

Daily Treasury Outlook

5 September 2019

Highlights

Global: Global financial markets saw some reprieve yesterday, with the S&P500 staging a recovery while the 10-year UST bond yield treaded water at 1.47%. Contributing to the improvement in risk appetite were partial alleviation of geopolitical uncertainties, namely there was an agreement to form a coalition government in Italy, Hong Kong's Chief Executive Carrie Lam will formally withdraw the extradition bill, and the UK House of Commons voted 327-299 to prevent a no-deal Brexit on 31 October, albeit there was still no clarity on the road ahead as BoJo's motion to hold snap elections on 15 October was also rejected. Elsewhere, BOC was static at 1.75% citing that the "current degree of monetary policy stimulus remains appropriate", while China's State Council called for the "timely" use of tools including broad and targeted reserve-ratio cuts to support the economy.

Market Watch: Asian markets are likely to take a breather from the doom and gloom of recent events and extend yesterday's gains. Today's economic data calendar comprises of US' non-manufacturing ISM, factory orders, initial jobless claims and ADP employment change, German factory orders, Thai consumer confidence. ECB's Guindos and BOE's Tenreyro are also speaking.

US: The Fed's Beige Book highlighted that "although concerns regarding tariffs and trade policy uncertainty continued, the majority of businesses remained optimistic about the near-term outlook", albeit consumer spending was "mixed". Fed's Williams opined that the "consumer is now carrying all of the weigh...for growth going forward" while Kaplan warned that if one waited for consumer weakness it could be too late. Separately, Kashkari noted that "tariffs and the trade war are really concerning businesses" and monetary policy is "moderately contractionary", while Evans saw "increased uncertainty among the business community as a result of the new trade policy".

Singapore: S'pore government announced committee to review electoral boundaries. The MAS Survey of Professional Forecasters have trimmed their 2019 GDP growth forecast from 2.1% three months ago to 0.6% yoy, but tips 1.6% growth in 2020, while headline and core inflation are expected at 0.7% and 1.2% this year. The whole economy PMI sank from 51 in July to 48.7 in August (lowest since Sep 2012), as the output gauge fell from 51.9 to 48.2 (lowest since Aug 2012) and new orders also fell (lowest since April 2016). COE premiums slipped for categories A, B and E in the latest tender.

| Key Market Movements | | |
|----------------------|--------|----------|
| Equity | Value | % chg |
| S&P 500 | 2937.8 | 1.1% |
| DJIA | 26355 | 0.9% |
| Nikkei 225 | 20649 | 0.1% |
| SH Comp | 2957.4 | 0.9% |
| STI | 3130.6 | 1.3% |
| Hang Seng | 26523 | 3.9% |
| KLCI | 1599.9 | 0.5% |
| Currencies | Value | % chg |
| DXY | 98.451 | -0.6% |
| USDJPY | 106.39 | 0.4% |
| EURUSD | 1.1035 | 0.6% |
| GBPUSD | 1.2253 | 1.4% |
| USDIDR | 14160 | -0.5% |
| USDSGD | 1.3844 | -0.4% |
| SGDMYR | 3.0314 | 0.0% |
| Rates | Value | chg (bp) |
| 3M UST | 1.94 | -0.73 |
| 10Y UST | 1.47 | 0.84 |
| 1Y SGS | 1.85 | 0.00 |
| 10Y SGS | 1.69 | -3.20 |
| 3M LIBOR | 2.13 | -0.61 |
| 3M SIBOR | 1.88 | 0.00 |
| 3M SOR | 1.73 | 1.57 |
| Commodities | Value | % chg |
| Brent | 60.7 | 4.2% |
| WTI | 56.26 | 4.3% |
| Gold | 1553 | 0.4% |
| Silver | 19.60 | 1.7% |
| Palladium | 1559 | 1.0% |
| Copper | 5748 | 2.5% |
| BCOM | 78.42 | 1.8% |

Source: Bloomberg

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5 September 2019

Major Markets

US: The US markets climbed on Wednesday, with the S&P 500 index closing up 1.1% in the session. Investor sentiment seemed to improve on global factors, with political uncertainty in Hong Kong and Italy seeming to have eased, and the UK parliament voting against both a no-deal Brexit and an early election. Upcoming we have the US job data and Jerome Powell speaking on Friday. Whether the S&P 500 index can break above the resistance of 2940 is likely dependent on the nonfarm payroll data tomorrow.

China: China's state council said in its regular meeting that China can fine-tune its monetary policy when necessary though it will still stick to its prudent monetary policy framework. Meanwhile, the State council reiterated the need to guide the real interest rate lower and added that China should use the tools such as universal RRR cut and targeted RRR cut in a timely manner. The resurface of the "universal RRR cut" in the State Council meeting sent a strong signal that China may go back to conventional monetary easing path soon after China has taken a wait-and-see approach despite the restart of global easing cycle in the past few months. In addition, there is increasing chance that China may lower its MLF rate in the coming week ahead of the new fixing of LPR on 20 September.

Singapore: The STI rallied 1.29% to close at 3130.57 yesterday and may extend gains today amid positive overnight cues from Wall Street. STI's support and resistance are tipped at 3106 and 3170. UST bonds pared losses amid a bear-steepening in the yield curve overnight, so SGS bonds may also trim some of yesterday's gains today as well.

Malaysia: July trade numbers came in better than expected, with exports gaining by 1.7% yoy against market expectations of a decline of 2.5%, driven by a recovery in shipments of electrical and electronics products. Trade balance posted a supportive surplus of MYR14.3bn, compared to expectation of MYR10.9bn.

Indonesia: Bank Indonesia's Deputy Governor Dody Budi Waluyo said that "Amid the ongoing external, global pressure, we see that room for rate cuts is open." He added that interest rate cuts are aimed at boosting growth in key sectors of the economy, especially manufacturing.

Oil: Oil prices surged yesterday, with Brent gaining 4.2% and WTI rising 4.3%. The US announced plans to intensify sanctions on Iran, targeting restrictions on its oil shipping network. Russia also added to the bullishness by saying production would fall in September. Reports showing the US crude inventories rising on the week dampened the bullishness slightly, but Brent still managed to close above \$60/bbl for only the fourth time since August.

Daily Treasury Outlook

5 September 2019

Bond Market Updates

Market Commentary: The SGD swap curve bull-flattened yesterday, with the shorter tenors traded 1-2bps lower, while the longer tenors (>5yr) traded 2-3bps lower. 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 578bps. 10Y USTs yields rose 1bps to close at 1.47%, after geopolitical tensions in Hong Kong and Britain were somewhat alleviated, boosting risk-on sentiment. Spread between the 2-year treasury notes and 10-year treasury notes has ceased to be inverted with the spread at +4bps, while the spread between 3-month treasury bills and 10-year treasury notes remains inverted though narrower at -46bps.

New Issues: Chinalco Capital Holdings Ltd (Guarantor: Aluminum Corporation of China) has priced a USD750mn NC5-Perpetual bond at 4.1%, tightening from IPT of 4.7% area. Rizal Commercial Banking Corporation has priced a USD300mn 5-year bond at T+170bps, tightening from IPT of T+195bps area. CCBL (Cayman) 1 Corporation Ltd (Guarantor: CCB Leasing (International) Corporation Designated Activity Co.) has priced a USD300mn re-tap of its existing CCBL 3.5%'24s at T+132.5bps, tightening from IPT of T+160bps area. Shanghai Port Group (BVI) Development Co., Ltd (Guarantor: Shanghai International Port (Group) Co., Ltd.) has priced a USD300mn 5-year bond at T+108bps (tightening from IPT of T+140bps area), and a USD500mn 10-year bond at T+140bps (tightening from IPT of T+165bps area). Clifford Capital Pte Ltd (Guarantor: The Government of Singapore) has priced a USD300mn 5-year bond at T+35bps, tightening from IPT of T+35-37bps area.

Daily Treasury Outlook

5 September 2019

Foreign Exchange

| | Day Close | % Change | | Day Close | % Change |
|---------|-----------|----------|---------|-----------|----------|
| DX | 98.451 | -0.55% | USD-SGD | 1.3844 | -0.44% |
| USD-JPY | 106.390 | 0.42% | EUR-SGD | 1.5278 | 0.12% |
| EUR-USD | 1.1035 | 0.56% | JPY-SGD | 1.3013 | -0.85% |
| AUD-USD | 0.6797 | 0.55% | GBP-SGD | 1.6963 | 0.98% |
| GBP-USD | 1.2253 | 1.42% | AUD-SGD | 0.9410 | 0.05% |
| USD-MYR | 4.2045 | -0.37% | NZD-SGD | 0.8806 | -0.06% |
| USD-CNY | 7.1460 | -0.46% | CHF-SGD | 1.4115 | 0.18% |
| USD-IDR | 14160 | -0.48% | SGD-MYR | 3.0314 | 0.00% |
| USD-VND | 23198 | 0.00% | SGD-CNY | 5.1368 | -0.47% |

Interbank Offer Rates (%)

| Tenor | EURIBOR | Change | Tenor | USD Libor | Change |
|-------|---------|--------|-------|-----------|--------|
| 1M | -0.4350 | -0.10% | O/N | 2.0906 | 0.10% |
| 2M | -0.3360 | 0.10% | 1M | 2.0669 | -1.50% |
| 3M | -0.4480 | -1.50% | 2M | 2.1374 | -0.89% |
| 6M | -0.4480 | -0.89% | 3M | 2.1266 | -0.61% |
| 9M | -0.1940 | -0.61% | 6M | 2.0124 | -1.16% |
| 12M | -0.3850 | -1.16% | 12M | 1.9364 | -1.30% |

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% | 30.7% | 69.3% |
| 10/30/2019 | 0.0% | 100.0% | 19.7% | 55.4% | 24.9% |
| 12/11/2019 | 0.0% | 100.0% | 44.6% | 34.2% | 7.6% |
| 01/29/2020 | 0.0% | 100.0% | 37.9% | 17.0% | 2.7% |
| 03/18/2020 | 0.0% | 100.0% | 29.6% | 11.4% | 1.6% |
| 04/29/2020 | 0.0% | 100.0% | 24.4% | 8.6% | 1.2% |

Commodities Futures

| Energy | Futures | % chg | Soft Commodities | Futures | % chg |
|--------------------------|---------|-------|-------------------------|---------|-------|
| WTI (per barrel) | 56.26 | 4.3% | Corn (per bushel) | 3.4600 | -1.1% |
| Brent (per barrel) | 60.70 | 4.2% | Soybean (per bushel) | 8.625 | 0.7% |
| Heating Oil (per gallon) | 1.8802 | 4.3% | Wheat (per bushel) | 4.5625 | 2.0% |
| Gasoline (per gallon) | 1.5329 | 4.2% | Crude Palm Oil (MYR/MT) | 2,100.0 | -0.3% |
| Natural Gas (per MMBtu) | 2.4450 | 3.7% | Rubber (JPY/KG) | 164.5 | 2.6% |
| Base Metals | Futures | % chg | Precious Metals | Futures | % chg |
| Copper (per mt) | 5,748 | 2.5% | Gold (per oz) | 1,552.6 | 0.4% |
| Nickel (per mt) | 18,000 | 0.1% | Silver (per oz) | 19.597 | 1.7% |

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

Equity and Commodity

| Index | Value | Net change |
|------------|-----------|------------|
| DJIA | 26,355.47 | 237.45 |
| S&P | 2,937.78 | 31.51 |
| Nasdaq | 7,976.88 | 102.72 |
| Nikkei 225 | 20,649.14 | 23.98 |
| STI | 3,130.57 | 39.94 |
| KLCI | 1,599.89 | 8.37 |
| JCI | 6,269.66 | 8.07 |
| Baltic Dry | 2,501.00 | -- |
| VIX | 17.33 | -2.33 |

Government Bond Yields (%)

| Tenor | SGS (chg) | UST (chg) |
|-------|--------------|--------------|
| 2Y | 1.65 (-0.02) | 1.43 (-0.02) |
| 5Y | 1.61 (-0.03) | 1.32 (-0.01) |
| 10Y | 1.69 (-0.03) | 1.47 (+0.01) |
| 15Y | 1.83 (-0.01) | -- |
| 20Y | 1.95 (--) | -- |
| 30Y | 2.04 (-0.01) | 1.97 (+0.02) |

Financial Spread (bps)

| | Value | Change |
|-------------|-------|--------|
| EURIBOR-OIS | 5.93 | -0.17 |
| TED | 35.36 | -- |

Secured Overnight Fin. Rate

| | |
|------|------|
| SOFR | 2.17 |
|------|------|

Economic Calendar

| Date Time | Event | Survey | Actual | Prior | Revised |
|------------------|--------------------------------|--------|----------|-----------|-----------|
| 09/05/2019 07:00 | SK BoP Current Account Balance | Jul | -- | \$6949.4m | \$6376.6m |
| 09/05/2019 09:00 | PH CPI YoY 2012=100 | Aug | 1.80% | -- | 2.40% |
| 09/05/2019 09:30 | AU Trade Balance | Jul | A\$7000m | -- | A\$8036m |
| 09/05/2019 13:45 | SZ GDP QoQ | 2Q | 0.20% | -- | 0.60% |
| 09/05/2019 14:00 | GE Factory Orders MoM | Jul | -1.40% | -- | 2.50% |
| 09/05/2019 20:15 | US ADP Employment Change | Aug | 148k | -- | 156k |
| 09/05/2019 20:30 | US Initial Jobless Claims | Aug-31 | 215k | -- | 215k |
| 09/05/2019 21:00 | RU Gold and Forex Reserve | Aug-30 | -- | -- | 527.7b |
| 09/05/2019 21:45 | US Markit US Services PMI | Aug F | 50.9 | -- | 50.9 |
| 09/05/2019 21:45 | US Markit US Composite PMI | Aug F | -- | -- | 50.9 |
| 09/05/2019 22:00 | US Durable Goods Orders | Jul F | 2.10% | -- | 2.10% |
| 09/05/2019 22:00 | US Factory Orders | Jul | 1.00% | -- | 0.60% |
| 09/05/2019 22:00 | US ISM Non-Manufacturing Index | Aug | 54 | -- | 53.7 |
| 09/05/2019 22:00 | US Durables Ex Transportation | Jul F | -0.40% | -- | -0.40% |

Source: Bloomberg

Treasury Research & Strategy

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