

Highlights

Global	<p>With the Fed essentially opening the door wide to potential rate cuts later this year, the S&P initially surged to a record high, but retraced after president Trump warned of possible retaliation for Iran's shooting down of an US navy drone that he called a "very big mistake" and caused oil prices to pop higher. The 10-year UST bond yield resurfaced above 2% as gains were subsequently surrendered, while the USD headed towards its largest two-day slide in 16 months on the prospect of a more dovish Fed. In contrast to the distinctly dovish Fed, BoJ, CBC, BI, BOE and BSP all stood pat yesterday, with the latter coming as a surprise. Notably, BOE remains concerned about the rising risk of a no-deal Brexit and slashed its 2Q19 growth forecast to zero. Meanwhile, Apple Inc has warned that fresh US tariffs on China would hurt the company's contribution to the US economy.</p> <p>Asian markets are likely to succumb to some profit-taking today, as markets digest the Fed's dovish pivot and refocus on new market catalysts. Today's economic data calendar comprises manufacturing, services and composite PMIs from US and Europe, HK's CPI, Thailand and Malaysia's foreign reserves.</p>
US	<p>We now see the Fed bringing forward their rate cuts in a precautionary move from our initial forecast of 4Q19 to 3Q19, possibly as early as July and maybe by 50bps before they are done for the year. Initial jobless claims fell 6k to 216k, while the Philadelphia Fed business outlook slipped to a four month low of 0.3 in June, down from 16.6 in May as more firms reported a loss of momentum in new orders and shipments. The leading index also eased from a revised 0.1% to stall in May, suggesting that growth momentum is likely to swoon ahead.</p>
CN	<p>China's foreign currency deposit fell by US\$17.1 billion in May. This may contribute to the surplus in sale of foreign currency data. The Chinese banks net sold CNY6.2 billion foreign currency in May despite sharp RMB depreciation. On behalf of clients, Chinese banks net sold CNY10.2 billion. The unexpected surplus of sale of foreign currency in May shows that corporates may take advantage of rising dollar to sell their foreign currencies. This suggests that May's RMB depreciation did not cause panic as we saw in the past.</p>
ID	<p>Bank Indonesia (BI) held the benchmark rate at 6.0% yesterday, in line with our expectations. However, Governor Perry Warjiyo did highlight that rate cuts were a "matter of time". In our view, as long as market conditions remain favourable for a firm IDR, a 25bps rate cut may occur as early as 3Q 2019. Favourable market conditions here would include the global trend of rate cuts continuing ahead. Meanwhile, BI also cut the reserve ratio requirement (RRR) by 50bps to 6.0% for commercial banks and 4.5% for Shariah banks in order to ensure sufficient liquidity in the banking system and support loan growth. Commercial bank loan growth though has recently come off in 2019 even as commercial banks average lending rates have actually trended downwards. However, the RRR cut measure could probably be of help to those banks facing tighter liquidity.</p>

Major Markets

- **US:** S&P closed at all-time high of 2954.18 last night, riding on the dovish message sent by central banks. This topped the recent intraday high of 2954.13 set on 1 May, just before the re-escalation of US-China tensions. 10-year yields fell briefly below 2.0% during Asian hours but ultimately closed at 2.03%. The yield curve continues to steepen, mostly led by a 3.1bp decline on 3-month yields as expectations of a US rate cut mount. Continued global dovishness among global central banks is expected to provide a further boost to US equities.
- **Singapore:** The STI rallied 0.80% yesterday to close up at 3314.51 amid the rising tide across Asian bourses fuelled by Fed's dovishness, but may see a more muted performance today within a range of 3290-3225. With shorter-tenor UST bonds surrendering some gains overnight, SGS bonds play out in a similar fashion. With the 3-month LIBOR retracing to 2.38613% (low since September 2018), the 3-month SOR has also retreated to 1.84489% which in turn has widened the gap with the 3-month SIBOR (2.00448%) to 15.5bps, the widest since January 2018. The next SGS bond issue is the upcoming \$1.9b (with MAS taking \$200m) new 20-year SGS bond that will be auctioned on 26 June.
- **Hong Kong:** US\$HKD spot fell to the lowest since last December at 7.8119. The USD weakened on a broad basis due to the Fed's openness to cut rates. Building on that, market's rising speculation on narrower USD-HKD yield differential triggered further unwinding of short HKD positions. In the near term, we expect HIBOR and HKD to remain elevated. On the prime rate front, as HIBOR may not have much downside in 2H19 amid a slew of seasonal factors and IPO pipeline while HK's banking system has lagged far behind the Fed on rate hikes, we see low urgency for banks to cut prime rate despite the Fed's rate decisions.
- **Philippines:** BSP opted to keep rates constant at 4.50% for a "prudent pause", against ours and the median market consensus of a 25bp rate cut. We believe the uptick in May's inflation was one of the key reasons for the central bank to have stood pat on their rate decision this month. BSP also downgraded its inflation outlook this year from 2.9% to 2.7%, as their assumptions of a relatively strong peso trading 52.01 against the dollar for 2019 and Brent at about \$65/bbl is expected to result in lower import-led inflation. Given their use of the word "pause" and their relatively optimistic outlook on inflation, we expect BSP to continue its rate easing cycle in Q3, as a higher inflationary base beginning 2H is likely to lead to lower YoY CPI changes.
- **Oil:** A US military drone downed in Iran has pushed WTI and Brent higher by 5.7% and 4.3% respectively. The benchmarks closed at \$57.07/bbl and \$64.45/bbl respectively. This is the third altercation allegedly involving Iran in the past two months, with the prior two incidents resulting in tanker attacks along the Persian Gulf (Iran denies involvement). US President Donald Trump tried to play down the incident by saying the decision to down the drone was probably done by a "loose and stupid" individual, declining to detail any potential US response. The series of alleged Iranian provocations came shortly after the White House made a surprising decision to not extend any of the waivers on Iranian crude in April, and there is a growing concern that the US may further up its "maximum pressure" campaign on Iran as the series of altercations wears down the Trump administration's patience. We expect crude oil prices to be supported in the short-term on geopolitical tensions and improved global risk sentiment.

Bond Market Updates

- **Market Commentary:** The SGD swap curve bull-steepened over yesterday, with the shorter tenors and belly trading 5-8bps lower, while the longer tenors traded 4-6bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 2bps to 135bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 10bps to 497bps. 10Y UST yields gained 1bps to 2.03%, bouncing back after briefly falling to 1.97%, due to investors weighing the upcoming G20 summit, where Trump and Xi are scheduled to meet to resume trade talks. Spread between 3-month treasury bills and 10-year treasury notes continued to be inverted, with the spread narrower at -11bps.
- **New Issues:** Liang Shan International Development Limited (guarantor: Liangshan Development (Holdings Group Co., Ltd) has priced a USD300mn 3-year bond at 7.0%, in line with final guidance. CRCC Chengan Ltd (guarantor: China Railway Construction Corporation Ltd) has priced a USD1bn NC5-perpetual at 3.97%, tightening from IPT of 4.4% area. Kunming Traffic Investment Co., Ltd has priced a USD300mn 3-year bond at 6.2%, tightening from IPT of 6.4% area. SriLankan Airlines Ltd has priced a USD175mn 5-year bond at 7.0%, tightening from IPT of 7.5% area. Hopson Development Holdings Ltd has priced a USD500mn 3NCNP2 bond at 7.5%, in line with final guidance. Philippine National Bank has priced a USD750mn 5.25-year bond at T+165bps. Celestial Dynasty Ltd (guarantor: NWS Holdings Ltd) has priced a USD650mn 10-year bond at T+230bps, tightening from IPT of T+260bps area. Haichuan International Investment Co., Ltd (guarantor: Jiangsu Fang Yang Group Co., Ltd) has priced a USD180mn re-tap of its existing 7.5%'21s at 7.2%, in line with IPT. Sichuan Railway Investment Group Co., Ltd has priced a USD300mn 3-year bond at 3.8%, tightening from IPT of 4.25% area. The Export-Import Bank of China has priced a USD100mn 4-year FRN at 3-Month US LIBOR+60bps. Weibo Corporation has mandated banks for its potential USD bond issuance. Southern Energy Holdings Group Ltd has mandated banks for its potential USD bond issuance. Taizhou Xintai Group Co., Ltd has scheduled investor meetings commencing from 12 June for its potential USD bond issuance.

• Key Financial Indicators

Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	96.629	-0.50%	USD-SGD	1.3563	-0.49%
USD-JPY	107.300	-0.74%	EUR-SGD	1.5316	0.10%
EUR-USD	1.1293	0.60%	JPY-SGD	1.2640	0.25%
AUD-USD	0.6923	0.61%	GBP-SGD	1.7228	-0.01%
GBP-USD	1.2702	0.50%	AUD-SGD	0.9390	0.12%
USD-MYR	4.1470	-0.61%	NZD-SGD	0.8932	0.21%
USD-CNY	6.8519	-0.75%	CHF-SGD	1.3816	0.78%
USD-IDR	14187	-0.58%	SGD-MYR	3.0584	0.17%
USD-VND	23305	-0.03%	SGD-CNY	5.0496	0.06%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.3910	--	O/N	2.3409	--
2M	-0.3360	--	1M	2.3834	--
3M	-0.3360	--	2M	2.3954	--
6M	-0.2990	--	3M	2.3861	--
9M	-0.1940	--	6M	2.3000	--
12M	-0.2080	--	12M	2.2978	--

Fed Rate Hike Probability

Meeting	Prob Hike	Prob Cut	1.75-2%	2-2.25%	2.25-2.5%
07/31/2019	0.0%	100.0%	20.0%	80.0%	--
09/18/2019	0.0%	100.0%	73.6%	8.5%	--
10/30/2019	0.0%	100.0%	47.8%	5.1%	--
12/11/2019	0.0%	100.0%	28.2%	2.8%	--
01/29/2020	0.0%	100.0%	20.1%	1.9%	--
03/18/2020	0.0%	100.0%	16.1%	1.5%	--

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	56.65	5.4%	Corn (per bushel)	4.5000	2.0%
Brent (per barrel)	64.45	4.3%	Soybean (per bushel)	9.155	1.4%
Heating Oil (per gallon)	1.8843	3.0%	Wheat (per bushel)	5.2650	0.8%
Gasoline (per gallon)	1.7863	2.9%	Crude Palm Oil (MYR/MT)	2,004.0	-1.1%
Natural Gas (per MMBtu)	2.1850	-4.0%	Rubber (JPY/KG)	238.6	-0.6%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,973	0.9%	Gold (per oz)	1,392.9	3.6%
Nickel (per mt)	12,300	1.7%	Silver (per oz)	15.492	3.6%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Equity and Commodity

Index	Value	Net change
DJIA	26,753.17	249.17
S&P	2,954.18	27.72
Nasdaq	8,051.34	64.02
Nikkei 225	21,462.86	128.99
STI	3,314.51	26.34
KLCI	1,675.43	8.89
JCI	6,335.70	-3.56
Baltic Dry	1,179.00	--
VIX	14.75	0.42

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.67 (-0.06)	1.78 (+0.04)
5Y	1.76 (-0.04)	1.78 (+0.02)
10Y	1.95 (-0.04)	2.03 (+0.01)
15Y	2.21 (-0.03)	--
20Y	2.30 (-0.02)	--
30Y	2.52 (-0.02)	2.54 (--)

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	6.42	1.12
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	2.36
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Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
06/21/2019 08:30	JN Markit Japan PMI Mfg	Jun P	--	49.8	--
06/21/2019 16:00	EC Markit Eurozone Manufacturing PMI	Jun P	48	47.7	--
06/21/2019 21:45	US Markit US Manufacturing PMI	Jun P	50.5	50.5	--
06/21/2019 22:00	US Existing Home Sales	May	5.30m	5.19m	--
06/21/2019 07:30	JN Natl CPI YoY	May	0.70%	0.90%	--
06/21/2019 16:30	HK CPI Composite YoY	May	2.80%	2.90%	--
06/21/2019 15:30	TH Foreign Reserves	Jun-14	--	\$212.0b	--
06/21/2019	MU Visitor Arrivals	May	--	3432t	--
06/21/2019 11:30	TH Customs Exports YoY	May	-5.00%	-2.57%	--
06/21/2019 16:00	EC Markit Eurozone Composite PMI	Jun P	52	51.8	--
06/21/2019 15:00	MA Foreign Reserves	Jun-14	--	\$102.3b	--

Source: Bloomberg

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