

Fundamental Highlights

A whole new world post-Brexit referendum on 23 June.

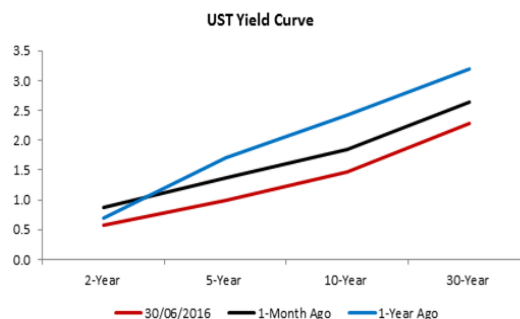
Brexit referendum voted 52-48 to leave the EU. Financial markets saw a kneejerk reaction, but gradually starting to stabilise as BOE governor hinted at “some monetary policy easing...over the summer” and continued policy support, including liquidity auctions for banks on a weekly basis and a “host of other measures”. S&P and Fitch had downgraded UK’s sovereign credit rating from AAA to AA with negative outlook. The IMF estimates that an adverse Brexit scenario could shave off about -0.2% to -0.5% below baseline for the EU economies (worst hit are Ireland, Netherlands and Belgium), and 0-0.2% for the rest of the world in 2018. Further global monetary policy accommodation post-Brexit looks increasingly likely. The ECB may increase the bond purchase program (currently EUR80b monthly), loosen QE rules, increase TLTRO II, and/or further rate cuts (which could further squeeze banks’ profitability). BOJ is under pressure to deliver additional monetary stimulus amid the upcoming upper house elections. CBC also cut its interest rate for the 5th time by 12.5bps to 1.375% as widely expected amid downside risks post-Brexit. Futures pricing has wiped out expectations of any Fed rate hike this year, and is leaning towards the possibility of a rate cut. We tip the Fed to downgrade their central tendency forecasts in September, and at best have one shot at a rate hike in December. Stay long bonds.

SGS Review and Outlook

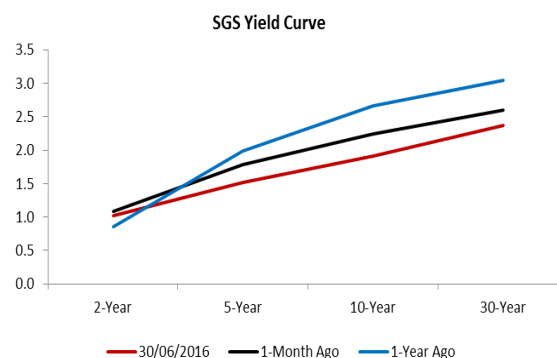
Downside growth risks, but less for Spore inflation?

The MAS Survey of Professional Forecasters saw the 2016 consensus growth forecast being marked down from 1.9% to 1.8% (in line with our house forecast). NODX growth was downgraded to -2.1% this year, vs previous estimate of +0.2%, suggesting that the external demand outlook for Singapore’s external environment remains dour. Bank loans growth contracted for the 8th straight month by -0.7% yoy (+0.5% mom) in May. Business loans fell for 9 months by 3.1% yoy (+0.6% mom), dragged by general commerce (-23.1% yoy) and FIs (-7.0% yoy). We tip bank loans at -1.1% yoy in 2Q16 and -0.2% yoy for the full year 2016. Moody’s also revised the outlook for Singapore’s banking sector from stable to negative over the next 12-18 months to reflect weaker operating conditions amid softer domestic and regional economic and trade growth. Separately, MAS announced that the CNY investments will be included as part of the Official Foreign Reserves. Rates fell in the wake of the Brexit referendum results. The 3-month SIBOR and SOR have fallen to 0.93213% and 0.69112% respectively post-Brexit, and should stay anchored. However, the SGD NEER still trades on the stronger side of its band parity. Looking ahead, the rebound in COE premiums and crude oil prices, planned hikes in electricity tariffs and HDB/URA carpark charges, further downside CPI risk is probably limited in 2H16. We tip headline and core CPI at -0.4% and +1.0% yoy. The 1.8b 2-year SGS bond re-opening fetched a cut-off yield of 1.17% with a bid-cover ratio of 1.95x. Next up will be the new 20-year SGS bond for issue on 1 August.

US Treasury bond: rally in June. Stay long duration for summer?



SGS bonds: another beneficiary of the post-Brexit flight to safety



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Indicative SGS prices as at 30 June 2016

Issue	Maturity	Coupon	Bid Price	Ask Price	Bid Yield (%)	Ask Yield (%)
NY01100F	3.75%	Sep-16	100.53	100.57	0.44%	0.19%
N710100Z	2.38%	Apr-17	101.19	101.23	0.77%	0.71%
N215100F	1.38%	Oct-17	100.65	100.69	0.85%	0.82%
N513100T	0.50%	Apr-18	99.09	99.17	1.03%	0.98%
NY03100A	4.00%	Sep-18	106.36	106.46	1.02%	0.97%
NX09100W	2.50%	Jun-19	103.75	103.85	1.18%	1.15%
N514100H	1.63%	Oct-19	101.31	101.41	1.21%	1.18%
N515100S	2.00%	Jul-20	102.65	102.75	1.32%	1.29%
NY05100N	3.25%	Sep-20	107.67	107.77	1.35%	1.32%
NX11100X	2.25%	Jun-21	103.49	103.69	1.51%	1.47%
NY07100X	3.13%	Sep-22	108.68	108.88	1.64%	1.61%
NX13100H	2.75%	Jul-23	106.61	106.81	1.74%	1.71%
NY09100H	3.00%	Sep-24	108.90	109.10	1.82%	1.80%
NX15100Z	2.38%	Jun-25	104.45	104.65	1.83%	1.81%
NZ07100S	3.50%	Mar-27	114.50	114.80	1.98%	1.96%
NY14100E	2.88%	Jul-29	108.58	108.88	2.12%	2.09%
NZ10100F	2.88%	Sep-30	108.26	108.56	2.19%	2.17%
NZ13100V	3.38%	Sep-33	115.58	115.98	2.27%	2.25%
NA12100N	2.75%	Apr-42	108.03	108.63	2.33%	2.30%

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