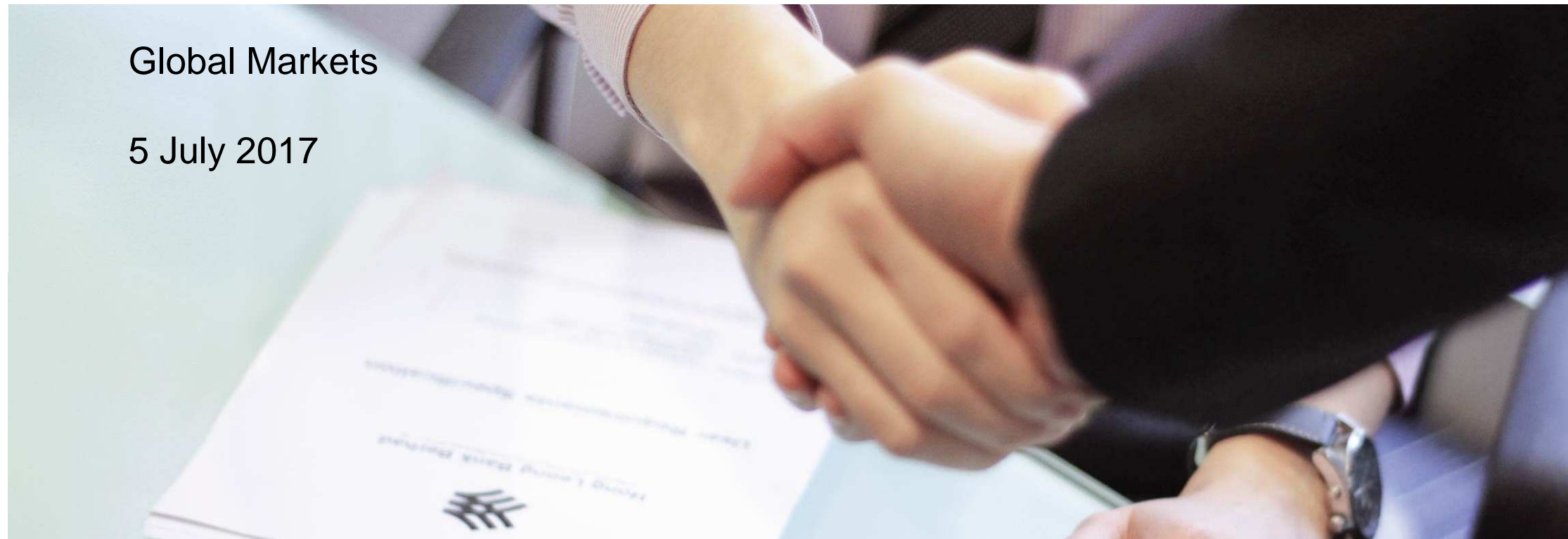


Quarterly Market Outlook 3Q2017

Global Markets

5 July 2017



- Macro Landscape
- FX Outlook
- Fixed Income Outlook

Global Growth Outlook

Real GDP (% YOY)	Latest 2 Quarters		Actual	Forecast		Forecast (official)	
	4Q16	1Q17		2016	2017	2018	2017
World	-	-	3.1	3.3 (3.2)	3.5 (3.4)	3.5 (3.4)	3.6 (3.6)
DM/ G10	2.0	1.8	1.7	2.0 (1.9)	2.0 (2.0)	-	-
US	2.0	2.1	1.6	2.2 (2.2)	2.3 (2.3)	2.2 (2.1)	2.1 (2.1)
Eurozone	1.8	1.9	1.8	1.9 (1.4)	1.6 (1.4)	1.9 (1.8)	1.8 (1.7)
UK	1.9	2.0	1.8	1.6 (1.7)	1.3 (1.3)	1.9 (2.0)	1.7 (1.6)
Japan	1.6	1.3	1.0	1.3 (1.1)	1.0 (1.0)	1.6 (1.5)	1.3 (1.1)
BRICs	5.2	5.4	5.1	5.4 (5.4)	5.5 (5.5)	-	-
China	6.8	6.9	6.7	6.6 (6.5)	6.3 (6.2)	6.5	-
India	7.0	6.1	8.0	7.1 (6.8)	7.3 (7.4)	7.8	-
Asia ex-Japan	6.0	6.0	6.0	5.9 (5.8)	5.8 (5.7)	-	-
EMEA	2.3	2.9	1.6	2.5 (2.2)	2.6 (2.6)	-	-
Latam	-1.3	0.2	-1.2	1.2 (1.5)	2.3 (2.6)	-	-

Source: Bloomberg, official sources
 Figures in () are previous forecasts



Central Bank Policy Rate Outlook

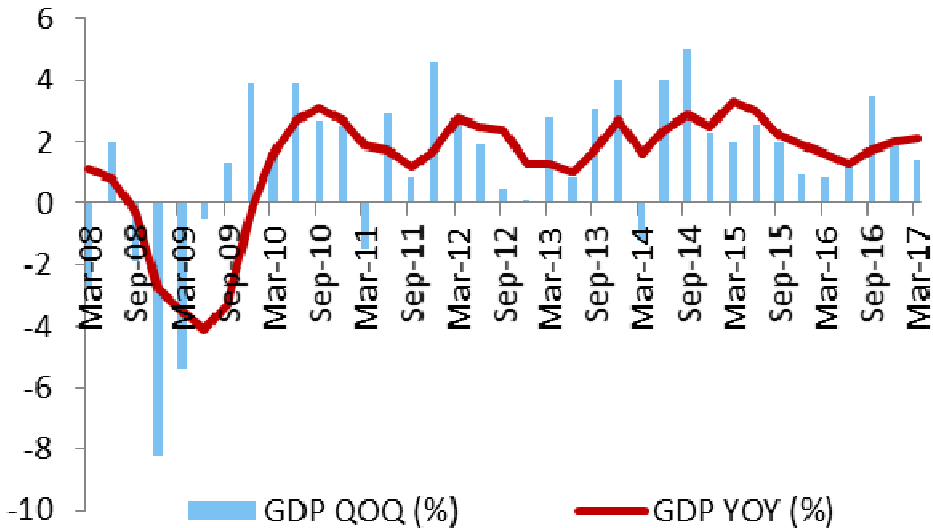


	Current	3Q17	4Q17	1Q18
USA	1.00-1.25	1.00-1.25	1.00-1.25	1.00-1.25
Europe	0.00	0.00	0.00	0.00
UK	0.25	0.25	0.25	0.25
Japan	-0.10	-0.10	-0.10	-0.10
Australia	1.50	1.50	1.50	1.50
New Zealand	1.75	1.75	1.75	1.75
Malaysia	3.00	3.00	3.00	3.00
Thailand	1.50	1.50	1.50	1.50
Indonesia	4.75	4.75	4.75	4.75
Philippines	3.00	3.00	3.00	3.00

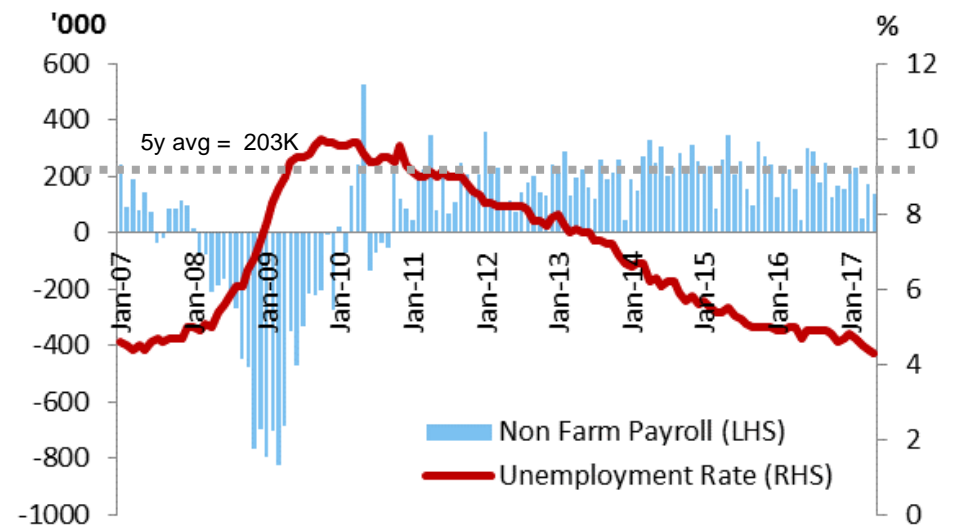
Source: Bloomberg, Global Markets Research

The US – Moderate growth outlook

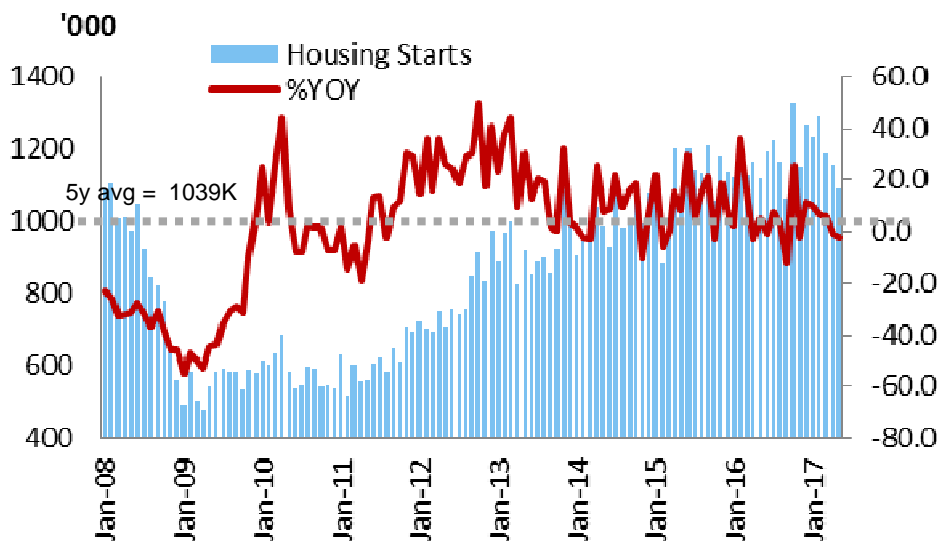
Expectations for better growth outlook ahead



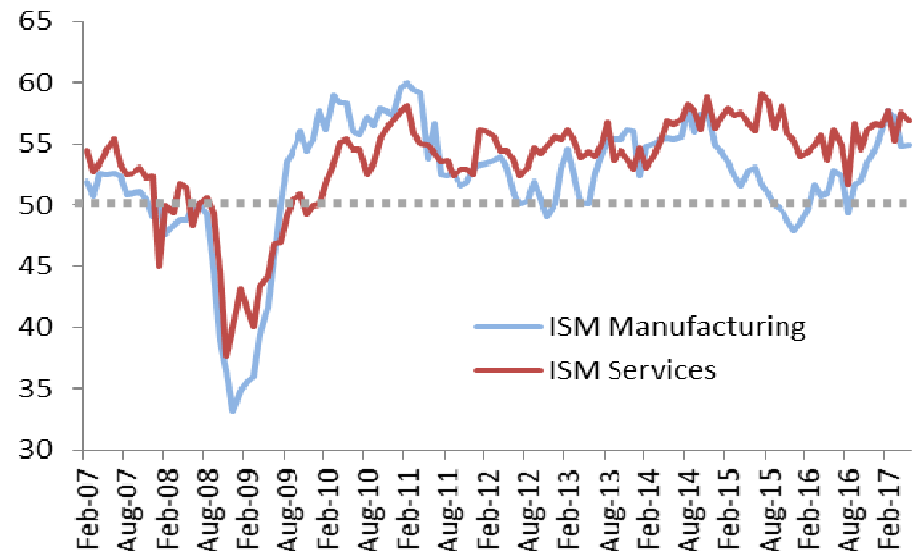
Steady labour market



Softening momentum in housing market

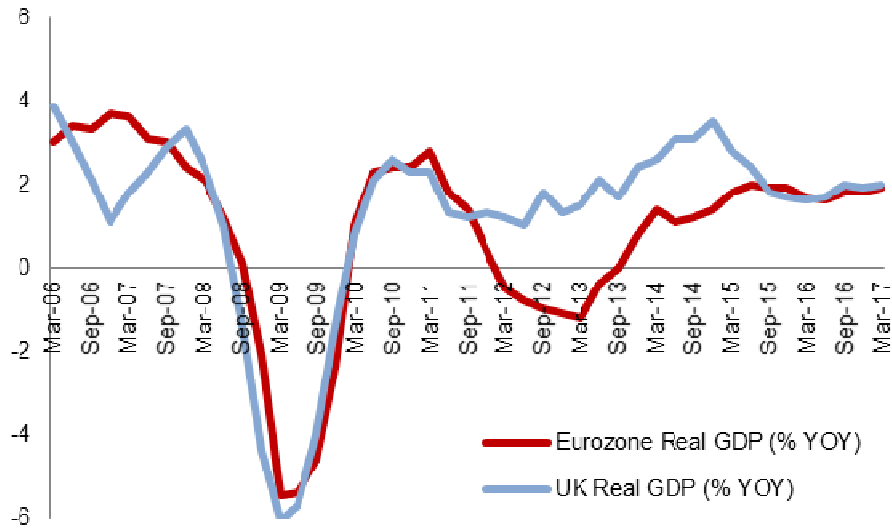


Healthy expansion in manufacturing and services

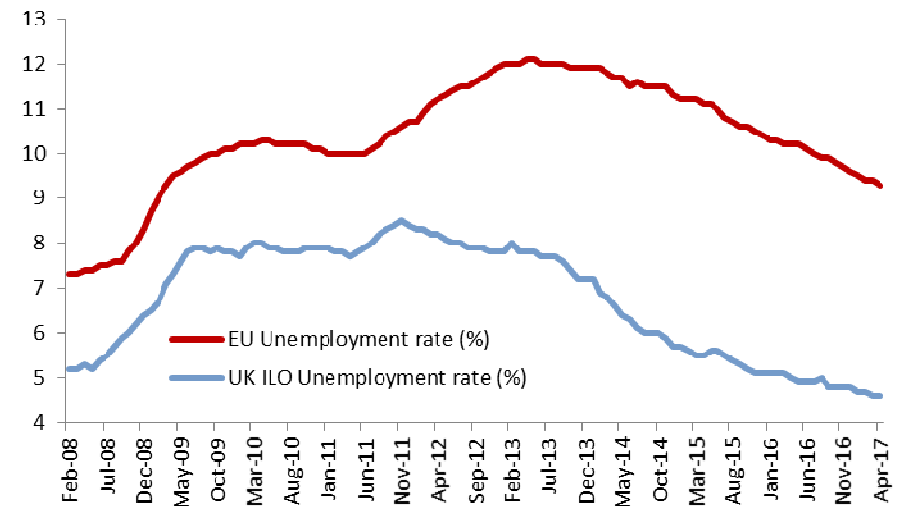


EU and UK – EU remains favourable; UK holding up

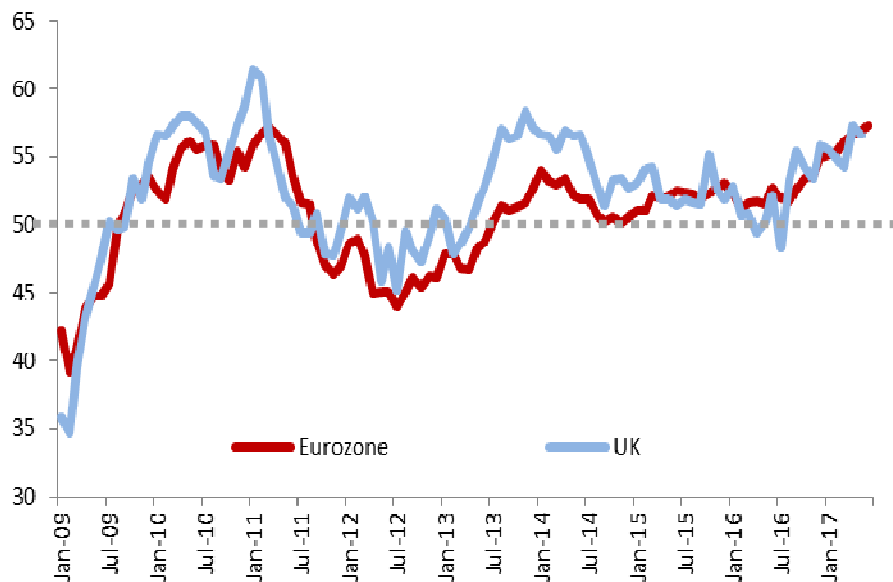
Slight upticks in both EU and UK growth



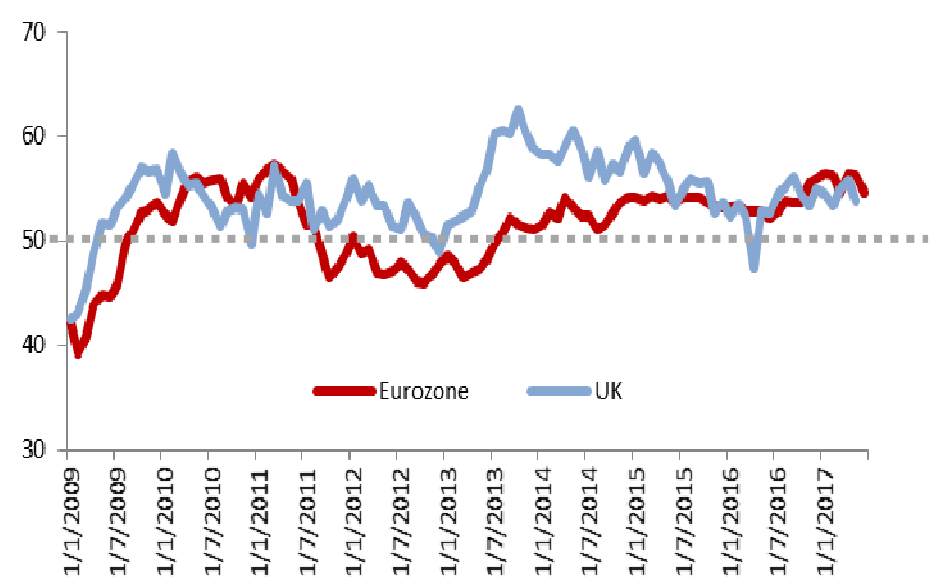
Jobless rates at multi-years low



PMI manufacturing ticks up in the EU and UK

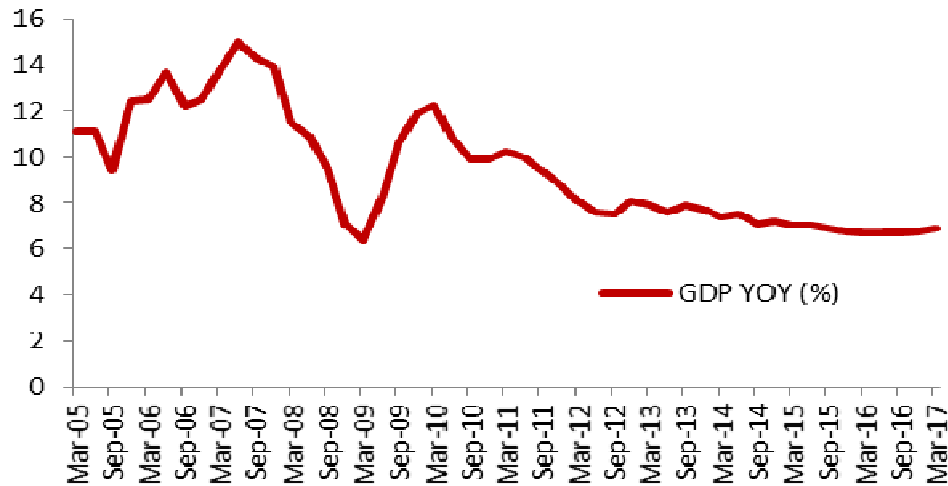


...but services growing more slowly

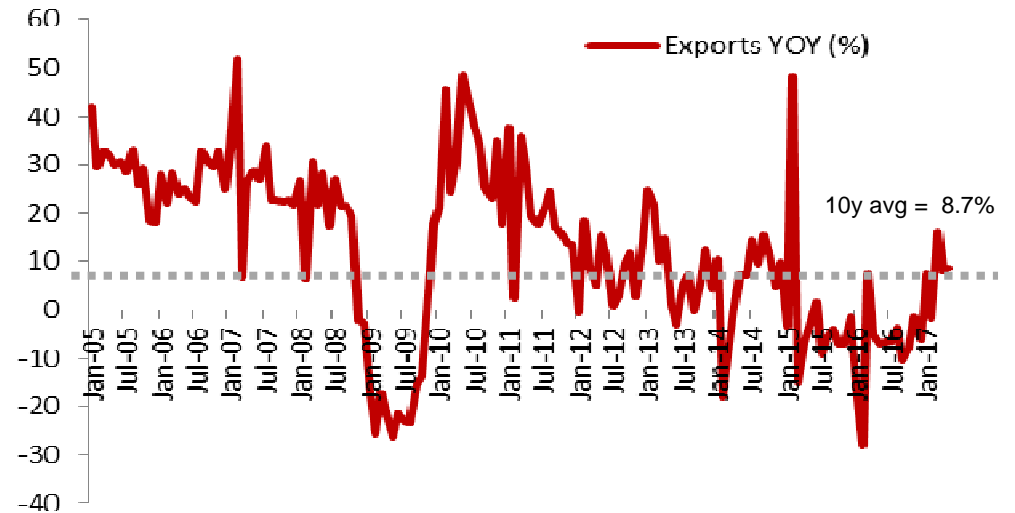


China – Sustained growth in 2Q

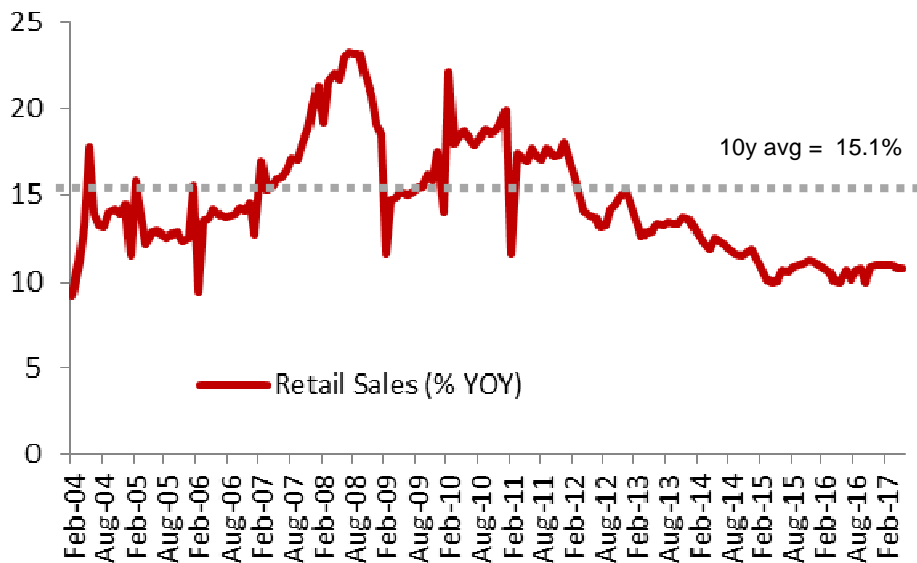
First uptick since 4Q14; growth @ 6.9% in 1Q17



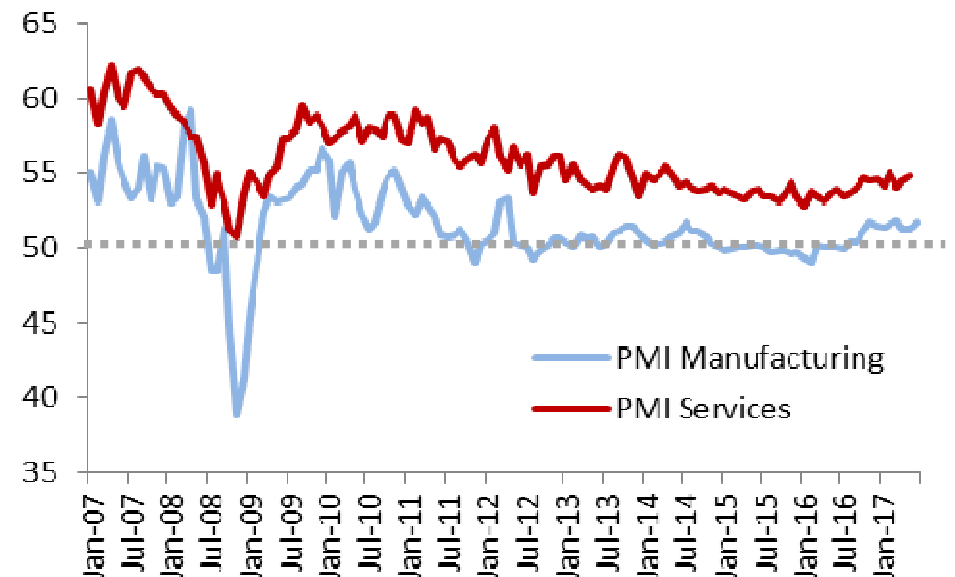
Exports trended up



Retail sales growth continues to hover near 10%

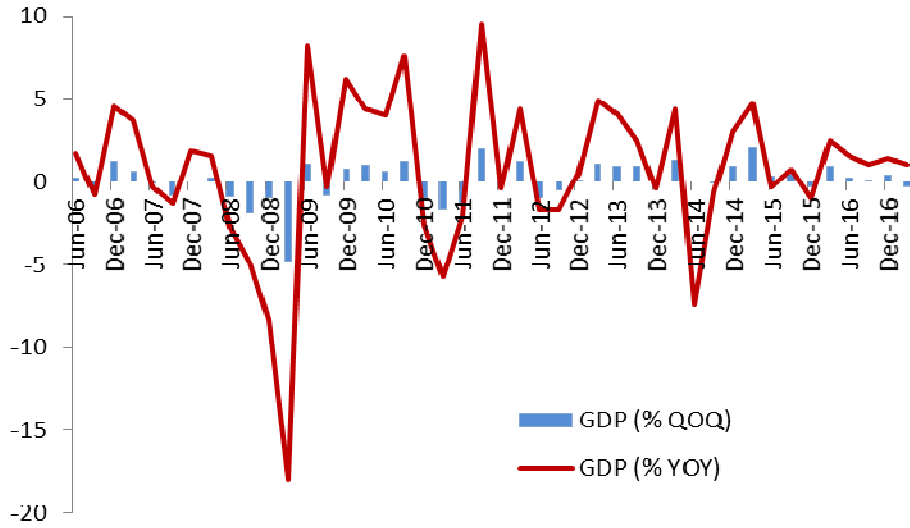


Steady expansions in manufacturing and services



Japan – Earlier improvement proved shortlived

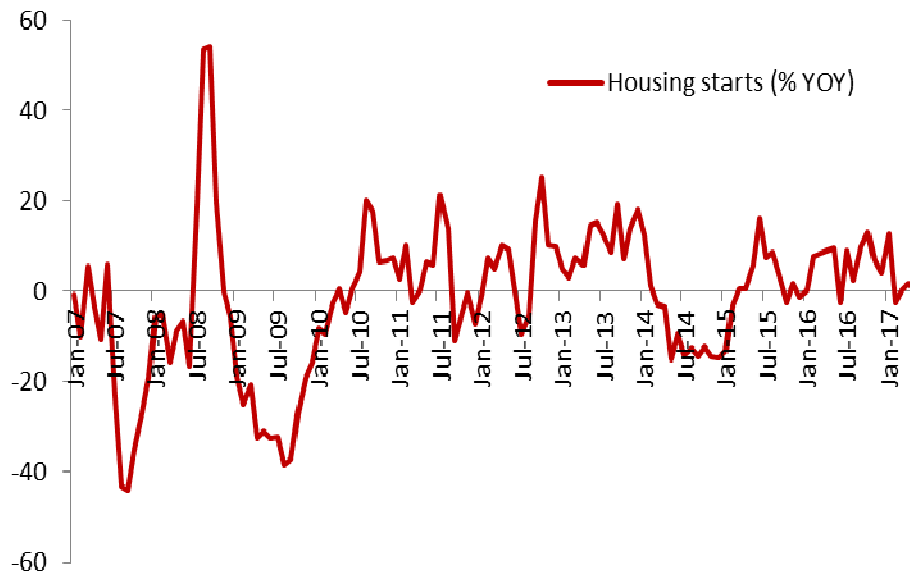
First QOQ contraction since 4Q15



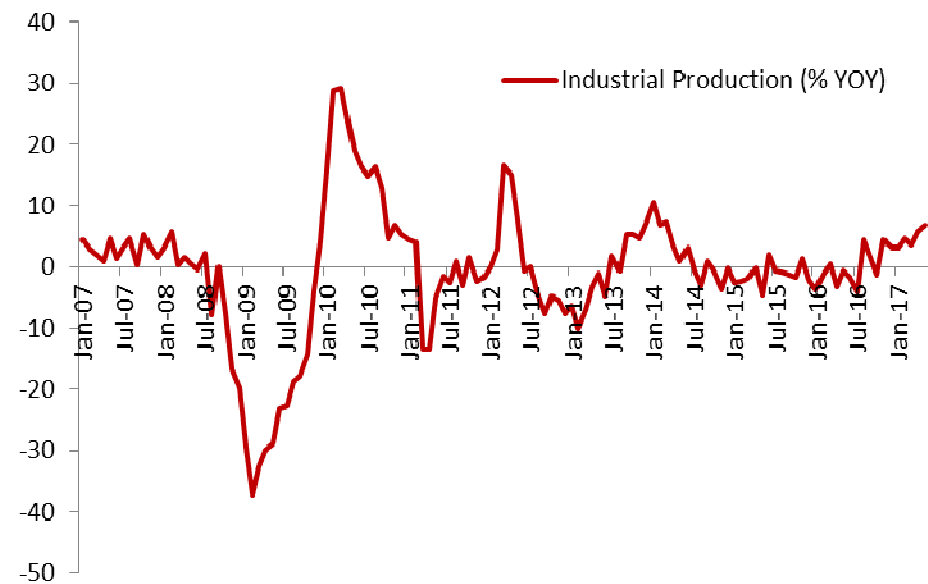
Jobless rate edged higher; hopefully just a blip



Housing starts lost steam again

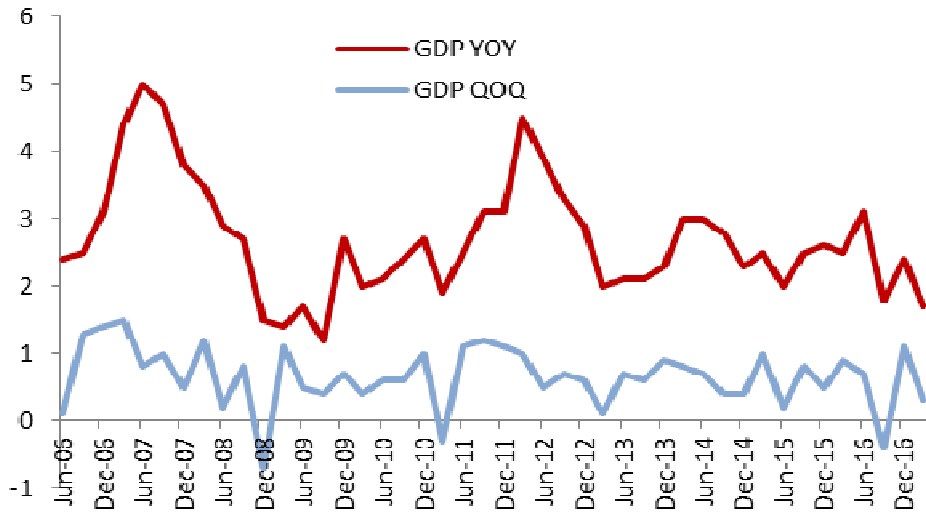


Extended gains in IPI the only bright spot

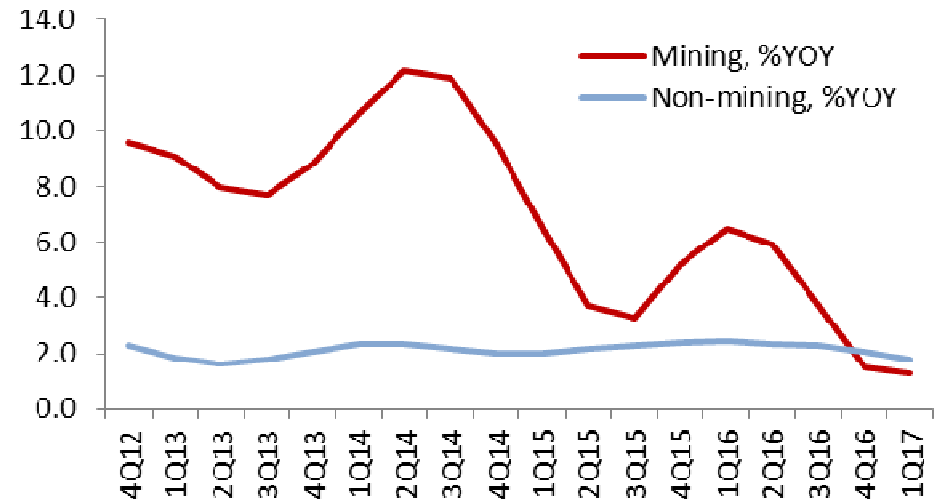


Australia – Growth outlook remains tilted to the soft side

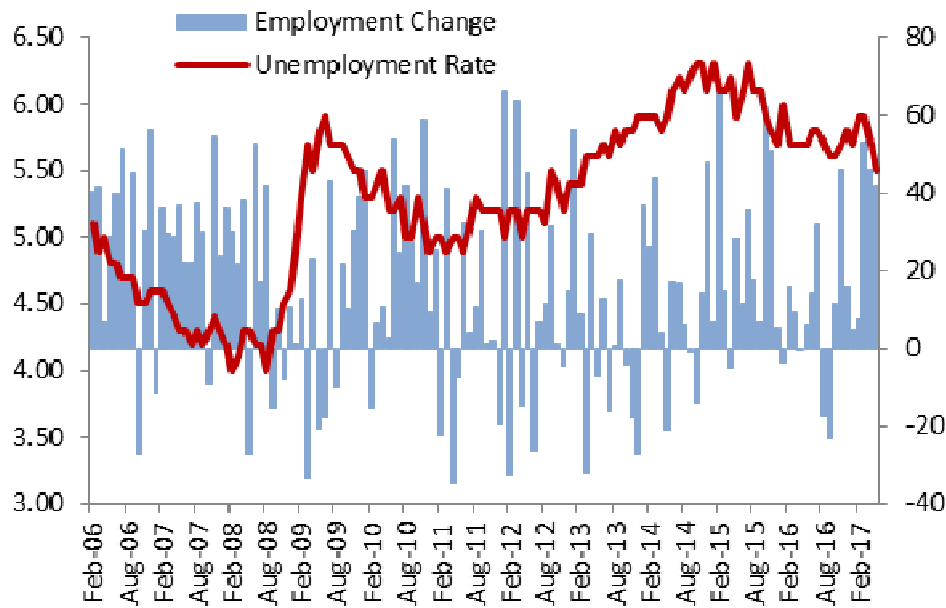
Growth is heading south again



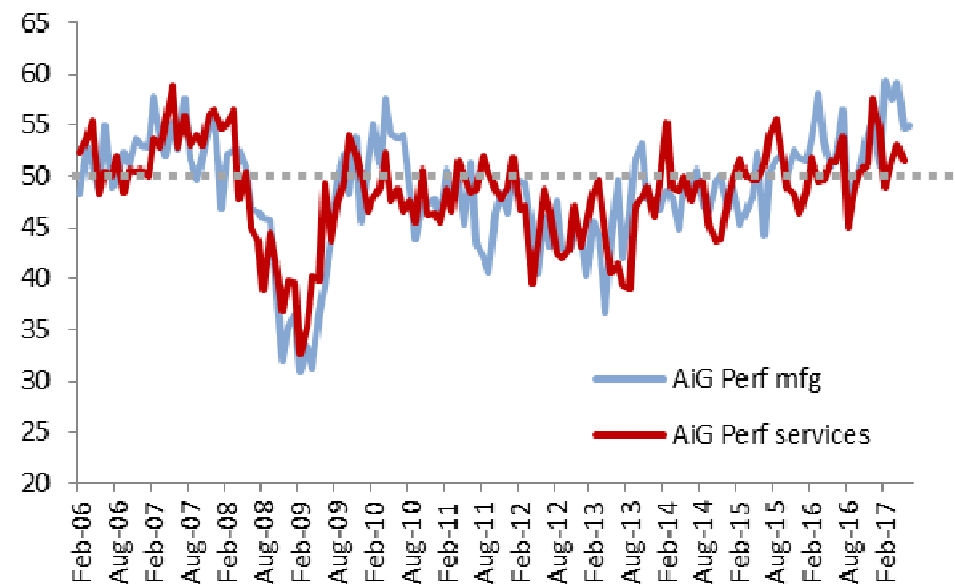
Non-mining growth remains flattish



Improved job market conditions

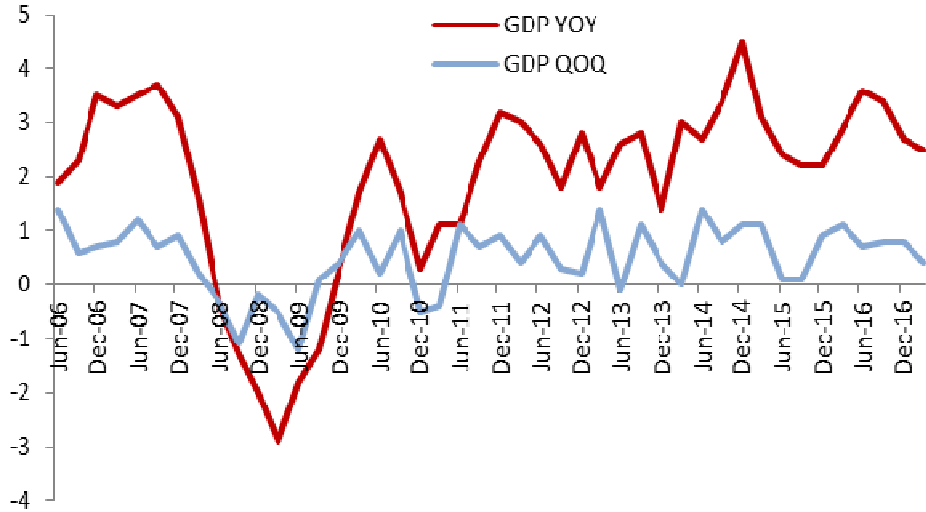


Softer growth in manufacturing and services

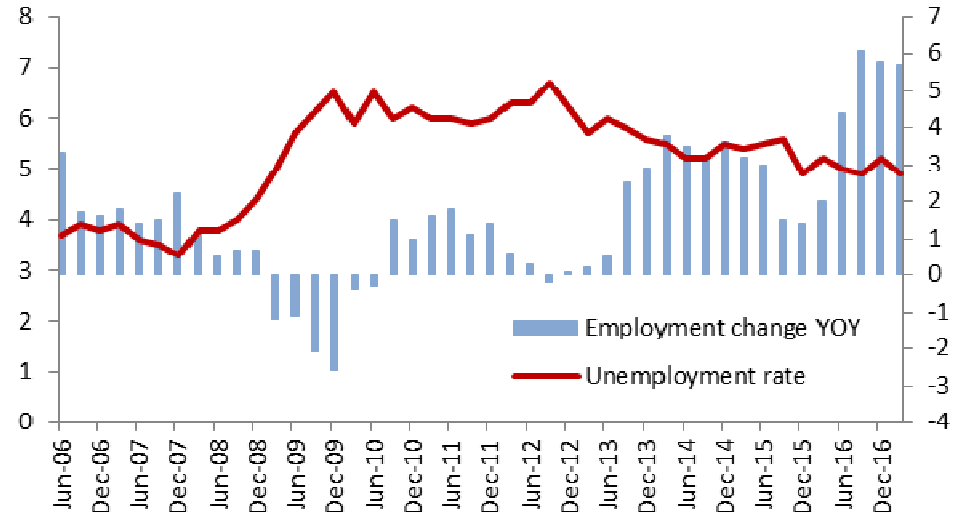


New Zealand – uneven growth

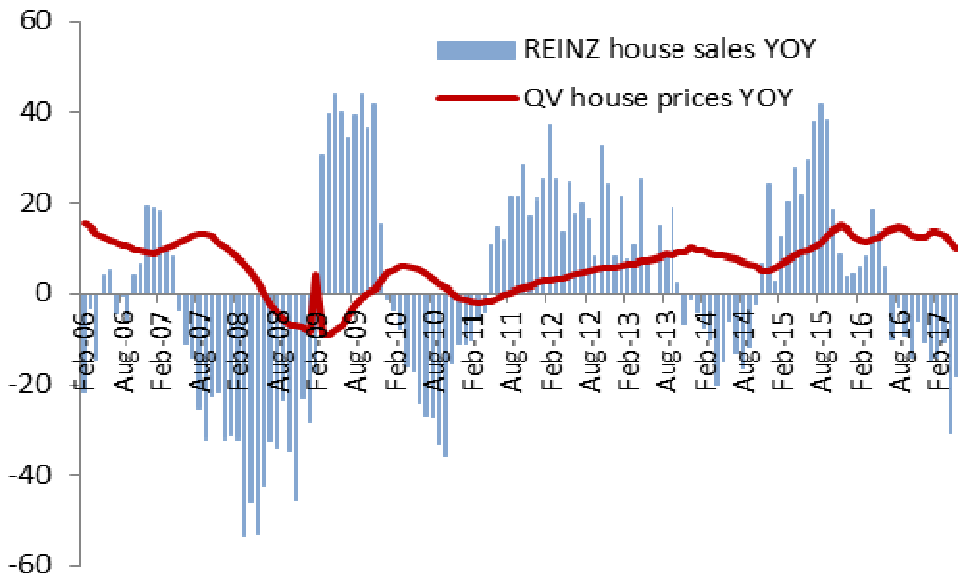
Moderating growth



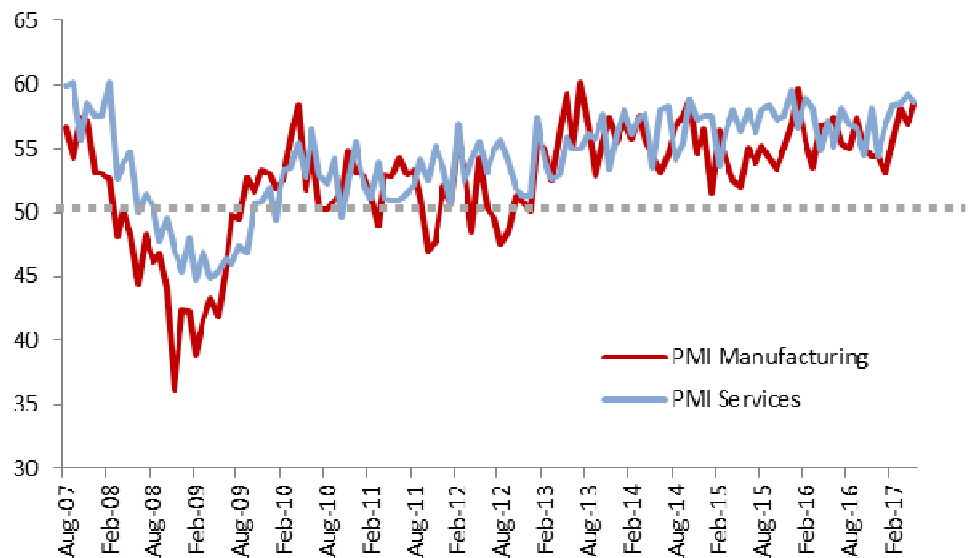
Steady employment condition



Softer home sales and house prices

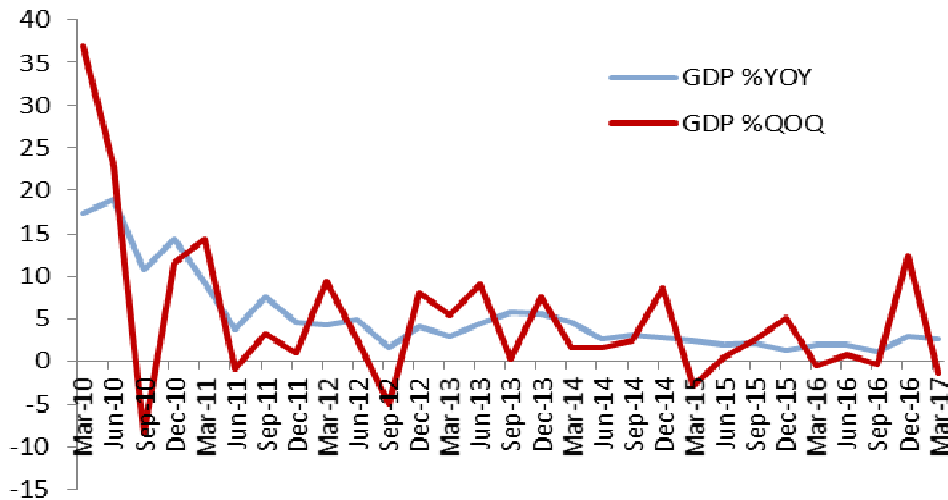


Manufacturing and services stay expansionary

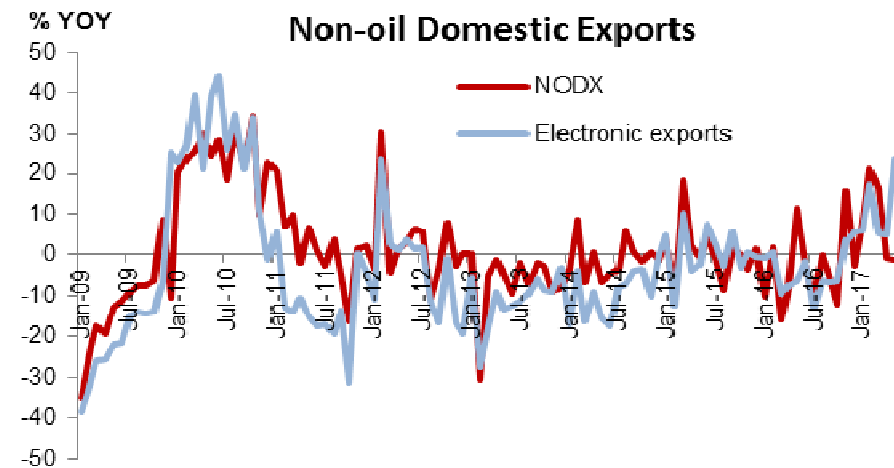


Singapore – modest growth outlook

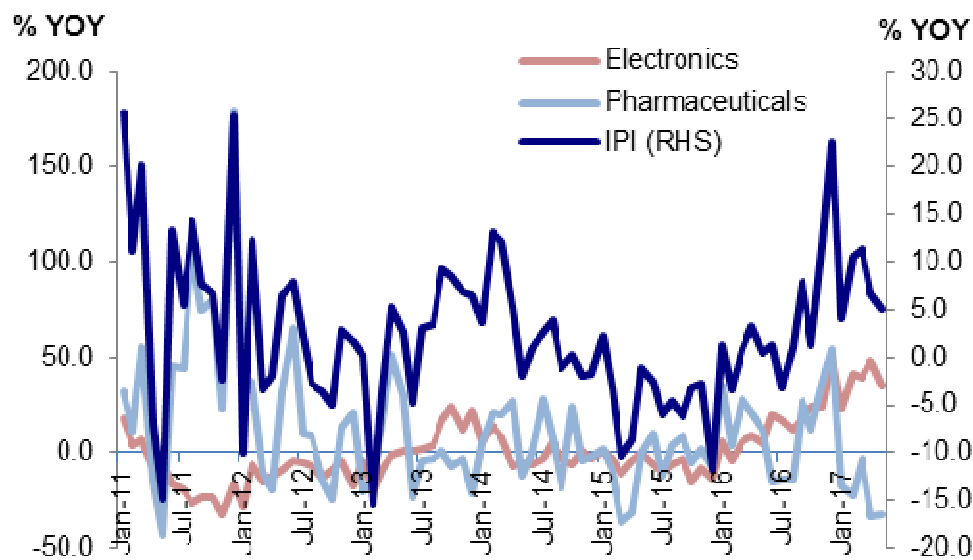
Flattish growth outlook



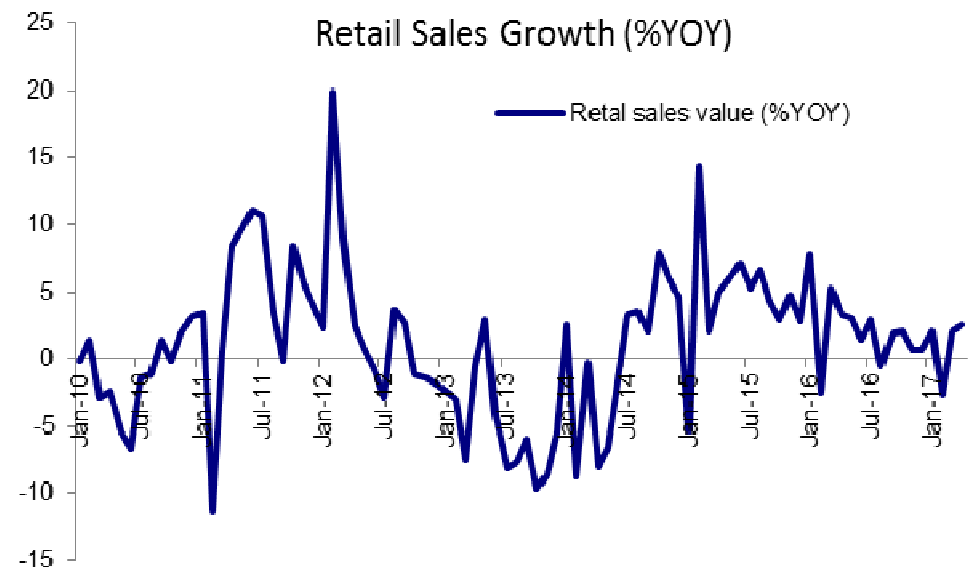
Softer non-electronics exports dragged overall NODX



Broad-based moderation in industrial production

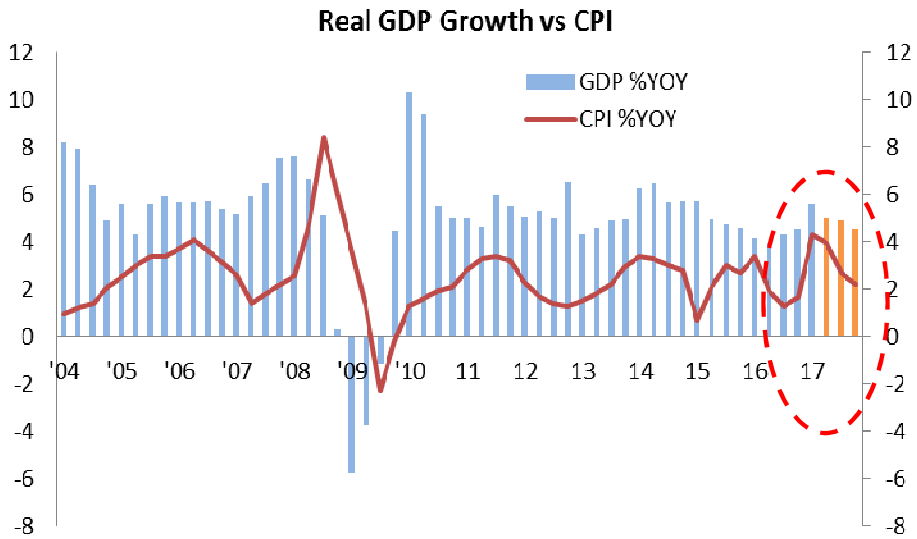


Modest uptick in retail sales

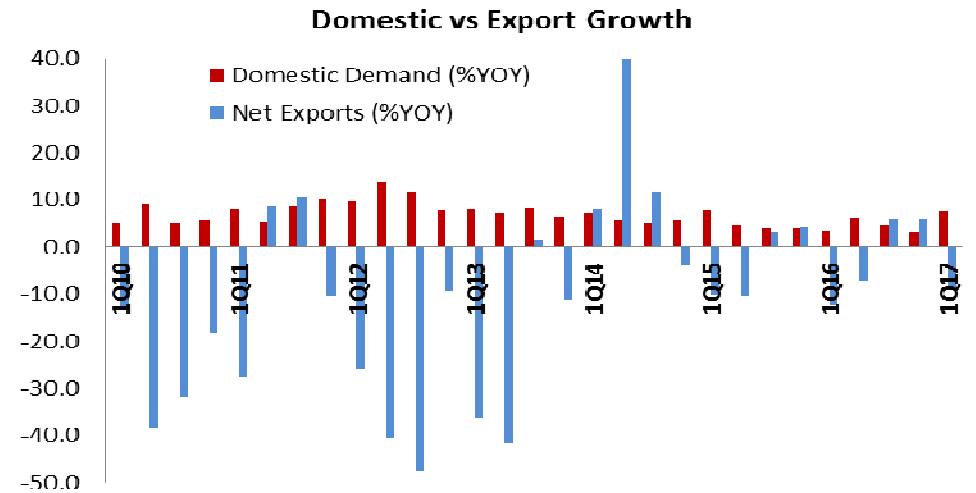


Malaysia – surprisingly upbeat growth

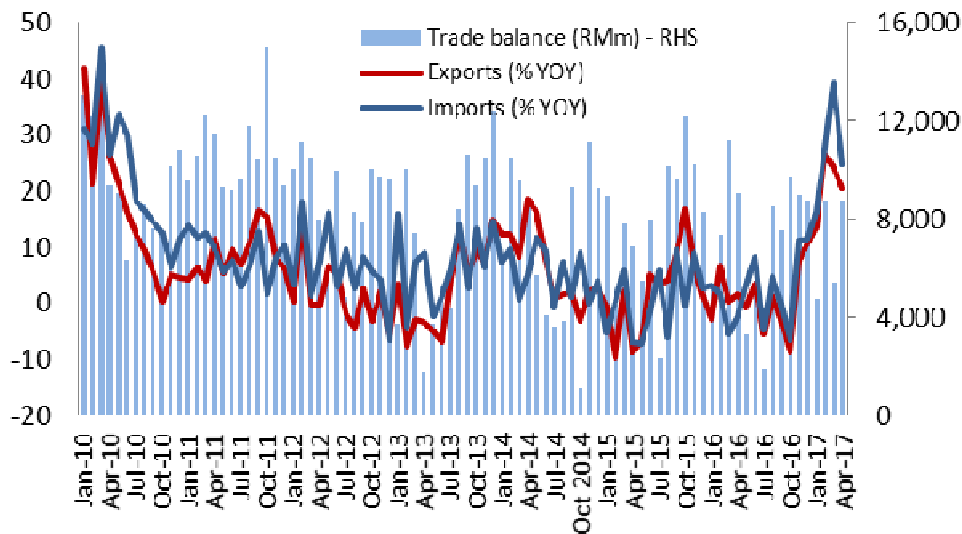
More moderate growth in GDP and inflation ahead



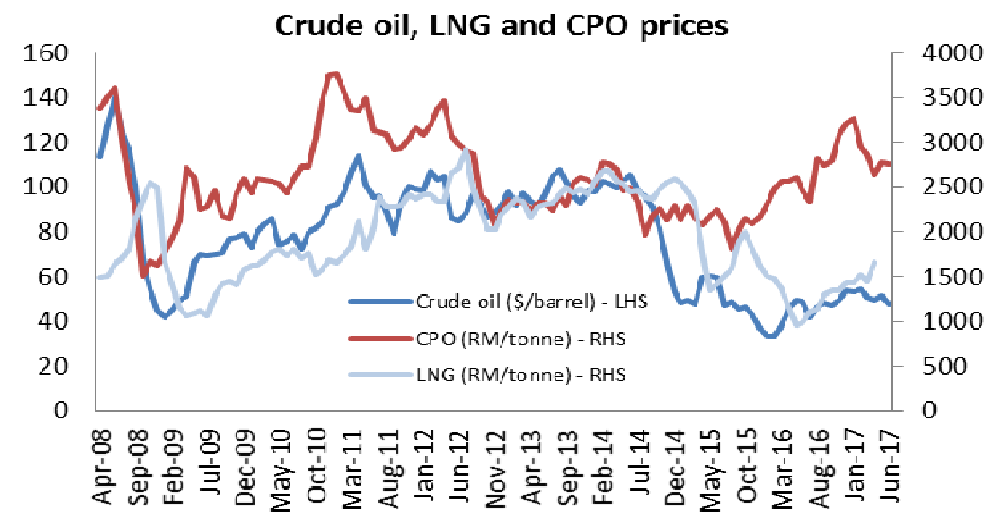
Strong pick-up in domestic demand; offsetting renewed decline in net exports



Exports growth remains elevated tracking global demand



Firm CPO and LNG prices the savior; amid moderating crude oil prices



FX Outlook – 3Q17

Currency	Outlook	Comments
USDMYR	↘	<ul style="list-style-type: none">• Despite anticipation of rebounding USD strength, expect Malaysia's economic growth prospects to support MYR
EURUSD	↘	<ul style="list-style-type: none">• Hawkish ECB outlook to soon fade, weighed down by rebound in USD on Fed policy outlook
GBPUSD	↘	<ul style="list-style-type: none">• Brexit uncertainty and UK political concerns capping GBP
USDJPY	↗	<ul style="list-style-type: none">• Policy divergence between the Fed and BOJ to weigh down JPY
AUDUSD	↘	<ul style="list-style-type: none">• Downside risk from potential slowing demand from China amid credit tightening• Prone to RBA talk-down amid continued resilience
NZDUSD	↘	<ul style="list-style-type: none">• NZD pinned down by receding NZ growth prospects
USDSGD	↗	<ul style="list-style-type: none">• USD rebound on Fed policy outlook to outperform a neutral SGD

Source: Global Markets Research

FX Forecasts

Currency Pair	Close on 30 Jun 17	End 3Q17 closing	End 4Q17 closing	End 1Q18 closing	End 2Q18 closing
EUR/USD	1.1426	1.11 – 1.13	1.10 – 1.12	1.09 – 1.11	1.08 – 1.10
GBP/USD	1.3025	1.27 – 1.29	1.25 – 1.27	1.24 – 1.26	1.24 – 1.26
USD/JPY	112.39	112 – 114	112 – 114	113 – 115	113 - 115
AUD/USD	0.7689	0.73 – 0.75	0.72 – 0.74	0.71 – 0.73	0.70 – 0.72
NZD/USD	0.7333	0.70 – 0.72	0.68 – 0.70	0.67 – 0.69	0.66 – 0.68
USD/SGD	1.3762	1.38 – 1.40	1.39 – 1.41	1.40 – 1.42	1.41 – 1.43
USD/MYR	4.2933	4.27 – 4.29	4.32 – 4.34	4.36 – 4.38	4.38 – 4.40
EUR/MYR	4.8983	4.78 – 4.80	4.79 – 4.81	4.80 – 4.82	4.80 – 4.82
GBP/MYR	5.5775	5.47 – 5.49	5.46 – 5.48	5.45 – 5.47	5.45 – 5.47
AUD/MYR	3.2996	3.16 – 3.18	3.15 – 3.17	3.15 – 3.17	3.14 – 3.16
SGD/MYR	3.1193	3.07 – 3.09	3.08 – 3.10	3.08 – 3.10	3.09 – 3.11

Source: Global Markets Research

FX Technical Analysis

USDMYR: Prone to higher levels in the short-term but anticipating rejection at either 4.3094 or 4.3180 to tilt USDMYR back to a bearish mode. Otherwise, USDMYR will take aim at 4.3459.

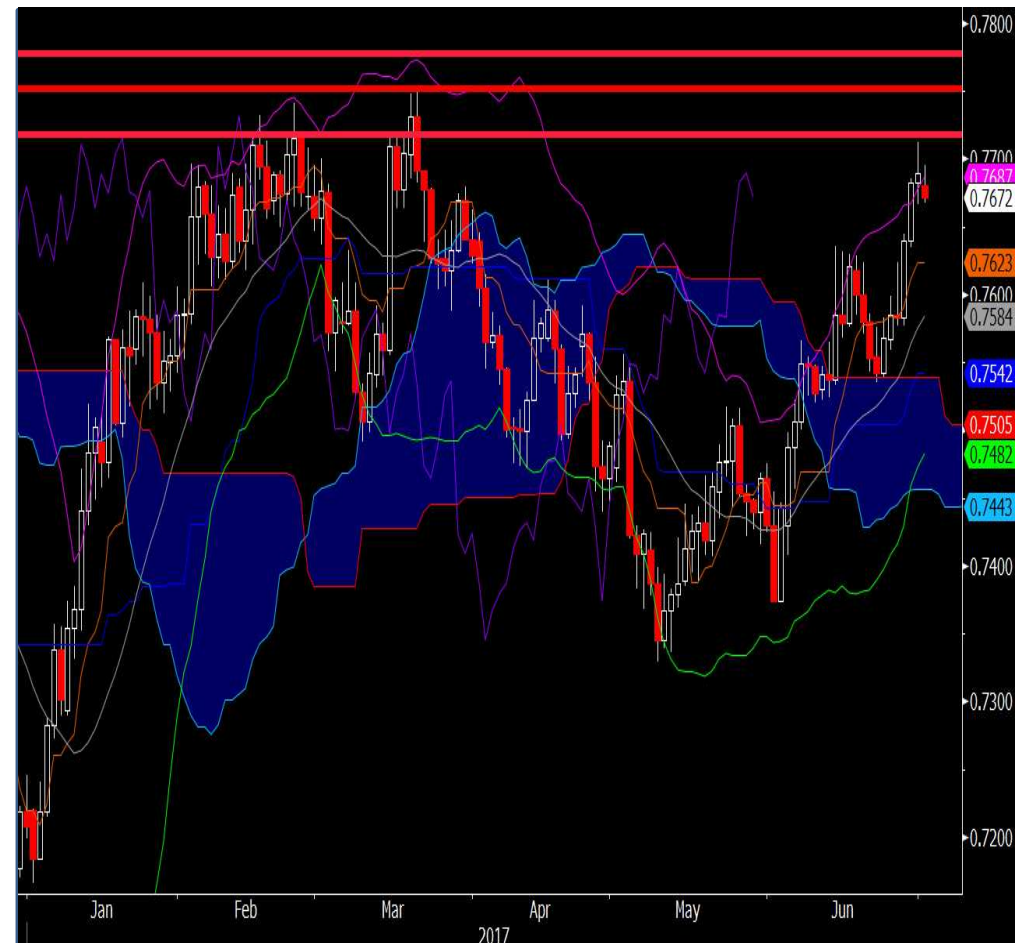
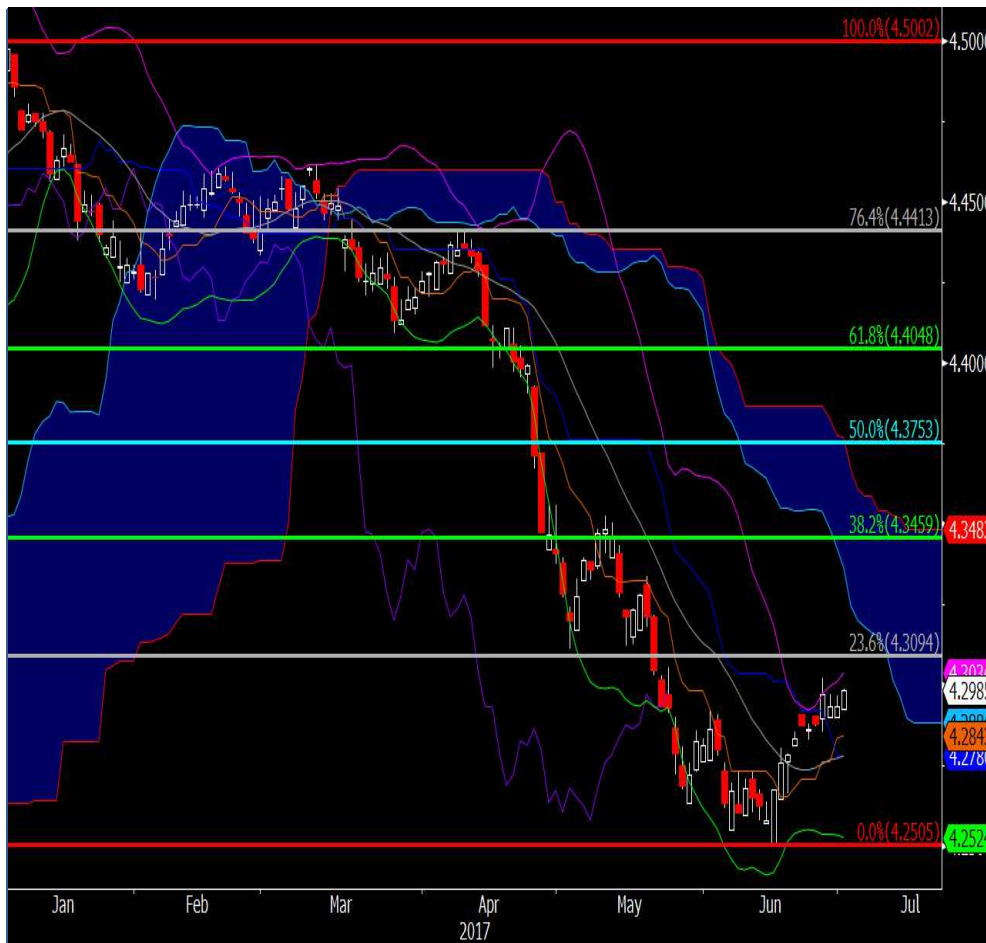
Resistances: 4.3094, 4.3180, 4.3273

Supports: 4.2915, 4.2855, 4.2760

AUDUSD: Caution failure-prone levels, 0.7719, 0.7750 and 0.7778. Historical price-action suggests breaches possible but sustained upsides thereafter highly unlikely. Caution on rejections approaching these levels.

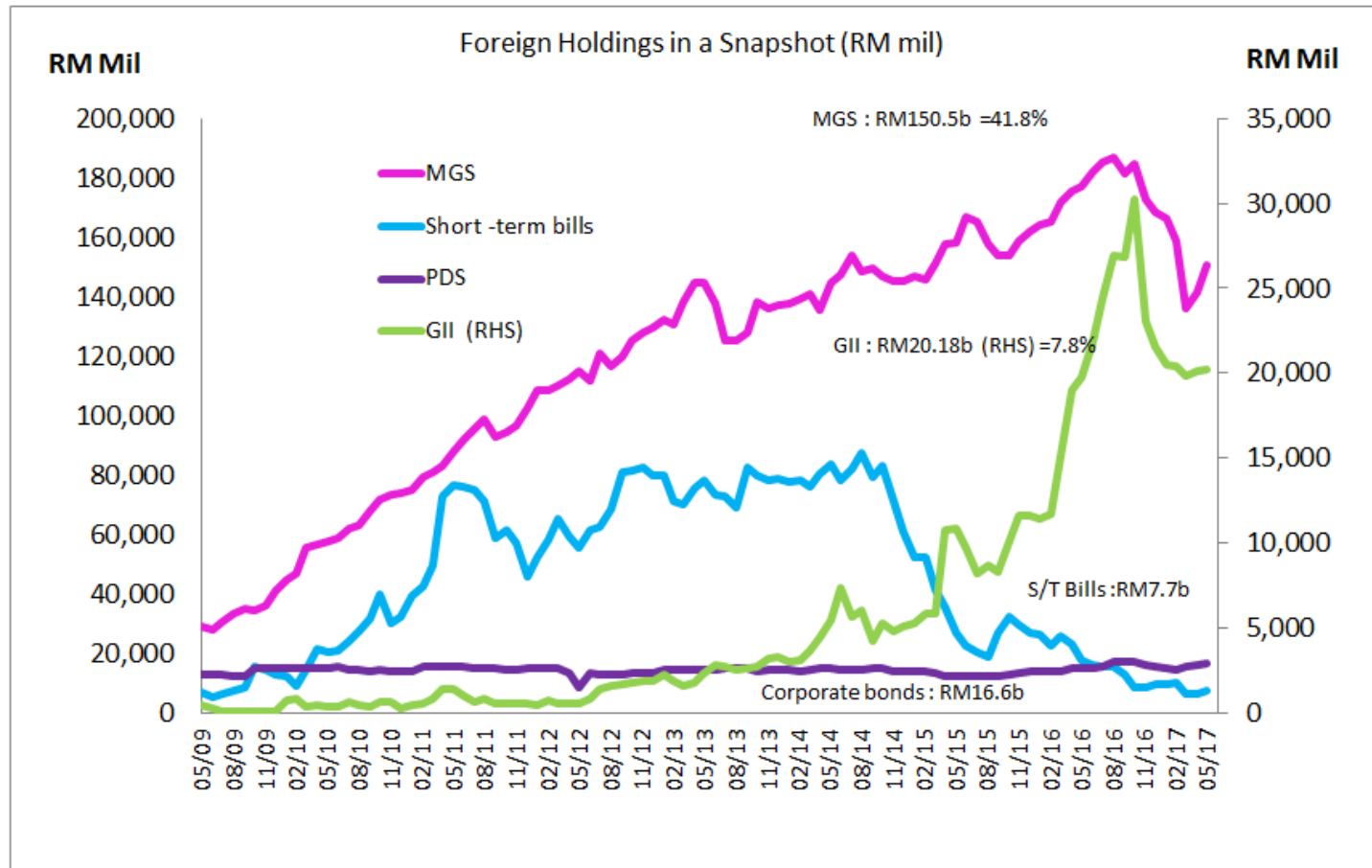
Resistances: 0.7719, 0.7750, 0.7778

Supports: 0.7600, 0.7588, 0.7556



Source: Bloomberg, Global Markets Research

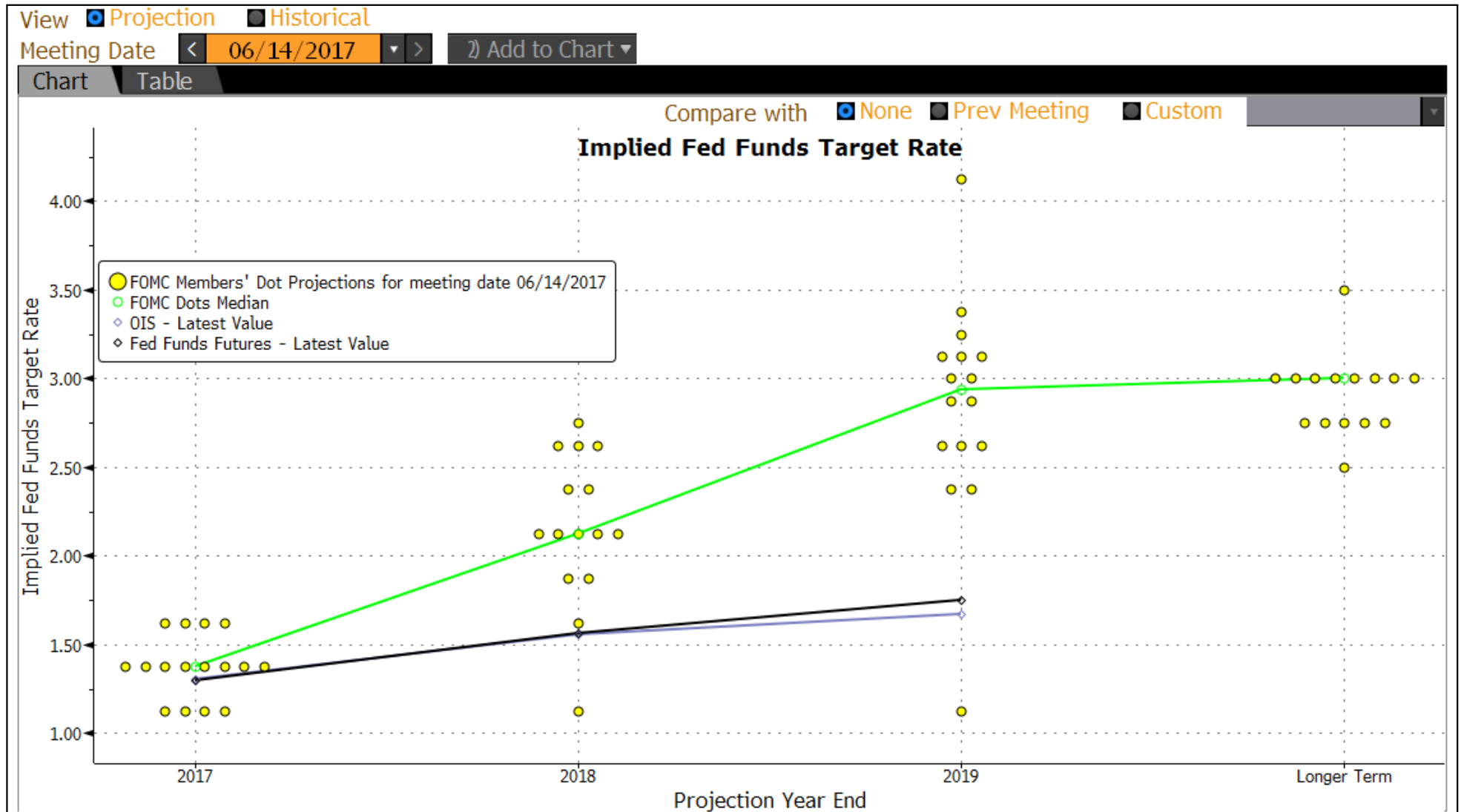
Foreign holdings of MYR government bonds - net inflows continuing for the 2nd consecutive month in May



Source : BNM, Bloomberg, HLB Global Markets Research

Foreign holdings of MYR government bonds continue to mirror positive momentum with a 2nd consecutive month of net positive bond inflow (post March 2017) with +RM10b worth of increase after April's +RM6.7b gain. Measures introduced by the Financial Market Committee have renewed catalyst for MYR bonds. MGS gained +RM8.9b bringing latest level to RM150.5b (41.8%) versus April's level : RM141.6b. Percentage wise, foreign ownership of MYR government bonds climbed higher to 26.3% (MGS/GII/SPK) versus April's 25.3%.

2 Fed rate hikes completed in March and June. Fed dot plot suggest one more rate hike for the remaining months of 2017



Source :Bloomberg

Prospects of Sep 2017 emerging as possible window for the Fed to start tapering

	Announcement Date	Time	Rate (%)	For	Against	Policy Concern
1)	February 2	03:00	0.5 - 0.75	10	0	Balanced
2)	March 16	02:00	0.75 - 1	9	1	Balanced
3)	May 4	02:00	0.75 - 1	9	0	Roughly Balanced
4)	June 15	02:00	1 - 1.25	8	1	Balanced
5)	July 27	02:00	--	--	--	--
6)	September 21	02:00	--	--	--	--
7)	November 2	02:00	--	--	--	--
8)	December 14	03:00	--	--	--	--

Source :Bloomberg

Pace of tapering to begin with \$6b for UST and \$4b for MBS. Adjusted every 3 months with increments of \$6b and \$4b for UST and MBS respectively. Pace of tapering will be capped when increments reaches \$30b and \$20b for UST and MBS. Monthly combined reductions of \$50b for both UST/MBS until the Fed's balance sheet is reduced from \$4.5 trillion to targeted level of \$2- \$3 trillion. Expected completion date for Fed tapering, end 2021.

Fixed Income Outlook

Country	6M Views		Comments/ Outlook
US	Maturity Preference		<p><u>Sovereigns</u></p> <p>UST yield curve may shift upwards. We expect pace of short-end rates to move faster than long-end amid still benign inflation outlook. Fed policy normalization continuity with one more round of Fed hike projected for the remaining of 2017. Fed's balance sheet reduction may exert upward pressure for bond yields. Gradual approach to Fed tapering, starting with reduction of \$6b for UST, \$4b for MBS. Fed has yet to announce timeline for its tapering plans, although September is seen as possible window. (capped increase by \$6b and \$4b for UST and MBS, adjusted every 3 months until pace reaches \$30b and \$20b on a monthly basis. Expected reduction of Fed balance sheet size from \$4.5 trillion to \$2trn-\$3trn post completion of balanced sheet reduction. 10-year UST may edged higher to 2.50%-2.60% by end 2017 from current 2.30%-2.35% level.</p> <p><u>Corporate</u></p> <p>Primary issuance momentum for corporate bonds remained fluid, with issuers still rushing to price corporate bond issuance as rates are still pretty much ranged-bound despite 2 hikes concluded. We expect issuers to front load issuance plans given that US interest rate environment remains conducive for capital raising activities. New primary pipelines in the offing include OLAM perpetual NC 5-year, with initial price guidance of 5.75%, Ping An Bank with proposed \$1b print, Mitsubishi Corp with a potential 3-year and 5-year print. In the sovereign space, Indonesia plans to issue a sovereign EUR/USD print, and is currently conducting a fixed income roadshow to meet up with prospective investors.</p>
	Duration neutral		
	Policy Rate	Yield Curve	
	<p>Fed officials maintaining view on rate normalization continuity. 2 rounds of 25bps Fed hike increase for both March and June. Fed dot plot suggest one more hike bringing total 3 hikes for full year of 2017.</p>	<p>Yield curve may shift upwards. Short-end rates to move higher faster than long-end amid still benign inflation outlook. Oil price drifting back to below \$50/barrel at time of writing</p>	

Fixed Income Outlook

Country	6M Views		Comments/ Outlook
Singapore	Maturity Preference		<p><u>Sovereigns</u></p> <p>SGS yield curve to mirror slight volatility tracking upwardly movement in UST yields. On a related note, support for SGS yields to head south may emerge on the back of retreat in oil price which appears to be correcting lower on the back of supply pressure. 10-year yields have started to back up higher to hover at 2.10% - 2.12% level at time of writing but retreating oil price may be seen as a wildcard for bond yields to moderate lower. Expect investors to stay vigilant with prospects of selective bargain hunting as excessive upward movement in yields to attract value-hunters.</p> <p><u>Corporate</u></p> <p>Primary issuance print for the SGD corporate bonds space remains fluid. We saw notable prints completed for the month of June, circa SGD2b. Primary prints include SGD180m issued by National University of Singapore, SGD723m via a perpetual print by HSBC (first call date June 2022, NC5) as well as SemCorp 3-year SGD143m and Wing Tai 5-year SGD108m. Range-bound SGS levels may prompt further capital raising initiatives for companies, as we expect funding cost to potentially emerge more expensive next year on the back of higher global rates environment, potentially infusing upward pressure for SGS yields going forward.</p>
	Duration neutral		
	Policy Rate	Yield Curve	
	Expect monetary policy direction to remain on accommodative stance as supporting growth remains the key agenda	Expect SGS curve to mirror upward biasness tracking upward pressure seen in UST yields.	



Country	6M Views		Comments/ Outlook
Malaysia	Maturity Preference		<u>Sovereigns</u> Despite looming risks of Fed normalization, the MYR sovereign curve remains supported by onshore real money investors. Higher relative yields have attracted some bargain hunting interest. Going forward, investors are expected to stay vigilant, watching closely developments in the US on the back of looming tapering measures and interest rate normalization continuity. 7-year space and 15-year still seen as significant kinks which may attract interest from value-hunters. <u>Corporate</u> Corporate bonds/sukuk picked up to reach RM57b issued, versus our expected gross supply of RM80b in 2017. Momentum driven by government-guaranteed issuance. (circa 71% versus estimated gross supply target). Trading activities for corporate bonds meanwhile remained thin on the back of scarcity supply of primary AA, generally offering some level of yield pickup. We expect trading activities to skew towards the GG/AAA space given the increased primary supply of GG papers. Investors continue to look out for credit diversification opportunities as well as rotational flows into more project financing (toll roads/power sector related names) and financial related credits on the back of improving macro outlook.
	Duration neutral		
	Policy Rate	Yield Curve	
OPR to stay unchanged at 3.00% in 2017, inflation although higher from 2016, is cost push and is poised to taper off from current level.	Expect range-bound trading for MYR govies although we expect emerging risks of higher yields, influenced by Fed rate normalization and tapering plans, with ECB potentially joining the Fed in reducing bond buying activities.		

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