

Thursday, September 13, 2018

DAILY TREASURY OUTLOOK

Treasury Research
Tel: 6530-8384

Highlights

Global	Wall Street ended mixed as market optimism over the potential re-initiation of trade talks between US and China following a WSJ report suggesting that US Trade secretary Mnuchin had extended an invitation to the Chinese was mitigated by a slide in financial and tech stocks (even though Apple debuted a trio of iPhone models Xs and Xr). With the potential fuel supply disruptions thanks to Hurricane Florence, Brent also touched US\$80 per barrel. A weaker than expected US PPI data (first decline in 18 months at -0.1% mom for Aug) also contributed to the UST bond market gains with the 10-year bond yield closing at 2.97%, underpinned by a strong 10-year UST auction. That said, the Fed's Beige Book flagged tight labour market with "most Districts reporting widespread shortages" but with "modest or moderate" wage growth. Asian markets are likely to trade in a range today, with investors keeping an eye on the ECB and BOE policy meetings - ECB president Draghi's press conference may reiterate its message of ending its asset purchases by end-18 but tweak its growth forecasts lower (mainly due to the drag from UK and Turkey) and keep its inflation forecasts largely unchanged. Today's economic data calendar is relatively light with only US' CPI and initial jobless claims, and Germany's CPI. Of note, Fed's Quarles and Bostic are also on tape.
US	The Fed's Beige Book highlighted that the US economy "expanded at a moderate pace", as "lending activity grew throughout the nation" despite "somewhat softer" home sales. In addition, "businesses generally remained optimistic about the near-term outlook, though most Districts noted concern and uncertainty about trade tensions" and "a number of Districts noted that such concerns had prompted some businesses to scale back or postpone capital investment".
CH	Aggregate financing rebounded in August to CNY1.52 trillion from CNY1.04 trillion in July beating market expectation. However, new Yuan loans increased at less than expected pace of CNY1.28 trillion. Loan demand from household sector remained strong despite concerns that China's consumers are losing spending power due to rising uncertainty.
SG	Retail sales unexpectedly shrank 2.6% yoy (-2.9% mom sa) in July, reversing the revised +2.2% yoy (+1.3% mom sa) growth in June. This is the weakest on-year reading since January 2018 when retail sales fell 7.7% yoy, and also the lowest July reading since 2013 (July: -8.2% yoy), as well as below our expectations for +1.9% yoy (0.7% mom sa).
CMD	Further upside in oil prices were seen overnight to near its four-year high as US inventories fell amid hurricane concerns that is expected to hit North Carolina. Note U.S. stockpiles of crude oil fell by 5.3 million barrels last week to 396 million barrels, which marks the first sub-400 reading since February 2015, and is 3% below the five-year average. The relatively weaker greenback also lifted dollar-denominated commodities including base metals and precious metals, where gold prices rose to its highest in two weeks. Commodity-watchers will eye closely on new trade talks proposed by the US with Beijing, likely in a bid to avoid further escalation in trade war issues, where any quick resolution could further lift gold prices.

Major Markets

- **US:** Fed's Brainard (voter) opined that "barring unexpected developments, continued gradual increases in the federal funds rates are likely to be appropriate to sustain full employment and inflation near its objective", while Bullard (non-voter) noted that "if the US 10-year starts to approach 3 percent, it just looks very, very attractive to international buyers and they want that yield" and "I think that is contributing to pressure on the yield curve and yield-curve inversion". Tariffs were reported to be contributing to rising input costs, mainly for manufacturers, and a few Districts noted some increase in inflation expectations.
- The S&P500 (+0.04%) and DJIA (+0.11%) closed higher on Wednesday, on optimism that Larry Kudlow, Director of President Trump's National Economic Council, had confirmed reports that the US government has offered to organise another round of trade talks with China, to be led by Treasury Secretary Steven Mnuchin. Equities in trade-related and manufacturing sectors were buoyed by the news, while technology stocks continued to drag on the tech-rich Nasdaq composite (-0.23%).
- Apple shares slipped 1.24% as new iPhones were unveiled, as investors appeared to be unimpressed by the apparent lack of innovative additions to its new line-up.
- Chevron climbed 0.67% on higher oil prices, on top of reports that crude oil inventories dipped below the five-year average, signalling a lack of supply.
- Boeing stock rallied 2.36% on improved trade sentiment following Wednesday's trade talk expectations, as CEO Dennis Muilenberg also spoke at an industry conference that Boeing has "a voice at the table" in the US-Sino trade dialogues.
- **Singapore:** The main drag on retail sales came from autos again whose sales contracted 15.2% yoy (-19.5% mom sa), even though COE premiums had hit a year-to-date low at the 4 July tender. Excluding autos, July retail sales expanded 0.2% yoy (+1.1% mom sa). This is slightly slower than the upwardly revised 0.3% yoy (-1.7% mom sa) print seen in June. No sign of light at the end of the retail sales tunnel for now, even though visitor arrivals had hit a record high of 1.73 million in July 2018. Muted response to the Great Singapore Sale (GSS), escalating US-Sino trade tensions and weaker STI due to global de-risking in May-June could also have imputed a cautionary to negative wealth effect on consumer willingness to purchase big-ticket items, so notwithstanding the still resilient domestic labour market conditions.
- The STI recovered 0.47% to close at 3124.65 yesterday and may range trade between 3100-3150 in the interim, awaiting the ECB and BOE policy direction and US-Sino trade war developments. The belly of the SGS yield curve led the sell-off yesterday, and may continue to ignore the overnight bull-flattening bias in the UST market in the run-up to the highly anticipated FOMC rate hike on 27 September.
- **China:** The rebound of aggregate financing was mainly due to the rebound of corporate bond issuance as a result of easing monetary policy. However, both money supply M1 and M2 growth decelerated further. M1 growth slowed down to 3.9% yoy, lowest since April 2015, implying a weaker economic outlook.
- **Malaysia:** According to Bloomberg, Parti Keadilan Rakyat (PKR) leader Anwar Ibrahim has said that the government's review of high-profile infrastructure project is limited to specific "dubious" projects under the previous administration and shouldn't be interpreted as a snub to China. He further elaborated by saying, "Mahathir took the initiative, visiting China, assuring them that the bilateral relations, trade, investments with China must and will continue".

- **Indonesia:** Finance Minister Sri Mulyani Indrawati has said, “The foreign exchange that they earn from the exports, it needs to be in the country”. According to Bloomberg, she also said that the authorities want to tighten some rules on exporters amid a rout in the currency. Based on data from Bank Indonesia (BI), exporters repatriated more than 90 percent of their earnings in the second quarter, but only 14 percent of that was converted to IDR.
- **Thailand:** The country remained to be the top destination for Chinese tourists in 1H18, according to the China Tourism Academy, citing 71.3 million (+15% y/y) China-outbound tourists to 130 countries in the first six months of the year.
- **Korea:** Bank of Korea board member Shin In-seok commented that a preemptive monetary tightening can be “dangerous” given the slower inflation seen of late. He added that BOK’s current benchmark rate remains slightly below the neutral rate.

Bond Market Updates

- **Market Commentary:** The SGD swap curve steepened yesterday, with swap rates for the shorter tenors trading 1-2bps higher while the longer tenors traded 2-3bps higher. The Bloomberg Barclays Asia USD IG Bond Index average OAS was unchanged at 141bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 4bps to 496bps. Overall, 10Y UST yields fell 1bps to close at 2.96% on the back of a lower-than-expected producer price index in August.
- **New Issues:** Inventive Global Investment Ltd (wholly-owned subsidiary of ABC International Holdings Limited) has priced a USD800mn deal across two tranches (guaranteed by Agricultural Bank of China Ltd, Hong Kong Branch), with the USD300mn 3-year bond at CT3+110bps, tightening from its initial price guidance of CT3+130bps area and the USD500mn 3-year FRN at 3mL+85bps, tightening from its initial price guidance of 3mL+110bps area. Bangkok Bank Public Company Limited has priced a USD1.2bn deal across two tranches, with the USD600mn 5.5-year priced at CT5.5+122.5bps, tightening from its initial price guidance of CT5.5+145bps area and the USD600mn 10-year bond at CT10+152.5bps, tightening from its initial price guidance of CT10+175bps area. Mitsubishi UFJ Lease & Finance Co Ltd has priced a USD500mn 5-year bond at CT5+110bps, tightening from its initial price guidance of CT5+130bps area. AIA Group Ltd has priced a USD500mn 3-year FRN at 3mL+52bps, tightening from its initial price guidance of 3mL+60bps area. Pepper Group Ltd has scheduled for investor meetings from 18 Sept for its potential USD/AUD bond issuance.

Key Financial Indicators

Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	94.799	-0.47%	USD-SGD	1.3720	-0.25%
USD-JPY	111.260	-0.33%	EUR-SGD	1.5951	-0.08%
EUR-USD	1.1626	0.17%	JPY-SGD	1.2331	0.07%
AUD-USD	0.7169	0.70%	GBP-SGD	1.7898	-0.16%
GBP-USD	1.3045	0.09%	AUD-SGD	0.9836	0.46%
USD-MYR	4.1470	0.02%	NZD-SGD	0.9003	0.33%
USD-CNY	6.8517	-0.31%	CHF-SGD	1.4131	-0.11%
USD-IDR	14833	-0.16%	SGD-MYR	3.0131	0.06%
USD-VND	23283	-0.01%	SGD-CNY	4.9924	0.04%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD LIBOR	Change
1M	-0.3720	--	O/N	1.9151	--
2M	-0.3390	--	1M	2.1479	--
3M	-0.3190	--	2M	2.2211	--
6M	-0.2690	--	3M	2.3343	--
9M	-0.2070	--	6M	2.5578	--
12M	-0.1660	--	12M	2.8685	--

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%	99.8%	0.0%	0.0%	0.0%
11/08/2018	100.0%	99.8%	0.0%	0.0%	0.0%
12/19/2018	100.0%	22.6%	77.4%	0.0%	0.0%
01/30/2019	100.0%	21.2%	74.0%	4.8%	0.0%
03/20/2019	100.0%	8.7%	42.7%	45.7%	2.8%
05/01/2019	100.0%	7.6%	38.5%	45.4%	8.2%

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	70.37	1.62%	Coffee (per lb)	1.021	1.64%
Brent (per barrel)	79.74	0.86%	Cotton (per lb)	0.8264	-0.30%
Heating Oil (per gallon)	2.2577	0.25%	Sugar (per lb)	0.1233	2.75%
Gasoline (per gallon)	2.0348	1.02%	Orange Juice (per lb)	1.5385	-2.13%
Natural Gas (per MMBtu)	2.8290	0.04%	Cocoa (per mt)	2,325	1.80%

Base Metals

	Futures	% chg	Grains	Futures	% chg
Copper (per mt)	5,899.6	2.08%	Wheat (per bushel)	5.0675	-2.31%
Nickel (per mt)	12,542.0	3.26%	Soybean (per bushel)	8.400	0.99%
Aluminium (per mt)	2,028.0	0.97%	Corn (per bushel)	3.5250	-3.89%

Precious Metals

	Futures	% chg	Asian Commodities	Futures	% chg
Gold (per oz)	1,210.9	0.72%	Crude Palm Oil (MYR/MT)	2,237.0	-1.28%
Silver (per oz)	14.293	0.99%	Rubber (JPY/KG)	167.3	0.36%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Equity and Commodity

Index	Value	Net change
DJIA	25,998.92	27.86
S&P	2,888.92	1.03
Nasdaq	7,954.23	-18.24
Nikkei 225	22,604.61	-60.08
STI	3,124.65	14.74
KLCI	1,785.25	-13.92
JCI	5,798.15	-32.97
Baltic Dry	1,439.00	--
VIX	13.14	-0.08

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.89 (+0.01)	2.75 (-)
5Y	2.17 (+0.02)	2.86 (-0.01)
10Y	2.44 (+0.02)	2.96 (-0.01)
15Y	2.75 (+0.01)	--
20Y	2.78 (+0.01)	--
30Y	2.83 (-)	3.10 (-0.01)

Financial Spread (bps)

	Value	Change
LIBOR-OIS	20.18	-0.42
EURIBOR-OIS	3.90	-0.03
TED	20.13	--

Economic Calendar

Date	Time	Event		Survey	Actual	Prior	Revised	
09/12/2018	07:00	SK	Unemployment rate SA	Aug	3.80%	4.20%	3.80%	--
09/12/2018	08:30	AU	Westpac Consumer Conf SA MoM	Sep	--	-3.00%	-2.30%	--
09/12/2018	13:00	SI	Retail Sales SA MoM	Jul	--	-2.90%	1.20%	1.30%
09/12/2018	13:00	SI	Retail Sales YoY	Jul	0.70%	-2.60%	2.00%	2.20%
09/12/2018	16:00	IT	Industrial Production MoM	Jul	-0.30%	-1.80%	0.50%	0.30%
09/12/2018	16:00	IT	Industrial Production WDA YoY	Jul	1.60%	-1.30%	1.70%	1.40%
09/12/2018	16:00	IT	Industrial Production NSA YoY	Jul	--	1.80%	1.70%	1.40%
09/12/2018	17:00	EC	Industrial Production SA MoM	Jul	-0.50%	-0.80%	-0.70%	-0.80%
09/12/2018	17:00	EC	Industrial Production WDA YoY	Jul	1.00%	-0.10%	2.50%	2.30%
09/12/2018	17:00	CH	Money Supply M2 YoY	Aug	8.60%	8.20%	8.50%	--
09/12/2018	17:00	CH	New Yuan Loans CNY	Aug	1400.0b	1280.0b	1450.0b	--
09/12/2018	17:00	IT	Unemployment Rate Quarterly	2Q	10.80%	10.70%	11.10%	11.00%
09/12/2018	19:00	US	MBA Mortgage Applications	Sep-07	--	-1.80%	-0.10%	--
09/12/2018	20:00	IN	CPI YoY	Aug	3.77%	3.69%	4.17%	--
09/12/2018	20:00	IN	Industrial Production YoY	Jul	6.50%	6.60%	7.00%	6.90%
09/12/2018	20:30	CA	Capacity Utilization Rate	2Q	86.90%	85.50%	86.10%	83.70%
09/12/2018	20:30	US	PPI Final Demand MoM	Aug	0.20%	-0.10%	0.00%	--
09/12/2018	20:30	US	PPI Ex Food and Energy MoM	Aug	0.20%	-0.10%	0.10%	--
09/12/2018	20:30	US	PPI Final Demand YoY	Aug	3.20%	2.80%	3.30%	--
09/13/2018	02:00	US	Federal Reserve Releases Beige Book					
09/13/2018	05:00	NZ	REINZ House Sales YoY	Aug	--	3.10%	0.70%	--
09/13/2018	06:45	NZ	Food Prices MoM	Aug	--	-0.50%	0.70%	--
09/13/2018	07:50	JN	PPI YoY	Aug	3.10%	--	3.10%	--
09/13/2018	07:50	JN	PPI MoM	Aug	0.10%	--	0.50%	--
09/13/2018	07:50	JN	Core Machine Orders MoM	Jul	5.50%	--	-8.80%	--
09/13/2018	09:30	AU	Employment Change	Aug	18.0k	--	-3.9k	--
09/13/2018	09:30	AU	Unemployment Rate	Aug	5.30%	--	5.30%	--
09/13/2018	09:30	AU	Participation Rate	Aug	65.60%	--	65.50%	--
09/13/2018	14:00	GE	CPI MoM	Aug F	0.10%	--	0.10%	--
09/13/2018	14:00	GE	CPI YoY	Aug F	2.00%	--	2.00%	--
09/13/2018	14:00	GE	CPI EU Harmonized MoM	Aug F	0.00%	--	0.00%	--
09/13/2018	14:00	GE	CPI EU Harmonized YoY	Aug F	1.90%	--	1.90%	--
09/13/2018	14:45	FR	CPI EU Harmonized YoY	Aug F	2.60%	--	2.60%	--
09/13/2018	14:45	FR	CPI YoY	Aug F	2.30%	--	2.30%	--
09/13/2018	19:00	UK	Bank of England Bank Rate	Sep-13	0.75%	--	0.75%	--
09/13/2018	19:00	UK	BOE Asset Purchase Target	Sep	435b	--	435b	--
09/13/2018	19:45	EC	ECB Main Refinancing Rate	Sep-13	0.00%	--	0.00%	--
09/13/2018	19:45	EC	ECB Marginal Lending Facility	Sep-13	0.25%	--	0.25%	--
09/13/2018	19:45	EC	ECB Deposit Facility Rate	Sep-13	-0.40%	--	-0.40%	--
09/13/2018	20:30	US	CPI MoM	Aug	0.30%	--	0.20%	--
09/13/2018	20:30	CA	New Housing Price Index MoM	Jul	0.10%	--	0.10%	--
09/13/2018	20:30	US	CPI Ex Food and Energy MoM	Aug	0.20%	--	0.20%	--
09/13/2018	20:30	US	CPI YoY	Aug	2.80%	--	2.90%	--
09/13/2018	20:30	US	Initial Jobless Claims	Sep-08	210k	--	203k	--
09/13/2018	20:30	US	Continuing Claims	Sep-01	1710k	--	1707k	--
09/13/2018	21:45	US	Bloomberg Consumer Comfort	Sep-09	--	--	58	--
09/12/2018	09/15	IN	Exports YoY	Aug	--	--	14.30%	--
09/12/2018	09/15	IN	Imports YoY	Aug	--	--	28.80%	--

Source: Bloomberg

<u>OCBC Treasury Research</u>	
<u>Macro Research</u>	<u>Credit Research</u>
Selena Ling LingSSSelena@ocbc.com	Andrew Wong WongVKAM@ocbc.com
Emmanuel Ng NgCYEmmanuel@ocbc.com	Ezien Hoo EzienHoo@ocbc.com
Tommy Xie Dongming XieD@ocbc.com	Wong Hong Wei WongHongWei@ocbc.com
Barnabas Gan BarnabasGan@ocbc.com	Seow Zhi Qi ZhiQiSeow@ocbc.com
Terence Wu TerenceWu@ocbc.com	
Alan Lau AlanLau@ocbc.com	

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