

Daily Treasury Outlook

24 September 2019

Highlights

Global: Global risk sentiments softened overnight amid the disappointing manufacturing PMIs from Eurozone and Germany which weakened further to 45.6 and 41.4 respectively in September and suggested that Germany could be headed for a recession. Meanwhile, US president Trump had questioned Treasury Secretary Mnuchin about the cancellation of the Chinese delegation's plan to visit US farms. Wall Street closed flattish again while UST yield curve steepened led by the front-end amid the economic data disappointments, with the 10-year at 1.71%.

Market watch: Asian markets may trade sideways again today. The economic data diary today comprises German IFO business climate, and US' Conference Board consumer confidence, FHFA house prices and Richmond Fed manufacturing index. Speakers include ECB's Villeroy and Guindos and RBA governor Lowe

US: The Chicago Fed national Fed activity index recovered from a revised -0.41 in July to +0.10 in August. Regarding the recent repo tightness, Fed's Daly opined that "we didn't have a liquidity problem in the system. We had a distribution of that liquidity. And one of the things that was surprising is that institutions didn't trade that liquidity with each other". Meanwhile, Williams opined that increasing transparency is a key focus of the Fed and the central bank will "continue to monitor and analyse developments closely" and "assess the implications for the appropriate level of reserve and time to resume organic growth" of the Fed's balance sheet. Separately, Bullard called for "taking out insurance" on rate cuts and favoured creating a standing repo facility.

Singapore: August CPI rose 0.5% yoy (0.5% mom sa), with core CPI at 0.8% yoy, in line with our expectations, versus 0.4% yoy (-0.4% mom) and 0.8% yoy respectively in July. Higher transport fares (+1.1% yoy) led the rebound in headline CPI which may continue to pick up into the year-end due to the low base for oil prices and COEs last year. The core inflation rate has averaged 1.3% year-to-date and our full-year 2019 forecast is 1.1% which is at the lower end of MAS' 1-2% yoy range. We continue to expect headroom for monetary policy accommodation at the upcoming MAS policy meeting in mid-October. Essentially, while the Spore economy may have escaped a technical recession in 3Q19, both growth and inflationary cues for the year-to-date are running a bit softer than the initially expected glide path and a modest flattening of the S\$NEER slope would not be out of place in the current macroeconomic environment. Notwithstanding the recent bump higher in crude oil prices due to the drone attacks in the Saudi Arabia oil facilities, our view remains that any supply shocks due to geopolitical hotspots is unlikely to precipitate a lasting impact on Brent beyond \$65/barrel.

EU: The services PMIs for Eurozone and Germany also retreated to 52.5 and 52.0 respectively, weighing down the composite PMIs to 50.4 and 49.1.

Key Market Movements

Equity	Value	% chg
S&P 500	2991.8	0.0%
DJIA	26950	0.1%
Nikkei 225	22079	0.0%
SH Comp	2977.1	-1.0%
STI	3143.2	-0.5%
Hang Seng	26222	-0.8%
KLCI	1592.9	-0.3%
Currencies	Value	% chg
DXY	98.599	0.1%
USDJPY	107.55	0.0%
EURUSD	1.0993	-0.2%
GBPUSD	1.2429	-0.4%
USDIDR	14087	0.2%
USDSGD	1.378	0.1%
SGDMYR	3.0326	-0.1%
Rates	Value	chg (bp)
3M UST	1.89	-0.78
10Y UST	1.73	0.52
1Y SGS	1.86	0.00
10Y SGS	1.72	-2.09
3M LIBOR	2.13	-2.42
3M SIBOR	1.88	-0.13
3M SOR	1.68	-4.15
Commodities	Value	% chg
Brent	64.77	0.8%
WTI	58.64	0.9%
Gold	1522	0.4%
Silver	18.64	3.6%
Palladium	1655	0.7%
Copper	5778	-0.3%
BCOM	79.87	0.8%

Source: Bloomberg

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Major Markets

US: US markets traded sideways on Monday, with the S&P 500 index (0.0%) closing flat on the session. While the IHS Markit PMIs showed that the US was still in expansion, with the manufacturing PMIs surprising on the upside, poor Eurozone PMI kept investor risk sentiments in check. In the week ahead, investors will continue to monitor US data releases such as personal income and durable goods orders on Friday, as well as headlines from the ongoing US-China and US-Japan trade negotiations. We expect the S&P 500 index to remain in the 2980-3020 range in the short term.

China: Risk sentiment remained weak in China on Monday due to China's modest policy reaction to recent economic slowdown. China's central bank net injected CNY100 billion via 7-day and 14-day reverse repo yesterday. For today, market will watch the joint press conference by China's few key policy makers including National Bureau of Statistics chief, Finance Minister and Central Bank Governor.

Singapore: The STI slipped 0.52% to close at 3143.24 yesterday and may continue to consolidate today amid the lack of conviction from Wall Street overnight and soft morning cues from Nikkei and Kospi. STI's support and resistance are tipped at 3135 and 3184 respectively. SGS bonds may open slightly firmer this morning on the slight risk-off tone seeping back into markets, but focus will be on the two SGS bond re-opening of \$800m of the August 2036 and \$3b of the October 2021 which will be auctioned on Thursday.

Malaysia: According to an industry association, residential overhang in Malaysia continued to increase in H1 this year, though at a lower rate compared to last year. As quoted in the Star, NAPIC's figures noted that there were 32810 residential overhang units worth nearly MYR20bn, an increase in volume of 1.5% while value was down by 0.5%. Condominium and apartment units comprised 43% of the overhang.

Indonesia: The parliamentary committee has approved the government's budget plan for 2020. The fiscal deficit target remains at 1.76% of GDP for 2020, against 1.93% that is expected this year. The plan envisions government revenues of IDR 2233.2tnm, an increase of nearly 10% for the coming year. Expenditure is slated to increase by 8.5% to IDR 2540.4tn.

South Korea: Exports in the first 20 days of September showed a yoy decline of -21.8%, worse than August's full-month decline of -13.6% yoy. The trade war with Japan continues to take a toll on South Korea's export sector and growth is likely to take a hit if the strain on exports continue.

Oil: Crude oil prices rose yesterday but Brent largely continued to stay close to the \$64/bbl level. The CFTC NYMEX report on crude oil ending last Tuesday showed the net long position largely constant on the week, ending at 427k contracts from 428k contracts the week before. This suggests that the market may still be inherently bearish and the 14.6% spike in Brent last Monday was probably a one-off.

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Bond Market Updates

Market Commentary: The SGD swap curve bull-flattened yesterday, with the shorter tenors traded 1-2bps lower, while the longer tenors (>4yr) traded 2-3bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 127bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 5bps to 532bps. 10Y USTs yields widened 1bps to 1.73% after a day of mixed economic data with US data in line but data out of Germany and France below estimates. Federal Reserve Bank of St. Louis President James Bullard also commented that monetary policy may need to be eased further to offset downside risks from trade conflicts and too-low inflation.

New Issues: The Korea Development Bank priced a two tranche USD1bn deal with a USD500mn 3-year FRN at 3mL +47.5bp (tightening from IPT of 3ml +70bp area) and a USD500mn 5-year FXD at T5+60bp (tightening from IPT of T5 +80bp area). Kasikornbank PCL (acting through its Hong Kong branch) priced a USD800mn 12NC7 Tier 2 bond at CT7+170bps, tightening from IPT of T+200bp area. Haiguo Xintai Capital Limited priced a USD500mn 3-year bond (guaranteed by Beijing Haiguo Xintai Investment Holding Center) at 4.3%, tightening from IPT of 4.8% area. Zhenro Properties Group Limited priced a USD300mn 2-year and 10 Month bond (guaranteed by Certain non-PRC restricted subsidiaries of the Issuer) at 9.05%, tighter than IPT of 9.5% area. Cathay Pacific Airways Limited has scheduled roadshows from Sept 24 for a potential USD Bond issue. ICBC Financial Leasing Co, Ltd. Scheduled roadshows from Sept. 23 for a potential USD Bond issue.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	98.599	0.09%	USD-SGD	1.3780	0.10%
USD-JPY	107.550	-0.01%	EUR-SGD	1.5148	-0.13%
EUR-USD	1.0993	-0.22%	JPY-SGD	1.2812	0.06%
AUD-USD	0.6773	0.10%	GBP-SGD	1.7130	-0.27%
GBP-USD	1.2429	-0.39%	AUD-SGD	0.9329	0.16%
USD-MYR	4.1795	0.29%	NZD-SGD	0.8673	0.63%
USD-CNY	7.1180	0.37%	CHF-SGD	1.3918	0.17%
USD-IDR	14087	0.23%	SGD-MYR	3.0326	-0.13%
USD-VND	23203	0.00%	SGD-CNY	5.1677	0.32%

Equity and Commodity

Index	Value	Net change
DJIA	26,949.99	14.92
S&P	2,991.78	-0.29
Nasdaq	8,112.46	-5.21
Nikkei 225	22,079.09	--
STI	3,143.24	-16.44
KLCI	1,592.93	-4.48
JCI	6,206.20	-25.27
Baltic Dry	2,131.00	--
VIX	14.91	-0.41

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4540	0.50%	O/N	1.8685	-9.36%
2M	-0.3360	-9.36%	1M	2.0365	-0.94%
3M	-0.3930	-0.94%	2M	2.1199	-0.65%
6M	-0.3580	-0.65%	3M	2.1346	-2.42%
9M	-0.1940	-2.42%	6M	2.0704	-1.36%
12M	-0.2980	-1.36%	12M	2.0650	-0.91%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.67 (+0.01)	1.68 (-)
5Y	1.66 (-0.01)	1.60 (-)
10Y	1.72 (-0.02)	1.73 (+0.01)
15Y	1.80 (-0.03)	--
20Y	1.90 (-0.03)	--
30Y	2.06 (-0.02)	2.17 (+0.01)

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%	53.7%	0.0%	0.0%	53.7%
10/30/2019	0.0%	75.8%	0.0%	25.6%	50.2%
12/11/2019	0.0%	84.6%	9.3%	34.5%	40.7%
01/29/2020	0.0%	88.0%	14.9%	35.9%	35.1%
03/18/2020	0.0%	90.4%	19.1%	35.8%	30.5%
04/29/2020	0.0%	91.9%	21.7%	34.9%	27.2%

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	5.72	0.29
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	1.86
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Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	58.64	0.9%	Corn (per bushel)	3.7325	0.7%
Brent (per barrel)	64.77	0.8%	Soybean (per bushel)	8.925	1.1%
Heating Oil (per gallon)	1.9970	0.5%	Wheat (per bushel)	4.8300	-0.3%
Gasoline (per gallon)	1.6838	0.3%	Crude Palm Oil (MYR/MT)	2,124.0	-1.7%
Natural Gas (per MMBtu)	2.5270	-0.3%	Rubber (JPY/KG)	164.0	0.0%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,778	-0.3%	Gold (per oz)	1,522.2	0.4%
Nickel (per mt)	17,470	0.1%	Silver (per oz)	18.640	3.6%

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

Economic Calendar

Date Time		Event		Survey	Actual	Prior	Revised
09/24/2019 05:00	SK	PPI YoY	Aug	--	-0.60%	-0.30%	--
09/24/2019 08:30	JN	Jibun Bank Japan PMI Mfg	Sep P	--	--	49.3	--
09/24/2019 08:30	JN	Jibun Bank Japan PMI Services	Sep P	--	--	53.3	--
09/24/2019 08:30	JN	Jibun Bank Japan PMI Composite	Sep P	--	--	51.9	--
09/24/2019 13:00	JN	Leading Index CI	Jul F	--	--	93.6	--
09/24/2019 16:00	GE	IFO Business Climate	Sep	94.5	--	94.3	--
09/24/2019 16:00	GE	IFO Expectations	Sep	92	--	91.3	--
09/24/2019 16:00	GE	IFO Current Assessment	Sep	96.9	--	97.3	--
09/24/2019 16:30	UK	PSNB ex Banking Groups	Aug	7.0b	--	-1.3b	--
09/24/2019 21:00	US	FHFA House Price Index MoM	Jul	0.30%	--	0.20%	--
09/24/2019 22:00	US	Conf. Board Consumer Confidence	Sep	133	--	135.1	--
09/24/2019 22:00	US	Richmond Fed Manufact. Index	Sep	1	--	1	--

Source: Bloomberg

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