

August 2018

Your monthly guide on trend and outlook for Singapore government securities

Fundamental Highlights

Risk appetite continues to wax and wane.

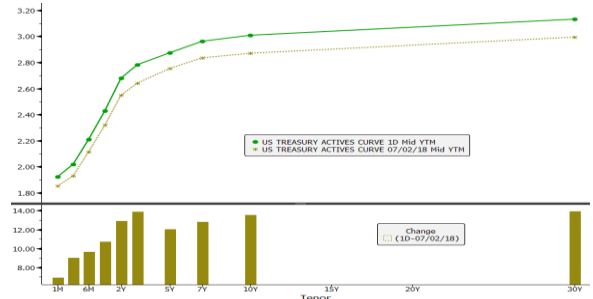
While the US and Eurozone recently agreed to suspend new tariffs, and US-China trade talks are restarting were positive developments, this was partly offset by Qualcomm's aborted \$44b bid for NXP Semiconductors due to China's absent green-light as well as the threat that the Trump administration is considering raising the 10% tariffs for the \$200 billion of Chinese imports to 25%. As such, trade doldrums are likely to persist in August. Regional manufacturing PMIs are already reflecting some softness amid the ongoing uncertainties. The FOMC is still tipped to hike in September, and keep its options open for a fourth hike in December 2018 awaiting inflation cues. While China's 2Q18 GDP growth eased slightly from 6.8% yoy in 1Q to 6.7%, recent domestic policy easing measures suggest that policymakers are cognizant of the downside growth risks in 2H18. The proactive fiscal measures in particular have injected new life into the Chinese onshore market at a time when global bond markets are grappling with the ECB ending its asset purchase program by end-2018 and the BOJ introduction of flexibility/forward guidance. BOJ-induced volatility and the Treasury refunding plans of \$78b for 3Q are likely to limit the UST flattening bias for now.

SGS Review and Outlook

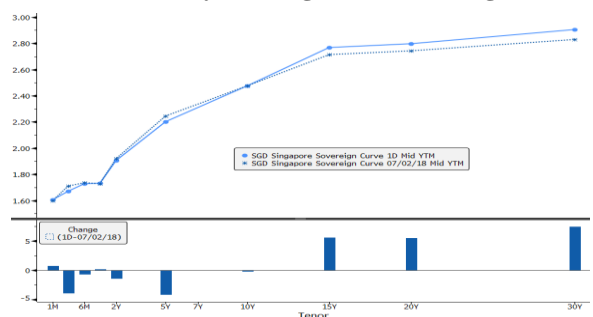
Services (not manufacturing) is in the driver seat.

The latest business expectations survey showed that a net 7% of manufacturers in S'pore anticipate a more favourable business prospects in 2H18 (previously 13%), with all except the chemicals cluster seeing better business prospects. The most upbeat were the transport engineering cluster (+22%), electronics (+10%), biomedical (+6%) and precision engineering (+6%). However, the services sector survey revealed that a net weighted 9% of firms are more upbeat for 2H18 (previously 8%), led by accommodation (+38%), F&B services (+37%) due to the upcoming year-end holidays and festive season, followed by business services excluding real estate (+17%) and financial & insurance (+14%) whereas the real estate was the sole laggard after the recent cooling measures. Meanwhile, bank loans growth unexpectedly accelerated from 5.5% yoy (0.1% mom) in May to 5.9% yoy (0.8% mom) in June, driven by business loans, but the recent property cooling measures may weigh on mortgage loans ahead. The S'pore economy should see momentum moderate from 3.8% yoy (1.0% qoq saar) in 2Q18 into 2H18, but with MAS core inflation likely to cross the 2% handle as early as August, the option remains on the table for a further modest tightening at the October MPS. IMF had opined in its Article IV consultation that a Taylor-type rule suggests a gradual appreciation of NEER parity by 1.5% by end-2019. SGS bonds may range trade ahead of the 2-year SGS bond re-opening on 3 Sep.

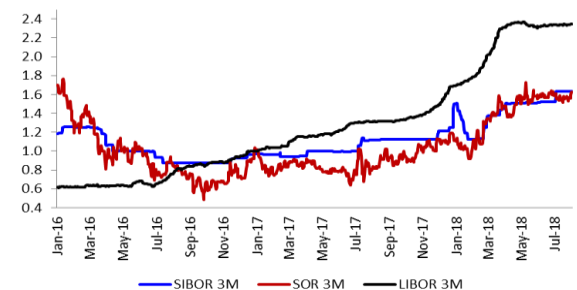
The UST bond yields rose by up to 14bps in July, but the 2-10 curve was unchanged at 32bps.



In contrast, the SGS bonds outperformed the UST, with only the longer-tenors selling off.



The 3-month SIBOR and SOR have edged up to ~1.62% and are still biased higher from here.



Source: Bloomberg, OCBC

Group Treasury

Treasury Research & Strategy

Selena Ling

(65) 6530 4887

Lingssselena@ocbc.com.sg

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