

Highlights

Global	<p>Another strong session for Wall Street last night which sent US benchmarks at fresh highs (led by tech stocks) is likely to pave the way for an extended rally for Asian bourses this morning. US' manufacturing ISM surged from 58.2 in Nov to 59.7 in Dec, nearing the post-recession peak of 60.8 in Sep17, amid higher new orders (69.4 versus 64.0), production (65.8 from 63.9) and new export orders (58.5 versus 56.0), albeit the employment gauge eased from 59.7 to 57.0. The Dec FOMC minutes suggested that most participants support "continuing a gradual approach to raising the target range", Of interest was that "participants discussed several risks that, if realized, could necessitate a steeper path of increases in the target range; these risks included the possibility that inflation pressures could build unduly if output expanded well beyond its maximum sustainable level, perhaps owing to fiscal stimulus or accommodative financial market conditions".</p> <p>Key to watch for today's economic data releases are US' initial jobless claims, ADP employment change and Challenger job cuts, and the slate of service PMIs from Asia including China's Caixin. Fed's Bullard is also speaking.</p>
US	<p>The FOMC minutes also flagged that "many participants judged that the proposed changes in business taxes, if enacted, would likely provide a modest boost to capital spending, al-though the magnitude of the effects was uncertain" and while "labour market conditions continued to strengthen in recent months", "overall, the pace of wage increases had generally been modest and in line with inflation and productivity growth". On the flattening UST yield curve, "they generally agreed that the current degree of flatness of the yield curve was not unusual by historical standards".</p>
SG	<p>As expected, both the domestic manufacturing and electronics PMIs eased in December 2017 to 52.8 (-0.1 point) and 53.2 (0.3 point) respectively. This is a modest easing from the November prints of 52.9 and 53.5 respectively, as both indices remain in the expansion territory (>50). In particular, the electronics PMI print remains near its current cycle high of 53.5 in September 2017 (highest since July 2010), which is encouraging that the key driver for the manufacturing sector is not rapidly losing altitude. Looking into the detail sub-indices, while the new orders and new export orders for the manufacturing sector rose in December, the reverse was true for the electronics new orders and new export orders gauges. In addition, both the output and order backlog gauges for the manufacturing and electronics industry also eased in December. We anticipate that the 2018 outlook for manufacturing growth will be a more modest single digit growth of 4.9% yoy.</p>
CMD	<p>Gold prices clearly took much interest over the last two weeks of trading. The yellow metal rose for nine consecutive trading days with silver following suit. In the early hours of today's trading however, both gold and silver trended south after gold's crossing of the 14-day Relative Strength Index (RSI) at the start of the year. Do expect some interim profit-taking in the precious metals into the trading day ahead, amid some rebounding of the dollar index yesterday. Elsewhere, crude oil reverted to more gains overnight, especially seen with the Brent at +1.9% to \$67.8/bbl, as on-going anti-government protests in Iran signalled potential supply outages should tensions escalate.</p>

Major Market

- **US:** Equities continued the strong start to the year, with all three major indices pushing to record highs. Stronger than expected ISM manufacturing print provided the data boost, while the Dec FOMC minutes show that Fed is largely content to maintain the pace of rate hikes at three hikes in 2018. Overall, energy and tech stocks continued to lead gains, pushing the S&P 500 above the 2700 handle, 0.64% higher. The Dow also rose 0.40%, closing in on the 25000 handle. The Nasdaq Composite added 0.84%. VIX slipped to 9.15. compared to 9.77 previously. Meanwhile, the US Treasuries bull flattened, with the long-end outperforming after the Fed minutes, while the short-end sold-off. The 2y and 10y benchmark yields stood at 1.931% and 2.447% respectively.
- Meanwhile, construction spending moderated slightly from a revised 0.9% in Oct to 0.8% in Nov.
- **Singapore:** The STI's winning streak extended by 0.99% to close up at 3464.28 yesterday and the overnight rally in Wall Street may see STI testing its recent 13 Dec 17 high of 3468.77, with support tipped at 3450. With FOMC members largely nonchalant about the flattening bias in the UST bond curve, there may be few impediments to stand in the way for the SGS market as well today.
- **Korea:** Look out for a scheduled meeting between Finance Minister Kim Dong-yeon and BOK Governor Lee Ju-yeol today. The officials are expected to discuss on broad economic issues as well as policy direction. Note that the Bank of Korea is the first Asian central bank to lift rates in 2017.
- **Hong Kong:** Retail sales grew at the fastest pace since February 2015 by 7.5% yoy in November 2017 on the back of tourism recovery. On the one hand, China's resilient economic growth has supported its outbound tourism. This helps to sustain the growth in sales of luxurious goods (+7.9% yoy) and sales of clothing, footwear and allied products (+3.8% yoy). On the other hand, driven by benign real wage growth and wealth effect from bullish stock market, strong local demand has also supported the retail sector. Sales of food, alcoholic drinks and tobacco and those of goods in supermarkets grew by 3.8% yoy and 1.9% yoy respectively. More notably, the launch of new iPhone device led the sales of consumer durable goods to climb at its fastest pace since June 2015 by 15% yoy. Moving forward, retail sales are expected to grow by about 2% in 2017 and advance further by 5%-8% in 2018 amid low base effect, solid labour market and further improvement in tourism activities. If this is the case, the rent and price of private commercial retail units are likely to rebound gradually.
- The growth of secondary housing prices index (+13.1% yoy) accelerated for the first time since June 2017 in November 2017. However, November's approved mortgage loans dropped for the third consecutive month by 7.1% yoy. Though total housing transactions rebounded by 50.3% yoy after five consecutive months of decline in December 2017, the average transaction volume (4913 deals) for the second half of 2017 is much lower than that (5795 deals) for the same period in 2016. Taken all data together, it reveals that the acceleration of secondary housing prices growth could have been transitory. Moving into 2018, local affluent investors and those from Mainland China may continue to support the housing market. However, should global monetary tightening lead to capital outflows from emerging markets, HK banks may have to lift prime rate and in turn deter those prospective buyers who rely on mortgage loans. On the other hand, any correction in HK stock market resulted from capital outflows may reduce wealth effect. This will also damp some investment demand in housing market. Therefore, we expect housing transactions to remain muted in the coming year. Secondary home prices index is expected to grow by 0%-3% in 2018.

- **Indonesia:** Actual budget deficit for 2017 printed 2.92% of GDP, lower than initial estimates. However, revenue targets continue to be missed, with the government only raising 95.4% of planned revenues. Tax collection remains the bugbear, hitting only 91% of target. State expenditure was also below target, coming in at 93.8% of budgeted levels.
- **Thailand:** Inflation was starkly lower compared to market expectations. December's domestic prices in fact fell 0.08% m/m (+0.78% y/y) although core inflation remain relatively stable at +0.62%. This brings full-year inflation to 0.67%, lower than BOT's CPI target range of between 1 – 4%. For the year ahead, the Commerce Ministry is pencilling a 0.6 – 1.6% forecast, while the Bank of Thailand is looking for headline and core inflation to average 1.1% and 0.8%, respectively.

Bond Market Updates

- **Market Commentary:** The SGD swap curve bear-steepened yesterday, with swap curves trading 1 to 4bps higher across all tenors. In the broader dollar space, the spread on the Itraxx Asia ex-Japan traded little changed at 66bps. 10y UST yields fell 2bps to 2.44%, despite (1) ISM Manufacturing and Prices Paid data that came in stronger than expected earlier in the morning; and (2) the release of the FOMC's December meeting minutes, which showed that most participants favoured tightening and saw inflation gradually rising to 2%, while generally agreeing that the flatness of the yield curve was not unusual by historical standards.
- **New Issues:** Commonwealth Bank Of Australia has priced a USD1.25bn Subordinated Tier 2 30-year bond at CT30+153bps, tightening from initial guidance of CT30+175bps area. The expected issue ratings are 'BBB/Baa1/A+'. Swire Properties MTN Financing Ltd has priced a USD500mn 10-year bond (guaranteed by Swire Properties Ltd) at CT10+110bps, tightening from initial guidance of CT10+130bps area. The expected issue ratings are 'NR/A2/A'. Citic Ltd has hired banks for a proposed USD senior unsecured bond issue.
- **Rating Changes:** Fitch has affirmed PT Wijaya Karya (Persero) Tbk's (WIKA)'s 'BB' Issuer Default Rating. The outlook is stable. The rating action reflects WIKA's continued position as one of the largest state-owned construction companies in Indonesia with solid order-book growth to support its profitability in the medium term. Fitch has downgraded Dalian Wanda Group Co Ltd's commercial debt rating to 'BB+' from 'BBB', while maintaining the rating on watch negative. The rating action reflects Wanda's inability to access offshore funding channels to boost its offshore liquidity in a timely manner, thereby heightening its offshore liquidity risk. Fitch has assigned Shangrao City Construction Investment Development Group Co Ltd (SCID) an Issuer Default Rating at 'BB+'. The outlook is stable. SCID's rating is credit-linked to its sponsor, Shangrao municipality. In light of the municipality's stable ownership of SCID, there is a high likelihood that SCID would receive extraordinary support if needed.

Key Financial Indicators

Foreign Exchange

	Day Close	% Change		Day Close	% Change
DXY	92.162	0.32%	USD-SGD	1.3299	0.05%
USD-JPY	112.510	0.20%	EUR-SGD	1.5977	-0.33%
EUR-USD	1.2015	-0.36%	JPY-SGD	1.1818	-0.16%
AUD-USD	0.7836	0.08%	GBP-SGD	1.7971	-0.50%
GBP-USD	1.3516	-0.54%	AUD-SGD	1.0419	0.11%
USD-MYR	4.0145	-0.12%	NZD-SGD	0.9431	-0.13%
USD-CNY	6.5030	0.15%	CHF-SGD	1.3609	-0.53%
USD-IDR	13475	-0.29%	SGD-MYR	3.0262	0.14%
USD-VND	22698	-0.05%	SGD-CNY	4.8878	0.10%

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD LIBOR	Change
1M	-0.3680	--	O/N	1.4375	--
2M	-0.3400	--	1M	1.5618	--
3M	-0.3290	--	2M	1.6221	--
6M	-0.2710	--	3M	1.6969	--
9M	-0.2170	--	6M	1.8394	--
12M	-0.1860	--	12M	2.1093	--

Fed Rate Hike Probability

Meeting	Prob Hike	1.5-1.75	1.75-2	2-2.25	2.25-2.5
01/31/2018	0.0%	99.3%	0.0%	0.0%	0.0%
03/21/2018	81.4%	18.4%	81.4%	0.0%	0.0%
05/02/2018	82.3%	17.5%	78.3%	4.0%	0.0%
06/13/2018	92.8%	7.1%	42.0%	48.5%	2.4%
08/01/2018	93.5%	6.5%	38.8%	47.9%	6.6%
09/26/2018	96.0%	4.0%	26.4%	44.4%	22.4%

Commodities Futures

Energy	Futures	% chg	Base Metals	Futures	% chg
WTI (per barrel)	61.63	2.09%	Copper (per mt)	7,181.5	-0.63%
Brent (per barrel)	67.84	1.91%	Nickel (per mt)	12,361.8	-1.64%
Heating Oil (per gallon)	2.0880	1.44%	Aluminium (per mt)	2,215.3	-1.71%
Gasoline (per gallon)	1.7974	1.95%			
Natural Gas (per MMBtu)	3.0080	-1.57%	Asian Commodities	Futures	% chg
			Crude Palm Oil (MYR/MT)	2,606.0	2.92%
			Rubber (JPY/KG)	206.7	0.00%
Precious Metals	Futures	% chg			
Gold (per oz)	1,318.5	0.18%			
Silver (per oz)	17.267	0.35%			

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Equity and Commodity

Index	Value	Net change
DJIA	24,922.68	98.67
S&P	2,713.06	17.25
Nasdaq	7,065.53	58.63
Nikkei 225	22,764.94	--
STI	3,464.28	33.98
KLCI	1,792.79	10.09
JCI	6,251.48	-87.76
Baltic Dry	1,230.00	--
VIX	9.15	-0.62

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.57 (-0.08)	1.93 (+0.01)
5Y	1.65 (-0.02)	2.24 (--)
10Y	2.04 (+0.03)	2.45 (-0.02)
15Y	2.37 (+0.01)	--
20Y	2.40 (+0.02)	--
30Y	2.47 (+0.03)	2.79 (-0.03)

Financial Spread (bps)

	Value	Change
LIBOR-OIS	25.79	-0.28
EURIBOR-OIS	1.82	0.72
TED	30.85	--

Economic Calendar

Date Time	Event	Survey	Actual	Prior	Revised	
01/03/2018 00:47	IT Budget Balance	Dec	--	14.9b	-5.5b	--
01/03/2018 01:00	IT New Car Registrations YoY	Dec	--	-3.17%	6.79%	--
01/03/2018 11:30	TH CPI YoY	Dec	0.99%	0.78%	0.99%	--
01/03/2018 15:30	TH Business Sentiment Index	Dec	--	50.2	51.3	--
01/03/2018 16:30	HK Retail Sales Value YoY	Nov	4.20%	7.50%	3.90%	--
01/03/2018 16:55	GE Unemployment Change (000's)	Dec	-13k	-29k	-18k	-20k
01/03/2018 17:00	GE CPI Brandenburg MoM	Dec	--	0.60%	0.40%	--
01/03/2018 17:30	UK Markit/CIPS UK Construction PMI	Dec	53	52.2	53.1	--
01/03/2018 20:00	US MBA Mortgage Applications	Dec-29	--	0.70%	-3.50%	--
01/03/2018 21:00	SI Electronics Sector Index	Dec	--	53.2	53.5	--
01/03/2018 21:00	SI Purchasing Managers Index	Dec	--	52.8	52.9	--
01/03/2018 23:00	US Construction Spending MoM	Nov	0.50%	0.80%	1.40%	0.90%
01/03/2018 23:00	US ISM Manufacturing	Dec	58.2	59.7	58.2	--
01/04/2018 03:00	US FOMC Meeting Minutes	Dec-13	--	--	--	--
01/04/2018 05:00	SK Foreign Reserves	Dec	--	\$389.27b	\$387.25b	--
01/04/2018 06:30	AU AiG Perf of Services Index	Dec	--	52	51.7	--
01/04/2018 08:30	JN Nikkei Japan PMI Mfg	Dec F	--	--	54.2	--
01/04/2018 08:30	HK Nikkei Hong Kong PMI	Dec	--	--	50.7	--
01/04/2018 09:45	CH Caixin China PMI Composite	Dec	--	--	51.6	--
01/04/2018 09:45	CH Caixin China PMI Services	Dec	51.8	--	51.9	--
01/04/2018 11:30	TH Consumer Confidence Economic	Dec	--	--	65.2	--
01/04/2018 13:00	IN Nikkei India PMI Services	Dec	--	--	48.5	--
01/04/2018 13:00	IN Nikkei India PMI Composite	Dec	--	--	50.3	--
01/04/2018 15:00	UK Nationwide House PX MoM	Dec	0.10%	--	0.10%	--
01/04/2018 16:45	IT Markit/ADACI Italy Services PMI	Dec	54.7	--	54.7	--
01/04/2018 16:45	IT Markit/ADACI Italy Composite PMI	Dec	56	--	56	--
01/04/2018 16:50	FR Markit France Services PMI	Dec F	59.4	--	59.4	--
01/04/2018 16:50	FR Markit France Composite PMI	Dec F	60	--	60	--
01/04/2018 16:55	GE Markit Germany Services PMI	Dec F	55.8	--	55.8	--
01/04/2018 16:55	GE Markit/BME Germany Composite PMI	Dec F	58.7	--	58.7	--
01/04/2018 17:00	EC Markit Eurozone Services PMI	Dec F	56.5	--	56.5	--
01/04/2018 17:00	EC Markit Eurozone Composite PMI	Dec F	58	--	58	--
01/04/2018 17:30	UK Official Reserves Changes	Dec	--	--	\$865m	--
01/04/2018 17:30	UK Net Lending Sec. on Dwellings	Nov	3.4b	--	3.4b	--
01/04/2018 17:30	UK Mortgage Approvals	Nov	64.0k	--	64.6k	--
01/04/2018 17:30	UK Money Supply M4 MoM	Nov	--	--	0.60%	--
01/04/2018 17:30	UK M4 Money Supply YoY	Nov	--	--	4.10%	--
01/04/2018 17:30	UK Markit/CIPS UK Services PMI	Dec	54	--	53.8	--
01/04/2018 17:30	UK Markit/CIPS UK Composite PMI	Dec	55	--	54.9	--
01/04/2018 20:30	US Challenger Job Cuts YoY	Dec	--	--	30.10%	--
01/04/2018 21:15	US ADP Employment Change	Dec	190k	--	190k	--
01/04/2018 21:30	CA Industrial Product Price MoM	Nov	1.00%	--	1.00%	--
01/04/2018 21:30	CA Raw Materials Price Index MoM	Nov	--	--	3.80%	--
01/04/2018 21:30	US Initial Jobless Claims	Dec-30	241k	--	245k	--
01/04/2018 21:30	US Continuing Claims	Dec-23	1925k	--	1943k	--
01/04/2018 22:45	US Markit US Services PMI	Dec F	52.5	--	52.4	--
01/04/2018 22:45	US Markit US Composite PMI	Dec F	--	--	53	--
01/04/2018 22:45	US Bloomberg Consumer Comfort	Dec-31	--	--	52.4	--
01/03/2018 01/04	US Wards Total Vehicle Sales	Dec	17.50m	17.76m	17.35m	17.40m

Source: Bloomberg

<u>OCBC Treasury Research</u>	
<u>Macro Research</u> Selena Ling LingSSSelena@ocbc.com Emmanuel Ng NgCYEmmanuel@ocbc.com Tommy Xie Dongming XieD@ocbc.com Barnabas Gan BarnabasGan@ocbc.com Terence Wu TerenceWu@ocbc.com	<u>Credit Research</u> Andrew Wong WongVKAM@ocbc.com Wong Liang Mian (Nick) NickWong@ocbc.com Ezien Hoo EzienHoo@ocbc.com Wong Hong Wei WongHongWei@ocbc.com

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