

Daily Treasury Outlook

14 August 2019

Highlights

Global: US president Trump has finally caved in to delay the scheduled 10% tariffs on some Chinese imports (~US\$165b) till 15 December to avoid the Christmas shopping season and to remove some items from the US\$300b list. US-China trade talks are also back on, with officials resuming phone conversations. This provided the S&P500 (+1.5%) some relief overnight, led by consumer electronics, toys and apparel retailers, as risk aversion subsided somewhat and prompted the UST bond yield curve to bear flatten and the 2-10 yield curve came within a whisker of inversion at less than 1bp (smallest gap since 2007). We see the latest tariff delay announcement as buying some time, but it does not fundamentally alter the stalemate in US-China trade negotiations.

Market watch: Asian markets may stabilize today amid the abating risk aversion. Watch for China's data dump for industrial production, retail sales, FAI and surveyed jobless rate for July. Today's economic data calendar also comprises Eurozone and Germany's 2Q19 GDP growth, UK's CPI/PPI/RPI, US' import prices and mortgage applications. RBA's Debelle is also speaking.

US: US' core CPI rose to 0.3% mom (2.2% yoy) in July, versus June's 0.3% mom (2.1% yoy), while headline CPI accelerated to 0.3% mom (1.8% yoy) on the back of higher energy, shelter and apparel prices. The NFIB small business optimism gauge rose from 103.3 in June to 104.7 in July, marking its fifth increase in six months amid higher hiring plans, sales expectations and economic outlook, albeit this survey came before Trump's decision to levy additional 10% tariffs on US\$300b of Chinese imports.

EU: Eurozone's ZEW expectation of economic growth slumped from -20.3 to -43.6 in August, amid the worsening outlook for Germany which came in at -44.1 (lowest since 2011) from -24.5 previously. Meanwhile, UK's jobless claims fell from 31.4k to 28.0k in July while the ILO unemployment rate edged up to 3.9% in June.

China: China's utilized foreign direct investment rose by 8.7% yoy in July, sending the total utilized FDI up by 7.3% in the first seven months of 2019. On the trade war, both sides agreed to another phone conversation in two weeks after the US announced a delay on the tariffs of some products until 15 December.

Oil: Crude oil prices rallied strongly yesterday on news that the US is set to delay more than half of the \$300bn tariffs by 4-months to 15 December. Brent jumped 4.7% higher to \$61.30/bbl, the first time it closed above \$60/bbl since 2 August. WTI gained 4.0% to \$57.10/bbl. Oil prices continue to remain suppressed by the general risk-off behaviour in the market. The Brent-WTI spread has also narrowed to \$4.20/bbl, suggesting that US exports of crude oil in the immediate future should see lesser demand due to the narrowing of price differentials.

Key Market Movements

Equity	Value	% chg
S&P 500	2926.3	1.5%
DJIA	26280	1.4%
Nikkei 225	20455	-1.1%
SH Comp	2797.3	-0.6%
STI	3146.7	-0.7%
Hang Seng	25281	-2.1%
KLCI	1592.9	-1.4%
Currencies	Value	% chg
DXY	97.812	0.4%
USDJPY	106.74	1.4%
EURUSD	1.1171	-0.4%
GBPUSD	1.2060	-0.1%
USDIDR	14325	0.5%
USDSGD	1.3833	-0.3%
SGDMYR	3.0226	0.3%
Rates	Value	chg (bp)
3M UST	1.99	1.89
10Y UST	1.70	5.81
1Y SGS	1.83	-0.10
10Y SGS	1.65	-8.57
3M LIBOR	2.18	-0.04
3M SIBOR	1.88	0.00
3M SOR	1.78	0.00
Commodities	Value	% chg
Brent	61.3	4.7%
WTI	57.1	4.0%
Gold	1502	-0.6%
Silver	16.97	-0.6%
Palladium	1456	1.7%
Copper	5829	1.5%
BCOM	77.59	1.0%

Source: Bloomberg

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Major Markets

US: The US markets rebounded on Tuesday, with the S&P 500 index gaining 1.5%. The announcement of a partial delay in the proposed 10% tariffs on \$300bn of Chinese goods provided some relief for investors. 10Y UST yields rose to 1.70%, while the dollar index gained 0.4%. Looking ahead, while there is positive risk sentiment following the partial trade pause, investors might remain cautious on the stop-start progress of US-China trade talks. The S&P 500 index may continue to trade within the 2900-2960 range in the short term.

Singapore: The STI slipped 0.70% to close at 3146.73 yesterday after the official 2019 GDP growth downgrade. Given more positive cues overnight from Wall Street and morning gains in Kospi, STI may rebound today. STI's support and resistance are tipped at 3117 and 3170. With UST bond yield curve bear flattening as risk aversion abated overnight, SGS bonds may give back some of the big rally seen yesterday when the longer-dated bonds had collapsed by up to 10bps.

Indonesia: Finance Minister Sri Mulyani has said that the country has to "make sure that growth can be spurred from investment, the fundamental factor for Indonesia to be able to maintain its growth momentum of above 5 percent without incurring vulnerabilities amid a very volatile global environment". Meanwhile, the Jakarta Post has reported that nine toll roads as long as 406.14km are set to be inaugurated this year as part of Jokowi's infrastructure push to improve connectivity. On other news, The European Commission imposed countervailing duties of 8% to 18% on imports of biodiesel from Indonesia.

Thailand: Prime Minister Prayuth Chan-Ocha has said that he wants the baht to be at a level where exports can remain competitive, in a statement by his spokeswoman after the weekly Cabinet meeting. This came hot on the heels of the formation of a policy-coordination committee between the Bank of Thailand and the Ministry of Finance, in which BoT Governor Veerathai had to clarify that the formation of this committee will not affect the central bank's rate decisions.

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Bond Market Updates

Market Commentary: The SGD swap curve bull-flattened yesterday, with the shorter tenors and belly traded 2-5bps lower, while the longer tenors traded 7-11bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 137bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 1bps to 540bps. 10Y USTs rose 6bps to close at 1.71%, after US President Donald Trump de-escalated the trade war with China by delaying tariffs on several Chinese goods. Spread between 3-month treasury bills and 10-year treasury notes remains inverted, with the spread narrowing to -29bps.

New Issues: Orient Securities Co., Ltd has priced a USD300mn 3-year FRN at 6-month US LIBOR+125bps, tightening from IPT at 3-month US LIBOR+165bps area. Zhenro Properties Group Ltd has priced a USD110mn re-tap of its existing ZHPRHK 9.15%'22s at 8.55%, tightening from IPT at 8.7% area. Korean Air Lines Co., Ltd has scheduled investor road shows commencing on 19 Aug for its potential USD bond issuance that will be guaranteed by The Korea Development Bank.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	97.812	0.44%	USD-SGD	1.3833	-0.27%
USD-JPY	106.740	1.37%	EUR-SGD	1.5452	-0.65%
EUR-USD	1.1171	-0.38%	JPY-SGD	1.2961	-1.59%
AUD-USD	0.6799	0.70%	GBP-SGD	1.6681	-0.40%
GBP-USD	1.2060	-0.13%	AUD-SGD	0.9403	0.44%
USD-MYR	4.1960	0.29%	NZD-SGD	0.8929	-0.13%
USD-CNY	7.0434	-0.20%	CHF-SGD	1.4165	-1.01%
USD-IDR	14325	0.53%	SGD-MYR	3.0226	0.28%
USD-VND	23206	0.01%	SGD-CNY	5.0871	-0.07%

Equity and Commodity

Index	Value	Net change
DJIA	26,279.91	372.54
S&P	2,926.32	42.57
Nasdaq	8,016.36	152.95
Nikkei 225	20,455.44	-229.38
STI	3,146.73	-22.21
KLCI	1,592.88	-22.17
JCI	6,210.96	-39.63
Baltic Dry	1,774.00	--
VIX	17.52	-3.57

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4050	-0.90%	O/N	2.1028	0.74%
2M	-0.3360	0.74%	1M	2.1953	0.10%
3M	-0.4000	0.10%	2M	2.1895	-1.65%
6M	-0.4000	-1.65%	3M	2.1753	-0.04%
9M	-0.1940	-0.04%	6M	2.0576	0.56%
12M	-0.3520	0.56%	12M	1.9906	0.27%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.64 (-0.02)	1.67 (+0.08)
5Y	1.61 (-0.05)	1.58 (+0.09)
10Y	1.65 (-0.09)	1.70 (+0.06)
15Y	1.80 (-0.12)	--
20Y	1.90 (-0.11)	--
30Y	2.02 (-0.11)	2.16 (+0.03)

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%	11.1%	88.9%
10/30/2019	0.0%	100.0%	7.6%	64.4%	28.1%
12/11/2019	0.0%	100.0%	37.0%	45.5%	13.5%
01/29/2020	0.0%	100.0%	40.3%	33.3%	8.4%
03/18/2020	0.0%	100.0%	38.4%	26.6%	6.1%
04/29/2020	0.0%	100.0%	36.3%	22.9%	5.0%

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	5.95	0.15
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)	57.10	4.0%	Corn (per bushel)	3.6600	-5.0%
Brent (per barrel)	61.30	4.7%	Soybean (per bushel)	8.720	1.2%
Heating Oil (per gallon)	1.8773	4.0%	Wheat (per bushel)	4.7200	0.1%
Gasoline (per gallon)	1.7364	4.3%	Crude Palm Oil (MYR/MT)	2,172.0	1.4%
Natural Gas (per MMBtu)	2.1470	2.0%	Rubber (JPY/KG)	190.0	-1.7%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,829	1.5%	Gold (per oz)	1,502.2	-0.2%
Nickel (per mt)	15,925	1.4%	Silver (per oz)	16.985	-0.5%

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

Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
08/14/2019 07:00	SK Unemployment rate SA	4.00%	4.00%	4.00%	--
08/14/2019 07:50	JN Core Machine Orders MoM	-1.00%	13.90%	-7.80%	--
08/14/2019 08:30	AU Westpac Consumer Conf SA MoM	--	--	-4.10%	--
08/14/2019 10:00	CH Industrial Production YoY	6.00%	--	6.30%	--
08/14/2019 10:00	CH Retail Sales YoY	8.60%	--	9.80%	--
08/14/2019 16:30	UK CPI YoY	1.90%	--	2.00%	--
08/14/2019 16:30	UK CPI MoM	-0.10%	--	0.00%	--
08/14/2019 16:30	UK CPI Core YoY	1.80%	--	1.80%	--
08/14/2019 16:30	UK PPI Output NSA MoM	0.10%	--	-0.10%	--
08/14/2019 16:30	UK PPI Output NSA YoY	1.70%	--	1.60%	--
08/14/2019 17:00	EC GDP SA QoQ	0.20%	--	0.20%	--
08/14/2019 17:00	EC GDP SA YoY	1.10%	--	1.10%	--
08/14/2019 19:00	US MBA Mortgage Applications	--	--	5.30%	--
08/14/2019 20:30	US Import Price Index MoM	-0.10%	--	-0.90%	--

Source: Bloomberg

Treasury Research & Strategy

Macro Research

Selena Ling

Head of Strategy & Research

LinaSSSelena@ocbc.com

Emmanuel Ng

Senior FX Strategist

NqCYEmmanuel@ocbc.com

Tommy Xie Dongming

Head of Greater China Research

XieD@ocbc.com

Terence Wu

FX Strategist

TerenceWu@ocbc.com

Howie Lee

Thailand, Korea & Commodities

HowieLee@ocbc.com

Alan Lau

Malaysia & Indonesia

AlanLau@ocbc.com

Carie Li

Hong Kong & Macau

carierli@ocbcwh.com

Dick Yu

Hong Kong & Macau

dicksnyu@ocbcwh.com

Credit Research

Andrew Wong

Credit Research Analyst

WongVKAM@ocbc.com

Ezien Hoo

Credit Research Analyst

EzienHoo@ocbc.com

Wong Hong Wei

Credit Research Analyst

WongHongWei@ocbc.com

Seow Zhi Qi

Credit Research Analyst

ZhiQiSeow@ocbc.com

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