

Daily Treasury Outlook

21 October 2019

Highlights

Global: Global risk sentiments were dented by China's disappointing 3Q19 GDP growth print of 6.0% yoy and warnings of a weak global growth prognosis at the IMF-World Bank annual meetings on Friday. US president Trump also backpedalled on his plan to host the 2020 G7 meeting at his Trump National Doral resort in Miami amid widespread criticism. However, Brexit optimism continued to reign as UK PM Johnson sent an unsigned letter to ask the EU to extend the Brexit deadline until 31 January, but also sent a second signed letter to indicate his personal preference for no extension while he worked on securing support for his deal this week even as the UK government confirmed it was triggering its contingency plan called Operation Yellowhammer. The S&P 500 retreated on Friday, whilst UST bonds gained with the 10-year yield at 1.75%.

Market watch: Asian markets may be off to a shaky start this week, as fluctuating optimism about US-China trade progress and Brexit extension hopes battle with weak economic data. For today, watch for the setting of China's 1- and 5-year Loan Prime Rates and more Brexit headlines amid a relatively light economic data calendar comprising Taiwan's export orders, Thai Sep trade data, and German PPI. BOE's Haldane and ECB's Guindos are speaking today. For the week ahead, watch for ECB (with Mario Draghi likely to make an uneventful exit) and BI rate (with the fourth straight 25bp rate cut likely pencilled in) decisions on Thursday, as well as South Korea's 3Q19 GDP growth. US earnings season is also in full swing with Amazon.com, Microsoft, McDonald's, Caterpillar and P&G on tap this week.

US: Market has almost fully priced in the third consecutive rate cut for the upcoming 29-30 October FOMC after Fed's Clarida opined that the Fed would take appropriate action to support the US economic expansion. Kaplan, on the other hand, said he was "more agnostic" whether to take more time to decide as there is also the December FOMC meeting.

EU: Apart from the ongoing Brexit drama, market expectations for any action at this Thursday's ECB policy meeting are very muted, with incoming Christine Lagarde to set policy guidance going forward. ECB's Villeroy suggested "all available instruments need to be mobilized, including fiscal policy, as a complement to monetary policy".

China: China's Vice Premier Han Zheng said over the weekend that China will create a better business environment for multinational companies by further lowering tariffs and scrapping non-tariff barriers. This is another reassurance from Chinese leaders that China's opening attitude will not be disrupted by the recent escalation of trade war. Meanwhile, China's central bank Governor Yi Gang said China is deeply disappointed about the lack of progress on IMF quota reform. The US still holds de-facto veto power with 16.5% quota. The under-representation of voices from emerging markets may remain the focus of IMF quota reform.

Key Market Movements

Equity	Value	% chg
S&P 500	2986.2	-0.4%
DJIA	26770	-0.9%
Nikkei 225	22493	0.2%
SH Comp	2938.1	-1.3%
STI	3114.2	-0.4%
Hang Seng	26720	-0.5%
KLCI	1571.2	-0.2%
Currencies	Value	% chg
DXY	97.282	-0.3%
USDJPY	108.45	-0.2%
EURUSD	1.1167	0.4%
GBPUSD	1.2984	0.7%
USDIDR	14146	-0.1%
USDSGD	1.3641	0.0%
SGDMYR	3.0643	0.1%
Rates	Value	chg (bp)
3M UST	1.66	-0.79
10Y UST	1.75	0.18
1Y SGS	1.76	-1.00
10Y SGS	1.73	0.83
3M LIBOR	1.97	-3.74
3M SIBOR	1.87	0.00
3M SOR	1.57	-0.72
Commodities	Value	% chg
Brent	59.42	-0.8%
WTI	53.78	-0.3%
Gold	1490	-0.1%
Silver	17.55	0.0%
Palladium	1756	-0.3%
Copper	5806	1.2%
BCOM	78.67	0.1%

Source: Bloomberg

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Major Markets

US: US markets closed lower to end the week, with the S&P 500 index ending the Friday session down 0.4% despite earnings reports being largely positive. Looking ahead, we could possibly see some risk-on sentiment to start the week, on the back of positive comments from China's Vice Premier Liu He regarding the progress of trade talks between US and China. We expect resistance for the S&P 500 index to hold at the 3000 level in the immediate short term.

Singapore: The STI slipped 0.38% to close down at 3114.16 on Friday and may trade a range of 3100-3146 today amid mixed cues as Wall Street closed lower on Friday but Kospi is opening slightly firmer this morning. Amid the vacillating risk appetite, watch if SGS bonds track the curve steepening bias in the UST bond market.

Indonesia: President Joko Widodo and Vice President Ma'ruf Amin were sworn into office yesterday in Jakarta. Into his second term, President Jokowi is expected to unveil his cabinet choices today, with chatters about inclusion of a mix of professionals and political appointees including those from key opposition parties. In his inauguration speech, Jokowi said that the country aims to join the ranks of the Top 5 global economy, with per-capita income of IDR320mn (over USD22,500), by 2045 – the centenary of Indonesia's independence. As he rightly acknowledged, "None of that will come automatically, and will not come easily".

Hong Kong: Jobless rate stabilized at 2.9% in 3Q 2019 despite the weakening economic growth. The unemployment rate of retail, accommodation and food services sector rose to an over two-year high of 4.9% due to the prolonged social incidents. As social unrest shows no sign of termination, this sector's unemployment rate is set to rise further. In contrast, the unemployment rate of trade sector kept static at 2.4%, despite trade war re-escalation in August. In early October, US and China reached the phase one trade deal. Whether this coupled with global monetary easing could help to revive external demand and ease downward pressure on HK's trade sector will be closely watched. Before the outlook is confirmed to worsen further, the trade sector's employers may not push the unemployment rate up drastically. For the financial sector, its unemployment rate reduced to 2.1% as the sector has not felt much pain from local social unrest. With the recent improvement in global risk appetite and the raft of local supportive measures, financial sector's employment may remain resilient. In a nutshell, we expect overall jobless rates as a lagging indicator will go up only moderately towards 3% and then 3.1% in the coming year.

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Bond Market Updates

Market Commentary: The SGD swap curve steepened last Friday, with the shorter tenors traded 0-1bps lower, while the belly and longer tenors traded around 1bps higher. The Bloomberg Barclays Asia USD IG Bond Index average OAS was unchanged at 132bps and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 1bps to 528bps. The HY-IG Index spread widened by 0.6bps to 395.6bps. 10Y USTs yield was little changed at 1.75%, as investors awaited the Brexit vote by the UK parliament, and also a speech by Federal Reserve Vice Chairman Richard Clarida for more clarity on how many more rate cuts the central bank will likely make.

New Issues: Ronshine China Holdings Ltd priced a USD120mn re-tap of its existing 8.95% RONXIN'23s bond at 8.95%, tightening from IPT of 9.0% area. Industrial and Commercial Bank of China Limited of Luxembourg priced a USD100mn 3-year FRN at 3m-US LIBOR+66bps. China Development Bank Corporation of Hong Kong priced a USD100mn 3-year FRN at 3m-US LIBOR+45bps. Shanghai Huayi (Group) Company scheduled investor meetings commencing 22 Oct for its proposed USD bond issuance. Shanghai Pudong Development Bank Co., Ltd London Branch scheduled investor roadshows commencing 21 Oct for its potential USD bond issuance. Power Construction Corporation of China scheduled investor meetings commencing on 21 Oct for its proposed USD bond issuance.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	97.282	-0.33%	USD-SGD	1.3641	-0.03%
USD-JPY	108.450	-0.19%	EUR-SGD	1.5218	0.26%
EUR-USD	1.1167	0.38%	JPY-SGD	1.2585	0.20%
AUD-USD	0.6856	0.47%	GBP-SGD	1.7713	0.70%
GBP-USD	1.2984	0.72%	AUD-SGD	0.9353	0.43%
USD-MYR	4.1865	0.17%	NZD-SGD	0.8710	0.57%
USD-CNY	7.0817	0.06%	CHF-SGD	1.3856	0.32%
USD-IDR	14146	-0.06%	SGD-MYR	3.0643	0.07%
USD-VND	23204	-0.01%	SGD-CNY	5.1888	0.07%

Equity and Commodity

Index	Value	Net change
DJIA	26,770.20	-255.68
S&P	2,986.20	-11.75
Nasdaq	8,089.54	-67.31
Nikkei 225	22,492.68	40.82
STI	3,114.16	-11.98
KLCI	1,571.15	-3.35
JCI	6,191.95	10.93
Baltic Dry	1,855.00	-6.00
VIX	14.25	0.46

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4380	0.50%	O/N	1.8151	1.24%
2M	-0.3360	1.24%	1M	1.8503	-3.11%
3M	-0.4070	-3.11%	2M	1.9275	-2.97%
6M	-0.3510	-2.97%	3M	1.9533	-3.74%
9M	-0.1940	-3.74%	6M	1.9518	-1.14%
12M	-0.2980	-1.14%	12M	1.9873	0.09%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.59 (-)	1.57 (-0.03)
5Y	1.63 (-)	1.57 (-0.01)
10Y	1.73 (+0.01)	1.75 (-)
15Y	1.81 (+0.01)	--
20Y	1.91 (+0.01)	--
30Y	2.04 (+0.01)	2.25 (+0.02)

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%	88.4%	0.0%	0.0%	88.4%
12/11/2019	0.0%	92.8%	0.0%	34.0%	58.8%
01/29/2020	0.0%	95.0%	10.4%	41.6%	43.1%
03/18/2020	0.0%	96.0%	16.4%	41.9%	35.8%
04/29/2020	0.0%	96.5%	19.6%	41.1%	31.7%
06/10/2020	0.0%	96.9%	22.1%	40.0%	28.4%

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	4.12	-0.18
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	1.95
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Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	53.78	-0.3%	Corn (per bushel)	3.9100	-0.9%
Brent (per barrel)	59.42	-0.8%	Soybean (per bushel)	9.340	0.3%
Heating Oil (per gallon)	1.9471	-0.1%	Wheat (per bushel)	5.3225	1.3%
Gasoline (per gallon)	1.6230	0.0%	Crude Palm Oil (MYR/MT)	2,208.0	0.7%
Natural Gas (per MMBtu)	2.3200	0.1%	Rubber (JPY/KG)	149.0	-0.6%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,806	1.2%	Gold (per oz)	1,490.1	-0.1%
Nickel (per mt)	16,230	-0.2%	Silver (per oz)	17.553	0.0%

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

Economic Calendar

Date Time		Event		Survey	Actual	Prior	Revised
10/21/2019 07:01	UK	Rightmove House Prices MoM	Oct	--	0.60%	-0.20%	--
10/21/2019 07:01	UK	Rightmove House Prices YoY	Oct	--	-0.20%	0.20%	--
10/21/2019 07:50	JN	Trade Balance	Sep	¥54.0b	-¥123.0b	-¥136.3b	--
10/21/2019 09:30	CH	5-Year Loan Prime Rate	Oct	4.83%	--	4.85%	--
10/21/2019 09:30	CH	1-Year Loan Prime Rate	Oct	4.15%	--	4.20%	--
10/21/2019 10/26	US	Monthly Budget Statement	Sep	\$83.0b	--	\$119.1b	--
10/21/2019 11:30	TH	Customs Exports YoY	Sep	2.70%	--	-4.00%	--
10/21/2019 11:30	TH	Customs Imports YoY	Sep	-4.50%	--	-14.62%	--
10/21/2019 11:30	TH	Customs Trade Balance	Sep	\$2212m	--	\$2053m	--
10/21/2019 12:30	JN	All Industry Activity Index MoM	Aug	0.10%	--	0.20%	--
10/21/2019 14:00	GE	PPI YoY	Sep	-0.20%	--	0.30%	--
10/21/2019 14:00	GE	PPI MoM	Sep	-0.10%	--	-0.50%	--
10/21/2019 16:00	TA	Export Orders YoY	Sep	-4.60%	--	-8.30%	--

Source: Bloomberg

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