

Thursday, June 15, 2017

## DAILY TREASURY OUTLOOK

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### Highlights

<b>Global</b>	<p>The FOMC hiked its interest rates for the second time this year by 25bps to 1-1.25% by a 9-1 vote (with Kashkari as the sole dissenter preferring no change), and indicated that "the committee currently expects to begin implementing a balance sheet normalization program this year, provided that the economy evolves broadly as anticipated". In particular, the run-off rates for UST and agency/MBS will be US\$6b and US\$4b monthly with quarterly step-ups to reach US\$30b and US\$20b per month over 12 months, which will allow holdings to "continue to decline in a gradual and predictable manner until the Committee judges that the Federal Reserve is holding no more securities than necessary to implement monetary policy efficiently and effectively". The FOMC also signalled one further hike this year with three more next year and another three more in 2019. Notably, the GDP growth forecasts were little changed, but the unemployment and core PCE inflation were adjusted slightly lower.</p> <p>Today's market focus will be BI, BOE and SNB which are likely to be static. Key data to watch include US' industrial production, import prices, initial jobless claims, Philadelphia Fed business and NAHB housing market index, Indonesia's trade, UK's retail sales and Australia's employment change.</p>
<b>US</b>	<p>CPI unexpectedly declined 0.1% in May, dragged down by lower gasoline, apparel, airfares and auto prices. Meanwhile, retail sales also saw its largest decline of 0.3% in 16 months as consumers cut back on autos and other discretionary spending. Separately, special counsel Robert Mueller III will investigate president Trump's conduct.</p>
<b>EZ</b>	<p>ECB's Nowotny has questioned if adopting an inflation range rather than a specific target would make more sense when inflation is low for a long period of time. Meanwhile, industrial production in the Eurozone rose 0.5% mom in Apr as expected.</p>
<b>CH</b>	<p>May economic data painted possibly the best picture for China's current economic status as an economy with extended growth momentum but limited financial risk. China's financial de-leverage started to take effect, driving funding demand from shadow banking back to the on-balance sheet. As such, total new Yuan loan growth remained strong although M2 growth slowed down to record low levels. On growth, the rising volatility in China's money market as a result of the financial deleverage has limited impact on the real economy. Private sentiments remained steady while manufacturing activities continued to climb up despite deceleration in property investments due to property tightening measures.</p>
<b>Commodities</b>	<p>Market-watchers did not view kindly to the recent International Energy Agency (IEA) comment for "non-OPEC production to grow... slightly more than the expected increase in global demand" in their latest monthly report. Moreover, disappointments arose as US oil stocks fell less than expected (-1.7 million barrels) while petroleum inventories unexpectedly rose 2.1 million barrels, thus sending oil prices lower to its lowest since April 2016. Elsewhere, gold prices fell to its \$1,260/oz handle this morning as market digested US policy-makers decision to raise rates (+25bps) and implement a balance sheet normalization program this year.</p>

## Major Markets

- **US:** Equities traded in a cautious fashion on the day the Fed delivered on the next rate hike, and presented a somewhat hawkish outlook to the rate hike path. Overall, the major indices ended mixed, with the S&P 500 and Nasdaq Composite shedding 0.10% and 0.41%, while the Dow bucked the trend to rise 0.22%. Materials and energy stocks were the largest decliners as crude oil fell to year-to-date lows. The tech sector also saw a late sell-off despite the breather yesterday. Dividend stocks rose in line with Treasury gains. VIX up 2.1% to 10.64.
- US Treasuries rose in spite of the rate hike, with 2y and 10y benchmark yields down 3-8 bps to 1.33% and 2.13% respectively. The driver may have been the CPI and retail prints, both of which were weaker than expectations. With last night's move, the 10y yield broke down from its 200DMA level, having tracked that level for the last few sessions, and it is now at the lowest point year-to-date.
- **Singapore:** STI slipped 0.13% to close at 3253.43 yesterday and weak leads from Wall Street and morning weakness in Nikkei may keep the STI rangebound between 3240-3260. SGS bonds may continue to gain, taking the cue from overnight UST bond market performance even though Fed chair Yellen's somewhat hawkish comments during the press conference may limit gains.
- **China:** The stable industrial production was partly driven by the rebound of mining production, which grew by 0.5%, its first positive growth since Sep 2016. Manufacturing production remained relatively stable at 6.9% yoy. In addition, fixed asset investment in manufacturing accelerated to 5.1% in the first five months.
- The deceleration of fixed asset investments was mainly the result of a slowdown in infrastructure investments as well as property investments. Investments in real estate decelerated to 8.8%, down from 9.3% while property sales also slowed down to 18.6% from 20.1% due to tightening property measures. However, on a positive note, private investments remained stable, expanding by 6.8% in the first five months.
- The stable private investments, together with improving manufacturing activities, showed that the recent recovery is genuine and the momentum is likely to last longer than initially expected despite rising volatility in the money market as a result of the financial de-leverage.
- Nevertheless, our view on that growth has peaked in 1Q has not changed. We still expect the growth to slow in the coming quarters for two reasons. First, the higher funding costs in the money market will be partially passed to the real economy, which will slow the growth down. Second, the tug of war between driving the financial de-leverage and ensuring financial stability will continue, which may lead to volatility in both capital market and real economy periodically.
- New Yuan loan growth looks healthy with medium to long term demand from households and corporates remaining strong. Medium to long term loan to the household sector increased by CNY432.6 billion, less affected by property tightening measures while medium to long term loan to corporates increased by CNY439.6 billion.
- The stronger than expected on-balance sheet loan expansion was probably the result of China's de-leverage efforts to curb the off balance sheet and shadow banking activity, which may drive loan demand back to traditional loan. This explains why aggregate social financing is lower than new Yuan loan in May. Although trust loan remain sizable at CNY181.2 billion, entrusted loan and undiscounted bankers' acceptance fell by CNY27.8 billion and CNY124.5 billion. The decline of entrusted loans, in particular, was at its record high level. This is probably due to China's de-leveraging push.
- The bond market became the unintended victim of the recent financial de-leverage. As a result of sharp surge in yields, which resulted in the cancellation of bond issuance in May, total net issuance of corporate bond in May fell by a record high of CNY246.2 billion.
- It seems that China's financial de-leverage has started to take effect. China's M2 growth is another witness. The rapid decline of M2 growth to 9.6%, below 10% for the first time in history. According to

PBoC, the entire lending chain has been shortened significantly in May as a result of de-leverage. M2 from financial sector only grew by 0.7% while M2 from non-financial sector grew steadily by 10.5%. The lower M2 growth is likely to be the new normal going forwards.

- **Indonesia:** Government is reportedly still trying to make its case in the parliament to get approval to turn its regulation on Automatic Exchange of Information (AEOI) in lieu of law into law proper. This is according to Suahasil Nazara, head of fiscal policy office at Finance Ministry. As quoted by Bloomberg, he said that "If we are included as a country that failed on its commitments then in 2008 Indonesia cannot request the data about Indonesians' financial accounts abroad."
- **Malaysia:** Malaysia sold 2027 Islamic bonds at an average yield of 4.013% yesterday. Demand for the MYR3bn notes exceeded amount on offer by 2.54 times, according to Bank Negara's data, as relayed by Bloomberg.

## Bond Market Updates

- **Market Commentary:** The SGD swap curve traded downwards yesterday, with swap rates trading 3-4bps lower across all tenors. Flows in SGD corporates were heavy, with better buying seen in HSBC 4.7%'49s, STHSP 3.95%'49s, GALVSP 7%'18s, mixed interest seen in LMRTSP 6.6%'49s. In the broader dollar space, the spread on JACI IG corporates changed little at 198bps, while the yield on JACI HY corporates fell 1bps to 6.79%. 10y UST yields plunged 9bps yesterday to 2.13% in early sessions after soft CPI and retail sales data, but held onto lower yields despite US Federal Reserve Chairwoman Yellen's hawkish tone during the FOMC press conference.
- **New Issues:** Sembcorp Industries Ltd priced a SGD200mn Perp NC3 at 3.7%, tightening from earlier price guidance of 4% area. China Three Gorges Finance II (Cayman Islands) Ltd. priced a EUR650mn 7-year bond (guaranteed by China Three Gorges Corporation) at MS+93bps, tightening from initial guidance of MS+110bps area. The expected issue ratings are 'NR/A1/A+'. China Eximbank plans to issue up to USD2-4bn worth of bonds in the second half of this year.
- **Rating Changes:** S&P assigned Bank of Chongqing Co. Ltd (BoCQ) a 'BBB-' long-term issuer credit rating. The outlook on the rating is stable. The rating action reflects S&P's view that the government-related entity will continue to benefit from an established franchise in Chongqing, particularly in lending to corporates and small and midsize enterprises (SMEs). Moody's downgraded Nord Anglia Education Inc's (NAE) corporate family rating (CFR) and the senior secured ratings of rated debt instruments to 'B2' from 'B1'. Moody's also assigned a 'B1' senior secured rating to the term loan, issued by Fugue Finance B.V. and guaranteed by Bach Finance Limited and NAE (both companies will merge with NAE as the surviving entity). The ratings outlook is stable. The rating action reflects the significant increase in the company's financial leverage, after the completion of a debt-funded buyout. S&P also affirmed NAE's long-term corporate credit rating and long-term issue rating on NAE's guaranteed loans, notes, and revolving credit facility at 'B'. In addition, S&P removed all the ratings from CreditWatch with negative implications. Fitch upgraded China-based chemicals manufacturer Wanhua Chemical Group Co., Ltd's (Wanhua Chemical) Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) and the company's senior unsecured rating to 'BBB' from 'BBB-'. The rating action reflects the significant improvement in Wanhua Chemical's financial profile and business diversification, following the successful ramp-up of its Yantai operation.

## Key Financial Indicators

### Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	96.939	-0.04%	USD-SGD	1.3761	-0.35%
USD-JPY	109.580	-0.45%	EUR-SGD	1.5438	-0.28%
EUR-USD	1.1218	0.06%	JPY-SGD	1.2553	0.05%
AUD-USD	0.7585	0.64%	GBP-SGD	1.7546	-0.38%
GBP-USD	1.2751	-0.02%	AUD-SGD	1.0442	0.31%
USD-MYR	4.2580	-0.12%	NZD-SGD	0.9984	0.12%
USD-CNY	6.7917	-0.11%	CHF-SGD	1.4164	-0.63%
USD-IDR	13277	-0.11%	SGD-MYR	3.0873	0.15%
USD-VND	22705	0.05%	SGD-CNY	4.9485	0.53%

### Equity and Commodity

Index	Value	Net change
DJIA	21,374.56	46.09
S&P	2,437.92	-2.43
Nasdaq	6,194.89	-25.48
Nikkei 225	19,883.52	-15.23
STI	3,253.43	-4.09
KLCI	1,792.35	7.91
JCI	5,792.90	85.25
Baltic Dry	870.00	--
VIX	10.64	0.22

### Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD LIBOR	Change
1M	-0.3730	--	O/N	0.9311	--
2M	-0.3400	--	1M	1.1589	--
3M	-0.3310	--	2M	1.1917	--
6M	-0.2700	--	3M	1.2456	--
9M	-0.2020	--	6M	1.4232	--
12M	-0.1490	--	12M	1.7357	--

### Financial Spread (bps)

	Value	Change
LIBOR-OIS	9.51	0.61
EURIBOR-OIS	3.00	-0.02
TED	25.58	--

### Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)	Bund (chg)	FR (chg)	IT (chg)
2Y	1.26 (-0.01)	1.33 (-0.03)	-0.70 (+0.01)	-0.51 (-)	-0.22 (+0.07)
5Y	1.59 (-0.02)	1.72 (-0.07)	-0.46 (-0.02)	-0.26 (-0.01)	0.67 (-0.02)
10Y	2.10 (-0.03)	2.13 (-0.09)	0.23 (-0.04)	0.58 (-0.03)	1.93 (-0.04)
15Y	2.26 (-0.02)	--	0.48 (-0.04)	0.94 (-0.04)	2.50 (-0.03)
20Y	2.32 (-0.02)	--	0.77 (-0.05)	1.25 (-0.04)	2.62 (-0.04)
30Y	2.40 (-0.02)	2.77 (-0.1)	1.05 (-0.05)	1.54 (-0.05)	3.08 (-0.04)

### Government CDS (USD)

	5Y	% Change
Germany	15.502	-3.25%
France	25.329	-4.28%
Italy	152.089	-2.13%

### Fed Rate Hike Probability

Meeting	Prob Hike	Prob Cut	1-1.25	1.25-1.5	1.5-1.75
26/07/2017	0.0%	0.7%	99.3%	0.0%	0.0%
20/09/2017	22.0%	0.5%	77.5%	22.0%	0.0%
01/11/2017	22.6%	0.5%	76.9%	22.4%	0.2%
13/12/2017	41.8%	0.4%	57.8%	36.0%	5.7%
31/01/2018	42.3%	0.4%	57.3%	36.2%	6.0%
21/03/2017	53.7%	0.3%	45.9%	40.4%	12.0%

### Commodities Futures

Energy	Futures	% chg	Base Metals	Futures	% chg
WTI (per barrel)	44.73	-3.72%	Copper (per mt)	5,673.6	-0.89%
Brent (per barrel)	47.00	-3.53%	Nickel (per mt)	8,888.0	1.66%
Heating Oil (per gallon)	1.4102	-2.59%	Aluminium (per mt)	1,870.0	-0.32%
Gasoline (per gallon)	1.4327	-4.45%			
Natural Gas (per MMBtu)	2.9330	-1.11%	Asian Commodities	Futures	% chg
			Crude Palm Oil (MYR/MT)	2,675.0	0.98%
Precious Metals	Futures	% chg	Rubber (JPY/KG)	209.5	9.11%
Gold (per oz)	1,272.8	0.55%			
Silver (per oz)	17.136	2.20%			

Source: Bloomberg, Reuters

(Note that rates are for reference only)

### Key Economic Indicators

Date	Time	Event		Survey	Actual	Prior	Revised
06/14/2017	05:30	NZ	REINZ House Sales YoY	May	--	-18.40%	-31.00%
06/14/2017	06:45	NZ	Food Prices MoM	May	--	2.40%	-0.80%
06/14/2017	06:45	NZ	BoP Current Account Bal NZD	1Q	1.000b	0.244b	-2.335b
06/14/2017	07:00	SK	Unemployment rate SA	May	3.90%	3.60%	4.00%
06/14/2017	08:30	AU	Westpac Cons Conf SA MoM	Jun	--	-1.80%	-1.10%
06/14/2017	10:00	CH	Retail Sales YoY	May	10.70%	10.70%	10.70%
06/14/2017	10:00	CH	Fixed Assets Ex Rural YTD YoY	May	8.80%	8.60%	8.90%
06/14/2017	10:00	CH	Industrial Production YoY	May	6.40%	6.50%	6.50%
06/14/2017	12:30	JN	Industrial Production MoM	Apr F	--	4.00%	4.00%
06/14/2017	12:30	JN	Capacity Utilization MoM	Apr	--	4.30%	-1.60%
06/14/2017	14:00	GE	CPI MoM	May F	-0.20%	-0.20%	-0.20%
06/14/2017	14:00	GE	CPI YoY	May F	1.50%	1.50%	1.50%
06/14/2017	14:00	GE	CPI EU Harmonized MoM	May F	-0.20%	-0.20%	-0.20%
06/14/2017	14:00	GE	CPI EU Harmonized YoY	May F	1.40%	1.40%	1.40%
06/14/2017	14:30	IN	Wholesale Prices YoY	May	2.90%	2.17%	3.85%
06/14/2017	16:30	UK	Claimant Count Rate	May	--	2.30%	2.30%
06/14/2017	16:30	UK	Jobless Claims Change	May	--	7.3k	19.4k
06/14/2017	16:30	UK	ILO Unemployment Rate 3M	Apr	4.60%	4.60%	4.60%
06/14/2017	17:00	EC	Industrial Production SA MoM	Apr	0.50%	0.50%	-0.10%
06/14/2017	17:08	CH	Money Supply M2 YoY	May	10.40%	9.60%	10.50%
06/14/2017	17:08	CH	New Yuan Loans CNY	May	1000.0b	1110.0b	1100.0b
06/14/2017	19:00	US	MBA Mortgage Applications	Jun-09	--	2.80%	7.10%
06/14/2017	20:30	US	CPI MoM	May	0.00%	-0.10%	0.20%
06/14/2017	20:30	US	CPI Ex Food and Energy MoM	May	0.20%	0.10%	0.10%
06/14/2017	20:30	US	CPI YoY	May	2.00%	1.90%	2.20%
06/14/2017	20:30	US	Retail Sales Advance MoM	May	0.00%	-0.30%	0.40%
06/14/2017	20:30	US	Retail Sales Ex Auto MoM	May	0.10%	-0.30%	0.30%
06/14/2017	20:30	US					0.40%
06/15/2017	02:00	US	FOMC Rate Decision	Jun-14	1.25%	1.25%	1.00%
06/15/2017	06:45	NZ	GDP SA QoQ	1Q	0.70%	0.50%	0.40%
06/15/2017	06:45	NZ	GDP YoY	1Q	2.70%	2.50%	2.70%
06/15/2017	07:50	JN	Japan Buying Foreign Bonds	Jun-09	--	--	-\$350.4b
06/15/2017	09:30	AU	RBA FX Transactions Market	May	--	--	A\$441m
06/15/2017	09:30	AU	Employment Change	May	10.0k	--	37.4k
06/15/2017	09:30	AU	Unemployment Rate	May	5.70%	--	5.70%
06/15/2017	09:30	AU	Full Time Employment Change	May	--	--	-11.6k
06/15/2017	09:30	AU	Participation Rate	May	64.80%	--	64.80%
06/15/2017	14:00	JN	Tokyo Condominium Sales YoY	May	--	--	38.60%
06/15/2017	14:45	FR	CPI EU Harmonized MoM	May F	0.00%	--	0.00%
06/15/2017	14:45	FR	CPI EU Harmonized YoY	May F	0.90%	--	0.90%
06/15/2017	14:45	FR	CPI MoM	May F	0.10%	--	0.10%
06/15/2017	14:45	FR	CPI YoY	May F	0.80%	--	0.80%
06/15/2017	16:00	IT	CPI EU Harmonized YoY	May F	1.50%	--	1.50%
06/15/2017	16:30	UK	Retail Sales Ex Auto Fuel MoM	May	-1.00%	--	2.00%
06/15/2017	16:30	UK	Retail Sales Ex Auto Fuel YoY	May	1.90%	--	4.50%
06/15/2017	16:30	UK	Retail Sales Inc Auto Fuel MoM	May	-0.80%	--	2.30%
06/15/2017	16:30	UK	Retail Sales Inc Auto Fuel YoY	May	1.60%	--	4.00%
06/15/2017	19:00	UK	Bank of England Bank Rate	Jun-15	0.25%	--	0.25%
06/15/2017	19:00	UK	BOE Asset Purchase Target	Jun	435b	--	435b
06/15/2017	20:30	CA	Manufacturing Sales MoM	Apr	0.90%	--	1.00%
06/15/2017	20:30	US	Import Price Index MoM	May	-0.10%	--	0.50%
06/15/2017	20:30	US	Empire Manufacturing	Jun	5	--	-1
06/15/2017	20:30	US	Initial Jobless Claims	Jun-10	241k	--	245k
06/15/2017	20:30	US	Continuing Claims	Jun-03	1920k	--	1917k
06/15/2017	20:30	US	Philadelphia Fed Biz Outlook	Jun	24.9	--	38.8
06/15/2017	21:15	US	Industrial Production MoM	May	0.20%	--	1.00%
06/15/2017	21:15	US	Capacity Utilization	May	76.80%	--	76.70%
06/15/2017	21:45	US	Bloomberg Consumer Comfort	Jun-11	--	--	49.9
06/15/2017	22:00	US	NAHB Housing Market Index	Jun	70	--	70
06/15/2017		ID	Bank Indonesia 7D Reverse Repo	Jun-15	4.75%	--	4.75%
06/15/2017		PH	Overseas Remittances YoY	Apr	8.50%	--	10.70%
06/15/2017		PH	Overseas Workers Remittances	Apr	\$2460m	--	\$2615m
06/15/2017		ID	Exports YoY	May	15.65%	--	12.63%
06/15/2017		ID	Trade Balance	May	\$1110m	--	\$1238m
06/15/2017	06:16	IN	Exports YoY	May	--	--	19.80%
06/15/2017	06:16	IN	Imports YoY	May	--	--	49.10%

Source: Bloomberg

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