

Highlights

Global	Wall Street slipped again overnight ahead of the 4 July US holiday, weighed down by tech stocks amid news that a Chinese court ruling against Micron Technology, just ahead of the 6 July deadline for the additional US tariffs on US\$34 billion of Chinese imports, albeit PBOC Governor Yi Gang's comments that China will "keep the yuan exchange rate basically stable at reasonable and balanced level," lent some late session paring of losses in Asian bourses. The USD retreated while US Treasury bonds rallied, pushing the 10-year bond yield down to 2.83% and compressing the 2-10 year yield spread to touch a low just under 30bps (tightest since 2007). Asian bourses are likely to trade with a slightly cautious to risk-off tone this morning. Today's economic data calendar will focus on the services and composite PMI prints from Asia, including China's Caixin readings.
US	US' May factory orders unexpectedly rose by 0.4% amid strong machinery demand after a revised -0.4% in April, with factory orders excluding transport up a stronger 0.7%. Meanwhile, the IMF opined in its Article IV assessment that "given the planned fiscal stimulus, the Federal Reserve will need to raise policy rates at a faster pace to achieve its dual mandate" as "the near-term outlook for the US economy is one of strong growth and job creation".
SG	The Nikkei PMI retreated from 56.8 in May to 56.0 in June, with output growth at a survey-record high and increased new orders pushing backlogs higher, and marking a strong finish to the 2Q18 growth momentum. However, firms also cut back on purchasing activity which reduced input inventories, and this could potentially be due to business caution ahead of the US-Sino trade tensions. Note export sales have grown at a slower pace than total orders for two months, which reflects stronger domestic demand vis-à-vis external demand. In addition, rising labour costs may constrain firms going ahead as illustrated in the further increase in unfinished work. COE tender results due later today.
AU	RBA kept its key interest rate unchanged for the 21 st straight meeting at 1.5% as widely anticipated, with governor Lower citing that "further progress in reducing unemployment and having inflation return to target is expected, although this progress is likely to be gradual".
EZ	ECB's Praet guided that the new forward guidance on rates "underlines their pivotal role as the main tool for adjusting the monetary policy stance in the future". He also opined that "overall, the present configuration of policy instruments will preserve the monetary stimulus that underpins the economic growth momentum in the euro area and the evolution of inflation along a sustained adjustment path" and "significant monetary policy stimulus is still needed to support the further build-up of domestic price pressures".
CMD	Base metal prices continue to tumble yesterday, with copper falling for its fifth consecutive trading day, though crude oil remain range-bound overnight. Further weakness in the dollar was seen following EUR's rally on Merkel's successful negotiation over Germany's migrant issue, which left precious metal prices higher. Elsewhere in Asia, CPO futures remain weak at MYR2,313/MT at closing yesterday, as little signs of demand recovery is seen to-date.

Major Markets

- **US:** Wall Street fell on Tuesday led by a dip in technology and financial stocks, as the Nasdaq composite dipped by 0.86% to close down at 7502.67. The Dow (-0.54%) and the S&P500 (-0.49%) shifted in a similar direction. The VIX Index jumped to 16.14 on Tuesday, as compared to 15.60 on Monday. On the Treasury front, the 2y yield fell to 2.542% (-2.4bp) while the 10y yield declined to 2.831% (-4.0bp).
- **Singapore:** The STI ended down marginally (-0.09%) at 3235.90 yesterday, but may not make much further headway today, notwithstanding positive overnight cues from Wall Street and morning gains in Kospi. STI's support and resistance are tipped at 3220 and 3280 respectively. With US Treasury overnight gains and curve flattening, SGS bonds are likely to unwind yesterday's moves. Note the 10-year UST-SGS yield spread is currently at 34bps, but we see near-term support at 2.41% for the 10-year SGS bond yield.
- **China:** The USDCNY moved from 6.40 to 6.70 within two weeks. However, Yuan weakness paused after the central bank governor Yi Gang reiterated that it will keep the exchange rate basically stable at a reasonable level. Meanwhile, he also said the central bank is paying attention to the current volatility and he attributed the recent weakness to stronger dollar and pro cyclical behaviour. In addition, the temporarily lift of ban on ZTE also eases the concern about the US-China trade tension, which alleviated the pressure on RMB.
- **Korea:** Inflation conditions remain mild, with CPI growth printing below expectations at 1.50% yoy (vs. market est.: 1.70%), although core inflation decelerated lower to 1.2%, the lowest since Feb 2018.
- **Malaysia:** Former Prime Minister Najib Tun Razak was arrested at his private residence yesterday. Based on a press release from the 1MDB Special Taskforce, the former Prime Minister was arrested in relation to SRC International Sdn Bhd and that he will be charged today at the Kuala Lumpur Court. Meanwhile, former BNM Governor Zeti Akhtar Aziz in response to Najib's claim about her knowledge of the transfer of RM2.6bn into his personal account has said, "he (Najib) made a request for me to issue a statement that he had done nothing wrong in his account". She further elaborated by saying, "I informed him that I cannot issue such a statement because I did not have knowledge of transactions that had occurred in his account".
- **Indonesia:** Finance Minister Sri Mulyani has come out to say that, "We are playing the long game. If we [take] countercyclical measures too soon then we may lose such an instrument when we truly need it". These comments come after Bank Indonesia in a surprise move last week raised the benchmark rate by 50bps to 5.25% amid lower than expected growth in 1Q 2018 at 5.06% yoy. Regardless, the IDR even traded at levels above 14,400 against the USD yesterday (3rd July 2018) before ending the day at 14,380.
- **Hong Kong:** Retail sales registered double-digit growth for the fourth consecutive month and were up 12.9% yoy to HK\$40.5 billion in May. On the one hand, sales of clothing, footwear and allied products for the ninth straight month by 7.4% yoy while those of jewellery, watches and clocks also advanced for the 11th consecutive month by 23.8% yoy. This indicates that tourist spending has been supported by Asia's resilient growth as well as a relatively weak HKD. On the other hand, sales of food,

alcoholic drinks and tobacco climbed 5.9% yoy while those of consumer durable goods grew 8.8% yoy. This reveals that local consumer sentiment remained upbeat due to tight labor market. Also, wealth effect from the booming housing market has boosted private consumption. Moving forward, tight labor market combined with positive salary prospects are likely to buoy local consumption. However, we are wary that recent stock market correction could weigh on local consumer sentiment. Besides, possible start of local rate hike cycle in 2H18 is expected to help calm the overheated housing market. All in all, though tourism spending may hold up well, possible slowdown in private consumption growth together with a high base effect would still decelerate the growth of retail sales in the rest of this year.

- **Macau:** Gaming revenue dropped 11.8% mom to MOP22.5 billion in Jun, the lowest level since September 2017. This is mainly due to the World Cup betting which would have dented Macau's gaming revenue during June and July. Besides, policy risks are looming over the gaming sector as two commercial banks are reported to have removed the UnionPay machines from either pawnshops or jewellery shops around the casinos. Adding on high base effect, we expect gaming revenue growth will moderate from 19.1% in 2017 to 10%-15% in 2018 as the support from recreational gamblers may not be able to offset the possible slowdown in VIP revenue.

Bond Market Updates

- **Market Commentary:** The SGD swap curve steepened yesterday, with swap rates for the shorter tenors trading 1bps higher while the longer tenors traded 1-2bps higher. The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 147bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 13bps to 532bps. Overall, 10Y UST yields fell 4bps to close at 2.83% as fears of a full-blown global trade war spurred demand for safe havens.
- **New Issues:** New Dian Group Pte Ltd has priced an USD100mn 2-year bond (guaranteed by Kunming Iron & Steel Holdings Co Ltd) at 7.50%. Legend Fortune Ltd has scheduled for investor meetings from 4-5 July for its potential USD bond issuance (guaranteed by CMB International Capital Corporation Ltd).

Key Financial Indicators

Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	94.591	-0.30%	USD-SGD	1.3648	-0.32%
USD-JPY	110.590	-0.28%	EUR-SGD	1.5911	-0.17%
EUR-USD	1.1658	0.16%	JPY-SGD	1.2341	-0.05%
AUD-USD	0.7386	0.63%	GBP-SGD	1.8007	0.07%
GBP-USD	1.3193	0.38%	AUD-SGD	1.0080	0.32%
USD-MYR	4.0498	0.26%	NZD-SGD	0.9220	0.27%
USD-CNY	6.6425	-0.38%	CHF-SGD	1.3750	-0.22%
USD-IDR	14397	0.05%	SGD-MYR	2.9630	0.24%
USD-VND	23028	0.25%	SGD-CNY	4.8644	0.04%

Equity and Commodity

Index	Value	Net change
DJIA	24,174.82	-132.36
S&P	2,713.22	-13.49
Nasdaq	7,502.67	-65.01
Nikkei 225	21,785.54	-26.39
STI	3,235.90	-3.04
KLCI	1,680.37	-4.68
JCI	5,633.94	-112.83
Baltic Dry	1,422.00	--
VIX	16.14	0.54

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD LIBOR	Change
1M	-0.3690	--	O/N	1.9298	--
2M	-0.3370	--	1M	2.0999	--
3M	-0.3210	--	2M	2.1732	--
6M	-0.2690	--	3M	2.3425	--
9M	-0.2160	--	6M	2.5097	--
12M	-0.1810	--	12M	2.7716	--

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.94 (--)	2.52 (-0.02)
5Y	2.25 (--)	2.72 (-0.03)
10Y	2.49 (--)	2.83 (-0.04)
15Y	2.74 (+0.01)	--
20Y	2.77 (+0.01)	--
30Y	2.85 (+0.01)	2.96 (-0.03)

Fed Rate Hike Probability

Meeting	Prob Hike	2-2.25	2.25-2.5	2.5-2.75	2.75-3
08/01/2018	20.7%	20.7%	0.0%	0.0%	0.0%
09/26/2018	77.3%	62.5%	14.7%	0.0%	0.0%
11/08/2018	78.5%	60.3%	17.3%	0.8%	0.0%
12/19/2018	90.7%	38.4%	41.7%	10.2%	0.5%
01/30/2019	91.4%	36.1%	41.4%	12.7%	1.2%
03/20/2019	95.4%	23.4%	38.9%	25.9%	6.5%

Financial Spread (bps)

	Value	Change
LIBOR-OIS	39.26	-0.27
EURIBOR-OIS	3.77	-0.08
TED	39.12	--

Commodities Futures

Energy	Futures	% chg	Base Metals	Futures	% chg
WTI (per barrel)	74.14	0.27%	Copper (per mt)	6,430.9	-0.92%
Brent (per barrel)	77.76	0.60%	Nickel (per mt)	14,368.5	-0.76%
Heating Oil (per gallon)	2.1642	0.39%	Aluminium (per mt)	2,105.5	-1.15%
Gasoline (per gallon)	2.1176	0.61%			
Natural Gas (per MMBtu)	2.8700	0.28%			
			Asian Commodities	Futures	% chg
Precious Metals	Futures	% chg	Crude Palm Oil (MYR/MT)	2,313.0	-0.69%
Gold (per oz)	1,253.5	0.95%	Rubber (JPY/KG)	172.3	-0.86%
Silver (per oz)	16.043	1.31%			

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised	
07/03/2018 00:00	IT New Car Registrations YoY	Jun	--	-7.25%	-2.78%	-2.61%
07/03/2018 07:00	SK CPI YoY	Jun	1.70%	1.50%	1.50%	--
07/03/2018 07:50	JN Monetary Base YoY	Jun	--	7.40%	8.10%	--
07/03/2018 09:30	AU Building Approvals MoM	May	0.00%	-3.20%	-5.00%	-5.60%
07/03/2018 09:30	AU Building Approvals YoY	May	9.90%	3.10%	1.90%	1.20%
07/03/2018 12:30	AU RBA Cash Rate Target	Jul-03	1.50%	1.50%	1.50%	--
07/03/2018 14:45	FR Budget Balance YTD	May	--	-55.1b	-54.3b	--
07/03/2018 16:30	UK Markit/CIPS UK Construction PMI	Jun	52.5	53.1	52.5	--
07/03/2018 16:30	HK Retail Sales Value YoY	May	12.00%	12.90%	12.30%	12.20%
07/03/2018 16:30	HK Retail Sales Volume YoY	May	9.80%	11.60%	11.10%	11.00%
07/03/2018 17:00	EC PPI MoM	May	0.50%	0.80%	0.00%	--
07/03/2018 17:00	EC PPI YoY	May	2.70%	3.00%	2.00%	1.90%
07/03/2018 17:00	EC Retail Sales MoM	May	0.10%	0.00%	0.10%	-0.10%
07/03/2018 17:00	EC Retail Sales YoY	May	1.60%	1.40%	1.70%	1.60%
07/03/2018 21:30	CA Markit Canada Manufacturing PMI	Jun	--	57.1	56.2	--
07/03/2018 22:00	US Factory Orders	May	0.00%	0.40%	-0.80%	-0.40%
07/03/2018 22:00	US Durable Goods Orders	May F	-0.50%	-0.40%	-0.60%	--
07/03/2018 22:00	US Durables Ex Transportation	May F	--	0.00%	-0.30%	--
07/03/2018 22:00	US Cap Goods Orders Nondef Ex Air	May F	--	0.30%	-0.20%	--
07/03/2018 22:00	US Cap Goods Ship Nondef Ex Air	May F	--	0.20%	-0.10%	--
07/04/2018 01:00	NZ QV House Prices YoY	Jun	--	5.70%	6.90%	--
07/04/2018 05:00	SK Foreign Reserves	Jun	--	\$400.30b	\$398.98b	--
07/04/2018 06:30	AU AiG Perf of Services Index	Jun	--	63	59	--
07/04/2018 08:30	JN Nikkei Japan PMI Services	Jun	--	--	51	--
07/04/2018 08:30	JN Nikkei Japan PMI Composite	Jun	--	--	51.7	--
07/04/2018 09:00	NZ ANZ Commodity Price	Jun	--	--	1.50%	--
07/04/2018 09:30	AU Trade Balance	May	A\$1200m	--	A\$977m	--
07/04/2018 09:30	AU Retail Sales MoM	May	0.30%	--	0.40%	--
07/04/2018 09:45	CH Caixin China PMI Composite	Jun	--	--	52.3	--
07/04/2018 09:45	CH Caixin China PMI Services	Jun	52.7	--	52.9	--
07/04/2018 13:00	IN Nikkei India PMI Services	Jun	--	--	49.6	--
07/04/2018 13:00	IN Nikkei India PMI Composite	Jun	--	--	50.4	--
07/04/2018 15:45	IT Markit/ADACI Italy Services PMI	Jun	53.3	--	53.1	--
07/04/2018 15:45	IT Markit/ADACI Italy Composite PMI	Jun	53.2	--	52.9	--
07/04/2018 15:50	FR Markit France Services PMI	Jun F	56.4	--	56.4	--
07/04/2018 15:50	FR Markit France Composite PMI	Jun F	55.6	--	55.6	--
07/04/2018 15:55	GE Markit Germany Services PMI	Jun F	53.9	--	53.9	--
07/04/2018 15:55	GE Markit/BME Germany Composite PMI	Jun F	54.2	--	54.2	--
07/04/2018 16:00	SI Automobile COE Open Bid Cat A	Jul-04	--	--	34110	--
07/04/2018 16:00	SI Automobile COE Open Bid Cat B	Jul-04	--	--	33900	--
07/04/2018 16:00	SI Automobile COE Open Bid Cat E	Jul-04	--	--	34400	--
07/04/2018 16:00	EC Markit Eurozone Services PMI	Jun F	55	--	55	--
07/04/2018 16:00	EC Markit Eurozone Composite PMI	Jun F	54.8	--	54.8	--
07/04/2018 16:30	UK Official Reserves Changes	Jun	--	--	\$448m	--
07/04/2018 16:30	UK Markit/CIPS UK Services PMI	Jun	54	--	54	--
07/04/2018 16:30	UK Markit/CIPS UK Composite PMI	Jun	54.5	--	54.5	--
07/04/2018 19:00	US MBA Mortgage Applications	Jun-29	--	--	-4.90%	--
07/03/2018 07/04	US Wards Total Vehicle Sales	Jun	17.00m	17.38m	16.81m	--

Source: Bloomberg

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