

Fundamental Highlights

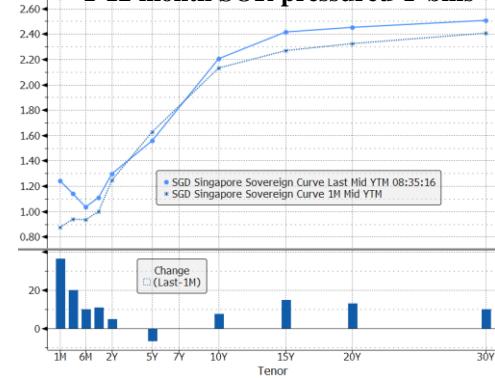
Global bond markets spooked by potential synchronised monetary policy accommodation withdrawal.

The 1H17 market environment was very benign as investors looked past geopolitical risks such as the UK's triggering of Article 50 for Brexit, Dutch and French elections. Global risk appetite was healthy and portfolio funds returned to Emerging Markets, including Asia. Towards end-June, the FOMC announced intentions to begin unwinding its balance sheet later this year, followed by similar hawkish rhetoric from other central banks like the ECB, BOE and BOC, which prompted a rethinking of global bond market valuations. This is likely to herald greater market volatility in 2H17, whether across currencies and fixed income asset classes, notwithstanding greater confidence that global growth prospects are improving. Given that foreign portfolio flows had returned to Emerging Markets including Asia in 1H17, the risk of reversal cannot be discounted. Upcoming potential risk events to watch for include German elections, ongoing North Korean tensions, China policy risks ahead of the 19th Party Congress, Malaysia's general elections, and a synchronized withdrawal of monetary policy accommodation by major central banks, amongst others. Fed chair Yellen's congressional testimony could shed some light on how to interpret the muted inflation, especially wages, and rate hike trajectory going forward.

UST curve steepening led by market concerns over FOMC balance sheet unwind intentions



SGS yield curve followed suit, but jump in 1-12 month SOR pressured T-bills



The 3-month SOR-SIBOR compressed sharply.



SGS Review and Outlook

Stable fundamentals, but choppy SOR in near-term.

MAS's annual report sounded more upbeat, noting that downside risks around baseline growth forecasts have declined, albeit tail risks arising from economic policy and geopolitical uncertainties persist. As such, 2017 growth is likely higher than 2016's 2%, even though growth has been somewhat uneven sectorally but this is to be expected in the initial stages of an external-led pickup and should broaden to the rest of the economy over the course of the year. Apart from the trade-related cluster that has been a major growth driver this year, the modern services cluster is also poised for higher growth in 2H17 whereas the domestic-oriented cluster may still remain weak in certain segments like real estate and retail. MAS also reiterated that the monetary policy stance remains appropriate for an extended period, predicated on domestic inflation and growth prospects keeping to their projected trajectories, and it is not time yet to ease the property cooling measures as demand remains firm amid a continued low interest rate environment and the investors' global search for yield continues. Meanwhile, bank loans growth remained healthy, growing for the 8th straight month, albeit at a slower pace of 6.8% yoy (+0.3% mom) in May, bringing Jan-May17 to +5.6% yoy. Our full-year 2017 bank loans growth remains at 7% yoy, with 2Q17 tipped at 6.0% yoy. The uptick in SOR had pressured the shorter-dated domestic T-bills. Expect further volatility with the ongoing repricing of global market valuations on the prospect of coordinated withdrawal of monetary policy accommodation. There is a re-opening of the 7-year SGS bond on 1 August.

Group Treasury

Treasury Research & Strategy

Selena Ling

(65) 6530 4887

Lingssselena@ocbc.com.sg



Prepared by Treasury Research & Strategy

July 2017

SGS REVIEW & STRATEGY

Your monthly guide on trend and outlook for Singapore government securities

Page 2 of 2

Co. Reg. no.: 193200032W

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 and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.