Research Monitor (May)

OCBC Bank

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Wednesday, May 03, 2017

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Introduction

This month, we will be launching the Research Monitor, a new publication to be released on a monthly basis which will replace our cheatsheet with immediate effect. The publication serves to summarise key themes affecting the macroeconomic outlook of the covered countries, and provide trading recommendations on FX, rates, commodities and credit. A longer term outlook for the areas of coverage can also be found in the "House View" column. Additionally, we highlight important dates for the month, including key data releases, central bank meetings and geopolitical events.

Asset Class Views

	House View	Trading Views	
FX	Near term dollar vulnerability may remain a staple despite a June FOMC rate hike essentially priced in. Barring a sudden pickup in hawkishness from the Fed at the May /June meetings, investors may well remain sceptical of significant positive USD mileage in the near term. Asian FX meanwhile has been responsive to USD skepticism, with the recent improvement in global risk appetite levels and resultant risk premium compression an added weight on the regional pairs. Caveat for Asian currencies may however stem from typical May negative seasonality.	**AUD-USD:** Risk appetite remains fragile, with the RBA in a neutral trajectory, in contrast to the Fed. (Initiation date: 5 Apr 2017, Spot ref: 0.7580, Target: 07405, Stop: 0.7670)	↓
		GBP-USD: Snap elections called to strengthen PM May's hand in Brexit negotiations, soft dollar and negative EUR risk. (Initiation date: 18 Apr 2017, Spot ref: 1.2585, Target: 1.3140, Stop: 1.2715)	↑
		EUR-USD: Optimism from the favourable result in the first round of the French presidential elections and improving global risk appetite levels. (Initiation date: 26 Apr 2017, Spot ref: 1.0943, Target: 1.1135, Stop: 1.0845)	↑
		USD-CAD: CAD succumbing to pressure on multiple fronts, such as the US imposition of lumber duties, weak crude and hesitation on the global reflation trade. (Initiation date: 26 Apr 2017, Spot ref: 1.3563, Target: 1.3785, Stop: 1.3450)	↑
		USD-JPY: USD resilience manifesting against the JPY. Recent uptick in global risk sentiments to undermine the JPY. (Initiation date: 2 May 2017, Spot ref: 112.08, Target: 114.45, Stop: 110.85)	↑
		Bullish 2M 1x2 EUR-USD Call Spread: Retreating risks following French elections, coupled with broad USD skepticism. (Initiation date: 24 Apr 2017, Spot ref: 1.0863; Strikes: 1.0894, 1.1188; Expiry: 22/06/17; Cost: 0.62%)	↑

	House View	Trading Views	
Rates	10-year UST bond yields continue to trade in a big range, but mid-April likely marks bottom for now. FOMC to still hike in June and maybe Sept. SGS yield curve may re-steepen ahead of 30-year SGS bond issue. Short-term interest rates remain subdued for now as MAS to hold neutral monetary policy until at least October MPS.	UST bond yield curve flattened in April amid geopolitical concerns (French first-round elections and Trump's meeting with Xi Jinping). We think the recent 2.17% low set in mid-April likely marks the bottom of the wide trading range for now, with the topside capped at the 2.63% high seen in mid-March. Market pricing for a June rate hike is re-establishing. Fed study suggests tapering the US$4.5t balance sheet to US$2.3t over 5 years could lift 10-year UST yield by some 75bps.	↓
		SGD yield curve may re-steepen ahead of upcoming re-opening of the 30-year SGS benchmark bond. Potential widening in 10-year USD-SGD IRS spread (current 10bps versus 5-year average 20bps) amid repositioning.	↓
Commodities	Our outlook for the US Federal Reserve to hike its rates three times this year should dull gold as a store of value and bring the yellow metal to $1,200/oz. The over-supply glut in crude oil should 'rebalance' itself into 2017. We maintain our call for crude oil to touch $65/bbl at end year.	**Crude Oil:** Strong oil import prints, and recent compliance meeting in Vienna which highlighted OPEC's consensus building for extension of cuts in May likely to lift prices into the month.	↑
		Crude Palm Oil: Lackluster demand will likely continue on EU's resolution & India's reduction on import reliance. Additionally, double digit yoy production growth from Malaysia will likely weigh on prices.	↓
		Gold: With polls indicating a Macron-win, the demand for gold as a safe haven may stay dull. However, upside risks may present itself due to uncertainty from Trump tax & budget plans.	→
Credit	The flattening of the yield curve has invited a slew of new SGD corporate issuance. IG issuers have entered, opportunistically tapping the long end, while HY and perpetual securities issuers have ridden high on a market starved for yield. The new issue supply, coupled with over two months of credit spread compression, could invite profit taking, with 1Q2017 results possibly providing catalysts.	**IG Pick: LLCAU 4.5% 26/05/26 (Offer YTM 4.2%):** Baa3 rated paper at ~200bps over 10Y SDSW. Low gearing with strong order book mitigates low-margin and cyclical construction business.	↑
		HY Pick: BTHSP 4.875% 03/06/19 (Offer YTM 6.3%): New strategic investors Accor and China Vanke would better allow BTH to leverage on its brand and scale up. Cash burn narrowed while leverage profile stabilized post its debt-fuel growth phase.	↑

Macroeconomic Views

	House View	Key Themes
US	FOMC's gradual normalisation trajectory to mitigate lingering US policy uncertainties.	Trump's phenomenal tax reform announcement was short on details and the deficit impact, which left financial markets underwhelmed. Sceptics also doubt if "dynamic scoring" (reforms lead to higher growth and pays for tax cuts) will suffice. Fed future pricing of June rate hike has moved back to 61%.
EU	ECB prefers to retain dovish stance for now. Even if French elections go according to expectations, watch Italy and ongoing Brexit negotiations.	The ECB acknowledged the improved outlook, citing that the recovery is "solid and broad" and risks "while moving towards a more balanced configuration, are still tilted to the downside and relate predominantly to global factors". Key events to watch include the French 2^{nd} round election run-off on 7 May (Macron vs Le Pen) and UK snap elections on 8 June.
Japan	BOJ reiterates that it's premature to discuss exit plans and confuse markets.	BOJ kept its short-term interest rate target at -0.1% and 10-year government bond yield around 0%. BOJ upgraded the FY18 and FY18 growth forecasts to 1.6% and 1.3% respectively, but cut its FY17 core consumer inflation forecast for from 1.5% to 1.4%. Kuroda said CPI will hit the 2% target later than FY18, but it's premature and confusing to markets to be discussing an exit now.

	House View	Key Themes
Singapore	Policymakers remain cautious on growth and comfortable on inflation despite stronger 1Q17 performance.	Retained official 2017 growth, headline and core inflation forecasts of t 1-3%, 0.5-1.5%, and 1-2% respectively. MAS said neutral monetary policy stance for an extended period is appropriate to ensure medium-term price stability. Growth trajectory remains uneven and SMEs lag large enterprises. Cooling labour will cap wage pressures. Muted pass-through to consumer prices.
Malaysia	BNM is content to look through recent inflation uptick for now.	Focus in the near term will be on rising inflation, with headline inflation reaching a 8-year high of 5.1% in March because of upticks in the prices of food and fuel, although core inflation holds relatively steady at 2.5%. BNM signaled that the inflation is caused by the supply side and hence is unlikely to hike rates.
Indonesia	BI is also on hold amid risks of inflation and currency volatility, and content to wait and see Fed rate hike impact.	Growth for Q1 this year is likely to be in the region of 5.0% as highlighted by the central bank's Senior Deputy Governor. This would mark a slight uptick from 4.94% in Q4 2016. BI to keep benchmark rates static for the rest of the year, as it watches for risk of inflationary pressure domestically and global currency volatility.
China	China is likely to achieve its around 6.5% growth target in 2017. Given the escalating de-leverage campaign and deepening anti-corruption in financial sector; we expect growth to slow down gradually in the coming quarters.	Both equity and bond markets fell despite stronger than expected 1Q GDP due to jittery about the regulatory shock after China's banking regulator released a total 8 documents to force banks to self-examine their exposures to shadow banking activities. Markets will continue to watch out for the impact of the regulations. Monetary policy may take a backseat given the increasing role of the banking regulator in driving the de-leverage campaign.
Hong Kong	Government investment and private consumption may grow on the back of fiscal stimulus, therefore boosting GDP to grow 2.2% in 2017. Despite cooling measures, home prices may remain resilient amid huge demand.	To fill the loophole of the cooling measures from last November, the government have announced a 15% stamp duty on home buyers who purchases multiple flats under single deal. This may tame speculative demand and free up some new home supply. Despite that, the strong owner occupier demand implies that the housing frenzy is not coming to an end. The "Greater Bay Area" plan and the bond connect are expected to lend some support to growth in the longer term.
Macau	China's stabilization is likely to bolster recovery in the gaming and tourism sector. However, a stronger MOP may be negative to the sectors.	The housing boom and economic stabilization in Mainland China, and continuous credit extensions by junket operators have driven VIP revenue up by 16.8% yoy. VIP revenue's share in gross gaming revenue rose to 55.9% in 1Q. We expect the high rollers to sustain the resilience of the gaming sector in 1H.
Thailand	Growth to print between 3.3-3.5% in 2017. CPI to pick up to 1.5% on higher oil prices. Hence, BOT may lift rates to 1.75% this year.	Exports gained at its strongest pace in four months (+9.2%), beating market expectations for a mere 1.7% and our forecast of 4.5%. Exports of both agriculture and electronics were higher on a year-on-year basis, highlighting that Thailand's external environment remains positive.
Korea	We pencil GDP growth at 2.5% while keeping our inflation outlook at 2.0% in 2017. BOK is likely to keep rates unchanged at 1.25% for the year.	Korea started the year on a strong note, with GDP growth exceeding market-expectation at 2.7% yoy (+0.9% qoqsa). Exports also grew robustly at 24.2% yoy, the fastest clip since Aug'11. However, we remain concerned over high debt and increased debt-servicing burden should global rates increase into the year.
Philippines	In the near term, the Philippines is pressured by outflows of FDI and portfolio investments. Overall, a positive growth outlook keeps the door open for a rate hike in 2H17.	BOP deficit widened to US$500m in the latest reading, mainly due to continued growth in imports of capital goods and raw materials. CPI inflation inched towards the upper limit of BSP's target band, fueling calls for a rate hike in the second half of 2017. Growth in overseas remittances continues to slow in April.
Myanmar	Look for increased emphasis on economic and business policies as the NLD starts its second year in office. Sectorally, education and healthcare may receive more attention.	Accelerated upswing in manufacturing PMI in March (53.1 from 51.9 in Feb) implied that the growth momentum seen since the start of 2017 remains very strong. New Myanmar Investment Law in effect. Foreign investors will look out for consistency in implementing its by-laws and regulations.

Macroeconomic Calendar

MAY						
M	T	W	T	F	S	S
1	2 BoJ Minutes RBA Meeting	3	4 FOMC Meeting	5 US NFP	6	7 French Presidential Elections Round 2
8	9 South Korea Presidential Elections	10	11 BoE, BSP & RBNZ Meeting	12 BNM Meeting	13	14
15	16	17	18 BI Meeting	19	20	21
22	23	24 BoC & BoT Meeting	25 FOMC Minutes BoK Meeting OPEC Meeting	26	27	28
29	30	31				