DAILY TREASURY OUTLOOK

OCBC Bank

Thursday, July 14, 2016

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Highlights

Global	Market sentiment remains relatively buoyant, even if it lacks a certain gung-ho attitude seen earlier in the week. For one, even as S&P 500 index technically reached another all-time high overnight, the gain was but less than 0.1% from the day before. Hence, apart from the lingering expectation that global major central banks would maintain or even add to the already accommodative monetary policy, sentiment can only secure firmer footing from favourable reports from earnings season over the coming weeks. On tap today, we have both Bank of England and Bank of Korea announcing their rate decisions later in the day. While we expect the latter to remain static, we look towards a 25bps cut from BOE as Carney provides more monetary accommodation in light of Brexit. Meanwhile, data on US July's Initial Jobless Claims and China's June's M2 money supply are due today.
S'pore	GDP growth accelerated to 0.8% qoq saar (from Q1's 0.2%), bringing 2Q16 on-year growth to 2.2%. Q1 growth was also revised higher to 2.1% yoy. Growth was reportedly led by the growth in both manufacturing and electronic clusters, while on the services front, led by wholesale and retail trade, transportation and storage sectors, and strong motor vehicle sales prints.
China	Exports in dollar term fell by 4.8% yoy in June. Both re-export and general recorded the negative growth, signalling the still-weak external demand. This is also in line with the decline in new export orders as shown by PMI. The impact of Brexit on trade may not have been fully priced in. As such, export may remain pressure in the coming months. Import fell by 8.4% yoy in dollar term as commodity rally slowed in June. Import from Hong Kong moderated to 70% from 242% in May. The Chinese customs said the strong import from Hong Kong in the past few months was mainly due to demand for gold. Trade surplus remained stable at around US$48.1 billion, which helped slow the pace of depreciation. Meanwhile, PBoC rolled over CNY259 billion medium term lending facility yesterday ahead of CNY529 billion maturing this month. We think non-traditional tools such as MLF and PSL are still preferred by PBoC over traditional tools such as RRR and interest rate. As such, we see low probability of RRR cut in the near term.
Malay-sia	Bank Negara surprised the market by cutting rate by 25bps to bring its Overnight Policy Rate to 3.0% yesterday. It cited greater downside risks to growth in its decision, on the back of uncertainties brought by Brexit referendum outcome.
Commodities	Risk-taking behaviour apparently took a back-seat after two full days of rally. The West Texas Intermediate (WTI) crude fell once again below its critical $45/bbl handle, with Brent following suit at $46.3/bbl. Importantly, the fall in prices came even as US reported its 8th consecutive week of crude oil inventory decline for the week ended 8th July, though gasoline stocks did rise unexpectedly in the face of lower refinery utilization rates thus suggesting some interim fall back in energy demand. Elsewhere, India palm oil imports are expected to fall for its second month in June (May: -10.7%), according to Bloomberg, adding further pressure on the already weakening palm oil export demand data coming out from Malaysia and Indonesia.

Major Market

- **US:** Wall Street ended the session mixed, although S&P 500 continued its upward climb to reach another record high. Dow +0.13%, S&P 500 +0.01% and Nasdaq -0.34% while VIX retreated by 3.76% to close at 13.04. Meanwhile, demand for US Treasuries continued to strengthen as both 2-10 year treasury yield dipped to 0.665% (-2bps) and 1.474% (-4bps) respectively.

- **Singapore:** STI continued its third day of gains (+0.3%) to close the session at 2910.65, the highest since April this year. Gains were led by Golden Agri-Resources (+4.35%), ComfortDelGro Corp Ltd (+3.51%) and City Developments Ltd (+3.27%) while losses from Hutchison Port Holdings Ltd (-2.15%), Ascendas Real Estate Investment Trust (-1.21%) and Singapore Telecommunications Ltd (-1.16%) capped gains. Given tepid overnight cues from Wall Street last night, expect STI to consolidate with support and resistance tipped at 2880 and 2950 respectively.

- **Hong Kong:** Unlike in January, where investors were worried about any disorderly depreciation of the Yuan, investor sentiment over the Yuan has stabilized given PBoC's commitment to better communication with the markets. Moreover, with Theresa May in line to be the next British PM, the political situation in the West has also calmed. Coupled with the fact that many central banks have pledged to continue their accommodative monetary policies at least for the medium term, markets seems to have shifted back onto risk-on mode. As such, the PBOC will have more time to stabilize market expectations of the Yuan, indicating that overnight CNH HIBOR is unlikely to retest its all-time high (66.8% reached in January) in the near term.

Bond Market Updates

- **Market Commentary:** The SGD dollar swap curve traded downward yesterday, with the swap rates traded 1-4bps lower across all tenors. Flows in the SGD corporates' space were heavy with better buying seen in SOCGEN 4.3%'26s and BAERVX 5.9%'49s while mixed interests were seen in NAB 4.15%'28s, UCGIM 5.5%'23s and ABNANV 4.75%'26s. In the broader dollar space, the spread on JACI IG corporates decreased by 3bps to 218bps while the yield on JACI HY corporates decreased by 3bps to 6.46%. 10y UST yield decreased by 4bps to 1.47%.

- **New Issues:** Zurich Insurance Co. has priced a USD1bn Perp-NC5 bond at 4.75%, tightening from its initial guidance of 5/5.25%. The expected ratings for the issue are "AA-/Aa3/NR". Dai-ichi Life has priced a USD2.5bn Perp-NC10 bond at 4%, (if not called, coupon steps up to 3mL+366bps) tightening from its initial guidance of 4.375-4.5%. The expected ratings for the issue are "A-/NR/A-". Regal Hotels International Holdings Ltd. has priced a USD350mn 5-year bond at 3.88%, tightening from its initial guidance of 4.25%. Olam International Ltd. has priced a USD500mn Perp-NC5 at 5.35%, tightening from its initial price guidance at 5.5%. ONGC Videsh Ltd. has scheduled investor meetings from 14 July onwards for a potential USD bond issuance.

- **Rating Changes:** S&P upgraded China Three Gorges Corp.'s (CTG) corporate credit rating to "A+" from "A" with negative outlook. The upgrade reflects CTG's established track record of fulfilling essential social policy functions for the government which S&P believes is increasingly important to the national energy strategy and increasing the likelihood that CTG will receive extraordinary government support if the company comes under financial stress. The negative outlook reflects the outlook on the sovereign. S&P affirmed Crown Resorts Ltd.'s (Crown) corporate credit rating of "BBB" and revised its outlook to stable from negative, removing it from CreditWatch with negative implications that was placed on 16 June, 2016. The affirmation reflects that the quality of cash flows generated from Crown's Australian assets are able to broadly offset the loss of scale and diversification following the demerger of the group's international assets. S&P has revised its outlook on China Travel Service Holdings (HK) Ltd. to positive from stable for its "BBB" credit rating.

Moody's has placed West China Cement Ltd.'s (WCC) "Baa3" corporate family rating on review for downgrade, reflecting concern about WCC's credit profile which could be weaker than expected owing to on-going and challenging industry conditions. Moody's has assigned a "B1" corporate family rating to Soechi Lines Tbk. (Soechi, global shipping). The rating assignment reflects Soechi's solid market position in Indonesia's domestic oil & gas shipping sector, the visibility of revenues driven by its use of long-term charter contracts and its longstanding relationship with Pertamina, the national oil company of Indonesia. Moody's downgraded Boart Longyear Ltd.'s (Boart) corporate family rating to "Caa2" from "Caa1" with negative outlook. The downgrade reflects the on-going pressure in the mining industry, which continues to face a low price environment, reduced exploration budgets and reductions in capital expenditures and new project development.

Key Financial Indicators

Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	96.216	-0.23%	**USD-SGD**	1.3467	0.03%
USD-JPY	104.490	-0.19%	**EUR-SGD**	1.4935	0.30%
EUR-USD	1.1132	0.00%	**JPY-SGD**	1.2891	0.23%
AUD-USD	0.7608	-0.20%	**GBP-SGD**	1.7705	-0.75%
GBP-USD	1.3147	-0.75%	**AUD-SGD**	1.0245	-0.20%
USD-MYR	3.9655	-0.38%	**NZD-SGD**	0.9799	-0.31%
USD-CNY	6.6887	0.00%	**CHF-SGD**	1.3668	0.37%
USD-IDR	13086	-0.26%	**SGD-MYR**	2.9422	-0.37%
USD-VND	22302	-0.01%	**SGD-CNY**	4.9668	0.11%

Equity and Commodity

Index	Value	Net change
DJIA	18,372.12	24.50
S&P	2,152.43	0.30
Nasdaq	5,005.73	-17.10
Nikkei 225	16,231.43	135.80
STI	2,910.65	8.80
KLCI	1,660.39	6.40
JCI	5,133.93	34.40
Baltic Dry	726.00	15.00
VIX	13.04	-0.50

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD LIBOR	Change
1M	-0.3690	--	**O/N**	0.4122	--
2M	-0.3310	--	**1M**	0.4794	--
3M	-0.2910	--	**2M**	0.5628	--
6M	-0.1910	--	**3M**	0.6734	--
9M	-0.1290	--	**6M**	0.9660	--
12M	-0.0610	--	**12M**	1.2845	--

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	0.94 (--)	0.67 (-0.02)
5Y	1.37 (-0.02)	1.06 (-0.03)
10Y	1.75 (-0.02)	1.47 (-0.04)
15Y	2.04 (-0.01)	--
20Y	2.12 (--)	--
30Y	2.24 (--)	2.17 (-0.05)

Eurozone & Russia Update

	2Y Bond Ylds (bpschg)		10Y Bond Ylds (bpschg)		10Y Bund Spread %
Portugal	0.71	0.30	3.10	-3.30	3.16
Italy	-0.06	0.20	1.21	-1.70	1.27
Ireland	-0.43	-4.00	0.42	-5.90	0.48
Greece*	7.39	-2.80	7.89	1.10	7.95
Spain	-0.13	-1.20	1.15	-2.70	1.21
Russia^	2.18	0.30	4.29	-2.80	4.35

Financial Spread (bps)

	Value	Change
LIBOR-OIS	27.77	-0.12
EURIBOR-OIS	7.20	0.10
TED	38.00	-0.33

* Greece's bond yields data reflect 3-year (instead of 2-year) tenor
^ Russia's bond yields data reflects 3-year and 15-year tenors instead

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	44.75	-4.38%	Coffee (per lb)	1.462	0.17%
Brent (per barrel)	46.26	-4.56%	Cotton (per lb)	0.7338	3.15%
Heating Oil (per gallon)	1.381	-5.62%	Sugar (per lb)	0.1948	-1.22%
Gasoline (per gallon)	1.38	-3.62%	Orange Juice (per lb)	1.8110	2.43%
Natural Gas (per MMBtu)	2.737	0.11%	Cocoa (per mt)	3,182	0.92%
Base Metals	**Futures**	**% chg**	**Grains**	**Futures**	**% chg**
Copper (per mt)	4,938.0	1.42%	Wheat (per bushel)	4.2625	0.53%
Nickel (per mt)	10,309	-1.34%	Soybean (per bushel)	11.280	1.87%
Aluminium (per mt)	1,660.0	-0.18%	Corn (per bushel)	3.6575	4.57%
Precious Metals	**Futures**	**% chg**	**Asian Commodities**	**Futures**	**% chg**
Gold (per oz)	1,343.6	0.62%	Crude Palm Oil (MYR/MT)	2,298.0	1.23%
Silver (per oz)	20.370	1.19%	Rubber (JPY/KG)	172.6	3.35%

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

Key Economic Indicators

Date Time		Event		Survey	Actual	Prior	Revised
07/13/2016 06:45	**NZ**	**Food Prices MoM**	**Jun**	**--**	**0.40%**	**-0.50%**	**--**
07/13/2016 07:00	**SK**	**Unemployment rate SA**	**Jun**	**3.70%**	**3.60%**	**3.70%**	**--**
07/13/2016 12:30	**JN**	**Industrial Production MoM**	**May F**	**--**	**-2.60%**	**-2.30%**	**--**
07/13/2016 12:30	**JN**	**Industrial Production YoY**	**May F**	**--**	**-0.40%**	**-0.10%**	**--**
07/13/2016 12:30	JN	Capacity Utilization MoM	May	--	-2.40%	-1.00%	--
07/13/2016 14:45	FR	CPI EU Harmonized MoM	Jun F	0.20%	0.10%	0.20%	--
07/13/2016 14:45	**FR**	**CPI EU Harmonized YoY**	**Jun F**	**0.30%**	**0.30%**	**0.30%**	**--**
07/13/2016 14:45	FR	CPI MoM	Jun F	0.20%	0.10%	0.20%	--
07/13/2016 14:45	**FR**	**CPI YoY**	**Jun F**	**0.20%**	**0.20%**	**0.20%**	**--**
07/13/2016 14:45	FR	CPI Ex-Tobacco Index	Jun	100.66	100.64	100.51	--
07/13/2016 15:00	**MA**	**BNM Overnight Policy Rate**	**Jul-13**	**3.25%**	**3.00%**	**3.25%**	**--**
07/13/2016 15:34	**CH**	**Trade Balance**	**Jun**	**$45.65b**	**$48.11b**	**$49.98b**	**--**
07/13/2016 15:34	**CH**	**Exports YoY**	**Jun**	**-5.00%**	**-4.80%**	**-4.10%**	**--**
07/13/2016 15:34	CH	Imports YoY	Jun	-6.20%	-8.40%	-0.40%	--
07/13/2016 16:00	**IT**	**CPI EU Harmonized YoY**	**Jun F**	**-0.30%**	**-0.20%**	**-0.30%**	**--**
07/13/2016 17:00	EC	Industrial Production SA MoM	May	-0.80%	-1.20%	1.10%	1.40%
07/13/2016 17:00	EC	Industrial Production WDA YoY	May	1.30%	0.50%	2.00%	2.20%
07/13/2016 19:00	**US**	**MBA Mortgage Applications**	**Jul-08**	**--**	**7.20%**	**14.20%**	**--**
07/13/2016 20:30	**US**	**Import Price Index MoM**	**Jun**	**0.50%**	**0.20%**	**1.40%**	**--**
07/13/2016 22:00	**CA**	**BOC Rate Decision**	**Jul-13**	**0.50%**	**0.50%**	**0.50%**	**--**
07/14/2016 02:00	**US**	**Monthly Budget Statement**	**Jun**	**$19.0b**	**$6.3b**	**$50.5b**	**--**
07/14/2016 06:30	**NZ**	**BusinessNZ Mfg PMI**	**Jun**	**--**	**57.7**	**57.1**	**57.2**
07/14/2016 07:01	UK	RICS House Price Balance	Jun	10%	16%	19%	--
07/14/2016 07:50	JN	Foreign Buying Japan Stocks	Jul-08	--	-¥306.8b	¥113.9b	--
07/14/2016 08:00	**SI**	**GDP YoY**	**2Q A**	**2.20%**	**2.20%**	**1.80%**	**--**
07/14/2016 08:00	**SI**	**GDP SAAR QoQ**	**2Q A**	**0.90%**	**0.80%**	**0.20%**	**--**
07/14/2016 09:30	**AU**	**Employment Change**	**Jun**	**10.0k**	**--**	**17.9k**	**--**
07/14/2016 09:30	**AU**	**Unemployment Rate**	**Jun**	**5.80%**	**--**	**5.70%**	**--**
07/14/2016 09:30	AU	Full Time Employment Change	Jun	--	--	0.0k	--
07/14/2016 09:30	**AU**	**Participation Rate**	**Jun**	**64.80%**	**--**	**64.80%**	**--**
07/14/2016 09:30	AU	New Motor Vehicle Sales MoM	Jun	--	--	-1.10%	--
07/14/2016 09:30	AU	New Motor Vehicle Sales YoY	Jun	--	--	1.70%	--
07/14/2016 11:00	NZ	Non Resident Bond Holdings	Jun	--	--	68.50%	--
07/14/2016 12:00	JN	Tokyo Condominium Sales YoY	Jun	--	--	-14.10%	--
07/14/2016 14:30	**IN**	**Wholesale Prices YoY**	**Jun**	**1.20%**	**--**	**0.79%**	**--**
07/14/2016 19:00	**UK**	**Bank of England Bank Rate**	**Jul-14**	**0.25%**	**--**	**0.50%**	**--**
07/14/2016 19:00	UK	BOE Asset Purchase Target	Jul	375b	--	375b	--
07/14/2016 20:30	**US**	**Initial Jobless Claims**	**Jul-09**	**265k**	**--**	**254k**	**--**
07/14/2016 20:30	CA	New Housing Price Index MoM	May	0.20%	--	0.30%	--
07/14/2016 20:30	US	Continuing Claims	Jul-02	2130k	--	2124k	--
07/14/2016 20:30	**US**	**PPI Final Demand MoM**	**Jun**	**0.30%**	**--**	**0.40%**	**--**
07/14/2016 20:30	US	PPI Ex Food and Energy MoM	Jun	0.10%	--	0.30%	--
07/14/2016 20:30	US	PPI Final Demand YoY	Jun	0.00%	--	-0.10%	--
07/14/2016 20:30	US	PPI Ex Food and Energy YoY	Jun	1.00%	--	1.20%	--
07/14/2016 21:45	US	Bloomberg Consumer Comfort	Jul-10	--	--	43.5	--
07/14/2016	**SK**	**BoK 7-Day Repo Rate**	**Jul-14**	**1.25%**	**--**	**1.25%**	**--**
07/14/2016	**ID**	**Foreign Reserves**	**Jun**	**--**	**--**	**$103.60b**	**--**
07/13/2016 07/15	CH	New Yuan Loans CNY	Jun	1000.0b	--	985.5b	--
07/13/2016 07/15	CH	Money Supply M1 YoY	Jun	22.60%	--	23.70%	--
07/13/2016 07/15	**CH**	**Money Supply M2 YoY**	**Jun**	**11.40%**	**--**	**11.80%**	**--**
07/11/2016 07/15	PH	Budget Balance PHP	May	--	--	55.0b	--
07/13/2016 07/15	IN	Imports YoY	Jun	--	--	-13.20%	--
07/13/2016 07/15	**IN**	**Exports YoY**	**Jun**	**--**	**--**	**-0.80%**	**--**

Source: Bloomberg

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