

March 2010

Fundamental Highlights

Sovereign fiscal worries & exit strategies remain key.

Greek debt woes continue to weigh on market sentiment, especially for the Eurozone, as ratings agencies warn of ratings downgrade, possibly by a couple of notches should Greece fail to push through tough fiscal austerity measures. Greece has supposedly delayed its plans to issue between 3-5 billion euros of 10-year bonds amid domestic strikes and negative newsflow. Moody's also warned that Japan's Aa2 rating outlook may be at risk if DPJ government fails to push through fiscal reforms, with special eye on reform plan due in June. Meanwhile, initial fears surrounding the 25bp hike in the US discount rate have largely subsided as Fed chairman Bernanke reiterated his view of a "nascent" recovery and pledged that interest rates will stay low. Recent US economic data disappointments have helped ensure that the US Treasury's record US\$126b bond sales this week was relatively well absorbed, despite TIC data which showed that China had pared its Dec UST holdings by US\$34.2b (4.3%) to US\$755.4b, versus Japan's US\$768.8b. At this juncture, market sentiment remains fickle between economic optimism and caution that markets have been priced to perfection, and we expect this theme to extend near-term.

SGS Review and Outlook

S'pore's 2010 growth forecast upgraded to 4.5-6.5%.

S'pore government also upgraded 2010 GDP growth forecast from 3-5% yoy to 4.5-6.5%, versus 2009's 2.0% contraction, "largely reflects increased strength in the near term growth momentum". However, MTI warned that "the outlook for the second half of the year remains uncertain", especially "private final demand in the G3", and "several downside risks remain, including sovereign debt risks (especially in Europe) and asset price inflation in Asia". The 2010 CPI inflation forecast was cut from 2.5-3.5% to 2-3% and attributed to the rebasing of the CPI to 2009. The MAS' underlying inflation forecast remains at 1-2%. MAS said price developments are broadly consistent since October, and the current monetary policy stance remains appropriate. Given the benign inflation and external uncertainties, there appears to be no immediate impetus to tighten monetary policy at the April review. The \$2.96b (1.1% of GDP) FY2010 budget deficit should not impact SGS issuance. Hence, the \$1.1b 15-year SGS bond re-opening saw a cut-off yield of 3.31% (20bp tail) with a healthy 2.1x cover. SGS bonds should remain supported amid the current risk-off environment, conducive funding rates, and benign inflation. There is a new 7-year SGS issue on 1 April. MAS has proposed to revise the deposit insurance from \$20k to \$50k next year.

Japan overtakes China as top foreign UST owner in Dec 2009, fueling rumours of Chinese selling



\$1.1b 15-year SGS re-opening within expectations; SGS yield curve has steepened tracking UST



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SGS prices as at 26 February 2010

Issue	Maturity	Coupon	Bid Price	Ask Price	Bid Yield (%)	Ask Yield (%)
NX00100T	01-Jul-10	4.63%	101.43	101.48	0.27%	0.12%
N506100E	01-Feb-11	3.13%	102.42	102.47	0.47%	0.42%
NX01100H	01-Jul-11	3.63%	104.13	104.18	0.50%	0.47%
N507100A	01-Apr-12	2.63%	104.30	104.35	0.54%	0.52%
NX02100S	01-Jul-12	3.50%	106.66	106.76	0.61%	0.57%
N507101E	01-Oct-12	2.50%	104.69	104.79	0.66%	0.62%
N508100V	01-Apr-13	1.63%	102.48	102.58	0.81%	0.78%
NX03100Z	01-Jul-13	2.25%	104.38	104.48	0.91%	0.88%
NX04100F	01-Jul-14	3.63%	110.20	110.30	1.20%	1.18%
N509100N	01-Oct-14	1.38%	100.32	100.52	1.30%	1.26%
N708100S	01-Jul-15	2.88%	106.05	106.15	1.68%	1.66%
NY01100F	01-Sep-16	3.75%	109.79	109.99	2.13%	2.10%
NY03100A	01-Sep-18	4.00%	110.78	110.98	2.58%	2.55%
NX09100W	01-Jun-19	2.50%	98.48	98.68	2.69%	2.66%
NY05100N	01-Sep-20	3.25%	102.84	103.14	2.93%	2.90%
NY07100X	03-Sep-22	3.13%	99.85	100.15	3.14%	3.11%
NY09100H	01-Sep-24	3.00%	96.59	96.89	3.30%	3.27%
NZ07100S	01-Mar-27	3.50%	101.54	101.94	3.38%	3.35%

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