

## Daily Treasury Outlook

31 October 2019

### Highlights

**Global:** The FOMC cut interest rates for a third time this year by 25bps to 1.5-1.75% as widely expected, albeit with two dissenters (George and Rosengren who preferred no change). Fed chair Powell opined that “monetary policy is in a good place” and the “current stance of policy as likely to remain appropriate” as “there’s plenty of risk left but I’d have to say that the risks seem to have subsided”. This was in turn interpreted by market players as a “hawkish cut” signalling a pause in further rate cuts. The FOMC statement also omitted the pledge to “act as appropriate to sustain the expansion” but noted the committee will “assess the appropriate path of the target range for the federal funds rate”. Meanwhile, probability of another 25bp rate cut at the 11 December FOMC has fallen to 22%. The S&P500 saw modest gains overnight, while UST bonds initially softened post-FOMC but eventually bull-flattened with the 10-year yield at 1.77% after Powell opined that “we would need to see a really significant move up in inflation that’s persistent before we would consider raising rates to address inflation concerns”.

**Market watch:** Asian markets may go with the flow and interpret the FOMC’s hawkish cut as the Fed will now be on pause mode for a while. The BOJ policy meeting is up next with governor Kuroda on tap, but is unlikely to embark on fresh policy easing today. Today’s economic data calendar will kick off with China’s official manufacturing and non-manufacturing PMIs, as well as the US’ initial jobless claims, core PCE deflator, personal income and spending, Challenger job cuts, 3Q19 GDP growth for Taiwan, Hong Kong and Eurozone, Thai trade data and S’pore’s bank loans growth (likely to improve from the August print of 2.2% yoy amid an easier base in Sep18). ECB’s Guindos is also speaking today.

**US:** The US’ 3Q19 GDP growth came in better than expected at 1.9% annualised pace as better-than-expected consumer spending more than offset weakness in business investments. The ADP employment rose 125k in October, but the September reading was revised down from 135k to 93k.

**China:** The sell-off in China’s bond market continued with 10-year sovereign bond yields broke 3.30% as PBoC continued to postpone its TMLF operation with no detailed explanation. China’s rates were caught in the perfect storm as a result of improving risk sentiment, lack of monetary easing, concerns about persistent high CPI driven by pork prices and supply side risk by local government special bond.

**Singapore:** The Macroeconomic Review flagged that domestic growth prospects may see fits and starts with uneven growth across sectors. The output gap expected to widen a bit more and persist into 2020, but there are no signs of weakness widening into services and labour market so far. Monetary policy conditions are perceived as in a good place and may remain at the current setting for some time amid watchful vigilance over incoming data. The balance of risks had tilted towards lower inflation in a subdued demand environment.

Key Market Movements		
Equity	Value	% chg
S&P 500	3046.8	0.3%
DJIA	27187	0.4%
Nikkei 225	22843	-0.6%
SH Comp	2939.3	-0.5%
STI	3207.9	0.3%
Hang Seng	26668	-0.4%
KLCI	1580.0	0.1%
Currencies	Value	% chg
DXY	97.646	0.0%
USDJPY	108.85	0.0%
EURUSD	1.1151	0.4%
GBPUSD	1.2902	0.3%
USIDR	14033	0.0%
USDSGD	1.3621	0.0%
SGDMYR	3.0712	0.0%
Rates	Value	chg (bp)
3M UST	1.57	-2.82
10Y UST	1.77	-6.70
1Y SGS	1.71	2.00
10Y SGS	1.78	0.84
3M LIBOR	1.93	-0.84
3M SIBOR	1.83	0.00
3M SOR	1.53	0.63
Commodities	Value	% chg
Brent	60.61	-1.6%
WTI	55.06	-0.9%
Gold	1496	0.5%
Silver	17.86	0.3%
Palladium	1808	1.5%
Copper	5928	0.0%
BCOM	79.60	0.0%

Source: Bloomberg

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### Major Markets

**US:** US markets closed higher overnight, with the S&P ending the session up 0.3%. Investors were not disappointed by the Fed, which cut benchmark rates by 25bps for the third time this year. However, they did indicate a pause in further easing, which saw future rate cut bets decrease. Better than expected GDP and ADP employment change prints may also have allayed fears of further US economic slowdown. We expect the S&P 500 index to continue riding the recent wave of US-China optimism, barring any negative headlines.

**Canada:** BOC kept its current policy rate static at 1.75%, but governor Poloz noted that there was discussion of the possibility of an “insurance” cut but decided against it.

**Singapore:** The STI gained 0.33% to close at 3207.92 yesterday and may extend gains today amid positive leads from Wall Street overnight. STI’s support and resistance are tipped at 3184 and 3231 respectively. With the UST bonds bull-flattening overnight, SGS bonds are likely to also be supported today amid month-end flows, especially after the cautious macroeconomic outlook painted in the Macroeconomic Review released yesterday. MAS also sold \$7.3b of 84-day bills at 1.74%.

**Indonesia:** The government has threatened to revoke export licenses of mining companies which breach rules on nickel ore shipping, ahead of the on-and-off-and-on-again January 2020 export ban timeline. This is to prevent a surge in frontloaded shipments of raw nickel ore ahead of the export ban. The policy flip-flop on the nickel ore exports in the last few days has inadvertently added to a sense of confusion about the government’s mining sector policy.

**Malaysia:** Finance Minister Lim Guan Eng said that he expects Malaysia’s credit rating to remain stable in the near future. He credited it to the country’s institutional reform, resilient economic growth as well as clear and consistent messaging to the investment community, according to Bloomberg. Elsewhere, US Justice Department said that it has reached a settlement deal with Jho Low from Malaysia to recover assets worth almost USD1bn that have been misappropriated from 1MDB.

**Oil:** Crude oil prices fell yesterday, with Brent closing 98 c/bbl lower at \$60.61/bbl. A series of bearish developments, including Chile pulling out of chairing the APEC summit that puts the location of the US-China phase one signing in question as well as a hawkish cut by the Fed, added downward pressure on crude oil prices. Meanwhile, Brazil may be joining the ranks of OPEC after President Jair Bolsonaro accepted an informal invitation to join the cartel. There are still hurdles before Brazil is able to join the oil-producing bloc, most crucial of which are Brazilian oil companies which are resistant to the idea of having production controlled by central authorities beyond their control. Finally, Dec-Jan WTI spreads rose 10 c/bbl to 4 c/bbl carry after a Keystone pipeline was shut on spillage.

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### Bond Market Updates

**Market Commentary:** The SGD swap curve traded higher across the curve yesterday, with all tenors around 1-2bps higher. The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 129bps and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 3bps to 498bps. The HY-IG Index spread widened 2bps to 369bps. 10Y USTs fell 7bps to 1.77%, after the US Federal Reserve cut interest rates by 25bps for the third time this year, but signalled that monetary easing could be on hold.

**New Issues:** Zhenro Properties Group Limited (Subsidiary Guarantors: Certain non-PRC restricted subsidiaries of the Issuer) priced a USD300mn 3.5NC2.5 bond at 9.15%, tightening from IPT of 9.40% area. Hutchison Port Holdings Trust scheduled investor meetings commencing 30 Oct for its proposed 5-year USD bond issuance. Qingdao West Coast Development (Group) Co., Ltd scheduled investor meetings commencing 31 Oct for its proposed USD bond issuance. Zhengzhou Urban Construction Investment Group Co., Ltd scheduled investor meetings commencing 31 Oct for its proposed USD bond issuance.

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### Foreign Exchange

	Day Close	% Change		Day Close	% Change
<b>DX</b>	97.646	-0.05%	<b>USD-SGD</b>	1.3621	-0.01%
<b>USD-JPY</b>	108.850	-0.04%	<b>EUR-SGD</b>	1.5187	0.33%
<b>EUR-USD</b>	1.1151	0.35%	<b>JPY-SGD</b>	1.2508	-0.02%
<b>AUD-USD</b>	0.6903	0.55%	<b>GBP-SGD</b>	1.7573	0.26%
<b>GBP-USD</b>	1.2902	0.31%	<b>AUD-SGD</b>	0.9401	0.53%
<b>USD-MYR</b>	4.1803	-0.09%	<b>NZD-SGD</b>	0.8698	0.46%
<b>USD-CNY</b>	7.0553	-0.15%	<b>CHF-SGD</b>	1.3763	0.42%
<b>USD-IDR</b>	14033	0.01%	<b>SGD-MYR</b>	3.0712	-0.02%
<b>USD-VND</b>	23202	0.00%	<b>SGD-CNY</b>	5.1785	-0.16%

### Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
<b>1M</b>	-0.4430	0.10%	<b>O/N</b>	1.8010	-0.06%
<b>2M</b>	-0.3360	-0.06%	<b>1M</b>	1.7859	-1.37%
<b>3M</b>	-0.4050	-1.37%	<b>2M</b>	1.8631	-1.95%
<b>6M</b>	-0.3430	-1.95%	<b>3M</b>	1.9271	-0.84%
<b>9M</b>	-0.1940	-0.84%	<b>6M</b>	1.9299	-1.00%
<b>12M</b>	-0.2800	-1.00%	<b>12M</b>	1.9888	-0.65%

### Fed Rate Hike Probability

Meeting	Prob Hike	Prob Cut	0.75-1.00%	1.00-1.25%	1.25-1.50%
10/30/2019	0.0%	22.0%	0.00%	0.00%	22.00%
12/11/2019	0.0%	41.9%	0.00%	5.60%	36.30%
01/29/2020	0.0%	50.8%	0.90%	10.30%	39.60%
03/18/2020	0.0%	57.5%	2.20%	14.30%	40.90%
04/29/2020	0.0%	61.2%	3.20%	16.60%	41.10%
06/10/2020	0.0%	65.6%	4.70%	19.40%	40.80%

### Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	55.06	-0.9%	Corn (per bushel)	3.9075	1.2%
Brent (per barrel)	60.61	-1.6%	Soybean (per bushel)	9.160	-0.2%
Heating Oil (per gallon)	1.9136	-2.2%	Wheat (per bushel)	5.0925	-0.4%
Gasoline (per gallon)	1.6645	-1.3%	Crude Palm Oil (MYR/MT)	2,410.0	3.0%
Natural Gas (per MMBtu)	2.6910	3.6%	Rubber (JPY/KG)	153.3	1.6%
<b>Base Metals</b>	<b>Futures</b>	<b>% chg</b>	<b>Precious Metals</b>	<b>Futures</b>	<b>% chg</b>
Copper (per mt)	5,928	--	Gold (per oz)	1,495.7	0.5%
Nickel (per mt)	16,830	--	Silver (per oz)	17.860	0.3%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

### Equity and Commodity

Index	Value	Net change
<b>DJIA</b>	27,186.69	115.27
<b>S&amp;P</b>	3,046.77	9.88
<b>Nasdaq</b>	8,303.98	27.12
<b>Nikkei 225</b>	22,843.12	-131.01
<b>STI</b>	3,207.92	10.88
<b>KLCI</b>	1,580.00	2.21
<b>JCI</b>	6,295.75	14.61
<b>Baltic Dry</b>	1,782.00	-20.00
<b>VIX</b>	12.33	-0.87

### Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
<b>2Y</b>	1.61 (+0.01)	1.60 (-0.04)
<b>5Y</b>	1.64 (+0.01)	1.61 (-0.06)
<b>10Y</b>	1.78 (+0.01)	1.77 (-0.07)
<b>15Y</b>	1.87 (+0.01)	--
<b>20Y</b>	1.96 (+0.01)	--
<b>30Y</b>	2.12 (+0.03)	2.25 (-0.08)

### Financial Spread (bps)

	Value	Change
<b>EURIBOR-OIS</b>	4.50	0.58
<b>TED</b>	35.36	--

### Secured Overnight Fin. Rate

<b>SOFR</b>	1.81
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## Economic Calendar

Date Time		Event		Survey	Actual	Prior	Revised
10/31/2019	JN	BOJ Outlook Report					
10/31/2019	JN	BOJ Policy Balance Rate	Oct-31	-0.10%	--	-0.10%	--
10/31/2019 02:00	US	FOMC Rate Decision (Upper Bound)	Oct-30	1.75%	1.75%	2.00%	--
10/31/2019 07:50	JN	Industrial Production YoY	Sep P	-0.10%	1.10%	-4.70%	--
10/31/2019 09:00	CH	Manufacturing PMI	Oct	49.8	--	49.8	--
10/31/2019 15:30	TH	BoP Current Account Balance	Sep	\$2767m	--	\$3990m	--
10/31/2019 16:00	EC	ECB Vice-President Guindos Speaks in Bilbao, Spain					
10/31/2019 16:00	TA	GDP YoY	3Q P	2.45%	--	2.40%	--
10/31/2019 16:30	HK	GDP YoY	3Q A	-0.30%	--	0.50%	--
10/31/2019 18:00	EC	GDP SA QoQ	3Q A	0.10%	--	0.20%	--
10/31/2019 18:00	EC	GDP SA YoY	3Q A	1.10%	--	1.20%	--
10/31/2019 20:30	US	Initial Jobless Claims	Oct-26	215k	--	212k	--
10/31/2019 20:30	US	Personal Income	Sep	0.30%	--	0.40%	--
10/31/2019 20:30	US	Personal Spending	Sep	0.30%	--	0.10%	--

Source: Bloomberg

## Treasury Research & Strategy

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