

Daily Treasury Outlook

15 August 2019

Highlights

Global: With many bond markets now flashing amber for global growth and risk appetite, Wall Street took a plunge overnight as the 2-10 year UST yield curve briefly inverted to -1.9bps intraday before closing flat and was joined by the UK gilt yield curve also inverting for the first time since 2008 on increasing no-deal Brexit concerns. The 10-year JGB yield also fell to -0.24% (low since 29 July 2016). The shelf-life of the market relief fuelled by Trump's decision to defer some of the tariffs from 1 September to 15 December was clearly very limited, and China also did not reciprocate with any goodwill gesture to this (note US Commerce Secretary Wilbur Ross said "this was not a quid pro quo"). With the precipitous decline in global bond yields, the pressure is now on central banks to ride to the rescue and one cannot help but contemplate if major central banks like the Fed, ECB and BOJ will ease monetary policy sooner rather than later, notwithstanding their philosophical reluctance to react to market corrections. President Trump again blamed the Fed for acting last year "far too quickly, and now is very, very late" and Powell for being "clueless". Exacerbating the weak market sentiments were China's soft retail sales, industrial production and FAI data releases. RBA's Debelle also warned of the "risk of a self-fulfilling downturn", albeit he cautioned that he is not sure "how much of a signal" the yield curve inversion is at the moment.

Market watch: Asian markets will be resuming risk-off mode again today, with equity and FX likely to bear the brunt of any selling pressure amid the flight to quality. Today's economic data calendar comprises US' retail sales, Empire manufacturing, Philadelphia Fed business index, initial jobless claims and industrial production, UK's retail sales, and Indonesia's July trade data.

US: US' import prices unexpectedly rose 0.2% mom in July, recovering from the 1.1% plunge in June amid higher petroleum and industrial goods prices. Fed's Bullard said current US conditions are "quite good" and "unemployment is near a 50-year low" with inflation "low and stable".

EU: The German economy contracted 0.1% qoq in 2Q19, also potentially opening the door for a technical recession. The 10-year bund yield fell to a record low of -0.628%. Eurozone's industrial production also contracted by 1.6% in June.

China: China's July growth data disappointed on the downside. Industrial production growth decelerated to record low of 4.8% yoy from 6.3% yoy. Fixed asset investment also slowed to 5.7% yoy for the first seven months of 2019 while retail sales slowed to 7.6% yoy from 9.8% yoy. Property investment remained the key supporting factor to July data while infrastructure investment remained sluggish. Given that China has made clear that it will not use property as the short term stimulus tools and tightened property measures further, we expect property investment to slow down further. The gap is unlikely to be filled by sluggish infrastructure investment, which may further weigh down on growth prospects amid the rising global uncertainty.

Key Market Movements		
Equity	Value	% chg
S&P 500	2840.6	-2.9%
DJIA	25479	-3.0%
Nikkei 225	20655	1.0%
SH Comp	2808.9	0.4%
STI	3147.6	0.0%
Hang Seng	25302	0.1%
KLCI	1600.3	0.5%
Currencies	Value	% chg
DXY	97.987	0.2%
USDJPY	105.91	-0.8%
EURUSD	1.1139	-0.3%
GBPUSD	1.2060	0.0%
USDIDR	14249	-0.5%
USDSGD	1.39	0.5%
SGDMYR	3.0213	0.0%
Rates	Value	chg (bp)
3M UST	1.94	-4.89
10Y UST	1.58	-12.43
1Y SGS	1.84	1.00
10Y SGS	1.67	1.63
3M LIBOR	2.16	-1.71
3M SIBOR	1.88	0.00
3M SOR	1.77	-0.86
Commodities	Value	% chg
Brent	59.48	-3.0%
WTI	55.23	-3.3%
Gold	1516	1.0%
Silver	17.22	1.5%
Palladium	1428	-1.9%
Copper	5765	-1.1%
BCOM	76.86	-0.9%

Source: Bloomberg

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Major Markets

US: The S&P 500 index dropped 2.9% on Wednesday on recessionary fears, making it 11 straight sessions where the index has seen intraday swings of at least 1%, starting from the FOMC meeting and the trade war re-escalation a fortnight ago. The 2-10Y UST yield curve has inverted for the first time since 2007, spooking investors into a selloff of risk assets. In the near term, we may see investors continue to trade on a risk-off tone. The S&P 500 index may likely trend lower, with an initial support seen at the 2800 level.

Singapore: The STI closed nearly flat (0.03%) at 3147.60 yesterday, but is likely to gap lower this morning amid the heightened risk off sentiments. STI's support is tipped at 3117 followed by 3100 handle. Another sharp bull-flattening in the UST bond yield curve yesterday amid the risk aversion will likely see SGS bonds also benefit from the flight to safety today. Following the sharp decline in UST bond yields, with the 30-year UST sitting just above the 2% handle, it will be key to see how much follow-through will materialise in the days ahead. For SGS bonds, the 10-year yield is now sitting at 1.66%, having taken out 8 September 2016 low of 1.66%, and this opens up space for the rally to extend further towards the 1.29% low last seen in December 2012. MAS sold \$6.6b of 81-day bills at a 1.92% yield yesterday, which is also higher than the 3-month SIBOR and SOR at 1.88% and 1.77% respectively.

Malaysia: Headline inflation came out at 1.4% yoy for July, just slightly below our forecast of 1.5% yoy whilst core inflation was at 2.0% yoy. The food category saw a price increase of 2.4% yoy whilst the transport category experienced a slower price decrease at 1.9% yoy. In terms of the OPR, we see it likely that Bank Negara Malaysia (BNM) will keep on hold at the September 2019 policy meeting given the lack of hints of an imminent cut in their last monetary policy statement in July 2019.

Gold: Gold climbed higher to \$1,516/oz yesterday, as an inversion of the 2-10y UST yield curve sparked worries of an imminent US recession. Reports that the PBOC have sought to curb the imports of gold into China have hardly dented gold's continued ascent. It looks increasingly likely that gold may test \$1,600/oz, especially if yields continue to remain suppressed and the outlook for the global economy remains weak.

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Bond Market Updates

Market Commentary: The SGD swap curve flattened yesterday, with the shorter tenors and belly traded 1-2bps higher, while the longer tenors traded 0-2bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS was unchanged at 137bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 10bps to 551bps. 10Y USTs fell 13bps to close at 1.58%, after weak economic data from China and Europe sparked fears of a recession, with the 2Y and 10Y yields briefly inverted. Spread between 3-month treasury bills and 10-year treasury notes remains inverted, with the spread widening to -36bps.

New Issues: Greenko Mauritius Ltd (Guarantor: Greenko Energy Holdings) has priced a USD350mn 3.5NC1.5 bond at 6.25%, tightening from IPT at 6.5% area. Shandong Guohui Investment Co., Ltd has mandated banks for its potential USD bond issuance.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	97.987	0.18%	USD-SGD	1.3900	0.48%
USD-JPY	105.910	-0.78%	EUR-SGD	1.5483	0.20%
EUR-USD	1.1139	-0.29%	JPY-SGD	1.3123	1.25%
AUD-USD	0.6748	-0.75%	GBP-SGD	1.6763	0.49%
GBP-USD	1.2060	--	AUD-SGD	0.9379	-0.26%
USD-MYR	4.1890	-0.17%	NZD-SGD	0.8946	0.19%
USD-CNY	7.0237	-0.28%	CHF-SGD	1.4280	0.81%
USD-IDR	14249	-0.53%	SGD-MYR	3.0213	-0.04%
USD-VND	23208	0.01%	SGD-CNY	5.0564	-0.60%

Equity and Commodity

Index	Value	Net change
DJIA	25,479.42	-800.49
S&P	2,840.60	-85.72
Nasdaq	7,773.94	-242.42
Nikkei 225	20,655.13	199.69
STI	3,147.60	0.87
KLCI	1,600.31	7.43
JCI	6,267.34	56.37
Baltic Dry	1,864.00	--
VIX	22.10	4.58

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4130	-0.50%	O/N	2.0983	-0.45%
2M	-0.3360	-0.45%	1M	2.1951	-0.01%
3M	-0.4020	-0.01%	2M	2.1796	-0.99%
6M	-0.4010	-0.99%	3M	2.1581	-1.71%
9M	-0.1940	-1.71%	6M	2.0340	-2.36%
12M	-0.3570	-2.36%	12M	1.9701	-2.05%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.66 (+0.02)	1.58 (-0.09)
5Y	1.63 (+0.02)	1.49 (-0.09)
10Y	1.67 (+0.02)	1.58 (-0.12)
15Y	1.80 (--)	--
20Y	1.90 (--)	--
30Y	2.01 (-0.01)	2.02 (-0.15)

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%	31.8%	68.2%
10/30/2019	0.0%	100.0%	20.9%	55.7%	23.4%
12/11/2019	0.0%	100.0%	42.3%	35.9%	9.0%
01/29/2020	0.0%	100.0%	39.6%	24.7%	5.3%
03/18/2020	0.0%	100.0%	35.9%	19.9%	4.0%
04/29/2020	0.0%	100.0%	32.7%	16.7%	3.2%

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	6.00	0.25
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	2.16
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Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	55.23	-3.3%	Corn (per bushel)	3.5900	-1.9%
Brent (per barrel)	59.48	-3.0%	Soybean (per bushel)	8.610	-1.3%
Heating Oil (per gallon)	1.8437	-1.8%	Wheat (per bushel)	4.7375	0.4%
Gasoline (per gallon)	1.6758	-3.5%	Crude Palm Oil (MYR/MT)	2,174.0	0.1%
Natural Gas (per MMBtu)	2.1430	-0.2%	Rubber (JPY/KG)	188.9	-0.6%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,765	-1.1%	Gold (per oz)	1,515.9	0.9%
Nickel (per mt)	15,970	0.3%	Silver (per oz)	17.280	1.7%

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

Economic Calendar

Date Time		Event		Survey	Actual	Prior	Revised
08/15/2019	PH	Overseas Remittances YoY	Jun	6.30%	--	5.70%	--
08/15/2019 07:00	AU	RBA's Debelle Gives Speech in Sydney					
08/15/2019 09:30	AU	Unemployment Rate	Jul	5.20%	--	5.20%	--
08/15/2019 12:00	ID	Exports YoY	Jul	-11.20%	--	-8.98%	--
08/15/2019 12:30	JN	Industrial Production MoM	Jun F	--	--	-3.60%	--
08/15/2019 12:30	JN	Industrial Production YoY	Jun F	--	--	-4.10%	--
08/15/2019 16:30	UK	Retail Sales Inc Auto Fuel MoM	Jul	-0.20%	--	1.00%	--
08/15/2019 16:30	UK	Retail Sales Ex Auto Fuel MoM	Jul	-0.20%	--	0.90%	--
08/15/2019 16:30	UK	Retail Sales Ex Auto Fuel YoY	Jul	2.30%	--	3.60%	--
08/15/2019 20:30	US	Initial Jobless Claims	Aug-10	212k	--	209k	--
08/15/2019 20:30	US	Retail Sales Advance MoM	Jul	0.30%	--	0.40%	--
08/15/2019 20:30	US	Empire Manufacturing	Aug	2	--	4.3	--
08/15/2019 20:30	US	Philadelphia Fed Business Outlook	Aug	9.5	--	21.8	--
08/15/2019 21:15	US	Industrial Production MoM	Jul	0.10%	--	0.00%	--

Source: Bloomberg

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