

Daily Treasury Outlook

17 September 2019

Highlights

Global: Global risk appetite may attempt to rally on the back that the US and Japan had reached a trade deal, albeit there were few details to go on (especially for the auto tariffs) which may only come at the UN General Meeting later this month. Meanwhile, Brent oil prices which spiked 19% intra-day yesterday following the drone attacks in Saudi Arabia may gradually normalise as supply is restored, but it's still early days yet. That said, the macro-economic environment remains soft - China's economic data continued to disappoint with industrial production at a 17.5-year low with weaker-than-expected retail sales and fixed asset investments. Brexit talks between Johnson and Juncker also did not show real progress. S&P500 closed modestly lower, while UST bonds saw a flight-to-quality lift with the 10-year yield at 1.83%.

Market Watch: Asian markets may trade mixed this morning as market players await to see if the US-Japan trade deal spills over to market optimism regarding an upcoming US-China mini trade deal. Today's economic data comprises US' industrial production and NAHB housing market index, German ZEW survey, and China's new home prices. ECB's Villeroy is also speaking.

US: The Empire manufacturing slipped from 4.8 in August to 2.0 in September amid the trade uncertainties, but the employment gauge rose for the first time in four months.

China: The latest economic data reinforced the view that the Chinese economy has felt more pain from the US-China trade war. Output in the manufacturing sector decelerated to 4.3% while investment in the manufacturing sector shrank in August. Ironically, the property sector remained the key supporting factor to the economy with fixed asset investment in property sector rising by 10.5% yoy in the first eight months, albeit slowing down slightly from 10.6% yoy. Nevertheless, given China has mentioned quite clearly that it will not use property as short term stimulus tools, we expect the contribution from the property to fall gradually. The outlook of China's growth prospect will probably hinge on the growth of infrastructure investment, which rebounded slightly in August with total fixed asset investment in infrastructure sector reaccelerating to 4.2% yoy from 3.8% yoy. As mentioned by the spokesman from the National Bureau of Statistics yesterday, China may bring forward the issuance of local government special bond quota next year to this year, this will help alleviate the funding constraint to China's infrastructure investment.

Singapore: NODX shrank a better-than-expected 8.9% yoy (+6.7% mom sa) in August, compared to our expectations for -11.5% yoy (+2.8% mom sa) and market consensus forecast for -10.6% yoy (+1.6% mom sa), and versus July's print of -11.2% yoy (+3.7% mom sa). Non-electronics exports fell a smaller 2.2% yoy which helped to partially mitigate the 25.9% yoy contraction in electronics exports. For the top 10 NODX markets, the sole bright spot was China where NODX saw a sharp 38.5% yoy rebound in August compared to a 5.1% yoy decline in July and it remains to be seen if it can be sustained.

Key Market Movements		
Equity	Value	% chg
S&P 500	2998.0	-0.3%
DJIA	27077	-0.5%
Nikkei 225	21988	0.0%
SH Comp	3030.8	0.0%
STI	3203.9	-0.2%
Hang Seng	27125	-0.8%
KLCI	1601.3	0.0%
Currencies	Value	% chg
DXY	98.610	0.4%
USDJPY	108.12	0.0%
EURUSD	1.1001	-0.7%
GBPUSD	1.2431	-0.6%
USDIDR	14040	0.5%
USDSGD	1.3755	0.2%
SGDMYR	3.0333	0.0%
Rates	Value	chg (bp)
3M UST	1.98	2.04
10Y UST	1.85	-4.91
1Y SGS	1.86	0.00
10Y SGS	1.80	4.05
3M LIBOR	2.14	2.09
3M SIBOR	1.88	0.00
3M SOR	1.75	1.44
Commodities	Value	% chg
Brent	69.02	14.6%
WTI	62.9	14.7%
Gold	1498	0.7%
Silver	17.85	2.3%
Palladium	1606	-0.3%
Copper	5870	-1.7%
BCOM	81.40	3.4%

Source: Bloomberg

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Major Markets

US: US markets slid slightly lower last night, with the S&P 500 index closing down -0.3%. Industrial stocks bore the brunt of the hit, with the DJIA index down 0.5% as investors processed the news of the Saudi attacks. The threat to global oil supply, with Aramco likely to take weeks or even months to restore full output, overshadowed positive news on the US-China and US-Japan trade fronts. Going ahead, investors will be looking at how the US administration reacts to the reduced oil supply from Saudi Arabia, as well as any headline news from the US-China trade talks. We expect the S&P 500 index to continue trading within a range of 2980-3020. Focus in the next two days will likely be increasingly turned towards the FOMC meeting.

Singapore: The STI declined 0.24% to close at 3203.9 yesterday and may trade sideways today between the broad range of 3184-3230 in the interim. With the flight to quality bid in the UST bond market overnight which pushed yields lower by 4-6bps across the curve, SGS bonds may also unwind some of yesterday's sell-off today. Investors are awaiting the 2- and 15-year SGS bonds re-openings with the size announcement and auctions due on 19 and 26 September respectively.

Hong Kong: Moody's cut the outlook on Hong Kong's AA2 rating to negative from stable while keeping the rating unchanged. The change is mainly attributed to the rising risk associated with the ongoing protests which show an erosion in the strength of HK's institutions and undermine HK's credit fundamentals by damaging its attractiveness as a trade and financial hub. Besides, the government policy effectiveness is lower than that previously assessed by Moody's. Following Fitch and Moody's, S&P may also adjust HK's rating outlook from stable to negative. Moody's and S&P, which already cut HK's rating by a notch due to closer integration between China and HK in 2017, may not downgrade the rating again unless there is a structural change to HK's role as a stable and safe business hub with separate customs territory and independent regulatory system. So far, the impact of social unrest has been restricted to the retail, property and tourism sectors. In comparison, the financial sector has felt a milder pain with no massive outflow in sight. HK government's sizeable fiscal reserves and foreign currency reserves also point to strong fundamentals. Therefore, we believe that the impact of the cut will be limited.

Indonesia: August trade numbers came in with a slightly negative tone, with exports declining by 9.9% (vs. expectation of -6%) and trade balance at a surplus of USD85.1mn, narrower than market estimate of USD162mn, although an improvement from July's revised deficit of USD64mn.

Malaysia: Finance Minister Lim Guan Eng said that Malaysia is not alone in trying to mitigate the weakness of its currency against the USD, as the world struggles to cope with the prolonged uncertainties from the US spat with China over trade. He reportedly added that if trade is affected, the ringgit should be kept at a competitive level to deal with the effects of the trade war.

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Oil: Brent prices rallied 14.6% yesterday, as markets reopened from the weekend of drone attacks on Saudi's oil facilities. Brent soared to an intraday high of \$71.95/bbl (+19.5%), although it eventually closed at \$69.02/bbl. Saudi Arabia has now said that Iranian weapons were used in the attack against its facilities, although it stopped short of saying Iran was responsible for the attacks. However, the US remains adamant that Iran is behind the facility sabotage and the odds for a military intervention from the US appears to have increased. Brent prices are likely to retrace slightly from yesterday's massive rally, but it is unlikely they will return below \$60/bbl in the near-term until Saudi's production facilities resume full functionality.

Bond Market Updates

Market Commentary: The SGD swap curve bear-steepened yesterday, with the shorter tenors traded 3-4bps higher, while the longer tenors (>5yr) traded 4-5bps higher. The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 2bps to 129bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 4bps to 518bps. 10Y USTs yields fell 5bps to close at 1.85%, after a drone strike on Saudi Arabia's oil production facilities caused oil prices to spike and sparked concerns on escalating conflict in the Middle East, boosting demand for safe-haven assets. Spread between 3-month treasury bills and 10-year treasury notes remains inverted, with the spread widening to -13bps.

New Issues: Bangkok Bank PCL Hong Kong Branch has priced a USD1.2bn 15NC10 Tier 2 bond at T+190bps, tightening from IPT of T+220bps area. ENN Ecological Holdings Co., Ltd has scheduled investor conference calls commencing on 16 Sep for a proposed re-tap of its existing USD250mn VEYONG 7.5%'21s. Lianyungang Port Group Co., Ltd has scheduled investor meetings commencing on 17 Sep for its proposed USD bond issuance.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	98.610	0.36%	USD-SGD	1.3755	0.17%
USD-JPY	108.120	0.03%	EUR-SGD	1.5131	-0.51%
EUR-USD	1.1001	-0.65%	JPY-SGD	1.2719	0.12%
AUD-USD	0.6865	-0.20%	GBP-SGD	1.7097	-0.41%
GBP-USD	1.2431	-0.56%	AUD-SGD	0.9443	-0.05%
USD-MYR	4.1640	--	NZD-SGD	0.8725	-0.39%
USD-CNY	7.0673	-0.17%	CHF-SGD	1.3854	-0.11%
USD-IDR	14040	0.54%	SGD-MYR	3.0333	0.03%
USD-VND	23219	0.02%	SGD-CNY	5.1363	-0.28%

Equity and Commodity

Index	Value	Net change
DJIA	27,076.82	-142.70
S&P	2,997.96	-9.43
Nasdaq	8,153.54	-23.17
Nikkei 225	21,988.29	--
STI	3,203.93	-7.56
KLCI	1,601.25	--
JCI	6,219.44	-115.41
Baltic Dry	2,312.00	--
VIX	14.67	0.93

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4380	4.80%	O/N	2.0948	0.65%
2M	-0.3360	0.65%	1M	2.0248	-0.27%
3M	-0.4000	-0.27%	2M	2.1151	-0.76%
6M	-0.3770	-0.76%	3M	2.1394	2.09%
9M	-0.1940	2.09%	6M	2.0703	2.30%
12M	-0.3250	2.30%	12M	2.0491	4.35%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.66 (+0.01)	1.76 (-0.04)
5Y	1.70 (+0.03)	1.70 (-0.05)
10Y	1.80 (+0.04)	1.85 (-0.05)
15Y	1.89 (+0.01)	--
20Y	1.99 (+0.01)	--
30Y	2.13 (+0.04)	2.32 (-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%	0.9%	99.1%
10/30/2019	0.0%	100.0%	0.4%	45.5%	54.0%
12/11/2019	0.0%	100.0%	24.6%	50.1%	25.1%
01/29/2020	0.0%	100.0%	35.9%	39.0%	13.9%
03/18/2020	0.0%	100.0%	36.8%	31.9%	10.0%
04/29/2020	0.0%	100.0%	36.0%	28.2%	8.3%

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	5.25	0.25
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	2.20
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Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	62.90	14.7%	Corn (per bushel)	3.7400	5.2%
Brent (per barrel)	69.02	14.6%	Soybean (per bushel)	9.000	1.7%
Heating Oil (per gallon)	2.0838	11.0%	Wheat (per bushel)	4.8875	0.6%
Gasoline (per gallon)	1.7524	12.8%	Crude Palm Oil (MYR/MT)	2,105.0	--
Natural Gas (per MMBtu)	2.6810	2.6%	Rubber (JPY/KG)	165.8	0.0%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,870	-1.7%	Gold (per oz)	1,498.4	0.7%
Nickel (per mt)	17,370	-2.1%	Silver (per oz)	17.852	2.3%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
09/17/2019 08:30	SI Non-oil Domestic Exports YoY	Aug -10.60%	--	-11.20%	--
09/17/2019 08:30	SI Non-oil Domestic Exports SA MoM	Aug 1.60%	--	3.70%	--
09/17/2019 08:30	SI Electronic Exports YoY	Aug --	--	-24.20%	--
09/17/2019 11:00	NZ Non Resident Bond Holdings	Aug --	--	53.60%	--
09/17/2019 12:00	JN Tokyo Condominiums for Sale YoY	Aug --	--	-35.30%	--
09/17/2019 16:30	HK Unemployment Rate SA	Aug 2.90%	--	2.90%	--
09/17/2019 17:00	GE ZEW Survey Expectations	Sep -38	--	-44.1	--
09/17/2019 17:00	GE ZEW Survey Current Situation	Sep -15	--	-13.5	--
09/17/2019 17:00	EC ZEW Survey Expectations	Sep --	--	-43.6	--
09/17/2019 17:40	EC ECB's Villeroy speaks in London				
09/17/2019 21:15	US Industrial Production MoM	Aug 0.20%	--	-0.20%	--
09/17/2019 21:15	US Capacity Utilization	Aug 77.60%	--	77.50%	--
09/17/2019 22:00	US NAHB Housing Market Index	Sep 66	--	66	--

Source: Bloomberg

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