OCBC Bank

Prepared by Treasury Research & Strategy

SGS REVIEW & STRATEGY

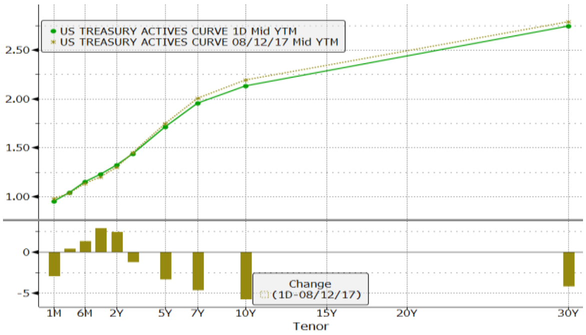
September 2017

Your monthly guide on trend and outlook for Singapore government securities

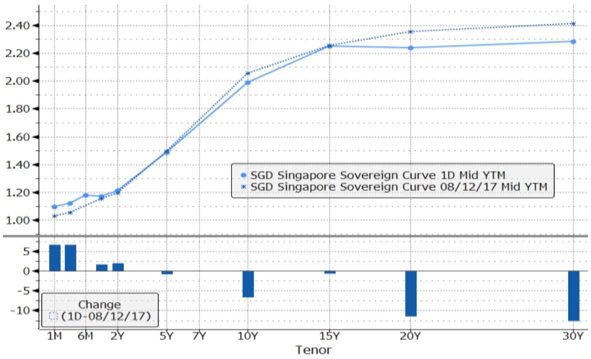
Fundamental Highlights

Global risk appetite stabilised post-Hurricanes Harvey & Irma, and as North Korea tensions ebbed slightly.
The initial recent market fears of an overly hawkish ECB, elevated North Korean tensions, and the impending US debt ceiling impasse have faded. The 10-year UST bond yield fell from 2.27% a month ago to a low of 2.04% before rebounding back to 2.15%. President Trump finessed a 3-month extension to the debt ceiling, while the UN Security Council passed tighter sanctions against North Korea but stopped short of an oil embargo and a freeze for Kim Jong Un's assets. Meanwhile, the futures market pricing of a third rate hike by end-2017 continued to push lower amid the lack of inflationary pressure and potential fallout on 3Q GDP growth due to hurricanes Harvey and Irma which Fed's Dudley opined "it's going to make it very difficult to read the economic data over the next few months" and "it's possible that they could have an effect on the timing of short-term rate increases". Looking ahead, watch for FOMC on 21 September where the unwinding of the balance sheet is likely to start, German elections on 24 September where polls suggest Chancellor Merkel may win a fourth term, and the ECB meeting on 26 October where the "bulk of these decisions will be taken" with Draghi flagging recent volatility in Euro as a source of uncertainty which requires monitoring.

UST curve bull-flattened from a month ago, but the 10-year bond yield stopped shy of 2%.



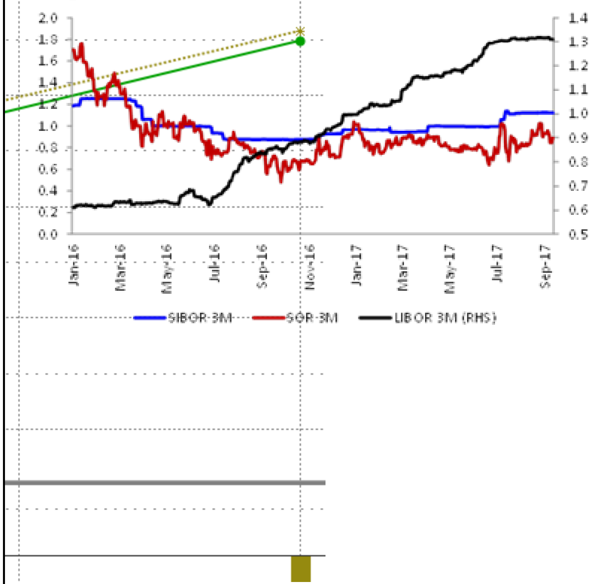
Strong demand has contributed to a very flat/kinked SGS yield curve beyond 15 years.



SGS Review and Outlook

Broadening growth base implies potential 2017 upside, but October MPS is likely to remain at neutral.
We upgraded our 2017 GDP growth higher from 2.5% yoy to 2.7% yoy to reflect stronger-than-expected manufacturing growth at 5.8% yoy (previously 4.7% yoy) given January-July was already a stellar 10.1% yoy. Leading indicators remain healthy – the August manufacturing PMI rose for the third straight month to 51.8 (highest since November 2014) while the electronics PMI improved to 53.2 (highest since November 2010). The whole economy PMI also surged to 53.2 (highest since January 2015), with signs of improved domestic demand for industries like industrial metals, transport services and the improving resale housing market. Business confidence for the 12-months ahead hit a near-1.5 year high, but employment levels fell for the third straight month in August and output prices actually fell for the first time since June 2016. Bank loans growth eased from 7.6% yoy (+0.4% mom) in June to 5.9% yoy (-0.5% mom) in July, as business loans moderated to 7.4% yoy (first monthly decline since January at -0.9% mom). The weak USD theme saw USDSGD touching an intraday low of 1.3346 on 8 September before recovering to above the 1.34 handle. Nevertheless, MAS is expected to maintain monetary policy on a neutral stance for an extended period at the October MPS. The 15-year SGS re-opening fetched a cut-off yield of 2.40% with a bid-cover ratio of 2.19x. There is a 2-year SGS re-opening on 2 October and a potential mini-auction on 1 November. The 2018 SGS bond issuance should be released soon and should see more longer tenor supply amidst higher demand.

The 3-month SOR-SIBOR spread stabilized around 24bps.



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