

Highlights

Global	<p>With the clock essentially ticking down to 12.01pm SGT if the US would raise tariffs on China to 25%, Asian markets are likely to continue to trade on tenterhooks this morning. Given the potentially binary risk (ie. deal or tariffs), market trading may be choppy today. Global risk appetite is understandably soft, and reflecting this wall of worry was S&P500 which declined 0.3% but closed off session lows as Trump talked of a “beautiful letter” from Xi and may speak by phone. Meanwhile, the 10-year UST bond yield fell 4bps to 2.44% and the 3-month to 10-year yield spread inverted again for the first time since March. Adding to concerns was suggestions that the Trump administration may expand the number of countries being scrutinized for currency manipulation in its upcoming semi-annual FX report, and Vietnam may be on the hook this time whilst India and South Korea may be removed from the watchlist.</p> <p>As expected, BSP cut its overnight borrowing rate by 25bps to 4.5% and may consider easing the reserve ratio for lenders next week, following 1Q19 GDP growth which was a four-year low of 5.6%. Today’s economic calendar comprises US’ CPI, UK’ preliminary 1Q19 GDP growth and industrial production, Malaysia’s industrial production, S’pore’s retail sales, and RBA’s monetary policy statement. Speakers comprise ECB’s Villeroy, Praet, Lautenschlaeger, Visco and Couere, and Fed’s Brainard, Bostic and Williams.</p>
US	<p>Fed’s Bostic warned that tariffs on Chinese imports could pass through into the consumer space and “I actually think we are almost to the cusp where we are going to see prices move”. Consumer sentiments fell to a four-week low as the buying climate slipped to its weakest since January. The trade deficit widened in March for the first time since December to US\$50b from US\$49.3b, but the merchandise trade deficit with China narrowed to US\$28.3b (smallest since 2016). The latter came about a 13.6% decline in Chinese imports coupled with a 17.6% plunge in US exports to China. Initial jobless claims fell 2k to 228k, while headline and core PPI rose 2.2% and 2.4% respectively for April.</p>
PH	<p>The BSP has reduced its benchmark overnight repo rate by 25bp, as widely expected. Cuts to the RRR may happen next week, with governor Benjamin Diokno claiming that “it is on the table.” Our expectations of two further 25bp cuts to the overnight repo rate and three 100bp cuts to the RRR for the rest of 2019 remain intact.</p>
SG	<p>OCBC reported 1Q profit rose 11% to \$1.23b, above analyst estimates. Retail sales, due later today, likely fell 2.6% yoy (-0.6% mom sa) in March, versus -10.0% yoy (-1.5% mom sa) in February.</p>

Major Markets

- **US:** Wall Street ended lower on Thursday, with the S&P500 declining 0.3%. The DJIA fell 0.5%, and the Nasdaq composite tumbled 0.4%.
- **Singapore:** The STI extended declines by 0.43% to close at 3269.70 yesterday, but Kospi is opening in the green this morning despite overnight Wall Street slippage. In the interim while awaiting the US-China trade outcome, the STI may continue to tread a nervous 3230-32910 range. With the ongoing flight to quality continuing to push UST bond yields lower by up to 4bps, the SGS bonds may also remain supported today.
- **China:** Led by higher food prices, CPI growth accelerated to a six-month high of 2.5% yoy in Apr, in line with market expectation. Meanwhile, PPI increased by 0.9% yoy in Apr after growing 0.4% yoy in the previous month. The rebound in PPI is due to the rising commodity prices as stimulus measures revived domestic demand. Moving ahead, given the rise in pork prices and the low base effect may keep the CPI growth elevated around 2.5% in 2Q before subsiding in the second half of this year. With inflation risks remaining contained, it will not be a constraint to the PBoC's monetary policy.
On the other hand, credit data surprised to the downside, probably attributed to the abated seasonal factor and the regulators' renewed focus on structural deleveraging. Total new yuan loan increased by CNY1.02 trillion. Despite the strong corporate bond issuance, aggregate social financing rose by CNY1.36 trillion as off-balance sheet lending shrank again. Specifically, trust loan increased at a slower pace by CNY12.9 billion while undiscounted bill retreated by CNY35.7 billion and entrusted loan dropped further by CNY119.9 billion in Apr. On the new yuan loan front, short-term corporate loan dropped notably by CNY141.7 billion while bill financing grew at a much slower pace by CNY187.4 billion. Also, the increase in medium to long term corporate loan moderated to CNY282.3 billion. This reinforces our view that the weak data was attributed to the concerns about tighter liquidity after PBoC shifted from universal easing to structural easing. Elsewhere, the broad money M2 growth slowed down to 8.5% yoy in Apr from 8.6% yoy in Mar while M1 growth decelerated notably from 4.6% yoy to 2.9% yoy. This indicates that the confidence in economic activity is still fragile. Going forward, should economic growth weaken again and US-China trade tension re-escalates, the possibility of PBoC rolling out more stimulus measures cannot be ruled out.
- **Hong Kong:** The HKMA granted virtual banking licenses effective 9th May to the remaining four applicants including Ant SME Services (Hong Kong) Limited (backed by Alibaba), Infinium Limited (held by Tencent), Insight Fintech HK Limited (backed by Xiaomi) and Ping An OneConnect Company Limited (held by Ping An). These together with other four virtual banks will launch their services in the next six to nine months. The HKMA noted that they plan to conduct a comprehensive assessment of the virtual banking after the first virtual bank has launched its services for about a year.
- **Indonesia:** According to Bloomberg, Jokowi has said at an annual gathering of policy makers in Jakarta that the focus would now be on tackling the current-account deficit, shutting down redundant government agencies and scrapping rules that hinder new investment.
- **Philippines:** GDP for 1Q came in at a 4-year low of 5.6% YoY, with growth slowing across most expenditure segments except household consumption. We estimate that growth would have been 6.2% instead if the budget had not been delayed – official

estimates place that figure at 6.6%. We remain upbeat on Philippines' growth this year and expect that the country is likely to achieve 6% growth for 2019, in-line with official estimates of 6-7%. This is conditional on several caveats: a) the budget is approved by Q2; b) the central bank maintains its dovish stance; c) the US-China trade spat does not turn out into a full-blown trade war.

- **Commodities:** Crude oil prices continue to display resilience even in the face of a potential all-out US-China trade war that may harm demand for energy. WTI continues to hover around the \$62/bbl level since Monday while Brent has shown stickiness about the \$70/bbl level. Brent, in particular, has fallen to a low of about \$69.50/bbl on the last three trading sessions but has somehow staged late comebacks during US hours to close nearer the \$70/bbl mark each day. Continued tightness in the market, as we have pointed out since Monday, remains a cause of concern for crude oil buyers but prices may be more influenced by headlines from the US-China trade talk in the near-term.

Bond Market Updates

- **Market Commentary:** The SGD swap curve flattened yesterday [trading 1-2bps lower](#). The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 2bps to 132bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 6bps to 476bps. 10Y UST yields fell 4bps to 2.44%, as US and China resumed tense trade talks ahead of US President Donald Trump's planned hike in tariffs on USD200bn of Chinese goods from 10% to 25% later today.
- **New Issues:** Asian Infrastructure Investment Bank has priced a USD2.5bn 5-year bond at MS+6bps, tightening from IPT of MS+8bps area. Yankuang Group (Cayman) Limited has priced a USD500mn re-tap of its existing YGCZCH 6.0%'22s (Yankuang Group Co Ltd) at 5.5%, tightening from IPT of 5.8% area. E-House (China) Enterprise Holdings Limited has priced a USD100mn re-tap of its existing EHOUSE 7.75%'21s (subsidiary guarantors: certain of issuer's existing subsidiaries incorporated outside the PRC) at 8.5%, tightening from IPT of 8.625% area. Industrial and Commercial Bank of China Limited has priced a USD200mn 2-year bond at 2.5%.

Key Financial Indicators

Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	97.373	-0.26%	USD-SGD	1.3641	0.12%
USD-JPY	109.740	-0.33%	EUR-SGD	1.5299	0.33%
EUR-USD	1.1215	0.21%	JPY-SGD	1.2426	0.43%
AUD-USD	0.6989	0.01%	GBP-SGD	1.7752	0.18%
GBP-USD	1.3014	0.06%	AUD-SGD	0.9534	0.13%
USD-MYR	4.1525	0.09%	NZD-SGD	0.8991	0.35%
USD-CNY	6.8274	0.66%	CHF-SGD	1.3440	0.67%
USD-IDR	14365	0.49%	SGD-MYR	3.0456	-0.08%
USD-VND	23408	0.15%	SGD-CNY	5.0006	0.37%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.3660	--	O/N	2.3628	--
2M	-0.3360	--	1M	2.4514	--
3M	-0.3080	--	2M	2.5010	--
6M	-0.2300	--	3M	2.5451	--
9M	-0.1940	--	6M	2.5823	--
12M	-0.1170	--	12M	2.7138	--

Fed Rate Hike Probability

Meeting	Prob Hike	Prob Cut	1.75-2%	2-2.25%	2.25-2.5%
06/19/2019	0.0%	6.3%	0.00%	6.30%	93.70%
07/31/2019	0.00%	15.70%	0.60%	15.10%	84.30%
09/18/2019	0.00%	33.60%	3.70%	29.80%	66.40%
10/30/2019	0.00%	42.70%	7.30%	34.80%	57.30%
12/11/2019	0.00%	59.80%	15.50%	41.50%	40.20%
01/29/2020	0.00%	65.50%	19.20%	41.30%	34.50%

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	61.70	-0.7%	Corn (per bushel)	3.4450	-3.0%
Brent (per barrel)	70.39	0.0%	Soybean (per bushel)	8.003	-1.7%
Heating Oil (per gallon)	2.0436	-0.6%	Wheat (per bushel)	4.2175	-2.2%
Gasoline (per gallon)	1.9754	0.0%	Crude Palm Oil (MYR/MT)	1,910.0	-0.6%
Natural Gas (per MMBtu)	2.5950	-0.6%	Rubber (JPY/KG)	189.4	-0.2%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	6,102	-0.7%	Gold (per oz)	1,285.2	0.3%
Nickel (per mt)	11,778	-1.4%	Silver (per oz)	14.707	-0.6%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Equity and Commodity

Index	Value	Net change
DJIA	25,828.36	-138.97
S&P	2,870.72	-8.70
Nasdaq	7,910.59	-32.73
Nikkei 225	21,402.13	-200.46
STI	3,269.70	-14.14
KLCI	1,618.53	-15.02
JCI	6,198.80	-71.40
Baltic Dry	940.00	--
VIX	19.10	-0.30

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.93 (-)	2.26 (-0.04)
5Y	1.98 (-0.01)	2.24 (-0.04)
10Y	2.16 (-0.03)	2.44 (-0.04)
15Y	2.41 (-0.01)	--
20Y	2.48 (-)	--
30Y	2.64 (-)	2.86 (-0.03)

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	5.75	0.13
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	2.43
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Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised	
05/09/2019 09:30	CH CPI YoY	Apr	2.50%	2.50%	2.30%	--
05/09/2019 10:00	PH GDP YoY	1Q	6.00%	5.60%	6.10%	6.30%
05/09/2019 16:00	PH BSP Overnight Borrowing Rate	May-09	4.50%	4.50%	4.75%	--
05/09/2019 20:30	US Trade Balance	Mar	-\$50.1b	-\$50.0b	-\$49.4b	-\$49.3b
05/09/2019 20:30	US Initial Jobless Claims	May-04	220k	228k	230k	--
05/10/2019 13:00	SI Retail Sales YoY	Mar	-1.40%	--	-10.00%	--
05/10/2019 15:30	TH Foreign Reserves	May-03	--	--	\$209.7b	--
05/10/2019 16:00	IT Industrial Production MoM	Mar	-0.80%	--	0.80%	--
05/10/2019 16:30	UK GDP QoQ	1Q P	0.50%	--	0.20%	--
05/10/2019 16:30	UK GDP YoY	1Q P	1.80%	--	1.40%	--
05/10/2019 16:30	UK Industrial Production MoM	Mar	0.10%	--	0.60%	--
05/10/2019 20:00	IN Industrial Production YoY	Mar	1.20%	--	0.10%	--
05/10/2019 20:30	US CPI MoM	Apr	0.40%	--	0.40%	--

Source: Bloomberg

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