

Global Markets Outlook – 2H 2019

July 2019

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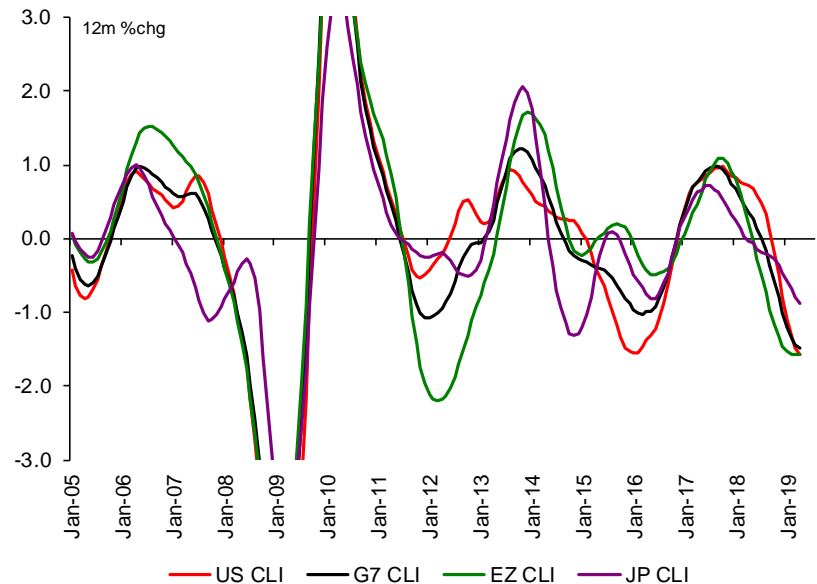
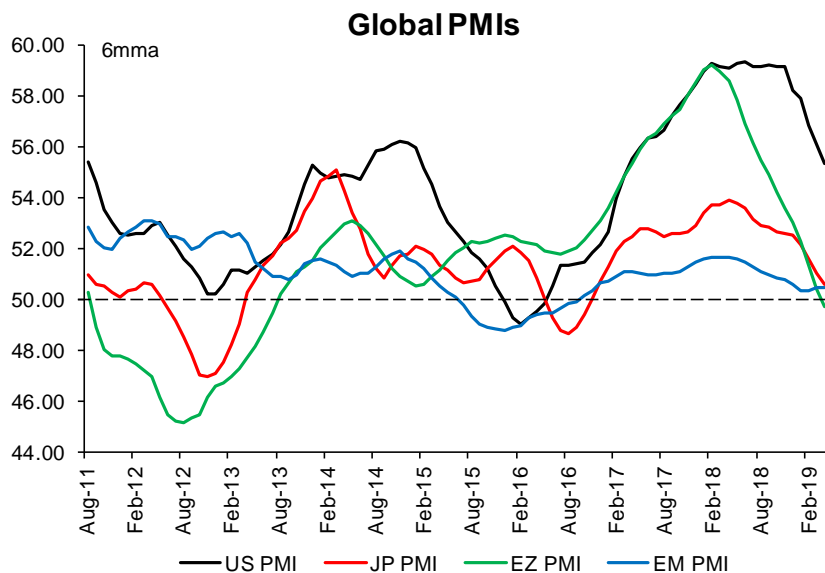
G10 Outlook

Global landscape

- Macro indicators have taken a turn for the worse again in 2Q19 after an attempted consolidation in 1Q19.
- Global economic deceleration already fully internalized – US yield curve (3/10s, 5/30s) searching for a recession.
- With a renewed deflation backdrop and heightened global trade tensions, central banks are expected to embark on further accommodation – bond rally to persist.
- Relativity remains the name of the game in FX – US Federal Reserve vs. its counterparts – late cycle behavior.
 - USD may be volatile in the near term, pending the demeanor of the July FOMC.
 - JPY, CHF (and XAU) to effectively manifest any discretionary USD vulnerability. EUR may surprise if the ECB is less of a dove than expected.
 - GBP to continue to decay under the weight of Brexit.
 - AUD threatened by the China complex and global macro deceleration.

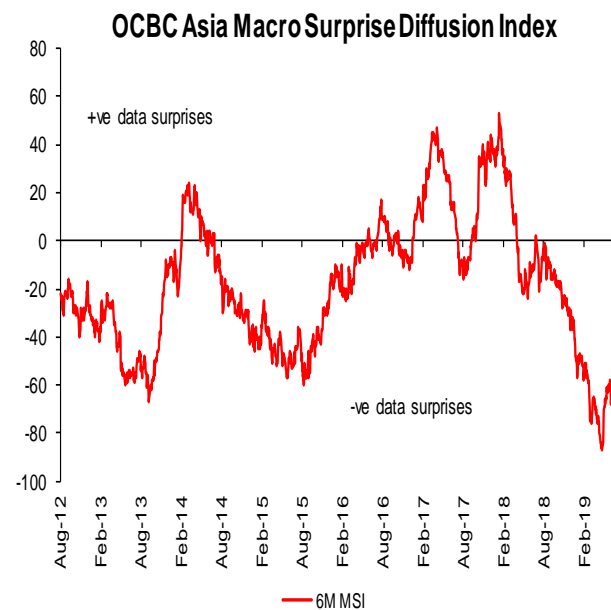
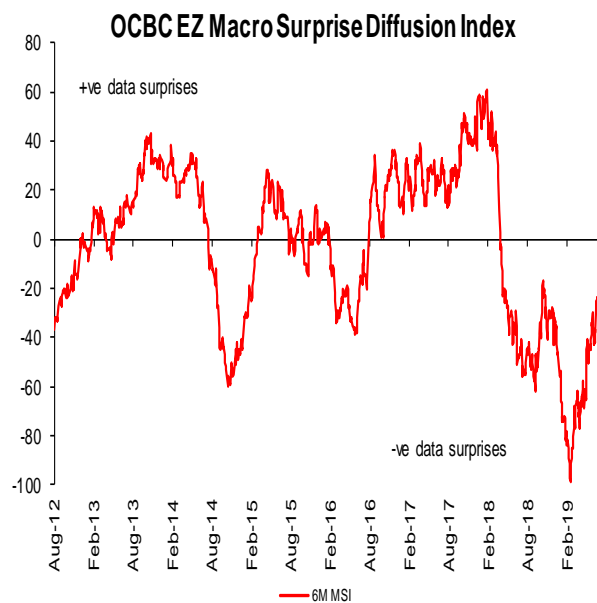
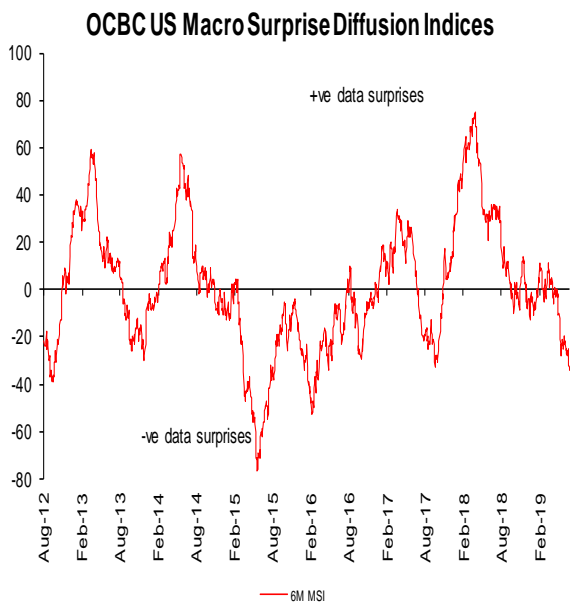
Global backdrop – Convergence still in play

- US economy is losing its exceptional status, but the slowdown is from a relatively higher base.
- Leading indicators in the US are easing in-line with the ROW (rest-of-world).
- No light at the end of the tunnel yet for the global economy.



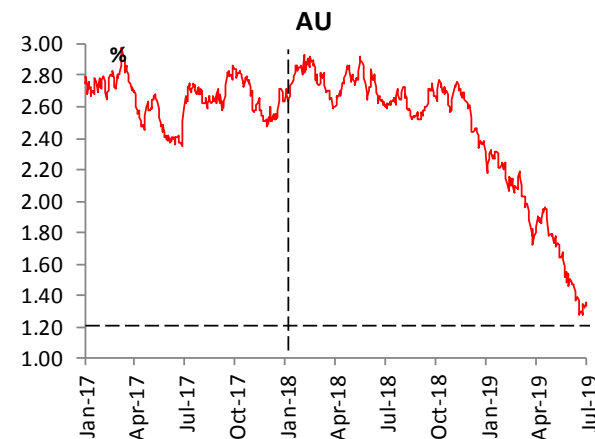
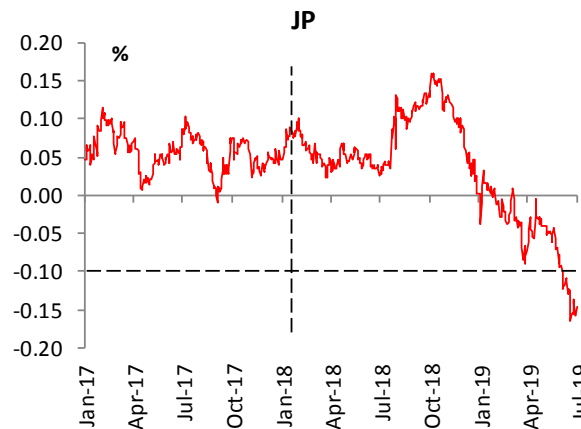
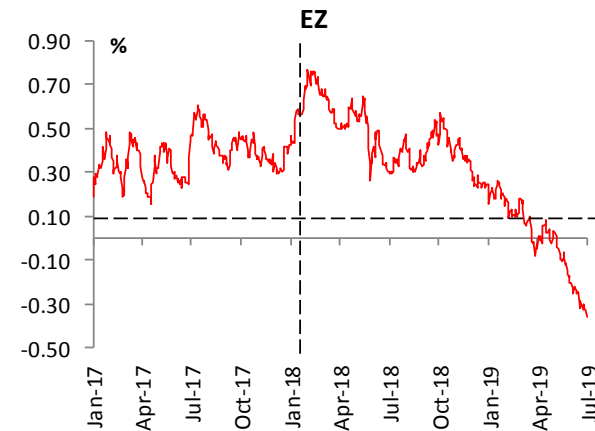
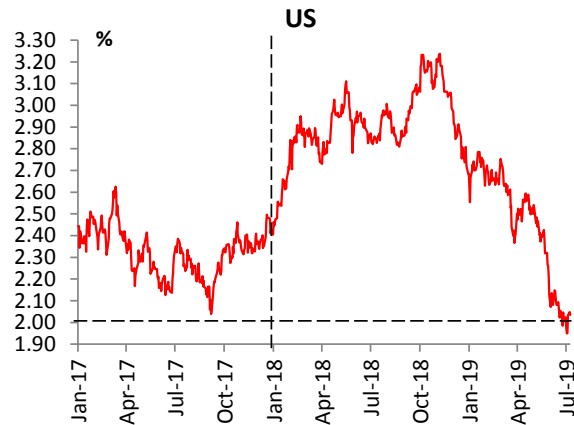
Global backdrop – relativity remains crucial

- Higher frequency data showing ongoing economic deterioration in the US, and may yet deteriorate further.
- Meanwhile, Europe is showing improvement, but selected key indicators continue to spark concern. Some (very) nascent signs of improvement also in Asia/China, but prospects of a meaningful recovery with any sort of traction into 2H19 are dimming.



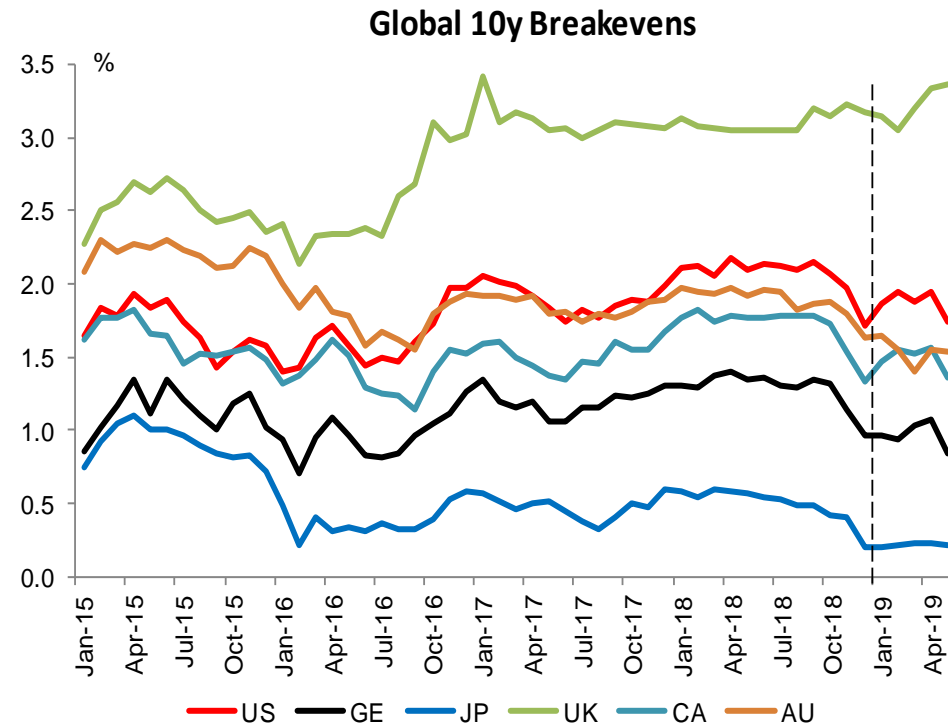
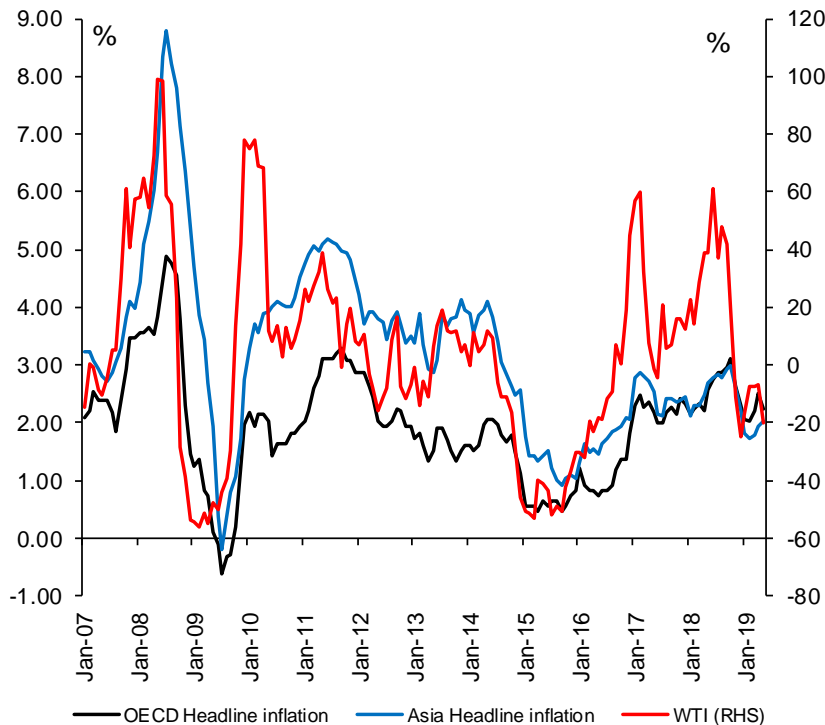
Macro deceleration is a (very) mature story

- Downward march of global core yields has been relentless, but bond bulls may not be done just yet.



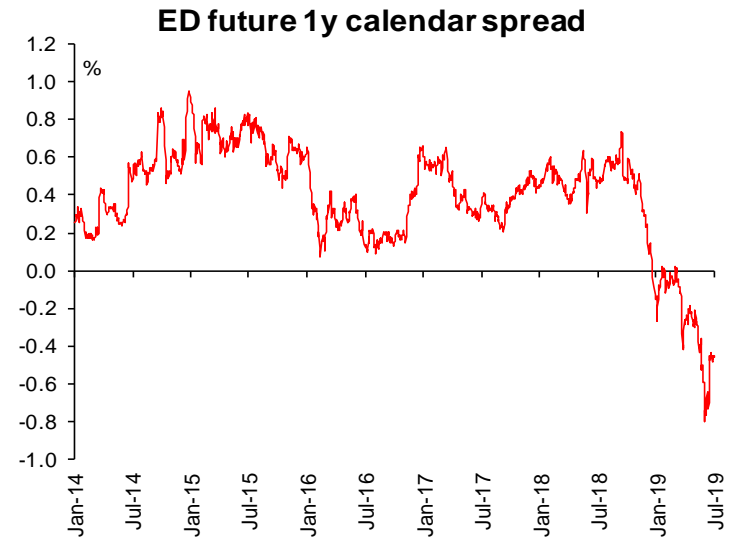
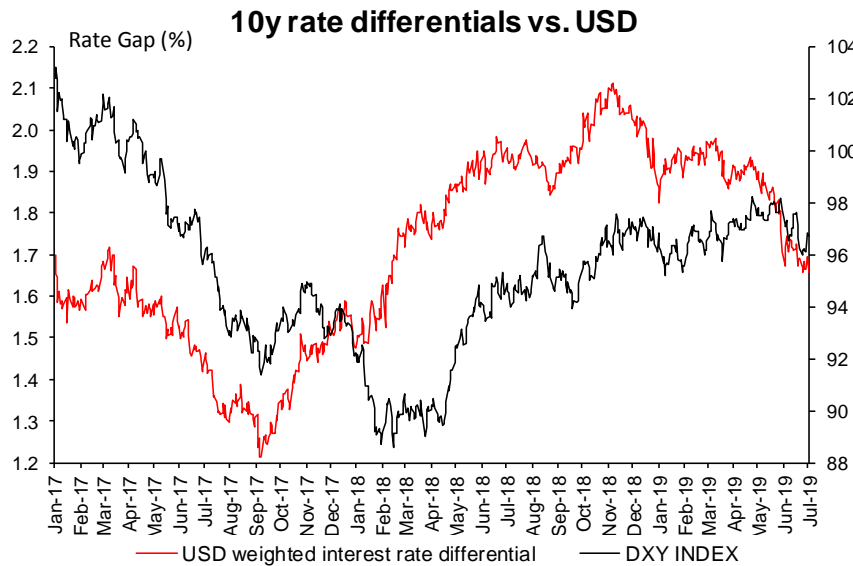
Global inflation expectations softening (again)

- Global inflation firmed up in 1Q 2019, but the renewed decline in crude prices in 1H 2019 may yet again depress global inflation expectations.
- The need to entrench inflation expectations at previous levels may underlie the central banks' easing bias in 2H 2019.



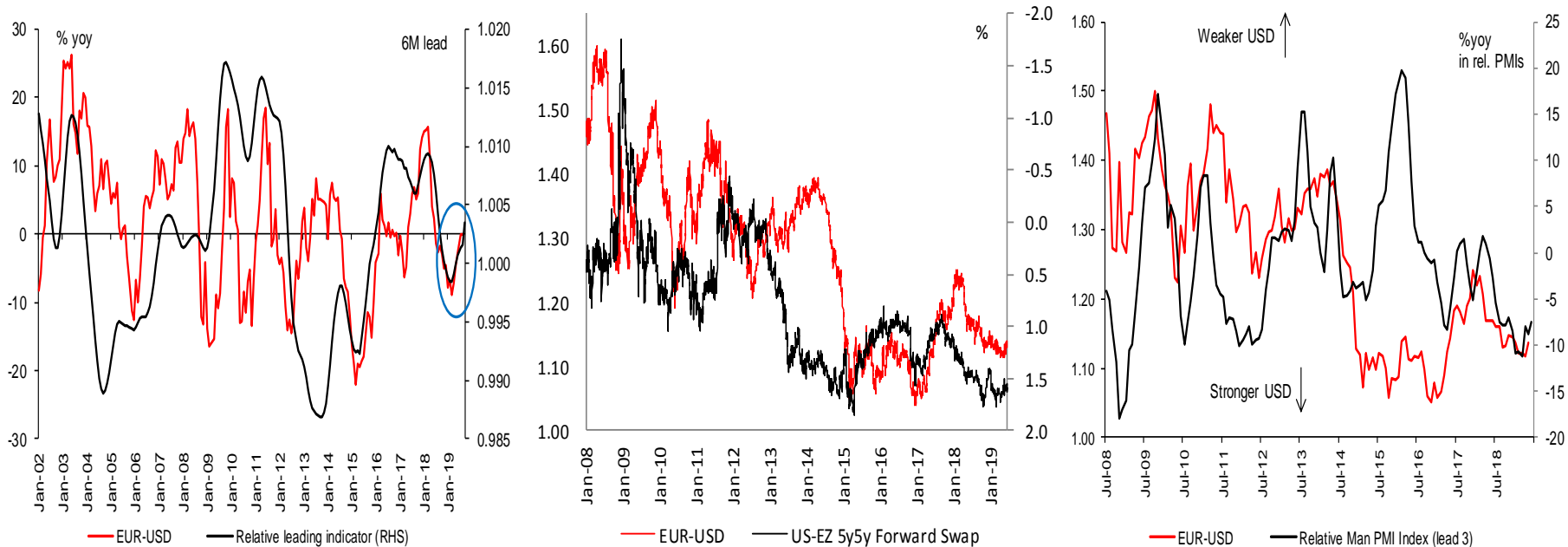
Depth of Fed rate cut cycle in focus

- The Fed has unequivocally shifted to an easing bias (July FOMC to set the tone), but it has also pushed back against excessively dovish market expectations. **House view:** Fed to cut 50 bps by end of Q3 2019, and another 25 bps in Q4 2019.
- In the medium term, a softer Fed posture makes it easier for the other central banks to institute their own monetary accommodation. Differing speeds of accommodation across central banks to create space for volatility.



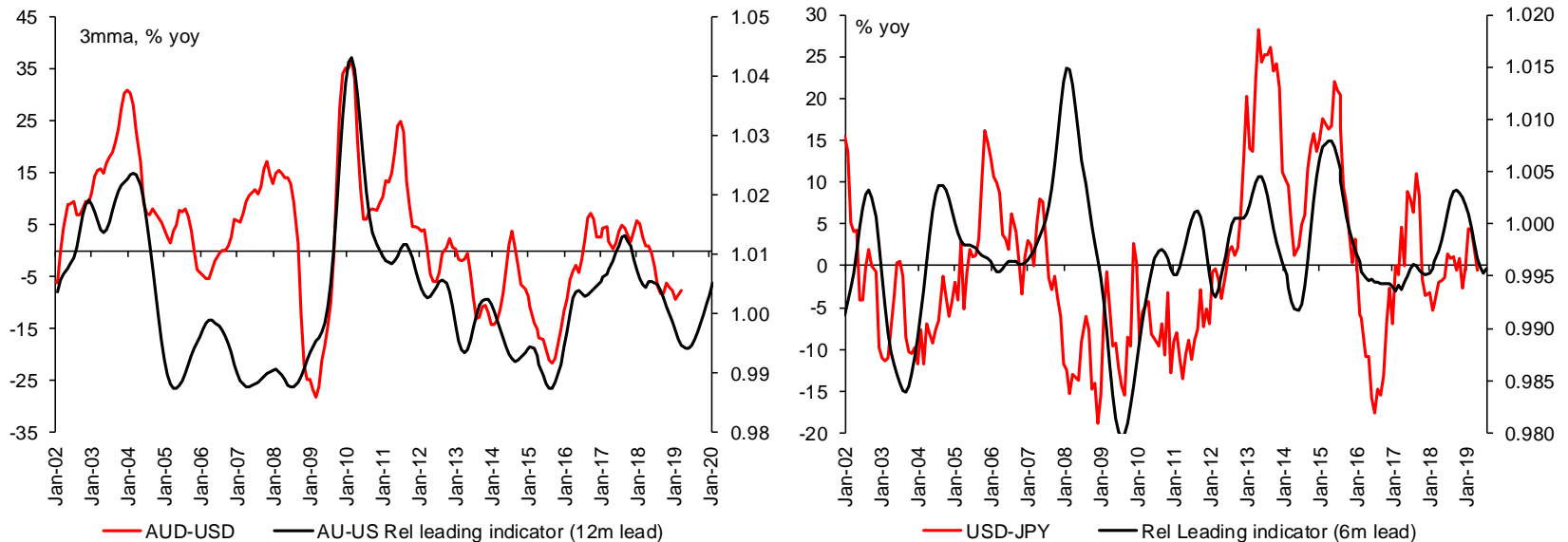
ECB: A bigger dove than the Fed? Or not?

- The full range of monetary easing options (including rate cuts) is still open at the **ECB**, with Draghi still concerned over the lack of price pressures in the Eurozone. The ECB may yet shape up to be the bigger dove than the Fed.
- However, note some improvement in the macro outlook in Europe (relative to the US). ECB may potentially under-deliver relative to easing expectations in the 2H 2019 – tempering excessive EUR weakness.



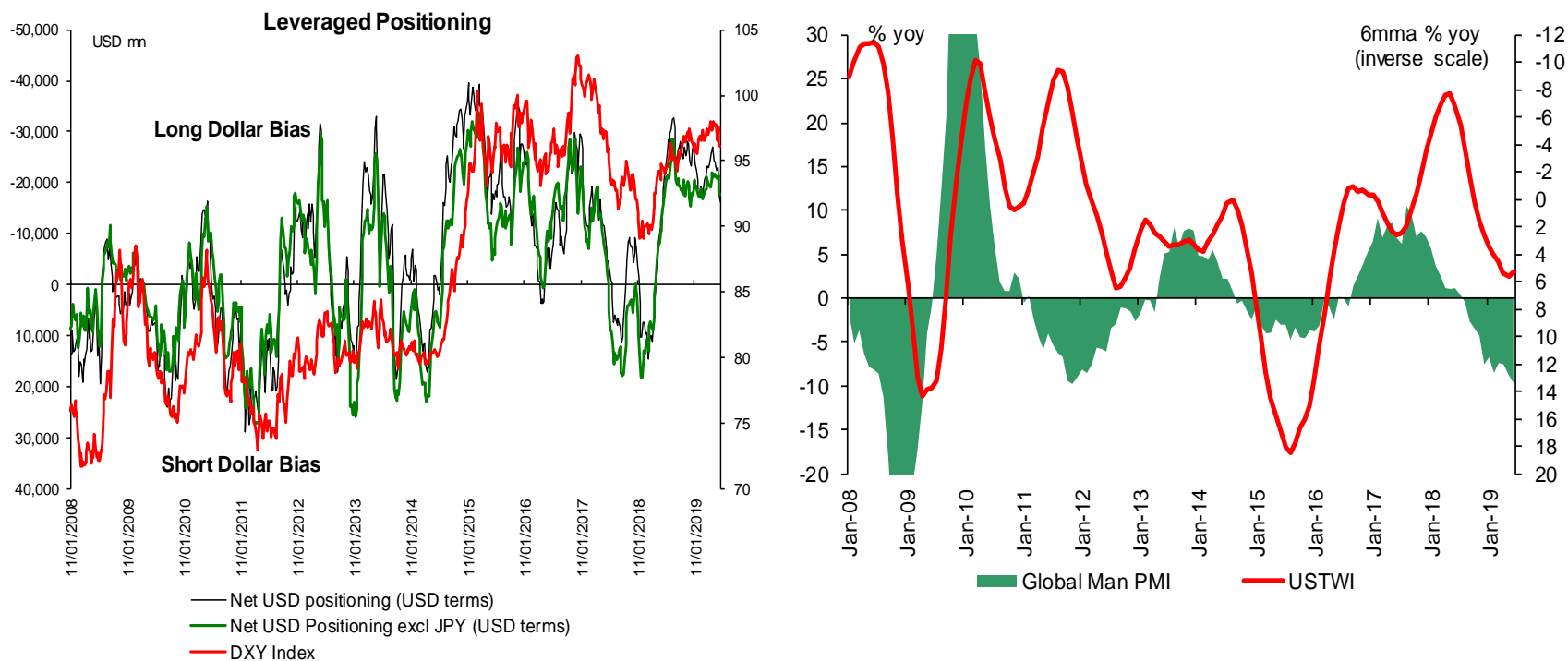
The other major central banks

- Two quick-fire cuts in June-July may now give the **RBA** some room for pause, but the bias remains for further rate cuts by the end of the year.
- **BOJ** still committed to add stimulus if momentum towards its inflation target stalls, but it may have limited levers to pull at this stage.
- Meanwhile, the **BOE's** hands may be tied as long as Brexit is not resolved while the Bank of Canada is seen stationary relative to the Fed.



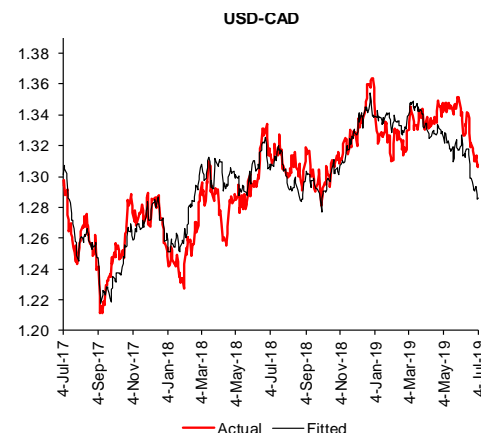
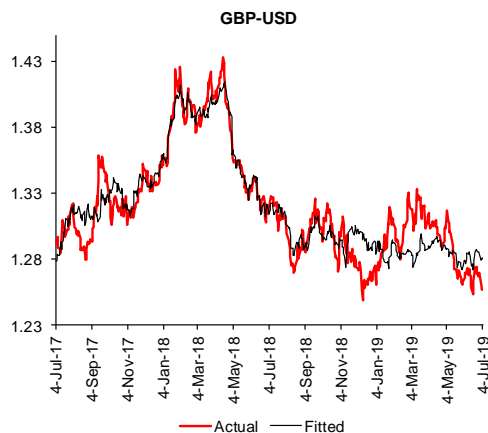
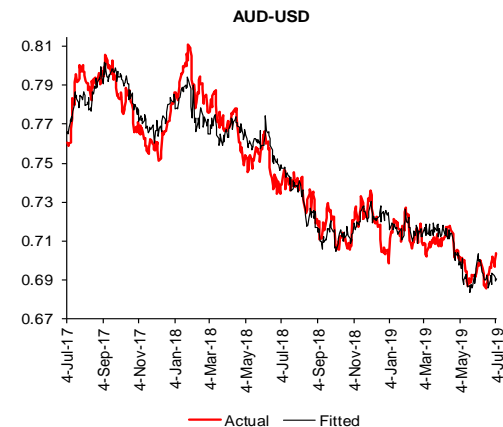
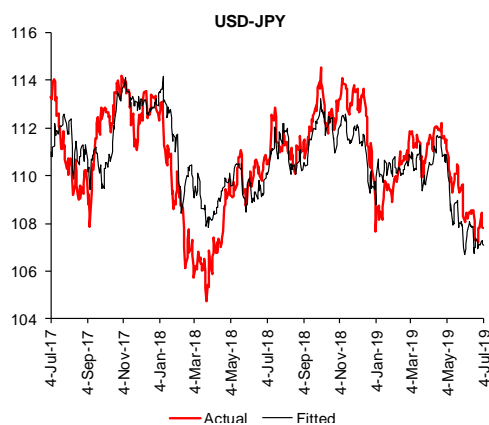
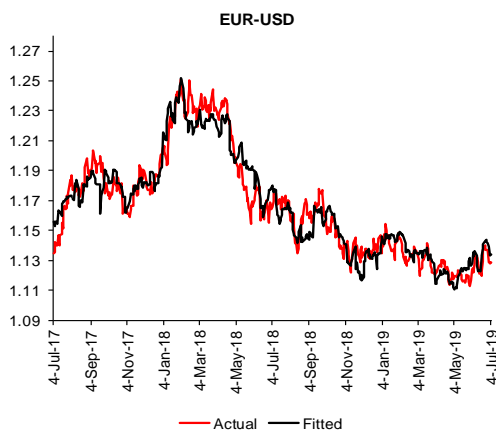
Positioning favouring the USD for now

- Leveraged accounts continue to accumulate net long USD positioning while asset manager accounts have been paring net dollar shorts.
- “Dollar Smile” in action.



In sum: Late stage dynamics in play

- July FOMC may set the early tone for the USD in 2H 2019, but we need to continually assess the relative posturing between the core central banks.
- Any near-term Fed-driven USD weakness may be best expressed through the JPY and CHF. Structurally, the EUR may be whipsawed by potential surprises from the ECB, while the AUD may be hampered on the slower global outlook.



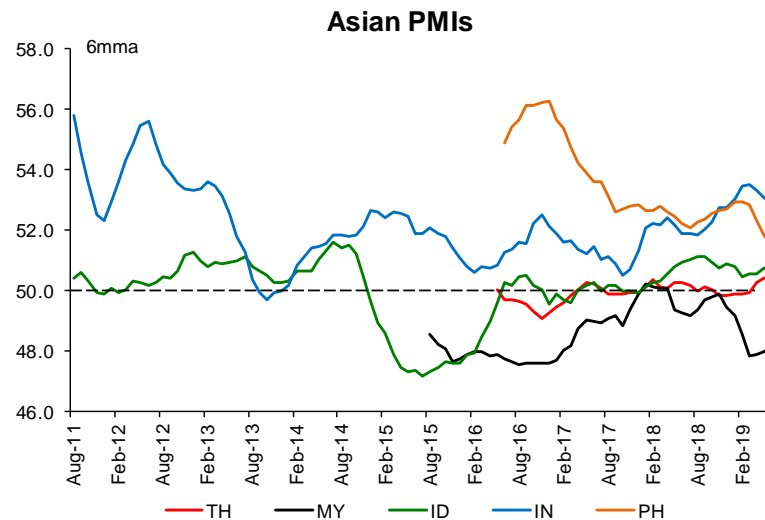
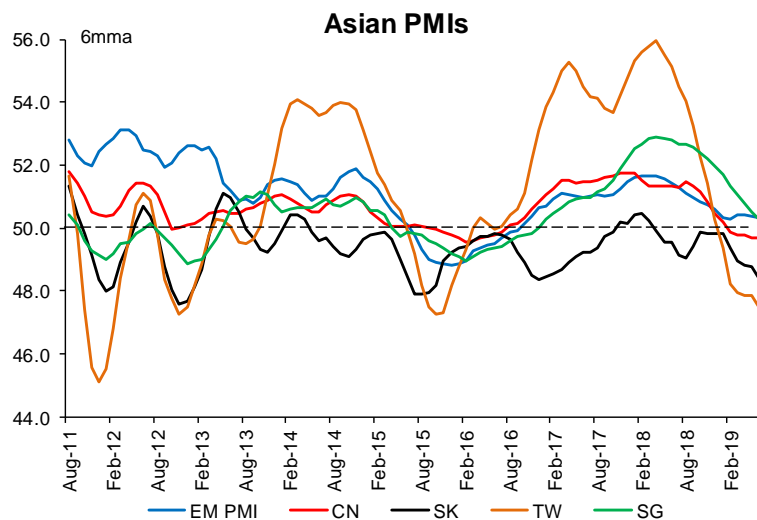
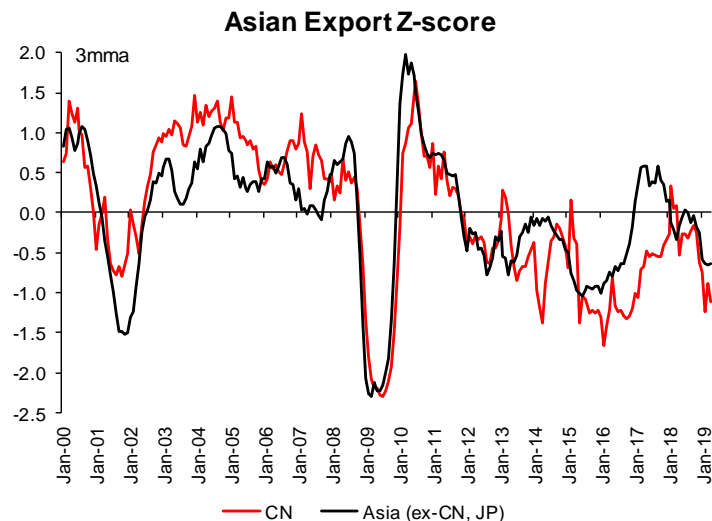
Asian Outlook

Asian landscape

- Asia is ground zero for global trade tensions and the current macroeconomic malaise.
- Asian central banks are now more amenable to further policy accommodation with:
 - the cue from core global central banks;
 - inflation posing little threat and still relatively benign.
- Risk appetite levels remain fairly conducive on the back of the market's current premise of concerted global monetary policy relaxation.
- Carry increasingly attractive. With global core yields still being chased lower, diversionary flows into EM/Asia may continue to ensue.
- Sino-US trade tensions remain a potential flashpoint but expect an anchor of stability from China.
- Caveats:
 - Global trade tensions overshadow global monetary easing
 - The Fed under delivers on expected rate cuts

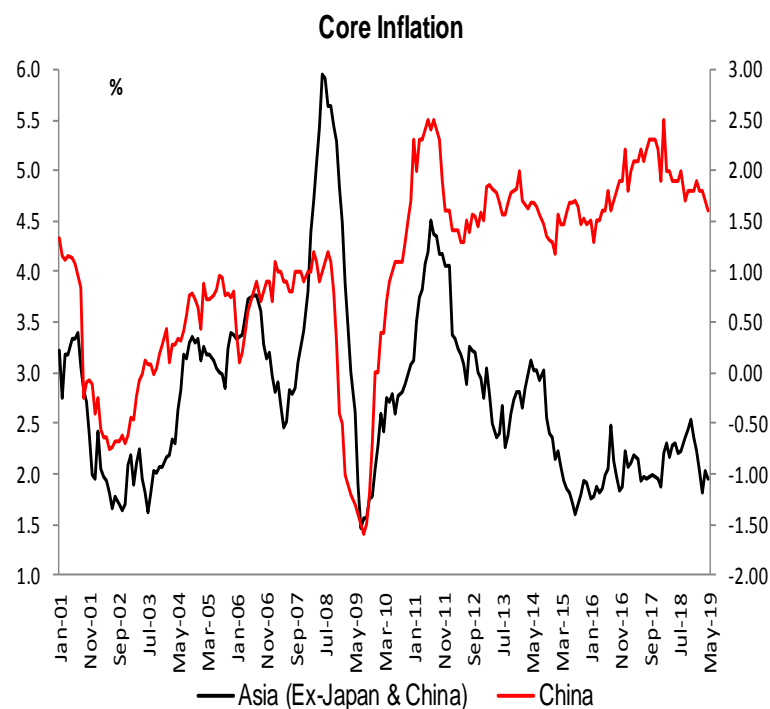
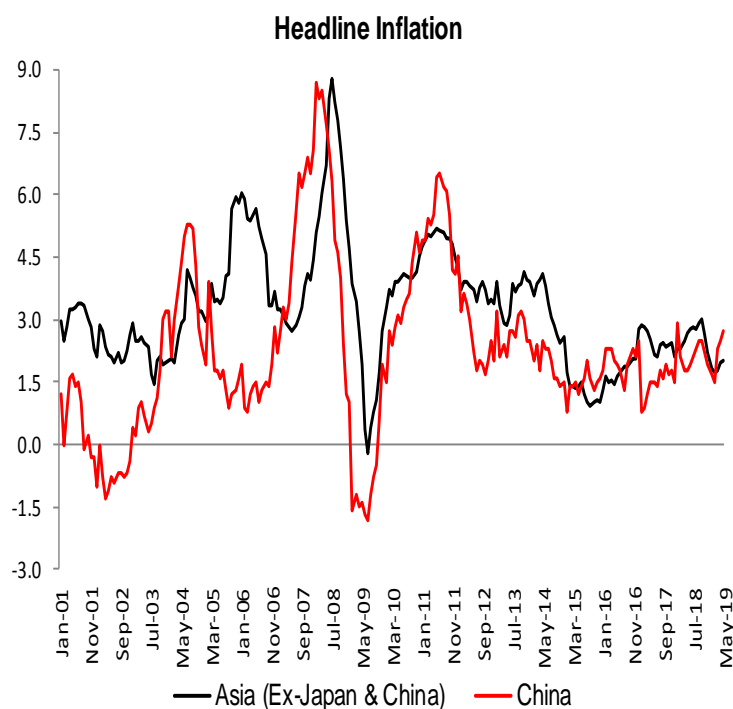
Asian macro picture does not inspire confidence

- Both manufacturing PMI and export prints appear to be accelerating lower.
- Overall deteriorating Asian economic trajectory still not showing signs of bottoming heading into 2H 2019. Ongoing Sino-US trade uncertainties also do not bode well on this front.



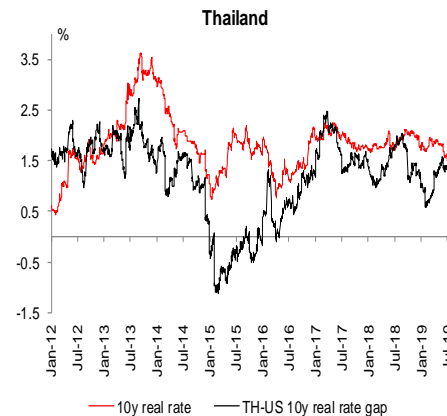
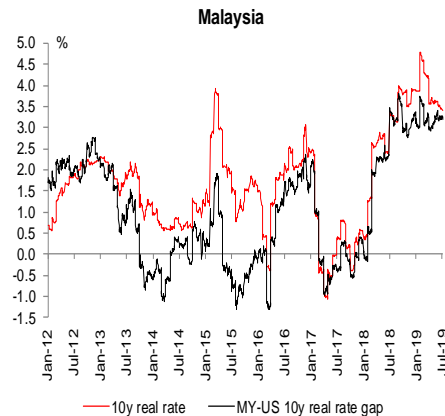
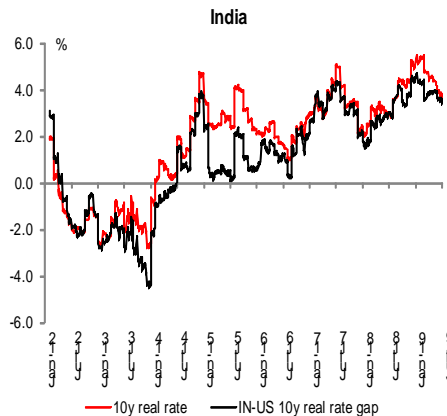
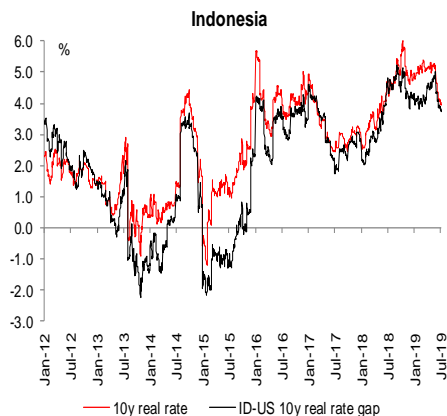
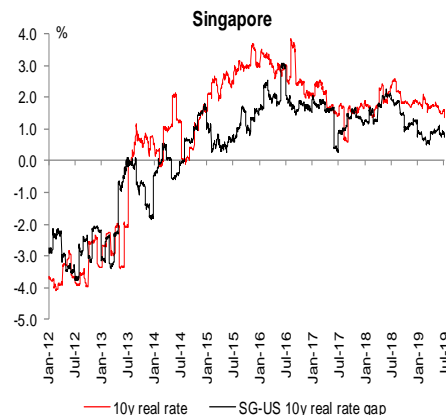
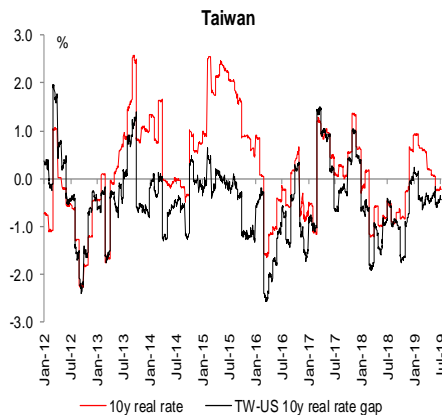
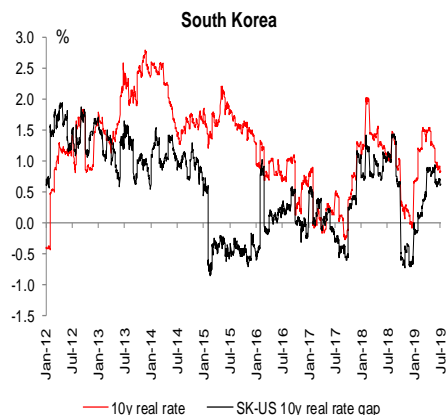
Asian inflation picture soft

- Core inflation prints in Asia generally suppressed but core inflation in China **reverting** to a downtrend. Meanwhile, Asian headline prints are attempting to consolidate.
- Crude prices remain a wild card – especially if global trade war uncertainty spills over to real economic variables.



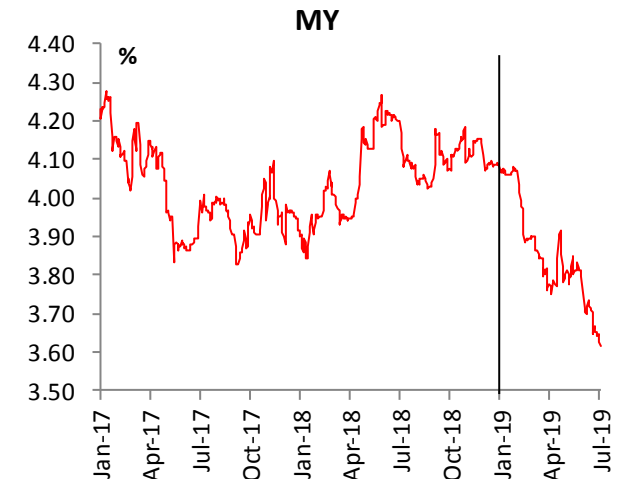
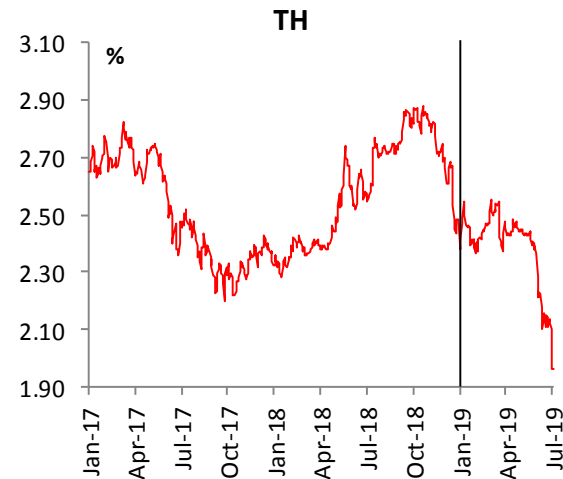
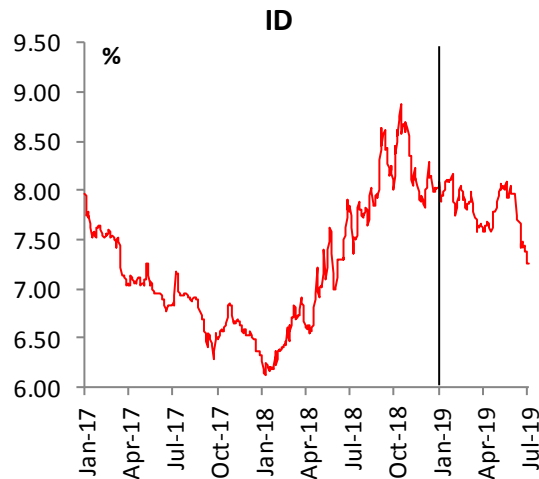
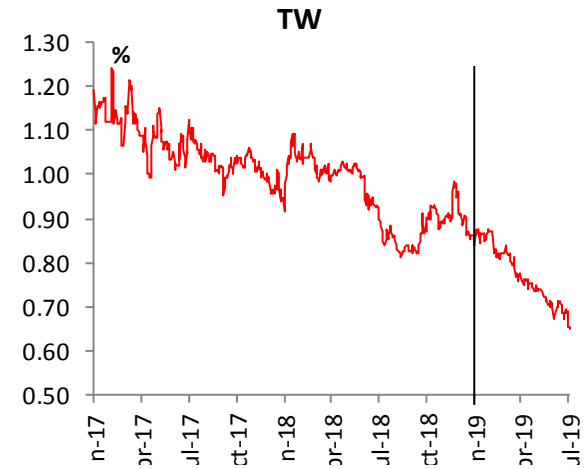
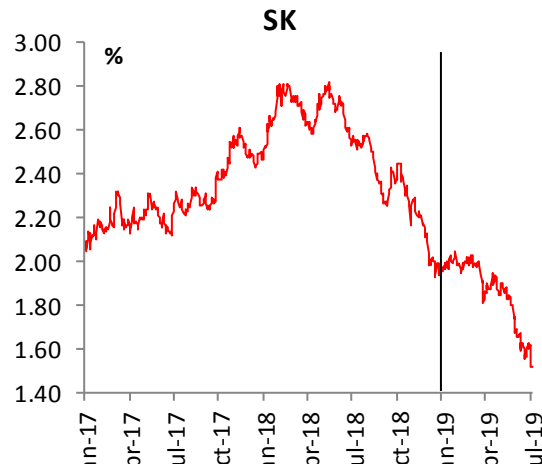
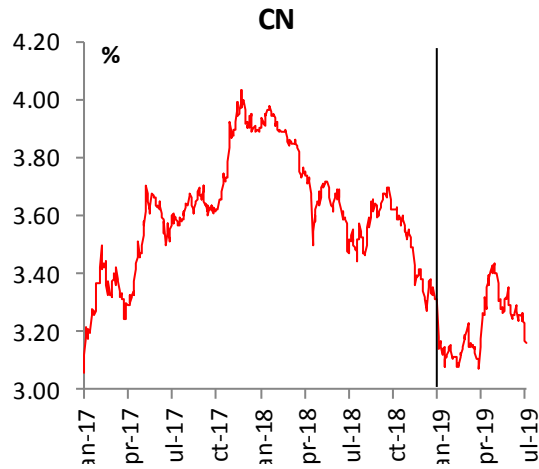
Real rates easing too slowly?

- Real 10y yields in South Asia have eased off highs, but remains relatively elevated if squared with the current economic environment and prognosis.
- We expect Asian central banks to embrace more rate cuts in 2H 2019.



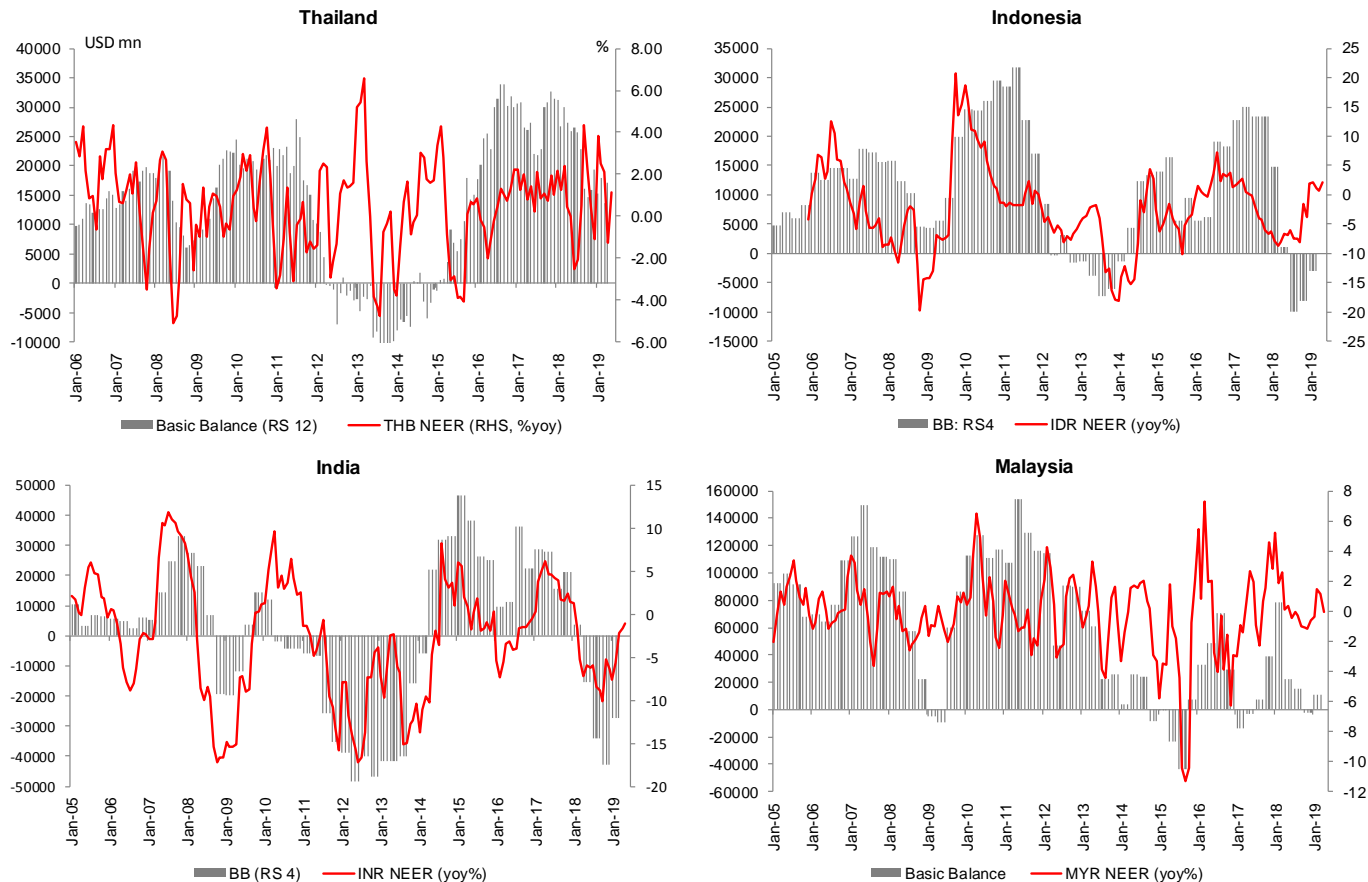
No bottom in sight for Asian govie yields

- Expect Asian yields to track core global yield curves lower.



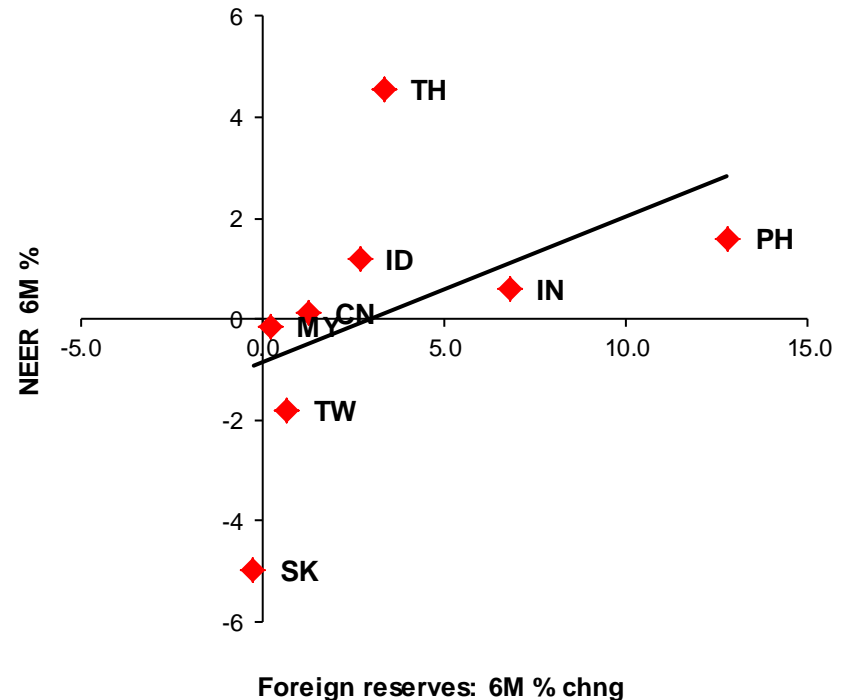
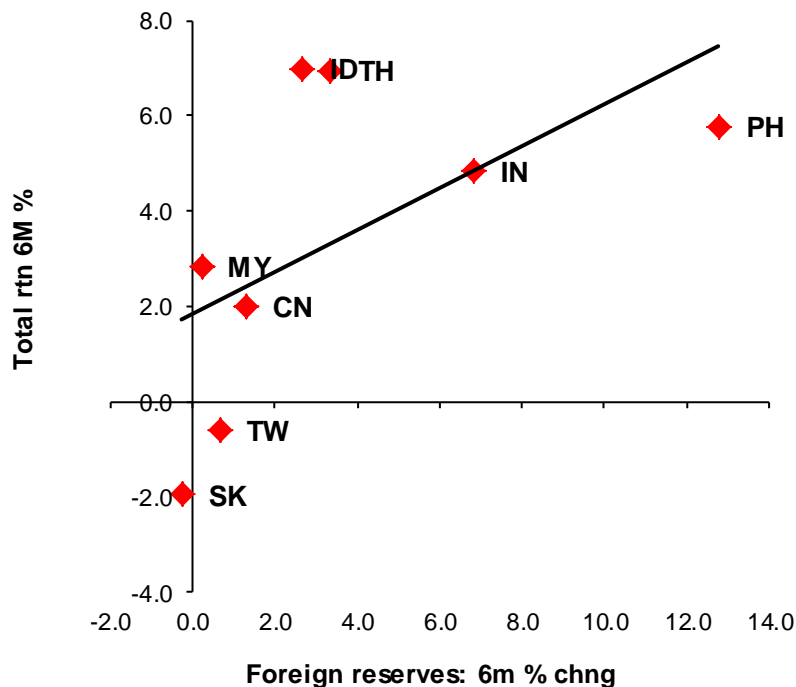
Basic balance on the mend in South Asia

- Basic balance is on the mend in India and Indonesia, providing mechanical support for the INR and IDR on an NEER basis. Meanwhile, basic balance accumulation is slowing down in Thailand.



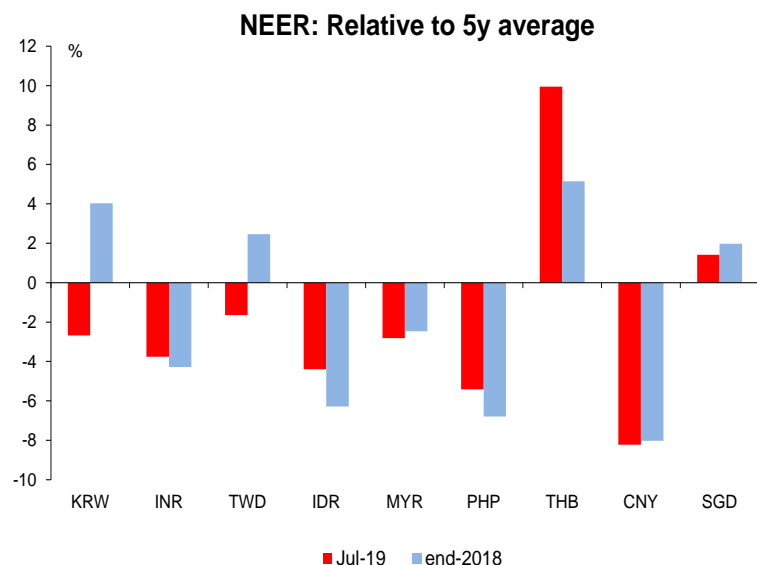
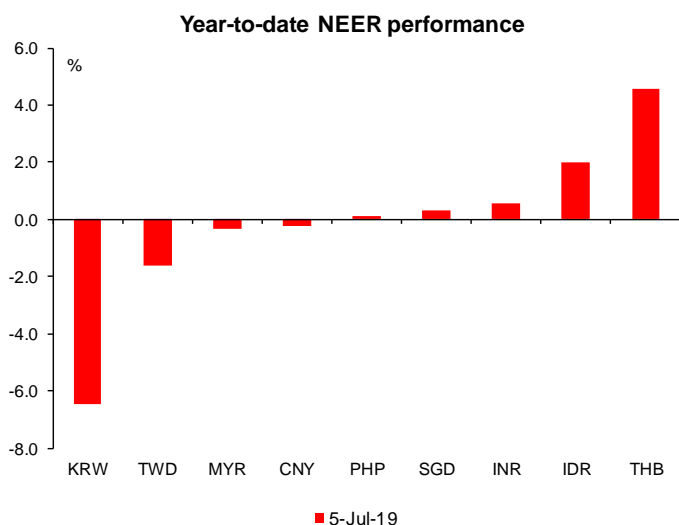
Foreign reserve accumulation

- In line with the basic balance picture, foreign reserve accumulation has been positive in Asia – providing implicit buffer for the Asian currencies, barring an acute onset of risk aversion.
- Ongoing THB outperformance relative to KRW on this metric.



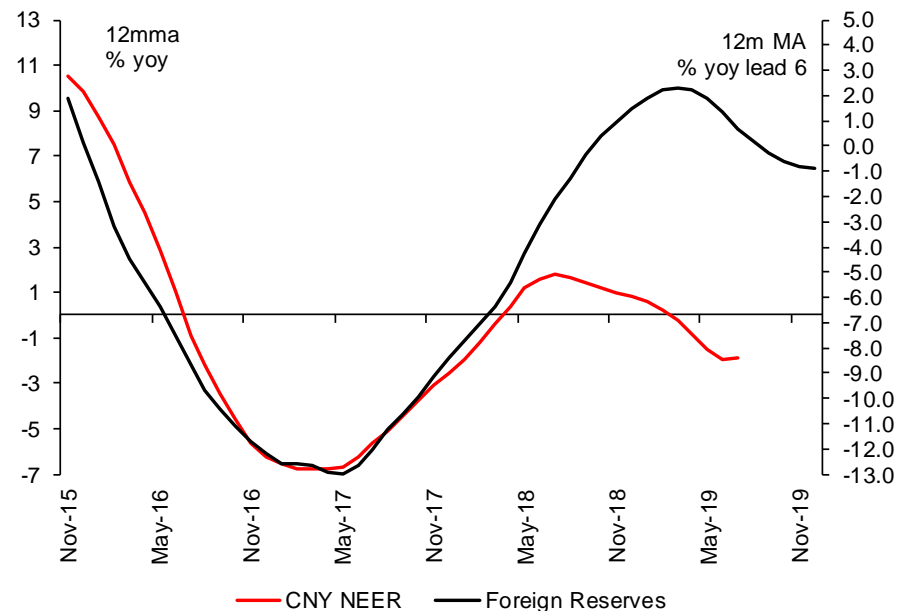
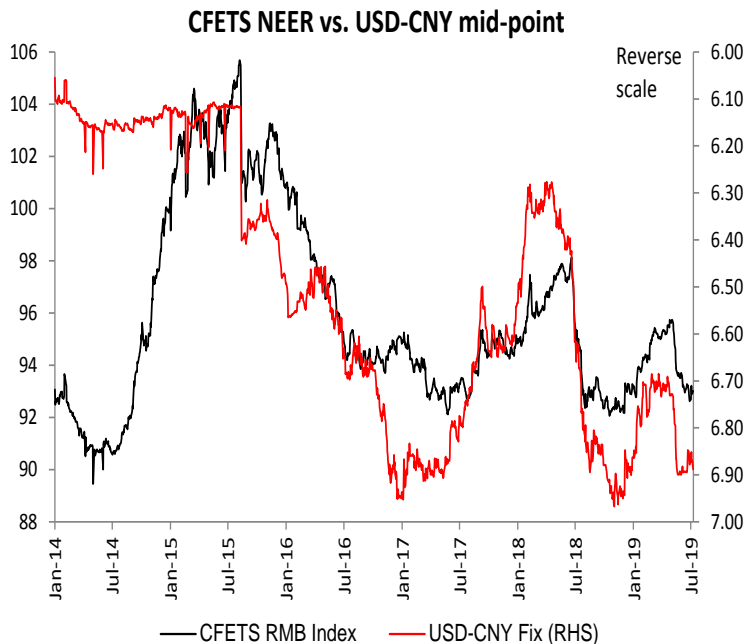
No drastic misalignment for Asian FX

- The tightening impact of the THB NEER may compel the **Bank of Thailand** to adopt a more dovish slant in due course. Meanwhile, the declining KRW NEER has done little to support Korean exports, and should not be a serious impediment for rate cuts at the **Bank of Korea**. Nevertheless, given the gentle trajectory in their previous rate hike cycles, these two central banks may have limited room for cuts.
- Overall, expect Asian central banks to be cognizant of externally-induced volatility, and proceed with monetary easing with care.



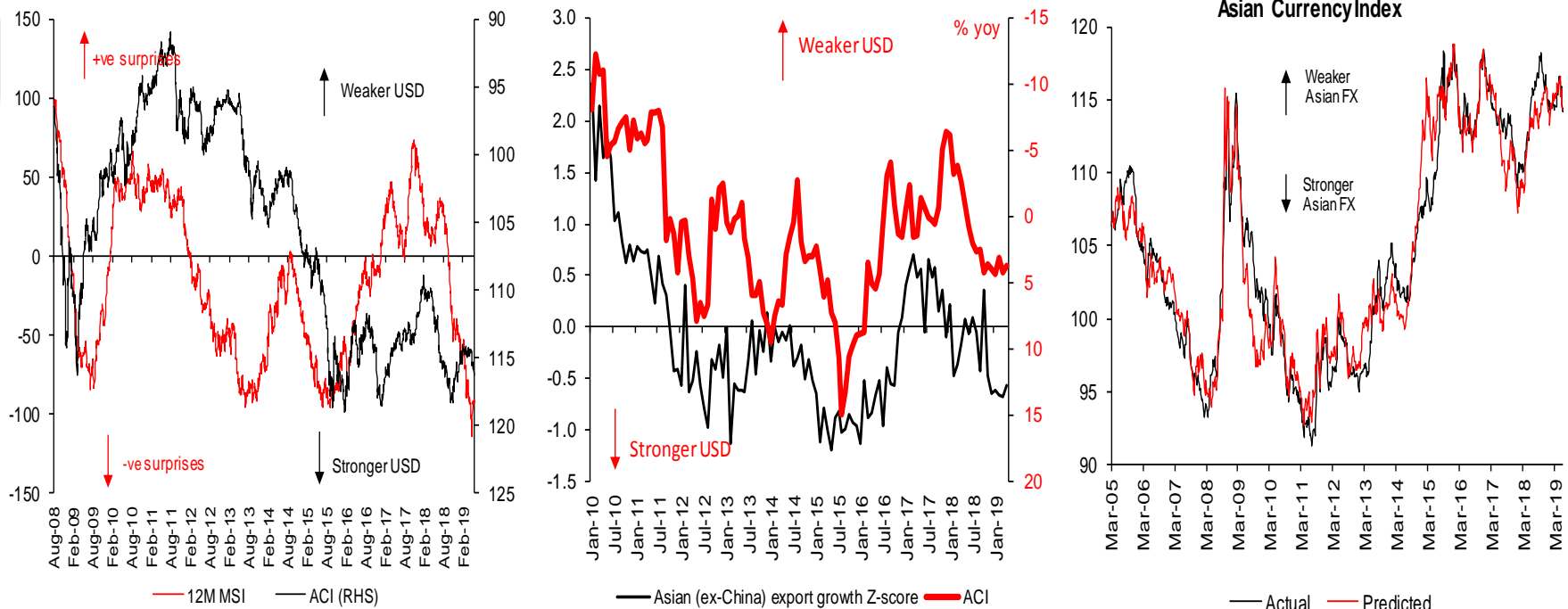
RMB: Asymmetric risks

- The reality and materialization of Sino-US trade tensions have resulted in a softening profile for the CFETS RMB Index.
- Although USD-CNY fixings may be restrained (significantly lower than expected) in times of volatility (especially USD strength), a structurally softer CFETS RMB Index implies restrained downside for USD-CNY but potentially increased headroom on the upside if the DXY bounces higher.



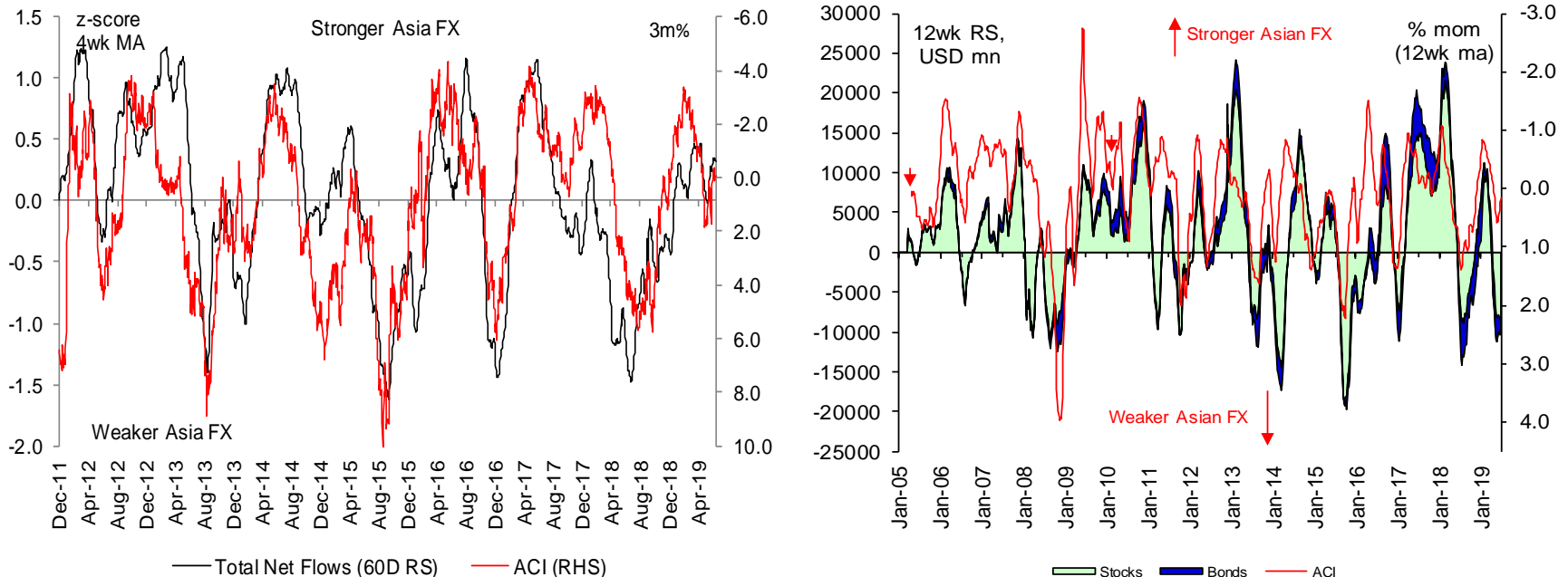
Long term structural impediments for Asia

- The soft macro backdrop portends further weakening for the Asian currencies on a structural basis, despite background support from the positive risk environment. In the near term, expect the Asian currencies to be also held hostage by the lack of an appreciation impetus in the RMB.



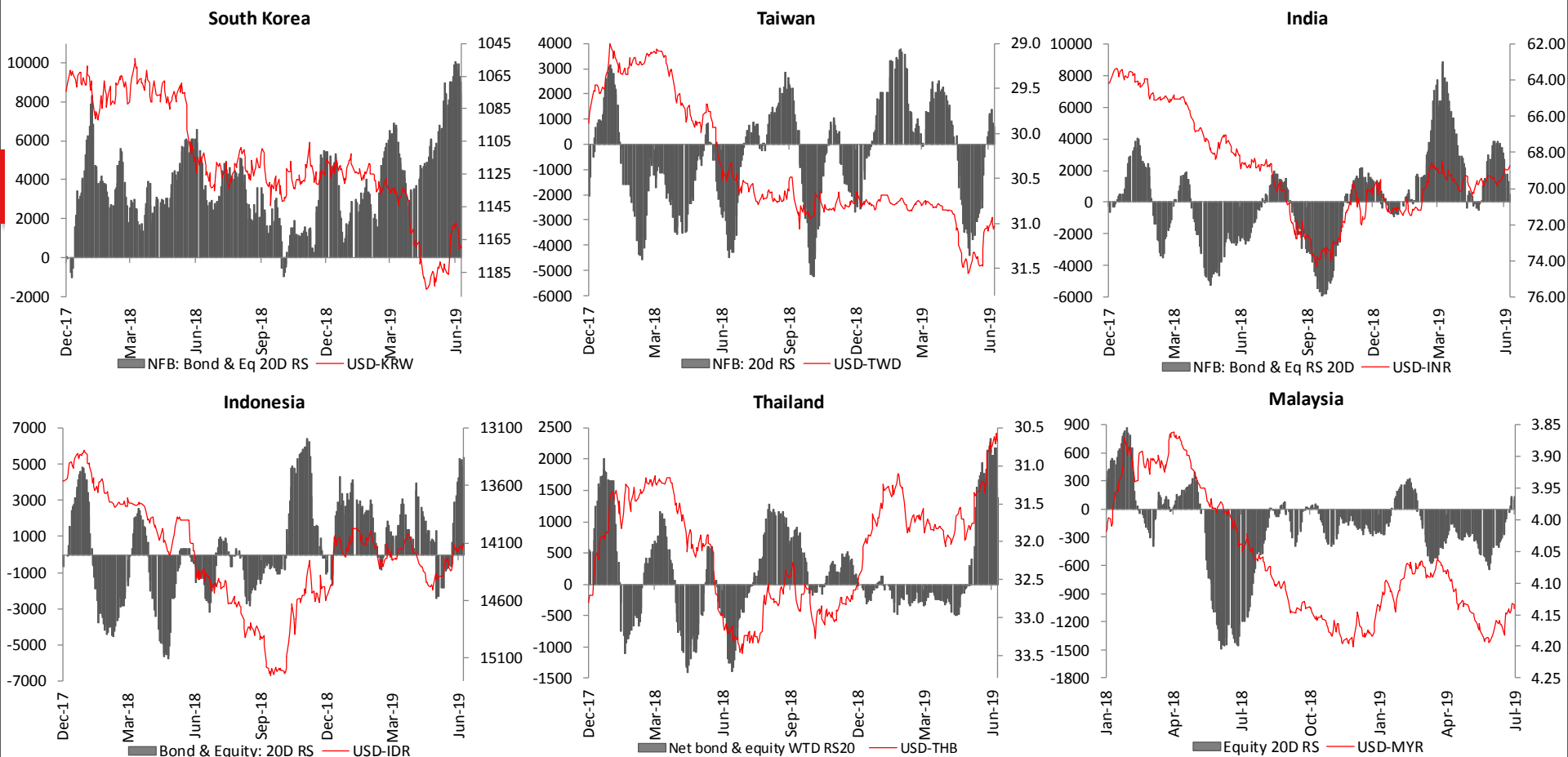
Selected near term positives from flow picture

- Lower (and some negative) core global yields are supportive for Asian govie bonds. Moving forward, expect selected Asian bonds and FX to continue outperforming, with the focus on either the high-yielders and/or bond markets presided by central banks expected to ease further.



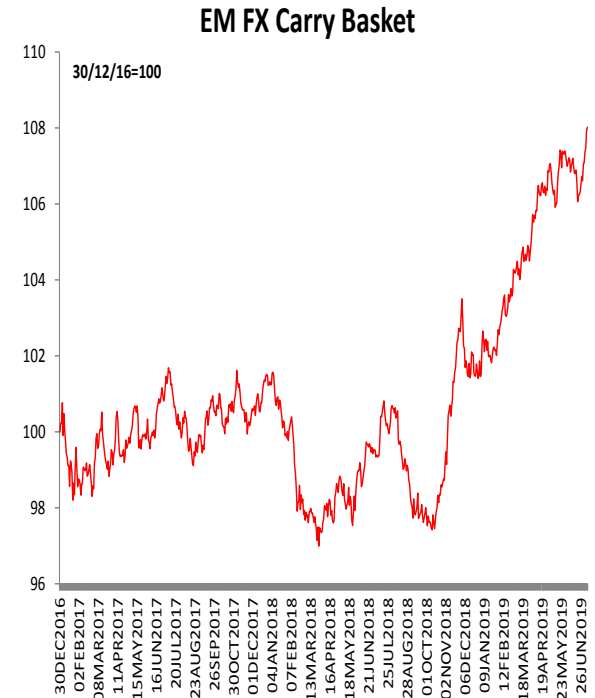
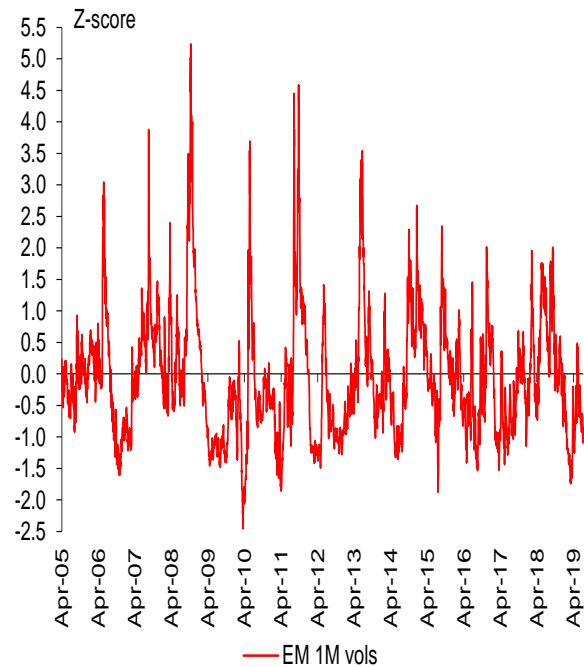
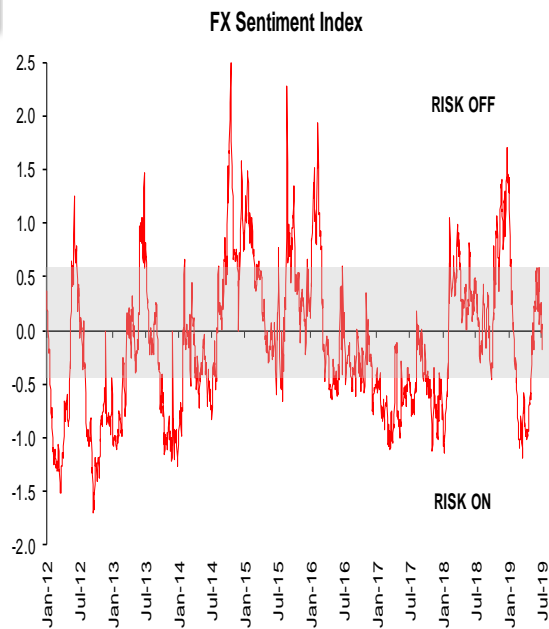
Asian flow environment: Country perspective

- South Korea, Thailand and Indonesia looking solid on the back of bond inflows, although the follow-through to FX is limited for KRW.



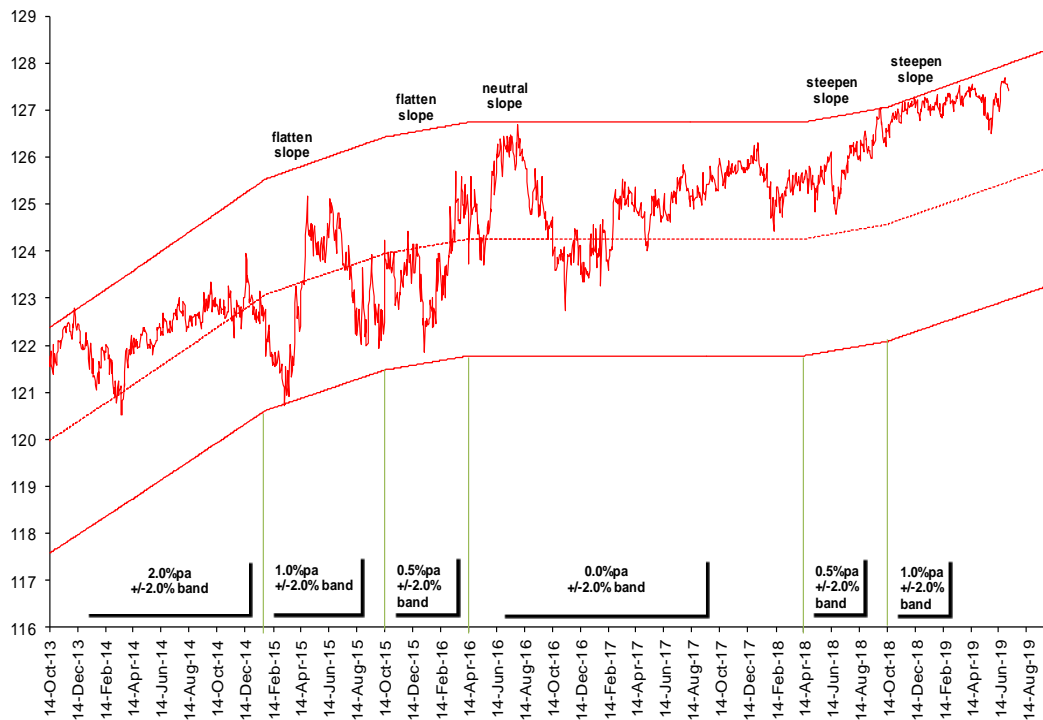
Overall risk appetite recovering

- Going forward, with no blow-up in Sino-US trade talks for now and a liquidity boost from global central banks, we may expect a broadly risk-on environment – supportive of Asian FX.
- In Asia, short-end (realized) EM FX vols have also eased, supporting the vol/carry proposition with respect to EM/Asian assets.

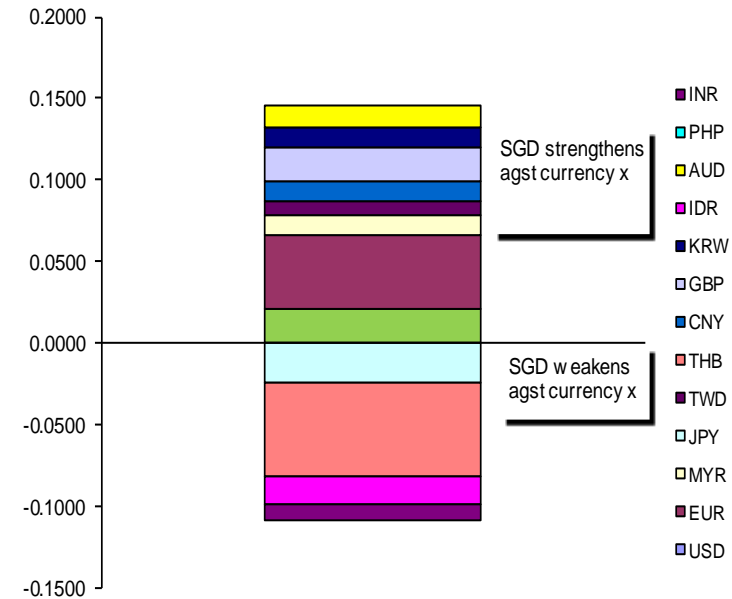


SGD NEER: Biased lower on soft macro outlook

- Recent developments perhaps suggests that the growth outlook is somewhat worse than the “slightly below potential” prognosis in the April MPS.
- The NEER may be increasingly perceived to be elevated relative to underlying fundamentals.



Year-to-date 2019



FX forecasts (correct as of 01 July)

	Spot	Jul-19	Sep-19	Dec-19	Mar-20
USD-JPY	108.27	108.91	107.15	106.84	106.52
EUR-USD	1.1325	1.1325	1.1224	1.1352	1.1479
GBP-USD	1.264	1.2640	1.2461	1.2644	1.2827
AUD-USD	0.6997	0.7028	0.6909	0.7009	0.7110
NZD-USD	0.6702	0.6735	0.6597	0.6702	0.6807
USD-CAD	1.3105	1.3017	1.2914	1.2862	1.2811
USD-CHF	0.9836	0.9803	0.9739	0.9712	0.9685
USD-SGD	1.3548	1.3492	1.3548	1.3484	1.3421
USD-CNY	6.8456	6.8258	6.8849	6.8075	6.7300
USD-THB	30.59	30.37	30.21	30.10	29.98
USD-IDR	14113	13,986	13,903	13,832	13,760
USD-MYR	4.1385	4.1202	4.1214	4.0944	4.0674
USD-KRW	1158.70	1146.44	1139.99	1134.07	1128.15
USD-TWD	30.995	30.832	30.745	30.581	30.417
USD-HKD	7.8085	7.8000	7.7950	7.7850	7.7750
USD-PHP	51.05	50.78	50.65	50.48	50.31
USD-INR	69.06	68.52	68.06	67.62	67.17
EUR-JPY	122.61	123.34	120.27	121.28	122.27
EUR-GBP	0.8960	0.8960	0.9008	0.8978	0.8949
EUR-CHF	1.1140	1.1101	1.0931	1.1024	1.1117
EUR-SGD	1.5343	1.5280	1.5207	1.5307	1.5405
GBP-SGD	1.7125	1.7054	1.6882	1.7050	1.7215
AUD-SGD	0.9480	0.9482	0.9360	0.9452	0.9542
NZD-SGD	0.9081	0.9087	0.8938	0.9037	0.9135
CHF-SGD	1.3773	1.3764	1.3911	1.3885	1.3858
JPY-SGD	1.2514	1.2388	1.2644	1.2622	1.2599
SGD-MYR	3.0532	3.0538	3.0420	3.0364	3.0307
SGD-CNY	5.0522	5.0592	5.0819	5.0484	5.0146

USD rates forecasts (correct as of 02 July)

	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
Fed Funds Target Rate	1.75%-2.0%	1.50%-1.75%	1.50%-1.75%	1.50%-1.75%	1.50%-1.75%	1.50%-1.75%
1-month LIBOR	2.15%	1.90%	1.84%	1.78%	1.71%	1.65%
2-month LIBOR	2.20%	1.95%	1.89%	1.83%	1.76%	1.70%
3-month LIBOR	2.25%	2.00%	1.94%	1.88%	1.81%	1.75%
6-month LIBOR	2.26%	2.10%	2.04%	1.98%	1.91%	1.85%
12-month LIBOR	2.27%	2.20%	2.15%	2.10%	2.05%	2.00%
1-year swap rate	2.00%	1.95%	1.98%	2.00%	2.03%	2.05%
2-year swap rate	1.80%	1.75%	1.84%	1.93%	2.01%	2.10%
3-year swap rate	1.73%	1.69%	1.81%	1.92%	2.04%	2.15%
5-year swap rate	1.75%	1.70%	1.83%	1.95%	2.08%	2.20%
10-year swap rate	1.95%	1.90%	2.01%	2.13%	2.24%	2.35%
15-year swap rate	2.10%	2.00%	2.10%	2.21%	2.31%	2.41%
20-year swap rate	2.19%	2.16%	2.24%	2.32%	2.40%	2.48%
30-year swap rate	2.20%	2.18%	2.29%	2.39%	2.50%	2.60%

SGD rates forecasts (correct as of 02 July)

	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
1-month SIBOR	1.85%	1.83%	1.85%	1.87%	1.88%	1.90%
1-month SOR	1.80%	1.75%	1.81%	1.88%	1.94%	2.00%
3-month SIBOR	2.00%	1.98%	2.00%	2.02%	2.03%	2.05%
3-month SOR	1.83%	1.80%	1.88%	1.97%	2.05%	2.13%
6-month SIBOR	2.06%	2.05%	2.08%	2.10%	2.13%	2.15%
6-month SOR	1.70%	1.65%	1.78%	1.92%	2.05%	2.18%
12-month SIBOR	2.18%	2.15%	2.17%	2.19%	2.20%	2.22%
1-year swap rate	1.70%	1.65%	1.71%	1.78%	1.84%	1.90%
2-year swap rate	1.63%	1.60%	1.65%	1.70%	1.75%	1.80%
3-year swap rate	1.65%	1.63%	1.68%	1.73%	1.77%	1.82%
5-year swap rate	1.72%	1.70%	1.74%	1.78%	1.81%	1.85%
10-year swap rate	1.95%	1.90%	1.94%	1.98%	2.02%	2.06%
15-year swap rate	1.98%	1.94%	2.01%	2.09%	2.17%	2.25%
20-year swap rate	2.28%	2.26%	2.27%	2.29%	2.30%	2.31%
30-year swap rate	2.29%	2.28%	2.29%	2.31%	2.32%	2.33%



Thank You