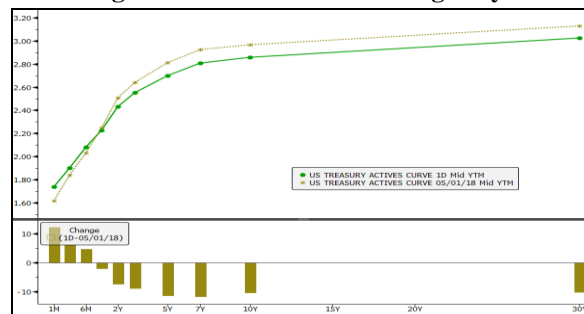


## Fundamental Highlights

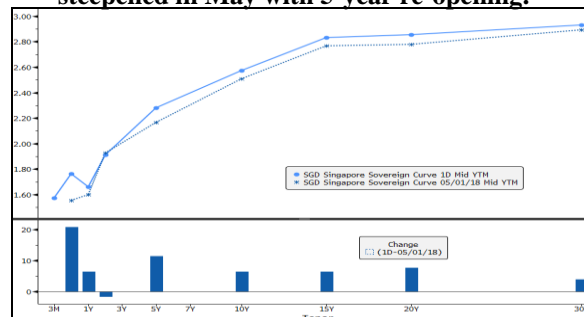
### Risk appetite remains susceptible to political and trade tensions heading into summer trading conditions.

Global risk appetite continued to wax and wane amid the ongoing political and trade tensions. While recent developments suggest that the US-North Korean summit on 12 June may materialize, nevertheless ongoing anxiety about the US' trade tantrums and Italian political drama may mean the "sell in May and go away" phenomenon could extend into June amid thinning summer trading conditions. A stronger USD would also pose extra headwinds for EM. The pullback in the 10-year UST bond yield, with a wide range between 2.78-3.11% in May, is likely temporary as the Italian political drama blows over and market players refocus on the upcoming 14 June FOMC rate hike. The next 25bp rate hike is almost a done deal, but the jury is still out if the June FOMC statement and the median dots plot would shift to favouring four hikes this year rather than three. We stick to our house view of three 25bp rate hikes this year given the Fed's preference that "a temporary period of inflation modestly above 2 percent would be consistent with the Committee's symmetric inflation objective and could be helpful in anchoring longer-run inflation expectations at a level consistent with that objective".

### The UST curve flattened in May, as the belly to longer-dated bonds saw a strong rally.



### However, the SGS yield curve actually steepened in May with 5-year re-opening.

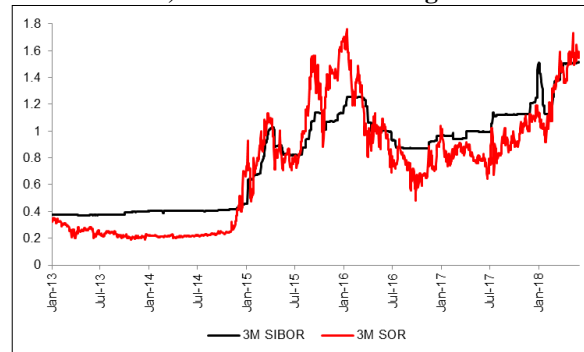


## SGS Review and Outlook

### Official 2018 growth forecast upgraded to 2.5-3.5%.

S'pore's 1Q18 GDP growth was revised up to 4.4 yoy (1.7% qoq saar), faster than the flash estimates of 3.6% yoy (4.3% qoq saar) and compared to 3.6% yoy (2.1% qoq saar) in 4Q17. While the 1Q18 yoy data was revised up a notch, the qoq saar data suggested a second quarter of deceleration in momentum, and this could sustain into 2Q18 where the qoq saar growth number could flat-line or even decline slightly. That said, MTI narrowed its 2018 official GDP growth forecast from 1.5-3.5% to 2.5-3.5% amid broadening growth drivers. Inflation remains very subdued for now. At this juncture, MAS is likely to adopt a wait-and-see attitude towards the October MPS given that growth-inflation dynamics are not out of sync with their forecasted trajectories. The recent \$2.2b 5-year SGS bond re-opening fetched a cut-off yield of 2.39% with a bid-cover ratio of 1.53x and a median yield of 2.33%. Next up will be a 20-year SGS bond re-opening on 2 July, with the issue size announcement on 20 June and auction on 27 June. This could prompt a further curve steepening running into the auction in late June, but first we have to ride past the anticipated June FOMC rate hike and the current bout of Italeave and Trump trade tantrum. Looking ahead, SIBOR and SOR may continue to creep higher as the year progresses, taking the cue from broader global interest rates as well as the improvement in domestic loan demand. Our end-2018 forecast for 3-month SIBOR and SOR are 1.81% and 1.90%.

### The 3-month SOR remains more volatile than SIBOR, but bias for both is higher from here.



### Group Treasury

#### Treasury Research & Strategy

Selena Ling

(65) 6530 4887

[Lingssselena@ocbc.com.sg](mailto:Lingssselena@ocbc.com.sg)

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 Bank, its related companies, their respective directors and/or employees (collectively “Related Persons”) may or might have in the future interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial services to such issuers. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, “Relevant Materials”) to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a “Relevant Entity”) in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) (“MiFID”) and the EU’s Markets in Financial Instruments Regulation (600/2014) (“MiFIR”) (together referred to as “MiFID II”), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).