

October 2016

Your monthly guide on trend and outlook for Singapore government securities

Fundamental Highlights

ECB QE taper and FOMC rate hike speculation, amid subdued global growth, spooked market in October.

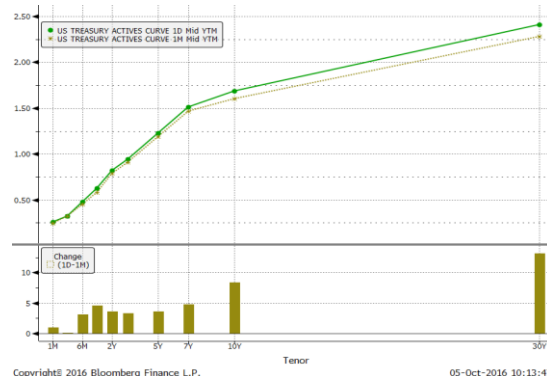
While short-lived fears about a German bank-induced contagion subsided, the prospects of impending removal of policy accommodation by the ECB (amid speculation of a tapering of its QE program by EUR10b per month) and also the Fed (with recent rhetoric suggesting that the November FOMC is "live") saw 4Q16 start on a somewhat mixed tone. While the IMF kept its 2016 and 2017 global growth forecasts at 3.1% and 3.4% respectively, but warned that a "fraying consensus about the benefits of cross-border economic integration" with political repercussions being likely to depress global growth further. Whilst the IMF upgraded the growth prospects for the euro area and Japan, it trimmed that for the US to 1.6% (previously 2.2%) for 2016 and 2.2% (previously 2.5%) for 2017, and kept China's forecast steady at 6.6% and 6.2% for 2016 and 2017 respectively. China's highly anticipated inclusion of the RMB in the IMF SDR basket on 1 Oct is unlikely to have any near-term global portfolio rebalancing impact, but the coordinated property tightening measures suggest the policy tone has shifted from supporting growth to curb overheating. With the upcoming tight race for the US presidential elections on 8 Nov, the Italian constitutional referendum, and renewed Brexit concerns for the UK economy, there may be sufficient risk bugbears in 4Q16.

SGS Review and Outlook

Economic green shoots, especially in manufacturing, mitigates 2H slowdown and MAS easing probability.

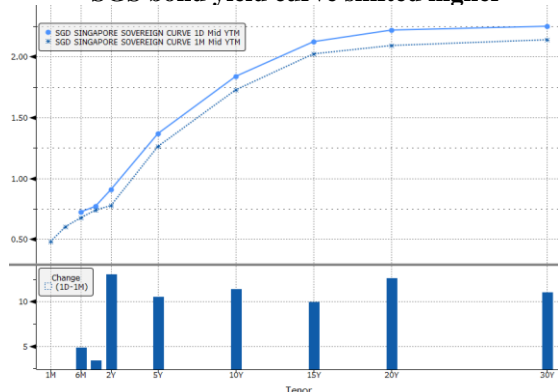
The manufacturing PMI improved 0.3 points to 50.1, above the 50 handle for the first time since Jun15 as new orders, new export orders and production gauges rose to above the 50 handle into expansion zone for the first time since Jun15, Jan15 and May16 respectively. The electronics PMI also clocked its second straight month in expansion territory to edge up 0.1 point to 50.3 amid higher new orders, new export orders and factory output. The Nikkei Singapore PMI also strengthened further from 52.3 in Aug to 52.9 in Sep, the highest since Feb15 and marking the fifth straight month in expansion territory amid stronger output (58.2 which is the highest since Nov15) and new orders (highest since Jun14). Bank loans growth also surged 1.1% mom (-1.6% yoy) to hit a 9-month high of \$603.85b in Aug. We tip 3Q16 GDP growth at +2.0% yoy (+0.8% qoq saar), and in turn our full-year 2016 growth forecast at +1.9% yoy. Headline inflation also eased to -0.3% yoy (+0.5% mom nsa) while core inflation was steady at +1.0% yoy in Aug. As such, MAS is likely to keep its monetary policy settings unchanged at the upcoming review given the still comfortable buffer for growth and inflation trajectories out for the next six months. Crude oil prices, in particular, hover closer to the US\$50 handle rather than the sub-\$40 handle at the April review. The \$2.2b 5-year SGS bond auction fetched a 2.09x bid-cover ratio and a cut-off yield of 1.32% with a tight 3bp tail. For the optional mini-auction, there is a 30-year SGS bond re-opening on 1 Nov, with size details on 20 Oct and auction on 27 Oct.

US Treasury bond curve steepening in Sep



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SGS bond yield curve shifted higher



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SGS prices as at 4 October 2016

Issue	Maturity	Coupon	Bid Price	Ask Price	Bid Yield (%)	Ask Yield (%)
N710100Z	2.38%	01-Apr-17	100.74	100.78	0.85%	0.76%
N215100F	1.38%	01-Oct-17	100.53	100.57	0.83%	0.79%
N513100T	0.50%	01-Apr-18	99.40	99.44	0.91%	0.88%
NY03100A	4.00%	01-Sep-18	105.81	105.85	0.91%	0.89%
NX09100W	2.50%	01-Jun-19	103.71	103.81	1.08%	1.04%
N514100H	1.63%	01-Oct-19	101.45	101.55	1.13%	1.10%
N515100S	2.00%	01-Jul-20	102.80	102.90	1.23%	1.20%
NY05100N	3.25%	01-Sep-20	107.60	107.70	1.25%	1.22%
NX11100X	2.25%	01-Jun-21	104.03	104.13	1.35%	1.33%
N516100Z	1.25%	01-Oct-21	99.37	99.47	1.38%	1.36%
NY07100X	3.13%	01-Sep-22	108.93	109.13	1.54%	1.50%
NX13100H	2.75%	01-Jul-23	106.94	107.14	1.66%	1.63%
NY09100H	3.00%	01-Sep-24	109.00	109.20	1.77%	1.75%
NX15100Z	2.38%	01-Jun-25	104.45	104.65	1.82%	1.79%
NX16100F	2.13%	01-Jun-26	102.34	102.54	1.86%	1.84%
NZ07100S	3.50%	01-Mar-27	114.68	114.98	1.94%	1.91%
NY14100E	2.88%	01-Jul-29	109.19	109.49	2.05%	2.03%
NZ10100F	2.88%	01-Sep-30	108.88	109.18	2.13%	2.11%
NZ13100V	3.38%	01-Sep-33	116.42	116.82	2.21%	2.18%
NZ16100X	2.25%	01-Aug-36	100.29	100.69	2.23%	2.21%
NA12100N	2.75%	01-Apr-42	109.74	110.34	2.25%	2.22%
NA16100H	2.75%	01-Mar-46	110.40	111.00	2.26%	2.24%

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