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MARKET COMMENTARY

Geopolitical: Events-laded April saw several geopolitical developments, beginning with China's announcement on 1 April to implement tariffs on certain U.S. imports as retaliation against American duties imposed by President Donald Trump, heightening concerns of an all-out trade war between the world's two largest economies. This event was soon followed by the U.S. led coalition launching air strikes against Syria for its suspected use of poison gas. The strikes threatened to boil over with Russia responding angrily, igniting fears of an American-Russian conflict and roiling global markets. Against these troubling events, the month is however ending on a sanguine note with North Korea's Kim Jong Un historic visit to South Korea on 27 April, sparking real hopes of denuclearization and peace in the Korean peninsula. The visit was symbolic as Kim became the first North Korean leader to step foot on South Korean soil.

Global Economy: The US economy is expected to benefit from recent tax cuts and increase in fiscal spending, while the Eurozone's nascent growth will also likely continue. Economic growth in China is expected to slow in the coming quarters as export growth softens. Nonetheless, its domestic demand should continue to provide a buffer. Increased industrial capacity utilisation following the clamp down on excess capacity in heavy industries, as well as dwindling inventories of unsold real estate, should limit any further downside. Overall, the economic outlook for global economy remains relatively positive, although an escalation of protectionism such as trade wars presents a material downside risk.

Singapore Economy: In line with positive expectations at the beginning of the year, the Singapore economy grew 4.3% on a year-on-year basis in the first quarter, largely driven by manufacturing and services growth. In tandem, The Monetary Authority of Singapore (MAS) also tightened monetary policy, citing growing inflation expectations this year. The tightening move reflects the authority's confidence that Singapore's economy remains on a steady growth path. According to the latest semi-annual Macroeconomic Review released by MAS in April, GDP growth in 2018 should come in slightly above the middle of the forecast range of 1.5–3.5%. Nonetheless, the recent imposition of tariff increases by both the U.S. and China will present downside risk to Singapore's open economy although the direct impact of the announced tariffs is likely to be contained unless there is further escalation down the road.

Singapore Real Estate: Singapore's real estate market continues to sizzle, posting the steepest quarter-on-quarter increase in the first quarter since the second quarter of 2010. This is largely driven by the buoyant collective sales market, bullish land bids at government land sales and positive market sentiments. The uptrend in property prices is expected to continue in the coming quarters barring any new cooling measures from the government and external geopolitical shocks.

WHAT'S HAPPENING ON THE GROUND?

- North, South Korea Leaders to work towards ending Korean War:** North Korea's Kim Jong Un and South Korea's Moon Jae-in pledged to work for the complete denuclearisation of the Korean peninsula, at the first inter-Korean summit in more than a decade held on 27 April. The two Koreas announced they will work with the U.S., and China this year to declare an official end to the 1950s Korean War. The declaration included promises to pursue phased arms reduction, cease hostile acts, transform their fortified border into a peace zone, and seek multilateral talks with other countries including the U.S. (Business Times, 28 April 2018)
- Singapore private home prices rise 3.9% in Q1:** The price gap between private and public housing widened in the first quarter. While resale prices dipped 0.8% for Housing Board flats - the sixth consecutive quarter of decline - private home values climbed 3.9%. This beat a flash estimate of 3.1% growth, and marks the steepest quarter-on-quarter gain in the private sector since the second quarter of 2010, when the Urban Redevelopment Authority index gained 5.3%. Non-landed homes led the way this quarter with a 4.4% price increase compared with a 0.8% rise in the previous quarter. (Straits Times, 28 April 2018)

- **Singapore and Zhejiang to cooperate on Belt and Road opportunities:** Singapore will work with China's Zhejiang province to explore opportunities under the Belt and Road Initiative and deepen cooperation in areas like innovation and urban solutions. These include encouraging more Chinese e-commerce, logistics and technology firms to tap Singapore companies' network and experiences in Southeast Asia to jointly expand in the region. Singapore also urged Zhejiang companies to use it as a base to set up their regional headquarters and raise funds for projects in the Belt and Road countries. Launched by Chinese President Xi Jinping in 2013, the Belt and Road Initiative is a strategic and economic project to link China with Asia, Middle East, Africa and Europe with roads, railways, ports and industrial parks. (Business Times, 26 April 2018)
- **Singapore economy grew 4.3% in Q1 of 2018, boosted by strong manufacturing growth:** According to Ministry of Trade and Industry (MTI) advance estimates, this year-on-year rise was in line with economists' expectations of 4.3% growth and beat the 3.6% expansion in the final quarter of 2017. The manufacturing sector continued to be the key growth driver in the first quarter, expanding 10.1%, faster than the 4.8% growth in the preceding three months. All clusters within the sector saw growth, with the biggest contributors being the electronics and precision engineering clusters. (Straits Times, 13 April 2018)
- **Further home price spikes may spell risk of renewed cooling measures:** Several more quarters of private home price increases of the magnitude seen in the first quarter could leave the property market here staring at the possibility of fresh cooling measures, industry players say. While the immediate risk of that is low, the surprise 3.1% quarter-on-quarter jump in the first quarter of private home prices has led some in property circles to contemplate how policymakers would respond if the uptrend of similar or even bigger price spikes continues in the next two quarters. (Business Times, 11 April 2018)
- **Mnuchin heading to China to avert trade war:** President Donald Trump would be dispatching Treasury Secretary Steven Mnuchin to Beijing to try to forestall an all-out trade war. Mr Trump said he was optimistic that the U.S. could reach a deal with China. He however warned that if China did not live up to its promises to open its markets, the U.S. would proceed with the tariffs on as much as US\$150 billion worth of Chinese products. The two countries have been locked in a battle over tariffs, with the U.S. threatening to tax Chinese products such as TVs and medical devices and the Chinese retaliating with tariffs on pork and threatening to impose additional penalties on soya beans and other American goods. (Business Times, 26 April 2018)
- **Six industry clusters to drive economic transformation in Singapore:** Next phase of Singapore's economic transformation will involve deepening linkages between complementary industries by grouping them into clusters. The latest move comes after the Singapore government rolled out 23 sector-specific road maps for transforming key industries, called Industry Transformation Maps (ITMs). These sectors will be grouped into six clusters to maximise opportunities for collaboration. The clusters are: manufacturing, built environment, trade and connectivity, essential domestic services, modern services and lifestyle. (Straits Times, 19 April 2018)
- **Rate hike fears pushing home buyers to fixed-rate loans:** more borrowers are locking in the interest rates for their mortgages although they cost more than the current floating rate loans. Floating rate loans are quoted about 20 basis points cheaper than fixed rate loans. The Urban Redevelopment Authority's (URA) overall private home price index surged 3.1% in the first quarter of this year over the preceding quarter, based on a flash estimate released. This marks the steepest quarter-on-quarter hike since Q2 2010 (Business Times, 5 April 2018)

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