

Daily Treasury Outlook

13 January 2020

Highlights

Global: A softer than expected US' nonfarm payrolls print of 145k (versus market expectations for 165k) for December, accompanied by a downward revision of the November data from 266k to 256k and the weakest wage data (+0.1% mom) in more than a year weighed on investor confidence. Separately, Taiwan's president Tsai Ing-wen took a landslide victory in the weekend elections for a second term, while Iran admitted that it had mistakenly downed a Ukrainian jet, and North Korea said it will not trade its nuclear weapons for a lifting of sanctions. Meanwhile, the Philippines is awaiting an imminent eruption of the Taal volcano. The S&P500 slipped 0.29% on Friday, while UST bonds rallied to push the 10-year bond yield lower to 1.82%.

Market watch: Asian markets are likely to kickstart the week with a slightly less buoyant tone this morning. The slate of economic releases for today is relatively light with only UK' industrial production and India's CPI. Fed's Rosengren and Bostic are also speaking. For the week ahead, watch for the start of US earnings season (with banks on tap), the signing of the US-China Phase 1 deal on 15 January, BOK rate decision on 17 January (likely status quo at 1.25%), and China's 4Q19 GDP growth print on Friday.

US: While the headline NFP provided market players with a reality check that the US labor market was softening, nevertheless there was still encouraging signs in the steady unemployment rate at a 50-year low of 3.5%, and the labor force participation rate was also unchanged at 63.2%, whilst the underemployment rate actually improved from 6.9% to 6.7%. This should provide the Fed with sufficient comfort to stay on pause mode for the near-term. That said, the softness in earnings for the services sector bears watching, suggesting that trade, transportation and utilities were weakening.

Taiwan: President Tsai Ing-wen won a landslide victory with more than 8 million votes, breaking the record since direct presidential elections in 1996. In terms of legislative election, DPP lost 7 seats compared to previous election in 2016 while KMT gained three seats. Taiwan's People Party led by Taipei Mayor Ko Wen-je became the third largest party in legislative council with gaining 5 seats. Despite that, DPP secured a majority (61 seats out of 113 seats) in legislative council. In the nutshell retains the right of full governance in both legislation and administration.

Singapore: Retail sales fell more than expected by 4.0% yoy (+0.2% mom sa) in November, below expectations for -3.0% yoy (2.4% mom sa), whilst the October data was also revised lower to -4.4% yoy (-2.2% mom sa). Retail sales excluding autos declined a more modest 0.6% yoy in November, compared to a revised 0.7% contraction in October. Auto sales were the main culprit again, decreasing by 22.4% yoy, but other retail segments like furniture & household equipment (-10.9%), department stores (-8.4%) and F&B (-1.2%) were also soft.

| Key Market Movements | | |
|----------------------|--------|----------|
| Equity | Value | % chg |
| S&P 500 | 3265.4 | -0.3% |
| DJIA | 28824 | -0.5% |
| Nikkei 225 | 23851 | 0.5% |
| SH Comp | 3092.3 | -0.1% |
| STI | 3256.0 | 0.3% |
| Hang Seng | 28638 | 0.3% |
| KLCI | 1591.5 | -0.3% |
| Currencies | Value | % chg |
| DX | 97.356 | -0.1% |
| USDJPY | 109.45 | -0.1% |
| EURUSD | 1.1121 | 0.1% |
| GBPUSD | 1.3064 | 0.0% |
| USDIDR | 13772 | -0.6% |
| USDSGD | 1.3484 | -0.2% |
| SGDMYR | 3.0215 | -0.2% |
| Rates | Value | chg (bp) |
| 3M UST | 1.53 | 0.74 |
| 10Y UST | 1.82 | -3.49 |
| 1Y SGS | 1.63 | -0.10 |
| 10Y SGS | 1.74 | -1.23 |
| 3M LIBOR | 1.85 | 1.39 |
| 3M SIBOR | 1.77 | 0.00 |
| 3M SOR | 1.55 | 3.23 |
| Commodities | Value | % chg |
| Brent | 64.98 | -0.6% |
| WTI | 59.04 | -0.9% |
| Gold | 1562 | 0.6% |
| Silver | 18.12 | 1.2% |
| Palladium | 2119 | 0.3% |
| Copper | 6198 | 0.3% |
| BCOM | 80.71 | 0.3% |

Source: Bloomberg

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Major Markets

US: US markets fell last Friday night as investors assessed the weaker than expected US nonfarm payrolls data. The S&P500 index was down 0.29%. With geopolitical tensions in the last week subsiding, investors are likely to turn their attention to the numerous Fed speakers this week for clues on forward interest rate expectations. Support for the S&P500 index remains at the 3250 handle.

UK: BOE's Vlieghe opined that upcoming MPC meetings are "absolutely live" and he would vote for a rate cut this month if there are no signs of the UK economy improving post-elections. This dovetailed with BOE governor Carney's earlier dovish comments and may keep the GBP heavy in the interim.

China: China's banking and insurance regulator reiterated that it would encourage banks to support the growth while balancing the risk. It will continue to prevent the credit from flowing into the property market to support China's slogan that housing is not for speculation. On prevention of financial risk, the CBIRC said the size of shadow banking has fell by CNY16 trillion from the peak. Meanwhile, China has dealt with CNY2 trillion non-performing loan in 2020. Meanwhile, PBoC deputy Governor Pan Gongsheng said yesterday that RMB has played a more important role to become an auto stabilizer to balance the Balance of Payment and improve China's macro flexibility.

Singapore: The STI closed up 0.26% at 3255.95 on Friday, but may see range trade today following Friday's slippage on Wall Street and a mixed morning start for Kospi. STI support and resistance are tipped at 3247 and 3285 respectively. With Friday's rally in UST bonds on Friday led by the longer dated tenors, SGS bonds may also play catch up today, notwithstanding the size announcement for 10-year re-opening due on 29 January.

Malaysia: Malaysian Finmin Lim Guan Eng said that the Malaysian economy is expected to perform better in 2020, citing Dec19 Manufacturing PMI which rose to a 15m high of 50.0 - a breakeven point after months of languishing in contractionary territory. The government expects GDP growth of 4.8% this year.

Indonesia: Bank Indonesia signalled that it is less keen on currency intervention, as Rupiah has been gaining "in accordance with market mechanism", and that a narrowing current account deficit and low inflation have helped with the currency appreciation. Rupiah strengthened against USD as a result, rising 0.6% with USDIDR below 13800.

Oil: Brent prices fell back below \$65/bbl, as geopolitical tensions seemingly abate between the US and Iran. Prices closed as high as \$68.91/bbl last Monday but the lack of US casualties in Iran's armed retaliation and disappointing US nonfarm payroll data on Friday combined to sink crude oil prices. We expect tensions between the US and Iran to remain high for now and factoring in other Middle East unrests (Turkey-Libya and other civil uprisings), we expect risks for crude oil to be tilted towards the upside.

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Bond Market Updates

Market Commentary: The SGD swap curve fell slightly last Friday, with the shorter tenors remaining mostly unchanged while the belly and longer tenors traded 0-1bps lower. 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 also remained mostly unchanged at 446bps. The HY-IG Index remained mostly unchanged at 328bps. 10Y UST Yields fell modestly by 3bps to close at 1.82%, due to the U.S.' weaker-than-expected December job growth and stagnating wages.

New Issues: Malayan Banking Berhad priced a USD420mn bond at 0.0%.

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Foreign Exchange

| | Day Close | % Change | | Day Close | % Change |
|---------|-----------|----------|---------|-----------|----------|
| DX | 97.356 | -0.10% | USD-SGD | 1.3484 | -0.24% |
| USD-JPY | 109.450 | -0.06% | EUR-SGD | 1.4998 | -0.09% |
| EUR-USD | 1.1121 | 0.14% | JPY-SGD | 1.2321 | -0.15% |
| AUD-USD | 0.6901 | 0.63% | GBP-SGD | 1.7617 | -0.25% |
| GBP-USD | 1.3064 | -0.02% | AUD-SGD | 0.9307 | 0.42% |
| USD-MYR | 4.0760 | -0.36% | NZD-SGD | 0.8950 | 0.11% |
| USD-CNY | 6.9193 | -0.18% | CHF-SGD | 1.3865 | -0.14% |
| USD-IDR | 13772 | -0.59% | SGD-MYR | 3.0215 | -0.18% |
| USD-VND | 23175 | -- | SGD-CNY | 5.1316 | 0.09% |

Equity and Commodity

| Index | Value | Net change |
|------------|-----------|------------|
| DJIA | 28,823.77 | -133.13 |
| S&P | 3,265.35 | -9.35 |
| Nasdaq | 9,178.86 | -24.57 |
| Nikkei 225 | 23,850.57 | 110.70 |
| STI | 3,255.95 | 8.47 |
| KLCI | 1,591.46 | -4.19 |
| JCI | 6,274.94 | 0.45 |
| Baltic Dry | 774.00 | 2.00 |
| VIX | 12.56 | -- |

Interbank Offer Rates (%)

| Tenor | EURIBOR | Change | Tenor | USD Libor | Change |
|-------|---------|--------|-------|-----------|--------|
| 1M | -0.4630 | -0.90% | O/N | 1.5331 | -0.55% |
| 2M | -0.3360 | -0.55% | 1M | 1.6766 | 0.65% |
| 3M | -0.3950 | 0.65% | 2M | 1.8065 | 0.43% |
| 6M | -0.3340 | 0.43% | 3M | 1.8378 | 1.39% |
| 9M | -0.1940 | 1.39% | 6M | 1.8721 | 0.53% |
| 12M | -0.2530 | 0.53% | 12M | 1.9666 | 1.76% |

Government Bond Yields (%)

| Tenor | SGS (chg) | UST (chg) |
|-------|--------------|--------------|
| 2Y | 1.47 (-) | 1.57 (-0.01) |
| 5Y | 1.55 (-) | 1.63 (-0.02) |
| 10Y | 1.74 (-0.01) | 1.82 (-0.03) |
| 15Y | 1.85 (-0.02) | -- |
| 20Y | 1.93 (-0.01) | -- |
| 30Y | 2.09 (-0.02) | 2.28 (-0.05) |

Fed Rate Hike Probability

| Meeting | Prob Hike | Prob Cut | 0.75-1.00% | 1.00-1.25% | 1.25-1.50% |
|------------|-----------|----------|------------|------------|------------|
| 29/01/2020 | 9.10% | 0.00% | 0.00% | 0.00% | 0.00% |
| 18/03/2020 | 8.90% | 1.70% | 0.00% | 0.00% | 1.70% |
| 29/04/2020 | 8.00% | 10.80% | 0.00% | 0.20% | 10.60% |
| 10/06/2020 | 6.70% | 23.80% | 0.00% | 1.80% | 21.90% |
| 29/07/2020 | 5.70% | 34.20% | 0.30% | 4.80% | 29.00% |
| 09/16/2020 | 4.60% | 45.60% | 1.20% | 9.50% | 35.00% |

Financial Spread (bps)

| | Value | Change |
|-------------|-------|--------|
| EURIBOR-OIS | 5.52 | -0.28 |
| TED | 35.36 | -- |

Secured Overnight Fin. Rate

| | |
|------|------|
| SOFR | 1.55 |
|------|------|

Commodities Futures

| Energy | Futures | % chg | Soft Commodities | Futures | % chg |
|--------------------------|---------|-------|-------------------------|---------|-------|
| WTI (per barrel) | 59.04 | -0.9% | Corn (per bushel) | 3.8575 | 0.7% |
| Brent (per barrel) | 64.98 | -0.6% | Soybean (per bushel) | 9.350 | 0.1% |
| Heating Oil (per gallon) | 1.9284 | -1.1% | Wheat (per bushel) | 5.6450 | 0.4% |
| Gasoline (per gallon) | 1.6596 | 0.4% | Crude Palm Oil (MYR/MT) | 3,131.0 | 0.7% |
| Natural Gas (per MMBtu) | 2.2020 | 1.7% | Rubber (JPY/KG) | 176.0 | -0.3% |
| Base Metals | Futures | % chg | Precious Metals | Futures | % chg |
| Copper (per mt) | 6,198 | 0.3% | Gold (per oz) | 1,562.3 | 0.6% |
| Nickel (per mt) | 14,190 | 0.7% | Silver (per oz) | 18.115 | 1.2% |

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Economic Calendar

| Date Time | | Event | | Survey | Actual | Prior | Revised |
|------------------|----|-----------------------------------|-----|----------|--------|----------|---------|
| 01/13/2020 01:18 | CH | Foreign Direct Investment YoY CNY | Dec | -- | -- | 1.50% | -- |
| 01/13/2020 01:15 | CH | Money Supply M2 YoY | Dec | 8.30% | -- | 8.20% | -- |
| 01/13/2020 01:15 | CH | New Yuan Loans CNY | Dec | 1200.0b | -- | 1390.0b | 1388.1b |
| 01/13/2020 01:15 | CH | Money Supply M1 YoY | Dec | 3.70% | -- | 3.50% | -- |
| 01/13/2020 01:15 | CH | Money Supply M0 YoY | Dec | 5.20% | -- | 4.80% | -- |
| 01/13/2020 08:00 | AU | Melbourne Institute Inflation MoM | Dec | -- | 0.30% | 0.00% | -- |
| 01/13/2020 08:00 | AU | Melbourne Institute Inflation YoY | Dec | -- | 1.40% | 1.50% | -- |
| 01/13/2020 17:30 | UK | Industrial Production MoM | Nov | 0.00% | -- | 0.10% | -- |
| 01/13/2020 17:30 | UK | Manufacturing Production MoM | Nov | -0.20% | -- | 0.20% | -- |
| 01/13/2020 17:30 | UK | Trade Balance GBP/Mn | Nov | -£2539m | -- | -£5188m | -- |
| 01/13/2020 17:30 | UK | Industrial Production YoY | Nov | -1.30% | -- | -1.30% | -- |
| 01/13/2020 17:30 | UK | Visible Trade Balance GBP/Mn | Nov | -£11800m | -- | -£14486m | -- |
| 01/13/2020 17:30 | UK | Manufacturing Production YoY | Nov | -1.60% | -- | -1.20% | -- |
| 01/13/2020 17:30 | UK | Trade Balance Non EU GBP/Mn | Nov | -£3500m | -- | -£5729m | -- |
| 01/13/2020 17:30 | UK | Index of Services 3M/3M | Nov | 0.20% | -- | 0.20% | -- |

Source: Bloomberg

Treasury Research & Strategy

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