

Daily Treasury Outlook

17 January 2020

Highlights

Global: Economic optimism fuelled the overnight rally in financial markets, as investors digested the news of the passage of the USMCA agreement and the strong US retail sales data, following the earlier signing of the US-China Phase one trade deal. The S&P500 rallied 0.8%, led by small-caps and Alphabet joined Apple and Microsoft in the \$1 trillion market capitalization, while the UST bond yield curve steepened on news that the US Treasury plans to introduce regular 20-year bonds sales in the first half of this year and prompted the 10-year bond yield higher to 1.82%.

Market watch: Asian markets may start on a positive tone this morning, while awaiting China's key 4Q19 GDP data release where market is eyeing a steady 6% handle and its accompanying data dump of industrial production, retail sales, fixed asset investments etc. BOK is likely to be static at 1.25% today. Other economic releases due today comprise UK's retail sales, Eurozone's CPI, US' housing starts, building permits and industrial production, and University of Michigan sentiments. Fed's Harker and Quarles are also speaking.

US: The USMCA agreement was passed in the Senate, ahead of the president's impeachment trial. Meanwhile, President Trump plans to nominate Judy Shelton and Christopher Waller to join the Fed board. Retail sales climbed the most in five months in December by 0.3% mom and 0.7% mom excluding autos, albeit partly due to a low base a year ago due to market volatility and the government shutdown.

China: China's credit expansion beat market expectation in December. Aggregate social financing increased by CNY2.1 trillion while total new Yuan loan expanded by CNY1.14 trillion. The surge in aggregate social financing was mainly the result of accounting change as China added issuance of government bond and local government bond into the aggregate social financing on top of local government special bond, which has been included from September 2018. With the new addition, aggregate social financing has been more important in our view as it will better reflect the coordination between China's fiscal policy and China's monetary policy. Excluding the effect of accounting change, China's aggregate social financing was still on the strong side. With the green light from top policy makers to boost infrastructure investment, we expect China's social financing growth to remain strong in the first quarter of 2020.

Singapore: NODX rebounded a stronger than expected 2.4% yoy (1.1% mom sa), better than our forecast for 1.2% yoy (0.7% mom sa) and far exceeding the Bloomberg consensus forecast of -1.0% yoy (-1.5% momsa). This was also a significant improvement compared to November's -5.9% yoy (5.8% momsa). Electronics exports remained weak at -21.3% in December, close to the 23.3% seen in November, but non-electronics exports (+11.5% yoy) saved the day, mainly due to pharmaceuticals exports (+34.7% yoy). Notably, exports to 8 of our top 10 NODX markets rose in December, led by S. Korea (19.4% yoy), Taiwan (16.2%), EU28 (9.9%), China (9.8%) and US (8.5%), whereas the two laggards were Hong Kong (-26.6%) and Indonesia (-6.2%). Our 2020 NODX growth forecast is for an improvement to 2-4% yoy.

Key Market Movements		
Equity	Value	% chg
S&P 500	3316.8	0.8%
DJIA	29298	0.9%
Nikkei 225	23933	0.1%
SH Comp	3074.1	-0.5%
STI	3278.0	0.6%
Hang Seng	28883	0.4%
KLCI	1587.9	0.2%
Currencies	Value	% chg
DX	97.320	0.1%
USDJPY	110.16	0.2%
EURUSD	1.1137	-0.1%
GBPUSD	1.3080	0.3%
USIDR	13643	-0.4%
USDSGD	1.3472	0.1%
SGDMYR	3.0186	-0.2%
Rates	Value	chg (bp)
3M UST	1.55	-1.03
10Y UST	1.81	2.44
1Y SGS	1.61	0.00
10Y SGS	1.74	0.19
3M LIBOR	1.84	-0.65
3M SIBOR	1.77	-0.30
3M SOR	1.53	0.51
Commodities	Value	% chg
Brent	64.62	1.0%
WTI	58.52	1.2%
Gold	1553	-0.2%
Silver	17.94	-0.3%
Palladium	2314	2.1%
Copper	6278	-0.2%
BCOM	79.61	-0.5%

Source: Bloomberg

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Major Markets

US: US stocks continued their march up to record highs in the midst of strong US corporate earnings and economic data. The S&P closed the session 0.84% up at a record high of 3316.81. Corporate earnings are off to a solid start, led by the banks as they reported earnings that have so far largely exceeded expectations. For today, US markets are likely to continue its rally as risk appetite continues to firm on the back of subsiding tail risks and stronger than expected corporate earnings.

UK: The Bank of England urged banks to stop issuing cash products linked to the GBP-linked Libor by September.

Singapore: The STI gained 0.65% to close at 3278.00 yesterday and looks set to firm further too amid a more buoyant mood across Wall Street overnight to morning gains for Nikkei and Kospi. STI support and resistance are tipped at 3252 and 3300 respectively. With the steepening bias in the UST bond market overnight, SGS bonds may see similar pressures today, especially ahead of the size announcement for 10-year re-opening due on 29 January.

Macau: Macau's average housing price dropped by 5.4% mom (or +4.2% yoy) to 105,494/ square meter in December 2019. The data showed that housing market of Macau remained under pressure despite a brief rebound observed in November. It might be affected by several unfavorable factors, including rising concerns over bleak economic outlook and negative spill-over effects from HK's social unrest. Taking 2019 as a whole, the housing control measures continued to trim speculative demand as local home buyers holding more than one property represented only 3.06% of total local buyers. Meanwhile, first-home local buyers remained the major driving factor of the housing market, which took over 82% of total local home buyers in whole 2019. we expect that the housing market of Macau will likely continue to slow down amid the persistent headwinds.

Moving forward, in terms of supply, the housing start and completion dropped by 78% yoy and 37% yoy respectively for the first eleven months of 2019, reflecting that the long-term supply remains limited. On the other hand, the housing demand is expected to be resilient amid no significant structural changes observed. Therefore, the housing market correction might be contained in the longer term.

Malaysia: PM Mahathir Mohamad said that the government will cut toll fares by 18% from the current rate and keep them unchanged irrespective of demand or inflation. He said this on the sideline of an announcement that the government has rejected all bids to privatize PLUS - the largest highway concession holder.

Indonesia: President Jokowi has expressed caution about the recent pace of Rupiah appreciation, noting its impact on export competitiveness. He added that trade deficit and broader current account deficit remain key concerns. Separately, he said that the planned sovereign wealth fund is set to raise at least USD20bn to start with.

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Thailand: Secretary of the Council of Economic Ministers Kobsak Pootrakool said that GDP growth in Q4 2019 may come in at 2.4% to 2.5% yoy, citing declining exports, low agricultural prices, weak tourist arrivals and capital flow volatility as the four main reasons for the drag on the economy. We are estimating Q4 growth at 2.8%, with fiscal policies providing a support for growth. Kobsak also said that the Thai economy is set to face challenges in the next 12 to 18 months.

Oil: Crude oil prices continue to stabilise, with Brent prices having found support at around the \$64.50/bbl since the start of this week. Prices did not rise materially despite the signing of the phase one trade deal the day before, suggesting that much of the optimism has already been priced into the oil market.

Bond Market Updates

Market Commentary: The SGD swap curve flattened yesterday, with the shorter tenors trading 0-1bps higher while the belly and longer tenors remained mostly unchanged. The Bloomberg Barclays Asia USD IG Bond Index average OAS remained mostly unchanged at 117bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 5bps to 439bps. The HY-IG Index tightened 5bps to 322bps. 10Y UST Yields gained by 2bps to close at 1.81%, following positive bank earnings and optimistic economic data such as firm December retail sales data and better-than-expected increase in the January Philadelphia Fed business outlook index.

New Issues: China Evergrande Group priced a USD1bn 3-year bond (guaranteed by Certain Restricted Subsidiaries incorporated outside the PRC) at 11.5% and a USD1bn 4NC2 at 12.0%, tightening from IPT of 12.0% and 12.5% area. PT Bayan Resources Tbk priced a USD400mn 3-year bond (guaranteed by certain of the Issuer's subsidiaries) at 6.125%, tightening from IPT of 6.375% area. China Zhengtong Auto Services Holdings Limited priced a USD160mn 2-year bond (guaranteed by certain subsidiaries of the Company outside of the PRC) at 12.0%. Jollibee Worldwide Pte. Ltd priced a USD600mn PERP NC5 note (guaranteed by Jollibee Foods Corporation) at 3.90%, tightening from IPT of 4.25% area. Medco Bell Pte. Ltd. priced a USD650mn 7NC4 bond (guaranteed by PT Medco Energi Internasional Tbk) at 6.625%, tightening from IPT of 7.0% area. Rugao Economic and Trade Development Company priced a USD160mn 3-year bond at 5.95%, tightening from IPT of 6.0% area. ZGC International Investment Ltd priced a USD300mn 3-year bond (Keepwell deed provider and deed of equity interest purchase undertaking provider: Zhongguancun Development Group Co) at T+137.5bps, tightening from IPT of T+175bps area. Jiayuan International Group Limited priced a USD30mn re-tap of its existing JIAYUA 13.75%23s at 13.75%.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	97.320	0.09%	USD-SGD	1.3472	0.08%
USD-JPY	110.160	0.24%	EUR-SGD	1.5002	-0.05%
EUR-USD	1.1137	-0.12%	JPY-SGD	1.2228	-0.16%
AUD-USD	0.6898	-0.06%	GBP-SGD	1.7621	0.40%
GBP-USD	1.3080	0.32%	AUD-SGD	0.9292	-0.04%
USD-MYR	4.0627	-0.29%	NZD-SGD	0.8942	0.38%
USD-CNY	6.8789	-0.17%	CHF-SGD	1.3960	-0.01%
USD-IDR	13643	-0.38%	SGD-MYR	3.0186	-0.16%
USD-VND	23175	--	SGD-CNY	5.1093	-0.16%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4580	-0.90%	O/N	1.5284	-0.29%
2M	-0.3360	-0.29%	1M	1.6690	-0.06%
3M	-0.3930	-0.06%	2M	1.7866	0.06%
6M	-0.3340	0.06%	3M	1.8361	-0.65%
9M	-0.1940	-0.65%	6M	1.8650	0.05%
12M	-0.2520	0.05%	12M	1.9528	-1.04%

Fed Rate Hike Probability

Meeting	Prob Hike	Prob Cut	1.00-1.25%	1.25-1.50%	1.50-1.75%
29/01/2020	13.40%	0.00%	0.00%	0.00%	86.60%
18/03/2020	15.60%	0.00%	0.00%	0.00%	84.40%
29/04/2020	13.70%	10.60%	0.00%	10.60%	75.70%
10/06/2020	11.60%	22.20%	1.60%	20.50%	66.20%
29/07/2020	9.70%	33.20%	4.80%	28.20%	57.00%
16/09/2020	7.80%	45.00%	9.60%	34.10%	47.20%

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	58.52	1.2%	Corn (per bushel)	3.7550	-3.1%
Brent (per barrel)	64.62	1.0%	Soybean (per bushel)	9.240	-0.5%
Heating Oil (per gallon)	1.8600	-1.0%	Wheat (per bushel)	5.6525	-1.4%
Gasoline (per gallon)	1.6548	1.1%	Crude Palm Oil (MYR/MT)	2,968.0	-2.0%
Natural Gas (per MMBtu)	2.0770	-2.0%	Rubber (JPY/KG)	175.0	0.9%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	6,278	-0.2%	Gold (per oz)	1,552.5	-0.2%
Nickel (per mt)	13,775	-3.9%	Silver (per oz)	17.943	-0.3%

Equity and Commodity

Index	Value	Net change
DJIA	29,297.64	267.42
S&P	3,316.81	27.52
Nasdaq	9,357.13	98.44
Nikkei 225	23,933.13	16.55
STI	3,278.00	21.02
KLCI	1,587.88	2.74
JCI	6,286.05	2.68
Baltic Dry	768.00	--
VIX	12.32	-0.10

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.46 (+0.01)	1.57 (+0.01)
5Y	1.52 (-0.01)	1.62 (+0.03)
10Y	1.74 (--)	1.81 (+0.02)
15Y	1.85 (--)	--
20Y	1.93 (--)	--
30Y	2.09 (--)	2.26 (+0.02)

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	5.77	-0.03
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	1.56
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Source: Bloomberg, Reuters
(Note that rates are for reference only)

Economic Calendar

Date Time		Event		Survey	Actual	Prior	Revised
01/17/2020	SK	BoK 7-Day Repo Rate	Jan-17	1.25%	--	1.25%	--
01/17/2020 08:30	SI	Non-oil Domestic Exports YoY	Dec	-1.00%	2.40%	-5.90%	--
01/17/2020 10:00	CH	GDP YoY	4Q	6.00%	--	6.00%	--
01/17/2020 10:00	CH	Industrial Production YoY	Dec	5.90%	--	6.20%	--
01/17/2020 10:00	CH	Retail Sales YoY	Dec	7.90%	--	8.00%	--
01/17/2020 12:30	JN	Tertiary Industry Index MoM	Nov	1.00%	--	-4.60%	--
01/17/2020 15:30	TH	Foreign Reserves	Jan-10	--	--	\$227.5b	--
01/17/2020 17:30	UK	Retail Sales Inc Auto Fuel MoM	Dec	0.60%	--	-0.60%	--
01/17/2020 17:30	UK	Retail Sales Ex Auto Fuel MoM	Dec	0.80%	--	-0.60%	--
01/17/2020 17:30	UK	Retail Sales Inc Auto Fuel YoY	Dec	2.70%	--	1.00%	--
01/17/2020 18:00	EC	CPI YoY	Dec	1.30%	--	1.00%	--
01/17/2020 18:00	EC	CPI MoM	Dec F	0.30%	--	0.30%	--
01/17/2020 21:30	US	Housing Starts	Dec	1380k	--	1365k	--
01/17/2020 22:15	US	Industrial Production MoM	Dec	-0.20%	--	1.10%	--
01/17/2020 23:00	US	U. of Mich. Sentiment	Jan P	99.3	--	99.3	--

Source: Bloomberg

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