

Fundamental Highlights

Sell in May and go away, or stay invested for now?

Global risk appetite continued to wax and wane in May amid a combination of economic data disappointments (namely China's PMIs), Fed rhetoric suggesting that the June FOMC meeting is still "live", and market speculation that the BOJ could be running out of ammunition to tackle the JPY strength. On the possibility of a rate move in June, Fed's Lockhart opined "I would put more probability on it being a real option" while Williams also suggested "in my view, yes, it would be appropriate, given all of the things that we've talked about". Meanwhile, the Fed's senior loan officer survey suggested stronger household demand for auto and other consumer loans, but medium and large business demand for commercial loans eased due to decreased investment in plant or equipment. Separately, the US Treasury had also identified China, Germany, Japan, Korea and Taiwan as meeting two of the three criteria (namely significant bilateral trade surplus, material current account surplus, and persistent one-sided FX intervention) for pursuing FX policies that could provide unfair competitive advantage in its semiannual FX report. This came amid market disappointment over the BOJ's inaction in April and a surprise RBA cut to a record 1.75%. One key risk event ahead is the 23 June Brexit referendum with economic uncertainties already building up.

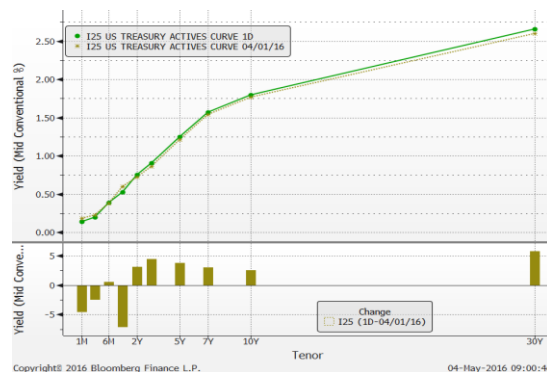
SGS Review and Outlook

MAS shifted SGD NEER to neutral slope in April.

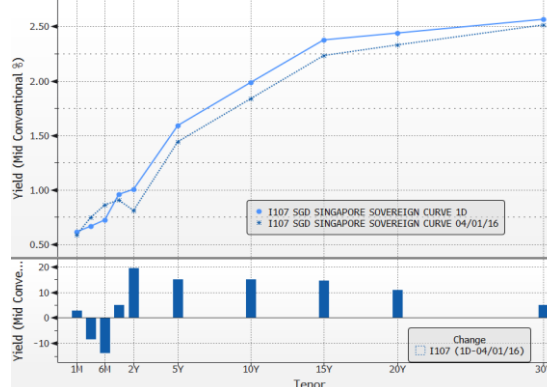
The S'pore economy ran out of steam in 1Q16, chalking up no sequential growth from 4Q15 (+6.2% qoq saar) and the weakest qoq growth since 2Q15. Manufacturing saw broad-based weakness across transport engineering, precision engineering and electronics clusters. MAS surprised the market by setting the S\$NEER appreciation rate to 0%, but clarified that the move was not a policy to depreciate the currency. Reasons included both headline and MAS core inflation being expected to tread a more subdued trajectory and a softer medium-term core inflation (averaging slightly below 2%). We have downgraded our full-year growth forecast from 2% to 1.8%, as March indicators remain soft and leave the 1Q16 flash growth estimates vulnerable to a possibility of a qoq contraction and a technical recession down the road. The labour market is also softening and the resident unemployment rate is likely to rise slightly ahead with the gradual hike in redundancies and falling job vacancies. The manufacturing and electronics PMI rebounded to 49.8 (+0.4) and 49.5 (+0.5) respectively in April, an improvement from the March readings of 49.4 and 49.0, but remaining subdued below the 50 threshold for the 10th straight month. The latest domestic business expectations survey also saw a net +1% of manufacturers expecting more favourable conditions for April-September (up from -22% a quarter ago). However, manufacturing growth is still likely to contract for the full-year.

The 7-year SGS bond re-opening fetched a cut-off yield of 2.01% with a bid-cover ratio of 2.17x. Next up is the new 10-year bond auction on 1 June. Expect May to remain choppy.

US Treasury bonds were pressured by the risk-on mood in April



The SGS bond yield curve continued to flatten



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Indicative SGS prices as at 28 April 2016

Issue	Maturity	Coupon	Bid Price	Ask Price	Bid Yield (%)	Ask Yield (%)
NY01100F	3.75%	Sep-16	101.00	101.04	0.70%	0.58%
N710100Z	2.38%	Apr-17	101.37	101.41	0.86%	0.82%
N215100F	1.38%	Oct-17	100.68	100.72	0.89%	0.86%
N513100T	0.50%	Apr-18	99.01	99.09	1.02%	0.98%
NY03100A	4.00%	Sep-18	106.77	106.87	1.05%	1.01%
NX09100W	2.50%	Jun-19	104.02	104.12	1.17%	1.13%
N514100H	1.63%	Oct-19	101.30	101.40	1.23%	1.20%
N515100S	2.00%	Jul-20	102.53	102.63	1.37%	1.35%
NY05100N	3.25%	Sep-20	107.65	107.75	1.42%	1.40%
NX11100X	2.25%	Jun-21	103.13	103.33	1.61%	1.57%
NY07100X	3.13%	Sep-22	107.97	108.17	1.79%	1.76%
NX13100H	2.75%	Jul-23	105.43	105.63	1.93%	1.91%
NY09100H	3.00%	Sep-24	107.58	107.78	2.01%	1.98%
NX15100Z	2.38%	Jun-25	103.12	103.32	2.00%	1.97%
NZ07100S	3.50%	Mar-27	112.84	113.14	2.16%	2.13%
NY14100E	2.88%	Jul-29	106.45	106.75	2.30%	2.28%
NZ10100F	2.88%	Sep-30	106.05	106.35	2.37%	2.35%
NZ13100V	3.38%	Sep-33	113.08	113.48	2.44%	2.42%
NA12100N	2.75%	Apr-42	104.62	105.22	2.51%	2.48%

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