

Daily Treasury Outlook

12 September 2019

Highlights

Global: Global risk sentiments are likely to catch a ride this morning on the prospect of de-escalating US-China trade tensions as US president Trump tweeted that he will delay the tariff hike from 25% to 30% for US\$250b from 1 to 15 October at the request of Chinese Vice Premier Liu He. This came after China announced yesterday that some US goods will be exempted from the 25% tariffs. Wall Street closed up overnight, while the UST bond yields drifted higher yet again with the 10-year up to 1.74%. Elsewhere, HK Exchange made an unexpected \$36.6b bid for London Stock Exchange. Crude oil prices also fell to one-week lows as president Trump considers easing Iranian sanctions in preparation to meet with Iranian president Rouhani later this month.

Market Watch: Asian markets may put a positive spin this morning on rising hopes that the upcoming US-China trade talks will be off to a good start with the recent de-escalating moves. Key market focus will be on ECB and BNM policy decision. ECB risks disappointing the market should it fail to produce a bazooka in terms of at least 10bps deposit rate cut and monthly asset purchases of around EUR30b as well as introducing a tiered reserve system. Barring an even more dovish forward guidance by outgoing Draghi for his swan song to set the stage for incoming Lagarde, the risk is for further position unwinding. Market consensus is for BNM to stand pat today, but rhetoric may remain cautious and our view is that slowing growth dynamics and elevated real interest rates actually provide latitude for a cut but may only materialise later this year. Today's economic data comprises US' CPI and initial jobless claims, industrial production from Eurozone, HK and India, as well as German CPI and S'pore's retail sales.

US: US' PPI rose 0.1% mom while core CPI rebounded 0.3% mom in August, up from -0.1% in July on the back of increases in services such as gaming, guestroom rentals and insurance. Wholesale inventories increased 0.2% in July.

UK: The UK government published warnings of "public disorder" and supply chain delays of up to six months in a no-deal Brexit on 31 October.

China: China's Commerce Ministry published the tariff exemption list for 16 US products for the first time. Importers of 12 products will be able to apply for the refund of the previous tariff while the importers of the rest 4 products are not able to get the refund. Although the current list only accounts for a very small fraction of total US products affected by the tariff, the move was a good gesture by China ahead of the trade talk in early October.

Singapore: Retail sales may have declined 0.5% yoy (+3.1% mom sa) in July, easing off from June's 8.9% yoy (-2.2% mom sa) contraction.

| Key Market Movements | | |
|----------------------|--------------|-----------------|
| Equity | Value | % chg |
| S&P 500 | 3000.9 | 0.7% |
| DJIA | 27137 | 0.8% |
| Nikkei 225 | 21598 | 1.0% |
| SH Comp | 3008.8 | -0.4% |
| STI | 3204.5 | 1.5% |
| Hang Seng | 27159 | 1.8% |
| KLCI | 1602.3 | 0.4% |
| Currencies | Value | % chg |
| DXY | 98.645 | 0.3% |
| USDJPY | 107.82 | 0.3% |
| EURUSD | 1.1010 | -0.3% |
| GBPUSD | 1.2326 | -0.2% |
| USDIDR | 14060 | 0.1% |
| USDSGD | 1.3795 | -0.1% |
| SGDMYR | 3.0289 | 0.2% |
| Rates | Value | chg (bp) |
| 3M UST | 1.94 | 1.02 |
| 10Y UST | 1.74 | 0.69 |
| 1Y SGS | 1.86 | 0.00 |
| 10Y SGS | 1.75 | 0.29 |
| 3M LIBOR | 2.13 | -0.68 |
| 3M SIBOR | 1.88 | 0.03 |
| 3M SOR | 1.78 | -0.96 |
| Commodities | Value | % chg |
| Brent | 60.81 | -2.5% |
| WTI | 55.75 | -2.9% |
| Gold | 1497 | 0.8% |
| Silver | 18.12 | 0.6% |
| Palladium | 1576 | 1.0% |
| Copper | 5773 | -0.9% |
| BCOM | 78.21 | -0.7% |

Source: Bloomberg

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Major Markets

US: US markets climbed last night with the S&P 500 index closing up 0.7% in the session. China's extension of an olive branch in the form of a tariff exemption for certain US goods aided market sentiment. Expectations of stimulus packages from the ECB today and the FOMC next week is supporting the equity markets but expect some bearish drawback should either of the two disappoint in the size of their easing. For the near term we expect the S&P 500 to continue to see upward pressure and test the year-high 3020 levels after breaking through the 3000 resistance, as markets will likely be more optimistic following Trump's delay of the upcoming 1st October tariffs.

Singapore: The STI extended gains by 1.55% to close at 3204.52 yesterday and may attempt higher to the next resistance at 3223 amid positive signals from Wall Street overnight and morning gains in Nikkei and Kospi. With the improvement in risk appetite, UST bond yields continued to edge higher so SGS bond yields are likely to also mimic for now in view of upcoming supply with the 2- and 15-year SGS bonds re-openings (with the size announcement and auctions due on 19 and 26 September respectively).

China: Credit expansion beat market expectations with aggregate social financing increasing by CNY1.98 trillion. The stronger than expected social financing was mainly attributable to recovery of off-balance sheet lending as well as some front-loading activities by banks as banks want to lock in higher interest rates ahead of the LPR reform. Overall, we think the credit data are supportive of growth in the coming quarters.

Indonesia: A finance ministry official has told Bloomberg that the yield on Indonesia's 10-year government bonds would drop to below 7% by year end. Riko Amir, director of financing strategy and portfolio at the ministry reportedly said that the yield will fall to 6.75-7.0%, aided by inflows due to further Fed rate cuts.

Malaysia: Bank Negara is due to announce its monetary policy decision today. While the central bank still retains an easing bias, we believe that it would most likely leave the OPR unchanged at 3.0% for now. Economic data has stayed largely supportive, while there is a degree of uncertainties related to the upcoming 2020 budget impulse and also FTSE Russell index exclusion risk.

Macau: Average housing price retraced lower from the highest level since Oct 2018 and dropped by 3.6% mom to MOP109,992/square meter in Jul 2019. During the same month, housing transaction volume decreased for the second month in a row by 7.7% yoy to 898 deals and the approved new mortgage loans dropped for the sixth consecutive month by 8.8% yoy to MOP4.77 billion. Despite the de-escalation of US-China trade war and the increased expectations of Fed's rate cut in July, Macau's housing market continued to slow down. This was probably due to subdued local economic growth and elevated local rates. Moving into the coming months, we expect the downtrend of housing market to persist with housing transaction volume and average housing price to fall gradually. Firstly, housing investment sentiments may be dented by bleak economic outlook,

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re-escalation of US-China trade war and concerns about the spill-over effect of HK's social unrest. Secondly, housing control measures may continue to trim the speculative demand. Thirdly, growth momentum from the measure supporting first-home local buyers will likely diminish gradually. That said, we expect any correction of housing market to be moderate amid the persistent housing supply shortage.

Bond Market Updates

Market Commentary: The SGD swap curve bear-steepened yesterday, with the shorter tenors traded 0-2bps higher, while the longer tenors (>5yr) traded 3bps higher. The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 132bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS was unchanged at 540bps. 10Y USTs yields gained 1bps to close at 1.74%, on expectations that the ECB will be less aggressive in easing monetary policy, compounded by a delay of trade tariffs on China announced by US President Donald Trump. Spread between 3-month treasury bills and 10-year treasury notes remains inverted, with the spread narrowing to -16bps.

New Issues: Zhaobing Investment (BVI) Ltd (Guarantor: Tianjin Binhai New Area Construction & Investment Group Co., Ltd) has priced a USD300mn 3-year bond at 6.0%, in line with final guidance. Genting Hong Kong Ltd has mandated banks for its potential USD bond issuance. SOCAM Development Ltd has scheduled investor meetings commencing on 12 Sep for its potential USD bond issuance.

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Foreign Exchange

| | Day Close | % Change | | Day Close | % Change |
|----------------|-----------|----------|----------------|-----------|----------|
| DX | 98.645 | 0.32% | USD-SGD | 1.3795 | -0.05% |
| USD-JPY | 107.820 | 0.26% | EUR-SGD | 1.5188 | -0.35% |
| EUR-USD | 1.1010 | -0.30% | JPY-SGD | 1.2787 | -0.34% |
| AUD-USD | 0.6862 | 0.01% | GBP-SGD | 1.7002 | -0.26% |
| GBP-USD | 1.2326 | -0.19% | AUD-SGD | 0.9466 | -0.01% |
| USD-MYR | 4.1785 | 0.18% | NZD-SGD | 0.8845 | -0.24% |
| USD-CNY | 7.1158 | 0.04% | CHF-SGD | 1.3892 | -0.12% |
| USD-IDR | 14060 | 0.07% | SGD-MYR | 3.0289 | 0.16% |
| USD-VND | 23200 | -- | SGD-CNY | 5.1459 | -0.06% |

Equity and Commodity

| Index | Value | Net change |
|-------------------|-----------|------------|
| DJIA | 27,137.04 | 227.61 |
| S&P | 3,000.93 | 21.54 |
| Nasdaq | 8,169.68 | 85.52 |
| Nikkei 225 | 21,597.76 | 205.66 |
| STI | 3,204.52 | 48.81 |
| KLCI | 1,602.30 | 6.45 |
| JCI | 6,381.95 | 45.28 |
| Baltic Dry | 2,393.00 | -- |
| VIX | 14.61 | -0.59 |

Interbank Offer Rates (%)

| Tenor | EURIBOR | Change | Tenor | USD Libor | Change |
|------------|---------|--------|------------|-----------|--------|
| 1M | -0.4550 | -1.00% | O/N | 2.0925 | -0.14% |
| 2M | -0.3360 | -0.14% | 1M | 2.0386 | -1.09% |
| 3M | -0.4350 | -1.09% | 2M | 2.1284 | -1.70% |
| 6M | -0.4140 | -1.70% | 3M | 2.1316 | -0.68% |
| 9M | -0.1940 | -0.68% | 6M | 2.0351 | -0.05% |
| 12M | -0.3700 | -0.05% | 12M | 1.9704 | 2.16% |

Government Bond Yields (%)

| Tenor | SGS (chg) | UST (chg) |
|------------|--------------|--------------|
| 2Y | 1.65 (+0.01) | 1.67 (--) |
| 5Y | 1.65 (+0.01) | 1.59 (--) |
| 10Y | 1.75 (--) | 1.74 (+0.01) |
| 15Y | 1.90 (+0.01) | -- |
| 20Y | 2.00 (--) | -- |
| 30Y | 2.08 (+0.01) | 2.22 (--) |

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% | 6.4% | 93.6% |
| 10/30/2019 | 0.0% | 100.0% | 3.3% | 51.5% | 45.2% |
| 12/11/2019 | 0.0% | 100.0% | 30.5% | 47.9% | 19.7% |
| 01/29/2020 | 0.0% | 100.0% | 38.3% | 35.4% | 10.9% |
| 03/18/2020 | 0.0% | 100.0% | 37.4% | 35.4% | 7.7% |
| 04/29/2020 | 0.0% | 100.0% | 36.1% | 28.3% | 6.6% |

Financial Spread (bps)

| | Value | Change |
|--------------------|-------|--------|
| EURIBOR-OIS | 6.60 | -0.55 |
| TED | 35.36 | -- |

Secured Overnight Fin. Rate

| | |
|-------------|------|
| SOFR | 2.14 |
|-------------|------|

Commodities Futures

| Energy | Futures | % chg | Soft Commodities | Futures | % chg |
|--------------------------|---------|-------|-------------------------|---------|-------|
| WTI (per barrel) | 55.75 | -2.9% | Corn (per bushel) | 3.4825 | -0.1% |
| Brent (per barrel) | 60.81 | -2.5% | Soybean (per bushel) | 8.540 | -0.6% |
| Heating Oil (per gallon) | 1.9032 | -1.4% | Wheat (per bushel) | 4.7750 | -1.4% |
| Gasoline (per gallon) | 1.5699 | -1.3% | Crude Palm Oil (MYR/MT) | 2,114.0 | -0.9% |
| Natural Gas (per MMBtu) | 2.5520 | -1.1% | Rubber (JPY/KG) | 164.8 | -1.0% |
| Base Metals | Futures | % chg | Precious Metals | Futures | % chg |
| Copper (per mt) | 5,773 | -0.9% | Gold (per oz) | 1,497.2 | 0.8% |
| Nickel (per mt) | 17,850 | -1.1% | Silver (per oz) | 18.120 | 0.6% |

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

Economic Calendar

| Date Time | Event | Survey | Actual | Prior | Revised |
|------------------|--------------------------------|--------|--------|--------|---------|
| 09/12/2019 06:45 | NZ Food Prices MoM | Aug | -- | 0.70% | 1.10% |
| 09/12/2019 07:50 | JN Core Machine Orders MoM | Jul | -8.00% | -6.60% | 13.90% |
| 09/12/2019 07:50 | JN PPI YoY | Aug | -0.80% | -0.90% | -0.60% |
| 09/12/2019 12:30 | JN Tertiary Industry Index MoM | Jul | -0.30% | -- | -0.10% |
| 09/12/2019 13:00 | SI Retail Sales YoY | Jul | -2.90% | -- | -8.90% |
| 09/12/2019 14:00 | GE CPI YoY | Aug F | 1.40% | -- | 1.40% |
| 09/12/2019 14:00 | GE CPI MoM | Aug F | -0.20% | -- | -0.20% |
| 09/12/2019 14:45 | FR CPI YoY | Aug F | 1.10% | -- | 1.10% |
| 09/12/2019 15:00 | MA BNM Overnight Policy Rate | Sep-12 | 3.00% | -- | 3.00% |
| 09/12/2019 19:45 | EC ECB Main Refinancing Rate | Sep-12 | 0.00% | -- | 0.00% |
| 09/12/2019 19:45 | EC ECB Deposit Facility Rate | Sep-12 | -0.50% | -- | -0.40% |
| 09/12/2019 20:00 | IN Industrial Production YoY | Jul | 2.30% | -- | 2.00% |
| 09/12/2019 20:30 | US Initial Jobless Claims | Sep-07 | 215k | -- | 217k |
| 09/12/2019 20:30 | US CPI MoM | Aug | 0.10% | -- | 0.30% |

Source: Bloomberg

Treasury Research & Strategy

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