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Singapore

Singapore's Industrial Production (IP) grew at a slower pace of 4.6% y/y (-4.7% m/m SA) in April, moderating from double-digit growth in the two preceding months. Ex-biomedical manufacturing, IP fell 0.7% y/y (-7.3% m/m SA). Electronics manufacturing fell 8.8% y/y in April with semiconductor output down by a sharp 11.0%. Other manufacturing clusters registered positive growth during the month. In particular, biomedical manufacturing surged 23.8% y/y and growth in the chemicals cluster strengthened to 8.9% y/y in April. The EDB attributed the contraction in Singapore's electronics IP to "firm-specific factor" and this will have an impact on the y/y growth in the coming months due to a higher base of comparison. For Jan-Apr, Singapore's IP grew a robust 8.4% y/y, on track for our full-year forecast of a 5.0% expansion. However, the electronics sector could be a drag on the headline number in the months ahead.

An event taking place in Singapore for this weekend (30 May – 2 June) is the major security forum, the Shangri-La Dialogue, where Japan PM Abe is expected to make a key announcement amidst the ongoing territorial dispute in South China Sea. For the upcoming week (2-6 June), the key focus will be the Singapore May PMI on 3 June while the COE auction on 4 June and May foreign reserves data on 6 June may only gather secondary interest.

United States

This could be a big week (2-6 June) for the financial markets when we will get the US May jobs data (6 Jun), and 4 major central bank policy decisions of which the most keenly-watched will be the ECB policy decision (5 Jun). The start of June also marks the change of leadership at the Federal Reserve Bank of Cleveland where Sandra Pianalto will be replaced by Loretta Mester, (currently the director of research at the Federal Reserve Bank of Philadelphia) with effect from 1 June.

As we mentioned earlier, the highlight of the week is the March non-farm payrolls data release on Friday (6 Jun). Prior to that, we will have the mid-week's ADP employment numbers (4 Jun) where markets are looking at lower job creation of 208k in May (from 220k in Apr). Markets are also expecting a lower 217k addition to nonfarm payrolls (from April's surprise 288k increase) while unemployment rate is expected to edge higher to 6.4% after declining to 6.3% in the previous month, according to the latest Bloomberg consensus forecast (as of 30 May). We believe that there may be room for upside surprise, so do not be too shocked if we do get a 300k or higher payrolls for May which in turn, may re-ignite concerns about earlier Fed interest rate normalization rather than later.

That said, we will also have other US data across the week that may draw some market interest. On Monday (2 Jun), it will be on the US manufacturing outlook with the May ISM manufacturing survey and the final May Markit US PMI. Other data include April construction spending. On Tuesday (3 Jun), we will get May New York ISM survey, April factory orders, May US car sales, and June IBD/TIPP economic optimism survey. On Wednesday (4 Jun), other than the May ADP jobs data, we will also have the usual weekly MBA mortgage applications data, April trade data and 1Q labor productivity data. On Thursday (5 Jun), other than the usual weekly US initial jobless claims and Bloomberg consumer comfort survey, we will get the May ISM non-manufacturing survey, the final May print for the Markit US services & composite PMI. Finally on Friday (6 Jun), we get the all-important May US Labor Market report and the April consumer

credit data. For US Treasury auction activity this week, the Treasury will have the usual 3-month and 6-month bills on Monday (2 Jun), and 4-week bills on Tuesday (Jun). The US Treasury will not tap on its longer-dated bond auction market this week.

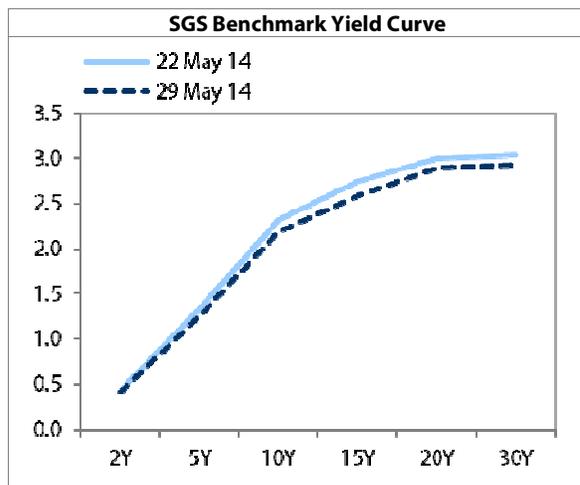
Market attention will be on the monetary policy decisions of 4 major central banks from the developed economies this week, starting with the Reserve Bank of Australia (3 Jun) followed by Bank of Canada (4 Jun) and Bank of England (5 Jun). But most of the attention will be paid to the European Central Bank (ECB) policy decision on Thursday (5 Jun), which is widely expected to ease monetary policy following ECB President Mario Draghi's and other senior ECB official's recent comments. The ECB is expected to announce a combination of a cut in the deposit rate below zero and new long-term cash for banks to lend on to small and medium-sized firms which would help boost lending in the euro zone, but the measures are likely to exclude any large-scale QE programme.

And while the Fed Reserve does not have a FOMC decision this week, the US central bank is scheduled to release the latest Beige Book report. The start of June also marks the change of leadership at the Federal Reserve Bank of Cleveland where Sandra Pianalto will be replaced by Loretta Mester, (currently the director of research at the Federal Reserve Bank of Philadelphia) with effect from 1 June. As the Cleveland Fed President is a voting member in 2014 FOMC, Mester will immediately have a vote on the Fed's policy committee, making her views of great interest to investors ahead of the 17-18 June FOMC. Mester will give a public speech in a conference titled "Inflation, monetary policy and the public" on Friday, 30 May. Chicago Fed president, Charles Evans (non-voter in 2014 FOMC) is the only senior Fed official scheduled to speak in public forum this week on Monday (2 Jun).

There is also a substantial economic data docket from the developed economies but the focus will squarely be on the Euro-zone May CPI inflation estimate on Tuesday (3 Jun) ahead of the ECB policy decision. The rest of the data that may be of interest include Japan's May final Markit/JMMA manufacturing PMI (2 Jun), Japan May vehicle sales (2 Jun), May manufacturing PMI for UK, Euro-zone and its major constituent economies (2 Jun), Euro-zone April unemployment rate (3 Jun), May services and composite PMI for UK, Euro-zone and its major constituent economies (4 Jun), Euro-zone April retail sales (5 Jun), German April factory orders (5 Jun), May retail PMI for UK, Euro-zone and its major constituent economies (5 Jun), German April industrial production & trade (6 Jun), France and UK April trade balance (6 Jun).

Singapore Government Securities

SGS Benchmark Yield Curve					
Term	22 May 2014		29 May 2014		Change (bp)
	Price	Yield	Price	Yield	Yield
2Y	101.30	0.423	101.31	0.410	-1.3
5Y	105.63	1.338	106.03	1.254	-8.4
10Y	103.51	2.320	104.65	2.183	-13.7
15Y	108.14	2.740	109.88	2.586	-15.4
20Y	105.49	2.998	107.15	2.888	-11.0
30Y	94.53	3.042	96.56	2.932	-11.0



US 10-year Treasuries finally broke out of the 2.45/47 resistance levels (lowest since Jun-2013) and the yield traded lower to test the 2.40% resistance but found strong selling interest there. The US 10-year yield chart still looks constructive to the downside but we have to clear 2.40% barrier first. The UST 10-yr yield could be stuck between 2.40/2.47 region for now. In the SGS space, as of Thursday's close (29-May-2014), bonds rallied 8-16 bps from the 5 year tenor onwards. Best performers were centered around the 10 year to 15 year region, losing around 12-16 bps on the week mainly on the back of lower UST yields. The 7-year SGS auction (6/21) ended well with strong demand coming

from the end accounts. Thus, buying interest from the end accounts who failed to be allotted their full amount in the auction could provide further support in the 7 year region. We also saw some interbank interest in the 5s/10s flattener as well as paying interest in the 7-year bond swap spread. SGS curve profile: 2s/5s flattened by 6 bps, 5s/10s flattened by 5-8 bps and 10s/30s steepened by 2-3 bps.

The next bond auction is the new 15 year benchmark issuance (1-Jul-2029). The announcement date is on 19-Jun and auction date is on 26-June.

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