

Daily Treasury Outlook

23 August 2019

Highlights

Global: Risk sentiment consolidated on Thursday ahead of the Fed Chairman Powell's speech in Jackson Hole. The rhetoric from a few regional Fed Presidents yesterday underscored the divided tone within the Fed and reinforced market view that there is no pre-set path for more rate cuts. Both Kansas City Fed President George and Philadelphia Fed President Harker said the US economy does not need more stimulus at this point. However, Dallas Fed President Kaplan remained flexible and said, "I want to take all the time between now and September to assess how the economy is acting." Fed Chairman Powell's speech today is likely to reset market expectation for the rate trajectory.

US: Economic data sent a mixed signal yesterday. Although manufacturing activity continued to slow, the job market remained resilient. The IHS Markit flash August PMI slipped to 49.9 from 50.4 in July, below 50 for the first time since September 2009, probably due to the escalation of trade war and global slowdown. However, the latest initial jobless claims dropped 12K to a seasonally adjusted 209K. A still buoyant labour market data may provide support to the US consumer spending.

Singapore: July core and headline CPI will be released today at 1pm SGT. Our forecast is for headline inflation to pick up to 0.7% from 0.6% last month, higher than the market consensus of 0.5%. With a stabilisation of oil prices in July after the commodity's collapse in June, we expect a pickup in the transport basket to lead the headline CPI higher. Core inflation is expected at 1.0%, according to both our forecast and market expectations.

EU: The latest ECB minutes shows that more stimulus measures are needed to support the growth. The ECB noted that downside risks had become more pervasive which may lead to further downward revision to the baseline growth forecast. In terms of the choice of measures, the ECB said, "experience has showed that a package, such as the combination of rate cuts and asset purchases was more effective".

China: Commerce Ministry Spokesman reiterated yesterday that China will have to retaliate should the US impose additional tariffs on Chinese imports. Meanwhile, China will also unveil the unreliable entity list soon. The still hawkish tone from China side further weigh down on RMB sending the USDCNY higher to test 7.10.

Oil: Prices fell yesterday, with Brent falling back below the \$60/bbl handle. Ahead of the Jackson Hole symposium beginning today, most markets are likely to keep a neutral, cautious stance. Dovish (hawkish) messages from Fed Chair Powell at this meeting will likely send oil prices higher (lower).

Key Market Movements		
Equity	Value	% chg
S&P 500	2923.0	-0.1%
DJIA	26252	0.2%
Nikkei 225	20628	0.0%
SH Comp	2883.4	0.1%
STI	3127.7	0.2%
Hang Seng	26049	-0.8%
KLCI	1602.5	0.5%
Currencies	Value	% chg
DXY	98.170	-0.1%
USDJPY	106.44	-0.2%
EURUSD	1.1080	0.0%
GBPUSD	1.2251	1.0%
USDIDR	14235	-0.1%
USDSGD	1.3855	0.1%
SGDMYR	3.0198	0.0%
Rates	Value	chg (bp)
3M UST	1.98	1.01
10Y UST	1.61	2.38
1Y SGS	1.85	0.00
10Y SGS	1.81	1.06
3M LIBOR	2.15	-0.19
3M SIBOR	1.88	0.00
3M SOR	1.73	-1.58
Commodities	Value	% chg
Brent	59.92	-0.6%
WTI	55.35	-0.6%
Gold	1498	-0.3%
Silver	17.04	-0.5%
Palladium	1488	1.1%
Copper	5683	-0.9%
BCOM	76.42	-0.5%

Source: Bloomberg

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Major Markets

US: The US market was relatively quiet last night, with the S&P 500 index closing almost flat at -0.1% on Thursday. FOMC voters Rosengren and George both pushed back against the need for rate cuts given the current US economic data, driving 10Y UST yields up 2.4bps. Markets remain cautious ahead of Powell's speech at Jackson Hole later tonight, as they look for guidance on rates and Fed policy moving ahead. Expect markets to trade in a consolidative tone from now till Powell's speech, with the S&P likely to stay within the 2900-2950 region but to break higher (lower) if messages from the symposium prove dovish (hawkish).

Singapore: The STI ended slightly higher yesterday, led +0.2% higher by the Jardine counters. The STI is expected to remain largely muted for the rest of the day as investors wait for further headlines from the Jackson Hole symposium beginning today. We expect the Singapore equity index to largely trade range-bound between 3110 to 3150 in today's session.

Malaysia: Foreign reserves as of 15th August 2019 fell to US\$103.1bn, from US\$103.9bn as of 31st July 2019.

Indonesia: Bank Indonesia (BI) cut the benchmark rate by 25bps yesterday, bringing it down to 5.50%, which was contrary to both market and our expectations of a hold. The central bank labelled the move as "pre-emptive", as a measure to support economic growth, amid the global slowdown. BI also mentioned that they intend to maintain an accommodative policy mix, possibly a hint of further cuts. A weak global environment and synchronized central bank cuts certainly supports a further easing.

Bond Market Updates

Market Commentary: The SGD swap curve flattened yesterday, with the shorter tenors traded within +/-0.5bps, while the longer tenors (>5yr) traded 0.5-1.5bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 135bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 8bps to 548bps. 10Y USTs gained 2bps to close at 1.61% after somewhat hawkish statements by Philadelphia Federal Reserve President Patrick Harker that the Fed should keep rates on hold for the time being to "see how things play out." While this re-inverted the spread between 2-year treasury notes and 10-year treasury notes, the spread between 3-month treasury bills and 10-year treasury notes remains inverted, with the spread widening to -37bps.

New Issues: CapitaLand Treasury Limited (Guarantor: CapitaLand Limited) has priced a SGD800mn 10yr bond at 3.15%, tightening from IPT of 3.3% area.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	98.170	-0.13%	USD-SGD	1.3855	0.14%
USD-JPY	106.440	-0.17%	EUR-SGD	1.5350	0.09%
EUR-USD	1.1080	-0.05%	JPY-SGD	1.3017	0.25%
AUD-USD	0.6757	-0.35%	GBP-SGD	1.6974	1.17%
GBP-USD	1.2251	1.00%	AUD-SGD	0.9361	-0.25%
USD-MYR	4.1888	0.28%	NZD-SGD	0.8822	-0.45%
USD-CNY	7.0833	0.29%	CHF-SGD	1.4084	-0.04%
USD-IDR	14235	-0.06%	SGD-MYR	3.0198	0.03%
USD-VND	23202	--	SGD-CNY	5.1126	0.14%

Equity and Commodity

Index	Value	Net change
DJIA	26,252.24	49.51
S&P	2,922.95	-1.48
Nasdaq	7,991.39	-28.82
Nikkei 225	20,628.01	9.44
STI	3,127.74	5.17
KLCI	1,602.47	7.88
JCI	6,239.25	-13.72
Baltic Dry	2,061.00	--
VIX	16.68	0.88

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4090	-0.40%	O/N	2.0930	-0.40%
2M	-0.3360	-0.40%	1M	2.1666	-0.34%
3M	-0.4230	-0.34%	2M	2.1698	0.38%
6M	-0.4240	0.38%	3M	2.1476	-0.19%
9M	-0.1940	-0.19%	6M	2.0254	0.18%
12M	-0.3990	0.18%	12M	1.9543	0.57%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.69 (+0.01)	1.61 (+0.04)
5Y	1.72 (+0.01)	1.50 (+0.03)
10Y	1.81 (+0.01)	1.61 (+0.02)
15Y	1.91 (+0.02)	--
20Y	1.98 (+0.02)	--
30Y	2.04 (+0.03)	2.10 (+0.03)

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%	3.9%	96.1%
10/30/2019	0.0%	100.0%	2.4%	59.7%	37.9%
12/11/2019	0.0%	100.0%	36.6%	46.7%	15.3%
01/29/2020	0.0%	100.0%	41.7%	30.9%	7.6%
03/18/2020	0.0%	100.0%	38.7%	24.4%	5.5%
04/29/2020	0.0%	100.0%	35.8%	20.6%	4.4%

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	4.50	-0.53
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	2.10
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Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	55.35	-0.6%	Corn (per bushel)	3.6325	0.2%
Brent (per barrel)	59.92	-0.6%	Soybean (per bushel)	8.560	-0.5%
Heating Oil (per gallon)	1.8413	-0.9%	Wheat (per bushel)	4.6725	1.0%
Gasoline (per gallon)	1.6675	-1.6%	Crude Palm Oil (MYR/MT)	2,201.0	1.8%
Natural Gas (per MMBtu)	2.1590	-0.5%	Rubber (JPY/KG)	165.0	-1.7%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,683	-0.9%	Gold (per oz)	1,497.3	-0.5%
Nickel (per mt)	15,660	-1.0%	Silver (per oz)	17.040	-0.6%

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

Economic Calendar

Date Time		Event		Survey	Actual	Prior	Revised
08/23/2019	PH	Budget Balance PHP	Jul	--	--	-41.8b	--
08/23/2019 06:45	NZ	Retail Sales Ex Inflation QoQ	2Q	0.30%	0.20%	0.70%	--
08/23/2019 07:30	JN	Natl CPI YoY	Jul	0.60%	0.50%	0.70%	--
08/23/2019 07:30	JN	Natl CPI Ex Fresh Food YoY	Jul	0.60%	0.60%	0.60%	--
08/23/2019 13:00	SI	CPI YoY	Jul	0.50%	--	0.60%	--
08/23/2019 13:00	SI	CPI NSA MoM	Jul	-0.10%	--	-0.20%	--
08/23/2019 15:30	TH	Foreign Reserves	Aug-16	--	--	\$221.3b	--
08/23/2019 16:00	TA	Industrial Production YoY	Jul	-0.60%	--	-0.39%	--
08/23/2019 20:30	CA	Retail Sales MoM	Jun	-0.30%	--	-0.10%	--
08/23/2019 22:00	US	New Home Sales	Jul	647k	--	646k	--
08/23/2019 22:00	US	New Home Sales MoM	Jul	0.20%	--	7.00%	--

Source: Bloomberg

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