

February 2016
Your monthly guide on trend and outlook for Singapore government securities

Fundamental Highlights

Central banks to the rescue of markets in January 2016

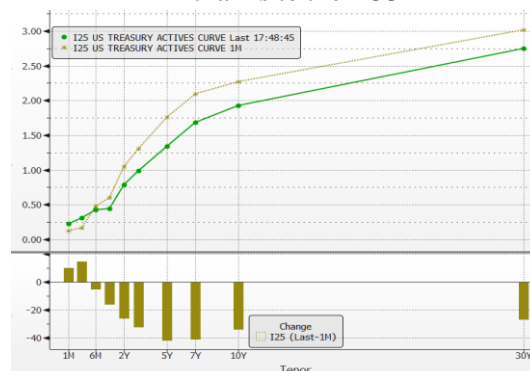
Talking about bazookas, the BOJ had taken a leaf from the SNB and ECB's playbook and caught the markets by surprise by announcing a negative interest rate on excess reserves at -0.1%. This spurred a risk-on market mood which remains to be seen if it will sustain past the week. Moreover the implications of a weaker JPY on CNY and other Asian currencies may start to sink in. So market thinking has been that this ups the ante for ECB to follow through with the hinted easing in March, with a further 10bps cut to the -0.2% deposit rate already priced in. On the economic data front, the global manufacturing cues continue to point to divergence for China (between the official and Caixin PMIs), whilst Asian PMIs were mostly stable to slightly improved. Going into February, keep an eye out for whether Russia will be able to get buy-in from OPEC and other non-OPEC oil producers to cut production, and if not, will the oil price slump unleash more dovish central banks. With the 10-year UST bond yield back below 2%, and the Fed sounding more reluctant on rate hikes by the day (note Williams' suggestion of a "smidgen" slower pace of tightening compared to Sep15 and Kaplan's opinion that "there is no predetermined path...we are going to be data-dependent"), market perception is that even one more 25bp rate hike will be a challenge.

SGS Review and Outlook

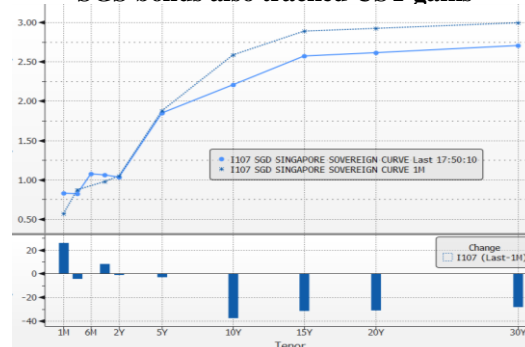
Growth momentum is likely to remain tepid in 1H16.

Industrial production, NODX and CPI ended 2015 with a whimper, dampening expectations for 1Q16 growth momentum. Meanwhile, Dec bank loans growth fell for the third straight month as we anticipated by 1.2% yoy (-0.7% mom), compared to -0.7% yoy (+0.4% mom) in Nov, dragged down by business loans. This marked the longest yoy decline since 4Q02 amid the cautious business sentiments and slowing economy. The key contraction was in business loans which deteriorated further for the fourth straight month by 3.7% yoy (-1.3% mom). Consumer loan growth also eased to 2.7% yoy (+0.2%) as housing/bridging loans also moderated to 4.1% yoy (+0.2% mom) in Dec. The full-year bank loan growth came in at a sluggish 1.1% yoy, which marked the slowest since 2002 (+0.6% yoy), and we suspect that we could continue to see flattish loans growth for 1H16 given weak domestic business sentiments. Manufacturing firms saw a net 22% anticipating less upbeat business outlook in 1H16, whereas a net 18% of services firms are similarly pessimistic. This is a deterioration from the -16% and -6% prints respectively a quarter ago. With the steady in the SGD, the 3-month SOR-SIBOR spread has also narrowed as we anticipated from a high of 55bps at end-Dec to less than 10bps. Looking ahead, we think further retracement lower in the 3M SOR may be limited. The first SGS bond auction in 2016 was a \$2.1b 5-year re-opening which was well-received and fetched an average 1.96% yield to cut off at 2.03% and a bid-cover ratio of 1.97x. The next scheduled SGS bond issue is a new 30-year to be issued on 1 March.

US Treasury bond market – rally in January thanks to the BOJ



SGS bonds also tracked UST gains



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Indicative SGS prices as at 1 February 2016

Issue	Maturity	Coupon	Bid Price	Ask Price	Bid Yield (%)	Ask Yield (%)
N511100W	1.13%	Apr-16	100.04	100.08	0.873	0.626
NY01100F	3.75%	Sep-16	101.64	101.68	0.893	0.824
N710100Z	2.38%	Apr-17	101.67	101.71	0.925	0.891
N215100F	1.38%	Oct-17	100.52	100.6	1.058	1.010
N513100T	0.50%	Apr-18	98.63	98.73	1.144	1.096
NY03100A	4.00%	Sep-18	107.15	107.25	1.175	1.137
NX09100W	2.50%	Jun-19	103.74	103.84	1.347	1.317
N514100H	1.63%	Oct-19	100.69	100.79	1.431	1.403
N515100S	2.00%	Jul-20	101.48	101.58	1.651	1.627
NY05100N	3.25%	Sep-20	106.85	106.95	1.688	1.666
NX11100X	2.25%	Jun-21	101.94	102.14	1.866	1.826
NY07100X	3.13%	Sep-22	106.97	107.17	1.989	1.958
NX13100H	2.75%	Jul-23	104.37	104.57	2.110	2.081
NY09100H	3.00%	Sep-24	106.38	106.58	2.180	2.155
NX15100Z	2.38%	Jun-25	101.32	101.52	2.217	2.194
NZ07100S	3.50%	Mar-27	110.77	111.07	2.388	2.358
NY14100E	2.88%	Jul-29	104.13	104.43	2.510	2.484
NZ10100F	2.88%	Sep-30	103.51	103.81	2.584	2.560
NZ13100V	3.38%	Sep-33	110.48	110.88	2.627	2.600
NA12100N	2.75%	Apr-42	100.51	101.11	2.723	2.691

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