

Sector Update

Coal

Offshore & Marine

Property

Phillip Monthly Recession Tracker

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Singapore Coal Monthly

Demand from China still robust

Chen Guangzhi

Phillip Securities Research Pte Ltd

9 Jul 2018

What is the news?

China

- **China imports surged:** China's seaborne coal imports up 14% YoY in 1H18 (126.6mn tonnes). Indonesia became the biggest source of imports by delivering 61.8mn tonnes of coal, up 33.5% YoY.
- **Import restrictions relaxed:** Ports in Shandong, Fujian and Guangzhou provinces have accelerated their clearance times to 10 days from 15 working days, and other ports across the country have similarly been told to prioritise handling coal for power generation.
- **Anti-pollution plans to curtail coal:** The regions of Beijing, Tianjin, Hebei, Shandong and Henan will be required to cut coal consumption by 10% over the 2016 to 2020 period, while the Yangtze delta region will have to cut coal use by 5% over the period. No new capacity for steel, coke and primary aluminum production will be allowed in the regions through to 2020.

What is our view?

Demand for coal outstripping supply in China

- China's domestic production continued to remain flat.
- Demand for power remains strong, especially thermal power where demand resumed back up to double digits in May-18.
- In Jun-18, total port coal inventory jumped 49% YoY.
- Security of coal supply in the near term became the authority's priority over any clampdown of coal prices.

Indonesia coal market is expected to remain upbeat in 2H18

- Domestic miners produced a total of 145mn tonnes from Jan- to May-18, accounting for 31.7% of the annual target of 485mn tonnes (+5.2% YoY).
- HBA hit a 6-year high in Jul-18, touching US\$104.7/tonne.

Phillip Coal Tracker: Our snapshot of coal markets

Figure 1: Monthly coal production in PRC was flat



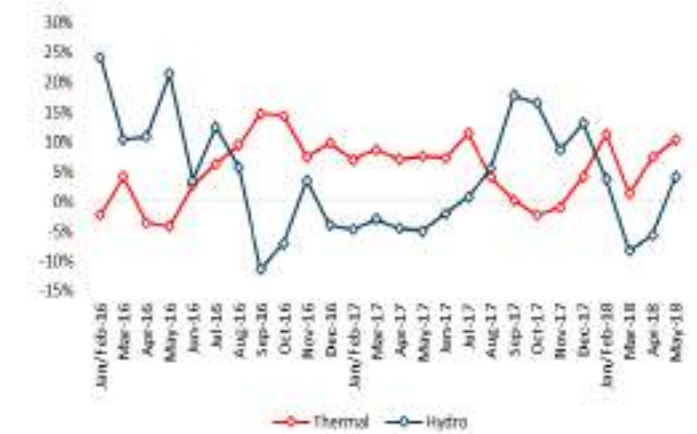
Source: National Bureau Statistics of PRC, PSR

Figure 2: Coal import from Indonesia by China surged



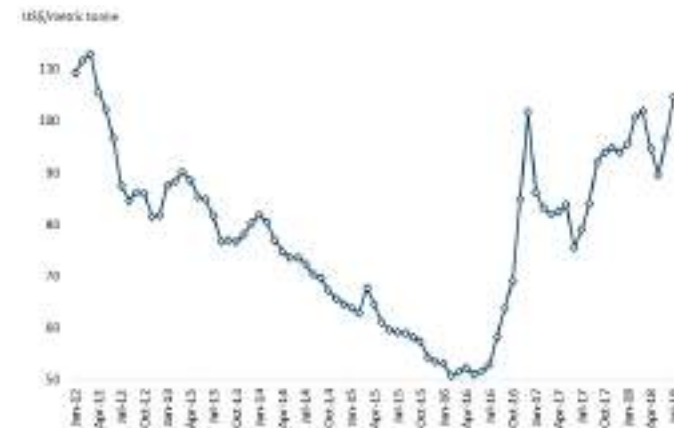
Source: General Administration of Customs of PRC, PSR

Figure 3: China power demand continues to expand YoY



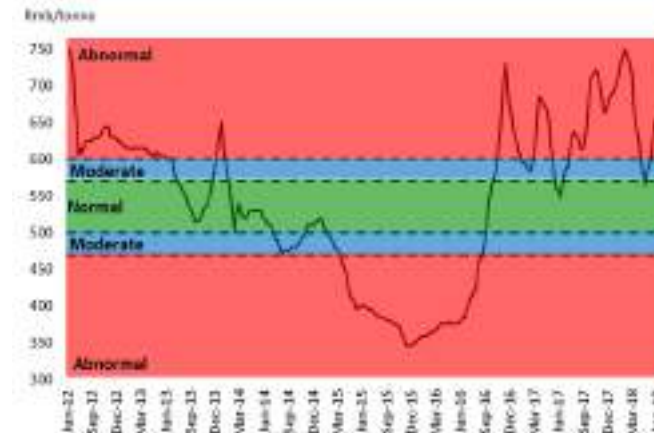
Source: National Bureau Statistics of PRC, PSR

Figure 4: Indonesia coal price reference (HBA) hit a 6-year high



Source: Coalspot.com, PSR

Figure 5: Qinghuangdao 5,500 GAR weekly FOB spot price



Source: Bloomberg, PSR, NDRC price zones (red/blue/green)

Figure 6: Total port coal inventory jumped in 2Q18



*Source: Bloomberg, PSR

*The total port coal inventory includes coal stockpile at Qinghuangdao Port, Tianjin Port, Caofeidian Port, Guangzhou Port, Jingzhou Port, Lianyungang Port, Dandong Port, Jingtang Port, Yinkou Port, Qingdao Port, and Huanghuagang Port.

Offshore & Marine Monthly

Supply tight but major not spending

Chen Guangzhi

Phillip Securities Research Pte Ltd

9 Jul 2018

Oil prices rallied in the recent consecutive three quarters

- In 1H18, shrinking inventories, and Brent hit a more than 3-year high of US\$80/bbl in Jun-18.
- Oil market turned from contango to backwardation (current oil supply level is lower than expected).
- EIA forecasted supply-demand dynamic will remain at a relatively balanced level in the next three quarters.

The resumption of elevated output is confronting to several limits

- Global oil market is under the pressure of future supply shortfall.
- OPEC capacity was below 3mn bbl/d as of May-18.
- US production could encounter bottlenecks such as a in pipeline capacity, obsolete infrastructure and lack of workforce.

Offshore drilling activities are recovering but day rates are soft

- Average utilization rate of the facilities climbed back to 60%+ by Jun-18, but day rates were still on the downtrend.
- Major oil players are reporting strong earnings since 3Q17.
- Expected capex in 2018 is just slightly higher than that in 2016.

Oil market is embracing higher volatilities

- Market will continue to price in geopolitical risks such as trade war tensions and output disputes.
- Recovery of the global economy could slow down.

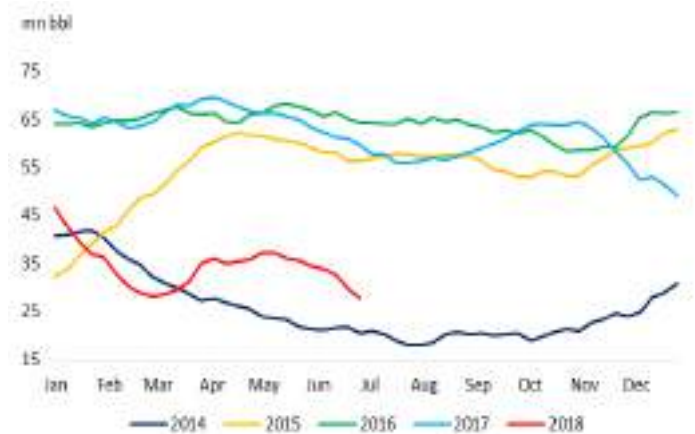
Sector charts

Figure 1: Crude oil price more than 3-year high



Source: Bloomberg, PSR

Figure 4: Weekly US crude oil stockpile is trending down



Source: Bloomberg, PSR

Figure 2: World liquid fuels supply is returning



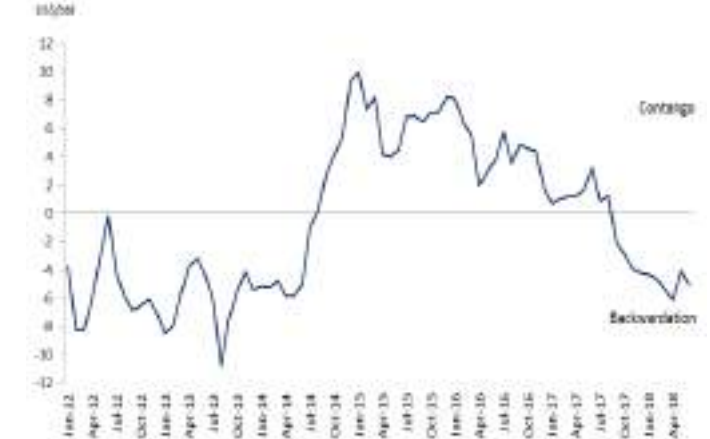
Source: Bloomberg, PSR

Figure 5: Decreasing OPEC spare capacity



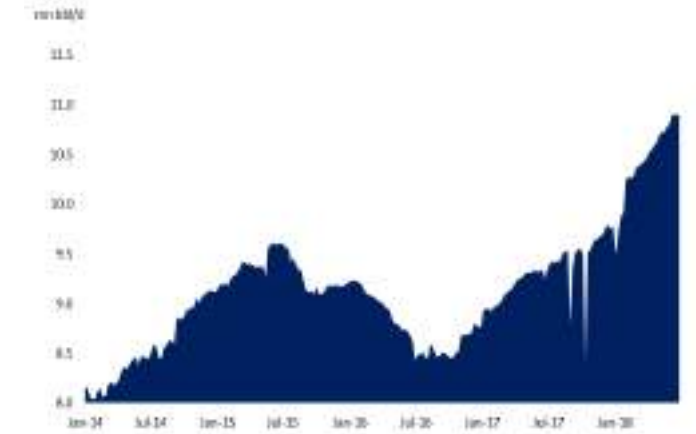
Source: Bloomberg, PSR

Figure 3: Backwardation since Jul-17



Source: Bloomberg, PSR

Figure 6: Increasing US crude oil production



Source: Bloomberg, PSR

Sector charts

Figure 7: Improving utilisation but depressed day rate



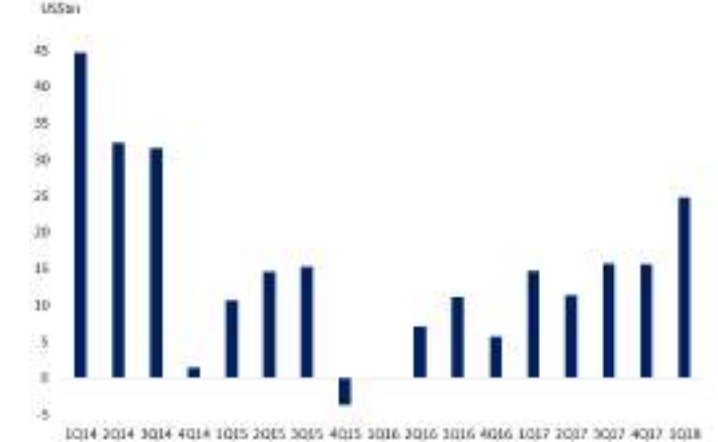
Source: Bloomberg, PSR

Figure 8: Positive recovery of rig count and utilisation rate



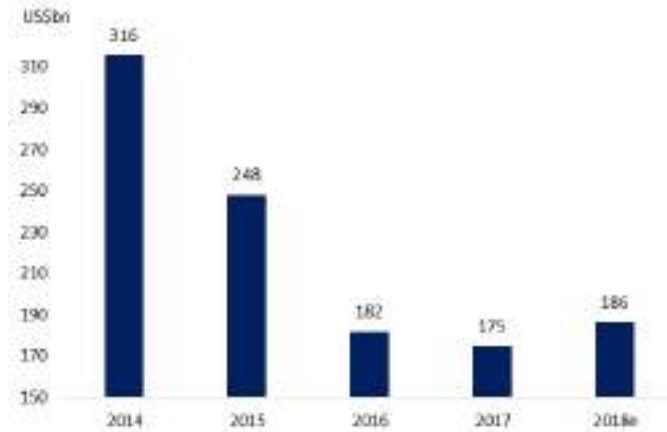
Source: Bloomberg, PSR

Figure 9: Turnaround of EBIT of oil majors



Source: Bloomberg, PSR

Figure 10: Capex of global integrated oil companies bottoms out



Source: Bloomberg, PSR

Property Sector Update

Surprise set of cooling measures

Tan Dehong

Phillip Securities Research Pte Ltd

9 July 2018

Singapore Property - Surprise set of cooling measures

Maintain Overweight

Additional 5% buyer's stamp duty (ABSD) and tightening the loan-to-valuation (LTV) limits for residential property purchases

Table 1: Adjustments to ABSD Rates for Residential Property

	Rates on or before 5 July 2018	Rates on or after 6 July 2018
SCs buying first residential property	0%	0% (No change)
SCs buying second residential property	7%	12% (Revised)
SCs buying third and subsequent residential property	10%	15% (Revised)
SPRs buying first residential property	5%	5% (No change)
SPRs buying second and subsequent residential property	10%	15% (Revised)
Foreigners buying any residential property	15%	20% (Revised)
Entities buying any residential property	15%	25% (Revised)* Plus additional 5% for developers^ (New, non-remittable)*

* As entities, developers will also be subject to the ABSD rate of 25% for entities. Developers may apply for remission of this 25% ABSD, subject to conditions (including completing and selling all units within the prescribed periods of 3 years or 5 years for non-licensed and licensed developers respectively). Details are provided under the Stamp Duties (Non-licensed Housing Developers) (Remission of ABSD) Rules and the Stamp Duties (Housing Developers) (Remission of ABSD) Rules.

Table 2: Revised LTV Limits on Housing Loans Granted by Financial Institutions

	1 st Housing Loan	2 nd Housing Loan	From 3 rd Housing Loan
Individual Borrowers			
LTV Limit	Existing Rules 80%; or 60% if the loan tenure is more than 30 years* or extends past age 65	Existing Rules 50%; or 30% if the loan tenure is more than 30 years* or extends past age 65	Existing Rules 40%; or 20% if the loan tenure is more than 30 years* or extends past age 65
	Revised Rules 75%; or 55% if the loan tenure is	Revised Rules 45%; or 25% if the loan tenure is	Revised Rules 35%; or 15% if the loan tenure is
	more than 30 years* or extends past age 65	more than 30 years* or extends past age 65	more than 30 years* or extends past age 65
Minimum Cash Down Payment	No change to existing rules 5%; or 10% if the loan tenure is more than 30 years* or extends past age 65		
		25%	
Non-Individual Borrowers			
LTV Limit	Existing Rule 20%		
	Revised Rule 15%		

* 25 years, where the property purchased is a HDB flat.

source: Ministry of National Development Singapore, PSR

Singapore Property - Surprise set of cooling measures

Maintain Overweight

- **Fresh set of cooling measures came as a surprise, but we view it as short term pain for longer term gain. Punitive measures this time should cause major slowdown in home price increase – we do not foresee further cooling measures.**
- **Property price increases have been backed by income growth which has outpaced home price increases since 2010. Home prices could still grow 20% before we hit previous peak affordability levels seen in 2013.**
- **Property transaction volumes to be negatively impacted in short term as buyers digest new taxes and increased liquidity requirements.**
- **En bloc frenzy to slow due to additional 5% non-remittable ABSD for developers.**
- **Developers who bought land earlier at lower prices will have greater flexibility to adjust prices, which is even more crucial at current juncture.**

Singapore Property - Surprise set of cooling measures

Maintain Overweight

- **CapitaLand (CAPL SP, Maintain Accumulate, Target price unchanged at \$4.19)**
 - ✓ The only addition to land bank in 2018 has been the Pearl Bank en bloc in February for S\$1,515psf
- **City Developments (CIT SP, Maintain Accumulate, Target price reduced from \$13.40 to \$12.60)**
 - ✓ Not factored in redevelopment surpluses for later-dated launches Amber Park, West Coast Vale, Handy Road and Sumang Walk due to higher uncertainties involved.
 - ✓ Our ASPs for remaining inventory and near term launches stay unchanged due to our previous conservative estimates, including South Beach (S\$4k psf) and The Tapestry (S\$1,350psf).
 - ✓ Increase disc to RNAV from 15% to 20%
- **Chip Eng Seng (CHIP SP, Maintain Buy, Target price reduced from \$1.21 to S\$1.15)**
 - ✓ Adjust our ASPs for Park Colonial down to S\$1,750psf from S\$1,900psf, to better reflect selling prices at actual launch
- **Ho Bee Land (HOBEE SP, Maintain Accumulate, Target price maintained at \$2.98)**
 - ✓ Three Sentosa condominiums unchanged – Already conservative ASPs of S\$1,500psf

Singapore Property - Surprise set of cooling measures

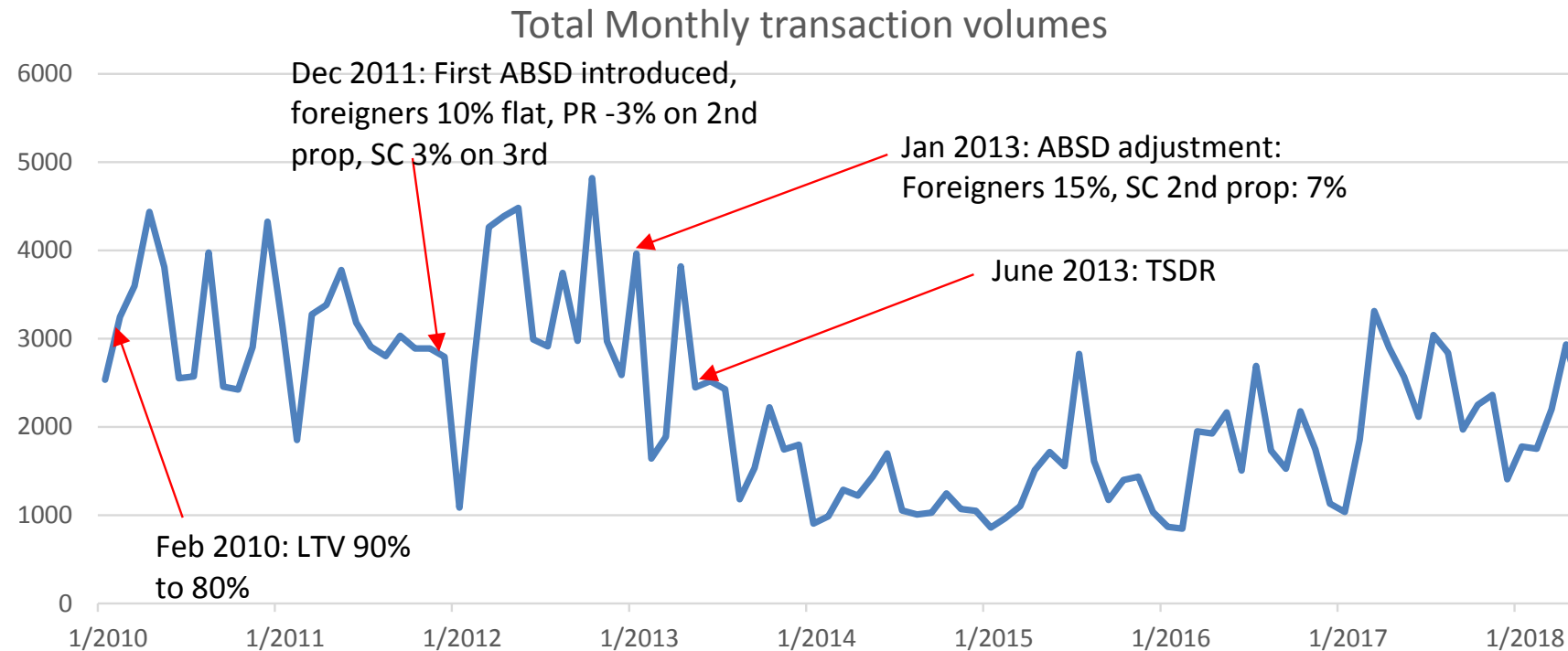
Maintain Overweight

- **Maintain OVERWEIGHT. Remain positive based on**

- ✓ Better affordability ratios now vs peak levels in 2013 despite the past 4Q of price increases due to income growth outpacing home price increase since post GFC.
- ✓ Supply still low – outstanding supply in pipeline of 52k units still one of lowest levels in last decade, vs high of 96k in 2013.
- ✓ Demand to be still supported by household formation rates due to our demographic structure and en bloc liquidity from displaced owners.

Singapore Property - Surprise set of cooling measures

Maintain Overweight



Source: URA, PSR

Singapore Property - Surprise set of cooling measures

Maintain Overweight

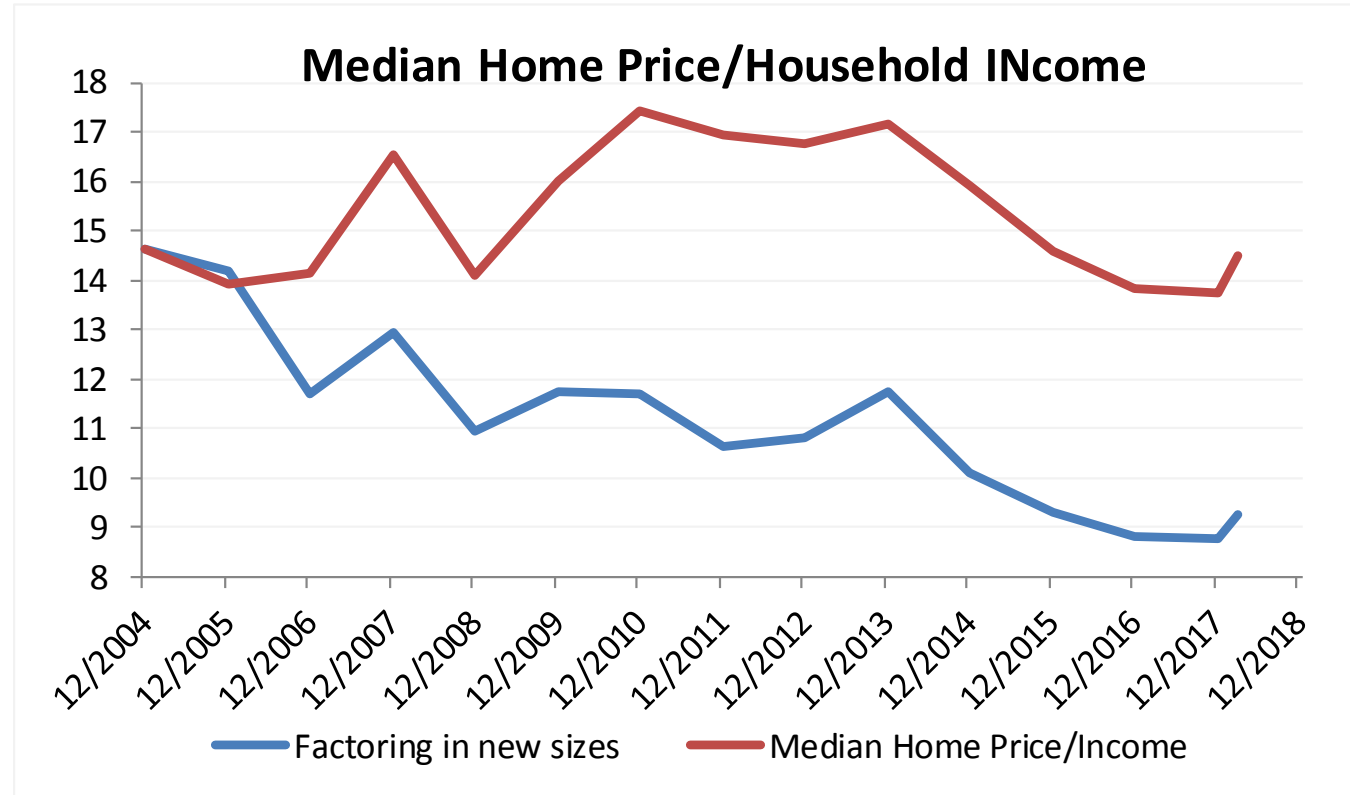
Previous rounds of cooling measures

Date	Name of Cooling Measure	Details
20-Feb-10	Seller's Stamp Duty (ASDD) 1	Sell a property within 1 st year: pay amount same as buyer stamp duty (BSD)
	Loan-to-value (LTV) adjustment 1	Reduced from 90% to 80%
30-Aug-10	SSD 2	1 st year: pay amount equals to BSD, 2 nd year: 2/3 BSD, 3 rd year: 1/3 BSD
	LTV adjustment 2	1 st loan: 80%, 2 nd loan: 70%
14-Jan-11	SSD 3	1 st year: 16% of purchase price, 2 nd year: 12%, 3 rd year: 8%, 4 th year: 4%
	LTV adjustment 3	1 st loan: 80%, 2 nd loan: 60%
8-Dec-11	Introduction of Additional Buyer's Stamp Duty (ABSD)	1 st property - SC: 0%, PR: 0%, F: 10% 2 nd property - SC: 0%, PR: 3%, F: 10% 3 rd property - SC: 3%, PR: 3%, F: 10%
6-Oct-12	LTV adjustment 4	1 st loan: 80% and 60% if loan tenure > 30 years or borrower's age exceeds 65 when loan ends, 2 nd loan: 60% and 40% with same tenure and borrower's age conditions
	ABSD adjustment 1	1 st property SC: 0%, PR: 5%, F: 15% 2 nd property SC: 7%, PR: 10%, F: 15% 3 rd property SC: 10%, PR: 5%, F: 15%
12-Jan-13	LTV adjustment 5	1 st loan: 80% and 60% with same tenure and borrower's age conditions 2 nd loan: 50% and 40% with same tenure and borrower's age conditions 3 rd loan: 40% and 20% with same tenure and borrower's age conditions
	Mortgage Servicing Ratio (MSR) adjustment 1	Up to 35% (reduced from 40%) of gross monthly income (GMI) is allowed for repayment of loans on HDB Flats
29-Jun-13	Introduction of total debt servicing ratio (TDSR) to private properties	Up to 60% of GMI is allowed for repayment of loans on a private property
28-Aug-13	MSR adjustment 2	MSR reduced to 30% from 35%
9-Dec-13	MSR extended to EC	MSR now applies to loans of EC purchases
	Resale levy on EC	Second-timer purchase of EC directly from developers are required to pay resale levy

Source: Monetary Authority of Singapore, Housing Development Board, Phillip Securities Research (Singapore)

Singapore Property - Surprise set of cooling measures

Maintain Overweight



Source: URA, PSR

Phillip Monthly Recession Tracker

June update – risk-on

Jeremy Ng

Phillip Securities Research Pte Ltd

9 July 2018

Phillip Monthly Recession Tracker – risk-on

	Indicator	Threshold	Last	Previous	Bearish Signal
Market-based data					
Interest rate	Ted Spread	Above 1%	0.38%	0.43%	Unconfirmed
	2s10s Spread	Below 0%	0.29%	0.43%	Unconfirmed
	10 Year Treasury Yield	Below 2.00%	2.82	2.99	Unconfirmed
Equity market	VIX Index	Above 27.7	15.00	15.43	Confirmed (in Feb)
	S&P 500 Index	Below 10 month MA/2680	2736	2705	Unconfirmed
	Value Line Geometric	Below uptrend line/480	576	563	Unconfirmed
	S&P 500 Index quarterly timeframe	2 consecutive bearish quarters	Bullish quarter	1 st bearish quarter	Unconfirmed
Economic-based data					
Labor	Unemployment Rate	Above 12 MA/4.1%	4.0%	3.8%	Unconfirmed
	Unemployment Claims YoY	Above 4.5%	-8.0%	-1.3%	Unconfirmed
Sentiment	ISM Manufacturing PMI	2 consecutive months below 50	60.2	58.7	Unconfirmed
	CB Consumer Confidence	Below uptrend line/112	126.4	128.8	Unconfirmed
	UMich Consumer Sentiment	Below uptrend line/94.0	98.2	98.0	Unconfirmed
	Bloomberg Consumer Comfort	Below uptrend line/47	57.6	55.2	Unconfirmed
Hard	Retail Sales YoY	Below 1.6%	5.9%	4.8%	Unconfirmed
	Core Capital Goods New Orders Nondefense YoY	Below 0%	7.1%	8.4%	Unconfirmed
	Industrial Production YoY	Below 0%	3.46%	3.55%	Unconfirmed
Interest rate	Fed Funds Rate	Halting of the rate hike cycle/tightening phase	2.00%	1.75%	Unconfirmed

Source: Bloomberg, PSR

- The VIX index has triggered its threshold of 27.7
- While the rest of our recession indicators are still doing fine
- Ted spread and VIX index continued to subside from their respective highs
- Economic-based data doing well at multi-decade extremes

*Our Phillip recession tracker is based off 17 Market-based and Economic-based indicators. The threshold represents the levels where bearish signal arises.

Red/Green represents a decline/increase from the prior month. Otherwise, it is unchanged.

Source: Bloomberg, PSR

Trade Tension – no lasting negative impact

- At the height of the trade tension in March and April, that was when the S&P 500 index formed the bottom
- Expect the current trade war inspired selloff to fade out soon

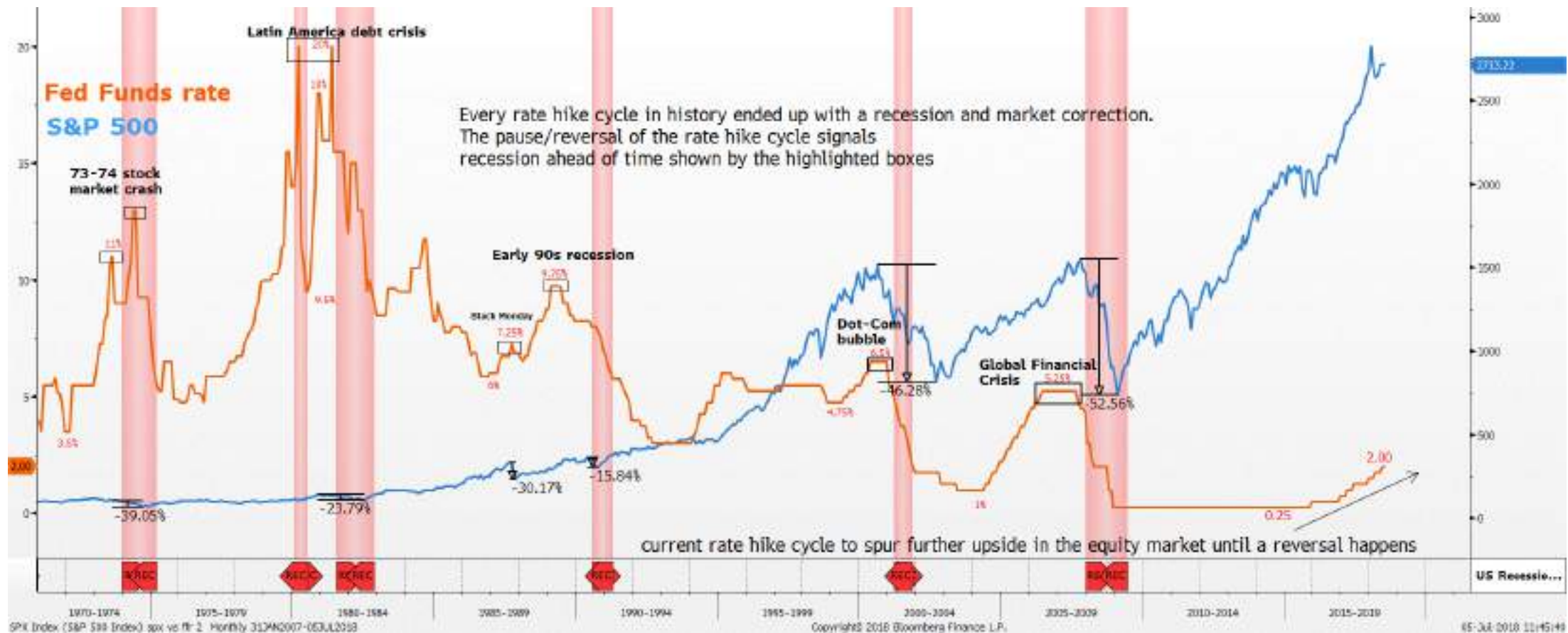


S&P 500 daily chart

Source: Bloomberg, PSR

Rate hike cycle – to spur further upside

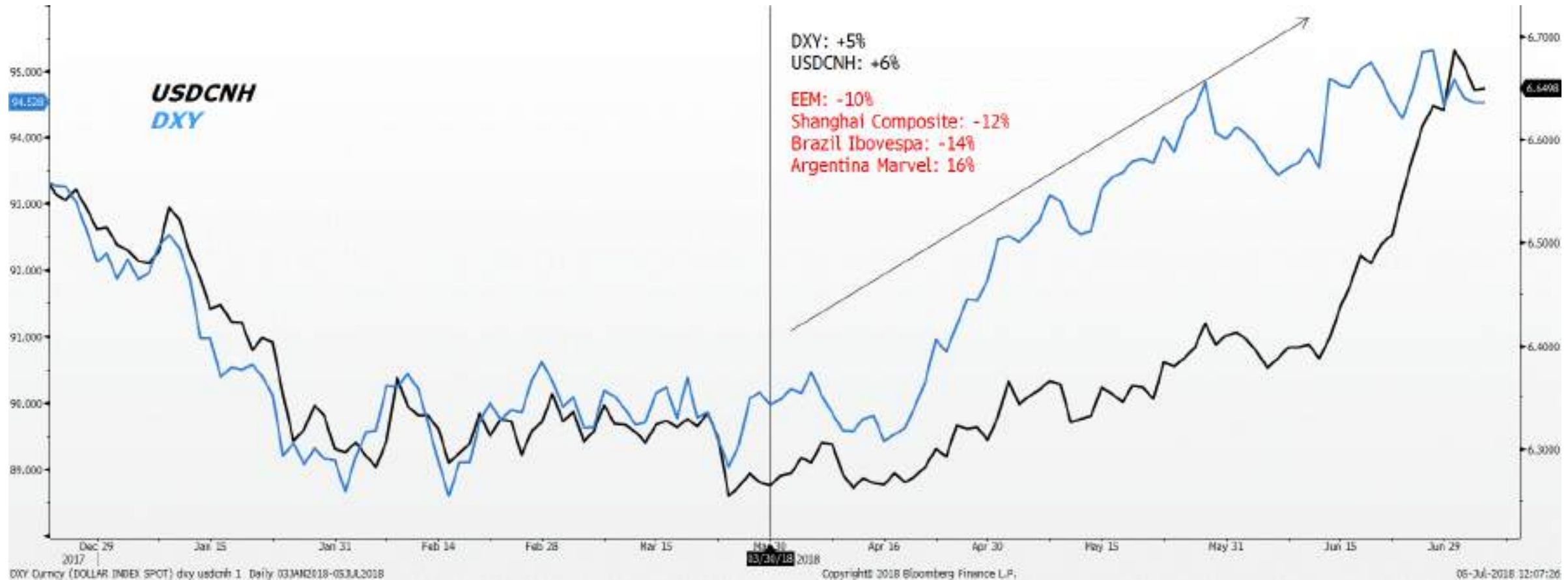
- The Fed hiked FFR to 2.00% in June's FOMC meeting
- Expect 2 more rate hike by end of 2018 to lift the equity market along



Source: Bloomberg, PSR

Dollar Strength

- The recent dollar strength has caused a train wreck in the emerging markets



Source: Bloomberg, PSR

DXY - Bearish Price action

- Bearish rejection off the 95.15 resistance area
- Bearish divergence suggests a reversal lower next



DXY Daily timeframe chart

Source: Bloomberg, PSR

USDCNH- Bearish Price action

- Bearish rejection off the 6.691 resistance area
- Extreme overbought RSI suggests an imminent correction next



USDCNH daily timeframe chart

Source: Bloomberg, PSR

2s10s spread – flattening

- 2s10s spread flattened to a new 52-week low of 0.29% as the FED hiked the FFR in June
- Our base case scenario points to another approximately another 4-5 months of flattening before the 2s10s spread inverts

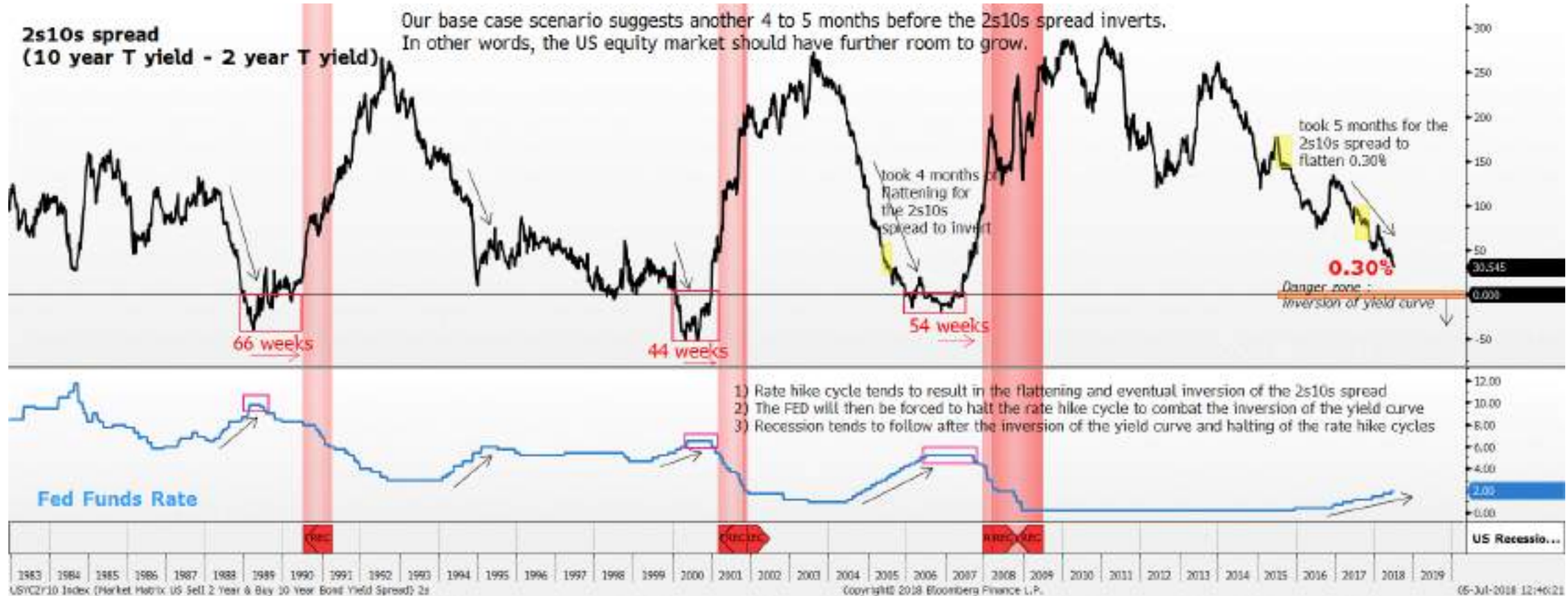


2s10s spread daily timeframe chart

Source: Bloomberg, PSR

2s10s spread – recession timeline

- Yield curve continued to flatten with the June interest rate hike
- 4-5 more months of flattening before the 2s10s spread inverts
- Recession to follow with an average 54 weeks lag after the yield curve inverts



Source: Bloomberg, PSR

Ted Spread – all is well

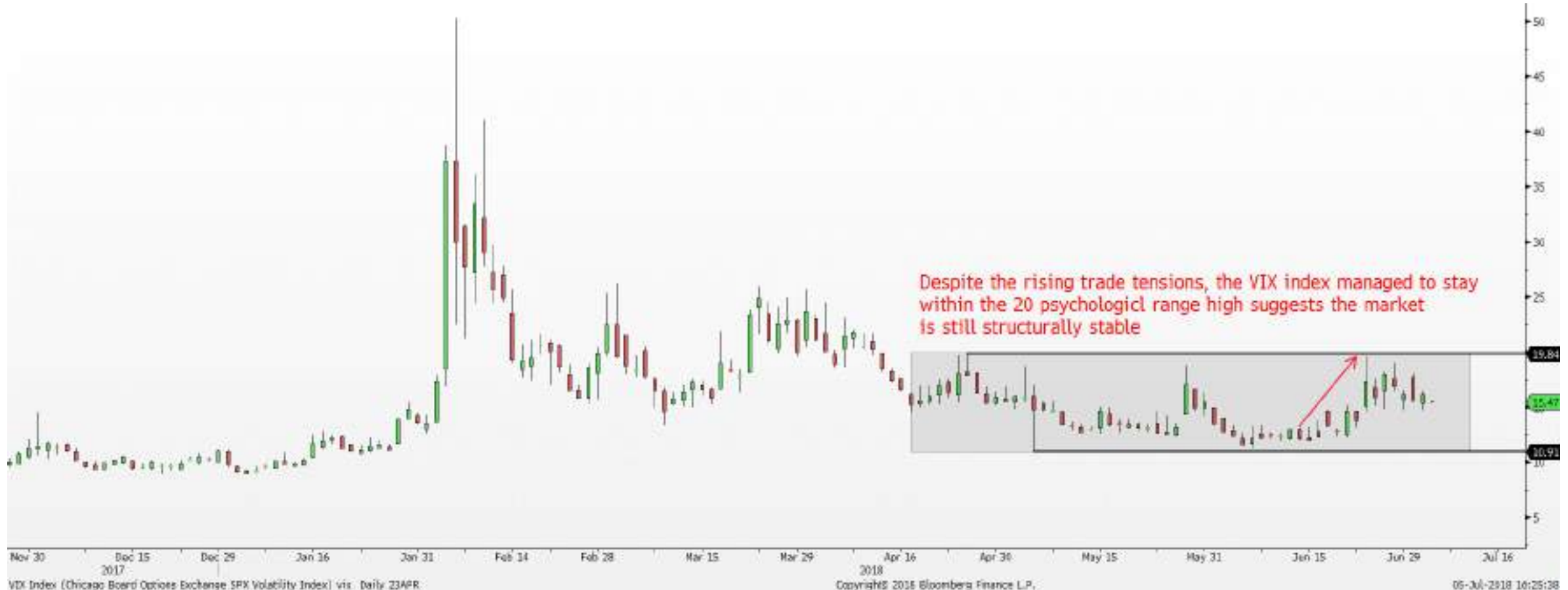
- Ted spread stayed range bound in June between 0.43% to 0.38%
- Bullish view on the equity market should sustain



Source: Bloomberg, PSR

VIX Index – stabilising below 20

- Despite the escalating trade tension, the VIX index stayed calmly below the 20 psychological range high



Source: Bloomberg, PSR

Retail Sales – strong growth

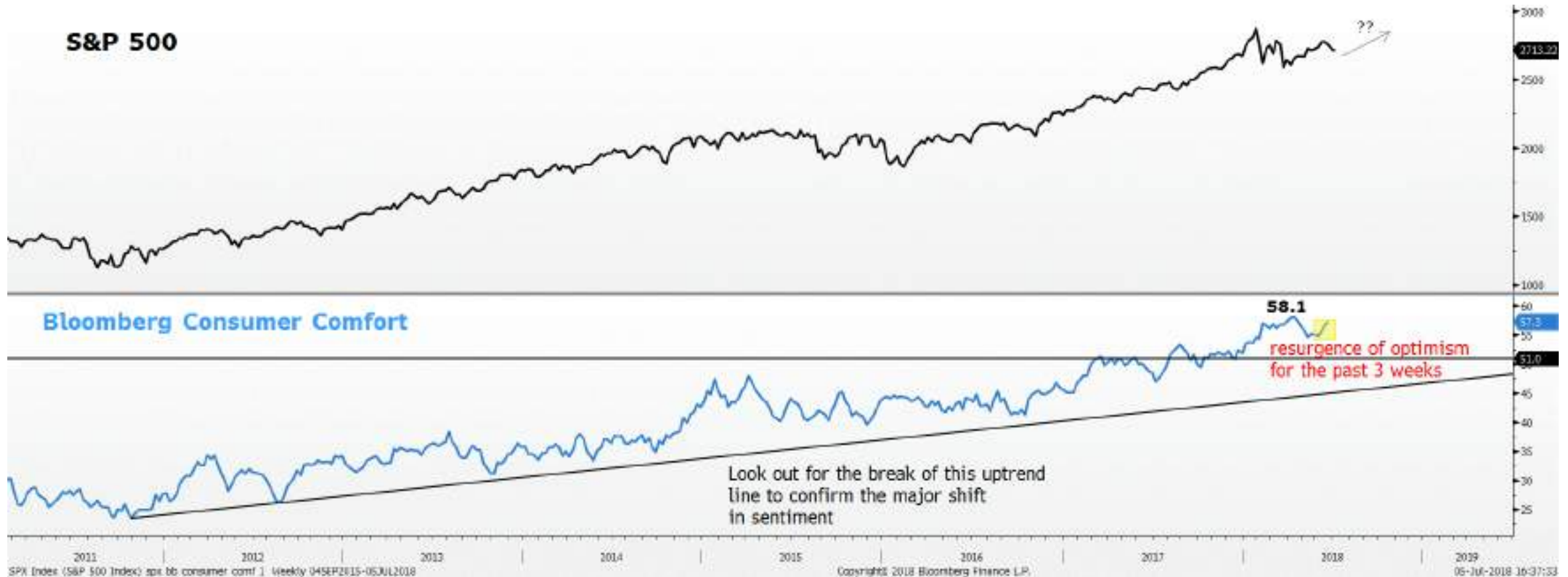
- Further expansion in the Retail Sales YoY data reassures a strong growing economy
- General equity market to follow suit with the rosy outlook



Source: Bloomberg, PSR

Bloomberg Consumer Comfort – surging optimism

- Optimism returning as the Bloomberg Consumer Comfort index rose consecutively for the past 4 weeks



Source: Bloomberg, PSR

ISM Manufacturing PMI – recovering optimism

- Mean reversion scare over with the past 2 months of rising PMI
- Should see further upside move in the general equity market
- Key threshold to watch is the 50 expansionary/contractionary level



Source: Bloomberg, PSR

S&P 500 index – quarterly timeframe

- Positive quarter (+2.93%) in Q2 broke the Q1 negative outlook
- Likely to see the resurgence of the bulls as they search out for new record highs
- Signal for the end of the bull market is to have at least 2 consecutive bearish quarters



S&P 500 index quarterly chart

Source: Bloomberg, PSR

DJIA index – 200 day moving average

- Strong relentless support at the 200-day moving average
- Recent bullish price action around the 200-day moving average suggests a reversal back into the uptrend
- Next target for bulls: 25,400 resistance area



DJIA Daily chart

Red line = 20 period moving average, Blue line = 60 period moving average Green line = 200 period moving average

Source: Bloomberg, PSR

S&P 500 index – Bullish price action

- 2,675 support area needs to hold for this immediate uptrend to remain intact
- Current bullish break above the 20-day moving average suggests a reversal higher next
- Next target for bulls: 2,800 resistance area



S&P 500 Daily chart

Red line = 20 period moving average, Blue line = 60 period moving average Green line = 200 period moving average

Source: Bloomberg, PSR

Nasdaq 100 index – Bullish price action

- 6,829 support area needs to hold for this immediate uptrend to remain intact
- Current bullish break above the 20-day moving average suggests a reversal higher next
- Next target for bulls: 7,350 resistance area followed by 7,400



Nasdaq 100 Daily chart

Red line = 20 period moving average, Blue line = 60 period moving average Green line = 200 period moving average

Source: Bloomberg, PSR

Summary

Despite the escalating trade tension, economic data remains strong at their multi-year extremes

Until further deterioration from the economic-based data triggers their respective threshold, we remain bullish on the general equity market

Current bullish price action in the S&P 500, DJIA and NASDAQ 100 index suggests a near-term rebound back into the uptrend

ETF

SPDR DJIA Trust - (AMEX-DIA)

SPDR S&P 500 ETF Trust - (AMEX-SPY)

Powershares QQQ Nasdaq 100 - (Nasdaq:QQQ)

CFD

Wall Street Index USD1 CFD – DJI

US SP 500 Index USD5 CFD – INX

US Tech 100 Index USD5 CFD – NDX.X

Link to previous report [“all clear for now”](#) and [“all clear for now part 2.”](#)

Link to Webinar [“all clear for now”](#) and [“all clear for now part 2.”](#)

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