

Highlights

Global	<p>Risk-off sentiments are likely to dominate today amid the pessimism surrounding the trade tensions and widespread manufacturing weakness. The US' manufacturing PMI unexpectedly declined to its lowest on record for the past three years, hence joining its German PMI counterpart which came in weaker than expected. Overnight, the Dow dumped 286 points (defying Trump's "glitch" prediction) and the 10-year UST bond yield tested 2.32% (lowest since October 2017) and inverting the 3-month to 10-year yield curve again for the first time again since 15 May. Adding to the market uncertainties was indications that UK PM May may announce today her timetable to resign (possibly on 10 June), but could stay as caretaker until a successor is chosen. The only bright spot was in India where PM Modi's re-election could see pledged farmer support and an infrastructure boost.</p> <p>Asian markets are likely to take another step back today as investors reassess their market positioning amid the potentially protracted US-China trade war as the US administration is supposedly considering putting more Chinese companies on the blacklist as Huawei. President Trump had hinted that "it's possible that Huawei even would be included in some kind of a trade deal". Note that US Commerce Secretary Ross announced a Federal Register notice proposal to let US-based companies seek countervailing duties on products from countries found by the US Treasury Department to be engaging in competitive currency devaluation and whose currency is deemed undervalued. Today's economic calendar comprises US' durables goods orders, UK's retail sales, Taiwan's final 1Q19 GDP growth, Thai and Malaysian foreign reserves, and S'pore's April industrial production. The European Parliament election will last till 26 May.</p>
US	<p>New home sales fell more than expected by 6.9% mom in April to 673k, but this followed a sizeable upward revision to +8.1% mom at 723k in March. Initial jobless claims dipped 1k to 211k, with the four-week average at 220k. Meanwhile, the services PMI fell sharply from 53.0 to 50.9 in May, bringing the composite PMI from 53.0 to 50.9 as well. On China, Fed's Kaplan (non-voter) opined that "don't be surprised if you don't see some further devaluation also in their currency in response to tariffs last year".</p>
EU	<p>German final 1Q19 GDP was unchanged at 0.4% qoq sa, but the IFO business climate slipped from 99.2 to 97.9, with the expectations gauge holding at 95.3 but the current assessment gauge also retracing to 100.6 (previously 103.4). Both the Eurozone and German manufacturing PMI consolidated further to 47.7 and 44.3 respectively in May.</p>
SG	<p>Core CPI eased to a 5-month low of 1.3% yoy in April, down from 1.4% yoy in March, as the liberalisation of the Open Electricity Market (OEM) and lower electricity tariffs saw the cost of electricity and gas declining by 2.8% yoy in April (March: +3.9% yoy). However, headline CPI accelerated from 0.6% yoy to 0.8% yoy in April, the highest since May 2017 (+1.4% yoy), but fell 0.3% mom nsa (previously -0.1% mom nsa) amid higher private road transport costs (+1.1% yoy), mainly due to higher COEs and petrol prices, and services inflation (+2.0% yoy). COE premiums fell to \$27k (cat A) and \$42.56k (cat B). April industrial production likely contracted 5.4% yoy (-4.6% momsa).</p>

Major Markets

- **US:** Wall Street ended lower on Thursday, with the S&P500 declining 1.2%. The DJIA fell 1.1%, and the Nasdaq composite tumbled 1.6%.
- **Singapore:** MAS-MTI inflation rhetoric remains measured, but noted private road transport costs could be largely unchanged from 2018 while accommodation costs are likely to fall at a slower pace this year. That said, we see some upside risk to headline CPI prints for the remainder of 2019, but this is unlikely to tilt MAS policy bias in the interim as core inflation is still easing. Given that crude oil prices had collapsed from around US\$80-85 per barrel for WTI and Brent in October 2018 to around US\$43-50 per barrel by late December last year, this would translate into double-digit yoy increases for oil-related items even if they hold around current levels of US\$61-70 per barrel. Similarly, current COE premiums for category A and B are around \$27k and \$43k, compared to the 2018 lows of \$24k and \$31k (seen in December and July respectively), which barring a sharp correction in the coming months, may also contribute to sustained yoy private road transport inflation ahead. Nevertheless, with the phased nationwide launch of the OEM underway, this could continue to dampen core CPI and stay MAS' hand come the October monetary policy meeting. With core inflation averaging 1.5% for the first four months of 2019, this is squarely at the midpoint of the official 1-2% forecast range and in line with our 2019 core inflation forecast of 1.5% yoy.
- The STI declined 0.70% to close at 3160.72 yesterday, and given weak cues from Wall Street overnight and morning declines in Kospi with the risk-off tone today, STI could consolidate further towards its support at 3114. Resistance is tipped at 3171. With the UST bond yields plumbing fresh multi-month/year lows, with the 2-year yield leading the way by 8bps lower to 2.15% (lowest since February 2018), SGS bonds will also likely see a flight to quality today after clocking up gains of up to 4bps yesterday for the longer-dated SGS bonds.
- **China:** The USDCNY daily fixing was set marginally below 6.90 for the fourth consecutive days, deviating from the model implied level, sending a clear sign that China wants to slow down the pace of depreciation and dampen the currency volatility. RMB rebounded slightly last night following the retreat of broad dollar. The outlook of RMB may depend on two parameters including the progress of trade talk and the dollar movement.
- **Hong Kong:** Inflation accelerated to the strongest since Feb 2018 at 2.9% in Apr. This was mainly driven by the sharp rebound in housing inflation from 2.9% in Mar to 4.3% in Apr as the ceiling of rates concession was lowered from HK\$2500 to HK\$1500 per quarter for each rateable tenement starting from Apr 2019. Moving forward, overall inflation may stay elevated with the recent rebound in housing rentals, the higher oil prices and low base effect. However, a stronger HKD, cautious consumption and government's one-off relief measures might help to contain the inflationary risks. We hold onto our view that the overall inflation will print sub-2.5% in 2019.
- **Macau:** Visitor arrivals marked double-digit growth for the 6th consecutive month and increased by 15.9% yoy to 3.43 million in April 2019. This was mainly supported by the effect of Easter Holiday and the infrastructure improvement. Moving into May, overall tourism and overnight visitors may sustain the growth momentum thanks to the Labor Day Holiday. Nevertheless, after holiday effect abates, we are wary of a possible slowdown in tourism growth amid the renewed downward pressure on the RMB and the weakening global economic outlook following the re-escalation of US-China trade war.

Without much more new mega projects to attract tourists, the high cost of staying overnight may curb the growth of overnight visitors who have made major contribution to Macau's gaming and retail growth.

- **Indonesia:** Governor Perry Warjiyo has said that the central bank is committed to staying in the market to stabilize rupiah in line with its fundamentals. BI has reportedly, according to Bloomberg, bought total of 52.4 trillion rupiah government bonds year-to-date in primary and domestic markets.
- **Commodities:** Crude oil prices took a heavy tumble yesterday, with WTI falling a whopping -5.7% and Brent down -4.5%. The start of London trading saw WTI prices starting to dip below the \$61/bbl level, and the US session saw more shorts entering the fray, sending prices below the crucial \$60/bbl level to as low as \$58/bbl. Net non-commercial futures on NYMEX crude currently stands at 488k contracts, with the report tonight to reflect positions as of 21 May; but from current levels, it looks like a long liquidation is currently in place. The net long position may potentially reduce to 300k contracts first, similar to what we saw in Q4 last year, before displaying signs of stabilisation. The fallout may be cushioned, however, by the tight supply scenario at the moment and we think the chances of crude prices sinking to Q4's lows are unlikely given the demand/supply fundamentals.

Bond Market Updates

- **Market Commentary:** The SGD swap curve bull flattened yesterday, with most shorter than 5 years trading 0-2bps lower while longer tenors traded 2-3bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 3bps to 136bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 11bps yesterday to 496bps. 10Y UST yields fell a further 6bps to 2.32% as treasuries rallied on escalating tensions between Chin and the US.
- **New Issues:** Huarong Finance 2019 Co. Ltd. priced a USD1.9bn three tranche deal (Guarantor: China Huarong International Holdings Limited) with the USD300mn 3 year bond at CT3+135bps, tightening from IPT of CT3+1765bps area; the USD900mn 5 year bond at CT3+165bps, tightening from IPT of CT3+190bps area; and the USD700mn 10 year bond at CT10+220bps, tightening from IPT of CT3+240bps area. ESR Cayman Ltd has priced a SGD47.75mn re-tap of its existing ESR CAY 6.75%'22s. Nanjing Yangzi State-owned Investment Group Co., Ltd has scheduled investor meetings from May 24 for its potential USD bond issue.

Key Financial Indicators

Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	97.856	-0.19%	USD-SGD	1.3804	0.09%
USD-JPY	109.610	-0.68%	EUR-SGD	1.5435	0.36%
EUR-USD	1.1181	0.28%	JPY-SGD	1.2590	0.74%
AUD-USD	0.6901	0.28%	GBP-SGD	1.7472	0.03%
GBP-USD	1.2657	-0.06%	AUD-SGD	0.9525	0.36%
USD-MYR	4.1933	0.18%	NZD-SGD	0.9000	0.48%
USD-CNY	6.9105	0.06%	CHF-SGD	1.3754	0.69%
USD-IDR	14463	-0.43%	SGD-MYR	3.0349	-0.01%
USD-VND	23384	-0.03%	SGD-CNY	5.0032	-0.06%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.3710	--	O/N	2.3545	--
2M	-0.3360	--	1M	2.4370	--
3M	-0.3110	--	2M	2.4973	--
6M	-0.2420	--	3M	2.5248	--
9M	-0.1940	--	6M	2.5706	--
12M	-0.1450	--	12M	2.6656	--

Fed Rate Hike Probability

Meeting	Prob Hike	Prob Cut	1.75-2%	2-2.25%	2.25-2.5%
06/19/2019	0.0%	7.9%	0.0%	7.9%	92.1%
07/31/2019	0.0%	21.7%	1.2%	20.5%	78.3%
09/18/2019	0.0%	53.5%	9.0%	44.0%	46.5%
10/30/2019	0.0%	63.9%	16.9%	44.6%	36.1%
12/11/2019	0.0%	80.6%	29.6%	40.6%	19.4%
01/29/2020	0.0%	85.8%	32.6%	34.9%	14.2%

Equity and Commodity

Index	Value	Net change
DJIA	25,490.47	-286.14
S&P	2,822.24	-34.03
Nasdaq	7,628.28	-122.56
Nikkei 225	21,151.14	-132.23
STI	3,160.72	-22.42
KLCI	1,601.87	-1.87
JCI	6,032.70	93.06
Baltic Dry	1,059.00	--
VIX	16.92	2.17

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.97 (--)	2.15 (-0.08)
5Y	2.01 (--)	2.11 (-0.07)
10Y	2.19 (--)	2.32 (-0.06)
15Y	2.46 (--)	--
20Y	2.53 (--)	--
30Y	2.71 (--)	2.75 (-0.05)

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	5.50	0.10
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	2.37
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Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	57.91	-5.7%	Corn (per bushel)	3.8975	-1.2%
Brent (per barrel)	67.76	-4.5%	Soybean (per bushel)	8.215	-0.8%
Heating Oil (per gallon)	1.9624	-4.2%	Wheat (per bushel)	4.7025	-0.5%
Gasoline (per gallon)	1.9133	-3.9%	Crude Palm Oil (MYR/MT)	1,974.0	-1.7%
Natural Gas (per MMBtu)	2.5780	1.4%	Rubber (JPY/KG)	206.0	-0.5%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,926	0.0%	Gold (per oz)	1,285.4	0.9%
Nickel (per mt)	11,895	-0.7%	Silver (per oz)	14.577	1.1%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised
05/23/2019 08:30	JN Nikkei Japan PMI Mfg	May P	--	49.6	50.2
05/23/2019 13:00	SI CPI YoY	Apr	0.80%	0.80%	0.60%
05/23/2019 14:00	GE GDP SA QoQ	1Q F	0.40%	0.40%	0.40%
05/23/2019 16:00	EC Markit Eurozone Manufacturing PMI	May P	48.1	47.7	47.9
05/23/2019 16:00	GE IFO Business Climate	May	99.1	97.9	99.2
05/23/2019 16:30	HK CPI Composite YoY	Apr	2.20%	2.90%	2.10%
05/23/2019 20:30	US Initial Jobless Claims	May-18	215k	211k	212k
05/23/2019 21:45	US Markit US Manufacturing PMI	May P	52.6	50.6	52.6
05/23/2019 22:00	US New Home Sales	Apr	675k	673k	692k
05/24/2019 13:00	SI Industrial Production YoY	Apr	-3.70%	--	-4.80%
05/24/2019 15:30	TH Foreign Reserves	May-17	--	--	\$211.4b
05/24/2019 16:30	UK Retail Sales Inc Auto Fuel MoM	Apr	-0.30%	--	1.10%
05/24/2019 20:30	US Durable Goods Orders	Apr P	-2.00%	--	2.60%

Source: Bloomberg

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