

## Daily Treasury Outlook

4 September 2019

### Highlights

**Global:** Global risk appetite was dented overnight by the contraction in the US' manufacturing ISM reading and news that UK PM Boris Johnson has lost his ruling majority and is likely to call for a snap election. Wall Street sank while UST bonds rallied across the curve with the shorter tenors leading gains. Meanwhile, on the trade front, US president Trump tweeted "think what happens to China when I win...deal would get much tougher" and warned that "the EU & all treat us Very unfairly on Trade also. Will Change!"

**Market Watch:** Asian markets are likely to consolidate today amid the wave of negative news headlines and soft economic prints. Bank of Canada is likely to stay pat at 1.75%. Today's economic data calendar comprises of the slew of services and composite PMIs from Europe and Asia including China's Caixin, Australia's 2Q19 GDP growth, Malaysia's trade data, US' mortgage applications and July trade balance, and S'pore's COE premiums. ECB's Lane, Mersch and Guindos, BOE's Carney and Haldane, Fed's William, Kaplan, Bowman, Bullard, Kashkari, and Evans are also speaking.

**US:** The manufacturing ISM fell below 50 for the first time since 2016 to 49.1 (expected: 51.3), likely reeling from the cumulative effects of trade tariffs, while construction spending also rose less than expected by 0.1% mom in July. Meanwhile, Fed's Rosengren opined there is "no immediate policy action would be required."

**EU:** ECB's Villeroy opined that QE is a "question to be discussed" at the September meeting, but signalled his scepticism over fresh bond buying as not all tools need to be used at once. Adding to this, Muller also opined that "I don't think we have a strong case for reactivating QE now".

**China:** President Xi Jinping gave speech to young Communist Party officials yesterday reiterating the importance of keeping fighting spirit against a variety of threats. This may set the tone for the upcoming events, including trade talks. President Trump's threat yesterday to double his pressure in his second term if China drags feet in trade talk probably did not work well when China's fighting spirit is rising. Domestically, it was reported that China may approve the quota for local government special bond issuance for 2020 earlier to support Chinese economy.

**Singapore:** The manufacturing and electronics PMIs edged up 0.1 point to 49.9 and 49.4 respectively in August, but still marked the 4th and 10th straight months of contraction. Notably, new export orders for the overall manufacturing sector slipped from 50.3 to 49.9 (contraction territory), whilst that for the electronics sector also fell further from 49.5 to 49.2 (lowest since January). This likely reflects rising business concerns over the escalating US-China trade tensions. Assuming there is no further deterioration in the US-China trade relations, manufacturing output may contract a less severe 2.1% yoy in 3Q19, compared to +3.2% yoy in 2Q19, likely escaping technical recession for now. Our full-year 2019 GDP growth forecast remains at 0-1% yoy.

Key Market Movements		
<b>Equity</b>	<b>Value</b>	<b>% chg</b>
S&P 500	2906.3	-0.7%
DJIA	26118	-1.1%
Nikkei 225	20625	0.0%
SH Comp	2930.2	0.2%
STI	3090.6	0.2%
Hang Seng	25528	-0.4%
KLCI	1591.5	-1.3%
<b>Currencies</b>	<b>Value</b>	<b>% chg</b>
DXY	99.000	0.1%
USDJPY	105.94	-0.3%
EURUSD	1.0974	0.0%
GBPUSD	1.2081	0.1%
USDIDR	14228	0.2%
USDSGD	1.3905	0.0%
SGDMYR	3.0313	0.2%
<b>Rates</b>	<b>Value</b>	<b>chg (bp)</b>
3M UST	1.95	-2.58
10Y UST	1.46	-3.88
1Y SGS	1.85	0.00
10Y SGS	1.72	-0.63
3M LIBOR	2.13	-0.49
3M SIBOR	1.88	0.00
3M SOR	1.71	-1.16
<b>Commodities</b>	<b>Value</b>	<b>% chg</b>
Brent	58.26	-0.7%
WTI	53.94	-2.1%
Gold	1547	1.2%
Silver	19.26	4.3%
Palladium	1543	0.4%
Copper	5610	-0.2%
BCOM	77.01	0.0%

Source: Bloomberg

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### Major Markets

**US:** The US markets traded downwards on Tuesday, with the S&P 500 index closing lower by 0.7%. Investor sentiment was likely leaning towards risk-off after a long weekend which saw the implementation of new tariffs. Poor US manufacturing prints, and Huawei's accusation of the US government harassing workers and attacking its internal network also added to the downward pressure. Looking ahead, we expect investors to continue to trade the headlines on any trade war news and may take cues from the multiple Fed speakers this week. In the near term, expect the S&P 500 index to continue trading within the 2850-2950 range.

**Singapore:** The STI added 0.25% to close at 3090.63 yesterday but may lose ground again amid soft market sentiments as Wall Street slipped overnight. STI's support is seen at last week's low of 3056. UST bond yields fell by up to 6bps led by the front end of the curve overnight, and yesterday's gains in SGS bonds may see follow-through today as well.

**Malaysia:** July trade data is due out today, with market expecting a contraction of 2.5% yoy. This would mark a second consecutive month of decline in exports. Trade surplus is expected to come in at MYR10.9bn vs 10.3bn the month before.

**Indonesia:** FinMin Sri Mulyani said that the corporate tax will be gradually lowered to 20% from 2021 onwards, compared to 25% currently. Moreover, for a period of 5 years, listed companies may enjoy an even lower rate of 17%. The government is also planning to overhaul laws related to VAT, income tax and general taxation.

**Hong Kong:** Housing price index dropped on a yearly basis for the first time since Sep 2016 by 0.1% yoy in July. Against the backdrop of ongoing protest and faltering domestic outlook, some homeowners have reduced asking price by over 10% to attract prospective buyers. Nevertheless, housing transaction volume still dropped for the third straight month by 16% yoy in August due to unfavorable factors including negative wealth effect, trade war fears, local political uncertainty and rising concerns about retrenchment. On a positive note, lately, some new housing project launches have been oversubscribed. This may be attributed to the return of potential home buyers who failed in their application for the latest available subsidized housing units. The prospect of lower interest rates and scarce long-term supply might have also helped to cap the downside of housing market. In conclusion, secondary housing prices (+9.7% YTD in July) may fall by 5%-10% in 2H19.

**AU:** RBA left its key rate static at 1% with governor Lower citing that "it is reasonable to expect that an extended period of low interest rates will be required", but "the board will continue to monitor developments...and ease monetary policy further if needed". He also flagged "further signs of a turnaround in established housing markets, especially in Sydney and Melbourne".

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### Bond Market Updates

**Market Commentary:** The SGD swap curve steepened yesterday, with the shorter tenors traded 0-0.5bps lower, while the longer tenors (>5yr) traded 0-2bps higher. The Bloomberg Barclays Asia USD IG Bond Index average OAS was unchanged at 136bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 6bps to 572bps. 10Y USTs yields fell 4bps to close at 1.46%, after US ISM manufacturing data for August showed that the manufacturing economy in the US contracted for the first time in 3 years. Spread between the 2-year treasury notes and 10-year treasury notes has ceased to be inverted, with the spread at +1bps, while the spread between 3-month treasury bills and 10-year treasury notes remains inverted at -48bps.

**New Issues:** CK Hutchison International (19) (II) Ltd (Guarantor: CK Hutchison Holdings Ltd) has priced a USD1.25bn offering in 2 tranches: a USD500mn 10-year bond at T+135bps (tightening from revised guidance of T+140bps area), and a USD750mn 30-year bond at T+150bps (tightening from revised guidance of T+160bps area). BOC Aviation Ltd has priced a USD500mn 10-year bond at T+165bps, tightening from IPT of T+185bps area. Bank of the Philippine Islands has priced a USD300mn 5-year bond at T+120bps, tightening from IPT of T+145bps area. Zhangzhou Jiulongjiang Group Co., Ltd has priced a USD500mn 3-year bond at 5.6%, tightening from IPT of 6.15% area. Logan Property Holdings Co., Ltd has priced a USD100mn 5NC2 bond at 6.9%.

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### Foreign Exchange

	Day Close	% Change		Day Close	% Change
<b>DX</b>	99.000	0.08%	<b>USD-SGD</b>	1.3905	-0.01%
<b>USD-JPY</b>	105.940	-0.28%	<b>EUR-SGD</b>	1.5260	0.01%
<b>EUR-USD</b>	1.0974	0.04%	<b>JPY-SGD</b>	1.3124	0.21%
<b>AUD-USD</b>	0.6760	0.66%	<b>GBP-SGD</b>	1.6799	0.12%
<b>GBP-USD</b>	1.2081	0.12%	<b>AUD-SGD</b>	0.9405	0.65%
<b>USD-MYR</b>	4.2203	0.35%	<b>NZD-SGD</b>	0.8811	0.40%
<b>USD-CNY</b>	7.1789	0.10%	<b>CHF-SGD</b>	1.4089	0.33%
<b>USD-IDR</b>	14228	0.24%	<b>SGD-MYR</b>	3.0313	0.23%
<b>USD-VND</b>	23197	0.00%	<b>SGD-CNY</b>	5.1609	0.03%

### Equity and Commodity

Index	Value	Net change
<b>DJIA</b>	26,118.02	-285.26
<b>S&amp;P</b>	2,906.27	-20.19
<b>Nasdaq</b>	7,874.16	-88.72
<b>Nikkei 225</b>	20,625.16	4.97
<b>STI</b>	3,090.63	7.67
<b>KLCI</b>	1,591.52	-20.62
<b>JCI</b>	6,261.59	-28.96
<b>Baltic Dry</b>	2,442.00	--
<b>VIX</b>	19.66	0.68

### Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
<b>1M</b>	-0.4270	-0.10%	<b>O/N</b>	2.0896	--
<b>2M</b>	-0.3360	--	<b>1M</b>	2.0819	-0.71%
<b>3M</b>	-0.4360	-0.71%	<b>2M</b>	2.1463	-0.34%
<b>6M</b>	-0.4390	-0.34%	<b>3M</b>	2.1328	-0.49%
<b>9M</b>	-0.1940	-0.49%	<b>6M</b>	2.0240	-1.25%
<b>12M</b>	-0.3840	-1.25%	<b>12M</b>	1.9494	-2.46%

### Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
<b>2Y</b>	1.67 (--)	1.45 (-0.05)
<b>5Y</b>	1.65 (--)	1.33 (-0.06)
<b>10Y</b>	1.72 (-0.01)	1.46 (-0.04)
<b>15Y</b>	1.85 (--)	--
<b>20Y</b>	1.95 (+0.02)	--
<b>30Y</b>	2.05 (+0.02)	1.95 (-0.01)

### 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%	30.8%	69.2%
10/30/2019	0.0%	100.0%	19.1%	54.6%	26.3%
12/11/2019	0.0%	100.0%	42.9%	35.6%	8.7%
01/29/2020	0.0%	100.0%	38.7%	20.0%	3.6%
03/18/2020	0.0%	100.0%	32.1%	14.2%	2.4%
04/29/2020	0.0%	100.0%	27.0%	10.8%	1.7%

### Financial Spread (bps)

	Value	Change
<b>EURIBOR-OIS</b>	7.30	-0.38
<b>TED</b>	35.36	--

### Secured Overnight Fin. Rate

<b>SOFR</b>	2.16
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### Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	53.94	-2.1%	Corn (per bushel)	3.4975	-2.3%
Brent (per barrel)	58.26	-0.7%	Soybean (per bushel)	8.565	-0.1%
Heating Oil (per gallon)	1.8033	-1.4%	Wheat (per bushel)	4.4725	-0.9%
Gasoline (per gallon)	1.4705	-8.9%	Crude Palm Oil (MYR/MT)	2,106.0	-2.9%
Natural Gas (per MMBtu)	2.3580	3.2%	Rubber (JPY/KG)	160.4	0.2%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,610	-0.2%	Gold (per oz)	1,547.1	1.2%
Nickel (per mt)	17,985	-0.4%	Silver (per oz)	19.264	4.3%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

### Economic Calendar

Date Time		Event		Survey	Actual	Prior	Revised
09/04/2019 05:00	US	Fed's Rosengren Speaks in Easton,					
09/04/2019 08:30	HK	Markit Hong Kong PMI	Aug	--	--	43.8	--
09/04/2019 08:30	JN	Jibun Bank Japan PMI Composite	Aug F	--	--	51.7	--
09/04/2019 08:30	JN	Jibun Bank Japan PMI Services	Aug F	--	--	53.4	--
09/04/2019 09:30	AU	GDP YoY	2Q	1.40%	--	1.80%	--
09/04/2019 09:45	CH	Caixin China PMI Composite	Aug	--	--	50.9	--
09/04/2019 09:45	CH	Caixin China PMI Services	Aug	51.7	--	51.6	--
09/04/2019 16:00	EC	Markit Eurozone Composite PMI	Aug F	51.8	--	51.8	--
09/04/2019 19:00	US	MBA Mortgage Applications	Aug-30	--	--	-6.20%	--
09/04/2019 20:30	US	Trade Balance	Jul	-\$53.4b	--	-\$55.2b	--
09/04/2019 21:25	US	Fed's Williams Speaks in New York					
09/04/2019 22:00	EC	ECB's Mersch Attends Hearing at European Parliament, Brussels					
09/04/2019 22:00	US	Fed's Kaplan Speaks at Forum in Toronto					
09/04/2019 22:00	CA	Bank of Canada Rate Decision	Sep-04	1.75%	--	1.75%	--

Source: Bloomberg

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