

## Daily Treasury Outlook

6 August 2019

### Highlights

**Global:** Global risk appetite is likely to remain in the doldrums after US-China trade tensions re-escalated overnight as US president Trump determined that China is a currency manipulator. This came after the USDCNY broke the key 7 handle yesterday in response to the recent Trump announcement to levy 10% tariffs on another US\$300b of Chinese imports from 1 September. With the tit-for-tat retaliatory moves, Wall Street slumped again overnight while the flight to quality left 2 and 10-year UST bonds at 1.57% and 1.71% respectively (the lowest since October 2017 and 2016). Going forward, the shedding of gloves by both US and China may imply more choppy trading conditions ahead even though the immediate impact of the currency manipulator label is limited (the US will engage with the IMF to eliminate the unfair competitive advantage for China). However, the more immediate threat may be that the Trump administration hikes the current tariffs to beyond 25%, which may in turn force the Fed's hand to cut rates at the September FOMC meeting.

**Market watch:** Asian markets are likely to sustain further losses today amid the risk-off sentiments. RBA is likely to keep its 1% cash target rate steady at 1% but continue to lend a dovish tilt going forward. Today's economic data calendar comprises German factory orders, Taiwan's CPI and US' JOLTS job openings, while Fed's Bullard is also speaking.

**US:** US' non-manufacturing PMI retreated from 55.1 to 53.7 in July, the weakest since August 2016, amid the heightened uncertainties arising from trade tensions.

**China:** The US Treasury named China as the currency manipulator for the first time in 25 years, even though China does not meet the criteria for a currency manipulator set by the US Treasury. The off the cycle announcement by US Treasury shows that the US-China tension has been officially escalated from trade war to financial/currency war. Theoretically, the Treasury will hold special talks with the country to correct an undervalued currency, or the US administration may consult the IMF to seek remedies to eliminate any unfair advantage. As such, it is usually a long process for both countries to negotiate. Additionally, tariffs were usually used as the threat by the US to force the currency manipulator to correct the undervalued currency in the past. That's probably not the case for this time as the US administration has already imposed the hefty tariff on Chinese imports. The currency manipulator tag more likely to justify US's decision to impose additional tariffs.

**Singapore:** The Singapore PMI rebounded from 50.6 in June to 51.0 in July, but panellists cited challenging domestic economic conditions as sales growth and business confidence both remain subdued. We suspect this modest improvement may unwind after the latest US-China trade escalatory moves are factored in.

Key Market Movements		
<b>Equity</b>	<b>Value</b>	<b>% chg</b>
S&P 500	2844.7	-3.0%
DJIA	25718	-2.9%
Nikkei 225	20720	-1.7%
SH Comp	2821.5	-1.6%
STI	3194.5	-2.0%
Hang Seng	26151	-2.9%
KLCI	1610.4	-1.0%
<b>Currencies</b>	<b>Value</b>	<b>% chg</b>
DXY	97.522	-0.6%
USDJPY	105.95	-0.6%
EURUSD	1.1203	0.9%
GBPUSD	1.2143	-0.2%
USDIDR	14255	0.5%
USDSGD	1.3847	0.5%
SGDMYR	3.0234	0.1%
<b>Rates</b>	<b>Value</b>	<b>chg (bp)</b>
3M UST	2.00	-5.14
10Y UST	1.71	-13.77
1Y SGS	1.84	-0.10
10Y SGS	1.78	-7.38
3M LIBOR	2.24	-4.75
3M SIBOR	1.88	-0.69
3M SOR	1.74	-1.79
<b>Commodities</b>	<b>Value</b>	<b>% chg</b>
Brent	59.81	-3.4%
WTI	54.69	-1.7%
Gold	1464	1.6%
Silver	16.40	1.2%
Palladium	1423	1.0%
Copper	5685	-0.8%
BCOM	76.76	-0.6%

Source: Bloomberg

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### Major Markets

**US:** US markets plunged the most in a session this year as the trade war between the US and China escalated. The S&P 500 Index closed down 3.0%, and the Nasdaq saw a 3.5% decline. 10Y UST yields sank 13bps to 1.7%, the lowest since 2016. The markets have now priced in more than 50% implied probability that the Fed will cut 50bps in September at time of writing, from just 12% the prior session. The S&P 500 index could likely continue its downward slide, with support levels seen at the 2750 area barring any conciliatory gestures from either party.

**EU:** Eurozone's Sentix investor confidence plunged to -13.7, the lowest since October 2014. Both the current conditions and expectations gauges both deteriorated, with Germany seen as at risk of a recession.

**Singapore:** The STI retreated another 2.04% to close at 3194.51 yesterday amid the sea of red ink across all the Asian bourses. Selling pressure is likely to persist until there are signs of a tentative stabilisation in US-China trade relations. With Wall Street notching up around 3% losses overnight, the key is whether STI will find support at the May 2019 low of 3117.76. With the extension of the flight to safety, SGS bonds should benefit and the 2-10 year yield curve may compress further from its current 10bps (already the narrowest since January 2007).

**Malaysia:** Finance Minister Lim Guan Eng has said "it will be unlikely there will be any new tax measures" in the 2020 budget. Instead, he mentioned that "in the event the trade war escalates or worsens, there will be a contingency package to try to insulate Malaysia as much as possible from any adverse impact."

**Indonesia:** 2Q 2019 GDP growth came out at 5.05% yoy (1Q 2019: 5.07% yoy), driven mainly by household consumption. A fall in inventories however was a drag on growth. Investment growth was flattish at about 5.01% yoy. The slowdown certainly supports the case for further monetary easing and we still expect Bank Indonesia (BI) to cut by another 25bps this year, making it a total easing of 50bps in 2019. However, we believe any cut would be subject to the IDR stability and hence, we see BI likely staying on hold at their August policy meeting.

**Commodities:** Most commodities are in a bloodbath following the sharp escalation in US-China tensions. China's decision to let its currency float above 7 to the dollar will make importing commodities more expensive for the world's biggest consumer of most raw inputs – from copper to cotton and even energy. The decline in prices across the board is a market reaction to the declining purchasing parity of China. Brent has dipped below \$60/bbl; iron ore has fallen below \$100/mt; copper has broken below \$5,750/mt and looks like it may be headed for \$5,500/mt. There are exceptions to this rule: gold has rallied to almost \$1,475/oz; palm oil is seeing an increase in demand as Chinese buyers seek to purchase substitutes for soyoil.

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### Bond Market Updates

**Market Commentary:** The SGD swap curve bull-flattened yesterday, with the shorter tenors traded 3-5bps lower, and the belly and longer tenors traded 6bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 6bps to 138bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 29bps to 528bps. 10Y USTs fell 14bps to 1.71%, after US President Donald Trump labelled China a currency manipulator after the Chinese government allowed the Chinese Yuan to breach the key seven-per-dollar level, signalling a full-blown and prolonged trade war. Spread between 3-month treasury bills and 10-year treasury notes remains inverted, with the spread widening to -29bps.

**New Issues:** There were no new issues or mandates.

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### Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	97.522	-0.56%	USD-SGD	1.3847	0.54%
USD-JPY	105.950	-0.60%	EUR-SGD	1.5514	1.40%
EUR-USD	1.1203	0.86%	JPY-SGD	1.3069	1.18%
AUD-USD	0.6756	-0.66%	GBP-SGD	1.6817	0.39%
GBP-USD	1.2143	-0.16%	AUD-SGD	0.9360	-0.06%
USD-MYR	4.1775	0.47%	NZD-SGD	0.9041	0.38%
USD-CNY	7.0507	1.59%	CHF-SGD	1.4225	1.46%
USD-IDR	14255	0.49%	SGD-MYR	3.0234	0.14%
USD-VND	23270	0.19%	SGD-CNY	5.0833	0.81%

### Equity and Commodity

Index	Value	Net change
DJIA	25,717.74	-767.27
S&P	2,844.74	-87.31
Nasdaq	7,726.04	-278.03
Nikkei 225	20,720.29	-366.87
STI	3,194.51	-66.60
KLCI	1,610.41	-16.35
JCI	6,175.70	-164.48
Baltic Dry	1,788.00	--
VIX	24.59	6.98

### Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.3920	-0.40%	O/N	2.1043	-0.80%
2M	-0.3360	-0.80%	1M	2.2285	-1.56%
3M	-0.3800	-1.56%	2M	2.2458	-2.48%
6M	-0.3670	-2.48%	3M	2.2393	-4.75%
9M	-0.1940	-4.75%	6M	2.1330	-9.39%
12M	-0.3040	-9.39%	12M	2.1159	-12.26%

### Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.68 (-0.02)	1.57 (-0.14)
5Y	1.67 (-0.05)	1.52 (-0.14)
10Y	1.78 (-0.07)	1.71 (-0.14)
15Y	2.00 (-0.07)	--
20Y	2.06 (-0.08)	--
30Y	2.21 (-0.09)	2.25 (-0.13)

### 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%	43.7%	56.3%
10/30/2019	0.0%	100.0%	30.5%	52.5%	17.0%
12/11/2019	0.0%	100.0%	44.0%	30.7%	6.6%
01/29/2020	0.0%	100.0%	38.3%	20.4%	3.8%
03/18/2020	0.0%	100.0%	33.7%	16.1%	2.8%
04/29/2020	0.0%	100.0%	29.8%	28.4%	2.2%

### Financial Spread (bps)

	Value	Change
EURIBOR-OIS	6.82	0.60
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)	54.69	-1.7%	Corn (per bushel)	4.0525	1.4%
Brent (per barrel)	59.81	-3.4%	Soybean (per bushel)	8.503	--
Heating Oil (per gallon)	1.8356	-2.9%	Wheat (per bushel)	4.9450	0.8%
Gasoline (per gallon)	1.7180	-3.6%	Crude Palm Oil (MYR/MT)	2,027.0	0.7%
Natural Gas (per MMBtu)	2.0700	-2.4%	Rubber (JPY/KG)	192.8	0.7%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,685	-0.8%	Gold (per oz)	1,464.6	1.3%
Nickel (per mt)	14,880	3.0%	Silver (per oz)	16.393	0.8%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

### Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
08/06/2019 01:30	US Fed's Brainard Speaks on the Payment System				
08/06/2019 06:45	NZ Unemployment Rate	2Q	4.30%	3.90%	4.20%
08/06/2019 06:45	NZ Employment Change YoY	2Q	1.20%	1.70%	1.50%
08/06/2019 07:00	SK BoP Current Account Balance	Jun	--	\$6376.6m	\$4949.4m
08/06/2019 07:30	JN Labor Cash Earnings YoY	Jun	-0.60%	--	-0.20%
08/06/2019 07:30	JN Household Spending YoY	Jun	1.10%	--	4.00%
08/06/2019 08/07	RU CPI YoY	Jul	4.70%	--	4.70%
08/06/2019 08/13	VN Domestic Vehicle Sales YoY	Jul	--	--	22.20%
08/06/2019 09:00	PH CPI YoY 2012=100	Jul	2.40%	--	2.70%
08/06/2019 09:30	AU Trade Balance	Jun	A\$6000m	--	A\$5745m
08/06/2019 11:00	NZ 2Yr Inflation Expectation	3Q	--	--	2.01%
08/06/2019 12:30	AU RBA Cash Rate Target	Aug-06	1.00%	--	1.00%
08/06/2019 13:00	JN Leading Index Cl	Jun P	93.5	--	94.9
08/06/2019 16:00	TA CPI YoY	Jul	0.79%	--	0.86%

Source: Bloomberg

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