

Daily Treasury Outlook

13 August 2019

Highlights

Global: Risk off sentiments continued to prevail yesterday amid concerns over the prolonged US-China trade war, political concerns in Argentina after President Macri's rout in weekend primary elections, and the disruption to Hong Kong airport's flight services. The S&P 500 slipped for a second session by 1.22% and UST bond yields pushed lower, with the 10- and 30-year at 1.64% and 2.12% respectively to flatten the 2-10 year yield curve to 6bps (narrowest since June 2007).

Market watch: Asian markets may gap lower this morning amid the clearly risk-off tone. Today's economic data calendar comprises US' CPI and NFIB small business optimism, Europe and Germany's ZEW survey, and UK's ILO unemployment rate and jobless claims.

US: US' fiscal deficit grew to US\$866.8b (+27% yoy) for the first ten months of the fiscal year, wider than the last fiscal year's deficit of US\$779b which was the largest federal deficit since 2012.

EU: Italy's credit rating was affirmed at BBB (negative outlook) by Fitch on Friday, but the political crisis continues as the Italian Senate has delayed a no-confidence vote but PM Conte is expected to address Parliament on 20 Aug.

China: China's aggregate social financing increased by CNY1.01 trillion in July, CNY215.4 billion below last July's level. The weaker than expected print was mainly the result of a shrinking off-balance sheet financing led by the sharp decline of bill financing. Entrusted and trust loans fell by CNY98.7 billion and CNY67.6 bn respectively in July, while bill financing fell by CNY456.3 bn. The weak bill financing was partly attributed to a pay back of strong bill financing growth in January. Given that China has tightened property financing, we think that China's off-balance sheet lending may remain weak in the coming months, and that the July credit data showed that credit expansion remained weak, reflecting weak overall demand. China may have to lean towards easing of monetary policy to keep the money supply supported above 8%.

Singapore: MTI cut the full-year 2019 GDP growth forecast to 0-1% with growth expected to be around the mid-point of the forecast range. This is in line with our earlier call for 0-1% yoy. 2Q19 GDP growth was only marginally revised to 0.1% yoy (-3.3% qoq saar), compared to the flash 0.1% yoy (-3.4% qoq saar) and disappointing our and market consensus forecast of 0.2% yoy (-2.9% qoq saar).

Gold: Prices of the precious metal closed at \$1,511.20/oz yesterday, as the appeal of safe haven assets further strengthened on political uncertainties from Hong Kong and Argentina. Fears of a sovereign default in Argentina have swelled to 75% probability and there is increasing speculation that Beijing is set to intervene in Hong Kong if the protests continue. Gold's ascent follows the rally in other safe haven assets and we think there may be further upside from here, possibly to \$1,550/oz.

Key Market Movements		
Equity	Value	% chg
S&P 500	2883.1	-1.2%
DJIA	25898	-1.5%
Nikkei 225	20685	0.0%
SH Comp	2815.0	1.5%
STI	3168.9	0.0%
Hang Seng	25825	-0.4%
KLCI	1615.1	0.0%
Currencies	Value	% chg
DXY	97.380	-0.1%
USDJPY	105.3	-0.4%
EURUSD	1.1214	0.1%
GBPUSD	1.2076	0.4%
USDIDR	14250	0.4%
USDSGD	1.387	0.1%
SGDMYR	3.0141	-0.4%
Rates	Value	chg (bp)
3M UST	1.97	-1.80
10Y UST	1.65	-9.93
1Y SGS	1.83	0.00
10Y SGS	1.74	0.00
3M LIBOR	2.18	-0.54
3M SIBOR	1.88	0.00
3M SOR	1.78	0.00
Commodities	Value	% chg
Brent	58.57	0.1%
WTI	54.93	0.8%
Gold	1511	0.9%
Silver	17.07	0.5%
Palladium	1432	0.5%
Copper	5742	-0.2%
BCOM	76.83	-0.8%

Source: Bloomberg

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13 August 2019

Major Markets

US: The US markets closed lower on Monday, with the S&P 500 index ending the session down 1.2%. The drop reflects the current weakness in risk sentiment amidst weakening global data, further dampened by political unrest in Argentina and Hong Kong. Government bonds rallied, with the 10Y UST yields dropping 9.9bps to 1.65% as demand for safe haven assets continue to increase. In the week ahead we have a slew of US data, including the core CPI on Tuesday and initial jobless claims, industrial production and retail sales data on Thursday.

Singapore: The STI had declined 0.49% to close at 3168.94 last Thursday and may see further selling pressure today as it re-opens from a long holiday weekend amid weak overnight cues from Wall Street. With UST bond yields continuing to test lower amid the risk-off sentiments, SGS bonds are likely to play catch-up to the rally today with the longer-dated tenors benefiting the most as well.

Indonesia: President Jokowi has reportedly said that he wanted to see an increase in the portion of diesel blended with crude palm oil from the current 20% to 30% by January 2020 and to 50% by the end of 2020. The measures if successfully implemented may help bring down the demand for oil and possibly address the country's current account deficit situation. Meanwhile, according to Bloomberg, Bank Indonesia has said that there is space for a benchmark rate cut.

Macau: Average housing prices rose 0.4% mom to the highest since last October at MOP 114,126/sqm in June. Approved new mortgage loans also surged by 56.5% mom to MOP6.04 billion in June, the highest since last September. This was mainly attributed to a wave of new home project launches in June which mainly targeted the first-home local buyers while this group of buyers are allowed to apply for mortgage with loan-to-value ratio up to 90%. However, average housing price (-2.6% yoy), housing transaction volume (-18.2% yoy) and approved new mortgage loans (-18.4% yoy) all showed negative yoy growth in June. This suggests that the housing market was weaker than the same period last year, probably due to the elevated local rates, the prolonged trade war fears and the softening economic outlook. Despite global monetary easing, housing markets will likely slow down further amid cautious investor sentiment on global uncertainties, the diminishing effect of the supportive housing measures and the continuous drag from housing control measures. Nevertheless, any housing market correction may be modest given scarce supply. We expect housing transaction volume and average housing prices to fall gradually.

Daily Treasury Outlook

13 August 2019

Bond Market Updates

Market Commentary: The SGD swap curve was mostly unchanged, with only the 1-year swaps trading 1bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 3bps to 138bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 1bps to 541bps. 10Y USTs fell 8bps to close at 1.65%, due to US-China trade concerns and global political tensions in Hong Kong and Argentina boosting risk-off sentiment and supporting demand for safe-haven assets. Spread between 3-month treasury bills and 10-year treasury notes remains inverted, with the spread widening to -32bps.

New Issues: Dongxing Voyage Co. Ltd (Guarantor: Dongxing Securities Co., Ltd) has priced a USD400mn 5-year bond at T+180bps, tightening from IPT at T+210bps area. Excellence Commercial Management Ltd (Guarantor: Excellence Commercial Properties Co., Ltd) has priced a USD150mn 3-year bond at 6.8%, tightening from IPT at 7.2% area. Changde Economic Construction Investment Group Co., Ltd has priced a USD200mn 3-year bond at 6.6%, tightening from IPT at 6.8% area.

Daily Treasury Outlook

13 August 2019

Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	97.380	-0.11%	USD-SGD	1.3870	0.14%
USD-JPY	105.300	-0.37%	EUR-SGD	1.5553	0.26%
EUR-USD	1.1214	0.12%	JPY-SGD	1.3171	0.46%
AUD-USD	0.6752	-0.50%	GBP-SGD	1.6748	0.49%
GBP-USD	1.2076	0.36%	AUD-SGD	0.9362	-0.39%
USD-MYR	4.1840	--	NZD-SGD	0.8941	-0.22%
USD-CNY	7.0578	-0.06%	CHF-SGD	1.4309	0.46%
USD-IDR	14250	0.39%	SGD-MYR	3.0141	-0.43%
USD-VND	23203	-0.08%	SGD-CNY	5.0909	-0.25%

Equity and Commodity

Index	Value	Net change
DJIA	25,897.71	-389.73
S&P	2,883.09	-35.56
Nasdaq	7,863.41	-95.73
Nikkei 225	20,684.82	--
STI	3,168.94	--
KLCI	1,615.05	--
JCI	6,250.60	-31.54
Baltic Dry	1,748.00	--
VIX	21.09	3.12

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4030	-0.40%	O/N	2.0954	0.01%
2M	-0.3360	0.01%	1M	2.1943	-0.66%
3M	-0.4040	-0.66%	2M	2.2060	-0.78%
6M	-0.3960	-0.78%	3M	2.1756	-0.54%
9M	-0.1940	-0.54%	6M	2.0520	0.17%
12M	-0.3430	0.17%	12M	1.9879	-0.51%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.66 (--)	1.58 (-0.06)
5Y	1.65 (--)	1.49 (-0.09)
10Y	1.74 (--)	1.65 (-0.1)
15Y	1.92 (--)	--
20Y	2.01 (--)	--
30Y	2.14 (--)	2.13 (-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%	31.0%	69.0%
10/30/2019	0.0%	100.0%	22.5%	58.6%	19.0%
12/11/2019	0.0%	100.0%	43.5%	35.5%	7.9%
01/29/2020	0.0%	100.0%	40.2%	24.0%	4.6%
03/18/2020	0.0%	100.0%	35.8%	18.8%	3.4%
04/29/2020	0.0%	100.0%	32.4%	15.7%	2.7%

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	5.40	0.10
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	2.11
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Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	54.93	0.8%	Corn (per bushel)	3.8525	-6.1%
Brent (per barrel)	58.57	0.1%	Soybean (per bushel)	8.615	-1.4%
Heating Oil (per gallon)	1.8058	-0.1%	Wheat (per bushel)	4.7175	-5.6%
Gasoline (per gallon)	1.6652	-0.5%	Crude Palm Oil (MYR/MT)	2,141.0	--
Natural Gas (per MMBtu)	2.1050	-0.7%	Rubber (JPY/KG)	193.3	0.0%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,742	-0.2%	Gold (per oz)	1,505.3	0.6%
Nickel (per mt)	15,710	1.0%	Silver (per oz)	17.071	0.8%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
08/13/2019 06:45	NZ Food Prices MoM	Jul	--	1.10%	-0.70%
08/13/2019 07:50	JN PPI YoY	Jul	-0.50%	--	-0.10%
08/13/2019 08:00	SI GDP YoY	2Q F	0.20%	--	0.10%
08/13/2019 08:00	SI GDP SAAR QoQ	2Q F	-2.90%	--	-3.40%
08/13/2019 12:30	JN Tertiary Industry Index MoM	Jun	-0.10%	--	-0.20%
08/13/2019 14:00	GE CPI YoY	Jul F	1.70%	--	1.70%
08/13/2019 16:30	UK Jobless Claims Change	Jul	--	--	38.0k
08/13/2019 16:30	UK ILO Unemployment Rate 3Mths	Jun	3.80%	--	3.80%
08/13/2019 16:30	UK Claimant Count Rate	Jul	--	--	3.20%
08/13/2019 17:00	GE ZEW Survey Expectations	Aug	-28	--	-24.5
08/13/2019 20:30	US CPI MoM	Jul	0.30%	--	0.10%
08/13/2019 20:30	US CPI Ex Food and Energy MoM	Jul	0.20%	--	0.30%

Source: Bloomberg

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