DAILY TREASURY OUTLOOK

OCBC Bank

Monday, May 16, 2016

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Highlights

Global	Wall Street closed lower on Friday notwithstanding robust retail sales data, with the USD as the key beneficiary. Given weak Chinese data cues over the weekend, market sentiments are likely to be dampened at the start of the week as investors refocus on China's downside risks amid a relatively light economic data calendar today. Of note will be Thailand's 1Q16 GDP reading due later this morning with market anticipating a slowdown to 0.6% qoq sa (+2.8% yoy), following a 0.8% qoq sa (+2.8% yoy) print in 4Q15, as well as US' NAHB housing market and Empire manufacturing, Indonesia's trade data for April and Japan's machine tool orders. For this week, key policy meetings to watch include BNM (expected to remain on hold at 3.25% after 1Q16 GDP growth upside surprise) and BI (also anticipated to be static) on 10 May, as well as the 26-27 April FOMC minutes due Wednesday.
US	April retail sales surprised on the upside by rebounding a larger than expected 1.3% mom (strongest in a year) from March's -0.3% print, with broad-based increases in 11 of the 13 major retail categories. Core retail sales excluding auto and gas also expanded by 0.6% mom up from a revised +0.2% gain, suggesting that the US economy could see a healthier 2Q GDP growth after a soft 1Q16. Meanwhile, PPI remained tepid but rose for the first time in three month by +0.2% mom, higher than the -0.1% reading seen in March, with core PPI also registering +0.1% mom, and indicating that inflationary pressures remained subdued. Meanwhile, the University of Michigan sentiments index rebounded strongly from 89.0 in April to a near-1 year high of 95.8 in May, with the current conditions and expectations gauges both seeing healthy improvements to 108.6 and 87.5 respectively, up from 106.7 and 77.6 previously, and led by lower-income and younger households. Interestingly, the 1-year and 5-10 year inflation expectations gauges differed at 2.5% (previously 2.8%) and 2.6% (previously 2.5%).
EZ	The German economy grew a stronger than expected 0.7% qoq sa (+1.6% yoy) in 1Q16, the fastest pace in two years, as household and public consumption rose at the start of the year and investment also accelerated to offset weaker export growth. However the growth estimates for the Euro-area was revised down a tad as Greece contracted 0.4%.
Singapore	Retail sales recovered 5.1% yoy (-1.4% mom sa) in March, close to our forecast for +5.4% yoy (0% mom sa) and above market consensus forecast for +3.6% yoy (-0.1% mom sa). The February data was also revised marginally higher to -3.1% yoy (+1.8% mom sa). Core retail sales excluding autos continued to shrink by a milder 2.2% yoy (-0.6% mom sa) in March, versus the revised 9.5% yoy contraction in February. Motor vehicle sales had surged 41.3% yoy (-4.8% mom sa), whereas other sales drags came from telecomm, optical goods & books, watches & jewellery, F&B, and recreational goods which also declined by double-digits on-year in March and suggesting that consumer sentiments have turned more cautious. In contrast, there was modest growth seen in medical goods & toiletries, furniture & household equipment, mini-marts & convenience stores, and supermarkets.

Major Market

- **US:** Equities markets ended a volatile week lower, dragged down mainly by a weak performance from consumer retail companies. This marked the 3rd consecutive week of declines. S&P 500 (-0.85%), Dow (-1.05%) and Nasdaq (-0.41%). US Treasuries tracked equity market's declines, with 2-year and 10-year bonds yielding 0.75% and 1.70% respectively. Volatility rose, with VIX ending higher by 4.37%.

- **Singapore:** The STI declined 0.38% to close at 2734.91 on Friday, and may continue its slippage today amid weaker China data cues. Wall Street also closed lower on Friday and the morning cue from Kospi is also softer. The STI could see support and resistance at 2700 and 2740 respectively. With the resurgent USD, the USDSGD remains pressured higher, but the short-term interest rates appear relatively immune last week, with the 3-month SIBOR and SOR creeping lower to 0.99% (lowest since 24 August 2015) and 0.88% (low since 13 April which was pre-MPS) respectively amid flush onshore liquidity. SGS bonds could benefit from the flight to quality trade today, tracking the UST bond market rally on Friday, as investors focus on softer Chinese data over stronger US retail sales.

- **China:** April's economic and financial data released over the weekend mostly disappointed, signalling that the recovery is not one-way straight. Property market remains a key driver to growth in April. However, the increasing reliance of property market also raised concern about the sustainability of recovery, which is grounded on bubble. Nevertheless, we don't expect more easing in the near term. Also, we try not to over-read April financial and credit data as those data are distorted by temporary issues such as local government debt swap and the surge in fiscal deposit.

- **Hong Kong:** Economic growth moderated significantly from 1.9% to 0.8% yoy in 1Q 2016. Private consumption expenditure increased at a slower pace of 1.1% yoy while investment slackened further from -9.4% yoy to -10.1% yoy, signalling that enterprises have become more cautious amid the bleak economic outlook at home and abroad. In addition, total exports of goods continued to contract, slumping 3.6% yoy after the drop of 0.5% yoy in previous quarter. Exports of services also decreased by 4.9% yoy, among which exports of travel services declined 13.3% yoy. We believe that the uncertainty of the global economy had resulted in the drag in total exports of goods while HK's unstable political environment, Chinese anti-corruption campaign and the stronger HKD resulted in the dip in travel service exports. Looking ahead, we expect the HK economy to continuing facing headwinds amid weakening tourism activities, soft external demand and depressed local sentiment.

- **Indonesia:** President Joko Widodo is on an official visit to South Korea today. He is due to meet with Lotte Group and Posco today, apart from signing MoUs in areas such as special economic zones, creative industry, and clean energy.

- **Malaysia:** Q4 GDP came in at 4.2%yoy, better than market expectation of 4.0%. Despite the beat, the figure does mark the slowest growth spurt since mid-2009, however, and details show weakness in the exports sector. Encouragingly, however, domestic consumption remained strong and will likely be the major driver to keep growth within the 4.0-4.5% that the central bank has forecasted for the year.

Bond Market Updates

- **Market Commentary:** The SGD swap curve bear flattened last Friday, with the short-term rates trading 3bps higher while the middle-term rates traded 1bps lower and the long-term rates traded 1-2bps lower. Flows in the SGD corporates were heavy, where we saw better buyers in SOCGEN 4.3%'26s, STANLN 4.4%'26s FHREIT 4.45%'49s and better sellers in GEMAU 5.5%'19s. We also saw mixed interests in UOB 4%'49s, ABNANV 4.75%'26s, DBSSP 3.1%'23s and OLAMSP 6%'22s. In the broader dollar space, the spread on JACI IG corporates tightened by 1bps to 227bps, while the yield on the JACI HY Corporate decreased 5bps to 7.22%. 10y UST yields decreased by 6bps to 1.70% as the S&P 500 ended the week on a soft note.

- **New Issues:** ValueMax has scheduled investor meetings in Singapore on May 17 2016.

- **Rating Changes:** Moody's has reaffirmed Baidu's "A3" rating, while revising its outlook to stable from positive. The change in the rating outlook reflects Moody's expectation of weaker revenue growth over the next 12-18 months due to potential negative impacts on Baidu's reputation and revenue related to controversy from its medical advertisements. Moody's confirmed its "Aa3" ratings of China Shenhua Energy Company Limited, concluding a review for downgrade announced on 17 February 2016. The confirmation of the rating reflects Shenhua's resilient credit profile amidst weak coal prices, its relatively healthy leverage ratio and lastly the four notches of uplift including parent company (Shenhua Group) and Chinese government support. Outlook remains negative. S&P downgraded Toshiba Corporation's ratings 2 notches to "B" from "B+", maintaining their view that Toshiba's business risk profile is at the lower end of the rating category. S&P expects EBITDA margins to improve but likely to remain below 8% this fiscal year. Outlook is negative. S&P lowered Chesapeake Energy Corp.'s corporate credit rating to "SD" from "CCC" following the completion of its distressed exchange offer.

Key Financial Indicators

Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	94.608	0.49%	USD-SGD	1.3722	-0.06%
USD-JPY	108.630	-0.36%	EUR-SGD	1.5517	-0.66%
EUR-USD	1.1132	0.00%	JPY-SGD	1.2631	0.28%
AUD-USD	0.7271	-0.74%	GBP-SGD	1.9705	-0.68%
GBP-USD	1.4365	-0.60%	AUD-SGD	0.9974	-0.84%
USD-MYR	4.0310	0.15%	NZD-SGD	0.9288	-0.80%
USD-CNY	6.5320	0.23%	CHF-SGD	1.4065	-0.59%
USD-IDR	13325	0.20%	SGD-MYR	2.9410	0.08%
USD-VND	22358	0.22%	SGD-CNY	4.7590	0.15%

Equity and Commodity

Index	Value	Net change
DJIA	17,535.32	-185.20
S&P	2,046.61	-17.50
Nasdaq	4,717.68	-19.70
Nikkei 225	16,412.21	-234.10
STI	2,734.91	-10.50
KLCI	1,628.26	-20.70
JCI	4,761.72	-41.60
Baltic Dry	600.00	21.00
VIX	15.04	0.60

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD LIBOR	Change
1M	-0.3490	--	O/N	0.3855	0.0005
2M	-0.2940	--	1M	0.4340	-0.0005
3M	-0.2570	0.0010	2M	0.5164	--
6M	-0.1440	--	3M	0.6276	0.0015
9M	-0.0770	0.0020	6M	0.9069	0.0003
12M	-0.0120	--	12M	1.2289	0.0020

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.01 (--)	0.75 (-0.01)
5Y	1.56 (--)	1.21 (-0.03)
10Y	1.95 (--)	1.70 (-0.05)
15Y	2.28 (-0.01)	--
20Y	2.35 (-0.01)	--
30Y	2.47 (-0.01)	2.55 (-0.05)

Eurozone & Russia Update

	2Y Bond Ylds (bpschg)		10Y Bond Ylds (bpschg)		10Y Bund Spread %
Portugal	0.63	-1.30	3.16	-7.90	3.03
Italy	-0.07	-1.10	1.47	-3.30	1.35
Ireland	-0.36	-0.10	0.81	-5.60	0.68
Greece*	9.05	48.80	7.42	2.00	7.30
Spain	-0.07	-0.90	1.60	-2.40	1.48
Russia^	3.01	2.30	4.71	-2.40	4.58

Financial Spread (bps)

	Value	Change
LIBOR-OIS	24.43	-0.35
EURIBOR-OIS	8.15	-0.25
TED	36.31	0.15

* 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)	46.21	-1.05%	Coffee (per lb)	1.288	0.47%
Brent (per barrel)	47.83	-0.52%	Cotton (per lb)	0.6062	-0.18%
Heating Oil (per gallon)	1.403	0.65%	Sugar (per lb)	0.1674	-1.41%
Gasoline (per gallon)	1.59	0.31%	Orange Juice (per lb)	1.4535	-1.09%
Natural Gas (per MMBtu)	2.096	-2.74%	Cocoa (per mt)	2,961	-1.89%

Base Metals	Futures	% chg	Grains	Futures	% chg
Copper (per mt)	4,627.5	0.31%	Wheat (per bushel)	4.6500	1.42%
Nickel (per mt)	8,600	0.10%	Soybean (per bushel)	10.550	-0.89%
Aluminium (per mt)	1,517.3	-0.80%	Corn (per bushel)	3.8200	-0.84%

Precious Metals	Futures	% chg	Asian Commodities	Futures	% chg
Gold (per oz)	1,272.7	0.12%	Crude Palm Oil (MYR/MT)	2,635.0	-1.50%
Silver (per oz)	17.115	0.16%	Rubber (JPY/KG)	164.0	-6.18%

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

CFTC Commodities Futures and Options

For the week ended: 10 May 2016

	Current	Previous	Net Chg		Current	Previous	Net Chg
Soybean	246,150	207,763	38,387	Corn	134,391	176,658	-42,267
Sugar	262,049	238,765	23,284	Nymex Crude	362,159	390,844	-28,685
Coffee	6,790	-2,553	9,343	Copper	-22,808	-7,419	-15,389
Natural Gas	-135,841	-142,656	6,815	Wheat	-80,845	-71,425	-9,420
Lean Hogs	64,048	57,314	6,734	Gold	293,409	299,896	-6,487
Silver	80,275	75,661	4,614	Cotton	37,139	43,555	-6,416
Heating Oil	12,767	11,230	1,537	RBOB Gasoline	68,869	70,526	-1,657
Platinum	39,518	38,339	1,179	Palladium	7,442	8,019	-577
Cocoa	55,020	53,969	1,051	Live Cattle	30,684	30,276	408

Source: CFTC

Key Economic Indicators

Date Time		Event		Survey	Actual	Prior	Revised
05/13/2016 06:45	NZ	Retail Sales Ex Inflation QoQ	1Q	1.00%	0.80%	1.20%	1.10%
05/13/2016 07:50	**JN**	**Money Stock M2 YoY**	**Apr**	**3.20%**	**3.30%**	**3.20%**	**--**
05/13/2016 07:50	**JN**	**Money Stock M3 YoY**	**Apr**	**2.60%**	**2.70%**	**2.60%**	**--**
05/13/2016 08:58	**SK**	**BoK 7-Day Repo Rate**	**May-13**	**1.50%**	**1.50%**	**1.50%**	**--**
05/13/2016 12:00	**MA**	**GDP YoY**	**1Q**	**4.00%**	**4.20%**	**4.50%**	**--**
05/13/2016 12:30	**JN**	**Tertiary Industry Index MoM**	**Mar**	**-0.10%**	**-0.70%**	**-0.10%**	**0.20%**
05/13/2016 13:00	**SI**	**Retail Sales YoY**	**Mar**	**3.60%**	**5.10%**	**-3.20%**	**-3.10%**
05/13/2016 13:00	SI	Retail Sales SA MoM	Mar	-0.10%	-1.40%	1.70%	1.80%
05/13/2016 14:00	**GE**	**CPI MoM**	**Apr F**	**-0.40%**	**-0.40%**	**-0.40%**	**--**
05/13/2016 14:00	**GE**	**CPI YoY**	**Apr F**	**-0.10%**	**-0.10%**	**-0.10%**	**--**
05/13/2016 14:00	GE	CPI EU Harmonized MoM	Apr F	-0.50%	-0.50%	-0.50%	--
05/13/2016 14:00	**GE**	**CPI EU Harmonized YoY**	**Apr F**	**-0.30%**	**-0.30%**	**-0.30%**	**--**
05/13/2016 14:00	**GE**	**GDP SA QoQ**	**1Q P**	**0.60%**	**0.70%**	**0.30%**	**--**
05/13/2016 14:00	GE	GDP WDA YoY	1Q P	1.50%	1.60%	1.30%	--
05/13/2016 14:00	**GE**	**GDP NSA YoY**	**1Q P**	**1.20%**	**1.30%**	**2.10%**	**--**
05/13/2016 15:30	**TH**	**Foreign Reserves**	**May-04**	**--**	**$177.8b**	**$178.6b**	**--**
05/13/2016 16:00	**IT**	**GDP WDA QoQ**	**1Q P**	**0.30%**	**0.30%**	**0.10%**	**0.20%**
05/13/2016 16:00	**IT**	**GDP WDA YoY**	**1Q P**	**0.90%**	**1.00%**	**1.00%**	**1.10%**
05/13/2016 16:01	CH	New Yuan Loans CNY	Apr	800.0b	555.6b	1370.0b	--
05/13/2016 16:01	**CH**	**Money Supply M2 YoY**	**Apr**	**13.50%**	**12.80%**	**13.40%**	**--**
05/13/2016 16:30	**HK**	**GDP YoY**	**1Q**	**1.50%**	**0.80%**	**1.90%**	**--**
05/13/2016 17:00	**EC**	**GDP SA QoQ**	**1Q P**	**0.60%**	**0.50%**	**0.60%**	**--**
05/13/2016 17:00	**EC**	**GDP SA YoY**	**1Q P**	**1.60%**	**1.50%**	**1.60%**	**--**
05/13/2016 17:12	**IT**	**CPI EU Harmonized YoY**	**Apr F**	**-0.30%**	**-0.40%**	**-0.30%**	**--**
05/13/2016 20:26	IN	Imports YoY	Apr	--	-23.10%	-21.60%	--
05/13/2016 20:26	**IN**	**Exports YoY**	**Apr**	**--**	**-6.70%**	**-5.50%**	**--**
05/13/2016 20:30	**US**	**Retail Sales Advance MoM**	**Apr**	**0.80%**	**1.30%**	**-0.30%**	**-0.30%**
05/13/2016 20:30	US	Retail Sales Ex Auto MoM	Apr	0.50%	0.80%	0.20%	0.40%
05/13/2016 20:30	**US**	**PPI Final Demand MoM**	**Apr**	**0.30%**	**0.20%**	**-0.10%**	**--**
05/13/2016 20:30	US	PPI Ex Food and Energy MoM	Apr	0.10%	0.10%	-0.10%	--
05/13/2016 22:00	**US**	**U. of Mich. Sentiment**	**May P**	**89.5**	**95.8**	**89**	**--**
05/14/2016 13:30	**CH**	**Industrial Production YoY**	**Apr**	**6.50%**	**6.00%**	**6.80%**	**--**
05/14/2016 13:30	CH	Retail Sales YoY	Apr	10.60%	10.10%	10.50%	--
05/16/2016 07:50	**JN**	**PPI YoY**	**Apr**	**-3.70%**	**--**	**-3.80%**	**--**
05/16/2016 10:30	TH	GDP SA QoQ	1Q	0.60%	--	0.80%	--
05/16/2016 10:30	**TH**	**GDP YoY**	**1Q**	**2.80%**	**--**	**2.80%**	**--**
05/16/2016 14:00	JN	Machine Tool Orders YoY	Apr P	--	--	-21.20%	--
05/16/2016 14:30	**IN**	**Wholesale Prices YoY**	**Apr**	**-0.23%**	**--**	**-0.85%**	**--**
05/16/2016 20:30	**US**	**Empire Manufacturing**	**May**	**6.5**	**--**	**9.56**	**--**
05/16/2016	**ID**	**Trade Balance**	**Apr**	**$187m**	**--**	**$497m**	**--**
05/16/2016	ID	Exports YoY	Apr	-10.85%	--	-13.51%	--
05/16/2016	**PH**	**Overseas Remittances YoY**	**Mar**	**1.10%**	**--**	**9.10%**	**--**
05/16/2016	PH	Overseas Workers Remittances	Mar	$2445m	--	$2110m	--
05/16/2016 05/20	PH	Budget Balance PHP	Mar	--	--	-34.6b	--

Source: Bloomberg

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