

Indicator	17-May-19	Last week	%	Last month	%	Last year	%
2/10 UST spread (bps)	19.0	21.0	-10%	19.0	0%	51.0	-63%
10-year US Treasury yield (%)	2.39	2.47	-3%	2.57	-7%	3.06	-22%
3-month USD LIBOR (%)	2.52	2.53	0%	2.60	-3%	2.34	8%
VIX index	15.96	16.04	0%	12.42	29%	13.22	21%
EM HY Corp yield (%)	7.2	7.1	1%	6.9	3%	6.7	7%
EM HY over IG corp spread (bps)	349	338	3%	314	11%	253	38%
Yield spread of COGARD 1/25s over INDON 1/27s (bps)	262.1	252.3	4%	255.2	3%	195.8	34%
5-year China Development Bank onshore bonds (%)*	3.58	3.60	-1%	3.71	-4%	4.42	-19%
5-year AAA-rated Chinese corporate onshore bonds (%)*	4.03	4.11	-2%	4.27	-6%	4.91	-18%
5-year AA+ - rated Chinese corporate onshore bonds (%)*	4.35	4.44	-2%	4.60	-5%	5.20	-16%
BITCOIN/Gold per per oz.	5.7	4.5	28%	4.2	38%	6.4	-10%
Baltic Dry Index	1040	1013	3%	622	67%	1,239	-16%
OPEC oil prices (USD)	72.6	70.7	3%	70.8	3%	76.5	-5%

Source: Quandl, BOAML, US Treasury, CBOE, Chinabond, Bloomberg, CNBC, Global-rates

The MARKET (Warut Promboon/Sumit Gupta/ Umesh Desai)

- ❖ The Trade War is alive again as we predicted that the trade war positives a few weeks earlier was short-lived.
- ❖ President Trump slapped 25% tariffs on USD200bn of Chinese imports last Friday and threatened to hike a 25% tariff on another USD340bn worth of Chinese imports. China retaliated with a 25% tariff on USD60bn of US imports. The problem is that the US imports from China about 3x more than what China does from the US. As result, the retaliation on tariff from China will not be effective to say the least, in our view.
- ❖ The US-China trade spat has brought the US Treasury holdings of China into discussion. The latest TIC data release showed that China had sold USD20.5 bn of US Treasury bonds and notes in March 2019 (note that this was well before the recent round of tariffs announced by the US).
- ❖ With a holding of around USD1.12trn of US Treasuries, China is the largest among foreign owners of US securities. While an intentional sale of US treasuries by China, as a tool in retaliation, has significant implications for the market, we believe that this is less likely. The potential fall in Treasury prices and a corresponding devaluation of its own portfolio is one of the well-discussed economic reasons. Another in current times, is the lack of alternatives (among AAA and AA-rated government bonds) for China to park its proceeds from such a sale of Treasury holdings.
- ❖ Trade tariffs may however dampen US dollar inflows into China which could impede fresh purchases of US government bonds by the country, going forward. Institute of International Finance said the weekly fund outflow from Chinese shares was USD2.6bn on May 10th, the biggest since October 2015.
- ❖ The Baltic Dry Index stayed elevated at 1040 versus 622 a month ago. 2/10 UST spread dropped back to 19bps to reflect more worries on global growth, in our view.

INDIA WATCH (Sumit Gupta)

- ❖ The election season in India is coming to an end (23rd May 2019). The domestic markets (bond, currency and equity) have already faced a big move on Monday (20th May) when the results of the exit polls indicating a win for the Modi Government, were announced.
- ❖ In our view, the opposition camp had given a tough fight and the probability of a weak majority or a coalition government still remains. We would be cautious and expect further volatility over the coming days.
- ❖ When the dust settles in India, we would focus on the new government's borrowing plan, the Reserve Bank of India's (RBI) policy meeting in early June and the barometer for liquidity in the domestic money markets.
- ❖ In its annual report in April, the RBI had noted that the leakage of funds from the formal banking system to cash in circulation increases in the run-up to elections and is negative after the elections (i.e. cash starts returning to the banking system).
- ❖ Furthermore, the current government has been hoarding cash since April, which should also return to the banking system in the days following the election. As the domestic players see this return of cash, we expect them to show greater appetite for corporate bonds over the coming months.

THE MARKET (Continued)

- ❖ Oil prices, however, continue to inch-up the US-Iran war rhetoric and Saudi Arabia's pledge to limit oil production. Rising oil prices mean countries with strong reliance on imports (such as Indonesia) will see more pressure on their budget deficits in the near term.
- ❖ Average EM HY Corp yield rose to 7.2% from 6.9% a month ago while spread of EM HY Corp yield over IG counterpart rose to 349bps from 314bps a month ago. We believe the increase reflects more caution on risky assets in light of slowing global economics growth.
- ❖ COGARD 25's YTM (ask) rose to 6.2% at the time of this writing from 5.9% the last time we published BMM, (which was the lowest in the 52-week period). As we said, the best of this year's market is already behind us and we caution investors against chasing yields in a rising default environment.

Notable rating changes

Date	Agency	Description	Rating type	Rating action	Rating	To	Outlook/ Credit Watch	Rating	From	Outlook/Credit Watch
17-May	Fitch	ABM Investama	Issuer/issue rating	Downgrade	B+		Negative	BB-		Negative
15-May	S&P	KCC Corp	Long term issuer rating	Downgrade	BBB-		Stable	BBB		Watch Negative
15-May	Moody's	KCC Corp	Issuer rating	Downgrade	Baa3		Negative	Baa2		Under review
15-May	Fitch	Agung Podomoro	Issuer/issue rating	Downgrade	B-		Watch	Ne B		Stable
14-May	S&P	Wynn Resorts	Long term issuer rating	Upgrade	BB		Stable	BB-		Watch Positive
13-May	Moody's	Glencore plc	Issuer rating	Upgrade	Baa1		Stable	baa2		Positive
10-May	Moody's	Dr. Peng Telecom & Media Group Co.	Corporate family rating/senior uns	Downgrade	B3		Review	fc B2		Negative
10-May	Fitch	Vietnam Joint Stock Commercial Bank for Industry and Trade	Issuer rating	Outlook revision	BB-		Positive	BB-		Stable
10-May	Fitch	Joint Stock Commercial Bank For Foreign Trade of Vietnam	Issuer rating	Outlook revision	BB-		Positive	BB-		Stable
10-May	Fitch	eHi Car Services	Issuer rating	Downgrade	B		Stable	B+		Stable
10-May	Fitch	Vietnam Electricity	Issuer rating	Outlook revision	BB		Positive	BB		Stable
10-May	Fitch	National Power	Issuer rating	Outlook revision	BB		Positive	BB		Stable
10-May	Fitch	Transmission Corporation	Issuer rating	Outlook revision	BB		Positive	BB		Stable
9-May	Moody's	ABM Investama	Corporate family rating/senior uns	Downgrade	B1		Stable	Ba3		Negative
9-May	Moody's	E Mart	Issuer rating	Downgrade	Baa3		Stable	baa2		Review for downgr
9-May	Fitch	Vietnam	Sovereign rating	Outlook revision	BB		Positive	BB		Stable
8-May	S&P	Alam Sutera	Long term issuer rating	Outlook revision	B		Stable	B		Watch Negative
8-May	Fitch	China Logistics	Issuer/issue rating	Downgrade	B-		Negative	B		Stable
7-May	S&P	PTT Global Chemical	Long term issuer rating	Upgrade	BBB+		Stable	BBB		Stable
7-May	S&P	Thai Oil	Long term issuer rating	Upgrade	BBB+		Stable	BBB		Stable
7-May	Fitch	Lodha Developers	Issuer/issue rating	Outlook revision	B		Negative	B		Stable
7-May	Fitch	Logan Property	Issuer/issue rating	Outlook revision	BB-		Positive	BB-		Stable
7-May	Fitch	Professional Telekomunikasi	Issuer/issue rating	Outlook revision	BB-		Positive	BB-		Stable
6-May	Fitch	Indonesia	Issuer rating	Outlook revision	BBB-		Positive	BBB-		Stable

Source: S&P, Moody's, Fitch

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