

Highlights

Global	<p>The surprise downgrade by Moody's of China's sovereign rating from Aa3 to A1 with the outlook revised from Negative to Stable, prompted a kneejerk but ultimately brief reaction even though this was the first downgrade since 1989. FOMC minutes also suggested that a June rate hike was imminent and balance sheet reduction is likely to materialise later this year, with Wall Street higher and USD and UST bond yields lower. Meanwhile, ECB's Draghi also opined that "there is no reason to deviate from the indications we have been consistently providing in the introductory statement to our press conference", albeit he acknowledged that "the current environment also suggests that close monitoring is necessary in the following three areas: the effect on risk-taking in bank lending, the impact on bank profitability and the impact on institutional investors". BOT and BOC were also static on their policy rate decisions yesterday at 1.5% and 0.5% respectively as widely expected. Asian bourses may continue to trade with an upbeat tone today, with BOK policy meeting in focus. Today's economic data calendar comprises of US' initial jobless claims and wholesale inventories, as well as 1Q17 GDP prints from HK and UK. Speakers include Fed's Brainard and RBA's Debelle.</p>
US	<p>Existing home sales fell more than expected by 2.3% mom to 5.57m in Apr, suggesting persistent inventory shortage. Meanwhile, the FHFA house price index also moderated from 0.8% in Feb to 0.6% in Mar. Treasury Secretary Mnuchin also testified before the House Ways and Means Committee that the Treasury Department is looking at 50- and 100-year ultra long issuance.</p>
SG	<p>1Q17 GDP growth was revised up from the earlier estimate of 2.5% yoy (-1.9% qoq saar) to 2.7% yoy (-1.3% qoq saar) as expected, as manufacturing outperformed (8.0% yoy versus earlier estimate of 6.6% yoy). Services growth was also revised up marginally (1.6% yoy versus earlier estimate of 1.5% yoy) and coupled with manufacturing strength managed offset the weakness in construction (-1.6% yoy versus earlier estimate of -1.1% yoy). MTI maintained its 1-3% full-year GDP growth forecast and tipped growth is likely to be above 2% this year due to support from electronics and precision engineering and transportation & storage sectors, but still warned of risks like anti-globalisation and monetary conditions tightening and slower-than-expected growth in China.</p>
KR	<p>The Bank of Korea is slated to announce its monetary policy stance today, where we expect policy-makers to keep interest rate unchanged at 1.25%.</p>
TH	<p>The Bank of Thailand left its monetary policy rate unchanged at 1.50% as expected by the market. BOT said that growth outlook had improved further, led by the recovery in exports, domestic consumption and tourist arrivals.</p>
Commodities	<p>Crude oil prices looks comfortably supported above its \$51/bbl handle as market-watchers await the 172nd OPEC meeting later this afternoon. Market-chatter points to a likely nine-months extension of the initial production cut agreement made earlier in December 2016. For the meeting ahead, we expect an extension of at least nine months, though there is a chance for OPEC producers to agree on increasing the production cut volume beyond the current 1.8 million barrels per day. Encouragingly as well, US oil inventories fell 4.4 million barrels for the week ended 19th May, more than market expectation for inventories to decline a mere 2.0 million barrels.</p>

Major Markets

- **US:** The S&P 500 hit a new high on Wednesday, rising 0.25% to reach 2404.39. The Dow and Nasdaq also gained 0.36% and 0.40% to close within 0.5% of the respective records. Markets, moving on from the Trump turmoil, derived optimism from Fed minutes, which signaled that the US economy remains largely on track. Materials and utilities led gains, while energy and telecoms sectors were the main laggards. Meanwhile, VIX faded quickly towards year-to-date lows, down 6.5% to 10.02. US Treasury yields were softer despite Fed minutes putting a June hike firmly in sight. 2- and 10-year benchmark yields were lower by 2-3 bps to 1.28% and 2.25% respectively.
- **Eurozone:** German GfK consumer confidence rose from 10.2 in May to 10.4 in Jun.
- **Singapore:** IESingapore also upgraded its 2017 NODX growth forecast again from 0-2% to 4-6%. This came after NODX growth surged 15.2% yoy in 1Q17, led by NODX growth to all top NODX markets with the exception of EU (-0.4%). Our 2017 GDP growth forecast is unchanged at 2.5% yoy. With the SGD NEER trading north of 0.5% of its central parity, further upside may be limited.
- STI gained another 0.27% to close at 3231.24 yesterday and the attempt to leverage on the 1Q17 GDP growth upgrade to firm further, but morning cues from Nikkei and Kospi are mixed. With UST bonds rallying overnight, SGS bonds may partially retrace from yesterday's sell-off.
- **China:** Moody's downgraded China's sovereign rating from Aa3 to A1 on a worsening debt outlook. The outlook was revised to "Stable" from "Negative". The downgrade posed instant downward pressure to the RMB. Since both Moody's and S&P have already warned that they might downgrade China's sovereign rating, offshore market might have already priced in some of the negative effects of a downgrade and China's debt risks. For the onshore market, as bonds are held mainly by domestic investors who cares little about overseas credit ratings, the impact of the downgrade is likely to be limited. On the other hand, we believe that China's credit risks could be well contained in the near term by the latest wave of new regulations for "de-leveraging". Therefore, China's debt concern is unlikely to be heightened by the downgrade.
- **Macau:** Retail sales value rose significantly by 12% yoy in 1Q amid a low base effect and improved tourism activities. Watches, clocks and jewelry (+23.2% yoy), adults' clothing (+10% yoy) as well as leather goods (18.6% yoy) showed notable growth in their sales value. All these categories also registered double-digit annual growth in their sales volume. Lowered expectations of a stronger MOP, the persistent attractiveness of new hotels and China's stabilization have supported the tourism sector and tourist expenditure (+16.6% yoy in 1Q). Furthermore, due to the government's subsidy scheme for the elimination of two-stroke motorcycles, sales value and volume of motorcycles, parts and accessories increased by 49.6% yoy and 43% yoy respectively. However, the sales value of motor vehicles (-7.8% yoy) and communication equipment (-6.1% yoy) dropped, which signals muted local spending on durable goods amid stagnant wage growth. Given the low base effect, we expect the annual growth of retail sales to accelerate and print around 20% in 2Q.
- **Indonesia:** The Indonesian market is closed for holiday today. Overnight saw news of a suicide bombing in Jakarta's Kampung Melayu neighborhood. Five people died, including two alleged perpetrators. The three victims were police officers who were guarding a planned torch parade ahead of Ramadan fasting month.
- **Malaysia:** PM Najib Razak reportedly reminded merchants not to take advantage of consumers by raking in excessive profits this Ramadan fasting month. He added that government agencies will monitor prices of goods and food items, and added that merchants should follow a price control scheme that has been implemented by the government.

- **South Korea:** Although there is no change expected in the policy rate, we look for some hints over Korea's additional planned fiscal stimulus of KRW10tn as promised by incoming President Moon Jae-in.
- **Thailand:** Given the almost negligible concern over inflation risk into the year, amid observable weak demand-pull inflation pressures and deterioration in debt serviceability in SMEs enterprises, we revise our BOT rate call to 1.5% at year-end, versus our initial call for BOT to raise rates to 1.75% (+25bps) towards the end of this year.

Bond Market Updates

- **Market Commentary:** The SGD swap curve bear-steepened yesterday, with swap rates trading 1-2bps higher across all tenors. Flows in SGD corporates were heavy, with better buying seen in FCLSP 4.15%'27s, RHTSP 4.5%'18s, better selling seen in GEMAU 5.5%'19s, mixed interests in BNP 3.65%'24s, STANLN 4.4%'26s, GENSSP 5.13%'49s, SOCGEN 4.3%'26s, CHIPEN 4.9%'22s, HRAM 3.2%'21s, FNNSP 3.8%'27s. In the broader dollar space, the spread on JACI IG corporates fell 1bps to 197bps, while the yield on JACI HY corporates changed little at 6.85%. 10y UST yields fell 3bps to 2.25%, after markets unravel latest US Federal Reserve ("Fed") minutes which focused on "transitory" nature of economic slowdown kept June rate hike firmly on the table. However, Fed's tone was cautious, and the policy path on balance sheet normalization was viewed as more dovish than expected.
- **New Issues:** CNRC Capitale Ltd. priced a USD600mn Perp NC5 (guaranteed by China National Chemical Corporation at 3.9%, tightening from initial guidance of 4.2%. The expected issue ratings are 'NR/Baa2/BBB+'. Korea Gas Corp scheduled investor roadshow from 5 Jun for a potential USD bond issuance. Rural Electrification Corp Ltd. is planning to issue potential USD green bond.
- **Rating Changes:** S&P affirmed Indonesia-based petrochemical producer PT Chandra Asri Petrochemical Tbk.'s (Chandra Asri) 'B+' corporate credit rating, and upgraded the company's stand-alone credit profile (SACP) to 'BB-' from 'B+'. In addition, S&P revised Chandra Asri's outlook to developing from positive. The rating action reflects the uncertain direction of the credit profile of and leverage at parent company PT Barito Pacific Tbk. following a major corporate reorganization at Barito Pacific which started at the end of 2016. Following Moody's downgraded China's sovereign rating, Moody's affirmed the baseline credit assessment (BCA) of Bank of China Limited (BOC), China Construction Bank Corporation (CCB), and Industrial and Commercial Bank of China Limited (ICBC) at 'Baa2', Agricultural Bank of China Limited's (ABC) BCA And Adjusted BCA at 'Baa3', put Bank of Communications Co. Ltd's (BoCom) BCA and Adjusted BCA of 'Baa3' on review for downgrade. Moody's downgraded the issuer ratings and/or senior unsecured debt ratings of three Chinese policy banks, Agricultural Development Bank of China (ADBC), China Development Bank Corporation (CDB), and the Export-Import Bank of China (CEXIM), to 'A1' from 'Aa3'. Moody's has also affirmed the 'A1' long-term issuer ratings of CCB Financial Leasing Corporation Ltd (CCB Leasing) and ICBC Financial Leasing Co., Ltd (ICBC Leasing), put the 'A2' issuer rating of Bank of Communications Financial Leasing (BoCom Leasing) and the 'A3' issuer rating of BoCom Leasing Development HK Co. Ltd. (BLDHK) on review for downgrade, and downgraded the long-term issuer rating of China Development Bank Financial Leasing (CDB Leasing) to 'A1' from 'Aa3'. Apart from financials, Moody's downgraded 26 Chinese non-financial corporate and infrastructure government-related issuers (GRIs) and rated subsidiaries by one notch from their previous levels. At the same time, Moody's has changed to stable from negative the rating outlooks of 24 out of the 26 GRIs and rated subsidiaries. The outlooks on the two remaining GRI subsidiaries are negative.

Key Financial Indicators

Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	97.238	-0.12%	USD-SGD	1.3846	-0.42%
USD-JPY	111.490	-0.26%	EUR-SGD	1.5533	-0.11%
EUR-USD	1.1219	0.32%	JPY-SGD	1.2418	-0.16%
AUD-USD	0.7503	0.33%	GBP-SGD	1.7962	-0.33%
GBP-USD	1.2972	0.08%	AUD-SGD	1.0391	-0.06%
USD-MYR	4.2930	-0.01%	NZD-SGD	0.9756	0.06%
USD-CNY	6.8901	0.07%	CHF-SGD	1.4230	-0.12%
USD-IDR	13311	0.09%	SGD-MYR	3.0905	-0.18%
USD-VND	22680	-0.04%	SGD-CNY	4.9596	-0.05%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD LIBOR	Change
1M	-0.3740	--	O/N	0.9306	--
2M	-0.3410	--	1M	1.0236	--
3M	-0.3300	--	2M	1.1014	--
6M	-0.2510	--	3M	1.1887	--
9M	-0.1790	--	6M	1.4135	--
12M	-0.1290	--	12M	1.7196	--

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)	Bund (chg)	FR (chg)	IT (chg)
2Y	1.20 (+0.01)	1.28 (-0.02)	-0.66 (-0.01)	-0.46 (-0.02)	-0.25 (-)
5Y	1.59 (+0.02)	1.79 (-0.04)	-0.34 (-0.02)	-0.11 (-0.02)	0.85 (-)
10Y	2.10 (+0.03)	2.25 (-0.03)	0.40 (-0.01)	0.83 (-0.01)	2.13 (+0.02)
15Y	2.26 (+0.03)	--	0.64 (-0.01)	1.20 (-0.01)	2.64 (-)
20Y	2.36 (+0.02)	--	0.94 (-0.01)	1.52 (-0.01)	2.74 (-)
30Y	2.45 (+0.03)	2.92 (-0.02)	1.23 (-0.01)	1.81 (-0.01)	3.21 (-)

Fed Rate Hike Probability

Meeting	Prob Hike	Prob Cut	1-1.25	1.25-1.5	1.5-1.75
14/06/2017	100.0%	0.0%	95.0%	5.0%	0.0%
26/07/2017	93.4%	0.0%	88.7%	4.7%	0.0%
20/09/2017	95.3%	0.0%	64.1%	29.9%	1.4%
13/12/2017	96.5%	0.0%	49.1%	37.9%	8.8%
31/01/2018	96.6%	0.0%	48.2%	38.1%	9.4%

Commodities Futures

Energy	Futures	% chg	Base Metals	Futures	% chg
WTI (per barrel)	51.36	-0.21%	Copper (per mt)	5,683.5	-0.48%
Brent (per barrel)	53.96	-0.35%	Nickel (per mt)	9,063.5	-2.64%
Heating Oil (per gallon)	1.6063	-0.02%	Aluminium (per mt)	1,939.0	0.08%
Gasoline (per gallon)	1.6526	-0.53%			
Natural Gas (per MMBtu)	3.2090	-0.31%			
			Asian Commodities	Futures	% chg
			Crude Palm Oil (MYR/MT)	2,861.0	-0.56%
			Rubber (JPY/KG)	303.0	-6.19%
			Precious Metals	Futures	% chg
			Gold (per oz)	1,253.1	-0.19%
			Silver (per oz)	17.077	-0.08%

Source: Bloomberg, Reuters
(Note that rates are for reference only)

Equity and Commodity

Index	Value	Net change
DJIA	21,012.42	74.51
S&P	2,404.39	5.97
Nasdaq	6,163.02	24.31
Nikkei 225	19,742.98	129.70
STI	3,231.24	8.55
KLCI	1,771.01	3.84
JCI	5,703.43	-27.18
Baltic Dry	934.00	-15.00
VIX	10.02	-0.70

Financial Spread (bps)

	Value	Change
LIBOR-OIS	12.07	-0.71
EURIBOR-OIS	3.05	--
TED	29.27	--

Government CDS (USD)

	5Y	% Change
Germany	14.511	-0.97%
France	27.753	-5.31%
Italy	161.628	0.68%

Key Economic Indicators

Date	Time	Event		Survey	Actual	Prior	Revised
05/24/2017 06:45	NZ	Trade Balance NZD	Apr	267m	578m	332m	277m
05/24/2017 06:45	NZ	Exports NZD	Apr	4.40b	4.75b	4.65b	4.61b
05/24/2017 06:45	NZ	Imports NZD	Apr	4.10b	4.17b	4.31b	4.33b
05/24/2017 06:45	NZ	Trade Balance 12 Mth YTD NZD	Apr	-3790m	-3481m	-3671m	-3710m
05/24/2017 08:30	AU	Westpac Leading Index MoM	Apr	--	-0.12%	0.08%	--
05/24/2017 09:30	AU	Construction Work Done	1Q	-0.50%	-0.70%	-0.20%	0.60%
05/24/2017 13:00	JN	Leading Index CI	Mar F	--	105.5	105.5	--
05/24/2017 13:00	JN	Coincident Index	Mar F	--	114.4	114.6	--
05/24/2017 14:00	GE	GfK Consumer Confidence	Jun	10.2	10.4	10.2	--
05/24/2017 15:00	TH	BoT Benchmark Interest Rate	May-24	1.50%	1.50%	1.50%	--
05/24/2017 16:00	SI	Automobile COE Open Bid Cat A	May-24	--	46489	51106	--
05/24/2017 16:00	SI	Automobile COE Open Bid Cat B	May-24	--	53001	55414	--
05/24/2017 16:00	SI	Automobile COE Open Bid Cat E	May-24	--	52000	55000	--
05/24/2017 19:00	US	MBA Mortgage Applications	May-19	--	4.40%	-4.10%	--
05/24/2017 21:00	US	FHFA House Price Index MoM	Mar	0.50%	0.60%	0.80%	--
05/24/2017 21:00	US	House Price Purchase Index QoQ	1Q	--	1.40%	1.50%	--
05/24/2017 22:00	CA	Bank of Canada Rate Decision	May-24	0.50%	0.50%	0.50%	--
05/24/2017 22:00	US	Existing Home Sales	Apr	5.65m	5.57m	5.71m	5.70m
05/24/2017 22:00	US	Existing Home Sales MoM	Apr	-1.10%	-2.30%	4.40%	4.20%
05/25/2017 07:50	JN	Japan Buying Foreign Bonds	May-19	--	¥778.5b	¥1821.2b	¥1758.3b
05/25/2017 07:50	JN	Japan Buying Foreign Stocks	May-19	--	-¥26.1b	¥273.4b	¥254.1b
05/25/2017 07:50	JN	Foreign Buying Japan Bonds	May-19	--	¥563.1b	¥395.4b	--
05/25/2017 07:50	JN	Foreign Buying Japan Stocks	May-19	--	-¥26.4b	¥372.2b	¥371.9b
05/25/2017 08:00	SI	GDP YoY	1Q F	2.70%	2.70%	2.50%	--
05/25/2017 08:00	SI	GDP SAAR QoQ	1Q F	-0.90%	-1.30%	-1.90%	--
05/25/2017 16:00	IT	Industrial Orders MoM	Mar	--	--	5.30%	--
05/25/2017 16:00	IT	Industrial Orders NSA YoY	Mar	--	--	7.80%	--
05/25/2017 16:00	IT	Industrial Sales MoM	Mar	--	--	2.00%	--
05/25/2017 16:00	IT	Industrial Sales WDA YoY	Mar	--	--	4.60%	--
05/25/2017 16:30	UK	BBA Loans for House Purchase	Apr	40800	--	41061	--
05/25/2017 16:30	UK	GDP QoQ	1Q P	0.30%	--	0.30%	--
05/25/2017 16:30	HK	Exports YoY	Apr	12.50%	--	16.90%	--
05/25/2017 16:30	UK	GDP YoY	1Q P	2.10%	--	2.10%	--
05/25/2017 16:30	HK	Imports YoY	Apr	13.50%	--	13.00%	--
05/25/2017 16:30	HK	Trade Balance HKD	Apr	-39.2b	--	-42.3b	--
05/25/2017 16:30	UK	Private Consumption QoQ	1Q P	0.30%	--	0.70%	--
05/25/2017 16:30	UK	Government Spending QoQ	1Q P	0.40%	--	0.00%	--
05/25/2017 16:30	UK	Gross Fixed Cap Formation QoQ	1Q P	-0.20%	--	0.10%	--
05/25/2017 16:30	UK	Exports QoQ	1Q P	0.50%	--	4.60%	--
05/25/2017 16:30	UK	Imports QoQ	1Q P	0.90%	--	-1.00%	--
05/25/2017 16:30	UK	Index of Services 3M/3M	Mar	0.30%	--	0.50%	--
05/25/2017 16:30	UK	Total Business Investment QoQ	1Q P	0.30%	--	-0.90%	--
05/25/2017 16:30	UK	Total Business Investment YoY	1Q P	--	--	-0.90%	--
05/25/2017 20:30	US	Wholesale Inventories MoM	Apr P	0.20%	--	0.20%	--
05/25/2017 20:30	US	Initial Jobless Claims	May-20	238k	--	232k	--
05/25/2017 20:30	US	Continuing Claims	May-13	1925k	--	1898k	--
05/25/2017 21:45	US	Bloomberg Consumer Comfort	May-21	--	--	50.2	--
05/25/2017	SK	BoK 7-Day Repo Rate	May-25	1.25%	--	1.25%	--
05/25/2017 05/31	VN	CPI YoY	May	4.08%	--	4.30%	--
05/25/2017 05/31	SK	Discount Store Sales YoY	Apr	--	--	2.50%	--
05/25/2017 05/31	SK	Department Store Sales YoY	Apr	--	--	2.30%	--
05/24/2017 05/25	PH	Budget Balance PHP	Apr	--	--	-61.5b	--
05/25/2017 05/31	VN	Exports YTD YoY	May	17.00%	--	15.40%	--
05/25/2017 05/31	VN	Imports YTD YoY	May	24.10%	--	24.90%	--
05/25/2017 05/31	VN	Retail Sales YTD YoY	May	--	--	9.60%	--

Source: Bloomberg

<u>OCBC Treasury Research</u>	
<u>Macro Research</u> Selena Ling LingSSSelena@ocbc.com Emmanuel Ng NgCYEmmanuel@ocbc.com Wellian Wiranto WellianWiranto@ocbc.com Tommy Xie Dongming XieD@ocbc.com Barnabas Gan BarnabasGan@ocbc.com Terence Wu TerenceWu@ocbc.com	<u>Credit Research</u> Andrew Wong WongVKAM@ocbc.com Wong Liang Mian (Nick) NickWong@ocbc.com Ezien Hoo EzienHoo@ocbc.com Wong Hong Wei WongHongWei@ocbc.com

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