

Market Snapshot

Monday, 07 July 2014

Global Markets Subdued as Lagarde Signals Forecast Change

WHAT'S NEWS

- IMF says growth is there, but pace not as previously thought.
- Singapore property prices could drop further, Deputy PM says.
- Malaysia's trade surplus declines as imports rise.

THE DAY AHEAD

- Taiwan releases CPI inflation and export data for June. Both are expected to be lower than for May.

DEVELOPED MARKET EQUITIES

Europe Declines after 3-Day Rally

Europe equities ended lower on Friday, ending a three-day midweek rally on the back of solid jobs numbers in the US. The DJ Stoxx 600 ended 0.3% lower after an increase of 2.1% the previous three trading days. It is up 6% year-to-date.

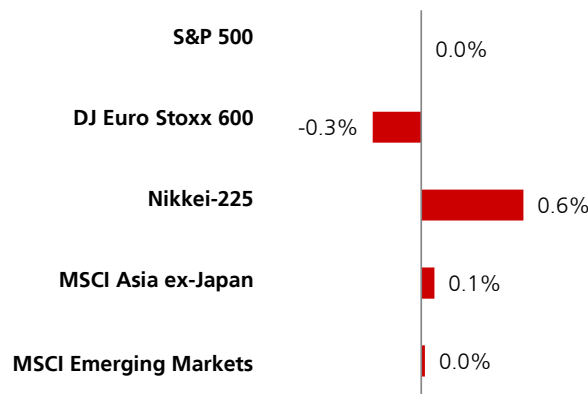
Markets were focused on Europe with the US closed for its Independence Day holiday. On Thursday, the Labor Department said there were 288,000 new non-farm jobs added to the economy in June. This number sent bourses around the world up.

Europe's woes were compounded by a larger-than-expected fall in German factory orders. For May, the seasonally-adjusted figure came in at 1.7% lower on-month, the government said. Analysts were expected a decline of 1.1%, according to Bloomberg News. This week, German Chancellor Angela Merkel is in China to cement stronger economic ties with the world's second largest economy and is slated to meet China Premier Li Keqiang and President Xi Jinping today.

Over the weekend, International Monetary Fund managing director Christine Lagarde said the pace of global growth has failed to meet its expectations, in the first sign the global lender is prepared to amend its forecasts. She said the US economy is gathering pace, Asia will avoid a hard landing but the European recovery is still not as strong as it should be. On Europe, she cautioned on public spending, saying it cannot be done to levels that bring unsustainable debt onto governments.

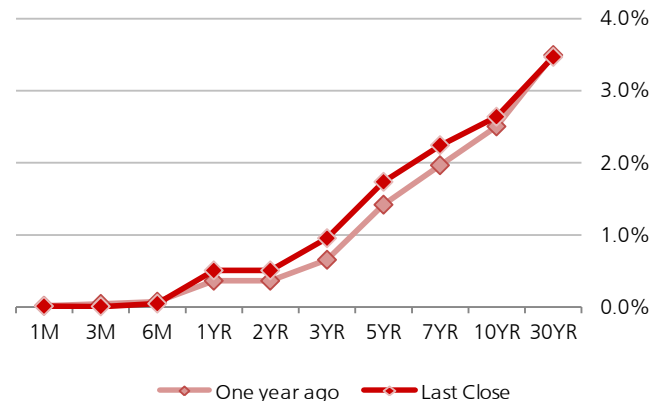
Japan stocks advanced 0.6%, to its highest level since January 23, on the stronger-than-expected US jobs report. Seven & I Holdings Co., a convenience store operator, rose 2% after its first quarter operating profit expanded.

EQUITY MARKETS



Shown in local currency terms, as of the last business day.

US TREASURY YIELD CURVE



The curve shows the yield to maturity of current US bills, notes and bonds. All data is as of the close of the last business day.

CALENDAR

	Event	Period	Survey	Prior
TA	CPI (YoY)	Jun	1.55%	1.61%
TA	Exports (YoY)	Jun	0.70%	1.40%
HK	Foreign Reserves	Jun	--	USD320.2B

Source: Bloomberg, DBS Group Research

ASIA EQUITIES

Asia Mixed despite Glowing US Jobs Report

Asia closed mixed a day after a glowing US jobs report as many took profit with the US market closed for a long weekend.

In Hong Kong, the HSBC Manufacturing PMI advanced to 50.1 in June supported by inventory expansion. A reading above 50 indicates growth. Sands China Ltd., a Macau Casino operator, rose 2.4% after HSBC Holdings Plc raised its target price to HKD70.70. **Hong Kong's** Hang Seng Index ticked 0.1% up while **China's** SHCOMP slid 0.2%.

In Southeast Asia, **Singapore's** STI ended flat, **Indonesia's** JCI was up 0.4%, while **Malaysia's** KLCI dipped 0.2%. In Singapore, Deputy Prime Minister Tharman Shanmugaratnam said he would not be surprised if property prices in the city-state fell further. The government has been aggressive in tackling rising home prices after complaints increasing prices have put the owning a home out of reach for many Singaporeans.

Malaysia's exports were up 16.3% on-year in May, above forecasts. Exports grew on stronger demand for electronics, petroleum, palm oil and liquefied natural gas. Trade surplus came in below expectations at MYR5.72 billion on rising imports.

In the **Philippines**, the inflation rate eased to 4.4% on-year in June, below estimates. Bangko Sentral ng Philipinas Governor Amando Tetangco said monetary authorities are prepared to employ more policy steps to protect its inflation targets for the next two years.

India stocks ended the week on a good note, ahead of the first budget from Prime Minister Narendra Modi later this week. The Modi effect has helped the Sensex leap 22% year-to-date.

FIXED INCOME

US Treasuries dropped, pushing 10-year notes to its highest yield in two months. Traders appear to be betting that the US Federal Reserve may raise rates sooner than expected following another stellar non-farm payrolls report. The Fed will release minutes from its last policy meeting midweek and is an important gauge of its outlook.

COMMODITIES

Oil fell on signs more supply is coming online. Libya is prepared to resume shipments at two of its pipelines while Iraqi production remains unaffected by violence wracking the country. After falling all of last week, futures were little changed in Asian electronic trade early Monday.

Source: Bloomberg, DBS Group Research and Vickers (DBS), Dow Jones Newswires, Reuters, Agence France-Presse

Equity Markets

Returns of equity indexes around the world, in local currency terms.

	Index	Close	Overnight	YTD
US	DJIA	17068.26	0.00%	2.97%
	S&P 500	1985.44	0.00%	7.42%
	NASDAQ	4485.93	0.00%	7.41%
Europe	Euro Stoxx 600	347.95	-0.28%	6.00%
	Germany	DAX	10009.08	-0.20%
France	CAC-40	4468.98	-0.47%	4.03%
UK	FTSE100	6866.05	0.01%	1.73%
Asia	MSCI AxJ	587.64	0.07%	6.56%
Japan	Nikkei-225	15437.13	0.58%	-5.24%
China	SHCOMP	2059.37	-0.19%	-2.68%
Hong Kong	Hang Seng	23546.36	0.06%	1.03%
Taiwan	TWSE	9510.05	-0.17%	10.43%
South Korea	Kospi	2009.66	-0.07%	-0.08%
Indonesia	JCI	4905.83	0.35%	14.78%
Malaysia	KLCI	1884.91	-0.20%	0.96%
Singapore	STI	3272.25	-0.03%	3.31%
India	Sensex	25962.06	0.54%	22.63%
Emerg. Mkt	MSCI EM	1062.40	0.02%	5.95%

Government Bonds

Benchmark yields of major 10-year government bonds.

	Latest yield	Previous yield	Change (bps)
US	2.64%	2.64%	0.00
Germany	1.27%	1.29%	-2.40
Japan	0.57%	0.57%	0.40
China	4.18%	4.09%	9.00
Taiwan	1.62%	1.63%	-1.20
South Korea	3.13%	3.11%	2.00
Indonesia	8.14%	8.14%	0.10
Singapore	2.33%	2.33%	0.00
India	8.67%	8.66%	0.60

Commodity futures

Prices of one-month futures contracts, grouped by commodity type.

	Close	1-day change	1-yr high	1-yr low
WTI crude (\$/bbl)	104.06	0.00%	112.24	91.24
Gold (\$/oz.)	1320.60	0.00%	1428.00	1179.40
Copper (\$/ton)	7164.00	-0.35%	7405.00	6360.00
Corn (cents/bu.)	417.00	0.00%	800.00	406.25
Soybean (cents/bu.)	1387.75	0.00%	1630.00	1255.00
Wheat (cents/bu.)	568.00	0.00%	735.00	550.00
Coffee (cents/lb)	171.80	0.00%	220.60	111.00
Sugar (cents/lb)	468.10	-0.97%	522.00	420.10

Source: Bloomberg, as at the close of the last business day.

YTD refers to year-to-date returns.

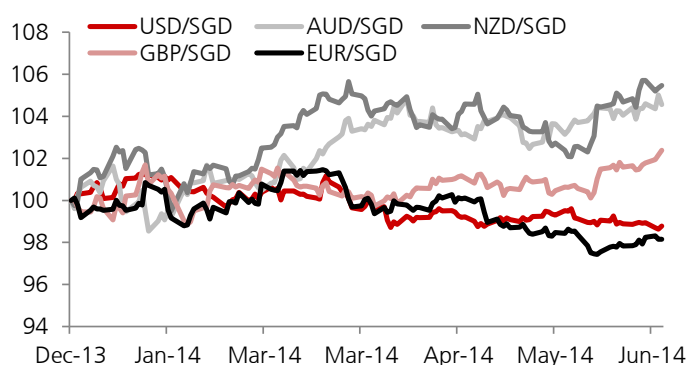
CURRENCIES

The US dollar was up against the euro ahead of the release of Federal Reserve minutes later this week. The minutes could show the world's most powerful central bank is prepared to raise borrowing costs sooner-than-expected and cut back on stimulus even further following another good data set last week.

The AUD regained some lost ground after it fell following Reserve Bank of Australia Governor Glenn Stevens comments that it was "overvalued". Mr Stevens had said investors are underestimating the probability of a "significant fall" in the Aussie at some point

Source: Bloomberg, DBS Group Research and Vickers (DBS), Dow Jones Newswires, Reuters, Agence France-Presse

SGD Against Major Currencies



Source: Bloomberg.

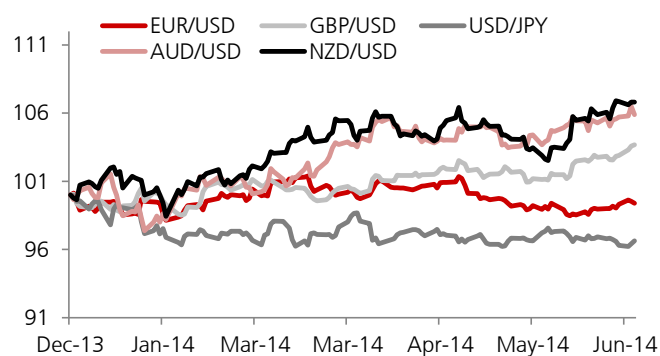
FX Round-up

Currencies as of New York close.

	Last	Overnight change	Day high	Day low
EUR/USD	1.3595	-0.11%	1.3611	1.3586
GBP/USD	1.7160	0.03%	1.7180	1.7132
USD/JPY	102.0600	-0.13%	102.22	101.97
AUD/USD	0.9365	0.19%	0.9369	0.9343
NZD/USD	0.8739	-0.17%	0.8757	0.8731
USD/CAD	1.0653	0.18%	1.0659	1.0631
USD/SGD	1.2461	-0.06%	1.2480	1.2450
AUD/SGD	1.1669	0.13%	1.1678	1.1647
NZD/SGD	1.0891	-0.21%	1.0921	1.0876
GBP/SGD	2.1382	-0.03%	2.1414	2.1344
EUR/SGD	1.6941	-0.17%	1.6983	1.6918
EUR/AUD	1.4517	-0.30%	1.4564	1.4508
AUD/NZD	1.0713	0.33%	1.0717	1.0677
USD/INR	59.7350	-0.01%	59.8250	59.6375
XAU/USD	1321	0.08%	1323.2	1318

Source: Bloomberg.

USD Against Major Currencies



Technical Summary

Short-term technical readings with a two-week horizon. All figures are as of the last business day.

Currency	Short term Direction	Support 1	Support 2	Resistance 1	Resistance 2
EUR/USD	Range	1.3563	1.3502	1.3664	1.3750
GBP/USD	Bullish	1.7080	1.6949	1.7230	1.7320
USD/JPY	Range	101.73	101.21	102.79	104.12
AUD/USD	Range	0.9319	0.9200	0.9400	0.9504
NZD/USD	Bullish	0.8670	0.8600	0.8794	0.8840
USD/CAD	Bearish	1.0600	1.0556	1.0696	1.0751
USD/SGD	Range	1.2445	1.2400	1.2505	1.2544
AUD/SGD	Range	1.1592	1.1526	1.1735	1.1836
NZD/SGD	Range	1.0814	1.0690	1.0990	1.1157
GBP/SGD	Bullish	2.1310	2.1175	2.1495	2.1590
EUR/SGD	Range	1.6855	1.6706	1.6980	1.7079
EUR/AUD	Bearish	1.4452	1.4310	1.4740	1.4873
AUD/NZD	Range	1.0647	1.0527	1.0764	1.0835
USD/INR	Range	59.46	58.97	60.09	60.26
XAU/USD	Range	1305	1284	1331	1357

Source: DBS CIO Office.

Insights Feature

Japan: Abenomics Version 2.0

Prime Minister Shinzo Abe has unveiled an updated version of reform plans to revive the economy. The two new topics are: corporate tax cuts and pension fund reform. Investors like these, as tax cuts lift corporate earnings and pension fund reforms can see more inflows into equity markets. But details were sketchy.

All the government said it will lower the corporate tax rate to “below 30% in several years”. But these need to be at 25% to be on par with the global average. And unless the tax base can be broadened, a 25% rate would cause nearly a JPY3 trillion loss in tax revenue, threatening the target of achieving a primary budget surplus by FY2020.

The revised plan gave no details on what a desirable investment portfolio for the Government Pension Investment Fund (GPIF) looks like. Even if 10% is switched to equities, this JPY13 trillion is very small compared to the Tokyo Stock Exchange’s market cap of JPY470 trillion. The direct impact of this switch would be limited unless private sector funds can follow suit.

Other structural reforms address:

1. Immigration: The government will expand the foreign trainee program. But the several thousands that can be added is not enough to offset the loss of 650,000 persons each year (from 2015-2020) as the population ages. Rules on hiring foreigners outside this programme will remain tight.

2. Womenomics. The government wants to increase the female labour participation rate (of those aged 25-44) to 73% by 2020. This is an increase by 100,000 persons each year, but is still insufficient to offset the decline caused by an aging population.

3. Employment system. The remuneration system encourages employees to work long hours. The government has promised a new salary system based on employee performance, but this applies only to those earning over JPY10 million a year – a very high threshold. Nothing was said about the lifetime employment system that tends to see males hired over females.

4. Agricultural reform. Agricultural cooperatives will also be restructured, but the fact that they are still around could mean free-trade agreements will stay a complex and lengthy process.

5. Medical services. Proposed reforms offer patients more choices. But investor-owned, for-profit hospitals will continue to be prohibited. There was also no mention of easing curbs on foreign investors’ participation in the medical sector.

Major reforms seem to be kept to the National Strategic Special Zones, which will address the many structural problems of doing business in Japan. Tokyo and Kansai could see clearer jobs guidelines, streamlined procedures for construction permits, and foreign doctors and nurses in practice. Niigata and Yabu would see easier rules on establishing agricultural corporations. Okinawa may have more relaxed immigration and visa rules.

Ease of Doing Business in Japan

Global rank, 1-185



Source: DBS Group Research

Success in the special economic zones will depend on how determined the central government is, and coordination between local governments. The idea of establishing SEZs was first proposed in June 2013. It has taken nearly a year for the six specific zones to be formally designated. And discussions about the experimental projects within the zones have just begun.

Source report: DBS Group Research. Economics – Japan: Abe’s Reform Plan, V2.0. 27 June 2014. Summarised by DBS Group Wealth Management /CIO Office.

Bond risk rating changes

Effective	Bond Name	Issuer	Risk rating		Reason
			New	Existing	
26-Jun-14	ASIA 2.35 06/21/27	Asian Development Bank	2	3	Tenor Reduction
26-Jun-14	AFREXI 5 3/4 07/27/16	African Export-Import BA	4	3	S&P downgraded paper rating from BBB- to BB+ on 25 June 2014.
27-Jun-14	AFREXI 8 3/4 11/13/14	African Export-Import BA	4	3	
27-Jun-14	AFREXI 3 7/8 06/04/18	African Expot-Import BA	4	3	
30-Jun-14	SBERRU 5.18 06/28/19	SBERBANK (SB CAP SA)	3	4	Tenor Reduction

Information updated as 2 July 2014.

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