

Highlights

Global	<p>After last week's dovish messaging from the US Federal Reserve, market focus will likely turn to the highly anticipated Trump-Xi talks at the G20 summit in Osaka starting this Friday. However, the expectations bar has been set relatively high, especially with China calling for all tariffs to be removed before negotiations can start in earnest. Prior to the G20 meeting, there is sufficient grist to keep markets roiling along for now. Recall the spectre of Iranian tensions as US president Trump had called off earlier intended strikes but is threatening further sanctions, albeit he said he is willing to negotiate with no preconditions. At this juncture, we do not anticipate a meaningful US-China trade deal, but any deal potentially involving a stay on fresh tariffs would be interpreted positively by market players. Note that Trump is facing external challenges of China, Iran and North Korea ahead of his 2020 election race, so the pressure may be to keep all three from boiling over in the interim. Meanwhile, Turkey saw an opposition landslide for its Istanbul mayoral race redux. Wall Street closed lower on Friday, with the 10-year UST bond yield also up 2bps to 2.05%. Asian markets may range trade today, awaiting further market cues. Today's economic calendar comprises US' Chicago and Dallas Fed national activity indices, German IFO business climate, Taiwan's industrial production and unemployment rate, S'pore's CPI and Indonesia's May trade data. For the rest of the week ahead, watch Fed chair Powell's speech to the Council on Foreign Relations on the challenges facing the US economy, as well as other Fed speakers like Bostic, Bullard, Barkin and Daly etc. to throw further light on last week's dovish FOMC signal. RBNZ and BoT are also expected to keep rates constant at 1.50% and 1.75% respectively in their respective policy meetings on Wednesday.</p>
EU	<p>Europe's manufacturing, services and composite PMIs improved slightly to 47.8, 53.4 and 52.1 respectively in June, up from 47.7, 52.9 and 51.8. Similarly, the German readings also showed an uptick to 45.4, 55.6 and 52.6 respectively. This suggests that 2Q-3Q growth could stabilize, with services providing a buffer to manufacturing weakness.</p>
SG	<p>Singapore's headline inflation likely eased to 0.7% yoy (0.5% mom nsa) in May, but core inflation may have accelerated to 1.5% yoy, compared to 0.8% yoy (-0.3% mom nsa) and 1.3% yoy respectively in April. Meanwhile, ASEAN published an agreement on the ASEAN outlook on the Indo-Pacific to signify a common approach on the issue over the weekend.</p>
MY	<p>Moody's has downgraded Petronas domestic issuer and foreign currency senior unsecured ratings to A2 from A1. The rating agency said, "Even though Petronas' credit metrics remain strong for its ratings, the close credit linkages between the government of Malaysia (A3 stable) and Petronas cannot support a rating for Petronas, under the revised methodology that is two notches higher than the Malaysian sovereign." Reportedly, Moody's has also mentioned that Petronas ratings may face further downward pressure if there were unexpected changes to Malaysia's policy for the oil and gas sector that could result in a significant decline in its reserves and oil and gas entitlement.</p>

Major Markets

- **US:** The S&P 500 index closed 0.1% lower on Friday amid US-Iran tensions. US indices are likely to trade according to headline news drifting out of the Trump-Xi meeting at the G20 meeting this week. Coupled with the US-Iran tensions, that may likely result in a volatile equity market this week. The yield curve continues to steepen on expectations of an impending US rate cut, with the 3-10 curve closing at -4.6bp inverted last Friday from a low of -25.3bp at the start of June.
- **China:** Chinese President Xi Jinping will make a three-day visit to Japan for the G20 summit beginning Thursday, as reported by China's Xinhua News Agency. No further details were released at time of writing, but markets are highly anticipating a meeting between Trump and Xi in hopes of thawing relations that may lead to a resumption of trade talks. It is highly unlikely that a trade deal may be ironed out at the meeting, but a meeting and even reopening of trade talks are likely seen as positive steps forward. Xi's visit to Japan is his first since 2009 when he was vice President.
- **Singapore:** The STI gained 0.21% to close at 3321.40 on Friday and may see some consolidation today as the rally momentum fuelled by Fed's dovishness may have run out of steam. With soft morning cues from Kospi, STI may trade within a range of 3290-3225 today. With longer-tenor UST bond yield climbing by up to 4bps on Friday and steepening the yield curve, SGS bonds are likely to follow suit today, especially with the \$1.9b (with MAS taking \$200m) new 20-year SGS bond that will be auctioned on 26 June.
- **Indonesia:** Finance Minister Sri Mulyani has said that the government will still try to keep the 2019 state budget deficit as targeted at 1.84% of GDP despite the "heavy pressure on the economy". A slowing economy has made it more difficult for the government to achieve its tax revenue growth targets for this year.
- **Hong Kong:** Inflation slowed slightly from 2.9% in April to 2.8% in May. For the two most-heavily weighted items, food prices jumped 3.6% amidst higher charges for eating out and rising pork prices while housing inflation slowed slightly to 4.2%, probably due to the softer housing rental growth. That aside, inflation of miscellaneous services decelerated to 2.1% from 3.1% in the prior month, due to slower growth of charges for package tours. Moving forward, recent rebound in oil prices could add some inflationary pressure. Nevertheless, the slowing housing rentals growth, cautious consumption and government's one-off relief measures may help to contain the inflation risks. As such, we expect overall inflation to print 2.4% in 2019.
- **Macau:** Visitor arrivals surged by 25.59% yoy to 3.39 million in May. Visitors from Mainland China and Hong Kong increased by 22.7% yoy and 22.9% yoy respectively. By mode of transport, visitors arrived by land surged by 64.2% yoy to 2.5 million with nearly 30% via the HK-Zhuhai-Macau Bridge. This confirms that the infrastructure improvement and Labor Day Holiday lent strong supports to the inbound tourism in May. Due to the stronger growth of same-day visitors, the share of overnight visitors dropped to 47% in May from 47.3% in Apr. Combined with a weaker RMB, stock market correction and trade war re-escalation, it helps to explain why gaming revenue growth was only mild at 1.8% yoy during the same month. Moving into the coming months, we expect the growth of visitor arrivals to slow down due to heightened external uncertainties and a weaker RMB. The high cost of staying overnight and the lack of much new mega projects under construction may also be factors dragging down the

growth of overnight visitors. As such, we are wary of further weakness in both tourism and gaming sectors.

- **Thailand:** The Ministry of Finance's Macroeconomic Policy Bureau said that FDI into Thailand expanded in Q1. Businesses and investments looking to re-direct their funds have turned to Southeast Asia in their bid to minimise exposure to the US-China trade war. Malaysia and Vietnam have also echoed the same observations, suggesting that the redirected investment flows have taken root across multiple ASEAN countries.
- **Oil:** The US is set to begin imposing further sanctions on Iran today, after calling off an airstrike against the country on Thursday. Trump said that the military had been "cocked and loaded" for a strike on Iran, but called it off within 10 minutes of pulling the trigger, saying that the resulting estimated 150 Iranian deaths were not commensurate with the downing of a military drone. The Washington Post also reported that Trump had approved a cyber-attack on Iran's missile systems. The sanctions due to begin on Monday were scant on details except that it was described as "massive" by the US President. Trump also said that the option of an armed response is "always on the table" but maintained that he is prepared to hold talks with Iran with no preconditions. Tensions between US and Iran have escalated since the former decided not to renew crude sanction waivers on the country in May, resulting in three (allegedly) separate Iranian responses that have resulted in six damaged oil tankers and a downed US military drone. Further US-Iranian conflict is highly likely to lead to a military response by the US, as we have already seen from the narrowly-averted air strikes on Thursday.
- **Gold:** The precious metal has surged and closed above \$1,400/oz on Friday. A perfect mix of ingredients – low UST yields, geopolitical and trade tensions, slowing global growth and a weak dollar – sent gold breaking above the six-year resistance level of \$1,400/oz. All four stated factors above look unlikely to abate in the near-term and that may likely keep gold supported above \$1,400/oz as we head into 2H.

Bond Market Updates

- **Market Commentary:** The SGD swap curve bear-steepened over last Friday, with the shorter tenors and belly trading 2-4bps higher, while the longer tenors traded 4bps higher. The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 134bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 5bps to 492bps. 10Y UST yields gained 4bps to 2.05%, with investors taking profits after yields dropped to multi-year lows in the previous trading days, coupled with upbeat US existing home sales data painting a backdrop of a still solid US economy. Spread between 3-month treasury bills and 10-year treasury notes continued to be inverted, with the spread narrowing to -5bps.
- **New Issues:** Chongqing Casin Group Co. Ltd has priced a USD65mn 34-month bond at 4.0%, in line with final guidance. China Development Bank Corporation of Hong Kong has priced three USD100mn 3-year FRNs at 3-month US LIBOR+54bps. Mitsubishi Corporation has scheduled investor meetings commencing from June 25 for its potential USD bond issuance.

• Key Financial Indicators

Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	96.220	-0.42%	USD-SGD	1.3552	-0.08%
USD-JPY	107.320	0.02%	EUR-SGD	1.5407	0.59%
EUR-USD	1.1369	0.67%	JPY-SGD	1.2628	-0.09%
AUD-USD	0.6926	0.04%	GBP-SGD	1.7278	0.29%
GBP-USD	1.2737	0.28%	AUD-SGD	0.9386	-0.04%
USD-MYR	4.1490	0.05%	NZD-SGD	0.8930	-0.02%
USD-CNY	6.8685	0.24%	CHF-SGD	1.3879	0.46%
USD-IDR	14158	-0.20%	SGD-MYR	3.0599	0.05%
USD-VND	23305	--	SGD-CNY	5.0558	0.12%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.3980	-0.10%	O/N	2.3475	0.60%
2M	-0.3360	0.60%	1M	2.4044	0.08%
3M	-0.3440	0.08%	2M	2.3766	-0.44%
6M	-0.3080	-0.44%	3M	2.3493	0.61%
9M	-0.1940	0.61%	6M	2.2201	0.34%
12M	-0.2120	0.34%	12M	2.2021	4.06%

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%	27.0%	73.0%
09/18/2019	0.0%	100.0%	22.6%	65.6%	11.8%
10/30/2019	0.0%	100.0%	39.0%	45.1%	7.3%
12/11/2019	0.0%	100.0%	41.8%	17.9%	4.0%
01/29/2020	0.0%	100.0%	37.4%	20.3%	2.7%
03/18/2020	0.0%	100.0%	33.9%	16.8%	2.2%

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	57.43	1.4%	Corn (per bushel)	4.4225	-1.7%
Brent (per barrel)	65.20	1.2%	Soybean (per bushel)	9.028	-1.4%
Heating Oil (per gallon)	1.9158	1.7%	Wheat (per bushel)	5.2600	-0.1%
Gasoline (per gallon)	1.8561	3.9%	Crude Palm Oil (MYR/MT)	1,998.0	-0.3%
Natural Gas (per MMBtu)	2.1860	0.0%	Rubber (JPY/KG)	240.1	0.6%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	5,971	0.0%	Gold (per oz)	1,396.2	0.2%
Nickel (per mt)	12,090	-1.7%	Silver (per oz)	15.290	-1.3%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Equity and Commodity

Index	Value	Net change
DJIA	26,719.13	-34.04
S&P	2,950.46	-3.72
Nasdaq	8,031.71	-19.63
Nikkei 225	21,258.64	-204.22
STI	3,321.40	6.89
KLCI	1,682.23	6.80
JCI	6,315.44	-20.26
Baltic Dry	1,239.00	45.00
VIX	15.40	0.65

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.65 (-0.01)	1.77 (-0.01)
5Y	1.77 (+0.01)	1.79 (+0.01)
10Y	1.97 (+0.03)	2.05 (+0.03)
15Y	2.24 (+0.04)	--
20Y	2.34 (+0.04)	--
30Y	2.54 (+0.03)	2.58 (+0.04)

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	5.10	-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	Relevance
06/24/2019 13:00	SI CPI YoY	May	0.60%	--	0.80%	96.5517
06/24/2019 12:30	NE GDP QoQ	1Q F	0.50%	--	0.50%	77.7778
06/24/2019 06:29	BZ Formal Job Creation Total	May	66000	--	129601	75.8621
06/24/2019 12:00	ID Exports YoY	May	-14.50%	--	-13.10%	75
06/24/2019 12:00	ID Trade Balance	May	-\$1309m	--	-\$2502m	70
06/24/2019 16:00	TA Industrial Production YoY	May	-1.52%	--	1.04%	68.4211
06/24/2019 13:00	SI CPI NSA MoM	May	0.50%	--	-0.30%	65.5172
06/24/2019 22:30	US Dallas Fed Manf. Activity	Jun	-2	--	-5.3	63.7795
06/24/2019 16:00	TA Unemployment Rate	May	3.70%	--	3.73%	63.1579
06/24/2019 20:30	US Chicago Fed Nat Activity Index	May	-0.05	--	-0.45	62.9921
06/24/2019 13:00	JN Leading Index CI	Apr F	--	--	95.5	57.3034
06/24/2019 12:00	ID Imports YoY	May	-14.70%	--	-6.58%	50

Source: Bloomberg

OCBC Treasury Research	
Macro Research Selena Ling LingSSSelena@ocbc.com Emmanuel Ng NgCYEmmanuel@ocbc.com Tommy Xie Dongming XieD@ocbc.com Terence Wu TerenceWu@ocbc.com Howie Lee HowieLee@ocbc.com Alan Lau AlanLau@ocbc.com	Credit Research Andrew Wong WongVKAM@ocbc.com Ezien Hoo EzienHoo@ocbc.com Wong Hong Wei WongHongWei@ocbc.com Seow Zhi Qi ZhiQiSeow@ocbc.com

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