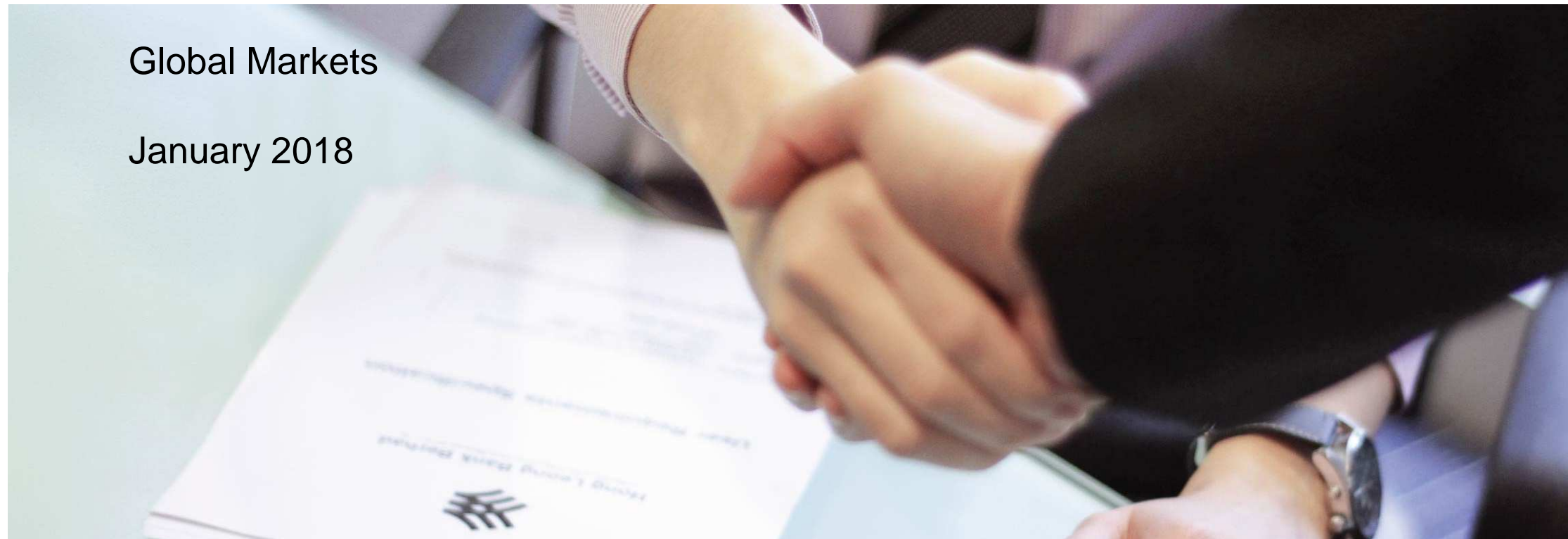


# Quarterly Market Outlook 1Q2018

Global Markets

January 2018



- Macro Landscape
- FX Outlook
- Fixed Income Outlook

# Global Growth Outlook

Real GDP (% YOY)	Latest 2 Quarters		Actual	Forecast		Forecast (official)	
	2Q17	3Q17		2016	2017	2018	2017
World	-	-	3.1	<b>3.6</b> (3.3)	<b>3.7</b> (3.5)	<b>3.5</b> (3.5)	<b>3.6</b> (3.6)
DM/ G10	2.7	3.0	1.7	<b>2.3</b> (2.2)	<b>2.3</b> (2.1)	-	-
US	2.2	2.3	1.5	<b>2.3</b> (2.2)	<b>2.6</b> (2.3)	<b>2.5</b> (2.4)	<b>2.5</b> (2.1)
Eurozone	2.4	2.6	1.8	<b>2.3</b> (2.1)	<b>2.1</b> (1.8)	<b>2.4</b> (2.2)	<b>2.3</b> (1.8)
UK	1.5	1.5	1.8	<b>1.5</b> (1.5)	<b>1.4</b> (1.3)	<b>1.6</b> (1.7)	<b>1.6</b> (1.6)
Japan	1.6	2.1	1.0	<b>1.6</b> (1.3)	<b>1.3</b> (1.0)	<b>1.9</b> (1.8)	<b>1.4</b> (1.4)
BRICs	5.6	5.6	5.1	<b>5.4</b> (5.3)	<b>5.6</b> (5.5)	-	-
China	6.9	6.8	6.7	<b>6.8</b> (6.7)	<b>6.5</b> (6.3)	<b>6.5</b>	-
India	5.7	6.3	8.0	<b>6.7<sup>^</sup></b> (7.3)	<b>7.4<sup>^</sup></b> (7.6)	<b>7.0</b> (7.0)	<b>7.4</b> (7.4)
Asia ex-Japan	6.0	6.2	6.0	<b>6.0</b> (5.9)	<b>5.9</b> (5.8)	-	-
EMEA	3.6	4.7	1.6	<b>3.1</b> (2.7)	<b>2.9</b> (2.7)	-	-
Latam	1.1	1.6	-1.2	<b>1.1</b> (1.1)	<b>2.5</b> (2.4)	-	-

Source: Bloomberg, official sources

Figures in ( ) are previous forecasts; <sup>^</sup>FY ending Mar-18 and Mar-19 respectively

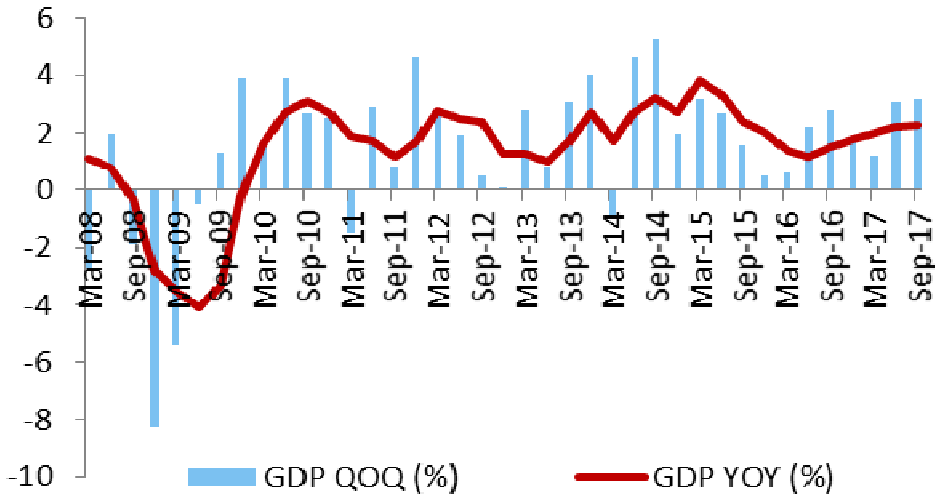
# Central Bank Policy Rate Outlook

	Current	1Q18	2Q18	3Q18	4Q18
USA	1.25-1.50	1.50-1.75	1.50-1.75	1.75-2.00	1.75-2.00
Europe	0.00	0.00	0.00	0.00	0.00
UK	0.50	0.50	0.50	0.50	0.50
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	3.00	3.25	3.25	3.25	3.25
Thailand	1.50	1.50	1.75	1.75	1.75
Indonesia	4.25	4.25	4.25	4.25	4.25
Philippines	3.00	3.00	3.25	3.25	3.25

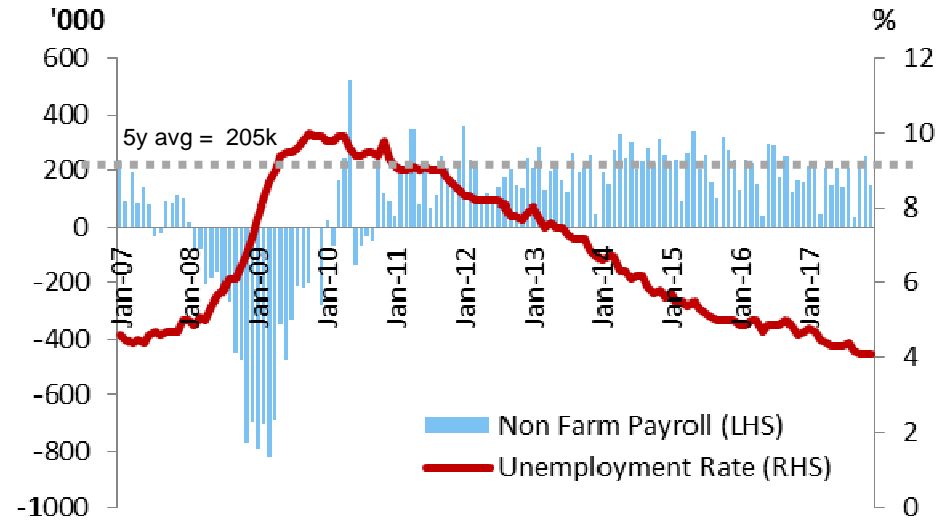
Source: Bloomberg, Global Markets Research

# The US – Growth outlook remains firm

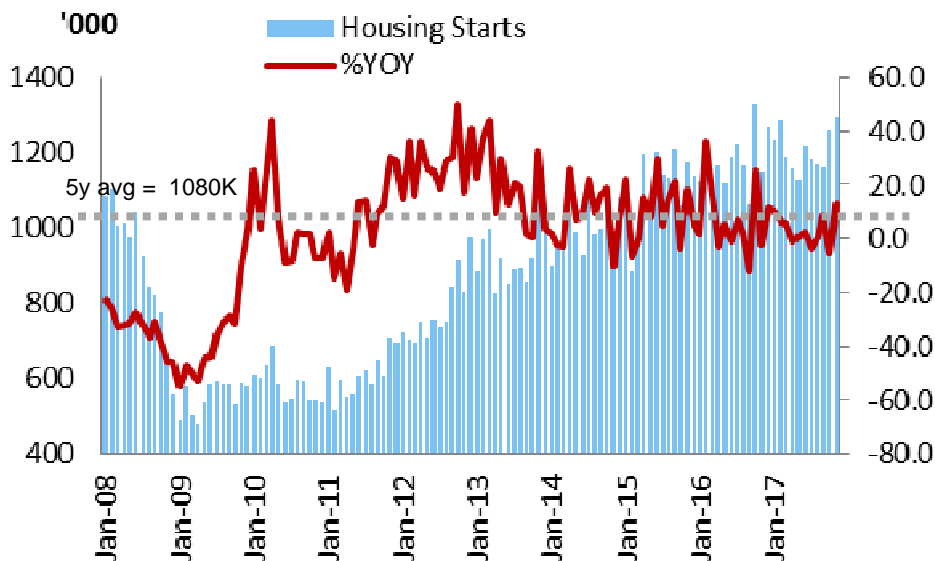
**Growth momentum continued to build up but poised to plateau soon**



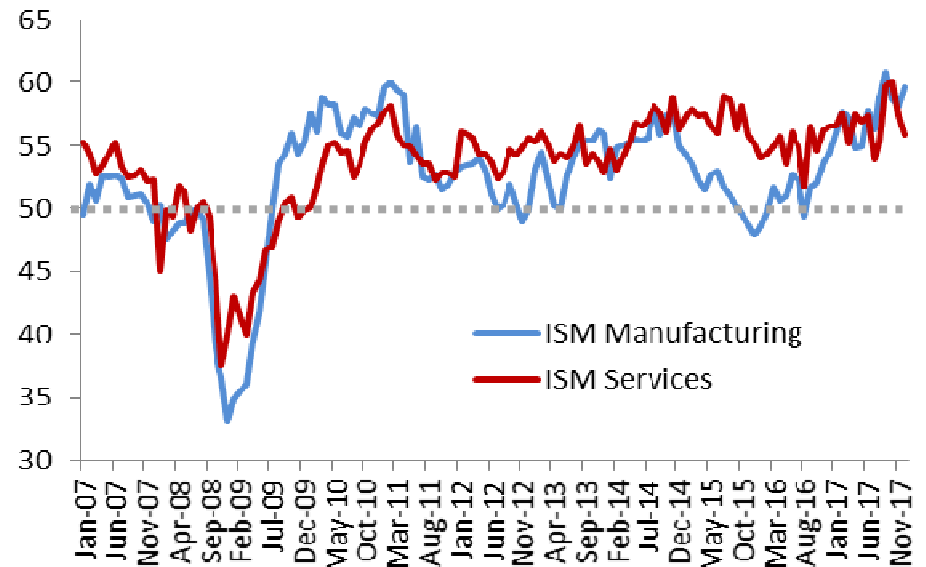
**Extended recovery in the job markets**



**Housing also showed signs of ticking up**

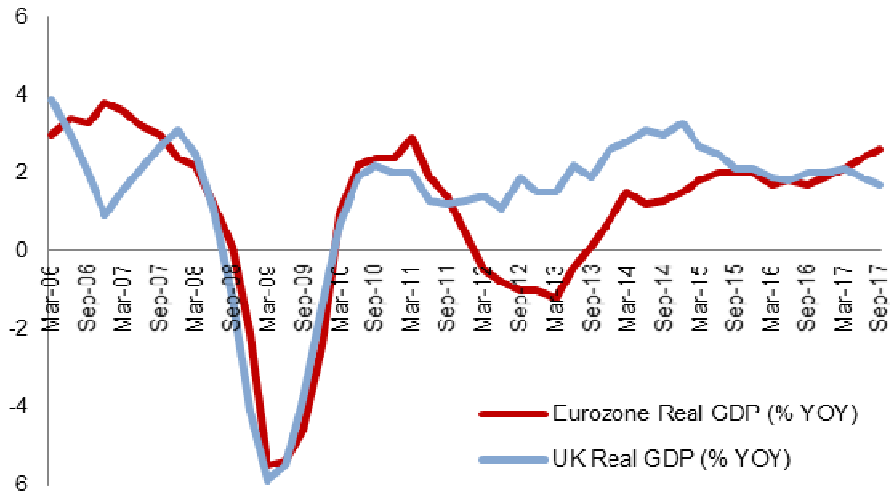


**Manufacturing and services retreating from the highs**

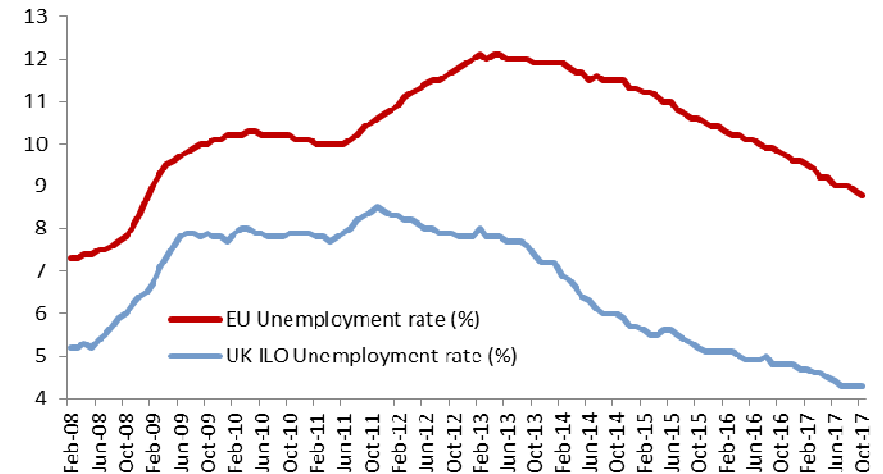


# EU and UK – EU continues to forge ahead

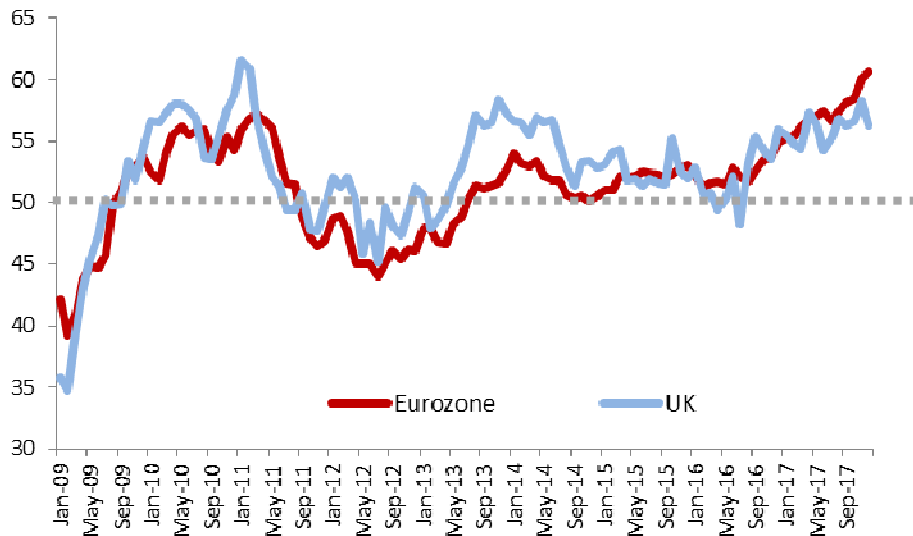
**EU continued to gather steam while UK decelerated**



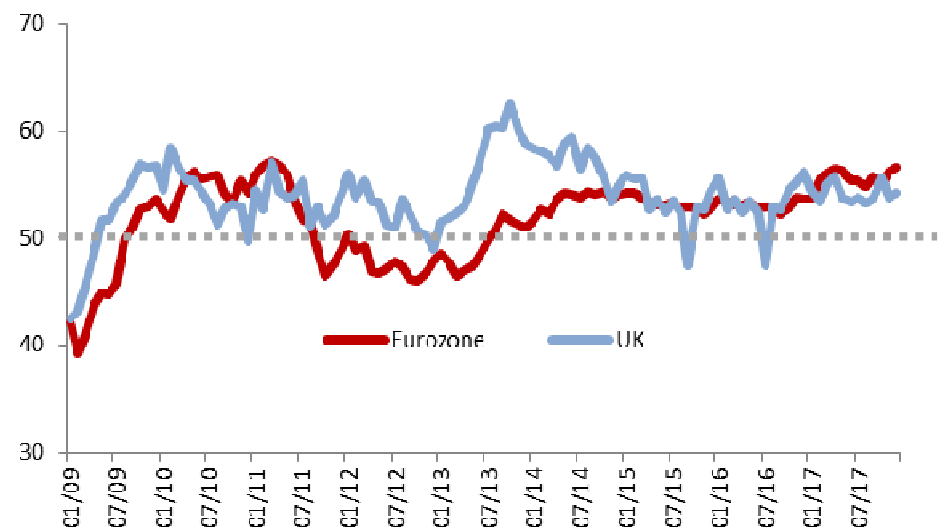
**Improving labour market prospects as jobless rates continue to head towards fresh multi-years low**



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

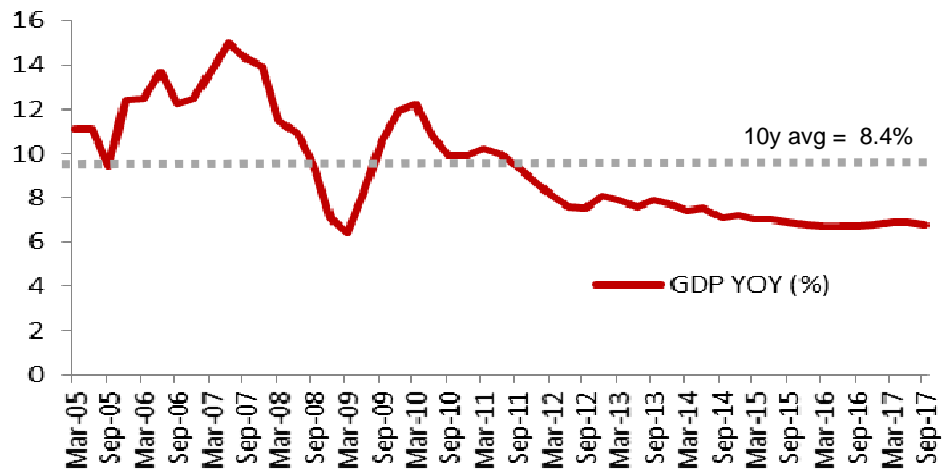


**Services quickened in EU; rangebound in the UK**

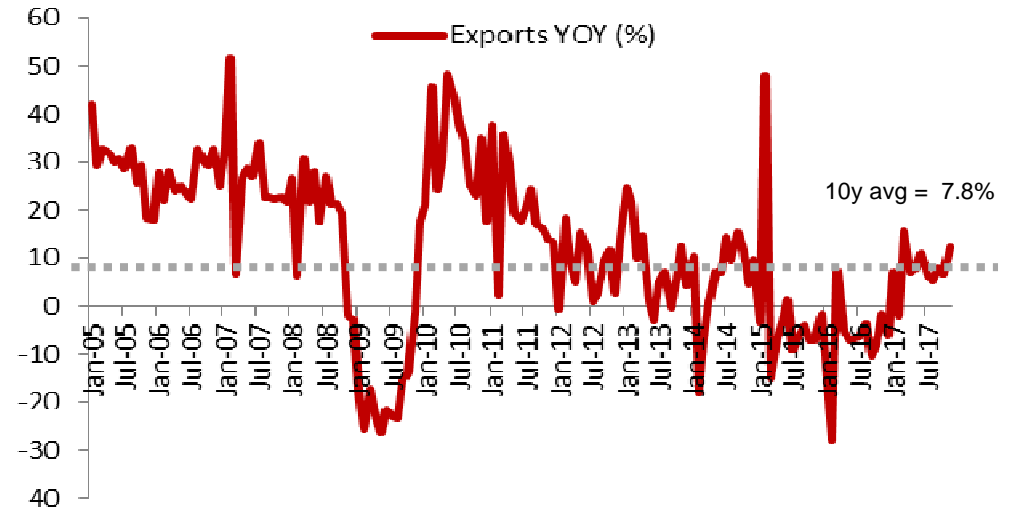


# China – still decent growth target of about 6.5% for 2018

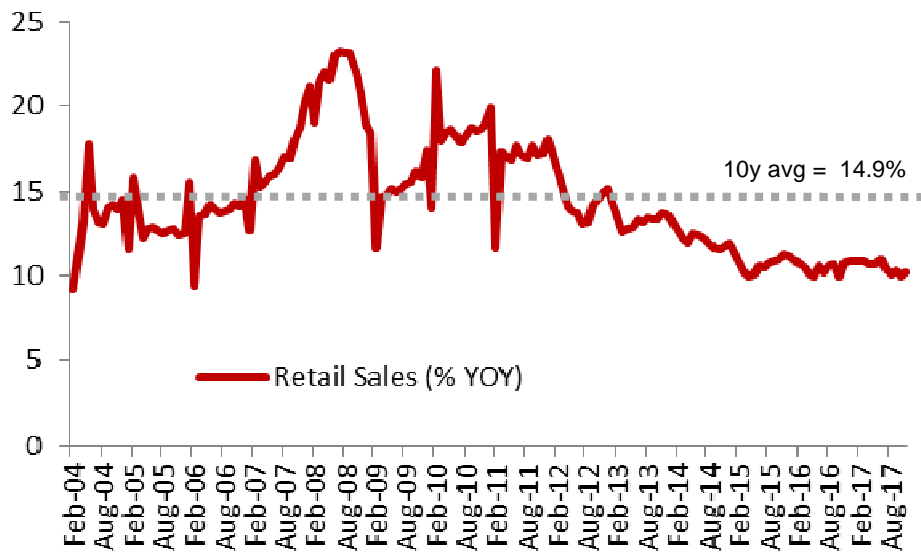
## Surprisingly resilient growth of 6.9%



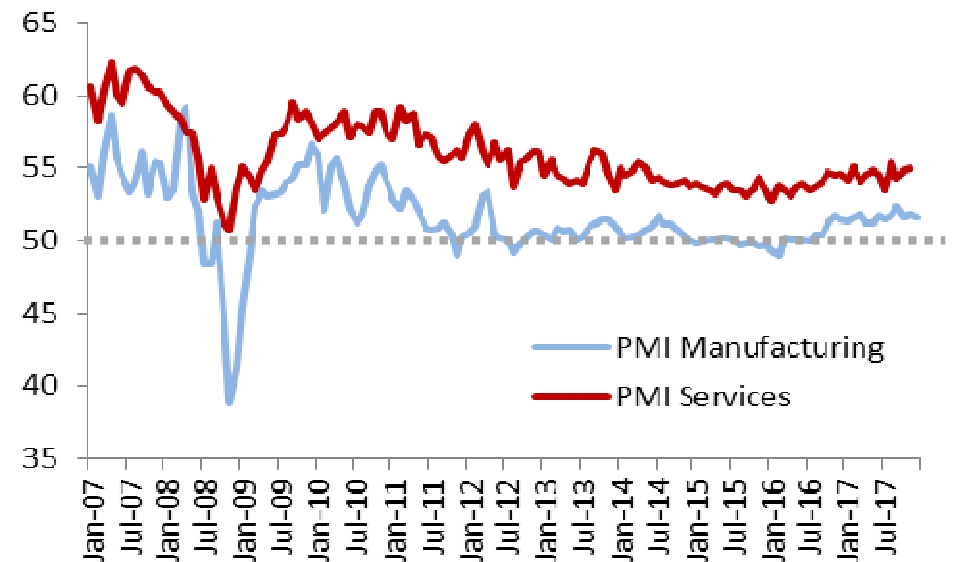
## Exports are gaining momentum again



## Retail sales growth holds up well near 10%

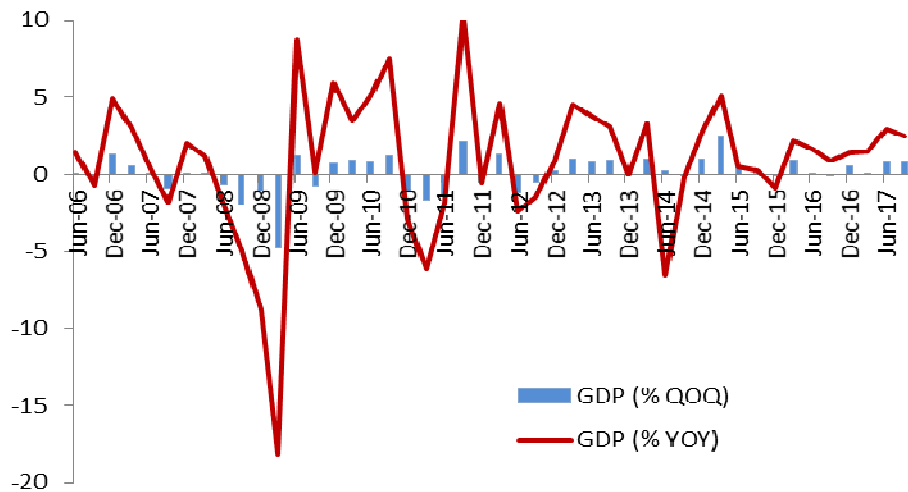


## Sustained traction in manufacturing and services



# Japan – Recovering but momentum remains soft

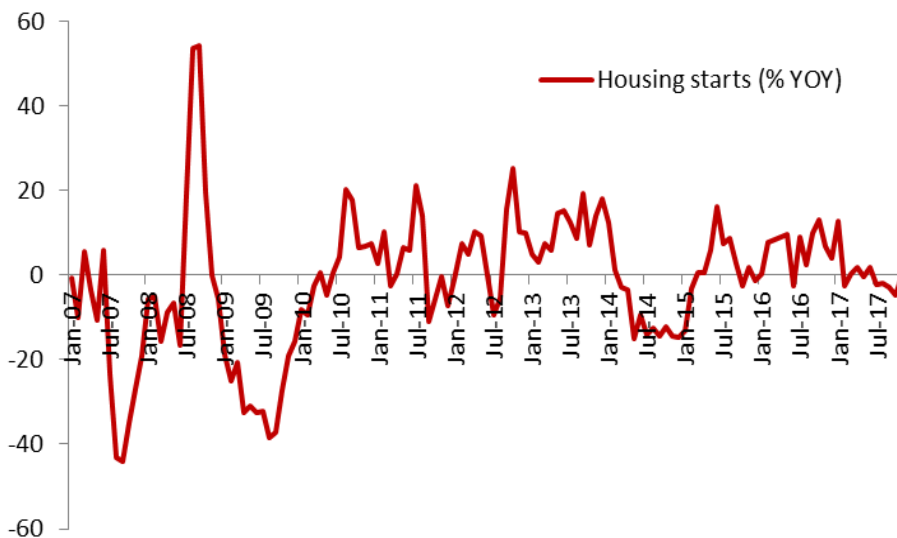
## Continuous modest growth



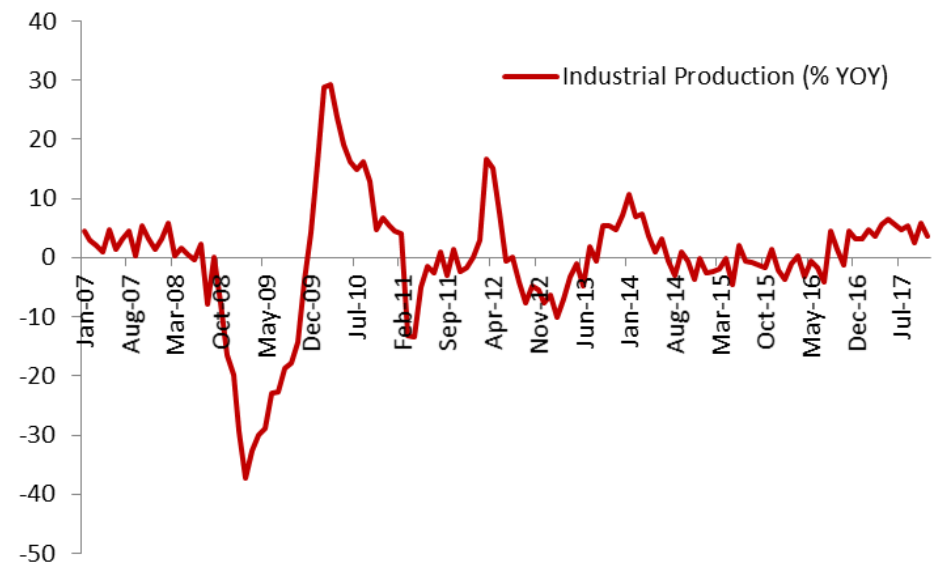
## Further improvement in jobless rate



## No concrete signs of pick-up in housing



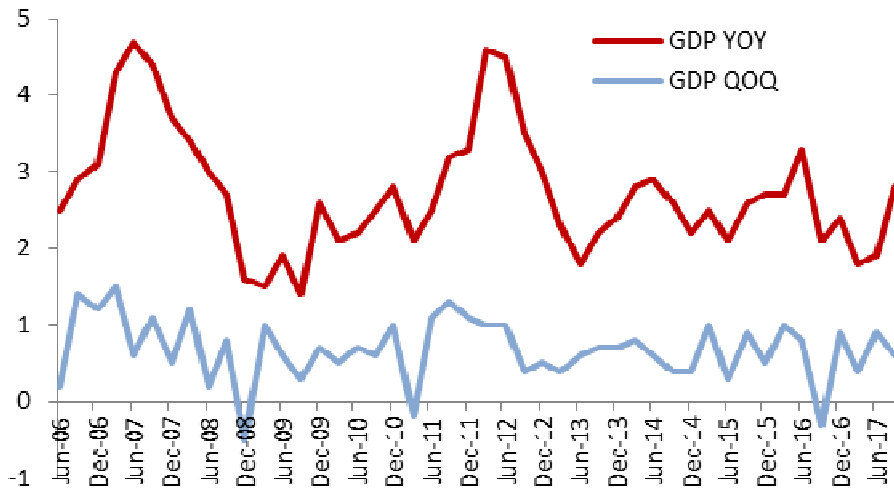
## Flattish growth in industrial output



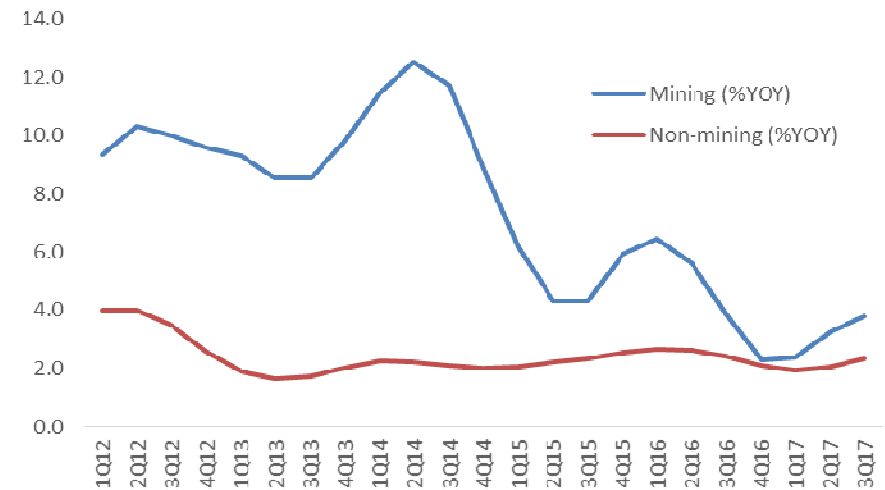


# Australia – Improving growth outlook

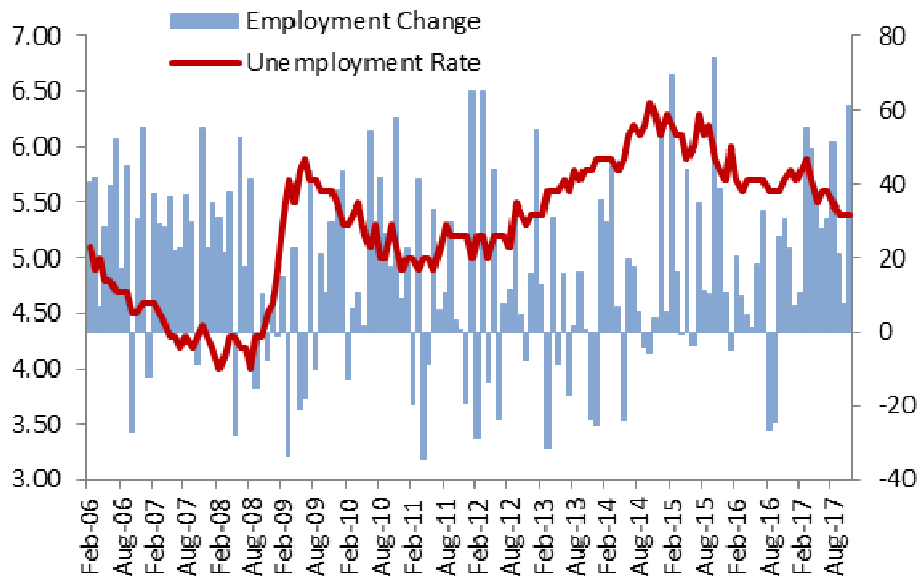
**Improving growth outlook although quarterly momentum stays flattish**



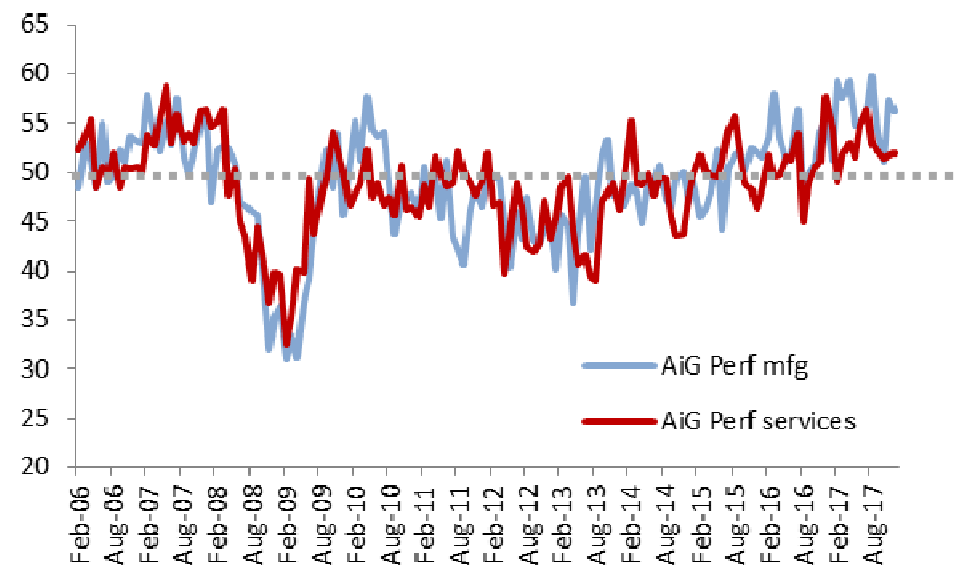
**Growth in non-mining sectors remained subdued despite tentative signs of pick-up**



**Firmer job market outlook**

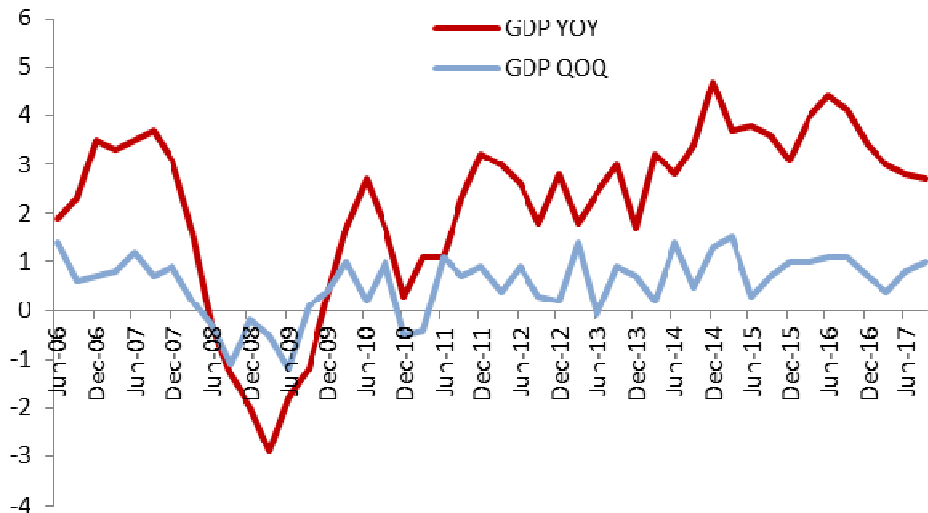


**Expansion in manufacturing and services**

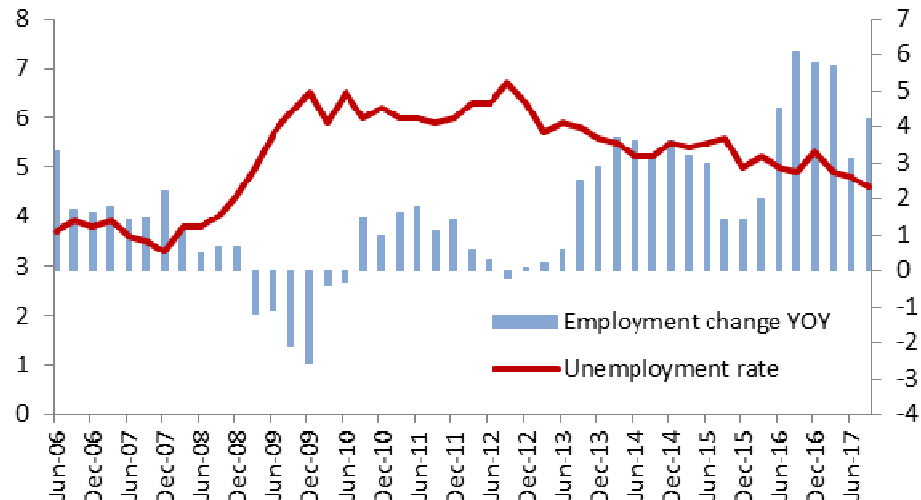


# New Zealand – Slightly brighter outlook

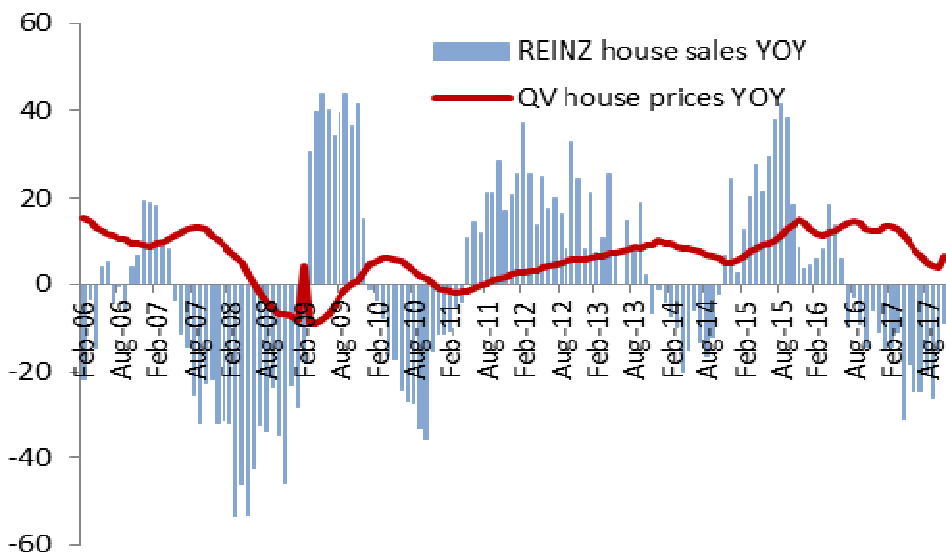
## Growth continues to moderate



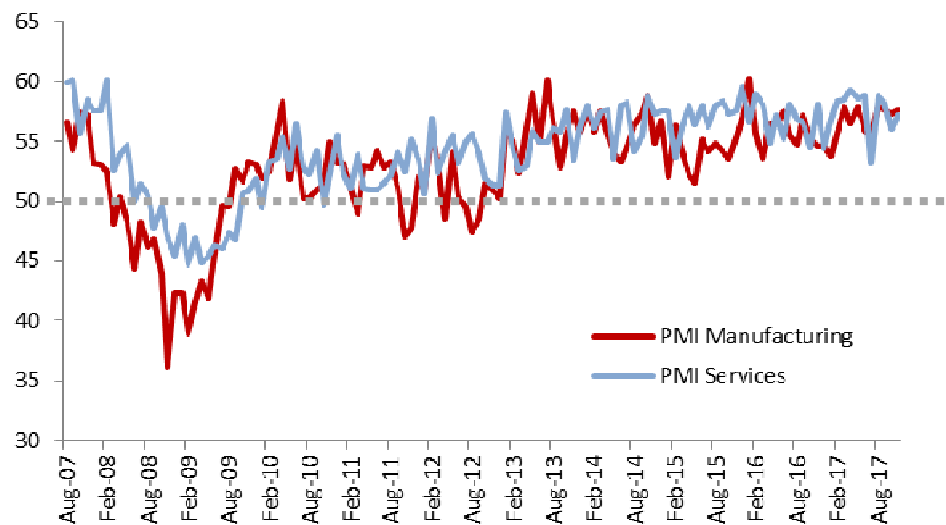
## Improving job prospects



## Tentative signs of uptick in the housing market

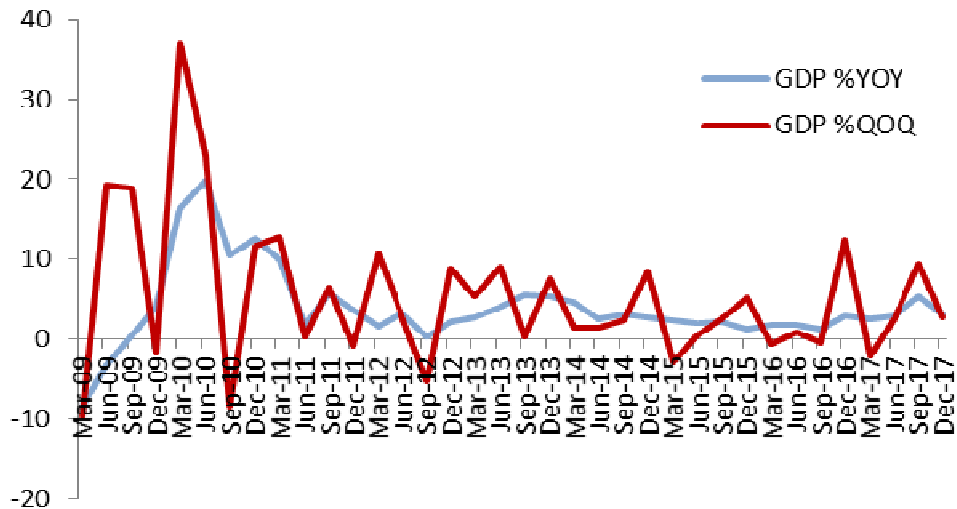


## Sustained growth in manufacturing and services

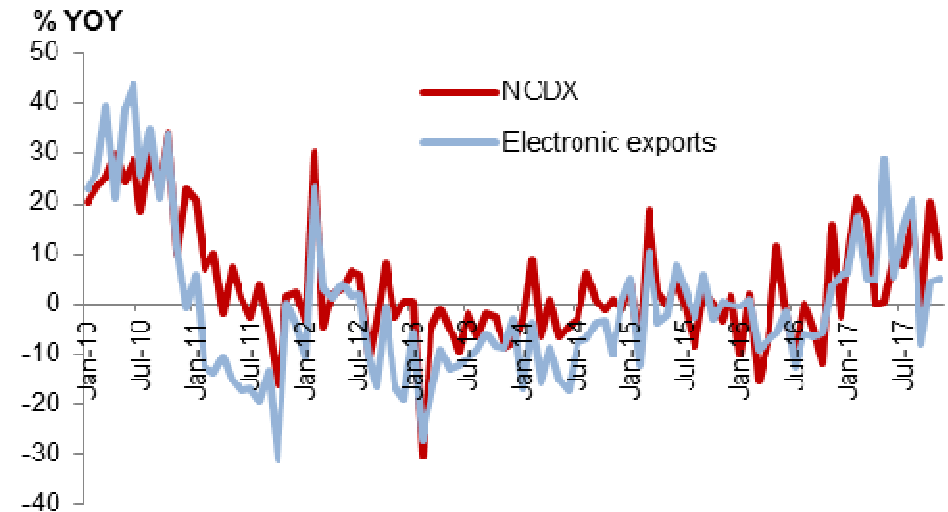


# Singapore – Firm growth prospects offer room for policy normalization

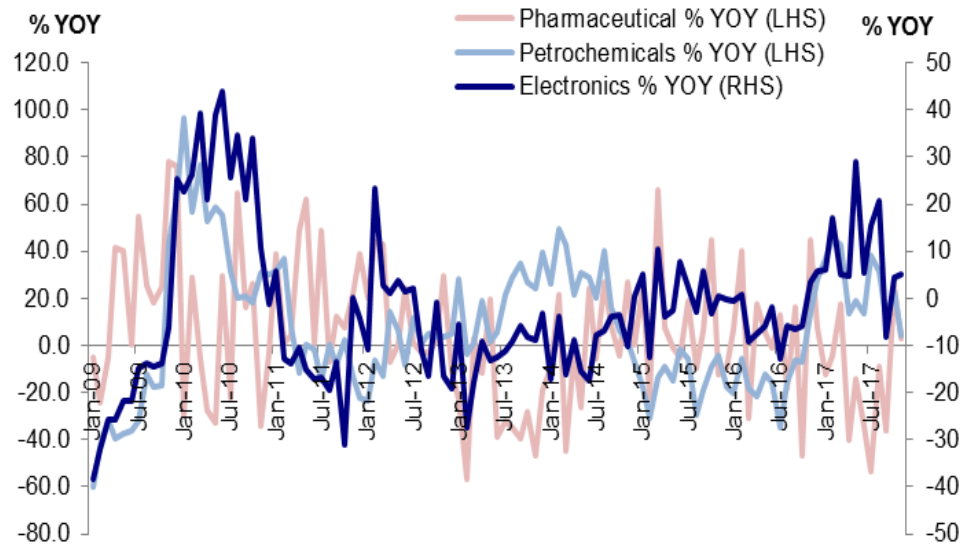
Prospects of continuous moderate growth ahead



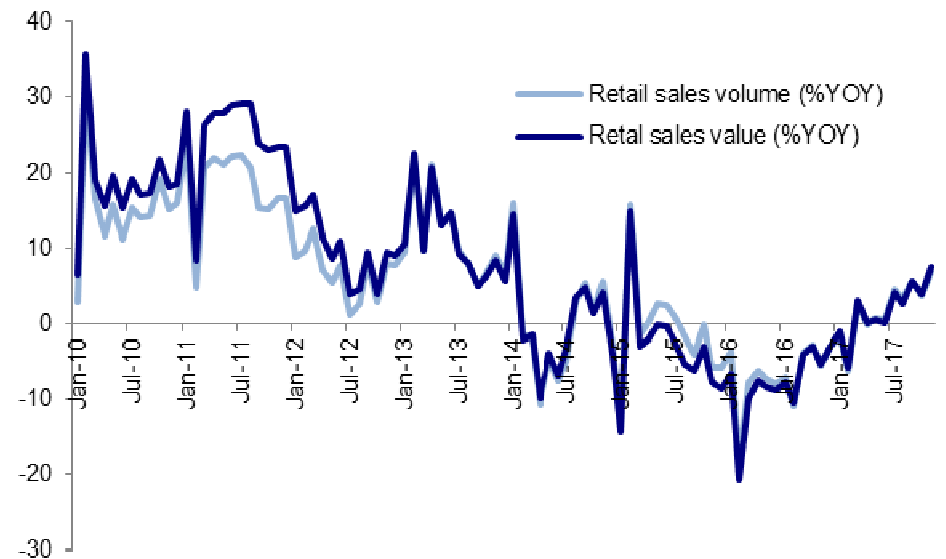
Continuous expansion in exports led by electronics



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

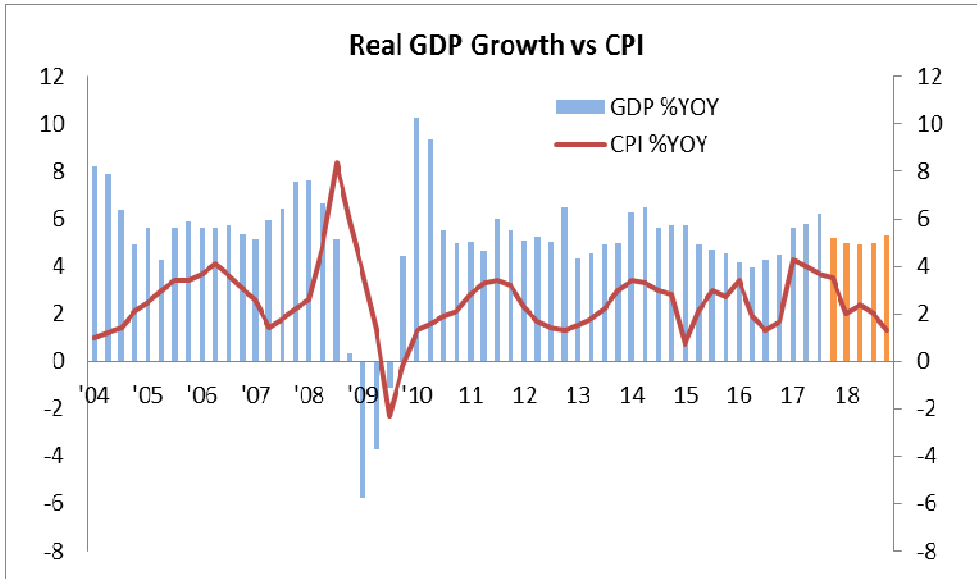


More entrenched improvement in retail sales

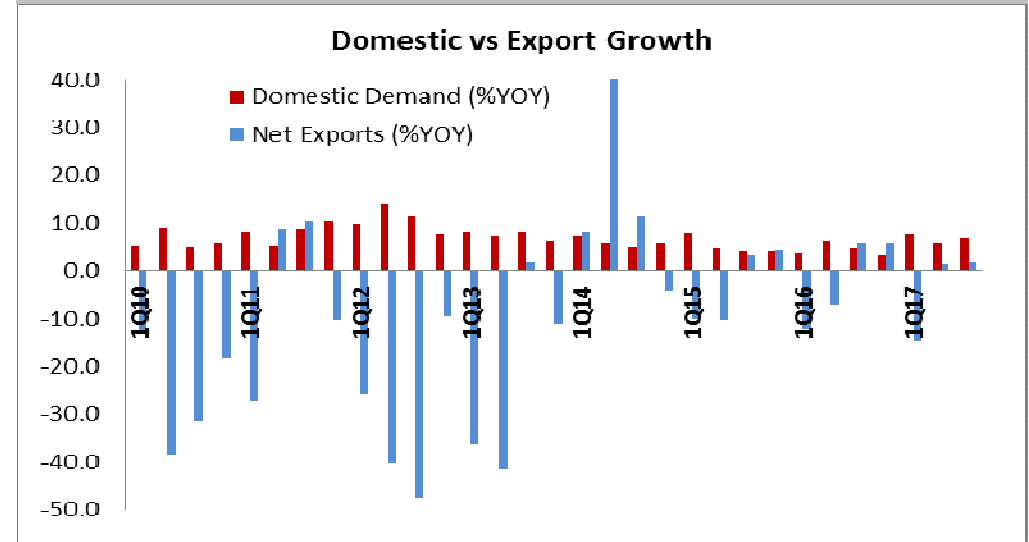


# Malaysia – More moderate growth outlook for 2018

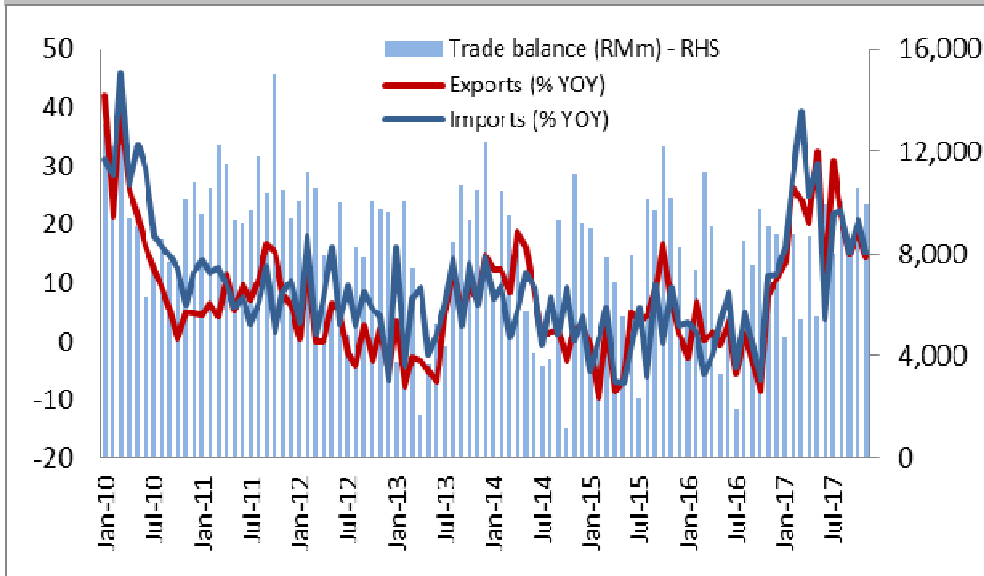
## More moderate GDP and inflation growth ahead



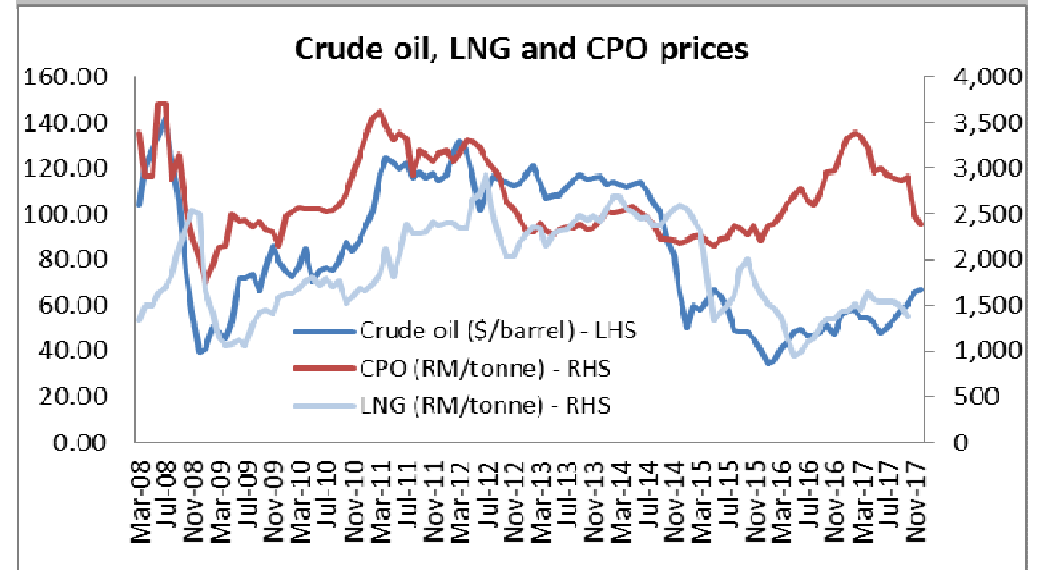
## Further expansion in both domestic demand and net exports



## Exports growth remained double-digit despite waning low base effect, a sign of still firm external demand



## Renewed climb in oil prices to cushion the fall from CPO prices



# FX Outlook – 1Q18

Currency	Outlook	Comments
USDMYR	↘	<ul style="list-style-type: none"><li>• MYR supported by hawkish policy outlook and firm growth prospects</li></ul>
EURUSD	↗	<ul style="list-style-type: none"><li>• Improving Eurozone outlook anchors expectations on quicker than expected policy normalization</li></ul>
GBPUSD	→	<ul style="list-style-type: none"><li>• Supported by firm UK outlook but limited upsides due to Brexit uncertainties</li></ul>
USDJPY	↗	<ul style="list-style-type: none"><li>• JPY remains soft but losses likely more modest as Japan's outlook improves</li></ul>
AUDUSD	↗	<ul style="list-style-type: none"><li>• AUD supported by continued recovery in commodities and a resilient China</li></ul>
NZDUSD	↗	<ul style="list-style-type: none"><li>• NZD supported by a resilient China and return of stability in economic / political outlook</li></ul>
USDSGD	↘	<ul style="list-style-type: none"><li>• Improving global outlook likely to support Singapore's economy, SGD</li></ul>

Source: Global Markets Research

# FX Forecasts

Currency Pair	Close on 29 Dec 17	End 1Q18 closing	End 2Q18 closing	End 3Q18 closing	End 4Q18 closing
EUR/USD	1.2005	1.20 – 1.22	1.21 – 1.23	1.22 – 1.24	1.22 – 1.24
GBP/USD	1.3513	1.34 – 1.36	1.34 – 1.36	1.35 – 1.37	1.36 – 1.38
USD/JPY	112.69	112 – 114	113 – 115	113 – 115	112 – 114
AUD/USD	0.7809	0.78 – 0.80	0.78 – 0.80	0.79 – 0.81	0.80 – 0.82
NZD/USD	0.7098	0.70 – 0.72	0.71 – 0.73	0.72 – 0.74	0.73 – 0.74
USD/SGD	1.3360	1.31 – 1.33	1.31 – 1.33	1.32 – 1.34	1.32 – 1.34
USD/MYR	4.0465	3.93 – 3.95	3.95 – 3.97	3.95 – 3.97	3.96 – 3.98
EUR/MYR	4.8483	4.76 – 4.78	4.82 – 4.84	4.86 – 4.88	4.87 – 4.89
GBP/MYR	5.4638	5.31 – 5.33	5.34 – 5.36	5.38 – 5.40	5.43 – 5.45
AUD/MYR	3.1618	3.10 – 3.12	3.12 – 3.14	3.16 – 3.18	3.21 – 3.23
SGD/MYR	3.0290	2.97 – 2.99	2.99 – 3.01	2.97 – 2.99	2.97 – 2.99

Source: Bloomberg, Global Markets Research

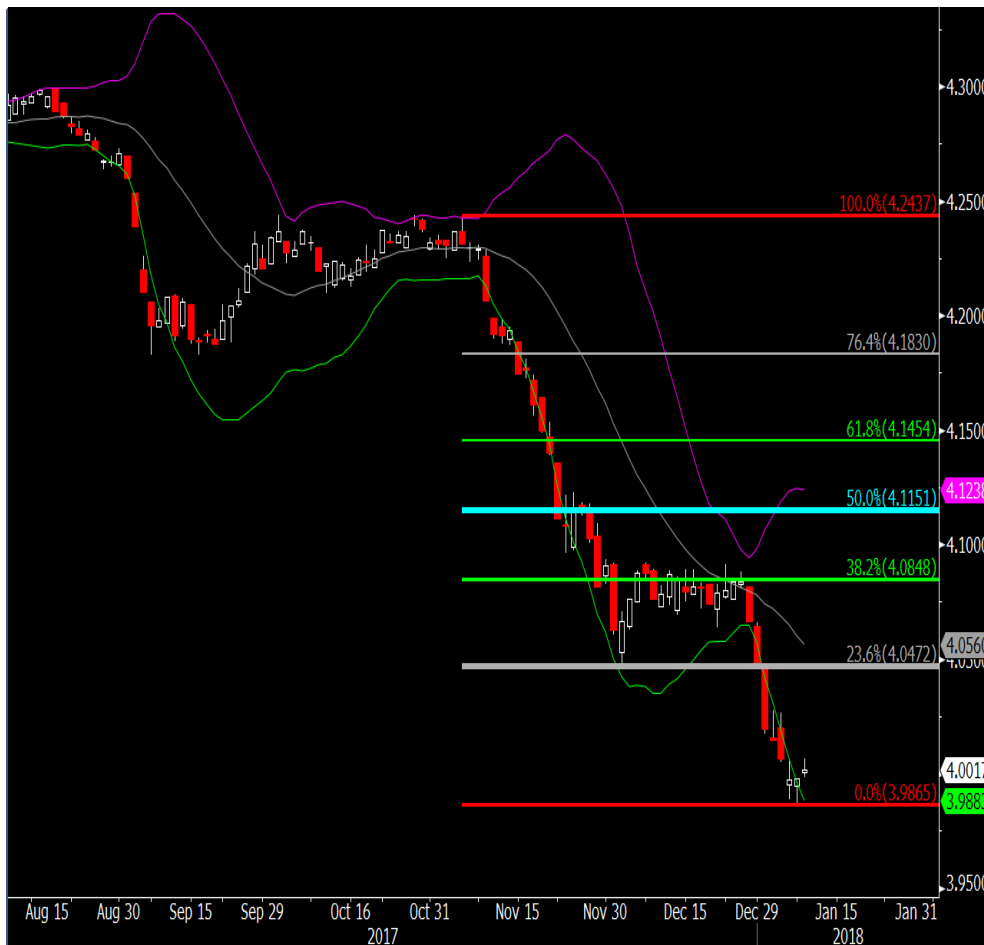
# FX Technical Analysis

**USDMYR:** Mild rebound likely in the works after recent sharp declines. Gains likely capped by 4.0472 – 4.0500 before sliding lower thereafter. Caution that breaking below 3.9865 exposes a move to 3.9323.

Resistances: 4.0220, 4.0472, 4.0500  
 Supports: 4.0000, 3.9865, 3.9500

**EURUSD:** Rising wedge suggests moderate retracement, likely to circa 1.1758 – 1.1822, before extending recent uptrend. 1.2169 currently protects an advance to 1.2440 – 1.2511.

Resistances: 1.2000, 1.2089, 1.2169  
 Supports: 1.1885, 1.1822, 1.1758



Source: Bloomberg, Global Markets Research

# Fixed Income

4Q MGS/GII average BTC slipped to circa 1.95x from 2.20x overall for 2017, partly due to event risks emanating out of US

MGS/GII issuance pipeline in 2017														
No	Stock	Tenure yrs	Tender Month	Quarter	Tender Date	Expected size (RM mil)	Issuance (RM mil)	Private Placement	Amt Issued YTD	BTC (times)	Low	Average	High	Cut-off
1	3-yr Reopening of MGII (Mat on 04/20)	3	Jan	Q1	5/1/2017	3,000	3,500		3,500	1.789	3.657	3.690	3.700	75.0%
2	15-yr Reopening of MGS (Mat on 06/31)	15	Jan	Q1	12/1/2017	3,500	4,000		7,500	2.503	4.773	4.786	4.796	25.0%
3	10.5-yr New Issue of MGII (Mat on 07/27)	10	Jan	Q1	25/1/2017	4,000	4,000		11,500	3.413	4.245	4.258	4.265	10.6%
4	7.5-yr New Issue of MGII (Mat on 08/24)	7	Feb	Q1	14/2/2017	4,000	4,000		15,500	3.123	4.030	4.045	4.050	100.0%
5	30-yr Reopening of MGS (Mat on 03/46)	30	Feb	Q1	27/2/2017	3,000	2,000	1,000	17,500	2.562	4.660	4.676	4.686	5.0%
6	5-yr New Issue of MGS (Mat on 03/22)	5	Mar	Q1	9/3/2017	4,000	4,000		21,500	1.538	3.859	3.882	3.903	3.0%
7	15-yr Reopening of MGII (Mat on 08/33)	15	Mar	Q1	23/3/2017	3,000	3,000	1,000	24,500	1.897	4.660	4.696		27.0%
8	7.5-yr New Issue of MGS (Mat on 09/24)	7	Mar	Q1	30/3/2017	3,500	3,000	1,000	27,500	2.064	4.030	4.059	4.072	64.0%
9	20-yr New Issue of MGS (Mat on 04/37)	20	Apr	Q2	6/4/2017	3,000	2,000	1,000	29,500	1.585	4.725	4.762	4.799	90.0%
10	5-yr New Issue of MGII (Mat on 04/22)	5	Apr	Q2	13/4/2017	4,000	4,000		33,500	2.773	3.925	3.948	3.957	29.0%
11	15-yr Reopening of MGS (Mat on 04/33)	15	Apr	Q2	27/4/2017	3,000	2,500	500	36,000	2.057	4.469	4.503	4.515	64.0%
12	30-yr New Issue of MGII (Mat on 05/47)	30	May	Q2	5/5/2017	3,000	2,000	500	38,000	2.393	4.850	4.895	4.913	19.0%
13	10.5-yr New Issue of MGS (Mat on 11/27)	10	May	Q2	15/5/2017	3,500	3,000	1,000	41,000	3.340	3.880	3.899	3.910	95.0%
14	7-yr Reopening of MGII (Mat on 08/24)	7	May	Q2	30/5/2017	4,000	3,000	1,000	44,000	2.480	3.909	3.926	3.933	82.0%
15	20-yr Reopening of MGS (Mat on 04/37)	20	Jun	Q2	6/6/2017	2,500	2,500		46,500	1.704	4.540	4.558	4.576	3.0%
16	10-yr Reopening of MGII (Mat on 07/27)	10	Jun	Q2	14/6/2017	3,500	3,000	1,000	49,500	2.541	3.991	4.013	4.021	6.9%
17	7-yr Reopening of MGS (Mat on 09/24)	7	Jul	Q3	6/7/2017	3,500	3,000	1,000	52,500	2.877	3.913	3.919	3.924	63.0%
18	30-yr Reopening of MGII (Mat on 05/47)	30	Jul	Q3	13/7/2017	2,500	2,000		54,500	1.915	4.900	4.926	4.946	66.7%
19	10-yr Reopening of MGS (Mat on 11/27)	10	Jul	Q3	27/7/2017	4,000	3,000	1,000	57,500	1.683	3.957	3.978	3.989	5.6%
20	20-yr New Issue of MGII (Mat on 08/37)	20	Aug	Q3	3/8/2017	3,000	2,500		60,000	1.784	4.723	4.755	4.783	50.0%
21	3.5-yr New Issue of MGS (Mat on 02/21)	3	Aug	Q3	14/8/2017	4,000	3,500		63,500	1.706	3.422	3.441	3.455	72.0%
22	7-yr Reopening of MGII (Mat on 08/24)	7	Aug	Q3	29/8/2017	3,500	3,500	500	67,000	2.104	3.963	3.975	3.980	62.5%
23	5-yr Reopening of MGS (Mat on 03/22)	5	Sep	Q3	14/9/2017	3,500	4,000		71,000	1.899	3.481	3.501	3.520	72.9%
24	15-yr Reopening of MGII (Mat on 08/33)	15	Sep	Q3	28/9/2017	3,000	3,000	1,000	74,000	1.727	4.520	4.579	4.640	53.3%
25	7-yr Reopening of MGS (Mat on 09/24)	7	Oct	Q4	5/10/2017	3,500	3,000		77,000	1.604	3.850	3.879	3.898	20.0%
26	20-yr Reopening of MGII (Mat on 08/37)	20	Oct	Q4	12/10/2017	2,500	1,500	1,000	78,500	2.147	4.755	4.785	4.803	36.4%
27	30-yr Reopening of MGS (Mat on 03/46)	30	Oct	Q4	26/10/2017	2,000	2,000	500	80,500	1.603	4.850	4.957	5.000	2.5%
28	10-yr Reopening of MGII (Mat on 07/27)	10	Nov	Q4	14/11/2017	3,000	3,000		83,500	1.832	4.300	4.347	4.370	95.0%
29	15-yr Reopening of MGS (Mat 04/33)	15	Nov	Q4	22/11/2017	2,500	2,000	1,000	85,500	3.811	4.532	4.550	4.563	93.8%
30	5-yr Reopening of MGII (Mat on 04/22)	5	Nov	Q4	28/11/2017	3,000	3,000		88,500	1.715	3.84	3.872	3.900	5.6%
31	10-yr Reopening of MGS (Mat on 11/27)	10	Dec	Q4	6/12/2017	3,000	2,000	500	90,500	1.53	3.89	3.946	3.988	100.0%
32	15.5-yr New Issue of MGII (Mat on 06/33)	15	Dec	Q4	14/12/2017	2,500	2,000	500	92,500	1.775	4.668	4.724	4.79	25.0%
Actual gross MGS/GII supply in 2017							92,500	15,000						



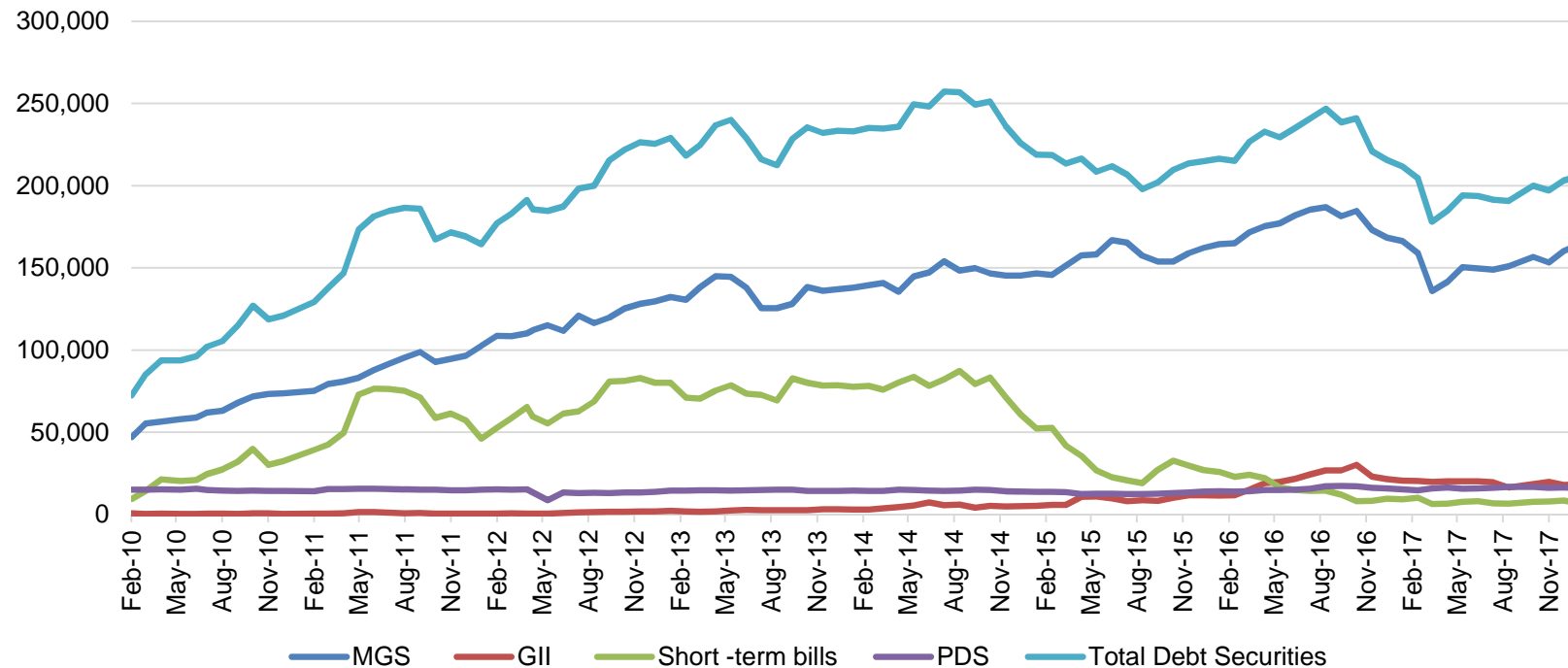
# Fixed Income

**33 issuances for 2018 with lower total projected amount of RM102.5b compared to 32 issuances in 2017 amounting to RM107.5b mainly due to switch auction; MGS/GII mix estimated to remain unchanged @ 49:51**

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	3,000	1.905	4.573	4.607	4.640	14.3%	
2	5-yr Reopening of MGII (Mat on 04/22)	5	Jan	Q1		3,000									
3	15-yr Reopening of MGS (Mat on 04/33)	15	Jan	Q1		3,000									
4	7.5-yr New Issue of MGII (Mat on 08/25)	7	Feb	Q1		4,000									
5	10-yr Reopening of MGS (Mat on 11/27)	10	Feb	Q1		3,000									
6	30-yr Reopening of MGII (Mat on 05/47)	30	Mar	Q1		2,500									
7	7-yr New Issue of MGS (Mat on 03/25)	7	Mar	Q1		4,000									
8	15-yr Reopening of MGII (Mat on 06/33)	15	Mar	Q1		3,000									
9	3-yr Reopening of MGS (Mat on 11/21)	3	Mar	Q1		3,500									
10	20-yr Reopening of MGII (Mat on 08/37)	20	Apr	Q2		2,000									
11	5-yr New Issue of MGS (Mat on 04/23)	5	Apr	Q2		4,000									
12	10.5-yr New Issue of MGII (Mat on 10/28)	10	Apr	Q2		4,000									
13	15.5-yr New Issue of MGS (Mat on 11/33)	15	May	Q2		4,000									
14	7-yr Reopening of MGII (Mat on 08/25)	7	May	Q2		3,500									
15	10-yr Reopening of MGS (Mat on 06/28)	10	May	Q2		3,500									
16	5.5-yr New Issue of MGII (Mat on 11/23)	5	May	Q2		4,000									
17	20-yr New Issue of MGS (Mat on 06/38)	20	Jun	Q2		3,000									
18	15-yr Reopening of MGII (Mat on 06/33)	15	Jun	Q2		2,500									
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	2,000	1,000							

# Foreign holdings of MYR government bonds (MGS + GII) continued rising for 2nd consecutive month in December

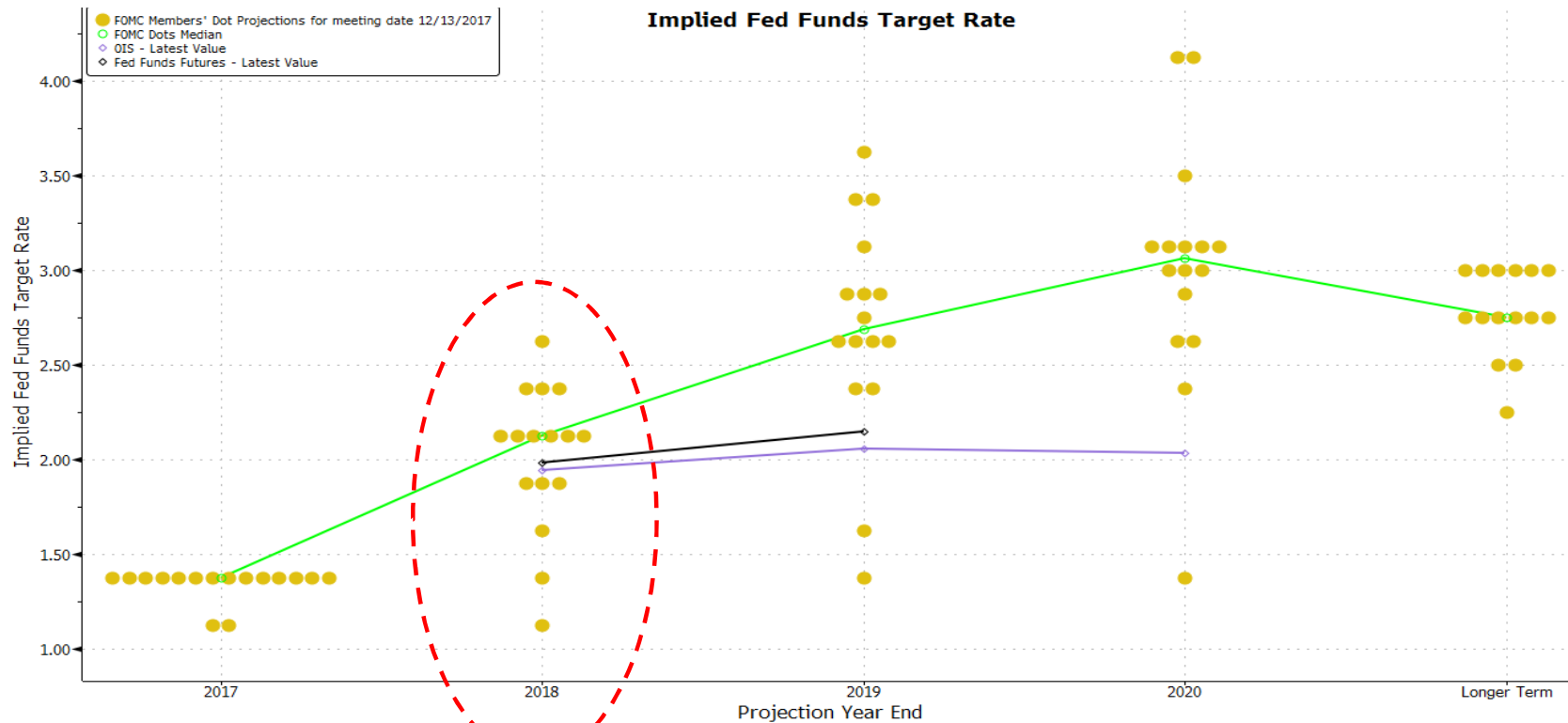
Foreign Holdings of Malaysia Debt Securities (RMm)



Source : BNM, Bloomberg, HLB Global Markets Research

Foreign holdings of MYR government bonds (MGS and GII) rose, with net inflows of RM4.7bn to RM182.9bn in December (end 3Q Sep: RM175.2bn), and recouping substantial outflows earlier this year from the lowest ebb of RM155.7b in March; on renewed bargain-hunting interest. MGS foreign holdings rose for the 2<sup>nd</sup> straight month, by RM4.1bn to RM164.4bn (45.1% of outstanding MGS) in December, the 2<sup>nd</sup> highest month for the year whilst GII snapped declines from RM20b levels earlier in the year to edge higher by RM0.6bn at RM18.5bn (6.2% of outstanding GII).

# Fed dot plot suggests three possible rate hikes for 2018



Source :Bloomberg

The Fed's balance sheet remains on autopilot and monthly reduction is doubling to US\$20bn beginning Jan-2018. Under the balance sheet normalization program only principal payments that exceed gradually rising caps are reinvested. The cap started at \$10bn per month and will increase in amounts of \$10bn at 3-month intervals until it reaches \$50bn per month. Note that the initial \$10bn cap and subsequent \$10bn steps are composed of US treasuries and agency debt/MBS in the ratio of 60:40. Once the caps reach their respective maximum of \$30bn/month for treasuries and \$20bn/month for agency debt/MBS (which is 12 months after the start of the normalization program), they will remain in place 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.

# Fixed Income Outlook

Country	6M Views		Comments/ Outlook
US	<b>Maturity Preference</b>		<p><b><u>Sovereigns</u></b></p> <p>UST yield curve may continue to flatten initially. We expect pace of short-end rates to move faster than long-end on persistently low and stubborn inflation outlook despite Fed interest rate policy normalization with three rounds of Fed hikes projected for 2018. Fed's balance sheet run-off from \$4.5 trillion to \$2.0-2.5 trillion over 4-5 years may exert upward pressure for bond yields causing steepness to set in. The imposition of the newly-approved tax reduction package may also initially release \$1.5 trillion in business and household taxes enabling economic growth to top 2.5% estimates (from 2.1%). However the Treasury Department is expected to raise 60% more new money to pay for these tax cuts. The 10-year UST may edge higher to 2.60%-2.80% by end 2018 from current 2.30%-2.50% levels; taking into account that it was little-changed from a year ago even though the Fed raised interest rates three times. The downside to our forecast is whether pension demand for UST's can absorb the increase in supply as foreign private and domestic bank buying ebbs.</p> <p><b><u>Corporate</u></b></p> <p>US Corporate Investment Grade bonds posted solid returns of 1.17% in 4Q to close 2017 with 6.4% total returns versus a 5Y average of 4.2%. However tighter spreads which drove returns may remain the principal driver of portfolio gains for 2018 as a less accommodative Federal Reserve policy and other budget deficits likely lead interest rates higher. Commodity-tied saw better returns with the most credit-spread narrowing seen among industrial high grade debt; followed by energy and metals and mining. The IG pipeline for the coming quarter is plentiful with many names bandied about like MET, BRK, BACR, Rabobank, IBM, John Deere (DE), Citibank and Sumitomo to name a few.</p>
	Duration neutral		
	<b>Policy Rate</b>	<b>Yield Curve</b>	
	Fed officials are maintaining view on interest rate normalization with 3 rounds of 25bps Fed hike increase in 2018, vs ours of 2 hikes for the year.	Yield curve may continue flattening and shift upwards initially; short-end rates move higher faster than long-end on Fed's further potential rate hikes. Steepening expected to set-in should core inflation threatens to exceed Fed's tepid gauge level of 2.0%.	

# Fixed Income Outlook

Country	6M Views		Comments/ Outlook
Singapore	<b>Maturity Preference</b>		<p><b><u>Sovereigns</u></b></p> <p>The SGS yield curve is expected to mirror slight volatility and track movement in UST yields. On a related note, the push for SGS yields to head north may come to fruition amid renewed strength in global crude oil prices that is expected to shore up inflationary pressure. The 10-year yield continues to hover at between 1.95-2.25% levels at time of writing but a renewed climb in global oil prices could see 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 by portfolio managers, insurance and pension funds. The 2-10Y and 5-20Y yield spreads for 4Q last year which were lower than historical average are seen to slowly reverse denoting that current flattening of the yield curve may cease and reverse on negative duration requirements as US Fed is seen to pump up interest rates gradually.</p> <p><b><u>Corporate</u></b></p> <p>Primary issuance print for the SGD corporate bonds space remains active. Notable upcoming prints for the quarter include Frasers Centrepoint S\$300m Perpetual Securities NC5 at a guidance of 4.38% and Kasikorn Public Ltd's proposed 5.5Y USD-denominated senior unsecured notes rated Baa1 which is to be listed on the SGX. The stable SGS levels may prompt further capital raising initiatives for banks and manufacturing entities despite funding cost to emerge more expensive next year on the back of higher global rates environment. Spreads on Asian high-grade and high yield dollar bonds are near their narrowest since 2010. There are emerging concerns of potential credit downgrades in a yield-tightening environment evidenced by recent actions taken by rating agencies on Global Logistic Properties Ltd, LVGEM (China) Real Estate Investment Co and Dalian Wanda Commercial Properties Co.</p>
	Duration neutral		
	<b>Policy Rate</b>	<b>Yield Curve</b>	
	Expect monetary policy direction (SGD NEER) to remain supportive of growth despite recent speculation of a shift towards tighter monetary policy by MAS following better than expected growth outlook	Expect SGS curve to mirror upward biasness tracking potential upward pressure in UST yields.	

# Fixed Income Outlook

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. The recent healthy demand from offshore is positive on the back of a stronger ringgit with USDMYR seen dipping to below 4.00. Higher relative yields have attracted some bargain hunting interest in the short-end off the runs and potential values seen in the 7Y, and 15-20Y space along with some GII's anchored around the 10Y tenures relative to MGS yields. The 7-10 year space is seen to reflect a "negative kink" in terms of valuation. Going forward, investors are expected to stay vigilant, watching closely developments in the US on the ongoing tapering impact, implications from the US tax cut and also further issuances from Treasury to fund the federal deficit. Key factors are the Fed's interest rate normalization process which may accelerate outflows from EMs.</p> <p><u>Corporate</u></p> <p>Corporate bonds/sukuk picked up to reach RM93.8b as at end 4Q 2017; somewhat lower than the projected gross supply of RM95-105b range for the year. Momentum was lower in 4Q versus 3Q with deal-making primarily driven by government-guaranteed (GG) issuance (circa 26% of total issuance of RM21.8b for 4Q 2017). Trading activities for corporate bonds meanwhile remained decent circa RM300-500m daily volume with interest skewed towards the AA-space (infrastructure/project financing i.e. toll roads/power sector) on names like YTL Power, BGSM, Gamuda etc for yield pick-up requirements. The AA-space saw 60% of total trading interest and we foresee further interest in this part of the yield curve as investors look out for credit diversification beyond the usual requirement of ultra-safe GG papers .</p>
	Duration neutral		
	Policy Rate	Yield Curve	
<p>OPR to rise from 3.00% to 3.25% possibly in 1H 2018, with January as a possible window amid stronger than expected growth traction.</p>	<p>Expect range-bound trading for MYR govies with value-seeking investors watching 7-15Y space although we expect marginal risks of higher yields; induced by Fed rate normalization, ongoing balance sheet reduction and further bond issuances.</p>		

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