

April 2016

Your monthly guide on trend and outlook for Singapore government securities

Fundamental Highlights

Spring looks brighter amid Yellen's cautious musings.

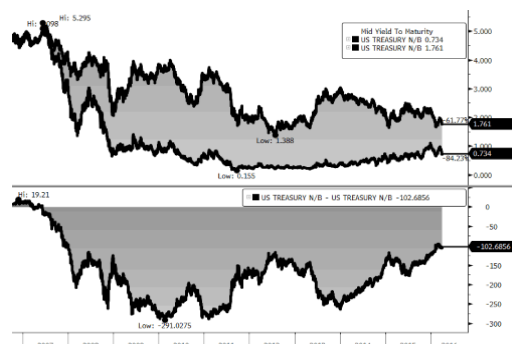
Global risk appetite came back in March as ECB exceeded market expectations for monetary easing on 10 March and FOMC also lowered its median dots graph at the 17 March meeting. Notwithstanding the relatively Fed rhetoric post-FOMC, Yellen was typically cautious in her outlook and rate trajectory, citing that the "Committee has not embarked on a preset course of tightening. Rather, our actions are data dependent, and the FOMC will adjust policy as needed to achieve its dual objectives" and "given the risks to the outlook, I consider it appropriate for the Committee to proceed cautiously in adjusting policy". While March non-farm payrolls was resilient, the unchanged work week and slightly higher unemployment rate is generally seen as sufficient to keep the FOMC on hold in April. Similarly no fireworks are expected for the 21 April ECB meeting or even the BOE MPC meeting on 14 April. Whilst Emerging Markets and crude oil prices may continue to enjoy the spring respite, it may be complacent to assume the rally may not fade when confronted with the 16 June FOMC or the 23 June Brexit referendum uncertainties. Moreover, 1Q16 US' corporate earnings growth for S&P500 companies is tipped to slump 8.5% yoy and may only gain traction in 2H16, according to FactSet. As such, external headwinds may return at some stage.

SGS Review and Outlook

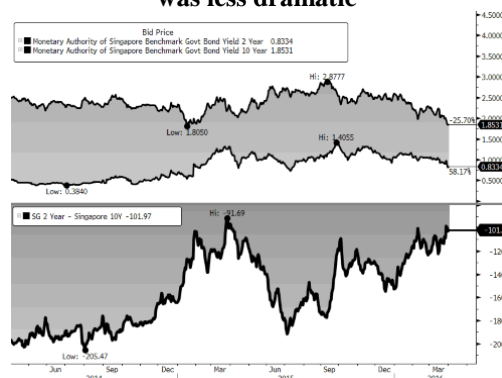
With a prudent FY16 Budget, MAS' MPS is up next.

The FY16 Budget was calibrated to boost total spending higher by 7.3% yoy to \$5 billion to give a positive fiscal impulse of about 1% of GDP. However, given the significantly higher \$14.7 billion NIRC (+49% yoy), the revised FY15 budget deficit of \$4.9 billion (or 1.2% of GDP) will revert to a planned FY16 budget surplus of \$3.4 billion (or 0.8% of GDP). The star in the FY16 Budget buffet was a SME-friendly \$4.5 billion Industry Transformation Programme to help transform enterprises, support existing industries as well as new growth industries, and to embed innovation into the corporate psyche. Given the official GDP growth forecast remains unchanged at 1-3% and the SGD NEER trading back to the stronger side of its parity band, the market expectations for another MAS MPS easing has subsided substantially. Both 3-month SIBOR and SOR have also retraced lower in line with SGD strength. Note headline inflation fell for the 16th straight month by 0.8% yoy (-0.1% mom nsa), the lowest yoy print since Nov15, due to the drag from housing & utilities and private road transport. However, core inflation accelerated to +0.5% yoy in Feb amid higher food prices. Given wages may rise at a more moderate pace than 2015 with a limited pass-through to consumer prices, our 2016 headline and core inflation forecasts remain at -0.4% yoy and +1.0% yoy. Bank loans fell for the 5th straight month by 1.2% yoy (-0.01% mom) in Feb. SGD The \$2.6b 2-year SGS bond re-opening fetched a cut-off yield of 0.96% (average yield: 0.89%) with a bid-cover ratio of 2.3x. Next up is the 7-year re-opening on 3 May with the auction on 27 April.

US 2-10 year Treasury bond yield curve flattened to 102bps, tightest since Dec 2007



The flattening in the SGS bond yield curve was less dramatic



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Indicative SGS prices as at 1 April 2016

Issue	Maturity	Coupon	Bid Price	Ask Price	Bid Yield (%)	Ask Yield (%)
NY01100F	3.75%	Sep-16	101.22	101.26	0.75%	0.65%
N710100Z	2.38%	Apr-17	101.59	101.63	0.76%	0.72%
N215100F	1.38%	Oct-17	100.95	100.99	0.73%	0.71%
N513100T	0.50%	Apr-18	99.34	99.42	0.83%	0.79%
NY03100A	4.00%	Sep-18	107.47	107.57	0.86%	0.82%
NX09100W	2.50%	Jun-19	104.66	104.76	1.00%	0.97%
N514100H	1.63%	Oct-19	102.01	102.11	1.04%	1.01%
N515100S	2.00%	Jul-20	103.37	103.47	1.18%	1.16%
NY05100N	3.25%	Sep-20	108.44	108.54	1.27%	1.25%
NX11100X	2.25%	Jun-21	103.90	104.10	1.46%	1.42%
NY07100X	3.13%	Sep-22	108.90	109.10	1.66%	1.62%
NX13100H	2.75%	Jul-23	106.56	106.76	1.78%	1.75%
NY09100H	3.00%	Sep-24	108.85	109.05	1.86%	1.83%
NX15100Z	2.38%	Jun-25	104.38	104.58	1.85%	1.83%
NZ07100S	3.50%	Mar-27	114.46	114.76	2.02%	1.99%
NY14100E	2.88%	Jul-29	108.30	108.60	2.15%	2.13%
NZ10100F	2.88%	Sep-30	107.71	108.01	2.25%	2.22%
NZ13100V	3.38%	Sep-33	114.67	115.07	2.34%	2.32%
NA12100N	2.75%	Apr-42	106.09	106.69	2.43%	2.40%

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