DAILY TREASURY OUTLOOK

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OCBC Bank

Thursday, December 15, 2016

Highlights

Global	FOMC members unanimously decided to raise its benchmark rate by 25bps, to a new range of 0.5-0.75%, in line with market expectations. More attention will be paid to the fact that most members have shifted up their expectations for rates in the next two years. Compared to 3 months ago when the median expectation was for two rate hikes, it has shifted to three rate hikes in 2017 now. In her press conference, Chair Janet Yellen, said that some FOMC members, but not all of them, have incorporated the potential for more fiscal spending in their outlook. Should President-elect Trump end up carrying out a forceful fiscal stimulus, there is therefore the possibility that the Fed could turn more hawkish still. Dollar strengthened against major currencies, including Yen which is trading close to 118 level this morning.
SG	The survey of professional forecasters conducted by the Monetary Authority of Singapore found its poll participants to be a tad more bearish in December – Singapore's economic growth outlook was trimmed again, with growth pencilled to come in at just 1.4% in 2016, and 1.5% in 2017.
CH	The meltdown in bond market continued with the 10-year government bond yield hitting 3.2% on 14 Dec. China's bond futures have also tumbled. The massive sell-off also triggered numerous rumours about big loss of some asset managers as well as "custodian" bank. Though most of the rumours have been denied subsequently, the recent sell-off has diverted market attention to the liquidity of money market fund as a result of massive sell-off of underlying assets. The possible redemption has fuelled concerns about the snow ball effect, which may lead to more sell-off in the bond market. Credit expansion remained strong in November. New Yuan loan increased by CNY794.6, up from CNY651.3 billion in October. Aggregate financing unexpectedly surged by CNY1.74 trillion, up significantly from CNY896.3 billion in October. M1 grew by 22.7% yoy while M2 grew by 11.4%. The difference between M1 and M2 remains large though the gap has been narrowing.
ID	Bank Indonesia is due to announce its monetary policy decision today. Given the uncertainties surrounding global market sentiment, it is highly unlikely that the central bank will cut its policy rate at the moment, but it may opt to highlight the means to ease the monetary conditions through macroprudential loosening. Separately, Finance Minister Sri Mulyani Indrawati, said that the government is planning to revise income tax and VAT laws, as part of a broader tax reform.
MA	Government is keeping the rebate for electricity tariff at 1.52sen/kWh in the peninsula and 1.20sen/kWh in Sabah and Labuan for the first half of next year.
Commodities	Gold was fairly unchanged given that the recent FOMC rate hike to 1/2 to 3/4 percent is largely priced in, the dollar index was lifted to 101.76 as well. Crude oil however, was largely dragged by the relative stronger greenback, even as US energy inventory builds disappointed market expectations – crude oil inventories fell 2.6 million barrels (est: -1.5 million), gasoline gained a tepid 500k barrels (est: +2.0 million) while distillates stocks declined by 762k barrels (est: +1.0 million).

Major Markets

- **US:** Equities retreated as the Federal Reserve confirmed the much-anticipated rate hike, and projected a steeper rate hike path for 2017. All 11 industry groups in the S&P 500 were negative, as the index declined 0.81%. The Dow and Nasdaq also fell 0.60% and 0.50% respectively. VIX saw a pick-up to 13.19, up 3.7%. US Treasury yields spike upwards by about 10 bps in response to Fed, with the 2- and 10-year benchmark yields standing at 1.27% and 2.57% respectively. Investors appeared surprised with the Fed projecting 3 rate hikes next year, and will look to whether the next hike will come in early in 2017.

- **Singapore:** STI remained flat, closing at 2,954.06 (-0.04%) yesterday, as market-watchers remained on the fence awaiting for the FOMC rate decision last night. Winners included Thai Beverage (+2.4%), Hutchison Port Holdings (+1.15%), while losses seen in Ascandas Real Estate Investment Trust (-2.93%) and Starhub (-2.36%).

Bond Market Updates

- **Market Commentary:** The SGD swap curve bull-flattened as swap rates traded 2-5bps lower across all tenors. In the broader dollar space, the spread on JACI IG corporates was steady at 200bps while the yield on JACI HY corporates was also unchanged at 6.92%. 10y UST yield hit the highest level since 2014, increasing 11bps to 2.58% following the FOMC's decision to raise interest rates as expected. Surprisingly, the Federal Reserve was more hawkish on 2017's hike cycle, indicating that it is targeting to raise interest rates three times, up from 2 that was previously anticipated.

- **Rating Changes:** S&P assigned Hangzhou Finance and Investment Group Co. Ltd. (HFI) a "BBB" long-term credit rating with a stable outlook. The assignment reflects HFI's unsupported group credit profile of "bb-" and S&P's view that there is a very high likelihood that the Hangzhou City Government may extend extraordinary financial support to the company, if needed. Moody's has taken the following rating actions on DBS Bank Ltd. (DBS), DBS Group Holdings Ltd. (DBSH), Oversea-Chinese Banking Corporation Ltd. (OCBC) and United Overseas Bank Ltd. (UOB): (1) Affirmed the "Aa1" deposits and senior debt ratings of DBS, OCBC and UOB; (2) Affirmed the "Aa2" senior unsecured debt rating of DBSH; (3) Downgraded by one notch the subordinated debt and capital instrument ratings of DBS, DBSH, OCBC and UOB and; (4) Downgraded the baseline credit assessments (BCA) and adjusted BCAs of DBS, OCBC and UOB to "a1" from "a3". The "Aa1" senior debt and deposit ratings of DBS, OCBC and UOB were affirmed due to Moody's expectation that the banks will likely benefit from very high government support in case of need. As a result, their ratings now are 3 notches above their "a1" BCA, as compared to 2 notches previously. The outlooks on the banks' ratings were revised to stable from negative, reflecting Moody's view that further solvency pressure will be manageable for these financial institutions. Fitch revised the outlook on PT Japfa Comfeed Indonesia Tbk's (Japfa) issuer default ratings ("BB-") to stable from negative. The revision reflects improved industry dynamics following intervention by the Indonesian government to address the demand-supply imbalance, lower leverage driven mainly by higher profitability and better liquidity.

Key Financial Indicators

Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	101.760	0.68%	**USD-SGD**	1.4371	0.92%
USD-JPY	117.040	1.61%	**EUR-SGD**	1.5140	0.06%
EUR-USD	1.0536	-0.85%	**JPY-SGD**	1.2278	-0.70%
AUD-USD	0.7406	-1.25%	**GBP-SGD**	1.8055	0.17%
GBP-USD	1.2564	-0.74%	**AUD-SGD**	1.0642	-0.35%
USD-MYR	4.4462	0.22%	**NZD-SGD**	1.0229	-0.28%
USD-CNY	6.9049	0.04%	**CHF-SGD**	1.4085	0.11%
USD-IDR	13294	-0.23%	**SGD-MYR**	3.1207	0.32%
USD-VND	22719	0.08%	**SGD-CNY**	4.8521	0.18%

Equity and Commodity

Index	Value	Net change
DJIA	19,792.53	-118.68
S&P	2,253.28	-18.44
Nasdaq	5,436.67	-27.16
Nikkei 225	19,253.61	3.09
STI	2,954.06	-1.17
KLCI	1,643.29	-1.99
JCI	5,262.82	-30.80
Baltic Dry	1,003.00	-49.00
VIX	13.19	0.47

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD LIBOR	Change
1M	-0.3710	--	**O/N**	0.4370	--
2M	-0.3380	--	**1M**	0.7039	--
3M	-0.3160	--	**2M**	0.7825	--
6M	-0.2180	--	**3M**	0.9634	--
9M	-0.1370	--	**6M**	1.2982	--
12M	-0.0810	--	**12M**	1.6540	--

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.30 (+0.01)	1.27 (+0.1)
5Y	1.88 (-0.01)	2.05 (+0.14)
10Y	2.45 (-0.05)	2.57 (+0.1)
15Y	2.78 (-0.05)	--
20Y	2.83 (-0.05)	--
30Y	2.83 (-0.04)	3.18 (+0.05)

Eurozone & Russia Update

	2Y Bond Ylds (bpschg)		10Y Bond Ylds (bpschg)		10Y Bund Spread
Portugal	0.28	0.90	3.78	1.50	3.47
Italy	-0.15	-0.70	1.80	-7.90	1.49
Ireland	-0.50	-1.40	0.88	-5.50	0.57
Greece	7.65	--	7.10	30.60	6.80
Spain	-0.29	0.90	1.40	-2.90	1.10
Russia	2.48	-1.40	4.42	-7.40	4.12

Financial Spread (bps)

	Value	Change
LIBOR-OIS	31.14	-0.23
EURIBOR-OIS	3.28	-0.02
TED	42.53	--

Commodities Futures

Energy	**Futures**	**% chg**	**Soft Commodities**	**Futures**	**% chg**
WTI (per barrel)	51.04	-3.66%	Coffee (per lb)	1.403	0.97%
Brent (per barrel)	53.90	-3.27%	Cotton (per lb)	0.7147	-0.79%
Heating Oil (per gallon)	1.6435	-1.86%	Sugar (per lb)	0.1803	-3.06%
Gasoline (per gallon)	1.5331	-1.13%	Orange Juice (per lb)	2.0160	-0.30%
Natural Gas (per MMBtu)	3.5400	1.90%	Cocoa (per mt)	2,308	1.14%

Base Metals	**Futures**	**% chg**	**Grains**	**Futures**	**% chg**
Copper (per mt)	5,722.0	0.56%	Wheat (per bushel)	3.9150	-1.63%
Nickel (per mt)	11,371.0	0.26%	Soybean (per bushel)	10.238	-0.41%
Aluminium (per mt)	1,753.8	0.26%	Corn (per bushel)	3.5175	-1.26%

Precious Metals	**Futures**	**% chg**	**Asian Commodities**	**Futures**	**% chg**
Gold (per oz)	1,161.3	0.40%	Crude Palm Oil (MYR/MT)	3,189.0	0.92%
Silver (per oz)	17.152	1.43%	Rubber (JPY/KG)	269.3	6.02%

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

Key Economic Indicators

Date Time		Event		Survey	Actual	Prior	Revised
12/14/2016 07:00	**SK**	**Unemployment rate SA**	**Nov**	**3.70%**	**3.60%**	**3.70%**	**--**
12/14/2016 12:30	**JN**	**Industrial Production MoM**	**Oct F**	**--**	**0.00%**	**0.10%**	**--**
12/14/2016 12:30	JN	Industrial Production YoY	Oct F	--	-1.40%	-1.30%	--
12/14/2016 14:30	**IN**	**Wholesale Prices YoY**	**Nov**	**3.10%**	**3.15%**	**3.39%**	**--**
12/14/2016 15:01	CH	New Yuan Loans CNY	Nov	720.0b	794.6b	651.3b	--
12/14/2016 15:01	**CH**	**Money Supply M2 YoY**	**Nov**	**11.50%**	**11.40%**	**11.60%**	**--**
12/14/2016 15:45	**FR**	**CPI EU Harmonized YoY**	**Nov F**	**0.70%**	**0.70%**	**0.70%**	**--**
12/14/2016 15:45	**FR**	**CPI YoY**	**Nov F**	**0.50%**	**0.50%**	**0.50%**	**--**
12/14/2016 17:00	**IT**	**CPI EU Harmonized YoY**	**Nov F**	**0.10%**	**0.10%**	**0.10%**	**--**
12/14/2016 17:30	**UK**	**Claimant Count Rate**	**Nov**	**2.30%**	**2.30%**	**2.30%**	**--**
12/14/2016 17:30	**UK**	**Jobless Claims Change**	**Nov**	**6.5k**	**2.4k**	**9.8k**	**13.3k**
12/14/2016 17:30	**UK**	**ILO Unemployment Rate 3Mths**	**Oct**	**4.80%**	**4.80%**	**4.80%**	**--**
12/14/2016 18:00	EC	Industrial Production SA MoM	Oct	0.10%	-0.10%	-0.80%	-0.90%
12/14/2016 20:00	**US**	**MBA Mortgage Applications**	**Dec-09**	**--**	**-4.00%**	**-0.70%**	**--**
12/14/2016 21:30	**US**	**Retail Sales Advance MoM**	**Nov**	**0.30%**	**0.10%**	**0.80%**	**0.60%**
12/14/2016 21:30	US	Retail Sales Ex Auto MoM	Nov	0.40%	0.20%	0.80%	0.60%
12/14/2016 21:30	US	Retail Sales Ex Auto and Gas	Nov	0.40%	0.20%	0.60%	0.50%
12/14/2016 21:30	**US**	**PPI Final Demand MoM**	**Nov**	**0.10%**	**0.40%**	**0.00%**	**--**
12/14/2016 21:30	US	PPI Final Demand YoY	Nov	0.90%	1.30%	0.80%	--
12/14/2016 21:30	US	PPI Ex Food and Energy YoY	Nov	1.30%	1.60%	1.20%	--
12/14/2016 22:15	**US**	**Industrial Production MoM**	**Nov**	**-0.30%**	**-0.40%**	**0.00%**	**0.10%**
12/14/2016 22:15	US	Capacity Utilization	Nov	75.10%	75.00%	75.30%	75.40%
12/15/2016 03:00	**US**	**FOMC Rate (Upper Bound)**	**Dec-14**	**0.75%**	**0.75%**	**0.50%**	**--**
12/15/2016 05:30	**NZ**	**BusinessNZ Manufacturing PMI**	**Nov**	**--**	**54.4**	**55.2**	**55.1**
12/15/2016 08:30	**AU**	**Employment Change**	**Nov**	**17.5k**	**--**	**9.8k**	**10.9k**
12/15/2016 08:30	**AU**	**Unemployment Rate**	**Nov**	**5.60%**	**--**	**5.60%**	**--**
12/15/2016 08:30	**AU**	**Participation Rate**	**Nov**	**64.50%**	**--**	**64.40%**	**--**
12/15/2016 08:30	**JN**	**Nikkei Japan PMI Mfg**	**Dec P**	**--**	**--**	**51.3**	**--**
12/15/2016 13:00	**SI**	**Retail Sales YoY**	**Oct**	**0.30%**	**--**	**2.00%**	**--**
12/15/2016 14:00	JN	Machine Tool Orders YoY	Nov F	--	--	-5.60%	--
12/15/2016 16:00	**FR**	**Markit France Mfg PMI**	**Dec P**	**51.8**	**--**	**51.7**	**--**
12/15/2016 16:00	FR	Markit France Services PMI	Dec P	51.9	--	51.6	--
12/15/2016 16:00	FR	Markit France Composite PMI	Dec P	51.6	--	51.4	--
12/15/2016 16:30	**GE**	**Markit/BME Germany Mfg PMI**	**Dec P**	**54.5**	**--**	**54.3**	**--**
12/15/2016 16:30	GE	Markit Germany Services PMI	Dec P	54.9	--	55.1	--
12/15/2016 16:30	GE	Markit/BME Germany CompPMI	Dec P	54.9	--	55	--
12/15/2016 17:00	**EC**	**Markit Eurozone Mfg PMI**	**Dec P**	**53.7**	**--**	**53.7**	**--**
12/15/2016 17:00	EC	Markit Eurozone Services PMI	Dec P	53.8	--	53.8	--
12/15/2016 17:00	EC	Markit Eurozone Composite PMI	Dec P	53.9	--	53.9	--
12/15/2016 17:30	**UK**	**Retail Sales Ex Auto Fuel MoM**	**Nov**	**0.00%**	**--**	**2.00%**	**--**
12/15/2016 17:30	**UK**	**Retail Sales Ex Auto Fuel YoY**	**Nov**	**6.00%**	**--**	**7.60%**	**--**
12/15/2016 17:30	**UK**	**Retail Sales Inc Auto Fuel MoM**	**Nov**	**0.00%**	**--**	**1.90%**	**--**
12/15/2016 17:30	**UK**	**Retail Sales Inc Auto Fuel YoY**	**Nov**	**5.90%**	**--**	**7.40%**	**--**
12/15/2016 20:00	**UK**	**Bank of England Bank Rate**	**Dec-15**	**0.25%**	**--**	**0.25%**	**--**
12/15/2016 20:00	UK	BOE Asset Purchase Target	Dec	435b	--	435b	--
12/15/2016 21:30	CA	Manufacturing Sales MoM	Oct	0.40%	--	0.30%	--
12/15/2016 21:30	US	Current Account Balance	3Q	-$111.6b	--	-$119.9b	--
12/15/2016 21:30	**US**	**Empire Manufacturing**	**Dec**	**4**	**--**	**1.5**	**--**
12/15/2016 21:30	**US**	**CPI MoM**	**Nov**	**0.20%**	**--**	**0.40%**	**--**
12/15/2016 21:30	**US**	**CPI Ex Food and Energy MoM**	**Nov**	**0.20%**	**--**	**0.10%**	**--**
12/15/2016 21:30	US	CPI YoY	Nov	1.70%	--	1.60%	--
12/15/2016 21:30	**US**	**Initial Jobless Claims**	**Dec-10**	**255k**	**--**	**258k**	**--**
12/15/2016 21:30	US	Continuing Claims	Dec-03	2003k	--	2005k	--
12/15/2016 21:30	**US**	**Philadelphia Fed Biz Outlook**	**Dec**	**9.1**	**--**	**7.6**	**--**
12/15/2016 22:45	**US**	**Markit US Manufacturing PMI**	**Dec P**	**54.5**	**--**	**54.1**	**--**
12/15/2016	**SK**	**BoK 7-Day Repo Rate**	**Dec-15**	**1.25%**	**--**	**1.25%**	**--**
12/15/2016	**ID**	**Trade Balance**	**Nov**	**$818m**	**--**	**$1207m**	**--**
12/15/2016	ID	Exports YoY	Nov	12.50%	--	4.59%	--
12/15/2016	**PH**	**Overseas Remittances YoY**	**Oct**	**10.80%**	**--**	**6.70%**	**--**
12/15/2016	PH	Overseas Workers Remittances	Oct	$2365m	--	$2383m	--
12/14/2016 12/15	**IN**	**Exports YoY**	**Nov**	**--**	**--**	**9.60%**	**--**

Source: Bloomberg

OCBC Treasury Research	
Macro Research	**Credit Research**
Selena Ling	**Andrew Wong**
LingSSSelena@ocbc.com	WongVKAM@ocbc.com
Emmanuel Ng	**Wong Liang Mian (Nick)**
NgCYEmmanuel@ocbc.com	NickWong@ocbc.com
Wellian Wiranto	**Ezien Hoo**
WellianWiranto@ocbc.com	EzienHoo@ocbc.com
Tommy Xie Dongming	**Wong Hong Wei**
XieD@ocbc.com	WongHongWei@ocbc.com
Barnabas Gan	
BarnabasGan@ocbc.com	
Terence Wu	
TerenceWu@ocbc.com	