

Highlights

Global	<p>Wall Street managed to eke out modest gains overnight, pushing the S&P500 to another record, but the UST bond market also had a solid session with the 10-year yield dipping back below the 2% handle to 1.97% (lowest since November 2016). Oil prices also slipped amid renewed global demand concerns as the US reported a contraction in crude supplies. Meanwhile, RBA trimmed its policy rate by 25bps to 1% as widely anticipated but signalled a neutral stance from here. Meanwhile, BOE governor Carney warned of a “widespread” slowdown” due to rising protectionism risks.</p> <p>With global risk appetite starting to waver yesterday, Asian markets may also open on a softer note this morning and tread lower today. Market attention are likely to turn to today’s economic calendar which comprises of China’s Caixin and Eurozone’s service and composite PMIs, US’ ADP employment change, mortgage applications, durable goods, initial jobless claims and factory orders, as well as S’pore’s COE tender results. ECB’s Nowotny and Villeroy, BOE’s Cunliffe and Broadbent are speaking.</p>
US	<p>Fed’s Mester opined that “cutting rates at this juncture could reinforce negative sentiment about a deterioration in the outlook even if this is not the baseline view” and also “encourage financial imbalances given the current level of interest rates, which would be counterproductive”. She also warned “if you always react to the market, it is self-reinforcing and you’ll never get a signal” and “the most likely outcome continues to be that the economy will maintain its good performance in 2019”. Meanwhile, US president Trump also said he’s planning to nominate Christopher Waller (director of research for St Louis Fed) and Judy Shelton (conservative adviser to Trump) to the Federal Reserve Board, after his earlier four candidates failed to make it through Senate.</p>
EU	<p>Christine Lagarde has been nominated to succeed Mario Draghi as ECB president when he steps down on 31 October, and market expectations are that she would be more dovish than the other contender Jens Weidmann who is the Bundesbank president.</p>
SG	<p>Singapore PMI slipped to 50.6 in June versus 52.1 in May and a sharp retreat from the five-month high of 53.3 in April. Output, new business and employment gauges saw softer growth, while forward looking gauges like buying activity was reduced for the sixth straight month and business confidence slid to its lowest since March 2017 amid expectations of a more challenging economic conditions ahead, albeit the work backlog gauge rose amid greater supply chain pressures and new business from abroad rebounded into expansion after May’s notable decline. Meanwhile, hiring rose mildly in June, but some industries saw headcount reductions. Cost pressures rose in June, with prices paid for purchased items rising at a faster pace, and labour expenses also increasing but at a slower pace. Meanwhile, MAS published a consultation paper proposing to raise the 45% leverage limit for S-REITS</p>

Major Markets

- **US:** The S&P 500 index continues to close at new record highs at 2973.01 (+0.3%) on Tuesday, as sentiment remains positive on reports of trade talk dialogues between the US and China. Markets will be watching US data releases for the rest of the week and may see the 10-year treasury yields fall further below the 2.0% level if softness in the US economy persists.
- **China:** Premier Li Keqiang stated that China will remove limits on foreign ownership in China's securities/futures/insurance companies ahead of schedule in 2020. This reinforces that China will adhere to its commitment of further opening up the market despite external uncertainties. On the monetary policy, Li mentioned targeted RRR and RRR cuts to reduce the funding costs of small companies. This resulted in a sharp decline in China's 10-year government bond yield, which in turn added some downward pressure to the RMB. Despite that, before more data shows further signs of economic slowdown amid trade war, we expect the PBoC will continue to rely mainly on innovative tools to strike the balance between structural deleveraging and economic growth. As such, we expect universal RRR cut is not imminent at this juncture.
- **Singapore:** The STI closed nearly flat at 3370.80 (-0.04%) yesterday but may see further consolidative pressure today towards the 3350 support as market turns its attention to the upcoming US labour day holiday tomorrow. Whilst Wall Street gained overnight, morning cues by Kospi remains soft. With gains in the UST bond market led by the longer tenors overnight whose yield fell by up to 5bps, it is likely to see buyers chasing the longer-dated SGS bonds further today.
- **Hong Kong:** Retail sales dropped for the fourth consecutive month by 1.3% yoy in May. The sales of food and goods in department stores increased 3.1% yoy and 0.3% yoy respectively. Meanwhile, the decrease in sales of jewellery and other luxury goods moderated from 11.8% yoy in April to 2.7% yoy in May. This was mainly due to the Labor Day Holiday which supported a 23.6% yoy increase in Mainland visitors. Nevertheless, the sales of clothing & footwear, and consumer durable goods continued to decrease. Due to the trade war escalation and the resultant stock market correction and RMB depreciation, consumption sentiment remained cautious. Going forward, though RMB and risky assets rebounded on positive trade war headline in June, households and visitors may remain cautious about spending due to lingering global uncertainties. Adding on the high base effect, we expect retail sales to remain sluggish in the rest of this year and to see a decline of around 2% for 2019 as a whole.
- **Macau:** Gross gaming revenue increased for the second consecutive month by 5.9% yoy in June as strong inbound tourism might have lent support to the mass-market segment. On top of the infrastructure improvement, the stabilization of RMB on US-China trade truce may also be favorable to Macau's tourism and gaming sectors. Nevertheless, we remain wary of the renewed slowdown in China's growth and the uncertainty over future trade talks as these factors together with the policy risks may loom over the VIP segment. In conclusion, we hold onto our view that gross gaming revenue will grow by around 0% in 2019.

- **Indonesia:** According to Bloomberg, Finance Minister Sri Mulyani has said that she expects Indonesia's economy to have expanded between 5.02% - 5.13% for 2Q 2019. The news portal also reported that she sees the entire 2019 growth rate to come out at 5.2% yoy. Our own forecast for 2Q 2019 is at 5.20% yoy whilst we expect the entire year 2019 growth to be at 5.10% yoy. Meanwhile, the government sold Rp22.2tn of bonds yesterday, exceeding their target of Rp15.0tn with incoming bids reported at Rp62.1tn.
- **South Korea:** CPI rose +0.7% in June, according to yesterday's data release – less than our forecast of 0.8%. Food prices did not rise as quickly as we have expected, while the transport basket contracted more than we had forecast given the slump in oil prices last month. South Korea's headline inflation in the first half of 2019 had risen +0.6% YTD, way below the BoK's inflation target of 2%, and remains one of the key concerns of the central bank
- **Oil:** Oil prices fell yesterday, with Brent down -4.1% and WTI down -4.8%. The drop came despite an agreement by OPEC+ to extend current production cuts by 9 months. Demand worries continue to weigh on prices despite the prospect of tighter supplies. We believe a fair degree of profit taking was also present in yesterday's selloff but do not expect the selling on crude oil to continue in the short-term, especially with CFTC data showing a second week of increase in net longs.

Bond Market Updates

- **Market Commentary:** The SGD swap curve bull-flattened yesterday, with the shorter tenors trading 0-1bps higher, while the belly and longer tenors traded 1-2bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS remained unchanged at 133bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS remained unchanged at 473bps. 10Y UST fell 5bps to 1.98%, after the post-G20 optimism wore off and soft global manufacturing data boosted investor demand for US treasuries. This was compounded by dovish comments from BOE Governor Mark Carney regarding Brexit risks and trade conflicts. Spread between 3-month treasury bills and 10-year treasury notes continued to be inverted, with the spread widening to -18bps.
- **New Issues:** Shandong Guohui International (BVI) Co., Ltd (guarantor: Shandong Guohui Investment Co., Ltd) has priced a USD800mn 3-year bond at 4.37%, tightening from IPT of 4.8% area. Sumitomo Corporation has priced a USD500mn 5-year bond at T+87.5bps, tightening from IPT of T+110bps area. Tongfang Aqua Ltd (guarantor: Tsinghua Tongfang Co., Ltd) has priced a USD300mn 2.5-year bond at 7.0%, tightening from IPT of 7.125% area. Yuzhou Properties Co., Ltd has priced a USD400mn re-tap of its existing YUZHOU 6.0%'23s at 7.7%, tightening from IPT of 8.2% area. The Export-Import Bank of China has priced a USD100mn FRN at 3-month US LIBOR+60bps. Vietnam Prosperity Joint-Stock Commercial Bank has scheduled investor meetings commencing on 3 July for its potential USD bond issuance. Dafa Properties Group Ltd has scheduled investor roadshows commencing 3 July for its potential USD bond issuance. Chong Hing Bank Ltd has scheduled investor roadshows commencing on 3 July for its potential USD AT1 issuance. PT Perusahaan Listrik Negara (PLN) has scheduled investor roadshows commencing on 4 July for its potential USD bond issuance.

Key Financial Indicators

Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	96.726	-0.12%	USD-SGD	1.3561	0.02%
USD-JPY	107.880	-0.53%	EUR-SGD	1.5304	0.03%
EUR-USD	1.1285	-0.01%	JPY-SGD	1.2569	0.55%
AUD-USD	0.6994	0.40%	GBP-SGD	1.7077	-0.34%
GBP-USD	1.2593	-0.38%	AUD-SGD	0.9484	0.42%
USD-MYR	4.1410	0.16%	NZD-SGD	0.9049	0.01%
USD-CNY	6.8734	0.32%	CHF-SGD	1.3750	0.20%
USD-IDR	14139	0.18%	SGD-MYR	3.0509	-0.08%
USD-VND	23236	-0.12%	SGD-CNY	5.0666	0.25%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.3920	-0.30%	O/N	2.3598	-1.06%
2M	-0.3360	-1.06%	1M	2.3878	-1.03%
3M	-0.3460	-1.03%	2M	2.3390	0.81%
6M	-0.3130	0.81%	3M	2.3319	1.20%
9M	-0.1940	1.20%	6M	2.2185	1.80%
12M	-0.2170	1.80%	12M	2.2019	2.38%

Fed Rate Hike Probability

Meeting	Prob Hike	Prob Cut	1.5-1.75%	1.75-2%	2-2.25%
07/31/2019	0.0%	100.0%	0.0%	22.5%	77.5%
09/18/2019	0.0%	100.0%	17.0%	64.0%	19.0%
10/30/2019	0.0%	100.0%	33.7%	48.0%	12.3%
12/11/2019	0.0%	100.0%	40.3%	31.4%	6.6%
01/29/2020	0.0%	100.0%	37.4%	23.3%	4.4%
03/18/2020	0.0%	100.0%	33.9%	18.6%	3.3%

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	56.25	-4.8%	Corn (per bushel)	4.1350	0.4%
Brent (per barrel)	62.40	-4.1%	Soybean (per bushel)	8.763	-1.0%
Heating Oil (per gallon)	1.8863	-3.5%	Wheat (per bushel)	5.0350	-2.0%
Gasoline (per gallon)	1.8703	-3.1%	Crude Palm Oil (MYR/MT)	1,904.0	0.7%
Natural Gas (per MMBtu)	2.2400	-1.2%	Rubber (JPY/KG)	230.0	-1.4%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,887	-1.1%	Gold (per oz)	1,408.0	1.3%
Nickel (per mt)	12,095	-2.1%	Silver (per oz)	15.154	0.3%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Equity and Commodity

Index	Value	Net change
DJIA	26,786.68	69.25
S&P	2,973.01	8.68
Nasdaq	8,109.09	17.93
Nikkei 225	21,754.27	24.30
STI	3,370.80	-1.46
KLCI	1,691.00	7.38
JCI	6,384.90	5.21
Baltic Dry	1,381.00	--
VIX	12.93	-1.13

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.69 (+0.02)	1.76 (-0.03)
5Y	1.77 (-0.01)	1.74 (-0.05)
10Y	1.99 (-0.02)	1.97 (-0.05)
15Y	2.23 (-0.03)	--
20Y	2.37 (-0.03)	--
30Y	2.53 (-0.03)	2.50 (-0.05)

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	5.40	-0.33
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	2.42
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Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
07/03/2019 08:30	JN Jibun Bank Japan PMI Composite	Jun	--	50.7	--
07/03/2019 09:30	AU Trade Balance	May	A\$5250m	--	A\$4871m
07/03/2019 09:45	CH Caixin China PMI Composite	Jun	--	51.5	--
07/03/2019 15:50	FR Markit France Composite PMI	Jun F	52.9	--	52.9
07/03/2019 16:00	EC Markit Eurozone Composite PMI	Jun F	52.1	--	52.1
07/03/2019 19:00	US MBA Mortgage Applications	Jun-28	--	1.30%	--
07/03/2019 20:15	US ADP Employment Change	Jun	140k	--	27k
07/03/2019 20:30	US Trade Balance	May	-\$54.0b	--	-\$50.8b
07/03/2019 20:30	US Initial Jobless Claims	Jun-29	223k	--	227k
07/03/2019 21:00	SI Purchasing Managers Index	Jun	49.8	--	49.9
07/03/2019 22:00	US Durable Goods Orders	May F	-1.30%	--	-1.30%
07/03/2019 22:00	US Factory Orders	May	-0.60%	--	-0.80%
07/03/2019 22:00	US ISM Non-Manufacturing Index	Jun	56	--	56.9

Source: Bloomberg

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