

Daily Treasury Outlook

22 August 2019

Highlights

Global: FOMC minutes revealed that the Fed saw a policy easing as “a prudent step from a risk-management perspective” and “part of a recalibration...or mid-cycle adjustment”, but views were very mixed - a “couple of participants indicated they would have preferred a 50bp cut” whilst “several participants favoured maintaining” the same rate. Note the Fed members also discussed the inversion of the yield curve, with a few indicating that market participants anticipated weaker economic conditions in the future and that the Fed would soon need to cut the fed funds rate substantially in response. Looking forward, the Fed’s approach would be guided by incoming information and “avoid any appearance of following a preset course”. Our view remains that a 25bp rate cut at the September FOMC is largely priced in and the rate-cut cycle will likely be deeper than what the Fed minutes currently suggest. Wall Street edged higher, while UST bonds dipped with the 2-10 year yield curve briefly inverting again. Trump said US will “probably” make a deal with China and “the only problem we have is Jay Powell and the Fed”. Elsewhere, Germany sold EUR824b 10-year bunds at a yield of -0.11% amid weak demand, while French officials opined that a no-deal Brexit is the most likely scenario.

Market watch: Asian markets will be digesting the FOMC minutes and awaiting BI’s policy decision later today (likely to stand pat after the July cut as a further cut may weigh on the IDR at this juncture) and Fed chief Powell’s Jackson Hole speech tomorrow. Today’s economic data calendar comprises of US’ initial jobless claims, and leading index, Markit PMIs from US and Europe, Eurozone’s consumer confidence, Taiwan’s unemployment rate, and Malaysia’s foreign reserve. Fed’s Kashkari is also speaking.

US: Existing home sales rebounded 2.5% mom in July, reversing a revised 1.3% contraction in June.

Singapore: MAS will auction \$2.9b in the upcoming re-opening of the 10-year SGS bond on 28 August. This is the second highest issuance on record since at least 1998, and is higher than the \$2.4b offered for the same tenor in April. Note Minister Masagos Zulkifli had said funding for the \$100b to fight climate change could come from national reserves and government bond issuance. COE premiums slipped in the latest round of bidding.

Oil: WTI and Brent prices diverged yesterday, with WTI posting losses of -0.8% while Brent rose 0.4%. WTI’s decline came after reports show US diesel and gasoline stockpiles increased on the week. Distillate supplies rose 2.6mil bbl in the week past, against expectations of a -0.3mil bbl reduction in a Bloomberg poll. The spread between WTI and Dubai oil prices have shrunk to about \$1/bbl, the tightest since April 2018. It is likely that any correction may have to come from WTI as high prices dampen demand for US crude exports.

Key Market Movements		
Equity	Value	% chg
S&P 500	2924.4	0.8%
DJIA	26203	0.9%
Nikkei 225	20619	-0.3%
SH Comp	2880.3	0.0%
STI	3122.6	-0.4%
Hang Seng	26270	0.1%
KLCI	1594.6	-0.5%
Currencies	Value	% chg
DXY	98.295	0.1%
USDJPY	106.62	0.4%
EURUSD	1.1085	-0.1%
GBPUSD	1.2130	-0.3%
USDIDR	14244	-0.2%
USDSGD	1.3836	-0.1%
SGDMYR	3.0189	0.0%
Rates	Value	chg (bp)
3M UST	1.97	7.18
10Y UST	1.59	3.38
1Y SGS	1.85	0.00
10Y SGS	1.80	1.90
3M LIBOR	2.15	-0.20
3M SIBOR	1.88	-0.10
3M SOR	1.74	0.00
Commodities	Value	% chg
Brent	60.3	0.4%
WTI	55.68	-0.8%
Gold	1503	-0.3%
Silver	17.12	-0.2%
Palladium	1472	-1.2%
Copper	5732	0.4%
BCOM	76.80	0.1%

Source: Bloomberg

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Major Markets

US: US markets closed higher on Wednesday, with the S&P 500 index closing up 0.8%. The FOMC minutes showed differing opinions within the Fed, where dissenters argued for either more rate cuts or no cuts at all. Investors are keenly awaiting this Friday's Jackson Hole event for further hints of future Fed direction. Expect the S&P 500 index to trade sideways in the meantime.

Singapore: The STI slipped 0.43% to close at 3122.57 yesterday and may continue to consolidate between 3100-3150 in the interim, despite modestly positive overnight cues from Wall Street and morning gains by Kospi. With mild disappointment that the FOMC minutes did not clarify more aggressive dovish intentions and the CBO estimates that the US budget deficit will widen to US\$1 trillion by FY2020 (two years earlier than estimated), UST bond yields had treaded higher, which will set the stage for further selling pressure for SGS bonds. Moreover, the larger-than-expected 10-year SGS bond re-opening size will further weigh on the back-end of the SGS yield curve.

Malaysia: Bank Negara Malaysia (BNM) has expanded the eligibility criteria for those seeking to buy property under the RM1 billion Fund for Affordable Homes. BNM Governor, Nor Shamsiah Mohd Yunus, said effective 1st September 2019, the maximum monthly household income to be eligible for loans under the fund would be increased to RM4,360 from RM2,300 while the maximum property price of houses allowed to be purchased under the loan will be raised to RM300,000 from RM150,000.

Indonesia: Bank Indonesia (BI) will be announcing their August monthly rate decision later today with our expectations that they may likely keep the benchmark rate on hold this time around, amid trade war headwinds. We are still of the view that the central bank may cut the benchmark rate by another 25bps this year, making it a total easing of 50bps for 2019, although this will probably be subject to the IDR stability.

Macau: Inflation decelerated further to the lowest level since Jan 2018 at 2.6% in July. Food inflation accelerated to 3.62%, the highest level since Mar 2016, amid higher charges for eating out and elevated fresh pork prices. This, however, was well offset by the slowdown in housing inflation (decelerated to 1.94% from 2.29%), the second consecutive month of drop in clothing and footwear price index (-1.25% yoy) and the sharper decrease in communication price index (dropped at the fastest pace since Dec 2018 by 2.45% yoy). Moving forward, though pork shortage could add inflationary risks, the risks are expected to be contained by the recent retreat in oil prices, a strong MOP and subdued consumption. The high base effect could also cap the upside of inflation. As such, we expect overall inflation to print around 2.5% this year.

Visitor arrivals showed double-digit growth of 16.3% yoy for the ninth consecutive month in July. Same-day visitors (taking up 51.4% of total visitors) remained the main growth driver and surged by 29.9% yoy. Besides, tourists from Mainland China and Hong Kong surged by 18.5% yoy and 16.4% yoy respectively. More notably, visitor arrivals by land continued to

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jump by 49% yoy with more than 20% travelling via Hong Kong-Zhuhai-Macau Bridge. This confirms that the Bridge has kept bringing in same-day visitors to support Macau's tourism. However, overnight visitors grew at a slower pace by 4.7% yoy in July. As there has not been any new mega project commencing operation so far this year and the cost of staying overnight has remained high, overnight visitors might have been reluctant to re-visit the city. Going forward, overnight visitors' growth may remain moderate while the growth of same-day visitors may be capped by a strong MOP especially against the RMB, China's economic slowdown, the persistent trade tensions and HK's social unrest.

Bond Market Updates

Market Commentary: The SGD swap curve bear-steepened yesterday, with the shorter tenors and belly traded 0-3bps higher, while the longer tenors traded 4-5bps higher. The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 136bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 7bps to 556bps. 10Y USTs gained 3bps to close at 1.59% after the 31 July FOMC minutes were released, reiterating that the committee didn't view the cut as part of an extended cycle of rate reductions. Spread between 3-month treasury bills and 10-year treasury notes remains inverted, with the spread widening to -36bps.

New Issues: Yanlord Land (HK) Co., Ltd (Guarantor: Yanlord Land Group Ltd) has priced a USD400mn 4.5NC2.5 bond at 6.8%, tightening from IPT of 7.1% area.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	98.295	0.11%	USD-SGD	1.3836	-0.09%
USD-JPY	106.620	0.37%	EUR-SGD	1.5336	-0.24%
EUR-USD	1.1085	-0.14%	JPY-SGD	1.2984	-0.41%
AUD-USD	0.6781	0.04%	GBP-SGD	1.6778	-0.45%
GBP-USD	1.2130	-0.33%	AUD-SGD	0.9384	-0.02%
USD-MYR	4.1772	-0.15%	NZD-SGD	0.8862	-0.26%
USD-CNY	7.0627	0.03%	CHF-SGD	1.4089	-0.50%
USD-IDR	14244	-0.17%	SGD-MYR	3.0189	0.03%
USD-VND	23202	-0.01%	SGD-CNY	5.1055	0.16%

Equity and Commodity

Index	Value	Net change
DJIA	26,202.73	240.29
S&P	2,924.43	23.92
Nasdaq	8,020.21	71.65
Nikkei 225	20,618.57	-58.65
STI	3,122.57	-13.38
KLCI	1,594.59	-8.16
JCI	6,252.97	-42.77
Baltic Dry	2,059.00	--
VIX	15.80	-1.70

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4050	0.30%	O/N	2.0970	0.16%
2M	-0.3360	0.16%	1M	2.1700	0.14%
3M	-0.4210	0.14%	2M	2.1660	-0.06%
6M	-0.4250	-0.06%	3M	2.1495	-0.20%
9M	-0.1940	-0.20%	6M	2.0236	-0.55%
12M	-0.3950	-0.55%	12M	1.9485	-0.48%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.68 (--)	1.57 (+0.06)
5Y	1.71 (+0.02)	1.47 (+0.04)
10Y	1.80 (+0.02)	1.59 (+0.03)
15Y	1.89 (+0.03)	--
20Y	1.96 (+0.02)	--
30Y	2.02 (+0.02)	2.07 (+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%	9.3%	90.7%
10/30/2019	0.0%	100.0%	6.3%	64.0%	29.8%
12/11/2019	0.0%	100.0%	44.9%	41.1%	9.8%
01/29/2020	0.0%	100.0%	42.9%	25.1%	4.8%
03/18/2020	0.0%	100.0%	38.4%	19.9%	3.6%
04/29/2020	0.0%	100.0%	34.4%	16.4%	2.8%

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	5.23	-0.37
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	2.13
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Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	55.68	-1.2%	Corn (per bushel)	3.6250	0.8%
Brent (per barrel)	60.30	0.4%	Soybean (per bushel)	8.605	0.6%
Heating Oil (per gallon)	1.8573	0.2%	Wheat (per bushel)	4.6250	0.5%
Gasoline (per gallon)	1.6938	0.8%	Crude Palm Oil (MYR/MT)	2,163.0	1.6%
Natural Gas (per MMBtu)	2.1700	-2.2%	Rubber (JPY/KG)	167.9	-2.3%

Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,732	0.4%	Gold (per oz)	1,504.6	--
Nickel (per mt)	15,825	-0.2%	Silver (per oz)	17.151	0.0%

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

Economic Calendar

Date Time		Event		Survey	Actual	Prior	Revised
08/22/2019	ID	Bank Indonesia 7D Reverse Repo	Aug-22	5.75%	--	5.75%	--
08/22/2019 08:30	JN	Jibun Bank Japan PMI Mfg	Aug P	--	--	49.4	--
08/22/2019 08:30	JN	Jibun Bank Japan PMI Composite	Aug P	--	--	51.2	--
08/22/2019 08:30	JN	Jibun Bank Japan PMI Services	Aug P	--	--	51.8	--
08/22/2019 12:30	JN	All Industry Activity Index MoM	Jun	-0.80%	--	0.30%	--
08/22/2019 15:15	FR	Markit France Manufacturing PMI	Aug P	49.5	--	49.7	--
08/22/2019 15:30	GE	Markit/BME Germany Manufacturing PMI	Aug P	43	--	43.2	--
08/22/2019 15:30	GE	Markit/BME Germany Composite PMI	Aug P	50.6	--	50.9	--
08/22/2019 16:00	EC	Markit Eurozone Manufacturing PMI	Aug P	46.2	--	46.5	--
08/22/2019 16:00	EC	Markit Eurozone Composite PMI	Aug P	51.2	--	51.5	--
08/22/2019 16:00	EC	Markit Eurozone Services PMI	Aug P	53	--	53.2	--
08/22/2019 20:30	US	Initial Jobless Claims	Aug-17	216k	--	220k	--
08/22/2019 21:45	US	Markit US Manufacturing PMI	Aug P	50.5	--	50.4	--
08/22/2019 22:00	US	Leading Index	Jul	0.30%	--	-0.30%	--
08/22/2019 22:00	EC	Consumer Confidence	Aug A	-7	--	-6.6	--

Source: Bloomberg

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