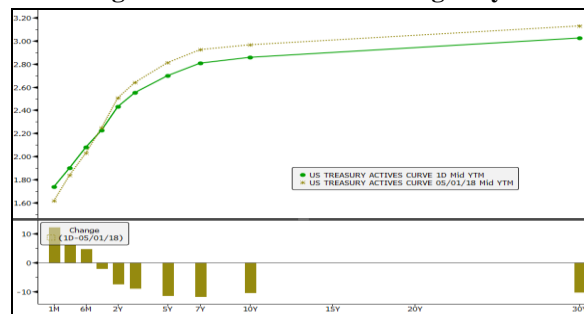


Fundamental Highlights

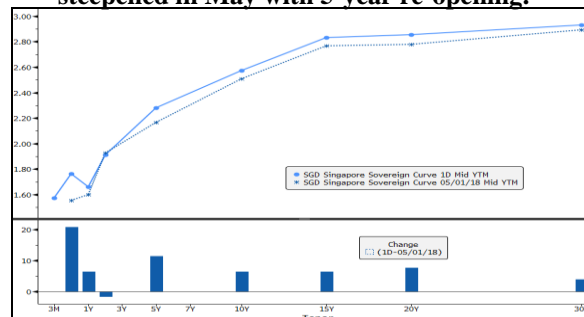
Risk appetite remains susceptible to political and trade tensions heading into summer trading conditions.

Global risk appetite continued to wax and wane amid the ongoing political and trade tensions. While recent developments suggest that the US-North Korean summit on 12 June may materialize, nevertheless ongoing anxiety about the US' trade tantrums and Italian political drama may mean the "sell in May and go away" phenomenon could extend into June amid thinning summer trading conditions. A stronger USD would also pose extra headwinds for EM. The pullback in the 10-year UST bond yield, with a wide range between 2.78-3.11% in May, is likely temporary as the Italian political drama blows over and market players refocus on the upcoming 14 June FOMC rate hike. The next 25bp rate hike is almost a done deal, but the jury is still out if the June FOMC statement and the median dots plot would shift to favouring four hikes this year rather than three. We stick to our house view of three 25bp rate hikes this year given the Fed's preference that "a temporary period of inflation modestly above 2 percent would be consistent with the Committee's symmetric inflation objective and could be helpful in anchoring longer-run inflation expectations at a level consistent with that objective".

The UST curve flattened in May, as the belly to longer-dated bonds saw a strong rally.



However, the SGS yield curve actually steepened in May with 5-year re-opening.

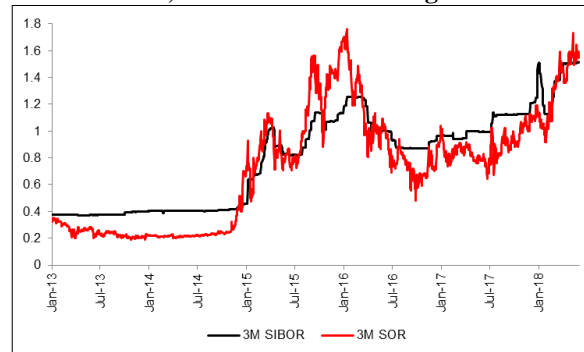


SGS Review and Outlook

Official 2018 growth forecast upgraded to 2.5-3.5%.

S'pore's 1Q18 GDP growth was revised up to 4.4 yoy (1.7% qoq saar), faster than the flash estimates of 3.6% yoy (4.3% qoq saar) and compared to 3.6% yoy (2.1% qoq saar) in 4Q17. While the 1Q18 yoy data was revised up a notch, the qoq saar data suggested a second quarter of deceleration in momentum, and this could sustain into 2Q18 where the qoq saar growth number could flat-line or even decline slightly. That said, MTI narrowed its 2018 official GDP growth forecast from 1.5-3.5% to 2.5-3.5% amid broadening growth drivers. Inflation remains very subdued for now. At this juncture, MAS is likely to adopt a wait-and-see attitude towards the October MPS given that growth-inflation dynamics are not out of sync with their forecasted trajectories. The recent \$2.2b 5-year SGS bond re-opening fetched a cut-off yield of 2.39% with a bid-cover ratio of 1.53x and a median yield of 2.33%. Next up will be a 20-year SGS bond re-opening on 2 July, with the issue size announcement on 20 June and auction on 27 June. This could prompt a further curve steepening running into the auction in late June, but first we have to ride past the anticipated June FOMC rate hike and the current bout of Italeave and Trump trade tantrum. Looking ahead, SIBOR and SOR may continue to creep higher as the year progresses, taking the cue from broader global interest rates as well as the improvement in domestic loan demand. Our end-2018 forecast for 3-month SIBOR and SOR are 1.81% and 1.90%.

The 3-month SOR remains more volatile than SIBOR, but bias for both is higher from here.



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