

Daily Treasury Outlook

20 August 2019

Highlights

Global: News that the US will extend the relief for US customers doing business with Huawei for another 90 days gave global risk appetite another lift overnight. That said, the US Commerce Department added another 46 more Huawei subsidiaries to its entity list. The USD and Wall Street climbed further, while UST bonds fell across the board with the shorter-tenors leading losses after Fed's Rosengren (dissenter at the July meeting) warned that there should not be any more rate cuts unless "we are actually going into something that's more of a slowdown".

Market watch: Asian markets may extend gains today amid the olive branch for Huawei. Today's main market focus may be the RBA minutes due this morning, Taiwan's export orders and Hong Kong's July CPI.

US: The White House has denied a Washington Post report that a payroll tax cut was being considered to boost consumer spending.

EU: The Bundesbank warned that the German economy may have continued to contract in 3Q19. Eurozone's inflation was also revised down from 1.1% to 1% in July, suggesting pressure for ECB to consider more market stimulus in September. Meanwhile, UK PM Johnson's government is preparing a publicity blitz to prepare for a no-deal Brexit.

China: Chinese Premier Li Keqiang reiterated that they will roll out more measures to stabilize the job market. For today, market will focus on the first reading of new LPR this morning.

Indonesia: Finance Minister Sri Mulyani has reportedly said that the government plans to double capital injection into Eximbank to Rp5trillion next year in an effort to try to boost exports and improve the country's balance of payment. According to the 2020 state budget, the government also plans to inject Rp1trillion into state-owned enterprises to support the national exports program.

Oil: Crude oil prices rose in tandem with other risky assets yesterday. Brent prices rose 1.9% to \$59.74/bbl, \$0.26/bbl shy of testing the \$60/bbl level. Further improvements in risk appetite may push Brent above \$60/bbl, but that will require a marked improvement in global data print or US-China trade talks. The Brent-WTI spread continues to be compressed to \$3.53/bbl, the lowest since Aug 2017.

Key Market Movements		
Equity	Value	% chg
S&P 500	2923.7	1.2%
DJIA	26136	1.0%
Nikkei 225	20563	0.7%
SH Comp	2883.1	2.1%
STI	3128.5	0.4%
Hang Seng	26292	2.2%
KLCI	1596.5	-0.2%
Currencies	Value	% chg
DXY	98.347	0.2%
USDJPY	106.64	0.2%
EURUSD	1.1078	-0.1%
GBPUSD	1.2126	-0.2%
USDIDR	14238	0.0%
USDSGD	1.3866	0.2%
SGDMYR	3.0157	0.1%
Rates	Value	chg (bp)
3M UST	1.89	3.58
10Y UST	1.61	5.25
1Y SGS	1.85	-0.20
10Y SGS	1.80	10.82
3M LIBOR	2.14	1.21
3M SIBOR	1.88	0.00
3M SOR	1.75	1.70
Commodities	Value	% chg
Brent	59.74	1.9%
WTI	56.21	2.4%
Gold	1496	-1.2%
Silver	16.88	-1.4%
Palladium	1480	2.0%
Copper	5774	0.5%
BCOM	76.66	-0.1%

Source: Bloomberg

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Major Markets

US: US markets rallied for a 3rd consecutive session, with the S&P500 index closing up 1.2%. Some optimism came on the back of news that the US will grant reprieve to Huawei for another 90 days. Bond yields went up, with the UST 10Y yields gaining 5.3bps, despite Trump's tweet demanding a 100-point rate cut from the Fed. Investors will be watching closely for headlines on any US-China trade talk progress and Powell's speech on Friday, which might provide hints on the Fed's direction going forward. In the near term, watch for the S&P 500 index to break above 2,950, which may signal a new wave of bullishness in the US equity market.

Singapore: The STI gained 0.43% to close at 3128.45 yesterday and may make more headway today amid positive overnight cues from Wall Street and morning gains in Kospi. STI resistance is tipped at 3150. With the extended stabilization in risk appetite, UST yields climbed yesterday and SGS bonds may follow suit today, with the yield curve likely to steepen again ahead of the 10-year re-opening on 1 October.

Malaysia: Bursa Malaysia was the only major regional market to close in the red yesterday but the USD-MYR ended yesterday mostly unchanged with the currency pair higher only by 0.02%.

Thailand: Q2 GDP grew 2.3% yoy, matching expectations and beating our forecast of 2.2%. This is the lowest growth rate since Q3 2014, at a time when the Thai economy was reeling from the street demonstrations and political uncertainty. Much of the slowdown was attributed to the continued slump in exports growth. The 316bn stimulus package unveiled last Friday is expected to boost Thailand's tourism sector, especially if visa waivers are approved for Chinese and Indian tourists. We downgrade 2019 Thailand GDP growth from 3.4% to 2.8%.

Hong Kong: Unemployment rate rose from an over two-decade low of 2.8% in 2Q to 2.9% in the three months through July. For several crucial industries, the employment situation softened further. Specifically, as retail sales fell for the fifth consecutive month in June and might have dropped further in the following two months amid local social unrest, the unemployment rate of the retail sector jumped from 3.9% to 4.3%, the highest since late 2017 and is set to drift higher. Besides, a combination of trade war and local political uncertainty (like the resultant flight cancellation) might have weighed down the transportation sector, in turn pushing the sector's jobless rate up from 2.7% to 2.8%, the highest since late 2017. Going forward, should social unrest persist and trade war escalate, the resultant downside risks to the key industries and the overall economy will likely dent hiring sentiments and drive the unemployment rate up further. If this is the case, the weakening jobs market may translate into sour local consumption and feed through to retail sales.

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Bond Market Updates

Market Commentary: The SGD swap curve bear-steepened yesterday, with the shorter tenors and belly traded 0-5bps higher, while the longer tenors traded 7-10bps higher. The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 2bps to 136bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 7bps to 566bps. 10Y USTs gained 5bps to close at 1.61% on higher risk appetite due to Chinese interest rate reform, hopes of fiscal stimulus in Germany and the possibility of the US raising bonds with yields longer than 30 years. This was compounded by the resumption of US-China trade talks. Spread between 3-month treasury bills and 10-year treasury notes remains inverted, with the spread at -28bps.

New Issues: Haichuan International Investment Co., Ltd (Guarantor: Jiangsu Fangyang Group Co., Ltd) has priced a USD180mn re-tap of its existing FANGYA 7.5%'21s at 7.5%.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	98.347	0.21%	USD-SGD	1.3866	0.15%
USD-JPY	106.640	0.24%	EUR-SGD	1.5360	0.03%
EUR-USD	1.1078	-0.11%	JPY-SGD	1.3006	-0.08%
AUD-USD	0.6764	-0.22%	GBP-SGD	1.6814	-0.07%
GBP-USD	1.2126	-0.19%	AUD-SGD	0.9383	0.01%
USD-MYR	4.1785	0.01%	NZD-SGD	0.8889	-0.13%
USD-CNY	7.0507	0.11%	CHF-SGD	1.4128	-0.16%
USD-IDR	14238	-0.04%	SGD-MYR	3.0157	0.14%
USD-VND	23210	-0.01%	SGD-CNY	5.0883	0.12%

Equity and Commodity

Index	Value	Net change
DJIA	26,135.79	249.78
S&P	2,923.65	34.97
Nasdaq	8,002.81	106.82
Nikkei 225	20,563.16	144.35
STI	3,128.45	13.42
KLCI	1,596.45	-2.77
JCI	6,296.72	10.06
Baltic Dry	2,088.00	--
VIX	16.88	-1.59

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4230	-3.20%	O/N	2.0985	0.26%
2M	-0.3360	0.26%	1M	2.1721	-0.99%
3M	-0.4200	-0.99%	2M	2.1560	0.29%
6M	-0.4270	0.29%	3M	2.1359	1.21%
9M	-0.1940	1.21%	6M	2.0168	0.28%
12M	-0.3850	0.28%	12M	1.9450	1.25%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.71 (+0.03)	1.55 (+0.07)
5Y	1.71 (+0.05)	1.48 (+0.06)
10Y	1.80 (+0.11)	1.61 (+0.05)
15Y	1.88 (+0.1)	--
20Y	1.96 (+0.11)	--
30Y	2.02 (+0.11)	2.09 (+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%	18.4%	81.6%
10/30/2019	0.0%	100.0%	14.6%	68.4%	17.1%
12/11/2019	0.0%	100.0%	48.4%	36.1%	6.3%
01/29/2020	0.0%	100.0%	42.5%	21.8%	3.3%
03/18/2020	0.0%	100.0%	37.1%	16.9%	2.4%
04/29/2020	0.0%	100.0%	32.7%	13.8%	1.9%

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	5.37	-0.03
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)	56.21	2.4%	Corn (per bushel)	3.6500	-1.6%
Brent (per barrel)	59.74	1.9%	Soybean (per bushel)	8.540	-1.5%
Heating Oil (per gallon)	1.8331	1.1%	Wheat (per bushel)	4.6550	-1.1%
Gasoline (per gallon)	1.6644	0.5%	Crude Palm Oil (MYR/MT)	2,105.0	-1.8%
Natural Gas (per MMBtu)	2.2100	0.5%	Rubber (JPY/KG)	172.5	0.1%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,774	0.5%	Gold (per oz)	1,500.4	-0.8%
Nickel (per mt)	15,920	-1.7%	Silver (per oz)	16.940	-1.1%

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

Economic Calendar

Date Time		Event		Survey	Actual	Prior	Revised
08/20/2019 08/21	AR	Budget Balance	Jul	--	--	-6598m	--
08/20/2019 08/21	AR	LELIQ 7-Day Notes Rate	Aug-20	--	--	74.97%	--
08/20/2019 14:00	GE	PPI YoY	Jul	1.00%	--	1.20%	--
08/20/2019 14:00	GE	PPI MoM	Jul	0.00%	--	-0.40%	--
08/20/2019 14:00	SZ	Exports Real MoM	Jul	--	--	-0.10%	--
08/20/2019 15:00	JN	Convenience Store Sales YoY	Jul	--	--	0.00%	--
08/20/2019 16:00	TA	Export Orders YoY	Jul	-5.90%	--	-4.50%	--
08/20/2019 16:20	TA	BoP Current Account Balance	2Q	--	--	\$17090m	--
08/20/2019 16:30	HK	CPI Composite YoY	Jul	3.00%	--	3.30%	--
08/20/2019 20:30	CA	Manufacturing Sales MoM	Jun	-1.80%	--	1.60%	--

Source: Bloomberg

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