Quarterly Market Outlook 4Q2018

Global Markets

October 2018

Content

Global Growth Outlook

Real GDP (% YOY)	Latest 2 Quarters		Actual	Forecast		Forecast (official)	
	1Q18	2Q18	2017	2018	2019	2018	2019
World	-	-	3.7	**3.8** *(3.8)*	**3.6** *(3.7)*	**3.9** *(3.5)*	**3.9** *(3.6)*
DM/ G10	1.9	3.2	2.4	**2.4** *(2.4)*	**2.1** *(2.1)*	-	-
US	2.8	2.9	2.3	**2.9** *(2.9)*	**2.5** *(1.9)*	**3.1** *(2.8)*	**2.5** *(2.4)*
Eurozone	2.5	2.1	2.4	**2.0** *(2.2)*	**1.8** *(1.9)*	**2.0** *(2.1)*	**1.8** *(1.9)*
UK	1.2	1.2	1.8	**1.3** *(1.4)*	**1.5** *(1.6)*	**1.4** *(1.4)*	**1.8** *(1.7)*
Japan	1.1	1.0	1.7	**1.1** *(1.1)*	**1.1** *(1.0)*	**1.5** *(1.6)*	**0.8** *(0.8)*
BRICs	5.8	5.8	5.7	**5.7** *(5.6)*	**5.6** *(5.7)*	-	-
China	6.8	6.7	6.9	**6.6** *(6.5)*	**6.3** *(6.3)*	**6.5**	-
India	7.7	8.2	7.1	**7.4*** *(6.6)*	**7.4*** *(7.3)*	**7.3**	**7.6**
Asia ex-Japan	6.3	6.2	6.2	**6.1** *(5.9)*	**5.9** *(5.9)*	-	-
EMEA	3.6	3.3	3.6	***2.9*** *(3.1)*	**2.4** *(2.9)*	-	-

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

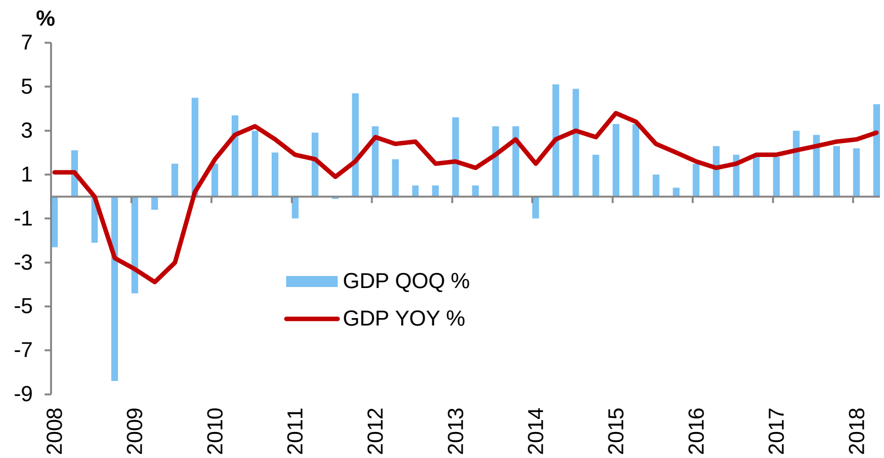
Global Central Banks Policy Rate Outlook

	Current	4Q18	1Q19	2Q19	3Q19	4Q19	
United States Federal Reserve *Fed Funds Rate*	**2.00 - 2.25**	2.25-2.50	2.25-2.50	2.50-2.75	2.50-2.75	2.75-3.00	2 hikes in 2019
Eurozone European Central Bank *Main Refinancing Operation Rate*	**0.00**	0.00	0.00	0.00	0.25	0.25	1 hike in 2019
United Kingdom Bank of England *Bank Rate*	**0.75**	0.75	0.75	0.75	0.75	0.75	No hike in 2019
Japan Bank of Japan *Policy Balance Rate*	**-0.10**	-0.10	-0.10	-0.10	-0.10	-0.10	No hike in 2019
Australia Reserve Bank of Australia *Cash Rate*	**1.50**	1.5	1.5	1.5	1.5	1.5	No hike in 2019
New Zealand Reserve Bank of New Zealand *Official Cash Rate*	**1.75**	1.75	1.75	1.75	1.75	1.75	No hike in 2019
Malaysia Bank Negara Malaysia *Overnight Policy Rate*	**3.25**	3.25	3.25	3.25	3.25	3.25	No hike in 2019
Thailand The Bank of Thailand *1-Day Repurchase Rate*	**1.5**	1.75	1.75	1.75	1.75	1.75	No hike in 2019
Indonesia Bank Indonesia *7-day Reverse Repo Rate*	**5.75**	6.00	6.25	6.50	6.50	6.50	2 hikes in 2019
Philippines Bangko Sentral ng Pilipinas *Overnight Reverse Repo Rate*	**4.5**	4.5	4.5	4.5	4.5	4.5	No hike in 2019

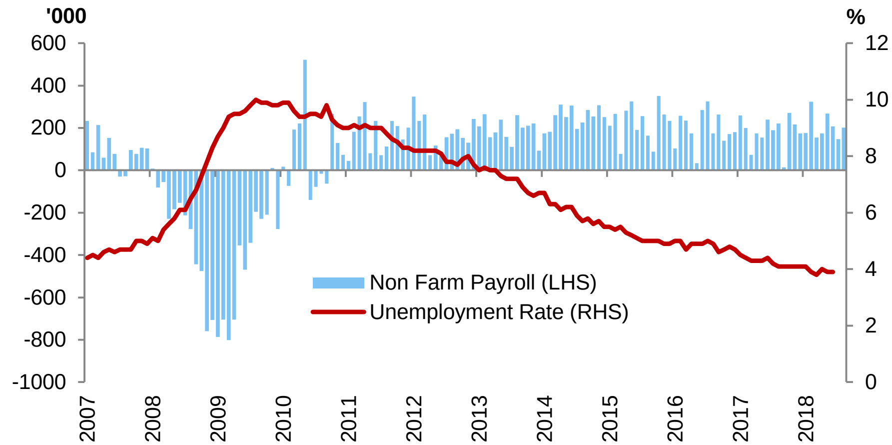
Source: Bloomberg, Global Markets Research

The US – Growth forged ahead in 2Q, tax cuts to support consumption at least until end 2018

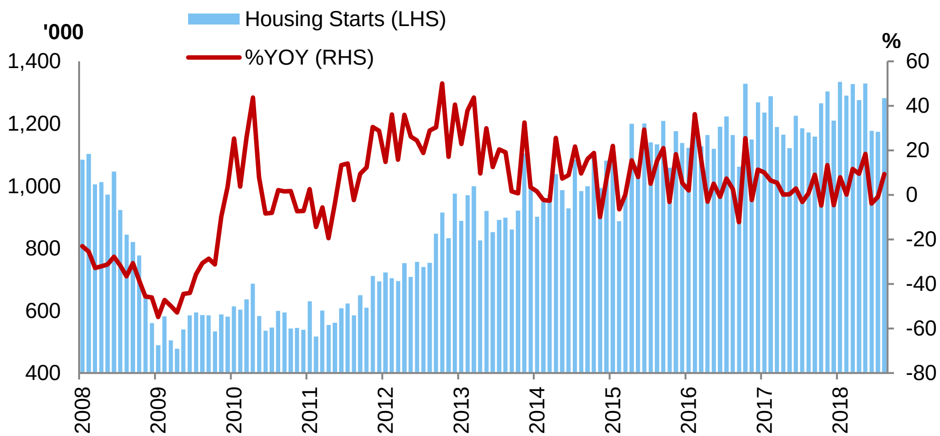
2Q18 2Q growth took off after a subdued 1Q as tax cuts fueled consumption



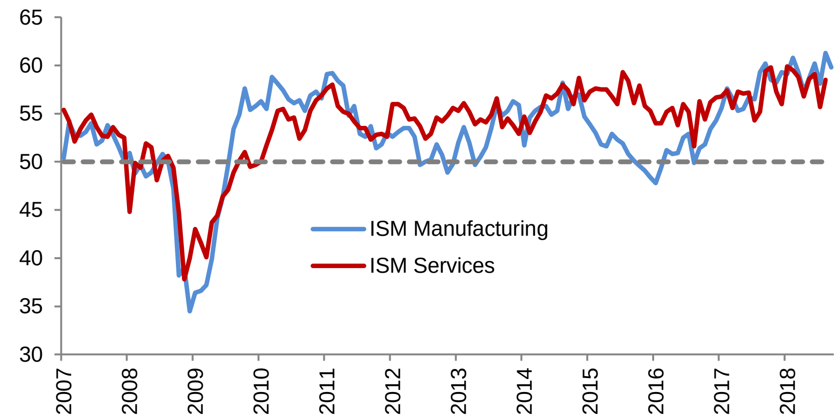
Labour market continues to tighten, inflation hit Fed's 2% target and wage growth accelerated



Mixed signals from the housing market – high demand but limited supply. Leading indicators point to slower housing activities

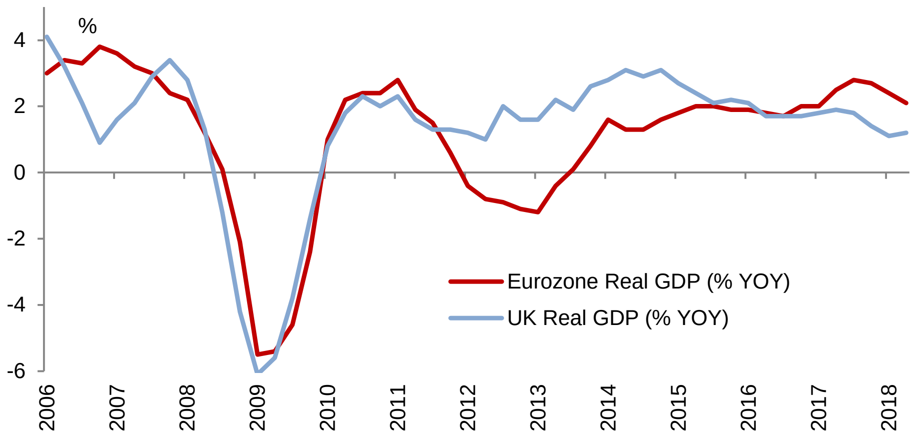


Manufacturing growth lost some momentum but remained solid, services held up

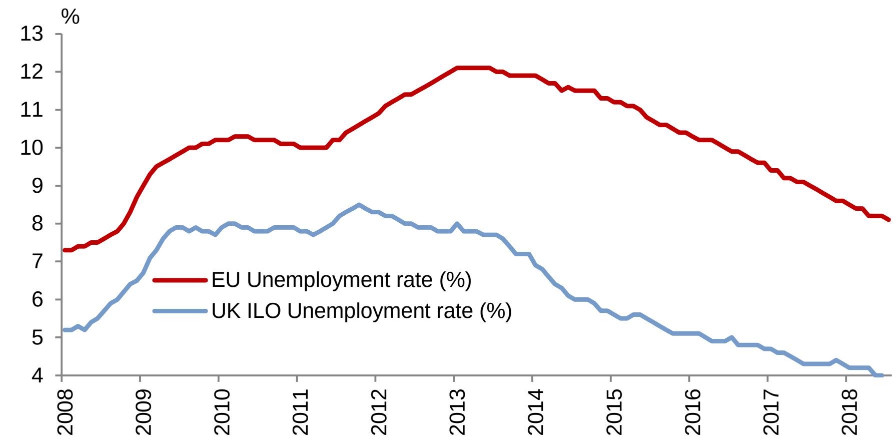


The EU and UK – Outlook skewed towards softening bias despite tighter labour market

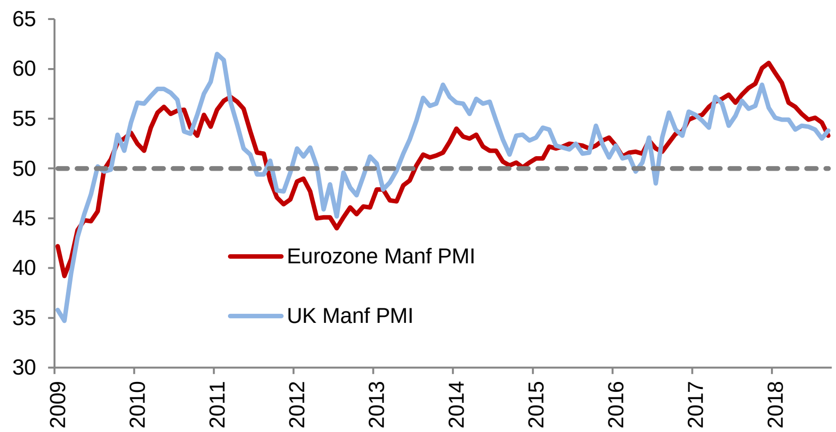
2Q GDP growth held steady in the Eurozone, picked up in the UK



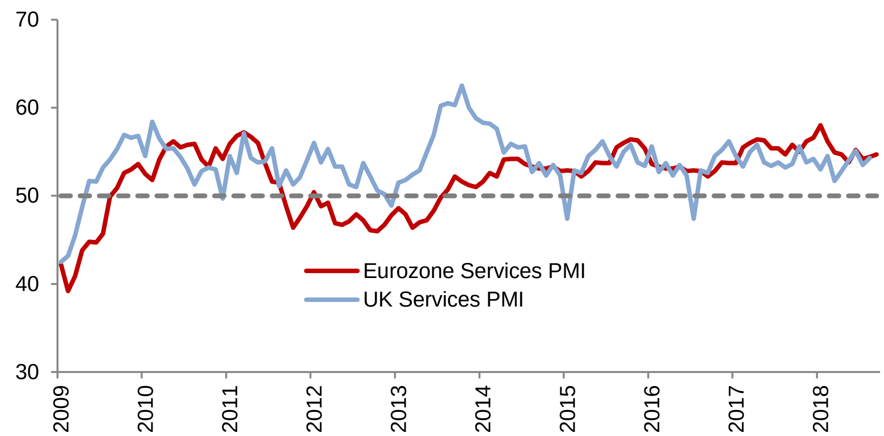
Labour market continued to strengthen in both Eurozone and UK



Manufacturing softened in Eurozone, improved in UK

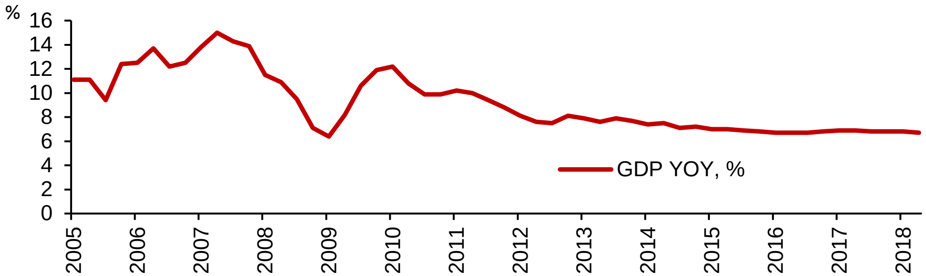


Services continued to range bound in both Eurozone and UK.

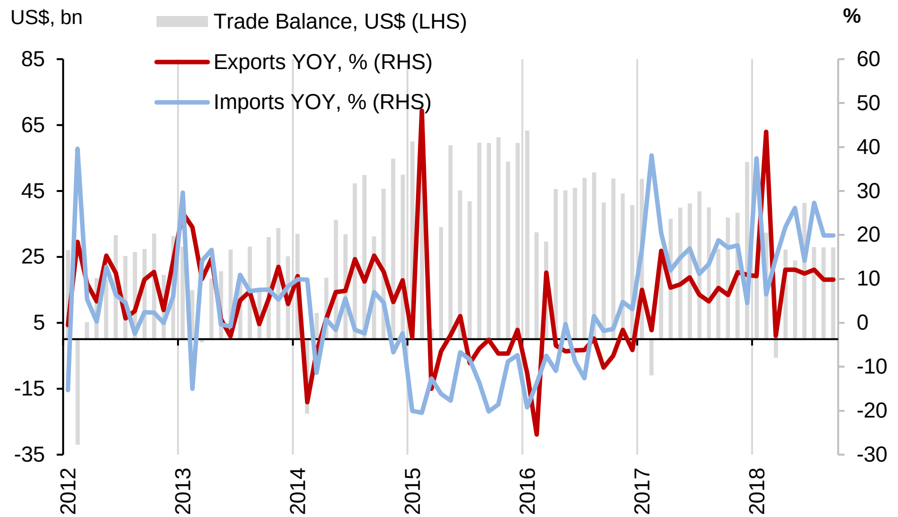


China – Juggling between domestic headwinds and external challenges

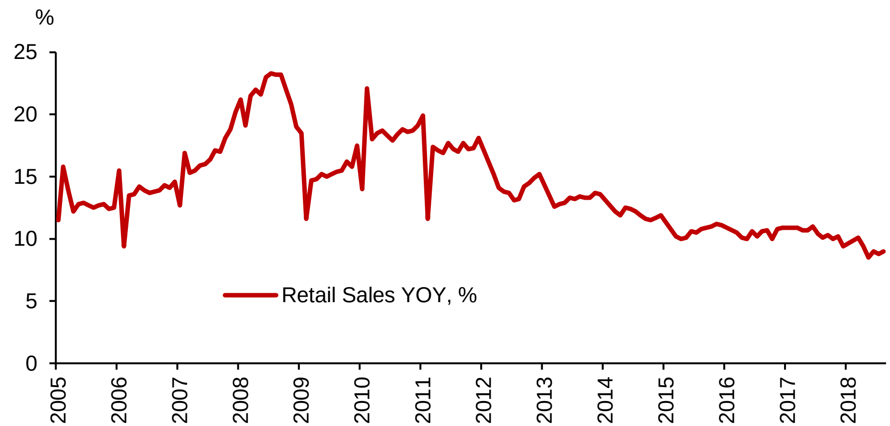
Growth poised to slow further, fiscal measures act as booster.



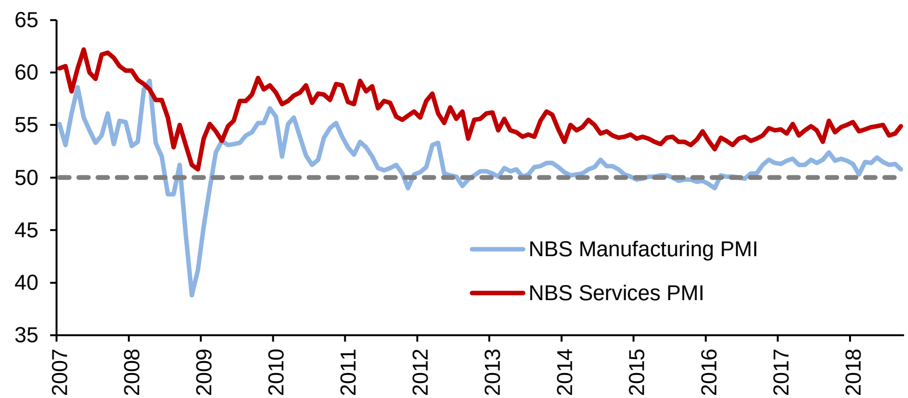
Trade outlook affected by trade war with US



Retail sales eased for the past 2 months

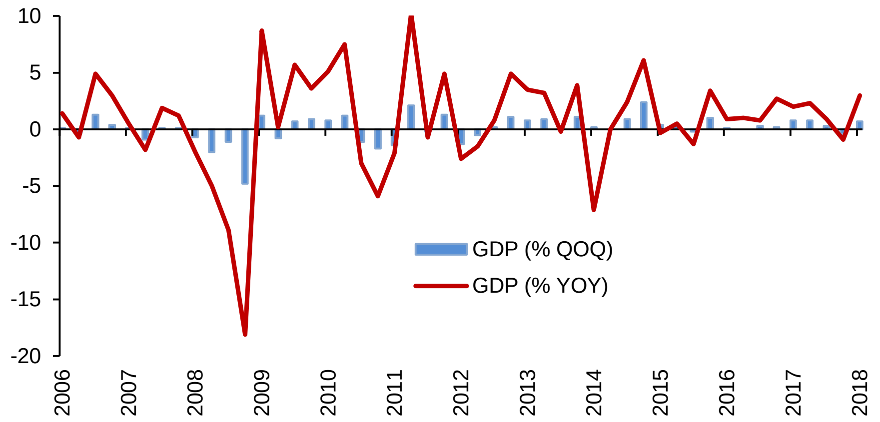


Manufacturing growth lost momentum, services still holding up

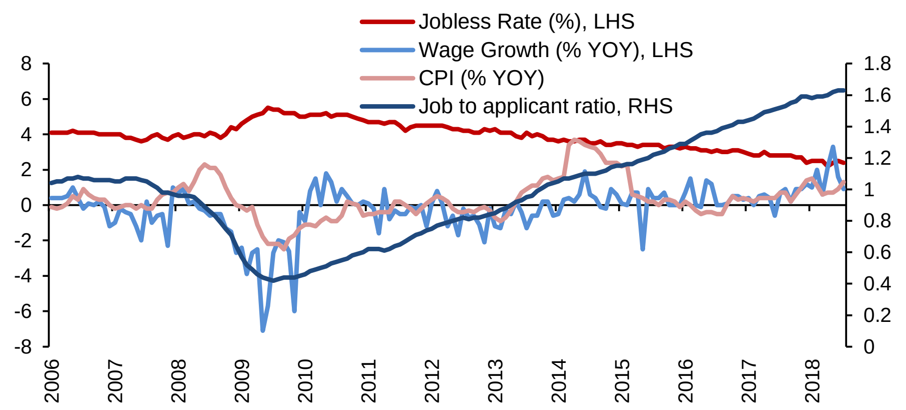


Japan – Mixed signals in the economy, inflation remained subdued

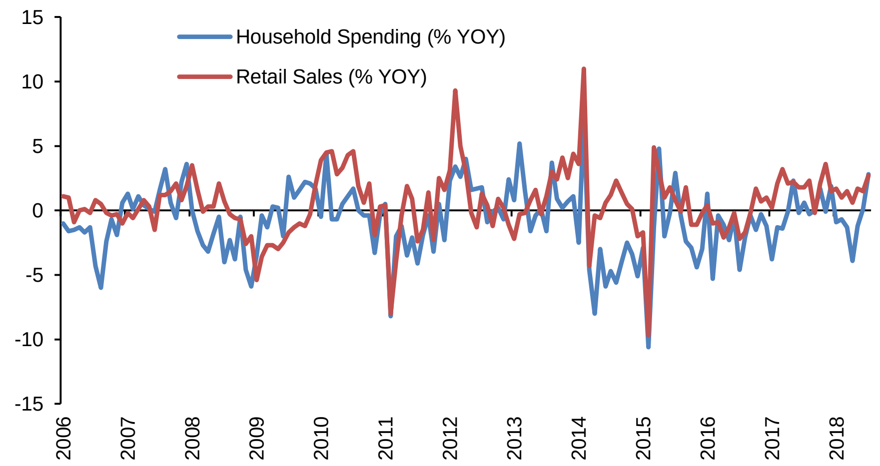
2Q18 growth rebounded after a contraction in 1Q



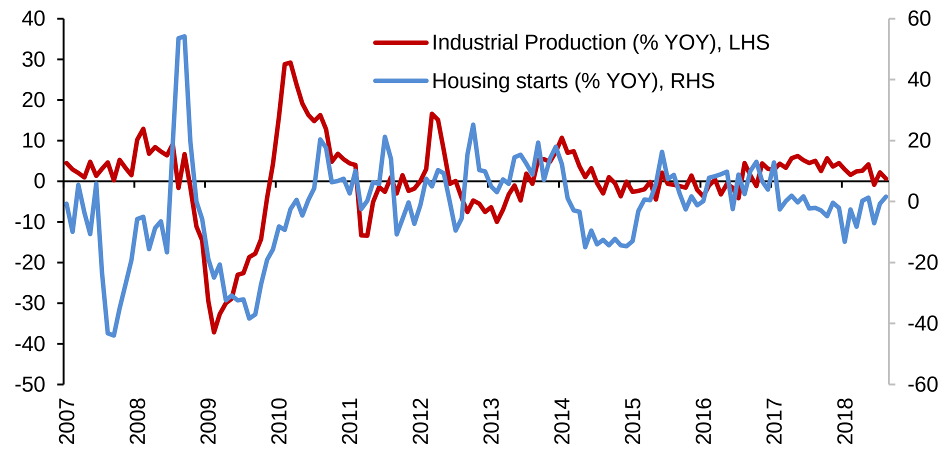
Labour market continued to tighten, accelerating base pay growth a welcoming sign, but inflation remained subdued.



Household spending rebounded after 5 months of contractions

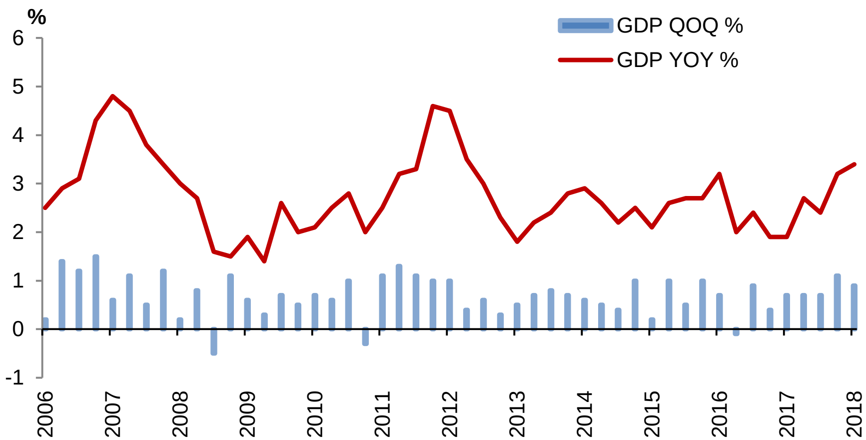


Industrial production weakened, housing starts rebounded

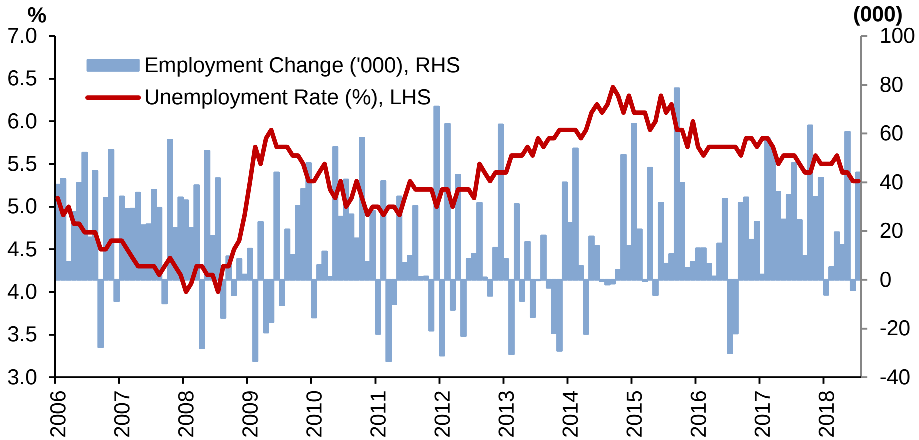


Australia – 2Q18 growth confirmed strengthening economy, outlook affected by China

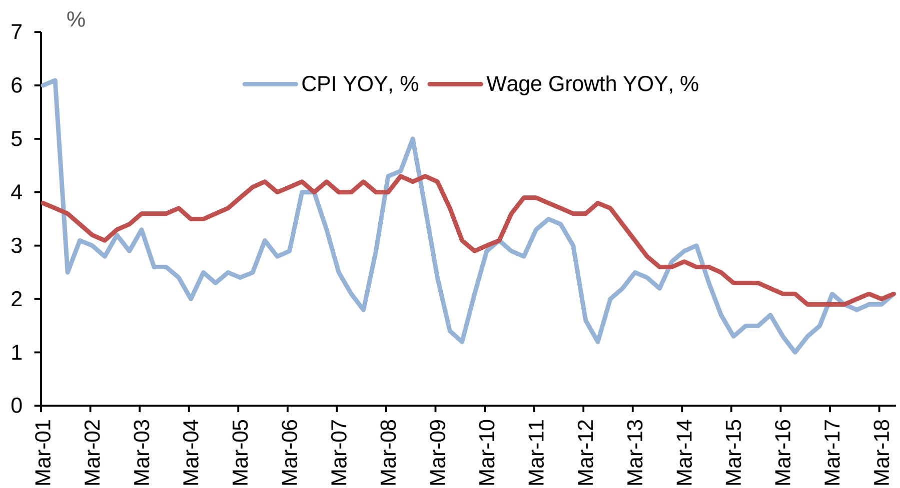
Upbeat 2Q18 GDP, led by solid consumption growth



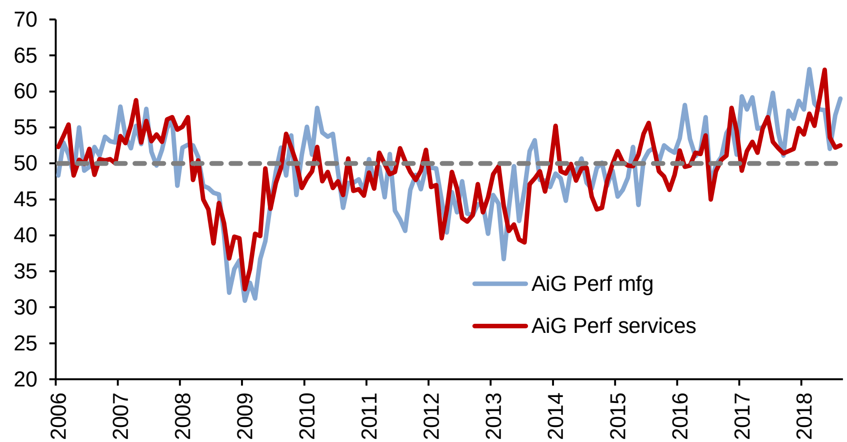
Labour market remained in broad strength



But wage growth and inflation remained subdued

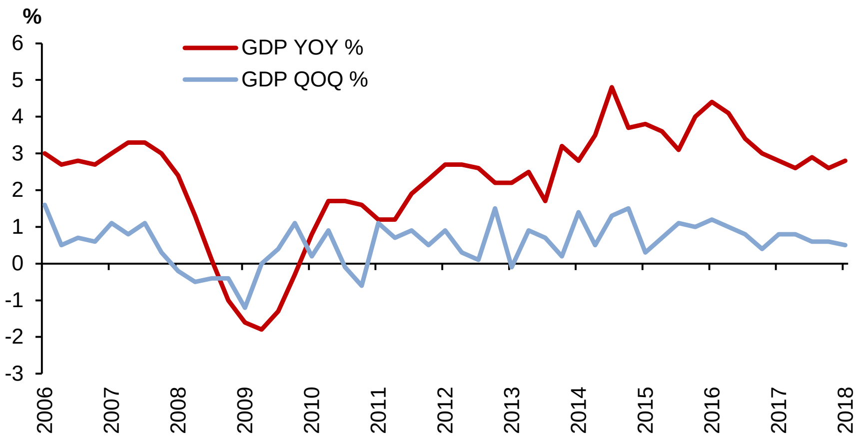


Manufacturing improved but services slowing down

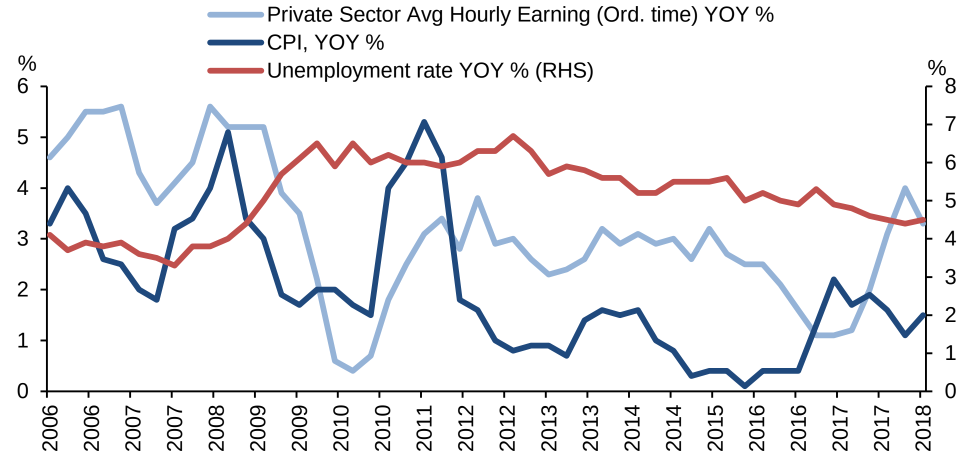


New Zealand – Deteriorating confidence level led to uncertainty over next rate hike

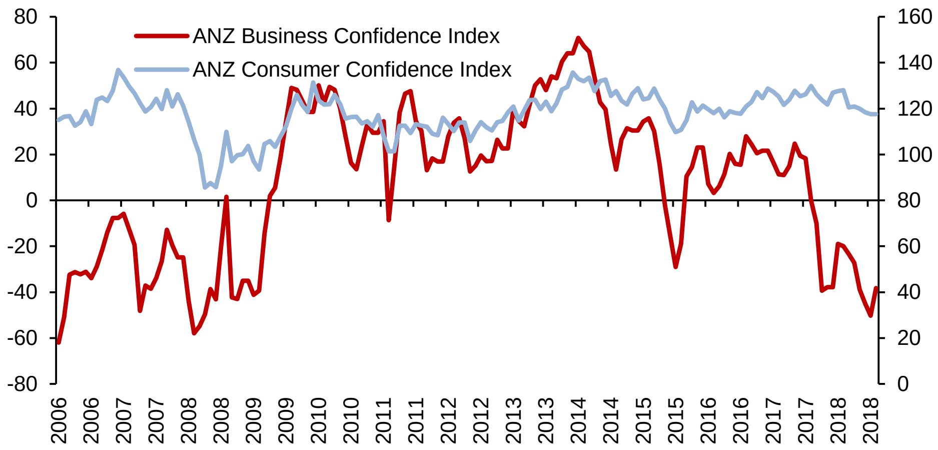
Surprisingly strong 2Q GDP growth



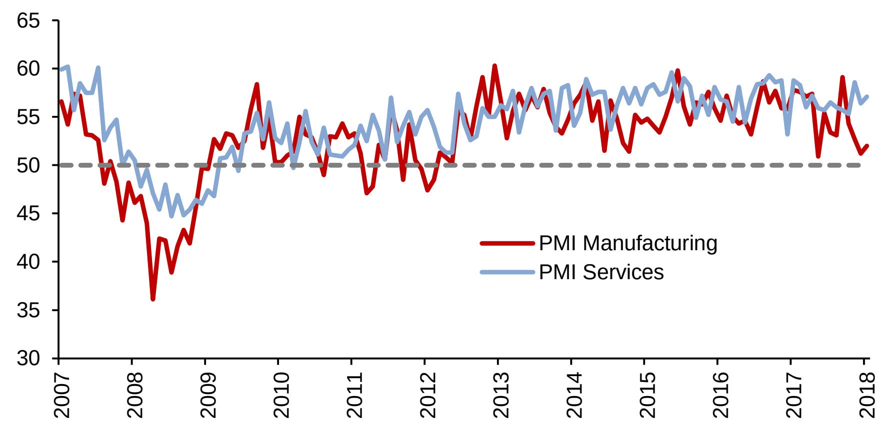
Inflation within RBNZ range, wage growth quickened as unemployment rate dipped



…but confidence level dipped further, hindering a potential OCR hike

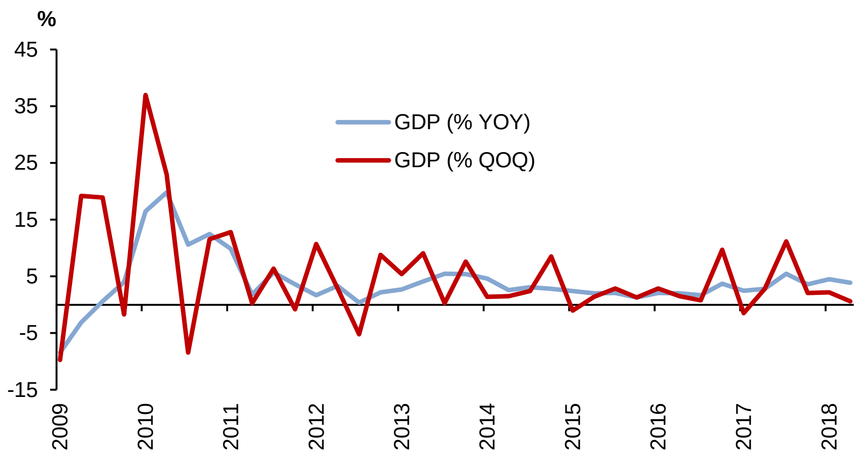


Softer manufacturing; services sectors show signs of softer momentum

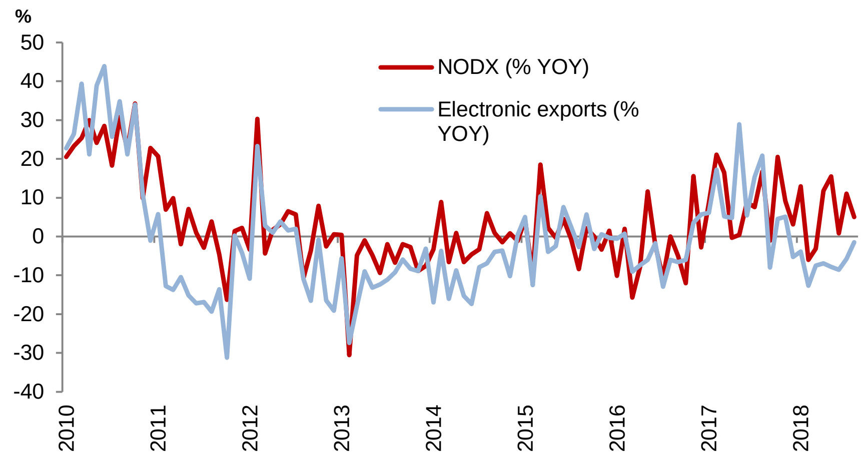


Singapore – External challenges post uncertainty over MAS policy normalization path

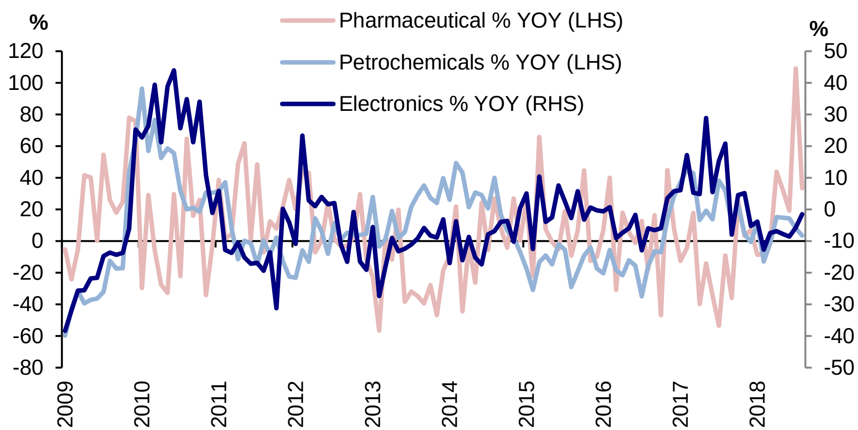
Slower 2Q GDP growth after a surprisingly upbeat 1Q



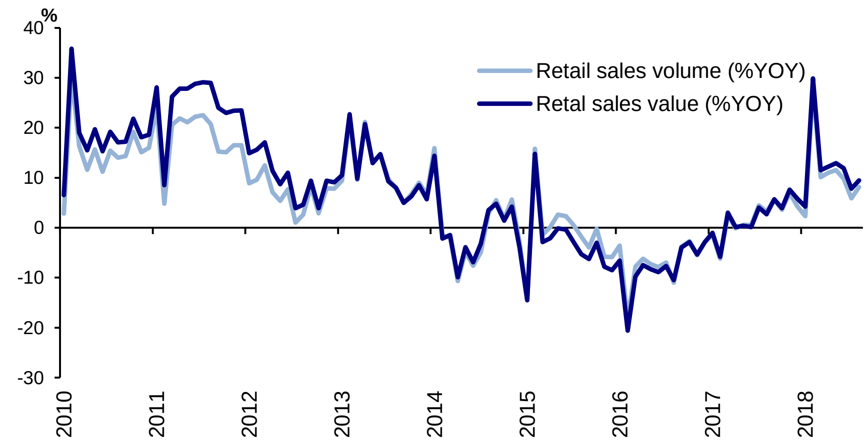
NODX saw further moderation as external demand weakened



Electronics exports saw extended albeit smaller contraction, pharmaceuticals remained volatile, petrochemicals moderated

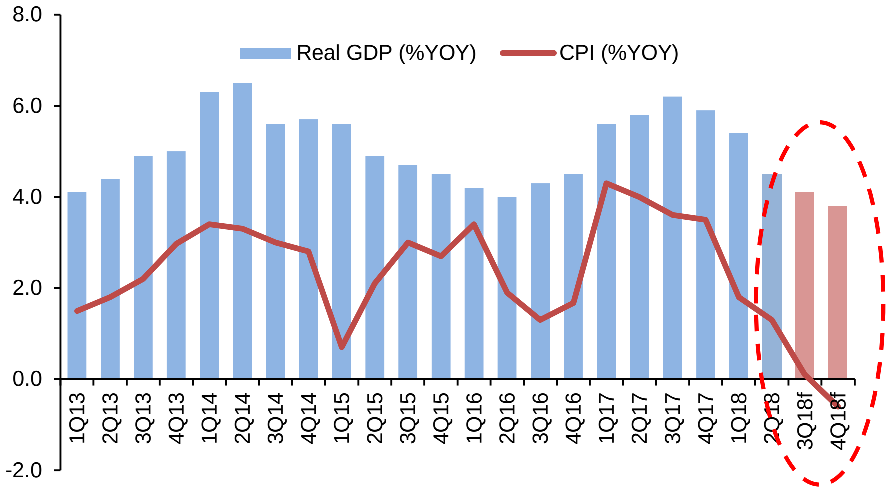


Retail sales slowed in 2Q but remained in positive territory, and way above last year's levels

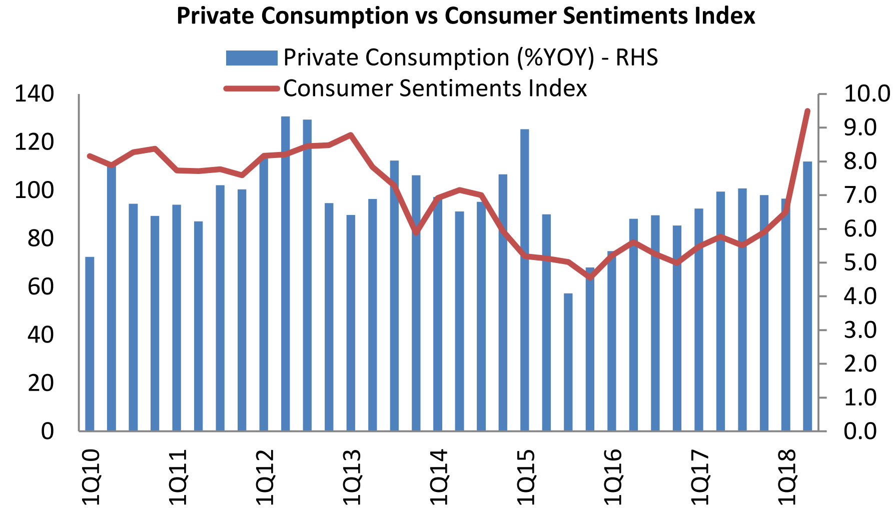


Malaysia – Slower growth and inflation outlook amidst economic and policy transition

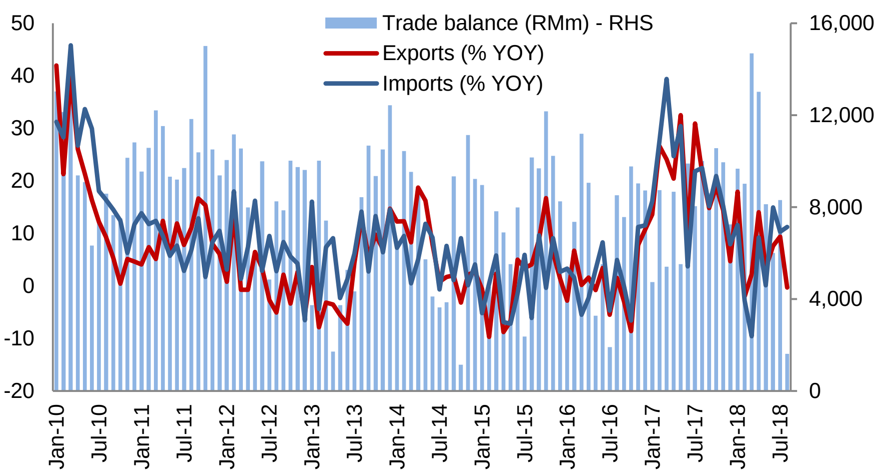
Expect growth to moderate further in 2018



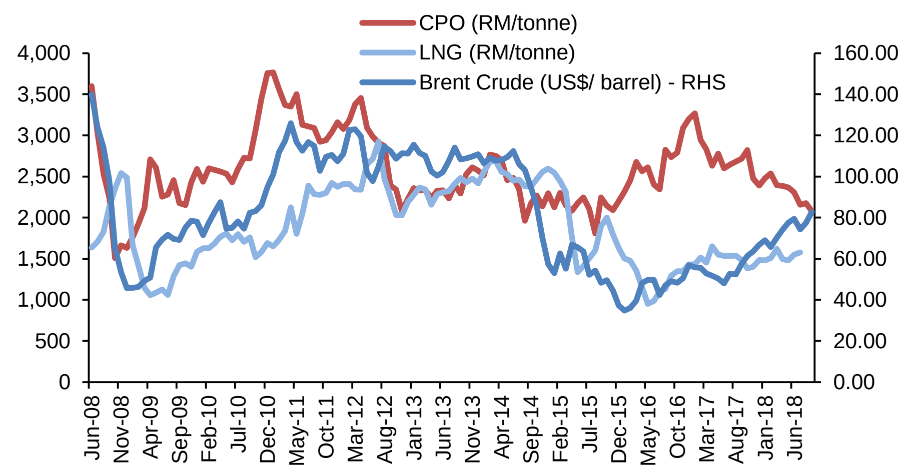
Better sentiments amidst fiscal reform to keep consumer spending supported



Exports contracted in August leading to lowest surplus in nearly 4 years



Weaker CPO prices cushioned by rally in crude oil prices



FX Outlook – 4Q18

Currency	Outlook	Comments
USDMYR	➘	• USD is likely to lose its luster heading into 2019 on diminishing expectations on the Fed to keep up its hawkish bias; MYR is well-supported by firmer growth outlook in 2019
EURUSD	➚	• Markets are expected to shift attention to ECB ending its QE programme in 4Q, which will then likely drive anticipation on hawkish monetary policy
GBPUSD	➚	• GBP will be supported by signs of improvement in Brexit talks but downside risks aplenty
USDJPY	➘	• Driven largely by a softer USD; lingering risk events such as emerging market weakness, trade war, Italian fiscal woes will provide support to JPY
AUDUSD	➔	• Likely to remain subdued on easing growth in China, low chance of near-term RBA rate hike
NZDUSD	➔	• Likely to remain subdued on easing growth in China, low chance of near-term RBNZ rate hike
USDSGD	➔	• Effects of a softer USD is likely offset by MAS keeping policy unchanged amid downside risks to growth

Source: Global Markets Research

FX Forecasts

Currency Pair	Close on 28 Sept 18	End 4Q18 closing	End 1Q19 closing	End 2Q19 closing	End 3Q19 closing
EUR/USD	1.1604	1.17 – 1.19	1.19 – 1.21	1.20 – 1.22	1.21 – 1.23
GBP/USD	1.3031	1.30 – 1.32	1.31 – 1.33	1.32 – 1.34	1.33 – 1.35
USD/JPY	113.70	111 – 113	112 – 114	112 – 114	112 - 114
AUD/USD	0.7224	0.71 – 0.73	0.71 – 0.73	0.72 – 0.74	0.72 – 0.74
NZD/USD	0.6619	0.65 – 0.67	0.66 – 0.68	0.65 – 0.67	0.66 – 0.68
USD/SGD	1.3670	1.35 – 1.37	1.34 – 1.36	1.32 – 1.34	1.32 – 1.34
USD/MYR	4.1380	4.08 – 4.10	4.03 – 4.05	3.98 – 4.00	3.98 – 4.00
EUR/MYR	4.7987	4.82 – 4.84	4.84 – 4.86	4.82 – 4.84	4.86 – 4.88
GBP/MYR	5.4075	5.35 – 5.37	5.32 – 5.34	5.30 – 5.32	5.34 – 5.36
AUD/MYR	2.9866	2.93 – 2.95	2.90 – 2.92	2.90 – 2.92	2.94 – 2.96
SGD/MYR	3.0254	3.00 – 3.02	2.98 – 3.00	2.99 – 3.01	2.99 – 3.01

Source: Bloomberg, Global Markets Research

USDMYR: Softer gains have emerged, suggesting that downside momentum may finally be weighing down on recent upside strength. Looking for potential upside failure circa 4.1770 – 4.1825 that sets a course for declines.

Resistances: 4.1605, 4.1770, 4.1825
Supports: 4.1500, 4.1360, 4.1000

AUDUSD: Expect downsides to extend, though at a softer pace and likely to bottom out approaching 0.6827 – 0.7000. This support would likely be the platform on which AUDUSD bounces higher as a correction to recent losses.

Resistances: 0.7130, 0.7200, 0.7330
Supports: 0.7000, 0.6900, 0.6827

** updated on 8 Oct 2018*
Source: Bloomberg, Global Markets Research

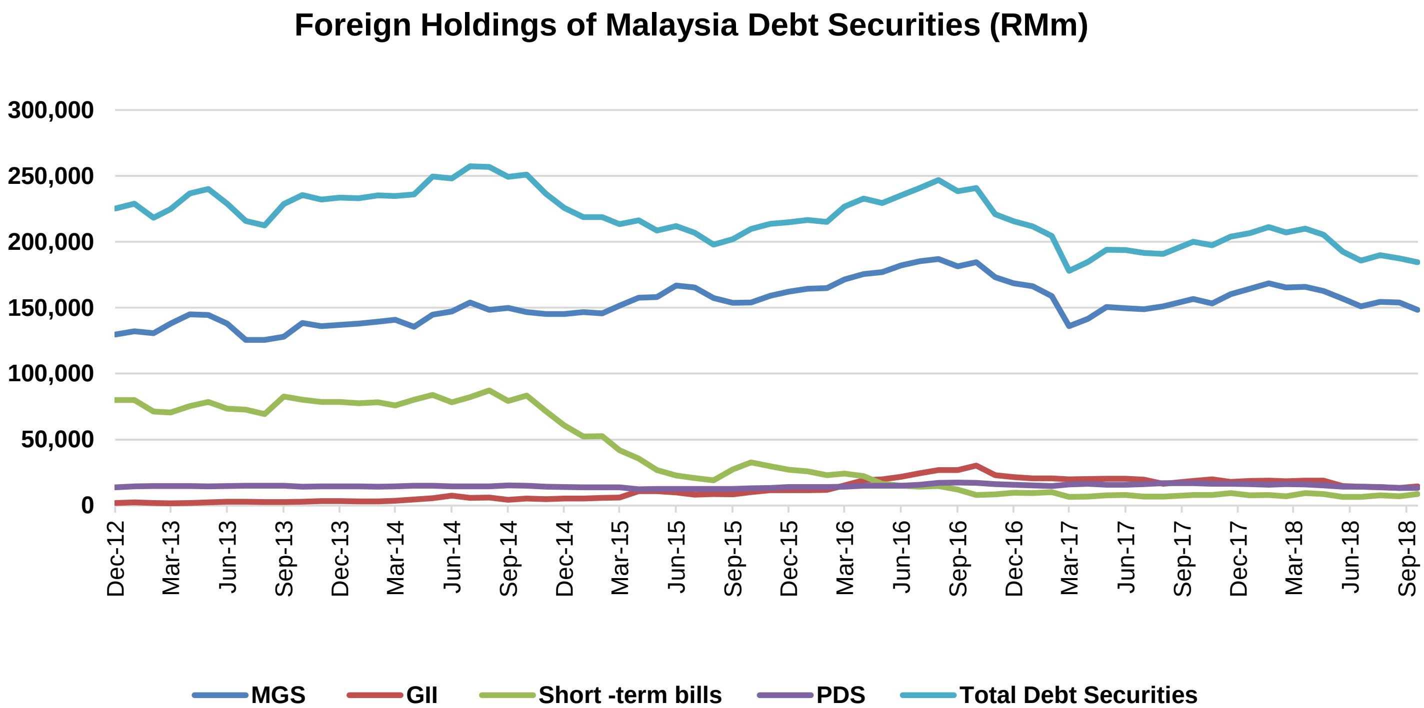
Fixed Income

3Q 2018 MGS/GII average BTC sustained at 2.33x from 2.34x in 2Q 2018 and 2.16x for 1Q 2018 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	5/7/2018	3,000	2,000		57,000	1.871	4.890	4.921	4.949	33.9%
20	10-yr Reopening of MGII (Mat on 10/28)	10	Jul	Q3	13/7/2018	3,000	4,000		61,000	2.439	4.216	4.240	4.248	18.5%
21	7-yr Reopening of MGS (Mat on 03/25)	7	Jul	Q3	27/7/2018	3,500	3,000		64,000	3.302	3.970	3.984	3.990	22.5%
22	20-yr Reopening of MGII (Mat on 08/37)	20	Aug	Q3	6/8/2018	2,000	2,500		66,500	2.108	4.746	4.768	4.784	100.0%
23	15-yr Reopening of MGS (Mat on 11/33)	15	Aug	Q3	14/8/2018	3,500	3,000		69,500	2.612	4.480	4.498	4.506	85.3%
24	5-yr Reopening of MGII (Mat on 11/23)	5	Aug	Q3	29/8/2018	3,000	3,500		73,000	1.817	3.800	3.816	3.825	50.0%
25	30-yr Reopening of MGII (Mat on 05/47)	30	Sep	Q3	13/9/2018	2,000	2,000		75,000	1.935	4.932	4.973	4.992	90.0%
26	10-yr Reopening of MGS (Mat on 06/28)	10	Sep	Q3	20/9/2018	3,500	3,000		78,000	2.670	4.080	4.097	4.100	54.8%
27	3.5-yr New Issue of MGII (Mat on 03/22)	3	Sep	Q3	27/9/2018	3,000	3,000		81,000	2.217	3.717	3.729	3.745	43.6%
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								
	Gross MGS/GII supply in 2018					102,500	81,000	6,500						

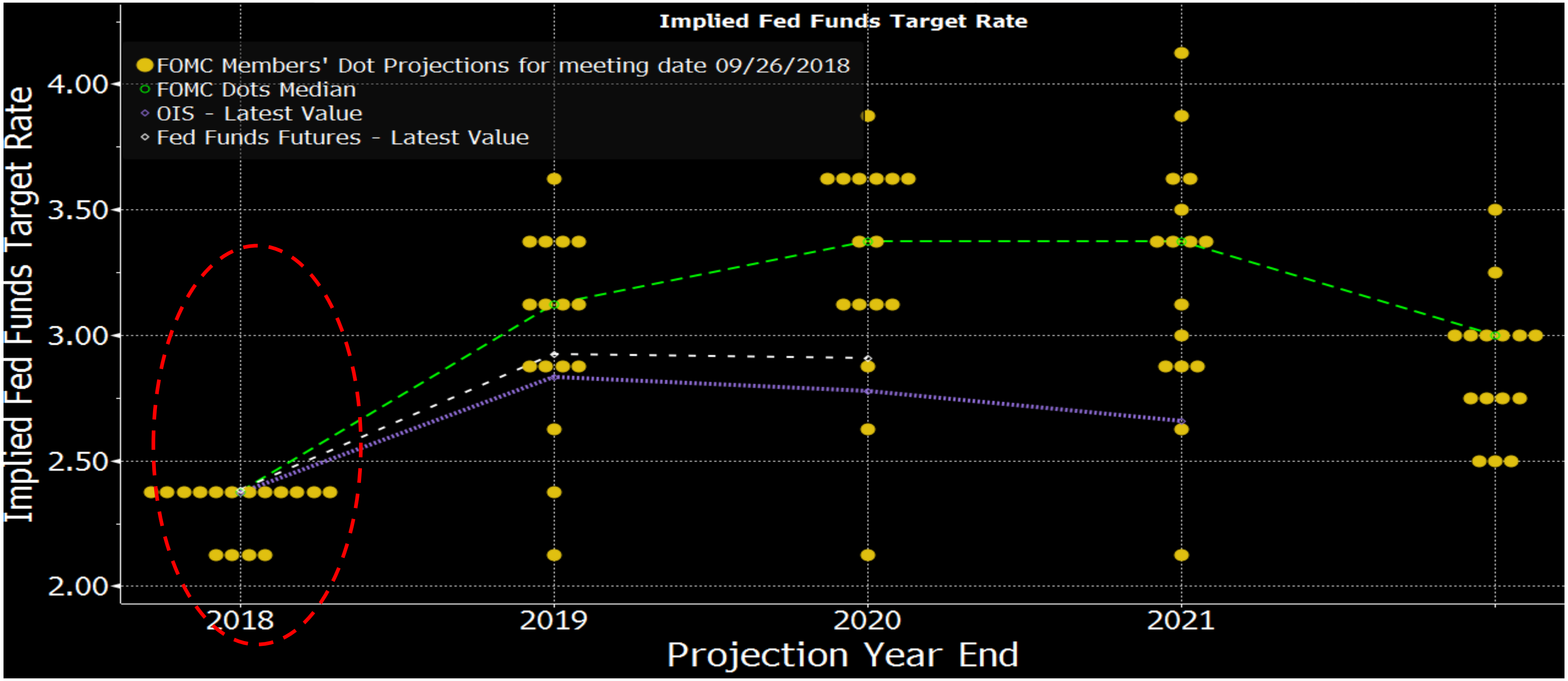
Foreign holdings of MYR government bonds (MGS + GII) continued to fall for 2nd consecutive month in Sep 2018



Source : BNM, Bloomberg, HLB Global Markets Research

Foreign holdings of MYR government bonds (MGS + GII; excluding SPK which has zero foreign holdings) fell sharply by RM4.4b to RM162.7b in Sep 2018. This marked a RM2.3bn reduction in foreign holdings of MGS+GII QOQ, from RM165.1bn as at end 2Q, back to the low last seen since Apr 2017 (RM161.7b); following EM outflows arising from twin factors of interest rate differentials between US-emerging economies and deterioration of current account surplus. MGS foreign holdings also dipped for the 2nd straight month, and by RM2.7b QOQ to RM148.3b as at Sep (i.e. 39.5% of outstanding MGS), also its lowest since Apr 2017 whilst GII edged higher by RM273m QOQ to RM14.4b as at Sep (i.e. 4.8% of outstanding GII bonds).

Fed dot plot suggests another final rate hike in Dec 2018



Source :Bloomberg

The September 2018 FOMC meeting and dot plot projection reveal policy makers maintained shift towards a faster pace of tightening in 2018; maintaining their forecast of four (4) increases of 25bps each. The projection of another rate hike this year follows the first three (3) official hikes of 25bps in March, June and September 2018. The Fed's monthly balance sheet reduction is now higher and capped at US$50b effective October 2018. (The balance sheet normalization program stops reinvestment of proceeds received from maturing assets as the cap increases in amounts of $10b at 3-month intervals commencing from $10b per month in October 2017). It will thereafter compose of both US Treasuries and Agency Debt/MBS in the ratio of 60:40 and will remain in place until the FOMC deems that the Fed is holding no more securities than necessary to implement monetary policy. Hence, the Fed's balance sheet is expected to reduce from ~$4.5 trillion to the targeted level of $2.5-3.0 trillion with completion date estimated earlier than the original date i.e. end-2021.

Fixed Income Outlook

Country	3M Views		Comments/ Outlook
US	**Maturity Preference**		**Sovereigns** Bond investors saw a turbulent 3Q 2018 despite the UST yield curve, depicted by the 2Y10Y spread and similarly the 5Y30Y spreads were little changed at 31bps and 30bps respectively. The 2Y closed at the higher range of 2.53-2.88% levels whilst the 10Y at the elevated levels of 3.20% as it moved within a range of 2.81-3.20%. Investors are aware of the strong US economy which has displayed resilience via jobs data (i.e. strong payrolls and hourly wages/earnings) coupled with ISM's non-manufacturing data. We expect slower pace of upward movement in short-end rates 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 has breached the 3.00% handle as was first seen in May and recently again and we anticipate yield levels to be higher between 3.10-3.30% for this 4Q compared to current 3.10-3.20% levels. The downside to our forecast is worsening US-China trade wars, tighter UST supply and no further Fed rate hikes for 2018. We are mindful of the ability of real money investors i.e. pension funds, SWF's and lifers to absorb and address supply concerns especially on the long-end even as domestic bank buying eases. Overall, we are still risk-averse on UST's with the short-maturities possibly offering better risk-reward stance. **Corporate** US High Yield (HY) i.e. junk bonds saw continued investor appetite; driving premiums lower at ~309bps spread whilst ignoring lingering trade tensions. The Bloomberg Barclays US Corporate High Yield Total Return Index returned 2.3% QOQ and 2.12% for the year whilst the Bloomberg Barclays US Corporate Total Return Value (for IG) averaged 1.2% QOQ but fell 3.3% for the year; making both somewhat still resilient asset classes in the global fixed income space. Bloomberg Barclays U.S. Aggregate Corporate OAS index, the IG proxy, revealed a tighter spread of 105bps over UST's; lowest since April 2018 (end 2Q : +124bps) yet a far cry from the more than decade-long tight of +85bps set in February 2018. This was due to the combination of higher Treasury yields and benign interest rate risk which has caused a bullish appetite for IG spreads. Likewise, the HY spreads hit a post-crisis i.e. 2008 low following spike in oil prices to a 4-year high and conclusion of new trade agreements with Mexico and Canada. There were not much changes in costs to buy protection on the CDX IG nor HY since the high recorded in 1Q 2018. Some of the top US dollar-denominated Corporate issuers involving jumbo merger-related funding i.e. Comcast Corp's $27b and Insurer Cigna's $24b deals. IG pipeline for the coming quarter is expected to lessen as corporations weigh the costs in a rising interest rate environment 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 slightly negative on HY which has weathered recent volatility well due to current market back-drop as investors turn to quality credits in non-cyclical sectors and transactions with transparent execution and pricing.
	Duration short-to-intermediate term		
	Policy Rate	**Yield Curve**	
	Fed officials are maintaining view on interest rate normalization with **another** round of 25bps rate increase in December 2018, similar to our revised house projection of a total of 4 hikes for the year.	Yield curve is expected to maintain its flattened stance; with concerns on potential yield-inversion due to aggressive Fed tightening policies resulting in elevated risk of recession by end-2019/early-2020.	

Fixed Income Outlook

<table>
<tr><th>Country</th><th colspan="2">3M Views</th><th>Comments/ Outlook</th></tr>
<tr><td rowspan="5">Singapore</td><td colspan="2">Maturity Preference</td><td rowspan="5"><u>Sovereigns</u>
The SGS yield curve saw a slight steepening bias, with the short 2Y moving 4bps lower at 1.93% whilst the 5-30Y yields were generally less volatile; edging about 3bps lower. The closing levels were: 5Y @ 2.23%; 10Y @ 2.49%; 20Y @ 2.80% and 30Y @ 2.84% for 3Q 2018. Nevertheless SGS were surprisingly seen decoupling from UST's during the quarter under review as UST's yields increased yet again by a whopping 20-30bps across the curve. However we expect SGS to continue tracking movements in UST yields as funding currencies begin their slow ascend following the rising interest rate outlook in US. The 10-year yield however has spiked to 2.64% levels at time of writing and the recent renewed calls for an additional rate hike by FOMC in US for 2018 following decent US Jobs numbers coupled with higher global oil prices has seen recent portfolio capital flight from emerging economies including Singapore. Expect investors to stay vigilant with prospects of selective bargain hunting as excessive upward movement in yields may attract real money investors by portfolio managers, lifers and pension funds. The 2-10Y and 5-20Y yield spreads of 58 and 54bps respectively for 3Q this year are mere 2-6bps wider than average for the period under review. Meanwhile SGS are the 5th biggest winner in 3Q in Asia after South Korea, Malaysia, New Zealand and India following returns of 0.6% (2Q: -0.5%; 1Q: -1.2%). Investors are expected to adopt shorter duration requirements with lower price sensitivity to interest rate movements.

<u>Corporate</u>
Primary issuance print for the SGD corporate bonds space remained active despite being whipsawed by interest rate volatility as issuers collectively almost doubled the raising of SGD$4.0b in total issuances for 3Q 2018. Some of the names included Surbana Jurong Private Ltd (7Y 4.11% SGD350m), Lum Chang (3Y 5.80% SGD40m) and China Construction Bank; Spore branch (2Y 2.643% SGD300m) and Housing & Development Board (7Y 2.625% SGD600m and 5Y 2.42% SGD700m) and Land Transport Authority (40Y 3.45% SGD1.5b). The sustained rise in interest rates from end 2017 and ongoing global trade conflicts may continue to unsettle debt-funded expansion as was seen with distressed debts i.e. Oilfield services provider, Swiber (SGD400m perps), water-treatment specialist, Hyflux (SGD500m) and machine-tool manufacturer CW Advanced Technology Group (SGD75m) bond default in June. 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. Worthy of note is that ~50% of bonds issued are from entities within the property sector which is seeing a slowdown especially in retail and commercial sub-sectors. Investors are expected to monitor the trade-dependent economy with the backdrop of the ongoing US-China trade dispute which could have negative spillover impact for certain credits.</td></tr>
<tr><td colspan="2">Duration short</td></tr>
<tr><td>Policy Rate</td><td>Yield Curve</td></tr>
<tr><td>With US interest rates creeping higher; expect 3Q monetary policy direction (SGD NEER) by MAS to revert to modest and gradual appreciation of SGD although inflation is capped despite rising oil prices. Whilst growth is expected to be at risks of a slowdown due to elevated US-China trade tensions, Singapore displays strong fundamentals such as current-account surplus</td><td>SGS curve expected to track potential upward pressure in UST yields; albeit a parallel shift is expected although having decoupled momentarily in 3Q.</td></tr>
</table>

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>

MYR sovereign curve saw appetite return especially on the mid-longer-ends in 3Q2018. Some of these can be attributed to greater clarity by the newly-elected government and the potential positive fiscal impact with regards to Federal debt reclassification, substitution of GST with SST, re-introduction of petrol subsidy for RON95, review and reduction of mega infrastructure projects. Overall benchmark yields rallied between 10-20bps in the 5-20Y tenures. On the international front, threats from global trade conflicts and further tightening of liquidity by the US Fed; has re-ignited a 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. Relative yields have already attracted bargain hunting interest especially in the shorter-end off the runs 19-25's and both the 10Y MGS/GII bonds. 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-China and higher interest rate outlook. With BNM expected to stay pat on rates, Malaysia's bonds may also be susceptible to further UST sell-offs with no major shift in USDMYR levels expected. However we anticipate solid support for the Islamic govvies i.e. GII's in view of strong local/onshore institutional support. The 7Y (2Q 2018: 6Y) and 15Y space still offers "decent carry proposition" given supportive supply-demand metrics whilst the 10Y is deemed fairly-valued and expected to hover within a range of 4.10-25% levels (3Q 2018: 4.01-4.09%).

<u>Corporate</u>

Corporate bonds/Sukuk issuances reached RM20.8b as at end 3Q 2018 down slightly by about 8% from 2Q 2018's RM22.6b. Total projected gross supply for the year is RM95-105b with RM74b issued to-date (circa 75% of projected median of total issuances). Trading activities for corporate bonds also spiked to circa RM560m daily volume for 3Q 2018 with interest skewed mainly towards the GG and AA segment. Institutional investors have and will continue to weigh 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-related bonds on names like EDRA Energy, Southern Power, Tanjung Bin Energy, YTL Power, BGSM, SEB and DUKE3 etc for yield enhancement purposes. We also foresee values in the 3Y and 7Y Govt-Guaranteed (GG) space due to decent spreads in albeit spreads of 25-30bps against MGS for this part of the yield curve following tight supply in view of government's proposed reductions of commitments and contingent liabilities.</td></tr>
<tr><td colspan="2">Duration neutral; watch the 7Y and 15Y govvies space; GG and AA-rated Corps/Sukuk</td></tr>
<tr><td>Policy Rate</td><td>Yield Curve</td></tr>
<tr><td>No revision in our assessment of OPR; hence current levels expected to maintain at 3.25%. MPC has maintained rates having hiked 25bps during1Q 2018. Expect lower GDP growth of 4.5% for 2018 (2017:5.9%)</td><td>Flatter yield curve with potential values seen in the 7Y and 15Y space although we expect marginal risks of higher yields; induced by additional US Fed rate hikes, EM outflows and US-China trade disputes</td></tr>
</table>

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