

Daily Treasury Outlook

25 September 2019

Highlights

Global: The flight to quality restarted after US Speaker Nancy Pelosi said the House is launching a formal Trump impeachment inquiry amid the Ukraine controversy, saying that his actions have seriously violated the constitution. Meanwhile, the UK Supreme Court ruled that PM Boris Johnson's decision to prorogue Parliament was unlawful and House of Commons Speaker John Bercow said Parliament will resume on Wed. US president Trump accused China of currency manipulation and IP theft at the UN General Assembly and said he would not accept a "bad" deal, even though the Chinese government reportedly gave new waivers for tariff-free US soybean purchases. Elsewhere, Japan and the US also failed to agree on a timeline to remove US tariffs on Japanese autos in a bilateral trade deal. Consequently, Wall Street retreated with the S&P 500 index registering its biggest daily drop in a month, while UST bonds rallied overnight to send the 10-year yield to as low as 1.63% intraday (lowest since 10 September) and the US\$40b of 2-year notes fetched a strong bid-cover of 2.64x. In addition, the NY Fed's 14-day and overnight repo operations were oversubscribed ahead of the quarter-end.

Market watch: Asian markets may open on a soft tone this morning, as investors digest the barrage of news and await the RBNZ and BOT policy decisions due later today. The economic data diary is light today and of note are only the US' new home sales and Malaysia's CPI. Speakers include ECB's Couere and Lautenschlaeger, Fed's Evans, George and Brainard, and BOE's Carney.

US: The US' Conference Board consumer confidence slumped to a 3-month low of 125.1 in September, down from a revised 134.2 in August, amid trade war concerns weighing on business and labor market conditions. Meanwhile, the FHFA house prices rose a seasonally adjusted 5.0% yoy in July. The Richmond Fed manufacturing index also dipped from 1 to -9 in September, turning negative for the second time in three months as orders and shipments dropped and the average workweek gauge fell to a 9-year low.

China: China's modest policy reaction to its economic slowdown has been a new parameter to the global market, which kept global risk sentiment in check. PBoC Governor Yi Gang explained yesterday in the joint press conference why China has been so prudent. There are two interesting takeaways. First, Yi reminded the market that China has laid out a 3-year plan to battle the financial risk in 2018. This year is the second year of this 3-year plan, which is very critical. Second, although Yi confirmed that there is still room for China to cut both interest rates and the RRR, China prefers to save the ammunition for future. Yi's speech has lowered the market expectation for imminent interest rate cut.

Singapore: MAS is reviewing the 5% collateral rule for stock trades for retail investors.

AU: RBA governor Lowe hinted that the central bank was prepared to cut rates further ahead of next week's policy meeting.

Key Market Movements

Equity	Value	% chg
S&P 500	2966.6	-0.8%
DJIA	26808	-0.5%
Nikkei 225	22099	0.1%
SH Comp	2985.3	0.3%
STI	3155.5	0.4%
Hang Seng	26281	0.2%
KLCI	1592.3	0.0%
Currencies	Value	% chg
DXY	98.337	-0.3%
USDJPY	107.07	-0.4%
EURUSD	1.1020	0.2%
GBPUSD	1.2478	-0.4%
USDIDR	14108	0.1%
USDSGD	1.3758	-0.2%
SGDMYR	3.0371	0.1%
Rates	Value	chg (bp)
3M UST	1.90	1.34
10Y UST	1.65	-8.11
1Y SGS	1.87	1.00
10Y SGS	1.72	-0.03
3M LIBOR	2.11	-2.84
3M SIBOR	1.88	-0.02
3M SOR	1.70	2.41
Commodities	Value	% chg
Brent	63.1	-2.6%
WTI	57.29	-2.3%
Gold	1532	0.6%
Silver	18.61	-0.2%
Palladium	1674	1.2%
Copper	5780	0.0%
BCOM	79.36	-0.6%

Source: Bloomberg

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Major Markets

US: The US markets slid on Tuesday, with the S&P 500 index closing the session down 0.8%. News of Trump's impending impeachment inquiry added more uncertainty to an already-murky outlook. Trump also did no favours to investors' risk-sentiment by blasting China's trade policies at the UN General Assembly and threatened that a trade deal could possibly be delayed till late 2020. Today, we have Fed's Evans discussing economy and monetary policy, and Fed's Brainard speaking before the House Panel on financial stability.

EU: The German IFO business climate rose for the first time in six months from 94.3 to 94.6 in September, snapping a run of five straight monthly declines, but the expectations gauge continued to slip from 91.3 to 90.8, suggesting that a recession is still imminent.

Japan: BOJ governor Kuroda said if there was further monetary policy easing, it would target short- and medium-term rates without flattening the yield curve too much but had no pre-set intentions for the 30 October meeting.

Singapore: The STI closed up 0.39% at 3155.46 yesterday despite a weak opening but may see consolidation setting in today amid the US president impeachment bid and the UK Supreme Court's ruling on the suspension of Parliament. With Wall Street lower overnight and soft morning cues from Kospi, STI's support is tipped at 3135. With UST bonds yields lower by 8-9bps across the curve, SGS bonds may see a flight to quality bid today, which may set up for good interest in tomorrow's auction of the two SGS re-opening of \$800m of the August 2036 and \$3b of the October 2021 bonds.

Malaysia: Inflation data for the month of August is due out today. We expect the headline inflation to come in at 1.5% yoy, in line with market expectation, and a tad higher than the 1.4% printed in the previous month.

Indonesia: Multiple protests took place in Jakarta and other major cities across Indonesia yesterday, led by students who are against a legislation to overhaul the country's criminal law. While the government's purported intent is to revise a penal code that can be dated back to the Dutch colonial era, rights activists have been pointing out the dangers of some potentially draconian elements of the revision, which would include punishment on extramarital sex, among other things.

Oil: Crude oil prices fell on the slew of concerning political developments yesterday, with House Speaker Nancy Pelosi opening a formal impeachment inquiry on President Trump and the UK court ruling that PM Johnson's suspension of Parliament was unlawful. Brent prices fell further south to \$63.10/bbl, with last Monday's extraordinary spike of 14.6% looking like the distant past. We continue to caution against complacency on the Saudi Arabia production outage, in which synchronised frantic buying from physical buyers have the potential to send prices soaring, especially when Saudi Arabia's oil stocks dwindle to low levels.

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Bond Market Updates

Market Commentary: The SGD swap curve traded higher across the curve yesterday, with all the tenors traded 1-2 bps higher. The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 2bps to 129bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 7bps to 539bps. 10Y USTs yields fell 7bps to 1.65% amidst weaker consumer confidence data while Speaker of the US House of Representatives Nancy Pelosi announced a formal impeachment inquiry of President Donald Trump later in the day. President Trump also kept trade tensions high, mentioning that he would not accept a bad deal in trade negotiations with China.

New Issues: KEB Hana Bank has priced a USD400mn 3-year FRN at 3-month US LIBOR+70bps, tightening from IPT of 3-month US LIBOR+100bps area. HKT Capital No. 5 Ltd (Guarantor: HKT Group Holdings Ltd & Hong Kong Telecommunications (HKT) Ltd) has priced a USD500mn 10-year bond at T+162.5bps, tightening from IPT of T+185bps area. Shanghai (Hong Kong) International Investments Ltd (Guarantor: Lianyungang Port Group Co., Ltd) has priced a USD400mn 3-year bond at 4.1%, tightening from IPT of 4.7% area. China Hongqiao Group Ltd (Subsidiary Guarantors: China Hongqiao Investment Ltd, Hongqiao Investment (Hong Kong) Ltd, Hongqiao International Trading Ltd) has priced a USD200mn 3-year, 7-month bond at 7.375%, tightening from IPT of 7.7% area. Green Fortune Capital Ltd (Guarantor: Ever Dragon Investments Group Ltd) has priced a USD102mn 2-year bond at 8.0%, in line with IPG. JSW Steel Ltd as priced a USD400mn 5.5-year bond at 5.375%, tightening from initial guidance of 5.5% area. ASE Technology Holding Co., Ltd has priced a USD200mn 3-year bond at 2.15%. Orient Securities Co., Ltd of China has priced a SGD200mn 3-year bond at 2.9% (reoffer at 99.943, yielding 2.92%), tightening from IPT of 3.25% area. Keppel Corp has priced a SGD200mn 7-year bond at 3.0%, tightening from IPT of 3.2% area.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	98.337	-0.27%	USD-SGD	1.3758	-0.16%
USD-JPY	107.070	-0.45%	EUR-SGD	1.5161	0.09%
EUR-USD	1.1020	0.25%	JPY-SGD	1.2850	0.30%
AUD-USD	0.6801	0.41%	GBP-SGD	1.7188	0.34%
GBP-USD	1.2487	0.47%	AUD-SGD	0.9356	0.29%
USD-MYR	4.1815	0.05%	NZD-SGD	0.8701	0.32%
USD-CNY	7.1164	-0.02%	CHF-SGD	1.3958	0.29%
USD-IDR	14108	0.15%	SGD-MYR	3.0371	0.15%
USD-VND	23203	--	SGD-CNY	5.1534	-0.28%

Equity and Commodity

Index	Value	Net change
DJIA	26,807.77	-142.22
S&P	2,966.60	-25.18
Nasdaq	7,993.63	-118.84
Nikkei 225	22,098.84	19.75
STI	3,155.46	12.22
KLCI	1,592.33	-0.60
JCI	6,137.61	-68.59
Baltic Dry	2,108.00	--
VIX	17.05	2.14

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4500	-0.40%	O/N	1.8475	-2.10%
2M	-0.3360	-2.10%	1M	2.0184	-1.81%
3M	-0.4000	-1.81%	2M	2.0929	-2.70%
6M	-0.3630	-2.70%	3M	2.1063	-2.84%
9M	-0.1940	-2.84%	6M	2.0585	-1.19%
12M	-0.3020	-1.19%	12M	2.0334	-3.16%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.69 (+0.01)	1.63 (-0.06)
5Y	1.66 (-)	1.53 (-0.07)
10Y	1.72 (-)	1.65 (-0.08)
15Y	1.80 (+0.01)	--
20Y	1.90 (-)	--
30Y	2.06 (-)	2.10 (-0.07)

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%	59.9%
10/30/2019	0.0%	75.8%	0.0%	34.1%	48.6%
12/11/2019	0.0%	84.6%	17.4%	41.5%	32.6%
01/29/2020	0.0%	88.0%	24.4%	39.0%	25.6%
03/18/2020	0.0%	90.4%	27.6%	36.0%	21.3%
04/29/2020	0.0%	91.9%	29.2%	33.2%	18.1%

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	5.30	0.28
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	1.85
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Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	57.29	-2.3%	Corn (per bushel)	3.7475	0.4%
Brent (per barrel)	63.10	-2.6%	Soybean (per bushel)	8.943	0.2%
Heating Oil (per gallon)	1.9676	-1.5%	Wheat (per bushel)	4.8175	-0.3%
Gasoline (per gallon)	1.6543	-1.8%	Crude Palm Oil (MYR/MT)	2,079.0	-2.1%
Natural Gas (per MMBtu)	2.5030	-0.9%	Rubber (JPY/KG)	165.2	0.7%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,780	0.0%	Gold (per oz)	1,531.9	0.6%
Nickel (per mt)	17,180	-1.7%	Silver (per oz)	18.608	-0.2%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Economic Calendar

Date Time		Event		Survey	Actual	Prior	Revised
09/25/2019 06:45	NZ	Trade Balance NZD	Aug	-1400m	-1565m	-685m	-700m
09/25/2019 06:45	NZ	Exports NZD	Aug	4.10b	4.13b	5.03b	4.96b
09/25/2019 07:50	JN	BOJ Minutes of July Policy Meeting					
09/25/2019 09:30	VN	Retail Sales YTD YoY	Sep	--	--	11.50%	--
09/25/2019 10:00	NZ	RBNZ Official Cash Rate	Sep-25	1.00%	--	1.00%	--
09/25/2019 12:00	MA	CPI YoY	Aug	1.50%	--	1.40%	--
09/25/2019 15:00	EC	ECB's Coeure Speaks in Frankfurt					
09/25/2019 15:05	TH	BoT Benchmark Interest Rate	Sep-25	1.50%	--	1.50%	--
09/25/2019 19:00	US	MBA Mortgage Applications	Sep-20	--	--	-0.10%	--
09/25/2019 20:00	US	Fed's Evans Discusses Economy and Monetary Policy					
09/25/2019 22:00	US	Fed's Brainard Speaks Before House Panel on Financial Stability					
09/25/2019 22:00	US	New Home Sales	Aug	658k	--	635k	--

Source: Bloomberg

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