

Highlights

Global	<p>In a choppy start to 2H18, Asian equity markets continued to slump in the first trading day of July. News that the US Federal Communications Commission may deny China Mobile's application to enter the US telecommunications market citing "unacceptable national security and law enforcement risks" may signal a tougher stance ahead of the 6 July tariff deadline. Meanwhile, German Chancellor Merkel has reached a deal with her Bavarian allies over migration, ahead of her meeting with UK PM May and Hungary's Orban on Thursday, and next week's NATO summit with US president Trump. Overnight, Wall Street stabilised with the tech stock recovery in thin trading, while Treasury bonds and commodities slipped led by metals. While Asian bourses may attempt to trade with a firmer tone this morning, nevertheless, the larger question is whether gains can be sustained amid Trump's regular tariff tantrums and sustained fund outflows. Note that Trump opined he is close to making a "fair" trade deal with the EU ahead of his meeting with Dutch PM Rutte today, with many watching the Section 232 tariffs on imports of automobiles and auto parts. Watch the RBA rate decision later which is likely static at 1.5%. The economic data calendar includes US' May factory orders, final durable goods orders, Eurozone's retail sales and PPI, and HK retail sales.</p>
US	<p>Interestingly, the manufacturing ISM improved from 58.7 in May to 60.2 in June, partly due to slow delivery times, but given higher new orders (63.5 versus 63.7) and export orders (56.3 versus 55.6), this suggests that trade war concerns and the stronger USD had not yet eroded business confidence yet. However, the ISM employment gauge steadied at 56.0 versus 56.3.</p>
PMI	<p>Regional manufacturing prints remained mixed in June – moderation was seen in Japan (53.0), Indonesia (50.3 versus 51.7), Thailand (50.2 versus 51.1), Philippines (52.9 versus 53.7), while that of South Korea and Malaysia remained in contraction territory at 49.8 (previously 48.9) and 49.5 (previously 47.6) respectively. In contrast, the manufacturing PMIs for Taiwan improved to 54.5 (previously 53.4) and Vietnam to 55.7 (previously 53.9).</p>
SG	<p>S'pore's manufacturing and electronics PMIs both softened to 52.5 and 51.9 respectively in June, down from 52.7 and 52.3 in May. The softer June readings are not unexpected as other global and regional manufacturing PMIs had begun signalling some signs of weakness amid the on-going global trade war headwinds. Still, the June prints marked the 22nd and 23rd month of consecutive expansions in the respective sectors, and suggest that manufacturing and electronics growth momentum could decelerate into 3Q18, but not fall off the cliff yet, barring a full-scale outright trade war situation. All these could point to a more lacklustre momentum for the electronics industry going forward. Meanwhile, private residential prices rose 3.4% in 2Q18 to its highest in four years, versus the 3.9% seen in 1Q18, according to URA flash estimates. The increase was led by RCR (5.7% versus 1.2%), followed by OCR (2.9% versus 5.6%) and CCR (1.4% versus 5.5%).</p>

Major Markets

- **US:** Wall Street edged higher on Monday on the back of strong tech stocks, boosting the Nasdaq composite by 0.76%. The S&P500 rose by 0.31%, while the Dow added 0.15% to close up at 24,307.18. The VIX Index fell to 15.60 on Monday, as compared to 16.09 on Friday. On the Treasury front, the 2y yield rose to 2.549% (+2.0bp) while the 10y yield edged up to 2.871% (+1.1bp).
- **China:** RMB extended its loss despite PBoC's intervention, with the USDCNH hitting 6.68 this morning. RMB index has corrected from a high of 98 to 95.35 within two weeks and is expected to decline further. RMB index is likely to give up all its 2018 gains within these two days. Should RMB index fall to the 94 level in the near term, we think China may re-launch its counter cyclical factor to slow down the pace of depreciation. This could change market sentiment.
- **Singapore:** More on the PMI data - weighing on the domestic manufacturing business optimism were slower growth in new orders, new exports, output, inventory, and imports, while the order backlog gauge reverted to contraction for the first time since July 2016. For the electronics sector, similar drags were seen for growth in new orders, new exports, output, inventory, imports, input prices and employment gauges. In particular, the order backlog gauge also remained in contraction territory for the second month. As investors prefer to de-risk into the heightened global trade war uncertainties, and both businesses and consumers are starting to weigh the potential spill overs on growth and inflation, it is likely that this negative cycle could start to bite on 3Q18 economic indicators. While we do not anticipate the domestic manufacturing and electronics PMIs to slide into contraction territory (<50) in the short-term, nevertheless, the situation could evolve fairly rapidly from here depending on how negotiations between US and its main trading partners, including China, pan out. While our baseline forecast for S'pore's 2018 full-year GDP and manufacturing growth remains at 3.0% and 4.4% yoy, there could be downside risk from here. In a scenario where our worst trade war fears materialise, and manufacturing growth goes flat or even contracts in 2H18 with potential spill over into sentiment-sensitive services sectors, the potential hit to full-year GDP growth could up to 0.3% points i.e. full-year growth could come in around 2.7% instead of 3.0% yoy.
- The STI shed another 0.91% to close at 3238.94 on the first trading day of July amid the sea of red ink prevailing across Asia. Given the overnight steadying in Wall Street, STI may eke out gains on tentative bargain-hunting and trade in a 3220-3280 range today, given morning gains in Kospi. With US Treasury bonds softer overnight, SGS bonds are likely to unwind the gains seen yesterday which saw longer-dated yields fall by around 4bps.
- **Korea:** Inflation pressures weakened into June with consumer prices fading 0.2% m/m lower (+1.5% y/y) while core inflation decelerated to 1.2% (down from 1.3% in the previous month). Note that signs of growth moderation to-date remain, owing to exports growth printing a 0.1% contraction in June, while manufacturing PMI remaining below its expansionary 50.0 handle.
- **Malaysia:** The remaining cabinet members were sworn in yesterday. In total, 13 ministers and 23 deputy ministers were additionally appointed to the cabinet. This brings the total number of ministers to 27. Darell Leiking is the new minister for International Trade and Industry whilst Ong Kian Ming was appointed as the deputy minister. Sarawak PKR leader, Baru Bian was also appointed as the Minister for Works.

- **Indonesia:** Filianingsih Hendarta, an assistant to the governor of BI has told reporters that the plan to ease mortgage rules could add 0.04 percentage points to growth this year. BI's outlook for growth in 2018 stands at between 5.1% - 5.5%, which takes into account the rate hikes and looser mortgage rules.
- **Commodities:** Brent premium to WTI narrowed to its lowest since March 2018, as Brent prices were unable to hold its previous gains last week. The fall in oil prices into the new week suggests to us that investors remain sceptical over the oil rally, while anticipating some risk-selling into the trading days ahead given the likely US-led tariffs against China on 6th July. Elsewhere, precious metals fell sharply with platinum (-5.2%) and silver (-2.2%) leading the pack lower, while the yellow metal faded 1.0% lower as well on the stronger dollar.

Bond Market Updates

- **Market Commentary:** The SGD swap curve flattened yesterday, with swap rates for the shorter tenors trading around 1bps lower while the longer tenors traded 2-3bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS was unchanged at 146bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 4bps to 519bps. 10Y UST yields initially fell 4bps to 2.82% as the EU warned that the United States imposition of import tariffs on cars and car parts would likely lead to counter measures on USD294bn of US exports. Yields rebounded 5bps subsequently to close at 2.87% as US manufacturing PMI data came in better-than-expected despite increasing trade tension between the US and its major trade partners.
- **New Issues:** Tongyang Life Insurance Co Ltd has scheduled for investor meetings from 2 July for its potential USD bond issuance.

Key Financial Indicators

Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	94.871	0.42%	USD-SGD	1.3692	0.50%
USD-JPY	110.900	0.13%	EUR-SGD	1.5938	0.09%
EUR-USD	1.1639	-0.39%	JPY-SGD	1.2347	0.32%
AUD-USD	0.7340	-0.88%	GBP-SGD	1.7995	-0.04%
GBP-USD	1.3143	-0.48%	AUD-SGD	1.0048	-0.41%
USD-MYR	4.0392	0.02%	NZD-SGD	0.9195	-0.29%
USD-CNY	6.6680	0.71%	CHF-SGD	1.3781	0.17%
USD-IDR	14390	0.42%	SGD-MYR	2.9560	-0.22%
USD-VND	22970	0.14%	SGD-CNY	4.8625	0.10%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD LIBOR	Change
1M	-0.3700	--	O/N	1.9354	--
2M	-0.3370	--	1M	2.0903	--
3M	-0.3210	--	2M	2.1691	--
6M	-0.2700	--	3M	2.3358	--
9M	-0.2140	--	6M	2.5013	--
12M	-0.1810	--	12M	2.7641	--

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	78.8%	63.7%	15.2%	0.0%	0.0%
11/08/2018	79.4%	62.5%	16.5%	0.4%	0.0%
12/19/2018	91.2%	38.5%	42.9%	9.6%	0.2%
01/30/2019	92.1%	35.5%	42.4%	12.9%	1.2%
03/20/2019	95.7%	22.8%	39.3%	26.5%	6.6%

Commodities Futures

Energy	Futures	% chg	Base Metals	Futures	% chg
WTI (per barrel)	73.94	-0.28%	Copper (per mt)	6,490.4	-0.74%
Brent (per barrel)	77.30	-2.69%	Nickel (per mt)	14,478.5	-2.41%
Heating Oil (per gallon)	2.1558	-2.42%	Aluminium (per mt)	2,130.0	-1.57%
Gasoline (per gallon)	2.1048	-3.41%			
Natural Gas (per MMBtu)	2.8620	-2.12%			
			Asian Commodities	Futures	% chg
Precious Metals	Futures	% chg	Crude Palm Oil (MYR/MT)	2,329.0	0.13%
Gold (per oz)	1,241.7	-1.02%	Rubber (JPY/KG)	173.8	-1.42%
Silver (per oz)	15.835	-2.24%			

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Equity and Commodity

Index	Value	Net change
DJIA	24,307.18	35.77
S&P	2,726.71	8.34
Nasdaq	7,567.69	57.38
Nikkei 225	21,811.93	-492.58
STI	3,238.94	-29.76
KLCI	1,685.05	-6.45
JCI	5,746.77	-52.47
Baltic Dry	1,385.00	--
VIX	15.60	-0.49

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.95 (-0.02)	2.55 (+0.02)
5Y	2.25 (-0.03)	2.75 (+0.02)
10Y	2.49 (-0.05)	2.87 (+0.01)
15Y	2.73 (-0.04)	--
20Y	2.76 (-0.04)	--
30Y	2.85 (-0.04)	2.99 (--)

Financial Spread (bps)

	Value	Change
LIBOR-OIS	39.53	-0.26
EURIBOR-OIS	3.85	0.20
TED	42.35	--

Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised	
07/02/2018 06:30	AU AiG Perf of Mfg Index	Jun	--	57.4	57.5	--
07/02/2018 07:50	JN Tankan Large Mfg Index	2Q	22	21	24	--
07/02/2018 07:50	JN Tankan Large Mfg Outlook	2Q	20	21	20	--
07/02/2018 07:50	JN Tankan Large Non-Mfg Index	2Q	23	24	23	--
07/02/2018 07:50	JN Tankan Large Non-Mfg Outlook	2Q	22	21	20	--
07/02/2018 07:50	JN Tankan Large All Industry Capex	2Q	9.30%	13.60%	2.30%	--
07/02/2018 08:30	JN Nikkei Japan PMI Mfg	Jun F	--	53	53.1	--
07/02/2018 08:30	SK Nikkei South Korea PMI Mfg	Jun	--	49.8	48.9	--
07/02/2018 08:30	TA Nikkei Taiwan PMI Mfg	Jun	--	54.5	53.4	--
07/02/2018 08:30	VN Nikkei Vietnam PMI Mfg	Jun	--	55.7	53.9	--
07/02/2018 08:30	ID Nikkei Indonesia PMI Mfg	Jun	--	50.3	51.7	--
07/02/2018 09:00	AU Melbourne Institute Inflation MoM	Jun	--	0.00%	0.00%	--
07/02/2018 09:30	AU ANZ Job Advertisements MoM	Jun	--	-1.70%	1.50%	1.40%
07/02/2018 09:45	CH Caixin China PMI Mfg	Jun	51.1	51	51.1	--
07/02/2018 11:37	TH CPI YoY	Jun	1.53%	1.38%	1.49%	--
07/02/2018 11:37	TH CPI Core YoY	Jun	0.80%	0.83%	0.80%	--
07/02/2018 12:00	ID CPI NSA MoM	Jun	0.54%	0.59%	0.21%	--
07/02/2018 12:00	ID CPI YoY	Jun	3.04%	3.12%	3.23%	--
07/02/2018 13:00	IN Nikkei India PMI Mfg	Jun	--	53.1	51.2	--
07/02/2018 13:00	JN Vehicle Sales YoY	Jun	--	-7.30%	-0.60%	--
07/02/2018 14:30	AU Commodity Index SDR YoY	Jun	--	6.60%	3.60%	3.50%
07/02/2018 14:30	AU Commodity Index AUD	Jun	--	108.6	109.3	109.2
07/02/2018 15:30	TH Business Sentiment Index	Jun	--	52.8	51.5	--
07/02/2018 15:45	IT Manufacturing PMI	Jun	52.5	53.3	52.7	--
07/02/2018 15:50	FR Markit France Manufacturing PMI	Jun F	53.1	52.5	53.1	--
07/02/2018 15:55	GE Manufacturing PMI	Jun F	55.9	55.9	55.9	--
07/02/2018 16:00	EC Markit Eurozone Manufacturing PMI	Jun F	55	54.9	55	--
07/02/2018 16:00	IT Unemployment Rate	May P	11.10%	10.70%	11.20%	11.00%
07/02/2018 16:30	UK PMI Manufacturing SA	Jun	54	54.4	54.4	54.3
07/02/2018 17:00	EC Unemployment Rate	May	8.50%	8.40%	8.50%	8.40%
07/02/2018 21:00	SI Electronics Sector Index	Jun	--	51.9	52.3	--
07/02/2018 21:00	SI Purchasing Managers Index	Jun	52.5	52.5	52.7	--
07/02/2018 21:45	US Manufacturing PMI	Jun F	54.6	55.4	54.6	--
07/02/2018 22:00	US Construction Spending MoM	May	0.50%	0.40%	1.80%	0.90%
07/02/2018 22:00	US ISM Manufacturing	Jun	58.5	60.2	58.7	--
07/02/2018 22:00	US ISM Prices Paid	Jun	75	76.8	79.5	--
07/02/2018 23:29	IT Budget Balance	Jun	--	-3.2b	-7.9b	-8.0b
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	--	--	8.10%	--
07/03/2018 09:30	AU Building Approvals MoM	May	0.00%	--	-5.00%	--
07/03/2018 12:30	AU RBA Cash Rate Target	Jul-03	1.50%	--	1.50%	--
07/03/2018 14:45	FR Budget Balance YTD	May	--	--	-54.3b	--
07/03/2018 16:30	UK Markit/CIPS UK Construction PMI	Jun	52.5	--	52.5	--
07/03/2018 16:30	HK Retail Sales Value YoY	May	11.50%	--	12.30%	--
07/03/2018 16:30	HK Retail Sales Volume YoY	May	--	--	11.10%	--
07/03/2018 17:00	EC PPI MoM	May	0.50%	--	0.00%	--
07/03/2018 17:00	EC Retail Sales MoM	May	0.10%	--	0.10%	--
07/03/2018 17:00	EC Retail Sales YoY	May	1.60%	--	1.70%	--
07/03/2018 21:30	CA Manufacturing PMI	Jun	--	--	56.2	--
07/03/2018 22:00	US Factory Orders	May	0.00%	--	-0.80%	--
07/03/2018 22:00	US Durable Goods Orders	May F	-0.50%	--	-0.60%	--
07/03/2018 22:00	US Cap Goods Orders Nondef Ex Air	May F	--	--	-0.20%	--
07/03/2018 07/04	US Wards Total Vehicle Sales	Jun	17.00m	--	16.81m	--

Source: Bloomberg

OCBC Treasury Research	
<p><u>Macro Research</u></p> <p>Selena Ling LingSSSelena@ocbc.com</p> <p>Emmanuel Ng NgCYEmmanuel@ocbc.com</p> <p>Tommy Xie Dongming XieD@ocbc.com</p> <p>Barnabas Gan BarnabasGan@ocbc.com</p> <p>Terence Wu TerenceWu@ocbc.com</p> <p>Alan Lau AlanLau@ocbc.com</p>	<p><u>Credit Research</u></p> <p>Andrew Wong WongVKAM@ocbc.com</p> <p>Ezien Hoo EzienHoo@ocbc.com</p> <p>Wong Hong Wei WongHongWei@ocbc.com</p>

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC Bank, its related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial services to such issuers. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).