

Daily Treasury Outlook

13 September 2019

Highlights

Global: Global risk appetite were aided by ECB's bazooka easing and market talk that Trump advisers are considering an interim China trade deal to delay tariffs in exchange for Chinese commitments on intellectual property and agricultural purchases. ECB's Draghi delivered again on "whatever it takes" to cut the deposit rate by 10bps to -0.5% (on the low side of expectations), but coupled this with a revival of the monthly asset purchase program for EUR20b starting 1 November for "as long as necessary (which is also relatively low compared to previous EUR60-80b, but is now open-ended hence akin to "QE infinity"), loosening the TLTRO-III terms (lower rates and longer maturity from 2 to 3 years), a tiered interest rate system (to minimise the impact of negative rates on banks) and a forward guidance on rates that is not calendar based but open ended and state-dependent. This is seen as generally growth-supportive at the margin but may not significantly move the growth dial or prevent Germany from slipping into a recession (note the lowered growth and inflation forecasts to 1.2% and 1.0% for 2020) and also begs the question of how much policy ammunition is left for the incoming Lagarde, especially with the UK on the cusp of a no-deal Brexit. Moreover, the notable dissension to this round of easing, Draghi's call for governments to step up with the fiscal stimulus, and US president Trump's criticism of ECB trying and succeeding in depreciating the Euro against the very strong dollar, suggests nothing in life is smooth-sailing. Now the onus will shift to FOMC on 19 Sep where a 25bp rate cut has been priced in.

Market Watch: Asian markets will open firmer this morning as investors digest the ECB's latest salvo and the prospect of an interim US-China trade deal at the upcoming October talks, albeit markets in China and South Korea are closed for holiday. Today's economic data comprises US' retail sales, University of Michigan sentiments, business inventories and import prices, Japan's industrial production and Thai foreign reserves.

US: US' CPI increased 1.7% yoy (0.1% mom) in August, but core CPI rose faster than expected by 2.4% yoy (0.3% mom), but this should not prevent the Fed from delivering a rate cut next week. Meanwhile, initial jobless claims fell 15k to 204k. Treasury Secretary Mnuchin said will issue 50-year bonds if there is proper demand and if successful may consider 100-year bonds.

EU: Industrial production fell 0.4% mom (-2.0% yoy) in July, dragged down by Germany and marking a weak start to 3Q amid the global trade tensions.

Singapore: Retail sales rebounded 2.6% mom in July, after contracting for the previous two months, but this was largely attributable to the surge in motor vehicle sales (+23.7% mom). Retail sales excluding autos fell for the sixth straight month as consumer tighten their belts. The labour market is also softening – while retrenchments remain low, the seasonally-adjusted ratio of job vacancies to unemployed persons slipped below the 1x handle to 0.94 in June 2019 (last seen in December 2017).

Key Market Movements		
Equity	Value	% chg
S&P 500	3009.6	0.3%
DJIA	27182	0.2%
Nikkei 225	21760	0.7%
SH Comp	3031.2	0.7%
STI	3195.0	-0.3%
Hang Seng	27088	-0.3%
KLCI	1601.0	-0.1%
Currencies	Value	% chg
DXY	98.309	-0.3%
USDJPY	108.1	0.3%
EURUSD	1.1065	0.5%
GBPUSD	1.2335	0.1%
USDIDR	13994	-0.5%
USDSGD	1.3751	-0.3%
SGDMYR	3.0304	0.0%
Rates	Value	chg (bp)
3M UST	1.95	0.75
10Y UST	1.77	3.30
1Y SGS	1.86	-0.20
10Y SGS	1.73	-1.19
3M LIBOR	2.13	-0.44
3M SIBOR	1.88	0.00
3M SOR	1.77	-1.01
Commodities	Value	% chg
Brent	60.38	-0.7%
WTI	55.09	-1.2%
Gold	1499	0.1%
Silver	18.10	-0.1%
Palladium	1620	2.8%
Copper	5833	1.0%
BCOM	78.57	0.5%

Source: Bloomberg

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Major Markets

US: US markets continued its climb last night, with the S&P 500 index (+0.3%) inching closer to its all-time high. Market optimism was driven by both the ECB's QE stimulus as well as signs that the US and China are both taking a step back in their hawkish trade stances. The overall risk-on sentiment is expected to last into next week, with the markets expecting the FOMC to provide further monetary easing. In the short term we expect the S&P 500 index to see further upward pressure toward its record high of 3025.90.

Singapore: The domestic labour market continued to soften, albeit at a gradual pace in 2Q19. While total employment excluding foreign domestic workers continued to grow by 6,200 in 2Q19, the number of retrenchments remained low at 2,320 (1Q19: 3,230) and the overall unemployment rate remaining static at 2.2%, note that the number of job vacancies fell for the second quarter to 47,700 in June 2019, and the seasonally-adjusted ratio of job vacancies to unemployed persons slipped below the 1x handle to 0.94 in June 2019 to match that in December 2017 (0.94x). In addition, the number of employees placed on short work-week or temporary lay-off also edged higher for the third consecutive quarter to 970 (still very low on an absolute basis). Meanwhile the six-month re-entry rate among retrenched residents also declined from 66% in 1Q19 to 60% in 2Q19, which is the lowest seen at least 1Q18 (61%). With overall GDP growth expected near the midpoint of the 0-1% yoy range for 2019, and market speculation of potential policy easing (whether on the monetary front at the October MAS meeting or fiscal stimulus at the 2020 Budget) being potentially anticipated, any fallout in the domestic labour market should be somewhat limited in the near-term. In fact, the MOM expects that job opportunities in the community, social and personal services, professional services, financial and insurance services, and information and communications sectors will continue to provide support to the labour market.

The STI slipped 0.30% to close at 3194.96 yesterday on the back of a softer 2Q labour market report and ignoring the regional cues. With more positive signals from Wall Street and European bourses, STI may trade with a firmer tone today and retake the 3200 handle. UST bond yields continued to climb by 4-6bps higher across the curve amid the overnight improvement in risk appetite, SGS bonds are also likely to remain under pressure. Watch for the 2- and 15-year SGS bonds re-openings with the size announcement and auctions due on 19 and 26 September respectively.

China: China's Commerce Ministry said China has enough tools to stabilize external demand. Meanwhile, it also confirmed that Chinese companies are making price inquiries for US agricultural products such as soybean and pork.

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Indonesia: Sri Mulyani was one of the four finance ministers – alongside that of Australia, Canada, and Singapore – who issued a joint statement calling for an end to the US-China trade war. As published in The Australian newspaper this morning, and highlighted by Bloomberg, the statement warns of the collateral damage that comes from the trade dispute to the global economy.

Malaysia: Bank Negara left its benchmark OPR unchanged at 3.0%, in line with our expectation. The accompanying statement suggests a broadly dovish tone, highlighting downside risks so we see a cut coming, perhaps on Nov 5th.

Hong Kong: Market became increasingly concerned about tighter HKD liquidity following the news that AB InBev plans to resume its Asian unit's IPO in HK with a size of US\$5 billion. This together with the improved risk appetite triggered crowded unwinding of HKD short positions. As a result, USDHKD spot dropped below 7.8300 to 7.8247, the lowest since early August. Going ahead, market will closely monitor the schedule of AB InBev's IPO. Meanwhile, as we approach quarter-end, the longer-tenor (3M and above) HIBORs may remain elevated while the short-end (1M and below) will likely go up with 1M HIBOR to break above 2%. With a narrower USD-HKD yield differential and contained outflow risks, USDHKD spot is expected to hover in a new range below 7.8400.

Gold: Prices of the precious metal have closed below \$1,500/oz for almost the entire week but the attraction to the crucial \$1,500/oz level has not weakened. Gold closed at \$1,499/oz on three of the past four sessions and its lowest close on Tuesday at \$1,486/oz is barely 1% away from \$1,500/oz. Gold bulls have not entirely given up on the rally at the moment despite the general risk-on behaviour. Weaker yields are likely to push gold prices higher once more, especially if economic data from the US continues to weaken.

Oil: Crude oil prices fell yesterday, despite a broad risk-on rally in other markets from Trump's unexpected delay on China's import tariffs and the ECB resuming its QE programme. Brent prices have steadily rose in the week to a high of \$62.59/bbl on Monday but closed at \$60.38/bbl yesterday. Expectations of a thawing of US-Iran relations continue to weigh on crude oil prices as leaders from both sides are highly expected to negotiate the sanctions at the UN General Assembly this month.

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Bond Market Updates

Market Commentary: The SGD swap curve was lower across the board yesterday, with all tenors about 2bps lower, other than the 5Y which was 1bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 3bps to 129bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 14bps to 526bps. 10Y USTs yields gained 3bps to close at 1.77% on news that the Trump administration is considering to offer China a limited trade agreement that would delay and even roll back some US tariffs and comments that the US may consider issuing ultra-long dated bonds. Intraday moves though were significant, with treasuries earlier rallying to 1.67% after European Central Bank cut rates in a closely watched meeting, before reversing later in the trading day. Spread between 3-month treasury bills and 10-year treasury notes remains inverted, with the spread narrowing to -13bps.

New Issues: The Bank of East Asia, Ltd has priced a USD650mn NC5-Perpetual AT1s at 5.875%, tightening from IPT of 6.25% area. Huai'an Traffic Holding Co., Ltd has priced a USD300mn 3-year bond at 6.0%, tightening from IPT of 6.5% area.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	98.309	-0.34%	USD-SGD	1.3751	-0.32%
USD-JPY	108.100	0.26%	EUR-SGD	1.5215	0.18%
EUR-USD	1.1065	0.50%	JPY-SGD	1.2715	-0.56%
AUD-USD	0.6866	0.06%	GBP-SGD	1.6961	-0.24%
GBP-USD	1.2335	0.07%	AUD-SGD	0.9440	-0.27%
USD-MYR	4.1653	-0.32%	NZD-SGD	0.8809	-0.41%
USD-CNY	7.0793	-0.51%	CHF-SGD	1.3885	-0.05%
USD-IDR	13994	-0.47%	SGD-MYR	3.0304	0.05%
USD-VND	23200	--	SGD-CNY	5.1490	0.06%

Equity and Commodity

Index	Value	Net change
DJIA	27,182.45	45.41
S&P	3,009.57	8.64
Nasdaq	8,194.47	24.79
Nikkei 225	21,759.61	161.85
STI	3,194.96	-9.56
KLCI	1,601.00	-1.30
JCI	6,342.17	-39.78
Baltic Dry	2,366.00	--
VIX	14.22	-0.39

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4530	-0.30%	O/N	2.0945	0.20%
2M	-0.3360	0.20%	1M	2.0359	-0.27%
3M	-0.4300	-0.27%	2M	2.1243	-0.41%
6M	-0.4080	-0.41%	3M	2.1273	-0.44%
9M	-0.1940	-0.44%	6M	2.0529	1.77%
12M	-0.3730	1.77%	12M	2.0086	3.83%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.65 (--)	1.72 (+0.04)
5Y	1.65 (--)	1.63 (+0.04)
10Y	1.73 (-0.01)	1.77 (+0.03)
15Y	1.88 (-0.02)	--
20Y	1.98 (-0.03)	--
30Y	2.07 (-0.01)	2.26 (+0.03)

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%	1.7%	98.3%
10/30/2019	0.0%	100.0%	0.8%	45.6%	53.6%
12/11/2019	0.0%	100.0%	24.8%	49.9%	24.9%
01/29/2020	0.0%	100.0%	35.0%	39.8%	14.8%
03/18/2020	0.0%	100.0%	36.3%	32.8%	10.7%
04/29/2020	0.0%	100.0%	35.9%	30.1%	9.4%

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	2.92	-4.18
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	2.15
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Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	55.09	-1.2%	Corn (per bushel)	3.5450	1.8%
Brent (per barrel)	60.38	-0.7%	Soybean (per bushel)	8.830	3.4%
Heating Oil (per gallon)	1.8851	-1.0%	Wheat (per bushel)	4.8575	1.7%
Gasoline (per gallon)	1.5530	-1.1%	Crude Palm Oil (MYR/MT)	2,105.0	-0.4%
Natural Gas (per MMBtu)	2.5740	0.9%	Rubber (JPY/KG)	165.8	0.6%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,833	1.0%	Gold (per oz)	1,499.3	0.1%
Nickel (per mt)	17,990	0.8%	Silver (per oz)	18.101	-0.1%

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

Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
09/13/2019 02:00	US Monthly Budget Statement	Aug -\$200.0b	-\$200.3b	-\$214.1b	--
09/13/2019 06:30	NZ BusinessNZ Manufacturing PMI	Aug --	48.4	48.2	48.1
09/13/2019 09:16	IN Exports YoY	Aug --	--	2.30%	--
09/13/2019 12:30	JN Industrial Production MoM	Jul F --	--	1.30%	--
09/13/2019 12:30	JN Industrial Production YoY	Jul F --	--	0.70%	--
09/13/2019 12:30	JN Capacity Utilization MoM	Jul --	--	-2.60%	--
09/13/2019 15:30	TH Foreign Reserves	Sep-06 --	--	\$220.2b	--
09/13/2019 20:30	US Retail Sales Advance MoM	Aug 0.20%	--	0.70%	--
09/13/2019 20:30	US Import Price Index MoM	Aug -0.50%	--	0.20%	--
09/13/2019 20:30	US Retail Sales Ex Auto MoM	Aug 0.10%	--	1.00%	--
09/13/2019 20:30	US Retail Sales Ex Auto and Gas	Aug 0.20%	--	0.90%	--
09/13/2019 20:30	US Import Price Index YoY	Aug -2.00%	--	-1.80%	--
09/13/2019 22:00	US U. of Mich. Sentiment	Sep P 90.8	--	89.8	--
09/13/2019 22:00	US Business Inventories	Jul 0.30%	--	0.00%	--

Source: Bloomberg

Treasury Research & Strategy

Macro Research

Selena Ling

Head of Strategy & Research

LinaSSSelena@ocbc.com

Emmanuel Ng

Senior FX Strategist

NqCYEmmanuel@ocbc.com

Tommy Xie Dongming

Head of Greater China Research

XieD@ocbc.com

Terence Wu

FX Strategist

TerenceWu@ocbc.com

Howie Lee

Thailand, Korea & Commodities

HowieLee@ocbc.com

Carie Li

Hong Kong & Macau

carierli@ocbcwh.com

Dick Yu

Hong Kong & Macau

dicksnyu@ocbcwh.com

Credit Research

Andrew Wong

Credit Research Analyst

WongVKAM@ocbc.com

Ezien Hoo

Credit Research Analyst

EzienHoo@ocbc.com

Wong Hong Wei

Credit Research Analyst

WongHongWei@ocbc.com

Seow Zhi Qi

Credit Research Analyst

ZhiQiSeow@ocbc.com

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