

Highlights

Global	<p>With the announcement of China's retaliation overnight that tariffs on 2,493 US products will be raised to between 5-25% from 1 June, the risk-off tone has submerged most financial markets. S&P500 saw its biggest decline in four months, while UST bonds rallied with the 10-year yield down to 2.39% (lowest since late March). President Trump had tweeted that "China should not retaliate – will only get worse" and hinted elsewhere that "there can be some retaliation, but it can't be very substantial". So it may be a matter of principle of facing off before Trump and Xi may actually meet at the sidelines of the G20 meeting on 28-29 June in Japan. Note the US Trade Representative's office also released a list of about US\$300b of Chinese imports yesterday that president Trump is threatening to lift 25% tariffs, with the public hearing scheduled for 17 June. Given that the list covers many agricultural, clothing, food items and school supplies, the impact on US consumer inflation would be something to watch for if it materialises. At this juncture, the stakes are being raised in the US-China trade war version 2.0, and Asian markets are likely to extend its risk-off tone this morning while watching for the RMB direction. The economic calendar comprises US' import prices, NFIB small business optimism and mortgage applications, Eurozone's industrial production and ZEW survey, German CPI, UK's jobless claims and ILO unemployment, and Japan's Eco Watchers survey. Fed's Williams, George and Daly, and ECB's Villeroy are speaking.</p>
US	<p>The 3-month to 10-year bond yield curve inverted again amid the sabre-rattling by US and China on trade. The 3-month LIBOR slipped further to 2.518% yesterday, the lowest since 25 October, while the LIBOR-OIS spread widened to 16.3bps. Interestingly, Eurodollar option market pricing for Fed rate cuts has risen for more than one 25bp cut this year. Fed rhetoric has been measured, with Rosengren saying that "most of the economic estimates are relatively modest for the GDP effects" and "we probably will not have a recession", but "to the extent we get sharp movements in financial markets that have wealth effects and other effects...it does become important how much the market reacts over time to the announcements of tariffs".</p>
UK	<p>UK PM May will meet her cabinet today to seek support for her Brexit plan even as cross-party talks have faltered.</p>
EU	<p>Meanwhile, the EU is also finalising a list of EUR20b of US goods to target with retaliatory tariffs in the event that US President Trump decides to impose levies on car imports by 18 May, according to EU trade chief Malmstrom.</p>
CH	<p>China unveiled its retaliation measures last night with the tariff for \$60b US products to be raised to 25%, 20% and 10% respectively. However, the new tariff will only take effect from 1 June, leaving room for the further negotiation.</p>
SG	<p>China's PBOC and MAS have renewed their Bilateral Currency Swap Arrangement (BCSA) for another three years to strengthen regional economic resilience and financial stability. Under the BSCA, both central banks access foreign currency liquidity to support trade and investment financing needs, including projects under the Belt and Road Initiative, and to stabilise financial markets. Up to CNY300 billion in Chinese Yuan liquidity will be available to eligible financial institutions operating in Singapore. The original arrangement was established in 2010 and renewed in 2013 and 2016.</p>

Major Markets

- **US:** Wall Street ended lower on Monday, with the S&P500 declining 2.4%. The DJIA fell 2.4%, and the Nasdaq composite tumbled 3.4%.
- **Singapore:** The STI declined 1.20% to close down at 3234.28 yesterday and may test the 3200 support handle this morning amid the risk aversion dominating market sentiments. Support and resistance are tipped at 3180 and 3240 for now. With the bull-steepening in the UST bond curve amid the escalating trade war story, and increasing conviction that the Fed may need to cut rate later this year if the trade war impacts US growth, the SGS bonds may also be better bid today on the flight to quality.
- **China:** Elsewhere, Premier Li Keqiang said yesterday in the conference that China will defend the bottom line of job stability. He also asks provinces with influx of migrant workers to prevent those workers from going back to home and create job opportunities for them should they lose jobs.
- **Commodities:**
 - Energy:** Crude oil prices continue to hold steady despite the decline in commodity prices in the agricultural and base metals space. Data yesterday showed that Russian oil production in early May finally complied with the OPEC+ agreement levels at 11.16m bpd. This is slightly less than the OPEC+ quota of 11.20m bpd agreed upon for the country. Russia continues to grapple with its contamination in its supplies and this may have been one of the key reasons for Russia's decreased crude oil production. The supply scene remains very tight, as we have repeatedly pointed out, and the production squeeze is holding up crude oil prices despite the ongoing US-China trade war.
 - Gold:** The precious metal finally saw some volatility after trading in a muted range of \$1,270/oz to \$1,290/oz since the end of April, breaking above \$1,300/oz for the first time since end March. China's retaliation of tariffs on US goods provided the catalyst for gold to break out of its range. Headline news are likely to influence gold prices from here and if the White House issues tariffs on the remaining \$300bn of Chinese imports, we expect that gold may test its YTD high of almost \$1,350/oz.

Bond Market Updates

- **Market Commentary:** The SGD swap curve bull-flattened yesterday, with the shorter tenors trading 3bps lower while the belly and longer tenors traded 4-5bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS was widened 1bps to 133bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 6bps to 488bps. 10Y UST yields fell 7bps to 2.40%, hitting a six-week low on the back of large safe-haven demand as China announced retaliatory measures on the tariff increase imposed by the US on Friday. Beijing plans to slap import tariffs ranging from 5% to 25% on 5,140 US products worth USD60bn, unsettling investors further over the sudden deterioration of negotiations between the US and China. Meanwhile, 10-year treasury yields fell below that of the 3-month treasury bills.
- **New Issues:** There was no new Asia dollar issuance over 13th May 2019.

Key Financial Indicators

Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	97.319	-0.01%	USD-SGD	1.3705	0.58%
USD-JPY	109.300	-0.59%	EUR-SGD	1.5380	0.50%
EUR-USD	1.1222	-0.10%	JPY-SGD	1.2540	1.19%
AUD-USD	0.6944	-0.83%	GBP-SGD	1.7758	0.28%
GBP-USD	1.2958	-0.31%	AUD-SGD	0.9516	-0.24%
USD-MYR	4.1645	0.17%	NZD-SGD	0.9000	0.08%
USD-CNY	6.8784	0.82%	CHF-SGD	1.3618	1.12%
USD-IDR	14425	0.68%	SGD-MYR	3.0451	-0.19%
USD-VND	23317	-0.10%	SGD-CNY	5.0187	0.21%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.3670	--	O/N	2.3564	--
2M	-0.3360	--	1M	2.4490	--
3M	-0.3090	--	2M	2.4896	--
6M	-0.2310	--	3M	2.5279	--
9M	-0.1940	--	6M	2.5870	--
12M	-0.1180	--	12M	2.6934	--

Fed Rate Hike Probability

Meeting	Prob Hike	Prob Cut	1.75-2%	2-2.25%	2.25-2.5%
06/19/2019	0.0%	15.8%	0.0%	15.8%	84.2%
07/31/2019	0.0%	30.1%	2.7%	27.4%	69.9%
09/18/2019	0.0%	53.7%	11.0%	41.7%	46.3%
10/30/2019	0.0%	61.7%	16.3%	42.5%	38.3%
12/11/2019	0.0%	75.5%	25.8%	41.0%	24.5%
01/29/2020	0.0%	79.4%	28.2%	38.4%	20.6%

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	61.04	-1.0%	Corn (per bushel)	3.4750	1.5%
Brent (per barrel)	70.23	-0.6%	Soybean (per bushel)	7.910	-0.8%
Heating Oil (per gallon)	2.0384	-0.6%	Wheat (per bushel)	4.3125	2.9%
Gasoline (per gallon)	1.9637	-1.3%	Crude Palm Oil (MYR/MT)	1,927.0	0.4%
Natural Gas (per MMBtu)	2.6210	0.1%	Rubber (JPY/KG)	195.9	0.5%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	6,011	-1.9%	Gold (per oz)	1,301.8	1.1%
Nickel (per mt)	11,786	-1.1%	Silver (per oz)	14.713	-0.1%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Equity and Commodity

Index	Value	Net change
DJIA	25,324.99	-617.38
S&P	2,811.87	-69.53
Nasdaq	7,647.02	-269.92
Nikkei 225	21,191.28	-153.64
STI	3,234.28	-39.22
KLCI	1,601.09	-9.18
JCI	6,135.40	-73.72
Baltic Dry	1,013.00	--
VIX	20.55	4.51

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.92 (-0.02)	2.19 (-0.08)
5Y	1.95 (-0.04)	2.18 (-0.08)
10Y	2.13 (-0.04)	2.40 (-0.07)
15Y	2.38 (-0.03)	--
20Y	2.45 (-0.03)	--
30Y	2.63 (-0.02)	2.84 (-0.05)

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	5.60	--
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	2.40
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Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
05/14/2019 07:50	JN BoP Current Account Balance	Mar P	¥3020.0b	--	¥2676.8b
05/14/2019 07:50	JN Trade Balance BoP Basis	Mar P	¥839.5b	--	¥489.2b
05/14/2019 09:30	AU NAB Business Conditions	Apr	--	--	7
05/14/2019 09:30	AU NAB Business Confidence	Apr	--	--	0
05/14/2019 14:00	GE CPI MoM	Apr F	1.00%	--	1.00%
05/14/2019 14:00	GE CPI YoY	Apr F	2.00%	--	2.00%
05/14/2019 16:30	UK Claimant Count Rate	Apr	--	--	3.00%
05/14/2019 16:30	UK Jobless Claims Change	Apr	--	--	28.3k
05/14/2019 16:30	UK ILO Unemployment Rate 3Mths	Mar	3.90%	--	3.90%
05/14/2019 17:00	GE ZEW Survey Current Situation	May	6.3	--	5.5
05/14/2019 17:00	GE ZEW Survey Expectations	May	5	--	3.1
05/14/2019 20:30	US Import Price Index MoM	Apr	0.70%	--	0.60%

Source: Bloomberg

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