

Highlights

Global	<p>Tension between China and US escalated further with China's retaliatory measures moving from tariff to non-tariff barriers. China's Ministry of Commerce announced that it will publish a list of "unreliable entities" to safeguard national security, public interest and the rights and interests of Chinese enterprises, and will take all legal and administrative measures necessary against those listed entities. In addition, in its White Paper on US-China trade talks unveiled on Sunday, while China said it is still open to negotiation, they will not give ground on the issues of principle and will also fight to the end if necessary. Separately, President Trump also announced that the US will end special trade treatment for India which allows many India products to enter the US tax-free, citing India has not assured to provide equitable and reasonable access to its market.</p> <p>On economic data, the impact of the trade war on the regional economies has been more visible. China's May PMI fell by more than expected to 49.4 from 50.1 in April. Meanwhile, the decline of South Korean exports also accelerated to 9.4% yoy in May, the sixth consecutive drop since November 2018 driven by the weaker demand for chips.</p> <p>Asian equity markets are likely to face downward pressure today again, led lower by a pessimistic US equity showing last Friday. Today's economic print consists of ISM manufacturing PMI; Eurozone manufacturing PMI (including Germany and France); Japan's capital spending; and China's Caixin manufacturing PMI. The ECB meets on Thursday, while the Fed's Daly and Quarles speak at separate events today. RBA meets tomorrow and a 25bp rate cut is expected, according to a Bloomberg poll.</p>
US	<p>US data on Friday showed better than expected personal income and spending in April, growing 0.5% (est. 0.3%) and 0.3% (est. 0.2%) respectively MoM. Personal spending also saw an upward revision in March from 0.9% and 1.1%. Consumption will likely remain key in driving US growth this year as the ongoing US-China trade tensions are likely to dampen growth in other sectors. Personal consumption expenditure also ticked up to 1.6% in April from 1.5% in March, playing out the "transient" inflation decline that Fed chair Jerome Powell spoke about in his May FOMC press conference. For the rest of this week, keep a lookout on US ISM manufacturing PMI; factory orders; durable goods orders; ADP employment change; and the all-important nonfarm payrolls change on Friday.</p>
SG	<p>The Shangri-La Dialogue over the weekend saw US Acting Defence Secretary Patrick Shanahan and China's defense minister General Wei Fenghe speaking about security issues in the region. The US concentrated on its Indo-Pacific strategy, describing it as a "priority theatre" for the US and expects partners in the region to foot more of the defence bill, a recurring theme set by the US as already experienced by South Korea. General Wei started his opening speech by saying that China "holds different views with the US on several issues, and firmly opposes its wrong words and actions concerning Taiwan and the South China Sea." Singapore Prime Minister Lee Hsien Loong said that Southeast Asia is no stranger to the "game of nations" and urged cooperation between the US and China. Defence Minister Ng Eng Hen said the two superpowers should offer "moral justification" for countries to accept their dominance in Asia.</p>

Major Markets

- **US:** Wall Street ended lower on Friday, with the S&P500 declining 1.3%. The DJIA fell 1.4%, and the Nasdaq composite tumbled 1.5%.
- **Singapore:** The STI fell -0.8% on Friday as risk-off sentiments continue to engulf riskier markets. We expect the trend to continue in the short-term as tensions between the US and China escalate. Short-term support level for the STI is seen at the crucial 3,000 level.
- **EU:** Andrea Nahles, German Social Democrat leader, has announced that she is stepping down. This comes after her party's poor showing in last week's EU parliamentary elections, when the party hit an all-time low of less than 16% of votes. Should a more leftist leader take charge of the party, the party may quit the coalition with Chancellor Angela Merkel's Christian Democrats, triggering a potential round of fresh elections in the country.
- **China:** It seems that China has drawn its line of sand clearly and passed the ball back to the US side. Should the Trump Administration refuse to compromise, the chance of both sides restarting talks may be much lower. Nevertheless, while the tone of the white paper indicates that China will not avoid a prolonged battle if needed, its message is not as aggressive as that delivered by main media and social media. China still keeps the door open to trade talks which will mostly be digital. Domestically, PBoC's reassurance of taking over Baoshang being an individual case and having no plans to take over other banks is likely to calm down the jittery market. RMB weakened on Friday after former PBoC Governor Zhou Xiaochuan hinted that there is no line of sand for the currency and China should not change its currency pricing mechanism after approaching so called the critical level.
- **Hong Kong:** Total loans growth drop to its lowest since Jun 2016 at 0.5% yoy in Apr 2019. Internally, trade finance dropped for the eighth month in a row by 7.8% yoy amid weakening trading activities. Loans use in HK (excluding trade finance) retreated by 0.1% yoy despite stock and property market rallies, possibly due to cautious investor sentiment and higher borrowing costs. With the US-China trade war re-escalating in early May, we are wary of further weakness in local loan demand. Externally, the growth in loans for use outside of HK decelerated again to 3.5% yoy in Apr from 4.2% yoy in Mar. Though offshore financing remained less costly, Mainland companies' offshore funding demand could drop with the weakening RMB and China's curb on new offshore bond issuance by property developers and LGFVs. We expect total loan growth to remain subdued with low single-digit growth in 2019.

Bond Market Updates

- **Market Commentary:** The SGD swap curve bull-flattened last Friday, with the shorter tenors and belly trading 1-4bps lower while the longer tenors traded 5-9bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 3bps to 141bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 15bps to 513bps. 10Y UST yields tumbled by 7bps to 2.12%, a 20-month low after US President Donald Trump said the US would impose a 5% tariff on all Mexican goods in response to the illegal immigration situation, fuelling broad risk-off sentiments and a flight to quality in the market. It was also announced on Friday that India's special trade status will be removed. The yield curve between 3-month treasury bills and 10-year treasury notes has inverted further to -21bps on Friday.
- **New Issues:** Adani Green Energy (UP) Ltd, Prayatna Developers Pte Ltd and Parampujya Solar Energy Pte Ltd (all subsidiaries of Adani Green Energy Ltd) have priced a USD500mn 5.5-year bond at 6.25%, tightening from IPG of 6.5%.

Key Financial Indicators

Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	97.750	-0.40%	USD-SGD	1.3748	-0.31%
USD-JPY	108.290	-1.21%	EUR-SGD	1.5355	0.03%
EUR-USD	1.1169	0.36%	JPY-SGD	1.2685	0.82%
AUD-USD	0.6938	0.38%	GBP-SGD	1.7368	-0.11%
GBP-USD	1.2629	0.17%	AUD-SGD	0.9537	0.05%
USD-MYR	4.1900	-0.05%	NZD-SGD	0.8986	0.08%
USD-CNY	6.9050	0.04%	CHF-SGD	1.3732	0.36%
USD-IDR	14273	-0.99%	SGD-MYR	3.0422	0.03%
USD-VND	23415	-0.01%	SGD-CNY	5.0169	0.25%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.3780	-0.0050	O/N	2.3545	-0.0033
2M	-0.3360	-0.0033	1M	2.4305	-0.0095
3M	-0.3220	-0.0095	2M	2.4740	-0.0061
6M	-0.2500	-0.0061	3M	2.5025	-0.0177
9M	-0.1940	-0.0177	6M	2.5166	-0.0271
12M	-0.1680	-0.0271	12M	2.5103	-0.0679

Fed Rate Hike Probability

Meeting	Prob Hike	Prob Cut	1.75-2%	2-2.25%	2.25-2.5%
06/19/2019	0.0%	21.3%	0.0%	21.3%	78.7%
07/31/2019	0.0%	54.4%	9.0%	45.4%	45.6%
09/18/2019	0.0%	79.9%	29.4%	45.5%	20.1%
10/30/2019	0.0%	88.8%	36.5%	34.3%	11.2%
12/11/2019	0.0%	95.9%	35.1%	19.7%	4.1%
01/29/2020	0.0%	97.4%	29.3%	13.8%	2.6%

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	53.50	-5.5%	Corn (per bushel)	4.2700	-2.1%
Brent (per barrel)	64.49	-3.6%	Soybean (per bushel)	8.778	-1.3%
Heating Oil (per gallon)	1.8418	-3.8%	Wheat (per bushel)	5.0300	-2.2%
Gasoline (per gallon)	1.8020	-4.1%	Crude Palm Oil (MYR/MT)	2,030.0	0.5%
Natural Gas (per MMBtu)	2.4540	-3.7%	Rubber (JPY/KG)	217.6	0.3%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,830	-0.4%	Gold (per oz)	1,305.8	1.5%
Nickel (per mt)	12,017	-1.3%	Silver (per oz)	14.567	0.5%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Equity and Commodity

Index	Value	Net change
DJIA	24,815.04	-354.84
S&P	2,752.06	-36.80
Nasdaq	7,453.15	-114.57
Nikkei 225	20,601.19	-341.34
STI	3,117.76	-25.24
KLCI	1,650.76	14.26
JCI	6,209.12	105.01
Baltic Dry	1,096.00	-1.00
VIX	18.71	1.41

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.94 (-0.02)	1.92 (-0.14)
5Y	1.92 (-0.03)	1.91 (-0.11)
10Y	2.09 (-0.04)	2.12 (-0.09)
15Y	2.32 (-0.03)	--
20Y	2.39 (-0.03)	--
30Y	2.58 (-0.04)	2.57 (-0.07)

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	4.60	-0.10
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	2.40
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Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
06/03/2019 08:30	JN Nikkei Japan PMI Mfg	May F	--	49.6	--
06/03/2019 08:30	SK Nikkei South Korea PMI Mfg	May	--	50.2	--
06/03/2019 08:30	VN Nikkei Vietnam PMI Mfg	May	--	52.5	--
06/03/2019 09:45	CH Caixin China PMI Mfg	May	50	50.2	--
06/03/2019 13:00	IN Nikkei India PMI Mfg	May	--	51.8	--
06/03/2019 15:50	FR Markit France Manufacturing PMI	May F	50.6	50.6	--
06/03/2019 15:55	GE Markit/BME Germany Manufacturing PMI	May F	44.3	44.3	--
06/03/2019 16:00	EC Markit Eurozone Manufacturing PMI	May F	47.7	47.7	--
06/03/2019 16:30	UK Markit UK PMI Manufacturing SA	May	52.2	53.1	--
06/03/2019 21:00	SI Purchasing Managers Index	May	50.1	50.3	--
06/03/2019 21:45	US Markit US Manufacturing PMI	May F	50.6	50.6	--
06/03/2019 22:00	US ISM Manufacturing	May	53	52.8	--

Source: Bloomberg

<u>OCBC Treasury Research</u>	
<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>Terence Wu TerenceWu@ocbc.com</p> <p>Howie Lee HowieLee@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> <p>Seow Zhi Qi ZhiQiSeow@ocbc.com</p>

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