

Fundamental Highlights

Beware the Ides of March as major central bank meetings (ECB, BOJ & FOMC) come to the fore again.

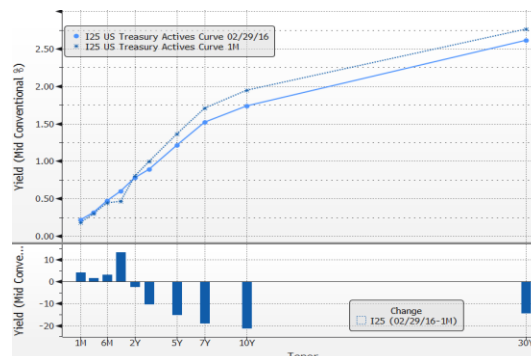
Most Asian central banks were content to stay on the sidelines on monetary policy settings in February, with the exception of BI who cut its BI rate by a second 25bp to 7%. China's PBOC also unexpectedly trimmed RRR by 50bps to 17% effective from 1 March to improve the liquidity situation. This came shortly after Chinese policymakers' comments during G20 that both fiscal and monetary policy would be more accommodative to support growth. Notably, the G20 communique called for members to use "all policy tools available, including monetary, fiscal and structural ones", but fell short of actual co-ordinated action. This would throw the market focus back on the ECB (10 March), BOJ (15 March), and FOMC (17 March) respectively. UST bonds already saw a 3% return in January-February 2016, marking the strongest back-to-back rally since January 2015. While the Fed is unlikely to budge in March given rising downside risks and tightening financial conditions, a more dovish slant in terms of lowering the median dots graph is highly anticipated, whilst the BOJ and ECB could be under pressure to add to further stimulus amid disinflation. The 23 June Brexit referendum also adds to the cloudy economic outlook. As such, expect the market volatility to stay elevated in the interim.

SGS Review and Outlook

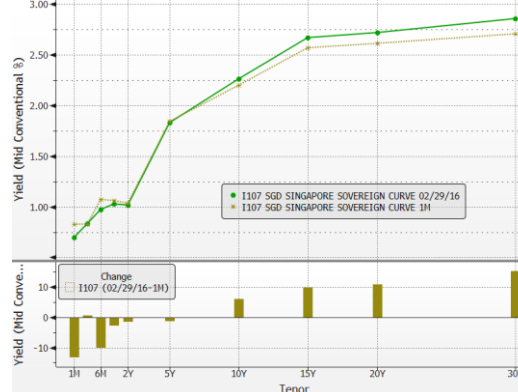
A cut in the 2016 MAS headline inflation forecast but no change to the GDP growth and core CPI forecast.

Singapore's 4Q15 GDP growth was revised up to +6.2% qoq saar (+1.8% yoy), versus the initial flash estimate of +5.7% qoq saar (+2.0% yoy), but there was no change to the official 2016 growth outlook at 1-3% as services sectors like finance & insurance and wholesale trade are likely to support growth in the face of manufacturing weakness. Domestic drags remain the weak external demand weighing on exports, risks of lower oil prices on the marine & offshore segment as well as supporting precision engineering industry, weakening momentum in construction, and labour constraints constraining labour-intensive sectors like food services. Our 2016 GDP growth forecast remains at 2%, assuming some on-year 2H stabilization. Meanwhile, economic indicators continue to point to weak 1H momentum - bank loans growth fell for the 4th straight month by 1.2% yoy in Jan16, and we tip bank loans to expand 0-2% yoy for the full-year. The January manufacturing and electronics PMIs slid further into the contraction territory, while NODX slumped further by 9.9% yoy. Nevertheless, market's easing expectations for the April monetary policy meeting has faded somewhat, and we stick to our view of status quo. The SGS bond market closed on a soft tone in February after the \$2 billion 30-year SGS bond auction on 25 February fetched a relatively low bid-cover ratio of 1.57x and a long tail of 23bps to cut off at 2.87%. This caused the SGD yield curve to bear steepen. Next up on the SGS auction calendar will be a re-opening of the 2-year SGS bond on 1 April with the auction on 29 March.

US Treasury bond market rallied again in February in its biggest 2-month gain in a year



The SGS bond yield curve however bear-steepened with the 15-year SGS bond auction



OCBC Bank

For research enquiries, please email
Lingssselena@ocbc.com.sg

Group Treasury

Treasury Research & Strategy

Selena Ling (65) 6530 4887

Fixed Income Sales

Lee Siu Gim (65) 6349 1810

SGS Trading

Pan Tan (65) 6530 4723

Indicative SGS prices as at 29 February 2016

Issue	Maturity	Coupon	Bid Price	Ask Price	Bid Yield (%)	Ask Yield (%)
N511100W	1.13%	Apr-16	100.02	100.06	0.88%	0.41%
NY01100F	3.75%	Sep-16	101.45	101.49	0.84%	0.76%
N710100Z	2.38%	Apr-17	101.56	101.60	0.93%	0.89%
N215100F	1.38%	Oct-17	100.52	100.60	1.04%	0.99%
N513100T	0.50%	Apr-18	98.76	98.86	1.10%	1.05%
NY03100A	4.00%	Sep-18	107.09	107.19	1.12%	1.08%
NX09100W	2.50%	Jun-19	103.86	103.96	1.28%	1.25%
N514100H	1.63%	Oct-19	100.86	100.96	1.38%	1.35%
N515100S	2.00%	Jul-20	101.77	101.87	1.58%	1.55%
NY05100N	3.25%	Sep-20	106.95	107.05	1.64%	1.62%
NX11100X	2.25%	Jun-21	101.98	102.18	1.85%	1.81%
NY07100X	3.13%	Sep-22	106.78	106.98	2.01%	1.98%
NX13100H	2.75%	Jul-23	104.00	104.20	2.16%	2.13%
NY09100H	3.00%	Sep-24	105.87	106.07	2.24%	2.21%
NX15100Z	2.38%	Jun-25	100.82	101.02	2.28%	2.25%
NZ07100S	3.50%	Mar-27	110.13	110.43	2.44%	2.41%
NY14100E	2.88%	Jul-29	103.16	103.46	2.59%	2.57%
NZ10100F	2.88%	Sep-30	102.29	102.59	2.68%	2.66%
NZ13100V	3.38%	Sep-33	108.82	109.22	2.74%	2.71%
NA12100N	2.75%	Apr-42	98.78	99.38	2.82%	2.78%

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