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## Highlights

- [China is already resisting US exports, but could end up agreeing to buy more natural gas, autos and airplanes](#)
- [Boeing lost about USD20bn of back orders as one consequence from US President Trump pulling out of JCPOA](#)
- [Israel also bombed Iran in Syria](#)
- [China drives down 5-year government yields, but that only widened the credit spread](#)
- [China CPI/PPI in line](#)
- [SAFE to continue expanding foreign participation in onshore forex](#)

## MUFG Bank

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INDICATIVE RATES 11 May 2018 Data snapped ~11:25 HK TIME

Foreign Exchange			Equity Indices			Interest Rates				
	Asia	% Chng	New York	London	Close	% Chg	3M FIXING	% bp Chng		
USD/JPY	109.46	0.07	109.39	108.79	DJIA	24739.53	0.80	USD LIBOR	2.35500	-0.08
EUR/JPY	130.43	0.07	130.38	127.82	N225	22699.76	0.90	JPY TIBOR	0.09125	0.00
EUR/USD	1.1914	0.01	1.1916	1.1749	DAX	13022.87	0.62	EURIBOR	-0.32700	0.00
GBP/USD	1.3525	0.07	1.3514	1.2857	FTSE	7700.97	0.50	GBP LIBOR	0.67173	-1.21
USD/SGD	1.3372	0.00			STI	3537.59	-0.31	SGD SIBOR	1.51106	0.40
USD/THB	31.930	-0.13			SET	1753.63	0.39	THB BIBOR	1.57646	0.05
USD/MYR	3.9480	0.00	<b>Commodities</b>		KLCI	1846.51	1.00	MYR KLIBOR	3.69000	0.00
USD/IDR	14045	-0.18	CRB	204.52	JCI	6002.19	1.60	IDR JIBOR	6.14333	4.78
USD/PHP	52.061	0.31	Brent Crude*	77.30	PSEI	7722.10	2.00	PHP REF	4.17100	-0.36
USD/INR	67.240	0.00	Gold (USD/oz)	1321.01	SENSEX	35246.27	-0.21	INR MIBOR	7.18000	5.00
USD/KRW	1069.40	0.44			KOSPI	2478.68	0.59			
USD/TWD	29.743	0.12	<b>Market Gauges</b>		TAIEX	10861.52	0.94			
AUD/USD	0.7528	-0.05	VIX	13.23	ASX	6128.90	0.17			
USD/HKD	7.8492	-0.01	Dollar Index	92.719	HANG SENG	31195.15	1.25	If prior trading day is a holiday,		
USD/CNY	6.3452	0.02	UST 2Y	2.538	SHCOMP	3171.64	-0.09	comparison with preceding day.		
USD/VND	22772	0.01	UST 10Y	2.971	VNI	1025.33	-0.34	* ICE Brent Crude (USD/bbl)		

Source: MUFG Bank & Reuters. FX daily % changes from 2:00 GMT prior Reuters closes; London and New York show MUFG Bank closes.

**CNY/USD/Trade/Trump.** Yesterday's *Wall Street Journal* article focused on Chinese offers to buy US goods when Liu He heads to DC next week.

<https://www.wsj.com/articles/china-plans-offer-to-buy-more-from-u-s-1525911483>

It isn't clear exactly what purchases the Chinese will target to right the trade imbalance, but **such a plan would invariably include commodities such as natural gas or manufactured goods like autos and airplanes.** The plan would also involve expanding purchases of U.S. services, from insurance to cloud computing.

It also focused on how **China may be slow-walking the approval of US exports into China:**

*Now, the U.S. pork industry faces stricter scrutiny over meat exported to China. Since late April, Chinese customs officials have inspected all shipments of pork from the U.S. and boosted sampling rates to 20% of those shipments, according to the U.S. Department of Agriculture. For U.S. pork exporters already dealing with tariffs on their product that China implemented in April, the new steps "will likely add additional costs to the importing process," USDA officials said. [\[Back to Highlights\]](#)*

**USD/IRR/Trump/JCPOA/\$BA.** Looks like Boeing lost about USD20bn of orders as a consequence of the US pulling out of the JCPOA.

*BREAKING: Boeing license will be revoked as part of Iran sanctions, Mnuchin said just now [overnight in DC], per @SalehaMohsin -- Boeing has signed a \$3 billion deal for 30 737 Max jets with Iran Aseman airline and a \$16.6 billion deal with national carrier Iran Air for 80 aircraft. HT @MikeDorining [\[Back to Highlights\]](#)*

**ILS/IRR/SYP.** *The Israeli raids in Syria, which a monitor said killed 23 fighters, were one of the largest Israeli military operations in recent years and the biggest such assault on Iranian targets, the Israeli military said. "We hit nearly all the Iranian infrastructure in Syria," said [Israeli] Defence Minister Avigdor Lieberman. "I hope we've finished this episode and everyone understood."*

*Israel carried out the raids after it said 20 rockets, either Fajr or Grad type, were fired from Syria at its forces in the Golan Heights at around midnight. It blamed Iran's Quds force, adding that Israel's anti-missile system intercepted four while the rest did not land in its territory. [\[Back to Highlights\]](#)*

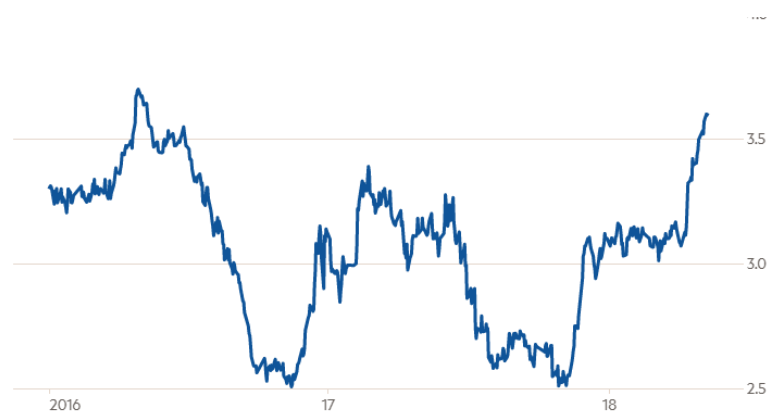
[https://www.yahoo.com/amphtml/news/israel-hits-dozens-iranian-targets-syria-rocket-fire-054820765.html?\\_twitter\\_impression=true&guccounter=1](https://www.yahoo.com/amphtml/news/israel-hits-dozens-iranian-targets-syria-rocket-fire-054820765.html?_twitter_impression=true&guccounter=1)

**CNY/CNH/Debt.** Our view from YE2017 had been that while onshore bond markets may calm in 1H18, without decisive debt restructuring credit problems would come back and YTD (touch wood), this seems to be approximately right.

<https://www.ft.com/content/5dcff2ce-534c-11e8-b3ee-41e0209208ec>

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## CHINA'S 5-YEAR AA- CORPORATE BOND SPREAD WIDENS



Source: National Interbank Funding Center, Thomson Reuters Eikon

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Source: FT

**The 5Y AA- corporate bond spread is still not as wide as in 2014 (not shown in chart), but we expect it to eventually approach those widths.**

The recent spike in the spread is mainly because the Chinese authorities have been pushing down the 5Y CGB yield by about 50bps since late April. That means though officials have tried to help with the large rollovers, it's not really working for corporates, as the risk premium remains unchanged. [\[Back to Highlights\]](#)

**CNY/Debt.** Former Anbang Chairman, married to a granddaughter of Deng Xiaoping, sentenced to 18Y in prison.

<https://www.nytimes.com/2018/05/09/business/china-sentences-anbang-founder-to-18-years-for-fraud.html?smid=nytcare-ipad-share&smprod=nytcare-ipad>

Wu was convicted of defrauding investors out of more than USD10bn; there's no indication in this short story of who got defrauded. [\[Back to Highlights\]](#)

## CNY. April PPI and CPI provide no surprises

April PPI 3.4%YoY = consensus > last 3.1%. There was a **broad-based increase in producer prices of producer goods** (4.5%YoY > last 4.1% < YTD 4.8%), spanning from mining (6.1%YoY > last 5.0% = YTD), raw materials (5.7%YoY > last 5.1% < YTD 6.0%) to manufacturing (3.9%YoY > last 3.7% < YTD 4.2%). Meanwhile, producer prices of consumer foods were little

changed (0.1%YoY < last and YTD 0.2%), suggesting that **the pass-through of producer-price inflation to consumer-price inflation would probably remain muted in the near term.**

**April CPI 1.8%YoY < consensus 1.9% < last 2.1%.** This was mainly due to slower than expected increase in food prices (0.7%YoY < last 2.1% < YTD 1.7%), while non-food prices rose at a steady pace (2.1%YoY = last < YTD 2.2%).

All in all, **China's prices would probably maintain stable**, even with some price fluctuation amid the combination of external economic environment and domestic supply-demand adjustment. This would probably have muted impact on **PBOC's prudent and neutral monetary stance**. Some targeted RRR reduction would remain possible, and money market rates would probably be guided higher, with small adjustment each time (like the rate hike of 5 bps each in March and last December), and the timing would probably depend on the Fed and onshore market liquidity. [\[Back to Highlights\]](#)

**CNY/SAFE.** *SAFE to Expand Participation in Onshore FX Market: China Forex (Bloomberg)*

*China will continue to promote non-bank financial institutions' participation in domestic forex market, expand and facilitate participation of overseas institutions, according to Wang Chunying, head of international balance of payments department at State Administration of Foreign Exchange (SAFE).*

- *The regulator will promote the forex market to meet hedging needs of real economy and financial transactions, Wang writes in article posted on WeChat account of SAFE-run magazine China Forex*
- *SAFE to gradually increase the role of forex market in investment and trading: Wang...* [\[Back to Highlights\]](#)

## TWO DAYS HENCE

A rather sparse economic calendar next Monday. **Fedspeak:** Cleveland Fed **Mester** (voter) and St. Louis Fed **Bullard** (non-voter). **ECBspeak:** Governing Council members **Villeory** and **Costa**.

**Japan April PPI:** consensus 2.0%YoY < last 2.1%, while on a month-on-month basis, consensus 0.1% > last -0.1%. Crude oil prices and weaker yen would probably bolster PPI inflation in the near term. **China April money & credit figures** (to be announced from today to 15 May): M2 growth is expected to quicken: consensus 8.5%YoY > last 8.2%, while new yuan loans and aggregate financing would probably stay steady: consensus CNY1100bn and CNY1350bn ~ last CNY1120bn and CNY1332.3bn. This might somewhat reflect the impact of the RRR reduction of 1% for most banks (that was effective from 25 Apr). **India April CPI:** consensus 4.45%YoY > last 4.28%. RBI forecasts inflation will pick up to a range of 4.7%-5.1% in 1H fiscal 2019 from an average 4.6% in the January to March period, somewhat reflecting the upward inflationary pressure amid higher crude oil prices and weaker INR.

**Bonds:** **Korea** to sell KRW1.8tn 10-year bonds (last yield 2.620% and amount accepted KRW1.15tn); and **Malaysia** to sell MYR3bn 7-year Islamic bonds. [\[Back to Highlights\]](#)

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