

Daily Treasury Outlook

3 September 2019

Highlights

Global: With the US markets out for holiday and Hurricane Dorian threatening the US East Coast, the market focus was on the disappointing manufacturing PMIs out from Europe and Asia, and the lack of apparent progress in US-China to schedule trade talks for later this month. Meanwhile, the GBP took another dump again after UK PM Boris Johnson threatened to call a snap election on 14 October to avoid plans by Parliament to seek a vote to delay Brexit by three months, and the manufacturing PMI sank to 47.4 in August (lowest in seven years). Tensions also remained elevated in Hong Kong as protests continued.

Market Watch: Asian markets may continue to tread carefully today amid the maelstrom of trade war and geopolitical uncertainties. First up this morning is RBA's policy decision where we think that the market has not sufficiently priced in the possibility of another 25bp cut from 1% given that the market consensus forecast is for no change. Today's economic data calendar comprises of US' manufacturing ISM and construction spending, Australia's retail sales, and S'pore's manufacturing and electronics PMIs. Fed's Rosengren is also speaking.

Mfg PMIs: While China's Caixin PMI recovered from 49.9 in July to 50.4 in August, the others in Asia were a mixed bag, remaining in contraction territory for South Korea (49.0 vs 47.3), Indonesia (49.0 vs 49.6) and Taiwan (47.9 vs 48.1), whereas those for Thailand (50.0 vs 50.3), Philippines (51.9 vs 52.1) and Myanmar (52.0 vs 52.9) kept their head above water for now.

SG: The manufacturing and electronics PMIs are likely to remain in contraction territory in August and may print near the July readings of 49.8 and 49.3 respectively.

China: China's Commerce Ministry said on Monday that it has lodged a official complaint against the US at the WTO over US's decision to impose additional tariff on US\$300 billion imports. Meanwhile, both countries are also struggling to find a date for the previously meeting in September. As there is no clear sign of de-escalation for now, RMB weakened further with the USDCNY broke 7.19. However, 7.20 is likely to be the strong resistance level for the pair. Market will continue to watch out for the daily fixing in the next few days.

Oil: Prices continue to slide, with Brent now at \$58.66/bbl, having fallen -1.0% yesterday. Pessimism has gripped global markets and estimates for energy demand have been continuously downgraded. It is unlikely that Brent will rally materially past \$60/bbl in the short-term.

Key Market Movements		
Equity	Value	% chg
S&P 500	2926.5	0.0%
DJIA	26403	0.0%
Nikkei 225	20620	-0.4%
SH Comp	2924.1	1.3%
STI	3083.0	-0.8%
Hang Seng	25627	-0.4%
KLCI	1612.1	0.0%
Currencies	Value	% chg
DXY	98.916	0.0%
USDJPY	106.24	0.0%
EURUSD	1.0970	-0.1%
GBPUSD	1.2066	-0.7%
USDIDR	14194	0.0%
USDSGD	1.3907	0.3%
SGDMYR	3.0242	-0.4%
Rates	Value	chg (bp)
3M UST	1.98	0.00
10Y UST	1.50	0.00
1Y SGS	1.85	0.00
10Y SGS	1.73	-1.51
3M LIBOR	2.14	0.59
3M SIBOR	1.88	0.00
3M SOR	1.72	-1.23
Commodities	Value	% chg
Brent	58.66	-1.0%
WTI	55.1	0.0%
Gold	1529	0.6%
Silver	18.47	0.5%
Palladium	1537	0.2%
Copper	5620	-1.0%
BCOM	77.00	0.0%

Source: Bloomberg

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Major Markets

US: The US markets were closed on Monday for the Labour Day holiday. Reports of the US & China not being able to set a schedule for planned trade talks following the US refusal to delay tariffs could likely result in some risk-off sentiment in the US markets when they open today. In the absence of new headline updates from the trade front, investors might react to the ISM manufacturing data coming out tonight. We still maintain our bearish outlook on the S&P 500 index, which may be heading towards the 2800 level.

Singapore: The STI declined 0.76% to close at 3082.96 yesterday and may sustain its consolidation streak today. While European bourses closed higher, the lack of overnight cues from Wall Street and ongoing US-China trade war concerns may keep investors sidelined for now. STI's support is seen at last week's low of 3056. SGS bond yields closed lower by 1-3bps yesterday led by the belly of the curve and may continue to trade with a firm tone today.

Malaysia: MoF has reportedly paid nearly MYR1.69bn of SRC International's MYR4.15bn debts that are due to KWAP public services retirement fund. SRC is a subsidiary of the former 1MDB development fund. Finance Minister Lim Guan Eng said that the government will continue to ensure that there is enough funds to honour the debt repayment to KWAP.

Indonesia: August inflation came in at 3.49% yoy, higher than 3.32% of the previous month. Volatile food prices were the main driver of the uptick, spiced up by chili prices. Still, the inflation print remains very much within the 2-4% range targeted by the central bank and is unlikely to be a bother for the market.

Thailand: Thailand CPI in July fell to a 7-month low of 0.53% yoy, matching our bearish estimate of 0.51% yoy and lower than the consensus of 0.60% yoy. We were the second lowest estimate in a poll of economists by Bloomberg but ultimately our hypothesis of a slowdown in food price gains and a sharp deflation in transport prices proved accurate, as these two baskets combined to suppress inflationary pressures. On a ytd basis, headline inflation has now risen 0.9% yoy, below the Bank of Thailand's lower-bound inflation target of 1%. Our full-year inflation forecast for Thailand remains constant at 0.8%.

Macau: Gross gaming revenue dropped by 8.6% in August the largest decline since May 2016. This suggests that the mass-market segment might have lost some momentum due to a stronger MOP against Asian currencies and a softer Asian economic outlook global trade headwind. Macau's tourism seemed to have been indirectly hit political unrest in HK. On the other hand, the high-roller demand has remained sluggish amid China's economic slowdown, a weak RMB, trade war fears and lingering policy risks regarding anti-money laundering. We expect the outlook of the gaming sector to remain clouded by external headwinds. We revise our forecast for gross gaming revenue growth (-1.9% yoy during Jan-Aug) for 2019 from around 0% to around -2%.

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Bond Market Updates

Market Commentary: The SGD swap curve was mostly unchanged yesterday, with only the 7-year swaps traded lower by 2bps. The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 136bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 4bps to 566bps. US bond markets were closed yesterday due to the Labour Day holiday.

New Issues: Skyfame Realty (Holdings) Ltd has priced a USD100mn re-tap of its existing SKYFAM 13.0%'22s at 13.0%. Industrial and Commercial Bank of China (Macau) Ltd has scheduled investor meetings commencing on 2 Sep for its potential USD Tier 2 bond issuance. Zhongliang Holdings Group Co., Ltd has scheduled investor meetings commencing on 2 Sep for its potential USD bond issuance.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	98.916	--	USD-SGD	1.3907	0.25%
USD-JPY	106.240	-0.04%	EUR-SGD	1.5258	0.14%
EUR-USD	1.0970	-0.11%	JPY-SGD	1.3096	0.26%
AUD-USD	0.6716	-0.25%	GBP-SGD	1.6779	-0.49%
GBP-USD	1.2066	-0.74%	AUD-SGD	0.9344	--
USD-MYR	4.2055	--	NZD-SGD	0.8776	0.13%
USD-CNY	7.1720	0.22%	CHF-SGD	1.4042	0.21%
USD-IDR	14194	0.02%	SGD-MYR	3.0242	-0.41%
USD-VND	23196	--	SGD-CNY	5.1596	0.07%

Equity and Commodity

Index	Value	Net change
DJIA	26,403.28	--
S&P	2,926.46	--
Nasdaq	7,962.88	--
Nikkei 225	20,620.19	-84.18
STI	3,082.96	-23.56
KLCI	1,612.14	--
JCI	6,290.55	-37.92
Baltic Dry	2,378.00	--
VIX	18.98	--

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4270	-0.80%	O/N	2.0896	-0.54%
2M	-0.3360	-0.54%	1M	2.0890	-1.13%
3M	-0.4330	-1.13%	2M	2.1496	0.23%
6M	-0.4280	0.23%	3M	2.1376	0.59%
9M	-0.1940	0.59%	6M	2.0365	0.51%
12M	-0.3830	0.51%	12M	1.9740	1.26%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.67 (-0.01)	1.50 (--)
5Y	1.65 (-0.03)	1.39 (--)
10Y	1.73 (-0.02)	1.50 (--)
15Y	1.84 (-0.01)	--
20Y	1.93 (-0.01)	--
30Y	2.02 (-0.01)	1.96 (--)

Fed Rate Hike Probability

Meeting	Prob Hike	Prob Cut	1.25-1.50%	1.5-1.75%	1.75-2%
09/18/2019	0.0%	100.0%	0.0%	19.5%	80.5%
10/30/2019	0.0%	100.0%	10.9%	53.5%	35.6%
12/11/2019	0.0%	100.0%	37.2%	42.5%	13.6%
01/29/2020	0.0%	100.0%	40.2%	25.9%	5.8%
03/18/2020	0.0%	100.0%	35.4%	19.1%	3.9%
04/29/2020	0.0%	100.0%	31.3%	15.3%	2.9%

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	7.98	0.63
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	2.12
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Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	55.10	--	Corn (per bushel)	3.5800	--
Brent (per barrel)	58.66	-2.9%	Soybean (per bushel)	8.570	--
Heating Oil (per gallon)	1.8282	--	Wheat (per bushel)	4.5125	--
Gasoline (per gallon)	1.6134	--	Crude Palm Oil (MYR/MT)	2,168.0	--
Natural Gas (per MMBtu)	2.2850	--	Rubber (JPY/KG)	160.0	0.5%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,620	-1.0%	Gold (per oz)	1,529.3	0.6%
Nickel (per mt)	18,060	0.9%	Silver (per oz)	18.469	0.5%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
09/03/2019 07:00	SK GDP YoY	2Q F	2.10%	2.00%	2.10%
09/03/2019 07:00	SK CPI YoY	Aug	0.20%	0.00%	0.60%
09/03/2019 07:00	SK CPI MoM	Aug	0.40%	0.20%	-0.30%
09/03/2019 07:50	JN Monetary Base YoY	Aug	--	--	3.70%
09/03/2019 08:30	VN Markit Vietnam PMI Mfg	Aug	--	--	52.6
09/03/2019 09:30	AU Retail Sales MoM	Jul	0.20%	--	0.40%
09/03/2019 09:30	AU BoP Current Account Balance	2Q	A\$1.5b	--	-A\$2.9b
09/03/2019 12:30	AU RBA Cash Rate Target	Sep-03	1.00%	--	1.00%
09/03/2019 21:00	SI Purchasing Managers Index	Aug	49.7	--	49.8
09/03/2019 21:30	CA Markit Canada Manufacturing PMI	Aug	--	--	50.2
09/03/2019 21:45	US Markit US Manufacturing PMI	Aug F	50	--	49.9
09/03/2019 22:00	US ISM Manufacturing	Aug	51.2	--	51.2
09/03/2019 22:00	US Construction Spending MoM	Jul	0.30%	--	-1.30%

Source: Bloomberg

Treasury Research & Strategy

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