

Market Snapshot

Wednesday, 16 October 2013

At 11th Hour, Still No Deal; Fitch Places US on Credit Watch

Key Global Indices

Index	Last	Change (%)	YTD (%)
US DJIA	15168.01	-0.87	15.75
US S&P 500	1698.06	-0.71	19.06
US NASDAQ	3794.01	-0.56	25.65
UK FTSE 100	6549.11	0.64	11.04
Nikkei 225	14441.54	0.26	38.93
Europe DJ STOXX 600	314.82	0.83	12.56

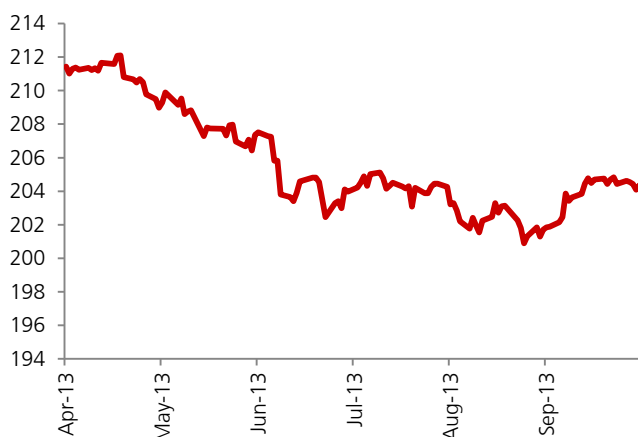
Asia & Emerging Markets

Index	Last	Change (%)	YTD (%)
Singapore STI	3165.25	0.00	-0.06
Hong Kong Hang Seng	23336.52	0.51	3.00
Shanghai SE Composite	2233.41	-0.19	-1.57
India Sensex	20547.62	-0.29	5.77
Taiwan TWSE	8367.88	1.14	8.68
Malaysia KLCI	1784.76	0.00	5.67
Korea KOSPI	2040.96	1.02	2.20
Indonesia JCI	4519.91	0.00	4.71
Thailand SET	1472.90	0.89	5.82
Brazil BOVESPA	54980.64	1.50	-9.80
Russia RTS	1495.31	1.45	-2.07

Fixed Income

	Last	Previous Day Close	Change (bps)
2-yr US Treasury	0.35	0.35	0.42
5-yr US Treasury	1.43	1.42	1.48
10-yr US Treasury	2.73	2.69	4.05
3M Sibor	0.39	0.39	0.00
3M Libor	0.24	0.25	-0.23

iBoxx US Treasuries TR Index (USD)



Source: Bloomberg, iBoxx Limited.

Data stated in local currency terms and is as of the last business day.

Global Equities

The United States remains no closer to raising its government's borrowing authority. This, after extended and separate negotiations in the Senate and House of Representatives that have gone nowhere with just a day (Oct 17) to go before the US effectively runs out of borrowing capacity and has around USD30 billion and change to run its government and settle debts. Early in Asia Wednesday, Bloomberg News said Senate leaders from opposing camps were back at the table to stave off any potential sovereign default by hammering out a deal to raise the debt ceiling, currently at USD16.7 trillion. With no progress, Wall Street closed lower on Tuesday. The DJIA was sharply down at 0.9%, while the S&P500 ended 0.7% lower. Short-term Treasuries and oil fell. The USD is under selling pressure because of the no-news Tuesday.

Washington needs to raise its debt ceiling in order to meet its borrowing obligations and make payments. Without it, the US Treasury market – the safest of safety plays – could help push borrowing costs up, slow lending and mean a loss of the US top credit rating. Both Houses of Congress – the House of Representatives controlled by the Republican Party opposed to the President, and the Senate, in the hands of the Democrats aligned with Mr. Obama – must agree to see its passage through. Fitch was the first of the big three credit rating agencies to react. It placed US debt on credit watch negative, a step preceding a downgrade.

Europe equities rose in the hope that US legislators would hammer out a deal to stave off a default as euro area industrial output rose and German investor confidence grew. Factory output spiked 1% in August, the EU said, its strongest showing in two years. Portugal and Germany were the standouts. The Zew index of investor and analyst expectations said German investor confidence grew for a third straight month, rising to 52.8 in October from 49.6 the previous month.

Southeast Asia

Most Southeast Asian bourses were closed Tuesday for a public holiday. Early Wednesday, Singapore is set to unveil its key non-oil domestic export numbers which should show a -3% number in September, the seventh straight month of decline amid an uneven recovery in the US and uncertainty over the pace of the recovery in the euro area.

North Asia

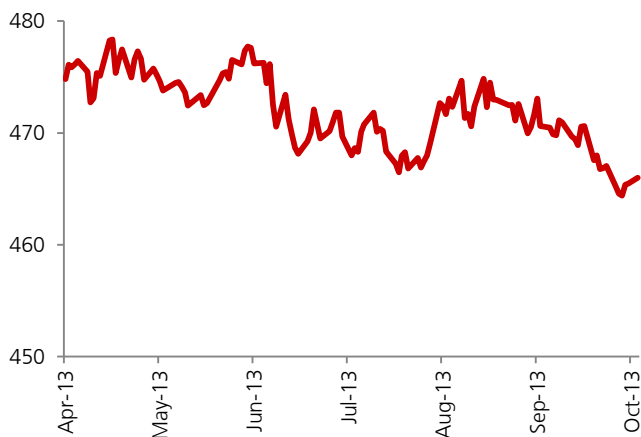
North Asian bourses closed mixed on Tuesday, with China falling on a lack of fresh catalysts after a recent rally, while Japan crept higher in the hope of a resolution in the US.

The main SHCOMP in China closed 0.2% lower on a lack of policy direction. Still, the index is up 12% from August. Investors appear to be waiting for Beijing's release of 3Q GDP and industrial output later this week in the hope for the next leg up. Consensus estimates are for a 7.8% GDP figure compared to 7.5% the previous quarter.

Tokyo's Nikkei 225 eked out minor gains on optimism for a resolution in Washington. Activity was low following a national holiday on Monday as traders kept one eye on how debt talks would pan out in Washington.

Commodities

	Last	O/N Change (%)	52-week High	52-week Low
Gold	1282.35	0.78	1773.39	1180.57
Crude oil	101.21	-1.17	112.24	84.05
Wheat	685.75	-0.97	916.50	623.00
Corn	443.50	1.49	800.00	433.00
Soybean	1267.00	-0.47	1630.00	1263.50
Sugar	500.10	-1.57	570.30	456.70
Coffee	116.45	-0.47	181.55	113.20

Commodities Research Bureau (CRB) Index

Source: Bloomberg, iBoxx Limited

Data stated in local currency terms and is as of the last business day where applicable. O/N represents overnight.

South Asia

India's Sensex closed lower over fears the Reserve Bank of India would raise interest rates. Banking stocks led the index's 0.3% fall after the wholesale price index, which India uses as a measure of inflation, rose to a seven-month high of 6.46% in September compared to 6.1% the previous month. The RBI meets October 29.

Fixed Income

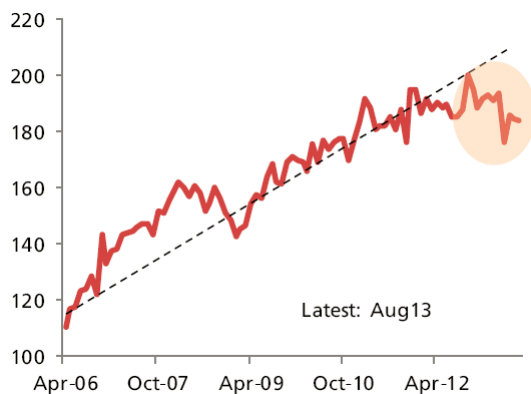
US Treasuries were lower as investors bet US lawmakers would hammer out a deal to avert a debt default. But short-term Treasuries were most hit, with many sceptical over whether a deal could be reached this week. The one-month Treasury bill is yielding 0.34% from near-zero in mid-September, meaning investors looking to lock up money in these short-term notes are now demanding more security from the US government to park their money there. Benchmark 10-year notes, still considered a safe play because of its long maturity, skidded 11/32 to yield 2.73%.

Commodities

Crude oil futures fell to a three-and-a-half month low with no sign of progress in Washington as of early Wednesday in Asian electronic trade. Investors fear a crimp in demand because of slower growth.

Gold, a typical safety hedge, climbed as talks in Washington continued.

Sources: Bloomberg, DBS Group Research and Vickers (DBS), Dow Jones Newswires, Reuters

INSIGHTS**India: Expect Some Policy Rate Tightening****India's Consumer Durable Goods Production**

Source: DBS Group Research

India's August industrial production bucked the modest improvement seen in economic releases in the past month. The number underwhelmed as it rose weaker-than-expected at 0.6% on-year and slower than the 2.8% growth seen a month ago.

Despite the strength in core industries output, positive export growth and seasonal support, production was trending lower in August. The breakdown held little surprises. Accounting for two thirds of overall figures, manufacturing output has declined for three out of five months so far in this fiscal year. Mining remains weak while electricity production fared better, calming concerns over potential power shortages.

Capital goods output fell 2%, a far cry compared to the 15.6% surge seen in July. The data also went back to the trend of a -1.6% average between June 12 – June 13. We believed the still-subdued consumption spending levels was due to the contraction in the consumer goods segment.

While the resilience in the non-durables production had supported the figure in late FY12/13, persistent cutback in the consumer durables segment has emerged as a significant drag (Aug: -7.6% on-year, year-to-date: -11.1%). This suggests manufacturers remained on a cautious keel and preferred to replenish inventories rather than stepping up production.

A brief reprieve is likely from seasonal factors and the government's plans to offer concessional loans for purchases of selected durables. However, a marked turnaround lacks the required catalysts. Readings for the manufacturing purchasing managers' index, or PMI, have stayed in contractionary territory on moderating new domestic and export orders. The central bank's focus on anchoring inflationary expectations may translate into higher base-rates, even as July's extraordinary measures to tighten liquidity are withdrawn.

Wholesale inflation for September rose to 6.46% on-year. This and the consumer inflation number are likely to play a major role in the Reserve Bank of India's end-October policy review. There are increasing indications the central bank may align benchmark policy decisions to the CPI gauge, gradually shifting away from the WPI. If this takes place, there is headroom for the benchmark rates to be adjusted higher in the coming months. Even as the US Federal Reserve tapering fears dissipate, the need to bring the repo and inflationary expectations on an even keel suggested the policy rate may be tightened even further.

Source report: DBS Group Research. Daily Breakfast Spread. 14 October 2013. (Summarised by DBS Group Wealth Management /CIO Office.)

FX Pulse

FX Round-up

	Last	O/N Change (%)	O/N High	O/N Low
EUR/USD	1.3524	-0.27	1.3571	1.3480
USD/JPY	98.16	-0.42	98.70	98.00
AUD/USD	0.9526	0.40	0.9548	0.9478
NZD/USD	0.8381	0.29	0.8406	0.8348
GBP/USD	1.5998	0.09	1.6009	1.5915
USD/SGD	1.2439	0.01	1.2440	1.2408
USD/CNY	6.1025	-0.15	6.1091	6.1011
EUR/AUD	1.4197	-0.67	1.4303	1.4143
AUD/SGD	1.1849	0.41	1.1859	1.1788
NZD/SGD	1.0417	0.22	1.0441	1.0383
GBP/SGD	1.9895	0.09	1.9903	1.9781
AUD/NZD	1.1371	0.16	1.1390	1.1347
EUR/SGD	1.6822	-0.27	1.6875	1.6751
EUR/GBP	0.8454	-0.36	0.8495	0.8446

Currencies

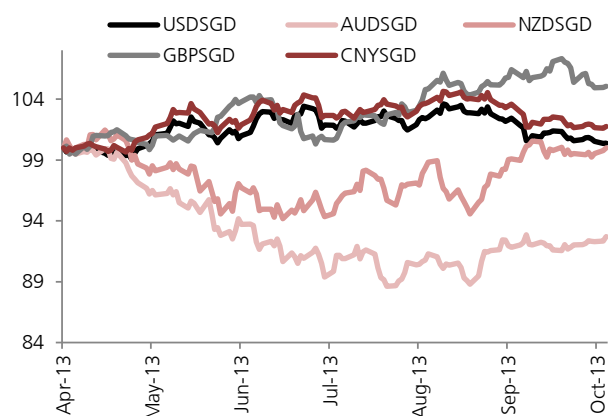
The US dollar fell after credit ratings agency Fitch Ratings' warning that it has placed the US on credit watch negative over the government's failure to agree on its debt ceiling. Protracted negotiations – with no sign of progress – also kept the USD in check.

The GBP was slightly higher against its peers as the government said it would allow Chinese banks to set up wholesale banking operations in London for a growing offshore yuan market. China and the UK also agreed on a USD13 billion quota for its qualified offshore investor programme.

The kiwi hit a one-month high after the government said inflation rose to its fastest pace in two years. The Reserve Bank of New Zealand is expected to raise its official cash rate from 2.5% at its next review, a Bloomberg News survey of analysts showed.

Sources: Bloomberg News, Dow Jones Newswires, Reuters.

SGD VERSUS MAJOR CURRENCIES



Source: Bloomberg
Data stated in local currency terms and is as of the last business day where applicable. O/N represents overnight.

TECHNICAL SUMMARY

Currency	Short term Direction	Support 1	Support 2	Resistance 1	Resistance 2
EUR/USD	Bullish	1.3460	1.3365	1.3597	1.3711
GBP/USD	Bullish	1.5845	1.5716	1.6121	1.6260
USD/JPY	Range	97.30	95.79	99.67	100.60
AUD/USD	Bullish	0.9408	0.9278	0.9574	0.9664
NZD/USD	Bullish	0.8276	0.8136	0.8435	0.8585
USD/CAD	Range	1.0285	1.0179	1.0419	1.0559
USD/SGD	Bearish	1.2370	1.2261	1.2472	1.2540
AUD/SGD	Range	1.1782	1.1654	1.1880	1.1950
NZD/SGD	Bullish	1.0309	1.0250	1.0503	1.0592
GBP/SGD	Range	1.9702	1.9470	1.9934	2.0131
EUR/SGD	Range	1.6702	1.6500	1.6920	1.7041
EUR/AUD	Range	1.3950	1.3620	1.4400	1.4558
AUD/NZD	Range	1.1296	1.1185	1.1437	1.1553
XAU/USD	Range	1235	1181	1329	1374

Source: DBS CIO Office

Note: These are short-term technical readings with a two-week horizon. All figures are as of last business day.

Economic Calendar – 16 October 2013

Country	Event	Period	Survey	Actual	Prior
SK	Unemployment Rate (sa)	Sep	3.10%	--	3.10%
EZ	CPI (YoY)	Sep F	1.10%	--	1.30%

Source: Bloomberg

Focus

The euro zone's inflation is expected to come in slower at 1.1% on-year in September.

Bond risk rating changes

Effective	Bond Name	Issuer	Risk rating		Reason
			New	Existing	
07/10/2013	BANBRA 9 1/4 10/31/49	BANCO DO BRASIL (CAYMAN)	5	4	Moody's downgraded the Junior Subordinated rating from Baa2 to Ba1
09/10/2013	TITIM 7 3/4 01/24/33	TELECOM ITALIA FIN SA	5	4	Moody's downgraded the paper credit rating from Baa3 to Ba1
09/10/2013	TITIM 5 1/8 01/25/16	TELECOM ITALIA SPA	4	3	Moody's downgraded the paper credit rating from Baa3 to Ba1
10/10/2013	SPGL 13 1/2 04/08/16	SPG LAND HOLDINGS LTD	4	5	Moody's upgraded the paper credit rating from B2 to Ba2
11/10/2013	NBADUH 4 1/2 09/11/14	NATIONAL BK OF ABU DHABI	1	2	S&P upgraded the paper credit rating from A+ to AA-
11/10/2013	NBADUH 3 1/4 03/27/17	NATIONAL BK OF ABU DHABI	1	2	S&P upgraded the paper credit rating from A+ to AA-
11/10/2013	NBADUH 5 03/07/18	NATIONAL BK OF ABU DHABI	1	2	S&P upgraded the paper credit rating from A+ to AA-
11/10/2013	NBADUH 5 03/07/18	NATIONAL BK OF ABU DHABI	1	2	S&P upgraded the paper credit rating from A+ to AA-

Information updated as of 11 October 2013.

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