

Daily Market Review

Macro Highlights

- We said last week that there were creeping fears and nervousness over the Brexit vote as we approached June 23, but it's now no longer creeping. The consistent poll results showing the leave camp in the lead in the past few days have shaken the market out of its complacency and put it on a defensive footing. While many believe that the cost for UK to leave the EU is simply too high, the market is now not so sure after poll results continue to show otherwise. Three new polls published on Monday with both phone and online surveys, showed that the "Leave" side has opened up a 5% lead over the "Remain" camp. Adding even more uncertainty to the fray, The Sun, a UK tabloid owned by Rupert Murdoch, urged its readers to vote to leave the EU with a front-page headline for its Tuesday edition of "Be-Leave in Britain." As a result, the market felt it might have underpriced the Brexit risks (as what we have warned about last week) and quickly rushed to make up for lost time. The flight to quality has started and it has pressured core government bond yields lower as the market goes risk-off. The UST has always been the safe harbour of choice when one needs to take shelter and the curve flattened yet again as the rush to safety took hold. In fact, the German Bunds, Japanese government bonds (JGB) and the UK Gilts are the other major markets where further curve flattening are expected to take place as we head into June 23. These curves are expected to flatten as the safety bids intensify and they could actually start to happen in tandem with increasing volatility. The attractive relative value of the UST, in a sea of about \$10 trillion worth of negative yielding bonds elsewhere, is simply incomparable in terms of credit worthiness and returns! Hence, we expect the UST to lead the pack in curve flattening and record low yield levels if Brexit does happen next week. The focus this week will be on the FOMC meeting tomorrow where the Fed is expected to hold rates steady and revised lower its rates forecast yet again. The market has priced in a zero probability for a June rate hike after Janet Yellen has acknowledged last week that a Brexit could have "significant economic repercussions." Judging by the current price action (probability), the market has even fully discounted no more rate hike this year. However, this can all change in the blink of an eye as we have seen it happened many times before. Nevertheless, while a June or July rate hike has been fully priced out, we like to reiterate that a July hike is still a possibility if there is no Brexit because this major event risk would be no longer on the table.
- The MSCI Inc will announce early tomorrow (Asian time) whether China's domestic equities will be added to its global benchmark gauges -- a move that would initially spur inflows of as much as \$30Bn. MSCI has denied Chinese stocks to be on its index since 2013, citing concerns about market accessibility among the reasons. While the Chinese stock market was heavily leveraged in anticipation of a yes vote this time last year, the Shanghai Composite Index has tumbled 45% in the past 12 months, including a 20% loss this year, suggesting that the market is not hopeful. Nevertheless, a pleasant surprise is in store for the market and will give a much needed boost to the stock market if the MSCI says yes this time.

Fixed Income

- Asian credits started the week on a cautious note as the lower UST yields brought out the profit takers. Flows indeed were better selling seen from investors as the lower yields simply translated into higher prices. IG

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Head of Research

Asset Class

Sammy Lee Foreign Exchange
Ho Choon Seng Equity
Toyong Halim Equity Portfolio
Yeo Aik Kiong Fixed Income
Iris Kao Funds
Low Ping Yee Funds
Cheong Mun Fai Funds Portfolio

Market Data

Bond	Yld	1D (bp)	1W (bp)	1M (bp)	1Y (bp)
UST 2Y	0.72	0	-7	-3	-1
UST 5Y	1.13	0	-10	-7	-61
UST 10Y	1.61	1	-10	-9	-78
UST 30Y	2.43	0	-11	-12	-68
Canada 10Y	1.11	-2	-13	-16	-69
Italy 10Y	1.45	7	-1	-2	-76
UK 10Y	1.21	-2	-7	-17	-78
German 10Y	0.02	0	-6	-10	-81
France 10Y	0.40	2	-5	-6	-80
Spain 10Y	1.50	7	-2	-10	-74
SWISS 10Y	-0.5	-2	-7	-17	-64
Japan 10Y	-0.2	0	-4	-5	-67
Australia 10Y	2.06	-4	-13	-21	-95

CDS	Last	1D Change	1Y High	1Y Low
Asia IG	145.659	4.127	177.921	104.500
US IG	81.5400	2.765	124.600	62.591
US HY	446.288	11.589	588.570	330.179
EURO IG	82.0940	4.244	125.719	58.689
Euro HY	350.781	16.161	486.563	260.083

Equity	Last	1D +/- %	1D %	YTD %	P/E
Djones	17,732	-132.9	-0.7	-1.0	1.8
S&P 500	2,079	-17.0	-0.8	-1.4	1.7
SX5E	2,854	-57.6	-2.0	-4.9	-12.7
FTSE 100	6,045	-70.8	-1.2	-3.6	-3.2
CAC 40	4,227	-79.7	-1.9	-4.4	-8.8
DAX	9,657	-177.2	-1.8	-4.6	-10.1
Nikkei225	16,019	-582.2	-3.5	-3.9	-15.8
Shanghai	2,833	-94.1	-3.2	-3.2	-20.0
HangSeng	20,513	-529.7	-2.5	-2.1	-6.4
Taiwan	8,536	-179.3	-2.1	-0.6	2.4
KOSPI	1,982	3.1	0.2	-1.5	1.1
SG Straits	2,785	-37.5	-1.3	-1.6	-3.4
ASX 200	5,233	-80.0	-1.5	-2.4	-1.2
VIX	21	3.9	23	53.6	15.2

Currency	Last	1D %	1W %	1M %	YTD %
USDIndex	94.43	0.1	0.6	-0.2	-4.3
EUR	1.13	0.0	-0.6	-0.3	3.9
JPY	106.36	-0.1	0.9	2.5	13.0
GBP	1.42	-0.4	-2.3	-1.3	-3.5
CAD	1.28	0.1	-0.7	0.5	7.9
AUD	0.74	-0.1	-1.0	1.3	1.3
NZD	0.70	-0.2	0.9	3.7	3.1
CHF	0.96	0.1	0.2	1.5	4.0
CNH	6.60	0.0	-0.3	-0.7	-0.4
CNY	6.59	-0.4	-0.3	-0.8	-1.4
TWD	32.42	-0.6	-0.1	0.6	1.6
HKD	7.76	0.0	0.0	0.0	-0.2
SGD	1.36	0.0	-0.3	1.0	4.6
ZAR	15.16	0.1	-1.6	3.2	2.0

Commodity	Last	1D %	1W %	1M %	YTD %
WTI Crude	48.3	-1.1	-4.0	3.0	17
Brent Crude	49.8	-1.1	-3.2	3.5	19
Gold	1282.1	-0.1	3.1	0.6	21

spreads were generally wider across the board as the selling gained momentum. Chinese SOEs, oil and energy related names and even financials were all trading weaker. HY names on the other hand, held up better with most benchmark names closing relatively unchanged to a touch softer from the lack of activities. The selling seen is a good thing because it's always good to lighten positions and lock in some deserving profits ahead of a major risk event. In fact, we have been recommending this strategy from last week because this window of opportunity may not last very long. If Brexit does happen, credits will also be impacted along with equities, especially when we see no winners across the equities sectors. On the other hand, if Brexit does not materialize, then the yield curve will steepen and yields will climb as the market gives up the ground it has front-loaded from weeks ago. Therein lies the most convincing reason for one to take some money and risk off the table while the going is still good for credits.

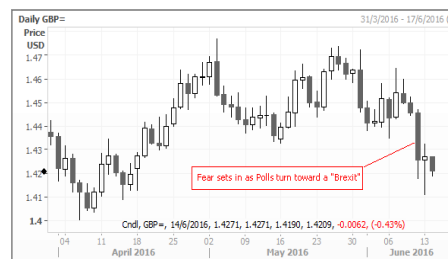
Equity

- **US stocks** declined for the third straight session and the CBOE Volatility Index, the so-called fear index, surged another 23% to 20.97 overnight. Microsoft Corp slumped 2.6% after saying it is acquiring social network LinkedIn Corp for US\$26.2 bn or US\$ 196 per share, a 49.5% premium to LinkedIn's last closing price. Shares of LinkedIn Corp jumped 46% to US\$192.21 on Monday. Chinese internet search provider Baidu tumbled as much as 8.9% in after-hours trade after the company slashed its 2Q revenue forecasts citing advertising cuts or delays by healthcare firms due to ongoing regulatory scrutiny.
- **European stocks** fell for the fourth straight day, led lower by the financials and Industrial sectors. Surprisingly, UK which is at the epicentre of investor anxiety has outperformed its European peers. The FTSE 100 Index only fell 1.2% compared to the pan-European Stoxx 600 Index which was down 1.8%. Siemens lost 1.8% after CEO Joe Kaeser said it is not bidding for robot maker Kuka AG.
- **Chinese stocks** joined the global equity selloff on Monday, with the Shanghai Composite Index tumbling 3.2% to 2,833 at close. Mainland markets were closed on last Thursday and Friday for the Dragon Boat festival holiday. Market sentiment was also dampened by the weakness in yuan to 6.586 a dollar. All sectors declined, dragged down by the IT, consumer discretionary and industrial sectors. Turnover increased to US\$29.3bn from an average of US\$26bn last week.
- **The Hang Seng Index** retreated 2.5% on Monday, breaking the 50-day moving average support level of 20,638. The defensive consumer staples sector was also hit hard, with Mengniu Dairy and Tingyi dropping 5.7% and 3.6%, respectively. Gold mining stocks shone on what was another weak day for the wider market. Shares of Zijin Mining added 0.9% and Zhaojin Mining rose 3.9%. After market close, China Life Insurance said it has invested about US\$600mn in Chinese car-hailing app Didi Chuxing to fund its battle with Uber. Shares of China Life Insurance declined 2.2% on Monday.
- **Japanese stocks** tumbled the most in four months on increasing anxiety over the possibility of Britain leaving the EU. The Nikkei 225 Stock Average index is now approaching the major support level of 16,000. The surge in the perceived safe-haven yen against the dollar continued to affect Japanese exporter stocks, with Sony Corp and Inpex plunging 4.0% and 5.8%, respectively. After market close, Fitch Ratings lowered its outlook on Japan's credit rating to negative amid concerns over Japan's commitment to fix its public finances.

Foreign Exchange

- USD-** Safe-haven activity continues to dominate the markets led by the bond market where UST yields continue to compress as the 'Brexit' Referendum becomes more potent. As opinion polls show increased support for the 'Leave' camp, UST are bought together with German bunds caused yields in those to fall. We must understand that this could disappear next week when and if, the UK decides to remain within the EU and we might see a reversal.
- GBPUSD-** Sharp drop last Friday on spot as new polls suggested 'Leave' camp ahead. It is going to continue to be nervous days ahead as we approach the referendum next week and anything goes. We are seeing more hedging take place as EUR short bets are also being built in. The result is simply too close to call although if more polls point to 'Leave' gaining ground, we could see further falls in Sterling in the coming days. We warn that there is likely going to be liquidity vacuums in the days ahead as traders would also not want to hang onto positions thrown onto into their books by larger institutional clients. Bank of England meets this Thursday for the monthly meeting but we expect no changes given the uncertainty of the Referendum next week.
- USDJPY** – The Bank of Japan meets this week on the 15th & 16th for its monthly policy decision. The market does not expect them to act even as USDJPY is beginning to sink closer to the year's lows of 105.50 area. As the USDJPY weakens, the Japanese officials are again working overtime and yesterday saw the chief government spokesman come out to say that they are aware of 'very volatile' moves in Japanese stocks, long term interest rates and FX but added that he wouldn't comment on FX levels although he repeated that the government is watching very carefully how UK referendum will affect markets. Reading in between these lines, it is unlikely to expect them to come into the market with any form of intervention except from the usual line or two as it may be futile to intervene if the UK referendum would lead to a huge jump in volatility next week and more so if the decision was taken to leave the EU and safe haven currencies like the JPY are bought. Still the Japanese are between a rock and hard place. We think that many Japanese businesses are under-hedged on FX exposures and may need to sell more USD if they believe that the government is not going to hold a minimum FX rate. Market's understanding is that their average rate of USDJPY for the year could be around 108. Bias is to a weaker USD overall in the short term as investors start to worry about a 'Brexit'.
- EURUSD-** Trades defensively as a hedge against 'Brexit' is being slightly played out here. We see a symbiotic fall in EUR if UK votes to leave the EU and may keep the EUR weak from then on. Bear in mind that there will be general elections next year in France and Germany and both Hollande and Merkel will be faced with stronger voices of a broken concept of EU unison if the Brits chose to leave next week. The calls from these leaders are for the UK to remain but the polls are looking shaky. Speculators have increased their bearish bets on the EUR once again and have been increasing their exposures to a fall in the EUR. More asset managers and businesses are now looking at hedging their European assets which are likely to be impacted in the event of a "Brexit" and that should keep a lid on the EUR as well.

Chart: GBPUSD



Commodity	Last	1D %	1W %	1M %	YTD %
WTI Crude	48.3	-1.1	-4.0	3.0	17
Brent Crude	49.8	-1.1	-3.2	3.5	19
Natural Gas	2.6	-0.3	4.2	1.5	2.7
Gold	1282.1	-0.1	3.1	0.6	21
Silver	17.4	-0.2	6.3	1.6	26
Platinum	990.1	-0.1	-0.9	-5.7	11
LME Copper	4557.0	1.0	-2.8	-1.5	-3.1
LME Alum.	1595.0	1.7	3.2	4.2	4.8
Corn	434.0	-0.3	0.8	10	16
Nickel	8858.0	-0.5	2.5	2.7	-0.1
Cotton	64.1	-1.5	-2.2	5.9	-1.0
Comdty Index	179.8	0.2	0.9	5.5	14

Economic Calendar

Day	Date	Time	Country	Event	Period	Survey	Actual	Prior	Note
Mon	06/13	10:00	China	Industrial Production YoY	May	6.00%	6.00%	6.00%	--
Mon	06/13	10:00	China	Industrial Production YTD YoY	May	5.90%	5.90%	5.80%	--
Mon	06/13	10:00	China	Retail Sales YoY	May	10.10%	10.00%	10.10%	--
Mon	06/13	10:00	China	Retail Sales YTD YoY	May	10.20%	10.20%	10.30%	--
Mon	06/13	10:00	China	Fixed Assets Ex Rural YTD YoY	May	10.40%	9.60%	10.50%	--
Tue	06/14	12:30	Japan	Industrial Production MoM	Apr F	--	--	0.30%	--
Tue	06/14	12:30	Japan	Industrial Production YoY	Apr F	--	--	-3.50%	--
Tue	06/14	16:30	UK	CPI MoM	May	--	--	0.10%	--
Tue	06/14	16:30	UK	CPI YoY	May	--	--	0.30%	--
Tue	06/14	16:30	UK	CPI Core YoY	May	--	--	1.20%	--
Tue	06/14	17:00	Eurozone	Industrial Production SA MoM	Apr	--	--	-0.80%	--
Tue	06/14	17:00	Eurozone	Industrial Production WDA YoY	Apr	--	--	0.20%	--
Tue	06/14	17:00	Eurozone	Employment QoQ	1Q	--	--	0.30%	--
Tue	06/14	17:00	Eurozone	Employment YoY	1Q	--	--	1.20%	--
Tue	06/14	20:30	US	Retail Sales Advance MoM	May	0.30%	--	1.30%	--
Wed	06/15	14:00	Japan	Machine Tool Orders YoY	May F	--	--	--	--
Wed	06/15	14:45	France	CPI MoM	May F	--	--	0.40%	--
Wed	06/15	14:45	France	CPI YoY	May F	--	--	-0.10%	--
Wed	06/15	19:00	US	MBA Mortgage Applications	Jun-10	--	--	--	--
Wed	06/15	20:30	US	Empire Manufacturing	Jun	-4.95	--	-9.02	--
Wed	06/15	21:15	US	Industrial Production MoM	May	-0.20%	--	0.70%	--
Thu	06/16	2:00	US	FOMC Rate Decision (Upper Bound)	Jun-15	0.50%	--	0.50%	--
Thu	06/16	2:00	US	FOMC Rate Decision (Lower Bound)	Jun-15	0.25%	--	0.25%	--
Thu	06/16	9:30	Australia	Employment Change	May	--	--	10.8k	--
Thu	06/16	9:30	Australia	Participation Rate	May	--	--	64.80%	--
Thu	06/16	17:00	Eurozone	CPI MoM	May	--	--	0.00%	--
Thu	06/16	17:00	Eurozone	CPI YoY	May F	--	--	-0.10%	--
Thu	06/16	17:00	Eurozone	CPI Core YoY	May F	--	--	0.80%	--
Thu	06/16	19:00	UK	Bank of England Bank Rate	Jun-16	--	--	0.50%	--
Thu	06/16	19:00	UK	BOE Asset Purchase Target	Jun	--	--	375b	--
Thu	06/16	20:30	US	Initial Jobless Claims	Jun-11	--	--	--	--
Thu	06/16	20:30	US	CPI MoM	May	0.30%	--	0.40%	--
Thu	06/16	20:30	US	CPI YoY	May	1.10%	--	1.10%	--
Thu	06/16		Japan	BOJ Basic Balance Rate	Jun-16	--	--	0.10%	--
Thu	06/16		Japan	BOJ Macro Add-On Balance Rate	Jun-16	--	--	0.00%	--
Thu	06/16		Japan	BOJ Policy Rate	Jun-16	--	--	-0.10%	--
Fri	06/17	20:30	US	Housing Starts	May	1160k	--	1172k	--
Fri	06/17	20:30	US	Housing Starts MoM	May	-1.00%	--	6.60%	--
Fri	06/17	20:30	US	Building Permits	May	1150k	--	1116k	1130k
Fri	06/17	20:30	US	Building Permits MoM	May	1.80%	--	3.60%	4.90%

Source: Bloomberg

Comments on Economic Releases

- Monday** – China’s industrial output held steady in May. Investment stumbled as private-sector spending slowed. An ‘L’-shaped recovery is in line with policymakers’ predictions, and certainly preferable to a continued slump in growth. Even so, the failure of considerable stimulus to do more than stabilize output underscores the challenges China faces from high debt and overcapacity. As entrepreneurs stay on the sidelines, growth remains dependent on policy support.

Source: Bloomberg

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