

JACKIT WONG

5 December 2017

Vice President
Global Markets Research
Global Markets Division for the East
Asian Region
T: +852 2249 3084
E: jackit_ws_wong@hk.mufg.jp

Bank of Tokyo-Mitsubishi UFJ
A member of MUFG, a global financial group

Highlights

- **RBA softened its tone over the Aussie, with a slightly positive inflation outlook when announcing its widely expected status quo on rates**
- **China's Caixin composite PMI for November signals growth moderation, but on a positive note, services PMI (in line with NBS non-manufacturing PMI) broke the downtrend**
- **China introduced a new government yield curve benchmark "Shanghai Key Yield", but the rising bond yields would probably persist towards the year-end**

INDICATIVE RATES 05 Dec 2017 Data snapped ~12:06 HK TIME

| Foreign Exchange | | | Equity Indices | | | Interest Rates | | | | |
|------------------|---------|--------|----------------------|---------|-----------|----------------|-----------|------------|----------|-------|
| | Asia | % Chng | New York | London | Close | % Chg | 3M FIXING | % bp Chng | | |
| USD/JPY | 112.50 | 0.09 | 112.42 | 108.79 | DJIA | 24290.05 | 0.24 | USD LIBOR | 1.50849 | 1.39 |
| EUR/JPY | 133.58 | 0.17 | 133.37 | 127.82 | N225 | 22635.55 | -0.32 | JPY TIBOR | 0.06125 | 0.00 |
| EUR/USD | 1.1875 | 0.09 | 1.1866 | 1.1749 | DAX | 13058.55 | 1.53 | EURIBOR | -0.32600 | 0.00 |
| GBP/USD | 1.3472 | -0.04 | 1.3480 | 1.2857 | FTSE | 7338.97 | 0.53 | GBP LIBOR | 0.52200 | 0.22 |
| USD/SGD | 1.3453 | -0.14 | | | STI | 3438.47 | -0.32 | SGD SIBOR | 1.20980 | 0.09 |
| USD/THB | 32.550 | -0.09 | | | SET | 1697.61 | -0.12 | THB BIBOR | 1.57132 | -0.01 |
| USD/MYR | 4.0510 | -0.22 | Commodities | | KLCI | 1711.82 | -0.08 | MYR KLIBOR | 3.43000 | 0.00 |
| USD/IDR | 13514 | -0.08 | CRB | 188.69 | JCI | 6000.12 | 0.03 | IDR JIBOR | 5.25500 | 0.77 |
| USD/PHP | 50.577 | -0.08 | Brent Crude* | 62.53 | PSEI | 8112.36 | 0.35 | PHP REF | 3.73900 | 13.80 |
| USD/INR | 64.280 | -0.14 | Gold (USD/oz) | 1275.91 | SENSEX | 32796.85 | -0.22 | INR MIBOR | 6.38000 | 0.00 |
| USD/KRW | 1082.13 | -0.29 | | | KOSPI | 2506.14 | 0.18 | | | |
| USD/TWD | 29.992 | -0.08 | Market Gauges | | TAIEX | 10591.43 | -0.56 | | | |
| AUD/USD | 0.7646 | 0.63 | VIX | 11.68 | ASX | 5972.20 | -0.22 | | | |
| USD/HKD | 7.8171 | -0.01 | Dollar Index | 93.050 | HANG SENG | 29041.94 | -0.33 | | | |
| USD/CNY | 6.6110 | -0.11 | UST 2Y | 1.778 | SHCOMP | 3311.59 | 0.06 | | | |
| USD/VND | 22717 | 0.07 | UST 10Y | 2.363 | VNI | 969.35 | -0.07 | | | |

Source: BTMU & Reuters. FX daily % changes from 2100 GMT prior Reuters closes; London and New York show BTMU closes.

AUD/RBA. RBA monetary policy decision 1.50% = consensus = last.

<http://www.rba.gov.au/media-releases/2017/mr-17-25.html>

RBA softened its tone somewhat, when commenting the Aussie in the latest statement that "the Australian dollar remains within the range that it has been in over the past two years", **WITHOUT** stressing over the impact of the higher exchange rate that "is expected to contribute to continued subdued price pressures in the economy" and "is also weighing on the outlook for output and employment", but RBA still kept the sentence "An appreciating exchange rate would be expected to result in a slower pick-up in economic activity and inflation than currently forecast".

Inflation wise, RBA dropped the sentence "In underlying terms, inflation is likely to remain low for some time, reflecting the slow growth in labour costs and increased competitive pressures, especially in retailing" in the latest press release, but kept the one "the Bank's central forecast remains for inflation to pick up gradually as the economy strengthens".

Regarding domestic growth outlook, RBA became slightly more positive about the outlook for non-mining business investment to see "further" improvement, and at the same time maintained its optimistic expectations for "GDP growth to average around 3% over the next few years" in this press release, like in the past.

All this would probably prompt RBA to consider tightening its monetary policy as soon as in the first half next year, bolstering AUD/USD which GMR London expects AUD/USD to reach 0.82 by 3Q next year. [\[Back to Highlights\]](#)

CNY. Caixin composite PMI for November signals growth moderation in China, but on a positive note, services PMI (in line with [NBS non-manufacturing PMI](#) released on 30 November) **broke the downtrend**.

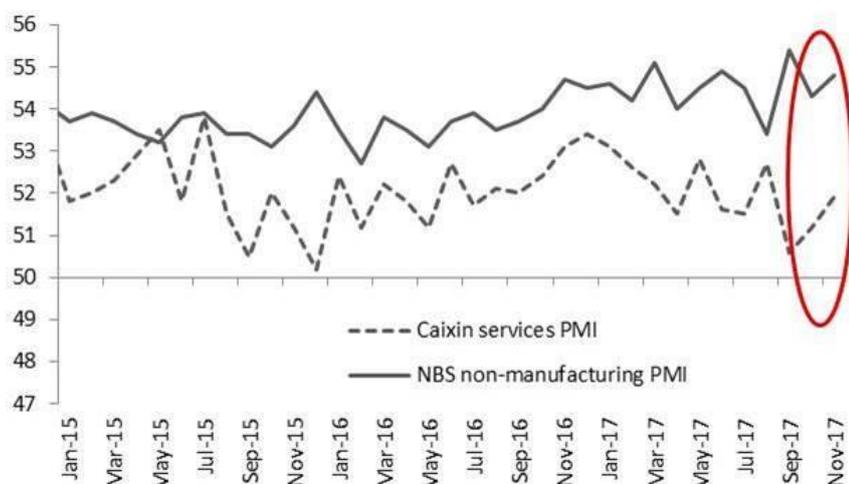
<https://www.caixinglobal.com/2017-12-05/china-services-activity-picks-up-in-november-caixin-survey-shows-101180437.html>

<https://www.markiteconomics.com/Survey/PressRelease.mvc/8ac5b5a94b6c4a76b7ce520363e70742>

November Caixin services PMI 51.9 > last 51.2, while Oct-Nov average 51.55 ~ 3Q (average) 51.60.

The rebound in Caixin services PMI in November came in line with NBS non-manufacturing PMI (includes both services and construction) which improved to 54.8 in November (> last 54.3 and 3Q 54.43), and at the same time, the 12-month business outlook at services companies also improved. All this might indicate **a turnaround to the previous trend of a weakening services activity expansion**.

SERVICES AND NON-MANUFACTURING PMIS BROKE THE DOWNTREND



Source: Bloomberg, MUFG

Sub-indices of Caixin PMI came in line with the headline improvement.

- "New orders received by Chinese services providers rose at the fastest rate in three months in November".
- Employment rose "to the highest level since August".
- "The increase in input costs faced by service providers was the highest since May while the subindex of prices charged was the highest since July 2015".

Caixin composite PMI rose to 51.6 in November (> last 51.0), as the improvement in services PMI outweighed the decline in manufacturing PMI. That said, **the Oct-Nov average at 51.3 remained below that in 3Q (i.e., 51.9)**, suggesting that **the overall activity softened slightly in 4Q in relative to 3Q, in line with our expectations**.

Dr. Zhengsheng Zhong, Director of Macroeconomic Analysis at CEBM Group said, "(T)here was no imminent risk of a significant decline in its growth rate. But we should be cautious because the economy may come under rising inflationary pressure at the start of next year due to continued price increases."

The upcoming monthly activity indicators for November (including trade figures this Friday, CPI and PPI this Saturday, retail sales, urban fixed asset investment and industrial production on 14 December) **would probably suggest some growth moderation in exports** (consensus 5.3%YoY < last 6.9%), **industrial production** (consensus 6.2%YoY/6.6%YoY YTD ~ last 6.2%/6.7%) and **urban fixed asset investment** (7.2%YoY YTD < last 7.3%), **but on a positive note, retail sales growth would probably improve modestly** (consensus 10.3%YoY > last 10.0%).

Consumer-price inflation is expected to stay steady (consensus 1.8%YoY < last 1.9%), as food prices declining at a slightly faster would probably offset the mild upward inflationary pressure in prices of non-food consumer goods. Meanwhile, **producer-price inflation is expected to moderate** (consensus 5.9%YoY > last 6.9%), mainly due to smaller carrying over effect, but reduction in industrial overcapacity and anti-pollution campaign would probably keep certain metal prices at an elevated level.

All in all, we reiterate our expectations for growth moderation in 4Q this year and next year, while USD/CNY is expected to remain steady in December, trading in a range of 6.55 to 6.70, but would probably start to depreciate next year. [\[Back to Highlights\]](#)

CNY/Bond. **China Bond Pricing Center releases the SKY** (Shanghai Key Yield).

<http://www.chinabond.com.cn/cb/eng/zs/sjdg/20171204/148628945.shtml>

SKY is derived from China Bond Government Bond Yield Curve with maturities of 3 months, 1 year, 3 years, 5 years, 7 years and 10 years...IMF applies the SKY_3M as the representative RMB interest rate in SDR interest rate calculation...The SKY_10Y is applied as the benchmark in the issuance of 10-year Chinese local government bonds...

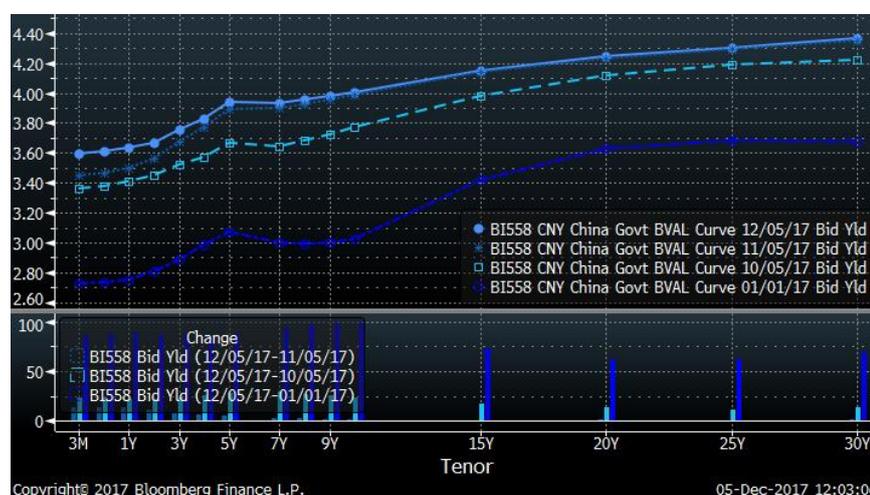
<http://www.nasdaq.com/article/china-launches-new-government-yield-curve-benchmark-20171204-01238>

The first quoted three-month SKY on Monday evening was 3.9285%, and the 10-year rate was 3.8902%. (Reuters).

The introduction of the new government yield curve benchmark would probably offer limited help to the rising bond yields, given the massive refinancing before year-end. In 2018, PBOC is expected to maintain its "prudent and neutral" monetary stance, in line with what PBOC adviser Sheng Songcheng said (Source: Hexun). [\[Back to Highlights\]](#)

<http://news.hexun.com/2017-12-05/191869269.html> (simplified Chinese)

CHINA'S RISING SOVEREIGN BOND YIELD



Source: Bloomberg, MUFG

TWO DAYS HENCE

ECB speak: Executive Board member **Mersch**. **BOJ speak:** Policy Board member **Masai**. **Bank of Canada's monetary decision:** consensus = last = 1.00%, which 4 out of 26 analysts in the Bloomberg survey expect a rate hike of 25 basis points, while GMR London thinks that the next hike would probably come in 2Q next year. **RBI monetary policy decision:** consensus = last, i.e., 6.00% for repurchase rate, 5.75% for reverse repo rate and 4.00% for cash reserve ratio, which 4 out of 44 analysts expect a rate cut of 25 basis points, while GMR Singapore expects a stand pat in rates, amid rising inflationary pressure.

US November ADP employment change: consensus 190k < last 235k. ADP employment change is expected to normalize to slightly below 200k in November, after the post-hurricane private employment rebound in October. The employment trend in the US is likely to start to be clearer from November. **Germany October Factory orders:** consensus -0.2%SAMM/7.0%YoY < last 1.0%/9.5%. The expected decline in October for factory orders should be temporary, as German manufacturing PMI indicates industrial production activity would probably continue to trend up. **Australia 3Q GDP:** consensus 0.7%SAQQ < last 0.8%, but on a year-on-year basis, consensus 3.0% > last 1.8%. The economic growth in Australia should probably be supported by export growth, in addition to some pickup in investment (as rising non-mining investment would probably offset moderating contraction in mining investment) and modestly improving domestic demand.

Bonds: **China** to sell CNY26bn 1-year and 10-year bonds, while **Thailand** to sell THB12bn bonds due 2031 and **Malaysia** to sell MYR2bn 10-year bonds. [\[Back to Highlights\]](#)

Disclaimer

This document has been prepared by The Bank of Tokyo-Mitsubishi UFJ, Ltd. (the "Bank") for general distribution. It is only available for distribution under such circumstances as may be permitted by applicable law and is not intended for use by any person in any jurisdiction which restricts the distribution of this document. The Bank and/or any person connected with it may make use of or may act upon the information contained in this document prior to the publication of this document to its customers.

Neither the information nor the opinions expressed in this document constitute or are to be construed as, an offer, solicitation or recommendation to buy, sell or hold deposits, securities, futures, options or any other derivative products or any other financial products. This document has been prepared solely for informational purposes and does not attempt to address the specific needs, financial situation or investment objectives of any specific recipient. This document is based on information from sources deemed to be reliable but is not guaranteed to be accurate and should not be regarded as a substitute for the exercise of the recipient's own judgment. Historical performance does not guarantee future performance. The Bank may have or has had a relationship with or may provide or has provided financial services to any company mentioned in this document. Our group affiliates, from time to time, may have interests and/or underwriting commitments in the relevant securities mentioned in this document or related instruments and/or may have positions or holdings in such securities or related instruments.

All views in this document (including any statements and forecasts) are subject to change without notice and none of the Bank, its head office, branches, subsidiaries and affiliates is under any obligation to update this document.

The information contained in this document has been obtained from sources the Bank believed to be reliable but the Bank does not make any representation or warranty nor accepts any responsibility or liability as to its accuracy, timeliness, suitability, completeness or correctness. The Bank, its head office, branches, subsidiaries and affiliates and the information providers accept no liability whatsoever for any loss or damage of any kind arising out of the use of or reliance upon all or any part of this document.

The Bank retains copyright to this document and no part of this document may be reproduced or re-distributed without the written permission of the Bank. The Bank expressly prohibits the distribution or re-distribution of this document to private or retail clients, via the Internet or otherwise, and the Bank, its head office, branches, subsidiaries and affiliates accept no liability whatsoever to any third parties resulting from such distribution or re-distribution.

Disclosure applicable to BTMU's London branch only: The Bank of Tokyo-Mitsubishi UFJ, Ltd. ("BTMU") is a limited liability stock company incorporated in Japan and registered in the Tokyo Legal Affairs Bureau (company no. 0100-01-008846). BTMU's head office is at 7-1 Marunouchi 2-Chome, Chiyoda-Ku, Tokyo 100-8388, Japan. BTMU's London branch is registered as a UK establishment in the UK register of companies (registered no. BR002013).

BTMU is authorized and regulated by the Japanese Financial Services Agency. BTMU's London branch is authorized by the Prudential Regulation Authority (FCA/PRA no. 139189) and subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of BTMU London branch's regulation by the Prudential Regulation Authority are available from us on request.