

## Daily Treasury Outlook

19 August 2019

### Highlights

**Global:** Global risk appetite got a booster shot on Friday from hopes that Germany may ease off on its balanced budget policy and expand borrowing if the economy enters a recession. Wall Street closed higher while UST bond yields traded a tad higher on Friday. Note president Trump said the US is “doing very well with China, and talking!” but hinted “Huawei is a company that we may not do business with at all”. Over in China, PBOC is set to replace its benchmark lending rate with the loan prime rate whose pricing will be linked to the one-year medium-term lending facility, which is viewed as more market-driven, in a long-awaited reform. Meanwhile, S&P and Fitch downgraded Argentina’s sovereign credit rating on Friday, whilst Hong Kong’s Finance Secretary warned of an “economic typhoon” due to the trade war and protests.

**Market watch:** Asian markets may trade with a firmer tone this morning on market optimism that German if not Eurozone policy stimulus could be forthcoming. Today’s economic data calendar is relatively light with only Thailand’s 2Q19 GDP growth and Eurozone’s July CPI on tap. Market focus this week includes August RBA minutes tomorrow, the July FOMC minutes due Wednesday, BI’s rate decision and flash Eurozone PMIs due Thursday, and Friday’s Jackson Hole conference where Fed chair Powell is due to speak and may set the stage for the upcoming 17-18 September FOMC as well as hopefully clarify if the “insurance” cut could potentially morph into a mini-rate easing cycle.

**US:** US’ University of Michigan sentiments eased from 98.4 in July to 92.1 in August, as both the current conditions and expectations gauges softened. However, the 1- and 5-10 year inflation gauges rose to 2.7% and 2.6% respectively, possibly reflecting the trade war impact.

**UK:** The White House’s “Yellowhammer” report suggests potential shortages of fuel, food and medicine in the event of a no-deal Brexit.

**China:** China moved ahead of its interest rate liberalization after the PBoC announced to liberalize the lending rate via the reform of loan prime rate (LPR). Instead of being referenced to the benchmark lending rate, the new loan rate will be benchmarked to the LPR, which will be referenced to the open market operation rate, namely the 1-year MLF rate. This is designed to help unblock the transmission mechanism from the interbank funding cost to the real economy.

**Singapore:** PM Lee said in his National Day Rally speech that the retirement and re-employment ages will be raised to 65 and 70 respectively, up from 62 and 67 currently, and the CPF contributions for older workers aged 60 or below will get full rates by 2030. In addition, more help will be given for early-childhood education and university students, while protecting Singapore from climate change could cost over US\$100 billion over the next century. He also opined that there is no need for immediate economic stimulus measures yet.

Key Market Movements		
<b>Equity</b>	<b>Value</b>	<b>% chg</b>
S&P 500	2888.7	1.4%
DJIA	25886	1.2%
Nikkei 225	20419	0.1%
SH Comp	2823.8	0.3%
STI	3115.0	-0.4%
Hang Seng	25734	0.9%
KLCI	1599.2	-0.1%
<b>Currencies</b>	<b>Value</b>	<b>% chg</b>
DXY	98.142	0.0%
USDJPY	106.38	0.2%
EURUSD	1.1090	-0.2%
GBPUSD	1.2149	0.5%
USDIDR	14243	-0.2%
USDSGD	1.3845	-0.3%
SGDMYR	3.0114	-0.2%
<b>Rates</b>	<b>Value</b>	<b>chg (bp)</b>
3M UST	1.86	-2.08
10Y UST	1.55	2.69
1Y SGS	1.86	1.20
10Y SGS	1.69	4.48
3M LIBOR	2.12	-4.46
3M SIBOR	1.88	0.00
3M SOR	1.73	-3.66
<b>Commodities</b>	<b>Value</b>	<b>% chg</b>
Brent	58.64	0.7%
WTI	54.87	0.7%
Gold	1514	-0.6%
Silver	17.11	-0.9%
Palladium	1451	0.2%
Copper	5744	-0.1%
BCOM	76.77	0.1%

Source: Bloomberg

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### Major Markets

**US:** US markets saw a recovery last Friday, with the S&P 500 index closing up 1.4%. Risk sentiment improved after Trump tweeted that trade talks with China were ongoing. EU officials' claims that the stimulus plans in September were going to exceed market expectations also helped to calm market fears that weaknesses in the Eurozone would spill over to the global economy. Looking ahead, investors will keep a close eye on headlines from the US-CN trade situation, as well as Powell's speech on 23 August at the annual central bankers retreat in Wyoming. In the near term, expect the S&P 500 to remain range-bound, with a support level at 2,800.

**Singapore:** The STI slid 0.35% to close at 3115.03 yesterday but may trade firmer today between a 3100-3150 range today amid more positive Friday cues from Wall Street and morning gains from Kospi. With the US Treasury Department looking again at 50- and 100-year debt as yield levels plummeted recently, the UST bond market saw yields edge higher and the yield curve steepen on Friday amid the modest stabilization in risk appetite. SGS bonds, which saw a sharp sell-off for the longer tenors on Friday, may see little reprieve in the interim. There is a 10-year re-opening on 1 October, with the size announcement due today and the auction on 26 September. This is the last long-dated SGS issuance scheduled for this year, with only a re-opening of the 2- and 7-year SGS bonds left and a potential mini-auction to be announced on 2 September.

**Malaysia:** Q2 GDP expanded 4.9% yoy, beating the median survey of 4.7% yoy on Bloomberg. This was the strongest expansion since Q1 2018. BNM said that they continue to expect full-year GDP growth of 4.3%-4.8%.

**Thailand:** Thailand has planned a 316bn baht (\$10.2bn) fiscal stimulus package to counter the economic slowdown. This package is targeted at boosting consumer spending and aiding farmers and people on low incomes. About 200bn baht would be loans from state banks, while 100bn baht will be derived from the annual budget.

**Hong Kong:** 2Q GDP growth is revised down from 0.6% yoy to 0.5% yoy, the weakest since 3Q 2009. Going forward, the trade war re-escalation may further drag down the exports of goods and transport services. Trade tensions coupled with the ongoing social unrest could continue to dent consumer/investment sentiments. Besides, the local political uncertainty has been weighing down the export of travel services. Worse still, the recent correction in housing market and the completion of mega infrastructure projects signal that fixed investment would keep weakening. As such, despite the abating high base effect, we believe that the economic growth will remain sluggish in 2H19. On a positive note, local fiscal stimulus (including the sweeteners just announced by the government) and the major central banks' accommodative monetary policy may help to prevent a full-year recession. In a nutshell, we revise our 2019 GDP growth forecast to 0.6% from 1%-1.5%.

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**Oil:** Brent prices failed to remain above \$60/bbl since closing at \$61.30/bbl last Tuesday, signalling technical bearishness in the market. Prices failed to close higher on the day even after a drone attacked oil and gas facilities in Saudi Arabia and US President Donald Trump said relations between the US and China are “doing very well”. Refinery margins on fuel oil have collapsed into negative territory since the start of August, suggesting that the impacts of IMO 2020 are starting to take root on the heavy distillates.

## Bond Market Updates

**Market Commentary:** The SGD swap curve bear-steepened last Friday, with the shorter tenors and belly traded 2-4bps higher, while the longer tenors traded 5-7bps higher. The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 137bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 2bps to 573bps. 10Y USTs gained 3bps to close at 1.56% amidst assessment on the extent of trade war impact, reports that the German government may be open to running a budget deficit to boost growth and rebound in stocks. Spread between 3-month treasury bills and 10-year treasury notes remains inverted, with the spread narrowing to -28bps.

**New Issues:** Fujian Zhanglong Group Co., Ltd has priced a USD500mn 3-year bond at 6.15%, tightening from IPT of 6.5% area.

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### Foreign Exchange

	Day Close	% Change		Day Close	% Change
<b>DX</b>	98.142	0.00%	<b>USD-SGD</b>	1.3845	-0.32%
<b>USD-JPY</b>	106.380	0.25%	<b>EUR-SGD</b>	1.5356	-0.46%
<b>EUR-USD</b>	1.1090	-0.15%	<b>JPY-SGD</b>	1.3016	-0.57%
<b>AUD-USD</b>	0.6779	0.06%	<b>GBP-SGD</b>	1.6825	0.21%
<b>GBP-USD</b>	1.2149	0.50%	<b>AUD-SGD</b>	0.9382	-0.32%
<b>USD-MYR</b>	4.1782	-0.39%	<b>NZD-SGD</b>	0.8901	-0.61%
<b>USD-CNY</b>	7.0428	0.13%	<b>CHF-SGD</b>	1.4150	-0.53%
<b>USD-IDR</b>	14243	-0.21%	<b>SGD-MYR</b>	3.0114	-0.23%
<b>USD-VND</b>	23213	0.02%	<b>SGD-CNY</b>	5.0823	0.35%

### Equity and Commodity

Index	Value	Net change
<b>DJIA</b>	25,886.01	306.62
<b>S&amp;P</b>	2,888.68	41.08
<b>Nasdaq</b>	7,895.99	129.38
<b>Nikkei 225</b>	20,418.81	13.16
<b>STI</b>	3,115.03	-11.06
<b>KLCI</b>	1,599.22	-1.07
<b>JCI</b>	6,286.66	29.07
<b>Baltic Dry</b>	2,088.00	41.00
<b>VIX</b>	18.47	-2.71

### Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
<b>1M</b>	-0.4230	-0.30%	<b>O/N</b>	2.0985	0.38%
<b>2M</b>	-0.3360	0.38%	<b>1M</b>	2.1721	-1.54%
<b>3M</b>	-0.4200	-1.54%	<b>2M</b>	2.1560	-3.74%
<b>6M</b>	-0.4270	-3.74%	<b>3M</b>	2.1359	-4.46%
<b>9M</b>	-0.1940	-4.46%	<b>6M</b>	2.0168	-6.59%
<b>12M</b>	-0.3850	-6.59%	<b>12M</b>	1.9450	-9.65%

### Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
<b>2Y</b>	1.68 (+0.02)	1.48 (-0.02)
<b>5Y</b>	1.66 (+0.03)	1.42 (-0.01)
<b>10Y</b>	1.69 (+0.04)	1.55 (+0.03)
<b>15Y</b>	1.78 (+0.05)	--
<b>20Y</b>	1.85 (+0.04)	--
<b>30Y</b>	1.91 (+0.04)	2.03 (+0.06)

### 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%	31.7%	68.3%
10/30/2019	0.0%	100.0%	23.7%	59.1%	17.2%
12/11/2019	0.0%	100.0%	47.7%	30.7%	5.5%
01/29/2020	0.0%	100.0%	39.2%	18.1%	2.8%
03/18/2020	0.0%	100.0%	32.9%	13.5%	1.9%
04/29/2020	0.0%	100.0%	29.0%	11.2%	1.5%

### Financial Spread (bps)

	Value	Change
<b>EURIBOR-OIS</b>	5.40	-2.59
<b>TED</b>	35.36	--

### Secured Overnight Fin. Rate

<b>SOFR</b>	2.18
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### Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	54.87	0.7%	Corn (per bushel)	3.7100	2.8%
Brent (per barrel)	58.64	0.7%	Soybean (per bushel)	8.673	1.1%
Heating Oil (per gallon)	1.8128	0.1%	Wheat (per bushel)	4.7075	0.4%
Gasoline (per gallon)	1.6568	1.2%	Crude Palm Oil (MYR/MT)	2,143.0	-1.3%
Natural Gas (per MMBtu)	2.2000	-1.4%	Rubber (JPY/KG)	172.3	-4.9%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,744	-0.1%	Gold (per oz)	1,512.5	-0.5%
Nickel (per mt)	16,200	-0.3%	Silver (per oz)	17.122	-0.5%

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

## Economic Calendar

Date Time		Event		Survey	Actual	Prior	Revised
08/19/2019	PH	BoP Overall	Jul	--	--	-\$404m	--
08/19/2019	HK	Composite Interest Rate	Jul	--	--	0.95%	--
08/19/2019 07:01	UK	Rightmove House Prices MoM	Aug	--	-1.00%	-0.20%	--
08/19/2019 07:01	UK	Rightmove House Prices YoY	Aug	--	1.20%	-0.20%	--
08/19/2019 07:50	JN	Trade Balance	Jul	¥194.5b	¥249.6b	¥589.5b	¥589.6b
08/19/2019 07:50	JN	Trade Balance Adjusted	Jul	¥150.8b	¥126.8b	¥14.4b	--
08/19/2019 10:30	TH	GDP YoY	2Q	2.30%	--	2.80%	--
08/19/2019 10:30	TH	GDP SA QoQ	2Q	0.70%	--	1.00%	--
08/19/2019 12:00	JN	Tokyo Condominiums for Sale YoY	Jul	--	--	-15.00%	--
08/19/2019 16:30	HK	Unemployment Rate SA	Jul	2.80%	--	2.80%	--
08/19/2019 17:00	EC	CPI MoM	Jul	-0.40%	--	0.20%	0.20%
08/19/2019 17:00	EC	CPI Core YoY	Jul F	0.90%	--	0.90%	--
08/19/2019 17:00	EC	CPI YoY	Jul F	1.10%	--	1.30%	1.30%

Source: Bloomberg

## Treasury Research & Strategy

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