

Daily Treasury Outlook

16 August 2019

Highlights

Global: Global risk appetite appears to be attempting to stabilize as the S&P 500 index edged up overnight amid better-than-expected US retail sales data, albeit the UST bond market continued to rally. The 10- and 30-year UST bond yields broke through 1.5% (for the first time since August 2016) and 2% respectively to a low of 1.47% and 1.95% (record low) and bull-steepened the curve. Meanwhile, President Trump opined that a trade deal with China must be on US terms and he will have a call with China's Xi very soon. China had called the upcoming US tariffs a violation and threatened retaliation. Elsewhere, the Hong Kong government slashed its 2019 growth forecast from 2-3% to 0-1% and announced a \$2.4b stimulus package, while Bank of Mexico surprised with a 25bp cut to 8% and New Zealand's 10-year yield also fell below 1% for the first time.

Market watch: Asian markets appear primed to slide again today amid another choppy session overnight for US stocks and a sustained rally in UST bonds. Today's economic data calendar comprises US' housing starts, building permits and the University of Michigan sentiments, 2Q19 GDP growth for Taiwan, HK and Malaysia.

US: US' retail sales surprised with a 0.7% mom surge in July, following a 0.3% increase in June. Core retail sales also spiked 1.0% in July and the Empire manufacturing came in stronger than expected, albeit initial jobless claims rose 9k to 222k and industrial production slid 0.4% in July. TIC data also revealed that China had ceded its pole position as top US' foreign creditor to Japan, as the latter increased its holdings by US\$21.9b to US\$1.12 tn. Note Fed's Bullard opined that only a sustained yield curve inversion would be a "bearish" signal and "what matters is ... you are reacting appropriately to incoming data", while Kashakri noted that "we need to give more stimulus to the economy". Fed chair Powell is due to speak at the Jackson Hole conference on 23 August and may shed further light on easing intentions for the 17-18 September FOMC.

China: Headline news on trade talks continued to dominate market sentiment yesterday. China's State Council tariff committee said the additional tariffs proposed by President Trump was a violation of accords reached in Japan in June, and China will have to take retaliatory measures. However, President Trump later said that his call with President Xi will soon be fuelling hopes of progress of trade talks.

Singapore: July NODX declined 11.2% yoy (+3.7% mom sa), slightly better than our forecast for -15.2% yoy (+3.4% mom sa). The main drag was electronics exports which contracted 24.2% yoy, which was a slight improvement from June's -31.9% yoy. Meanwhile, private home sales surged to an eight-month high in July.

Key Market Movements		
Equity	Value	% chg
S&P 500	2847.6	0.2%
DJIA	25579	0.4%
Nikkei 225	20406	-1.2%
SH Comp	2815.8	0.2%
STI	3126.1	-0.7%
Hang Seng	25495	0.8%
KLCI	1600.3	0.0%
Currencies	Value	% chg
DXY	98.144	0.2%
USDJPY	106.12	0.2%
EURUSD	1.1107	-0.3%
GBPUSD	1.2088	0.2%
USDIDR	14273	0.2%
USDSGD	1.389	-0.1%
SGDMYR	3.0184	-0.1%
Rates	Value	chg (bp)
3M UST	1.88	-5.91
10Y UST	1.53	-5.23
1Y SGS	1.84	0.00
10Y SGS	1.65	-1.92
3M LIBOR	2.17	1.03
3M SIBOR	1.88	0.00
3M SOR	1.77	-0.38
Commodities	Value	% chg
Brent	58.23	-2.1%
WTI	54.47	-1.4%
Gold	1523	0.5%
Silver	17.27	0.3%
Palladium	1448	1.4%
Copper	5751	-0.2%
BCOM	76.70	-0.2%

Source: Bloomberg

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Major Markets

US: The US markets' volatility continued on Thursday, with the S&P 500 index seeing movements of >1% within the 2800-2900 range before finally closing up 0.2%. Mixed earnings data, statements from China and economic data releases continued to rock the already shaky boat. Investors are fleeing to safe havens, driving the 10Y UST yields down 5.2bps to 1.53%. The S&P 500 index could likely continue to trade within the same range in the short term.

EU: Oli Rehn has called for the ECB to come up with an "impactful and significant" stimulus package at the September meeting.

China: Domestically, China conducted CNY400 billion MLFs, more than matured CNY383 billion though it kept its interest rates unchanged. The higher than expected liquidity injection shows China's monetary policy remains flexible.

Singapore: The STI slid 0.68% to close at 3126.09 yesterday and may continue to consolidate between 3100-3150 in the interim. Wall Street had a choppy session overnight and morning cues from Kospi also remain soft. While UST bond yields continued to test lower, SGS bonds which saw longer-tenors outperforming yesterday may find it increasingly difficult to follow suit as the short-term SGD interest rates remain relatively anchored for now. The 30-year SGS yield is currently trading around 1.86%, whilst the 3-month SIBOR and SOR are at 1.88% and 1.73% respectively.

Malaysia: 2Q 2019 GDP is due later with our expectations that there may be a slight pick-up to 4.7% yoy from the prior quarter at 4.5% yoy. The industrial production index (IPI) has also averaged higher at 4.0% for April-June compared to 2.7% in the entire first quarter, providing some indication of a growth pick-up. However, trade volumes are likely to see some fall given that the monthly trade data showed export growth for 2Q 2019 was stagnant whilst the import level had declined. Private consumption may probably still be the main driver of growth amid stable labour market conditions and benign inflation. Investment levels are likely to have contracted as business conditions continue to appear weak

Indonesia: The government is set to unveil the 2020 budget today with expectations that it may be focused on developing infrastructure, improving human capital and boosting growth amid a slowing global economy. The government may also target higher economic growth. Meanwhile, July monthly trade data showed that exports continued to decline at 5.12% yoy whilst imports fell at 15.21% yoy. The trade balance slid back into a deficit at US\$64m from a surplus of US\$196m, the prior month. Given the worsening global economic situation, export levels risk continuing its slide in the coming months.

Thailand: The 2-5y Thai government bond spread has been dipping in and out of inversion since last week. This is the first time the 2-5 year spread has inverted since Q3 2012 and joins the likes of the US and UK in displaying an inverted yield curve. With half of August done, bond inflows into Thailand are slightly negative at -\$20.1mil, although most of the outflows

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started last week after the BoT unexpectedly hike rates. Further bond outflows may start to add selling pressure on the baht, although the appeal of the THB as a regional safe haven is likely to remain strong.

Hong Kong: Hong Kong's government slashed 2019 GDP forecast from 2%-3% to 0%-1%, amid various external headwinds and recent political unrest. To buffer the decelerating economic growth, Hong Kong's government announced a series of stimulus measures worth a total of HK\$ 19.1 billion and 1.4 million people are expected to be benefited from the measures.

The measures may help to ease some downside pressure from the ongoing protests and the trade war. As such, we believe that a full year recession is unlikely. Still, due to the ongoing social unrest and the persistent hit from trade war, we are considering a further cut to the 2019 GDP growth forecasts from 1%-1.5% to 0.5%-1%.

Oil: With half of Q3 done, Brent prices have averaged \$62.40/bbl, while WTI has averaged \$56.55/bbl. Barring an unlikely turnaround in the US-China trade war situation, oil prices are likely to remain subdued for the rest of Q3, if not the year, and are unlikely to match the levels set in Q1 and Q2 (\$63 and \$67 for Brent respectively; \$57 and \$60 for WTI). Given the high base on oil prices set in Q3, when Brent was testing \$80/bbl towards the end of the quarter, this is likely to dent any inflationary expectations in Q3 this year, and set up more space for central banks to reduce interest rates.

Bond Market Updates

Market Commentary: The SGD swap curve bull-flattened yesterday, with the shorter tenors and belly traded 1-4bps lower, while the longer tenors traded 7-13bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 138bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 21bps to 571bps. 10Y USTs fell 5bps to close at 1.53%, as the risk-off sentiment continued amid persistent concerns about global trade tensions and slowdown in economic growth around the world. Spread between 3-month treasury bills and 10-year treasury notes remains inverted, with the spread narrowing to -35bps.

New Issues: Qingdao Jimo District Urban Development Investment Co. Ltd has priced a USD300mn 3-year bond at 4.9%, tightening from IPT of 5.5% area. Hanhui International Ltd (Guarantor: Shandong Guohui Investment Co., Ltd) has priced a USD300mn 3-year bond at 4.37%, tightening from IPT of 4.7% area.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	98.144	0.16%	USD-SGD	1.3890	-0.07%
USD-JPY	106.120	0.20%	EUR-SGD	1.5427	-0.36%
EUR-USD	1.1107	-0.29%	JPY-SGD	1.3090	-0.25%
AUD-USD	0.6775	0.40%	GBP-SGD	1.6789	0.16%
GBP-USD	1.2088	0.23%	AUD-SGD	0.9412	0.35%
USD-MYR	4.1945	0.13%	NZD-SGD	0.8956	0.11%
USD-CNY	7.0340	0.15%	CHF-SGD	1.4225	-0.39%
USD-IDR	14273	0.17%	SGD-MYR	3.0184	-0.10%
USD-VND	23208	--	SGD-CNY	5.0645	0.16%

Equity and Commodity

Index	Value	Net change
DJIA	25,579.39	99.97
S&P	2,847.60	7.00
Nasdaq	7,766.62	-7.32
Nikkei 225	20,405.65	-249.48
STI	3,126.09	-21.51
KLCI	1,600.29	--
JCI	6,257.59	-9.75
Baltic Dry	1,950.00	--
VIX	21.18	-0.92

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4030	0.70%	O/N	2.0921	-0.61%
2M	-0.3360	-0.61%	1M	2.1974	0.23%
3M	-0.4060	0.23%	2M	2.1905	1.09%
6M	-0.4060	1.09%	3M	2.1684	1.03%
9M	-0.1940	1.03%	6M	2.0799	4.59%
12M	-0.3500	4.59%	12M	2.0290	5.89%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.66 (--)	1.50 (-0.08)
5Y	1.63 (--)	1.42 (-0.07)
10Y	1.65 (-0.02)	1.53 (-0.05)
15Y	1.73 (-0.07)	--
20Y	1.81 (-0.09)	--
30Y	1.87 (-0.14)	1.97 (-0.05)

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%	44.5%	55.5%
10/30/2019	0.0%	100.0%	31.6%	52.3%	16.1%
12/11/2019	0.0%	100.0%	45.2%	28.5%	5.5%
01/29/2020	0.0%	100.0%	37.8%	18.3%	3.1%
03/18/2020	0.0%	100.0%	32.0%	13.8%	2.2%
04/29/2020	0.0%	100.0%	28.5%	11.6%	1.7%

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	7.79	2.19
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	2.13
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Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	54.47	-1.4%	Corn (per bushel)	3.6075	0.5%
Brent (per barrel)	58.23	-2.1%	Soybean (per bushel)	8.580	-0.3%
Heating Oil (per gallon)	1.8107	-1.8%	Wheat (per bushel)	4.6900	-1.0%
Gasoline (per gallon)	1.6364	-2.4%	Crude Palm Oil (MYR/MT)	2,172.0	-0.1%
Natural Gas (per MMBtu)	2.2320	4.2%	Rubber (JPY/KG)	181.1	-4.1%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,751	-0.2%	Gold (per oz)	1,519.6	0.2%
Nickel (per mt)	16,250	1.8%	Silver (per oz)	17.214	-0.4%

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

Economic Calendar

Date Time		Event		Survey	Actual	Prior	Revised
08/16/2019 04:00	US	Net Long-term TIC Flows	Jun	--	\$99.1b	\$3.5b	\$4.6b
08/16/2019 04:00	US	Total Net TIC Flows	Jun	--	\$1.7b	\$32.9b	\$37.6b
08/16/2019 06:30	NZ	BusinessNZ Manufacturing PMI	Jul	--	48.2	51.3	51.1
08/16/2019 08:30	SI	Non-oil Domestic Exports YoY	Jul	-15.40%	--	-17.30%	--
08/16/2019 08:30	SI	Non-oil Domestic Exports SA MoM	Jul	2.00%	--	-7.60%	--
08/16/2019 12:00	MA	GDP YoY	2Q	4.70%	--	4.50%	--
08/16/2019 15:30	TH	Foreign Reserves	Aug-09	--	--	\$219.1b	--
08/16/2019 16:30	HK	GDP YoY	2Q F	0.60%	--	0.60%	--
08/16/2019 16:30	TA	GDP YoY	2Q F	2.40%	--	2.41%	--
08/16/2019 20:30	US	Housing Starts	Jul	1256k	--	1253k	--
08/16/2019 20:30	US	Building Permits	Jul	1270k	--	1220k	1232k
08/16/2019 22:00	US	U. of Mich. Sentiment	Aug P	97	--	98.4	--

Source: Bloomberg

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