SGS REVIEW & STRATEGY

OCBC Bank

Prepared by Treasury Research & Strategy

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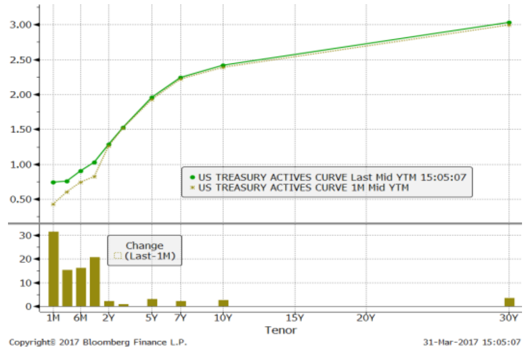
Your monthly guide on trend and outlook for Singapore government securities

Fundamental Highlights

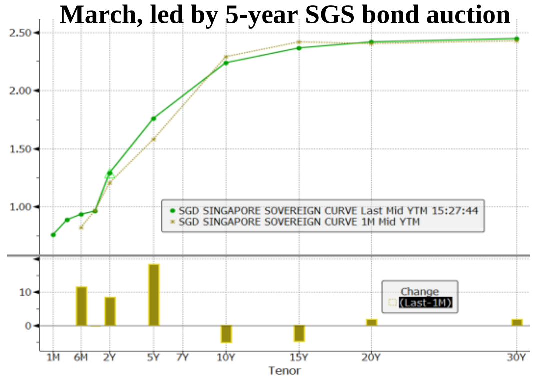
April showers before May flowers?

With the March FOMC rate hike coupled with no significant changes to the FOMC statement or median dots graph (ie. "dovish hike") and president Trump's failure to get his American Healthcare Act pass in the House of Representatives, markets were left with few fresh catalysts going into the quarter-end. While Trump is refocusing on his tax reform plans, it remains to be seen if he will gain better traction this time. Fed rhetoric also suggests no consensus to go beyond two more rate hikes this year, with Rosengren and Williams preferring more, but Fischer and Bullard thinking otherwise. Meanwhile, UK PM May has formally triggered Article 50 while the Dutch elections went smoothly. Looking ahead, Trump's impending meeting with China's Xi will be closely watched, given he has initiated a trade abuse study to find "cheating or inappropriate behaviour". France goes to the polls on 23 April, with a subsequent run-off on 7 May with Macron and Le Pen leading. ECB and BOJ are both meeting on 27 April, so any suggestions of retreating from their currently dovish stance could whipsaw markets.

Shorter-dated USD bills reacted more to FOMC hike in March, whereas UST bonds round-tripped.



The SGS bond curve bear-flattened in March, led by 5-year SGS bond auction

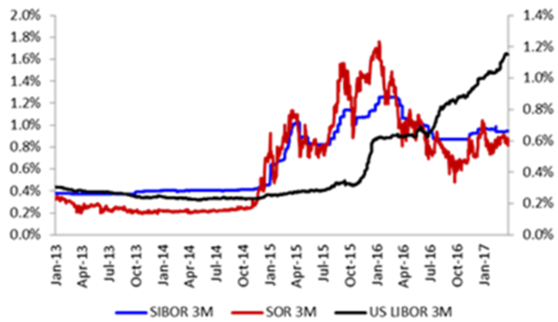


SGS Review and Outlook

More green shoots for the S'pore economy in 1Q17.

Bank loans growth accelerated to nearly double from 2.8% yoy (-0.04% mom) in Jan to 5.2% yoy (1.7% mom) in Feb 2017, marking the strongest yoy surge since Dec14 but also likely skewed the low base last year. Business loans grew for the third straight month by 6.4% yoy (2.7% mom) in Feb which is the strongest pace since Nov14. This was led by loans to business services (up for the fifth consecutive month by 25.2% yoy which is also the highest since Jul14) and financial institutions (growing for the eight straight month by 20.9% which is the fastest since Jul14). Interestingly, loans to general commerce also turned positive (+6.7% yoy) for the first time since Dec14, which if sustained could herald green shoots for regional trade activities. Consumer loans also picked up from 3.1% yoy in Jan to 3.6% yoy (0.2% mom) in Feb, as housing loans remained very resilient (+4.0% yoy). Developers had sold 977 units in Feb (highest since 2012) versus 382 units in Jan, according to URA data. This uptick in buying momentum came after the government recently recalibrated some of the property cooling measures on 10 Mar. For Jan-Feb17, bank loans growth averaged 4% yoy. We tip full-year 2017 loans growth at 7% yoy. It is premature to read the recent reversion to the stronger side of the SGD NEER band as a harbinger for a return to a mild appreciation slope at the April MPS, as growth-inflation dynamics remain within policymakers' comfort zones. The new $2.6b 5-year SGS bond auction fetched an average yield of 1.65% with a 10bp tail to cut-off at 1.75% and a bid-cover ratio of 1.9x. Next up is a 30-year SGS bond re-opening on 1Jun17.

The 3-month SOR and SIBOR largely ignored the March FOMC rate hike.



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