

Daily Treasury Outlook

21 August 2019

Highlights

Global: Market caution set in overnight ahead of the upcoming FOMC minutes release, Fed chair Powell's Jackson Hole symposium speech on Friday, and US president Trump's signal that he's not in a rush to get a trade deal with China. Trump also tweeted about the "crazy inverted yield curve" and called for Fed to "cut rates bigger and faster". S&P500 skidded, while the 10-year UST bond yield fell 5bps to 1.56%. Over in Europe, the resignation of Italian PM Conte sent Italian bonds higher as investors worried about a possible snap general election, another caretaker PM, or an alliance between the Five Star Movement and the Democratic Party. Germany is also due to sell EUR2b of a 30-year bond at zero coupon for the first time today.

Market watch: Asian markets may see some retracement today amid some modest profit-taking ahead of the FOMC minutes due tomorrow morning and Powell's speech on Friday. RBA minutes released this morning remained dovish and suggested that "members would consider a further easing of monetary policy if the accumulation of additional evidence suggests this was needed to support sustainable growth". Today's economic data calendar comprises of US' existing home sales, Thai trade data, and S'pore's COE premium tender results.

US: Fed's Daly opined that she sees "solid domestic momentum" but is "looking closely at whether the mood gets so out of sync with the data that the fear of recession becomes a self-fulfilling prophecy".

China: The first new 1-year LPR was fixed at 4.25%, 6bps below the old LPR & 10bps below the 1-year benchmark lending rate. Meanwhile, 5-year LPR was fixed at 4.85%, 5bps below the 5-year benchmark lending rate. The marginal decline of LPR was in line with market expectations. We expect the rate to fall gradually to balance between the aim to lower funding costs to the economy and protecting banks' profit margins.

UK: The EU has refused UK PM Johnson's request to remove the Irish backstop from the Brexit agreement. Johnson is meeting German Chancellor Merkel today and French president Macron tomorrow for talks. Meanwhile, UK Chancellor Javid may delay the appointment of BOE governor Mark Carney's replacement until after Brexit on 31 October, and also postpone the next budget to 2020 if elections are called.

Singapore: Singapore attracted \$8.1b of investment commitments in manufacturing and services in 1H19, up from \$5.3b for the same period last year, according to EDB. EDB's 2019 forecast for full-year fixed-asset investment commitments is \$8-10b, slightly lower than the \$10.9b last year.

Oil: Crude oil prices rose yesterday, with Brent closing above the crucial \$60/bbl level. It remains to be seen if that level can be sustained, given that the global economy is currently fraught with multiple uncertainties. The Brent-WTI spread widened to \$3.90/bbl but still remains the tightest in almost two years.

Key Market Movements

Equity	Value	% chg
S&P 500	2900.5	-0.8%
DJIA	25962	-0.7%
Nikkei 225	20677	0.6%
SH Comp	2880.0	-0.1%
STI	3136.0	0.2%
Hang Seng	26232	-0.2%
KLCI	1602.8	0.4%
Currencies	Value	% chg
DXY	98.190	-0.2%
USDJPY	106.23	-0.4%
EURUSD	1.1100	0.2%
GBPUSD	1.2170	0.4%
USDIDR	14268	0.2%
USDSGD	1.3849	-0.1%
SGDMYR	3.0179	0.1%
Rates	Value	chg (bp)
3M UST	1.90	0.57
10Y UST	1.56	-5.08
1Y SGS	1.85	0.00
10Y SGS	1.78	-2.31
3M LIBOR	2.15	1.56
3M SIBOR	1.88	0.00
3M SOR	1.74	-0.69
Commodities	Value	% chg
Brent	60.03	0.5%
WTI	56.13	0.0%
Gold	1507	0.8%
Silver	17.16	1.7%
Palladium	1490	0.7%
Copper	5711	-1.1%
BCOM	76.69	0.0%

Source: Bloomberg

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Major Markets

US: US markets broke a 3-day rally, with the S&P500 index closing down 0.8%. Markets reacted adversely on Michael Pompeo's claim that Huawei was not the only Chinese company which posed a risk to national security, and Trump's repeated assertion that he is not ready to make a deal with China. The Fed meeting minutes are out tonight and investors will be looking to the Powell speech happening this Friday at Jackson Hole. In the meantime, expect resistance at the S&P500 index's 20-day moving average of 2931.

Singapore: The STI added 0.24% to close at 3135.95 yesterday, but may surrender some ground today amid weak overnight cues from Wall Street and morning slippage by Kospi. STI's range is tipped at 3115-3146. With the safe-haven flows coming back yesterday, UST yields have rallied again and SGS bonds may also mimic today. Singtel issued US\$750m of 10-year notes at 2.375%.

Malaysia: Finance Minister Lim Guan Eng has said that "sustained economic growth is one of the reasons behind rising FDI stock". Foreign direct investment rose by 10.3% to RM667.5bn in 2Q 2019, compared to RM605.1bn a year back.

Indonesia: According to Bloomberg, rating agency Fitch has said that Indonesia's budget maintains a prudent fiscal stance and the assumptions "appear credible and broadly in line with Fitch Ratings' forecasts" although they also noted that the real GDP growth assumption at 5.3% yoy for 2020 is slightly optimistic.

South Korea: Exports in the first twenty days of August fell -13.3% yoy, showing a recovery in the economy's export sector is still not forthcoming in the near term. This will likely mark the 9th consecutive month that South Korea's exports have contracted yoy and continue to flash amber on the health of global trade flows.

Hong Kong: Inflation remained static at a near three-year high of 3.3% in July. Food inflation accelerated further to the highest since June 2012 at 5.9% amid persistent pork shortage. This well offset the slowdown in housing inflation (4% yoy) on moderate growth of private housing rentals. Going forward, we may continue to see inflationary risks from high fresh pork prices and high import prices on strong HKD. However, we expect the risks to be contained as housing inflation may weaken further amid recent housing market correction. Meanwhile, the new raft of one-off relief measures is set to weigh down the housing inflation and the utility price index (saw the largest fall since Feb 2017 of -5.9% yoy). Furthermore, as ongoing social unrest, trade war and weakening growth outlook have hurt both the tourism and retail sectors, the price index of clothing (fell for fourth consecutive month by 2% yoy) and miscellaneous services (grew at a slower pace by 1.4% yoy) may edge lower and in turn contain the inflationary risks. In conclusion, we expect overall inflation to have peaked and to soften gradually in the coming months.

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Bond Market Updates

Market Commentary: The SGD swap curve steepened yesterday, with the shorter tenors and belly traded 1-2bps lower, while the longer tenors traded 0-1bps higher. The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 2bps to 137bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 2bps to 564bps. 10Y USTs fell 5bps to close at 1.56% on concerns about the collapse of Italy's government, and the possibility of a no-deal Brexit. Spread between 3-month treasury bills and 10-year treasury notes remains inverted, with the spread widening to -32bps.

New Issues: Singtel Group Treasury Pte. Ltd (Guarantor: Singapore Telecommunications Ltd) has priced a USD750mn 10-year bond at T+90bps, tightening from IPT of T+110-115bps area.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	98.190	-0.16%	USD-SGD	1.3849	-0.12%
USD-JPY	106.230	-0.38%	EUR-SGD	1.5373	0.08%
EUR-USD	1.1100	0.20%	JPY-SGD	1.3037	0.24%
AUD-USD	0.6778	0.21%	GBP-SGD	1.6853	0.23%
GBP-USD	1.2170	0.36%	AUD-SGD	0.9386	0.03%
USD-MYR	4.1833	0.11%	NZD-SGD	0.8885	-0.04%
USD-CNY	7.0605	0.14%	CHF-SGD	1.4160	0.23%
USD-IDR	14268	0.21%	SGD-MYR	3.0179	0.07%
USD-VND	23204	-0.03%	SGD-CNY	5.0974	0.18%

Equity and Commodity

Index	Value	Net change
DJIA	25,962.44	-173.35
S&P	2,900.51	-23.14
Nasdaq	7,948.56	-54.25
Nikkei 225	20,677.22	114.06
STI	3,135.95	7.50
KLCI	1,602.75	6.30
JCI	6,295.74	-0.98
Baltic Dry	2,067.00	--
VIX	17.50	0.62

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4090	-1.30%	O/N	2.0954	-0.31%
2M	-0.3360	-0.31%	1M	2.1686	-0.35%
3M	-0.4220	-0.35%	2M	2.1666	1.06%
6M	-0.4230	1.06%	3M	2.1515	1.56%
9M	-0.1940	1.56%	6M	2.0291	1.24%
12M	-0.3980	1.24%	12M	1.9533	0.83%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.68 (-0.03)	1.51 (-0.03)
5Y	1.69 (-0.02)	1.43 (-0.04)
10Y	1.78 (-0.02)	1.56 (-0.05)
15Y	1.86 (-0.02)	--
20Y	1.93 (-0.02)	--
30Y	2.00 (-0.02)	2.04 (-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%	11.1%	88.9%
10/30/2019	0.0%	100.0%	9.3%	76.0%	14.8%
12/11/2019	0.0%	100.0%	55.6%	33.4%	4.5%
01/29/2020	0.0%	100.0%	44.4%	18.8%	2.2%
03/18/2020	0.0%	100.0%	37.6%	14.4%	1.6%
04/29/2020	0.0%	100.0%	32.2%	11.4%	1.3%

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	5.50	0.33
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	2.11
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Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	56.34	0.2%	Corn (per bushel)	3.5950	-1.5%
Brent (per barrel)	60.03	0.5%	Soybean (per bushel)	8.558	0.2%
Heating Oil (per gallon)	1.8543	1.2%	Wheat (per bushel)	4.6000	-1.2%
Gasoline (per gallon)	1.6811	1.0%	Crude Palm Oil (MYR/MT)	2,129.0	1.1%
Natural Gas (per MMBtu)	2.2180	0.4%	Rubber (JPY/KG)	171.8	-0.4%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,711	-1.1%	Gold (per oz)	1,504.6	0.3%
Nickel (per mt)	15,860	-0.4%	Silver (per oz)	17.148	1.2%

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

Economic Calendar

Date Time		Event		Survey	Actual	Prior	Revised
08/21/2019 20:30	CA	CPI YoY	Jul	1.70%	--	2.00%	--
08/21/2019 19:00	US	MBA Mortgage Applications	Aug-16	--	--	21.70%	--
08/21/2019 22:00	US	Existing Home Sales	Jul	5.39m	--	5.27m	--
08/21/2019 11:30	TH	Customs Exports YoY	Jul	-2.05%	--	-2.15%	--
08/21/2019 08:30	AU	Westpac Leading Index MoM	Jul	--	--	-0.08%	--
08/21/2019 11:00	NZ	Credit Card Spending YoY	Jul	--	--	6.60%	--
08/21/2019 16:30	UK	PSNB ex Banking Groups	Jul	-2.9b	--	7.2b	--
08/21/2019 16:00	SI	Automobile COE Open Bid Cat A	Aug-21	--	--	32725	--
08/21/2019 11:30	TH	Customs Imports YoY	Jul	-5.97%	--	-9.44%	--
08/21/2019 05:00	SK	PPI YoY	Jul	--	-0.30%	0.10%	--
08/21/2019 16:00	SI	Automobile COE Open Bid Cat B	Aug-21	--	--	40001	--
08/21/2019 22:00	US	Existing Home Sales MoM	Jul	2.30%	--	-1.70%	--

Source: Bloomberg

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