

Fundamental Highlights

Spring looks brighter amid Yellen's cautious musings.

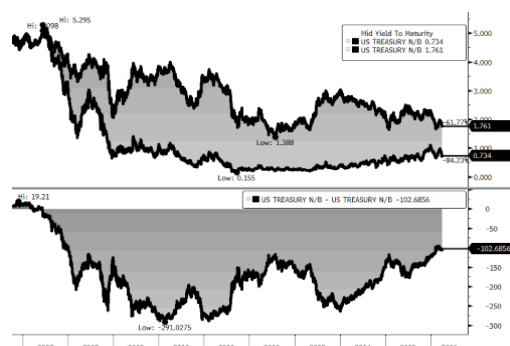
Global risk appetite came back in March as ECB exceeded market expectations for monetary easing on 10 March and FOMC also lowered its median dots graph at the 17 March meeting. Notwithstanding the relatively Fed rhetoric post-FOMC, Yellen was typically cautious in her outlook and rate trajectory, citing that the "Committee has not embarked on a preset course of tightening. Rather, our actions are data dependent, and the FOMC will adjust policy as needed to achieve its dual objectives" and "given the risks to the outlook, I consider it appropriate for the Committee to proceed cautiously in adjusting policy". While March non-farm payrolls was resilient, the unchanged work week and slightly higher unemployment rate is generally seen as sufficient to keep the FOMC on hold in April. Similarly no fireworks are expected for the 21 April ECB meeting or even the BOE MPC meeting on 14 April. Whilst Emerging Markets and crude oil prices may continue to enjoy the spring respite, it may be complacent to assume the rally may not fade when confronted with the 16 June FOMC or the 23 June Brexit referendum uncertainties. Moreover, 1Q16 US' corporate earnings growth for S&P500 companies is tipped to slump 8.5% yoy and may only gain traction in 2H16, according to FactSet. As such, external headwinds may return at some stage.

SGS Review and Outlook

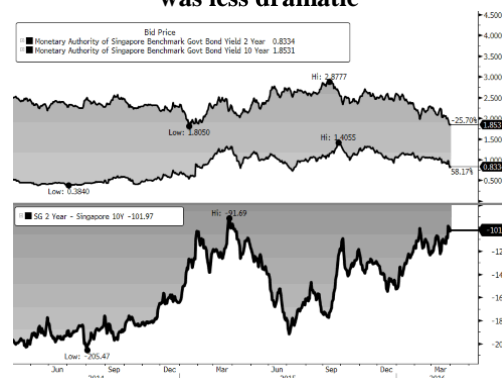
With a prudent FY16 Budget, MAS' MPS is up next.

The FY16 Budget was calibrated to boost total spending higher by 7.3% yoy to \$5 billion to give a positive fiscal impulse of about 1% of GDP. However, given the significantly higher \$14.7 billion NIRC (+49% yoy), the revised FY15 budget deficit of \$4.9 billion (or 1.2% of GDP) will revert to a planned FY16 budget surplus of \$3.4 billion (or 0.8% of GDP). The star in the FY16 Budget buffet was a SME-friendly \$4.5 billion Industry Transformation Programme to help transform enterprises, support existing industries as well as new growth industries, and to embed innovation into the corporate psyche. Given the official GDP growth forecast remains unchanged at 1-3% and the SGD NEER trading back to the stronger side of its parity band, the market expectations for another MAS MPS easing has subsided substantially. Both 3-month SIBOR and SOR have also retraced lower in line with SGD strength. Note headline inflation fell for the 16th straight month by 0.8% yoy (-0.1% mom nsa), the lowest yoy print since Nov15, due to the drag from housing & utilities and private road transport. However, core inflation accelerated to +0.5% yoy in Feb amid higher food prices. Given wages may rise at a more moderate pace than 2015 with a limited pass-through to consumer prices, our 2016 headline and core inflation forecasts remain at -0.4% yoy and +1.0% yoy. Bank loans fell for the 5th straight month by 1.2% yoy (-0.01% mom) in Feb. SGD The \$2.6b 2-year SGS bond re-opening fetched a cut-off yield of 0.96% (average yield: 0.89%) with a bid-cover ratio of 2.3x. Next up is the 7-year re-opening on 3 May with the auction on 27 April.

US 2-10 year Treasury bond yield curve flattened to 102bps, tightest since Dec 2007



The flattening in the SGS bond yield curve was less dramatic



OCBC Bank

For research enquiries, please email
Lingssselena@ocbc.com.sg

Group Treasury

Treasury Research & Strategy

Selena Ling **(65) 6530 4887**

Fixed Income Sales

Lee Siu Gim **(65) 6349 1810**

SGS Trading

Pan Tan **(65) 6530 4723**

Indicative SGS prices as at 1 April 2016

Issue	Maturity	Coupon	Bid Price	Ask Price	Bid Yield (%)	Ask Yield (%)
NY01100F	3.75%	Sep-16	101.22	101.26	0.75%	0.65%
N710100Z	2.38%	Apr-17	101.59	101.63	0.76%	0.72%
N215100F	1.38%	Oct-17	100.95	100.99	0.73%	0.71%
N513100T	0.50%	Apr-18	99.34	99.42	0.83%	0.79%
NY03100A	4.00%	Sep-18	107.47	107.57	0.86%	0.82%
NX09100W	2.50%	Jun-19	104.66	104.76	1.00%	0.97%
N514100H	1.63%	Oct-19	102.01	102.11	1.04%	1.01%
N515100S	2.00%	Jul-20	103.37	103.47	1.18%	1.16%
NY05100N	3.25%	Sep-20	108.44	108.54	1.27%	1.25%
NX11100X	2.25%	Jun-21	103.90	104.10	1.46%	1.42%
NY07100X	3.13%	Sep-22	108.90	109.10	1.66%	1.62%
NX13100H	2.75%	Jul-23	106.56	106.76	1.78%	1.75%
NY09100H	3.00%	Sep-24	108.85	109.05	1.86%	1.83%
NX15100Z	2.38%	Jun-25	104.38	104.58	1.85%	1.83%
NZ07100S	3.50%	Mar-27	114.46	114.76	2.02%	1.99%
NY14100E	2.88%	Jul-29	108.30	108.60	2.15%	2.13%
NZ10100F	2.88%	Sep-30	107.71	108.01	2.25%	2.22%
NZ13100V	3.38%	Sep-33	114.67	115.07	2.34%	2.32%
NA12100N	2.75%	Apr-42	106.09	106.69	2.43%	2.40%

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.