

Highlights

Global	<p>Caution may be the key word today on overnight news that the US will levy new steel and aluminium tariffs on EU, Mexico and Canada (after a temporary exemption) which swiftly prompted planned retaliatory responses from the recipients. With the resurgence of trade tensions, Wall Street slipped overnight and the flight to quality drove global bonds higher, albeit the 10-year UST bond yield ended at 2.86%. Asian bourses may fluctuate today, as a fickle Trump administration continues to surprise its trade partners, and investors await fresh cues from the US trade tantrum and tonight's key US' nonfarm payrolls, unemployment and average hourly earnings report (which is anticipated at 190k, 3.9% and 2.6% yoy respectively for May versus 164k, 3.9% and 2.6% in April). Today's economic calendar also comprises US' manufacturing ISM, manufacturing PMIs across Europe and Asia including China's Caixin, Thai CPI, and Italy's final 1Q18 GDP growth estimates. Other key events to watch for include some Chinese stocks joining MSCI's global indexes today, the G7 finance ministers and central bankers meeting in Canada, as well as US Commerce Secretary Ross traveling to Beijing for talks with Chinese Vice Premier Liu He.</p>
US	<p>Personal income rose as expected by 0.3% in April, while spending rose 0.6%. The core PCE deflator was up 2% yoy within market expectations, while initial jobless claims slipped to 221k. The Chicago PMI rose more than expected from 57.6 to 62.7 in May, while pending home sales unexpectedly shrank 1.3% mom in April on leaner listings. Fed's Bullard reiterated that the US is already at a neutral interest rate and the Fed needs to be cautious about turning to restrictive mode, as the yield curve could invert later in 2018 or 2019. Separately, Brainard opined that a strong fiscal boost to the US economy when unemployment is low suggests a gradual tightening pace remains "the appropriate path".</p>
EU	<p>In Italy, the populist Five Star Movement and League parties have reached an agreement and Giuseppe Conte will be sworn in as PM, with Di Maio and Salvini as deputy premiers, economist Giovanni Tria as finance minister and Eurosceptic economic Paolo Savona as European affairs minister.</p>
SG	<p>Bank loans growth accelerated for the second straight month from 5.4% yoy in March to 5.7% yoy (0.8% mom) in April. This is the fastest pace of expansion since November 2017. This also brought total bank loans growth for the first four months of the year to 5.1% yoy, which is a small moderation from the 5.4% pace seen in the same period last year.</p>
CN	<p>The official PMI rebounded in May to 51.9 from 51.4 in April supported by the improvement of demand and production. Both new export orders and new orders improved to 51.2 and 53.8 from 50.7 and 52.9 respectively. Production recovered to 54.1 from 53.1 likely given the restart of production in Spring.</p>
CMD	<p>The WTI-Brent spread widened to \$10.65/bbl, its widest since March 2015, a clear reflection of higher US shale oil production gains and consequently creating pipeline constraints. Note while US oil inventories fell 3.6 million barrels, much of which entered the export market owing to 2.2 million bpd of exports over the same period, as well as domestic refining efforts with refinery utilisation rates rising to 2.1%. Given the strong refining environment seen last week, refined oil stocks including gasoline and distillates rose, defying market calls for further declines.</p>

Major Market

- **US:** Markets were rattled overnight following news that the US would be imposing 25% of steel and 10% of aluminium tariffs, respectively, on trade allies EU, Mexico and Canada. In response, the affected countries have threatened to fight back - the EU vowed to impose retaliatory measures, Canada announced duties on US products amounting to \$12.8bn while Mexico said that it would impose penalties on US imports ranging from cheese and fruits to steel sheets until the total amounted to the losses incurred from the US tariffs. Overall, the heightened geopolitical tensions saw the Dow Jones, S&P 500 and Nasdaq composite declining 1.02%, 0.69% and 0.27%, respectively. The VIX index rose to 15.43 as compared with 14.94 on Wednesday. For US Treasuries, the 2y benchmark yield added 1bp to end firmer at 2.427%.
- **EU:** Eurozone inflation jumped from 1.2% in April to 1.9% in May, lifted by higher energy costs, while core inflation also accelerated from 1.1% to 1.3%.
- **Singapore:** Looking forward, the broadening of the growth drivers from manufacturing and electronics to the domestic-oriented services sectors should bode well for overall bank loans growth to sustain into 2Q18. For the full year 2018, we retain our bank loans growth forecast at 4.0% yoy.
- The April improvement was sustained by business loans growth which also picked up for a second consecutive month to 6.1% yoy (1.2% mom), up from 5.6% yoy in March. This is also the highest pace since December 2017. Loans growth to financial institutions and professionals & private individuals both strengthened further to 20.1% yoy and 14.1% yoy respectively. Interestingly, loans to the building and construction industry turned positive, albeit at a marginal 0.5% yoy in April, after four months of contraction. The latter suggests that there could be growing light at the end of the tunnel for the construction sector which had been contracting since 2Q17 and could bottom before the year is out. Consumer loans also expanded by 5.1% yoy (0.3% mom) in April, the quickest in four months and faster than the 4.9% yoy seen in March. Notably, housing & bridging loans remained healthy, expanding by 4.7% yoy in April which is the fastest since September 2015, and likely illustrates the buyers' ongoing momentum and interest in the private residential property market.
- The STI declined 0.46% to close down at 3428.18 yesterday and market cues remain negative amid the swirling global trade tensions. Wall Street slippage overnight and morning declines in Nikkei may pave the way for red ink to prevail across other Asian bourses this morning. STI's support and resistance are tipped at 3400 and 3450 respectively. SGS bonds may see support into the month-end amid the flight to safety on resurgent global trade tensions.
- **China:** Purchasing price index also recovered to 56.7 from 53, a sign that China's producer prices index may have bottomed out. We expect China's PPI to rebound to about 3.7% in May from 3.4% in April. The latest PMI data show that the US-China trade tension has limited impact on China's growth at the current stage.
- **Korea:** Manufacturing PMI continue to wade in pessimistic zone at 48.9 in May, though slightly higher than April's print of 48.4. The relative pessimism seen in Korea's MFG PMI print this morning is likely a reminder of yesterday's similar pessimism print seen in manufacturing confidence (80.0). These prints are a stark contrast with Korea's export growth which recovered by 13.5% y/y, up from its April's contraction print (-1.5%). In all, 1Q18 GDP is downgraded to +1.0% qoqsa (+2.8% y/y), down from its flash estimate of 1.1% qoqsa (+2.8% y/y).

- **Hong Kong:** Total loans and advances increased notably by 17.1% yoy in April. HKD loans and HKD deposits surged by 25.9% yoy and 13.7% yoy respectively. However, the data was distorted by the large IPO in late April. Moving forward, local loans growth may slow down due to high base effect and cautious business sentiment on high market volatility and lingering US-China trade conflicts. Besides, with HKD funding costs trending higher, banks have lifted mortgage rates and are set to kick off prime rate hike cycle around mid-2018. This could weigh down mortgage loan demand (-5.6% mom in Apr18). On the other hand, the growth of loans for use outside of Hong Kong has decelerated for the fifth consecutive month from 20.8% yoy in Nov17 to 13.2% yoy in Apr18. This was mainly due to expectations for looser liquidity in the aftermath of the targeted RRR cut from late Apr18. Moving ahead, with offshore funding costs ticking up while onshore liquidity condition stabilizing, we expect Mainland companies' needs of overseas financing will reduce slightly. Elsewhere, HKD loan-to-deposit ratio rose further to 84.1%, the highest level since Mar14 as loan growth outpaced deposit growth. We expect HKD loan-to-deposit ratio will remain elevated due to sanguine economic outlook. Adding that HIBOR will likely tick up gradually in the coming months, banks may continue to compete for deposits with higher interest rate.
- RMB deposits rose at the fastest pace since Dec'14 and were up 13.2% yoy to RMB 597.6 billion. This was mainly attributed to the relatively stability of RMB and higher CNH deposit rates. With RMB deposits rebounding gradually, it will help to support the increasing RMB demand associated with A-shares investment. The PBOC also announced three new measures in an effort to improve offshore RMB liquidity. In the longer term, any further opening up of capital outflow channels for onshore investors will gradually expand the offshore RMB liquidity pool. As such, the upside for CNH deposit rates may be limited. Still, RMB's relatively strength may continue to encourage offshore investors to hold RMB assets. Therefore, we expect HK's RMB deposits to grow gradually.
- **Thailand:** May's inflation print later today will be particularly interesting following April's upside inflation surprise above its 1.0% handle. Market-watchers are pencilling inflation to steepen further, in line with our outlook for CPI to print at 1.2% y/y. Elsewhere, manufacturing PMI encouragingly recovered back to expansionary territory at 51.1 (vs April's 49.5).
- **Indonesia:** S&P has affirmed their 'BBB-/A-3' sovereign credit rating on Indonesia with a stable outlook. According to Bloomberg, they said that the rating is supported by the government's relatively low debt levels and moderate fiscal performance as well as external indebtedness whilst the stable outlook reflects the view that the policy environment and economic conditions will keep external and fiscal metrics close to current levels over next one to two years. They also expect that fiscal deficit will remain below 2.5% of GDP despite recent subsidy measures.
- **Malaysia:** The government announced that it will still be able to meet its projected budget deficit of 2.8% of GDP for 2018 despite reducing the GST rate to 0%, a Hari Raya Special assistance program to civil servants and a petrol price stabilization program. The Ministry of Finance though has mentioned that it will be engaging in a RM10.0bn expenditure rationalization exercise that will see cuts in areas such as projects awarded via direct tender and non-essential operating expenditures among other things. The government also estimates the revenue loss from GST to be at RM21.0bn whilst the new SST will conservatively raise RM4.0bn for this year.

- **Commodities:** In a nutshell, market-watchers remained spooked over sustained gains in US oil production volume; US oil production rose further to 10.8 million barrels per day (bpd) for the week ended 25th May, up from 9.8 million bpd seen since the beginning of the year. For today, market appetite will likely stay relatively more cautious, given news on US tariffs against EU, Canada and Mexico, which would potentially drag growth-related commodities including energy and base metals, though the effect on the dollar may be mixed given how the dollar reacts into the next week.

Bond Market Updates

- **Market Commentary:** The SGD swap curve steepened, with swap rates for the shorter tenors trading 2bps lower while the longer tenors traded 1bp lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS was unchanged at 138bps and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 28bps to 469bps. 10Y UST yields rose 4bps to 2.88% initially on the back of solid U.S consumer spending and initial jobless claims as well as Italy's populist formation of a coalition government. 10Y UST yield subsequently retraced to close at 2.86% due to the US announcing that tariffs will be slapped on steel and aluminium imports from EU, Canada and Mexico.
- **New issues:** Korea Western Power Co Ltd has priced a USD300mn 5-year bond at CT5+112.5bps, tightening from its initial price guidance of CT5+140bps area. Full Dragon Hong Kong International Development Ltd has priced a USD100mn re-tap of its ZHANLO 5.6%'21 bond (guaranteed by Fujian Zhanglong Group Co Ltd) at 6.5%, in line with its initial price guidance. Bank of China Ltd has priced a USD1bn deal across two-tranches, with the USD500mn 3-year FRN priced at 3mL+73bps, tightening from its initial price guidance of 3mL+100bps area and the USD500mn 5-year FRN priced at 3mL+83bps, tightening from its initial price guidance of 3mL+110bps area. NongHyup Bank has hired banks for its potential USD bond issuance. Hainan Airlines (Hong Kong) Co Ltd has scheduled for investors meetings from 1 Jun for its potential USD bond issuance (guaranteed by Hainan Airlines Holding Co Ltd). Guorui Properties Ltd has proposed to issue USD senior notes. DBS Group holdings Ltd is said to consider selling USD Tier 2 bonds (15NC10 or 10NC5) next week. China Construction Bank Corp has hired banks for its potential USD bond issuance.

Key Financial Indicators

Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	93.979	-0.10%	USD-SGD	1.3376	-0.12%
USD-JPY	108.820	-0.08%	EUR-SGD	1.5641	0.13%
EUR-USD	1.1693	0.24%	JPY-SGD	1.2293	-0.03%
AUD-USD	0.7568	-0.09%	GBP-SGD	1.7788	-0.04%
GBP-USD	1.3298	0.09%	AUD-SGD	1.0123	-0.21%
USD-MYR	3.9798	-0.23%	NZD-SGD	0.9365	0.07%
USD-CNY	6.4106	-0.13%	CHF-SGD	1.3569	0.21%
USD-IDR	13896	-0.69%	SGD-MYR	2.9766	0.16%
USD-VND	22804	-0.18%	SGD-CNY	4.7873	-0.10%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD LIBOR	Change
1M	-0.3700	--	0/N	1.7116	--
2M	-0.3380	--	1M	1.9825	--
3M	-0.3210	--	2M	2.0968	--
6M	-0.2690	--	3M	2.3003	--
9M	-0.2130	--	6M	2.4669	--
12M	-0.1840	--	12M	2.7000	--

Fed Rate Hike Probability

Meeting	Prob Hike	1.75-2	2-2.25	2.25-2.5	2.5-2.75
06/13/2018	100.0%	88.0%	12.0%	0.0%	0.0%
08/01/2018	100.0%	88.0%	12.0%	0.0%	0.0%
09/26/2018	100.0%	35.2%	57.6%	7.2%	0.0%
11/08/2018	100.0%	32.3%	55.8%	11.3%	0.6%
12/19/2018	100.0%	20.7%	47.4%	27.2%	4.4%
01/30/2019	100.0%	19.9%	46.3%	28.0%	5.3%

Commodities Futures

Energy	Futures	% chg	Base Metals	Futures	% chg
WTI (per barrel)	67.04	-1.72%	Copper (per mt)	6,757.2	-0.13%
Brent (per barrel)	77.59	0.12%	Nickel (per mt)	15,165.5	0.59%
Heating Oil (per gallon)	2.1914	-1.81%	Aluminium (per mt)	2,298.3	1.04%
Gasoline (per gallon)	2.1603	-1.09%			
Natural Gas (per MMBtu)	2.9520	2.32%	Asian Commodities	Futures	% chg
			Crude Palm Oil (MYR/MT)	2,429.0	-0.45%
			Rubber (JPY/KG)	190.9	-0.57%
Precious Metals	Futures	% chg			
Gold (per oz)	1,304.7	-0.14%			
Silver (per oz)	16.458	-0.52%			

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Equity and Commodity

Index	Value	Net change
DJIA	24,415.84	-251.94
S&P	2,705.27	-18.74
Nasdaq	7,442.12	-20.34
Nikkei 225	22,201.82	183.30
STI	3,428.18	-15.77
KLCI	1,740.62	21.34
JCI	5,983.59	-27.47
Baltic Dry	1,042.00	--
VIX	15.43	0.49

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.94 (-)	2.43 (+0.02)
5Y	2.30 (-)	2.70 (+0.02)
10Y	2.58 (+0.01)	2.86 (-)
15Y	2.85 (-)	--
20Y	2.87 (+0.02)	--
30Y	2.95 (+0.02)	3.03 (-)

Financial Spread (bps)

	Value	Change
LIBOR-OIS	40.99	-3.72
EURIBOR-OIS	2.90	-1.40
TED	39.53	--

Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised	
05/31/2018 05:00	SK Business Survey Manufacturing	Jun	--	80	81	--
05/31/2018 07:00	SK Industrial Production YoY	Apr	-1.40%	0.90%	-4.30%	-4.00%
05/31/2018 07:50	JN Industrial Production MoM	Apr P	1.40%	0.30%	1.40%	--
05/31/2018 09:00	NZ ANZ Business Confidence	May	--	-27.2	-23.4	--
05/31/2018 09:00	CH Non-manufacturing PMI	May	54.8	54.9	54.8	--
05/31/2018 09:00	CH Manufacturing PMI	May	51.4	51.9	51.4	--
05/31/2018 13:00	JN Housing Starts YoY	Apr	-8.90%	0.30%	-8.30%	--
05/31/2018 14:00	UK Nationwide House PX MoM	May	0.20%	-0.20%	0.20%	0.10%
05/31/2018 14:45	FR CPI YoY	May P	1.90%	2.00%	1.60%	--
05/31/2018 15:30	TH Exports YoY	Apr	--	14.60%	6.30%	--
05/31/2018 15:30	TH BoP Current Account Balance	Apr	\$2755m	\$1364m	\$5751m	--
05/31/2018 16:30	UK Mortgage Approvals	Apr	63.5k	62.5k	62.9k	62.8k
05/31/2018 16:30	HK Retail Sales Value YoY	Apr	12.20%	12.30%	11.40%	11.50%
05/31/2018 17:00	EC Unemployment Rate	Apr	8.40%	8.50%	8.50%	8.60%
05/31/2018 17:00	EC CPI Core YoY	May A	1.00%	1.10%	0.70%	--
05/31/2018 17:00	EC CPI Estimate YoY	May	1.60%	1.90%	1.20%	--
05/31/2018 17:00	IT CPI NIC incl. tobacco MoM	May P	0.20%	0.40%	0.10%	--
05/31/2018 20:30	CA Quarterly GDP Annualized	1Q	1.80%	1.30%	1.70%	--
05/31/2018 20:30	US Personal Income	Apr	0.30%	0.30%	0.30%	0.20%
05/31/2018 20:30	CA GDP MoM	Mar	0.20%	0.30%	0.40%	--
05/31/2018 20:30	US Personal Spending	Apr	0.40%	0.60%	0.40%	0.50%
05/31/2018 20:30	US Initial Jobless Claims	May-26	228k	221k	234k	--
05/31/2018 20:30	US Continuing Claims	May-19	1733k	1726k	1741k	1742k
05/31/2018 21:45	US Chicago Purchasing Manager	May	58.3	62.7	57.6	--
05/31/2018 21:45	US Bloomberg Consumer Comfort	May-27	--	55.2	55.2	--
05/31/2018 22:00	US Pending Home Sales MoM	Apr	0.40%	-1.30%	0.40%	0.60%
06/01/2018 06:30	AU AiG Perf of Mfg Index	May	--	57.5	58.3	--
06/01/2018 07:00	SK GDP YoY	1Q F	2.80%	2.80%	2.80%	--
06/01/2018 07:00	SK CPI YoY	May	1.70%	1.50%	1.60%	--
06/01/2018 07:50	JN Capital Spending YoY	1Q	3.10%	--	4.30%	--
06/01/2018 08:00	SK Exports YoY	May	10.50%	--	-1.50%	--
06/01/2018 08:00	SK Imports YoY	May	10.00%	--	14.50%	--
06/01/2018 08:30	JN Nikkei Japan PMI Mfg	May F	--	--	52.5	--
06/01/2018 08:30	SK Nikkei South Korea PMI Mfg	May	--	--	48.4	--
06/01/2018 08:30	TA Nikkei Taiwan PMI Mfg	May	--	--	54.8	--
06/01/2018 08:30	VN Nikkei Vietnam PMI Mfg	May	--	--	52.7	--
06/01/2018 09:45	CH Caixin China PMI Mfg	May	51.2	--	51.1	--
06/01/2018 11:30	TH CPI YoY	May	1.30%	--	1.07%	--
06/01/2018 11:30	TH CPI Core YoY	May	0.69%	--	0.64%	--
06/01/2018 13:00	IN Nikkei India PMI Mfg	May	--	--	51.6	--
06/01/2018 13:00	JN Vehicle Sales YoY	May	--	--	0.50%	--
06/01/2018 15:30	TH Foreign Reserves	May-25	--	--	\$213.3b	--
06/01/2018 15:45	IT Markit Italy Manufacturing PMI	May	53	--	53.5	--
06/01/2018 15:50	FR Markit France Manufacturing PMI	May F	55.1	--	55.1	--
06/01/2018 15:55	GE Markit Germany Manufacturing PMI	May F	56.8	--	56.8	--
06/01/2018 16:00	EC Markit Eurozone Manufacturing PMI	May F	55.5	--	55.5	--
06/01/2018 16:00	IT GDP WDA QoQ	1Q F	0.30%	--	0.30%	--
06/01/2018 16:30	UK Markit UK PMI Manufacturing SA	May	53.5	--	53.9	--
06/01/2018 20:30	US Change in Nonfarm Payrolls	May	190k	--	164k	--
06/01/2018 20:30	US Change in Manufact. Payrolls	May	20k	--	24k	--
06/01/2018 20:30	US Unemployment Rate	May	3.90%	--	3.90%	--
06/01/2018 21:30	CA Markit Canada Manufacturing PMI	May	--	--	55.5	--
06/01/2018 21:45	US Markit US Manufacturing PMI	May F	56.6	--	56.6	--
06/01/2018 22:00	US Construction Spending MoM	Apr	0.80%	--	-1.70%	--
06/01/2018 22:00	US ISM Manufacturing	May	58.2	--	57.3	--
06/01/2018 22:00	US ISM Prices Paid	May	78	--	79.3	--

Source: Bloomberg

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