

May 2012

Fundamental Highlights

Market refocuses on Eurozone debt crisis, with Spain in the eye of the storm.

Eurozone debt crisis concerns return to haunt the market in April - Spain's sovereign credit rating was downgraded by S&P for the second time this year from A to BBB+ with a negative outlook, amid union protests as its unemployment rate rose to an 18-year high of 24.4%. Meanwhile, French, Greek and Dutch elections are adding to the region's uncertainty. ECB president Draghi had also earlier called for a "growth compact" to enhance the fiscal compact, albeit German Chancellor Merkel appeared resistant. **The mitigating factor is policy support remains on tap** - FOMC remains sufficiently dovish, while the BOJ increased its asset purchase program by a net ¥5 trillion to ¥70 trillion and extending the JGBs and corporate bonds maturity from 1-2 to 1-3 years. RBA also cut its cash target rate by a bigger 50bps to 3.75%, citing growth has been "weaker than expected, while inflation has moderated". ECB looks likely to resume its SMP government bond purchases, while China may consider more policy easing amid its slowdown.

SGS Review and Outlook

Prevailing inflationary pressures amid slowdown, which likely keeps MAS on vigilant watch mode.

Industrial production fell less than expected by 3.4% yoy (+2.7% mom) in Mar, bringing Q1 manufacturing output growth to -1% yoy. Hence, the flash Q1 GDP growth estimates could be revised up from the initial 1.6% yoy (+9.9% qoq) to 1.9% yoy. The business expectations surveys for both manufacturing and services also reflect a turnaround in business sentiment from Q4 2011 levels as tensions in the Eurozone sovereign and banking sector has eased slightly. If Q1 is the bottom in the current slowdown, and gradually improves for the rest of this year, then an upgrade to the official 1-3% growth forecast looks likely at some stage. Going forward, the drivers of the Singapore economy will likely be the regional and domestic services sectors. Our 2012 GDP growth forecast is 2.7% yoy. For inflation, domestic supply side constraints are expected to keep prices elevated, but the tighter monetary policy stance is expected to temper and not fully offset the pass-through of cost increases. Longer-dated SGS bonds have led the April rally post-the 30-year bond auction and looks likely to be supported amid the traditional "sell in May and go away" phenomenon in the equity market. Next up are the 7-, 10- and 15-year SGS bond re-openings in Jun, Jul and Sep.

EUR-USD 3-month basis swap continues to improve in April.



But the overnight deposits at the ECB remain Elevated which suggest lingering caution.



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Indicative SGS prices as at 30 April 2012

Issue	Maturity	Coupon	Bid Price	Ask Price	Bid Yield (%)	Ask Yield (%)
N507101E	01-Oct-12	2.500%	100.93	100.98	0.26%	0.14%
N508100V	01-Apr-13	1.625%	101.26	101.31	0.25%	0.19%
NX03100Z	01-Jul-13	2.250%	102.39	102.44	0.19%	0.15%
N212100H	01-Feb-14	0.250%	100.10	100.15	0.19%	0.16%
NX04100F	01-Jul-14	3.625%	107.36	107.46	0.22%	0.17%
N509100N	01-Oct-14	1.375%	102.81	102.91	0.21%	0.17%
N708100S	01-Jul-15	2.875%	108.11	108.21	0.30%	0.27%
N511100W	01-Apr-16	1.125%	103.05	103.15	0.34%	0.31%
NY01100F	01-Sep-16	3.750%	114.42	114.52	0.39%	0.37%
N710100Z	01-Apr-17	2.375%	108.90	109.10	0.54%	0.50%
NY03100A	01-Sep-18	4.000%	119.20	119.40	0.88%	0.85%
NX09100W	01-Jun-19	2.500%	108.80	109.00	1.20%	1.17%
NY05100N	01-Sep-20	3.250%	113.90	114.10	1.47%	1.45%
NX11100X	01-Jun-21	2.250%	105.91	106.11	1.55%	1.53%
NY07100X	01-Sep-22	3.125%	112.86	113.16	1.76%	1.73%
NY09100H	01-Sep-24	3.000%	110.98	111.28	1.99%	1.97%
NZ07100S	01-Mar-27	3.500%	115.68	115.98	2.25%	2.23%
NZ10100F	01-Sep-30	2.875%	108.38	108.78	2.31%	2.29%
NA12100N	01-Apr-42	2.750%	100.50	101.10	2.73%	2.70%

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