

Daily Treasury Outlook

19 September 2019

Highlights

Global: The FOMC cut its fed funds target rate by 25bps, the second time this year, to a range of 1.75%-2.0%, as widely expected. For all intents and purposes, however, market reactions show that the move might well be termed as a hawkish cut. DXY was up by around 0.3% and the policy-sensitive 2y US Treasury yield up by nearly 10bps. The relatively negative reaction was primarily due to a lack of indication that the FOMC is keen to ease further. For one, going by the dot plot expectations of fed funds rate, the median value indicates no further cuts for the rest of this year and 2020. The market is not buying it, however, with fed funds futures still telegraphing expectations of one more cut this year, and at least one more next year. For what it's worth, Powell spoke of the room for "a more extensive sequence of cuts" if needed, but was non-committal about it, adding that it is not what the FOMC currently expects.

Market Watch: Looking ahead, Asian markets are likely to react to the slightly negative tone from US overnight, although in a measured manner. Markets will be watching out for decisions from a host of other central banks too, including BOJ, BOE and SNB where policies are expected to be on hold. Bank Indonesia decision will be out today too, with market and us expecting a 25bps cut.

Singapore: A MAS report yesterday showed that Singapore's assets under management (AUM) industry grew 5.4% to S\$3.4 trillion last year. This was in stark contrast to a global decline of 4% globally to \$74 trillion. Of the S\$3.4 trillion that Singapore holds, almost two-thirds are invested in Asia-Pacific, one-third of which are held in ASEAN economies.

UK: Data yesterday showed inflation in the UK lower than expected. On a yoy basis, August inflation rate in the UK was 1.7% against expectations of 1.9% and the prior month's 2.1%. Core inflation rose 1.5% yoy, lower than expectations of 1.8%. The BoE is expected to keep the benchmark rate constant today at 0.75% despite the lacklustre inflation numbers. With chances of a no-deal Brexit increasing, the BoE is likely to store its monetary ammunition to combat any sharp economic growth downturn.

Oil: Brent prices continue tumbling since the surge in prices on Monday. The North Sea benchmark closed at \$63.60/bbl yesterday, down -1.5% on the day and has since lost -7.9% since Monday's close of \$69.02/bbl. Iran continues to deny its involvement in the drone attack on Saudi Arabia, despite the US and Saudi Arabia's continuous allegations. The US says it will impose some form of "significant sanctions" on Iran within the next 48 hours.

Key Market Movements

Equity	Value	% chg
S&P 500	3006.7	0.0%
DJIA	27147	0.1%
Nikkei 225	21961	-0.2%
SH Comp	2985.7	0.3%
STI	3166.8	-0.5%
Hang Seng	26754	-0.1%
KLCI	1599.5	-0.3%
Currencies	Value	% chg
DXY	98.561	0.3%
USDJPY	108.45	0.3%
EURUSD	1.1030	-0.4%
GBPUSD	1.2472	-0.2%
USDIDR	14065	-0.2%
USDSGD	1.3749	0.1%
SGDMYR	3.0433	0.2%
Rates	Value	chg (bp)
3M UST	1.93	-4.12
10Y UST	1.80	-0.52
1Y SGS	1.86	0.00
10Y SGS	1.76	-2.36
3M LIBOR	2.16	1.90
3M SIBOR	1.88	0.00
3M SOR	1.80	1.23
Commodities	Value	% chg
Brent	63.6	-1.5%
WTI	58.11	-2.1%
Gold	1494	-0.5%
Silver	17.76	-1.4%
Palladium	1591	-0.5%
Copper	5814	-0.1%
BCOM	79.51	-0.5%

Source: Bloomberg

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Major Markets

US: US markets were mixed last night, with the S&P 500 index ending the session unchanged, DJIA up 0.1% and NASDAQ down 0.1%. The FOMC cut 25bps as widely expected, but the Fed's dot-plot and its press conference casted doubt on further rate cuts in 2019. Investors will likely shift their focus to a slew of other central banks making rate decisions today, including Japan, Indonesia and the UK. Quadruple witching day on Friday in the US (when futures and options on both market indices and stocks expire simultaneously) will likely result in some volatility in the markets in the immediate short-term.

Singapore: The STI fell -0.5% yesterday, led lower by the banking sector. Following the mixed reactions from the US markets yesterday, Asian markets are likely to trade with a cautious note for the rest of today as investors digest the Fed's rate cut against the potential of no more further rate cuts for the rest of 2019. We expect the STI to continue trading within the 3110-3210 range in the near-term, although positive developments from the US-China trade talks are likely to push the index higher.

Indonesia: Bank Indonesia is due to announce its monetary policy decision today, and we think it is going to deliver a 25 bps cut to bring the policy rate to 5.25%, in line with broad market expectations. With the relatively hawkish FOMC tone overnight and the oil price volatility since the weekend, the risk of a hold has obviously risen, but on balance, given that rupiah has traded broadly stable, we think that BI will focus primarily on domestic factors and opt to ease.

Malaysia: Bank Negara said that it remains on guard against potential domestic and external risks to the financial stability including weaker global growth and elevated domestic household debt. In its H1 2019 Financial Stability Review, BNM also noted that its stress tests have shown that Malaysia's financial system remains resilient, with capital buffers exceeding regulatory needs even under adverse simulated shocks.

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Bond Market Updates

Market Commentary: The SGD swap curve bull-flattened yesterday, with the shorter tenors traded 2-3bps lower, while the longer tenors (>5yr) traded 3-5bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 3bps to 126bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 1bps to 516bps. 10Y USTs yields was little changed at 1.80%, after the FOMC lowered the fed funds target range by 25bps, which was widely expected, but tempered expectations for additional cuts by the end of the year. Intraday moves were relatively significant, with treasuries rallying to as low as 1.74% before reversing, as market digested the press conference. Spread between 3-month treasury bills and 10-year treasury notes remains inverted, with the spread tightening to -11bps.

New Issues: Shandong Iron & Steel Xinheng International Company Ltd (Guarantor: Shandong Iron & Steel Group Co., Ltd) has priced a USD500mn 3-year bond at 6.85%, tightening from IPT of 7.15% area. Yango Cayman Investment Ltd (Guarantor: Fujian Yango Group Co., Ltd) has priced a USD152mn 3-year bond at 12.5%. Yancheng Oriental Investment & Development Group Co., Ltd has scheduled investor meetings commencing on 19 Sep for its potential USD bond issuance.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	98.561	0.31%	USD-SGD	1.3749	0.07%
USD-JPY	108.450	0.30%	EUR-SGD	1.5165	-0.32%
EUR-USD	1.1030	-0.39%	JPY-SGD	1.2686	-0.17%
AUD-USD	0.6828	-0.55%	GBP-SGD	1.7161	-0.08%
GBP-USD	1.2472	-0.22%	AUD-SGD	0.9389	-0.43%
USD-MYR	4.1850	0.08%	NZD-SGD	0.8696	-0.47%
USD-CNY	7.0860	-0.09%	CHF-SGD	1.3792	-0.33%
USD-IDR	14065	-0.24%	SGD-MYR	3.0433	0.21%
USD-VND	23211	-0.07%	SGD-CNY	5.1525	0.02%

Equity and Commodity

Index	Value	Net change
DJIA	27,147.08	36.28
S&P	3,006.73	1.03
Nasdaq	8,177.39	-8.62
Nikkei 225	21,960.71	-40.61
STI	3,166.84	-16.16
KLCI	1,599.49	-4.81
JCI	6,276.63	39.94
Baltic Dry	2,283.00	--
VIX	13.95	-0.49

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4470	0.50%	O/N	2.1549	4.33%
2M	-0.3360	4.33%	1M	2.0570	1.61%
3M	-0.3980	1.61%	2M	2.1418	1.84%
6M	-0.3650	1.84%	3M	2.1641	1.90%
9M	-0.1940	1.90%	6M	2.0853	0.72%
12M	-0.3040	0.72%	12M	2.0654	-0.42%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.65 (--)	1.76 (+0.04)
5Y	1.67 (-0.03)	1.68 (+0.02)
10Y	1.76 (-0.02)	1.80 (-0.01)
15Y	1.84 (-0.03)	--
20Y	1.96 (-0.01)	--
30Y	2.11 (-0.01)	2.24 (-0.03)

Fed Rate Hike Probability

Meeting	Prob Hike	Prob Cut	1.00-1.25%	1.25-1.50%	1.5-1.75%
09/18/2019	0.0%	100.0%	0.0%	43.4%	56.6%
10/30/2019	0.0%	100.0%	17.7%	48.8%	33.5%
12/11/2019	0.0%	100.0%	32.4%	41.6%	17.7%
01/29/2020	0.0%	100.0%	35.0%	34.7%	12.6%
03/18/2020	0.0%	100.0%	35.0%	30.2%	10.1%
04/29/2020	0.0%	100.0%	34.1%	26.5%	8.2%

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	5.22	-0.18
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	5.25
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Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	58.11	-2.1%	Corn (per bushel)	3.7125	0.9%
Brent (per barrel)	63.60	-1.5%	Soybean (per bushel)	8.888	-0.6%
Heating Oil (per gallon)	1.9733	-0.8%	Wheat (per bushel)	4.8950	1.1%
Gasoline (per gallon)	1.6577	-1.0%	Crude Palm Oil (MYR/MT)	2,199.0	-0.6%
Natural Gas (per MMBtu)	2.6370	-1.2%	Rubber (JPY/KG)	171.0	-1.4%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,814	-0.1%	Gold (per oz)	1,494.0	-0.5%
Nickel (per mt)	17,200	0.9%	Silver (per oz)	17.756	-1.4%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised	
09/19/2019 02:00	US FOMC Rate Decision (Upper Bound)	Sep-18	2.00%	2.00%	2.25%	--
09/19/2019 09:30	AU Unemployment Rate	Aug	5.20%	--	5.20%	--
09/19/2019 16:00	TA CBC Benchmark Interest Rate	Sep-19	1.38%	--	1.38%	--
09/19/2019 16:30	UK Retail Sales Inc Auto Fuel MoM	Aug	0.00%	--	0.20%	--
09/19/2019 19:00	UK Bank of England Bank Rate	Sep-19	0.75%	--	0.75%	--
09/19/2019 19:00	UK BOE Asset Purchase Target	Sep	435b	--	435b	--
09/19/2019 20:30	US Initial Jobless Claims	Sep-14	213k	--	204k	--
09/19/2019 20:30	US Current Account Balance	2Q	-\$127.4b	--	-\$130.4b	--
09/19/2019 22:00	US Existing Home Sales	Aug	5.38m	--	5.42m	--
09/19/2019 22:00	US Leading Index	Aug	-0.10%	--	0.50%	--
09/18/2019 09/20	SL Exports YoY	Jul	--	--	5.80%	--
09/19/2019	ID Bank Indonesia 7D Reverse Repo	Sep-19	5.25%	--	5.50%	--
09/19/2019	PH BoP Overall	Aug	--	--	\$248m	--
09/19/2019	JN BOJ Policy Balance Rate	Sep-19	-0.10%	--	-0.10%	--

Source: Bloomberg

Treasury Research & Strategy

Macro Research

Selena Ling

Head of Strategy & Research

LinaSSSelena@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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