

Daily Treasury Outlook

6 January 2020

Highlights

Global: It looks like a risk-off day as market players are watching for potential Iranian reprisal following the US killing of a top Iranian military general Soleimani. This contributed to the S&P posting its biggest decline in a month as UST bonds rallied to push the 10-year bond yield down 9bps to 1.79%, whilst gold prices rose to \$1,588 an ounce (highest since April 2013) on safe haven concerns. Essentially, the risk of military escalation cannot be discounted at this juncture as the Iranian government has said it would no longer abide by the uranium enrichment limits, while US president Trump told lawmakers he is prepared to strike Iran “in a disproportionate manner” if there is retaliation against any US targets.

Market watch: Asian markets may mirror the flight to safety concerns today to start the week amid the elevated Middle East tensions. Today's economic data calendar comprises of December services and composite PMIs from the US, Eurozone, UK and Asia including China's Caixin, as well as Eurozone's PPI. For the week ahead, key to watch include India's annual GDP growth estimates tomorrow, Fed's Clarida, Williams, Bullard and Evans speaking on Thursday, and the US labour market report (namely nonfarm payrolls, unemployment rate and average hourly earnings estimated at 162k, 3.5% and 3.1% yoy/0.3% mom respectively).

US: The manufacturing ISM disappointed at 47.2 in December, unexpectedly retreating from 48.1 in November, amid softer new orders (46.8), and employment (45.1) gauges albeit the prices paid component rose to 51.7 from 46.7. Meanwhile, the December FOMC minutes did not rock the boat for interest rate expectations, but raised the possibility of a technical adjustment to the IOER rate and the offered rate on overnight reverse repurchase agreements.

China: China kicked off 2020 with major announcements from its key financial regulators. China's banking and insurance regulator unveiled the guideline to further develop the sectors covering hot topics such as prevention of financial risk, further opening of domestic financial market as well as initiatives to bring down the funding costs for the real economy. Chinese regulators said they plan to handle default risk via multiple channels including direct restructuring, M&A, setup of special funds and bridge bank as well as bringing in new investors with the bridge bank is relatively a new concept. We will find out more about this bridge bank.

Meanwhile, in its working conference on 2-3 January, PBoC reiterated to keep its monetary policy prudent with new element of “flexibility” as first mentioned in China's Economic Working Conference in December 2019. This suggests that China's monetary policy will be more sensitive to the downside risk. However, given China will not flood the economy with excessive liquidity, there is no room for China to ease its monetary policy aggressively.

Key Market Movements

Equity	Value	% chg
S&P 500	3234.9	-0.7%
DJIA	28635	-0.8%
Nikkei 225	23657	0.0%
SH Comp	3083.8	0.0%
STI	3238.8	-0.4%
Hang Seng	28452	-0.3%
KLCI	1611.4	0.6%
Currencies	Value	% chg
DXY	96.838	0.0%
USDJPY	108.09	-0.4%
EURUSD	1.1161	-0.1%
GBPUSD	1.3083	-0.5%
USDIDR	13930	0.3%
USDSGD	1.3493	0.2%
SGDMYR	3.0394	0.1%
Rates	Value	chg (bp)
3M UST	1.51	-1.81
10Y UST	1.79	-8.90
1Y SGS	1.69	-3.00
10Y SGS	1.76	-2.43
3M LIBOR	1.90	-0.81
3M SIBOR	1.77	0.03
3M SOR	1.57	2.64
Commodities	Value	% chg
Brent	68.6	3.5%
WTI	63.05	3.1%
Gold	1552	1.5%
Silver	18.06	0.2%
Palladium	1990	1.4%
Copper	6130	-0.9%
BCOM	81.37	0.5%

Source: Bloomberg

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Singapore: The manufacturing PMI rebounded to expansion territory after seven straight months of contraction to 50.1 in December, suggesting that the sector may have finally turned the corner. This was supported by first-time expansion readings in the new orders (50.2 versus 49.9 previously), new exports (50.1 versus 49.8) and employment (50.1 versus 49.6) gauges, as well improvements in the output, inventory and finished goods sub-indices. However, the improvement in the domestic electronics PMI was more subdued as a 0.2 point increase to 49.9 was insufficient to lift it above the key 50 threshold that separates expansion from contraction territory. Nevertheless, while the December reading marked its 14th consecutive month of contraction, it is just shy of the 50 handle, and the underlying new orders (49.9 versus 49.7 previously), new exports (49.8 versus 49.6), output (49.8 versus 49.5) and employment (50.0 versus 49.8) gauges suggest that things are also slowly turning the page. With the 5G expansion to be rolled out in Singapore, it may be a matter of time before the domestic electronics PMI also crosses the 50 threshold, but the split December picture for the manufacturing and electronics PMIs suggests that the electronics cycle uptick is still trailing for now.

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Major Markets

US: US markets fell at the end of Friday's session as rising geopolitical tensions in the Middle-East spooked off investors. The S&P500 index was down 0.7%. With Iran vowing to take revenge against the US for the killing of its top military leader and Trump saying that the US will not hesitate to strike Iran at 52 sites if Iran retaliates, the geopolitical tensions are likely to rise further in the week ahead. Looking ahead, we expect investors to adopt a risk-off attitude in the wake of a possible armed conflict between Iran and the US and shift their attention to safe-haven assets.

Singapore: The STI slipped by 0.41% to close at 3238.82 on Friday and may trade a more consolidative session with support tipped at 3200 amid weak Friday cues from Wall Street and morning slippage in Kospi. With the flight to safety amid heightened geopolitical risks, the UST curve has flattened in the first two trading days of 2020, and this may also play out in the SGS bond market today as buying interest dominates especially in the front end of the yield curve.

Malaysia: Malaysia's trade prints fell short of expectations. Market saw year-on-year growth of Nov 2019 exports at flat zero; actual one contracted by 5.5%. Imports shrank by less than anticipated. Hence, trade surplus came thin. Shipment of electronics was relatively lacklustre at MYR27.6bn, lowest in at least half a year, bearing imprint of a time when the question of US-China trade negotiation's outcome loomed larger.

Indonesia: Jakarta grappled with flood since the start of the year. Widespread inundations of up to 2.5 meters have affected multiple parts of the city, closed one of its airports, and claimed up to 43 human lives thus far. The immediate economic costs would not be known until the water recedes, but our ballpark estimates suggest that up to IDR 16 trillion (USD 1.2 billion) could be lost. Inflation may pick up as well, albeit from a decades-low base.

Bond Market Updates

Market Commentary: The SGD swap curve bull-flattened last Friday, with the shorter tenors trading 2-3bps lower while the belly and longer tenors traded 4-5bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS remained mostly unchanged at 121bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 8bps to 454bps. The HY-IG Index spread tightened 8bps to 333bps. 10Y UST Yields fell by 9bps to close at 1.79%, with investors in a risk-off mode. This came on the back of exacerbating US-Iran tensions, with the U.S. confirming that a top Iranian commander was killed and Iran vowing retaliation. December ISM manufacturing data also fell unexpectedly and coming in worse than market expectation.

New Issues: Jiazuo Investment Group Co., Ltd priced a USD100mn 363-days bond at 6.5%.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	96.838	-0.01%	USD-SGD	1.3493	0.16%
USD-JPY	108.090	-0.44%	EUR-SGD	1.5064	0.09%
EUR-USD	1.1161	-0.10%	JPY-SGD	1.2493	0.66%
AUD-USD	0.6950	-0.61%	GBP-SGD	1.7672	-0.19%
GBP-USD	1.3083	-0.47%	AUD-SGD	0.9383	-0.37%
USD-MYR	4.1023	0.33%	NZD-SGD	0.8995	-0.35%
USD-CNY	6.9660	0.02%	CHF-SGD	1.3878	0.04%
USD-IDR	13930	0.27%	SGD-MYR	3.0394	0.12%
USD-VND	23173	--	SGD-CNY	5.1654	-0.09%

Equity and Commodity

Index	Value	Net change
DJIA	28,634.88	-233.92
S&P	3,234.85	-23.00
Nasdaq	9,020.77	-71.42
Nikkei 225	23,656.62	--
STI	3,238.82	-13.18
KLCI	1,611.38	8.88
JCI	6,323.47	39.89
Baltic Dry	907.00	-69.00
VIX	14.02	1.55

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4430	0.10%	O/N	1.5368	-0.21%
2M	#N/A	-0.21%	1M	1.7143	-2.81%
3M	-0.3840	-2.81%	2M	1.8105	-1.20%
6M	-0.3230	-1.20%	3M	1.8739	-0.81%
9M	#N/A	-0.81%	6M	1.8929	-0.26%
12M	-0.2380	-0.26%	12M	1.9641	-0.14%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.49 (-0.03)	1.52 (-0.04)
5Y	1.57 (-0.02)	1.59 (-0.08)
10Y	1.76 (-0.02)	1.79 (-0.09)
15Y	1.87 (-0.02)	--
20Y	1.92 (-0.02)	--
30Y	2.10 (-0.02)	2.24 (-0.09)

Fed Rate Hike Probability

Meeting	Prob Hike	Prob Cut	0.75-1.00%	1.00-1.25%	1.25-1.50%
29/01/2020	8.00%	0.00%	0.00%	0.00%	0.00%
18/03/2020	7.40%	6.80%	0.00%	0.00%	6.80%
29/04/2020	6.60%	16.80%	0.00%	0.80%	16.00%
10/06/2020	5.40%	30.80%	0.10%	3.60%	27.10%
29/07/2020	4.60%	40.20%	0.60%	7.00%	32.50%
09/16/2020	3.70%	51.00%	1.90%	12.00%	37.00%

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	6.80	0.13
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	1.54
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Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	63.05	3.1%	Corn (per bushel)	3.8650	-1.3%
Brent (per barrel)	68.60	3.5%	Soybean (per bushel)	9.305	-1.5%
Heating Oil (per gallon)	2.0614	1.8%	Wheat (per bushel)	5.5450	-1.0%
Gasoline (per gallon)	1.7488	2.6%	Crude Palm Oil (MYR/MT)	3,110.0	-0.5%
Natural Gas (per MMBtu)	2.1300	0.4%	Rubber (JPY/KG)	177.3	0.0%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	6,130	-0.9%	Gold (per oz)	1,552.2	1.5%
Nickel (per mt)	13,755	-3.5%	Silver (per oz)	18.060	0.2%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Economic Calendar

Date Time		Event		Survey	Actual	Prior	Revised
01/06/2020 05:00	SK	Foreign Reserves	Dec	--	\$408.82b	\$407.46b	--
01/06/2020 08:30	JN	Jibun Bank Japan PMI Mfg	Dec F	--	48.4	48.8	--
01/06/2020 08:30	HK	Markit Hong Kong PMI	Dec	--	42.1	38.5	--
01/06/2020 09:45	CH	Caixin China PMI Composite	Dec	--	--	53.2	--
01/06/2020 09:45	CH	Caixin China PMI Services	Dec	53.2	--	53.5	--
01/06/2020 13:00	JN	Vehicle Sales YoY	Dec	--	--	-14.60%	--
01/06/2020 16:20	TA	Foreign Reserves	Dec	--	--	\$474.05b	--
01/06/2020 17:00	EC	Markit Eurozone Composite PMI	Dec F	50.6	--	50.6	--
01/06/2020 17:00	EC	Markit Eurozone Services PMI	Dec F	52.4	--	52.4	--
01/06/2020 17:30	UK	Markit/CIPS UK Services PMI	Dec F	49.1	--	49	--
01/06/2020 17:30	UK	Markit/CIPS UK Composite PMI	Dec F	48.5	--	48.5	--
01/06/2020 17:30	UK	Official Reserves Changes	Dec	--	--	\$49m	--
01/06/2020 18:00	EC	PPI YoY	Nov	-1.50%	--	-1.90%	--
01/06/2020 22:45	US	Markit US Services PMI	Dec F	52.2	--	52.2	--
01/06/2020 22:45	US	Markit US Composite PMI	Dec F	--	--	52.2	--

Source: Bloomberg

Treasury Research & Strategy

Macro Research

Selena Ling*Head of Research & Strategy*LingSSSelena@ocbc.com**Tommy Xie Dongming***Head of Greater China Research*XieD@ocbc.com**Wellian Wiranto***Malaysia & Indonesia*WellianWiranto@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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