Quarterly Market Outlook 3Q2018

Global Markets

July 2018

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Global Growth Outlook

Real GDP (% YOY)	Latest 2 Quarters		Actual	Forecast		Forecast (official)	
	4Q17	1Q18	2017	**2018**	**2019**	**2018**	**2019**
World	-	-	3.8	**3.8** *(3.8)*	**3.7** *(3.7)*	**3.9** *(3.9)*	**3.9** *(3.9)*
DM/ G10	2.6	1.9	2.4	**2.4** *(2.8)*	**2.1** *(2.8)*	**-**	**-**
US	2.6	2.8	2.3	**2.9** *(2.8)*	**1.9** *(2.4)*	**2.8** *(2.7)*	**2.4** *(2.4)*
Eurozone	2.7	2.5	2.4	**2.2** *(2.4)*	**1.9** *(2.0)*	**2.1** *(2.4)*	**1.9** *(1.9)*
UK	1.4	1.2	1.8	**1.4** *(1.5)*	**1.6** *(1.5)*	**1.4** *(1.8)*	**1.7** *(1.8)*
Japan	1.9	1.1	1.7	**1.1** *(1.3)*	**1.0** *(1.0)*	**1.6** *(1.4)*	**0.8** *(0.7)*
BRICs	6.2	5.8	5.7	**5.6** *(5.7)*	**5.7** *(5.6)*	**-**	**-**
China	6.8	6.8	6.9	**6.5** *(6.5)*	**6.3** *(6.2)*	**6.5**	**-**
India	7.0	7.7	7.1	**6.6^** *(6.7)*	**7.3^** *(7.4)*	**7.4**	**-**
Asia ex-Japan	6.2	6.3	6.2	**5.9** *(5.9)*	**5.9** *(5.8)*	**-**	**-**
EMEA	4.7	3.6	3.5	**3.1** *(4.9)*	**2.9** *(5.0)*	**-**	**-**
Latam	2.5	2.1	1.8	**2.0** *(2.3)*	**2.7** *(2.6)*	**-**	**-**

Source: Bloomberg, official sources
Figures in ( ) are previous forecasts; ^FY ending Mar-18 and Mar-19 respectively

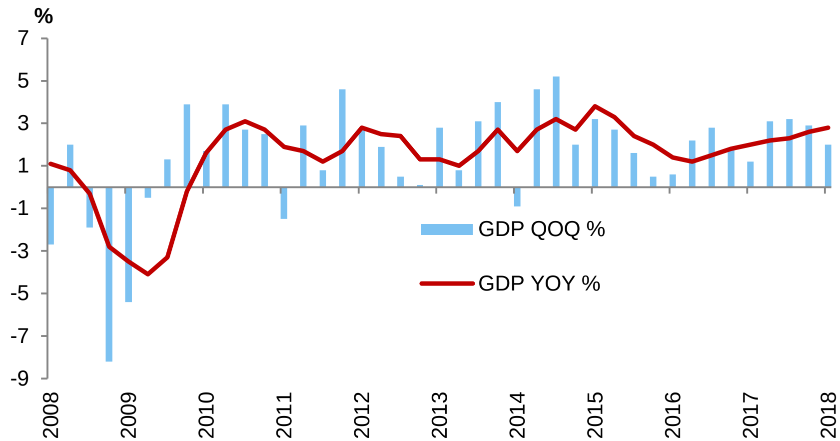
Central Bank Policy Rate Outlook

	Current	3Q18	4Q18	1Q19	2Q19	
USA	1.75-2.00	2.00-2.25	2.25-2.50	2.25-2.50	2.50-2.75	**2 more hikes in 2018**
Europe	0.00	0.00	0.00	0.00	0.00	
UK	0.50	0.75	0.75	0.75	0.75	**1 hike in Aug**
Japan	-0.10	-0.10	-0.10	-0.10	-0.10	
Australia	1.50	1.50	1.50	1.50	1.50	
New Zealand	1.75	1.75	1.75	1.75	1.75	
Malaysia	3.25	3.25	3.25	3.25	3.25	
Thailand	1.50	1.75	1.75	1.75	1.75	
Indonesia	5.25	5.50	5.75	5.75	5.75	
Philippines	3.50	3.50	3.75	3.75	3.75	

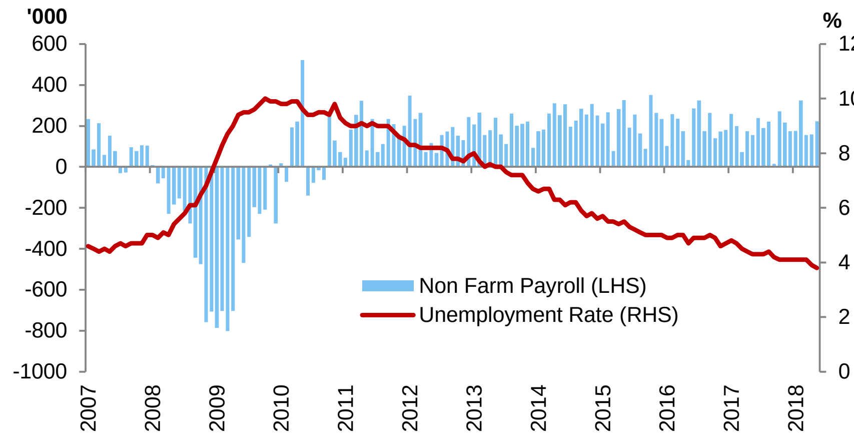
Source: Bloomberg, Global Markets Research

The US – Positive growth outlook; uncertainty over trade policies remained

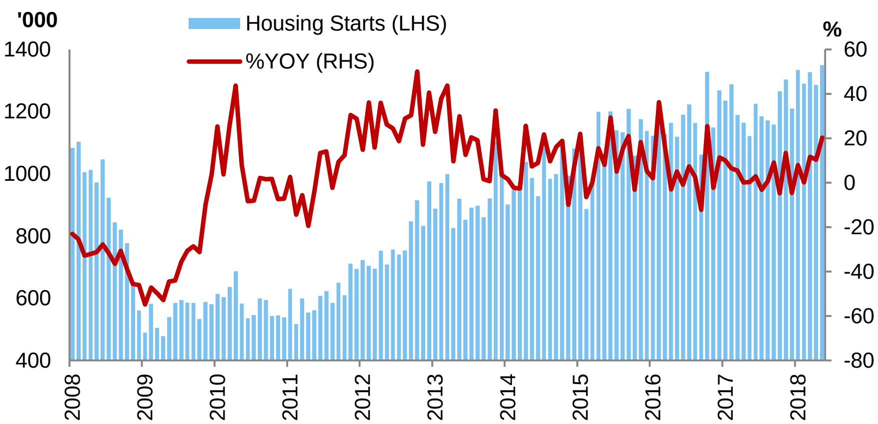
Softer 1Q18 as expected, 2Q18 growth poised to take off



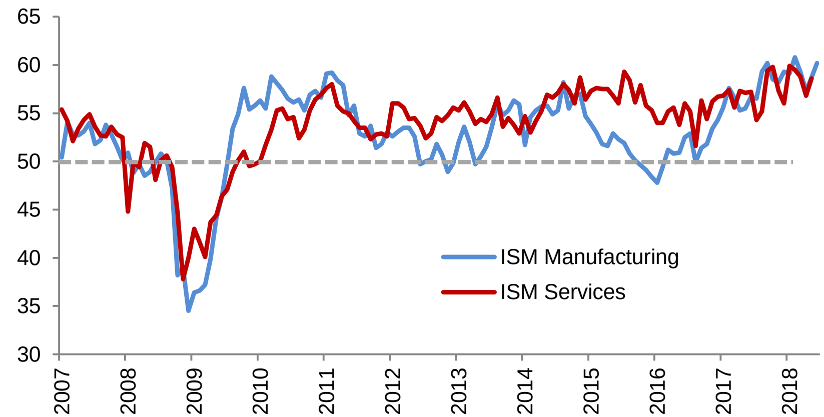
Labour market continues to tighten, inflation and wage growth to trend further up



Supply demand mismatch persisted in the housing market leading to higher house prices

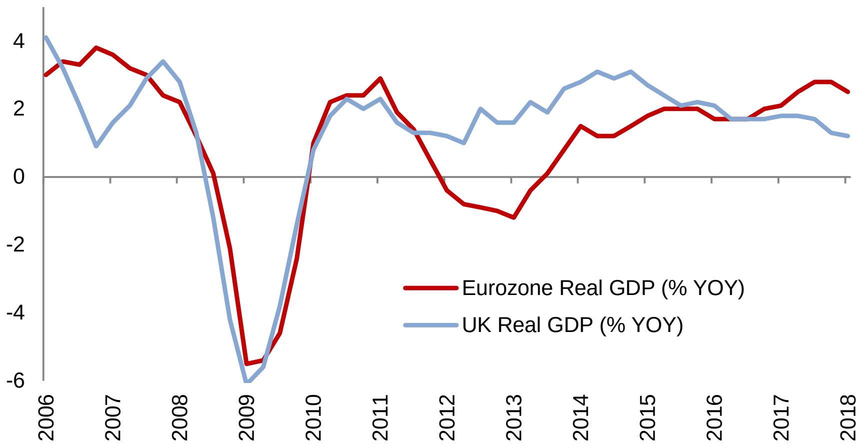


Manufacturing and services sector continued expanding; signs of slower growth in manufacturing emerging

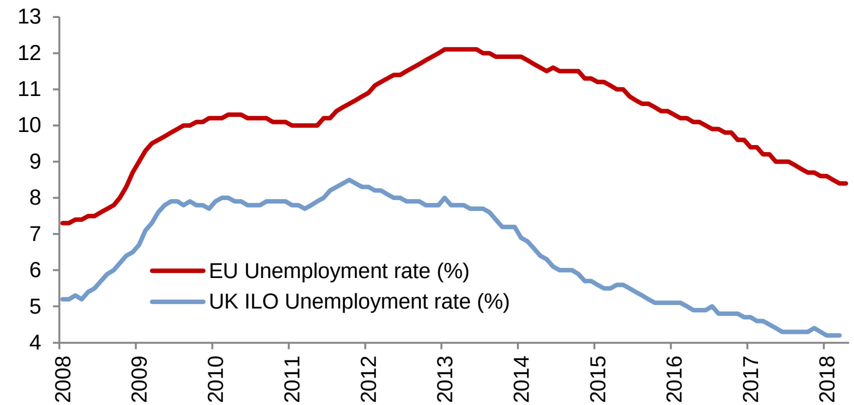


The EU and UK – Softer Eurozone ahead, UK clouded by Brexit

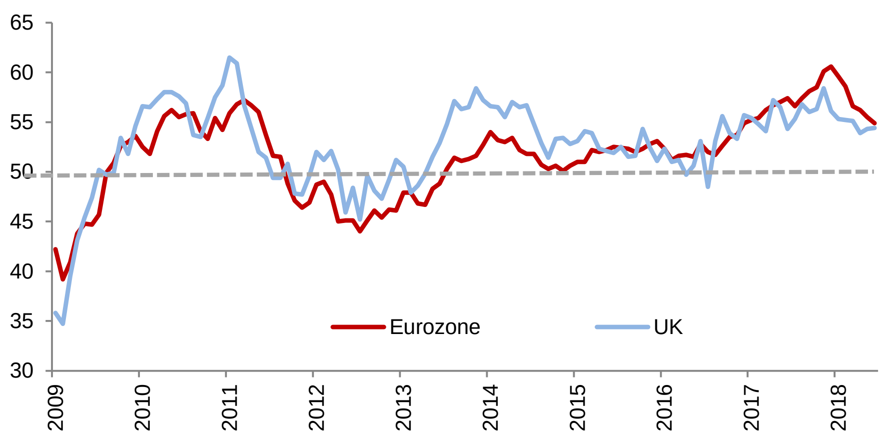
1Q18 growth slowed in both Eurozone and UK, expect further slowdown for the rest of 2018



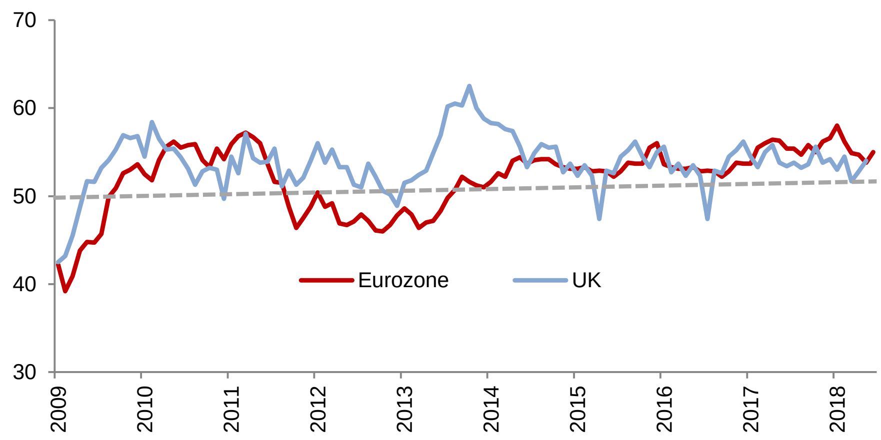
Labour market firming up in both Eurozone and UK



Manufacturing softened in both Eurozone and UK

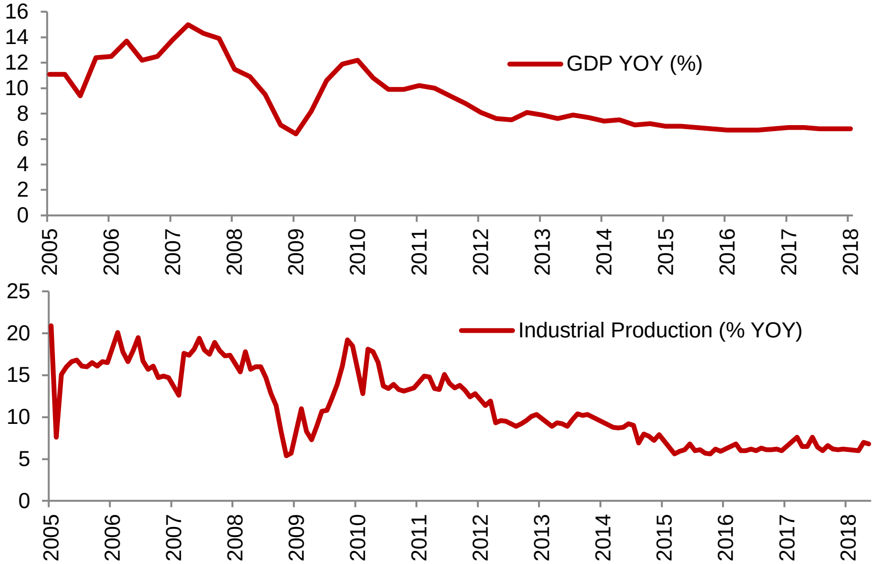


Services continued to rangebound in EU and UK

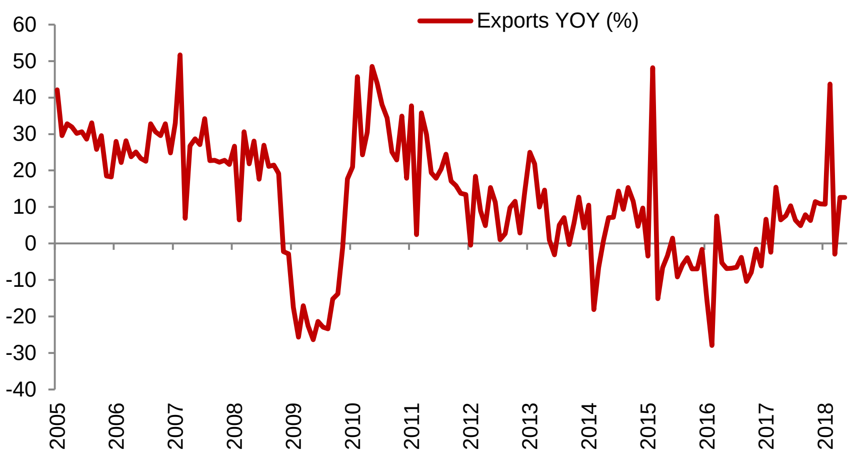


China – Softer but decent growth ahead, trade tensions at play

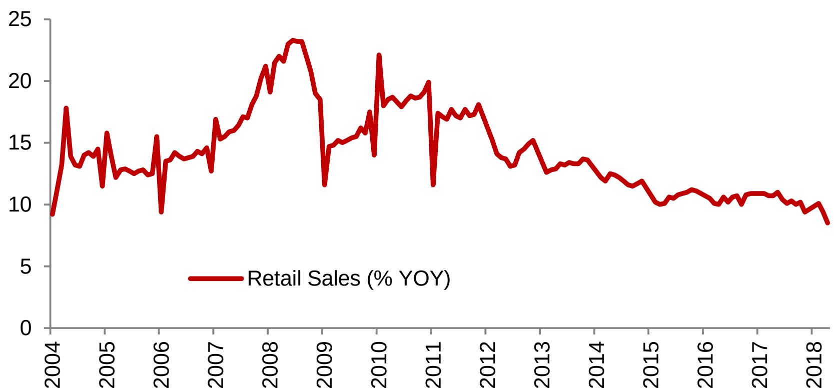
Growth remained resilient but poised to slow down amidst deleveraging



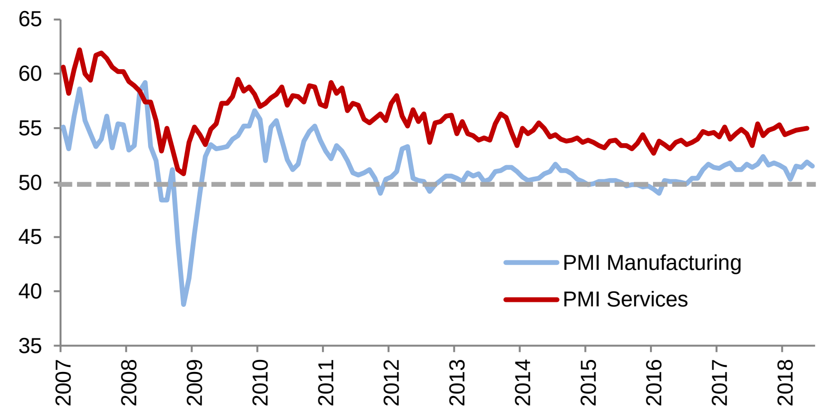
Exports outlook clouded by trade spat with US



Retail sales in easing trend

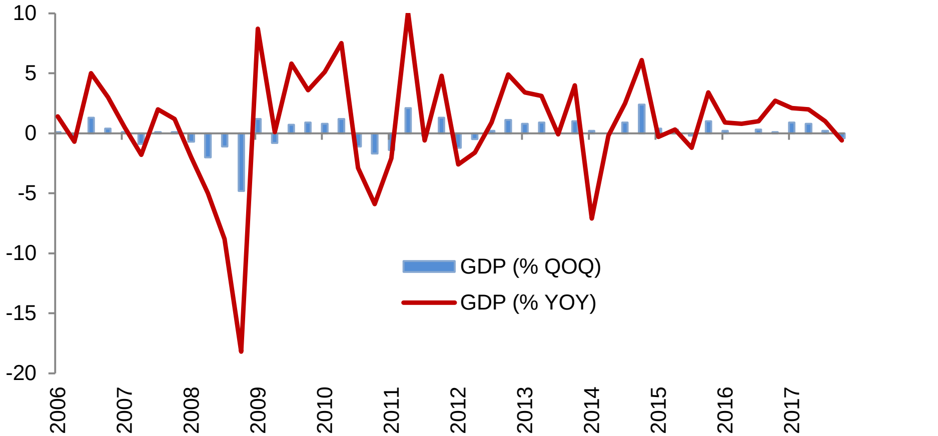


Manufacturing slowed, services sustained

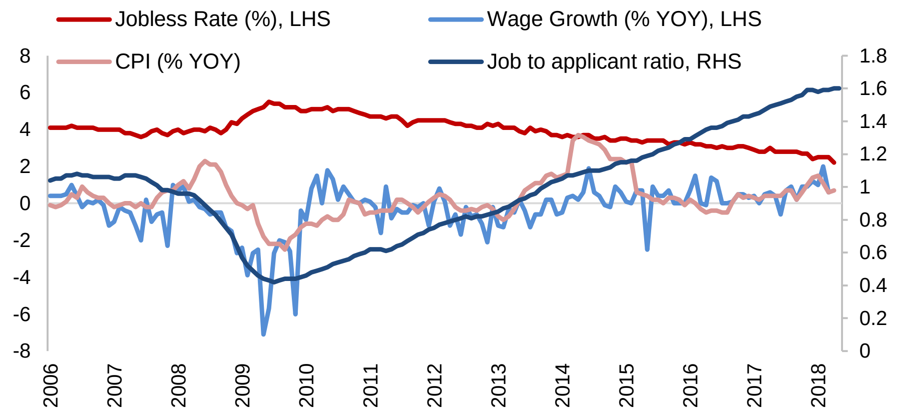


Japan – Growth momentum losing steam

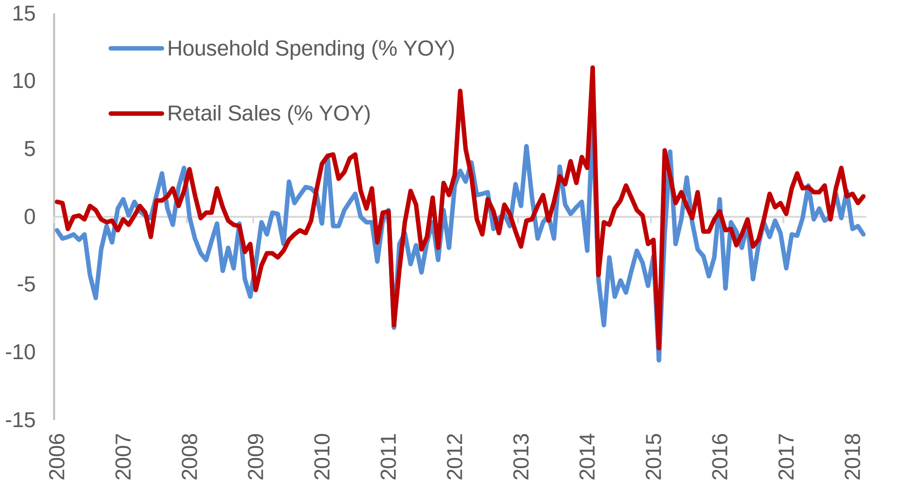
1Q18 growth contracted, foresee softer growth ahead



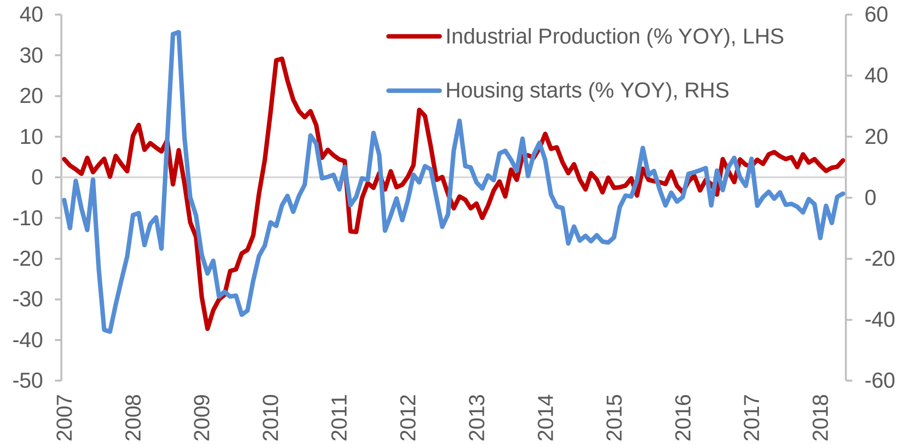
Labour market tightened further, but wage growth and inflation remained subdued



Weak household spending persisted despite signs of recovery in retail sales

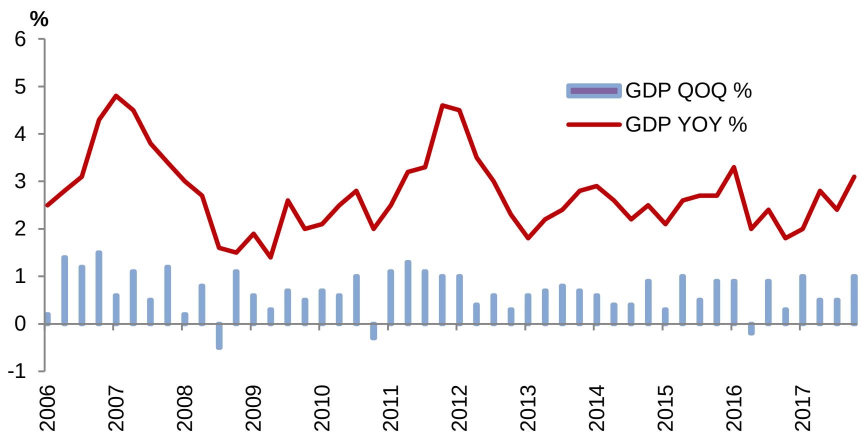


Industrial production ticking higher; housing starts remained weak

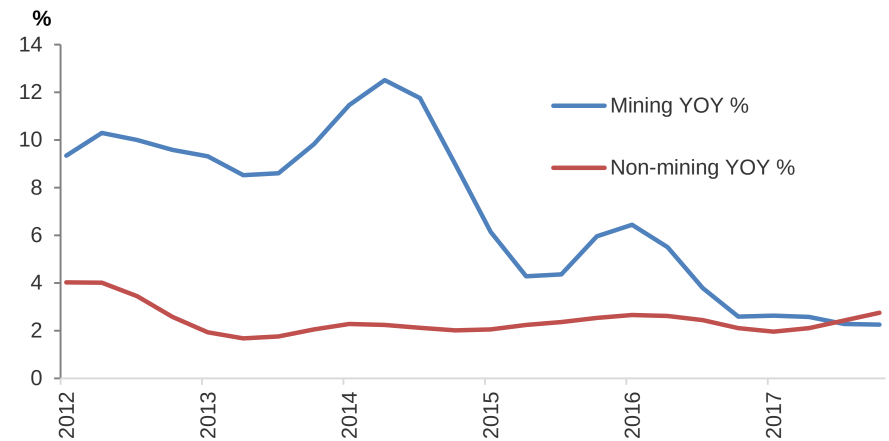


Australia – 1Q18 growth surprised, outlook clouded by China slowdown, trade tensions

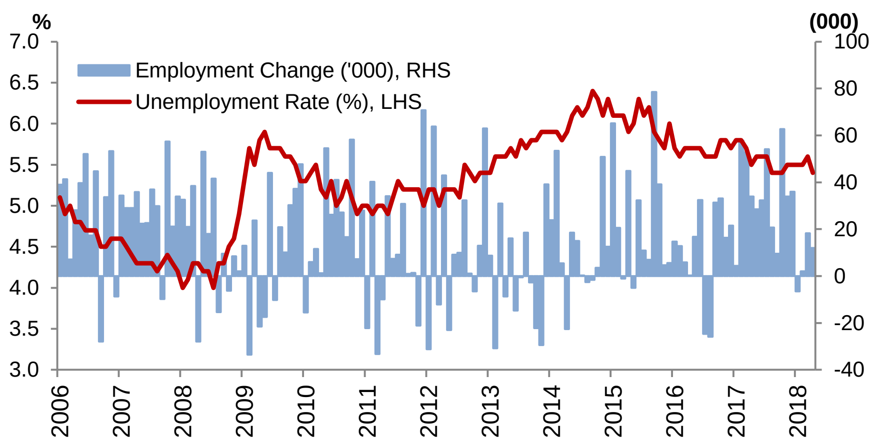
Upbeat 1Q18 GDP, led by stronger mining exports, private spending slowed



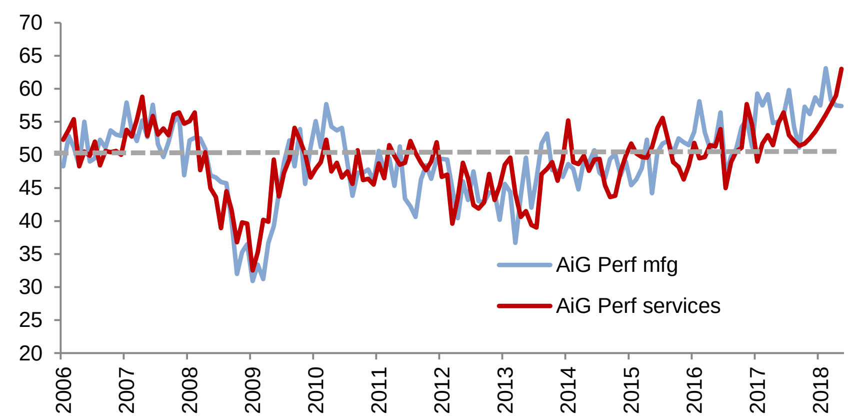
Slight pick-up in non-mining growth; growth in mining sector remained flat



Firm job market outlook but wage growth remained subdued

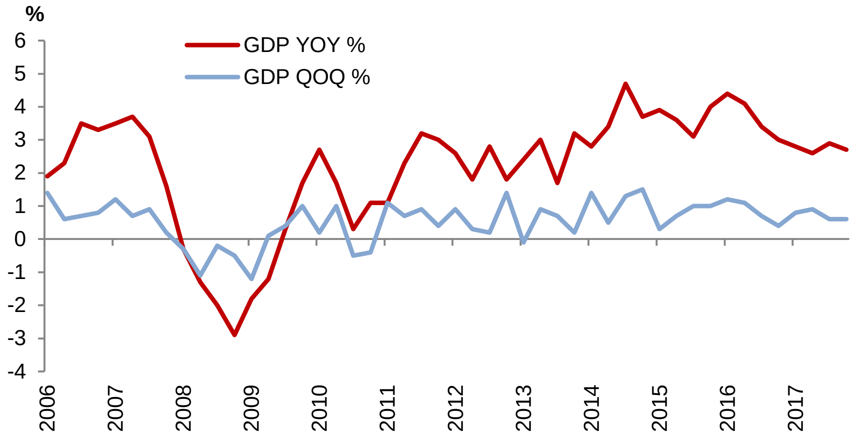


Slower expansion in manufacturing, services sector strengthened further

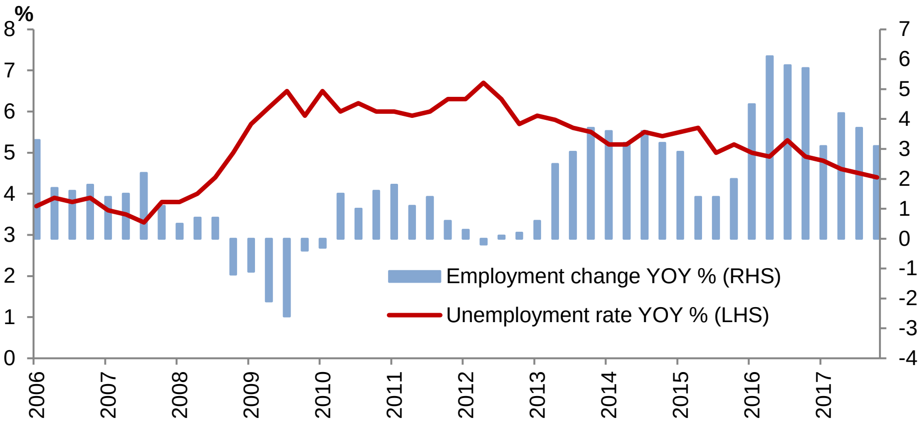


New Zealand – Softer outlook ahead

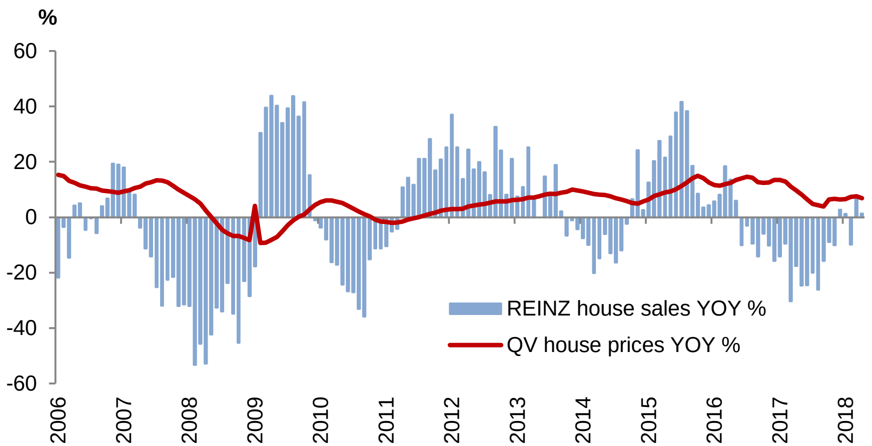
Softer 1Q18, growth momentum poised to ease going forward



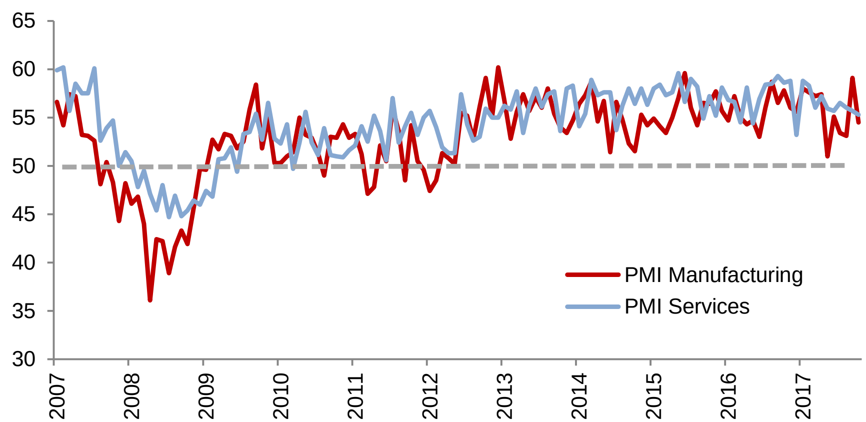
Positive labour market prospect – unemployment declining



Mixed sign in the housing market

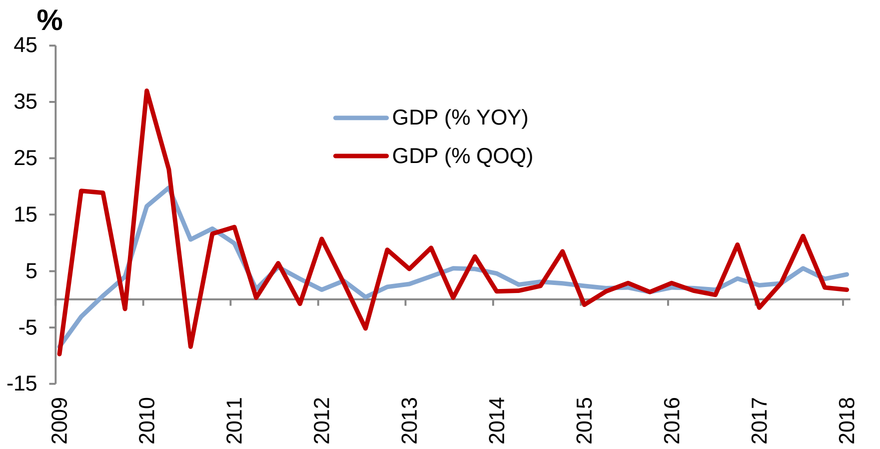


More moderate growth in both manufacturing and services

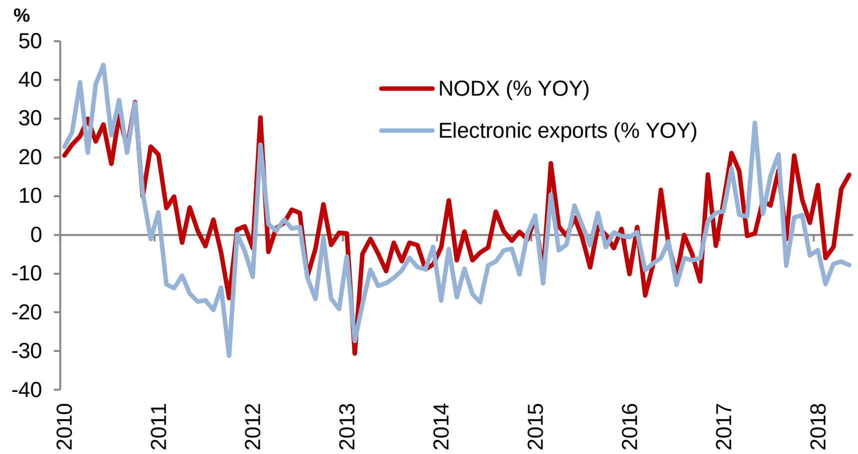


Singapore – Firm growth prospects offer room for policy normalization

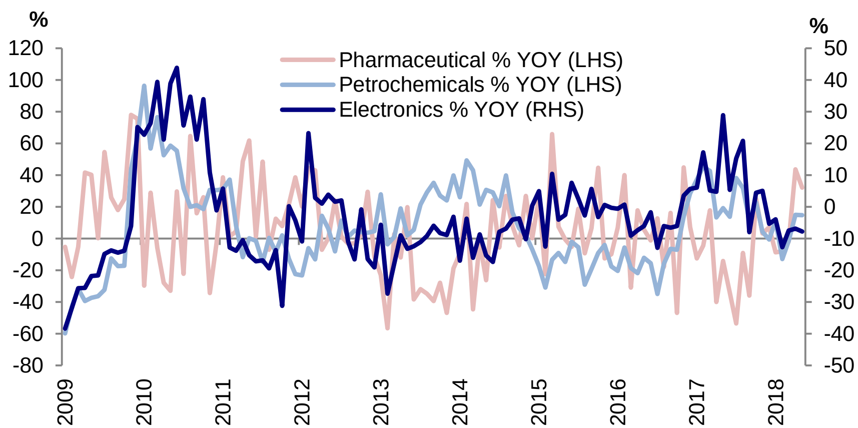
Expects moderate growth ahead



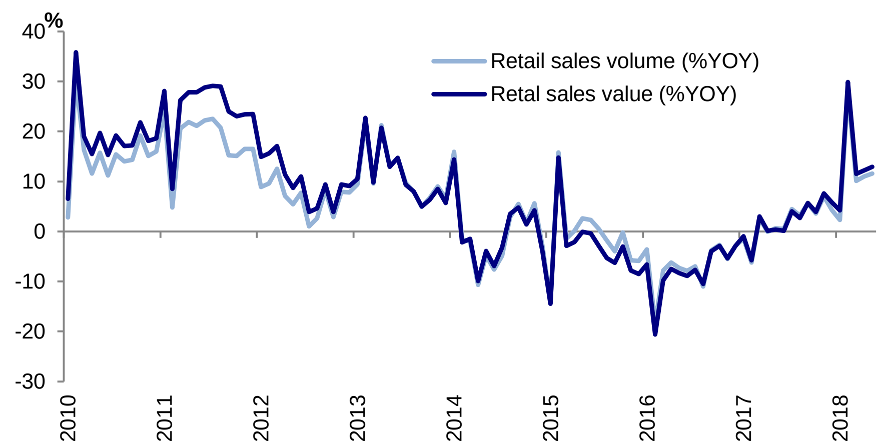
Continuous expansion in exports led by pharmaceutical products



Broad-based moderate production growth in electronics, pharmaceuticals and petrochemicals

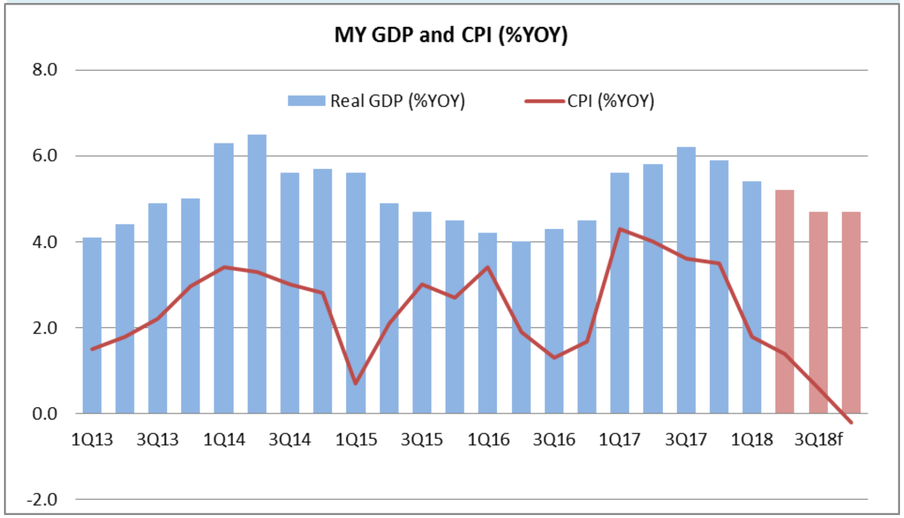


Growth in retail sales is forging ahead

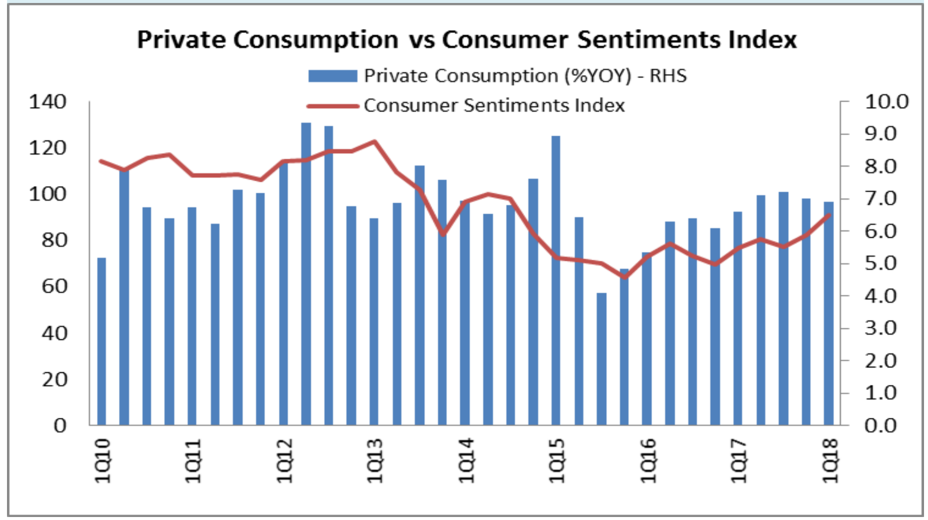


Malaysia – Moderating growth and inflation outlook amidst economic and policy transition

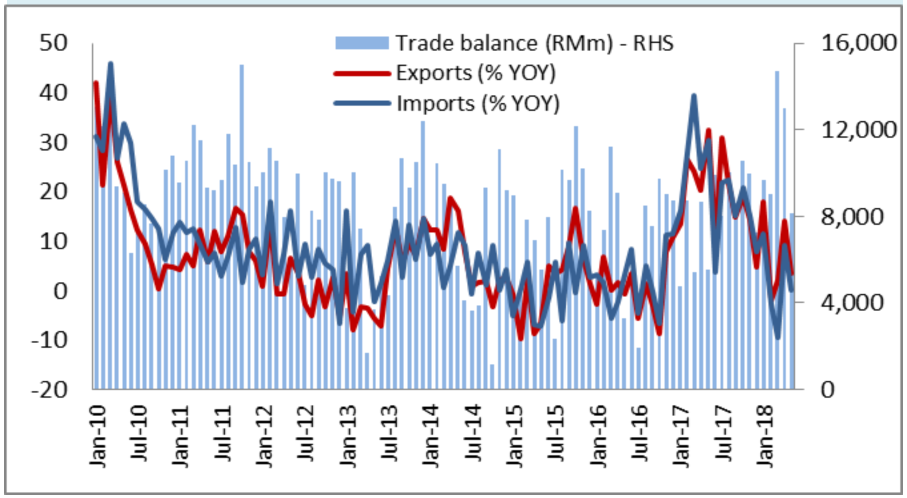
Moderate GDP and inflation growth ahead



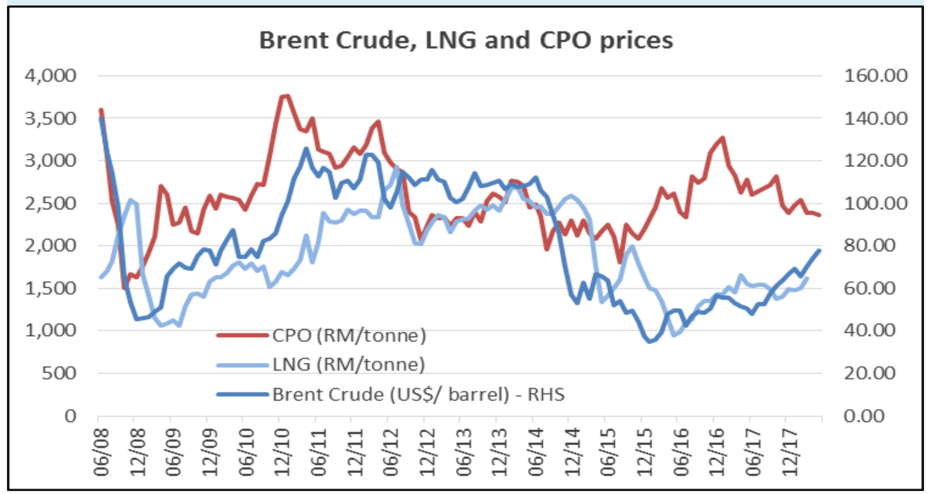
Potential improvement in sentiments amidst fiscal reform to keep consumer spending supported



Exports pulled back sharply in May and is at risks of further moderation going forward



Weaker CPO prices cushioned by rally in energy prices



FX Outlook – 3Q18

Currency	Outlook	Comments
USDMYR	➘	• Easing trade tensions to support a firmer MYR; limited USD gains as policy tightening expectations have been well communicated
EURUSD	➚	• Supported by signs of retreat in political risks within the EU and buying interest as the ECB heads towards policy tightening
GBPUSD	➚	• Expectations of BOE policy tightening supports GBP
USDJPY	➚	• Easing trade tensions to reduce demand for refuge, pressuring JPY
AUDUSD	➘	• Weighed down by downside risks to growth in China and widening policy gap between the Fed and RBA
NZDUSD	➘	• Weighed down by downside risks to growth in China and widening policy gap between the Fed and RBNZ
USDSGD	➔	• A mild appreciatory monetary policy to support SGD recovery

Source: Global Markets Research

FX Forecasts

Currency Pair	Close on 29 Jun 18	End 3Q18 closing	End 4Q18 closing	End 1Q19 closing	End 2Q19 closing
EUR/USD	1.1684	1.17 – 1.19	1.19 – 1.20	1.20 – 1.22	1.20 – 1.22
GBP/USD	1.3207	1.32 – 1.34	1.33 – 1.35	1.34 – 1.36	1.34 – 1.36
USD/JPY	110.76	110 – 112	111 – 113	112 – 114	112 – 114
AUD/USD	0.7405	0.72 – 0.74	0.71 – 0.73	0.70 – 0.72	0.70 – 0.72
NZD/USD	0.6768	0.65 – 0.67	0.64 – 0.66	0.63 – 0.65	0.63 – 0.65
USD/SGD	1.3624	1.35 – 1.37	1.34 – 1.36	1.33 – 1.35	1.33 – 1.35
USD/MYR	4.0385	4.00 – 4.02	3.98 – 4.00	3.96 – 3.98	3.94 – 3.96
EUR/MYR	4.7050	4.72 – 4.74	4.76 – 4.78	4.79 – 4.81	4.77 – 4.79
GBP/MYR	5.3138	5.32 – 5.34	5.34 – 5.36	5.35 – 5.37	5.32 – 5.34
AUD/MYR	2.9843	2.92 – 2.94	2.86 – 2.88	2.81 – 2.83	2.79 – 2.81
SGD/MYR	2.9625	2.94 – 2.96	2.95 – 2.97	2.95 – 2.97	2.94 – 2.96

Source: Bloomberg, Global Markets Research

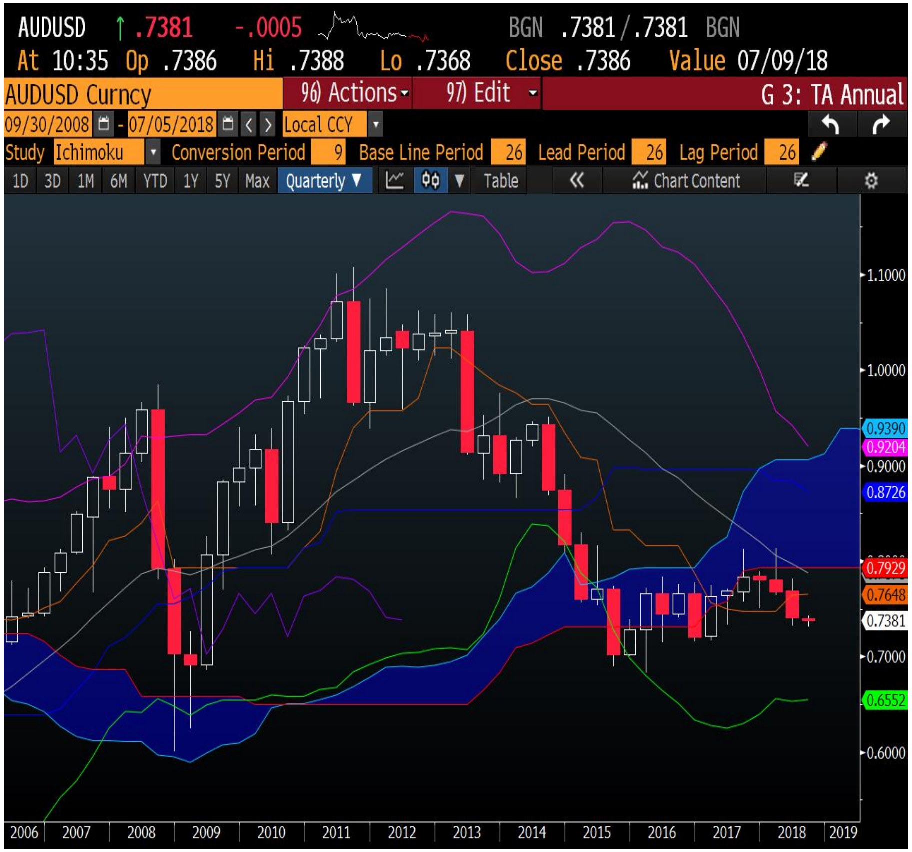
FX Technical Analysis

USDMYR: Momentum and trend are negative, suggesting losses are likely to extend with potential to drop below 3.9038. The bounce off 3.9090 are likely to be stemmed near 4.0945 – 4.1000 if current rebound extends.

Resistances: 4.0500, 4.0945, 4.1000
Supports: 4.0200, 4.0000, 3.9500

AUDUSD: Rejection for rebound at 0.7929 since Mar 2018 is likely to extend losses. But with 0.7000 looking strong, downsides from current level are likely limited. Breaking below 0.7000 exposes a drop to 0.6550, or even lower.

Resistances: 0.7500, 0.7648, 0.7929
Supports: 0.7215, 0.7160, 0.7000



* updated on 5 Jul 2018

Source: Bloomberg, Global Markets Research

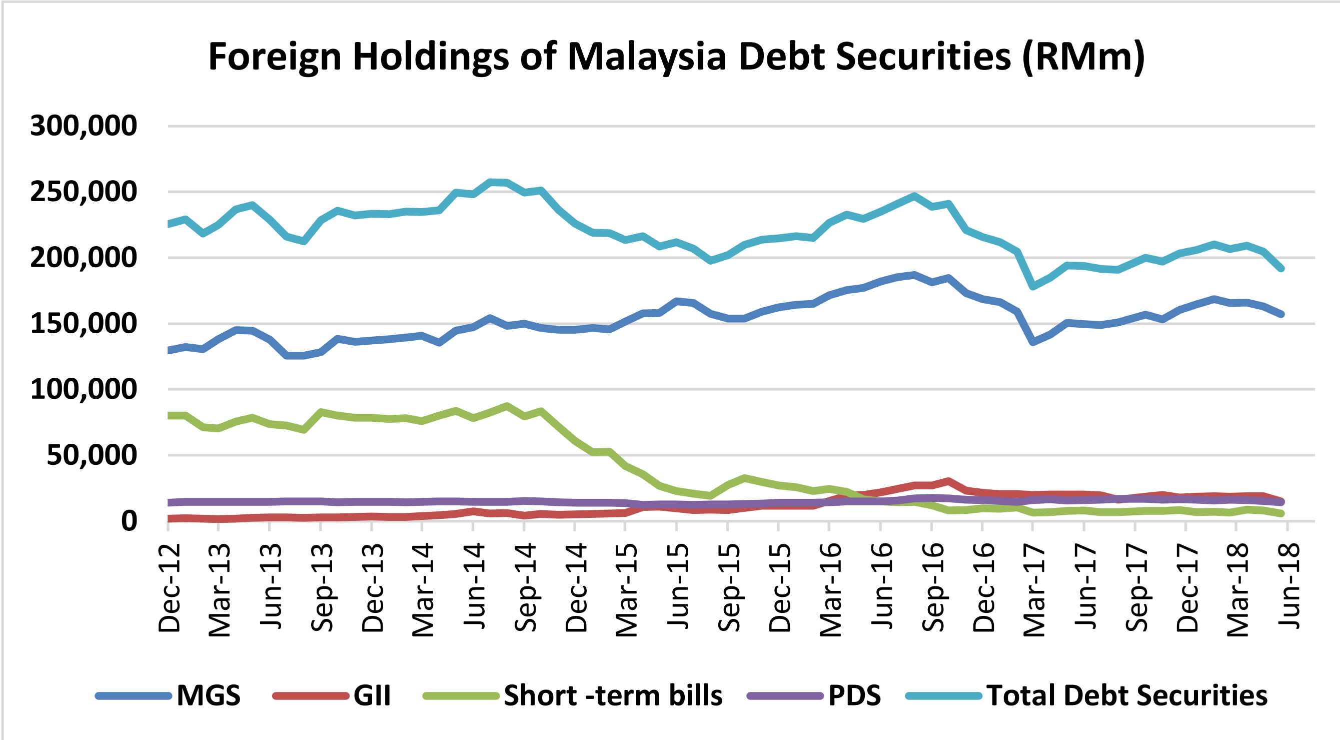
Fixed Income

MGS/GII average BTC improved convincingly to 2.34x in 2Q 2018 (1Q18: 2.16x and 2Q17: 2.36x), amid both offshore and local institution demand

MGS/GII issuance pipeline in 2018

No	Stock	Tenure (yrs)	Tender Month	Quarter	Tender Date	Total Expected Size (RM mil)	Auction Issuance (RM mil)	Private Placement	Amt Issued YTD	BTC (times)	Low	Average	High	Cut-off
1	20-yr Reopening of MGS (Mat on 04/37)	20	Jan	Q1	4/1/2017	3,000	2,000	1,000	2,000	1.905	4.573	4.607	4.640	14.3%
2	5-yr Reopening of MGII (Mat on 04/22)	5	Jan	Q1	12/1/2018	3,000	4,000		6,000	2.581	3.810	3.823	3.829	78.6%
3	15-yr Reopening of MGS (Mat on 04/33)	15	Jan	Q1	26/1/2018	3,000	2,500	1,000	8,500	2.474	4.415	4.446	4.455	1.7%
4	7.5-yr New Issue of MGII (Mat on 08/25)	7	Feb	Q1	6/2/2018	4,000	3,000	1,000	11,500	2.284	4.110	4.128	4.138	55.0%
5	10-yr Reopening of MGS (Mat on 11/27)	10	Feb	Q1	27/2/2018	3,000	3,500	500	15,000	2.066	4.036	4.055	4.064	90.0%
6	30-yr Reopening of MGII (Mat on 05/47)	30	Mar	Q1	8/3/2018	2,500	1,500	1,000	16,500	2.071	4.890	4.930	4.955	10.0%
7	7-yr New Issue of MGS (Mat on 03/25)	7	Mar	Q1	13/3/2018	4,000	3,000	1,000	19,500	2.347	3.870	3.882	3.889	67.7%
8	15-yr Reopening of MGII (Mat on 06/33)	15	Mar	Q1	22/3/2018	3,000	2,500	1,000	22,000	1.996	4.540	4.550	4.564	42.9%
9	3-yr Reopening of MGS (Mat on 11/21)	3	Mar	Q1	29/3/2018	3,500	3,000		25,000	1.722	3.439	3.451	3.464	80.0%
10	20-yr Reopening of MGII (Mat on 08/37)	20	Apr	Q2	12/4/2018	2,000	2,500		27,500	2.118	4.790	4.804	4.827	100.0%
11	5-yr New Issue of MGS (Mat on 04/23)	5	Apr	Q2	19/4/2018	4,000	4,000		31,500	1.563	3.728	3.757	3.780	8.8%
12	10.5-yr New Issue of MGII (Mat on 10/28)	10	Apr	Q2	27/4/2018	4,000	4,000		35,500	2.696	4.340	4.369	4.388	4.3%
13	15.5-yr New Issue of MGS (Mat on 11/33)	15	May	Q2	4/5/2018	4,000	3,000		38,500	2.722	4.620	4.642	4.653	66.0%
14	7-yr Reopening of MGII (Mat on 08/25)	7	May	Q2	14/5/2018	3,500	3,000		41,500	3.397	4.180	4.202	4.218	72.5%
15	10-yr Reopening of MGS (Mat on 06/28)	10	May	Q2	23/5/2018	3,500	3,500		45,000	1.851	4.178	4.202	4.215	45.5%
16	5.5-yr New Issue of MGII (Mat on 11/23)	5	May	Q2	30/5/2018	4,000	4,000		49,000	1.989	4.070	4.094	4.110	42.6%
17	20-yr New Issue of MGS (Mat on 06/38)	20	Jun	Q2	7/6/2018	3,000	2,500		51,500	1.942	4.866	4.893	4.906	23.3%
18	15-yr Reopening of MGII (Mat on 06/33)	15	Jun	Q2	28/6/2018	2,500	3,500		55,000	2.783	4.768	4.778	4.794	84.6%
19	30-yr New Issue of MGS (Mat on 07/48)	30	Jul	Q3		3,000								
20	10-yr Reopening of MGII (Mat on 10/28)	10	Jul	Q3		3,000								
21	7-yr Reopening of MGS (Mat on 03/25)	7	Jul	Q3		3,500								
22	20-yr Reopening of MGII (Mat on 08/37)	20	Aug	Q3		2,000								
23	15-yr Reopening of MGS (Mat on 11/33)	15	Aug	Q3		3,500								
24	5-yr Reopening of MGII (Mat on 11/23)	5	Aug	Q3		3,000								
25	30-yr Reopening of MGII (Mat on 05/7)	30	Sep	Q3		2,000								
26	10-yr Reopening of MGS (Mat on 06/28)	10	Sep	Q3		3,500								
27	3.5-yr New Issue of MGII (Mat on 03/22)	3	Sep	Q3		3,000								
28	20-yr Reopening of MGS (Mat on 06/38)	20	Oct	Q4		3,000								
29	10-yr Reopening of MGII (Mat on 10/28)	10	Oct	Q4		3,500								
30	7-yr Reopening of MGII (Mat 08/25)	7	Nov	Q4		3,000								
31	5-yr Reopening of MGS (Mat on 04/23)	5	Nov	Q4		3,000								
32	20-yr Reopening of MGII (Mat on 08/37)	20	Dec	Q4		2,000								
33	3-yr Reopening of MGII (Mat on 03/22)	3	Dec	Q4		2,000								
	Actual gross MGS/GII supply in 2018					102,500	55,000	6,500						

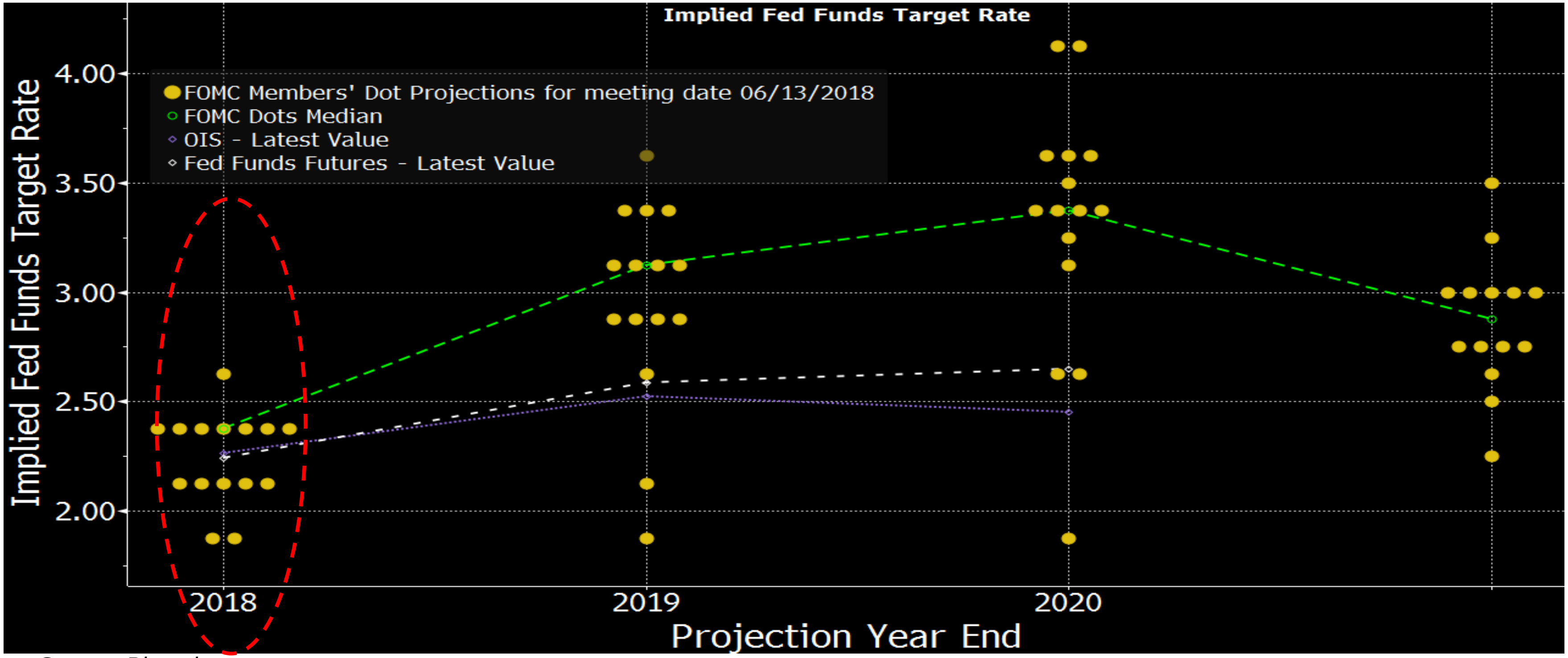
Foreign holdings of MYR government bonds (MGS + GII) continued to fall for 2nd consecutive month in May 2018



Source : BNM, Bloomberg, HLB Global Markets Research

Foreign holdings of MYR government bonds (MGS + GII; excl SPK which has zero foreign holdings) fell sharply, with net outflows of RM13.0bn to RM171.7bn in May 2018 (end-March: RM184.8bn), giving up substantial inflows earlier this year. This marked its lowest level of foreign holdings since Oct 2017 (RM173.0bn), amid GE14 fiscal policy uncertainties and widening interest rate differentials between the US and emerging economies. MGS foreign holdings also dipped for the 2nd straight month, by RM5.9bn to RM156.9bn (41.9% of outstanding MGS) in May, the lowest month for the year whilst GII also declined from RM19bn levels as at end-March to just RM14.8bn, a decline of RM4.1bn and representing 5.1% of outstanding GIIs.

Fed dot plot suggests 1-2 more rate hikes for 2018



Source :Bloomberg

The Fed's balance sheet reduction remains on autopilot and monthly reduction will be increased by US$10bn to US$40bn beginning July-2018. This will eventually be raised to $50bn per month comprising of $30bn/month for treasuries and $20bn/month for agency debt/MBS. Once the caps reach these respective maximum, which is approx. 12 months after the start of the normalization program, they will remain in place (i.e. $50bn per month) until the FOMC judges that the Fed is holding no more securities than necessary to implement monetary policy. The Fed's balance sheet is expected to reduce from $4.3 trillion to targeted level of $2.0- $2.5 trillion with completion date estimated at end-2021, but there are talks this process will end sooner in 2020 at a balance sheet size of ~$3.0bn.

Fixed Income Outlook

Country	3M Views		Comments/ Outlook
US	**Maturity Preference**		**Sovereigns** Bond investors saw a turbulent 2Q 2018 as UST yield curve; depicted by the 2Y10Y spread and similarly the 5Y30Y spreads tightened by 14-16bps to 33bps and 24bps respectively. The 2Y closed at the higher range of 2.27-2.59% levels whilst the 10Y at the lower range of 2.77-3.11%. Investors may maintain their growth expectations amid stronger jobs data and other manufacturing and consumer indicators. We expect the pace of short-end rates to move up slightly slower compared to the previous quarter whilst the longer-end continue to remain anchored at current levels on tepid inflationary pressures despite Fed interest rate policy normalization for 2018. The ongoing Fed's balance sheet reduction may exert upward pressure on bond yields together with additional issuances of $1.5 trillion tax reduction package coupled with $300b of additional stimulus. The 10-year UST may have limited upside gains hence pushing yields up to breach the 3.00% handle as was the case in May with levels anticipated between 3.00-3.20% for this quarter compared to current 2.85-90% levels. The downside to our forecast is ongoing global trade wars, tighter UST supply and less than two (2) Fed rate hikes kicking-in. Interestingly, pension funds, sovereign wealth funds (SWF's), and lifers may be able to absorb the increase in supply especially on the long-end even as domestic bank buying eases. Nevertheless, we are "risk-averse" on UST's save for the short-maturities offering a better risk-reward proposition. **Corporate** US HY bonds(High Yield i.e. junk bonds) saw strong investor appetite; driving premiums lower than IG (Investment Grade bonds); ignoring renewed trade tensions as spreads were little-changed as there were 196 deals totaling $110b YTD; nevertheless down 23% QOQ. The Bloomberg Barclays US Corporate High Yield Index returned 1.0% QOQ and -0.07% for the year whilst the Bloomberg Barclays US Investment Grade Index averaged -1.2% QOQ and -3.2% for the year; making both somewhat resilient performing asset classes in the global fixed income space. Bloomberg Barclays U.S. Aggregate Corporate OAS index, the IG proxy, blew out to levels not seen since 2016 closing at +124 basis points, a far cry from the more than decade-long tight of +85 set in February. Wider spreads and rising interest rates affected corporate bonds in 2Q18; with costs to buy protection on the CDX IG30 rising to the highest since March 2018. Some of the top US dollar-denominated Corporate issuers involving jumbo merger-related funding i.e. CVS/Aetna, Bayer/Monsanto and Walmart/Flipkart deals. The IG pipeline for the coming quarter is expected to be strong as corporations continue to borrow to pay for a wave of M&A activities. Up next on the radar include Walt Disney Co, Conagra Brands Inc and also Microsoft Corp. We are mildly negative on HY which have weathered recent volatility well relative to other Fixed-Income assets such as IG credit amid sensitivity to rate increases which affect weaker credits.
	Duration short-neutral		
	Policy Rate	**Yield Curve**	
	Fed officials are maintaining view on interest rate normalization with **another** 1-2 rounds of 25bps Fed rate hike in 2018, similar to our revised in-house projection totaling 4 hikes for the year	Yield curve is expected to maintain its flattened stance; with mild concerns on yield-inversion on Fed policies resulting in tentative risk of recession by end-2019, if history is of any guide	

Fixed Income Outlook

Country	3M Views		Comments/ Outlook
Singapore	**Maturity Preference**		**Sovereigns** The SGS yield curve saw a steepening upwards shift; with the short 2Y up 14bps at 1.93% whilst the 5-30Y yields were slightly less volatile; rising between 20-25bps (5Y:2.27%; 10Y:2.54%; 30Y:2.81%) in 2Q18. Nevertheless SGS were seen attempting to mirror UST's during the quarter under review as UST's yields increase by a whopping 26bps on the short-end 2Y whilst the 5-20Y saw a spike of between 12-18bps save for the long-bond. We expect SGS to continue tracking movements in UST yields. The 10-year yield continues to hover at 2.54% levels (1Q18: 2.29%) at time of writing but the recent renewed calls for additional two(2) rate hikes by the FOMC in the US following strong jobs numbers coupled with higher global oil prices could see portfolio capital flight from emerging economies including Singapore. Hence; we foresee upside moves 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 by portfolio managers, insurance and pension funds. The 2-10Y and 5-20Y yield spreads of 52 and 48bps respectively for 2Q this year are ~15bps tighter than average and are seen to maintain the current flat trend of the curve. Investors are expected to adopt negative duration requirements i.e. lower price sensitivity to interest rate spikes; hence the short-end SGS bonds. **Corporate** Primary issuance print for the SGD corporate bonds space remains active despite being whipsawed by interest rate volatility as issuers collectively raised SGD$2.0b in total issuances for 2Q 2018. Some of the names included CAPITARETAIL China Trust (4Y 3.25% SGD130m), ICBC/Sydney i.e. ICBCAS (1Y 2.00% SGD85m) and MAPLETREE Treasury Services (3Y 2.888% and SUNTECH Reits (5Y 3.40% SGD180m). The sustained rise in interest rates from end 2017 may continue to unsettle markets such as the machine-tool manufacturer CW Group's SGD75m bond default. We are cautious of the rapid expansion of the credit space and the relatively low level of risk premium the market is pricing into bonds issued by new entrants. Nevertheless exposure in shorter-duration and high-quality bank credits may be advantageous on yield-carry requirements due to benefit derived from higher interest rates. Bonds issued by the property sector are commendable as the sector is supported by sound macro environment.
	Duration short		
	Policy Rate	**Yield Curve**	
	With US interest rates creeping higher; expect the upcoming monetary policy direction (SGD NEER) by MAS to advocate a modest and gradual appreciation of SGD as inflation is low whilst growth is not expected to be as strong as last year. USDSGD pair sees a rising tendency due to elevated trade tensions between US and China. Nevertheless government spending may accelerate and announcement of GST hikes may bring forward discretionary spending.	SGS curve expected to track potential upward pressure in UST yields; albeit a parallel shift is expected having flattened the past 2Q.	

Fixed Income Outlook

<table>
<tr><th>Country</th><th colspan="2">3M Views</th><th>Comments/ Outlook</th></tr>
<tr><td rowspan="5">Malaysia</td><td colspan="2">Maturity Preference</td><td rowspan="5"><u>Sovereigns</u>
Market sentiment was softer post GE-14 as the MYR sovereign curve recently saw a sell-off especially on the mid-longer-ends post-national GE14 (elections). Some of these can be attributed to fiscal impact arising from the new PH government’s paradigm shift in the implementation of zero-GST, re-introduction of petrol subsidies, national debt worries, review of mega-projects. On the international front, threats from global trade conflicts and further tightening of liquidity by the US Fed and potentially ECB too going forward, has fueled the recent sell-off in EM financial assets; especially fixed income and equities. Nevertheless we foresee some healthy demand from offshore trickling in on the back of an already weaker but stable MYR seen at current levels. Hence relative yields have attracted some bargain hunting interest especially in the shorter-end off the runs 19-23’s and the 10Y MGS/GII. Going forward, investors in MYR govvies are expected to stay vigilant, watching closely developments in the US on the ongoing global trade tariff conflicts between US and the block of countries i.e. China-EU-Canada-Mexico. With BNM expected to stay pat on rates, Malaysia’s bonds may however be less sensitive to further UST sell-off, and potential for further MYR gains and stability may entice both offshore and onshore real-money investors to snap-up local govvies. The 5Y (2Q18: 6Y) and 15Y space still offers “good carry proposition” given supportive supply-demand technicals whilst the 10Y is expected to hover within a range of 4.00-4.20% (2Q18: 3.90-4.10%).

<u>Corporate</u>
Corporate bonds/Sukuk issuances reached RM22.6b as at end 2Q18, down about 30% from 1Q18’s RM29.6b but 75% lower compared to 4Q17’s RM40b. Total projected gross supply for the year is RM95-105b. The faltering momentum was due to concerns over current contingent liabilities involving government-guaranteed (GG) issuances (circa 40% of total issuances. Trading activities for corporate bonds also sputtered to circa RM300m daily volume for 2Q18 with interest skewed mainly towards the GG and AA segment compared to AA-space in the previous quarter. With institutional investors split between credit quality and yield requirements we continue expect appetite to skew towards the AA-space; mainly in the tolled roads/power sub-sector of infrastructure bonds on names like Southern Power, Tanjung Bin Energy, EDRA energy, YTL Power, BGSM, SEB and DUKE3 etc for yield pick-up. We also foresee values in the Govt-Guaranteed (GG) space due to decent spreads in excess of 40bps against MGS for this part of the yield curve along tight supply in view of reduced issuances following concerns raised above. Meanwhile AAA-rated Genting Malaysia is expected to seek RM1.8b from bond issuances involving 5Y (~4.9-5.0%), 10Y (~5.2-5.3%) and 15Y (~5.5-5.6%).</td></tr>
<tr><td colspan="2">Duration neutral; watch the 5Y and15Y govvies space; GG and AA-rated Corps</td></tr>
<tr><td>Policy Rate</td><td>Yield Curve</td></tr>
<tr><td>No revision in our assessment of OPR i.e. current level expected to maintain at 3.25%. BNM MPC hiked OPR by 25bps in 1Q18, amid expectations of further Fed policy tightening</td><td>Marginally higher and flatter yield curve with intermittent range-bound trading activities for MYR govvies with value-seeking investors watching 5Y and 15Y space although we expect marginal risks of higher yields; induced by additional US Fed rate hikes</td></tr>
</table>

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