

## Daily Treasury Outlook

11 September 2019

### Highlights

**Global:** Another one bites the dust and this time it's US national security adviser John Bolton following strong disagreements with president Trump. Wall Street pared gains despite market speculation that China is ready to buy more US agricultural goods, while UST bond yields rose for a fifth session to push the 2- and 10-year up to 1.68% and 1.73% respectively after the US Treasury sold US\$38b of 3-year notes and amid the wave of corporate issuance. Meanwhile, China announced the removal of QFII and RQFII quota limits to further open up its financial market. Separately, Canadian PM Trudeau is expected to request the dissolution of parliament and mark the formal start of campaigning ahead of the 21 October elections.

**Market Watch:** Asian markets may attempt to trade with a firmer tone this morning on hopes that US-China trade tensions will de-escalate if China is willing to buy more US agricultural goods, but the key risk lies with tomorrow's ECB policy meeting where any failure to out-dove the Fed in terms of forward guidance may be potentially costly. Today's economic data calendar is very light and only comprises of US' PPI and wholesale inventories, and Malaysia's July industrial production. With no Fed speeches due to the blackout period ahead of the upcoming FOMC meeting, the key focus will be on ECB meeting tomorrow where market has priced in 10-20bps cut and more monthly asset purchases of EUR30b to EUR40b.

**US:** NFIB small business optimism retreated from 104.7 in July to 103.1 in August, following the re-escalation of the US-China trade war, but remained near cyclical highs. Notably, the expectations gauge eased but current activity indicators remained stable, and the labour quality remained the key challenge to filling open positions. Meanwhile, the JOLTS job openings fell to a five-month low of 7.217m in July, suggesting some cooling momentum for the August nonfarm payrolls.

**EU:** German Chancellor Merkel said the government will stick to a balanced budget. Italy's new ruling coalition is reportedly planning to raise its budget deficit to around 2.3% of GDP.

**China:** China's currency regulator SAFE announced the quota removal for both the QFII and RQFII. The direct impact of removal of the quota is unlikely to be significant as the current quota was only about one third filled. Nevertheless, it does show China's commitment to further open its domestic financial market to attract long term foreign investors to participate in China's market.

**Singapore:** MND will introduce a new enhanced housing grant for eligible buyers whether they purchase a new or resale flat and the monthly household income ceiling will be increased from \$12k to \$14k for eligible families from 11 September, in addition to increasing supply in 2020 to meet additional demand.

Key Market Movements		
Equity	Value	% chg
S&P 500	2979.4	0.0%
DJIA	26909	0.3%
Nikkei 225	21392	0.3%
SH Comp	3021.2	-0.1%
STI	3155.7	0.3%
Hang Seng	26684	0.0%
KLCI	1595.9	-0.5%
Currencies	Value	% chg
DXY	98.326	0.0%
USDJPY	107.54	0.3%
EURUSD	1.1043	0.0%
GBPUSD	1.2350	0.0%
USDIDR	14050	0.1%
USDSGD	1.3802	0.0%
SGDMYR	3.0240	-0.2%
Rates	Value	chg (bp)
3M UST	1.93	-1.46
10Y UST	1.73	8.78
1Y SGS	1.86	1.20
10Y SGS	1.74	1.66
3M LIBOR	2.14	0.43
3M SIBOR	1.88	0.00
3M SOR	1.79	1.41
Commodities	Value	% chg
Brent	62.38	-0.3%
WTI	57.4	-0.8%
Gold	1486	-0.9%
Silver	18.00	0.0%
Palladium	1560	1.0%
Copper	5825	0.2%
BCOM	78.76	0.4%

Source: Bloomberg

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### Major Markets

**US:** US markets traded sideways, as the S&P 500 index closed unchanged. Risk assets like small caps outperformed while defensive stocks such as consumer discretionary stocks & REITs weighed on the index, reflecting a more risk-on sentiment in the market. 10y UST yields rose 8.8bps to 1.73%, which was trading at 1.46% just a week ago. We expect the S&P 500 index to continue trading within the range of 2950-3000 levels in the absence of market-moving headlines. Investors will be watching tomorrow's ECB meeting, with some bearishness expected should the ECB disappoint on expected stimulus.

**Singapore:** The STI added 0.30% to close at 3155.71 yesterday and may open firmer this morning amid morning gains in Nikkei and Kospi. With the sell-off in UST bond market yesterday, SGS bond yields are likely to also push higher today, especially with the upcoming 2- and 15-year SGS bonds re-openings (with the size announcement and auctions due on 19 and 26 September respectively). MAS also sold 28- and 84-day bills at 1.9% and 1.99% respectively.

**UK:** UK's ILO unemployment rate fell from 3.9% to 3.8% in July, but BOE is unlikely to budge on monetary policy for now with the rising Brexit uncertainties. BOE governor Carney opined that GBP volatility is at Emerging Market levels and UK assets may see a substantial repricing once the Brexit outcome is known.

**China:** CPI grew by 2.8% yoy in August, higher than market expectation. The higher than expected CPI was led by pork prices. Pork prices rose by 23.10% mom, the highest monthly increase in record, due to the swine flu. For 2.8% CPI reading in August, pork prices contributed 1.08%. Looking ahead, CPI may moderate in the next two months due to base effect. However, there is a high chance that CPI may break government target of 3% in November and December.

**Indonesia:** In a budget hearing yesterday, the parliament is reportedly requesting an increase in government spending in the 2020 budget by IDR833bn (~USD59mn), about 0.8% increase from the IDR1670tn (\$119bn) that is tabled by the government. The purported reason is that there is additional cohort of 15 parliamentarians, who would require new offices and equipment.

**Oil:** Crude oil prices sank after US National Security Adviser John Bolton has been removed from office. Bolton had been one of the most hawkish advisers to Trump on national security issues, most notably the recent non-extension of Iranian crude sanctions in June and the call for incumbent Venezuela President Nicolas Maduro to be ousted. The lack of his hawkish presence suggests that US and Iran leaders may meet at the upcoming UN General Assembly. The possibility of reduced friction between the two countries sent Brent prices lower by -0.3% to \$62.38/bbl.

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### Bond Market Updates

**Market Commentary:** The SGD swap curve bear-steepened yesterday, with the shorter tenors traded 0-1bps higher, while the longer tenors (>5yr) traded 1-2bps higher. The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 131bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 11bps to 540bps. 10Y USTs yields gained 8bps to close at 1.73%, ahead of a closely watch European Central Bank meeting, yields rose as risk appetite continues to improve, compounded with expectations of fiscal stimulus measures from Germany. Spread between 3-month treasury bills and 10-year treasury notes remains inverted, with the spread narrowing to -21bps.

**New Issues:** Guangxi Communications Investment Group Corporation Ltd has priced a USD300mn 3-year bond at 3.7%, tightening from IPT of 4.0% area. FWD Group Ltd has priced a USD600mn NC5-Perpetual bond at 6.375%, tightening from IPT of 6.5% area. Shuifa International Holdings (BVI) Co., Ltd (Guarantor: Shuifa Group Co., Ltd) has priced a USD400mn 3-year bond at 4.15%, tightening from IPT of 4.625% area. SK Hynix Inc. has priced a USD500mn 5-year bond at T+165bps, tightening from IPT of T+190bps area. Country Garden Holdings Co., Ltd has priced a USD500mn 6NC4 bond at 6.15%, tightening from IPT of 6.625% area. Korea Development Bank has priced a USD100mn 2-year FRN at 3m-US LIBOR+30bps. Housing and Development Board has priced a SGD500mn 15-year bond at 2.315%, in line with price guidance. Chongqing International Logistics Hub Park Construction Co., Ltd has scheduled investor meetings commencing on 12 Sep for its potential USD bond issuance.

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### Foreign Exchange

	Day Close	% Change		Day Close	% Change
<b>DX</b>	98.326	0.05%	<b>USD-SGD</b>	1.3802	0.04%
<b>USD-JPY</b>	107.540	0.28%	<b>EUR-SGD</b>	1.5242	-0.01%
<b>EUR-USD</b>	1.1043	-0.05%	<b>JPY-SGD</b>	1.2831	-0.27%
<b>AUD-USD</b>	0.6861	-0.01%	<b>GBP-SGD</b>	1.7046	0.08%
<b>GBP-USD</b>	1.2350	0.03%	<b>AUD-SGD</b>	0.9467	-0.03%
<b>USD-MYR</b>	4.1710	-0.19%	<b>NZD-SGD</b>	0.8866	0.03%
<b>USD-CNY</b>	7.1126	-0.13%	<b>CHF-SGD</b>	1.3909	0.01%
<b>USD-IDR</b>	14050	0.11%	<b>SGD-MYR</b>	3.0240	-0.16%
<b>USD-VND</b>	23200	--	<b>SGD-CNY</b>	5.1488	-0.01%

### Equity and Commodity

Index	Value	Net change
<b>DJIA</b>	26,909.43	73.92
<b>S&amp;P</b>	2,979.39	0.96
<b>Nasdaq</b>	8,084.16	-3.28
<b>Nikkei 225</b>	21,392.10	73.68
<b>STI</b>	3,155.71	9.38
<b>KLCI</b>	1,595.85	-8.62
<b>JCI</b>	6,336.67	10.46
<b>Baltic Dry</b>	2,422.00	--
<b>VIX</b>	15.20	-0.07

### Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
<b>1M</b>	-0.4480	-0.20%	<b>O/N</b>	2.0939	-0.09%
<b>2M</b>	-0.3360	-0.09%	<b>1M</b>	2.0495	0.05%
<b>3M</b>	-0.4330	0.05%	<b>2M</b>	2.1454	0.09%
<b>6M</b>	-0.4130	0.09%	<b>3M</b>	2.1384	0.43%
<b>9M</b>	-0.1940	0.43%	<b>6M</b>	2.0356	0.15%
<b>12M</b>	-0.3600	0.15%	<b>12M</b>	1.9488	-0.02%

### Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
<b>2Y</b>	1.65 (--)	1.68 (+0.08)
<b>5Y</b>	1.64 (--)	1.59 (+0.09)
<b>10Y</b>	1.74 (+0.02)	1.73 (+0.09)
<b>15Y</b>	1.89 (+0.01)	--
<b>20Y</b>	2.00 (+0.01)	--
<b>30Y</b>	2.06 (+0.01)	2.22 (+0.09)

### 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%	4.7%	95.3%
10/30/2019	0.0%	100.0%	2.5%	52.4%	45.1%
12/11/2019	0.0%	100.0%	31.6%	48.2%	18.8%
01/29/2020	0.0%	100.0%	39.3%	34.4%	10.0%
03/18/2020	0.0%	100.0%	38.0%	27.8%	7.3%
04/29/2020	0.0%	100.0%	36.3%	24.4%	6.1%

### Financial Spread (bps)

	Value	Change
<b>EURIBOR-OIS</b>	7.35	0.13
<b>TED</b>	35.36	--

### Secured Overnight Fin. Rate

<b>SOFR</b>	2.12
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### Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	57.40	-0.8%	Corn (per bushel)	3.4850	2.3%
Brent (per barrel)	62.38	-0.3%	Soybean (per bushel)	8.593	1.7%
Heating Oil (per gallon)	1.9312	0.2%	Wheat (per bushel)	4.8450	2.1%
Gasoline (per gallon)	1.5908	0.4%	Crude Palm Oil (MYR/MT)	2,133.0	0.8%
Natural Gas (per MMBtu)	2.5800	-0.2%	Rubber (JPY/KG)	166.4	0.2%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,825	0.2%	Gold (per oz)	1,485.8	-0.9%
Nickel (per mt)	18,045	0.0%	Silver (per oz)	18.004	0.0%

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

### Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
09/11/2019 07:00	SK Unemployment rate SA	Aug 4.00%	3.10%	4.00%	--
09/11/2019 08:30	AU Westpac Consumer Conf SA MoM	Sep --	--	3.60%	--
09/11/2019 09:13	VN Domestic Vehicle Sales YoY	Aug --	--	27.80%	--
09/11/2019 09:15	CH Money Supply M2 YoY	Aug 8.20%	--	8.10%	--
09/11/2019 09:15	CH New Yuan Loans CNY	Aug 1200.0b	--	1060.0b	--
09/11/2019 12:00	MA Industrial Production YoY	Jul 3.10%	--	3.90%	--
09/11/2019 19:00	US MBA Mortgage Applications	Sep-06 --	--	-3.10%	--
09/11/2019 20:30	US PPI Final Demand MoM	Aug 0.00%	--	0.20%	--
09/11/2019 20:30	US PPI Final Demand YoY	Aug 1.70%	--	1.70%	--
09/11/2019 20:30	US PPI Ex Food and Energy MoM	Aug 0.20%	--	-0.10%	--
09/11/2019 20:30	US PPI Ex Food and Energy YoY	Aug 2.20%	--	2.10%	--
09/11/2019 22:00	US Wholesale Inventories MoM	Jul F 0.20%	--	0.20%	--

Source: Bloomberg

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