

## Daily Treasury Outlook

2 August 2019

### Highlights

**Global:** A risk off session is likely today after US president Trump announced a 10% tariff on US\$300b of Chinese imports from 1 September, following inconclusive trade talks in Shanghai earlier this week and threatened that they could be raised beyond 25% if talks continue to stall. With this threatened escalation, Wall Street slumped overnight while UST bonds rallied and pushed the 10-year yield to a low of 1.89% (last seen in November 2016).

**Market watch:** Asian markets are likely to see a flight to safety today given Trump's re-escalation of trade tensions with China and weak US economic data. Today's economic data calendar will likely focus on US' nonfarm payrolls, unemployment rate and average hourly earnings (consensus: 165k, 3.6% and 0.2% mom respectively), factory orders, trade and durable goods orders data, Malaysia's trade and S'pore's manufacturing and electronics PMIs.

**US:** US' manufacturing ISM also disappointed at 51.2 in July (June: 51.7), the lowest since August 2016, as both employment and prices paid gauges softened despite higher new orders. Note persistent US-China trade uncertainties will continue to pressure Fed to continue easing from here.

**UK:** BOE kept its policy settings on hold but governor Carney opined that it was "highly unlikely" that the central bank can intervene to support the GBP and there are "limits" to support jobs and growth in case of a no-deal Brexit.

**China:** China's July Caixin PMI also rebounded to 49.9 from 49.4 in June, sign of improvement of corporate sentiment. Market will closely watch how China responds to Trump's threat to impose the tariff on the remaining US\$300 billion Chinese imports effective from 1 September. Meanwhile, the setting of RMB fixing will also be the focus after the USDCNH surged to 6.97 following Trump's twitter.

**Singapore:** Manufacturing and electronics PMIs may stay in contraction territory for July after printing at 49.6 and 49.2 respectively in June. OCBC's 2Q net income rose 1% to \$1.22b, above analyst estimate of \$1.19b.

Key Market Movements		
<b>Equity</b>	<b>Value</b>	<b>% chg</b>
S&P 500	2953.6	-0.9%
DJIA	26583	-1.0%
Nikkei 225	21541	0.1%
SH Comp	2908.8	-0.8%
STI	3291.8	-0.3%
Hang Seng	27566	-0.8%
KLCI	1639.1	0.3%
<b>Currencies</b>	<b>Value</b>	<b>% chg</b>
DXY	98.369	-0.1%
USDJPY	107.34	-1.3%
EURUSD	1.1085	0.1%
GBPUSD	1.2128	-0.3%
USDIDR	14116	0.7%
USDSGD	1.377	0.2%
SGDMYR	3.0143	0.0%
<b>Rates</b>	<b>Value</b>	<b>chg (bp)</b>
3M UST	2.07	1.28
10Y UST	1.89	-12.09
1Y SGS	1.86	0.00
10Y SGS	1.92	0.58
3M LIBOR	2.27	1.25
3M SIBOR	2.00	0.00
3M SOR	1.76	-0.49
<b>Commodities</b>	<b>Value</b>	<b>% chg</b>
Brent	60.5	-7.0%
WTI	53.95	-7.9%
Gold	1445	2.2%
Silver	16.34	0.4%
Palladium	1431	-5.9%
Copper	5899	-0.5%
BCOM	77.01	-2.5%

Source: Bloomberg

## Daily Treasury Outlook

2 August 2019

### Major Markets

**US:** US markets took a beating last night following Trump's declaration of 10% tariffs on the remainder of the untaxed \$300bn worth of Chinese goods. Gains early in the session were wiped out following the threat, with the S&P500 index closing down -0.9%. While the trade war will continue to dominate headlines in the near term, for today the markets will be looking out for the July US jobs report tonight.

**Singapore:** The STI retreated another 0.27% to close at 3291.75 yesterday and will continue to see selling pressure towards amid increased US-China trade tensions. We tip the STI range at 3278-3300. With the big rally in US bonds overnight, the flight to quality should benefit SGS bonds today.

**Malaysia:** The Markit manufacturing PMI for July fell to 47.6 from 47.8 the prior month. Overall softer demand put pressure on production but reportedly, there was actually a pick-up in external demand and businesses remained optimistic going into the year-end. June trade data is due later.

**Indonesia:** Headline inflation was slightly higher at 3.32% yoy in July (June: 3.28% yoy) whilst core inflation softened to 3.18% yoy (June: 3.25% yoy). The difference in movement between the two was due to a faster pace of price increase on a year on year basis for administered items. Despite the headline inflation uptick, we don't see any concerning signs that it will rise above Bank Indonesia's (BI) target range of 2.5% - 4.5%. Hence, inflation should not be a constraint to monetary easing and we still expect BI to cut the benchmark rate by another 25bps this year. Meanwhile, the Markit manufacturing PMI fell into contraction territory for July to 49.6 from 50.6, the prior month.

**Hong Kong:** Retail sales dropped for the fifth month in a row by 6.7% yoy in June due to higher base effect and the weakness in both local and tourist spending. External headwinds including faltering global growth outlook and lingering trade war risks have kept local consumers and visitors cautious about spending. Moving forward, we are wary that social unrest which intensified in July would have added downward pressure on the retail sector. Due to the ongoing protests, we may see slower growth or even negative growth of visitor arrivals (+8.5% yoy in June) in the coming months. On the other hand, as the protests disrupted the normal operation of some retail and department stores, local consumption might have been curbed as well. For the rest of the year, internal and external uncertainties may continue to cloud the outlook of the retail sector. As such, we expect retail sales to show single-digit negative growth in 2019.

**Macau:** Gross gaming revenue missed expectations and fell 3.5% yoy to MOP24.45 billion in July. Back in 2Q, supported by the burgeoning inbound tourism, mass market revenue surged by 21.3% yoy and took up a larger proportion of total gaming revenue than the VIP revenue for the first time since record. However, due to the relatively low betting among of casual gamblers, the strong growth of mass-market segment failed to offset the drag from weaker high-roller demand. Moving ahead, the outlook of the VIP segment may remain clouded by several unfavorable factors including the slow growth of overnight visitors, stronger MOP against the RMB,

## Daily Treasury Outlook

2 August 2019

China's economic slowdown and the lingering policy risks related to anti-money laundering. As such, we hold onto our view that the growth of gross gaming revenue will be flat this year.

**South Korea:** Consumer inflation further declined in July to 0.6%, matching the lowest estimate in Bloomberg's poll. We expected an acceleration in the July inflation rate to 0.9% from 0.7% in June partly due to low base effects, but a deceleration in fresh food and transport prices dampened inflationary pressures ultimately. Our forecasts suggest that the inflation rate in South Korea is likely to continue trending lower in the next three months, before recovering from November onwards. We maintain our full-year inflation forecast for South Korea at 0.5%, with 2H 2019 expected at 0.3%.

**Thailand:** Inflation accelerated back to the BoT's lower bound target range of 1% at 0.98%. Fresh food prices led the increase in Thailand's uptick in consumer inflation. We continue to expect Thailand's full-year 2019 inflation at 1.0%.

## Bond Market Updates

**Market Commentary:** The SGD swap curve bear-flattened yesterday, with the shorter tenors and belly trading 3-6bps higher, and the longer tenors trading 0-1bps higher. The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 5bps to 131bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 22bps to 492bps. 10Y USTs fell 12bps to 1.89%, after US President Donald Trump announced a new wave of tariffs on Chinese goods, sparking a stampede into safe-haven Treasuries. Spread between 3-month treasury bills and 10-year treasury notes remains inverted, with the spread widening to -18bps.

**New Issues:** Central China Real Estate Ltd has priced a USD300mn 3NC2 bond at 7.25%, tightening from IPT at 7.375% area. Sinopec Group Overseas Development (2018) Ltd (Guarantor: China Petrochemical Corporation) has priced a USD2.0bn deal across 3 tranches: A USD800mn 5-year bond at T+88bps (tightening from IPT at T+110bps area), a USD700mn 10-year bond at T+110bps (tightening from IPT at T+125bps area), and a USD500mn 30-year at 3.68% (tightening from IPT at 3.85% area). Tibet Financial Leasing Co. has schedule investor meetings commencing on 5 Aug for its potential USD bond issuance.

## Daily Treasury Outlook

2 August 2019

### Foreign Exchange

	Day Close	% Change		Day Close	% Change
<b>DXY</b>	98.369	-0.15%	<b>USD-SGD</b>	1.3770	0.20%
<b>USD-JPY</b>	107.340	-1.32%	<b>EUR-SGD</b>	1.5264	0.28%
<b>EUR-USD</b>	1.1085	0.08%	<b>JPY-SGD</b>	1.2829	1.54%
<b>AUD-USD</b>	0.6800	-0.66%	<b>GBP-SGD</b>	1.6701	-0.03%
<b>GBP-USD</b>	1.2128	-0.25%	<b>AUD-SGD</b>	0.9365	-0.45%
<b>USD-MYR</b>	4.1440	0.42%	<b>NZD-SGD</b>	0.9032	0.19%
<b>USD-CNY</b>	6.8987	0.21%	<b>CHF-SGD</b>	1.3906	0.58%
<b>USD-IDR</b>	14116	0.67%	<b>SGD-MYR</b>	3.0143	-0.04%
<b>USD-VND</b>	23203	-0.01%	<b>SGD-CNY</b>	5.0273	0.01%

### Equity and Commodity

Index	Value	Net change
<b>DJIA</b>	26,583.42	-280.85
<b>S&amp;P</b>	2,953.56	-26.82
<b>Nasdaq</b>	8,111.12	-64.30
<b>Nikkei 225</b>	21,540.99	19.46
<b>STI</b>	3,291.75	-9.00
<b>KLCI</b>	1,639.07	4.20
<b>JCI</b>	6,381.54	-8.96
<b>Baltic Dry</b>	1,868.00	--
<b>VIX</b>	17.87	1.75

### Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
<b>1M</b>	-0.3920	-0.20%	<b>O/N</b>	2.3516	0.46%
<b>2M</b>	-0.3360	0.46%	<b>1M</b>	2.2243	-0.55%
<b>3M</b>	-0.3750	-0.55%	<b>2M</b>	2.2529	0.04%
<b>6M</b>	-0.3620	0.04%	<b>3M</b>	2.2656	1.25%
<b>9M</b>	-0.1940	1.25%	<b>6M</b>	2.2069	1.53%
<b>12M</b>	-0.3030	1.53%	<b>12M</b>	2.1886	0.01%

### Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
<b>2Y</b>	1.72 (+0.03)	1.73 (-0.14)
<b>5Y</b>	1.76 (+0.02)	1.68 (-0.14)
<b>10Y</b>	1.92 (+0.01)	1.89 (-0.12)
<b>15Y</b>	2.14 (--)	--
<b>20Y</b>	2.22 (-0.01)	--
<b>30Y</b>	2.38 (-0.02)	2.44 (-0.08)

### Fed Rate Hike Probability

Meeting	Prob Hike	Prob Cut	1.25-1.75%	1.5-1.75%	1.75-2%
09/18/2019	0.0%	95.6%	0.0%	0.0%	95.6%
10/30/2019	0.0%	98.4%	0.0%	60.1%	38.3%
12/11/2019	0.0%	99.2%	28.6%	49.7%	20.8%
01/29/2020	0.0%	99.5%	36.1%	39.5%	13.7%
03/18/2020	0.0%	99.6%	36.8%	33.8%	10.9%
04/29/2020	0.0%	99.7%	36.2%	29.2%	8.8%

### Financial Spread (bps)

	Value	Change
<b>EURIBOR-OIS</b>	6.10	0.43
<b>TED</b>	35.36	--

### Secured Overnight Fin. Rate

<b>SOFR</b>	2.55
-------------	------

### Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	53.95	-7.9%	Corn (per bushel)	3.9275	-1.9%
Brent (per barrel)	60.50	-7.2%	Soybean (per bushel)	8.470	-2.0%
Heating Oil (per gallon)	1.8529	-5.2%	Wheat (per bushel)	4.7575	-2.4%
Gasoline (per gallon)	1.7499	-8.0%	Crude Palm Oil (MYR/MT)	2,015.0	-0.2%
Natural Gas (per MMBtu)	2.2020	-1.4%	Rubber (JPY/KG)	206.9	-4.6%
<b>Base Metals</b>	<b>Futures</b>	<b>% chg</b>	<b>Precious Metals</b>	<b>Futures</b>	<b>% chg</b>
Copper (per mt)	5,899	-0.5%	Gold (per oz)	1,420.9	-0.4%
Nickel (per mt)	14,595	0.7%	Silver (per oz)	16.180	-1.4%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

### Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
08/02/2019 07:50	JN Monetary Base YoY	Jul	--	3.70%	4.00%
08/02/2019 09:30	AU Retail Sales MoM	Jun	0.30%	--	0.10%
08/02/2019 15:30	TH Foreign Reserves	Jul-26	--	--	\$218.1b
08/02/2019 15:30	SZ PMI Manufacturing	Jul	47.5	--	47.7
08/02/2019 16:30	UK Markit/CIPS UK Construction PMI	Jul	46	--	43.1
08/02/2019 20:30	US Change in Nonfarm Payrolls	Jul	165k	--	224k
08/02/2019 20:30	US Unemployment Rate	Jul	3.60%	--	3.70%
08/02/2019 20:30	US Trade Balance	Jun	-\$54.6b	--	-\$55.5b
08/02/2019 20:30	US Change in Manufact. Payrolls	Jul	5k	--	17k
08/02/2019 21:00	SI Purchasing Managers Index	Jul	49.6	--	49.6
08/02/2019 22:00	US U. of Mich. Sentiment	Jul F	98.5	--	98.4
08/02/2019 22:00	US Durable Goods Orders	Jun F	--	--	2.00%
08/02/2019 22:00	US Factory Orders	Jun	0.70%	--	-0.70%
08/02/2019 22:00	US Durables Ex Transportation	Jun F	--	--	1.20%

Source: Bloomberg

## Treasury Research & Strategy

### Macro Research

**Selena Ling**

*Head of Strategy & Research*

[LinaSSSelena@ocbc.com](mailto:LinaSSSelena@ocbc.com)

**Emmanuel Ng**

*Senior FX Strategist*

[NqCYEmmanuel@ocbc.com](mailto:NqCYEmmanuel@ocbc.com)

**Tommy Xie Dongming**

*Head of Greater China Research*

[XieD@ocbc.com](mailto:XieD@ocbc.com)

**Terence Wu**

*FX Strategist*

[TerenceWu@ocbc.com](mailto:TerenceWu@ocbc.com)

**Howie Lee**

*Thailand, Korea & Commodities*

[HowieLee@ocbc.com](mailto:HowieLee@ocbc.com)

**Alan Lau**

*Malaysia & Indonesia*

[AlanLau@ocbc.com](mailto:AlanLau@ocbc.com)

**Carie Li**

*Hong Kong & Macau*

[carierli@ocbcwh.com](mailto:carierli@ocbcwh.com)

**Dick Yu**

*Hong Kong & Macau*

[dicksnyu@ocbcwh.com](mailto:dicksnyu@ocbcwh.com)

### Credit Research

**Andrew Wong**

*Credit Research Analyst*

[WongVKAM@ocbc.com](mailto:WongVKAM@ocbc.com)

**Ezien Hoo**

*Credit Research Analyst*

[EzienHoo@ocbc.com](mailto:EzienHoo@ocbc.com)

**Wong Hong Wei**

*Credit Research Analyst*

[WongHongWei@ocbc.com](mailto:WongHongWei@ocbc.com)

**Seow Zhi Qi**

*Credit Research Analyst*

[ZhiQiSeow@ocbc.com](mailto:ZhiQiSeow@ocbc.com)

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC Bank, its related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial services to such issuers. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).