

Daily Treasury Outlook

10 January 2020

Highlights

Global: News that Chinese Vice Premier Liu He would travel to Washington next week to sign the Phase one trade deal sent risk sentiments higher. US President Trump also said Phase two talks will start right away. The S&P500 closed at a record high while the WTI crude oil price ended below \$60 per barrel. Meanwhile, US initial jobless claims also dipped 9k to 224k, suggesting the US labour market remains healthy despite cooling in recent months and Fed's Clarida opined that the 2019 rate cuts were "well timed" but monetary policy is now "in a good place" for 2020. Separately, Canadian PM Trudeau said that evidence pointed to an Iranian missile shooting down the Ukrainian plane that crashed in Tehran recently. UST bonds market bull flattened with the 10-year bond yield lower by 2bp to 1.85%.

Market watch: Asian markets may tread a firmer trajectory today, amid solidifying hopes of an imminent signing of the US-China Phase one trade deal. Key market focus today will be tonight's US nonfarm payrolls, unemployment rate and earnings data release, with market eyeing +160k, 3.5% and 3.1% yoy (0.3% mom) respectively for December. In addition, the economic data calendar also comprises of Philippines's November trade data, Thai consumer confidence, Malaysia's industrial production, and Singapore's retail sales. Taiwan is also holding elections this weekend.

US: Fed's Bullard opined that "some upward inflation pressure...would be a welcome development even if pushed inflation above target for a while". Meanwhile, the House of Representatives voted to limit President Trump's authority to strike Iran without Congressional consultation in a 224-194 vote in a largely symbolic move.

EU: ECB President Lagarde called for a "concerted fiscal stimulus at the euro-area level" to help speed up growth as the "biggest threat is a downturn in trade resulting from a range of uncertainties, primarily affecting manufacturing and hampering investment". The next ECB meeting is on 23 January, but market expectations are muted.

UK: PM Johnson's Brexit bill has cleared the House of Commons in a 330-231 vote and may be passed into law before the end of the month so the UK can exit the EU on 31 January. Meanwhile, BOE governor Carney still sounded cautious that "the economy has been sluggish, slack has been growing, and inflation is below target" and "there is a debate at the MPC over the relative merits of near term stimulus to reinforce the expected recovery in UK growth and inflation".

Key Market Movements		
Equity	Value	% chg
S&P 500	3274.7	0.7%
DJIA	28957	0.7%
Nikkei 225	23740	2.3%
SH Comp	3094.9	0.9%
STI	3247.5	0.0%
Hang Seng	28561	1.7%
KLCI	1595.7	0.4%
Currencies	Value	% chg
DXY	97.450	0.2%
USDJPY	109.52	0.4%
EURUSD	1.1106	0.0%
GBPUSD	1.3067	-0.2%
USDIDR	13854	-0.3%
USDSGD	1.3517	0.0%
SGDMYR	3.0270	-0.4%
Rates	Value	chg (bp)
3M UST	1.52	-0.26
10Y UST	1.85	-1.93
1Y SGS	1.63	-0.90
10Y SGS	1.76	1.83
3M LIBOR	1.83	-4.40
3M SIBOR	1.77	-0.15
3M SOR	1.51	-2.49
Commodities	Value	% chg
Brent	65.37	-0.1%
WTI	59.56	-0.1%
Gold	1552	-0.3%
Silver	17.90	-1.1%
Palladium	2113	0.2%
Copper	6180	0.0%
BCOM	80.45	-0.2%

Source: Bloomberg

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China: China's December inflation were softer than expectation. The weaker-than-expected consumer inflation was mainly due to the decline of pork prices. As compared to consumer inflation, we think market should pay more attention to China's producer prices in 2020. We think PPI may surprise on the upside going forward for two reasons. First, China's industry de-stocking cycle has come to an end. This may create some upward pressure for industry goods. Second, the recent volatility in oil prices due to rising geopolitical tension in the Middle East may also complicate the outlook of PPI. The slightly softening inflation data may help alleviate concerns on inflation in China. Although we agree that CPI is near the peak soon, it is too early to lower the guard against the backdrop of possible upside surprise from PPI. As such, we think the room for further monetary easing is likely to be limited in the first quarter. We maintain our view that equity may outperform bond in the near term.

The tamer-than-expected consumer inflation was mainly due to the decline of pork prices. Although the high frequency wholesale pork prices showed the mile rebound of pork prices in December, the CPI component fell by 5.6% mom. This helped counter the impact of higher vegetable prices, which rose by 10.6% mom due to seasonal effect. Overall, food prices fell by 0.4% mom. Non-food prices remained relatively stable, up by 0.1% mom. Core CPI excluding food and energy rose by 1.4% yoy, unchanged from November reading.

Looking ahead, CPI is expected to rise further to around 5% in January due to base effect as a result of earlier Chinese New Year festive season in 2020. However, January may mark the peak for 2020 and it is almost certain that CPI will fall significantly in February after the Chinese New Year waned. However, the deceleration of CPI will not accelerate until the second half of 2020. As such, we think China will remain cautious in its monetary policy in the first half before seeing the concrete evidence of decline of CPI.

As compared to consumer inflation, we think market should pay more attention to China's producer prices in 2020. We expect PPI to return to positive reading in the beginning of 2020. We think PPI may surprise on the upside for two reasons. First, China's industry destock cycle has come to an end. We expect China's industry to restock soon thanks to improving US-China trade outlook, green shoots in the global economy and a more supportive monetary policy. This may create some upward pressure for industry goods. Second, the recent volatility in oil prices due to rising geopolitical tension in the Middle East may also complicate the outlook of PPI.

Singapore: Retail sales likely fell 3.0% yoy (2.4% mom sa) in November, compared to a 4.3% yoy contraction (-2.2% mom sa) in October. Retail sales excluding autos may have continued to decline by 0.2% yoy versus a worse fall of 0.6% yoy in October.

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Major Markets

US: Markets were up last night on the back of improved risk appetite as US-Iran tensions decreased. The S&P 500 index was up 0.67%. With worries of an escalated US-Iran conflict now reduced, expect investors' attention to shift to the nonfarm payrolls report for December that will be released later. We expect markets to continue their march up to all-time highs barring any nonfarm payrolls' figures that might indicate the US jobs market is weakening.

Singapore: The STI closed nearly flat (0.05%) at 3247.48 yesterday, but may see sustained momentum today amid record close in Wall Street overnight and morning gains in Kospi. STI support and resistance are tipped at 3225 and 3267 respectively. With the bull flattening in the UST yield curve overnight, SGS bonds may also unwind some of the selling interest seen yesterday which had lifted longer tenor bond yields by 2-3bps ahead of the size announcement for 10-year re-opening due on 29 January.

Malaysia: FinMin Lim Guan Eng said that the government is keeping its decision to freeze the increase in toll rates this year. To help with living costs, the government is said to be bearing the cost of over MYR1bn in compensation to as many as 21 highway concessionaires.

Indonesia: The government is reportedly seeking to boost coal price by limiting production, to prevent a decline in state revenue. Energy Minister Arifin Tasrif said that coal output is set at 550mn tons this year, compared to 610mn in 2019. Miners will not be allowed to produce more than their targets in the work plan.

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Bond Market Updates

Market Commentary: The SGD swap curve bear-steepened yesterday, with the shorter tenors trading 1-2bps higher while the belly and longer tenors traded 3bps higher. The Bloomberg Barclays Asia USD IG Bond Index average OAS remained mostly unchanged at 119bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 2bps to 447bps. The HY-IG Index spread widened 2bps to 328bps. 10Y UST Yields fell by 2bps to close at 1.85%, due to strong demand at the auction for U.S. 30-year bonds.

New Issues: Shangrao Investment Holdings International Company Limited priced a USD500mn 3-year bond at 4.30%, tightening from IPT of 4.70% area. Bank of China Limited, Hong Kong Branch priced a USD1bn 2-year bond at 3m-US LIBOR+58bps and a USD600mn 5-year bond at T+78bps, tightening from IPT of 3m-US LIBOR+85bps area and T+110bps area respectively. AEV International Pte Ltd priced a USD400mn 10NC5 bond at 4.20%, tightening from IPT of 4.5% area. PTTEP Treasury Center Co. Ltd priced a USD350mn 10-year bond at T+110bps, tightening from IPT of T+155bps area. Zhengzhou Urban Construction Investment Group Co., Ltd priced a USD200mn 5-year bond at 3.8%, tightening from IPT of 4.3% area. Central China Real Estate Ltd priced a USD200mn 4.5NC2 bond at 7.5%, tightening from IPT of 8% area. Westpac Banking Corporation priced a USD2.25bn debt offering in three parts: (1) a USD750mn 3-year tranche at T+42bps, (2) a USD750mn 3-year tranche at 3m-US LIBOR+39bps and (3) a USD750mn 10-year tranche at T+80bps. Shriram Transport Finance Company Limited priced a USD500mn 3.5-year social bond at 5.10%, tightening from IPT of 5.375% area.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	97.450	0.16%	USD-SGD	1.3517	0.04%
USD-JPY	109.520	0.37%	EUR-SGD	1.5012	0.06%
EUR-USD	1.1106	0.01%	JPY-SGD	1.2340	-0.33%
AUD-USD	0.6858	-0.12%	GBP-SGD	1.7661	-0.19%
GBP-USD	1.3067	-0.23%	AUD-SGD	0.9268	-0.09%
USD-MYR	4.0907	-0.25%	NZD-SGD	0.8940	-0.46%
USD-CNY	6.9318	-0.21%	CHF-SGD	1.3884	0.07%
USD-IDR	13854	-0.33%	SGD-MYR	3.0270	-0.38%
USD-VND	23175	0.00%	SGD-CNY	5.1269	-0.29%

Equity and Commodity

Index	Value	Net change
DJIA	28,956.90	211.81
S&P	3,274.70	21.65
Nasdaq	9,203.43	74.18
Nikkei 225	23,739.87	535.11
STI	3,247.48	1.59
KLCI	1,595.65	6.55
JCI	6,274.49	48.81
Baltic Dry	773.00	--
VIX	12.54	-0.91

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4480	-0.30%	O/N	1.5325	0.46%
2M	-0.3360	0.46%	1M	1.6771	-2.19%
3M	-0.3900	-2.19%	2M	1.8369	2.46%
6M	-0.3320	2.46%	3M	1.8340	-4.40%
9M	-0.1940	-4.40%	6M	1.8744	-0.61%
12M	-0.2510	-0.61%	12M	1.9511	-0.34%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.47 (+0.02)	1.58 (-)
5Y	1.55 (+0.01)	1.65 (-0.01)
10Y	1.76 (+0.02)	1.85 (-0.02)
15Y	1.86 (+0.02)	--
20Y	1.95 (+0.02)	--
30Y	2.11 (+0.02)	2.33 (-0.03)

Fed Rate Hike Probability

Meeting	Prob Hike	Prob Cut	0.75-1.00%	1.00-1.25%	1.25-1.50%
29/01/2020	10.20%	0.00%	0.00%	0.00%	0.00%
18/03/2020	9.60%	4.70%	0.00%	0.00%	4.70%
29/04/2020	8.80%	12.20%	0.00%	0.40%	11.80%
10/06/2020	7.50%	23.80%	0.10%	2.10%	21.60%
29/07/2020	6.40%	33.60%	0.40%	4.90%	28.40%
09/16/2020	5.30%	44.50%	1.20%	9.10%	34.10%

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	6.10	-0.30
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	1.55
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Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	59.56	-0.1%	Corn (per bushel)	3.8325	-0.3%
Brent (per barrel)	65.37	-0.1%	Soybean (per bushel)	9.338	-0.5%
Heating Oil (per gallon)	1.9501	-0.4%	Wheat (per bushel)	5.6225	1.7%
Gasoline (per gallon)	1.6527	0.2%	Crude Palm Oil (MYR/MT)	3,108.0	2.3%
Natural Gas (per MMBtu)	2.1660	1.2%	Rubber (JPY/KG)	176.5	-0.5%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	6,180	0.0%	Gold (per oz)	1,552.3	-0.3%
Nickel (per mt)	14,085	0.2%	Silver (per oz)	17.902	-1.1%

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

Economic Calendar

Date Time		Event		Survey	Actual	Prior	Revised
01/10/2020 01:15	CH	Money Supply M2 YoY	Dec	8.30%	--	8.20%	--
01/10/2020 01:15	CH	New Yuan Loans CNY	Dec	1200.0b	--	1390.0b	1388.1b
01/10/2020 07:30	JN	Household Spending YoY	Nov	-1.80%	-2.00%	-5.10%	--
01/10/2020 08:30	AU	Retail Sales MoM	Nov	0.40%	--	0.00%	--
01/10/2020 09:00	PH	Exports YoY	Nov	2.00%	--	0.10%	--
01/10/2020 09:00	PH	Trade Balance	Nov	-\$3351m	--	-\$3250m	--
01/10/2020 12:00	MA	Industrial Production YoY	Nov	1.10%	--	0.30%	--
01/10/2020 13:00	SI	Retail Sales YoY	Nov	-4.10%	--	-4.30%	--
01/10/2020 13:00	JN	Leading Index CI	Nov P	90.9	--	91.6	--
01/10/2020 13:00	SI	Retail Sales SA MoM	Nov	1.00%	--	-2.20%	--
01/10/2020 15:30	TH	Foreign Reserves	Jan-31	--	--	\$223.0b	--
01/10/2020 21:30	US	Change in Nonfarm Payrolls	Dec	160k	--	266k	--
01/10/2020 21:30	US	Unemployment Rate	Dec	3.50%	--	3.50%	--
01/10/2020 21:30	US	Change in Manufact. Payrolls	Dec	5k	--	54k	--
01/10/2020 23:00	US	Wholesale Inventories MoM	Nov F	0.00%	--	0.00%	--

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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