SGS REVIEW & STRATEGY

Prepared by Treasury Research & Strategy

May 2017

Your monthly guide on trend and outlook for Singapore government securities

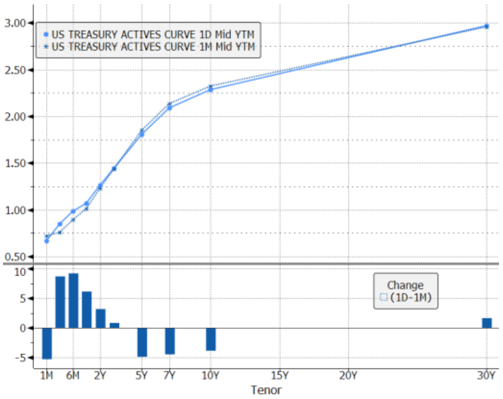
Fundamental Highlights

Risk-on in late April, but sell in May and go away?
President Trump's phenomenal tax plan was expectedly short on details and the deficit impact, which partly explained why the financial market reaction was to buy the rumour and sell the fact. The 10-year US Treasury bond yield has found near-term support at the recent 2.17% in mid-April, even though the futures market is probably still underpricing future rate hikes (eg. June hike stands at < 60% probability). While it's risk on for now, given that geopolitical risks (eg. French run-off on 7 May, Brexit negotiations likely bumpy, and North Korea still testing missiles) are still simmering in the back-ground, there is a risk that market players may revert to the traditional "sell-in-May and go-away" theme. That said, the manufacturing PMI prints from Asia and Europe (eg. UK at a 3-year high of 57.3 and Eurozone at a near 6-year high of 56.7) were mostly upbeat and well in the expansion territory, suggesting that the manufacturing momentum still had room to extend in 2Q17. We expect that the FOMC to be static with few tweaks to the FOMC statement in May but leave the heavy lifting till post-FOMC when a slew of Fed speakers will ramp up the hawkish rhetoric to set the stage for the next rate hike in June. Meanwhile, Treasury Secretary Mnuchin opined ultra-long supply could "absolutely make sense". This would be an interesting May for risk markets.

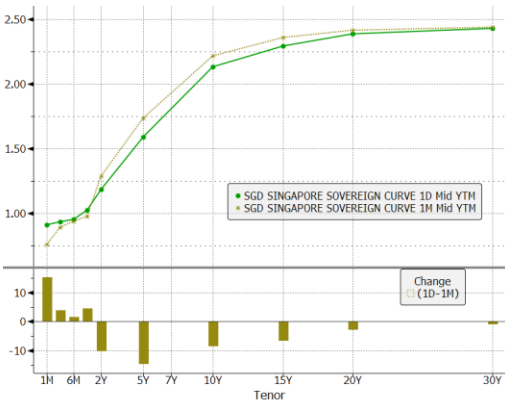
SGS Review and Outlook

Strong 1Q but potential tapering of momentum in 2Q?
S'pore's bank loans growth accelerated from 5.2% yoy in Feb to 6.3% yoy in Mar. This lifted the 1Q17 bank loans growth to 4.8% yoy, which marks a strong start to the year. Business loans surged further for a 4th straight month from 6.4% yoy in Feb to 8.1% yoy (flat mom) in Mar, and consumer loans also strengthened from 3.6% yoy to 3.8% yoy (+0.2% mom) over the same period, amid healthy loans to housing/bridging loans (+4.2% yoy), credit card loans (+4.2% yoy) and car loans (+0.6% yoy). However, the buoyant bank loans data contrasted with the softness in the domestic labour market, which tends to lag the business cycle. The unemployment rate edged higher from 2.2% in 4Q16 to 2.3% in 1Q17, which is the highest since 4Q09, albeit still below the 3.3% peak seen in 3Q09. Total employment fell 8.5k in 1Q17, which is the largest decline since June 2003, and down from +2.3k in 4Q16 and +13.0k in 1Q16. The labour market outlook is like-ly to remain uneven across sectors and industries, but we tip the overall unemployment rate should start to stabilize later this year. Manufacturing business expectations improved from three months ago, with a net weighted 7% anticipating better business conditions for the coming six months, up from 2% a quarter ago. In particular, electronics and preci-sion engineering manufacturers were the most bullish, whereas general manufacturing was still pessimistic. A net weighted 1% of services firms expect less favourable outlook for Apr–Sep, albeit this is an improvement from the -14% recorded three months ago and the best print since 3Q15. There is a 30-year SGS bond re-opening on 1 June.

Investors had favoured the belly of the UST curve in April.



SGS bond curve rallied in April, despite the 20-year mini-auction



The 3-month SOR and SIBOR stayed stable.

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