

## Research Monitor (June)

Monday, June 05, 2017

### Asset Class Views

	House View	Trading Views	
FX	Near term dollar vulnerability may remain a staple despite a June FOMC rate hike essentially priced in. A caveat to watch would be the seemingly uneasy alliance between inherent dollar weakness, a re-assessment of cyclical trades within G10, but still sanguine risk appetite levels in EM/Asia.	<b>GBP-USD:</b> 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)	↑
		<b>AUD-USD:</b> Possible wobbling of the global reflation trade. (Initiation date: 16 May 2017, Spot ref: 0.7407, Target: 0.6890, Stop: 0.7670)	↓
		<b>EUR-USD:</b> Reversal of political risk premiums in Europe after Macron's victory. Disappointing US data releases. (Initiation date: 17 May 2017, Spot ref: 1.1120, Target: 1.1320, Stop: 1.1015)	↑
		<b>USD-CAD:</b> Sanguine risk appetite and crude prices supporting CAD. Broad USD skepticism. (Initiation date: 23 May 2017, Spot ref: 1.3489, Target: 1.3265, Stop: 1.3605)	↓
		<b>USD-SGD:</b> Supportive environment for Asian portfolio inflows, broad USD skepticism. (Initiation date: 23 May 2017, Spot ref: 1.3489, Target: 1.3265, Stop: 1.3605)	↓
		<b>USD-JPY:</b> Overall weak USD disposition. (Initiation date: 1 Jun 2017, Spot ref: 111.00, Target: 108.60, Stop: 112.25)	↓
Rates	FOMC's Jun hike is a done deal but market uncertainty about future trajectory and balance sheet tapering to sustain, especially with Trump increasingly looking like a lame-duck president on fiscal stimulus. EM Asia remain well positioned on strong 1H17 macro-fundamentals and newsflow, unlike Latam where Brazilian volatility remains. However, Moody's rating downgrades of China and HK re-emphasize near-term pressure on market sentiments.	<b>US:</b> Geopolitical concerns have ebbed, albeit not for US president Trump's FBI/Russia woes. Trump's budget risks being dead-on-arrival. In Jun, watch FOMC balance sheet adjustment and dots graph trajectory, while market speculation is for ECB to shift from dovish to neutral stance. The 2004 rate hike cycle experience suggests 3-20 UST steepener plays may suffer as ultra-long issuance is not immediately forthcoming. 2y UST-IRS should narrow from current 24bps to below 10bps (as per Dec 15 & 16).	↓
		<b>SG:</b> As we anticipated, 2-30 year SGS yield curve has steepened around 9bps last month with the upcoming 30-year SGS re-opening. Prefer the belly of the SGS yield curve as the only remaining long-dated supply is a 15-year SGS in Sep, but 2-year SGS is trading too tight to 2-year UST. Short-term interest rates remain steady with MAS holding neutral monetary policy for extended period.	↓

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Commodities	<p>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.</p> <p>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.</p>	<b>Crude Oil:</b> Expect range-trading behavior as market-watchers tune back to headline watching. Recent news of higher Libyan oil production and disappointment from the OPEC meeting may drag prices lower, though upside demand risk into summer may cushion price downside.	→
		<b>Crude Palm Oil:</b> Some support in palm oil prices may be seen given the fasting and feasting month of Ramadan. Beyond that, further climb in production should continue to drag prices to our MYR2,650/MT outlook.	↑
		<b>Gold:</b> Markets appear to favor gold as a safe haven asset for now, despite the likely FOMC rate hike in the third week of Jun. For Jun, until more clarity is found on the geopolitical front, gold may stay supported above its \$1,250/oz.	→
Credit	<p>YTD SGD corporate issuance volumes continue to trail 2016 with the lack of supply and ample market liquidity compressing spreads. The breadth of issuers taking advantage continues to expand with well-known repeat names, smaller higher yielding issuers and new issuers in the SGD space. Although the strong technical environment in the Asia Dollar space is losing steam and SGD valuations are looking stretched, profit taking remains constrained by the lack of supply. However, HSBC's SGD1.0bn AT1 issue could pull the market through another healthy month of issuance.</p>	<b>IG Pick: BAERVX 5.9% PERPc20 (Offer YTC 4.6%):</b> Baa3 rated paper at ~300bps. Recent margin compression from higher investment is starting to pay off with AuM growth from both market performance and net inflows leading to improved operating income and gross margin recovery for the 4 months ended 30 Apr 2017.	↑
		<b>EM Pick: LMRTSP 4.1% 22/06/20 (Offer YTM 3.9%):</b> 1Q2016 results were strong, with revenue boosted by higher rents on stronger rental reversions (+7.5%). NPI increased faster due to tweaks to the operations of its carparks. Portfolio occupancy remains strong at 94%. Aggregate leverage remains healthy at 32%, though it is likely that LMRT's sponsor, Lippo Karawaci, will continue to inject retail assets into the trust. Consumer confidence continues to be strong in Indonesia, which could support the near-term performance of LMRT's retail mall assets.	↑

### Macroeconomic Views

	House View	Key Themes
US	US growth still looks healthy, albeit not at the 3% sustainable growth forecast assumed in Trump's 2018 \$4.1trillion Budget proposal.	The Atlanta Fed's GDP nowcast tips 2Q17 growth at 4.1% (as of 16 May), suggesting that the 1Q soft patch was temporary. With unemployment rate already at 4.4% in Apr, any hints of wage inflation would be a concern. Hopes for a big fiscal lift has subsided amid a likely clash Trump's first budget proposal.
EU	Market scrutiny on ECB remains intense into Jun. Brexit negotiations are potentially acrimonious, but investors are focusing on strength of the economic upswing in Eurozone, especially for Germany (note Merkel had opined euro as too weak).	Markets looking for some tweak at 8 Jun ECB meeting – balance of risks to growth may tilt to neutral, but forward guidance may lag given lack of inflation conviction. Exit strategy expectations are likely to sustain, with possible clarity by Sep. Whether the UK elections (8 Jun) will be a game-changer is yet to be seen, but the potential for acrimonious Brexit negotiations remain. Contrast this with the 11-18 Jun French elections where Macron's agenda is likely to be well-received.
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.	Japan grew by for a 5 <sup>th</sup> straight quarter, the longest streak in a decade, amid sustained export strength and recovering domestic demand. BOJ's Kuroda admitted that the pace of BOJ bond purchases has been below its guideline, but remains committed to continuing current monetary policy and 2% inflation target.
Singapore	MTI tipped GDP growth is likely to be above 2% this year, even though it maintained its 1-3% full-year GDP growth forecast. This is in line with our 2017 growth forecast of 2.5%.	1Q17 GDP growth was revised up to 2.7% yoy (-1.3% qoq saar), up from the earlier estimate of 2.5% yoy (-1.9% qoq saar), as manufacturing was revised up to 8.0% yoy. IESingapore also upgraded its 2017 NODX forecast again from 0-2% to 4-6%, after 15.2% yoy surge in 1Q17. MAS reiterated that assessment of GDP growth and CPI inflation is essentially unchanged from the Apr MPS.

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Malaysia	BNM is content to look through recent inflation uptick for now.	Some attention will be lingering on Malaysia's inflation print, even if it is likely to head down from the highs market saw earlier in the year. For its part, BNM has signaled that the inflation is supply side-driven and hence is unlikely to hike rates.
Indonesia	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 policy rates static for the rest of 2017, as it watches for risk of inflationary pressure domestically and global currency volatility. Meanwhile, market will be increasingly on the lookout for any sign that either Fitch or Moody's may inch closer to upgrading 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.	De-leveraging continued to top China's policy priority, which led to the rising volatility in both equity and bond markets. On a positive note, it seems that PBoC is taking a backseat and has softened its tone on monetary tightening in late May. The turnaround of PBoC's policy tone may bolster sentiments again in the near term. In addition, RMB unexpectedly soared in late May as a result of state intervention and a fine-tuning of the RMB fixing mechanism. We think China may prefer a stronger RMB amid dollar weakness.
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.	GDP growth accelerated to print 4.3% yoy in 1Q 2017, the fastest pace since 2Q 2011. The robust growth was owed to private consumption (+3.7% yoy), government expenditure (+3.7% yoy), public investment (+18% yoy), exports of goods (+9.2% yoy) and private investment in building and construction (+5.3% yoy). However, a likely correction in the housing market, China's slowdown and the ebbing base effect may decelerate GDP growth from 2Q onwards.
Macau	High rollers' return may continue to be the major driver of growth in gaming sector. China's slowdown and policy risks could limit the gaming recovery. We believe that GDP will grow by about 5% in 2017.	GDP expanded by 10.3% yoy in 1Q amid improvement in pillar industries. Gross gaming revenue continued to outperform due to strong VIP demand. The lowered expectations of a stronger MOP may offset the impact of the high costs of visiting Macau and continue to support the tourism sector and the mass-market segment of the gaming sector..
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	A positive growth outlook and emerging inflationary pressures keep the door open for a rate hike in 2H17. Room for PHP to play catch-up after lagging other Asian counterparts in 2017.	First quarter GDP came in at 6.4% yoy (+1.1% qoq sa), below expectations. Government spending was weaker than expected, with Apr's budget balance printing a surplus of PHP52.8b. Martial law imposed over Mindanao due to terror attacks in Marawi City. Look out for possible escalation and spreading of violence to Luzon and Visayas. However, this is not the base case presently.
Myanmar	Continue to look for increased emphasis on economic and business policies as the NLD starts its second year in office.	Expectations for a quickened pace of reforms in the economic and business space in the NLD government's 2 <sup>nd</sup> year in office has somewhat faded. Sporadic unrest in Yangon between Buddhist monks and Muslims not expected to have significant impact on business sentiments.

## FX/Rates Forecast

United States	3Q17	4Q17	1Q18	2Q18	3Q18
Fed Funds Target Rate	1.50%	1.50%	1.50%	1.75%	2.00%
Overnight rate	1.40%	1.53%	1.72%	1.90%	2.09%
1-month LIBOR	1.51%	1.56%	1.74%	1.92%	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	1.84%	1.85%	1.99%	2.13%	2.26%
1-year swap rate	1.50%	1.85%	2.00%	2.14%	2.29%
2-year swap rate	1.75%	1.90%	2.08%	2.25%	2.43%
3-year swap rate	1.89%	2.00%	2.18%	2.35%	2.53%
5-year swap rate	2.10%	2.20%	2.38%	2.55%	2.73%
10-year swap rate	2.33%	2.43%	2.61%	2.80%	2.98%
15-year swap rate	2.54%	2.65%	2.81%	2.98%	3.14%
20-year swap rate	2.64%	2.72%	2.88%	3.04%	3.19%
30-year swap rate	2.70%	2.75%	2.93%	3.10%	3.28%
Singapore	3Q17	4Q17	1Q18	2Q18	3Q18
1M SIBOR	0.92%	1.00%	1.13%	1.25%	1.38%
1M SOR	0.75%	1.05%	1.19%	1.33%	1.46%
3-month SIBOR	1.10%	1.25%	1.33%	1.40%	1.48%
3M SOR	1.15%	1.35%	1.45%	1.55%	1.65%
6-month SIBOR	1.38%	1.50%	1.58%	1.65%	1.73%
6M SOR	1.25%	1.55%	1.68%	1.80%	1.93%
12-month SIBOR	1.50%	1.60%	1.73%	1.85%	1.98%
1-year swap rate	1.30%	1.65%	1.78%	1.92%	2.05%
2-year swap rate	1.50%	1.80%	1.94%	2.08%	2.21%
3-year swap rate	1.65%	1.90%	2.04%	2.19%	2.33%
5-year swap rate	1.95%	2.10%	2.25%	2.40%	2.55%
10-year swap rate	2.40%	2.49%	2.62%	2.75%	2.87%
15-year swap rate	2.52%	2.60%	2.75%	2.90%	3.05%
20-year swap rate	2.60%	2.70%	2.86%	3.03%	3.19%
30-year swap rate	2.66%	2.80%	2.96%	3.13%	3.29%
Malaysia	3Q17	4Q17	1Q18	2Q18	3Q18
OPR	3.00%	3.00%	3.00%	3.25%	3.25%
MYR 1M KLIBOR	3.22%	3.25%	3.33%	3.40%	3.48%
MYR 3M KLIBOR	3.47%	3.50%	3.58%	3.65%	3.73%
MYR 6M KLIBOR	3.57%	3.60%	3.68%	3.75%	3.83%
MYR 9M KLIBOR	3.60%	3.62%	3.70%	3.79%	3.87%
MYR 12M KLIBOR	3.65%	3.66%	3.75%	3.83%	3.92%
1y IRS	3.65%	3.70%	3.78%	3.87%	3.95%
2y IRS	3.70%	3.75%	3.84%	3.93%	4.01%
3y IRS	3.75%	3.80%	3.94%	4.08%	4.21%
5y IRS	3.85%	3.90%	4.08%	4.25%	4.43%
10y IRS	4.15%	4.20%	4.34%	4.48%	4.61%

UST	3Q17	4Q17	1Q18	2Q18	3Q18
2 Year	1.50%	1.60%	1.80%	2.00%	2.20%
5 Year	2.02%	2.10%	2.28%	2.45%	2.63%
10 Year	2.32%	2.40%	2.55%	2.70%	2.85%
30 Year	2.95%	3.00%	3.11%	3.23%	3.34%
SGS	3Q17	4Q17	1Q18	2Q18	3Q18
2 Year	1.28%	1.40%	1.55%	1.70%	1.85%
5 Year	1.90%	2.00%	2.06%	2.13%	2.19%
10 Year	2.16%	2.25%	2.35%	2.45%	2.55%
15 Year	2.35%	2.45%	2.59%	2.73%	2.86%
20 Year	2.45%	2.55%	2.68%	2.80%	2.93%
30 Year	2.55%	2.65%	2.78%	2.90%	3.03%
MGS	3Q17	4Q17	1Q18	2Q18	3Q18
6 Month	3.15%	3.20%	3.21%	3.23%	3.24%
5 Year	3.65%	3.73%	3.81%	3.89%	3.97%
10 Year	3.95%	4.10%	4.19%	4.28%	4.37%
FX	Spot	2Q17	3Q17	4Q17	1Q18
USD-JPY	111.50	110.50	110.62	112.64	114.66
EUR-USD	1.1219	1.1360	1.1367	1.1117	1.0867
GBP-USD	1.2866	1.2825	1.3033	1.2683	1.2333
AUD-USD	0.7381	0.7335	0.7268	0.7216	0.7164
NZD-USD	0.7079	0.7150	0.7122	0.7039	0.6956
USD-CAD	1.3535	1.3400	1.3658	1.3711	1.3764
USD-CHF	0.9714	0.9647	0.9631	0.9769	0.9908
USD-SGD	1.3862	1.3810	1.3811	1.3949	1.4088
USD-CNY	6.8204	6.7916	6.7530	6.8635	6.9386
USD-THB	34.15	34.00	34.02	34.39	34.76
USD-IDR	13315	13309	13299	13356	13412
USD-MYR	4.2805	4.3070	4.2489	4.3356	4.4222
USD-KRW	1122	1110	1108	1131	1154
USD-TWD	30.120	30.150	30.033	30.583	31.133
USD-HKD	7.7931	7.7926	7.7946	7.7966	7.7987
USD-PHP	49.51	49.50	49.62	50.14	50.66
USD-INR	64.47	64.20	64.07	65.17	66.27
EUR-JPY	125.09	125.53	125.74	125.22	124.59
EUR-GBP	0.8720	0.8858	0.8721	0.8765	0.8811
EUR-CHF	1.0898	1.0959	1.0947	1.0860	1.0766
EUR-SGD	1.5552	1.5688	1.5699	1.5507	1.5309
GBP-SGD	1.7835	1.7711	1.8000	1.7693	1.7375
AUD-SGD	1.0232	1.0129	1.0038	1.0066	1.0093
NZD-SGD	0.9813	0.9874	0.9837	0.9819	0.9799
CHF-SGD	1.4270	1.4315	1.4340	1.4279	1.4219
JPY-SGD	1.2432	1.2497	1.2485	1.2384	1.2287
SGD-MYR	3.0879	3.1188	3.0764	3.1080	3.1390
SGD-CNY	4.9202	4.9180	4.8895	4.9203	4.9253

**Macroeconomic Calendar**

Date		Event		Survey	Revised	Prior
06/06/2017	AU	RBA Cash Rate Target	Jun-06	1.50%	--	1.50%
06/07/2017	IN	RBI Repurchase Rate	Jun-07	6.25%	--	6.25%
06/07/2017	IN	RBI Reverse Repo Rate	Jun-07	6.00%	--	6.00%
06/08/2017	JN	GDP SA QoQ	1Q F	--	--	0.50%
06/08/2017	JN	BoP Current Account Balance	Apr	--	--	¥2907.7b
06/08/2017	EC	ECB Main Refinancing Rate	Jun-08	--	--	0.00%
06/08/2017	EC	ECB Deposit Facility Rate	Jun-08	--	--	-0.40%
06/08/2017	US	Initial Jobless Claims	Jun-03	--	--	--
06/08/2017	UK	General Elections	--	--	--	--
06/09/2017	CH	CPI YoY	May	1.40%	--	1.20%
06/09/2017	FR	Industrial Production MoM	Apr	--	--	2.00%
06/09/2017	CA	Unemployment Rate	May	--	--	6.50%
06/11/2017	FR	Legislative Elections Round 1	--	--	--	--
06/13/2017	UK	CPI YoY	May	--	--	2.70%
06/13/2017	GE	ZEW Survey Expectations	Jun	--	--	20.6
06/14/2017	JN	Industrial Production MoM	Apr F	--	--	4.00%
06/14/2017	UK	ILO Unemployment Rate 3Mths	Apr	--	--	4.60%
06/14/2017	US	CPI MoM	May	0.00%	--	0.20%
06/15/2017	US	FOMC Rate Decision	Jun-14	1.25%	--	1.00%
06/15/2017	NZ	GDP SA QoQ	1Q	--	--	0.40%
06/15/2017	AU	Employment Change	May	--	--	37.4k
06/15/2017	AU	Unemployment Rate	May	--	--	5.70%
06/15/2017	UK	Bank of England Bank Rate	Jun-15	--	--	0.25%
06/15/2017	UK	BOE Corporate Bond Target	Jun	--	--	10b
06/15/2017	US	Initial Jobless Claims	Jun-10	--	--	--
06/16/2017	EC	CPI YoY	May F	--	1.90%	1.90%
06/16/2017	JN	BOJ Policy Balance Rate	Jun-16	--	--	-0.10%
06/18/2017	FR	Legislative Elections Round 2	--	--	--	--
06/19/2017	HK	Composite Interest Rate	May	--	--	0.32%
06/20/2017	AU	RBA June Rate Mtg Minutes	--	--	--	--
06/22/2017	NZ	RBNZ Official Cash Rate	Jun-22	1.75%	--	1.75%
06/22/2017	TA	CBC Benchmark Interest Rate	Jun-22	--	--	1.38%
06/22/2017	PH	BSP Overnight Borrowing Rate	Jun-22	--	--	3.00%
06/22/2017	PH	BSP Overnight Dep Facil Rate	Jun-22	--	--	2.50%
06/22/2017	US	Initial Jobless Claims	Jun-17	--	--	--
06/23/2017	SI	CPI YoY	May	--	--	0.40%
06/23/2017	CA	CPI YoY	May	--	--	1.60%
06/26/2017	GE	IFO Business Climate	Jun	--	--	114.6
06/27/2017	IT	Manufacturing Confidence	Jun	--	--	106.9
06/27/2017	MU	Unemployment Rate	May	--	--	2.00%
06/29/2017	HK	Retail Sales Value YoY	May	--	--	--
06/29/2017	US	GDP Annualized QoQ	1Q T	--	--	1.20%
06/29/2017	US	Initial Jobless Claims	Jun-24	--	--	--
06/30/2017	JN	Jobless Rate	May	--	--	2.80%
06/30/2017	JN	Industrial Production MoM	May P	--	--	--
06/30/2017	UK	GDP QoQ	1Q F	--	--	0.20%
06/30/2017	UK	GDP YoY	1Q F	--	--	2.00%

Source: Bloomberg, OCBC

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