

Fundamental Highlights

Global yield curve steepening bias may be caught between the US election risk and inflation concerns.

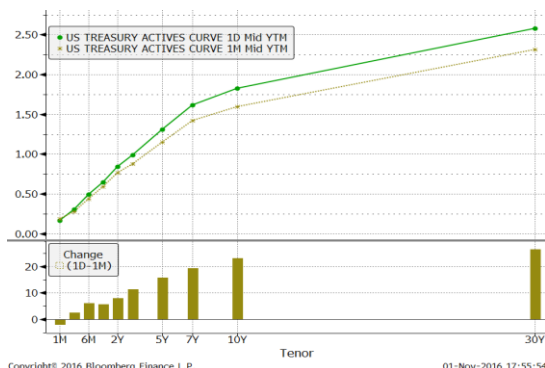
Despite a busy data and central bank meeting calendar for the first week of November, market players remain sensitized to event risks like the upcoming US presidential elections (amid news of the FBI re-opening investigations into Clinton's emails which could erode her lead over Trump). Nevertheless, market pricing for a December rate hike has largely solidified amid robust economic data, albeit market is waiting for the October nonfarm payrolls and unemployment rate. While the RBA kept its policy rate unchanged at a record low 1.5% as anticipated, he noted that "the economy is growing at a moderate rate" and "over the next year, the economy is forecast to grow at close to its potential rate, before gradually strengthening" and "inflation is expected to pick up gradually over the next two years". Meanwhile, BOJ also kept its monetary policy settings unchanged, but delayed its 2% inflation goal timing to the second half of a period extending to March 2019 and reiterated that "risks to both economic activity and prices are skewed to the downside". Separately, the GBP may remain under pressure amid the lack of a clear Brexit negotiation gameplan. News that BOE governor Carney will stay for an extra year till mid-2019 suggests policy stability. For now, watch if the global yield curve steepening bias will extend from October to November.

SGS Review and Outlook

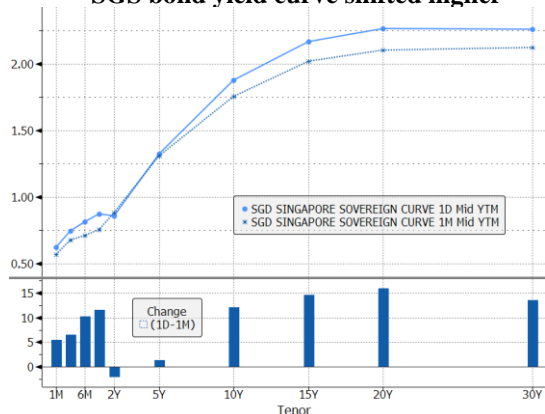
MAS telegraphs a neutral policy stance for an extended period to ensure medium-term price stability.

The Singapore economy saw 3Q16 GDP growth braked sharply to 0.6% yoy (-4.1% qoq saar), the biggest contraction since 3Q12. Manufacturing was a drag at -17.4% qoq saar (the largest drop since 3Q12), but the services sector shrank for the third straight quarter by 1.9% qoq saar due to the wholesale trade segment. Due to the 3Q GDP growth disappointment and the downward revision of 1H GDP growth estimates, we had revised our full-year GDP growth forecast for 2016 to 1.3% yoy and 2017 to 1.5%, vis-à-vis the official guidance for the lower end of the 1-2% range for 2016 and only slightly higher for 2017. MAS kept monetary policy settings unchanged, citing that the current policy band provides some flexibility to accommodate the near-term weakness in inflation and growth. MAS tips 2017 headline inflation to rise from around -0.5% this year to 0.5-1.5% next year, and core inflation to similarly creep higher from around 1% this year to 1-2% next year, predicated on global oil prices having troughed in 2016, muted wage growth, and moderate price increases for healthcare and education services, and higher private road transport costs (amid carpark fee hikes, higher petrol costs, and expected tapering of COE supply). We tip 3-month SIBOR and SOR at 0.9% and 0.7% respectively by end-2016 and to rise modestly to 1.08% and 0.88% by mid-2017. A lighter 2016 SGS bond auction calendar, comprising of 6 re-opening (including a 10-year in March, 30-year in June and 15-year in September) and only 1 new 5-year bond issue, should go down well with market players.

US Treasury bond curve steepening in Sep



SGS bond yield curve shifted higher



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SGS prices as at 31 October 2016

| Issue | Maturity | Coupon | Bid Price | Ask Price | Bid Yield (%) | Ask Yield (%) |
|----------|----------|--------|-----------|-----------|---------------|---------------|
| N710100Z | 2.38% | Apr-17 | 100.65 | 100.69 | 0.79% | 0.69% |
| N215100F | 1.38% | Oct-17 | 100.51 | 100.55 | 0.81% | 0.77% |
| N513100T | 0.50% | Apr-18 | 99.49 | 99.53 | 0.86% | 0.84% |
| NY03100A | 4.00% | Sep-18 | 105.67 | 105.71 | 0.87% | 0.85% |
| NX09100W | 2.50% | Jun-19 | 103.77 | 103.87 | 1.02% | 0.98% |
| N514100H | 1.63% | Oct-19 | 101.59 | 101.69 | 1.07% | 1.03% |
| N515100S | 2.00% | Jul-20 | 103.09 | 103.19 | 1.14% | 1.11% |
| NY05100N | 3.25% | Sep-20 | 107.86 | 107.96 | 1.15% | 1.12% |
| NX11100X | 2.25% | Jun-21 | 104.18 | 104.28 | 1.31% | 1.28% |
| NY07100X | 3.13% | Sep-22 | 108.92 | 109.12 | 1.52% | 1.49% |
| NX13100H | 2.75% | Jul-23 | 106.88 | 107.08 | 1.66% | 1.62% |
| NY09100H | 3.00% | Sep-24 | 108.93 | 109.13 | 1.77% | 1.75% |
| NX15100Z | 2.38% | Jun-25 | 104.19 | 104.39 | 1.84% | 1.82% |
| NZ07100S | 3.50% | Mar-27 | 114.28 | 114.58 | 1.97% | 1.94% |
| NY14100E | 2.88% | Jul-29 | 108.36 | 108.66 | 2.12% | 2.09% |
| NZ10100F | 2.88% | Sep-30 | 108.23 | 108.53 | 2.18% | 2.16% |
| NZ13100V | 3.38% | Sep-33 | 115.44 | 115.84 | 2.27% | 2.24% |
| NZ16100X | 2.25% | Aug-36 | 99.53 | 99.93 | 2.28% | 2.25% |
| NA12100N | 2.75% | Apr-42 | 109.51 | 110.11 | 2.26% | 2.23% |
| NA16100H | 2.75% | Mar-46 | 110.15 | 110.75 | 2.27% | 2.25% |

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