

Daily Treasury Outlook

1 August 2019

Highlights

Global: Fed chair Powell called the Fed's first 25bp rate cut in a decade as a "mid-term policy correction" intended to "insure against downside risks from weak global growth and trade uncertainties". However, there were two dissenters, namely Rosengren and George, which coupled with the fact that Powell's positioning this first cut as not opening the door for more cuts to follow, prompted profit-taking on Wall Street and a choppy session for UST bonds (10-year yield closed at 2.01%). He opined that the US economic outlook remains favourable, but muted inflation led the Fed to gradually lower its assessment of the policy rate path that would best support that outlook, as the assessment of the neutral rate of interest and the longer run normal unemployment rate have also declined this year. While the market interpretation is we're back to data dependency, the fact that US-China trade talks have ended inconclusively with only the commitment to keep talking (with the next meeting in early September), US president Trump's sustained pressure ("Powell let us down") and continued signs of global economic momentum deceleration, we keep our call for another 25bps rate cut each in September and December. Meanwhile, HKMA also cut its base rate by 25bps to 2.5%, while Brazil cut 50bps to 6.0%.

Market watch: Asian markets are likely to see some profit-taking interest today given a trimming of market expectations for further Fed rate cuts. A busy economic data calendar awaits today, with US' manufacturing ISM and initial jobless claims, manufacturing PMIs from Europe and Asia including China's Caixin PMI, Indonesia and Thailand's CPI, and HK's retail sales. Market focus will now turn from the FOMC to the BOE who is widely expected to keep its policy settings static, but will likely warn of downside no-deal Brexit risks ahead of the 31 October deadline.

US: ADP employment rose 156k in July, up from an upwardly revised 112k in June, as services (+146k) and large firms (+78k) drove job gains. The 2Q employment cost index, however, eased from 0.7% to 0.6%

Singapore: June bank loans rose at a steady 2.1% yoy (0.8% mom) amid resilient business loans (1.3% mom and 3.8% yoy) which offset the drag in consumer loans. Consumer and housing loans both declined for the second month in on-year terms and for the sixth consecutive months in on-month terms by 0.6% yoy (-0.1% mom) and 0.4% yoy (-0.2% mom) in June. Meanwhile, manufacturers turned pessimistic (-11% versus +1% three months ago) about the 2H outlook, with precision engineering & electronics industries most downbeat, whilst services firms (+2% versus +4%) also turned more cautious amid concerns from the retail trade, wholesale trade and financial services industries.

Key Market Movements

Equity	Value	% chg
S&P 500	2980.4	-1.1%
DJIA	26864	-1.2%
Nikkei 225	21522	-0.9%
SH Comp	2932.5	-0.7%
STI	3300.8	-1.5%
Hang Seng	27778	-1.3%
KLCI	1634.9	-0.5%
Currencies	Value	% chg
DXY	98.516	0.5%
USDJPY	108.78	0.2%
EURUSD	1.1076	-0.7%
GBPUSD	1.2159	0.1%
USDIDR	14022	0.0%
USDSGD	1.3743	0.3%
SGDMYR	3.0155	0.1%
Rates	Value	chg (bp)
3M UST	2.06	0.24
10Y UST	2.01	-4.36
1Y SGS	1.86	0.00
10Y SGS	1.92	-1.59
3M LIBOR	2.25	-0.24
3M SIBOR	2.00	-0.02
3M SOR	1.76	2.90
Commodities	Value	% chg
Brent	65.05	0.6%
WTI	58.58	0.9%
Gold	1414	-1.2%
Silver	16.26	-1.8%
Palladium	1520	0.3%
Copper	5927	-0.4%
BCOM	78.96	-0.2%

Source: Bloomberg

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Major Markets

US: US markets closed lower last night, with the S&P 500 index dropping 1.1%. Fed Chair Jerome Powell hinted that the rate reduction is not the start of an easing cycle, but a correction within the current hiking cycle. For the rest of the day, expect continued downward pressure in the US stock markets as investors continue to price in the Fed's less-dovish-than-expected comments. Tonight, look towards upcoming economic data such as the ISM manufacturing and employment data coming out Friday, where stronger-than-expected data prints may reinforce the Fed's policy stance.

EU: Eurozone's 2Q GDP growth decelerated to 0.2% qoq sa (1.1% yoy) due to the drag from Germany, while inflation also eased to 1.1% in July. This opens the door for ECB to consider a 10bp deposit rate cut and/or more QE in September.

China: The US and China concluded their first post G20 face-to-face trade talk in Shanghai. According to the statement from the US that China confirmed their commitment to increase purchases of US agriculture exports, signalling improvement in the trade talk. Despite all those negative headlines yesterday, both sides confirmed that they will meet in Washington in early September to resume the trade talk. This may help market be exempted from any short term external trade shock. In addition, China announced to ban the free and easy travel to Taiwan effective from 1 August. China's tourist to Taiwan on free and easy visa was at 1.07 million in 2018, accounting for 56% of total visitor arrivals from mainland China and 9.7% of total visitor arrivals. China has been frequently using the tourism card as a tool to penalize Tsai administration in the past few years. But a total ban is the first time. The ban on free and easy visa means the potential 10% loss of tourist arrivals for Taiwan. It could be related to the latest HK protest as some Chinese officials argue Taiwan other than the US is the supporting forces to the protest.

Singapore: The STI retreated 1.49% to close at 3300.75 yesterday and may test below this handle today amid profit-taking interest after Powell sowed doubts on further rate cuts. We tip the STI range at 3278-3321. With the UST yield curve flattening post-FOMC and amid month-end positioning flows, SGS bonds may also recalibrate today.

Malaysia: According to the Straits Times, an unnamed Cabinet Minister had said that a proposed plan to take over toll roads in the country is "on hold pending a full review" with the news portal also reporting this minister had also noted that the review was due to Finance Minister Lim Guan Eng having offered the proposal to Gamuda shareholders without receiving the green light from the cabinet. The Straits Times also said that the Works Ministry is looking at an alternative plan to consolidate the 19 highway concessions under a special highway trust entity.

Indonesia: Bloomberg has reported that the Financial Services Authority (OJK) is looking to amend the so-called single presence policy later this year. The amendment may make it easier for foreign banks to invest in local lenders. Heru Kristiyana, commissioner for banking supervision at OJK had said, "The single presence policy will be flexible so that there's

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consolidation and our banks become more efficient". He also noted that "foreign banks are still interested in coming to Indonesia because the net interest margin is still high at around 5%". Indonesia July inflation is due late with our expectations that headline inflation may come out at 3.20% yoy.

Hong Kong: Total loans growth rebounded by 1.1% mom in June. Internally, dragged by trade war, trade finance dropped for the tenth consecutive month by 8.5% yoy in June. Loans for use in HK (excluding trade finance) rebounded by 1.3% mom in June, mainly supported by the increased expectations of US-China trade war de-escalation and Fed's easing. Moving into the coming months, however, the growth of loans for use in HK may remain subdued as the boost from US-China trade truce and global monetary easing may be overshadowed by lingering trade war risks, dimming global growth outlook and rising political uncertainty. Externally, the growth in loans for use outside of HK rallied from 2.6% yoy (the weakest since Nov 2016) in May to 3.5% yoy in June. This was probably due to the widened USD-RMB yield differential and the stabilized RMB. However, as compared to the double-digit growth seen last year, the growth for the coming months may remain sluggish amid the PBOC's expected monetary easing, China's curb on offshore financing of property developers and Mainland companies' preference for bond issuance over bank loans in the offshore market. GDP growth was static at 0.6% yoy (the weakest level since 3Q09) in 2Q as weak external and internal demand continued to weigh. Going forward, we are worried that the tourism-related industries will take a hit by the ongoing political unrest in the third quarter. The completion of mega infrastructure projects may continue to curb public investment while the upcoming implementation of vacancy tax would keep hindering property investment. The rising local political uncertainty and the external headwinds may dent consumer/investment sentiments. Furthermore, the lingering trade war risks and the global economic slowdown could further hit the exports of goods. Taken all together, despite the waning high-base effect, we expect HK's growth to remain sluggish in 2H19. We revise our 2019 GDP forecast from 2.1% to 1%-1.5%. Should social unrest sustain into the rest of this year, the growth may decelerate further.

South Korea: Headline inflation in July rose 0.6%, matching the lowest estimate by economists polled by Bloomberg. This was much lower than the median of 0.8% and our estimate of 0.9%. The low CPI comes as a surprise as a low base from a year ago should have bolstered the prospects of a higher inflation rate than June's 0.7%. South Korea's headline inflation has dipped from as high as 2.1% in September last year to 0.4% in March this year. We maintain our full-year 2019 inflation forecast for South Korea at 0.5%.

Oil: Prices of crude oil rose yesterday, with Brent gaining 0.6% to return above the \$65/bbl level for the first time in a month. WTI closed 0.9% higher at \$58.58/bbl. Data from the US showed crude oil inventories declining for a seventh consecutive week, dropping to its lowest level since early November 2018.

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Bond Market Updates

Market Commentary: The SGD swap curve was mostly unchanged yesterday, with only the longer tenors trading 0-1bps lower and other tenors unchanged. The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 126bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 2bps to 470bps. 10Y USTs fell 4bps to 2.02%, after the Federal Reserve cut interest rates by 25bps and halted its balance sheet normalization two months early. This was compounded by record low yields on German Bunds in anticipation of more stimulus by the ECB. Spread between 3-month treasury bills and 10-year treasury notes remains inverted, with the spread widening to -2bps.

New Issues: Fantasia Holdings Group Company Ltd has priced a USD100mn re-tap of its existing FTHDGR 11.75%'22s at 12.4%. ReNew Power Ltd has scheduled investor meetings commencing on 31 July for its potential USD bond issuance.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	98.516	0.48%	USD-SGD	1.3743	0.28%
USD-JPY	108.780	0.16%	EUR-SGD	1.5221	-0.44%
EUR-USD	1.1076	-0.71%	JPY-SGD	1.2635	0.15%
AUD-USD	0.6845	-0.39%	GBP-SGD	1.6706	0.32%
GBP-USD	1.2159	0.06%	AUD-SGD	0.9407	-0.12%
USD-MYR	4.1265	-0.01%	NZD-SGD	0.9015	-0.54%
USD-CNY	6.8844	0.00%	CHF-SGD	1.3826	-0.09%
USD-IDR	14022	-0.02%	SGD-MYR	3.0155	0.11%
USD-VND	23205	0.01%	SGD-CNY	5.0267	0.12%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.3920	1.30%	O/N	2.3470	-0.16%
2M	-0.3360	-0.16%	1M	2.2298	-0.46%
3M	-0.3740	-0.46%	2M	2.2525	-0.55%
6M	-0.3550	-0.55%	3M	2.2531	-0.24%
9M	-0.1940	-0.24%	6M	2.1916	-0.46%
12M	-0.3010	-0.46%	12M	2.1885	-0.95%

Fed Rate Hike Probability

Meeting	Prob Hike	Prob Cut	1.25-1.75%	1.5-1.75%	1.75-2%
09/18/2019	0.0%	61.4%	0.0%	0.0%	61.4%
10/30/2019	0.0%	79.2%	0.0%	28.3%	50.9%
12/11/2019	0.0%	85.8%	8.9%	35.4%	41.4%
01/29/2020	0.0%	90.0%	16.7%	37.2%	33.4%
03/18/2020	0.0%	92.4%	21.7%	36.3%	27.8%
04/29/2020	0.0%	93.5%	23.8%	35.0%	24.8%

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	58.58	0.9%	Corn (per bushel)	4.0025	-2.7%
Brent (per barrel)	65.17	0.7%	Soybean (per bushel)	8.640	-1.7%
Heating Oil (per gallon)	1.9550	0.6%	Wheat (per bushel)	4.8725	-2.0%
Gasoline (per gallon)	1.9020	0.3%	Crude Palm Oil (MYR/MT)	2,019.0	0.5%
Natural Gas (per MMBtu)	2.2330	4.5%	Rubber (JPY/KG)	216.8	-3.9%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,927	-0.4%	Gold (per oz)	1,426.1	-0.3%
Nickel (per mt)	14,490	0.9%	Silver (per oz)	16.405	-0.9%

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

Equity and Commodity

Index	Value	Net change
DJIA	26,864.27	-333.75
S&P	2,980.38	-32.80
Nasdaq	8,175.42	-98.19
Nikkei 225	21,521.53	-187.78
STI	3,300.75	-49.79
KLCI	1,634.87	-7.82
JCI	6,390.51	13.51
Baltic Dry	1,899.00	--
VIX	16.12	2.18

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.69 (+0.01)	1.87 (+0.03)
5Y	1.74 (-)	1.83 (-0.01)
10Y	1.92 (-0.02)	2.01 (-0.04)
15Y	2.14 (-0.01)	--
20Y	2.22 (-0.02)	--
30Y	2.39 (-0.03)	2.52 (-0.05)

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	5.77	0.67
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	2.39
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Economic Calendar

Date Time		Event		Survey	Actual	Prior	Revised
08/01/2019 02:00	US	FOMC Rate Decision (Upper Bound)	Jul-31	2.25%	2.25%	2.50%	--
08/01/2019 08:00	SK	Exports YoY	Jul	-11.50%	--	-13.50%	--
08/01/2019 08:30	TA	Markit Taiwan PMI Mfg	Jul	--	--	45.5	--
08/01/2019 08:30	JN	Jibun Bank Japan PMI Mfg	Jul F	--	--	49.6	--
08/01/2019 08:30	SK	Markit South Korea PMI Mfg	Jul	--	--	47.5	--
08/01/2019 08:30	ID	Markit Indonesia PMI Mfg	Jul	--	--	50.6	--
08/01/2019 08:30	VN	Markit Vietnam PMI Mfg	Jul	--	--	52.5	--
08/01/2019 09:45	CH	Caixin China PMI Mfg	Jul	49.5	--	49.4	--
08/01/2019 11:30	TH	CPI YoY	Jul	1.00%	--	0.87%	--
08/01/2019 16:00	EC	Markit Eurozone Manufacturing PMI	Jul F	46.4	--	46.4	--
08/01/2019 16:00	GR	Markit Greece Manufacturing PMI	Jul	--	--	52.4	--
08/01/2019 16:30	HK	Retail Sales Value YoY	Jun	-1.90%	--	-1.30%	--
08/01/2019 19:00	UK	Bank of England Bank Rate	Aug-01	0.75%	--	0.75%	--
08/01/2019 20:30	US	Initial Jobless Claims	Jul-27	214k	--	206k	--
08/01/2019 22:00	US	ISM Manufacturing	Jul	52	--	51.7	--

Source: Bloomberg

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