

Daily Treasury Outlook

29 August 2019

Highlights

Global: The US made headlines on several fronts yesterday. Firstly, Treasury Secretary Steven Mnuchin said that the administration is “seriously considering” the issuance of ultra-long government bonds, i.e. bonds that are 50-100 years long. At present the longest-dated government bond lasts only 30 years. This move is largely seen as a way to fund the budget deficit and provides an extra avenue for the US government to continue spending. Mnuchin also said that while there are no plans by the administration to directly intervene in the US dollar, he hopes future moves will be coordinated with the Federal Reserve – again bringing back into contention the risk of the Fed losing its independence. Finally, he said that the US will speak with China on trade soon but declined to give an exact time frame. Meanwhile, Federal Reserve members also generated headlines of their own. Mary Daly said she believes a “hot” economy (that is, the prospect of runaway inflation) will outweigh any potential costs at present, throwing her weight behind continued accommodative monetary policy in saying so. Robert Kaplan said he is open to another interest rate reduction and is confident that the Fed’s independence is not compromised at present.

Market Watch: Following a 0.7% gain in the S&P500 index yesterday, we expect Asian equities to follow suit this morning. Volatility stemming from an increased chance in a no-deal Brexit, however, is likely to cap any meaningful rally.

UK: PM Boris Johnson moved the UK closer to a no-deal Brexit by suspending parliament from 12 September to 14 October – effectively leaving lawmakers with less than three weeks to debate any new plan before the UK crashes out of the EU on 31 October. He has also ruled out a general election, which effectively means there is now almost zero chance that a new PM will opt to start a new referendum or cancel Brexit before the 31 October deadline. The GBPUSD 3M ATM implied vol level unsurprisingly edged higher on this news, rising from 12.635% to 13.43%, the highest since December 2018. France said last week that its base case assumption is for the UK to leave without a deal; given Johnson’s latest suspension of parliament, that base case looks increasingly likely.

EU: In Italy, the Five Star and the Democratic Party have agreed to form a new government led by Giuseppe Conte. This puts some certainty back into the political turmoil that has plagued the country since Conte unexpectedly quit slightly more than a week ago, after he accused his deputy PM Matteo Salvini for attempting to usurp the top seat.

Key Market Movements		
Equity	Value	% chg
S&P 500	2887.9	0.7%
DJIA	26036	1.0%
Nikkei 225	20479	0.1%
SH Comp	2893.8	-0.3%
STI	3056.5	-0.4%
Hang Seng	25615	-0.2%
KLCI	1589.8	-0.1%
Currencies	Value	% chg
DXY	98.210	0.2%
USDJPY	106.12	0.3%
EURUSD	1.1078	-0.1%
GBPUSD	1.2212	-0.6%
USIDDR	14262	0.0%
USDSGD	1.3888	0.0%
SGDMYR	3.0326	0.1%
Rates	Value	chg (bp)
3M UST	1.98	1.02
10Y UST	1.48	0.83
1Y SGS	1.85	0.00
10Y SGS	1.67	-2.89
3M LIBOR	2.12	-2.70
3M SIBOR	1.88	0.00
3M SOR	1.70	-3.79
Commodities	Value	% chg
Brent	60.49	1.6%
WTI	55.78	1.5%
Gold	1539	-0.2%
Silver	18.36	0.9%
Palladium	1474	-0.5%
Copper	5690	0.1%
BCOM	77.17	0.8%

Source: Bloomberg

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Major Markets

US: US markets closed slightly higher last night, with the S&P 500 index ending the session up 0.7%. Trading volume was 15% lower than usual, according to Bloomberg, as investors were understandably cautious given the unpredictability of the Sino-American trade situation. Looking ahead, investors are likely to react to headline updates on the trade war and may turn bearish if no concessions are made before the implementation of the increased tariffs due September 1st. The S&P 500 index is likely to continue trading within the 2800-2950 range in the short term.

Singapore: The auction of July 2029 bonds yesterday attracted a 5-year high bid-to-cover ratio of 1.89, reflecting the flight to safety mentality among local investors. The cut-off yield fell further to 1.69% from 1.71% on Tuesday's secondary market close. This risk-off behaviour is likely to keep SGS yields supported in the near-term, while adding further selling pressure on the STI. The benchmark equity index fell -0.4% yesterday to 3,056.5 and its downward trend suggests it is likely heading for 3,000 in the short-to-medium term.

Malaysia: Bank Negara Malaysia Governor Nor Shamsiah has said that the central bank has had encouraging discussions with the FTSE Russell regarding Malaysian bonds remaining in the World Government Bond Index (WGBI). She said that the FTSE Russell had been "very appreciative" of Malaysia's efforts to deepen the onshore markets and that investors have been telling FTSE Russell that "access to the onshore markets have been made easier by various measures that have been introduced". She also further added that being on the FTSE Russell watch list doesn't mean that Malaysian bonds would be removed from the WGBI but instead means that FTSE Russell "will step up engagement with the authorities". She mentioned that previously, the engagement was on an annual basis but that it would be more frequent now.

Indonesia: Bank Indonesia (BI) reportedly sees that the IDR may average at a rate of 14,000 – 14,400 against USD for 2019 whilst they expect that it would average between 13,900 – 14,300 in 2020.

Thailand: Thailand's finance minister Uttama Savanayana said yesterday that the government may do more to support the domestic economy. Despite recently passing the 316 billion baht fiscal stimulus programme, Uttama said the government can do more and sees further room for further interest rate cuts. The slump in Thai exports have caused concerns among policymakers, as seen in the Bank of Thailand's latest press statement and the recent Q2 GDP numbers. The central bank has also hinted it remains uncomfortable with the baht's appreciation, saying the currency does not reflect economic fundamentals. Following these comments, it now appears likely that the BoT may implement one more rate cut before the end of 2019 – possibly as soon as the next meeting on 25 September.

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Oil: Oil prices posted gains yesterday, with Brent rising 1.6% to \$60.49/bbl. The US EIA reported a drop of 10mil barrels in nationwide stockpiles yesterday, slightly less than what API had earlier suggested (11mil barrels) but still a substantial drop nonetheless. The tightening of supplies by OPEC is driving up demand for US shale, with the Brent-WTI spread remaining relatively compressed at \$4.71/bbl. Despite the pessimism in the global economy over the US-China trade war, the declining US stockpiles are starting to gain traction among market watchers, which explains the current disjoint between the oil market vs other asset prices

Bond Market Updates

Market Commentary: The SGD swap curve bull-flattened yesterday, with the shorter tenors traded 2-3bps lower, while the longer tenors (>5yr) traded 4-5bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS was unchanged at 136bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 2bps to 565bps. 10Y USTs rose 1bps to 1.48%, as major stock indices turned positive, dampening demand for safe-haven treasuries. Spread between the 2-year treasury notes and 10-year treasury notes remains inverted, with the spread at -3bps, while the spread between 3-month treasury bills and 10-year treasury notes has widened to -51bps.

New Issues: Hysan (MTN) Ltd (Guarantor: Hysan Development Company Ltd) has priced a USD500mn 10-year bond at T+140bps, tightening from IPT of T+160bps area. Korean Air Lines Co. (Guarantor: The Korea Development Bank) has priced a USD300mn 3-year bond at T+70bps, tightening from IPT of T+95bps area. Times China Holdings Ltd has priced a USD100mn re-tap of its existing TPHL 6.75%'23s at 6.75%. PSA Treasury Pte. Ltd (Guarantor: PSA International Pte. Ltd) has priced a USD500mn 10-year bond at T+77.5bps, tightening from IPT of T+100bps area. UBS Group AG has priced a SGD750mn NC5-Perpetual bond at 4.85%, tightening from IPT of 5% area.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	98.210	0.22%	USD-SGD	1.3888	-0.04%
USD-JPY	106.120	0.35%	EUR-SGD	1.5383	-0.17%
EUR-USD	1.1078	-0.11%	JPY-SGD	1.3085	-0.40%
AUD-USD	0.6734	-0.27%	GBP-SGD	1.6959	-0.68%
GBP-USD	1.2212	-0.63%	AUD-SGD	0.9354	-0.25%
USD-MYR	4.2135	0.21%	NZD-SGD	0.8799	-0.45%
USD-CNY	7.1652	0.05%	CHF-SGD	1.4146	-0.07%
USD-IDR	14262	0.05%	SGD-MYR	3.0326	0.14%
USD-VND	23208	0.04%	SGD-CNY	5.1623	0.12%

Equity and Commodity

Index	Value	Net change
DJIA	26,036.10	258.20
S&P	2,887.94	18.78
Nasdaq	7,856.88	29.94
Nikkei 225	20,479.42	23.34
STI	3,056.47	-11.05
KLCI	1,589.82	-1.02
JCI	6,281.65	3.47
Baltic Dry	2,213.00	--
VIX	19.35	-0.96

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4160	-0.50%	O/N	2.0958	0.74%
2M	-0.3360	0.74%	1M	2.1159	-2.36%
3M	-0.4180	-2.36%	2M	2.1524	-1.90%
6M	-0.4150	-1.90%	3M	2.1174	-2.70%
9M	-0.1940	-2.70%	6M	2.0375	-4.26%
12M	-0.3690	-4.26%	12M	1.9494	-7.91%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.63 (--)	1.50 (-0.02)
5Y	1.63 (-0.01)	1.38 (--)
10Y	1.67 (-0.03)	1.48 (+0.01)
15Y	1.78 (-0.03)	--
20Y	1.85 (-0.01)	--
30Y	1.93 (-0.02)	1.97 (+0.02)

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%	11.2%	88.8%
10/30/2019	0.0%	100.0%	7.0%	59.6%	33.5%
12/11/2019	0.0%	100.0%	41.6%	42.4%	11.4%
01/29/2020	0.0%	100.0%	42.1%	23.8%	4.6%
03/18/2020	0.0%	100.0%	35.7%	17.1%	3.0%
04/29/2020	0.0%	100.0%	30.8%	13.4%	2.2%

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	7.00	0.90
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)	55.78	1.5%	Corn (per bushel)	3.6275	1.6%
Brent (per barrel)	60.49	1.6%	Soybean (per bushel)	8.528	0.8%
Heating Oil (per gallon)	1.8510	1.9%	Wheat (per bushel)	4.7225	-0.3%
Gasoline (per gallon)	1.6824	2.0%	Crude Palm Oil (MYR/MT)	2,200.0	0.7%
Natural Gas (per MMBtu)	2.2510	2.2%	Rubber (JPY/KG)	156.3	-0.1%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,690	0.1%	Gold (per oz)	1,537.8	-0.2%
Nickel (per mt)	16,085	2.5%	Silver (per oz)	18.318	0.9%

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

Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
08/29/2019 00:20	US Fed's Barkin Speraks to West Virginia Chamber of Commerce				
08/29/2019 05:30	US Fed's Daly Speaks at RBNZ/IMF Conference in				
08/29/2019 09:30	JN BOJ Hitoshi Suzuki speaks in Kumamoto				
08/29/2019 10:00	VN CPI YoY	Aug	2.36%	--	2.44%
08/29/2019 14:45	FR GDP YoY	2Q F	1.30%	--	1.30%
08/29/2019 15:55	GE Unemployment Change (000's)	Aug	4.0k	--	1.0k
08/29/2019 17:00	EC Consumer Confidence	Aug F	-7.1	--	-7.1
08/29/2019 20:00	GE CPI YoY	Aug P	1.50%	--	1.70%
08/29/2019 20:30	US Initial Jobless Claims	Aug-24	214k	--	209k
08/29/2019 20:30	US GDP Annualized QoQ	2Q S	2.00%	--	2.10%
08/29/2019 20:30	US Wholesale Inventories MoM	Jul P	0.20%	--	0.00%
08/29/2019 20:30	US GDP Price Index	2Q S	2.40%	--	2.40%

Source: Bloomberg

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