

Focus on short-term fixed income

1Q 2019 in review: Amid weaker data, central banks tilt neutral or dovish

March 31, 2019

IN BRIEF

Australia

- Exports and employment remained robust but other economic data weakened during the quarter as falling house prices and softer private consumption weighed on business and consumer confidence.
- Sagging data triggered an RBA switch from a hawkish to a more neutral policy bias.
- The Reserve Bank of Australia left rates unchanged during the quarter but Bank Bill Swap Rate yields declined sharply and the curve flattened.
- The AUD strengthened versus the USD.

Singapore

- External and internal demand were hit by global trade tensions and weak consumption. Other economic data also declined slightly during the quarter.
- Singapore Swap Offer and Monetary Authority of Singapore (MAS) bill yields ended the quarter higher while the curve flattened. With U.S. Libor yields ending the quarter lower, the Singapore Dollar Swap Offer Rate (SOR)/Libor spread narrowed.
- The SGD weakened slightly vs. the USD.

China

- Economic data remained soft during Q1 with several key series hitting record lows, although the pace of declines eased as government stimulus measures started to take hold.
- The People's Bank of China assumed a dovish stance, cutting the Reserve Requirement Ratio.
- The central bank's action helped push Shibor, Treasury bill and policy bank bond yields lower. Reverse repo yields remained broadly stable.



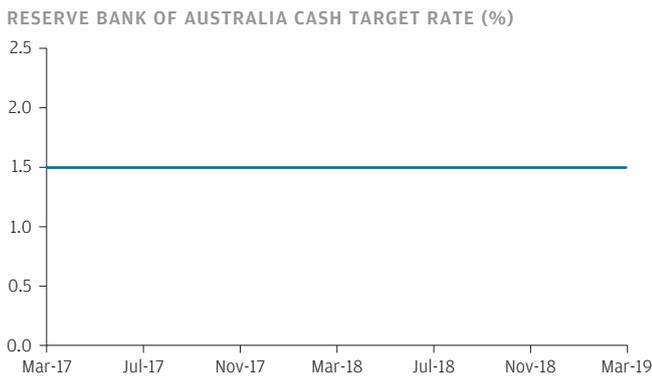
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AUSTRALIA

Market review

Australia's Q418 GDP increased by a weaker-than-expected 0.2% quarter-over-quarter (q/q) as robust exports failed to offset weak private consumption. The annual pace of growth slipped to 2.3% year-over-year (y/y) and 2018 GDP printed at 2.8%, below the RBA's 3% forecast. Trade remained robust during the quarter, with exports hitting a record high, elevating the trade surplus to a two-year peak. While the pace of job creation slowed, unemployment declined to a decade low of 4.9%, although wage growth remained muted. Housing data continued to weaken, with house prices declining to a new cycle low, which hurt consumption and confidence. Quarterly core inflation remained unchanged at 1.8% y/y, below the RBA's target range.

Although the RBA left rates unchanged during the quarter, Bank Bill Swap Rate (BBSW) yields declined sharply and the curve flattened. The AUD strengthened vs. the USD.



Source: Bloomberg; data as of March 31, 2019.

Portfolio commentary

The average yield on the **AUD Liquidity Strategy** was broadly unchanged during the quarter. Weighted average maturity (WAM) increased during the period with investments focused in the 6- to 12-month range. The strategy continues to be diversified, with key holdings in time deposits, commercial paper, certificates of deposit and floating rate notes. Liquidity remains good, with a high percentage held in overnight and sub-one week maturities. Average credit quality remained AA- during the quarter.

Outlook

Weakness in the housing market, combined with muted wage growth and high levels of debt, is having a significant negative impact on private consumption and confidence. Exports remain robust, however, and employment remains solid. The RBA has become decidedly more dovish with many economists expecting the next rate movement to be a cut. We think this is unlikely in the near term unless employment deteriorates sharply.



Source: Bloomberg; data as of March 31, 2019.

KEY ECONOMIC DATA

AUSTRALIA	Feb-19	Jan-19	Dec-18	Feb-18
Gross Domestic Product (SA %YoY)	-	-	2.3%	-
Unemployment Rate (%)	4.9%	5.0%	5.0%	5.6%
Employment Change (thousands)	4.6	38.3	20.6	(3.3)
Exports (%YoY)	13.2%	15.4%	16.2%	6.5%
Headline Inflation (Consumer Price Index, %YoY)	-	-	1.8%	-
Core Inflation (Trimmed mean, %YoY)	-	-	1.8%	-
Retail Sales (%YoY)	3.2%	2.7%	2.8%	3.0%
Building Approvals (%YoY)	-12.5%	-28.9%	-21.8%	0.9%

Source: Bloomberg; data as of March 31, 2019.

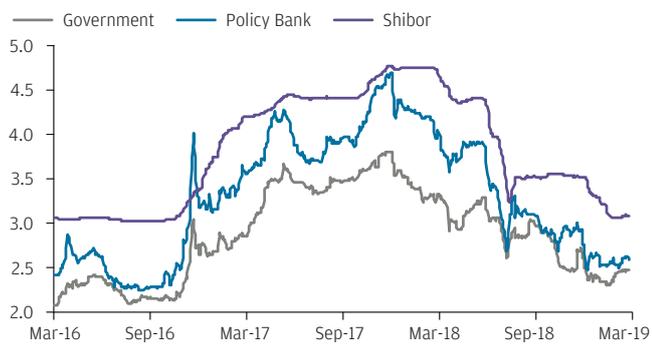
CHINA

Market review

Economic data remained sluggish during the quarter. Activity was also dampened by the Chinese New Year. Q418 GDP growth slowed by 1.4% q/q, resulting in a weaker-than-expected print, as exports and domestic demand softened. This left 2018 GDP at a decade low of 6.6%. Global trade tensions precipitated sluggish exports and imports; the trade surplus dropped to a 12-month low.

Manufacturing output and confidence were lower and the property and retail sectors remained moribund. During the quarter, the government announced several stimulus measures to stabilize economic growth including tax cuts, additional infrastructure spending and further market liberalization. The People’s Bank of China intervened in the markets on several occasions during the quarter, injecting funds via open market operations (OMO) and cutting the Reserve Requirement Ratio (RRR) by 1%. Both measures were intended to boost liquidity, reduce interest rates and unblock the monetary transmission mechanism.

MARKET INTEREST RATES (%)



Source: Bloomberg; data as of March 31, 2019.

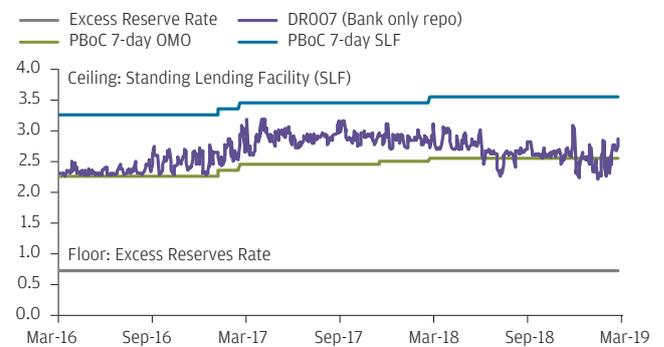
Portfolio commentary

The yield in our **RMB Liquidity Strategy**, continued to trend downwards during the quarter due to lower reinvestment yields as market- driven interest rates declined. Weighted average maturity (WAM) declined, with our investments focused in the three-month part of the curve. The strategy continues to be diversified, with key holdings in negotiated time deposits, Shanghai stock exchange repos, policy bank bonds and negotiated certificates of deposit. Liquidity remains good, with a high percentage held in overnight and sub-one week maturities.

Outlook

The combination of recently introduced government stimulus measures and a dovish central bank has encouraged market participants to expect economic stabilization in the property, infrastructure and private consumption sectors. However, trade tensions remain a concern and manufacturing remains weak, suggesting that further monetary policy easing may be required before the economy can achieve the government’s latest target growth rate.

PBOC INTEREST RATE CORRIDOR (%)



Source: Bloomberg; data as of March 31, 2019.

KEY ECONOMIC DATA

CHINA	Feb-19	Jan-19	Dec-18	Feb-18
Retail Sales (%YoY)	-	-	8.2%	9.7%
Fixed Asset Investment (%YoY)	6.1%	-	5.9%	7.9%
Industrial Production (%YoY)	-	-	5.7%	-
Consumer Price Index (YoY)	1.5%	1.7%	1.9%	2.9%
Foreign Exchange Reserves (US\$bn)	3,090	3,088	3,073	3,134
Exports (%YoY)	-20.7%	9.2%	-4.4%	43.6%

Source: Bloomberg; data as of March 31, 2019.

SINGAPORE

Market review

Singapore's Q418 GDP increased by 1.4% q/q, weaker than the government's forecast, due to a sharp slowdown in exports and muted domestic consumption. The annual pace of growth dropped to 1.9% y/y, from 4.7% y/y in the first quarter of 2018. Global trade tensions had a significant impact on exports. Manufacturing, especially in the electronics sector, remained muted during the quarter. Retail sales remained moribund as both hiring and wage growth were sluggish. Finally, core inflation declined to 1.5%y/y, decidedly lower than the MAS target rate.

The SOR and MAS bill yields ended the quarter higher while the curve flattened. With U.S. Libor yields ending the quarter lower, the SOR/Libor spread narrowed. The SGD weakened slightly vs. the USD.



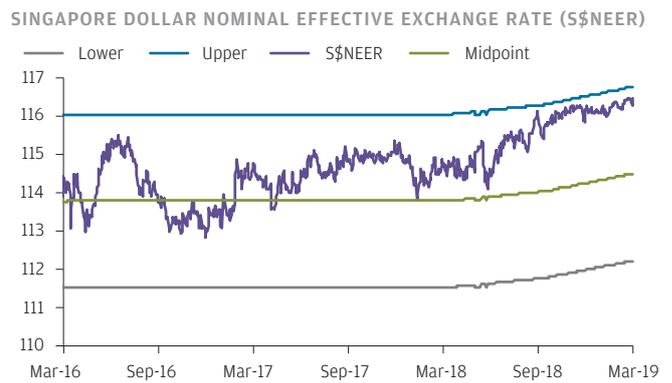
Source: Bloomberg; data as of March 31, 2019.

Portfolio commentary

The average yield on the **SGD Liquidity Strategy** increased during the quarter as we reinvested in higher yielding securities. WAM increased slightly during the period, with investments focused in 3-6 month maturities. The strategy continues to be diversified, with key holdings in time deposits, MAS Treasury bills, commercial paper and certificates of deposit. Liquidity remains good with a high percentage held in overnight and sub-one week maturities. Average credit quality remained AA- during the quarter.

Outlook

Weakness in the global and local economy, combined with muted domestic inflation, has decreased the probability that the MAS will tighten at their semi-annual monetary policy meeting in April. With the Federal Reserve likely to keep U.S. rates unchanged for the foreseeable future, SOR/Libor spreads could narrow further.



Source: Bloomberg; data as of March 31, 2019.

KEY ECONOMIC DATA

SINGAPORE	Feb-19	Jan-19	Dec-18	Feb-18
Purchasing Managers Index	50.4	50.7	51.1	52.7
Industrial Production (%YoY)	0.7%	-0.4%	1.8%	5.2%
Non-oil domestic Exports (%YoY)	4.9%	-10.1%	-8.5%	-6.0%
Core Consumer Price Index (%YoY)	1.5%	1.7%	1.9%	1.7%

Source: Bloomberg; data as of March 31, 2019.

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