

March 2017

Your monthly guide on trend and outlook for Singapore government securities

Fundamental Highlights

Focus on Trump and FOMC as March meeting looms.

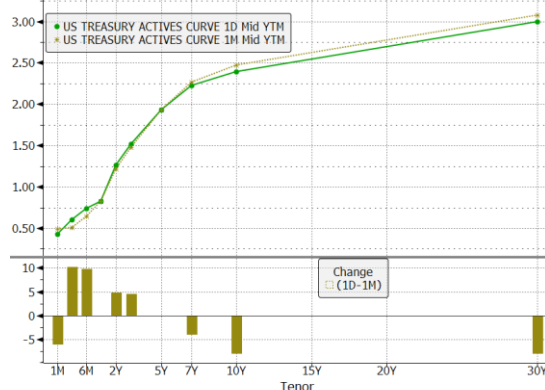
US president Trump's speech to Congress was again big on policy promises such as replacing Obamacare, a tax overhaul and US\$1 trillion in investment spending with a large hike in defense spending and called for a new era of "American Greatness", but scarce on details of funding and execution. Meanwhile, Fed officials continued to play up hawkish intentions, the latest were Dudley who noted that "the risks to the outlook are now starting to tilt to the upside" and "I think the case for monetary policy tightening has become a lot more compelling" while Williams also opined that a March hike would see "serious consideration". Elsewhere, China's growth momentum remained healthy, with the official manufacturing and non-manufacturing PMIs printing at 51.6 and 54.2 in Feb (previously at 51.3 and 54.6) while the Caixin PMI also improved from 51.3 to 51.6. Manufacturing PMIs in Japan, Taiwan, Vietnam, Philippines and Thailand also stayed in the expansion territory (>50), suggesting 1Q growth should be sustained. Most Asian central banks are static amid very slight inflation concerns.

SGS Review and Outlook

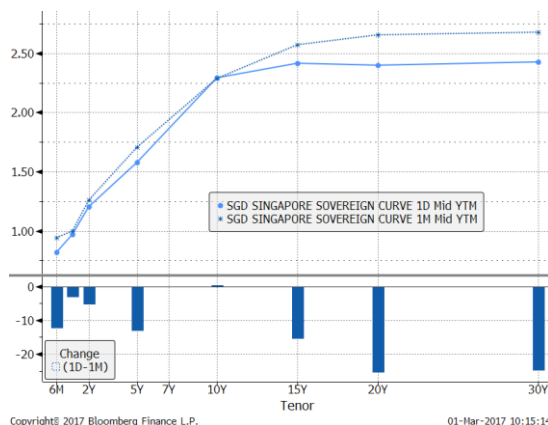
S'pore's January economic indicators were mixed.

S'pore's bank loans grew for the fourth straight month by 2.8% yoy in Jan, slightly slower than Dec16's reading of 2.9% yoy. However, bank loans eased slightly from \$617.35b to \$617.09b amid a marginal slowdown in momentum for business loans. Business loans rose for the second consecutive month by 2.6% yoy, led by business services (+13.1% yoy) and financial institutions (+11.6% yoy). Consumer loans remained resilient and expanded by the same clip of +3.1% yoy for the second month. Our bank loans growth outlook is fairly upbeat, with 1Q17 and full-year 2017 forecasts at 4.0% yoy and 7% yoy respectively, given the low base last year and the turnaround in business loans sentiments from 4Q16. Industrial production, however, slowed to 2.2% yoy (-6.0% mom sa) in Jan, as softer pharmaceuticals (-18.3% yoy) offset stronger electronics (+14.8% yoy) output, following a strong Dec16 performance (+22.1% yoy and +6.7% mom sa). The FY16 Budget unveiled an expansionary fiscal plan, notwithstanding an estimated \$1.9b (0.4% of GDP) overall surplus after the FY16 surplus surprised at \$5.2b (1.3% of GDP). \$2.4b will be committed to implement CFE strategies over the next 4 years, including \$1.5b top-ups to the National Productivity and Research Funds. However, the 30% hike in water prices over 2 years, the restructuring of diesel taxes, and carbon tax from 2019, may add to costs. The recent 10-year SGS bond re-opening on 1 March saw a cut-off yield of 2.35% with a bid-cover ratio of 1.55x. There is a new 5-year SGS bond issue on 3 Apr. SGS bonds are likely susceptible to US rate hike speculation ahead of 16 March FOMC.

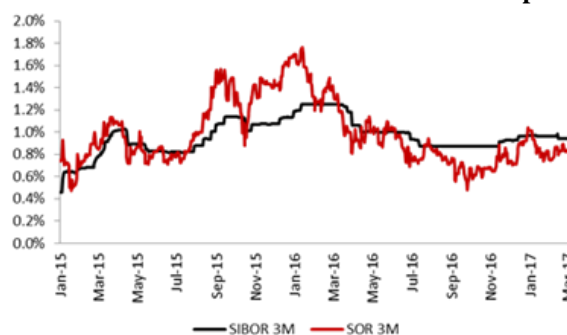
The UST bond yield curve flattened in Feb as FOMC rhetoric kept the March meeting "live".



The SGS bond curve bull-flattened even with a 10-year SGS bond re-opening.



The 3-month SOR and SIBOR remained unperturbed.



Group Treasury

Treasury Research & Strategy

Selena Ling

(65) 6530 4887

Lingssselena@ocbc.com.sg

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