

Treasury Advisory
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Products

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Highlights

Global	<p>A surprise surge in the US' headline CPI readings for Jan17 so close to Fed chair Yellen's slightly hawkish congressional testimony drove market players to reprice the March FOMC rate hike expectations and prompted US Treasury bond yields higher, with the 10-year yield above 2.5% again. US' TIC data also revealed that China's holdings of UST bonds fell the most on record in 2016 to US\$1.06 trillion, which is US\$188 million lower from a year ago, albeit it marked the first monthly increase (+US\$9.1 billion on-month) since May. Similarly, Japan's UST holdings also fell for a fifth month by US\$17.8 billion to US\$1.09 trillion (-US\$31.6 billion from a year ago).</p> <p>Expect that the Asian markets to try to trade off the US reflation theme, but possibly turn slightly wary of the next FOMC rate hike implications now that the March probabilities have been recalibrated to 44%, with May also now standing at 61%. Today's focus will be on the BI policy decision (likely unchanged at 4.75% with probably hints of inflation uptick discomfort), as well as the economic calendar which comprises Malaysia's 4Q16 GDP print, US' initial jobless claims and building permits, and Indonesian trade data. Speakers include Fed's Fischer and ECB's Coeure today.</p>
US	<p>US' CPI inflation accelerated from 0.3% mom (+2.1% yoy) in Dec16 to 0.6% (2.5% yoy – the most since Mar12) in Jan, the largest surge since Feb13 as higher gasoline (+7.8%), apparel (+1.4%) and new car (+0.9%) costs jumped. Real average weekly earnings, however, fell 0.6% yoy in Jan, with the real average hourly earnings unchanged on-year (-0.5% mom). Still, this did not significantly deter retail sales which moderated from an upwardly revised 1.0% mom gain (previously 0.6%) in Dec16 to 0.4% (consensus forecast: 0.1%), with sales excluding autos also rising the most in four months. Retail sales were driven by electronics and appliances, sporting goods and clothing.</p>
SG	<p>Retail sales fell 1.9% mom (+0.4% yoy) in Dec16, but rose 0.7% mom (+0.3% yoy) if motor vehicles were excluded. This marked a slowdown from Nov16 readings which were revised to 0% mom sa (+0.7% yoy) for total retail sales and -2.5% yoy if motor vehicles were excluded. However, the Dec16 readings were less severe than the 4.1% mom sa (-0.7% yoy) we expected due to lacklustre Christmas sales. The positive Dec16 print for retail sales excluding motor vehicles also marked the first return to positive territory since Jan16. Looking ahead, the retail sales picture may grow by a similar modest pace of around 1-3% yoy in 2017. STB tips 2017 visitor arrivals to grow only modestly to 16.4-16.7 million (0-2% yoy), with tourism spending likely between \$25.1-25.8 billion (1-4%) amid intensifying regional competition for the tourism dollar. With the softening in the domestic labour market conditions, private consumption may stay restrained in 1H17.</p>
CH	<p>PBoC injected CNY393.5 billion liquidity via medium term lending facility (MLF) yesterday with interest rate for both 6-month and 1-year MLF remained unchanged. The increasing volume of MLF injection signals that tight bias monetary policy does not mean the start of tightening cycle. Investors will monitor this Friday on whether PBoC will roll over its temporary liquidity facility (TLF).</p>

Major Markets

- **US:** Fed chair Yellen said in her second testimony that “only if we think that it is demand-based and threatens our inflation objective” would the Fed react with a policy tightening to offset changes in fiscal policy. Meanwhile, The Empire manufacturing also jumped for the fourth straight month from 6.5 in Jan to 18.7 in Feb, led by new orders and shipments and suggesting factory performance remains robust, even as the current prices paid index also climbed. Industrial production fell 0.3% mom in Jan, after the Dec16 print was revised down from +0.8% to +0.6%, with capacity utilisation also retreating from 75.6% to 75.3%. Meanwhile, the NAHB housing market index slipped from 67 to 65 in Feb amid higher mortgage rates.
- The story rolls on as the rally continues to bring equity markets to new heights. The sectorial winners and losers remained the same as previous sessions, with financials leading and utilities slumping. The S&P 500 added another 0.50%, while the Dow and Nasdaq gained 0.52% and 0.64% respectively. Some caution though, should be sounded as recent momentum appear to run too hot. Trump’s tax policy announcement may be the next juncture where sentiments switch. VIX spiked 11.4% to close at 11.97. Meanwhile, a strong inflation print put piled further pressure on US Treasuries as the market attuned itself to a “live” March FOMC meeting. 2- and 10-year benchmark yields added 1-3 bps, closing at 1.25% and 2.49% respectively.
- **Singapore:** The main drags on the local retail scene were motor vehicle (-11.9% mom), computer & telecommunications equipment (-6.8% mom) and department stores (-2.2% mom), whereas spending rose for watches & jewellery (+6.0% mom), medical goods & toiletries (+4.8% mom), recreational goods (+2.6% mom) and optical goods & books (+2.6% mom). For the full-year 2016, retail sales grew 2.2% yoy, which is less than half the pace seen in 2015 (+4.7% yoy), notwithstanding that Singapore saw a record number of visitor arrivals at 16.4 million (+7.7% yoy), led by Indonesia and China, as well as record tourism receipts at \$24.8b (+13.9% yoy). Interestingly, the shopping component in tourism receipts rose strongly by 48% yoy for the first three quarters of 2016, but did not seem to benefit the local retail scene to the same quantum – this could imply that the domestic households probably tightened their belts and cut back on private consumption.
- The STI reversed direction to add 0.52% to close at 3088.48 yesterday, but may trade in a 3060-3100 range today as market players weigh the US’ reflation story with a potentially more hawkish FOMC trajectory. SGS bonds are likely to remain under pressure with the repricing of FOMC March hike expectations and ahead of the issue size announcement for the 10-year SGS re-opening tomorrow.
- **Hong Kong:** Hang Seng Index (HSI) closed at its highest level since last September on a strong banking sector. China’s record aggregate financing bolstered optimism on the outlook of Chinese banks. Also, southbound capital inflows via Shanghai-Hong Kong stock connect rose to over RMB2.5 billion for the fourth consecutive trading day. This has also been the main factor driving up HK stock market. However, HSI could face some strong resistance at 24000.
- **Indonesia:** Bank Indonesia is due to announce its monetary policy decision today. We do not expect BI to change its policy rate in this meeting, or indeed, for the whole of this year, in view of continued potential for global volatility as well as an uptick in domestic inflation. Trade data for January is out today, as well, with market penciling in a narrower trade surplus of USD823mn, against USD992mn the month before. Meanwhile, yesterday’s gubernatorial race in Jakarta saw incumbent Ahok leading the contest with quick counts suggesting he received 43% of total votes. Given that he failed to clear the 50% threshold, he would have to contest in a run-off against runner-up Anies Baswedan in April.
- **Malaysia:** Q4 GDP data is due out today. We expect growth to clock 4.3% yoy in the quarter, resulting in a 4.2%yoy growth for the whole of 2016. Strength is likely to come from private consumption, with some support from recent exports recovery.

- **Thailand:** Numerous official comments from a Board of Investment seminar “Thailand 4.0” were observed, including PM Prayut’s rhetoric that “Thailand is in dire need of stepping up... to upgrade its competitiveness”, adding that future development will focus on five areas: technology, human resource, infrastructure, entrepreneurship promotion and emerging industries (biotech, energy, healthcare and medical services). BOT chief Veerathai chipped in as well, commented that rapid technological advancements could increase economic volatility, social inequality, and keep inflation rates at a low level especially if Thailand does not adapt appropriately to the new times.
- **Commodities:** News of further upside risk to Libya’s oil production, amid fresh data on higher US crude inventories, could have dragged crude oil futures marginally lower overnight. WTI and Brent fell to \$53.11/bbl (-0.17%) and \$55.75/bbl (-0.39%), respectively. According to Libyan officials, the North African country has exceeded its 700 thousand barrels per day (bpd) of production of late, and will aim to touch 1.2 million bpd by August and 1.7 million bpd by March 2018. Libya is one of the OPEC nations that are excluded from the production cut agreement made late last year. Elsewhere, gold prices continued to climb even as market digested recent FOMC Chair Yellen’s hawkish rhetoric, highlighting the investors’ continued want to chalk up safe haven assets amid the uncertainties.

Bond Market Updates

- **Market Commentary:** The SGD dollar swap curve traded lower yesterday, with swap rates falling 1-2bps lower across all tenors. In the broader dollar space, the spread on JACI IG Corporates fell 3bps to 188bps while the yield on JACI HY Corporates rose 2bps to 6.73%. 10y UST yields rose 3bps to 2.50% yesterday, following better than expect U.S CPI results. Based on Bloomberg Fed OIS data, March rate hike odds jumped again while a June rate hike has been fully priced in.
- **New Issues:** Mitsubishi UFJ Financial Group Inc. (MUFG) priced a USD2.5bn 3-tranche deal, with the USD1bn 5-year piece priced at CT5+100bps, tightening from initial guidance of CT5+120bps; the USD500mn 5-year piece priced at 3mL+92bps; and the USD1bn 10-year piece priced at CT10+118bps, tightening from initial guidance of CT10+135bps. Qinghai Provincial Investment Group Co Ltd priced a USD300mn 3-year bond at 7.25%, tightening from initial guidance of 7.5%. The expected issue ratings are ‘BB-/NR/NR’. Vodafone is said to have priced a USD 30-year bond at 5.35% in Taiwan; its second Formosa bond issuance since December 2015. Guorui Properties Ltd is planning for a potential USD bond issuance. Xinyuan Real Estate scheduled investor roadshows from 16th February for a potential USD bond issuance.
- **Rating Changes:** S&P assigned a ‘B-’ issue rating to Xinyuan Real Estate Co. Ltd.’s (Xinyuan) proposed U.S dollar denominated senior unsecured notes. The ratings outlook has been changed to stable from negative. The rating action reflects S&P’s expectation that the company will mildly increase sales and margins over the next 12 months and leverage will remain stable but high over the period owing to its need for land-reserve replenishment and construction expenditure. Fitch assigned Xinyuan’s proposed US dollar senior notes a ‘B(EXP)’ rating as well. Moody’s affirmed Aurizon Holdings Limited’s (Aurizon) and Aurizon Network Pty Ltd’s (Network) ‘Baa1’ issuer ratings, as well as Aurizon Finance Pty Ltd’s (Aurizon Finance) ‘Baa1’ senior unsecured bank credit facility rating. In addition, Moody’s changed to stable from negative the outlook of Aurizon, Network and Aurizon Finance. The rating action reflects Moody’s expectation that Aurizon will manage its capital structures in a manner that supports the ratings, including maintaining financial metrics within rating parameters. expectation that the company will mildly increase sales and margins over the next 12 months. We expect the company’s leverage to remain stable but high over the period owing to its need for land-reserve replenishment and construction expenditure.

Key Financial Indicators

Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	101.180	-0.07%	USD-SGD	1.4188	-0.16%
USD-JPY	114.160	-0.09%	EUR-SGD	1.5041	0.06%
EUR-USD	1.0601	0.22%	JPY-SGD	1.2428	-0.06%
AUD-USD	0.7710	0.61%	GBP-SGD	1.7681	-0.20%
GBP-USD	1.2461	-0.06%	AUD-SGD	1.0941	0.47%
USD-MYR	4.4490	-0.01%	NZD-SGD	1.0248	0.62%
USD-CNY	6.8711	0.05%	CHF-SGD	1.4111	-0.11%
USD-IDR	13317	-0.10%	SGD-MYR	3.1274	-0.33%
USD-VND	22755	0.04%	SGD-CNY	4.8279	-0.20%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD LIBOR	Change
1M	-0.3740	--	O/N	0.6872	--
2M	-0.3400	--	1M	0.7700	--
3M	-0.3280	--	2M	0.8478	--
6M	-0.2410	--	3M	1.0373	--
9M	-0.1640	--	6M	1.3366	--
12M	-0.1040	--	12M	1.7079	--

Eurozone & Russia Update

	2Y Bond Ylds (bpschg)	10Y Bond Ylds (bpschg)	10Y Bund Spread
Portugal	0.03	-1.50	4.09
Italy	-0.03	-0.60	2.24
Ireland	-0.42	2.40	1.09
Greece	9.90	56.80	7.75
Spain	-0.27	0.80	1.68
Russia	2.01	0.90	4.20

Equity and Commodity

Index	Value	Net change
DJIA	20,611.86	107.45
S&P	2,349.25	11.67
Nasdaq	5,819.44	36.87
Nikkei 225	19,437.98	199.00
STI	3,088.48	16.01
KLCI	1,709.79	0.89
JCI	5,380.67	--
Baltic Dry	688.00	3.00
VIX	11.97	1.23

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.21 (-0.02)	1.25 (+0.01)
5Y	1.65 (-0.01)	1.99 (+0.03)
10Y	2.24 (-0.01)	2.49 (+0.02)
15Y	2.47 (-)	--
20Y	2.44 (-0.03)	--
30Y	2.49 (-0.02)	3.08 (+0.02)

Financial Spread (bps)

	Value	Change
LIBOR-OIS	33.16	-1.12
EURIBOR-OIS	2.15	0.05
TED	49.92	--

Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	53.11	-0.17%	Coffee (per lb)	1.445	0.59%
Brent (per barrel)	55.75	-0.39%	Cotton (per lb)	0.7571	-0.80%
Heating Oil (per gallon)	1.6305	-0.47%	Sugar (per lb)	0.2048	0.05%
Gasoline (per gallon)	1.5479	0.08%	Orange Juice (per lb)	1.7300	1.76%
Natural Gas (per MMBtu)	2.9250	0.69%	Cocoa (per mt)	2,022	4.82%
Base Metals	Futures	% chg	Grains	Futures	% chg
Copper (per mt)	6,067.0	0.76%	Wheat (per bushel)	4.5475	1.17%
Nickel (per mt)	10,891.5	1.49%	Soybean (per bushel)	10.613	1.56%
Aluminium (per mt)	1,904.5	1.36%	Corn (per bushel)	3.7875	1.20%
Precious Metals	Futures	% chg	Asian Commodities	Futures	% chg
Gold (per oz)	1,231.7	0.64%	Crude Palm Oil (MYR/MT)	3,306.0	0.73%
Silver (per oz)	17.963	0.41%	Rubber (JPY/KG)	347.0	-0.72%

Source: Bloomberg, Reuters
(Note that rates are for reference only)

Key Economic Indicators

Date	Time	Event	Survey	Actual	Prior	Revised	
02/15/2017	07:00	SK Unemployment rate SA	Jan	3.50%	3.60%	3.40%	3.50%
02/15/2017	07:30	AU Westpac Cons Conf SA MoM	Feb	--	2.30%	0.10%	--
02/15/2017	08:30	AU New Motor Vehicle Sales MoM	Jan	--	0.60%	0.30%	0.10%
02/15/2017	08:30	AU New Motor Vehicle Sales YoY	Jan	--	-0.90%	0.20%	0.10%
02/15/2017	13:00	SI Retail Sales SA MoM	Dec	-1.90%	-1.90%	0.50%	0.00%
02/15/2017	13:00	SI Retail Sales YoY	Dec	1.40%	0.40%	1.10%	0.70%
02/15/2017	14:46	PH Overseas Remittances YoY	Dec	-1.60%	3.60%	18.50%	--
02/15/2017	14:46	PH Overseas Workers Remittances	Dec	\$2542m	\$2559m	\$2217m	--
02/15/2017	16:00	TA GDP YoY	4Q F	2.60%	2.88%	2.58%	--
02/15/2017	17:30	UK Claimant Count Rate	Jan	2.30%	2.10%	2.30%	--
02/15/2017	17:30	UK Jobless Claims Change	Jan	0.5k	-42.4k	-10.1k	-20.5k
02/15/2017	17:30	UK ILO Unemployment Rate 3M	Dec	4.80%	4.80%	4.80%	--
02/15/2017	18:00	EC Trade Balance SA	Dec	22.0b	24.5b	22.7b	22.2b
02/15/2017	20:00	US MBA Mortgage Applications	Feb-10	--	-3.70%	2.30%	--
02/15/2017	20:14	IN Exports YoY	Jan	--	4.30%	5.70%	--
02/15/2017	20:14	IN Imports YoY	Jan	--	10.70%	0.50%	--
02/15/2017	21:30	CA Manufacturing Sales MoM	Dec	0.30%	2.30%	1.50%	2.30%
02/15/2017	21:30	US Empire Manufacturing	Feb	7	18.7	6.5	--
02/15/2017	21:30	US CPI MoM	Jan	0.30%	0.60%	0.30%	--
02/15/2017	21:30	US CPI Ex Food and Energy MoM	Jan	0.20%	0.30%	0.20%	--
02/15/2017	21:30	US CPI YoY	Jan	2.40%	2.50%	2.10%	--
02/15/2017	21:30	US CPI Ex Food and Energy YoY	Jan	2.10%	2.30%	2.20%	--
02/15/2017	21:30	US CPI Core Index SA	Jan	--	250.783	249.93	250.013
02/15/2017	21:30	US CPI Index NSA	Jan	242.479	242.839	241.432	--
02/15/2017	21:30	US Retail Sales Advance MoM	Jan	0.10%	0.40%	0.60%	1.00%
02/15/2017	21:30	US Retail Sales Ex Auto MoM	Jan	0.40%	0.80%	0.20%	0.40%
02/15/2017	21:30	US Retail Sales Ex Auto and Gas	Jan	0.30%	0.70%	0.00%	0.10%
02/15/2017	22:15	US Industrial Production MoM	Jan	0.00%	-0.30%	0.80%	0.60%
02/15/2017	22:15	US Capacity Utilization	Jan	75.40%	75.30%	75.50%	75.60%
02/15/2017	23:00	US NAHB Housing Market Index	Feb	67	65	67	--
02/15/2017	23:00	US Mortgage Delinquencies	4Q	--	4.80%	4.52%	--
02/15/2017	23:00	US Business Inventories	Dec	0.40%	0.40%	0.70%	0.80%
02/16/2017	05:00	US Net Long-term TIC Flows	Dec	--	-\$12.9b	\$30.8b	\$34.4b
02/16/2017	05:00	US Total Net TIC Flows	Dec	--	-\$42.8b	\$23.7b	\$30.2b
02/16/2017	07:50	JN Japan Buying Foreign Bonds	Feb-10	--	--	-¥126.6b	--
02/16/2017	07:50	JN Japan Buying Foreign Stocks	Feb-10	--	--	¥332.8b	--
02/16/2017	07:50	JN Foreign Buying Japan Bonds	Feb-10	--	--	¥239.8b	--
02/16/2017	07:50	JN Foreign Buying Japan Stocks	Feb-10	--	--	-¥248.0b	--
02/16/2017	08:30	AU Employment Change	Jan	10.0k	--	13.5k	--
02/16/2017	08:30	AU Unemployment Rate	Jan	5.80%	--	5.80%	--
02/16/2017	08:30	AU Full Time Employment Change	Jan	--	--	9.3k	--
02/16/2017	08:30	AU Part Time Employment Change	Jan	--	--	4.2k	--
02/16/2017	08:30	AU Participation Rate	Jan	64.70%	--	64.70%	--
02/16/2017	08:30	AU RBA FX Transactions Market	Jan	--	--	A\$1799m	--
02/16/2017	10:00	NZ Non Resident Bond Holdings	Jan	--	--	63.20%	--
02/16/2017	12:00	MA BoP CA Balance MYR	4Q	10.0b	--	6.0b	--
02/16/2017	12:00	MA GDP YoY	4Q	4.40%	--	4.30%	--
02/16/2017	14:00	JN Machine Tool Orders YoY	Jan F	--	--	3.50%	--
02/16/2017	14:30	FR ILO Unemployment Rate	4Q	9.80%	--	10.00%	--
02/16/2017	15:00	EC EU27 New Car Registrations	Jan	--	--	3.00%	--
02/16/2017	17:00	IT Trade Balance Total	Dec	--	--	4203m	--
02/16/2017	21:30	US Housing Starts	Jan	1226k	--	1226k	--
02/16/2017	21:30	US Building Permits	Jan	1230k	--	1210k	1228k
02/16/2017	21:30	US Initial Jobless Claims	Feb-11	245k	--	234k	--
02/16/2017	21:30	US Continuing Claims	Feb-04	2050k	--	2078k	--
02/16/2017	21:30	US Phil Fed Business Outlook	Feb	18	--	23.6	--
02/16/2017	22:45	US Bloomberg Consumer Comfort	Feb-12	--	--	47.2	--
02/16/2017	22:45	US Bloomberg Economic Expectations	Feb	--	--	56	--
02/16/2017		ID Bank Indonesia 7D Reverse Repo	Feb-16	4.75%	--	4.75%	--
02/16/2017		ID Imports YoY	Jan	12.81%	--	5.82%	--
02/16/2017		ID Exports YoY	Jan	19.75%	--	15.57%	--
02/16/2017		ID Trade Balance	Jan	\$823m	--	\$992m	--

Source: Bloomberg

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