD	0.8928	-0.09%
USD-CNY	6.9763	-0.12%	CHF-SGD	1.3756	0.02%
USD-IDR	13990	-0.31%	SGD-MYR	3.0596	-0.21%
USD-VND	23171	--	SGD-CNY	5.1571	-0.11%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4670	0.60%	O/N	1.5299	0.84%
2M	-0.3360	0.84%	1M	1.7374	-0.08%
3M	-0.4000	-0.08%	2M	1.8369	0.79%
6M	-0.3400	0.79%	3M	1.8996	0.63%
9M	-0.1940	0.63%	6M	1.9029	-0.19%
12M	-0.2630	-0.19%	12M	1.9639	-1.04%

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%	9.60%	0.00%	0.00%	9.60%
29/04/2020	0.00%	19.90%	0.00%	1.10%	18.80%
10/06/2020	0.00%	33.20%	0.20%	4.00%	29.00%
29/07/2020	0.00%	43.50%	0.80%	7.90%	34.80%
09/16/2020	0.00%	53.70%	2.10%	12.70%	38.70%

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	60.07	1.5%	Corn (per bushel)	3.6625	-0.2%
Brent (per barrel)	65.22	1.6%	Soybean (per bushel)	9.075	1.0%
Heating Oil (per gallon)	1.9864	1.8%	Wheat (per bushel)	5.3925	--
Gasoline (per gallon)	1.6632	2.1%	Crude Palm Oil (MYR/MT)	2,816.0	--
Natural Gas (per MMBtu)	2.2960	-1.4%	Rubber (JPY/KG)	176.4	0.2%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	6,130	-0.4%	Gold (per oz)	1,476.3	0.4%
Nickel (per mt)	14,170	0.5%	Silver (per oz)	16.933	0.0%

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

Equity and Commodity

Index	Value	Net change
DJIA	28,135.38	3.33
S&P	3,168.80	0.23
Nasdaq	8,734.88	17.56
Nikkei 225	24,023.10	598.29
STI	3,214.05	19.38
KLCI	1,571.16	3.82
JCI	6,197.32	57.92
Baltic Dry	1,355.00	-33.00
VIX	12.63	-1.31

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.56 (+0.01)	1.60 (-0.05)
5Y	1.62 (+0.03)	1.65 (-0.07)
10Y	1.79 (+0.04)	1.82 (-0.07)
15Y	1.90 (+0.05)	--
20Y	1.98 (+0.05)	--
30Y	2.13 (+0.05)	2.25 (-0.06)

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	5.27	-0.63
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	1.53
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Economic Calendar

Date Time		Event		Survey	Actual	Prior	Revised
12/16/2019	PH	Overseas Remittances YoY	Oct	4.40%	--	6.30%	--
12/16/2019 08:30	JN	Jibun Bank Japan PMI Mfg	Dec P	--	--	48.9	--
12/16/2019 08:30	JN	Jibun Bank Japan PMI Composite	Dec P	--	--	49.8	--
12/16/2019 08:30	JN	Jibun Bank Japan PMI Services	Dec P	--	--	50.3	--
12/16/2019 10:00	CH	Industrial Production YoY	Nov	5.00%	--	4.70%	--
12/16/2019 10:00	CH	Retail Sales YoY	Nov	7.60%	--	7.20%	--
12/16/2019 12:00	ID	Exports YoY	Nov	-2.53%	--	-6.13%	--
12/16/2019 12:30	JN	Tertiary Industry Index MoM	Oct	-3.60%	--	1.80%	--
12/16/2019 17:00	EC	Markit Eurozone Manufacturing PMI	Dec P	47.1	--	46.9	--
12/16/2019 17:00	EC	Markit Eurozone Composite PMI	Dec P	50.4	--	50.6	--
12/16/2019 17:00	EC	Markit Eurozone Services PMI	Dec P	52	--	51.9	--
12/16/2019 17:30	UK	Markit UK PMI Manufacturing SA	Dec P	49.2	--	48.9	--
12/16/2019 21:30	US	Empire Manufacturing	Dec	5	--	2.9	--
12/16/2019 22:45	US	Markit US Manufacturing PMI	Dec P	52.6	--	52.6	--
12/16/2019 22:45	US	Markit US Composite PMI	Dec P	--	--	52	--

Source: Bloomberg

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