

Daily Treasury Outlook

9 September 2019

Highlights

Global: Global risk appetite received another booster shot on Friday as China's PBOC cut RRR by 50bps effective 16 September and Fed chair Powell reassured investors that an US recession was not forthcoming but did not shift expectations that the central bank was prepared to cut interest rates by 25bps at the upcoming FOMC meeting. Wall Street rose while the UST bonds saw modest gains post-NFP data which disappointed at 130k (consensus forecast: 150k). Note China's exports also unexpectedly contracted 1% in USD terms in August, with exports to US slumping 16% yoy, despite the weaker RMB and anticipated front-loading ahead of the 1 September tariffs, while imports fell 5.6%. Separately, UK PM Johnson remains committed to Brexit on 31 October and may challenge legislation to request for a delay if there is no deal, according to Foreign Secretary Raab. Fitch also downgraded Hong Kong's credit rating from AA+ to AA.

Market Watch: Asian markets may kickstart the week on a firmer trading tone this morning, aided by the PBOC's RRR cuts but the test of the pudding will be if it will sustain amid the lacklustre US NFP and China trade data. Today's economic data calendar comprises of US' consumer credit, UK' industrial production, Taiwan and German trade data. The key focus this week will be the ECB policy decision on Thursday with hopes of a bazooka (up to 20bps cut in the deposit rate, coupled with more asset purchases) as the growth and inflation forecasts get refreshed, as well as BNM's policy decision (where a 25bp rate cut cannot be ruled out).

US: While the August nonfarm payrolls were slightly below market expectations, coupled with a 20k downward revision in the previous two months, nevertheless, the unemployment rate was unchanged at 3.7% and average hourly earnings accelerated more than expected to 3.2% yoy (0.4% mom) whilst the labor force participation rate also climbed to 63.2%.

EU: Eurozone's final 2Q19 GDP growth was unchanged at 1.2% yoy (0.2% qoq sa), but German industrial production unexpectedly shrank 4.2% yoy (-0.6% mom sa) in July, suggesting that any ECB policy stimulus this week would be welcomed.

China: China's central bank announced a RRR cut for all banks by 50bps, effective from 16 Sep. Meanwhile, RRR for smaller city commercial banks operating only within one province will be lowered by additional 100bps in two phases effective from 15 Oct and 15 Nov. The fifth RRR cut since April 2018 is expected to inject about CNY900 billion of liquidity into the system, including CNY800 billion by the 50bps universal RRR cut and CNY100 billion by the 100bps targeted RRR cut. The RRR cut will help lower the funding costs for banks which will be likely to guide the upcoming LPR fixing lower due to falling credit premium. It remains unclear whether China will roll over the maturing MLF in the next two weeks as universal RRR cut was usually used to replace the MLFs in the past. We think the latest universal RRR cut ahead of MLF rollover may lower the probability of MLF rate cut in the coming weeks.

Key Market Movements		
Equity	Value	% chg
S&P 500	2978.7	0.1%
DJIA	26797	0.3%
Nikkei 225	21200	0.5%
SH Comp	2999.6	0.5%
STI	3144.5	-0.1%
Hang Seng	26691	0.7%
KLCI	1604.5	0.3%
Currencies	Value	% chg
DX	98.394	0.0%
USDJPY	106.92	0.0%
EURUSD	1.1029	-0.1%
GBPUSD	1.2283	-0.4%
USDIDR	14095	-0.4%
USDSGD	1.3814	-0.2%
SGDMYR	3.0227	-0.2%
Rates	Value	chg (bp)
3M UST	1.95	-0.28
10Y UST	1.56	0.16
1Y SGS	1.85	0.00
10Y SGS	1.71	4.05
3M LIBOR	2.10	-1.03
3M SIBOR	1.88	0.00
3M SOR	1.74	0.60
Commodities	Value	% chg
Brent	61.54	1.0%
WTI	56.52	0.4%
Gold	1507	-0.8%
Silver	18.18	-2.5%
Palladium	1542	-1.3%
Copper	5833	-0.2%
BCOM	77.89	-0.2%

Source: Bloomberg

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Major Markets

US: US markets inched higher last Friday, with the S&P 500 index closing the session up 0.1%. Softer than expected US nonfarm payrolls was not enough to put off investors, as Fed chairman Jerome Powell said that the economic outlook remains favourable and that the Fed will conduct policy to address market risks, cementing expectations of a rate cut in the September FOMC meet. In the week ahead all eyes are expected to be focused on the ECB policy meeting on Thursday, where expectations of further monetary easing are high. Any disappointment from the ECB on that front may likely result in the S&P 500 index losing traction in its recent rally.

China: China's exports fell again in August mainly due to sharp decline of exports to the US though demand from other major trading partners such as Europe, Japan and ASEAN remained resilient. Given the base remains high in the next three months, we expect China's export growth to US will remain in the negative territory, which will weigh down China's export growth.

Singapore: The STI closed nearly flat (-0.08%) at 3144.48 on Friday but may open on a stronger note this morning as market players digest China's willingness to provide policy stimulus to support growth. Wall Street had closed higher on Friday and Kospi is also opening firmer this morning. STI resistance is tipped at 3170. With the bull flattening in UST bond market on Friday, following a mixed labour market report and Powell's comments, SGS bonds are extend Friday's losses today amid the supportive risk environment.

Malaysia: Foreign reserves for the second half of August is due today. Earlier data for the first half of the month saw the figure dropping by 0.8% to USD103.bn.

Indonesia: Foreign reserves rose to USD126.44bn in August, from 125.9bn in July. The reserves are equivalent to 7.4 months of imports or 7.1 months of imports plus repayment of government's external debt. Bank Indonesia said that the increase was mainly due to higher earnings from oil and gas.

Hong Kong: Rating Agency Fitch downgraded Hong Kong's sovereign rating for the first time since 1995 from AA+ to AA with a negative outlook last Friday, citing recent political turmoil that raises doubts about HK's governance. Fitch also stated that closer integration is consistent with narrowing the difference between the ratings of Hong Kong and China. Nevertheless, no sign of massive outflows so far confirms that the financial market has felt a milder pain from social unrest than other key industries. In other words, the image of HK as a safe and stable business hub with separate custom territory and independent regulatory system is not largely damaged. HK government's sizeable fiscal reserves and foreign currency reserves also point to strong fundamentals. As such, the other two main rating agencies Moody's and S&P may not necessarily follow suit. More notably, the main buyers of HK dollar bonds are local commercial banks and insurers who will not be easily swayed by a mild change in sovereign rating. Therefore, the ultimate impact on the funding costs of HK's government and companies is expected to be limited.

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Oil: Crude oil prices rose, with Brent gaining 1.0% and WTI adding 0.4%. Much of the gains came during the US session, as a weak US nonfarm payrolls number was offset by Fed Chair Jerome Powell's hint that another rate reduction is due in the next FOMC meeting in a little less than two weeks. The removal of Saudi Arabia's Energy Minister Khaled Al-Falih from his role by King Salman, with the role now replaced by Prince Abdulaziz bin Salman, is expected to add some jittery to the market in the short term as speculators wait to see the new policy direction Prince Abdulaziz will take.

Bond Market Updates

Market Commentary: The SGD swap curve bear-steepened on Friday, with the shorter tenors traded 2-5bps higher, while the longer tenors (>5yr) traded 5-6bps higher. The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 134bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 2bps to 563bps. 10Y USTs yields was unchanged at 1.56%, after investors weighed the release of mixed US jobs data for August, and also comments by Jerome Powell that reinforced expectations of a quarter point cut in the upcoming September FOMC meeting. Spread between 3-month treasury bills and 10-year treasury notes remains inverted at -38bps.

New Issues: PineBridge Investments, L.P. has priced a USD250mn 5-year bond at 6.0%, in line with IPT. Bangkok Bank PCL has scheduled investor meetings commencing on 9 Sep for its potential USD Tier 2 bond issuance.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	98.394	-0.02%	USD-SGD	1.3814	-0.17%
USD-JPY	106.920	-0.02%	EUR-SGD	1.5236	-0.22%
EUR-USD	1.1029	-0.05%	JPY-SGD	1.2920	-0.17%
AUD-USD	0.6846	0.45%	GBP-SGD	1.6972	-0.56%
GBP-USD	1.2283	-0.41%	AUD-SGD	0.9461	0.33%
USD-MYR	4.1790	-0.20%	NZD-SGD	0.8862	0.48%
USD-CNY	7.1164	-0.46%	CHF-SGD	1.3987	-0.36%
USD-IDR	14095	-0.42%	SGD-MYR	3.0227	-0.18%
USD-VND	23197	-0.01%	SGD-CNY	5.1443	0.10%

Equity and Commodity

Index	Value	Net change
DJIA	26,797.46	69.31
S&P	2,978.71	2.71
Nasdaq	8,103.07	-13.75
Nikkei 225	21,199.57	113.63
STI	3,144.48	-2.58
KLCI	1,604.47	4.72
JCI	6,308.95	2.15
Baltic Dry	2,462.00	-37.00
VIX	15.00	-1.27

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4520	0.60%	O/N	2.0948	0.64%
2M	-0.3360	0.64%	1M	2.0490	-1.51%
3M	-0.4370	-1.51%	2M	2.1445	-1.05%
6M	-0.4230	-1.05%	3M	2.1341	-1.03%
9M	-0.1940	-1.03%	6M	2.0341	0.13%
12M	-0.3580	0.13%	12M	1.9490	-0.59%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.65 (+0.01)	1.54 (+0.01)
5Y	1.63 (+0.03)	1.43 (+0.01)
10Y	1.71 (+0.04)	1.56 (--)
15Y	1.87 (+0.05)	--
20Y	1.98 (+0.05)	--
30Y	2.05 (+0.04)	2.03 (-0.02)

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%	4.1%	95.9%
10/30/2019	0.0%	100.0%	2.6%	62.9%	34.5%
12/11/2019	0.0%	100.0%	41.2%	44.7%	12.4%
01/29/2020	0.0%	100.0%	43.3%	25.7%	5.1%
03/18/2020	0.0%	100.0%	36.0%	17.1%	3.0%
04/29/2020	0.0%	100.0%	31.0%	13.4%	2.2%

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	6.80	0.38
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	2.21
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Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	56.52	0.4%	Corn (per bushel)	3.4250	-1.2%
Brent (per barrel)	61.54	1.0%	Soybean (per bushel)	8.450	-0.6%
Heating Oil (per gallon)	1.9003	0.6%	Wheat (per bushel)	4.6025	-0.8%
Gasoline (per gallon)	1.5742	1.8%	Crude Palm Oil (MYR/MT)	2,116.0	1.2%
Natural Gas (per MMBtu)	2.4960	2.5%	Rubber (JPY/KG)	165.0	0.0%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,833	-0.2%	Gold (per oz)	1,506.8	-0.8%
Nickel (per mt)	17,685	1.1%	Silver (per oz)	18.178	-2.5%

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

Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
09/06/2019 09:13	VN Domestic Vehicle Sales YoY	Aug	--	27.80%	--
09/09/2019 07:50	JN GDP SA QoQ	2Q F	0.30%	0.40%	--
09/09/2019 07:50	JN GDP Annualized SA QoQ	2Q F	1.30%	1.80%	--
09/09/2019 07:50	JN BoP Current Account Balance	Jul	¥2046.0b	¥1211.2b	--
09/09/2019 07:50	JN Trade Balance BoP Basis	Jul	-¥24.0b	¥759.3b	--
09/09/2019 09:15	CH Money Supply M2 YoY	Aug	8.20%	8.10%	--
09/09/2019 09:15	CH New Yuan Loans CNY	Aug	1200.0b	1060.0b	--
09/09/2019 16:00	TA Exports YoY	Aug	0.90%	-0.50%	--
09/09/2019 16:30	UK Industrial Production MoM	Jul	-0.30%	-0.10%	--
09/09/2019 16:30	UK Manufacturing Production MoM	Jul	-0.30%	-0.20%	--
09/09/2019 16:30	UK Trade Balance GBP/Mn	Jul	-£1500m	£1779m	--
09/09/2019 16:30	UK Industrial Production YoY	Jul	-1.10%	-0.60%	--
09/09/2019 16:30	UK Visible Trade Balance GBP/Mn	Jul	-£9600m	-£7009m	--
09/09/2019 16:30	UK Manufacturing Production YoY	Jul	-1.20%	-1.40%	--

Source: Bloomberg

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