

## Daily Treasury Outlook

20 January 2020

### Highlights

**Global:** US equity markets set fresh record highs on Friday, led by tech stocks amid market optimism following strong US housing starts which surged 16.9% in December to an annual 1.61 pace. The S&P500 rallied 0.39%, whilst the UST bond yield curve steepened further amid concerns about US Treasury plans for regular 20-year bonds sales in the first half of this year (last issued in March 1986), with the 10-year bond yield at 1.83%. Over in Asia, China's growth slowed to 6.0% yoy (1.5% qoq sa) in 4Q19, bringing full-year 2019 growth to 6.1%, whereas Bank of Korea kept its 7-day repo rate unchanged at 1.25% as widely expected.

**Market watch:** Asian markets may be off to a muted but positive start this morning, following positive Friday cues from Wall Street, albeit with US markets closed for holiday today. BOJ also begins its two day meeting today, but is anticipated to stand pat and possibly hike its growth forecast. Economic releases due today comprise China's 1- and 5-year Loan Prime Rate settings, Japan's industrial production, Germany's PPI, Taiwan's export orders and HK's unemployment rate. For the week ahead, market will be focused on the Bank of Canada (likely static at 1.75% on 22 Jan), BNM (likely unchanged at 3%), BI (looking for a non-consensus cut to 4.75% on 23 Jan), ECB (likely static but strategic review of its inflation target to be less than but close to 2%) and the talkfest at World Economic Forum in Davos.

**US:** JOLTS job openings fell sharply from 7361 in October to 6800 in November, with the job opening rate easing from 4.6% to 4.3% of total openings. Meanwhile, the University of Michigan sentiments also softened slightly from 99.3 to 99.1 in January, with the retreat in the expectations gauge (from 88.9 to 88.3) offset by the current conditions index (from 115.5 to 115.8). The 1-year and 5-10 year inflation gauges also accelerated to 2.5% each, up from 2.3% and 2.2% respectively.

**China:** The positive risk sentiment supported by signing of US-China phase one trade deal, stronger than expected economic growth data and China's liquidity injection via 1-year MLF is likely to be shadowed by the forming two dark clouds this week including the deteriorating Wuhan Pneumonia situation ahead of holiday season and China's official change of attitude towards Taiwan.

Here are two risks we have to monitor closely in the near term. First, the possibility of human to human transmission of coronavirus in Wuhan is rising given the second wave of confirmed cases over the weekend. The upcoming human migration ahead of Chinese New Year holiday this Friday may also increase the risk of spread of virus. Second, China's move away from the phrase "Taiwan is part of China" to "Taiwan is part of People's Republic of China" in its joint statement with Myanmar over the weekend suggests the PRC government may be losing patience over Taiwan's political development. This also shows that China's relationship with Taiwan may be entering an uncharted territory. Although China is unlikely to use force for now, the nature of unpredictability is likely to be one of the most important parameters in the global market this year.

Key Market Movements		
Equity	Value	% chg
S&P 500	3329.6	0.4%
DJIA	29348	0.2%
Nikkei 225	24041	0.5%
SH Comp	3075.5	0.0%
STI	3281.0	0.1%
Hang Seng	29056	0.6%
KLCI	1595.8	0.5%
Currencies	Value	% chg
DX	97.606	0.3%
USDJPY	110.14	0.0%
EURUSD	1.1092	-0.4%
GBPUSD	1.3016	-0.5%
USDIDR	13645	0.0%
USDSGD	1.3473	0.0%
SGDMYR	3.0120	-0.2%
Rates	Value	chg (bp)
3M UST	1.55	0.74
10Y UST	1.82	1.41
1Y SGS	1.61	0.10
10Y SGS	1.74	-0.58
3M LIBOR	1.83	-0.95
3M SIBOR	1.74	-2.76
3M SOR	1.52	-0.28
Commodities	Value	% chg
Brent	64.85	0.4%
WTI	58.54	0.0%
Gold	1557	0.3%
Silver	18.04	0.5%
Palladium	2498	8.0%
Copper	6273	-0.1%
BCOM	79.82	0.3%

Source: Bloomberg

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### Major Markets

**US:** US markets rose slightly to end a week of solid gains last Friday as strong corporate earnings from the major banks and encouraging global economic releases boosted investors' sentiment. The S&P500 rose 0.4%. For the week ahead, investors will be looking out for more corporate earnings releases from the other sectors and a couple of central banks interest rates' decisions, including the ECB and BoJ. US markets are closed on Monday for Martin Luther King Jr Day.

**UK:** The Bank of England governor Carney will hand over the reins to Andrew Bailey (current head of the Financial Conduct Authority) in mid-March, which could mean that the 30 January rate decision is potentially live.

**Singapore:** The STI gained 0.09% to close at 3281.03 on Friday and looks set to firm further today amid a more buoyant mood across Wall Street on Friday and morning gains for Kospi. STI support and resistance are tipped at 3270 and 3300 respectively. With the steepening bias in the UST bond market on Friday amid strong housing starts data and 20-year tenor supply concerns, SGS bonds may unwind Friday's rally today, awaiting the size announcement for 10-year re-opening due on 29 January.

**Malaysia:** Kimanis constituency in Sabah held a by-election on Sat, in which BN retained the seat with a bigger majority, defeating PH-backed Parti Warisan candidate. The ruling coalition has lost 5 of the last 6 by-elections. PM Mahathir said a post-mortem will be done to understand voters' disappointment.

**Indonesia:** Market is awaiting progress on the investment omnibus bill that the government has spoken about repeatedly. The bill was supposed to have been submitted to the parliament by end of last year, and then by end of last week. The missed deadlines, together with potential labour union protests, may catch market attention this week.

**Oil:** Geopolitical tensions are thrust into the spotlight again, sending Brent prices higher this Monday morning. Libya is set to lose 94% of its production, declining from 1.2mbpd to a mere 72kbpd, after an eastern military commander Khalifa Haftar blocked exports at ports in his territory. The drop in output will begin when Libya's storage tanks are full. Meanwhile in Iraq, civil protests are threatening to leave both the Al Ahdab and Badra oil fields closed this week. Combined, these two oil fields produce about 120kbpd. Uncertainty over Middle East production may prompt a short term elevation in oil prices as buyers look to stock up in this period of uncertainty.

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### Bond Market Updates

**Market Commentary:** Last Friday, the SGD swap curve traded relatively unchanged. The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 116bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 2bps to 437bps. The HY-IG Index tightened 1bps to 320bps. 10Y UST Yields gained by 1bps to close at 1.82%, following strong housing data and upbeat corporate earnings.

**New Issues:** Sun Hung Kai Properties (Capital Market) Limited priced a USD300mn tap of its 2030s at T+106.5bps, tightening from IPT of T+130bps area. Industrial and Commercial Bank of China Limited (ICBC) of Singapore priced two USD100mn 3-year FRN at 3m-US LIBOR+58bps. CPI Property Group S.A. priced a SGD150mn PERP NC5.5 at 5.8%.

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### Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	97.606	0.29%	USD-SGD	1.3473	0.01%
USD-JPY	110.140	-0.02%	EUR-SGD	1.4943	-0.39%
EUR-USD	1.1092	-0.40%	JPY-SGD	1.2229	0.01%
AUD-USD	0.6879	-0.28%	GBP-SGD	1.7537	-0.48%
GBP-USD	1.3016	-0.49%	AUD-SGD	0.9262	-0.32%
USD-MYR	4.0547	-0.20%	NZD-SGD	0.8909	-0.37%
USD-CNY	6.8597	-0.28%	CHF-SGD	1.3921	-0.28%
USD-IDR	13645	0.01%	SGD-MYR	3.0120	-0.22%
USD-VND	23171	-0.02%	SGD-CNY	5.0916	-0.35%

### Equity and Commodity

Index	Value	Net change
DJIA	29,348.10	50.46
S&P	3,329.62	12.81
Nasdaq	9,388.94	31.81
Nikkei 225	24,041.26	108.13
STI	3,281.03	3.03
KLCI	1,595.81	7.93
JCI	6,291.66	5.61
Baltic Dry	754.00	-14.00
VIX	12.10	-0.22

### Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4620	0.10%	O/N	1.5311	0.73%
2M	-0.3360	0.73%	1M	1.6544	-1.13%
3M	-0.3910	-1.13%	2M	1.7925	1.22%
6M	-0.3320	1.22%	3M	1.8191	-0.95%
9M	-0.1940	-0.95%	6M	1.8449	-1.63%
12M	-0.2420	-1.63%	12M	1.9230	-2.26%

### Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.46 (-0.01)	1.56 (-0.01)
5Y	1.52 (-0.01)	1.62 (-0.01)
10Y	1.74 (-0.01)	1.82 (+0.01)
15Y	1.84 (-)	--
20Y	1.92 (-0.01)	--
30Y	2.09 (-)	2.28 (+0.02)

### Fed Rate Hike Probability

Meeting	Prob Hike	Prob Cut	0.75-1.00%	1.00-1.25%	1.25-1.50%
29/01/2020	15.50%	0.00%	0.00%	0.00%	0.00%
18/03/2020	15.40%	0.80%	0.00%	0.00%	0.80%
29/04/2020	14.30%	6.70%	0.00%	0.10%	6.70%
10/06/2020	12.00%	19.40%	0.00%	1.10%	18.30%
29/07/2020	10.30%	29.00%	0.20%	3.50%	25.30%
16/09/2020	8.20%	41.50%	0.90%	8.00%	32.60%

### Financial Spread (bps)

	Value	Change
EURIBOR-OIS	6.00	0.23
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)	58.54	0.0%	Corn (per bushel)	3.8925	3.7%
Brent (per barrel)	64.85	0.4%	Soybean (per bushel)	9.298	0.6%
Heating Oil (per gallon)	1.8592	0.0%	Wheat (per bushel)	5.7050	0.9%
Gasoline (per gallon)	1.6406	-0.9%	Crude Palm Oil (MYR/MT)	2,922.0	-1.5%
Natural Gas (per MMBtu)	2.0030	-3.6%	Rubber (JPY/KG)	174.9	-0.1%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	6,273	-0.1%	Gold (per oz)	1,557.2	0.3%
Nickel (per mt)	13,910	1.0%	Silver (per oz)	18.041	0.5%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

## Economic Calendar

Date Time		Event		Survey	Actual	Prior	Revised
01/20/2020	PH	BoP Overall	Dec	--	--	\$541m	--
01/20/2020 01:23	JN	Supermarket Sales YoY	Dec	--	--	-1.40%	--
01/20/2020 12:30	JN	Industrial Production MoM	Nov F	--	--	-0.90%	--
01/20/2020 08:01	UK	Rightmove House Prices MoM	Jan	--	2.30%	-0.90%	--
01/20/2020 08:01	UK	Rightmove House Prices YoY	Jan	--	2.70%	0.80%	--
01/20/2020 09:10	JN	BOJ Outright Bond Purchase 3~5 Years					
01/20/2020 09:30	CH	5-Year Loan Prime Rate	Jan	4.80%	--	4.80%	--
01/20/2020 09:30	CH	1-Year Loan Prime Rate	Jan	4.10%	--	4.15%	--
01/20/2020 12:30	JN	Industrial Production YoY	Nov F	--	--	-8.10%	--
01/20/2020 12:30	JN	Capacity Utilization MoM	Nov F	--	--	-4.50%	--
01/20/2020 15:00	GE	PPI MoM	Dec	0.10%	--	0.00%	--
01/20/2020 15:00	GE	PPI YoY	Dec	-0.30%	--	-0.70%	--
01/20/2020 15:00	JN	Convenience Store Sales YoY	Dec	--	--	1.00%	--
01/20/2020 16:00	TA	Export Orders YoY	Dec	0.40%	--	-6.60%	--
01/20/2020 16:30	HK	Unemployment Rate SA	Dec	3.30%	--	3.20%	--

Source: Bloomberg

## Treasury Research & Strategy

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