

Daily Treasury Outlook

27 August 2019

Highlights

Global: Global risk sentiment recovered on Monday after President Trump softened his tone on the trade war after he cited China's Vice Premier's comments that China is willing to resolve the dispute via calm negotiation as positive. Although it remained unclear whether China has called US to restore the trade talk as claimed by President Trump, the overall softer tone is helpful for risk sentiment. Market will closely watch whether the Chinese delegation will go to the US to meet its US counterparty in September as previously planned.

EU: In Italy, the ruling 5-Star Movement is on track to form a coalition with the opposition Democratic Party, which may give Conte another term as Prime Minister to avoid the potential political mess. In the UK, Prime Minister Boris Johnson said he is ready to negotiate with the EU till the very last minute.

China: PBoC rolled over the maturing 1-year MLF with the interest rate intact at 3.3%. Despite China being in the centre of storm amid the escalation of US-China trade war, PBoC remains prudent. We do not expect any significant easing ahead of the National Day holiday on 1 Oct.

Singapore: Industrial production declined -0.4% in July, beating all but one estimate on the Bloomberg poll (median: -5.8%). An uptick in electronics manufacturing (-0.9% in July from -19.2% in June) provided the base for a less-than-expected overall contraction. This is also in-line with data from the non-oil domestic exports sector, where electronics shipments reached the highest (in billion SGD) since January 2019. One positive data point, however, remains too premature to call a bottoming out of the current slump the electronics market finds itself in. The better than expected industrial production number, however, has allowed us to upgrade our full-year 2019 SG GDP growth forecast to 0.6% from 0.5%.

Indonesia: According to Finance Minister Sri Mulyani, total state revenue had risen by 5.9% yoy for the period of January – July 2019 whilst total state spending increased by 7.9% yoy. She also mentioned that tax revenue only rose by 2.68% yoy. Overall, the budget deficit was reportedly at Rp183.7tn. Meanwhile, Bank Indonesia (BI) Governor Perry Warjiyo has said that the “pre-emptive, ahead of the curve” cut was targeted at tackling global uncertainty and that it is also “impossible” to “wait for the uncertainty to transform into certainty first before making a decision”. He also mentioned that it would be “too late” by then.

Oil: Crude oil prices continue their inability to stage a meaningful rally. Despite US stocks staging a rally of 1.1% yesterday, Brent prices sank -1.1% to \$58.70/bbl, moving further away from the \$60/bbl level. In the near term, the market's focus will remain heavy on demand and prices are unlikely to rally significantly past \$60/bbl.

Key Market Movements

Equity	Value	% chg
S&P 500	2878.4	1.1%
DJIA	25899	1.1%
Nikkei 225	20261	-2.2%
SH Comp	2863.6	-1.2%
STI	3065.3	-1.4%
Hang Seng	25680	-1.9%
KLCI	1600.5	-0.5%
Currencies	Value	% chg
DXY	98.081	0.5%
USDJPY	106.12	0.7%
EURUSD	1.1102	-0.4%
GBPUSD	1.2217	-0.4%
USDIDR	14243	0.2%
USDSGD	1.3881	0.1%
SGDMYR	3.0293	0.3%
Rates	Value	chg (bp)
3M UST	1.98	2.30
10Y UST	1.54	0.00
1Y SGS	1.85	-0.10
10Y SGS	1.72	-8.00
3M LIBOR	2.14	1.21
3M SIBOR	1.88	0.10
3M SOR	1.74	2.41
Commodities	Value	% chg
Brent	58.7	-1.1%
WTI	53.64	-1.0%
Gold	1527	0.0%
Silver	17.67	1.4%
Palladium	1481	1.3%
Copper	5633	0.0%
BCOM	76.35	0.4%

Source: Bloomberg

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Major Markets

US: US markets rallied on Monday after the positive comments by Trump on the trade war. The S&P 500 index closed up 1.1%, mainly buoyed by tech stocks. Markets are still reeling from the volatility over that past weeks and will likely be sensitive to any trade headline news in the coming week. In the short term, we expect the S&P 500 index to trade between the 2800-2950 range.

Singapore: The STI fell -1.4% to 3,065.30 yesterday, following the heavy losses in US equities on Friday after the US and China engaged in tit-for-tat tariff blows with each other. Trump has appeared to soften his tone on China yesterday, claiming that China wishes to speak on trade. This led to US equities rallying last night and the optimism is likely to spill into the STI today. In the medium term however, we expect the STI to continue to trade with downside pressure, with a possible support at 3,000.

Malaysia: The MYR rose above the 4.20 level against the USD yesterday. The MYR had weakened against the USD yesterday, just as many other Asian currencies, following the depreciation in the Chinese Yuan against the USD amid an escalation in the trade war between the USA and China. Meanwhile, Reuters has reported that India's trade ministry has recommended a 5% import tax hike on Malaysian refined palm oil.

Hong Kong: Exports (-5.7% yoy) and imports (-8.7% yoy) dropped for the ninth and eighth consecutive month respectively in July. The milder decline in exports might have been attributed to the improved external demand thanks to trade war de-escalation and expectations of global monetary easing in July. In contrast, due to sluggish local demand, imports to ten major partners all decreased. Moving into August, exporters and importers might have front-loaded the orders and in turn distorted the trade numbers. This however is expected to be transitory. With US-China to escalate in September and to further weigh down external demand and Asia's electronic value chain, HK's exports will likely take a further hit. High base during September to Oct 2018 as well as a relatively strong HKD could also worsen the decrease in exports after August. On the other hand, with trade war and social unrest clouding the domestic growth outlook and weakening consumption sentiments, imports may stay sluggish. In a nutshell, we expect both exports and imports to continue falling in the coming months and show single-digit negative growth over 2019.

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Bond Market Updates

Market Commentary: The SGD swap curve bull-flattened yesterday, with the shorter tenors traded 3-6bps lower, while the longer tenors (>5yr) traded 6-7bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS was unchanged at 136bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 4bps to 561bps. 10Y USTs closed unchanged at 1.54%, after rebounding from a three-year low of 1.443%, after trade worries were somewhat subsided as both the US and Chinese leaders signalled willingness to make a trade deal. Spread between the 2-year treasury notes and 10-year treasury notes has inverted again, albeit only at -0.4bps, while the spread between 3-month treasury bills and 10-year treasury notes remains inverted, with the spread narrowing to -40bps.

New Issues: The SGD swap curve bull-flattened yesterday, with the shorter tenors traded 3-6bps lower, while the longer tenors (>5yr) traded 6-7bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS was unchanged at 136bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 4bps to 561bps. 10Y USTs closed unchanged at 1.54%, after rebounding from a three-year low of 1.443%, after trade worries were somewhat subsided as both the US and Chinese leaders signalled willingness to make a trade deal. Spread between the 2-year treasury notes and 10-year treasury notes has inverted again, albeit only at -0.4bps, while the spread between 3-month treasury bills and 10-year treasury notes remains inverted, with the spread narrowing to -40bps.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	98.081	0.45%	USD-SGD	1.3881	0.08%
USD-JPY	106.120	0.69%	EUR-SGD	1.5410	-0.30%
EUR-USD	1.1102	-0.38%	JPY-SGD	1.3085	-0.53%
AUD-USD	0.6775	0.28%	GBP-SGD	1.6964	-0.24%
GBP-USD	1.2217	-0.40%	AUD-SGD	0.9408	0.39%
USD-MYR	4.2032	0.29%	NZD-SGD	0.8878	0.02%
USD-CNY	7.1512	0.79%	CHF-SGD	1.4185	-0.32%
USD-IDR	14243	0.20%	SGD-MYR	3.0293	0.25%
USD-VND	23203	0.01%	SGD-CNY	5.1548	0.68%

Equity and Commodity

Index	Value	Net change
DJIA	25,898.83	269.93
S&P	2,878.38	31.27
Nasdaq	7,853.74	101.97
Nikkei 225	20,261.04	-449.87
STI	3,065.33	-45.02
KLCI	1,600.53	-8.80
JCI	6,214.51	-41.09
Baltic Dry	2,168.00	--
VIX	19.32	-0.55

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4130	2.80%	O/N	2.0884	-0.53%
2M	-0.3360	-0.53%	1M	2.1395	-0.57%
3M	-0.4120	-0.57%	2M	2.1714	1.20%
6M	-0.4080	1.20%	3M	2.1444	1.21%
9M	-0.1940	1.21%	6M	2.0801	3.76%
12M	-0.3580	3.76%	12M	2.0285	5.53%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.63 (-0.04)	1.54 (+0.01)
5Y	1.65 (-0.06)	1.42 (--)
10Y	1.72 (-0.08)	1.54 (--)
15Y	1.82 (-0.09)	--
20Y	1.88 (-0.12)	--
30Y	1.97 (-0.11)	2.04 (+0.01)

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%	10.2%	89.8%
10/30/2019	0.0%	100.0%	6.0%	57.4%	36.5%
12/11/2019	0.0%	100.0%	39.5%	43.8%	12.7%
01/29/2020	0.0%	100.0%	42.0%	25.5%	5.2%
03/18/2020	0.0%	100.0%	36.7%	19.0%	3.5%
04/29/2020	0.0%	100.0%	32.5%	15.3%	2.7%

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	6.30	-0.10
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)	53.64	-1.0%	Corn (per bushel)	3.5850	-0.3%
Brent (per barrel)	58.70	-1.1%	Soybean (per bushel)	8.538	1.2%
Heating Oil (per gallon)	1.7924	-1.3%	Wheat (per bushel)	4.7300	-0.5%
Gasoline (per gallon)	1.6165	-1.6%	Crude Palm Oil (MYR/MT)	2,213.0	0.1%
Natural Gas (per MMBtu)	2.2300	3.6%	Rubber (JPY/KG)	154.8	-0.8%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,633	--	Gold (per oz)	1,526.3	0.0%
Nickel (per mt)	15,660	--	Silver (per oz)	17.641	1.3%

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

Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
08/27/2019 05:00	SK Consumer Confidence	Aug	--	92.5	95.9
08/27/2019 07:50	JN PPI Services YoY	Jul	0.60%	--	0.70%
08/27/2019 10:50	AU RBA's Debelle Gives Speech in Canberra				
08/27/2019 14:00	GE GDP SA QoQ	2Q F	-0.10%	--	-0.10%
08/27/2019 14:45	FR Manufacturing Confidence	Aug	101	--	101
08/27/2019 16:30	UK UK Finance Loans for Housing	Jul	42854	--	42653
08/27/2019 20:00	UK ECB's De Guindos, BOE's Tenreyro Speak on Monetary Policy				
08/27/2019 21:00	US FHFA House Price Index MoM	Jun	0.20%	--	0.10%
08/27/2019 22:00	US Conf. Board Consumer Confidence	Aug	129	--	135.7
08/27/2019 22:00	US Richmond Fed Manufact. Index	Aug	-2	--	-12

Source: Bloomberg

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