Research Monitor (July)

OCBC Bank

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Key Themes

1. Trade tensions arising from an “America First” philosophy is likely to dog 2H18 trade and weigh on growth and inflation expectations. With the first leg of US tariffs on US$34 billion of Chinese imports likely to kick in on 6 July, the stage is largely set for further prolonged angst potentially running all the way up to the US mid-term elections. Moreover, watch the threat of retaliation from major trading partners amid the growing swathe of US targets which range from section 301 on China’s alleged theft of US intellectual property to expanding the authority of Committee on Foreign Investment in the US (CFIUS) to assess national security risks of cross-border business deals, auto tariffs and threatening to withdraw from the World Trade Organisation (WTO).
2. “Going, Going, Gone” could be the siren song for fund flows in the Emerging Markets (EM), including Asia. The selling in May extended into June, and capped a volatile 1H18. The first trading days of July did not appear to reverse this trend. Moderating domestic economic fundamentals, narrowing interest rate differentials, currency weakness and a deteriorating external trade environment are headwinds that have come together to potentially make 2H18 a challenging ride for EM. In particular, there is a fair amount of angst over the depreciation pace of the RMB, which has switched roles from an anchor of stability to a source of uncertainty. EM Asian equity and bond outflows amounted to US$2.0 billion and US$1.1 billion respectively for the week ended 27 June, bringing the year-to-date to a net inflow of US$35.0 billion for equities and a net outflow of US$1.6 billion for bonds. While Asian policymakers such as the BI and PBOC are rapidly manoeuvring policy to tread the rocky path ahead, there remain questions if this can sufficiently ward off the slide.
3. The Asian currencies are bearing the brunt of declines amid Sino-US trade tensions. Any further deterioration on the trade front will bring more pain for the export-focused Asia. The stability that used to emanate from the RMB complex is not forthcoming this time; there remains a chance that the rapid, one-way depreciation in the RMB complex may be picked up by the White House as an unfair trade practice. This may open up the currency front in the trade war, just as we head into the imposition of tariffs. Note that we have hit the first key waypoints (USD-CNY above 6.70, CFETS RMB Index at 95) that we think will stir a more concerted intervention by the PBoC in reducing the pace of depreciation should the RMB index fall to 94 level.
4. Against the backdrop of slowing growth and looming trade war, China’s monetary policy turned more flexible with liquidity injection via MLFs and RRR cut. Meanwhile, in its 2Q monetary policy meeting, PBoC changed its liquidity target to “reasonable and ample” from previously “reasonable and stable”. In addition, China expedited its plan to boost its domestic demand via proactive fiscal policies. On currency, Yuan weakness paused after the central bank governor Yi Gang verbally supported the currency.
5. Commodity prices remain volatile in the face of trade war concerns. Base metal prices in particular have edged lower on risk-off trade, while sustained dollar strength kept gold bulls at bay. Crude oil prices are likely to see further downside risk should supplies climb into 2H18. In a nutshell, do expect growth-related commodities and gold to fade lower should trade tensions escalate.

<table>
<tr><th></th><th>House View</th><th colspan="2">Trading Views</th></tr>
<tr><td rowspan="2">FX</td><td>DXY and majors: The Fed and ECB meetings in mid-June altered the market complexion in favour of the broad USD. Looking ahead to July, investors may want to keep an eye on two issues – the fracturing consensus over the mid-term broad USD directionality and the evolving Sino-US trade situation.
In terms of broad USD directionality, the market attention is now back on relative central bank dynamics, with the markets now viewing the Fed as being on a hawkish tilt (after the median view on the dot plot showed four hikes in 2018 instead of three), and the ECB as dovish on its interest rate trajectory. The corollary is that the stronger economic prints in the US relative to the rest of the world (and EU in particular) are placed back in focus. The question is whether US economic outperformance will become a base case in 2H 2018. If so, the mid-term view may have to shift in the USD's favour. We retain a view that global growth may pick up again into end-2018 and is biased towards a weaker broad USD in the 6-12m horizon.
In the near term however, the broad USD may still be in a consolidative mode, with the DXY index fluctuating within the 94.20-95.50 range. We note that without further material political uncertainties, the downside support for the EUR near the 1.15 level remains strong. This prevents the broad USD from getting a significant leg up higher in the near term.</td><td colspan="2">Expect the DXY index, EUR-USD and GBP-USD to stay within recently established ranges, pending new drivers. Therefore, sell the EUR-USD and GBP-USD on rallies towards their near term highs, targeting 1.1500 and 1.3000 respectively. Not constructive on AUD and NZD on trade concerns.</td></tr>
<tr><td>Asian FX and SGD: The Sino-US trade tensions have been simmering along, while overall sentiments are not explicitly boiling over in a panic mode. Markets are perhaps desensitized by the long-running nature of the issue. The Asian currencies, however, may continue to bear the brunt even under this scenario. Note that the Asian currencies are more reactive to USD strength this time round. Any further deterioration on the trade front will only bring more pain for the export-focused Asia.
The stability that used to emanate from the RMB complex is not forthcoming this time. The rapid, one-way depreciation in the RMB complex may be picked up by the White House as an unfair trade practice. This may open up the currency front in the trade war, just as we head into the imposition of import tariffs. Note, however, that we have hit the first key waypoints (USD-CNY above 6.70, CFETS RMB Index at 95) that we think will stir a more concerted intervention by the PBoC in reducing the pace of depreciation. Keep a close watch on this front to decipher RMB movements going forward.</td><td colspan="2">Stay long USD-Asia on difficult macro climate, sustained outflows and trade tensions. Export-driven currencies in north Asia may be more heavily hit. USD-SGD to be biased higher if the 1.3700 level is broken on a sustained basis.</td></tr>
<tr><td>Rates</td><td>Monetary policy normalisation has become more mainstream, but the pace divergence remains key. Despite crude oil price swings, longer-dated bonds remain bid for now on persistent trade war concerns.</td><td>US: The 10-year UST bond yield treaded a narrower range of 2.82-3.97% in June. While the June FOMC delivered the widely anticipated 25bp rate hike and telegraphed a slight tilt to four rather than three hikes this year, nevertheless, the June FOMC minutes should be key to parsing if the conviction level for a fourth hike at the end of the year is actually high. Our view is that the third hike will likely materialise in September, while chair Powell can keep his options open for a fourth hike in December, depending on how the trade tensions pan out. For now, the unexpected uptick in the core PCE deflator (the Fed's preferred inflation indicator) from 2.0% in April to 2.3% yoy in May could pose a policy conundrum if to allow a mild and temporary overshoot, especially with the unemployment rate currently treading below the 4% handle. The 2-10 year UST yield curve has compressed to just 32bps (narrowest since 2007), with the 30-year bond yield offering only some 20bps above CPI (tightest since 2012). Note Bullard has warned that "I would see the yield curve inversion as a key near-term risk for the Fed" and "the Fed does not have to be so aggressive". The 3-month LIBOR stabilised at 2.33575% at end-June, easing initial fears of a quarter/half-year end liquidity crunch. Moreover, the LIBOR-OIS spread continued to narrow to just 39bps, down from the</td><td>→</td></tr>
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		60bps high seen in early April.	
		SG: The 3-month SIBOR-SOR spread has collapsed back to 1bp with both hugging the 1.57-1.58%. However, unlike the US Treasury yield curve, the 2-10 SGS bond yield curve is still relatively steep at 54bps (not too far from its 1-year average of 68bps). The recent $1.5b 20-year SGS bond auction saw a cut-off yield of 2.86% (within the 2.85-2.9% range we called for) and very strong demand with a bid-cover ratio of 2.38x (highest in the history of 20-year bond auctions since 2007). Since then, longer-dated SGS bonds have rallied. In terms of supply, since there is only a 15-year re-opening left on 1 October, with a 7- and 2-year re-opening on 1 August and 3 September respectively, there may be little to warrant a return to curve steepeners in the short-term, barring an external cue from UST. Still, the 2-year SGS bond may play catch-up to its UST counterpart should the short-term funding rates continue to creep higher and the FOMC proceeds to hike in September.	→

	House View	Trading Views	
Commodities	**Crude Oil:** Fundamentals appear to favor a weaker energy complex into 2H18, following trade war-induced risk-off appetite and higher US-OPEC supplies into 2H18. Still, geopolitical tensions and/or policy uncertainties could sway prices quickly. Note that supplies have surpassed demand since March 2018. We keep our year-end outlook for WTI and Brent at $65/bbl and $70/bbl respectively.	Brent premium to WTI narrowed to its lowest since March 2018, as Brent prices were unable to hold its previous gains last week. The fall in oil prices into the start of 2H18 suggests that investors remain skeptical over the oil rally, while anticipating some risk-selling into the weeks ahead given escalated trade war concerns. OPEC's decision to raise production into 2H18 of between 600k – 1 million bpd into 2H18 should exacerbate oversupply risks, while higher US production will likely be a sustained phenomenon.	↓
	Gold: We downgrade our gold outlook to $1,300/oz given the relatively stronger dollar-to-date amid the relatively rosier US-centric data. While a firmer dollar story into 3Q18 could potentially keep gold bulls at bay, some unwinding of dollar strength in 4Q18 will likely give gold the necessary boost to our year-end target.	Gold's 30-day correlation with the greenback at -0.82 at end-May suggests that gold's movements remain predicated by the dollar. Elsewhere, paper demand remains strong into end-June: ETF holdings continue to climb even as gold prices tumble, although net-long speculative interest in the yellow metal fell from their Jan-2018's high. Inflation risks remain muted into end of 1H18, despite the higher oil prices seen to-date.	→
	Crude Palm Oil: The mix of stable weather conditions and weak import demand left CPO prices lower into 2H18. Supplies are also expected to expand further into October 2018 given seasonal factors, a rather persuasive driver that could keep palm oil bulls at bay for now. We keep our CPO outlook at MYR2,400/MT with downside risk.	Demand has been weak into June. Malaysia's CPO exports in May fell 70.5% y/y to 107 thousand metric tonnes, the lowest level since Feb 2007. Indonesia's crude palm oil exports have also contracted by four consecutive months into April 2018. With supplies likely to print higher into the third quarter amid lackluster demand, we keep our 3Q price outlook at MYR2,250/MT with downside risks.	↓

	House View	Trading Views	
Credit	10-yr US Treasuries faced conflicting signals in June as supportive domestic indicators (non-farm payrolls, housing data) were mixed with rising global trade tensions. This led to rates volatility and, combined with geopolitical concerns, contributed to a cautious market tone. Investors' lack of conviction and prevailing risk-off mentality provided the impetus for prior month trends to become more entrenched as valuations continued to correct from a combination of prolonged tight technicals, prevailing fundamental concerns and rising defaults. The interplay of these factors put high yield at the epicentre of the change in sentiment with continuing outflows from emerging market and high yield bond funds and noticeable m/m spread widening of the Bloomberg Barclays Asia USD High Yield Bond Index Average Option Adjusted Spread (+84bps) against its Investment Grade equivalent (+9bps). With primary issues needing to offer a higher premium for market access, and secondary prices under pressure, issuance volumes for the month fell ~64% y/y. As an example, Zhenro Properties Group Ltd's 10.5% USD250mn 2yr bond is now trading ~4pts below par at ~12%. Floating rate note issues also rose given hawkish Fed overtones. SGD market sentiment was no different. Issuance continues to be constrained by tighter funding conditions as investors and issuers digest the consequences of prior period binges on what seems to be (in hindsight) expensive credit. As market liquidity recedes, the focus has shifted from absolute levels of leverage to an issuer's ability to meet upcoming debt maturities, as reinforced by recent distressed events in the SGD space such as Hyflux Ltd and CW Group Ltd. With the heavy market tone, With the above in play, we advocate that investors remain selective and focus on names higher up the credit curve that have moderately leveraged balance sheets and adequate liquidity. This should provide a buffer against tighter funding conditions and rising rate environment.	**IG Pick: Switch trade idea: Switch from ARTSP 4% '24 to FHREIT 3.08% '24 (3.34% YTM):** Frasers Hospitality Trust ("FHREIT") is a stapled group comprising a REIT and Business Trust. FHREIT invests in hospitality assets globally (except Thailand) and owns 15 properties across 9 cities with 3,914 keys. As at 31 March 2018, total assets stood at SGD2.5bn. FHREIT is sponsored by Frasers Property Limited ("FPL"), a Singapore-based property developer. Key assets within FHREIT's portfolio include Intercontinental Bugis in Singapore, Sofitel Sydney Wentworth, Novotel Melbourne on Collins and Frasers Suites Singapore. The FHREIT 3.08% '24 matures 8 months after the ARTSP 4% '24. While both bonds trade at similar spreads, FHREIT has a stronger credit profile as reflected in its higher external credit rating. We hold FHREIT's issuer profile at Neutral (3) while we hold Ascott Residence Trust ("ART")'s issuer profile at Neutral (4). Including 50% of perpetuals as debt, FHREIT's adjusted aggregate leverage was 35% while ART's adjusted aggregate leverage was 40% as at 31 March 2018.	↑
		HY Switch trade idea: Switch from GGRSP 4.75% '21 (Ask YTW: 5.25%) to LMRTSP 4.1% '20 (Ask YTW: 5.58%): Golden Agri-Resources Ltd ("GGR") is a major palm oil company in Indonesia. Demand for crude palm oil ("CPO") has been weak into June 2018 and it remains to be seen if trade tariffs and China's threat to restrict soybean imports from the US (an alternative to CPO) would materially drive CPO prices higher. On the back of OCBC Commodities' bearish outlook over CPO coupled with competing cash outflows at GGR, we are recommending a switch out of the GGRSP 4.75% '21s into LMRTSP 4.1% '20s. This allows a spread pick up of 40bps and the LMRTSP 4.1% '20s matures seven months earlier. While we hold the GGRSP at an issuer profile of Neutral (5) against LMRTSP at an issuer profile of Negative (6), we think the implied spread differential more than compensates for the credit difference. Lippo Malls Indonesia Retail Trust ("LMRT") is a retail REIT with 23 malls and seven retail spaces in Indonesia. While there has been concerns as more than 30% of LMRT's revenue is related to the Lippo group, in our view this is mitigated by remaining tenants in diverse trades. As at 31 March 2018, aggregate leverage (adjusting perpetuals as debt) was 41.1%.	↑

Macroeconomic Views

	House View	Key Themes
US	Despite the hawkish tilt at the June FOMC, chair Powell still sounded cautious, saying that “changes in trade policy could cause us to have to question the outlook” and “for the first time, we’re hearing about decisions to postpone investment, postpone hiring”.	Recent US economic indicators remained resilient – the manufacturing ISM improved from 58.7 in May to 60.2 in June, partly due to slow delivery times, but given higher new orders (63.5 versus 63.7) and export orders (56.3 versus 55.6), this suggests that trade war concerns and the stronger USD had not yet eroded business confidence yet. FOMC is likely to hike another 25bps at the 27 September, and leave the window open for a fourth hike in December.
EU	ECB will end asset purchases by end-2018, but is hesitant to signal any rate hikes until at least through summer of 2019. Immigration, populism and Italian uncertainties remain.	ECB president Draghi warned that protectionist measures are a key risk to global growth, but Weidman signalled that “after a certain time the interest rates that we set will rise again”. The OIS curve has so far priced in only 10bps of tightening a year from now, and market expectations for further hikes beyond that remain negligible for now. Recent economic indicators like the IFO business climate reading for June also suggest the German economy may be losing some steam.
Japan	Watch for BOJ to potentially trim its core inflation forecasts for 2019-2020 as price pressures remain stubbornly weak. Market expectations for any BOJ policy exit have been pushed back yet again.	BOJ downgraded its inflation assessment at the June meeting with a dovish bias and governor Kuroda reiterated his commitment to continue with stimulus until Japan reaches its 2% inflation target given the “deflationary mindset” that “doesn’t exist in the US or Europe”. Any monetary policy normalisation by the BOJ is unlikely to start until 2019 or later. Watch the end-July BOJ meeting for a refresh of its inflation and growth forecasts. Core inflation has slowed for the second month to 0.7% in April, but no additional policy easing is anticipated yet.
Singapore	The official 2018 growth forecast of 2.5-3.5% may be vulnerable to downside growth risks if US-Sino trade tensions ratchet higher. Expect 2H18 outlook to decelerate from 1H18 momentums in line with the softening manufacturing PMI. Private residential prices rose 3.4% in 2Q18 to its highest in four years, versus the 3.9% seen in 1Q18, according to URA flash estimates.	The June MAS Professional Forecasters Survey tips full-year growth at 3.2%, compared to MTI’s narrower forecast range of 2.5-3.5% and our house view of around 3%. Some signs of caution is creeping into recent economic indicators such as the softer manufacturing and electronics PMIs, and the easing in bank loans growth. We tip 2Q18 GDP growth to remain healthy at 4.0% yoy (0.9% qoq saar), aided by robust manufacturing momentum in April-May, but if global trade tensions continue to build, the spill over into business and consumer confidence may start to materialise in a clearer fashion in the economic data going ahead. Singapore, as a small open economy that is highly dependent on trade, is most vulnerable to trade protectionism in terms of downside growth risks for 2H18.
Indonesia	Our growth forecast stands at 5.1%, yoy for 2018. We are expecting moderate private consumption growth and investment growth to be strong-fueled by a rise in commodities prices. Due to the potential of continued pressure on the IDR, we believe at this point that the benchmark rate should be at 5.75% by year end.	In a surprise move, BI raised the benchmark rate by 50bps which is more than our expectations and the consensus of 25bps hike. However, under the new governor, the overall hikes in May and June respectively actually have been 50bps each. The central bank did say, “uncertainty could feed through to broad USD appreciation and trigger a capital reversal from developing economies, thereby prompting broad currency depreciation, including the Rupiah. Such condition requires proper policy response”. The new governor has also constantly emphasized that BI intends to be pre-emptive and ahead of the curve. Therefore, given that the Fed has indicated for four rate hikes this year, it will come as no surprise if BI does undertake another hike to be pre-emptive. For the time being, it appears that the central bank has chosen to prioritize stability.

	House View	Key Themes
China	The economy is expected to slow down to 6.5% yoy in 2018 from 6.9% in 2017 due to higher funding costs, decelerating credit growth and uncertainty from the US-China trade tension.	Against the backdrop of slowing growth, rising default risk and looming trade war, both China's monetary and fiscal policies have turned more flexible. PBoC injected CNY663bn longer-term liquidity via MLFs as well as unfroze CNY700 billion liquidity with the targeted reserve requirement ratio cut. Meanwhile, in its 2Q monetary policy meeting, PBoC fine-tuned its wording on liquidity saying it will keep liquidity "reasonable and ample" from previously "reasonable and stable". On fiscal front, China's Ministry of Finance proposed to cut income tax for individual as part of the plan to boost domestic demand to counter the impact of trade war. Chinese economy started to feel the bite from the trade tension. New export orders fell to 49.8 below the threshold line of 50 in June. China's efforts to avoid the trade war failed with both countries went back to old tit-for-tat retaliation trap. The trade war may officially kick off on 6 July. As a result of heightening concern about trade war, RMB depreciation accelerated in June. The USDCNY moved up from 6.40 to 6.7 within half month. PBoC Governor Yi Gang said the central bank is closely monitoring the market development after the pair broke 6.70. Market shall closely monitor the movement of RMB index. Should RMB index fall to the 94 level in the near term, we think China may re-launch its counter cyclical factor to slow down the pace of depreciation.
Hong Kong	Fiscal stimulus, a stable labour market, improved tourism activities and resilient external demand may continue to support the economy. As such, we revise our forecasts for 2018 GDP from 2.9% to 3.6%. Still, we will closely monitor the potential tightening of global liquidity and the lingering trade conflicts. Elsewhere, recent round of HKD weakness is unlikely to cause market turmoil. With HIBOR to tick up gradually, HKD may rebound while housing growth could moderate.	1-month HIBOR jumped from 1.02% on 31 May to 2.01% on 29 June. In comparison, 3-month HIBOR rose at a much slower pace from 1.770% to 2.096%. Therefore, the gap between the 3-month and 1-month HIBOR narrowed from 78bps to 8bps. Moving into the third quarter, the room for HIBOR to subside is expected to be limited as a slew of mega IPOs are set to come. 1-month HIBOR may not fall below 1.5% in near term. Due to higher interbank HKD rates, commercial banks continued to scramble for HKD fixed-deposits with higher deposit rates. Despite a surge in funding costs, commercial banks did not raise prime rates in June in response to the FOMC rate hike. As market watchers attributed HIBOR's recent uptrend to temporary factors, commercial banks may stay put until we see further reduction in aggregate balance and a sustainable increase in HIBOR. Elsewhere, the share of value-added trading activities in GDP reached 18.5%. Watch out for US-China trade conflicts.
Macau	Factors including a weaker MOP, mega-project openings, completion of Hong Kong-Zhuhai-Macau Bridge and strong growth in Asia are likely to support tourism activities and the mass-market segment of gaming. On the other hand, the VIP-segment may succumb to policy risks. Given a high base effect, we expect GDP to expand 7% in 2018.	Policy risks are looming over the gaming sector as two commercial banks have reportedly removed UnionPay machines from pawnshops and jewellery shops around casinos. World Cup betting has also dented Macau's gaming revenue. Therefore, we expect total casino revenue to be muted in June and July. Nevertheless, the outlook of the gaming sector remains positive as tourism activities hold up well. Visitor arrivals rose for the 4th consecutive month by 5.2% yoy in May. A new wave of mega-project openings and the upcoming completion of HK-Zhuhai-Macau Bridge may boost uptake of inbound package tours.

	House View	Key Themes
Malaysia	We keep our GDP growth forecast at 5.5% yoy for 2018. We expect that consumption should grow at 6.0% yoy whilst investment growth should come out at 6.2% yoy. Trade growth is expected to be slower but still strong. We see exports of goods and services to be at 7.1% yoy and growth imports of goods and services to be at 8.1% yoy. We also do not expect BNM to further raise interest rates this year as the central bank has pre-emptively raised rates in January.	It appears that the government will be continuing two major projects that are the East Coast Rail Line (ECRL) and the Tun Razak Exchange (TRX). Regarding the ECRL, Finance Minister Lim Guan Eng has said, ""it doesn't really make sense to just scrap it because we've already paid RM20 billion". As for the TRX, he mentioned, ""we choose to put in RM2.8 billion to avoid paying RM3.5 billion compensation and at the same time, we have a bright prospect when the project is completed to fully realize its value of RM7.6 billion". With the continuation of these projects, we will have to watch closely on the status of other major projects such as the Pan-Borneo Highway. The decision to continue the major projects would mean though less downside risks to growth. However, the fiscal situation would also have to be watched closely as the government targets to achieve a deficit at 2.8% of GDP whilst undertaking an RM10bn rationalization exercise.
Thailand	Official call for growth stands at 3.6 - 4.6% in 2018. Growth outlook remains positive, and underpinned by private consumption, investments, tourism, manufacturing, and trade. We upgrade growth to 4.2% while keeping inflation at 1.4%, respectively. The optimistic growth outlook and accelerating inflation should give upside risk to BOT rate to 1.75% into 2018.	The upgrade in BOT's growth outlook to 4.4% in 2018 (up from 4.1%) and 4.2% in 2019 (up from 4.1%) suggests policy-makers' confidence in Thailand's growth prospects. The surprisingly higher economic growth in 1Q18 is a strong reminder that Thailand growth momentum is largely supported by its manufacturing, trade and tourism activities. To us, today's upward growth revision by Thailand's policy-makers reinforces the optimistic view we have on its overall growth, barring further intensification in trade tensions and geopolitical uncertainties. On interest rate, we continue to pencil in a potential rate hike of 25bps towards the end of 2018, on the back of higher US-led policy rate and the uptick in inflationary pressures then.
Korea	We remain cautiously optimistic on Korea; growth may print at a respectable 3.0% in 2018 following easing geopolitical tensions. Inflation is likely to stay tame at ~2.0%. BOK will likely stand pat at 1.50% for the year ahead.	Further signs of growth moderation are seen to-date, with PMI manufacturing index remaining below its expansionary 50.0 handle whilst exports surprised on contractionary terms at -0.1% yoy. Elsewhere, note that consumer prices faded lower (-0.2% mom) in June, while core inflation decelerated to 1.2% yoy. The mix of tame inflationary pressures and growth moderation signals suggest BOK's likelihood to keep rates unchanged at 1.50% into 2018.
PH	The BSP remains on a hawkish trajectory, raising policy rate in the latest meeting. PHP depreciation continues apace amid persistent equity outflows.	The BSP justified the latest rate hike on elevated inflation expectations and the risk of second-round effects from ongoing price pressures. With oil price at recent highs, we think that inflationary pressures will not be easing soon. Meanwhile, remittances remain strong, printing a 3.50% yoy growth year-to-date.
Myanmar	Retain a general sense of optimism around Myanmar. Keep close watch on legislative and reform developments to find opportunities.	June manufacturing PMI printed at 50.0, compared to 52.6 in May. New orders contracted for the first time since Aug 2017, suggesting a falling off in momentum. Overall, the manufacturing sector continues to be plagued by transportation issues, hampering the efficiency across the supply chain.

FX/Rates Forecast

USD Interest Rates	3Q18	4Q18	2019	2020
Fed Funds Target Rate	2.25%	2.50%	3.25%	3.50%
1-month LIBOR	3.35%	2.60%	3.30%	3.60%
2-month LIBOR	2.43%	2.70%	3.35%	3.68%
3-month LIBOR	2.58%	2.80%	3.40%	3.75%
6-month LIBOR	2.70%	2.85%	3.45%	3.80%
12-month LIBOR	2.88%	2.95%	3.50%	3.85%
1-year swap rate	2.83%	3.00%	3.55%	3.90%
2-year swap rate	2.95%	3.04%	3.60%	4.00%
3-year swap rate	3.01%	3.09%	3.65%	4.10%
5-year swap rate	3.05%	3.15%	3.72%	4.20%
10-year swap rate	3.10%	3.20%	3.83%	4.35%
15-year swap rate	3.13%	3.22%	3.85%	4.37%
20-year swap rate	3.15%	3.25%	3.87%	4.40%
30-year swap rate	3.17%	3.28%	3.90%	4.42%
SGD Interest Rates	**3Q18**	**4Q18**	**2019**	**2020**
1-month SIBOR	1.59%	1.73%	2.28%	2.80%
1-month SOR	1.60%	1.75%	2.30%	2.83%
3-month SIBOR	1.68%	1.81%	2.33%	2.85%
3-month SOR	1.75%	1.90%	2.35%	2.87%
6-month SIBOR	1.86%	2.02%	2.40%	2.88%
6-month SOR	1.90%	2.07%	2.50%	2.89%
12-month SIBOR	2.00%	2.10%	2.55%	2.92%
1-year swap rate	2.04%	2.18%	2.58%	3.00%
2-year swap rate	2.28%	2.45%	2.85%	3.20%
3-year swap rate	2.35%	2.50%	2.90%	3.26%
5-year swap rate	2.49%	2.60%	3.00%	3.38%
10-year swap rate	2.77%	2.89%	3.22%	3.65%
15-year swap rate	2.92%	2.93%	3.30%	3.70%
20-year swap rate	3.05%	3.09%	3.37%	3.76%
30-year swap rate	3.11%	3.17%	3.49%	3.84%
Malaysia	**3Q18**	**4Q18**	**2019**	**2020**
OPR	3.25%	3.25%	3.50%	3.50%
1-month KLIBOR	3.50%	3.57%	3.70%	3.75%
3-month KLIBOR	3.77%	3.85%	3.88%	3.95%
6-month KLIBOR	3.86%	3.91%	3.95%	4.00%
12-month KLIBOR	3.93%	3.96%	3.98%	4.05%
1-year swap rate	3.81%	3.88%	3.90%	4.02%
2-year swap rate	3.82%	3.90%	4.00%	4.10%
3-year swap rate	3.87%	3.95%	4.09%	4.17%
5-year swap rate	3.94%	4.00%	4.20%	4.35%
10-year swap rate	4.25%	4.30%	4.50%	4.67%
15-year swap rate	4.43%	4.45%	4.59%	4.75%

UST bond yields	3Q18	4Q18	2019	2020
2-year UST bond yield	2.70%	2.85%	3.32%	3.80%
5-year UST bond yield	2.88%	3.00%	3.43%	3.90%
10-year UST bond yield	3.03%	3.11%	3.60%	4.10%
30-year UST bond yield	3.18%	3.25%	3.75%	4.24%
SGS bond yields	**3Q18**	**4Q18**	**2019**	**2020**
2-year SGS yield	2.04%	2.15%	2.55%	2.75%
5-year SGS yield	2.39%	2.55%	2.75%	3.08%
10-year SGS yield	2.58%	2.68%	2.95%	3.30%
15-year SGS yield	2.81%	2.90%	3.15%	3.40%
20-year SGS yield	2.84%	2.94%	3.25%	3.50%
30-year SGS yield	2.93%	3.03%	3.35%	3.60%
MGS forecast	**3Q18**	**4Q18**	**2019**	**2020**
6-month yield	3.33%	3.35%	3.40%	3.50%
5-year MGS yield	3.95%	3.96%	4.03%	4.13%
10-year MGS yield	4.25%	4.30%	4.38%	4.48%

FX	Spot	3Q18	4Q18	1Q19	2Q19
USD-JPY	110.89	111.45	112.31	112.95	113.42
EUR-USD	1.1655	1.1558	1.1456	1.1655	1.1908
GBP-USD	1.3177	1.3067	1.2981	1.3207	1.3395
AUD-USD	0.7379	0.7282	0.723	0.7355	0.7472
NZD-USD	0.677	0.664	0.6576	0.6734	0.6892
USD-CAD	1.3168	1.3293	1.3391	1.3059	1.2848
USD-CHF	0.9918	0.9969	1.002	0.9889	0.9735
USD-SGD	1.3646	1.3718	1.3776	1.3797	1.3596
USD-CNY	6.6351	6.6836	6.7135	6.6884	6.6353
USD-THB	33.13	33.40	33.54	33.48	32.87
USD-IDR	14355	14488	14547	14533	14508
USD-MYR	4.0398	4.0557	4.0831	4.0723	3.9971
USD-KRW	1118.15	1131.87	1140.2	1147.65	1133.3
USD-TWD	30.456	30.68	30.836	30.943	30.55
USD-HKD	7.8458	7.8474	7.8486	7.8465	7.843
USD-PHP	53.39	53.74	53.93	53.65	53.27
USD-INR	68.44	69.12	69.59	69.99	69.57
EUR-JPY	129.24	128.81	128.66	131.64	135.06
EUR-GBP	0.8845	0.8845	0.8825	0.8825	0.8890
EUR-CHF	1.1559	1.1522	1.1479	1.1526	1.1592
EUR-SGD	1.5904	1.5855	1.5782	1.6080	1.6190
GBP-SGD	1.7981	1.7925	1.7883	1.8222	1.8212
AUD-SGD	1.0069	0.9989	0.9960	1.0148	1.0159
NZD-SGD	0.9238	0.9109	0.9059	0.9303	0.9408
CHF-SGD	1.3759	1.3761	1.3749	1.3952	1.3966
JPY-SGD	1.2306	1.2309	1.2266	1.2215	1.1987
SGD-MYR	2.9604	2.9665	2.9639	2.9516	2.9399
SGD-CNY	4.8623	4.8722	4.8733	4.8477	4.8803

Macroeconomic Calendar

Date Time		Event		Survey	Actual	Prior	Revised
07/02/2018 09:45	CH	Caixin China PMI Mfg	Jun	51.1	51	51.1	--
07/02/2018 11:37	TH	CPI YoY	Jun	1.53%	1.38%	1.49%	--
07/02/2018 15:50	FR	Manufacturing PMI	Jun F	53.1	52.5	53.1	--
07/02/2018 22:00	US	ISM Manufacturing	Jun	58.5	60.2	58.7	--
07/03/2018 09:30	AU	Building Approvals MoM	May	0.00%	-3.20%	-5.00%	-5.60%
07/03/2018 12:30	AU	RBA Cash Rate Target	Jul-03	1.50%	1.50%	1.50%	--
07/03/2018 16:30	HK	Retail Sales Value YoY	May	12.00%	12.90%	12.30%	12.20%
07/03/2018 22:00	US	Durable Goods Orders	May F	-0.50%	--	-0.60%	--
07/04/2018 09:30	AU	Retail Sales MoM	May	0.30%	--	0.40%	--
07/04/2018 19:00	US	MBA Mortgage Applications	Jun-29	--	--	-4.90%	--
07/05/2018 14:00	GE	Factory Orders MoM	May	1.10%	--	-2.50%	--
07/05/2018 16:00	TA	CPI YoY	Jun	1.54%	--	1.64%	--
07/05/2018 20:30	US	Initial Jobless Claims	Jun-30	225k	--	227k	--
07/06/2018 14:00	GE	Industrial Production SA MoM	May	0.30%	--	-1.00%	--
07/06/2018 20:30	US	Change in Nonfarm Payrolls	Jun	195k	--	223k	--
07/09/2018 07:50	JN	BoP Current Account Balance	May	--	--	¥1845.1b	--
07/10/2018 09:30	CH	CPI YoY	Jun	2.20%	--	1.80%	--
07/10/2018 14:45	FR	Industrial Production MoM	May	--	--	-0.50%	--
07/10/2018 16:00	IT	Industrial Production MoM	May	--	--	-1.20%	--
07/10/2018 16:30	UK	Industrial Production MoM	May	--	--	-0.80%	--
07/11/2018 07:50	JN	Core Machine Orders MoM	May	--	--	10.10%	--
07/11/2018 15:00	MA	BNM Overnight Policy Rate	Jul-11	--	--	3.25%	--
07/11/2018 19:00	US	MBA Mortgage Applications	Jul-06	--	--	--	--
07/11/2018 22:00	CA	Bank of Canada Rate Decision	Jul-11	1.50%	--	1.25%	--
07/12/2018 14:45	FR	CPI YoY	Jun F	--	--	2.10%	--
07/12/2018 20:30	US	Initial Jobless Claims	Jul-07	--	--	--	--
07/12/2018 20:30	US	CPI MoM	Jun	0.20%	--	0.20%	--
07/13/2018 12:30	JN	Industrial Production MoM	May F	--	--	-0.20%	--
07/16/2018 10:00	CH	GDP YoY	2Q	--	--	6.80%	--
07/16/2018 20:30	US	Retail Sales Advance MoM	Jun	--	--	0.80%	--
07/17/2018 08:30	SI	Non-oil Domestic Exports YoY	Jun	--	--	15.50%	--
07/18/2018 16:30	UK	CPI YoY	Jun	--	--	2.40%	--
07/18/2018 16:30	UK	CPI Core YoY	Jun	--	--	2.10%	--
07/18/2018 19:00	US	MBA Mortgage Applications	Jul-13	--	--	--	--
07/19/2018 09:30	AU	Employment Change	Jun	--	--	12.0k	--
07/19/2018 09:30	AU	Unemployment Rate	Jun	--	--	5.40%	--
07/19/2018 20:30	US	Initial Jobless Claims	Jul-14	--	--	--	--
07/20/2018 20:30	CA	CPI YoY	Jun	--	--	2.20%	--
07/23/2018 13:00	SI	CPI YoY	Jun	--	--	0.40%	--
07/24/2018 15:00	FR	Manufacturing PMI	Jul P	--	--	52.5	--
07/25/2018 09:30	AU	CPI QoQ	2Q	--	--	0.40%	--
07/25/2018 16:00	GE	IFO Business Climate	Jul	--	--	101.8	--
07/25/2018 19:00	US	MBA Mortgage Applications	Jul-20	--	--	--	--
07/25/2018 22:00	US	New Home Sales	Jun	--	--	689k	--
07/26/2018 16:00	IT	Manufacturing Confidence	Jul	--	--	106.9	--
07/26/2018 20:30	US	Initial Jobless Claims	Jul-21	--	--	--	--
07/26/2018 20:30	US	Durable Goods Orders	Jun P	--	--	--	--
07/27/2018 20:30	US	GDP Annualized QoQ	2Q A	--	--	2.00%	--
07/27/2018 22:00	US	U. of Mich. Sentiment	Jul F	--	--	--	--
07/31/2018 07:30	JN	Jobless Rate	Jun	--	--	2.20%	--
07/31/2018 07:50	JN	Industrial Production MoM	Jun P	--	--	--	--
07/31/2018 09:30	AU	Building Approvals MoM	Jun	--	--	-3.20%	--
07/31/2018 14:45	FR	CPI YoY	Jul P	--	--	--	--
07/31/2018 17:00	EC	GDP SA QoQ	2Q A	--	--	0.40%	--
07/31/2018 22:00	US	Conf. Board Consumer Confidence	Jul	--	--	126.4	--

Source: Bloomberg

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