

Thursday, May 17, 2012

Highlights

- More panic attacked after the European Central Bank said yesterday that the ECB has stopped liquidity support to four Greek banks citing those banks failed to meet the ECB rules on solvency.** The ECB only conducts its refinancing operation with solvent banks. Four Greek banks are operating with negative equity capital according to Reuters report. However, the ECB said those banks will regain access to Euro system refinancing operations once recapitalized. Greece is also headed for fresh polls just six weeks after the last vote, with elections likely on 17 June, after the new parliament is sworn in today and then dissolved following an inconclusive 6 May elections. The Greek central bank chief had warned that up to EUR700m had been withdrawn from Greek banks as confidence evaporated. Note that EUR-USD 3-month basis swap edged higher to -51bps compared to 10bps narrower on 7 May.
- Meanwhile, **FOMC minutes from the 24-25 April meeting revealed that several members “indicated that additional monetary policy accommodation could be necessary if the economic recovery lost momentum or the downside risks to the forecast became great enough”.** Fed's Lacker had dissented twice, once against the extension of reciprocal currency swap arrangements with the central banks of Canada and Mexico, and against the pledge to keep low interest rates till 2014 as his view is that “an increase in the federal funds rate was likely to be necessary by mid-2013 to prevent the emergence of inflationary pressures”.
- Despite US housing starts and industrial production data coming in better than expected, **Wall Street ended in the negative on Wednesday** as concerns over Greece exit from the Eurozone continued to weigh on market sentiment. Note that Chancellor Merkel has reiterated that Germany is committed to keep the Greeks in the Eurozone. Dow -0.26%, Nasdaq -0.68% and S&P500 -0.44%.
- US Treasury bonds continued to be bid higher amid the Greek political impasse: The 2- and 10-year bond yields ended at 0.29% (+1bp) and 1.76% (-2bps) respectively, with the yield curve down to 147bps.
- Japan:** GDP growth came in at 4.1% annualized in Q1, above market expectations of a 3.5% expansion and quite a turnaround from the 0.1% revised growth seen in Q4 2011.
- Meanwhile, BOJ Furukawa said that the BOJ will take action on excessive currency moves, as the strengthening JPY may have potentially negative impact on the economy. Added that there is no gap between the BOJ and the government on their view on the economy.
- Australia:** Wage index rose 0.9% qoq in Q1, slightly higher than market expectations, still driven by the mining sector that has seen a 2.2% qoq growth in the period.
- Singapore:** Final Q1 GDP growth came in line with the preliminary estimate of 1.6% yoy, although on sequential basis, it is at a slightly faster 10.0% saar

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qoq. Note that manufacturing expanded by 19.8% annualized, while both wholesale/retail and financial services contracted by 2.3% and 3.4% respectively. There was no change to the official 1-3% growth forecast for 2012, citing downside risks including increased uncertainty surrounding Eurozone's political climate and fiscal outlook, in particular a disorderly sovereign debt default in the Eurozone cannot be ruled out at this stage.

- Meanwhile. NODX growth came in better than expected at 8.3% yoy in April, recovering from the 4.3% contraction seen in the previous month, despite electronics exports growth coming in disappointing at 1.0% yoy.
- **China:** Total new Yuan loan for the first two weeks of May was close to zero according to local newswire, signaling concerns over the slower economy.
- **Thailand:** In the latest BOT minutes, the central bank continued to suggest that rising inflationary fears prompt an eventual unwinding of its loose monetary policy, especially since growth momentum has gained traction. Meanwhile, Toyota said that its auto sales in Thailand have grown 30.5% yoy in April, up from the 19.3% seen in March.
- **Commodities:** The CRB index squeezed out a second day gain of 0.07% to 289.35, boosted by commodities known to be resilient in a down-turn: grains and live stocks, while other growth-linked commodities limited the advance. WTI and Brent lost 1.24% and 0.47% respectively, lifting the WTI-Brent gap to \$18.90. Copper declined 1.05% below its \$3.50/lb handle to \$3.485/lb while gold fell 1.32% to \$1,536.60/oz.

Major Markets

- **Singapore:** STI likely to range trade today after closing down 1.6% at 2831.15 yesterday - while the Q1 GDP growth data revision was generally acceptable, the dominant external sentiment driver remains events developing in the Eurozone, namely Greece headed to fresh elections and elevated financial market tensions in the peripheral economies. STI support and resistance are tipped at 2800 and 2860 respectively. SGS bonds may see some flight to quality amid the Eurozone tensions.
- **China:** Total new Yuan loan for the first two weeks of May was close to zero according to local newswire, signaling concerns over the slower economy. Meanwhile, total Yuan deposits fell by CNY200bn in the first two weeks as a result of capital outflows. China's banking regulator will investigate the factors behind the latest volatility of credit growth. However, the banking regulator said it has no plan to revise the loan to deposit ratio.
- **Malaysia:** The next interim support for the KLCI stands at the 1525, with the 1500 mark a key psychological level following that. Clearly, external risk aversion is the dominant factor for now, and investors also take cues from the fact that palm oil price has slumped to its 3-month low on Wednesday. USD-MYR has also spiked well above the 3.1000 mark and looks fairly buoyant at this juncture. Maintain caution for now.

Major FX Themes

- The majors (except for the NOK) closed largely flat to lower on Wed as risk aversion remained evident, with the commodity/growth linked currencies also

underperforming across the board. The GBP meanwhile was also undermined by a dovish read from the BOE Inflation Report. Market chatter continued to be rife with talk of a Grexit (a term coined for a Greek exit) while the ECB also revealed that it had stopped providing liquidity to some Greek banks as these banks were deemed insolvent. Elsewhere, the FOMC were essentially a non-mover, with the Fed not completely shutting the door on the potential for further easing (mildly dollar negative). In the near term, investor nervousness may continue to run high and expect the greenback to remain underpinned.

FX Strategy/Trade ideas – Head to the hills

- Although still residing in Risk-Neutral territory, the **FXSI** continued to deteriorate on Wed, implying a weakening of investor appetite as markets fled risk assets. Looking ahead, uncertainty surrounding the EZ may remain persist going into the 17 Jun Greek elections. Given the price action in recent sessions, certain quarters of the market may be looking for a retracement of sorts, although our indicators do not as yet indicate drastically oversold conditions for the majors with respect to the dollar.
- Post the BOE Inflation Report, the GBP outperformance against the greenback may have run its course for now and we look to a bearish **GBP-USD** (spot ref: 1.5910) targeting 1.5645 with a stop at 1.6040.

Asian FX – No rest for the weary

- Several Asian central banks (including the BOK, BI, and RBI) were spotted on Wed attempting to contain the weakness of their domestic units as risk aversion deepened.
- We note that caution towards Asian currencies has risen in recent sessions and the somewhat increased responsiveness of the **USD-CNY** central parity to global market volatility may also remove the anchor for the regional units. Risk-reward for USD-Asia may remain tilted towards the upside in the near term with the **INR** still in the market's cross hairs and with official jawboning increasing as the currency touched a new low.
- On the **SGD**, 1Q 12 GDP numbers released this morning were essentially were a touch weaker than prior market expectations although Apr NODX figures were better than expected. Comments from government officials shed no new light, with a focus on the negative implications of the EZ, while inflation is expected to taper into 2H12. The SGD NEER is in the lower half of its perceived fluctuation band (-0.36%) with the central parity estimated at 1.2605. At current prices, we see the extreme weak end of the fluctuation band at 1.2870. Intra-day, the pair is expected to see a 1.2600-1.2700 band with regional price action still expected to be skittish.

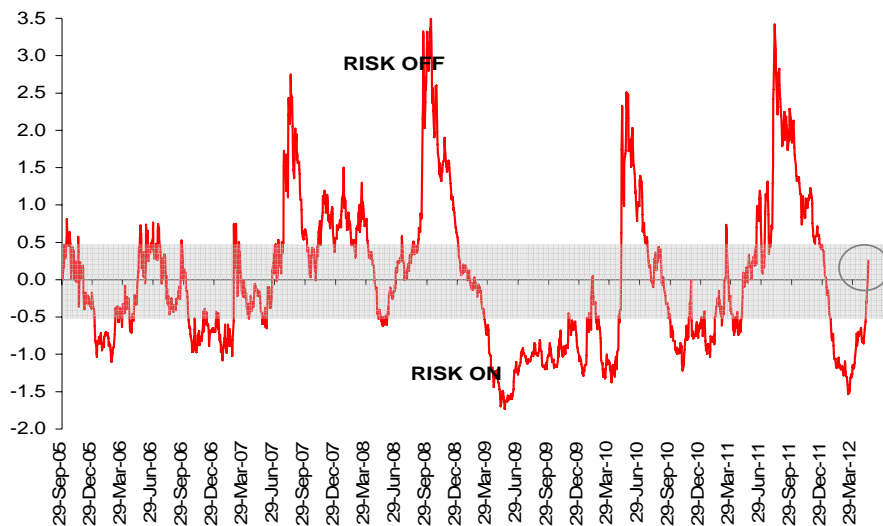
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- **EUR-USD** Our view remains unchanged: The 1.2600 neighborhood may continue to beckon for the pair given headline-driven negative

momentum from the Greek political front while Spanish banking sector concerns continue to circulate.

- USD-JPY** The 1Q 12 GDP numbers came in better than expected and may have worked to shave the USD-JPY slightly in early trade on Thu. Going ahead, the interplay between outright dollar strength in the face of risk aversion and the more traditional role of the JPY as a beneficiary of risk aversion may keep the USD-JPY bounded in a range pending further cues. Technically, any ability to hover above the 80.00/10 area may encourage further base building with the 55-day MA (81.49). However, a downside break may invite a retest towards 79.43.
- AUD-USD** The slightly warmer than expected 1Q wage cost numbers failed to generate significant lift for the AUD-USD yesterday. Ahead, any further negative feedback from Chinese economic headlines are expected to cap any upside for the pair, while EZ uncertainty and commodity price weakness may also keep the pair slanted south in the short term. In the interim, some consolidative price action may not be wholly unexpected, with perhaps the 0.9965 area a near term focal point.
- GBP-USD** Lower growth forecasts from the BOE Inflation Report and cautionary comments from the BOE's King regarding the potential impacts of the EZ crises took the GBP-USD lower on Wed while better than expected Apr labor market numbers offered little support. Going ahead, the GBP-USD may gravitate towards its 200-day MA (1.5828) while the 55-day MA (1.5961) may provide an initial cap. Elsewhere however, we continue to remain bearish on EUR-GBP prospects.

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCA	CRY	GC1	CL1	VIX	ITRSEX
DXY	1.00	-0.78	0.67	-0.93	-0.89	-0.95	-0.96	-0.92	0.94	0.91
CHF	0.98	-0.87	0.64	-0.90	-0.89	-0.95	-0.97	-0.95	0.91	0.85
SGD	0.94	-0.55	0.71	-0.89	-0.84	-0.90	-0.90	-0.82	0.89	0.94
CAD	0.94	-0.72	0.61	-0.92	-0.80	-0.89	-0.89	-0.91	0.92	0.85
THB	0.92	-0.84	0.70	-0.90	-0.88	-0.94	-0.97	-0.92	0.82	0.86
KRW	0.86	-0.49	0.63	-0.79	-0.93	-0.75	-0.84	-0.72	0.73	0.89
MYR	0.82	-0.34	0.72	-0.78	-0.86	-0.74	-0.79	-0.69	0.73	0.91
CNY	0.67	-0.40	1.00	-0.67	-0.62	-0.70	-0.66	-0.65	0.59	0.70
INR	0.67	-0.88	0.45	-0.59	-0.67	-0.66	-0.77	-0.79	0.49	0.53
IDR	0.67	-0.79	0.54	-0.64	-0.62	-0.69	-0.74	-0.80	0.56	0.52
PHP	0.58	0.05	0.64	-0.52	-0.60	-0.42	-0.51	-0.37	0.50	0.77
TWD	0.50	0.13	0.61	-0.45	-0.51	-0.38	-0.43	-0.30	0.43	0.70
CCN12M	0.33	-0.30	-0.32	-0.01	-0.43	0.01	-0.37	-0.24	0.08	0.26
JPY	-0.30	0.70	-0.02	0.27	0.30	0.33	0.34	0.48	-0.34	-0.01
GBP	-0.63	-0.06	-0.47	0.44	0.48	0.40	0.46	0.38	-0.57	-0.62
USGG10	-0.78	1.00	-0.40	0.76	0.76	0.81	0.84	0.89	-0.73	-0.60
NZD	-0.89	0.93	-0.56	0.83	0.83	0.90	0.93	0.96	-0.77	-0.73
AUD	-0.92	0.91	-0.58	0.88	0.84	0.93	0.95	0.96	-0.84	-0.76
EUR	-0.98	0.87	-0.64	0.90	0.89	0.95	0.97	0.95	-0.90	-0.85

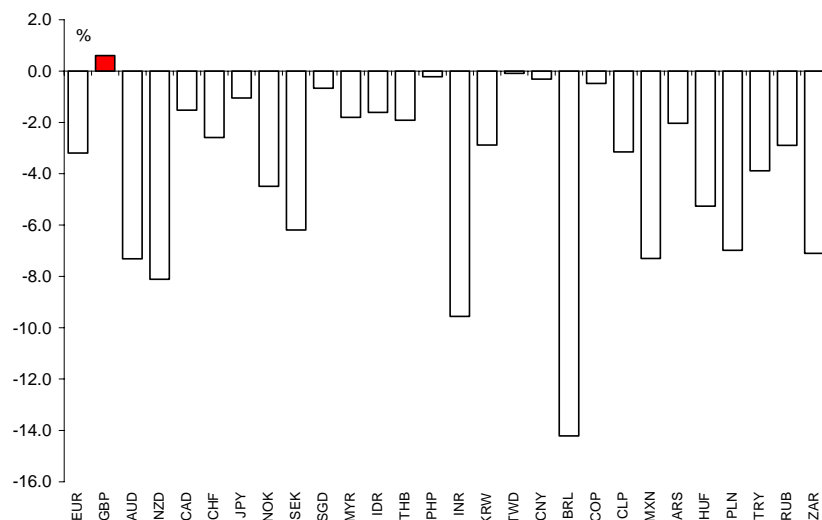
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Spot	R1	R2
EUR-USD	1.2681	1.2700	1.2721	1.2732	1.2800
GBP-USD	1.5827	1.5900	1.5915	1.5973	1.5974
AUD-USD	0.9878	0.9900	0.9920	1.0000	1.0326
NZD-USD	0.7624	0.7644	0.7645	0.7700	0.8033
USD-CAD	1.0100	1.0110	1.0121	1.0133	1.0200
USD-JPY	79.43	80.00	80.37	81.00	81.51
USD-SGD	1.2633	1.2637	1.2673	1.2700	1.2717
EUR-SGD	1.6054	1.6100	1.6121	1.6200	1.6463
JPY-SGD	1.5374	1.5700	1.5767	1.5800	1.5822
GBP-SGD	2.0029	2.0100	2.0169	2.0200	2.0224
AUD-SGD	1.2500	1.2519	1.2571	1.2600	1.2962

Source: OCBC Bank

FX performance: 1-month change agst USD



Source: Bloomberg

Bond Market Update

- **Market Commentary:** Flows in the SGD market was driven completely by PB and retail accounts yesterday as we saw some panic selling of GENSSP perp, SHUION and CENCHI, though there was also some dip buying for the latter. GENSSP was well-offered in the street, with some retail accounts worried about an IFR article that MAS is closely monitoring the SGD corporate perp market. In the CNH space, CCS was paid higher, up 10bp across the curve. IG bonds was down about 0.1 – 0.25pt while HY was down 0.25 – 0.5pt.

Key Financial Indicators

Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	81.372	0.19%	USD-SGD	1.2686	0.56%
USD-JPY	80.330	0.19%	EUR-SGD	1.6131	0.44%
EUR-USD	1.2716	-0.10%	JPY-SGD	1.5792	0.37%
AUD-USD	0.9914	-0.23%	GBP-SGD	2.0184	0.04%
GBP-USD	1.5910	-0.52%	AUD-SGD	1.2576	0.31%
USD-MYR	3.1158	1.13%	NZD-SGD	0.9696	-0.10%
USD-CNY	6.3218	0.06%	CHF-SGD	1.3430	0.44%
USD-IDR	9244	0.04%	SGD-MYR	2.4563	0.16%
USD-VND	20850	-0.02%	SGD-CNY	4.9830	-0.50%

Equity and Commodity

Index	Value	Net change
DJIA	12598.55	-33.45
Nasdaq	2874.04	-19.72
Nikkei 225	8801.17	-99.57
STI	2831.15	-45.55
KLCI	1536.04	-25.03
JCI	3980.50	-65.15
Baltic Dry	1137.00	7.00
VIX	22.27	0.30

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	0.3950	-0.0010	O/N	0.1555	0.0040
2M	0.4980	-0.0020	1M	0.2398	0.0010
3M	0.6850	-0.0020	2M	0.3458	0.0010
6M	0.9740	-0.0010	3M	0.4669	0.0010
9M	1.1240	-0.0020	6M	0.7349	0.0030
12M	1.2680	-0.0040	12M	1.0680	0.0065

Government Bond Yields (%)

Tenor	SGS	UST
2Y	0.210	0.286
5Y	0.530	0.741
10Y	1.460	1.760
15Y	1.930	-
20Y	2.240	-
30Y	-	2.899

Singapore Rates (%)

Tenor	SOR Fixing	Change	Tenor	SGD SIBOR	Change
1M	0.2283	-0.0073	1M	0.3208	0.0000
2M	0.3172	-0.0126	2M	0.3750	0.0000
3M	0.3925	-0.0026	3M	0.3891	0.0000
6M	0.5531	-0.0231	6M	0.4409	0.0000
9M	0.6297	-0.0299	9M	0.5113	0.0000
12M	0.7657	-0.0379	12M	0.5857	0.0000

Financial Spread (bps)

	Value	Change
LIBOR-OIS	31.08	0.00
EURIBOR-OIS	38.50	0.20
TED	37.53	0.09

Eurozone Update

	2Y Bond Ylds (bpschg)	10Y Bond Ylds (bpschg)	10Y Bund Spread %	CDS	CDS Change	Equity Index	% Change		
Portugal	8.92	59.70	11.77	34.80	10.30	1137.85	31.59	1984.25	-1.75
Italy	3.55	3.70	5.83	-3.50	4.36	506.01	4.00	13283.55	-0.21
Ireland	6.69	40.70	8.21	0.00	6.74	664.22	11.02	3084.48	-0.01
Greece	225.12	0.00	28.92	-47.90	27.45	-	-	555.42	-1.33
Spain	4.10	-3.60	6.29	-5.50	3.38	538.27	-8.06	6611.50	-1.33

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	92.81	-12.4%	Coffee (per lb)	1.774	0.20%
Brent (per barrel)	111.71	-0.47%	Cotton (per lb)	0.7697	-2.77%
Heating Oil (per gallon)	2.898	-12.1%	Sugar (per lb)	0.2073	162%
Gasoline (per gallon)	2.9209	-0.79%	Orange Juice (per lb)	1.1280	-105%
Natural Gas (per MMBtu)	2.618	4.72%	Cocoa (per mt)	2.292	0.61%
Base Metals	Futures	% chg	Grains	Futures	% chg
Copper (per lb)	3.4850	-105%	Wheat (per bushel)	6.3875	4.97%
Nickel (per mt)	16.962	0.04%	Soybean (per bushel)	14.220	0.64%
Aluminium (per mt)	2,010.0	0.49%	Corn (per bushel)	6.2000	3.81%
Precious Metals	Futures	% chg			
Gold (per oz)	1536.6	-132%			
Silver (per oz)	27.196	-3.5%			

Source: Bloomberg, Reuters
(Note that rates are for reference only)

Key Economic Indicators

Date	Event		Survey	Actual	Prior	Revised
05/16/2012 01:30	AU Wage Cost Index YoY	1Q	3.50%	3.60%	3.60%	--
05/16/2012 08:30	UK Claimant Count Rate	APR	5.00%	4.90%	4.90%	--
05/16/2012 08:30	UK Jobless Claims Change	APR	5.0K	-13.7K	3.6K	-5.4K
05/16/2012 08:30	UK Average Weekly Earnings 3M/YoY	MAR	1.00%	0.60%	1.10%	--
05/16/2012 08:30	UK Weekly Earnings exBonus 3M/YoY	MAR	1.40%	1.60%	1.60%	--
05/16/2012 08:30	UK ILO Unemployment Rate (3mths)	MAR	8.40%	8.20%	8.30%	--
05/16/2012 09:00	EC Euro-Zone CPI - Core (YoY)	APR	1.50%	1.60%	1.60%	--
05/16/2012 09:00	EC Euro-Zone CPI (YoY)	APR	2.60%	2.60%	--	--
05/16/2012 09:00	EC Euro-Zone Trade Balance sa	MAR	3.8B	4.3B	3.7B	4.0B
05/16/2012 11:00	US MBA Mortgage Applications	May-11	--	9.20%	1.70%	--
05/16/2012 12:30	CA Manufacturing Sales MoM	MAR	0.40%	1.90%	-0.30%	-0.20%
05/16/2012 12:30	US Housing Starts MOM%	APR	4.70%	2.60%	-5.80%	-2.60%
05/16/2012 12:30	US Building Permits MOM%	APR	-4.50%	-7.00%	4.50%	8.80%
05/16/2012 13:15	US Industrial Production	APR	0.60%	1.10%	0.00%	-0.60%
05/16/2012 13:15	US Capacity Utilization	APR	79.00%	79.20%	78.60%	78.40%
05/16/2012 22:45	NZ Producer Prices- Inputs (QoQ)	1Q	0.00%	0.30%	0.50%	--
05/16/2012 22:45	NZ Producer Prices- Outputs (QoQ)	1Q	0.00%	-0.10%	0.10%	--
05/16/2012 23:50	JN Housing Loans YoY	1Q	--	2.40%	2.20%	--
05/16/2012 23:50	JN GDP Annualized	1Q P	3.50%	4.10%	-0.70%	0.10%
05/16/2012 23:50	JN Gross Domestic Product (QoQ)	1Q P	0.90%	1.00%	-0.20%	0.00%
05/16/2012 23:50	JN Nominal GDP (QoQ)	1Q P	1.00%	1.00%	-0.50%	-0.30%
05/16/2012 23:50	JN GDP Deflator YoY	1Q P	-1.50%	-1.20%	-1.80%	-1.90%
05/17/2012 01:00	AU Consumer Inflation Expectation	MAY	--	3.10%	3.30%	--
05/17/2012 01:30	AU Average Weekly Wages (QoQ)	FEB	1.00%	--	0.50%	--
05/17/2012 12:30	CA Int'l Securities Transactions	MAR	8.00B	--	12.49B	--
05/17/2012 12:30	CA Wholesale Sales MoM	MAR	0.30%	--	1.60%	--
05/17/2012 12:30	US Initial Jobless Claims	May-12	365K	--	367K	--
05/17/2012 12:30	US Continuing Claims	May-05	3225K	--	3229K	--
05/17/2012 14:00	US Philadelphia Fed.	MAY	10	--	8.5	--
05/17/2012 14:00	US Leading Indicators	APR	0.10%	--	0.30%	--
05/17/2012 00:00	SI GDP (QoQ)	1Q F	10.60%	10.00%	9.90%	--
05/17/2012 00:00	SI GDP (YoY)	1Q F	1.80%	1.60%	1.60%	--
05/17/2012 00:30	SI Electronic Exports (YoY)	APR	4.00%	1.00%	2.80%	--
05/17/2012 00:30	SI Non-oil Domestic Exports (YoY)	APR	5.90%	8.30%	-4.30%	--
05/17/2012 08:30	HK Unemployment Rate SA	APR	3.50%	--	3.40%	--
05/17/2012	HK Composite Interest Rate	APR	--	--	0.42%	--

Source: Bloomberg

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