

January 2016

Your monthly guide on trend and outlook for Singapore government securities

Fundamental Highlights

A choppy start to 2016 as China-centric risks prevailed.

While financial markets did not experience another “taper tantrum” when the Fed hiked rates in mid-Dec 2015, nevertheless the litmus test was always what happens when market players return to start 2016. As it turns out, weak manufacturing data from China and US, coupled with escalation of tensions between Saudi Arabia and Iran, were sufficient to send equity markets into flight mode on the first trading day. Looking ahead, it may still be an uphill challenge for policy-makers to sooth rattled financial markets that monetary policies will remain largely accommodative in the face of the Fed’s determination to normalize US interest rates. China is also likely to impart continued economic uncertainty and market volatility, especially to Asian economies. The battle of wills is clearest in the divergence of market pricing of US rate hikes vis-à-vis FOMC median dots graph. However, we would hesitate to put our bets on a replay of the 2015 economic narrative where the Fed is forced to put rate hikes on hold due to external crises in China or Europe for instance or even domestic stock market routs. The next FOMC rate hike could come as early as Mar16, while the 26 Jan FOMC meeting could set the stage as such. The economic health in Europe is improving, notwithstanding the migrant crisis, whereas tail risks in China continued to weigh.

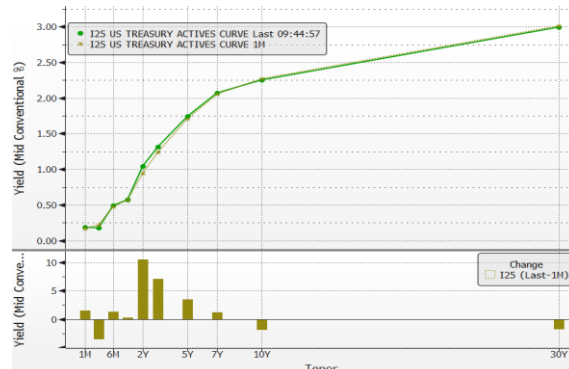
SGS Review and Outlook

4Q15 GDP growth surprised on upside, but 2016 outlook remains intact at 2-3% with weak manufacturing.

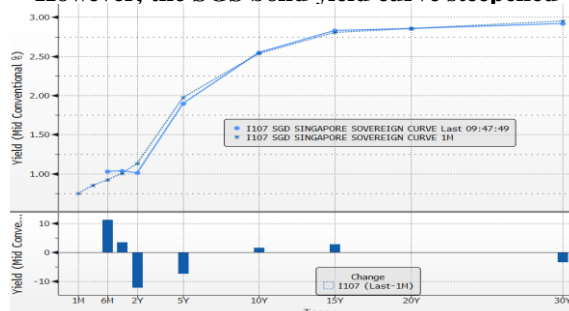
A better than anticipated outcome from the flash 4Q15 GDP growth estimates at +2.0% yoy (+5.7% qoq saar) which lifted full-year growth to 2.1% yoy in 2015 (2014: 2.9%) does not fundamentally change expectations for 2-3% growth for 2016, with manufacturing to remain soft in 1Q16. Services continued to do the heavy lifting, having expanded by 3.6% last year, followed by construction at +1.1%, whereas manufacturing saw its worst performance since 2001 with -4.8%. So far, the leading indicators do not suggest any newfound optimism is in order – the manufacturing and electronics PMI remained in contraction territory at 49.5 and 48.9 respectively in Dec. Bank loans fell again for the second straight month by 0.7% yoy in Nov15, dragged down by business loans which shrank for the third straight month. Headline CPI is also likely to stay negative in 1H16 before edging back to positive territory as low oil price base effects dissipate.

The 2016 SGS issuance calendar will kick off with the 5-year re-opening on 1 Feb, with the announcement on 20 Jan and auction on 27 Jan. There is a total of \$15b SGS bonds maturing this year, comprising of \$7.3b 5-year bonds in April and \$7.7b 15-year bonds in Sep. Keep an eye on the short-term SGD interest rates in the interim – both 3-month SIBOR and SOR have risen to their respective Nov08 levels, and may continue to be pressured by soft fundamentals and implied SGD weakness underpinned by the FOMC monetary policy normalization. Our end-16 forecasts are for the two to cross the 2% handle.

US Treasury bond market – flattening bias with Fed’s first rate hike in mid-Dec 2015



However, the SGS bond yield curve steepened



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Indicative SGS prices as at 4 January 2016

Issue	Maturity	Coupon	Bid Price	Ask Price	Bid Yield (%)	Ask Yield (%)
N511100W	1.13%	Apr-16	100.05	100.09	0.90%	0.72%
NY01100F	3.75%	Sep-16	101.88	101.92	0.80%	0.74%
N710100Z	2.38%	Apr-17	101.87	101.91	0.84%	0.80%
N215100F	1.38%	Oct-17	100.56	100.64	1.05%	1.00%
N513100T	0.50%	Apr-18	98.52	98.62	1.18%	1.13%
NY03100A	4.00%	Sep-18	107.05	107.15	1.28%	1.24%
NX09100W	2.50%	Jun-19	103.12	103.22	1.55%	1.52%
N514100H	1.63%	Oct-19	99.89	99.99	1.66%	1.63%
N515100S	2.00%	Jul-20	100.35	100.55	1.92%	1.87%
NY05100N	3.25%	Sep-20	105.79	105.89	1.94%	1.92%
NX11100X	2.25%	Jun-21	100.42	100.62	2.17%	2.13%
NY07100X	3.13%	Sep-22	104.87	105.07	2.33%	2.30%
NX13100H	2.75%	Jul-23	101.95	102.15	2.46%	2.43%
NY09100H	3.00%	Sep-24	103.67	103.87	2.52%	2.50%
NX15100Z	2.38%	Jun-25	98.34	98.54	2.57%	2.55%
NZ07100S	3.50%	Mar-27	107.85	108.15	2.68%	2.65%
NY14100E	2.88%	Jul-29	100.77	101.07	2.81%	2.78%
NZ10100F	2.88%	Sep-30	100.12	100.42	2.86%	2.84%
NZ13100V	3.38%	Sep-33	106.44	106.84	2.91%	2.88%
NA12100N	2.75%	Apr-42	95.96	96.56	2.97%	2.94%

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