

Highlights

Global	<p>Global risk appetite was healthy yesterday, but may be dented today after US president Trump accused Europe and China of playing a “big currency manipulation game”. Wall Street climbed overnight ahead of the US’ Independence Day holiday today, with the S&P500 notching a third straight record close, while UST bonds also rallied with the 10-year bond yield down to 1.95% (lowest since November 2016). Investors took stock of Trump’s two potentially dovish appointments to the Fed and also Lagarde after ECB president Draghi steps down in October. The decision by the European Commission not to penalise Italy also prompted its 10-year bond yield to decline 25bps to 1.58% and the spread over bunds to dip below 200bps for the first time since May 2018, even as the 10-year bund yield fell to a record low of -0.38%. Elsewhere, Trump also warned Iran against stepping up uranium enrichment, while UK and China officials have had some differences in opinion over Hong Kong. Asian markets may range trade this morning. Economic data cues are few today, with only Australia’s retail sales and Malaysia’s May trade data on tap. ECB’s Lane and de Guindos are also speaking.</p>
US	<p>US’ ADP employment change came in at 102k higher than May’s 9-year low of 41k. Meanwhile, the non-manufacturing ISM slipped from 56.9 to 55.1 (lowest since July 2017), with the employment gauges declining by the most in 16 months. Initial jobless claims fell 8k to 221k, while factory orders continued to shrink by 0.7% in May. The May trade deficit widened more than expected by 8.4% to a five-month high of US\$55.5b as imports jumped 3.3% even though exports rose 2% (most in a year). The bilateral trade deficit with China also widened to US\$30.1b. White House advisor Kudlow said that US and Chinese officials will resume trade talks by phone next week.</p>
EU	<p>Eurozone’s services PMI rose to 53.6 with the composite PMI at 52.2 (highest since November).</p>
SG	<p>The manufacturing PMI slipped 0.3 points to 49.6 in June, marking its second straight month of contraction due to the drag from first-time contractions in new orders, factory output, inventory and employment gauges amid the heightened trade tensions. Meanwhile, the electronics PMI also decline by 0.2 points to 49.2 in June, registering its eighth consecutive month of contraction as new orders, new exports, factory output, inventory and employment gauges remained depressed. Note that the electronics order backlog index has now contracted for fourteen continuous months. While the soft global electronics demand theme has been apparent for many months, the broad-based weakness as reflected in the sudden first-time contractions seen in many of the sub-gauges within the manufacturing PMI suggest that the other non-electronics manufacturing industries may also be feeling the heat from the US-China trade tensions and business confidence is gradually being eroded. Coupled with the uptick in input prices for both the manufacturing and electronics, demand conditions have turned increasingly challenging for the months ahead. This is already being reflected in the worsening slow payments in 2Q19, according to the SCCB report. This suggests that 3Q19 domestic manufacturing growth momentum may not be out of the woods yet despite the temporary truce for fresh US tariffs on China.</p>

Major Markets

- **US:** The S&P 500 rally continues as the market closes with records levels once again at 2995.82 (+0.7%) on Wednesday. Markets are still optimistic despite softness in private sector hiring (ADP employment change) and factory orders, as the Trump administration reported that they will be having phone conversations and live meetings with China on trade talks. Markets will be looking at the nonfarm payroll numbers tomorrow as the first gauge of the US labour market health in the aftermath of the re-escalation of the Sino-US trade war.
- **China:** Foreign investors continued to increase their holdings of China's bond despite rising volatility of RMB in June. Total holdings of Chinese bond increased by CNY34.6 billion to CNY1.645 trillion.
- **Singapore:** The STI closed down 0.09% at 3367.80 yesterday and may continue to tread water amid mixed cues – Wall Street rose overnight to fresh records, but Kospi is trading flat this morning, possibly in view of the US Labour Day holiday today. With longer-dated UST bonds outperforming overnight and yields dropping by up to 3-4bps, SGS bonds are likely to track gains today, especially on the back of softer June prints across the manufacturing, electronics and the Singapore PMIs.
- **Indonesia:** Finance Minister Sri Mulyani has announced that the government is seeking to introduce a law that will apply a stamp duty rate of Rp10,000 to all paper and digital documents with a nominal value of more than Rp5m. It has been reported that the new rule may result in additional state revenue of at least Rp3.7tn if implemented in 2019 and that the government and parliament could be seeking to complete deliberation of this new stamp duty bill by this year.
- **Thailand:** Bank of Thailand Senior Director Don Nakornthab said yesterday that the central bank is “worried” about the continued strength of the baht and is looking at possible measures to presumably ease the currency. He also added that there is room for rate reductions, although timing is of the essence and that the BoT remains data dependent. The current slowdown in the domestic economy is not enough to warrant a slowdown, but increasing economic risks would further open “the door for a rate cut in the future”.
- **Oil:** Oil prices rose yesterday, with Brent gaining +2.3% and WTI up +1.9%. News that Iran has stepped up its nuclear enrichment programme and President Trump tweeting that Iran's nuclear threats will “bite you (Iran) like nobody has been bitten before” sent oil prices higher. Tensions between the US and Iran continue to escalate since the White House decided not renew waivers on Iranian crude sanctions. We expect upside pressures to be relatively more prevalent than downside stresses in the short-term.

Bond Market Updates

- **Market Commentary:** The SGD swap curve bull flattened yesterday, with the shorter tenors and belly trading 2-5bps lower, while the longer tenors traded 6-7bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS was unchanged at 133bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 3bps to 470bps. 10Y USTs fell 2bps to 1.95%, after European bond yields tumbled on the back of expectations of more stimulus under the next ECB chief Christine Lagarde. This was compounded by weaker than expected US payroll and trade gap data. Spread between 3-month treasury bills and 10-year treasury notes continued to be inverted, with the spread widening to -25bps.
- **New Issues:** Pingdingshan Tianan Coal Mining Co., Ltd has priced a USD100mn 1-year bond at 6.25%, tightening from IPT of 6.5% area. Panasonic Corporation has scheduled investor meetings commencing on 5 July for its potential USD bond issuance. China National Bluestar (Group) Co., Ltd has scheduled investor meetings commencing on 4 July for its potential USD bond issuance. Guangzhou Development District Financial Holdings Group Co., Ltd has scheduled investor meetings commencing on 4 July for its potential USD bond issuance.

Key Financial Indicators

Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	96.768	0.04%	USD-SGD	1.3562	0.01%
USD-JPY	107.810	-0.06%	EUR-SGD	1.5294	-0.07%
EUR-USD	1.1278	-0.06%	JPY-SGD	1.2575	0.05%
AUD-USD	0.7029	0.50%	GBP-SGD	1.7052	-0.15%
GBP-USD	1.2574	-0.15%	AUD-SGD	0.9533	0.52%
USD-MYR	4.1370	-0.10%	NZD-SGD	0.9097	0.53%
USD-CNY	6.8812	0.11%	CHF-SGD	1.3743	-0.05%
USD-IDR	14123	-0.11%	SGD-MYR	3.0522	0.04%
USD-VND	23241	0.02%	SGD-CNY	5.0701	0.07%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.3860	-1.60%	O/N	2.3514	-0.84%
2M	-0.3360	-0.84%	1M	2.3795	-0.82%
3M	-0.3510	-0.82%	2M	2.3384	-0.06%
6M	-0.3270	-0.06%	3M	2.3130	-1.89%
9M	-0.1940	-1.89%	6M	2.2264	0.79%
12M	-0.2330	0.79%	12M	2.2031	0.12%

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%	27.5%	72.5%
09/18/2019	0.0%	100.0%	20.0%	60.2%	19.8%
10/30/2019	0.0%	100.0%	33.8%	46.4%	13.0%
12/11/2019	0.0%	100.0%	39.8%	30.4%	6.8%
01/29/2020	0.0%	100.0%	36.8%	22.8%	4.6%
03/18/2020	0.0%	100.0%	33.6%	18.7%	3.6%

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	57.34	1.9%	Corn (per bushel)	4.3300	4.7%
Brent (per barrel)	63.82	2.3%	Soybean (per bushel)	8.853	1.0%
Heating Oil (per gallon)	1.8987	0.7%	Wheat (per bushel)	5.1800	2.9%
Gasoline (per gallon)	1.9167	2.5%	Crude Palm Oil (MYR/MT)	1,894.0	-0.5%
Natural Gas (per MMBtu)	2.2900	2.2%	Rubber (JPY/KG)	224.0	-2.6%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,918	0.5%	Gold (per oz)	1,420.9	0.9%
Nickel (per mt)	12,350	2.1%	Silver (per oz)	15.252	0.6%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Equity and Commodity

Index	Value	Net change
DJIA	26,966.00	179.32
S&P	2,995.82	22.81
Nasdaq	8,170.23	61.14
Nikkei 225	21,638.16	-116.11
STI	3,367.80	-3.00
KLCI	1,690.05	-0.95
JCI	6,362.62	-22.28
Baltic Dry	1,446.00	--
VIX	12.57	-0.36

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.68 (-0.01)	1.76 (--)
5Y	1.74 (-0.03)	1.73 (-0.01)
10Y	1.93 (-0.05)	1.95 (-0.02)
15Y	2.17 (-0.06)	--
20Y	2.31 (-0.06)	--
30Y	2.46 (-0.07)	2.47 (-0.03)

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	5.95	1.05
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	2.42
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Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
07/04/2019 07:00	SK BoP Current Account Balance	May	--	\$4949.4m	-\$664.8m
07/04/2019 07:50	JN Japan Buying Foreign Bonds	Jun-28	--	¥514.3b	¥445.4b
07/04/2019 08:30	HK Markit Hong Kong PMI	Jun	--	--	46.9
07/04/2019 12:00	MA Trade Balance MYR	May	8.30b	--	10.86b
07/04/2019 12:30	NE CPI YoY	Jun	--	--	2.40%
07/04/2019 12:30	NE CPI MoM	Jun	--	--	-0.10%
07/04/2019 14:30	SZ CPI YoY	Jun	0.50%	--	0.60%
07/04/2019 15:00	EC ECB Chief Economist Speaks in Frankfurt				
07/04/2019 15:30	SW Average House Prices	Jun	--	--	2.927m
07/04/2019 17:00	EC Retail Sales MoM	May	0.30%	--	-0.40%
07/04/2019 17:00	EC Retail Sales YoY	May	1.60%	--	1.50%
07/04/2019 19:00	MX Consumer Confidence Index	Jun	107.3	--	108.1

Source: Bloomberg

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