

## Daily Treasury Outlook

8 August 2019

### Highlights

**Global:** The doves emerged in force yesterday as RNZ cut its official cash rate by a larger than expected 50bps to 1%, BOT executed an unexpected 25bps rate cut to 1.5%, and RBI also trimmed its repurchase rate and reverse repo rate by a bigger 35bps each to 5.4% and 5.15% respectively. RBNZ governor Orr hinted that “it’s easily within the realms of possibility that we might have to use negative interest rates” or other non-standard measures, and also opined that “today’s decision doesn’t rule out any future action”. Meanwhile, RBI governor Das said a 25bps cut would have been “inadequate” while 50bps cut would be “excessive”, and a 35bps cut was deemed “well-balanced” in a 4-2 vote. BOT also finally succumbed to its first rate cut in four years in a 5-2 vote and opined there is still “policy space left”. The continued swing of central banks to the accommodative side may buffer the downside risks for financial markets in the interim. S&P500 closed nearly flat (+0.08%) after a choppy session while UST bonds bull flattened amid a 10-year bond auction. Elsewhere, Pakistan has downgraded diplomatic ties and suspended trade with India after India revoked autonomy for Kashmir.

**Market watch:** Asian markets today. Watch BSP’s rate decision today where a 25bp rate cut to 4.25% has been pencilled in. Today’s economic data calendar will likely revolve around China’s July trade data, US’ initial jobless claims and wholesale inventories, Philippines’ 2Q19 GDP growth and S’pore’s retail sales (our forecast: -5.0% yoy and -0.6% mom).

**US:** US’ consumer credit rose less than expected in June by US\$14.6b (least in three months) amid a slowdown in credit-card balances. President Trump tweeted that “three more central banks cut rates...Our problem is a Federal Reserve that is too proud to admit their mistake of acting too fast and tightening too much”. Meanwhile, Evans (voter) opined that “inflation alone would call for more accommodation than we’ve put in place with just our last meeting”, albeit he is still expecting 2.25% growth this year.

**EU:** German industrial production slumped more than expected by 1.5% mom (5.2% yoy) in June, with downward revisions to the April and May data, posing a likely drag on 2Q growth.

**China:** People’s Daily reiterated this morning that China will not give in to pressure and aggressive pushing from the US. Meanwhile, PBoC denied rumours of an interest rate cut last night. While China does not have a good track record of rumour denial, we agree that the chance of a rate cut is low, given the constraints from the property market. For today, markets will pay close attention to this morning’s RMB fixing. Should China allow the USDCNY fixing to be above 7, it may open the door to further RMB weakness.

**Singapore:** COE premiums edged higher to \$32.725k (category A), \$40,001 (category B) and \$40,512 (category E).

### Key Market Movements

Equity	Value	% chg
S&P 500	2884.0	0.1%
DJIA	26007	-0.1%
Nikkei 225	20517	-0.3%
SH Comp	2768.7	-0.3%
STI	3184.7	0.4%
Hang Seng	25997	0.1%
KLCI	1604.7	-0.4%
Currencies	Value	% chg
DXY	97.544	-0.1%
USDJPY	106.27	-0.2%
EURUSD	1.1199	0.0%
GBPUSD	1.2143	-0.2%
USDIDR	14225	-0.4%
USDSGD	1.3826	0.1%
SGDMYR	3.0278	-0.2%
Rates	Value	chg (bp)
3M UST	2.01	-1.55
10Y UST	1.73	3.19
1Y SGS	1.83	-1.00
10Y SGS	1.76	-3.85
3M LIBOR	2.19	-2.20
3M SIBOR	1.88	0.00
3M SOR	1.79	0.45
Commodities	Value	% chg
Brent	56.23	-4.6%
WTI	51.09	-4.7%
Gold	1501	1.8%
Silver	17.11	4.0%
Palladium	1418	-1.7%
Copper	5705	0.4%
BCOM	75.97	-0.6%

Source: Bloomberg

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### Major Markets

**US:** The US markets saw some volatility on Thursday, with the S&P500 index tumbling around 2% earlier in the session before closing up 0.1%. Investors continue to adopt risk-off behaviours after a massive sell-off earlier this week, amid fears that an escalating trade war may affect the global economy. 10Y UST yields recovered 3.2bps to 1.73%. In the near term, the S&P 500 index is expected to see sideways trading between the 2800-2900 range, barring any new updates from the trade war situation. It is, however, likely to face downward pressure in the short-term.

**Singapore:** The STI rebounded 0.45% to close at 3184.69 yesterday, but may trade sideways within a range of 3160-3200 today amid flattish overnight cues from Wall Street. With UST bond yields selling off up to 4bps higher overnight, SGS bonds may unwind the gains from yesterday as well.

**Malaysia:** Foreign reserves rose to US\$103.9bn as of 31 July 2019 from US\$103.3bn as of 15<sup>th</sup> July 2019. This was seen to be sufficient to finance 7.6 months of retained imports and it also stands at 1.2 times total short-term external debt.

**Indonesia:** Bank Indonesia's (BI) new Senior Deputy Governor Destry Damayanti has said, "it seems like the monetary policy easing will last quite long because we need stimulus for our future economic growth". According to Bloomberg, she further added that Indonesia would maintain an accommodative policy stance. We continue to expect that BI could cut the benchmark rate by another 25bps this year but this would also be subject to the IDR stability. Hence, we see it likely that the central bank may remain on hold at the August policy meeting. Meanwhile, foreign reserves rose to US\$125.90bn in July from US\$123.82bn, the prior month. The July level of foreign reserves also marked a 16 month high.

**Thailand:** The Bank of Thailand has surprisingly reduced its benchmark interest rate to 1.50% from 1.75% yesterday. Only 2/29 economists polled on Bloomberg were expecting a rate cut; the remaining 27 (including ourselves) were forecasting no changes to the interest rate. 5 of 7 MPC members voted for the rate reduction. Given the increasing focus on exports, we expect the BoT to make its decision based on the involvement of its export growth. We think that there is a chance that the BoT may continue to ease interest rates further from here as it tries to soften the baht and stabilise the export sector. We see the possibility of one more rate cut to 1.25% before the end of 2019.

**Gold:** Gold closed above \$1,500/oz for the first time since April 2013, as bullish sentiment on the precious metal continues to stay intact. There remains a strong demand to hedge portfolios at the moment, given the fragile environment the global economy is in. \$1,500/oz is a crucial resistance level; if gold can make a run to close at \$1,550/oz or stays reasonably above for \$1,500/oz for a week (with intraday lows not crossing materially below \$1,500/oz), it is likely that gold prices will trade above \$1,500/oz in the medium-term.

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### Bond Market Updates

**Market Commentary:** The SGD swap curve bull-flattened yesterday, with the shorter tenors and belly traded 2-3bps lower, while the longer tenors traded 3-5bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 141bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 4bps to 540bps. 10Y USTs gained 3bps to close at 1.73%, rebounding from lows of around the 1.59% level, due to weak demand for the additional supply from the sale of \$27bn in 10-year notes. Spread between 3-month treasury bills and 10-year treasury notes remains inverted, with the spread narrowing to -29bps.

**New Issues:** Greenko Mauritius Ltd (a wholly-owned subsidiary of Greenko Energy Holdings) has scheduled investor roadshows commencing on 7 Aug for its potential USD bond issuance. Orient Securities Co., Ltd has scheduled investor roadshows commencing on 8 Aug for its potential USD bond issuance. SK Hynix Inc has mandated banks for its potential USD bond issuance.

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### Foreign Exchange

	Day Close	% Change		Day Close	% Change
<b>DX</b>	97.544	-0.09%	<b>USD-SGD</b>	1.3826	0.07%
<b>USD-JPY</b>	106.270	-0.19%	<b>EUR-SGD</b>	1.5487	0.10%
<b>EUR-USD</b>	1.1199	--	<b>JPY-SGD</b>	1.3012	0.27%
<b>AUD-USD</b>	0.6757	-0.06%	<b>GBP-SGD</b>	1.6788	-0.17%
<b>GBP-USD</b>	1.2143	-0.23%	<b>AUD-SGD</b>	0.9344	0.04%
<b>USD-MYR</b>	4.1890	-0.05%	<b>NZD-SGD</b>	0.8914	-1.13%
<b>USD-CNY</b>	7.0602	0.50%	<b>CHF-SGD</b>	1.4180	0.19%
<b>USD-IDR</b>	14225	-0.36%	<b>SGD-MYR</b>	3.0278	-0.19%
<b>USD-VND</b>	23216	-0.18%	<b>SGD-CNY</b>	5.1022	0.46%

### Equity and Commodity

Index	Value	Net change
<b>DJIA</b>	26,007.07	-22.45
<b>S&amp;P</b>	2,883.98	2.21
<b>Nasdaq</b>	7,862.83	29.56
<b>Nikkei 225</b>	20,516.56	-68.75
<b>STI</b>	3,184.69	14.22
<b>KLCI</b>	1,604.70	-7.09
<b>JCI</b>	6,204.20	84.72
<b>Baltic Dry</b>	1,734.00	--
<b>VIX</b>	19.49	-0.68

### Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
<b>1M</b>	-0.4000	-1.10%	<b>O/N</b>	2.0971	-0.80%
<b>2M</b>	-0.3360	-0.80%	<b>1M</b>	2.2128	-1.03%
<b>3M</b>	-0.3890	-1.03%	<b>2M</b>	2.2230	-0.94%
<b>6M</b>	-0.3830	-0.94%	<b>3M</b>	2.1870	-2.20%
<b>9M</b>	-0.1940	-2.20%	<b>6M</b>	2.0511	-3.47%
<b>12M</b>	-0.3190	-3.47%	<b>12M</b>	1.9941	-4.26%

### Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
<b>2Y</b>	1.66 (-0.02)	1.61 (+0.02)
<b>5Y</b>	1.65 (-0.03)	1.55 (+0.04)
<b>10Y</b>	1.76 (-0.04)	1.73 (+0.03)
<b>15Y</b>	1.97 (-0.04)	--
<b>20Y</b>	2.05 (-0.04)	--
<b>30Y</b>	2.18 (-0.04)	2.25 (+0.02)

### 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%	100.0%	0.0%	37.3%	62.7%
10/30/2019	0.0%	100.0%	26.2%	55.2%	18.7%
12/11/2019	0.0%	100.0%	40.7%	36.8%	9.3%
01/29/2020	0.0%	100.0%	39.1%	25.1%	5.3%
03/18/2020	0.0%	100.0%	35.7%	20.3%	4.0%
04/29/2020	0.0%	100.0%	32.5%	16.9%	3.2%

### Financial Spread (bps)

	Value	Change
<b>EURIBOR-OIS</b>	6.39	0.79
<b>TED</b>	35.36	--

### Secured Overnight Fin. Rate

<b>SOFR</b>	2.11
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### Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	51.09	-4.7%	Corn (per bushel)	4.0650	0.6%
Brent (per barrel)	56.23	-4.6%	Soybean (per bushel)	8.488	0.1%
Heating Oil (per gallon)	1.7532	-3.9%	Wheat (per bushel)	4.8825	0.9%
Gasoline (per gallon)	1.6203	-4.0%	Crude Palm Oil (MYR/MT)	2,040.0	0.1%
Natural Gas (per MMBtu)	2.0830	-1.3%	Rubber (JPY/KG)	193.2	1.2%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,705	0.4%	Gold (per oz)	1,507.3	2.4%
Nickel (per mt)	14,810	-0.9%	Silver (per oz)	17.196	4.6%

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

### Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
08/07/2019 08:13	VN Domestic Vehicle Sales YoY	Jul	--	22.20%	--
08/08/2019	CH Trade Balance	Jul	\$42.65b	\$50.98b	--
08/08/2019	CH Exports YoY	Jul	-1.00%	-1.30%	--
08/08/2019	CH Imports YoY	Jul	-9.00%	-7.30%	--
08/08/2019 05:30	AU RBA's Bullock Gives Speech in Toowoomba				
08/08/2019 07:50	JN BoP Current Account Balance	Jun	¥1148.8b	¥1594.8b	--
08/08/2019 10:00	PH GDP YoY	2Q	5.90%	5.60%	--
08/08/2019 13:00	SI Retail Sales YoY	Jun	-3.70%	-2.10%	--
08/08/2019 16:00	PH BSP Overnight Borrowing Rate	Aug-08	4.25%	4.50%	--
08/08/2019 20:30	US Initial Jobless Claims	Aug-03	215k	215k	--
08/08/2019 20:30	CA New Housing Price Index MoM	Jun	0.00%	-0.10%	--
08/08/2019 20:30	US Continuing Claims	Jul-27	1690k	1699k	--
08/08/2019 21:45	US Bloomberg Consumer Comfort	Aug-04	--	64.7	--
08/08/2019 22:00	US Wholesale Inventories MoM	Jun F	0.20%	0.20%	--

Source: Bloomberg

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