

Research Monitor (July)

Monday, July 10, 2017

Asset Class Views

	House View	Trading Views	
FX	The dollar may continue to feel the sting in July after the ECB, BOE and the BOC turned hawkish pretty much in unison in late June. Coupled with what we deem as a dovish Fed hike in June, the DXY may continue to feel the heat as investors continue to re-calibrate (including via the vol surface). Asian currencies meanwhile may continue to exhibit mixed response functions to potential USD vulnerability, especially if net portfolio inflows continue to waver.	GBP-USD: Optimism from UK snap elections and reversal of bearish positioning in GBP. Broad USD skepticism. (Initiation date: 9 May 2017, Spot ref: 1.2927, Target: 1.3500, Stop: 1.2535)	↑
		USD-CAD: Sanguine risk appetite and crude prices supporting CAD. Broad USD skepticism. (Initiation date: 23 May 2017, Spot ref: 1.3489, Extended target: 1.2825, Trailing stop: 1.3155)	↓
		2M USD-SGD Put: Endemic USD weakness and positive risk appetite. (Initiation date: 5 June 2017. Spot ref: 1.3796, Strike: 1.3639, Exp: 03/08/17, Cost: 0.24%)	↑
		AUD-USD: Supportive Australian GDP and China trade data prints. Sanguine risk appetite and ongoing USD weakness. (Initiation date: 8 June 2017. Spot ref: 0.7550, Extended target: 0.7845, Trailing stop: 0.7620)	↓
		USD-JPY: Yield differentials are supportive, with BOJ still dovish. (Initiation date: 28 June 2017, Spot ref: 112.31, Target: 114.80, Stop: 111.05)	↓
Rates	Strong hints of a synchronised withdrawal of monetary policy accommodation by major central banks have set the fox among the chickens and prompted steeper bond yield curves by restoring term premium. While renewed North Korean tensions may prove a temporary distraction, still we see scope for further repricing of rates and yield curves, with room for upside surprises in the medium term. Still see a 3rd Fed rate hike	US: Renewed market concerns about FOMC's impending balance sheet unwinding have re-steepened the 2-10 year UST bond yield curve from 79bps in mid-June to the current 98bps and may target 108bps. Fed is no longer the only champion of QE unwinding - ECB's Draghi and BOE's Carney are newcomers but confirmed that the next turn of events is for a more hawkish stance notwithstanding the soft inflation, but likely only in 2018.	↓
		SG: Our earlier call that the 2-year SGS is trading too tight to the 2-year UST has fared well, widening from 6bps to 16bps over the past month, but upside from here is limited at 20bps. With the backup in the 3-month SOR from a low of 0.64% on 22 June to around 0.91%, the spread to 3-month SIBOR is nearing its 1-year historical average. Next up is the 7-year SGS re-opening (issue size announcement on 20 July, with auction on 27 July for issue on 1 August). We see value emerging for the 15-year SGS around 2.4%.	↓

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Commodities	Our outlook for the US Federal Reserve to hike its rates three times this year should dull gold as a store of value and bring the yellow metal to \$1,200/oz. The over-supply glut in crude oil should 'rebalance' itself into 2017. We downgrade our call for WTI and Brent to touch \$55/bbl and \$57/bbl, respectively at end year.	Crude Oil: Futures rallied on lower US production amid start of the US driving season. A relatively weaker greenback provided further lift. Crude oil likely to point north into the month ahead as demand picks up.	→
		Crude Palm Oil: Downgraded our CPO outlook to MYR2,250/MT at year-end on rising supply. Seasonal demand to fade into July, while supplies to surge into 2H17.	↑
		Gold: Correlation between dollar and gold weakened into June. Geopolitical concerns took to the back-stage amid sustained rallies in global equities. FOMC rate hike and balance sheet reduction to likely happen into 2H17.	→
Credit	There was a distinct slowdown in primary markets during June 2017 compared to previous months, potentially due to investors taking a breather and considering the implications of the Fed balance sheet tapering. For the deals done in the SGD corporate bond space, it was perpetuals galore, consisting of half the deals done. Issuers have attempted to lock in rates lower for longer. That said there seems to be some signs of investor fatigue, with pushbacks against the more aggressive structures. Bank capital instruments have dominated headlines due to writedowns seen in bank resolutions in Europe. Heading into 3Q2017 earnings season could suppress issuance, supporting secondary trading given still benign liquidity considerations.	IG Pick: HSBC 4.7% PERPc22 (Offer YTC 4.4%): Baa3 rated paper at ~258bps. As the 7th largest bank globally by size, HSBC is classified as a systemically important bank. Size is the key strength for the business profile as it gives the bank scale and diversity which translates to earnings stability with a balanced earnings mix. Size adds complexity with recent results influenced by one-offs and litigation. Otherwise, underlying performance has been resilient to improve from stable revenues, expenses and lower impairments leading to improved earnings. Its financial position is solid with a strong funding profile. While capital requirements are rising due to its systemic importance, its current Holdco MREL is not far off from minimum 2022 requirement.	↑
		HY Pick: GGRSP 5.25% 27/04/28 (Offer YTM 4.01%): 1Q2017 underlying operating results has improved with overall EBITDA growing 29% to USD182.8mn, aided by recovery in palm production volumes. While weaker palm oil prices continue to weigh in on market sentiment for GGRSP's listed equity, in our view, GGRSP's credit profile has improved. This is premised on the company's stronger interest coverage and expectations that capex will taper off in FY2017. The bond only has 10 months to maturity and we think the softer CPO price outlook will pose a manageable impact to credit during this period. The current weakness in CPO prices is led by increase in volume rather than slump in demand. OCBC Commodities Research has lowered CPO price forecast to MYR2,250/MT by year end.	↑

Macroeconomic Views

	House View	Key Themes
US	Market is doubtful about the FOMC's ability to hike for the 3rd time this year amid its balance sheet unwinding intentions.	IMF cut US' 2017 growth to 2.1%, slightly lower than its April outlook, with the warning that with full employment a right policy mix is important for this stage in the cycle, and demographic trends and rising interest rates will lead to a steady increase in fiscal deficits and public debt in medium term.
EU	Market scrutiny on ECB remains intense, especially since policymakers keep up the normalisation rhetoric amid further green economic shoots. Uncertainties over Brexit negotiations have risen post-May's poor election outcome.	The IMF anticipates slightly firmer growth in Europe. This reinforces ECB's Draghi's change of heart that the central bank "can accompany the recovery by adjusting the parameters of its policy instruments – not in order to tighten the policy stance, but to keep it broadly unchanged". German 10-year bond yields have hit an 18-month high, but are likely to stay supported amid mixed but somewhat hawkish ECB rhetoric ahead of 20 July policy meeting.
Japan	BOJ is likely to hold off any premature discussion of an exit strategy as awaiting results of current monetary policy and avoid exit concerns.	With the global bond rout of late, JGB yields have also crept higher, but BOJ's operations to cap 10-year yield around 0.1% suggest it is not in any hurry to following the FOMC or even the ECB's footsteps. Economic prints have been mostly encouraging, with the Tankan readings pointing to a more upbeat outlook.

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Singapore	MTI tipped GDP growth is likely to be above 2% this year, but given a lack of demand-driven inflationary pressure, will maintain its neutral policy settings in October.	In its annual report, MAS sounded more upbeat, noting downside risks around baseline growth forecasts have declined, albeit tail risks arising from economic policy and geopolitical uncertainties persist, but it is not time yet to ease the property cooling measures as demand remains firm amid a continued low interest rate environment and the investors' global search for yield continues.
MA	BNM is content to look through recent inflation uptick for now.	Keep an eye on Malaysia's inflation, even if it is likely to head down from the highs market saw earlier this year. BNM signaled that inflation is supply side-driven and hence unlikely to hike rates. Note the potential for early election.
ID	BI is also on hold amid risks of inflation and currency volatility, and content to wait and see Fed rate hike impact.	BI to keep rates static for the rest of 2017, as it watches for inflationary risk and global currency volatility. Market on the lookout for signs that Fitch or Moody's may upgrade Indonesia further into investment grade after S&P's recent move.
China	China is likely to achieve its around 6.5% growth target in 2017. Given the escalating de-leverage campaign and deepening anti-corruption in financial sector; we expect growth to slow down gradually in the coming quarters.	China's policy makers scaled back its monetary tightening and regulatory tightening in June by injecting longer term liquidity and extending the deadline for banks' self check. The economy remains steady with PMI in June rebounded to 51.7. We expect the economy to grow by 6.7% in 2Q17. RMB remained stable in June ahead of launch of bond connect in July. China has showed the bias for stronger RMB in order to boost the support for bond connect.
Hong Kong	Public investment and private consumption may grow on fiscal stimulus and add onto strong exports in boosting GDP to grow 2.2% in 2017. Given a new wave of cooling measures, moderate housing correction is expected in 2H.	Housing transactions retreated by 18.8% mom in May. Given the increasing supply, higher borrowing costs and China's slowdown, housing price growth is likely to decelerate in 2H. Elsewhere, interest rate differential between the USD and HKD, rebound in RMB deposits and net capital flows from HK to China under the two stock connects, have led USDHKD to breach 7.8. With HIBOR gradually catching up with the US LIBOR, USDHKD may find resistance at 7.83.
Macau	High rollers' return may continue to be the major driver of growth in gaming sector. Policy risks could limit the gaming recovery. We believe that GDP will grow by about 8% in 2017.	Visitor arrivals increased for the third consecutive month in May. A slew of new hotel projects opened in the past two years have helped Macau to diversify its source of tourists. This is supportive to the mass-market segment of the gaming centres. As China's economic growth was stronger than expected, resilient VIP demand could underpin gross gaming revenue to grow by about 12% yoy in 2017.
Thailand	Growth to print between 3.3-3.5% in 2017. We downgrade our CPI outlook to 0.8% (down from 1.50%), and our BOT rate outlook to 1.50% (from 1.75%).	CPI growth tuned into its deflation territory in May, the first negative print since Mar 2016. Prices are dragged primarily by lower food prices (-1.38%), especially vegetable & fruit prices (-12.9%) Given an almost negligible concern over inflation risk, we downgrade our BOT rate call to 1.5%.
Korea	We pencil GDP growth at 2.5% while keeping our inflation outlook at 2.0% in 2017. BOK is likely to keep rates unchanged at 1.25% for the year.	Economic growth in 1Q17 was revised higher to 2.9% yoy, 1.1% qoqsa (from a 2.7% yoy flash print). This marks the fastest growth pace since 3Q15 where Korea grew 1.3% qoqsa then. Importantly, BOK governor Lee Ju-yeol hinted at a growth upgrade beyond its current 2.6% growth outlook in the upcoming Jul MPC.
Philippines	Slower 1Q17 GDP print and moderating price pressures may dissuade BSP from hiking. Upside risks to inflation remains, especially when the tax reform package comes into force.	Slow 1Q17 growth, coupled with fading inflation prints since April have led to fading odds for a BSP rate hike. However, the slowdown is largely transitory, and can be reversed when government spending picks up again in 2H. Price pressures may also reassert when tax reform package comes into force, and when infrastructure projects hits full swing.
Myan	Export sector may drive a slight lift-off in 2H17. Note increased emphasis on economic and business policies.	External environment has been benign, improvement in the commodity complex and decent economic performance from main trading partners. Underlying support for export sector present. Additional boost from the Myanmar-China oil pipeline.

FX/Rates Forecast

United States	3Q17	4Q17	1Q18	2Q18	3Q18
Fed Funds Target Rate	1.50%	1.50%	1.75%	2.00%	2.25%
Overnight rate	1.50%	1.56%	1.74%	1.92%	2.09%
1-month LIBOR	1.51%	1.57%	1.75%	1.93%	2.10%
2-month LIBOR	1.53%	1.58%	1.76%	1.94%	2.11%
3-month LIBOR	1.55%	1.60%	1.78%	1.95%	2.13%
6-month LIBOR	1.59%	1.70%	1.86%	2.03%	2.19%
12-month LIBOR	1.80%	1.85%	1.98%	2.11%	2.24%
1-year swap rate	1.50%	1.70%	1.87%	2.04%	2.21%
2-year swap rate	1.75%	1.82%	1.97%	2.11%	2.26%
3-year swap rate	1.89%	1.95%	2.14%	2.33%	2.51%
5-year swap rate	2.10%	2.20%	2.38%	2.55%	2.73%
10-year swap rate	2.33%	2.43%	2.59%	2.74%	2.90%
15-year swap rate	2.54%	2.55%	2.71%	2.88%	3.04%
20-year swap rate	2.64%	2.72%	2.87%	3.01%	3.16%
30-year swap rate	2.70%	2.75%	2.90%	3.04%	3.19%
Singapore	3Q17	4Q17	1Q18	2Q18	3Q18
1M SIBOR	0.92%	1.00%	1.08%	1.15%	1.23%
1M SOR	0.80%	0.87%	1.00%	1.14%	1.27%
3-month SIBOR	1.10%	1.25%	1.33%	1.40%	1.48%
3M SOR	0.88%	0.97%	1.13%	1.29%	1.44%
6-month SIBOR	1.38%	1.50%	1.58%	1.65%	1.73%
6M SOR	1.00%	1.08%	1.29%	1.49%	1.70%
12-month SIBOR	1.50%	1.60%	1.70%	1.80%	1.90%
1-year swap rate	1.10%	1.20%	1.34%	1.48%	1.61%
2-year swap rate	1.35%	1.44%	1.55%	1.66%	1.77%
3-year swap rate	1.50%	1.59%	1.70%	1.82%	1.93%
5-year swap rate	1.80%	1.90%	2.01%	2.13%	2.24%
10-year swap rate	2.27%	2.32%	2.44%	2.56%	2.68%
15-year swap rate	2.48%	2.50%	2.63%	2.75%	2.88%
20-year swap rate	2.58%	2.67%	2.77%	2.87%	2.97%
30-year swap rate	2.60%	2.70%	2.81%	2.93%	3.04%
Malaysia	3Q17	4Q17	1Q18	2Q18	3Q18
OPR	3.00%	3.00%	3.00%	3.25%	3.25%
MYR 1M KLIBOR	3.22%	3.25%	3.30%	3.35%	3.40%
MYR 3M KLIBOR	3.47%	3.50%	3.55%	3.60%	3.65%
MYR 6M KLIBOR	3.57%	3.60%	3.64%	3.67%	3.71%
MYR 9M KLIBOR	3.60%	3.62%	3.66%	3.70%	3.74%
MYR 12M KLIBOR	3.65%	3.66%	3.70%	3.73%	3.77%
1y IRS	3.54%	3.58%	3.64%	3.70%	3.75%
2y IRS	3.63%	3.73%	3.77%	3.82%	3.86%
3y IRS	3.70%	3.75%	3.83%	3.90%	3.98%
5y IRS	3.80%	3.85%	3.94%	4.03%	4.11%
10y IRS	4.09%	4.15%	4.21%	4.28%	4.34%

UST	3Q17	4Q17	1Q18	2Q18	3Q18
2 Year	1.50%	1.60%	1.70%	1.80%	1.90%
5 Year	1.98%	2.10%	2.28%	2.45%	2.63%
10 Year	2.34%	2.40%	2.55%	2.70%	2.85%
30 Year	2.94%	3.00%	3.11%	3.23%	3.34%
SGS	3Q17	4Q17	1Q18	2Q18	3Q18
2 Year	1.28%	1.37%	1.44%	1.52%	1.59%
5 Year	1.60%	1.70%	1.78%	1.85%	1.93%
10 Year	2.16%	2.25%	2.34%	2.43%	2.51%
15 Year	2.30%	2.35%	2.48%	2.60%	2.73%
20 Year	2.45%	2.55%	2.68%	2.80%	2.93%
30 Year	2.55%	2.65%	2.76%	2.88%	2.99%
MGS	3Q17	4Q17	1Q18	2Q18	3Q18
6 Month	3.13%	3.16%	3.18%	3.21%	3.23%
5 Year	3.65%	3.73%	3.77%	3.80%	3.84%
10 Year	3.95%	4.10%	4.15%	4.20%	4.24%
FX	Spot	2Q17	3Q17	4Q17	1Q18
USD-JPY	113.19	114.00	115.33	116.67	118.00
EUR-USD	1.1339	1.1650	1.1367	1.1083	1.0800
GBP-USD	1.2939	1.3200	1.2967	1.2733	1.2500
AUD-USD	0.7601	0.7750	0.7657	0.7563	0.7470
NZD-USD	0.7287	0.7450	0.7300	0.7150	0.7000
USD-CAD	1.2963	1.2800	1.2967	1.3133	1.3300
USD-CHF	0.9656	0.9435	0.9573	0.9712	0.9850
USD-SGD	1.3833	1.3700	1.3828	1.3957	1.4085
USD-CNY	6.8036	6.7473	6.8070	6.8679	6.9297
USD-THB	34.07	33.70	34.05	34.40	34.75
USD-IDR	13,382	13360	13383	13407	13430
USD-MYR	4.2993	4.2400	4.3142	4.3883	4.4625
USD-KRW	1,157	1160	1165	1170	1175
USD-TWD	30.58	30.600	30.900	31.200	31.500
USD-HKD	7.8075	7.8093	7.8129	7.8164	7.8200
USD-PHP	50.69	50.90	51.10	51.30	51.50
USD-INR	64.78	65.00	65.67	66.33	67.00
EUR-JPY	128.34	132.81	131.10	129.31	127.44
EUR-GBP	0.8763	0.8826	0.8766	0.8704	0.8640
EUR-CHF	1.0949	1.0992	1.0882	1.0764	1.0638
EUR-SGD	1.5685	1.5961	1.5718	1.5469	1.5212
GBP-SGD	1.7898	1.8084	1.7931	1.7771	1.7606
AUD-SGD	1.0514	1.0618	1.0588	1.0556	1.0521
NZD-SGD	1.0080	1.0207	1.0095	0.9979	0.9860
CHF-SGD	1.4325	1.4520	1.4445	1.4371	1.4299
JPY-SGD	1.2221	1.2018	1.1990	1.1963	1.1936
SGD-MYR	3.1080	3.0949	3.1198	3.1443	3.1683
SGD-CNY	4.9187	4.9250	4.9225	4.9209	4.9199

Macroeconomic Calendar

Date		Event		Survey	Revised	Prior
07/11/2017	IT	Industrial Production MoM	May	0.50%	-0.40%	--
07/12/2017	JN	PPI YoY	Jun	2.00%	2.10%	--
07/12/2017	UK	Jobless Claims Change	Jun	--	7.3k	--
07/12/2017	US	MBA Mortgage Applications	Jul-07	--	1.40%	--
07/12/2017	CA	Bank of Canada Rate Decision	Jul-12	0.75%	0.50%	--
07/13/2017	FR	CPI YoY	Jun F	0.70%	0.70%	--
07/13/2017	MA	BNM Overnight Policy Rate	Jul-13	3.00%	3.00%	--
07/13/2017	US	Initial Jobless Claims	Jul-08	245k	248k	--
07/13/2017	SK	BoK 7-Day Repo Rate	Jul-13	1.25%	1.25%	--
07/14/2017	JN	Industrial Production MoM	May F	--	-3.30%	--
07/14/2017	IT	CPI EU Harmonized YoY	Jun F	1.20%	1.20%	--
07/14/2017	US	CPI MoM	Jun	0.10%	-0.10%	--
07/14/2017	US	Retail Sales Advance MoM	Jun	0.10%	-0.30%	--
07/14/2017	US	U. of Mich. Sentiment	Jul P	95	95.1	--
07/17/2017	SI	Non-oil Domestic Exports YoY	Jun	--	-1.20%	--
07/17/2017	CH	GDP YoY	2Q	6.80%	6.90%	--
07/18/2017	NZ	CPI QoQ	2Q	--	1.00%	--
07/18/2017	UK	CPI MoM	Jun	--	0.30%	--
07/18/2017	UK	CPI YoY	Jun	--	2.90%	--
07/18/2017	EC	CPI YoY	Jun F	--	1.40%	1.40%
07/18/2017	GE	ZEW Survey Current Situation	Jul	--	88	--
07/18/2017	GE	ZEW Survey Expectations	Jul	--	18.6	--
07/19/2017	US	MBA Mortgage Applications	Jul-14	--	--	--
07/20/2017	AU	Employment Change	Jun	--	42.0k	--
07/20/2017	AU	Unemployment Rate	Jun	--	5.50%	--
07/20/2017	EC	ECB Main Refinancing Rate	Jul-20	--	0.00%	--
07/20/2017	US	Initial Jobless Claims	Jul-15	--	--	--
07/21/2017	CA	CPI YoY	Jun	--	1.30%	--
07/24/2017	SI	CPI YoY	Jun	--	1.40%	--
07/25/2017	GE	IFO Business Climate	Jul	--	115.1	--
07/25/2017	US	Conf. Board Consumer Confidence	Jul	118	118.9	--
07/26/2017	IT	Manufacturing Confidence	Jul	--	107.3	--
07/26/2017	UK	GDP QoQ	2Q A	--	0.20%	--
07/26/2017	UK	GDP YoY	2Q A	--	2.00%	--
07/26/2017	US	MBA Mortgage Applications	Jul-21	--	--	--
07/27/2017	US	FOMC Rate Decision (Upper Bound)	Jul-26	1.25%	1.25%	--
07/27/2017	SK	GDP YoY	2Q P	--	2.90%	--
07/27/2017	US	Durable Goods Orders	Jun P	2.50%	-0.80%	--
07/27/2017	US	Initial Jobless Claims	Jul-22	--	--	--
07/28/2017	JN	Jobless Rate	Jun	--	3.10%	--
07/28/2017	FR	CPI YoY	Jul P	--	--	--
07/28/2017	US	GDP Annualized QoQ	2Q A	2.50%	1.40%	--
07/28/2017	US	U. of Mich. Sentiment	Jul F	--	--	--
07/31/2017	JN	Industrial Production MoM	Jun P	--	--	--
07/31/2017	IT	CPI EU Harmonized YoY	Jul P	--	--	--

Source: Bloomberg

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