

Daily Treasury Outlook

2 September 2019

Highlights

Global: Although US financial markets are closed for Labor Day holidays today, Asian market have much to digest including the fresh US and China trade tariffs which kicked in on Sunday, Argentina's "selective default" and imposition of currency controls (after burning through ~\$3b of FX reserves on Thursday and Friday), and China's manufacturing PMI data which disappointed at 49.5 (previously 49.7). With the imposition of 15% tariffs on around US\$110b on Chinese imports from 1 Sep, which were swiftly matched by China with an extra 10% tariffs on US meat and agricultural products and an extra 5% on US soybean and a new 5% tariff on US crude oil, the next tranche of US tariffs are scheduled for 15 Dec on the remainder of the original \$300b. While US stocks snapped a four-week losing streak to close August on a positive note on Friday, the 2-10 UST yield curve remains slightly inverted.

Market Watch: Asian markets are likely to start the week with a soft tone amid the latest US-China trade tariffs. Today's economic data calendar comprises of manufacturing PMIs from Europe and Asia, including China's Caixin PMI, Thai CPI, and Indonesia's Aug CPI. ECB's Mersch and Rehn are also speaking. For the week ahead, watch for RBA's policy decision tomorrow (with a tail risk of a 25bp cut from 1% as market consensus is for no change), the resumption of UK Parliament from recess on 3 Sep (where pushback to UK PM Johnson's plan to suspend parliament from 12 Sep), BOC policy decision on 4 Sep (likely static at 1.75%) and a host of Fed speakers including Kashkari, Evans and Powell, together with the Fed's Beige Book and the August labour market report (with nonfarm payrolls, unemployment rate and earnings eyed at 158k, 3.7% and 0.3% mom/3.0% yoy) on 5 Sep.

US: Core PCE deflator rose 0.2% mom for July, whilst personal spending increased 0.6% mom. The Chicago PMI also improved to 50.4 in August, but the University of Michigan Consumer sentiment softened to 89.8 due to the ongoing trade war.

US: The UK opposition Labour Party will propose a law to stop a no-deal Brexit without parliamentary approval this week.

China: New tariffs went into effect, against hopes of a last-minute de-escalation. Nevertheless, the improvement of market sentiment last week was not the result of prayers for a last-minute miracle but the official confirmation by Chinese side that the door for negotiation remains open, and China is likely to send their trade delegation to US sometime in September to meet its counterparty in person. President Trump's claim of a weaker Yuan helping to alleviate the impact of tariff on US consumers in reaction to the new tariff is a bit awkward, as it deviates from his previous criticism of RMB's depreciation. We think it probably may not be his endorsement on weaker Yuan. Nevertheless, it may send the signal to market that Trump may flipflop his currency view.

Key Market Movements

Equity	Value	% chg
S&P 500	2926.5	0.1%
DJIA	26403	0.2%
Nikkei 225	20704	1.2%
SH Comp	2886.2	-0.2%
STI	3106.5	0.8%
Hang Seng	25725	0.1%
KLCI	1612.1	1.1%
Currencies	Value	% chg
DXY	98.916	0.4%
USDJPY	106.28	-0.2%
EURUSD	1.0982	-0.7%
GBPUSD	1.2156	-0.2%
USIDDR	14191	-0.3%
USDSGD	1.3872	0.0%
SGDMYR	3.0366	-0.1%
Rates	Value	chg (bp)
3M UST	1.98	-0.30
10Y UST	1.50	0.16
1Y SGS	1.85	0.00
10Y SGS	1.74	5.36
3M LIBOR	2.13	0.76
3M SIBOR	1.88	0.00
3M SOR	1.74	1.74
Commodities	Value	% chg
Brent	59.25	-2.0%
WTI	55.1	-2.8%
Gold	1520	-0.5%
Silver	18.38	0.6%
Palladium	1534	3.9%
Copper	5676	-0.9%
BCOM	77.00	-0.6%

Source: Bloomberg

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Major Markets

US: US markets were relatively muted on Friday, with the S&P 500 index ending the session up 0.1%. Investors were likely cautious, given that new tariffs between the US and China was set to kick in over the weekend on 1 September. Inaction from either the US or China to delay or halt these new set of tariffs have caused the S&P 500 futures to open down 1% in the morning. In the near term, we may possibly see continued downward pressure on the S&P 500 index towards the 2800 support level. The US markets are closed today for Labour Day holiday.

China: China's manufacturing sector continued to soften. Although no fresh stimulus was announced by China's financial stability committee meeting over the weekend, China did roll over new 20 measures targeted at consumption, such as promoting car sales and purchase of environmentally friendly electronic products. China's stimulus to boost consumption rather than direct prime-pump may have limited spill over effect on the regional economies.

Singapore: The STI added 0.8% to close at 3106.52 on Friday and may see subdued trading today amid soft morning cues from Kospi and market players digest the implications of the latest round of retaliatory US-China tariffs that kicked in yesterday. STI may fluctuate around the 3100 handles in the interim, with support seen at last week's low of 3056. UST bonds had firmed into the month-end amid weak US consumer sentiments data and trade war concerns, with the 10-year UST bond yield registering its 5th consecutive monthly decline. With the 10-year SGS bond re-opening auction out of the way, SGS bonds are likely to unwind some of the selling pressure seen last Friday when yields crept up 3-7bps.

Indonesia: An official has confirmed that raw nickel-ore exports will be banned until the end of this year. There has been speculation that a temporary ban is on underway from as early as early August, when speculative long positions in nickel on this rumour prompted Indonesia officials to declare that there were no such plans then. Nickel futures have, however, continued to climb 50% in the past two months, especially after President Joko Widodo recently called for more of its ore to be processed within the country. The global nickel market is likely to move into deficit following this ban.

Thailand: Core and headline inflation for August will be released later today at 12pm. Estimates range from 0.44% to 1.05%, with the median at 0.60% and our estimate at 0.51%. We think that the deflation in the transport basket due to falling oil prices and a slowdown in food price gains are likely to dampen overall headline inflation gains. Our estimate of 0.51% is the second lowest in the range of forecasts on Bloomberg.

Hong Kong: Total loans and advances continued to grow moderately by 3.6% yoy in July. Internally, trade finance dropped for the 11th consecutive month by 8.5% yoy amid prolonged trade tensions. Besides, loans for use in HK (excluding trade finance) increased moderately by 4.7% yoy as the elevated local borrowing costs, sour business sentiments and housing market correction might have partially offset the support from trade war

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de-escalation and Fed's rate cut expectations in July. Externally, the growth of loans for use outside of HK held static at 3.5% yoy, suggesting benign loan demand from Mainland China. We expect total loans to register low single-digit growth this year.

Elsewhere, retail sales dropped at a fastest pace since February 2016 by 11.4% yoy in July. Due to the heightened political uncertainty, visitor arrivals and Mainland visitors both decreased for the first time since January 2018 by 4.8% yoy and 5.5% yoy respectively. This combined with a stronger HKD, trade war fears and Asia's economic slowdown have added downward pressure on the already weak tourist spending. Going forward, we expect the decline in retail sales to worsen in August. Should protests prolong and trade war escalate further in the rest of this year, retail sales may even drop by 10% over the whole of 2019.

Oil: Brent closed below \$60/bbl once again, ending Friday at \$59.25/bbl and averaging \$59.02/bbl in August, the lowest monthly average year to-date. Prices are likely to dip further for the rest of the day, following the selloff observed in other riskier assets as the new set of US-China tariffs beginning 1 September kicks in. We see it unlikely that Brent prices will recover materially past \$60/bbl.

Bond Market Updates

Market Commentary: The SGD swap curve bear-steepened last Friday, with the shorter tenors traded 1-3bps higher, while the longer tenors (>5yr) traded 4-5bps higher. The Bloomberg Barclays Asia USD IG Bond Index average OAS was unchanged at 135bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 6bps to 570bps. 10Y UST yields were relatively unchanged at 1.5%, with investors waiting to see if there will be a de-escalation of the US-China trade war. Spread between the 2-year treasury notes and 10-year treasury notes remains inverted, with the spread narrowing to 1bps, while the spread between 3-month treasury bills and 10-year treasury notes has widened to -48bps.

New Issues: Changchun Urban Development & Investment Holdings (Group) Co., Ltd has scheduled investor meetings commencing on 3 Sep for its potential USD bond issuance.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	98.916	0.42%	USD-SGD	1.3872	-0.04%
USD-JPY	106.280	-0.23%	EUR-SGD	1.5237	-0.70%
EUR-USD	1.0982	-0.68%	JPY-SGD	1.3062	0.25%
AUD-USD	0.6733	0.07%	GBP-SGD	1.6861	-0.25%
GBP-USD	1.2156	-0.21%	AUD-SGD	0.9344	0.07%
USD-MYR	4.2055	-0.28%	NZD-SGD	0.8765	0.08%
USD-CNY	7.1560	0.16%	CHF-SGD	1.4012	-0.38%
USD-IDR	14191	-0.31%	SGD-MYR	3.0366	-0.08%
USD-VND	23196	-0.02%	SGD-CNY	5.1562	0.19%

Equity and Commodity

Index	Value	Net change
DJIA	26,403.28	41.03
S&P	2,926.46	1.88
Nasdaq	7,962.88	-10.51
Nikkei 225	20,704.37	243.44
STI	3,106.52	24.69
KLCI	1,612.14	16.96
JCI	6,328.47	39.35
Baltic Dry	2,378.00	101.00
VIX	18.98	1.10

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4270	0.40%	O/N	2.0896	0.84%
2M	-0.3360	0.84%	1M	2.0890	-1.18%
3M	-0.4330	-1.18%	2M	2.1496	0.17%
6M	-0.4280	0.17%	3M	2.1376	0.76%
9M	-0.1940	0.76%	6M	2.0365	-0.38%
12M	-0.3830	-0.38%	12M	1.9740	1.20%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.68 (+0.02)	1.50 (-0.02)
5Y	1.68 (+0.03)	1.39 (-0.01)
10Y	1.74 (+0.05)	1.50 (-)
15Y	1.86 (+0.06)	--
20Y	1.94 (+0.07)	--
30Y	2.03 (+0.07)	1.96 (-)

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%	16.1%	83.9%
10/30/2019	0.0%	100.0%	9.3%	55.3%	35.4%
12/11/2019	0.0%	100.0%	37.7%	43.0%	13.5%
01/29/2020	0.0%	100.0%	40.6%	26.7%	6.1%
03/18/2020	0.0%	100.0%	35.5%	19.0%	3.8%
04/29/2020	0.0%	100.0%	31.4%	15.3%	2.9%

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	7.35	0.45
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	2.12
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Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	55.10	-2.8%	Corn (per bushel)	3.5800	-0.5%
Brent (per barrel)	60.43	-1.1%	Soybean (per bushel)	8.570	0.1%
Heating Oil (per gallon)	1.8282	-1.9%	Wheat (per bushel)	4.5125	-3.9%
Gasoline (per gallon)	1.6134	-4.2%	Crude Palm Oil (MYR/MT)	2,168.0	0.6%
Natural Gas (per MMBtu)	2.2850	-0.5%	Rubber (JPY/KG)	159.2	2.5%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,676	-0.9%	Gold (per oz)	1,523.0	-0.5%
Nickel (per mt)	17,900	8.8%	Silver (per oz)	18.185	0.1%

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

Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
09/02/2019	ID CPI YoY	Aug 3.51%	--	3.32%	--
09/02/2019 07:50	JN Capital Spending YoY	2Q 1.70%	1.90%	6.10%	--
09/02/2019 08:30	TA Markit Taiwan PMI Mfg	Aug --	--	48.1	--
09/02/2019 08:30	JN Jibun Bank Japan PMI Mfg	Aug F --	--	49.5	--
09/02/2019 08:30	SK Markit South Korea PMI Mfg	Aug --	--	47.3	--
09/02/2019 08:30	ID Markit Indonesia PMI Mfg	Aug --	--	49.6	--
09/02/2019 09:45	CH Caixin China PMI Mfg	Aug 49.8	--	49.9	--
09/02/2019 12:00	TH CPI YoY	Aug 0.60%	--	0.98%	--
09/02/2019 14:45	EC ECB's Mersch Speaks in Frankfurt				
09/02/2019 15:55	GE Markit/BME Germany Manufacturing PMI	Aug F 43.6	--	43.6	--
09/02/2019 16:00	EC Markit Eurozone Manufacturing PMI	Aug F 47	--	47	--
09/02/2019 16:30	UK Markit UK PMI Manufacturing SA	Aug 48.4	--	48	--
09/02/2019 18:15	FI ECB's Rehn Speaks at Seminar in Helsinki				

Source: Bloomberg

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