

Daily Treasury Outlook

26 September 2019

Highlights

Global: Global risk sentiments improved after US president Trump hinted that a trade deal with China could come “sooner than you think”. Consequently, USD and Wall Street rose, while UST bonds sold off overnight with the 10-year yield back up to 1.72%, looking past the US’ House impeachment bid against Trump, the release of a confidential memorandum of its 25 July call with the Ukrainian president, and ongoing Brexit uncertainties with UK PM Johnson demanding a non-confidence vote to trigger an election. That said, the NY Fed increased its overnight repo operations from \$75b to \$100b and doubling the maximum size of the 14-day repo operation to \$60b as funding conditions remained tight ahead of the quarter-end, which raises the likelihood of a more structural fix in our view. RBNZ and BOT also held their policy rates static yesterday.

Market watch: Asian markets may open on a firmer tone this morning, with market players rebuilding optimism about a US-China trade deal. Meanwhile, BSP is likely to cut interest rates by 25bps today for the third time this year. Today’s economic data diary comprises US’ pending home sales, initial jobless claims, 2Q growth and wholesale inventories, German GfK consumer confidence, HK trade data and S’pore’s industrial production for Aug.

US: The US’ new home sales rebounded more than expected by 7.1% mom to 713k pace, up from an upwardly revised 8.6% contraction in July, aided by lower mortgage rates even as the average sale price saw its largest annual surge since November 2017. Fed’s Evans opined that there is no need to cut rates again as “we’re pretty well positioned now to see how things play out from here”.

EU: The EU is reportedly considering tariffs on more than \$4b of US exports.

NZ: RBNZ kept its OCR static at 1% as expected, but tone remained dovish. RBNZ noted that keeping the OCR at low levels is needed to ensure inflation increases to the mid-point of the target range, and employment remains around its maximum sustainable level, and there remains scope for more fiscal and monetary stimulus, if necessary, to support the economy and maintain our inflation and employment objectives.

Japan: US President Trump and Japanese PM Abe signed the first stage of an initial trade agreement.

Singapore: Industrial production likely contracted 1.6% yoy and 1.5% mom in August, compared to -0.4% yoy and +3.6% mom in July, as manufacturing and electronics momentum remained soft. We continue to expect good demand for today’s auction of the two SGS re-opening of \$800m of the August 2036 and \$3b of the October 2021 bonds.

Key Market Movements

Equity	Value	% chg
S&P 500	2984.9	0.6%
DJIA	26971	0.6%
Nikkei 225	22020	-0.4%
SH Comp	2955.4	-1.0%
STI	3125.8	-0.9%
Hang Seng	25945	-1.3%
KLCI	1589.6	-0.2%
Currencies	Value	% chg
DXY	99.037	0.7%
USDJPY	107.77	0.7%
EURUSD	1.0943	-0.7%
GBPUSD	1.2353	-1.1%
USDIDR	14153	0.3%
USDSGD	1.3787	0.2%
SGDMYR	3.0417	0.2%
Rates	Value	chg (bp)
3M UST	1.88	-2.06
10Y UST	1.74	9.16
1Y SGS	1.87	0.00
10Y SGS	1.70	-1.82
3M LIBOR	2.11	0.67
3M SIBOR	1.88	-0.03
3M SOR	1.74	3.67
Commodities	Value	% chg
Brent	62.39	-1.1%
WTI	56.49	-1.4%
Gold	1504	-1.8%
Silver	17.91	-3.7%
Palladium	1645	-1.7%
Copper	5787	0.1%
BCOM	78.91	-0.6%

Source: Bloomberg

Daily Treasury Outlook

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Major Markets

US: US markets climbed last night, with the S&P 500 index ending the session up 0.6%. Investors overlooked the White House uncertainty surrounding Trump's impeachment and focused on positive comments from Trump over the trade situation with China. The US signing a limited trade deal with Japan was also seen as positive for the markets. Today, we have a slew of Fed speakers, where the markets may get early hints on how the next FOMC will develop. We expect the S&P 500 index to continue to remain in the 2960-3020 range in the immediate short term.

Singapore: The STI sank 0.94% to close at 3125.82 yesterday amid the sea of red spreading across Asian bourses in the wake of the Trump impeachment bid and the UK Court ruling that Bojo's suspension of Parliament was illegal. The STI may open firmer this morning and trade in a 3106-3160 range today amid more positive leads from Wall Street overnight and morning gains in Kospi. With UST bond yield curve bear steepening amid a soft 5-year auction and yields higher by up to 9bps amid the improving risk sentiments overnight, SGS bonds may unwind some of yesterday's gains ahead of today's two bond auctions.

Thailand: Lightning did not strike twice indeed as the Bank of Thailand chose to keep its key interest unchanged at 1.50%, after surprising the market off-guard last month with an unexpected rate cut. The choice to keep the interest rate unchanged was a unanimous vote within the MPC. We maintain our view that the Bank of Thailand is likely to perform one more rate cut in Q4; further cuts are unlikely in our opinion.

Malaysia: August headline inflation came in at 1.5% yoy, matching estimates, and a tad higher than the 1.4% printed in July. Meanwhile, core inflation stayed put at 2.0% yoy.

Indonesia: Bank Indonesia's Deputy Governor Dody Budi Waluyo said that forest fires that have been affecting many parts of Indonesia may hurt economic growth if the situation does not improve. For now, however, the central bank is keeping to its GDP growth forecast range of 5-5.4% this year, albeit at the lower end of it. Next year, the economy is expected to pick up some speed to toward the middle of 5.1-5.5% range.

Oil: Brent prices closed at \$62.39/bbl, 2.5% away from the \$64/bbl average that it was largely trading on in the wake of the Saudi drone attacks. Prices of the benchmark crude oil are now just about \$2/bbl away from the pre-attack close of \$60.22/bbl. The decline in prices yesterday came amid optimism that Saudi Arabia is making progress in restoring output and continued pessimism from Trump's impeachment enquiry movement. It looks likely that oil bears are keen to drive Brent prices back to \$60/bbl in the short-term.

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26 September 2019

Bond Market Updates

Market Commentary: The SGD swap curve bull-flattened yesterday, with the shorter tenors traded 1-3 bps lower, while the belly and longer tenors traded 4-5 bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS was unchanged at 129bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 9bps to 530bps. 10Y USTs yields gained 9bps to 1.74%, reversing dips earlier in the session, on the back of comments by President Donald Trump that a trade deal with China “could happen sooner than you think”. Yields were further buoyed by stronger than expected US housing report data. Spread between 3-month treasury bills and 10-year treasury notes remains inverted, with the spread tightening to -15bps.

New Issues: CNOOC Finance (2013) Ltd (Guarantor: CNOOC Ltd) has priced a USD1.0bn 10-year bond at T+120bps (tightening from price guidance of T+140bps area), and a USD500mn 30-year bond at 3.3% (tightening from price guidance of 3.5% area). Woori Bank priced a USD550mn Perpetual-NC5 AT1 bond at 4.25%, tightening from IPT of 4.5% area. Hongkong International (Qingdao) Co., Ltd (Keepwell Deed, Deed of EIPU and Irrevocable Standby Facility Provider: Qingdao City Construction Investment (Group) Ltd) priced a USD300mn 5-year bond at 4.0%, tightening from IPT of 4.5% area. Guangxi Liuzhou Dongcheng Investment Development Group Co., Ltd priced a USD300mn 3-year bond at 7.0%, tightening from IPT of 7.15% area. RKPF Overseas 2019 (A) Ltd (Guarantor: Road King Infrastructure Ltd) priced a USD480mn 5NC3 bond at 6.7%, tightening from IPT of 7.125% area. Zensun Enterprises Ltd (Guarantor: Zensun Group Ltd) priced a USD220mn 2-year bond at 13.5%, tightening from IPT of 13.75% area. CIMB Bank Bhd priced a USD680mn 5-year FRN at 3m-LIBOR+78bps, at the tight end of the price guidance range of 3m-LIBOR+78-80bps area. Green Fortune Capital Ltd (Guarantor: Ever Dragon Investments Group Ltd) priced a USD48mn re-tap of its existing FORCAP 8.0%'21s at 8.0%, in line with final guidance. China Development Bank Corporation of Hong Kong priced a USD150mn 3-year FRN at 3m-LIBOR+50bps.

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26 September 2019

Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	99.037	0.71%	USD-SGD	1.3787	0.21%
USD-JPY	107.770	0.65%	EUR-SGD	1.5087	-0.49%
EUR-USD	1.0943	-0.70%	JPY-SGD	1.2796	-0.42%
AUD-USD	0.6751	-0.74%	GBP-SGD	1.7034	-0.90%
GBP-USD	1.2353	-1.07%	AUD-SGD	0.9307	-0.52%
USD-MYR	4.1915	0.24%	NZD-SGD	0.8647	-0.62%
USD-CNY	7.1315	0.21%	CHF-SGD	1.3899	-0.42%
USD-IDR	14153	0.32%	SGD-MYR	3.0417	0.15%
USD-VND	23203	--	SGD-CNY	5.1541	0.01%

Equity and Commodity

Index	Value	Net change
DJIA	26,970.71	162.94
S&P	2,984.87	18.27
Nasdaq	8,077.38	83.76
Nikkei 225	22,020.15	-78.69
STI	3,125.82	-29.64
KLCI	1,589.58	-2.75
JCI	6,146.40	8.80
Baltic Dry	2,116.00	--
VIX	15.96	-1.09

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4490	-1.40%	O/N	1.8420	-0.55%
2M	-0.3360	-0.55%	1M	2.0459	2.75%
3M	-0.4030	2.75%	2M	2.0923	-0.06%
6M	-0.3730	-0.06%	3M	2.1130	0.67%
9M	-0.1940	0.67%	6M	2.0630	0.45%
12M	-0.3160	0.45%	12M	2.0293	-0.41%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.68 (--)	1.68 (+0.05)
5Y	1.65 (-0.01)	1.61 (+0.08)
10Y	1.70 (-0.02)	1.74 (+0.09)
15Y	1.79 (-0.01)	--
20Y	1.88 (-0.02)	--
30Y	2.03 (-0.03)	2.19 (+0.08)

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%	51.7%	0.0%	0.0%	51.7%
10/30/2019	0.0%	75.9%	0.0%	25.9%	50.0%
12/11/2019	0.0%	86.2%	11.1%	36.2%	38.9%
01/29/2020	0.0%	89.8%	17.7%	36.9%	32.3%
03/18/2020	0.0%	91.6%	21.1%	36.1%	28.4%
04/29/2020	0.0%	93.1%	23.8%	34.7%	24.8%

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	5.18	0.18
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	1.96
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Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	56.49	-1.4%	Corn (per bushel)	3.7425	-0.1%
Brent (per barrel)	62.39	-1.1%	Soybean (per bushel)	8.893	-0.6%
Heating Oil (per gallon)	1.9539	-0.7%	Wheat (per bushel)	4.7725	-0.9%
Gasoline (per gallon)	1.6252	-1.8%	Crude Palm Oil (MYR/MT)	2,084.0	0.2%
Natural Gas (per MMBtu)	2.5020	0.0%	Rubber (JPY/KG)	164.5	-0.4%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,787	0.1%	Gold (per oz)	1,504.1	-1.8%
Nickel (per mt)	17,325	0.8%	Silver (per oz)	17.911	-3.7%

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

Economic Calendar

Date Time		Event		Survey	Actual	Prior	Revised
09/26/2019 07:00	US	Fed's Kaplan Speaks in Moderated Q&A					
09/26/2019 13:00	SI	Industrial Production YoY	Aug	-0.60%	--	-0.40%	--
09/26/2019 14:00	GE	GfK Consumer Confidence	Oct	9.6	--	9.7	--
09/26/2019 14:35	JN	BOJ Governor Kuroda Speech					
09/26/2019 16:00	PH	BSP Overnight Borrowing Rate	Sep-26	4.00%	--	4.25%	--
09/26/2019 16:00	EC	M3 Money Supply YoY	Aug	5.10%	--	5.20%	--
09/26/2019 16:30	HK	Exports YoY	Aug	-7.40%	--	-5.70%	--
09/26/2019 20:30	US	Initial Jobless Claims	Sep-21	212k	--	208k	--
09/26/2019 20:30	US	GDP Annualized QoQ	2Q T	2.00%	--	2.00%	--
09/26/2019 20:30	US	Wholesale Inventories MoM	Aug P	0.10%	--	0.20%	--
09/26/2019 20:30	US	GDP Price Index	2Q T	2.40%	--	2.40%	--
09/26/2019 21:30	EC	ECB President Mario Draghi Speaks in Frankfurt					
09/26/2019 22:00	US	Pending Home Sales MoM	Aug	1.00%	--	-2.50%	--
09/26/2019 23:45	US	Fed's Clarida, Daly at Fed Listens Event in San Francisco					

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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