

September 2016

Your monthly guide on trend and outlook for Singapore government securities

Fundamental Highlights

Markets remain unconvinced of Sep rate hike post-NFP.

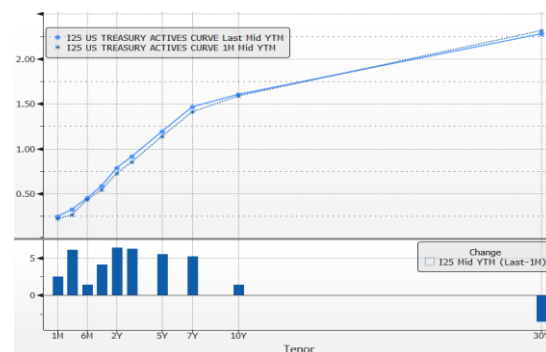
Fed chair Yellen opined the case for the next hike as “strengthened” at Jackson Hole, which coupled with Fischers’ more hawkish remarks, prompted a recalibration of market’s rate hike expectations. However, Aug nonfarm payrolls disappointed at +151k (expected:+180k), with the two-month revision nearly flat (-1k) and the unemployment rate unchanged at 4.9%, while average hourly earnings slowed to 0.1% mom (2.4% yoy) and the workweek also eased to 34.3 hours. Post-NFP, futures pricing for a 25bp Fed hike stood at 32% (Sep) and 59% (Dec). Dec still looks more plausible unless the Fed views the upcoming presidential elections in Nov as a key event risk. Elsewhere, “green shoots” were seen in many Asian countries’ manufacturing PMIs, albeit the US’ manufacturing ISM slumped from 55.0 to 49.4 (low since Jan) as new orders and production gauges fell back into contraction territory. Most central banks are currently in wait-and-see mode as the economic fallout from Brexit appears largely limited to the UK, and the market remains supportive of the hunt for yield.

SGS Review and Outlook

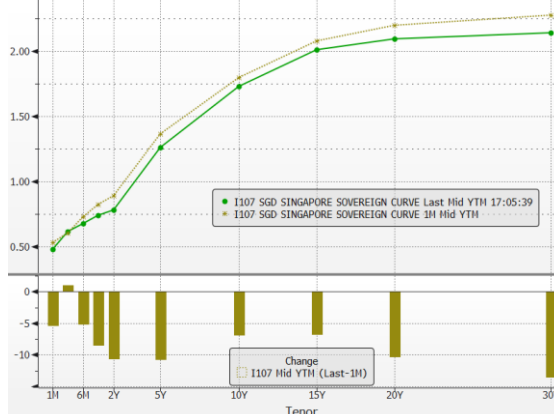
SGD NEER returns to parity after soaring high in Aug.

Both the manufacturing and electronics PMI improved to 49.8 (+0.5) and 50.2 (+0.5) to August, albeit the former has been in contraction territory (<50) since June 2015 whereas the latter saw its first recovery to expansion territory (>50) since March 2015, as new orders, new export orders and production gauges rose. The whole economy PMI also jumped from 50.7 in July (post-Brexit blip?) to 52.3 in August, back to June levels. However, the Zika outbreak may dampen visitor arrivals and domestic consumption in the near-term. S’pore saw its first case of locally transmission on 27 Aug and infection cases have risen since. While it is still early days, the economic impact of Zika is expected to be less severe than SARS. Bank loans growth also fell for ten straight months by 2.2% yoy in July, but rose 1.1% mom in due to a bounce in loans to financial institutions and business services. MAS has eased TDSR rules for refinancing, but stressed this does not represent a relaxation. Separately, S’pore remained the largest FX trading centre in Asia and the 3rd largest FX trading centre globally, accounting for 7.9% of total volume, according to the BIS survey. S’pore overtook London as the 2nd largest offshore RMB trading centre (after HK) with a daily average trading volume of US\$42.5bn. The \$2.2b 2-year SGS re-opening was well received with a cut-off yield of 0.88% and bid-cover of 2.3x. Only a new 5-year SGS issue on 3 Oct remains.

US Treasury bond: repricing Fed rate hike risks



SGS bonds: rally in August, but give back in Sep



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Indicative SGS prices as at 31 August 2016

Issue	Maturity	Coupon	Bid Price	Ask Price	Bid Yield (%)	Ask Yield (%)
N710100Z	2.38%	Apr-17	100.96	101.00	0.72%	0.65%
N215100F	1.38%	Oct-17	100.67	100.71	0.75%	0.71%
N513100T	0.50%	Apr-18	99.53	99.57	0.80%	0.77%
NY03100A	4.00%	Sep-18	106.25	106.35	0.84%	0.79%
NX09100W	2.50%	Jun-19	104.10	104.20	0.98%	0.95%
N514100H	1.63%	Oct-19	101.70	101.80	1.06%	1.03%
N515100S	2.00%	Jul-20	103.05	103.15	1.18%	1.16%
NY05100N	3.25%	Sep-20	107.90	108.00	1.22%	1.20%
NX11100X	2.25%	Jun-21	104.25	104.35	1.32%	1.30%
NY07100X	3.13%	Sep-22	109.45	109.65	1.47%	1.44%
NX13100H	2.75%	Jul-23	107.55	107.75	1.58%	1.55%
NY09100H	3.00%	Sep-24	109.75	109.95	1.69%	1.67%
NX15100Z	2.38%	Jun-25	104.95	105.15	1.76%	1.74%
NZ07100S	3.50%	Mar-27	115.45	115.75	1.87%	1.84%
NY14100E	2.88%	Jul-29	109.60	109.90	2.02%	2.00%
NZ10100F	2.88%	Sep-30	109.65	109.95	2.08%	2.05%
NZ13100V	3.38%	Sep-33	117.70	118.10	2.13%	2.10%
NZ16100X	2.25%	Aug-36	101.60	102.00	2.15%	2.13%
NA12100N	2.75%	Apr-42	111.55	112.15	2.16%	2.13%
NA16100H	2.75%	Mar-46	111.90	112.50	2.20%	2.17%

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