

Highlights

Global	<p>FOMC chair Yellen's congressional testimony managed to soothe market concerns with her central message that "my colleagues on the FOMC and I expect that, with further gradual adjustments in the stance of monetary policy, the economy will continue to expand at a moderate pace over the next couple of years, with the job market strengthening somewhat further and inflation rising to 2 percent". She cited that "considerable uncertainty always attends the outlook...for example, uncertainty about when – and how much – inflation will respond to tightening resource utilization". She also affirmed that "changing the target range for the federal funds rate is our primary means of adjusting the stance of monetary policy...we do not intend to use the balance sheet as an active tool for monetary policy in normal times" and that interest rates "would not have to rise all that much further". This lent credence to market consensus view that the Fed would begin unwinding its balance sheet in September and hike for the third time in December. Wall Street closed higher and UST bonds gained overnight. As such, Asian bourses may also tread higher this morning in relief trading, while keeping an eye on BNM and BOK policy meetings (tipped to be static at 3% and 1.25% respectively). Today's economic data release calendar comprises China's trade data and US' PPI and initial jobless claims. Yellen testifies before the Senate banking panel today but is likely to repeat the same message.</p>
US	<p>The Fed's Beige Book highlighted that "economic activity expanded across all twelve Federal Reserve Districts in June...and expected modest to moderate gains in the months ahead".</p>
CA	<p>Bank of Canada hiked its policy rate for the first time since 2010 by 25bps to 0.75%, making it the G7 country to follow in the US footsteps to hike rates. BOC said "future adjustments...will be guided by incoming data".</p>
SG	<p>Retail sales unexpectedly fell 1.0% mom sa (+0.9% yoy) in May, down from a revised 1.7% mom sa gain (+2.7% yoy) in April. This is the slowest retail sales growth since February 2017, and also the weakest May performance in three years. Drags were seen across many retail segments in May, ranging from wearing apparel & footwear (-10.5% mom sa and -4.5% yoy), recreational goods (-9.0% mom sa and -3.3% yoy) and watches & jewellery (-7.4% mom sa and +0.3% yoy). Given that the labour market remained relatively steady and domestic confidence rose after the 1Q17 GDP surprise, it is unlikely that softer private consumption is behind the recent retail weakness. Longer-term, the migration to online shopping is probably a structural shift. Motor vehicle sales were the outperformer and grew by 8.0% mom (+2.0% yoy). Retail sales excluding autos also declined 3.0% mom sa in May, and even the 0.6% yoy gain was a sharp moderation from the 5.0% yoy expansion in April. With the ongoing Great Singapore Sale season, it remains to be seen if retail sales would improve. Moreover, COE premiums also continued to soften for categories A, B and E in the two June tenders so car demand may not prove as resilient as in early May. Retail sales expanded by a tepid 1% for Jan-May17 compared to the 3.4% in Jan-May16.</p>

Major Markets

- **US:** Yellen's testimony gave a tacit nod to the inflation concerns and reiterated a controlled pace of tightening. Nevertheless, markets appear to interpret the testimony as dovish, sparking an equity and bond rally. The Dow rose 0.58% to hit a new record high of 21,532. The S&P 500 and Nasdaq Composite also registered strong gains of 0.73% and 1.10% respectively. All 11 industry sectors in the S&P 500 ended in the positive, with the strongest gains in tech and real estate, while energy and financials were the relative laggards. VIX closed at 10.30, down 5.4%. Meanwhile, Treasury yields were softer as investors appear to be expecting a more gradual rate hike path ahead. Market implied odds for a Sep rate hike came off further from already-low levels. 2y and 10y benchmark yields stood at 1.34% and 2.32%, down 3-5 bps.
- **Singapore:** The STI fell another 0.31% to close at 3208.91 yesterday but is likely to hold its head above the 3200 support handle today amidst a more upbeat trading tone post-Yellen's testimony. Morning cues from Nikkei and Kospi are also soft. STI's support and resistance are tipped at 3200 and 3220 respectively. With UST bond yields rallying by 1-5bps yesterday led by the belly of the curve, SGS bonds are likely to mirror the action as well. which traded largely flat yesterday may see a firmer tone today. The 3-month SOR eased from a recent high of 1.01983% on 7 July back below the 1% handle to 0.95% yesterday, whereas the 3-month SIBOR climbed further to 1.1008% and widening the spread back to 15bps. As highlighted in our SGS monthly report yesterday, the SOR uptick had pressured the shorter-dated domestic T-bills and we expect further volatility with the ongoing repricing of global market valuations on the prospect of coordinated withdrawal of monetary policy accommodation.
- **Macau:** Housing transactions (1567 deals) grew for the 15th consecutive month in May and was up at a faster pace by 46.9% yoy. Strong housing demand in turn translated into higher demand for mortgage with approved new mortgage loans increasing further by 6.3% yoy to MOP5.74 billion, the highest level since June 2014. Meanwhile, housing prices rose for the eighth consecutive month by 48.3% yoy to MOP114,463 per square meter. An expected Prime Rate hike later this year and the new housing cooling measure are expected to hit demand, especially in the secondary market. Nevertheless, the impact of a mere 25 bps hike in Prime Rate and the cooling measure are likely to be short-lived as strong domestic recovery may continue to support housing demand. On the supply front, housing completions edged up 302% yoy over the first five months to 651 units. This is attributed to the notable growth of housing starts during 2015 and 2016. However, the new home supply was well absorbed by the strong demand which was fueled by resilient performance of the gaming sector, tight labor market and low borrowing costs. Therefore, though housing starts increased by 6% yoy to 2978 units over the first five months, it may not cause any notable correction in the housing market. As such, we revise our forecast on housing prices growth for 2017 up to 0% - 5% yoy.
- **Malaysia:** May's factory output rises by 4.6% yoy, compared to market expectation of 4.1%. The industrial production growth is said to have been led by gains in manufacturing and electricity.
- **Indonesia:** Finance Minister Sri Mulyani Indrawati said that Indonesia seeks to raise its tax-to-GDP ratio to 16% by 2019. The current ratio stands at about 10.3%, which is "low and unacceptable" according to her. She added that the government is proposing changes to taxation rules including those on value-added and income taxes.

- **China:** China's broad money supply M2 growth continued to decelerate to a record low of 9.4% yoy in June. The deceleration of M2 was mainly the result of the contraction of deposits by non-bank financial institutions as those institutions started to unwind their interbank exposure due to China's financial de-leverage campaign. As we mentioned last month, the single digit M2 growth could be the new normal going forwards for China. However, both new Yuan loan and aggregate social financing beat market expectation, up by CNY1.54 trillion and CNY1.78 trillion respectively. The recent de-leverage push has driven the funding demand back to on-balance sheet from off-balance sheet. That's why new Yuan loan continued to surprise the market on the upside. New Yuan loan increased by almost CNY8 trillion in the first half of 2017, we think PBoC may ease its loan quota in the second half to support the on-balance sheet lending.
- **Commodities:** WTI held above US\$45 per barrel after breaching US\$46 in intra-day trading. US crude stockpiles saw an unexpectedly large decline, down 7.56m barrels last week.

Bond Market Updates

- **Market Commentary:** The SGD swap curve traded downwards yesterday, with swap rates trading 6-8bps lower across all tenors. Flows in SGD corporates were heavy, with better buying seen in HSBC 4.7%-PERPs, OLAMSP 5.5%-PERPs, and better selling seen in uobsp 3.5%'29s. In the broader dollar space, the spread on JACI IG Corporates rose 1bps to 186bps, while the yield on JACI HY Corporates fell 1bps to 6.87%. 10y UST yields fell 4bps to 2.31% after Federal Reserve Chairwoman Janet Yellen wavered over the transitory nature of inflation in her testimony.
- **New Issues:** ARA Asset Management Ltd has priced a SGD300mn Perp NC5 at 5.2%, tightening from initial guidance of the 5.5% area. Softbank has priced a two-tranche deal, with the USD2.75bn Perp NC6 priced at 6%, tightening from initial guidance of 6.375%; and the USD 1.75bn Perp NC10 priced at 6.875%, tightening from initial guidance of 7.125%. The expected issue ratings are 'B+/Ba3/NR'. CNAC (HK) Finbridge Company Ltd has priced a three-tranche deal (guaranteed by China National Chemical Corp), with the USD500mn 3-year bond priced at CT3+150bps, tightening from initial guidance of CT3+185bps; the USD1.5bn 5-year bond at CT5+165bps, tightening from initial guidance of CT5+200bps; and the USD1bn 10-year bond at CT10+185bps, tightening from initial guidance of CT10+220bps. The expected issue ratings are 'BBB/NR/A-'. PTTEP Treasury Center Company Ltd has priced a USD500mn Perp NC5 (guaranteed by PTT Exploration and Production PCL) at 4.60%, tightening from initial guidance of 4.875%. The expected issue ratings are 'NR/Baa3/NR'. Powerlong Real Estate Holdings Ltd has priced a USD200mn Perp NC5 at 6.25%, tightening from initial guidance of 6.375%. The expected issue ratings are 'B-/B2/NR'. SMBC Aviation Capital Finance DAC has priced a USD500mn 5-year bond at CT5+115bps, tightening from initial guidance of CT5+135bps. The expected issue ratings are 'BBB+/NR/A-'. Shandong Energy Australia Pty Ltd has scheduled investor meetings for potential USD bond issuance (guaranteed by Shandong Energy Group Co) from 13 Jul. The expected issue ratings are 'BB/NR/NR'. Sinochem International Development Pte has scheduled investor meetings for potential USD bond issuance (guaranteed by Sinochem International Corporation) from 13 Jul. The expected issue ratings are 'BBB+/Baa1/NR'. Chong Hing Bank Ltd has scheduled investor meetings for

potential USD bond issuance from 13 Jul. The expected issue ratings are 'NR/NR/BBB-':

- **Rating Changes:** S&P has affirmed Binhai Jiantou (Hong Kong) Development Ltd's (BHCI) long-term corporate credit rating at 'BBB+'. The outlook is stable. S&P then withdrew all ratings at BHCI's request. S&P has assigned Sinochem International Corp (SIC) a long-term corporate credit rating and senior unsecured notes rating of 'BBB+'. The outlook is stable. The rating action reflects SIC's status as a highly strategic subsidiary of Sinochem Group, which would likely receive extraordinary support from the Chinese government if in distress. Moody's has placed Geely Automobile Holdings Limited's (GEELY) 'Ba2' corporate family rating and senior unsecured rating on review for an upgrade. The rating action reflects GEELY's gain in market share, improvement in profitability in terms of EBITA margin net of subsidies, consistent low debt leverage, and its strong liquidity position. Moody's has assigned Sinochem International Corp (SIC) an issuer and senior unsecured rating of 'Baa1'. The outlook is stable. The rating action reflects Moody's expectation that SIC will receive strong support from its parent, Sinochem Group in times of need. Fitch has assigned Sinochem International Corp (SIC) a Foreign-Currency Issuer Default Rating (IDR) and senior unsecured rating of 'BBB+'. The outlook is stable. The rating action reflects SIC's importance to its parent, Sinochem Group, its acquisition of Halycon Agri Corp, which diversifies SIC's rubber production, and its operational and strategic ties with the state. Fitch has downgraded Sunac China Holding Ltd's (SUNAC) Foreign-Currency Issuer Default Rating (IDR) and senior unsecured rating to 'BB-' from 'BB' and has placed all ratings on Watch Negative. The rating action reflects SUNAC's acquisitive business approach which makes its financial profile more volatile.

Key Financial Indicators

Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	95.761	0.10%	USD-SGD	1.3775	-0.33%
USD-JPY	113.170	-0.68%	EUR-SGD	1.5720	-0.80%
EUR-USD	1.1412	-0.48%	JPY-SGD	1.2172	0.36%
AUD-USD	0.7678	0.52%	GBP-SGD	1.7747	-0.04%
GBP-USD	1.2885	0.29%	AUD-SGD	1.0577	0.18%
USD-MYR	4.2937	-0.09%	NZD-SGD	1.0005	0.19%
USD-CNY	6.7878	-0.22%	CHF-SGD	1.4269	-0.50%
USD-IDR	13370	-0.15%	SGD-MYR	3.1089	0.14%
USD-VND	22729	-0.04%	SGD-CNY	4.9255	0.24%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD LIBOR	Change
1M	-0.3740	--	O/N	1.1772	--
2M	-0.3410	--	1M	1.2239	--
3M	-0.3310	--	2M	1.2550	--
6M	-0.2730	--	3M	1.3035	--
9M	-0.2060	--	6M	1.4627	--
12M	-0.1550	--	12M	1.7523	--

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)	Bund (chg)	FR (chg)	IT (chg)
2Y	1.27 (-0.04)	1.34 (-0.03)	-0.63 (-0.02)	-0.40 (-0.02)	-0.17 (-0.04)
5Y	1.52 (-0.05)	1.87 (-0.04)	-0.13 (-0.03)	-0.01 (-0.03)	0.87 (-0.07)
10Y	2.16 (-0.05)	2.32 (-0.04)	0.58 (+0.03)	0.86 (-0.06)	2.25 (-0.07)
15Y	2.37 (-0.06)	--	0.78 (-0.04)	1.23 (-0.04)	2.81 (-0.08)
20Y	2.41 (-0.05)	--	1.05 (-0.03)	1.52 (-0.05)	2.92 (-0.08)
30Y	2.47 (-0.05)	2.88 (-0.04)	1.32 (-0.03)	1.90 (-0.05)	3.37 (-0.06)

Fed Rate Hike Probability

Meeting	Prob Hike	Prob Cut	1-1.25	1.25-1.5	1.5-1.75
26/07/2017	0.0%	0.7%	99.3%	0.0%	0.0%
20/09/2017	16.0%	0.6%	83.4%	16.0%	0.0%
01/11/2017	16.7%	0.6%	82.8%	16.5%	0.1%
13/12/2017	51.6%	0.3%	48.1%	44.5%	7.1%
31/01/2018	52.5%	0.3%	47.2%	44.6%	7.7%
21/03/2017	67.8%	0.2%	32.0%	45.4%	19.7%

Commodities Futures

Energy	Futures	% chg	Base Metals	Futures	% chg
WTI (per barrel)	45.49	1.00%	Copper (per mt)	5,917.2	0.45%
Brent (per barrel)	47.74	0.46%	Nickel (per mt)	9,161.5	0.82%
Heating Oil (per gallon)	1.4737	-0.18%	Aluminium (per mt)	1,875.0	-0.62%
Gasoline (per gallon)	1.5208	0.16%			
Natural Gas (per MMBtu)	2.9850	-2.03%	Asian Commodities	Futures	% chg
			Crude Palm Oil (MYR/MT)	2,581.0	-0.08%
			Rubber (JPY/KG)	201.8	2.28%
Precious Metals	Futures	% chg			
Gold (per oz)	1,219.1	0.36%			
Silver (per oz)	15.887	0.90%			

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

Equity and Commodity

Index	Value	Net change
DJIA	21,532.14	123.07
S&P	2,443.25	17.72
Nasdaq	6,261.17	67.87
Nikkei 225	20,098.38	-97.10
STI	3,208.91	-9.89
KLCI	1,757.24	2.21
JCI	5,819.13	45.81
Baltic Dry	830.00	--
VIX	10.30	-0.59

Financial Spread (bps)

	Value	Change
LIBOR-OIS	13.81	-0.08
EURIBOR-OIS	2.63	-0.16
TED	27.23	--

Government CDS (USD)

	5Y	% Change
Germany	15.129	-0.11%
France	21.503	-1.39%
Italy	148.312	0.43%

Key Economic Indicators

Date	Time	Event	Survey	Actual	Prior	Revised	
07/12/2017	07:00	SK Unemployment rate SA	Jun	3.70%	3.80%	3.60%	--
07/12/2017	07:50	JN PPI MoM	Jun	0.00%	0.00%	0.00%	--
07/12/2017	07:50	JN PPI YoY	Jun	2.00%	2.10%	2.10%	--
07/12/2017	08:30	AU Westpac Consumer Conf SA MoM	Jul	--	0.40%	-1.80%	--
07/12/2017	12:00	MA Industrial Production YoY	May	4.10%	4.60%	4.20%	--
07/12/2017	12:30	JN Tertiary Industry Index MoM	May	-0.50%	-0.10%	1.20%	1.40%
07/12/2017	13:00	SI Retail Sales SA MoM	May	0.40%	-1.00%	1.60%	1.70%
07/12/2017	13:00	SI Retail Sales YoY	May	2.20%	0.90%	2.60%	2.70%
07/12/2017	16:00	CH Money Supply M2 YoY	Jun	9.50%	9.40%	9.60%	--
07/12/2017	16:00	CH Money Supply M1 YoY	Jun	15.90%	15.00%	17.00%	--
07/12/2017	16:00	CH Money Supply M0 YoY	Jun	6.80%	6.60%	7.30%	--
07/12/2017	16:00	CH New Yuan Loans CNY	Jun	1300.0b	1540.0b	1110.0b	--
07/12/2017	16:30	UK Claimant Count Rate	Jun	--	2.30%	2.30%	--
07/12/2017	16:30	UK Jobless Claims Change	Jun	--	5.9k	7.3k	7.7k
07/12/2017	16:30	UK ILO Unemployment Rate 3Mths	May	4.60%	4.50%	4.60%	--
07/12/2017	17:00	EC Industrial Production SA MoM	May	1.00%	1.30%	0.50%	0.30%
07/12/2017	17:00	EC Industrial Production WDA YoY	May	3.50%	4.00%	1.40%	1.20%
07/12/2017	19:00	US MBA Mortgage Applications	Jul-07	--	-7.40%	1.40%	--
07/12/2017	20:00	IN CPI YoY	Jun	1.60%	1.54%	2.18%	--
07/12/2017	20:00	IN Industrial Production YoY	May	2.00%	1.70%	3.10%	2.80%
07/12/2017	22:00	CA Bank of Canada Rate Decision	Jul-12	0.75%	0.75%	0.50%	--
07/13/2017	05:00	NZ REINZ House Sales YoY	Jun	--	-24.70%	-18.40%	--
07/13/2017	06:45	NZ Food Prices MoM	Jun	--	0.20%	2.40%	--
07/13/2017	07:01	UK RICS House Price Balance	Jun	15%	7%	17%	--
07/13/2017	07:50	JN Japan Buying Foreign Bonds	Jul-07	--	--	-¥772.8b	--
07/13/2017	07:50	JN Japan Buying Foreign Stocks	Jul-07	--	--	¥149.7b	--
07/13/2017	07:50	JN Foreign Buying Japan Bonds	Jul-07	--	--	¥75.8b	--
07/13/2017	07:50	JN Foreign Buying Japan Stocks	Jul-07	--	--	-¥14.0b	--
07/13/2017	14:00	GE CPI MoM	Jun F	0.20%	--	0.20%	--
07/13/2017	14:00	GE CPI YoY	Jun F	1.60%	--	1.60%	--
07/13/2017	14:00	GE CPI EU Harmonized MoM	Jun F	0.20%	--	0.20%	--
07/13/2017	14:00	GE CPI EU Harmonized YoY	Jun F	1.50%	--	1.50%	--
07/13/2017	14:45	FR CPI EU Harmonized MoM	Jun F	0.00%	--	0.00%	--
07/13/2017	14:45	FR CPI EU Harmonized YoY	Jun F	0.80%	--	0.80%	--
07/13/2017	14:45	FR CPI MoM	Jun F	0.00%	--	0.00%	--
07/13/2017	14:45	FR CPI YoY	Jun F	0.70%	--	0.70%	--
07/13/2017	14:45	FR CPI Ex-Tobacco Index	Jun	101.31	--	101.28	--
07/13/2017	15:00	MA BNM Overnight Policy Rate	Jul-13	3.00%	--	3.00%	--
07/13/2017	20:30	CA New Housing Price Index MoM	May	0.30%	--	0.80%	--
07/13/2017	20:30	US Initial Jobless Claims	Jul-08	245k	--	248k	--
07/13/2017	20:30	US Continuing Claims	Jul-01	1950k	--	1956k	--
07/13/2017	20:30	US PPI Final Demand MoM	Jun	0.00%	--	0.00%	--
07/13/2017	20:30	US PPI Ex Food and Energy MoM	Jun	0.20%	--	0.30%	--
07/13/2017	20:30	US PPI Final Demand YoY	Jun	1.90%	--	2.40%	--
07/13/2017	20:30	US PPI Ex Food and Energy YoY	Jun	2.00%	--	2.10%	--
07/13/2017	21:45	US Bloomberg Consumer Comfort	Jul-09	--	--	48.5	--
07/13/2017		SK BoK 7-Day Repo Rate	Jul-13	1.25%	--	1.25%	--
07/13/2017		CH Imports YoY	Jun	14.50%	--	14.80%	--
07/13/2017		CH Exports YoY	Jun	8.90%	--	8.70%	--
07/13/2017		CH Trade Balance	Jun	\$42.60b	--	\$40.81b	\$40.79b

Source: Bloomberg

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

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.

Co.Reg.no.:193200032W