

Daily Treasury Outlook

5 August 2019

Highlights

Global: Markets continue to display risk-off behaviours, following the US decision to impose further tariffs on China last Thursday. The S&P 500 index is now at its lowest since end-June, while 10Y UST yields sunk further to 1.85% on Friday. The VIX index has also risen to its highest since May, when the US called off the trade truce and re-imposed previously suspended tariffs on China's goods. The overcast from the trade war overshadowed the US nonfarm payrolls report last Friday. The US added 164k jobs in July, almost meeting expectations of 165k but below the long-term average of about 200k since 2012. Average hourly earnings rose better than expected but the unemployment rate remained stagnant at 3.7%, possibly due to an increase in the labour force participation rate from 62.9% to 63.0%.

Market watch: Downward pressure on Asian equities is expected to continue, following the downbeat sentiment in global markets since Thursday. Central banks will take most of the attention this week. There are several Fed speak this week, starting from Brainard today (tomorrow morning SGT) and Bullard and Evans tomorrow. The RBA will hold its policy meeting tomorrow, with all economists polled on Bloomberg expecting no change in the benchmark cash rate of 1.00%. The Bank of Thailand and the BSP will also hold their policy meetings this week, with the BoT widely expected to keep rates on hold at 1.75% while the BSP is expected to reduce its benchmark rate from 4.50% to 4.25%.

US: US markets closed lower for the fourth time in five sessions, with the S&P 500 index closing down 0.7%. Investors displayed a risk-off sentiment amidst a re-escalation of the trade war, selling off equities and pushing 10Y UST yields down 4.8bps to 1.85%. In the week ahead, 3 voting Fed members, namely Brainard, Bullard and Evans speak on consecutive days starting Monday. Markets will likely watch for hints from the three Fed speakers on possible insights within the central bank following the further escalation of the US-China trade war.

China: Amid China's financial sector supply side reform, more default cases are likely to be uncovered. The default of the bill acceptance in North-eastern China, first in more than a decade, hit the headline last Friday. The spill over effect is likely to be contained after the PBoC clarifies that the default is not from the commercial bank but from one of the local finance companies.

Singapore: Data from IHS Markit showed Singapore's whole economy PMI rebounding from 50.6 in June to 51 in July.

Key Market Movements		
Equity	Value	% chg
S&P 500	2932.1	-0.7%
DJIA	26485	-0.4%
Nikkei 225	21087	-2.1%
SH Comp	2867.8	-1.4%
STI	3261.1	-0.9%
Hang Seng	26919	-2.3%
KLCI	1626.8	-0.8%
Currencies	Value	% chg
DXY	98.074	-0.3%
USDJPY	106.59	-0.7%
EURUSD	1.1108	0.2%
GBPUSD	1.2162	0.3%
USDIDR	14185	0.5%
USDSGD	1.3773	0.0%
SGDMYR	3.0193	0.2%
Rates	Value	chg (bp)
3M UST	2.05	-2.61
10Y UST	1.85	-4.83
1Y SGS	1.85	-1.10
10Y SGS	1.86	-6.53
3M LIBOR	2.29	2.11
3M SIBOR	1.89	-11.13
3M SOR	1.75	-0.28
Commodities	Value	% chg
Brent	61.89	2.3%
WTI	55.66	3.2%
Gold	1441	-0.3%
Silver	16.20	-0.8%
Palladium	1409	-1.5%
Copper	5730	-2.9%
BCOM	77.23	0.3%

Source: Bloomberg

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Major Markets

China: President Trump's impatience has re-escalated the trade war again to the next stage. Given that more than 60% of the remaining US\$300 billion in products are consumer goods, the negative impact of new tariffs on US consumers and the US economy is likely to be larger than the previous round of tariffs. The additional tariffs are clearly negative for China. However, it is difficult to quantify the impact at the current stage as the impact may depend on the method of allocation of tariffs. Based on the current observations, Trump's claim that China has paid for most of the tariffs is clearly wrong. There are lots of examples of US companies paying for more than half of the tariffs, which they may eventually pass to end consumers. At 10% of additional tariffs, we think both sides may be able to absorb the impact. The impact on the global economy may mainly be felt via worsening risk-off sentiment.

Singapore: The STI is expected to trade slightly lower today, given the continued downbeat bearish sentiment on the global economy. The index has come under heavy pressure since the last day of July and the trend may likely continue given the bearishness surrounding global markets. Near-term support for the index is expected at 3,200 – near its 200 day moving average level.

Malaysia: June trade balance came out at RM10.26bn, an increase from the prior month at RM9.08bn. However, exports saw a decline by 3.1% yoy whilst imports fell by 9.2% yoy. The overall fall in trade volumes continues to reflect the weak global trade environment that risks hurting Malaysia's growth this year.

Indonesia: 2Q 2019 GDP data is due later with our expectations that it will slightly slow to 5.05% yoy. Meanwhile, Finance Minister Sri Mulyani has said that Indonesia needs to focus on the domestic economy to counter the effects of the trade tensions. On other items, Nanang Hendarsah, Executive Director for Monetary Management at Bank Indonesia has said that the central bank stands ready to intervene in the FX and bond markets.

Oil: Brent prices fell to as low as \$60.02/bbl on Thursday, after Trump announced further tariffs on China's goods. The market tried to rally higher on Friday but was capped at the 50-day moving average level of \$62.95/bbl before closing at \$61.89/bbl instead. Reports that Iran has seized another foreign tanker have not resulted in any notable rally in the Brent market so far. It now appears that the energy market is more influenced by demand factors than supply issues at the moment, and will likely be influenced by the bearish sentiment surrounding markets at the moment.

Gold: Prices of the precious metal rallied close to its recent high of \$1,446.10/bbl, closing at \$1,445.18/bbl on Thursday before retracing slightly to \$1,440.83/bbl on Friday. A dip in risk sentiment following the US imposition of further tariffs on China has fuelled further gains in gold. We continue to maintain our bullish view on gold in the short term.

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Bond Market Updates

Market Commentary: The SGD swap curve bull-flattened last Friday, with the shorter tenors traded 4-7bps lower, and the belly and longer tenors traded 6-8bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 2bps to 133bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 7bps to 499bps. 10Y USTs fell 5bps to 1.85%, as renewed trade tensions between China and the US boosted demand for Treasuries. Spread between 3-month treasury bills and 10-year treasury notes remains inverted, with the spread widening to -20bps.

New Issues: There were no new issues or mandates.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	98.074	-0.30%	USD-SGD	1.3773	0.02%
USD-JPY	106.590	-0.70%	EUR-SGD	1.5300	0.24%
EUR-USD	1.1108	0.21%	JPY-SGD	1.2916	0.68%
AUD-USD	0.6801	0.01%	GBP-SGD	1.6752	0.31%
GBP-USD	1.2162	0.28%	AUD-SGD	0.9366	0.01%
USD-MYR	4.1580	0.34%	NZD-SGD	0.9007	-0.28%
USD-CNY	6.9405	0.61%	CHF-SGD	1.4020	0.82%
USD-IDR	14185	0.49%	SGD-MYR	3.0193	0.17%
USD-VND	23226	0.10%	SGD-CNY	5.0424	0.30%

Equity and Commodity

Index	Value	Net change
DJIA	26,485.01	-98.41
S&P	2,932.05	-21.51
Nasdaq	8,004.07	-107.05
Nikkei 225	21,087.16	-453.83
STI	3,261.11	-30.64
KLCI	1,626.76	-12.31
JCI	6,340.18	-41.36
Baltic Dry	1,788.00	-24.00
VIX	17.61	-0.26

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.3920	0.30%	O/N	2.1043	-23.94%
2M	-0.3360	-23.94%	1M	2.2285	1.99%
3M	-0.3800	1.99%	2M	2.2458	1.76%
6M	-0.3670	1.76%	3M	2.2393	2.11%
9M	-0.1940	2.11%	6M	2.1330	2.00%
12M	-0.3040	2.00%	12M	2.1159	4.99%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.69 (-0.03)	1.71 (-0.02)
5Y	1.72 (-0.04)	1.66 (-0.02)
10Y	1.86 (-0.07)	1.85 (-0.05)
15Y	2.07 (-0.07)	--
20Y	2.14 (-0.07)	--
30Y	2.29 (-0.08)	2.38 (-0.06)

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%	100.0%	0.0%	11.3%	88.7%
10/30/2019	0.0%	100.0%	6.3%	54.8%	38.8%
12/11/2019	0.0%	100.0%	28.3%	47.6%	21.2%
01/29/2020	0.0%	100.0%	35.0%	38.4%	13.9%
03/18/2020	0.0%	100.0%	35.8%	32.6%	10.6%
04/29/2020	0.0%	100.0%	35.2%	28.4%	8.5%

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	6.22	0.32
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	2.19
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Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	55.66	3.2%	Corn (per bushel)	3.9950	1.7%
Brent (per barrel)	61.89	2.3%	Soybean (per bushel)	8.503	0.4%
Heating Oil (per gallon)	1.8902	2.0%	Wheat (per bushel)	4.9075	3.2%
Gasoline (per gallon)	1.7815	1.8%	Crude Palm Oil (MYR/MT)	2,013.0	-0.1%
Natural Gas (per MMBtu)	2.1210	-3.7%	Rubber (JPY/KG)	191.5	-7.4%

Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,730	-2.9%	Gold (per oz)	1,445.6	1.7%
Nickel (per mt)	14,450	-1.0%	Silver (per oz)	16.270	0.6%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Economic Calendar

Date	Time	Event	Survey	Actual	Prior	Revised
08/05/2019	ID	GDP YoY	2Q	5.04%	--	5.07%
08/05/2019	08:30	HK	Markit Hong Kong PMI	Jul	--	47.9
08/05/2019	08:30	JN	Jibun Bank Japan PMI Composite	Jul F	--	51.2
08/05/2019	08:30	JN	Jibun Bank Japan PMI Services	Jul F	--	52.3
08/05/2019	09:45	CH	Caixin China PMI Composite	Jul	--	50.6
08/05/2019	09:45	CH	Caixin China PMI Services	Jul	52	52
08/05/2019	15:55	GE	Markit Germany Services PMI	Jul F	55.4	55.4
08/05/2019	16:00	EC	Markit Eurozone Composite PMI	Jul F	51.5	51.5
08/05/2019	16:00	EC	Markit Eurozone Services PMI	Jul F	53.3	53.3
08/05/2019	16:30	UK	Markit/CIPS UK Services PMI	Jul	50.3	50.2
08/05/2019	16:30	UK	Markit/CIPS UK Composite PMI	Jul	49.8	49.7
08/05/2019	21:45	US	Markit US Services PMI	Jul F	52.2	52.2
08/05/2019	21:45	US	Markit US Composite PMI	Jul F	--	51.6
08/05/2019	22:00	US	ISM Non-Manufacturing Index	Jul	55.5	55.1

Source: Bloomberg

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