

Daily Treasury Outlook

27 September 2019

Highlights

Global: Global risk sentiments were dented overnight by reports that the US is unlikely to extend the waiver allowing American firms to supply Huawei Technologies. This setback came after US president Trump's earlier suggestion that a trade deal with China could come sooner than expected. That said, China's Foreign Minister Wang Yi had opined that China is willing to purchase more US goods. Therefore, the stakes are now raised for the upcoming early October trade talks to resolve or at least postpone the next tranche of US tariffs due on 15 October. Wall Street retreated overnight while UST bonds rallied with yields lower by 2-5bps across the curve and the 10-year yield falling back to 1.69% amid a solid \$32b 7-year auction that was awarded at 1.63%. Adding to the volatile mix was the release of the House Intelligence Committee's release of a whistleblower complaint that initiated the Democrats' impeachment bid against Trump, as well as FTSE Russell's surprise decision not to add Chinese bonds to its flagship World Government Bond Index. Over in the Philippines, BSP cut rates by 25bps for the third time this year to bring its overnight reverse repurchase rate to 4% in line with expectations.

Market watch: Asian markets may trade with a consolidative tone today as investors digest the confluence of trade and political tensions. As today's economic data diary is relatively light, with only US' Core PCE, durable goods orders, personal spending and income, and Eurozone's consumer confidence of note, market attention will focus on ECB's Guindos, Knot and Lane, Fed's Quarles and Harker, and BOE's Saunders.

US: The US economy expanded by 2.0% in 2Q, but business investments fell a sharper 1.0%. Initial jobless claims also rose 3k to 213k. Meanwhile, Fed's Clarida opined that "US inflation expectations do reside in a range that I consider consistent with our price stability mandate" hence there is no pressing need for more rate cuts, whilst Kashkari argued that the inverted yield curve is the best recession indicator so the Fed should further cut rates and he would not rule out negative rates.

EU: The shock resignation of Sabine Lautenschlaeger from the ECB ahead of incoming Christine Lagarde's ECB presidency likely belies the deep divisions within the central bank's recent stimulus package.

Singapore: Spore's industrial production slumped 8.0% yoy (-7.5% mom sa) in August, the worst on-year print since December 2015 (-11.9% yoy) and dragged down by electronics (-24.4% yoy) and precision engineering (-13.6% yoy) which offset the biomedical cluster (+10.6% yoy). The September industrial production print would need to deteriorate to a double-digit yoy decline to tip the Spore economy into a technical recession in 3Q19. The \$3b auction of October 2021 SGS bond fetched a cut-off yield of 1.66% with a bid-cover ratio of 2.01x (similar to the 2.02x at the May auction) while the \$800m of the August 2036 also saw a cut-off yield of 1.88% and a bid-cover ratio of 1.83x. There is only a 7-year SGS re-opening left for 1 November, with the announcement of the issue size and auction on 21 and 29 October respectively.

Key Market Movements		
Equity	Value	% chg
S&P 500	2977.6	-0.2%
DJIA	26891	-0.3%
Nikkei 225	22048	0.1%
SH Comp	2929.1	-0.9%
STI	3125.8	0.0%
Hang Seng	26042	0.4%
KLCI	1593.0	0.2%
Currencies	Value	% chg
DXY	99.132	0.1%
USDJPY	107.83	0.1%
EURUSD	1.0921	-0.2%
GBPUSD	1.2328	-0.2%
USDIDR	14179	0.2%
USDSGD	1.3818	0.2%
SGDMYR	3.0383	-0.1%
Rates	Value	chg (bp)
3M UST	1.80	-7.96
10Y UST	1.69	-4.51
1Y SGS	1.87	0.00
10Y SGS	1.74	3.99
3M LIBOR	2.10	-1.34
3M SIBOR	1.88	0.00
3M SOR	1.73	-1.18
Commodities	Value	% chg
Brent	62.74	0.6%
WTI	56.41	-0.1%
Gold	1505	0.0%
Silver	17.82	-0.5%
Palladium	1669	1.5%
Copper	5722	-1.1%
BCOM	78.63	-0.3%

Source: Bloomberg

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Major Markets

US: Markets slid slightly last night, with the S&P 500 index closing the session down 0.2%. Tech stocks led the fall with reports surfacing that the US was unlikely to extend waivers for trade with China's Huawei. Trump's overhanging impeachment inquiry may have also contributed to the uncertainty in the markets. 10Y UST yields fell 4.5bps to 1.69%. We expect the current slide for the S&P 500 index to meet support at the 2950 level in the short term.

China: China's Ministry of Finance announced to lower the standard loan provision coverage ratio for banks to 150% with the maximum loan provision coverage ratio being advised to be no more than 2 times the standard level. China's banking shares surged as a result of this new rule as the excessive loan provisions will be treated as unallocated profits. From macro perspective, we think this new ruling shows China's commitment to proactive fiscal policy as the possible higher dividend payment from city commercial banks will help alleviate the pressure on local government funding given local governments are usually the key shareholders for banks.

Singapore: The STI closed flat at 3125.81 yesterday amid weak overnight cues from Wall Street and a soft morning start to Kospi. STI may remain stuck in a range of 3106-3155 range for now. With longer-dated UST bonds outperforming overnight, SGS bonds may unwind some of yesterday's pre-auction anxiety.

Hong Kong: Exports (-6.3% yoy) and imports (-11.1% yoy) dropped for the tenth and ninth consecutive month respectively in Aug. Zooming in, exports to Mainland China and the US continued to fall by 5.2% yoy and 8.8% yoy respectively. Imports from Mainland China and the US also tumbled by 12.5% yoy and 16.1% yoy respectively. Different from the same period last year, exporters in both US and China seemed to have not front-loaded much orders before both sides imposed new tariff from 1st September. As such, the high base amid front-loading activities during July to October 2018 resulted in continuous decrease in both exports and imports. This may persist into the coming two months. Even though high base will abate in the last two months of this year and US resumed trade talks with China, trade activities may still stay sluggish due to the new tariff to be imposed from December, sluggish demand at home and abroad as well as the largely affected electronic value chain in Asia. In conclusion, we hold onto our view that both exports and imports will register single-digit decrease in 2019.

Malaysia: FTSE Russell kicked the can down the road. It decided to keep Malaysia on a watchlist for exclusion from its WGBI sovereign bond index. While there were some expectations that recent moves by BNM in liberalizing onshore FX transactions would be enough to get the index provider to drop the watchlist and retain Malaysia on WGBI, it appears that FTSE Russell is angling for more time to consider. In its statement, FTSE Russell said that it "will continue to engage with market participants to understand the practical impact of recent initiatives announced by Bank Negara Malaysia to improve market liquidity and accessibility." The next review is slated to take place in March 2020.

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Indonesia: A senior Finance Ministry official said that, if needed, the government can widen its budget deficit next year to support economic growth amid global slowdown. Director General of Budget, Askolani, told reporters that the government will adopt such counter-cyclical policy measures when there are global headwinds, and that the 2020 budget deficit target of 1.76% of GDP has anticipated the possibility of adjustment.

Philippines: The Philippines delivered its third rate cut of 25bp yesterday, as widely expected by the market. The peso was hardly moved after the announcement. Governor Benjamin Diokno had already mentioned his preference for three rate cuts this year and they have been duly delivered. Whether this marks the final rate cut of the year remains to be seen, although we think there may be a fourth rate cut in Q4 as the inflation rate remains low. The BSP could also choose to further ease the monetary environment via another 100bp cut in the RRR.

Bond Market Updates

Market Commentary: The SGD swap curve bear-steepened yesterday, with the shorter tenors traded 0-2bps higher, while the belly and longer tenors traded 2-3bps higher. The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 130bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 5bps to 535bps. 10Y USTs yields fell 4bps to 1.69% amidst escalation in political risk, after a whistle-blower complaint on President Donald Trump was released by the congressional panel, alleging that President Trump pressured Ukraine President Volodymyr Zelenskiy to investigate former Vice President Joe Biden to advance Trump's personal interest. Spread between 3-month treasury bills and 10-year treasury notes remains inverted, with the spread tightening to -8bps.

New Issues: BOC Aviation Ltd priced a USD150mn re-tap of its existing BOCAVI 3.0%'29s bond at T+150bps, tightening from IPG of T+170bps area. Li & Fung Ltd priced a USD400mn 5-year bond at T+290bps, tightening from IPT of T+300bps area. PCPD Capital Ltd (Guarantor: Pacific Century Premium Developments Ltd) priced a USD130mn re-tap of its existing PCPDC 4.75%'22s bond at 4.529%, tightening from IPG of 4.53% area. ReNew Power Ltd priced a USD90mn re-tap of its existing RPVIN 6.67%'24s bond at 6.3% plus accrued interest, in line with final guidance. Central China Real Estate Ltd (Subsidiary Guarantors: Certain of the Company's Restricted Subsidiaries outside the PRC) priced a USD200mn re-tap of its existing CENCHI 6.75%'21s bond at 7.375%, tightening from IPT of 7.625% area. Jinan Hi-tech Holding Group Co., Ltd priced a USD300mn 3-year bond at 4.5%, tightening from IPT of 4.8% area. Beijing Hongkun Weiye Real Estate Development Co. Ltd has mandated banks for a potential USD bond issuance.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	99.132	0.10%	USD-SGD	1.3818	0.22%
USD-JPY	107.830	0.06%	EUR-SGD	1.5091	0.03%
EUR-USD	1.0921	-0.20%	JPY-SGD	1.2818	0.17%
AUD-USD	0.6749	-0.03%	GBP-SGD	1.7035	0.01%
GBP-USD	1.2328	-0.20%	AUD-SGD	0.9325	0.19%
USD-MYR	4.1940	0.06%	NZD-SGD	0.8700	0.61%
USD-CNY	7.1326	0.02%	CHF-SGD	1.3909	0.07%
USD-IDR	14179	0.18%	SGD-MYR	3.0383	-0.11%
USD-VND	23201	-0.01%	SGD-CNY	5.1405	-0.26%

Equity and Commodity

Index	Value	Net change
DJIA	26,891.12	-79.59
S&P	2,977.62	-7.25
Nasdaq	8,030.66	-46.72
Nikkei 225	22,048.24	28.09
STI	3,125.81	--
KLCI	1,593.00	3.42
JCI	6,230.33	83.93
Baltic Dry	2,053.00	--
VIX	16.07	0.11

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4530	-0.90%	O/N	1.8408	-0.13%
2M	-0.3360	-0.13%	1M	2.0536	0.78%
3M	-0.4100	0.78%	2M	2.0895	-0.27%
6M	-0.3750	-0.27%	3M	2.0996	-1.34%
9M	-0.1940	-1.34%	6M	2.0441	-1.89%
12M	-0.3250	-1.89%	12M	1.9850	-4.43%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.69 (--)	1.66 (-0.02)
5Y	1.68 (+0.02)	1.58 (-0.03)
10Y	1.74 (+0.04)	1.69 (-0.05)
15Y	1.86 (+0.07)	--
20Y	1.94 (+0.06)	--
30Y	2.08 (+0.06)	2.14 (-0.04)

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%	45.5%	0.0%	0.0%	45.5%
10/30/2019	0.0%	72.2%	0.0%	22.3%	49.9%
12/11/2019	0.0%	84.7%	10.0%	34.7%	40.0%
01/29/2020	0.0%	90.3%	15.7%	35.9%	34.3%
03/18/2020	0.0%	92.2%	19.3%	35.6%	30.2%
04/29/2020	0.0%	93.5%	22.4%	34.6%	26.3%

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	4.90	0.42
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	2.01
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Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	56.41	-0.1%	Corn (per bushel)	3.7250	-0.5%
Brent (per barrel)	62.74	0.6%	Soybean (per bushel)	8.885	-0.1%
Heating Oil (per gallon)	1.9551	0.1%	Wheat (per bushel)	4.8425	1.5%
Gasoline (per gallon)	1.6612	2.2%	Crude Palm Oil (MYR/MT)	2,107.0	1.1%
Natural Gas (per MMBtu)	2.4280	-3.0%	Rubber (JPY/KG)	163.8	-0.4%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,722	-1.1%	Gold (per oz)	1,504.8	0.0%
Nickel (per mt)	17,210	-0.7%	Silver (per oz)	17.824	-0.5%

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

Economic Calendar

Date Time		Event		Survey	Actual	Prior	Revised
09/27/2019 07:30	JN	Tokyo CPI Ex-Fresh Food YoY	Sep	0.60%	0.50%	0.70%	--
09/27/2019 07:30	JN	Tokyo CPI YoY	Sep	0.50%	0.40%	0.60%	--
09/27/2019 15:30	TH	Foreign Reserves	Sep-20	--	--	\$220.9b	--
09/27/2019 16:00	IT	Manufacturing Confidence	Sep	100	--	99.7	--
09/27/2019 17:00	EC	Consumer Confidence	Sep F	-6.5	--	-6.5	--
09/27/2019 18:00	IR	Retail Sales Volume MoM	Aug	--	--	-4.30%	--
09/27/2019 20:30	US	PCE Core Deflator YoY	Aug	1.80%	--	1.60%	--
09/27/2019 20:30	US	Durable Goods Orders	Aug P	-1.00%	--	2.00%	--
09/27/2019 20:30	US	Personal Income	Aug	0.40%	--	0.10%	--
09/27/2019 20:30	US	Personal Spending	Aug	0.30%	--	0.60%	--
09/27/2019 20:30	US	Durables Ex Transportation	Aug P	0.20%	--	-0.40%	--
09/27/2019 20:30	US	Cap Goods Orders Nondef Ex Air	Aug P	0.00%	--	0.20%	--
09/27/2019 20:30	US	PCE Core Deflator MoM	Aug	0.20%	--	0.20%	--
09/27/2019 22:00	US	U. of Mich. Sentiment	Sep F	92.1	--	92	--

Source: Bloomberg

Treasury Research & Strategy

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