

Daily Treasury Outlook

7 August 2019

Highlights

Global: Some stabilization in US financial markets was seen overnight after the CNY daily reference rate was fixed at 6.9683 yesterday. White House economic adviser Kudlow opined that the US remains committed to more trade talks with China in September, while the PBOC reportedly assured foreign companies that the CNY would not continue to weaken significantly. Meanwhile, Fed's Bullard (voter) also added a voice of calm, saying that "if you put tariffs into a macroeconomic model", they have "relatively small macroeconomic effects", and "it isn't clear you want to pile on at this juncture" as we're not in "recession mode here" but "mid-cycle" and the Fed "cannot reasonably react to the day-to-day give-and-take of trade negotiations". The S&P500 added 1.3% while the UST bond yield curve bear flattened with the longer tenors outperforming amid a solid 3-year auction. Separately, oil prices extended declines, pushing Brent into bear market territory.

Market watch: Asian markets may attempt to stabilize too and claw back some lost ground today following the slump in previous sessions. However, it remains to be seen if this stabilization would have a long shelf-life given that the trade omens remain mixed for now. RBI, RBNZ and BOT policy decisions due later today will hog the market limelight, with the former two central banks likely to trim rates by 25bps whereas BOT may remain static at 1.75%. Today's economic data calendar comprises US' mortgage applications, German industrial production, Taiwan's July trade data, and foreign reserves data from many Asian countries including China. Speakers include Fed's Evans, RBNZ governor, and RBA's Bullock.

US: US' JOLTS job openings were little changed at 7.35m in June, compared to an upwardly revised 7.38m in May. President Trump said he may stand with American farmers again next year and deliver more aid.

EU: German factory orders rebounded 3.6% mom (-3.6% yoy) in June, aided by foreign demand from outside the Euro-area, but may not rescue the German economy from staying soft into 3Q19.

Australia: RBA left its cash target rate unchanged at 1% as anticipated, with governor Lowe stating that "it is reasonable to expect that an extended period of low interest rates will be required in Australia" and "the board will continue to monitor developments in the labor market closely and ease monetary policy further if needed".

Singapore: MAS has issued cyber security rules for the financial industry to take effect from 6 August 2020.

Key Market Movements

Equity	Value	% chg
S&P 500	2881.8	1.3%
DJIA	26030	1.2%
Nikkei 225	20585	-0.7%
SH Comp	2777.6	-1.6%
STI	3170.5	-0.8%
Hang Seng	25976	-0.7%
KLCI	1611.8	0.1%
Currencies	Value	% chg
DXY	97.630	0.1%
USDJPY	106.47	0.5%
EURUSD	1.1199	0.0%
GBPUSD	1.2171	0.2%
USDIDR	14277	0.2%
USDSGD	1.3816	-0.2%
SGDMYR	3.0336	0.3%
Rates	Value	chg (bp)
3M UST	2.03	3.11
10Y UST	1.70	-0.52
1Y SGS	1.84	0.00
10Y SGS	1.80	2.01
3M LIBOR	2.21	-3.03
3M SIBOR	1.88	0.00
3M SOR	1.79	5.03
Commodities	Value	% chg
Brent	58.94	-1.5%
WTI	53.63	-1.9%
Gold	1474	0.7%
Silver	16.45	0.3%
Palladium	1444	1.5%
Copper	5683	0.0%
BCOM	76.47	-0.4%

Source: Bloomberg

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Major Markets

US: The US markets recovered some of its losses, with the S&P 500 index closing up 1.3% following the bloodbath on Monday. The market's recovery was likely attributed to assurances by the PBoC that the yuan will not continue to significantly weaken, as well as Kudlow who said that trade talks are likely to continue. Markets are likely to be volatile on any new updates regarding the trade war. Chicago's Charles Evans is expected to speak later tonight.

Singapore: The STI declined again by 0.75% to close at 3170.47 yesterday, but may attempt to stabilise this morning amid more stable cues from Wall Street overnight and modest gains in Kospi this morning. With UST bond yields mostly higher overnight as global risk sentiments stabilized, SGS bonds may also take a backseat today. There is a 10-year SGS bond re-opening on 2 September, with the size announcement due 21 August and for auction on 28 August.

Hong Kong: The property price index dropped by 0.8% in June from the historical high seen in the previous month. Housing transaction volume plunged for the second consecutive month by 21.1% yoy in July while CCL index which tracks secondary housing prices has decreased in three out of four weeks as of 28th July. The worsening sentiments in the housing market could be attributed to several unfavorable factors including high local borrowing costs, lingering trade war risks, dimming growth outlook, increasing short-term supply and rising political uncertainty. Going ahead, the persistent social unrest combined with the re-escalation of trade war may undermine the support from global monetary easing, in turn weighing on the housing market. As such, housing prices are expected to edge down gradually in the coming months. However, any housing market correction will likely be capped by the persistent imbalance between supply and demand. As such, we expect housing prices (+9.5% YTD as of June) to grow 8% yoy as of end-2019. As slower growth of 0%-5% is likely should social unrest persist and trade war keep escalating.

Malaysia: The International Trade and Industry Minister Darell Leiking has lauded the Finance Minister Lim Guan Eng for commenting that there would be no new tax measures in budget 2020. He added that this would be good for industries but also said that "let's get into details of what Lim meant and hope for better news once the budget is tabled". Foreign reserves is due later.

Indonesia: Bank Indonesia's (BI) Executive Director for Monetary Management Nanang Hendarsah has reportedly said in a text message that the central bank is buying sovereign bonds as it attempts to stabilize the IDR. The IDR, alongside other Asian currencies have been seeing a weakening in the last few days as an asset sell-off in Asia occurs amid fears of worsening trade tensions between the US and China. Meanwhile, the consumer confidence index weakened to 124.8 in July from 126.4, the prior month. Foreign reserves is due later.

Philippines: Inflation further eased to 2.4%, led lower by a slowdown in prices of the food basket. The decline in crude oil prices globally also led to

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a slowdown in prices of the transport basket, although that much was expected. The decline in headline inflation to 2.4% is the lowest in two years and is likely to bolster chances of a BSP rate cut this week.

Commodities: Crude oil prices further sank yesterday, with Brent closing below \$60/bbl for the second day at \$58.94/bbl. The market's attention is firmly on demand factors at present and seems to be paying little heed to the Iranian tensions with the West. Bearish sentiment remains strong at the moment and a quick recovery in prices looks unlikely in the short term.

Bond Market Updates

Market Commentary: The SGD swap curve bull-flattened yesterday, with the shorter tenors unchanged while the belly and longer tenors traded 1-2bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 140bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 15bps to 543bps. 10Y USTs fell 1bps to close at 1.7%, as investors continued the risk-off sentiment following the escalation of the US-China trade war. Spread between 3-month treasury bills and 10-year treasury notes remains inverted, with the spread widening to -31bps.

New Issues: Dongxing Securities Co., Ltd has scheduled investor meetings commencing on 7 Aug for its potential USD bond issuance. Korean Air Lines Co., Ltd has mandated banks for its potential USD bond (guaranteed by Korea Development Bank) issuance.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	97.630	0.11%	USD-SGD	1.3816	-0.22%
USD-JPY	106.470	0.49%	EUR-SGD	1.5472	-0.27%
EUR-USD	1.1199	-0.04%	JPY-SGD	1.2977	-0.70%
AUD-USD	0.6761	0.07%	GBP-SGD	1.6816	-0.01%
GBP-USD	1.2171	0.23%	AUD-SGD	0.9340	-0.21%
USD-MYR	4.1910	0.32%	NZD-SGD	0.9016	-0.28%
USD-CNY	7.0254	-0.36%	CHF-SGD	1.4153	-0.51%
USD-IDR	14277	0.15%	SGD-MYR	3.0336	0.34%
USD-VND	23258	-0.05%	SGD-CNY	5.0789	-0.09%

Equity and Commodity

Index	Value	Net change
DJIA	26,029.52	311.78
S&P	2,881.77	37.03
Nasdaq	7,833.27	107.23
Nikkei 225	20,585.31	-134.98
STI	3,170.47	-24.04
KLCI	1,611.79	1.38
JCI	6,119.47	-56.23
Baltic Dry	1,774.00	--
VIX	20.17	-4.42

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4010	-0.40%	O/N	2.1051	0.09%
2M	-0.3360	0.09%	1M	2.2230	-0.55%
3M	-0.3840	-0.55%	2M	2.2324	-1.34%
6M	-0.3690	-1.34%	3M	2.2090	-3.03%
9M	-0.1940	-3.03%	6M	2.0859	-4.71%
12M	-0.3080	-4.71%	12M	2.0368	-7.91%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.68 (-)	1.58 (+0.01)
5Y	1.68 (+0.01)	1.51 (-0.01)
10Y	1.80 (+0.02)	1.70 (-0.01)
15Y	2.01 (+0.01)	--
20Y	2.09 (+0.02)	--
30Y	2.22 (+0.01)	2.23 (-0.02)

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%	26.8%	73.2%
10/30/2019	0.0%	100.0%	18.9%	59.2%	22.2%
12/11/2019	0.0%	100.0%	40.9%	38.8%	10.0%
01/29/2020	0.0%	100.0%	40.0%	25.6%	5.4%
03/18/2020	0.0%	100.0%	36.0%	19.9%	3.9%
04/29/2020	0.0%	100.0%	32.6%	16.5%	3.1%

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	6.10	-0.32
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	2.13
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Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	53.63	-1.9%	Corn (per bushel)	4.0400	-0.3%
Brent (per barrel)	58.94	-1.5%	Soybean (per bushel)	8.478	-0.3%
Heating Oil (per gallon)	1.8240	-0.6%	Wheat (per bushel)	4.8400	-2.1%
Gasoline (per gallon)	1.6873	-1.8%	Crude Palm Oil (MYR/MT)	2,037.0	0.5%
Natural Gas (per MMBtu)	2.1110	2.0%	Rubber (JPY/KG)	191.0	-0.9%

Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,683	0.0%	Gold (per oz)	1,472.4	0.5%
Nickel (per mt)	14,945	0.4%	Silver (per oz)	16.445	0.3%

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

Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
08/07/2019	ID Foreign Reserves	Jul	--	\$123.80b	\$123.82b
08/07/2019	HK Foreign Reserves	Jul	--	\$445.6b	--
08/07/2019	CH Foreign Reserves	Jul	\$3105.00b	\$3119.23b	--
08/07/2019 10:00	NZ RBNZ Official Cash Rate	Aug-07	1.25%	1.50%	--
08/07/2019 14:00	GE Industrial Production SA MoM	Jun	-0.50%	0.30%	--
08/07/2019 14:15	IN RBI Repurchase Rate	Aug-07	5.50%	5.75%	--
08/07/2019 14:15	IN RBI Reverse Repo Rate	Aug-07	5.25%	5.50%	--
08/07/2019 15:05	TH BoT Benchmark Interest Rate	Aug-07	1.75%	1.75%	--
08/07/2019 15:30	UK Halifax House Prices MoM	Jul	0.30%	-0.30%	--
08/07/2019 15:30	UK Halifax House Price 3Mths/Year	Jul	4.40%	5.70%	--
08/07/2019 16:00	TA Exports YoY	Jul	1.30%	0.50%	--
08/07/2019 16:00	SI Automobile COE Open Bid Cat A	Aug-07	--	26667	--
08/07/2019 19:00	US MBA Mortgage Applications	Aug-02	--	-1.40%	--
08/07/2019 21:30	US Fed's Evans Holds Media Breakfast in Chicago				

Source: Bloomberg

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