

## MarketWatch

Indicator	4-Jun-19	1w	1m	3m	1y
2/10 UST spread (bps)	25.0	19.0	21.0	17.0	43.0
10-year US Treasury yield (%)	2.07	2.14	2.47	2.62	2.93
3-month USD LIBOR (%)	2.50	2.52	2.57	2.60	2.32
VIX index	18.4	15.9	13.1	14.6	12.4
EM HY Corp yield (%)	7.22	7.14	6.99	7.13	7.02
EM HY over IG corp spread (bps)	363.0	350.0	324.0	303.0	292.0
Yield spread of COGARD 1/25s over INDON 1/27s (bps)	284.1	269.4	255.4	299.7	205.3
5-year China Development Bank onshore bonds (%)*	3.62	3.63	3.72	3.50	4.35
5-year AAA-rated Chinese corporate onshore bonds (%)*	4.04	4.01	4.25	4.01	4.75
5-year AA+ - rated Chinese corporate onshore bonds (%)*	4.39	4.36	4.58	4.32	5.11
BITCOIN/Gold per per oz.	6.6	6.2	4.1	3.0	5.9
Baltic Dry Index	1096.0	869.0	689.0	651.0	1193.0
OPEC oil prices (USD)	64.2	67.4	70.6	64.8	74.3

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

## The Market

- CT10 is below 2.1%, and indicates concerns on global economic slowdown, in our view. Baltic Dry Index remained buoyant, but we expect it to eventually decline to reflect the current China-US trade war rhetoric.
- The China-US trade war has escalated to a new level, in our view. The Chinese authorities have stepped-up its volume and rhetoric toward the US through the commentaries of the People's Daily. In our view, the Chinese government has already prepared for a long-drawn conflict with the US.
- That may be the reason why President Xi Jinping stated that the Chinese people should re-start the "Long March", a term we believe symbolized the People's Liberation Army's march through the Yunnan province during the Chinese Civil War. The term announcement also means China will not be on a defensive mode against the US pressure any longer, in our judgement, and that could spell trouble for the global trade on a longer term.
- A protracted trade war will mean a global economic slowdown and low interest rates for a longer period. That fits with our prediction of a low rate environment where defaults are rising globally. A flight to quality will benefit US Treasury and investment grade bonds. We believe high-yield and distressed areas will offer good opportunities during the sell-off for those who have done proper credit homework.
- ICICI Bank and Axis Bank's ratings were downgraded to BB+ from BBB- by Fitch. The downgrade is not a surprise, but the knee-jerk sell-off could be triggered by IG asset managers' need to exit high-yield credits

## The Tariff world

### China:

- A [local newspaper highlighted](#) that during May, foreign investors had net sold the maximum amount of Chinese equities through exchange links since December 2016.
- Meanwhile, the FX rate depreciated by around 2.5% in May 2019 (a rare event). USDCNY was last quoted at 6.91, inching closer to the crucial level of 7 CNY per USD. Investors now await the next G20 summit, scheduled to be held in Osaka on the 28<sup>th</sup> and 29<sup>th</sup> of June where Chinese President Xi Jinping and his US President Donald Trump are likely to meet each other.

### Mexico:

- Mexico's vulnerability to trade tariffs is significant. 80% of the country's exports go to the US.
- The Mexican Peso has depreciated by around 3.75% in May. Meanwhile, Mexico has sent a delegation to hold talks with the US this week. The country hopes to convince the US that it is doing enough to curb immigration and that tariffs are rolled back.

### India:

- The US announcement of termination of India's designation as a beneficiary developing country will affect around 10% of the country's exports to the US.
- India is relatively immune to trade wars, in our view. The country's economy has greater dependency on domestic consumption; and thus, more sensitive to import costs than exports. The sharp fall in oil prices (triggered partly by the tariff wars), boosted the country's domestic markets (equities, bonds and FX) on Monday morning.

## Notable rating changes

Date	Agency	Description	Rating type	Rating action	To		From	
					Rating	Outlook/Credit Watch	Rating	Outlook/Credit Watch
3-Jun	Fitch	ICIC Bank	Issuer default rating	Downgrade	BB+	Stable	BBB-	Negative
3-Jun	Fitch	Axis Bank	Issuer default rating	Downgrade	BB+	Stable	BBB-	Negative
31-May	S&P	PT Perusahaan Gas Negara	long term issuer rating	Outlook revision	BBB-	Stable	BBB-	Negative
31-May	S&P	PT Saka Energi Indonesia	long term issuer rating	Outlook revision	BB+	Stable	BB+	Negative
31-May	S&P	Indonesia	long term/short term sovereign rating	Upgrade	BBB-/A-2	Stable	BBB-/A-3	Stable
31-May	S&P	PT Cikarang Listrindo Tbk.	Issuer rating	Upgrade	BB+	Stable	BB	Stable
31-May	S&P	Listrindo Capital B.V	Issue rating	Upgrade	BB+		BB	
31-May	S&P	PT Astra International Tbk.	Issuer rating	Upgrade	BBB+	Stable	BBB	Stable
31-May	S&P	Perusahaan Perseroan (Persero) PT Perusahaan Listrik Negara	Issuer/issue rating	Upgrade	BBB	Stable	BBB-	Stable
31-May	S&P	Majapahit Holding B.V.	Issue rating	Upgrade	BBB		BBB-	
31-May	S&P	PT Pertamina (Persero)	Issuer/issue rating	Upgrade	BBB	Stable	BBB-	Stable
31-May	S&P	PT Pelabuhan Indonesia II (Persero)	Issuer/issue rating	Upgrade	BBB	Stable	BBB-	Stable
31-May	S&P	PT Pelabuhan Indonesia III (Persero)	Issuer/issue rating	Upgrade	BBB-	Stable	BB+	Stable
29-May	S&P	Fosun International	Issuer/issue rating	Outlook revision	BB	Positive	BB	Stable
24-May	S&P	Sojitz Corp	Issuer rating	Outlook revision	BBB-	Positive	BBB-	Stable
21-May	S&P	Dr. Peng Telecom & Media Group	Issuer/issue rating	Downgrade	B-	Negative	B	Negative
21-May	S&P	CITIC Resources	Issuer rating	Outlook revision	BB-	Positive	BB-	Stable
31-May	Moody's	Dr. Peng Telecom & Media Group	Corporate family/issue rating	Downgrade	Ca1	Negative	B3	Review for downgrade
31-May	Moody's	Yango Justice International Limited	Corporate family/issue rating	Outlook revision	B2/B3	Positive	B2/B3	Stable
29-May	Moody's	Tianqi Lithium Corp	Issuer/issue rating	review for downgrade	Baa3	Review for downgrade	Baa3	Negative
24-May	Moody's	Doosan Bobcat	Issuer/issue/CFR rating	Outlook revision	Ba3	positive	Ba3	Stable
24-May	Moody's	Bumi Serpong Damai	CFR/issue rating	Outlook revision	Ba3	Stable	Ba3	Positive
23-May	Moody's	Yanzhou Coal	CFR/issue rating	Upgrade	Ba2	Stable	Ba3	Positive
20-May	Moody's	WTT HK	CFR/issue rating	Upgrade	Ba3	Positive	B1	Rating under review
24-May	Fitch	Shenzhen Expressway	Issuer/issue rating	Upgrade	BBB	Stable	BBB-	Stable
24-May	Fitch	Shenzhen International	Issuer rating	Upgrade	BBB	Stable	BBB-	Stable
24-May	Fitch	Shenzhen Expressway	Issuer/issue rating	Upgrade	BBB	Stable	BBB-	Stable
24-May	Fitch	Shenzhen International	Issuer rating	Upgrade	BBB	Stable	BBB-	Stable

Source: Moody's, S&P, and Fitch

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