

Fundamental Highlights

Risk appetite continues to wax and wane.

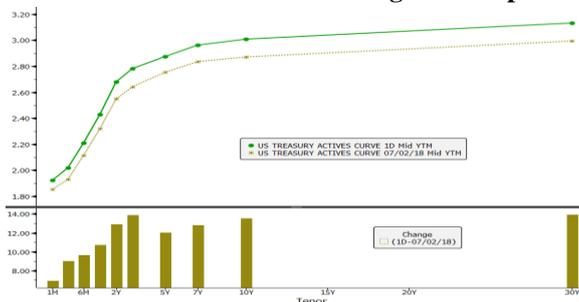
While the US and Eurozone recently agreed to suspend new tariffs, and US-China trade talks are restarting were positive developments, this was partly offset by Qualcomm's aborted \$44b bid for NXP Semiconductors due to China's absent green-light as well as the threat that the Trump administration is considering raising the 10% tariffs for the \$200 billion of Chinese imports to 25%. As such, trade doldrums are likely to persist in August. Regional manufacturing PMIs are already reflecting some softness amid the ongoing uncertainties. The FOMC is still tipped to hike in September, and keep its options open for a fourth hike in December 2018 awaiting inflation cues. While China's 2Q18 GDP growth eased slightly from 6.8% yoy in 1Q to 6.7%, recent domestic policy easing measures suggest that policymakers are cognizant of the downside growth risks in 2H18. The proactive fiscal measures in particular have injected new life into the Chinese onshore market at a time when global bond markets are grappling with the ECB ending its asset purchase program by end-2018 and the BOJ introduction of flexibility/forward guidance. BOJ-induced volatility and the Treasury refunding plans of \$78b for 3Q are likely to limit the UST flattening bias for now.

SGS Review and Outlook

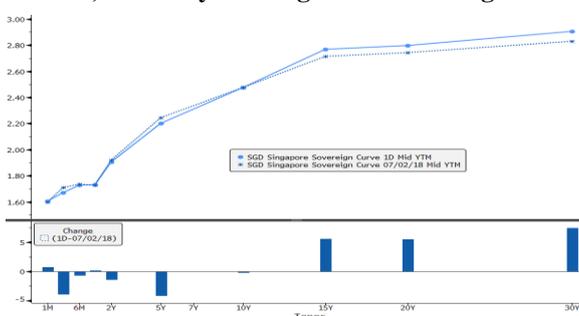
Services (not manufacturing) is in the driver seat.

The latest business expectations survey showed that a net 7% of manufacturers in S'pore anticipate a more favourable business prospects in 2H18 (previously 13%), with all except the chemicals cluster seeing better business prospects. The most upbeat were the transport engineering cluster (+22%), electronics (+10%), biomedical (+6%) and precision engineering (+6%). However, the services sector survey revealed that a net weighted 9% of firms are more upbeat for 2H18 (previously 8%), led by accommodation (+38%), F&B services (+37%) due to the upcoming year-end holidays and festive season, followed by business services excluding real estate (+17%) and financial & insurance (+14%) whereas the real estate was the sole laggard after the recent cooling measures. Meanwhile, bank loans growth unexpectedly accelerated from 5.5% yoy (0.1% mom) in May to 5.9% yoy (0.8% mom) in June, driven by business loans, but the recent property cooling measures may weigh on mortgage loans ahead. The S'pore economy should see momentum moderate from 3.8% yoy (1.0% qoq saar) in 2Q18 into 2H18, but with MAS core inflation likely to cross the 2% handle as early as August, the option remains on the table for a further modest tightening at the October MPS. IMF had opined in its Article IV consultation that a Taylor-type rule suggests a gradual appreciation of NEER parity by 1.5% by end-2019. SGS bonds may range trade ahead of the 2-year SGS bond re-opening on 3 Sep.

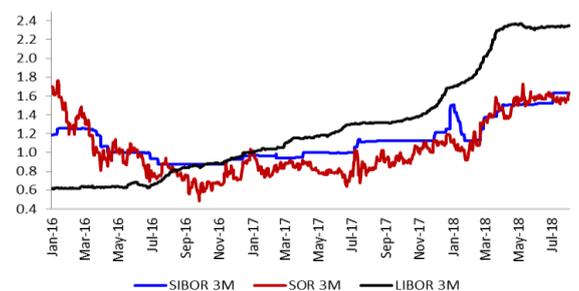
The UST bond yields rose by up to 14bps in July, but the 2-10 curve was unchanged at 32bps.



In contrast, the SGS bonds outperformed the UST, with only the longer-tenors selling off.



The 3-month SIBOR and SOR have edged up to ~1.62% and are still biased higher from here.



Source: Bloomberg, OCBC

Group Treasury

Treasury Research & Strategy

Selena Ling

(65) 6530 4887

Lingssselena@ocbc.com.sg

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC Bank, its related companies, their respective directors and/or employees (collectively “Related Persons”) may or might have in the future interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial services to such issuers. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, “Relevant Materials”) to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a “Relevant Entity”) in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) (“MiFID”) and the EU’s Markets in Financial Instruments Regulation (600/2014) (“MiFIR”) (together referred to as “MiFID II”), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).