

Daily Treasury Outlook

26 August 2019

Highlights

Global: Global markets were rocked on Friday after US President Donald Trump raised existing and planned tariffs on China, as the latter announced that it will be imposing new tariffs on \$75bn worth of US goods and resume duties on US auto and autoparts. China had earlier said it will slap tariffs from 5% to 10% on \$75bn of US goods in two batches – one beginning 1 September, and the other 15 December – and a 25% and 5% tariff on American cars and car parts to resume 15 December, after they were paused in April. The US then retaliated by bumping existing levies on Chinese goods to 30% from 25% and planned duties on \$300bn of goods to 15% from 10%. Later, Trump said he had “second thoughts” on escalating the trade war with China; a White House spokesman later clarified that the second thoughts referred to Trump not raising the tariffs higher. Whether that statement of regret was a Freudian slip by Trump remains to be seen. This escalation of the trade war dwarfed the much-hyped Jackson Hole symposium, in which numerous central bank chiefs voiced the limitations of monetary policy in the current environment. BoE’s Mark Carney warned that the world could enter a global liquidity trap.

Market watch: Asian markets are highly likely to be met with sharp selloffs and possible gap-downs on open, following the escalation of the US-China trade war and the deep losses suffered by US equity markets on Friday. The pessimism is unlikely to be lifted in the near term and high caution is likely to grip the markets through the week. For the rest of this week, look out for durable goods orders, consumer confidence and personal spending from the US; Eurozone CPI and unemployment rate; China PMI; and Bank of Korea interest rate decision, which we expect them to reduce the key rate to 1.25%.

China: The US and China returned to the familiar tit-for-tat game for trade war. It seems that the only rational behind President Trump’s 5% tariff hike is his anger. In addition, the White House’s reinterpretation on President Trump’s second thought comments in G7 meeting as Trump’s regret not to hike tariff higher did not help either. When logic gave way to emotion, it clearly made things more unpredictable.

Singapore: Headline inflation in July slowed to 0.4% yoy, the joint lowest in eight months. We had expected a pickup in the transport basket – which we were right in that regard – but slowdowns in other baskets, notably the raw food, housing & utilities, clothing, communications and recreation, all contrived to send inflationary pressures lower. The headline inflation rate in the first seven months is now 0.6% yoy, and we downgrade our full-year 2019 inflation forecast to 0.7% from 0.8% with risks of even further downside.

Key Market Movements		
Equity	Value	% chg
S&P 500	2847.1	-2.6%
DJIA	25629	-2.4%
Nikkei 225	20711	0.4%
SH Comp	2897.4	0.5%
STI	3110.4	-0.6%
Hang Seng	26179	0.5%
KLCI	1609.3	0.4%
Currencies	Value	% chg
DXY	97.640	-0.5%
USDJPY	105.39	-1.0%
EURUSD	1.1144	0.6%
GBPUSD	1.2266	0.1%
USDIDR	14215	-0.1%
USDSGD	1.387	0.1%
SGDMYR	3.0217	0.1%
Rates	Value	chg (bp)
3M UST	1.95	-2.85
10Y UST	1.54	-7.80
1Y SGS	1.85	0.00
10Y SGS	1.80	-0.50
3M LIBOR	2.13	-1.54
3M SIBOR	1.88	0.00
3M SOR	1.72	-1.05
Commodities	Value	% chg
Brent	59.34	-1.0%
WTI	54.17	-2.1%
Gold	1527	1.9%
Silver	17.43	2.3%
Palladium	1462	-1.8%
Copper	5633	-0.9%
BCOM	76.07	-0.5%

Source: Bloomberg

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Major Markets

US: The US markets took another hit on Friday following another escalation of the trade war. Xi and Trump's tariff one-two punch sent the S&P 500 index down 2.6%. 10Y UST bond yields dropped 7.8bps to 1.54%, while the DXY dropped 0.5%. The S&P 500 index could possibly face continued downward pressure. Should it break out of the current 2800 support levels, its next support might be the 2750 lows last seen in June.

China: The outcome of the US-China trade talks remains a wild card. There are a few timelines which could be important. Firstly, markets will closely watch whether the US delegation and Chinese delegation will meet face-to-face in September. Secondly, the next important timeline could be November APEC meeting in Chile when market will closely watch whether President Xi will meet President Trump in the meeting to de-escalate the tensions. In addition, China's Commerce Ministry is expected to unveil its first unreliable entity list soon, which may add to higher market volatility.

Meanwhile, PBoC also announced the rule to price mortgage rates with the LPR. Effective from 8 October, China's newly approved housing loans will be pegged to LPR. The mortgage rate for the first-time buyers will be no less than 5-year LPR while mortgage rate for the second time buyers will be no less than 5-year LPR+60bps.

Singapore: The STI fell -0.6% on Friday to close at 3,110.40. The benchmark index is expected to open lower today with a possible gap-down and will likely trade with heavy selling pressure in the opening hours. Support is expected at 3,000 in the near-term.

Malaysia: Minister of Primary Industries Teresa Kok has mentioned that she may discuss with the Ministry of Agriculture and Agro-Based Industry and Ministry of International Trade and Industry on how the trade balance between India and Malaysia can be improved. She mentioned that this is being done so that Malaysian palm oil can enter the Indian market with cheaper import duty as she also noted that India has "requested for the trade balance with deposits to be overcome".

Indonesia: According to Bloomberg, Bank Indonesia (BI) sees that the Rp177.9tn of inflows into government bonds and stocks so far this year is a reflection of the strong investor confidence in the country's economic environment.

Macau: GDP contracted for the second consecutive quarter by 1.8% yoy in 2Q, slipping into a technical recession. This was mainly driven by the plunge in fixed investment (-25% yoy). Besides, exports of gaming services dropped by 0.8% yoy as robust tourism (exports of other tourism services increased by 2.8% yoy) and strong mass-market growth failed to offset the weak high-roller demand. Furthermore, weak external demand and trade war pushed exports of goods down by 24.4% yoy. Going forward, exports of goods and services will likely take a hit amid trade war re-escalation, a strong MOP, Asia's economic slowdown and the spill-over effect of HK's social unrest. Meanwhile, bleak economic outlook coupled with trade war fears may dent consumer/investment sentiments. The lack of mega infrastructure projects

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and entertainment projects under construction could also remain a drag on fixed investments. Against this backdrop, the government will likely roll out more fiscal stimulus measures in the near term. If this is the case, combined with global monetary easing and China's stimulus measures, downside risk for growth may be alleviated. However, as GDP already shrank by 2.5% yoy in 1H19, we revise our 2019 GDP growth forecast from around 0% to -1.5.

Bond Market Updates

Market Commentary: The SGD swap curve bear-flattened yesterday, with the shorter tenors traded 1-3bps higher, while the longer tenors (>5yr) traded 0-1bps higher. The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 136bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 9bps to 557bps. 10Y USTs fell 8bps to close at 1.54% after the US-China trade war escalated once again, with China announcing additional tariffs on US imports. US President Donald Trump subsequently announced that existing tariffs on Chinese imports will rise. The spread between 3-month treasury bills and 10-year treasury notes remains inverted, with the spread widening to -46bps.

New Issues: SPH REIT Management Pte (in its capacity as manager of SPH REIT) has priced a SGD300mn NC5-Perpetual bond at 4.1%, tightening from IPT of 4.3% area

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	97.640	-0.54%	USD-SGD	1.3870	0.11%
USD-JPY	105.390	-0.99%	EUR-SGD	1.5457	0.70%
EUR-USD	1.1144	0.58%	JPY-SGD	1.3155	1.06%
AUD-USD	0.6756	-0.01%	GBP-SGD	1.7004	0.18%
GBP-USD	1.2266	0.12%	AUD-SGD	0.9371	0.11%
USD-MYR	4.1912	0.06%	NZD-SGD	0.8876	0.61%
USD-CNY	7.0955	0.17%	CHF-SGD	1.4230	1.04%
USD-IDR	14215	-0.14%	SGD-MYR	3.0217	0.06%
USD-VND	23201	0.00%	SGD-CNY	5.1201	0.15%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4130	1.30%	O/N	2.0884	0.06%
2M	-0.3360	0.06%	1M	2.1395	-2.14%
3M	-0.4120	-2.14%	2M	2.1714	-1.04%
6M	-0.4080	-1.04%	3M	2.1444	-1.54%
9M	-0.1940	-1.54%	6M	2.0801	1.71%
12M	-0.3580	1.71%	12M	2.0285	1.90%

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%	33.5%	66.5%
10/30/2019	0.0%	100.0%	24.1%	57.3%	18.6%
12/11/2019	0.0%	100.0%	48.6%	28.7%	4.9%
01/29/2020	0.0%	100.0%	37.2%	15.1%	2.1%
03/18/2020	0.0%	100.0%	30.4%	11.0%	1.4%
04/29/2020	0.0%	100.0%	25.7%	8.7%	1.1%

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	54.17	-2.1%	Corn (per bushel)	3.5975	-1.0%
Brent (per barrel)	59.34	-1.0%	Soybean (per bushel)	8.433	-1.5%
Heating Oil (per gallon)	1.8156	-1.4%	Wheat (per bushel)	4.7525	1.7%
Gasoline (per gallon)	1.6428	-1.5%	Crude Palm Oil (MYR/MT)	2,210.0	0.4%
Natural Gas (per MMBtu)	2.1520	-0.3%	Rubber (JPY/KG)	156.0	-5.5%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,633	-0.9%	Gold (per oz)	1,526.6	2.0%
Nickel (per mt)	15,660	--	Silver (per oz)	17.413	2.2%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Equity and Commodity

Index	Value	Net change
DJIA	25,628.90	-623.34
S&P	2,847.11	-75.84
Nasdaq	7,751.77	-239.62
Nikkei 225	20,710.91	82.90
STI	3,110.35	-17.39
KLCI	1,609.33	6.86
JCI	6,255.60	16.35
Baltic Dry	2,168.00	50.00
VIX	19.87	3.19

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.67 (-0.01)	1.53 (-0.08)
5Y	1.71 (-0.01)	1.42 (-0.08)
10Y	1.80 (-)	1.54 (-0.08)
15Y	1.91 (-)	--
20Y	2.00 (+0.02)	--
30Y	2.07 (+0.03)	2.03 (-0.08)

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	6.40	1.40
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	2.09
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Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
08/25/2019 08:31	VN CPI YoY	Aug 2.50%	--	2.44%	--
08/25/2019 08:31	VN Retail Sales YTD YoY	Aug --	--	11.60%	--
08/26/2019 13:00	SI Industrial Production YoY	Jul -5.60%	--	-6.90%	--
08/26/2019 13:00	SI Industrial Production SA MoM	Jul -1.60%	--	1.20%	--
08/26/2019 13:00	JN Leading Index CI	Jun F --	--	93.3	--
08/26/2019 16:00	GE IFO Expectations	Aug 91.8	--	92.2	--
08/26/2019 16:00	GE IFO Business Climate	Aug 95	--	95.7	--
08/26/2019 16:30	HK Exports YoY	Jul -8.50%	--	-9.00%	--
08/26/2019 16:30	HK Imports YoY	Jul -8.60%	--	-7.50%	--
08/26/2019 20:30	US Durable Goods Orders	Jul P 1.00%	--	1.90%	--
08/26/2019 20:30	US Durables Ex Transportation	Jul P 0.00%	--	1.00%	--
08/26/2019 20:30	US Chicago Fed Nat Activity Index	Jul 0.05	--	-0.02	--
08/26/2019 20:30	US Cap Goods Orders Nondef Ex Air	Jul P 0.00%	--	1.50%	--
08/26/2019 22:30	US Dallas Fed Manf. Activity	Aug -4.5	--	-6.3	--

Source: Bloomberg

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