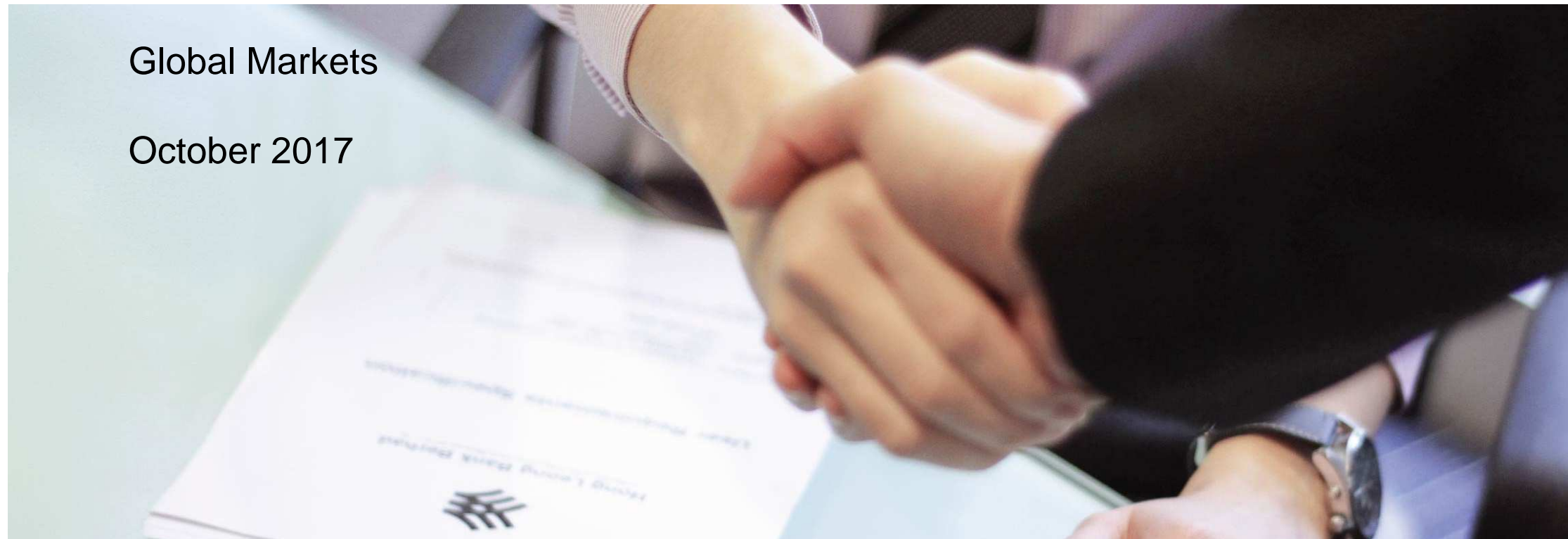


Quarterly Market Outlook 4Q2017

Global Markets

October 2017



- Macro Landscape
- FX Outlook
- Fixed Income Outlook

Global Growth Outlook

Real GDP (% YOY)	Latest 2 Quarters		Actual	Forecast		Forecast (official)	
	1Q17	2Q17		2016	2017	2018	2017
World	-	-	3.1	3.3 (3.3)	3.5 (3.5)	3.5 (3.5)	3.6 (3.6)
DM/ G10	1.8	2.6	1.7	2.2 (2.0)	2.1 (2.0)	-	-
US	2.0	2.2	1.5	2.2 (2.2)	2.3 (2.3)	2.4 (2.2)	2.1 (2.1)
Eurozone	2.0	2.3	1.8	2.1 (1.9)	1.8 (1.6)	2.2 (1.9)	1.8 (1.8)
UK	2.0	1.7	1.8	1.5 (1.6)	1.3 (1.3)	1.7 (1.9)	1.6 (1.7)
Japan	1.3	1.3	1.0	1.3 (1.3)	1.0 (1.0)	1.8 (1.6)	1.4 (1.3)
BRICs	5.4	5.4	5.1	5.3 (5.4)	5.5 (5.5)	-	-
China	6.9	6.9	6.7	6.7 (6.6)	6.3 (6.3)	6.5	6.4
India	6.1	5.7	8.0	7.3[^] (7.1)	7.6[^] (7.3)	7.0	7.4
Asia ex-Japan	6.0	6.0	6.0	5.9 (5.9)	5.8 (5.8)	-	-
EMEA	2.9	3.3	1.6	2.7 (2.5)	2.7 (2.6)	-	-
Latam	0.2	1.0	-1.2	1.1 (1.2)	2.4 (2.3)	-	-

Source: Bloomberg, official sources

Figures in () are previous forecasts; [^]FY ending Mar-18 and Mar-19 respectively

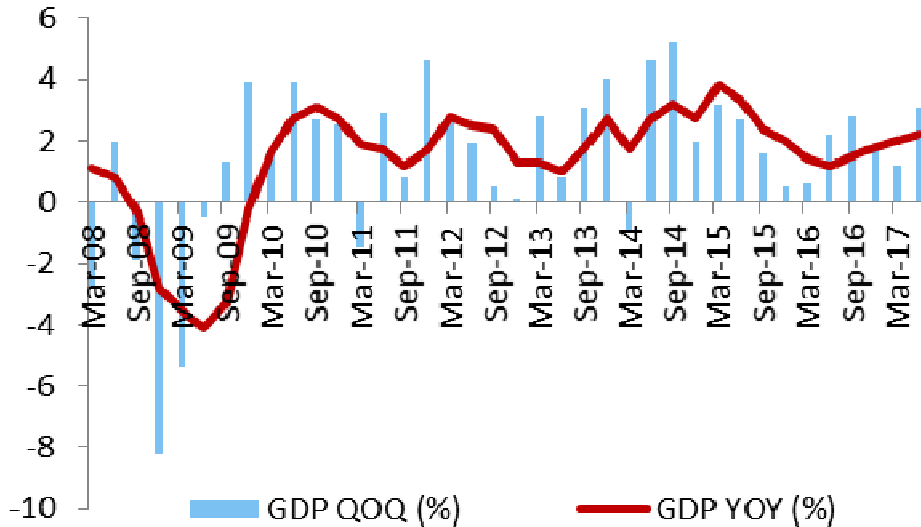
Central Bank Policy Rate Outlook

	Current	4Q17	1Q18	2Q18	3Q18	4Q18
USA	1.00-1.25	1.25-1.50	1.25-1.50	1.25-1.50	1.50-1.75	1.75-2.00
Europe	0.00	0.00	0.00	0.00	0.25	0.25
UK	0.25	0.25	0.25	0.25	0.25	0.25
Japan	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
Australia	1.50	1.50	1.50	1.50	1.50	1.50
New Zealand	1.75	1.75	1.75	1.75	1.75	1.75
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00
Thailand	1.50	1.50	1.50	1.50	1.50	1.50
Indonesia	4.25	4.25	4.25	4.25	4.25	4.25
Philippines	3.00	3.00	3.00	3.00	3.00	3.00

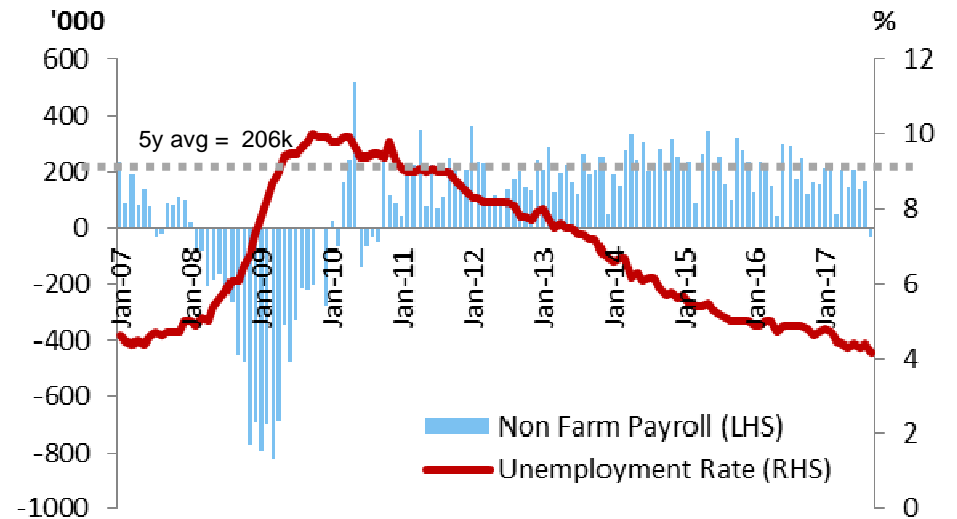
Source: Bloomberg, Global Markets Research

The US – Moderate growth outlook

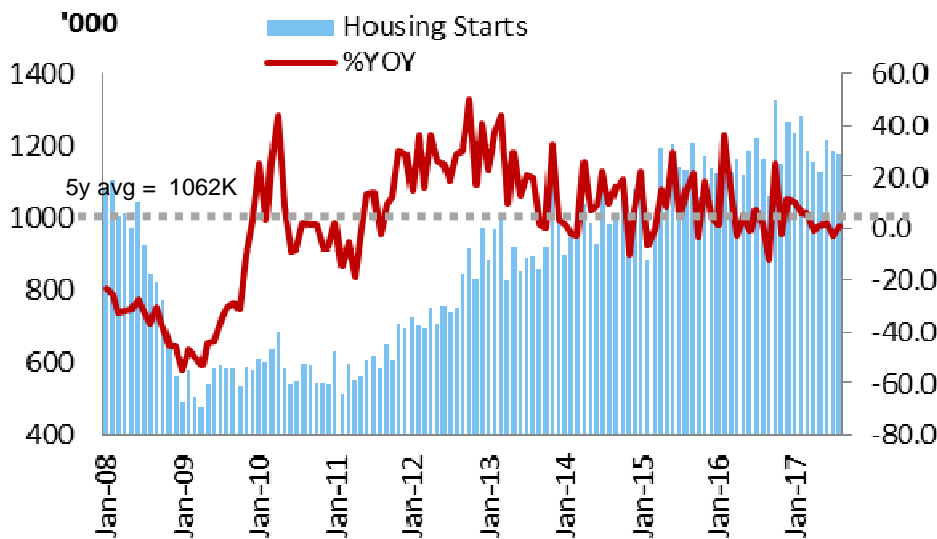
Growth to taper off from 2Q's 2-year high



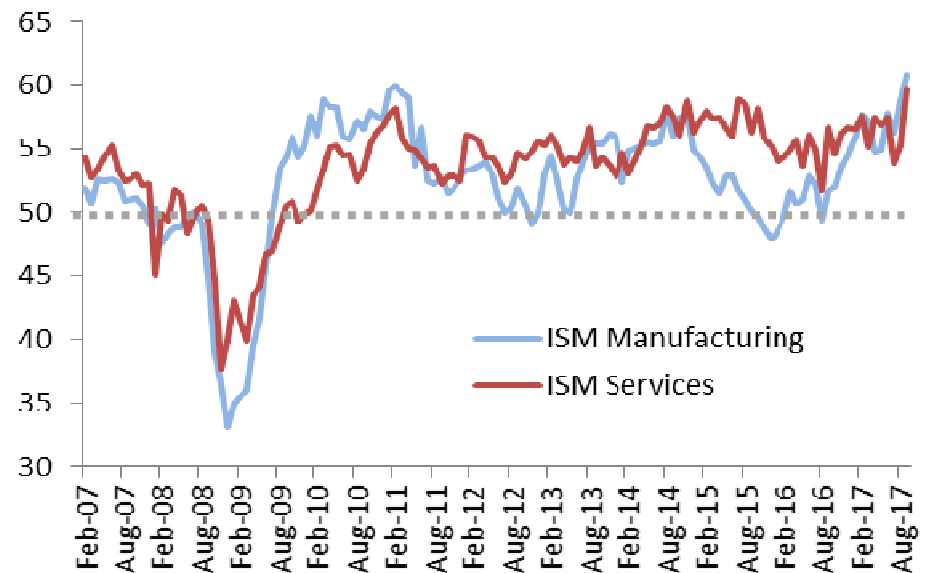
Storm-inflicted job losses likely just a blip



Added signs of a softening housing market

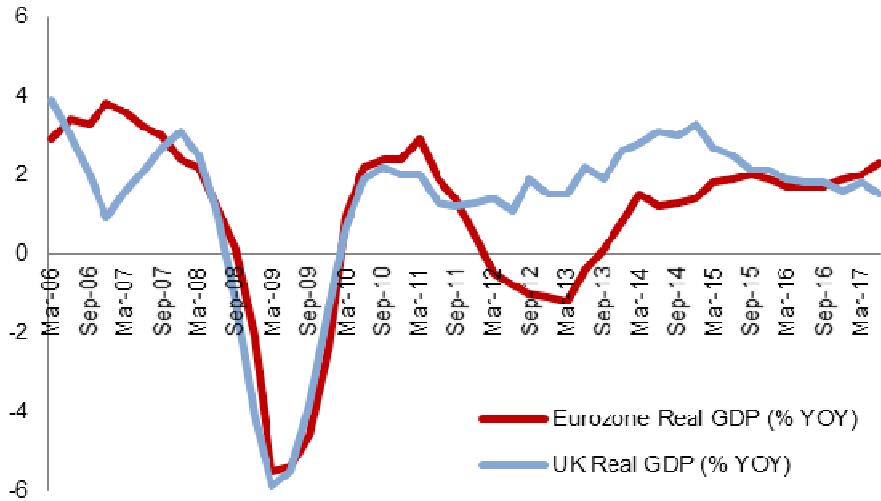


Sharp pick-ups in manufacturing and services

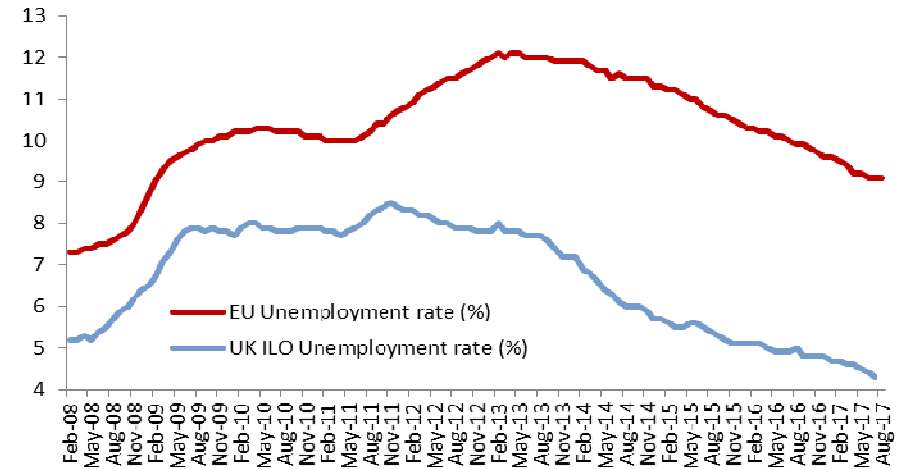


EU and UK – Continuous divergence between EU and UK

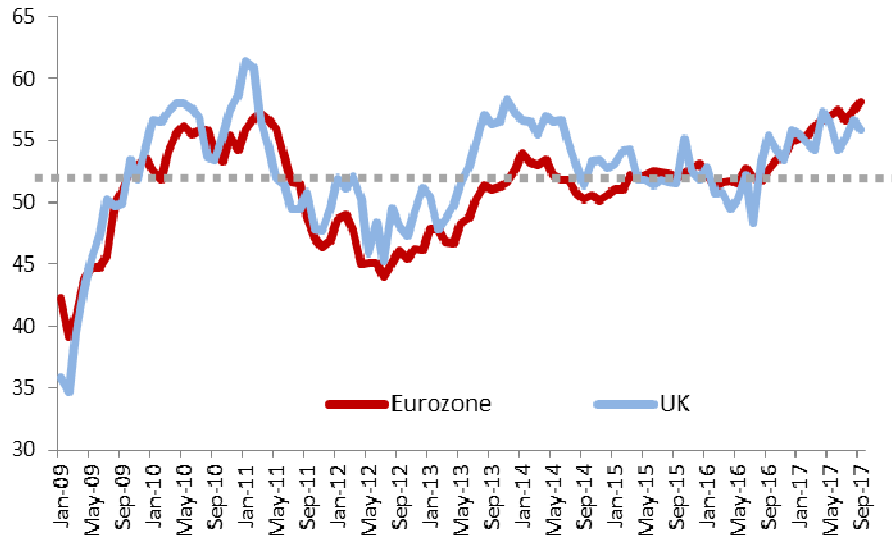
Notable divergence between the EU and UK



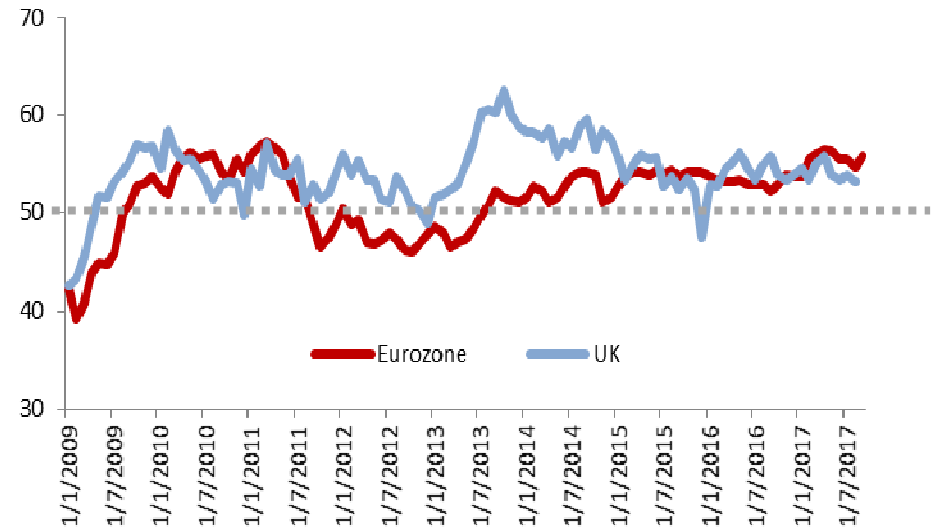
Jobless rates continue to head towards fresh multi-years low



PMI manufacturing stays on a firm upward trajectory in EU; softening in the UK

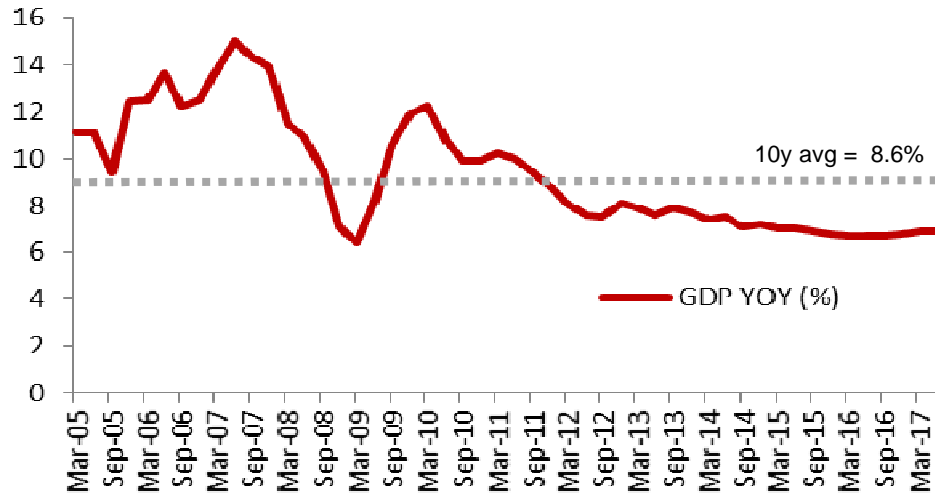


...similar traction in services

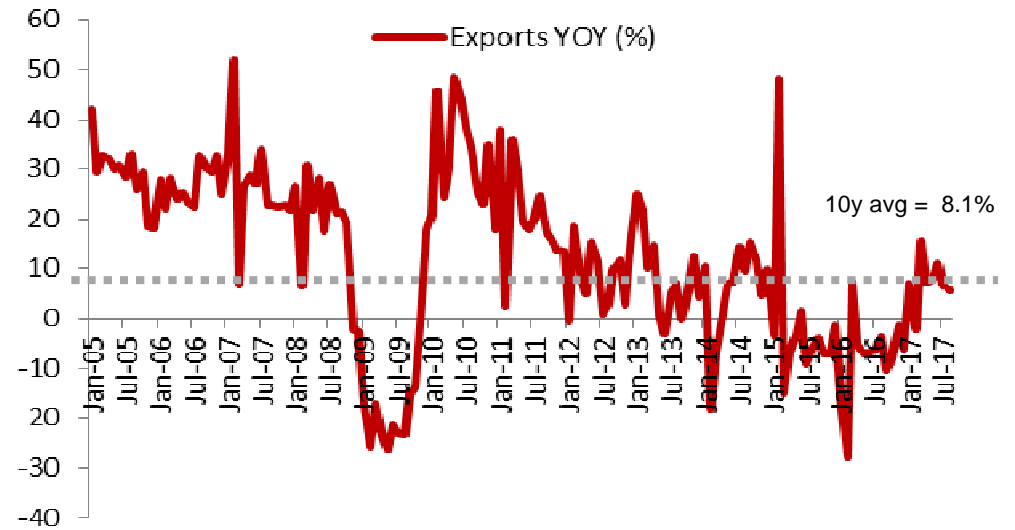


China – Resilient 1H paves the way for sustained growth in 2017

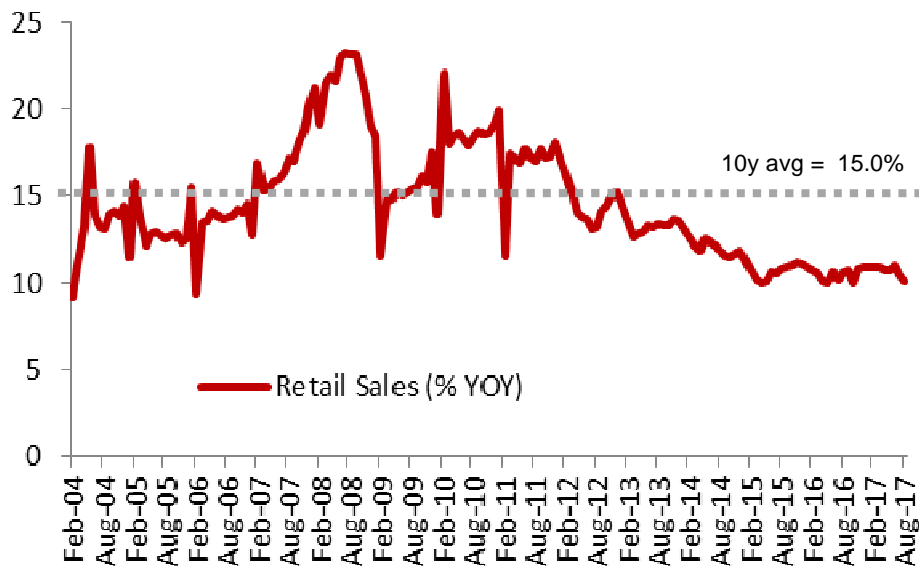
Resilient growth of 6.9% in 1H will help keep full year growth near/ above 2016's 6.7%



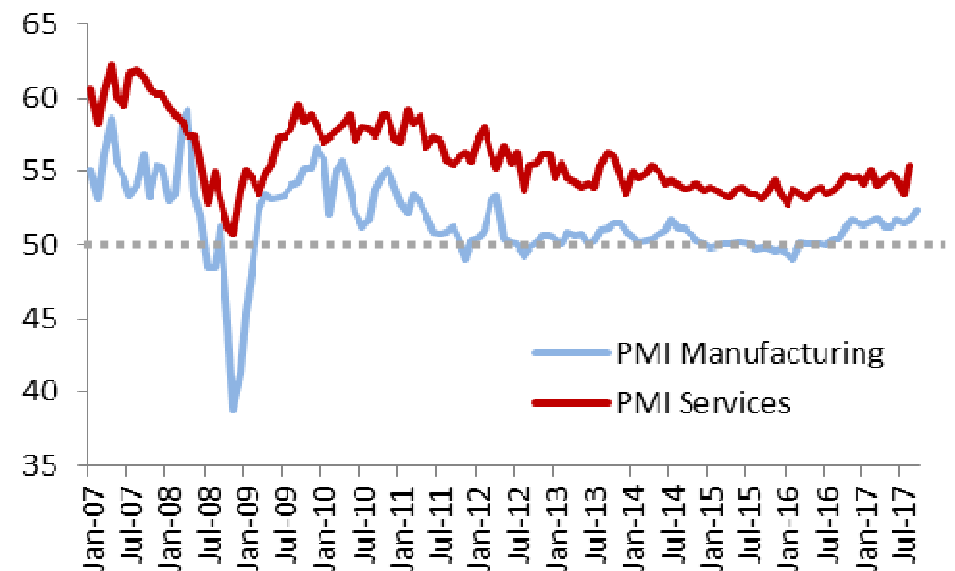
Rebound in exports is losing steam



Retail sales growth continues to hover near 10%

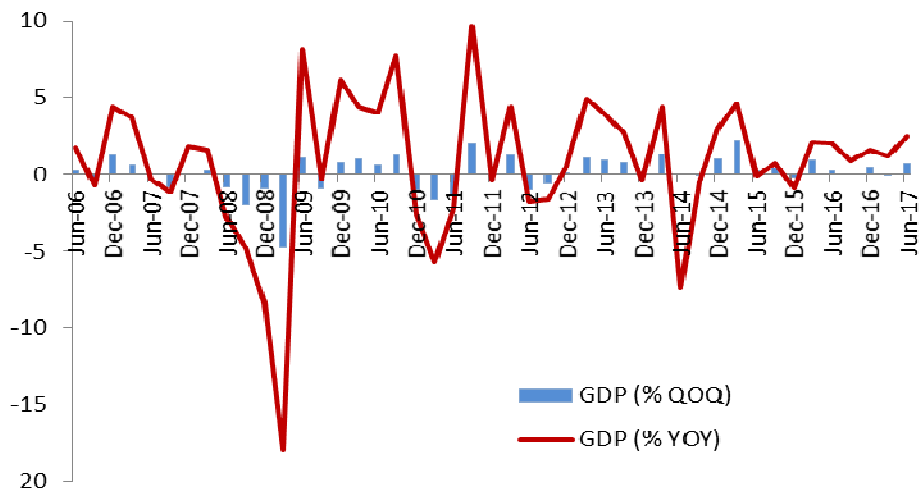


Gradual upticks in manufacturing and services



Japan – Sustainability of 2Q momentum in doubt

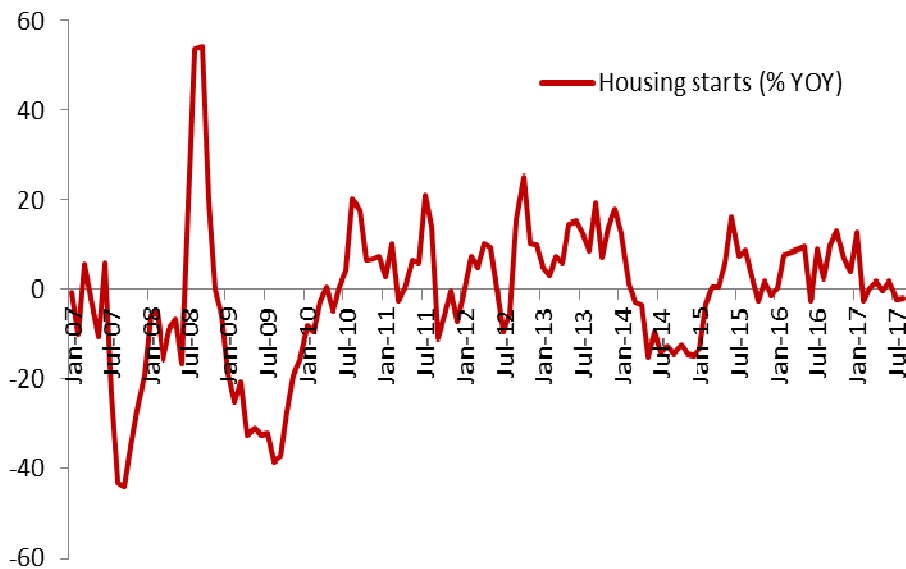
Hefty rebound in 2Q helped Japan avoid a technical recession



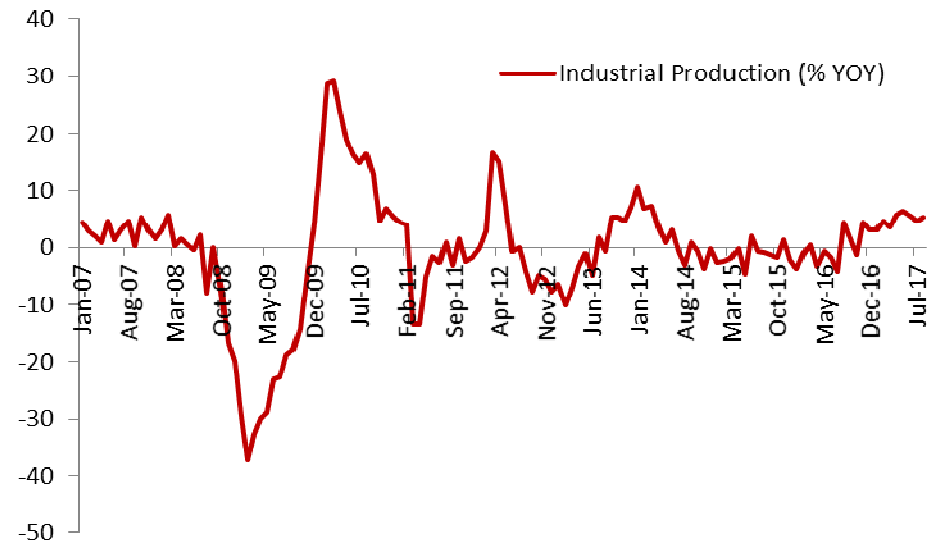
Jobless rate is heading south again after the brief spike in May



Housing starts remains in the doldrum

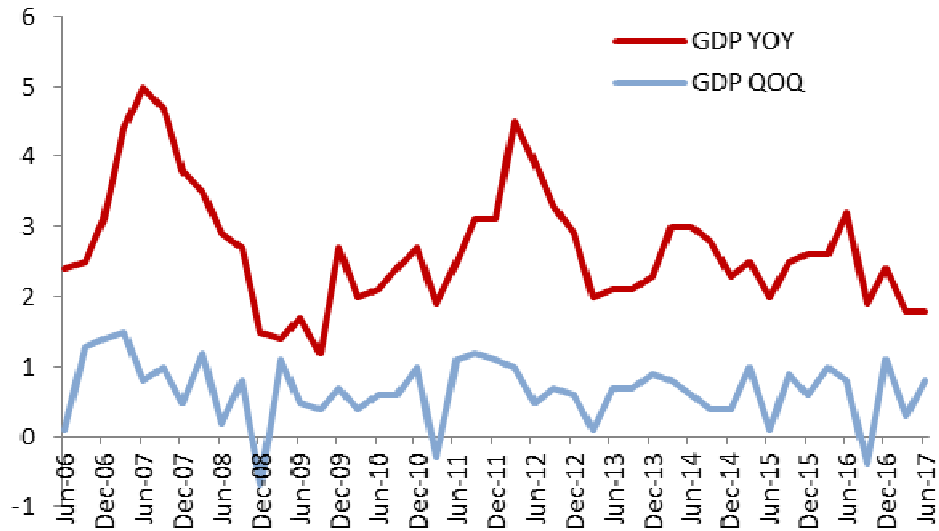


Extended gains in IPI tracking improving global demand

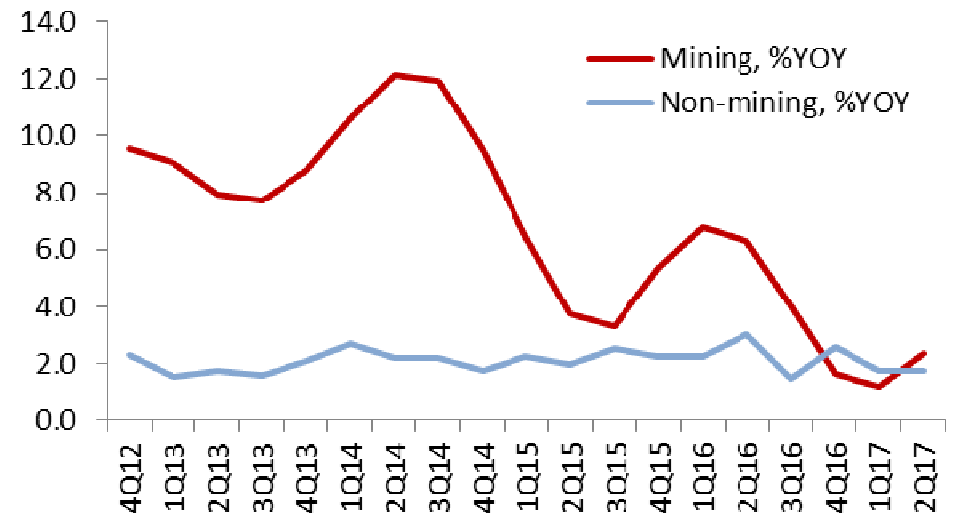


Australia – Subdued growth outlook

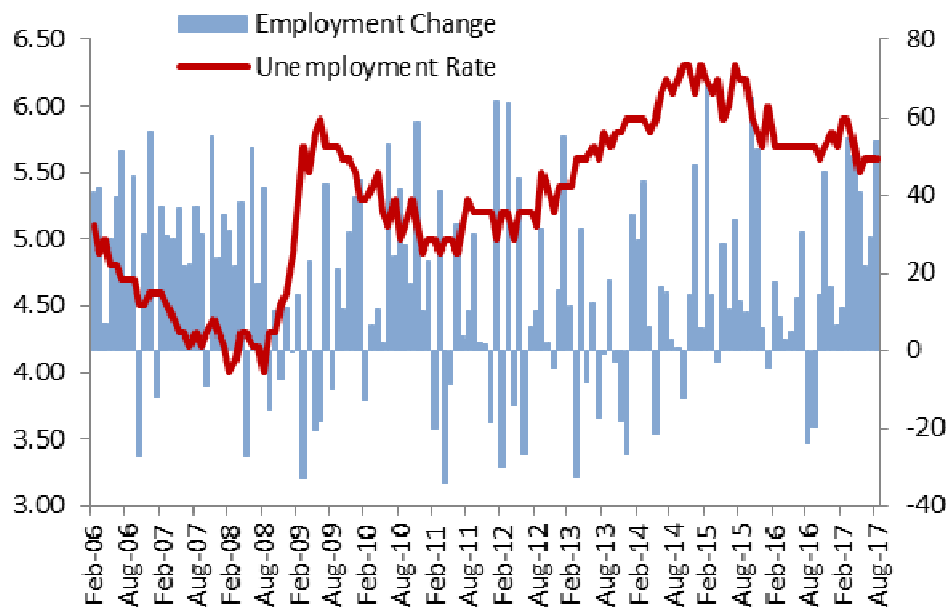
Growth remains soft



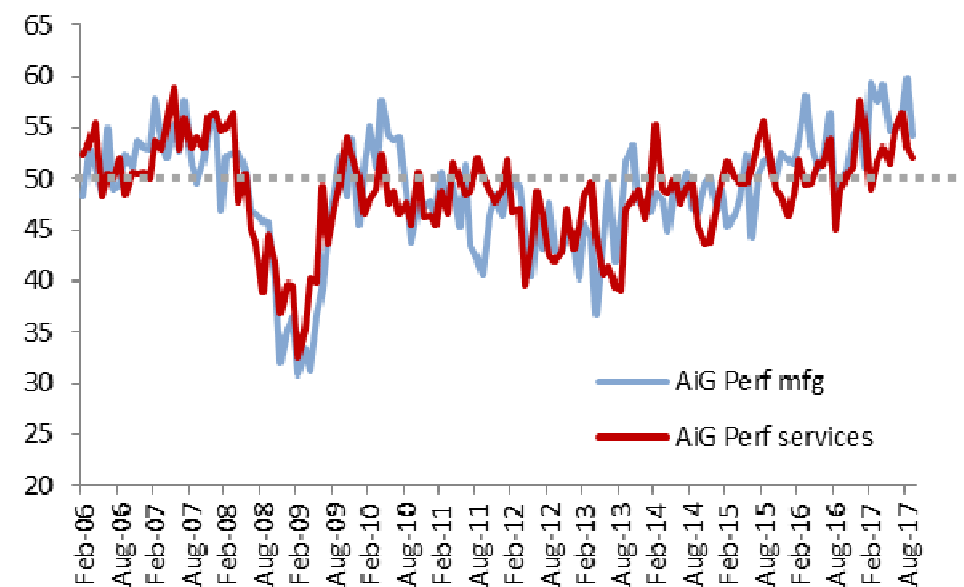
Non-mining growth remains flattish



Steadier job market

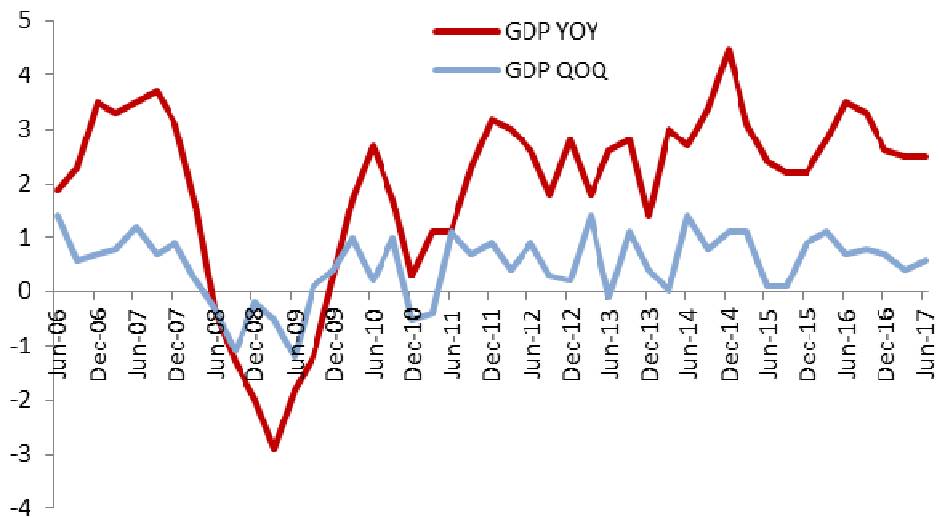


Softer growth in manufacturing and services

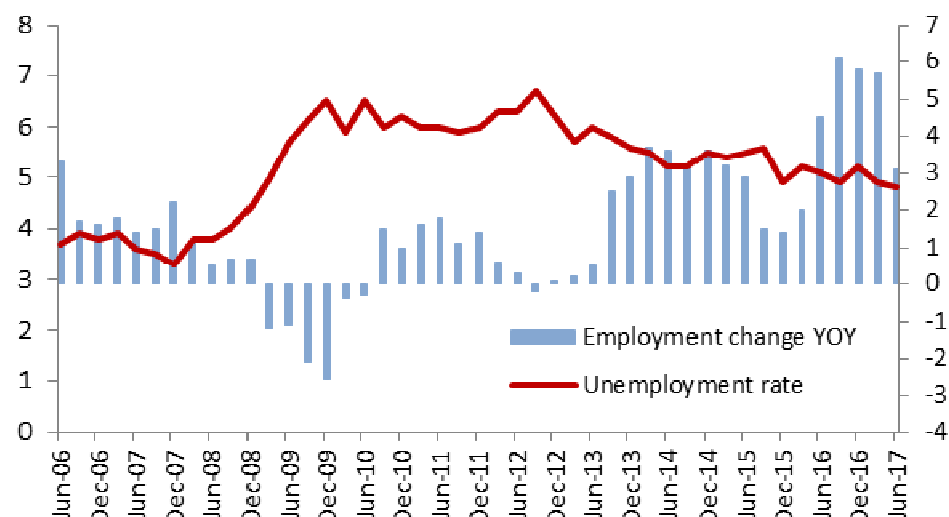


New Zealand – Still patchy

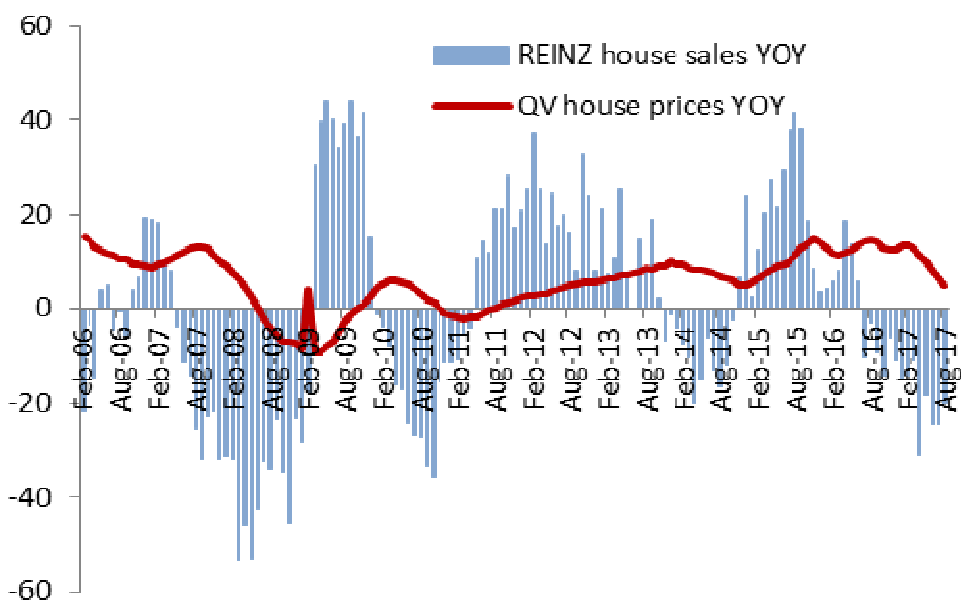
Growth is holding up



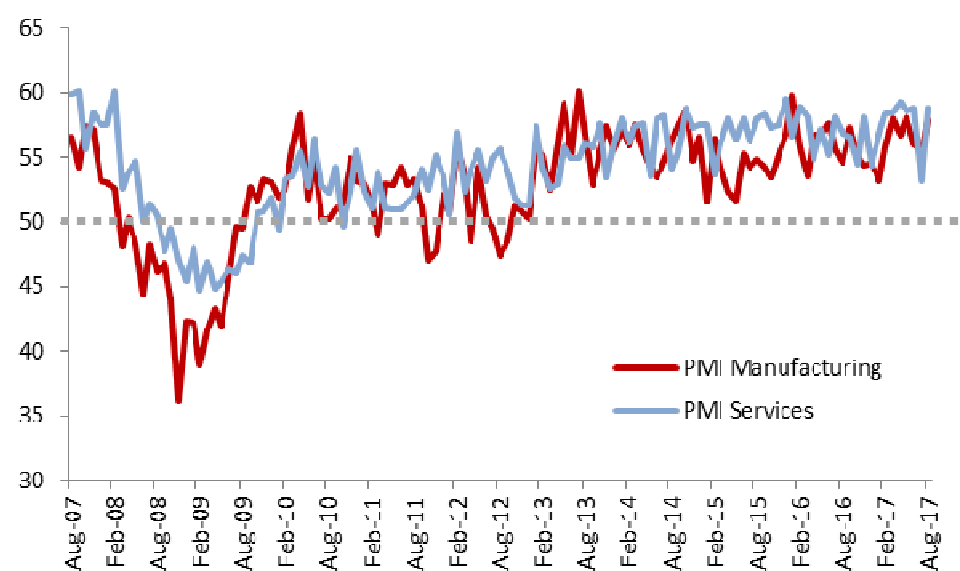
Lower employment gains but lower jobless rate



Further weakening in the housing market

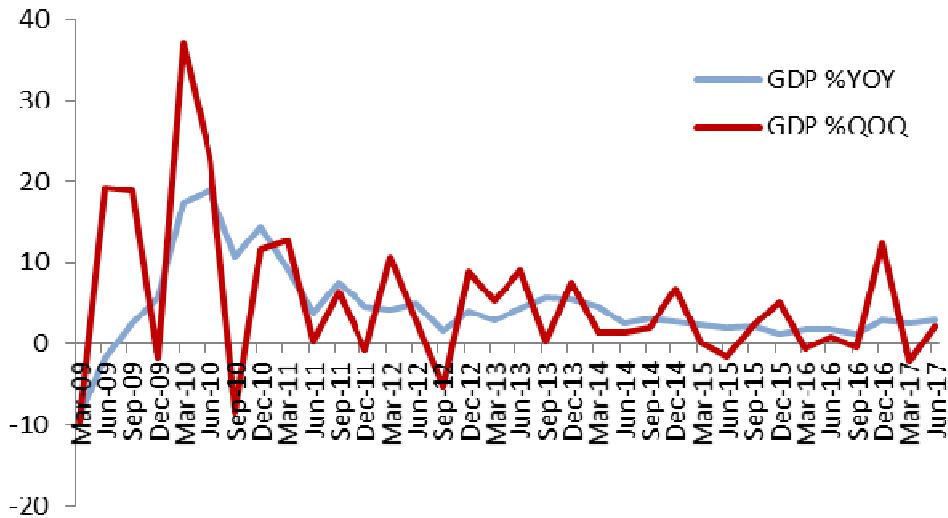


Manufacturing and services stay expansionary

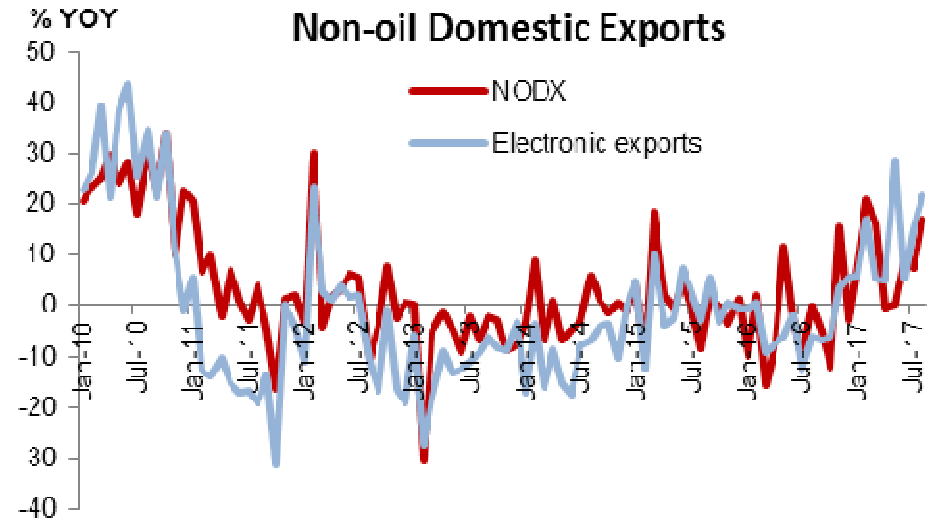


Singapore – Improving growth prospects

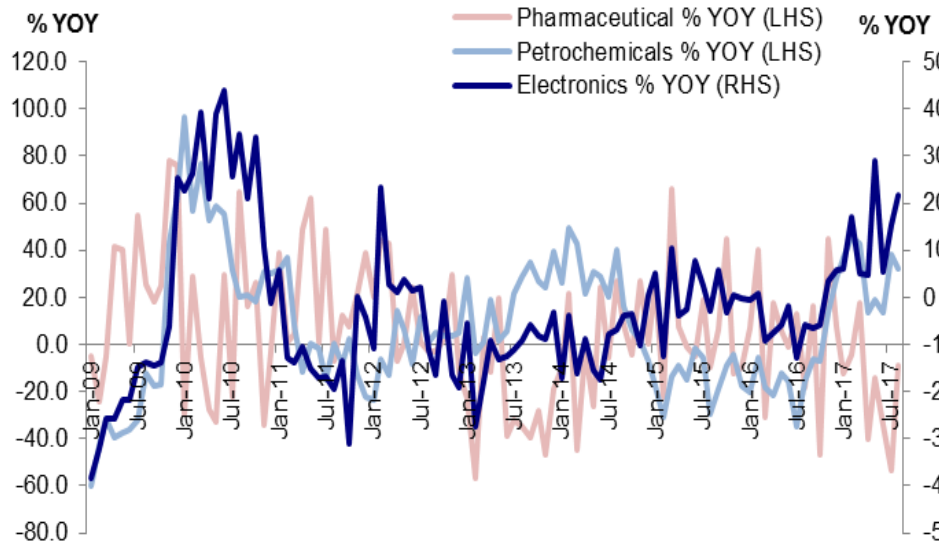
Slight pick-up in growth outlook



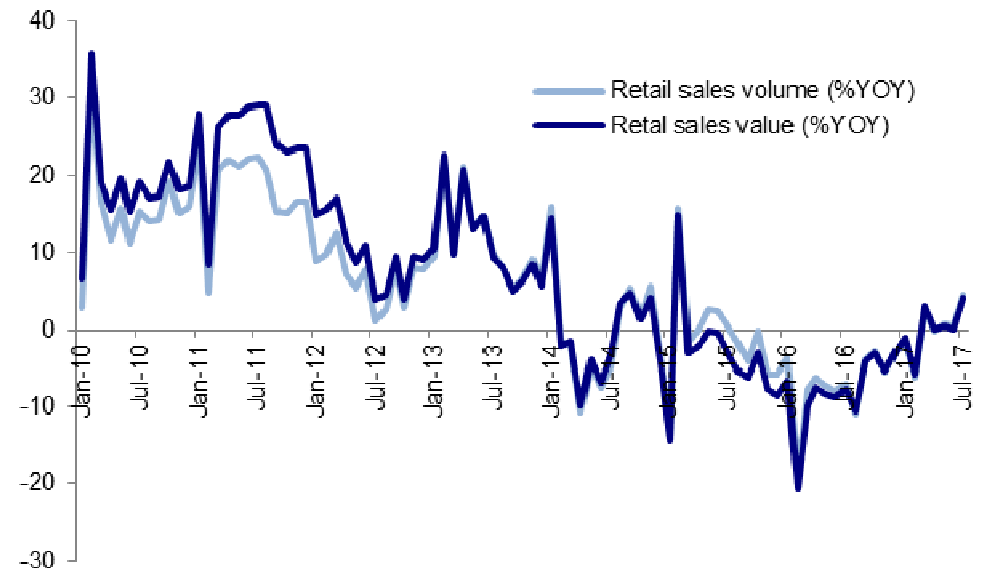
Improving exports driven by electronics



Commendable production growth in electronics and petrochemicals

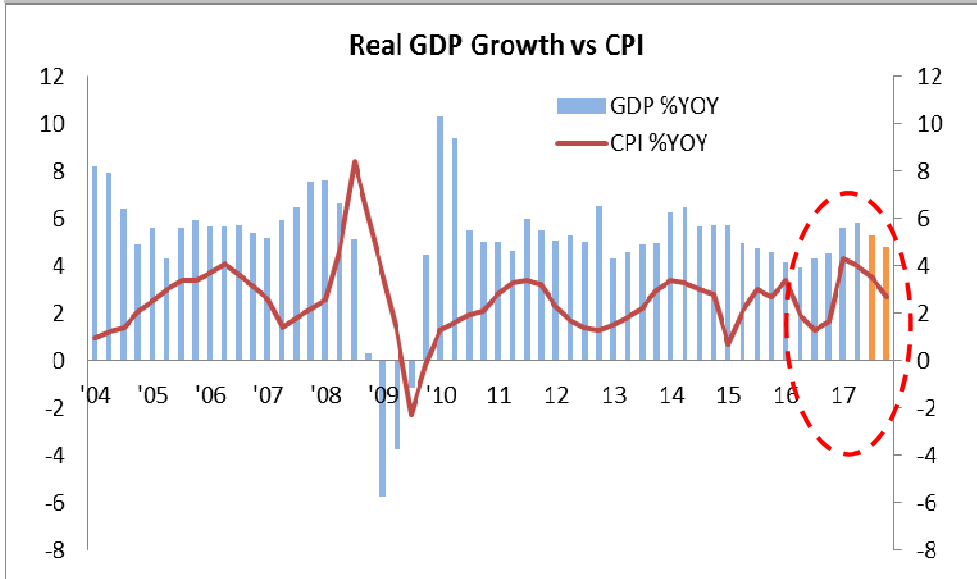


Steady rebound in retail sales

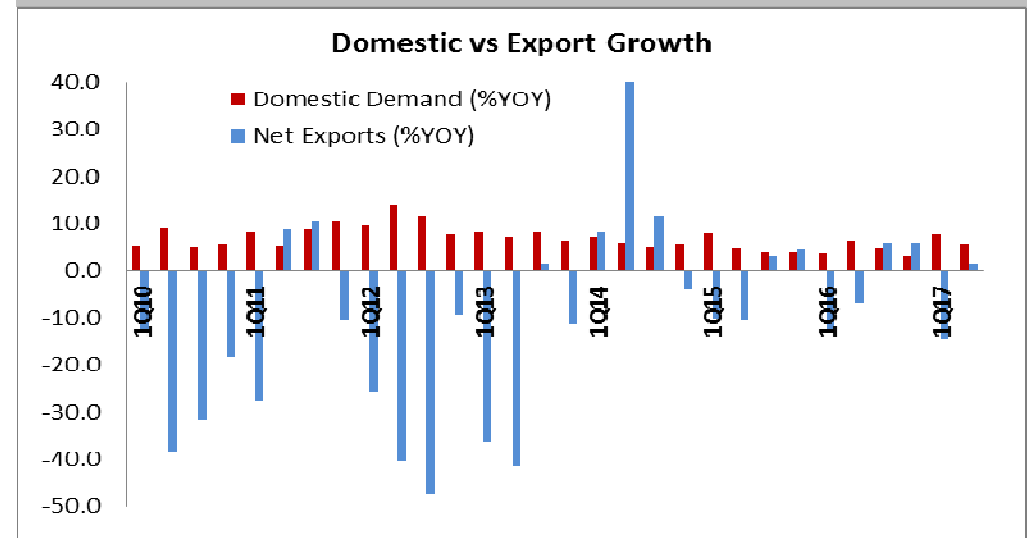


Malaysia – On track for a better than expected year

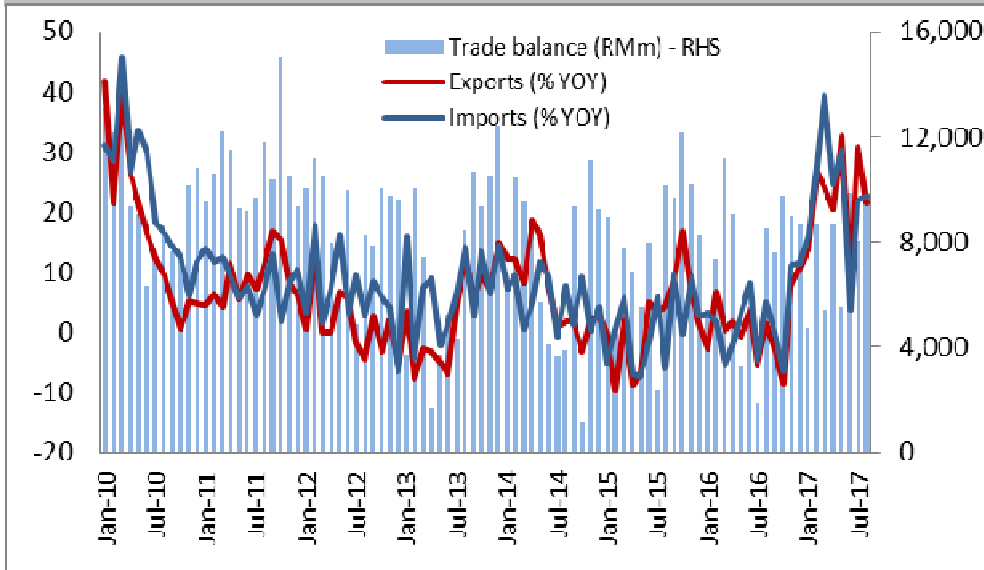
More moderate GDP and inflation growth ahead



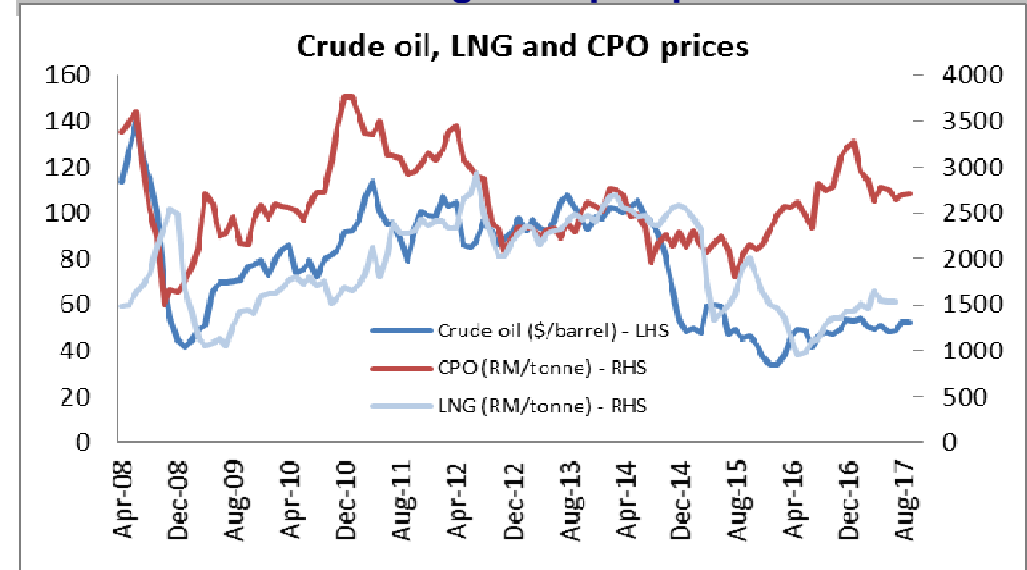
Rebound in net exports offset easier growth in domestic demand



Robust exports growth in tandem with global recovery



Firmer commodity prices continue to augur well with domestic growth prospects



FX Outlook – 4Q17

Currency	Outlook	Comments
USDMYR	↘	<ul style="list-style-type: none">• Expect Malaysia's economic growth prospects to support MYR
EURUSD	↘	<ul style="list-style-type: none">• Hawkish Fed policy outlook supports short-term USD rebound; EUR expected to retrace
GBPUSD	↘	<ul style="list-style-type: none">• Brexit uncertainty to weigh down GBP and rate hike expectations
USDJPY	↗	<ul style="list-style-type: none">• JPY remains soft on policy divergence between the Fed and BOJ
AUDUSD	↘	<ul style="list-style-type: none">• AUD is likely weighed down by USD rebound and RBA's caution on further appreciation
NZDUSD	↘	<ul style="list-style-type: none">• NZD to stay soft on political / policy uncertainty, softer growth prospects
USDSGD	↗	<ul style="list-style-type: none">• USD rebound likely to stay extended on hawkish Fed policy outlook, outperforming SGD

Source: Global Markets Research

FX Forecasts

Currency Pair	Close on 29 Sept 17	End 4Q17 closing	End 1Q18 closing	End 2Q18 closing	End 3Q18 closing
EUR/USD	1.1814	1.15 – 1.17	1.17 – 1.19	1.18 – 1.20	1.18 – 1.20
GBP/USD	1.3398	1.28 – 1.30	1.29 – 1.31	1.29 – 1.31	1.29 – 1.31
USD/JPY	112.51	112 – 114	112 – 114	113 – 115	113 – 115
AUD/USD	0.7823	0.74 – 0.76	0.74 – 0.76	0.75 – 0.77	0.75 – 0.77
NZD/USD	0.7209	0.69 – 0.71	0.70 – 0.72	0.71 – 0.73	0.71 – 0.73
USD/SGD	1.3576	1.35 – 1.37	1.35 – 1.37	1.34 – 1.36	1.34 – 1.36
USD/MYR	4.2205	4.18 – 4.20	4.17 – 4.19	4.16 – 4.18	4.15 – 4.17
EUR/MYR	4.9808	4.85 – 4.87	4.89 – 4.91	4.92 – 4.94	4.94 – 4.96
GBP/MYR	5.6451	5.40 – 5.42	5.41 – 5.43	5.42 – 5.44	5.42 – 5.44
AUD/MYR	3.3071	3.13 – 3.15	3.13 – 3.15	3.13 – 3.15	3.14 – 3.16
SGD/MYR	3.1079	3.07 – 3.09	3.07 – 3.09	3.06 – 3.08	3.07 – 3.09

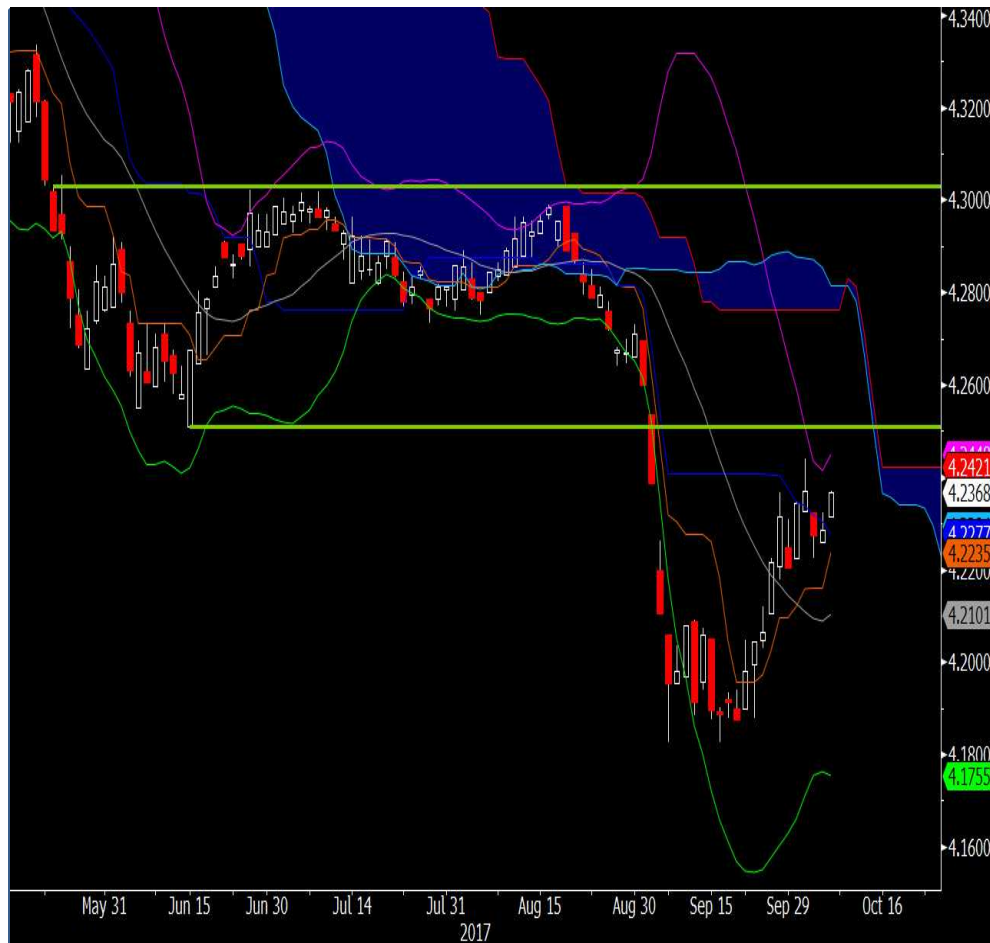
Source: Bloomberg, Global Markets Research

FX Technical Analysis

USDMYR: Mild rebound in the works after strong decline from 4.30. Expect gains to be rejected by 4.2510, otherwise, 4.3030 will do the same. Outlook bearish, with room to fall to circa 4.15 – 4.16 before rebounding.

Resistances: 4.2510, 4.2765, 4.3030

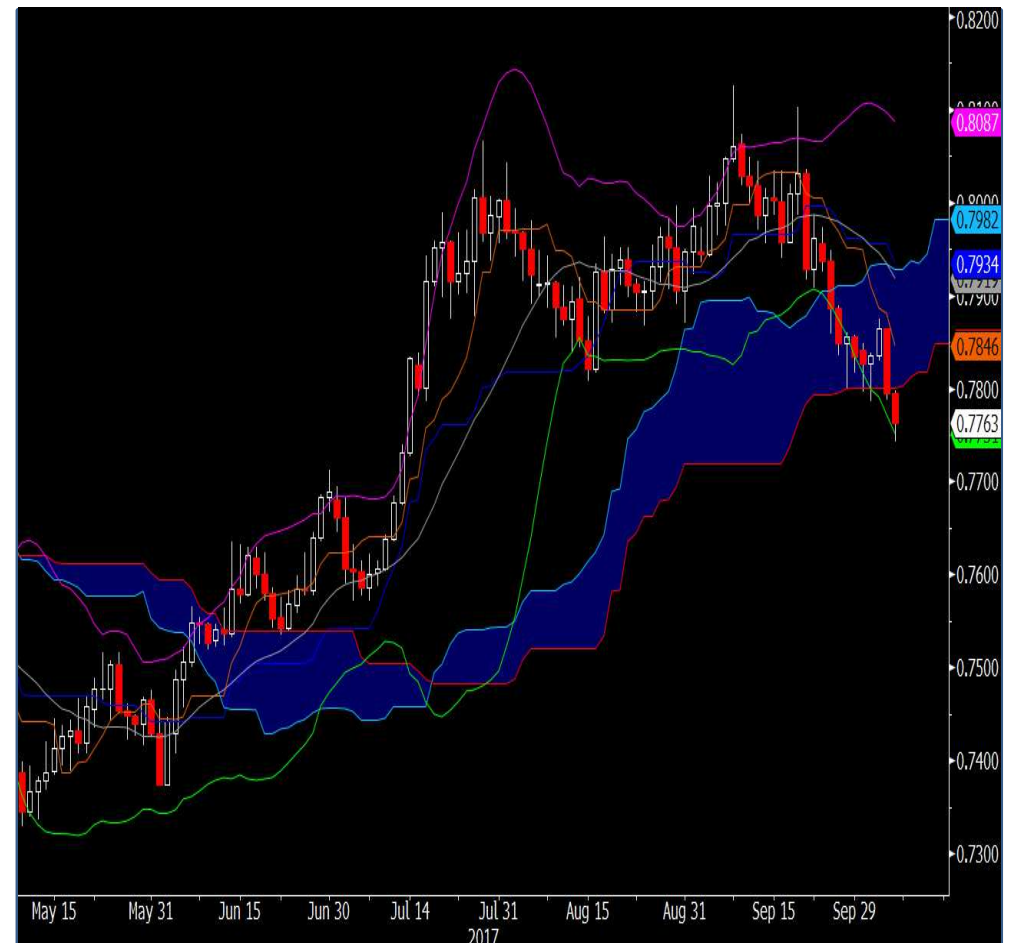
Supports: 4.2225, 4.2000, 4.1755



AUDUSD: Double top completion and breakdown from Ichimoku cloud suggest downtrend intact. Declines likely to test circa 0.75 before attempting a rebound that is likely stemmed by 0.78.

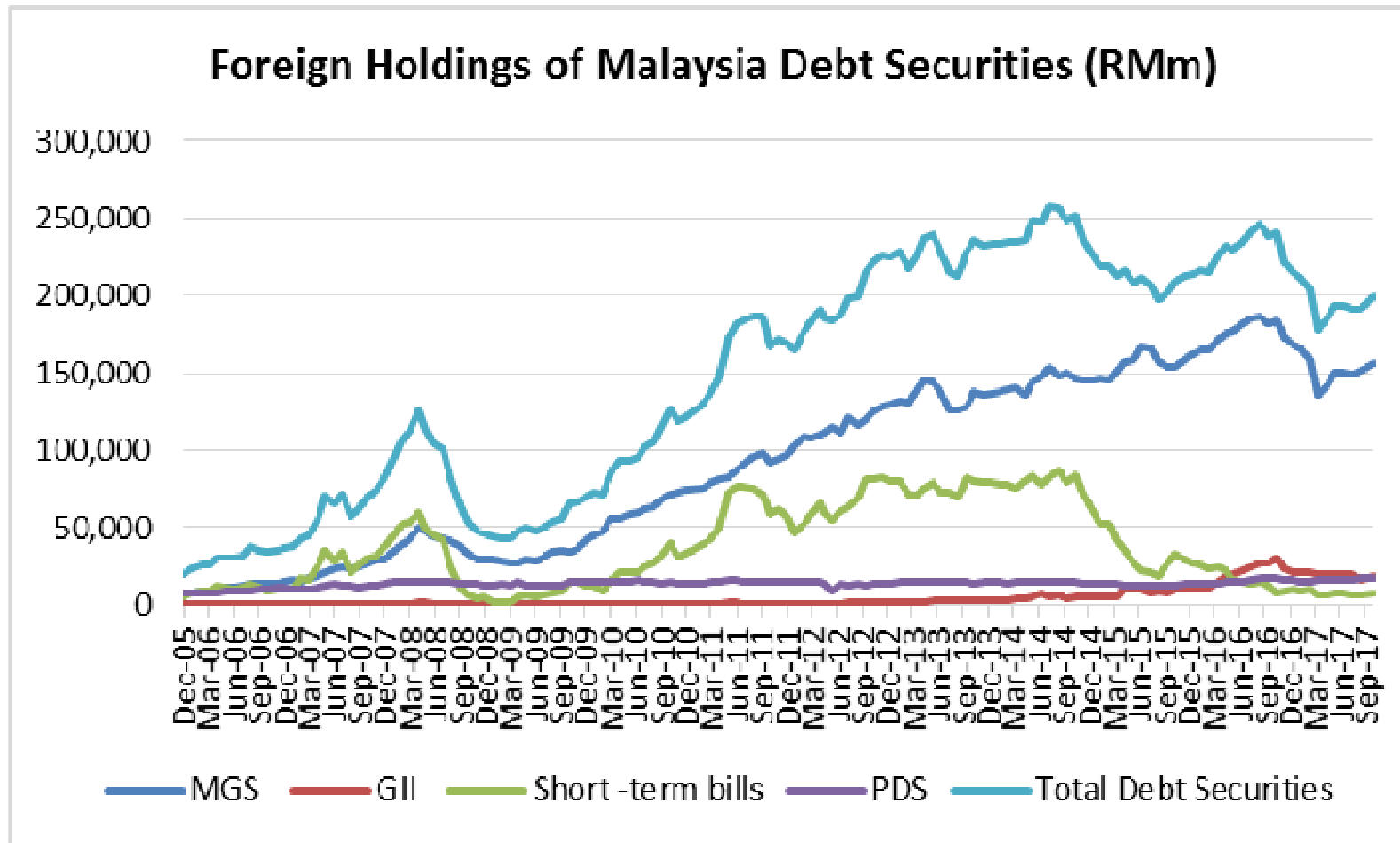
Resistances: 0.7836, 0.7892, 0.8000

Supports: 0.7697, 0.7611, 0.7503



Source: Bloomberg, Global Markets Research

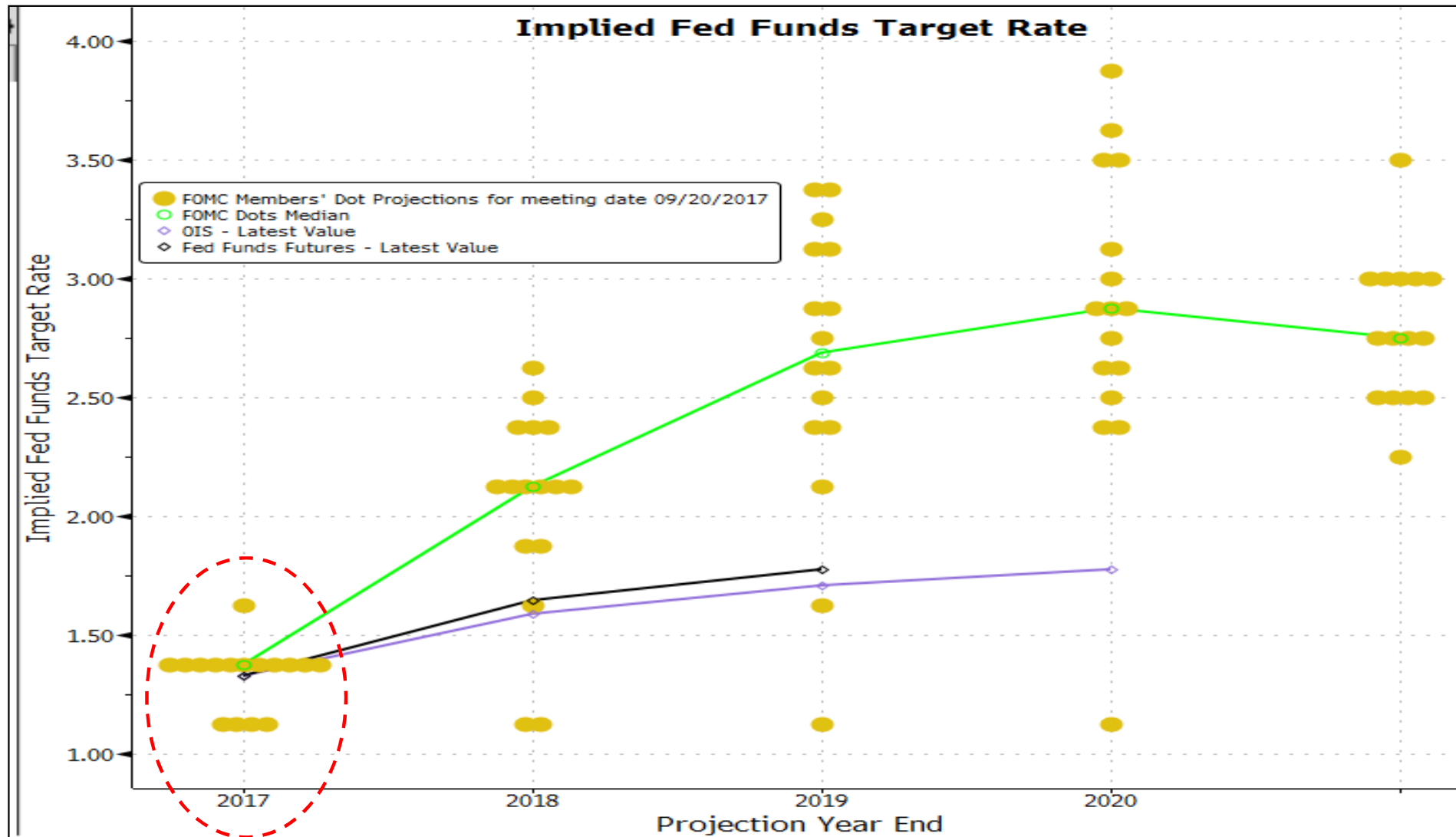
Foreign holdings of MYR government bonds (MGS + GII) rose for the first time in four months in September



Source : BNM, Bloomberg, HLB Global Markets Research

Foreign holdings of MYR government bonds (MGS and GII) rose for the first time in four months, with a net inflow of RM7.9bn to RM175.2bn in September (Aug: net outflow of RM1.1bn to RM167.3bn), and recouping all net outflows amounted to RM3.4bn in the preceding three months, on renewed bargain-hunting interests. MGS foreign holdings rose for the 2nd straight month, by RM5.7bn to RM156.7bn (42.8% of outstanding) in September, its highest in seven months while GII snapped a 2-month decline and climbed higher by RM2.1bn to RM18.5bn (7.0% of outstanding).

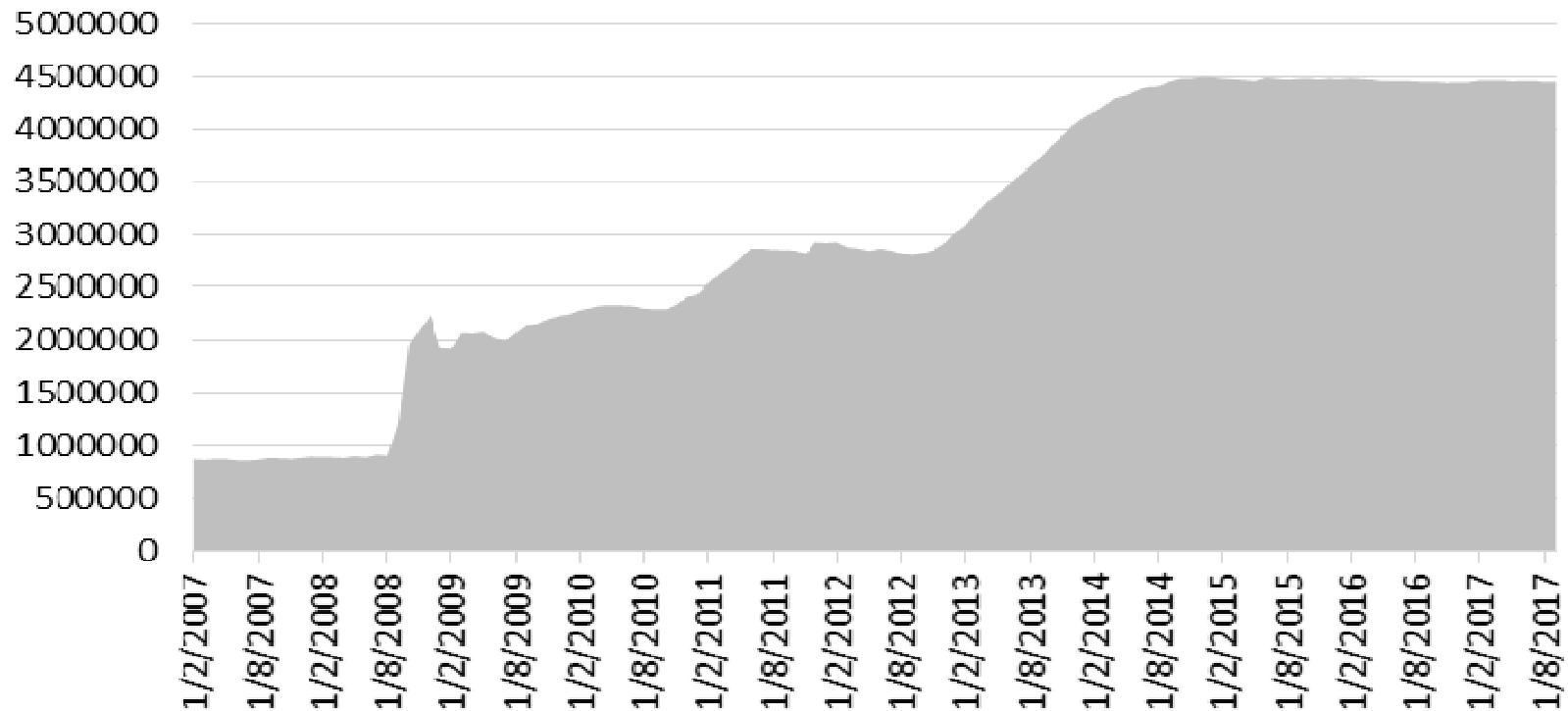
Fed dot plot suggests one more Fed rate hike possibly in Dec 2017



Source :Bloomberg

Tapering of Fed's Balance Sheet will begin in Oct 2017

Fed Balance Sheet (US\$m)



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 i.e. 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 \$2.0- \$2.5 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 initially flatten. We expect pace of short-end rates to move faster than long-end despite benign inflation outlook due to Fed policy normalization with one more round of Fed hike projected at end of 2017. Fed's balance sheet reduction may then exert upward pressure for bond yields causing steepness to set in. Fed has announced timeline for its tapering plans adopting a gradual approach, starting with reduction of \$6b for UST and \$4b for MBS. (capping the 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 \$2.0-2.5 trillion upon the completion of balanced sheet reduction, estimated by end-2021. The 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>US corporate high-yield bonds posted solid returns in 3Q on recovery in risk appetite. Utilities bond spread tightening continues to outpace other sectors; whilst energy and transportation issuers outperformed in industrials. Sluggish volume is due to earnings season, another potential FOMC rate hike, tax reform and light M&A calendar. Pleasant news as the supply of distressed debt declined in Sep after 3 months of modest increases; falling from \$377b peak in Feb 2016. These now only comprise 6% of Bloomberg US Dollar High Yield Corporate Bond Index as at end-Sep.</p>
	Duration neutral		
	Policy Rate	Yield Curve	
	<p>Fed officials are maintaining view on continued rate normalization with 2 rounds of 25bps Fed hike increase in March and June. Fed dot plot suggests one more 25bps hike possibly in Dec-17 bringing to a total of 3 hikes for the whole of 2017.</p>	<p>Yield curve may shift upwards but flatten initially; short-end rates move higher faster than long-end on Fed's further potential rate hike. Steepening expected to set-in as long-end re-prices as benign inflation outlook subsides.</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 movement in UST yields. On a related note, the push for SGS yields to head south may be temporarily dampened amid renewed strength in global crude oil prices that is expected to shore up inflationary pressure. 10-year yields continues to hover at 2.10% level at time of writing but renewed climb in global oil prices could introduce upside move in bond yields. Expect investors to stay vigilant with prospects of selective bargain hunting as excessive upward movement in yields may attract value-seeking investors. The 2-10Y and 5-20Y yield spreads which are lower than historical average denoting current flattening of the yield curve may eventually steepen on negative duration movements as US is seen to increase interest rates gradually.</p> <p><u>Corporate</u></p> <p>Primary issuance print for the SGD corporate bonds space remains active. Notable upcoming prints for the coming print include Geo Energy Resources Ltd USD-5-year denominated senior notes at 8.75% guidance and also Frasers Centrepoint Ltd SGD Perp NC5 at 4.25% guidance. Also seen is the ARA Asset Mangemnt Ltd new SGD Perp NC5 at 5.5% guidance. The range-bound SGS levels may prompt further capital raising initiatives for companies, as we expect funding cost to emerge more expensive next year on the back of higher global rates environment.</p>
	Duration neutral		
	Policy Rate	Yield Curve	
	Expect monetary policy direction to remain accommodative as supporting growth via export channels remains the key agenda based on a decrease in the slope of the SGDNEER band.	Expect SGS curve to mirror upward biasness tracking upward pressure seen in UST yields.	



Country	6M Views		Comments/ Outlook
Malaysia	Maturity Preference		<p><u>Sovereigns</u></p> <p>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 tapering impact and implications and further interest rate normalization. The 7-15 year space are seen as kinks which may attract interest from value-seeking investors.</p> <p><u>Corporate</u></p> <p>Corporate bonds/sukuk picked up to reach RM70b as at end Sep 2017, in line with our expected gross supply of RM90b in 2017. Momentum is driven by government-guaranteed issuance. (circa 70% versus estimated gross supply target). Trading activities for corporate bonds meanwhile remained circa RM200-500m daily volume on the back of scarcity supply of primary papers. We note interest to be skewed towards the AA-space on yield pick-up requirements as investors continue to look out for credit diversification and rotational flows into infrastructure/project financing i.e. toll roads/power sector related names and finance-related credits.</p>
	Duration neutral		
	Policy Rate	Yield Curve	
	<p>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.</p>	<p>Expect range-bound trading for MYR govies with value-seeking investors watching 7-15-year space although we expect marginal risks of higher yields; influenced by Fed rate normalization and “quantitative tightening” i.e. tapering plans.</p>	

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