

Daily Treasury Outlook

17 October 2019

Highlights

Global: October FOMC rate cut fever may resume as global risk sentiments stay muted after US' retail sales unexpectedly fell for the first time in seven months by 0.3% in September, which could prove to be a tipping point for the US economy. The Fed's Beige Book also suggested that many businesses had "lowered their outlooks for growth in the coming 6 to 12 months" and a number of Districts reported that manufacturers reduced their headcounts because orders were soft. The probability of a 25bp Fed rate cut at the 30 October FOMC rose from 72% to 84%. Meanwhile, US president Trump hinted he would not sign any trade deal until he meets with Chinese president Xi at the upcoming APEC forum in Chile. Over in Asia, the Bank of Korea trimmed rates by 25bps to 1.25% yesterday as largely expected. The S&P500 lost some ground overnight amid the soft Fed Beige Book and retail sales print, whilst UST bonds bull-steepened on growing expectations of a rate cut at the 30 October FOMC meeting, with the 10-year yield down to 1.74%.

Market watch: Asian markets may tread a softer trajectory today, awaiting further headline news on the US-China trade front and Brexit. Today's economic data calendar comprises US' initial jobless claims, building permits, housing starts and industrial production, and UK' retail sales. Fed's Evans, Bowman and Williams, ECB's Visco and RBA's Lowe are also speaking.

US: Fed's Kaplan opined that he's a "little more agnostic...on what we do next" whereas Evans appeared open to a October rate cut by commenting that the central bank should provide "aggressive enough accommodation to get inflation moving up with some momentum". Meanwhile, Japan has widened its lead over China as the largest foreign holder of UST bonds as its holdings climbed \$43.9b in August (most since 2013), while China's holdings fell \$6.8b to a 2-year low.

UK: Brexit uncertainties continued to wax and wane amid comments by Merkel (negotiations are in the "final stretch") whereas EU chief negotiator Bichel Barnier briefed EU leaders that agreement had yet to be reached and DUP leader Arlene Foster also dismissed as "nonsense" a report that her party was close to dropping its opposition to Boris Johnson's latest proposals.

AU: RBA deputy governor Debelle warned that "much of the downturn in construction activity is still ahead".

Singapore: NODX fell a worse-than-expected 8.1% yoy (-3.3% mom sa) in September, underperforming our expectations for -7.9% YoY (-6.1% mom) and the consensus forecast of -7.2% yoy (-5.0% mom sa). Again, the electronics exports slumped for the 10th straight month by 24.8% yoy, suggesting that the sector has not yet bottomed. Eight of the top 10 NODX markets also saw a contraction led by Japan (-19.2% yoy), EU28 (-17.3% yoy) and HK (-11.9% yoy), with the key exception of China which saw its second consecutive month of NODX expansion at 20.8% yoy and Taiwan which saw a mild 2.3% NODX growth.

Key Market Movements

Equity	Value	% chg
S&P 500	2989.7	-0.2%
DJIA	27002	-0.1%
Nikkei 225	22473	1.2%
SH Comp	2978.7	-0.4%
STI	3134.7	0.6%
Hang Seng	26664	0.6%
KLCI	1574.9	0.6%
Currencies	Value	% chg
DXY	98.002	-0.3%
USDJPY	108.76	-0.1%
EURUSD	1.1072	0.4%
GBPUSD	1.2832	0.4%
USDIDR	14172	0.0%
USDSGD	1.37	-0.1%
SGDMYR	3.0564	-0.1%
Rates	Value	chg (bp)
3M UST	1.65	0.30
10Y UST	1.74	-3.15
1Y SGS	1.79	-0.10
10Y SGS	1.70	1.14
3M LIBOR	2.00	0.13
3M SIBOR	1.87	0.00
3M SOR	1.56	0.05
Commodities	Value	% chg
Brent	59.42	1.2%
WTI	53.36	1.0%
Gold	1490	0.6%
Silver	17.40	-0.1%
Palladium	1769	1.8%
Copper	5730	-0.7%
BCOM	78.33	-0.1%

Source: Bloomberg

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Major Markets

US: US markets slid slightly last night, as investors weighed corporate earnings and news from the trade war front. The S&P 500 index lost 0.2% in the session. Trump's moving back of the expected date for a US-China trade deal signing to the end of the month is likely to cause risk-averse investors some worry, given the history of his fickle stance on trade. We expect the S&P 500 index to remain range bound in the 2950-3000 area.

EU: Bundesbank chief Weidmann warned that a full-blown trade war between the US and EU could cost both sides dearly and could be worse than the current US-China spat.

China: China injected more than expected liquidity into the system on Wednesday via 1-year MLF ahead of upcoming LPR fixing on 20th Oct. However, the interest rate for MLF remained unchanged. This suggested the room for LPR to go down significantly is low for now. We expect the LPR to decline by another 5bps to reflect the narrowing credit spread.

Hong Kong: 2019 Policy Address mainly focuses on housing and land supply. Specifically, the government will strive to increase public housing supply and relax the mortgage rules on first-time private home buyers. Moreover, the government will increase the transitional housing units for those in need like households that are waiting for a public rental housing unit. For land supply, the government will resume three types of private land for developing public housing and Starter Homes and announce a proposed framework for the Land Sharing Pilot Scheme with the target of accepting applications in early 2020. In the near term, the latest housing correction is expected to be capped by the prospects of lower borrowing costs and the loosening mortgage rules on first-home buyers. We expect the transaction volume for private flats valued between HK\$5-10 million (which took up 58% of total transaction volume) to rebound. Owing to the new measures, the property developers which have brought forward their new project launches with sweeteners in the run-up to the implementation of vacancy tax may refrain from cutting offering price going forward. The same may be true to the homeowners. As such, in the coming months, despite multiple headwinds weighing on the housing market, housing prices (+8.5% YTD as of August) may still be able to show a growth of up to 5% yoy by end of this year. In the longer term, the housing market's outlook may hinge on HK's economic outlook, labour market outlook and the public housing supply. On a positive note, housing and infrastructure construction projects will translate into an increase in public investment in the medium term and therefore help to weather some external headwinds to HK's economy.

Elsewhere, US' House passed a HK bill (including the HK Human Rights and Democracy Act) on Wednesday. Should Senate pass the bill and President Trump sign to enact the bill, it may trigger a review of the US-HK Policy Act. This seemed to have sparked concerns about capital outflows again with USDHKD forward swap curve edging slightly higher.

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Singapore: The STI added 0.59% to close up at 3134.71 yesterday but weak cues from Wall Street overnight may constrain the STI between 3100-3146 in the interim. With the tilt towards risk-off and the overnight gains in UST bonds, SGS bonds may see a better bid tone as well.

Indonesia: President Joko Widodo said that the lawmakers should not rush into a move to amend the constitution, and that in-depth study and consultation should be done beforehand. Recent reports suggest that a broad coalition of parties – including PDI-P which supported Jokowi's presidential bid and Gerindra which did not – is increasingly keen on adopting an amendment which may lead to an end of direct presidential election by voters, replacing it with indirect selection by the parliament a la Suharto days.

Malaysia: Moody's said that Malaysia may miss its deficit target of 3.2% of GDP next year, albeit narrowly. It added that this is due to the dampening effect of slower nominal growth on revenue, together with the difficulty of limiting spending when demand is weak. Under the current plan, the ratings agency expects the government debt to be close to 55% of GDP in 2019 and 2020, which is higher than the A-rated median forecast of 37.6% for 2019, indicating that fiscal constraints remain a key challenge for Malaysia.

Bond Market Updates

Market Commentary: The SGD swap curve bear-steepened yesterday, with the shorter tenors traded 0-3bps higher, while the belly and longer tenors traded 3-4bps higher. The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 132bps and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 5bps to 528bps. 10Y USTs yields fell 3bps after US September retail sales data showed that retail sales fell for the first time in seven months, offsetting earlier gains on improved sentiment for a Brexit deal between the UK and EU.

New Issues: Industrial Bank of Korea priced a USD600mn deal in two tranches: a USD300mn 5-year bond at T+60bps (tightening from IPT of T+85bps area), and a USD300mn 3-year FRN at 3m-US LIBOR+45bps, tightening from IPT of 3m-US LIBOR+65bps area). Sunny Express Enterprises Corp (Guarantor: China National Travel Service Group Co., Ltd) priced a USD300mn NC3-Perpetual bond at 3.35% (tightening from IPT of 3.7% area), and a USD300mn 10-year bond at T+135bps (tightening from IPT of T+170bps area). CITIC Securities Co., Ltd scheduled investor calls commencing 16 Oct for its potential USD bond issuance. Nanjing Pukou Economic Development Co., Ltd scheduled investor calls commencing 17 Oct for its proposed USD bond issuance.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	98.002	-0.29%	USD-SGD	1.3700	-0.06%
USD-JPY	108.760	-0.09%	EUR-SGD	1.5168	0.30%
EUR-USD	1.1072	0.35%	JPY-SGD	1.2597	0.05%
AUD-USD	0.6759	0.09%	GBP-SGD	1.7579	0.30%
GBP-USD	1.2832	0.35%	AUD-SGD	0.9260	0.03%
USD-MYR	4.1945	0.06%	NZD-SGD	0.8619	-0.08%
USD-CNY	7.0933	0.16%	CHF-SGD	1.3769	0.33%
USD-IDR	14172	0.04%	SGD-MYR	3.0564	-0.06%
USD-VND	23204	0.01%	SGD-CNY	5.1735	0.14%

Equity and Commodity

Index	Value	Net change
DJIA	27,001.98	-22.82
S&P	2,989.69	-5.99
Nasdaq	8,124.18	-24.52
Nikkei 225	22,472.92	265.71
STI	3,134.71	18.54
KLCI	1,574.90	8.67
JCI	6,169.59	11.43
Baltic Dry	1,898.00	--
VIX	13.68	0.14

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4580	-0.20%	O/N	1.7951	-0.38%
2M	-0.3360	-0.38%	1M	1.8891	-0.16%
3M	-0.4180	-0.16%	2M	1.9674	0.19%
6M	-0.3580	0.19%	3M	2.0021	0.13%
9M	-0.1940	0.13%	6M	1.9773	-0.08%
12M	-0.3030	-0.08%	12M	1.9741	0.10%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.58 (+0.01)	1.58 (-0.03)
5Y	1.60 (--)	1.56 (-0.04)
10Y	1.70 (+0.01)	1.74 (-0.03)
15Y	1.79 (--)	--
20Y	1.90 (--)	--
30Y	2.01 (+0.01)	2.22 (-0.01)

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%	86.3%	0.0%	0.0%	86.3%
12/11/2019	0.0%	90.8%	0.0%	28.1%	62.6%
01/29/2020	0.0%	93.8%	9.4%	39.7%	44.8%
03/18/2020	0.0%	95.0%	15.2%	40.6%	37.4%
04/29/2020	0.0%	95.7%	18.5%	40.2%	33.2%
06/10/2020	0.0%	96.2%	21.4%	39.3%	29.4%

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	3.40	-0.18
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	2.00
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Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	53.36	1.0%	Corn (per bushel)	3.9175	-0.4%
Brent (per barrel)	59.42	1.2%	Soybean (per bushel)	9.280	-0.6%
Heating Oil (per gallon)	1.9426	1.7%	Wheat (per bushel)	5.1325	1.2%
Gasoline (per gallon)	1.6248	0.6%	Crude Palm Oil (MYR/MT)	2,189.0	4.8%
Natural Gas (per MMBtu)	2.3030	-1.5%	Rubber (JPY/KG)	149.1	-1.0%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,730	-0.7%	Gold (per oz)	1,490.1	0.6%
Nickel (per mt)	16,450	-3.2%	Silver (per oz)	17.401	-0.1%

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

Economic Calendar

Date Time		Event		Survey	Actual	Prior	Revised
10/17/2019	HK	Composite Interest Rate	Sep	--	--	0.97%	--
10/17/2019 08:30	AU	Unemployment Rate	Sep	5.30%	--	5.30%	--
10/17/2019 08:30	SI	Non-oil Domestic Exports YoY	Sep	-7.20%	--	-8.90%	--
10/17/2019 08:30	AU	Participation Rate	Sep	66.20%	--	66.20%	--
10/17/2019 08:30	SI	Non-oil Domestic Exports SA MoM	Sep	-5.00%	--	6.70%	--
10/17/2019 16:30	UK	Retail Sales Inc Auto Fuel MoM	Sep	-0.20%	--	-0.20%	--
10/17/2019 16:30	UK	Retail Sales Ex Auto Fuel MoM	Sep	-0.10%	--	-0.30%	--
10/17/2019 16:30	UK	Retail Sales Inc Auto Fuel YoY	Sep	3.10%	--	2.70%	--
10/17/2019 20:30	US	Initial Jobless Claims	Oct-12	215k	--	210k	--
10/17/2019 20:30	US	Housing Starts	Sep	1320k	--	1364k	--
10/17/2019 20:30	US	Philadelphia Fed Business Outlook	Oct	7.6	--	12	--
10/17/2019 20:30	US	Building Permits	Sep	1350k	--	1419k	--
10/17/2019 21:15	US	Industrial Production MoM	Sep	-0.20%	--	0.60%	--

Source: Bloomberg

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