

Highlights

Global	<p>The S&P500 ended flat on Friday as prospects of an impasse between US and Canada on the NAFTA renegotiations dragged on and US president Trump threatening that “there is no political necessity to keep Canada in the new NAFTA deal...Congress should not interfere w/these negotiations or I will simply terminate NAFTA entirely & we will be far better off”. US-Canada talks will resume on Wednesday. Meanwhile, China’s official manufacturing and non-manufacturing PMI both improved, with the former unexpectedly up 0.1 points to 51.3 in August and the latter also higher by 0.2 points to 54.2, likely to be partially due to the loosening of monetary and fiscal policy settings (ie. not demand-driven).</p> <p>With the US and Canada closed for Labor day holidays, Asian markets may trade with a softer start to the week, given ongoing trade tensions and lingering Turkish and Argentinian concerns. Key to focus for today includes the slew of manufacturing PMIs from Europe and Asia, including China’s Caixin, as well as Indonesian and Thailand’s August CPI prints. ECB’s Mersch is also speaking. However, a very busy week lies ahead with RBA rate decision on Tuesday (likely to be static at 1.5% but watch for any AUD or mortgage market hints by governor Lowe), BOE governor Carney’s testimony on the August inflation report, US Congress must pass multiple spending bills to avoid a government shutdown on 30 September, BOC meeting on Wednesday (also likely unchanged at 1.5% but market players are watching for any hints of a potential hike in October), BNM rate decision (likely unchanged at 3.25% but any shifts in rhetoric given the unexpectedly weak 2Q18 GDP growth will be closely monitored), US’ nonfarm payrolls and unemployment report on Friday (with market consensus eyeing 193k and 3.8% respectively for August, following 157k and 3.9% in July). The next US\$200b tranche of US tariffs on Chinese imports will close its public comment period on 6 September, and the stage is primed for a further escalation of the US-Sino trade war.</p>
US PMI	<p>Chicago’s August PMI exceeded market consensus at 63.6 (vs. est. 63.0), albeit falling from July’s print of 65.5 largely due to slower supply deliveries and order backlogs, cooling down for the first time in five months. Meanwhile, the University of Michigan Sentiment Index fell 1.74% to a seven-month low for the month of August to 96.2, but also surpassed market forecasts of 95.5.</p>
CH	<p>The National People’s Congress approved the proposal to revamp individual income tax system. The minimum income tax threshold line will be raised to CNY5000 from CNY3500, effective from 1 October.</p>
SG	<p>July bank loans growth rose 5.5% yoy, slightly slower than June’s 5.9% pace. The moderation was due to business loans easing from 7.0% yoy to 6.6%, and consumer loans growth also slowing from 4.3% to 4.0% during this period. While building/construction loans accelerated from 3.7% to 5.4%, and business services picked up from 7.2% to 8.3%, this was offset by the slowdown from general commerce (3.6% to 1.2%). Housing/bridging loans continued to moderate from 4.2% to 4.0%, despite the latest cooling measures kicking in from 6 July.</p>
ID	<p>Australian prime minister Scott Morrison said 99% of Australia’s trade with Indonesia will have tariffs reduced or eliminated under a new trade agreement.</p>

Major Markets

- **US:** Equity gains were led by technology stocks, while industrials weighed on Dow Jones as US-Canada trade talks ended with no resolve, and is expected to resume on Wednesday.
- Apple shares inched up 1.16% to a new closing high for an eighth straight session of gains, while Amazon logged its 6th consecutive rise.
- Coca-Cola (-0.85%) agreed to buy the coffee chain Costa from UK's Whitbread for US\$5.1 billion, making this its largest acquisition in 8 years. This move follows a diversification trend of soft-drink majors as Pepsi Co agreed to purchase carbonated-water maker SodaStream for \$3.2bn earlier in August.
- Ford has cancelled plans to import its Focus Active model from China to the US, as Trump's tariffs on China's auto exports eroded profitability of this line of business.
- **Singapore:** The STI traded down 0.38% to close at 3213.48 on Friday, and may extend its slide today amid the sea of red ink and market caution surrounding EM risk markets – note the US market is out for holiday today, the softer morning performances by Nikkei and Kospi. The STI may test the 3200 handle to its recent 21 August low of 3196. While the UST bond yield curve steepened on Friday, SGS bonds should be better bid today on the slight risk-off mood.
- **China:** The government will also increase the number of tax deduct items to further reduce the burden of income tax. Expenses such as child education, mortgage interest, rental and treatment for serious diseases will be allowed to include in the tax break. We think the individual tax reform is positive and will help boost China's consumption to counter the impact of trade war. China's August PMI unexpected rebounded to 51.3 from 51.2 in July despite weaker demand.
- **Malaysia:** Moody's has commented that the measures introduced by Bank Negara Malaysia (BNM) in August last month "will facilitate the deepening of onshore markets and introduce greater sophistication around the availability of risk management tools to limit currency volatility". The new measures include allowing exporters to immediately transfer proceeds to separate onshore accounts to meet up to six months of foreign currency obligations, without having to first convert the proceeds into ringgit aside also allowing greater flexibility for currency hedging and wider access for non-residents to the onshore market financial market. Further details on http://www.bnm.gov.my/documents/2017/supplementary_notice/supplementary_notice_no4.pdf.
- BNM is also set to hold their policy meeting on 5th September 2018 of which we are expecting the rate to hold. Meanwhile, the Nikkei manufacturing PMI rose to 51.2 in August from 49.7 in July.
- **Indonesia:** According to Bloomberg, both Australian prime minister Scott Morrison and Indonesian trade minister Enggartiasto Lukita told reporters that the agreement would be signed by November. Mr Morrison was in Indonesia last Friday where the two sides committed to finalizing the Indonesia – Australia Comprehensive Economic Partnership Agreement (IA-CEPA). They also signed memoranda of understandings on transport, the creative economy and cyber security cooperation. Meanwhile, the IDR crossed the 14,700 level against the USD last Friday, the lowest since the Asian Financial Crisis back in 1998. According to the Jakarta Post, coordinating economic minister Darmin Nasution said the IDR weakness was purely because of external factors. The Nikkei manufacturing PMI rose to 51.9 in August from 50.5 in July.

- **Hong Kong:** Total loans and advances grew at the slowest pace since Jan 2017 by 9.5% yoy to HK\$9.77 trillion in Jul 2018. The growth of loans for use in HK (excluding trade finance) decelerated to 9.2% yoy, the weakest since Dec 2016. Local loan demand may continue to take a hit amid two major factors. First, market frets that China's slowdown and US-China trade war would cloud HK's economic outlook. Second, market increasingly expects that borrowing costs will edge higher following HKMA's liquidity withdrawal and the Fed's gradual tightening. On the other hand, the growth of loans for use outside of HK was barely changed at a more than one-year low of 10.4% yoy. Lately, China announced a raft of stimulus measures in an effort to spur credit expansion and provide financial supports to SMEs. This helps to reduce the onshore funding costs. In contrast, offshore borrowing costs have been rising following the Fed's gradual rate hikes. As a result, offshore financing may become less attractive to Mainland companies. Adding on high base effect, we expect total loans growth to decelerate gradually to 5% by end of this year.
- RMB deposits rebounded by 4% mom or grew by 13.6% yoy to the highest since Nov 2016 at RMB607.6 billion in July 2018. Despite the cut in RMB deposit rates and a 2.5% mom depreciation in CNH against the HKD, RMB deposits rebounded. This shows market confidence in RMB assets and the sentiment for RMB is more upbeat than in 2015-2016. However, we see limited upside for RMB deposits in the near term due to the less attractive deposit rates as well as the uncertain outlook of RMB. Specifically, as the PBOC shifted from tightening bias to a easing one, flushed liquidity and lower RMB rates in the onshore market prompted offshore banks to cut the RMB deposit rates. In contrast, HK banks may gradually lift HKD and USD deposit rates following the Fed's tightening. As a result, customers may switch their RMB deposits to HKD or USD deposits.

Bond Market Updates

- **Market Commentary:** The SGD swap curve flattened last Friday, with swap rates for the shorter tenors trading within 1bps higher while the longer tenors traded 1-3bps lower (with the exception of the 12-year and 30-year swap rates trading 1bps lower). The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 140bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 4bps to 484bps. 10Y UST yields fell 3bps to 2.83% in the earlier part of the trading session as the US and Canada failed to reach an agreement on the North American Free Trade Agreement before the deadline on Friday. Yields subsequently recovered 3bps to close at 2.86% on the back of better-than-expected consumer sentiment in the United States for the month of August.
- **New Issues:** SCIG International Financial Ltd has scheduled for investor meetings from 3-6 Sept for its potential USD bond issuance (guaranteed by Sichuan Provincial Investment Group Co Ltd).

Key Financial Indicators

Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	95.140	0.44%	USD-SGD	1.3721	0.33%
USD-JPY	111.030	0.05%	EUR-SGD	1.5916	-0.28%
EUR-USD	1.1602	-0.59%	JPY-SGD	1.2328	0.05%
AUD-USD	0.7189	-1.02%	GBP-SGD	1.7777	-0.08%
GBP-USD	1.2960	-0.38%	AUD-SGD	0.9867	-0.66%
USD-MYR	4.1090	--	NZD-SGD	0.9084	-0.22%
USD-CNY	6.8315	-0.19%	CHF-SGD	1.4163	0.37%
USD-IDR	14710	0.20%	SGD-MYR	3.0019	-0.18%
USD-VND	23299	-0.01%	SGD-CNY	4.9803	-0.44%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD LIBOR	Change
1M	-0.3690	0.0010	O/N	1.9149	-0.0051
2M	-0.3390	-0.0020	1M	2.1138	0.0100
3M	-0.3190	--	2M	2.2061	-0.0024
6M	-0.2680	--	3M	2.3208	-0.0005
9M	-0.2080	-0.0010	6M	2.5356	0.0018
12M	-0.1660	--	12M	2.8400	-0.0024

Fed Rate Hike Probability

Meeting	Prob Hike	2-2.25	2.25-2.5	2.5-2.75	2.75-3
09/26/2018	100.0%	94.6%	0.0%	0.0%	0.0%
11/08/2018	100.0%	94.6%	0.0%	0.0%	0.0%
12/19/2018	100.0%	34.7%	63.6%	0.0%	0.0%
01/30/2019	100.0%	33.3%	62.4%	2.6%	0.0%
03/20/2019	100.0%	17.3%	47.6%	32.9%	1.3%
05/01/2019	100.0%	15.9%	45.1%	34.1%	3.9%

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	69.80	-0.64%	Coffee (per lb)	1.018	-0.83%
Brent (per barrel)	77.42	-0.45%	Cotton (per lb)	0.8222	-0.05%
Heating Oil (per gallon)	2.2413	-0.31%	Sugar (per lb)	0.1060	0.28%
Gasoline (per gallon)	2.1437	0.01%	Orange Juice (per lb)	1.5445	-0.29%
Natural Gas (per MMBtu)	2.9160	1.46%	Cocoa (per mt)	2,336	2.68%
Base Metals	Futures	% chg	Grains	Futures	% chg
Copper (per mt)	5,888.5	-1.71%	Wheat (per bushel)	5.4550	1.96%
Nickel (per mt)	12,720.0	-3.68%	Soybean (per bushel)	8.435	1.44%
Aluminium (per mt)	2,109.5	-0.41%	Corn (per bushel)	3.6500	2.38%
Precious Metals	Futures	% chg	Asian Commodities	Futures	% chg
Gold (per oz)	1,206.7	0.14%	Crude Palm Oil (MYR/MT)	2,248.0	--
Silver (per oz)	14.557	-0.25%	Rubber (JPY/KG)	173.7	-0.12%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Equity and Commodity

Index	Value	Net change
DJIA	25,964.82	-22.10
S&P	2,901.52	0.39
Nasdaq	8,109.54	21.17
Nikkei 225	22,865.15	-4.35
STI	3,213.48	-12.24
KLCI	1,819.66	--
JCI	6,018.46	-0.50
Baltic Dry	1,579.00	-35.00
VIX	12.86	-0.67

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.90 (-0.01)	2.63 (-0.02)
5Y	2.10 (-0.01)	2.74 (-0.01)
10Y	2.38 (--)	2.86 (+0.01)
15Y	2.65 (--)	--
20Y	2.69 (--)	--
30Y	2.77 (--)	3.02 (+0.02)

Financial Spread (bps)

	Value	Change
LIBOR-OIS	21.58	-0.46
EURIBOR-OIS	3.93	-0.07
TED	22.69	-0.77

CFTC Commodities Futures and Options

For the week ended: 28 Aug 2018

	Current	Previous	Net Chg		Current	Previous	Net Chg
Nymex Crude	588,484	574,487	13,997	Corn	9,156	59,107	-49,951
Lean Hogs	8,232	1,082	7,150	Soybean	-54,736	-33,061	-21,675
Gold	-16,952	-23,964	7,012	Sugar	-129,275	-117,067	-12,208
RBOB Gasoline	108,335	102,288	6,047	Wheat	46,821	56,607	-9,786
Coffee	-95,203	-99,208	4,005	Silver	-16,912	-7,480	-9,432
Heating Oil	38,948	35,119	3,829	Natural Gas	-68,104	-63,302	-4,802
Cocoa	3,330	-351	3,681	Live Cattle	78,194	81,539	-3,345
Palladium	4,062	1,104	2,958	Cotton	86,181	88,196	-2,015
Copper	-89	-1,913	1,824	Platinum	-10,533	-10,586	53

Source: CFTC, Bloomberg, OCBC Bank

Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised	
08/31/2018 07:00	SK Industrial Production YoY	Jul	0.50%	0.90%	-0.40%	--
08/31/2018 07:01	UK GfK Consumer Confidence	Aug	-10	-7	-10	--
08/31/2018 07:30	JN Job-To-Applicant Ratio	Jul	1.63	1.63	1.62	--
08/31/2018 07:30	JN Jobless Rate	Jul	2.40%	2.50%	2.40%	--
08/31/2018 07:30	JN Tokyo CPI Ex-Fresh Food YoY	Aug	0.80%	0.90%	0.80%	--
08/31/2018 07:50	JN Industrial Production MoM	Jul P	0.20%	-0.10%	-1.80%	--
08/31/2018 08:54	SK BoK 7-Day Repo Rate	Aug-31	1.50%	1.50%	1.50%	--
08/31/2018 09:00	CH Non-manufacturing PMI	Aug	53.7	54.2	54	--
08/31/2018 09:00	CH Manufacturing PMI	Aug	51	51.3	51.2	--
08/31/2018 09:30	AU Private Sector Credit MoM	Jul	0.30%	0.40%	0.30%	--
08/31/2018 13:00	JN Housing Starts YoY	Jul	-4.10%	-0.70%	-7.10%	--
08/31/2018 14:00	UK Nationwide House PX MoM	Aug	0.10%	-0.50%	0.60%	0.70%
08/31/2018 14:00	TH BoP Current Account Balance	Jul	\$2200m	\$1086m	\$4084m	--
08/31/2018 14:30	TH Exports YoY	Jul	--	8.30%	10.00%	--
08/31/2018 14:30	TH Imports YoY	Jul	--	12.40%	12.90%	--
08/31/2018 14:30	TH Trade Balance	Jul	--	\$858m	\$2875m	--
08/31/2018 14:45	FR CPI YoY	Aug P	2.20%	2.30%	2.30%	--
08/31/2018 15:30	TH Foreign Reserves	Aug-24	--	\$204.9b	\$202.9b	--
08/31/2018 17:00	EC Unemployment Rate	Jul	8.20%	8.20%	8.30%	8.20%
08/31/2018 18:00	IT GDP WDA QoQ	2Q F	0.20%	0.20%	0.20%	--
08/31/2018 20:30	CA Industrial Product Price MoM	Jul	-0.40%	-0.20%	0.50%	0.70%
08/31/2018 20:30	CA Raw Materials Price Index MoM	Jul	0.00%	0.70%	0.50%	0.60%
08/31/2018 21:45	US Chicago Purchasing Manager	Aug	63	63.6	65.5	--
08/31/2018 22:00	US U. of Mich. Sentiment	Aug F	95.5	96.2	95.3	--
09/01/2018 08:00	SK Exports YoY	Aug	10.20%	8.70%	6.20%	--
09/01/2018 08:00	SK Imports YoY	Aug	7.70%	9.20%	16.20%	--
09/01/2018 08:00	SK Trade Balance	Aug	\$7048m	\$6900m	\$7006m	--
09/03/2018 06:30	AU AiG Perf of Mfg Index	Aug	--	56.7	52	--
09/03/2018 07:50	JN Capital Spending YoY	2Q	6.50%	--	3.40%	--
09/03/2018 08:30	JN Nikkei Japan PMI Mfg	Aug F	--	--	52.5	--
09/03/2018 08:30	SK Nikkei South Korea PMI Mfg	Aug	--	--	48.3	--
09/03/2018 08:30	TA Nikkei Taiwan PMI Mfg	Aug	--	--	53.1	--
09/03/2018 08:30	ID Nikkei Indonesia PMI Mfg	Aug	--	--	50.5	--
09/03/2018 09:00	AU Melbourne Institute Inflation MoM	Aug	--	--	0.10%	--
09/03/2018 09:30	AU ANZ Job Advertisements MoM	Aug	--	--	1.50%	--
09/03/2018 09:30	AU Retail Sales MoM	Jul	0.30%	--	0.40%	--
09/03/2018 09:45	CH Caixin China PMI Mfg	Aug	50.7	--	50.8	--
09/03/2018 11:00	TH CPI YoY	Aug	1.51%	--	1.46%	--
09/03/2018 12:00	ID CPI Core YoY	Aug	2.89%	--	2.87%	--
09/03/2018 12:00	ID CPI YoY	Aug	3.33%	--	3.18%	--
09/03/2018 13:00	IN Nikkei India PMI Mfg	Aug	--	--	52.3	--
09/03/2018 13:00	JN Vehicle Sales YoY	Aug	--	--	1.20%	--
09/03/2018 14:30	AU Commodity Index SDR YoY	Aug	--	--	7.60%	--
09/03/2018 15:45	IT Markit/ADACI Italy Manufacturing PMI	Aug	51.2	--	51.5	--
09/03/2018 15:50	FR Markit France Manufacturing PMI	Aug F	53.7	--	53.7	--
09/03/2018 15:55	GE Markit Germany Manufacturing PMI	Aug F	56.1	--	56.1	--
09/03/2018 16:00	EC Markit Eurozone Manufacturing PMI	Aug F	54.6	--	54.6	--
09/03/2018 16:30	UK Markit UK PMI Manufacturing SA	Aug	53.9	--	54	--
09/03/2018 21:00	SI Purchasing Managers Index	Aug	52.2	--	52.3	--

Source: Bloomberg

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