Quarterly Market Outlook 1Q2019

Global Markets

January 2019

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Global Growth Outlook

Real GDP (% YOY)	Latest 2 Quarters		Actual	Forecast		Forecast (official)	
	2Q18	**3Q18**	**2017**	**2018**	**2019**	**2018**	**2019**
World	-		3.7	**3.7** *(3.8)*	**3.5** *(3.6)*	**3.7** *(3.9)*	**3.7***(3.9)*
DM/ G10	3.2	2.1	2.4	**2.3** *(2.4)*	**2.1** *(2.1)*	**-**	**-**
US	2.9	3.0	2.2	**2.9** *(2.9)*	**2.6** *(2.5)*	**3.0** *(3.1)*	**2.0** *(2.5)*
Eurozone	2.2	1.6	2.4	**1.9** *(2.0)*	**1.6** *(1.8)*	**1.9** *(2.0)*	**1.7** *(1.8)*
UK	1.4	1.5	1.8	**1.3** *(1.3)*	**1.5** *(1.5)*	**1.3** *(1.4)*	**1.7** *(1.8)*
Japan	1.4	0.0	1.9	**0.9** *(1.1)*	**0.9** *(1.1)*	**1.4** *(1.5)*	**0.8** *(0.8)*
BRICs	5.8	5.6	5.7	**5.7** *(5.7)*	**5.6** *(5.6)*	**-**	**-**
China	6.7	6.5	6.9	**6.6** *(6.6)*	**6.2** *(6.3)*	**6.5**	**-**
India*	8.2	7.1	7.1	**6.7** *(7.4)*	**7.3** *(7.4)*	**6.7** *(7.3)*	**7.6**
Asia ex-Japan	6.2	5.8	6.2	**6.0** *(6.1)*	**5.7** *(5.9)*	**-**	**-**
EMEA	3.3	2.5	3.6	***2.8*** *(2.9)*	**2.3** *(2.4)*	**-**	**-**

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

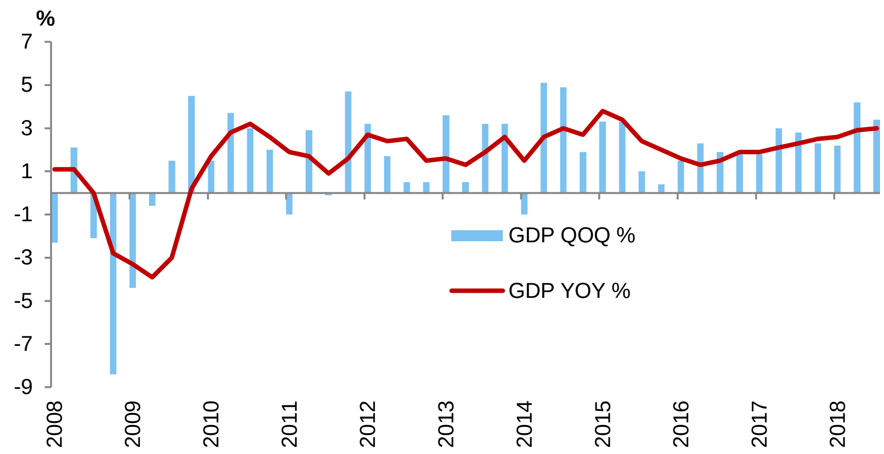
Global Central Banks Policy Rate Outlook

	Current	1Q19	2Q19	3Q19	4Q19	
United States Federal Reserve *Fed Funds Rate*	**2.25 - 2.50**	2.25-2.50	2.25-2.50	2.25-2.50	2.50-2.75	**1 hike in 2019**
Eurozone European Central Bank *Main Refinancing Operation Rate*	**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	**No hike in 2019**
Japan Bank of Japan *Policy Balance Rate*	**-0.10**	-0.10	-0.10	-0.10	-0.10	**No hike in 2019**
Australia Reserve Bank of Australia *Cash Rate*	**1.50**	1.50	1.50	1.50	1.50	**No hike in 2019**
New Zealand Reserve Bank of New Zealand *Official Cash Rate*	**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	**No hike in 2019**
Thailand The Bank of Thailand *1-Day Repurchase Rate*	**1.75**	1.75	1.75	1.75	1.75	**No hike in 2019**
Indonesia Bank Indonesia *7-day Reverse Repo Rate*	**6.00**	6.00	6.00	6.00	6.00	**No hike in 2019**
Philippines Bangko Sentral ng Pilipinas *Overnight Reverse Repo Rate*	**4.75**	4.75	4.75	4.75	4.75	**No hike in 2019**

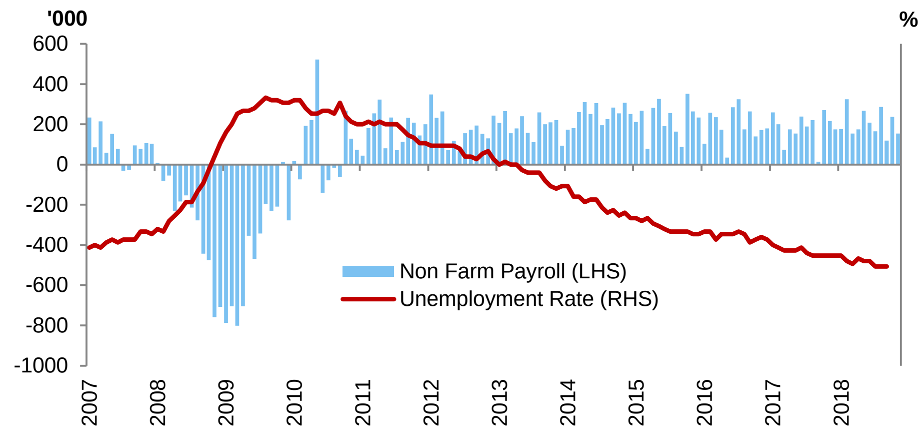
Source: Bloomberg, Global Markets Research

The US – Added signs of moderating growth, expect further softening after tax cut effect wears off

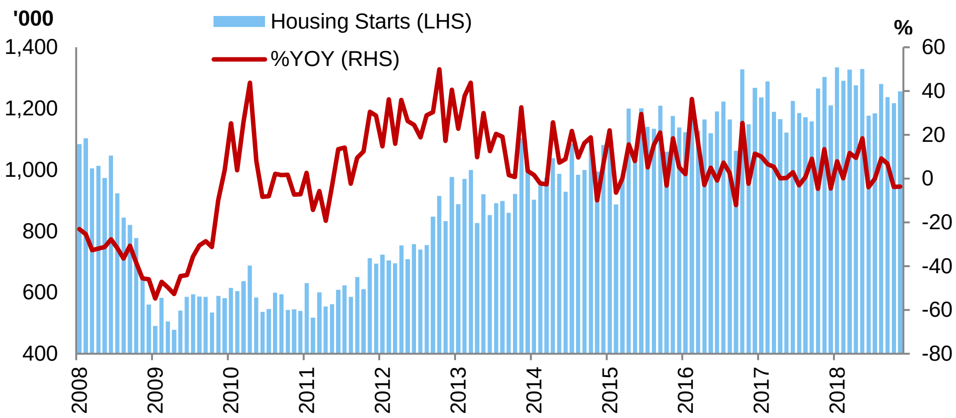
Easier growth in 3Q to extend into 4Q and beyond



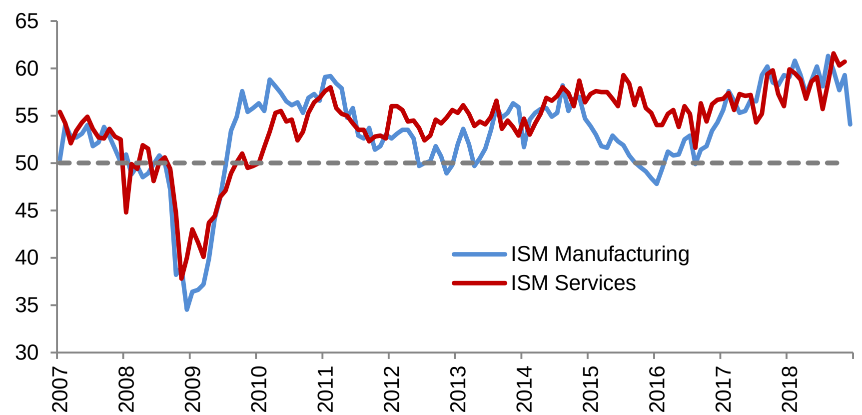
Labour market continues to tighten



Housing activities staged a slight uptick in 4Q but expected to remain subdued amidst rising interest rates environment

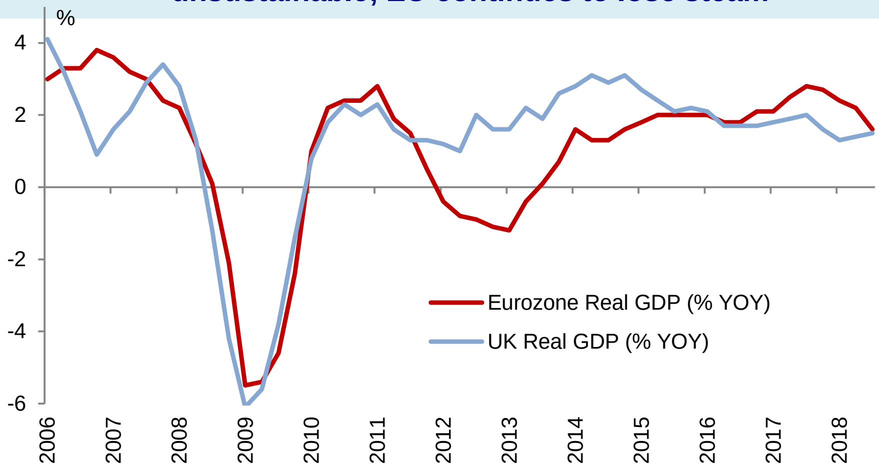


Manufacturing growth eased from 2018's peak, services sector still hold up

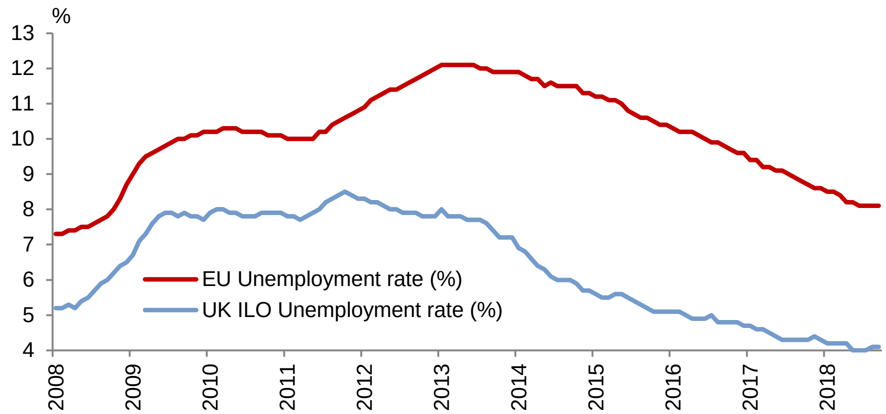


The EU and UK – Softer growth outlook ahead; Brexit uncertainties to weigh on UK outlook

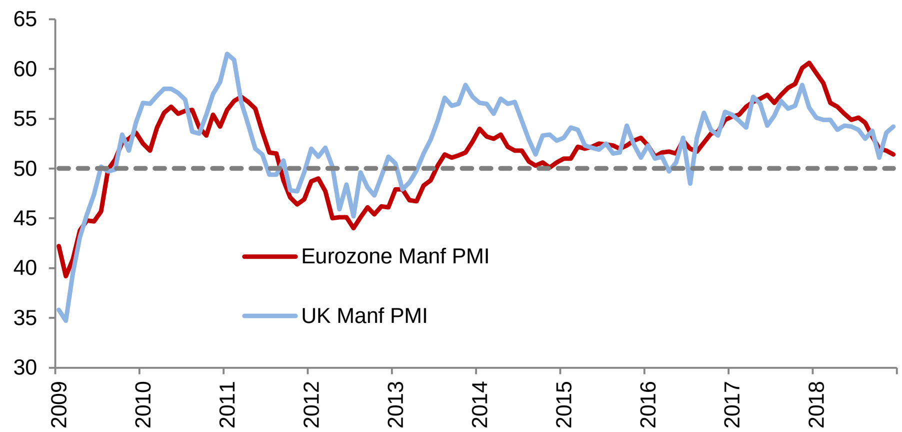
The UK economy saw a surprised pick-up in 3Q but unsustainable; EU continues to lose steam



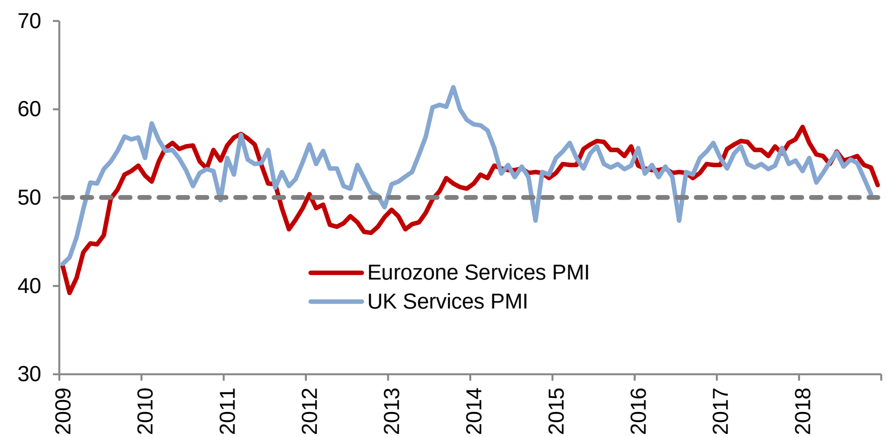
Labour market strengthened further in both Eurozone and UK



Eurozone manufacturing softened echoing softer demand; UK manufacturing strengthened recently amid Brexit preparation

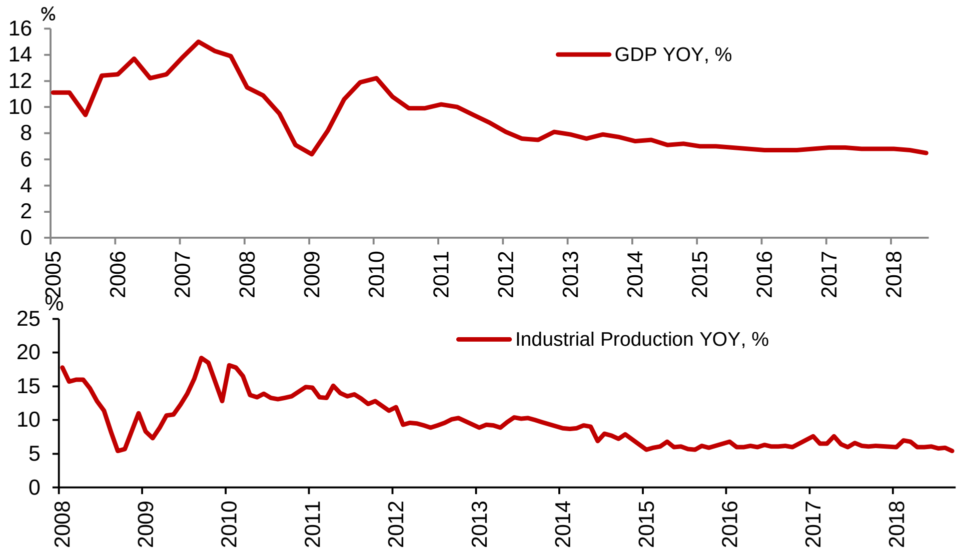


Services sector growth has eased in recent months

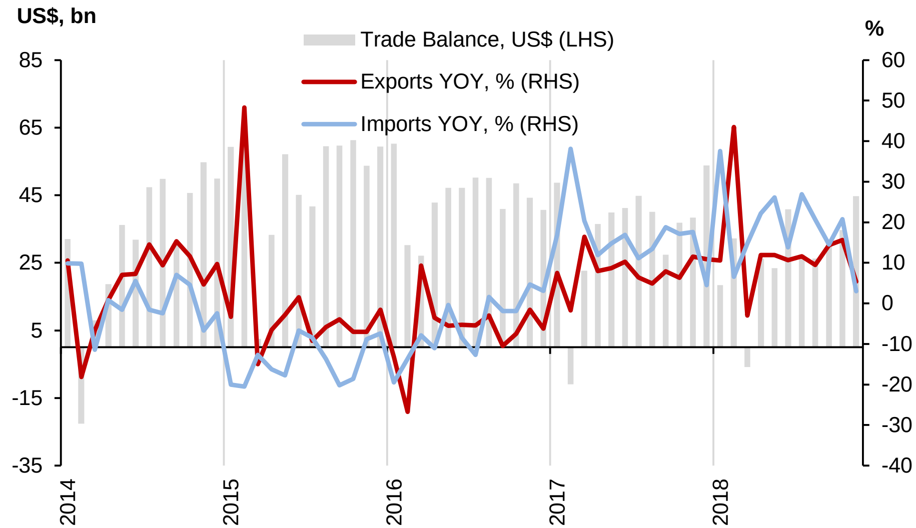


China – slower growth outlook, trade uncertainties lingered

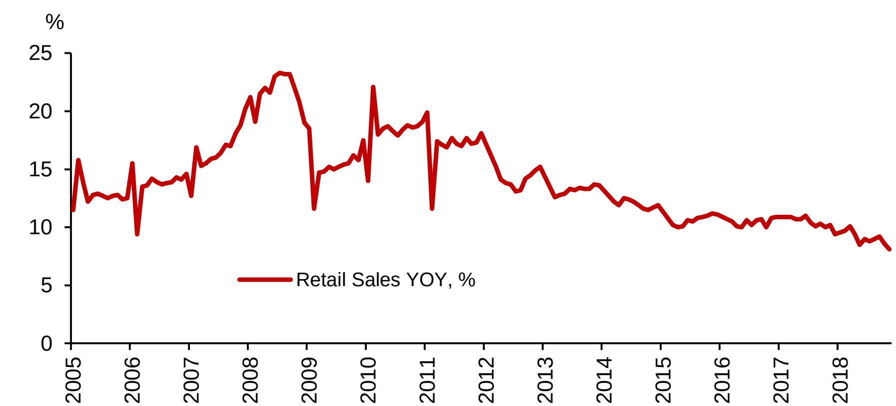
3Q GDP growth eased near 10-year low, key indicators continued pointing to moderating growth



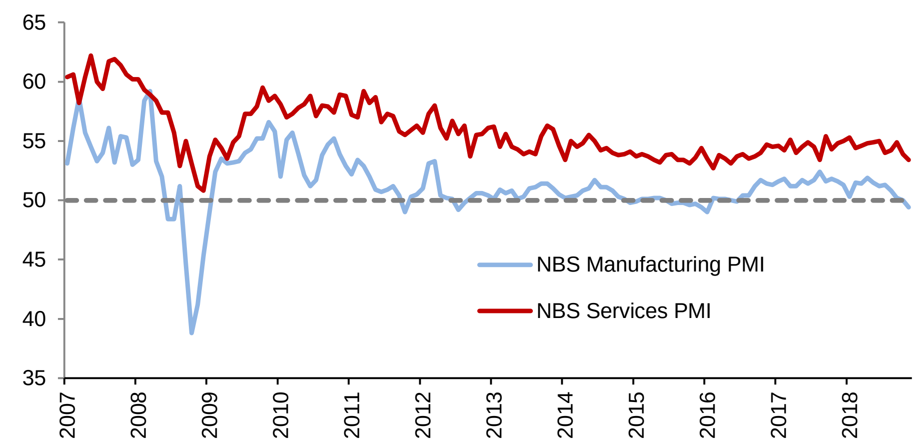
Exports lost steam after months of front loading, imports growth trended down in tandem



…but retailers saw slower sales in recent months, casting doubt over consumers' demand

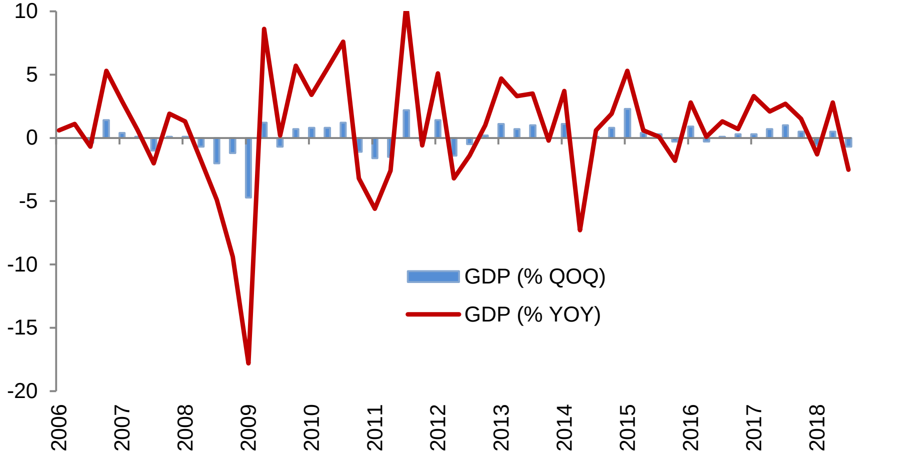


Manufacturing sector contracted, services range bound

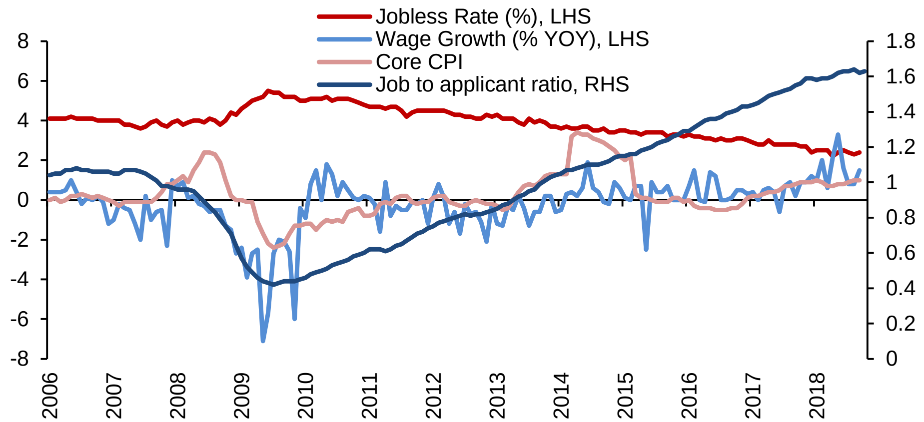


Japan – Natural disasters disrupted 3Q growth, inflation remained subdued

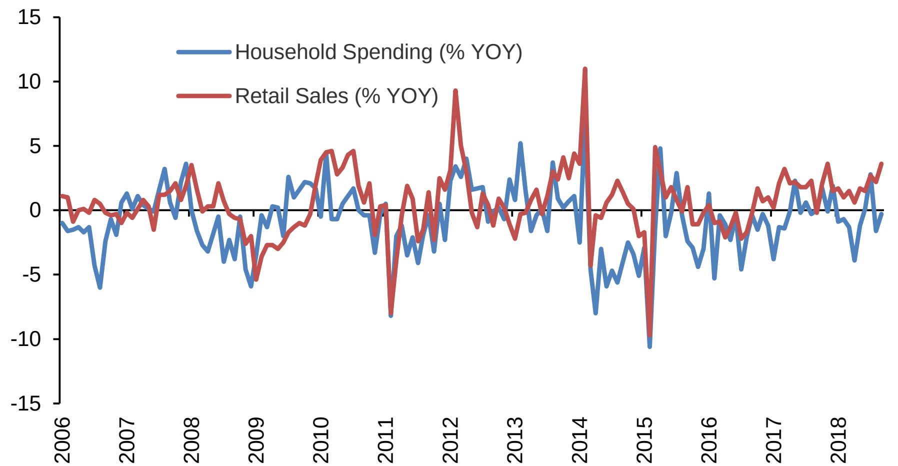
Rebound in 2Q was quickly offset by a contraction in 3Q where natural disasters hit the country



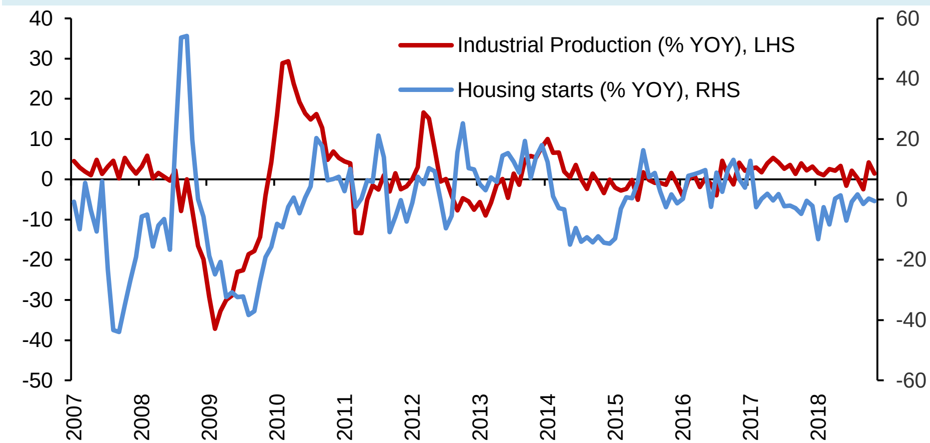
Labour market remained tight accompanied by accelerating wage growth, but inflation stayed subdued



The rebound in household spending was short-lived, further contractions point to underlying weakness in consumer demand

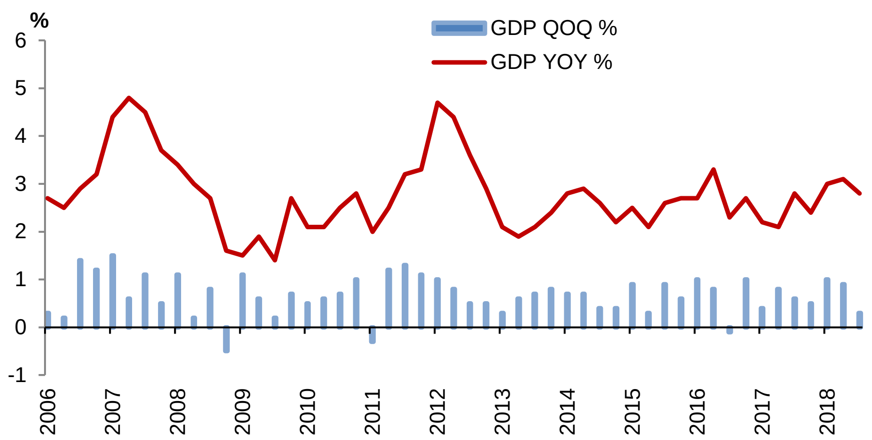


Flattish industrial production growth disrupted by natural disaster; housing starts remained weak

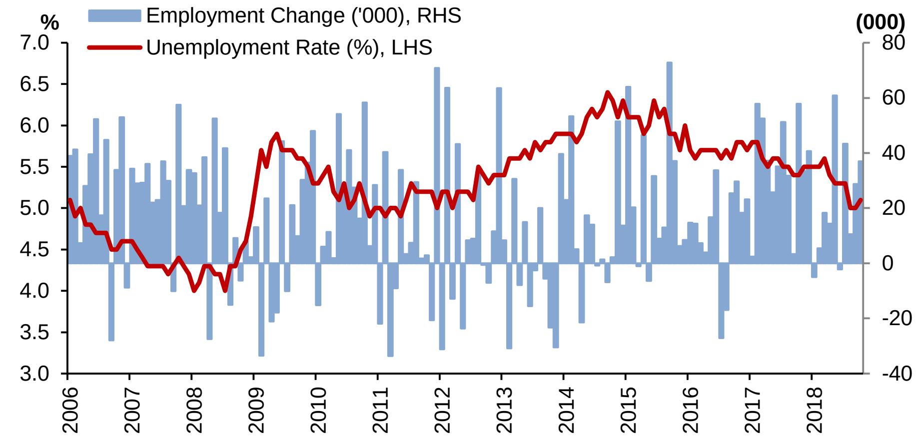


Australia – Softer but still decent growth; outlook hinges on China

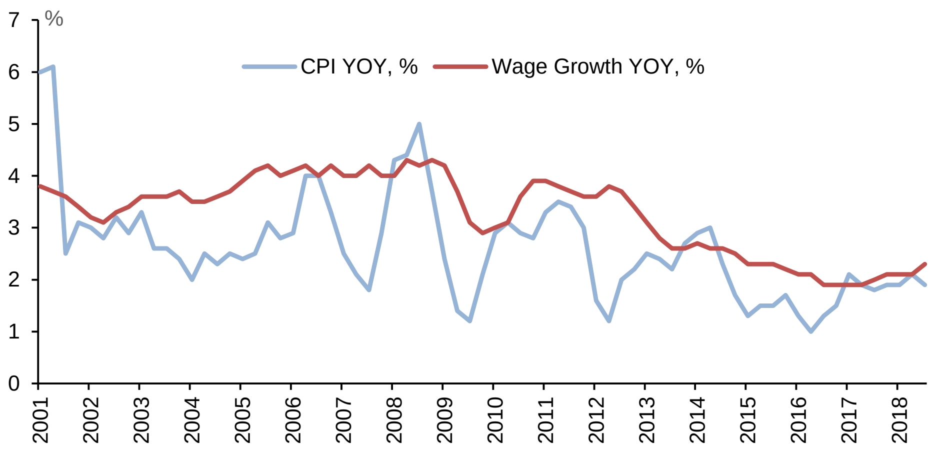
3Q GDP growth eased from the high levels in the first 2 quarters, trailing China's slower prints



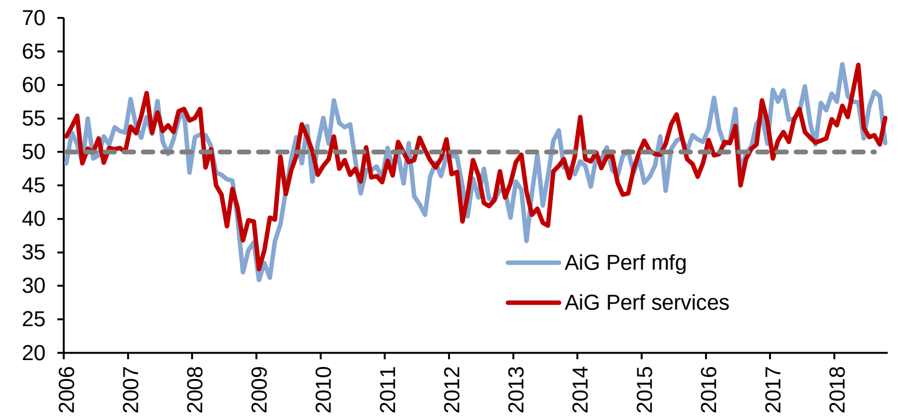
Labour market strengthened, marked by solid job creations and labour force expansion



..but inflation remained subdued, wage growth picked up on minimum wage raise.

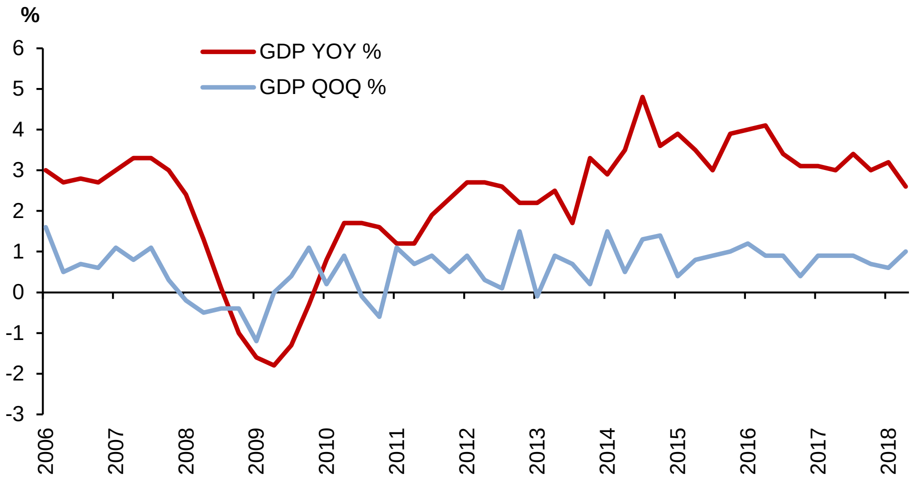


Manufacturing slowed but services growth picked up

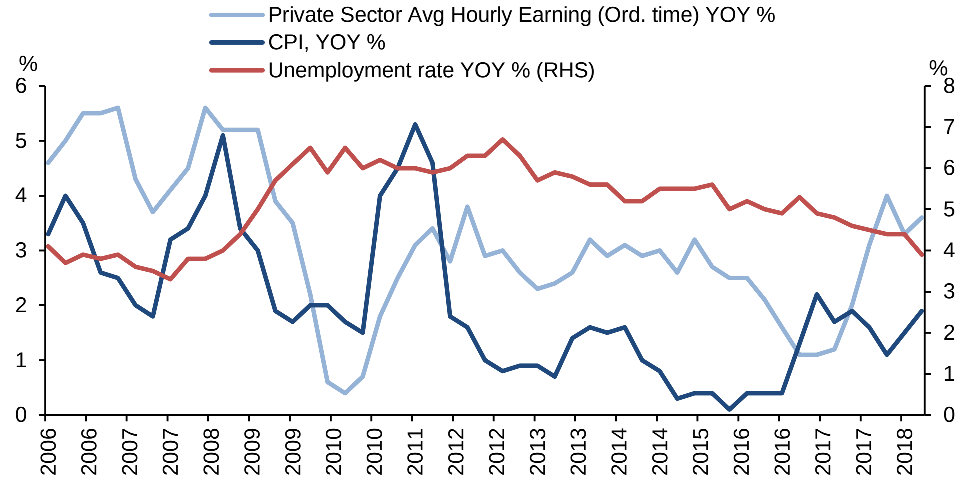


New Zealand – Easing growth, consumer and business confidence improved

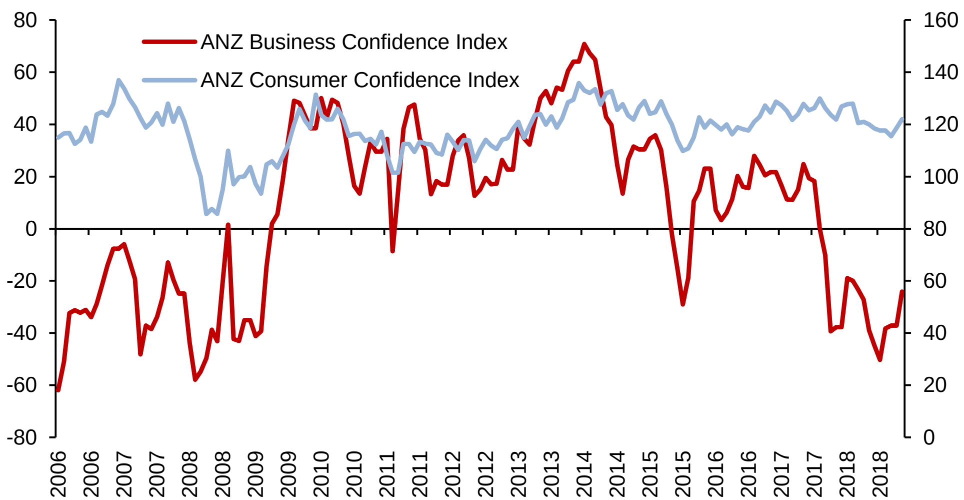
3Q GDP moderated to near 5-year low, dragged down by manufacturing sector



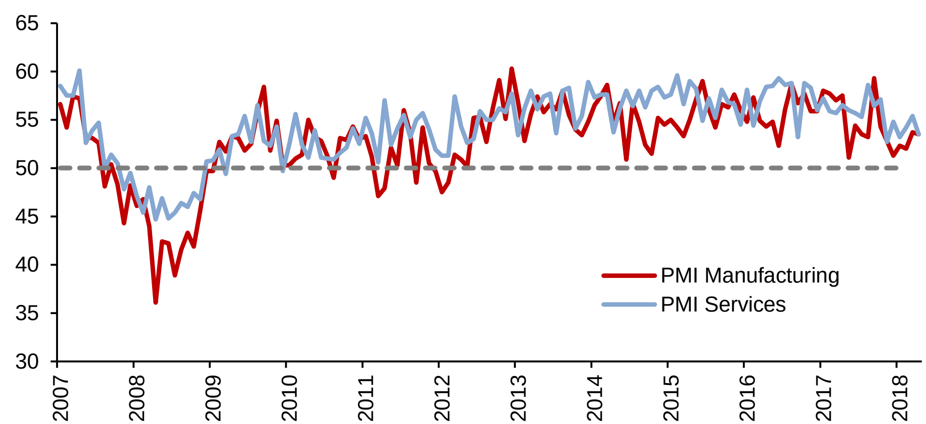
Inflation nearing RBNZ 2% midpoint, wage growth strengthened further while unemployment rate crept lower



Confidence levels improved in recent months

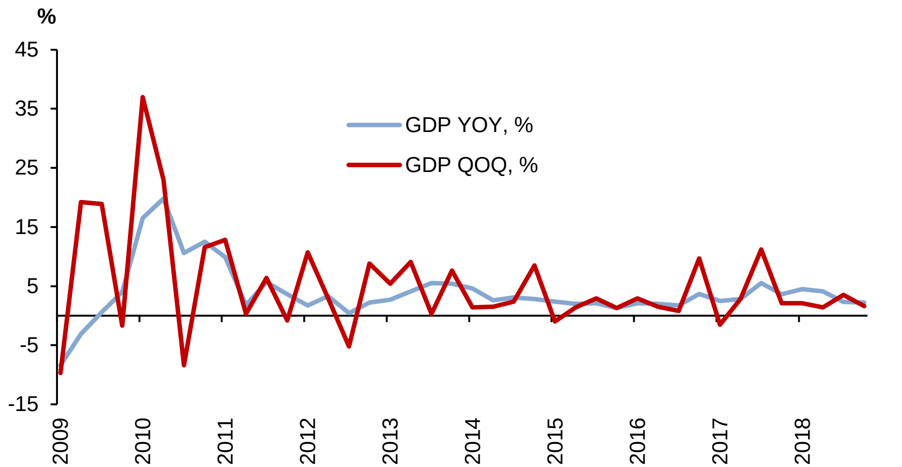


Manufacturing growth recovered minimally, services sector trending sideways

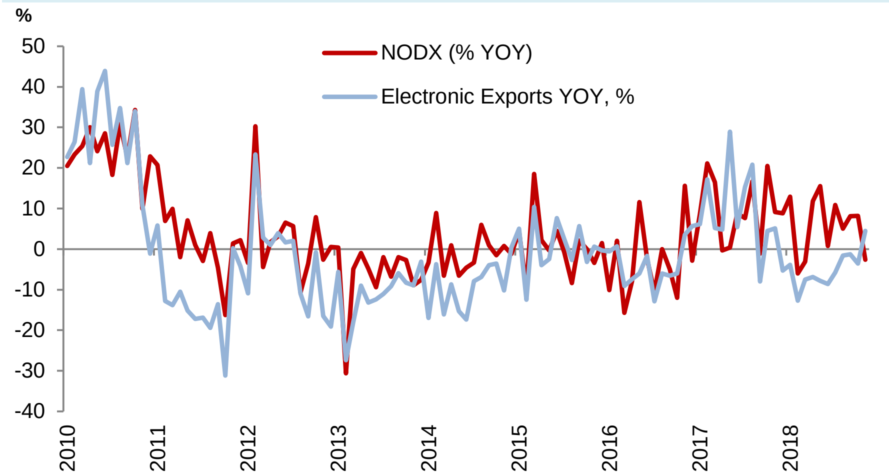


Singapore – Slower growth trajectory amidst softer external and domestic demand conditions

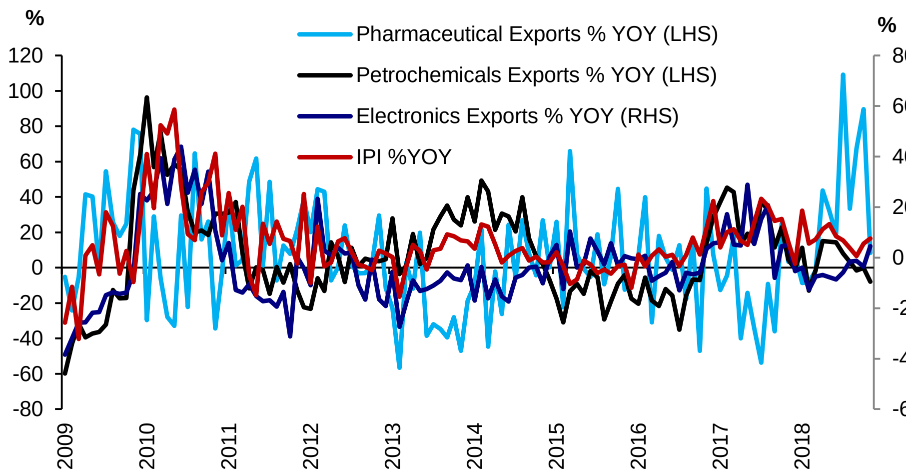
2H GDP growth came off from high levels seen in first two quarters of 2018



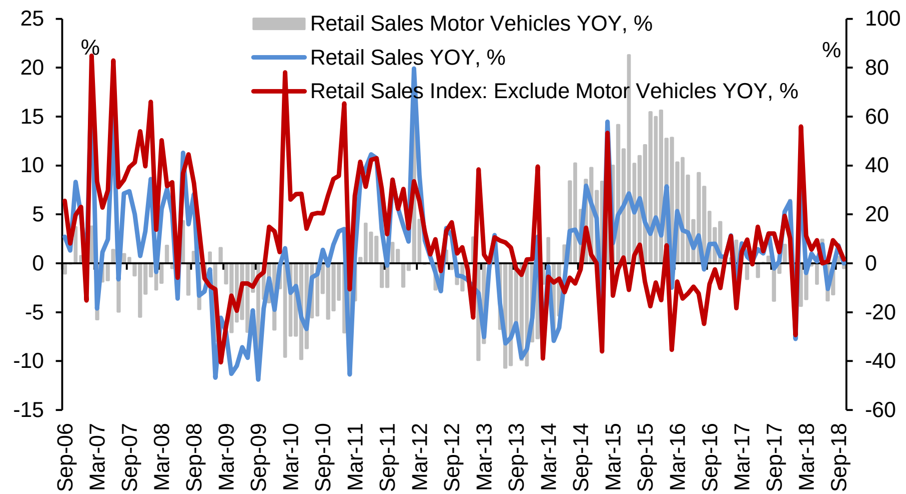
NODX weakened amidst softer demand conditions, electronic shipment eked out a temporary gain in November



Pharmaceuticals exports remained volatile, petrochemicals shipment contracted

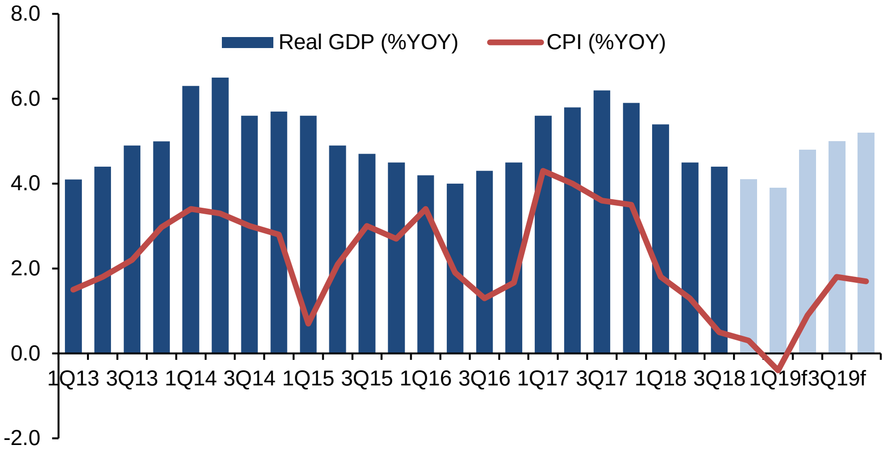


Retail sales weakened, reflecting weaker consumer spending

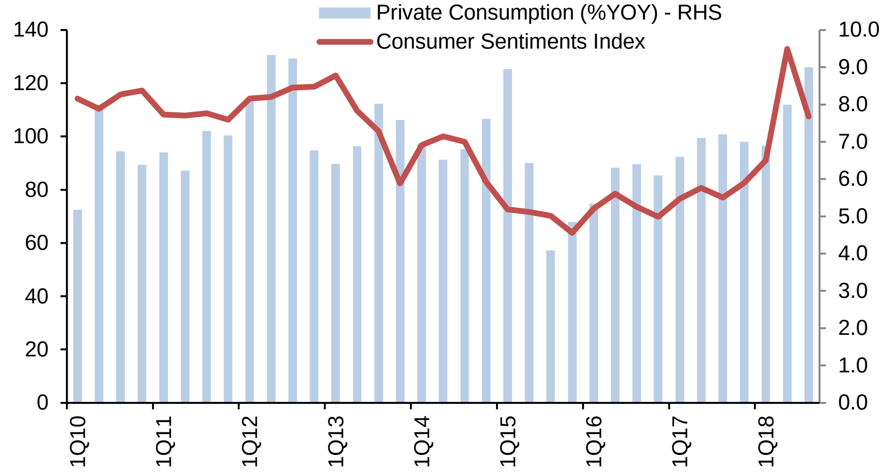


Malaysia – Slower growth and inflation outlook amidst economic and policy transition

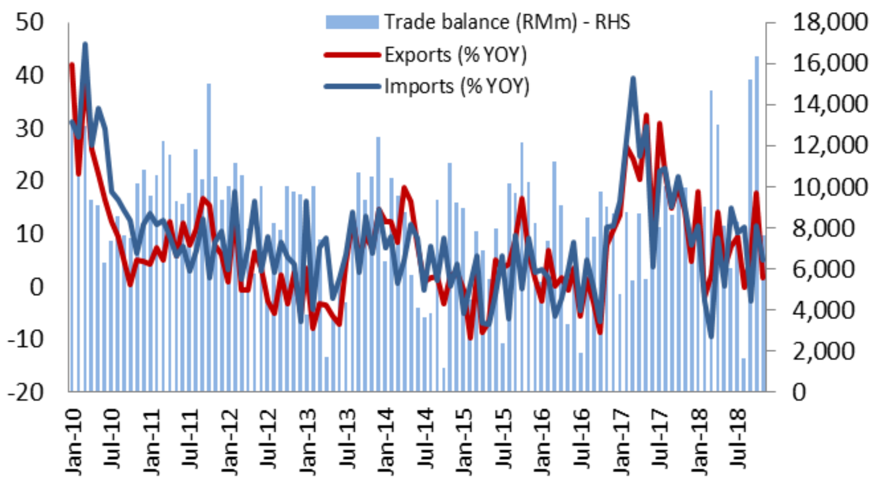
Expect growth to moderate further before picking up in 2Q19



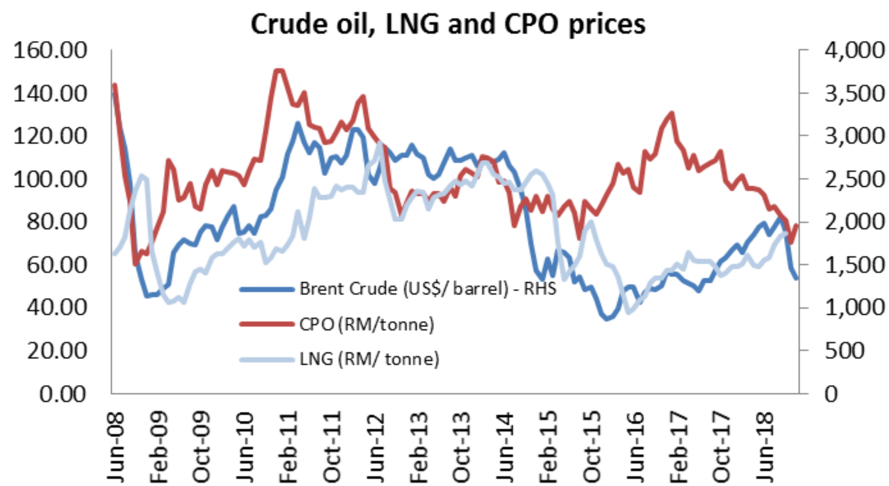
Pullback in consumer sentiments spell risks to consumption growth ahead



Exports normalized to single-digit gain post frontloading shipment; affirming softening global demand



Weaker commodity prices a double-whammy on exports



FX Outlook – 1Q19

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 for clues on policy tightening; downside risks abound in 2019 from elections in EU parliament, Spain, and Greece
GBPUSD	→	• Sideways as Brexit uncertainties to persist; potential for a rally if post-Brexit UK outlook improves
USDJPY	↘	• JPY expected to find more support on likelihood of extended sell-off in equities, slowing global growth, and a soft USD
AUDUSD	↗	• Could gain on an easing USD and potential monetary stimulus from China, but upsides likely limited as global growth outlook remains soft
NZDUSD	↗	• Could gain on an easing USD and potential monetary stimulus from China, but upsides likely limited as global growth outlook remains soft
USDSGD	↘	• MAS likely to extend policy tightening cycle, supporting SGD

Source: Global Markets Research

FX Forecasts

Currency Pair	Close on 31 Dec 18	End 1Q19 closing	End 2Q19 closing	End 3Q19 closing	End 4Q19 closing
EUR/USD	1.1467	1.15 – 1.17	1.15 – 1.17	1.16 – 1.18	1.17 – 1.18
GBP/USD	1.2754	1.26 – 1.28	1.27 – 1.29	1.28 – 1.30	1.29 – 1.31
USD/JPY	109.69	106 – 108	106 – 108	105 – 107	105 – 107
AUD/USD	0.7049	0.70 – 0.72	0.70 – 0.72	0.71 – 0.73	0.72 – 0.74
NZD/USD	0.6719	0.67 – 0.69	0.67 – 0.69	0.68 – 0.70	0.69 – 0.71
USD/SGD	1.3629	1.34 – 1.36	1.33 – 1.35	1.32 – 1.34	1.32 – 1.34
USD/MYR	4.1335	4.05 – 4.07	4.03 – 4.05	3.98 – 4.00	3.98 – 4.00
EUR/MYR	4.7291	4.70 – 4.72	4.68 – 4.70	4.66 – 4.68	4.68 – 4.70
GBP/MYR	5.2676	5.15 – 5.17	5.16 – 5.18	5.14 – 5.16	5.18 – 5.20
AUD/MYR	2.9230	2.87 – 2.89	2.86 – 2.88	2.86 – 2.88	2.90 – 2.92
SGD/MYR	3.0359	3.00 – 3.02	3.00 – 3.02	2.99 – 3.01	2.99 – 3.01

Source: Bloomberg, Global Markets Research

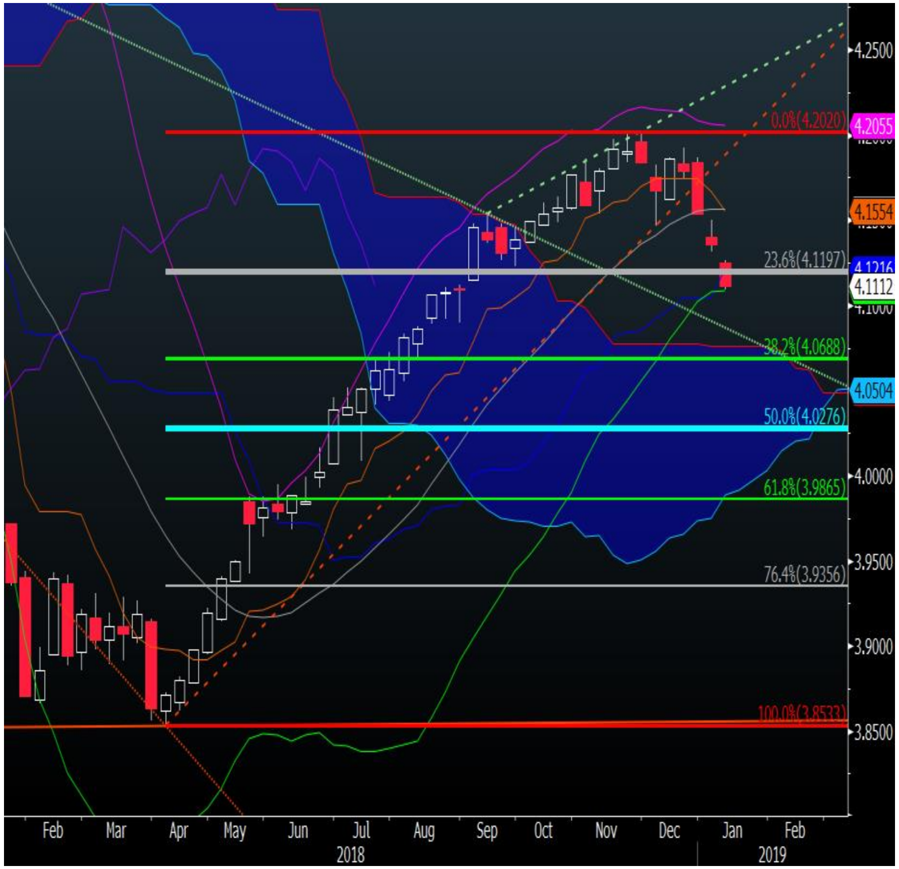
FX Technical Analysis

USDMYR: Weekly chart shows breakdown of a rising wedge, thus more losses are expected going forward. USDMYR could test 4.0688 before bouncing higher. A break at 4.0688 will expose a move to 3.9865 in the longer term.

Resistances: 4.1197, 4.1569, 4.1811
Supports: 4.1000, 4.0761, 4.0688

AUDUSD: Declines have likely bottomed out and AUDUSD is possibly forming a double bottom (a bullish pattern). A test at 0.7382 – 0.7400 is expected if this pattern continues to form; a break above 0.7400 will set a course for circa 0.7577.

Resistances: 0.7204, 0.7281, 0.7382
Supports: 0.7100, 0.7068, 0.7017



** updated on 7 Jan 2019*

Source: Bloomberg, Global Markets Research

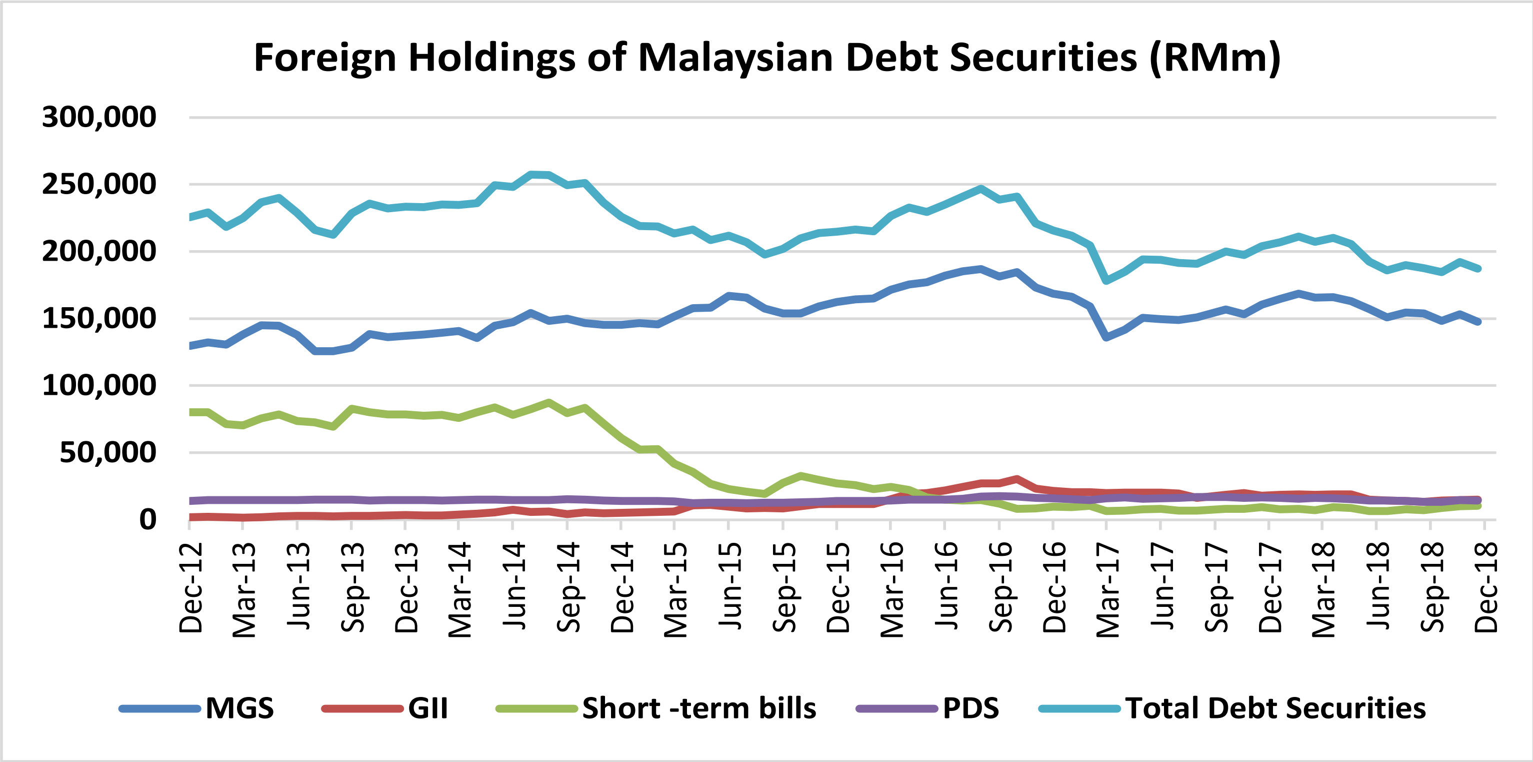
Fixed Income

Average MGS/GII BTC eased to 2.29x in 4Q 2018 (3Q: 2.36x) amid EM outflows amid rising US rates. Overall BTC printed an impressive 2.29x in 2018 (2017:2.20x)

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	12/10/2018	3,000	3,000		84,000	1.657	4.730	4.759	4.785	27.5%
29	10-yr Reopening of MGII (Mat on 10/28)	10	Oct	Q4	30/10/2018	3,500	4,000		88,000	2.235	4.290	4.313	4.320	90.9%
30	7-yr Reopening of MGII (Mat 08/25)	7	Nov	Q4	14/11/2018	3,000	3,000	2,500	91,000	2.814	4.203	4.212	4.218	63.6%
31	5-yr Reopening of MGS (Mat on 04/23)	5	Nov	Q4	29/11/2018	4,500	3,500	1,000	94,500	2.316	3.855	3.874	3.880	45.5%
32	20-yr Reopening of MGII (Mat on 08/37)	20	Dec	Q4	6/12/2018	4,000	2,000	2,500	96,500	2.307	4.765	4.787	4.798	78.9%
33	3-yr Reopening of MGII (Mat on 03/22)	3	Dec	Q4	13/12/2018	3,500	3,300	500	99,800	2.426	3.765	3.775	3.782	88.6%
	Gross MGS/GII supply in 2018					107,500	99,800	13,000						

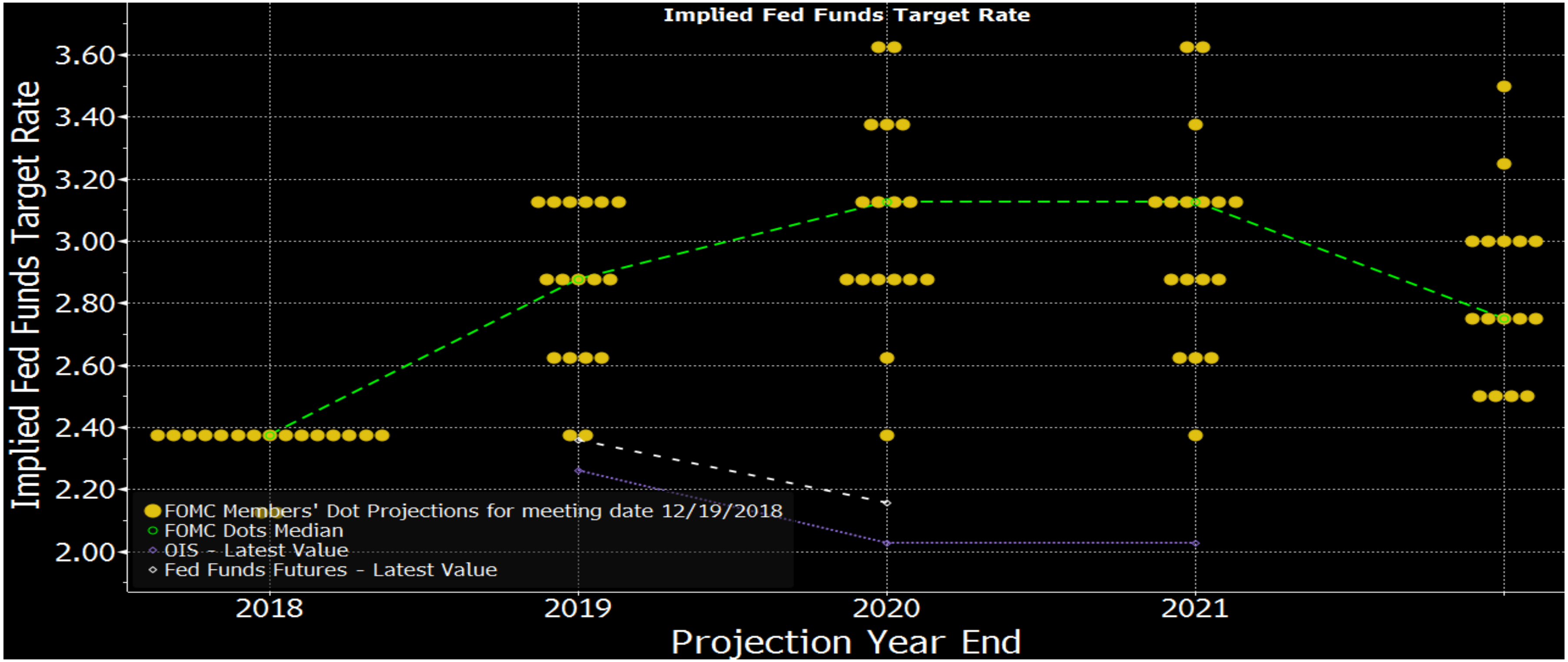
Monthly foreign holdings of MYR bonds higher @ RM187b as at end-Nov vs end-3Q



Source : BNM, Bloomberg, HLB Global Markets Research

Foreign holdings of MYR government bonds (MGS + GII; excluding SPK which has zero foreign holdings) also saw volatile move. The net inflows of RM5.0b to RM167.7b in Oct 2018 (from RM162.7b as at 3Q 2018) saw similar reversal in Nov 2018 to RM162.5b, a 20-month low following EM outflows due to rising US interest rates and ongoing trade conflict. MGS foreign holdings also "zig-zagged" for the 4th consecutive month, swinging by approx. -RM5.6bn to +RM4.7b ending at RM147.6b as at end-Nov (i.e. the lowest for 2018 @ 38.8% of total outstanding MGS bonds) whilst GII edged higher by RM503m to RM14.9b as at Nov-18 (i.e. 5.0% of outstanding GII bonds).

Fed dot plot suggests two rate hikes in 2019 while futures pricing in a cut



Source: Bloomberg

The December 2018 FOMC meeting saw the 4th and final 25bps rate hike as policy makers maintained the fast pace of tightening in 2018. This followed the first three (3) official hikes of 25bps each in March, June and September 2018. However the recent downward shift in the Fed's forecast horizon to two (2) rate hikes in 2019 is the key development. As the Fed hinted that rates are approaching the neutral level, the downshift in the dots should be viewed as a sign of caution, not a dovish signal. Indeed, its monthly balance sheet reduction is still ongoing and has been capped at US$50b per month since October 2018 as planned. Hence, the Fed's balance sheet is expected to reduce from ~$4.5 trillion to $3.8 trillion in 2019 and subsequently to a targeted level of $3.0 trillion with completion date estimated by end-2020.

Fixed Income Outlook

Country	3M Views		Comments/ Outlook
US	**Maturity Preference**		**<u>Sovereigns</u>** Bond investors saw a turbulent 4Q 2018 amid a steeper UST yield curve; depicted by substantial movement in the 2Y10Y spread and 5Y30Y spreads at 16bps and 50bps respectively. The 2Y (2.49%) closed at the lower range of 2.42-2.96% levels; likewise the 10Y (2.69%) rallied as it moved within a massive range of 2.58-3.24% levels. Investors are now aware of the increasingly mixed signals from US economic data which has displayed some contradictory results with jobs data (i.e. weaker NFP but strong average hourly earnings) along with December's tepid ISM manufacturing data. We expect slower pace of upward movement in short-end rates compared to the previous quarter as the longer-end continue to remain anchored at current levels on less inflationary pressures @ 2.0% target despite continued Fed interest rate policy normalization for 2019. The ongoing Fed's balance sheet reduction together with earlier issuances of $1.5 trillion tax reduction package coupled with $300b of additional stimulus are ongoing operations which are not expected to severely impact the movement of yields. The 10-year UST which only recently breached the 3.00% handle for the 2nd time this year is expected to find good support at 3.00% levels. The downside to our forecast are subsiding US-China trade barriers, higher UST supply and further Fed rate hikes for 2019. We are also mindful of the impact of reduction in global central bank purchases as real money investors (i.e. pension funds, SWF's and lifers) absorb and address supply concerns especially on the long-end. Overall, higher yields and diversification benefits make us more positive on UST's. The short-maturities potentially offer better risk-reward stance. **<u>Corporate</u>** 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 produced a return of -4.5% q-o-q and -1.2% for last year whilst the Bloomberg Barclays US Corporate Total Return Value (for IG) averaged +1.1% q-o-q but -2.5% for 2018; making both bond asset classes more resilient than equities. The Bloomberg Barclays U.S. Aggregate Corporate OAS index, the IG proxy, jumped from 106bps (3Q) to of 157bps (4Q) spread over UST's; the highest seen for 2018. This was due to the combination of lower Treasury yields and higher interest rate risk for credits which caused a less-than-bullish appetite for IG spreads. IG pipeline for the coming quarter is dampened by January's dearth of issuances due to a challenging macro backdrop and seasonal slowdown. Upcoming proposed issuances include those by Apple Inc, Whirlpool Corporation's debt and Walgreens Boots Alliance. Despite a likelihood of a late cycle in credit; we are positive on IG issuances as credit fundamentals still look good with decent interest coverage. We are however slightly negative on HY which has weathered recent volatility well due to current market back-drop as investors turn to quality credits.
	Duration short-to-medium		
	Policy Rate	**Yield Curve**	
	Fed officials are maintaining view on interest rate normalization with **two(2)** rounds of 25bps Fed Funds Rate hike in 2019. Nevertheless our house projection sees no rate adjustment for 1H 2019.	Yield curve is expected to resume its flattening stance; having paused during 4Q 2018 with concerns on potential yield-inversion due to additional Fed tightening policies indicating elevated risk of recession by 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 sharp flattening bias, with the short 2Y moving 6bps lower at 1.87% whilst the 5-30Y yields were more volatile and sharply lower between 33-55bps. The closing levels were: 5Y @ 1.95%; 10Y @ 2.08%; 20Y @ 2.37% and 30Y @ 2.49% for 4Q 2018. SGS were seen mirroring UST's during the quarter under review a stark contrast to 3Q 2018. We expect SGS to track movements in UST yields as funding currencies begin their slow ascend following the interest rate outlook in US. Despite mixed economic data out of US and the likelihood of a reduction in the expected number of rate hikes; we believe that Singapore is skewed at worst to a soft landing due to its stronger economic condition but not sheltered from EM portfolio flows. While Singapore's yield curve has been tracking UST's, there may be limits to a flattening of the its yield curve. Resistance to further flattening of the 2Y10Y spread is expected to kick-in at 3-4bps last seen in early 2007. During that period the SGS curve did not mirror the inversion of the US Curve in the run-up to the Global Financial Crisis in 2008/09. The current 2-10Y and 5-20Y yield spreads are tighter at 25bps (3Q:58bps) and 45bps (3Q:54bps) respectively for 4Q this year and is about 15bps narrower than average for the period under review.

<u>Corporate</u>
The rise in interest rates and ongoing US-China global trade conflicts may continue to unsettle the export-reliant nation and the corporates debt-funded expansion as was seen with earlier distressed-related debts and now SGD dollar denominated noted issued by First real Estate Investment Trust and those sold by OUE Ltd which is controlled by Indonesian property developer PT Lippo Karawaci and also Singapore-listed oil & Gas outfit Ezra Holdings Ltd Debt. Defaults in Asia may spread as weakening currencies and tighter liquidity leave riskier borrowers with higher refinancing costs. Rising failures add to headwinds that governments have to navigate during a politically fraught 2019, with elections in India and Indonesia. Asian dollar bond market defaults tripled to at least nine in 2018 from the previous year. Nevertheless exposure to SGD shorter-duration and high-quality bank credits may be advantageous on yield-carry requirements due to benefit derived from higher interest rates. Almost 50% of bonds issued are from entities within the property sector which may have seen the slowdown taper off. In short, 2019 is expected to be tough for Corporate Bonds as funds are diverted by investors to purchase up to SGD200k of National Savings Bond due to government approval. On the flip side higher yields to attract the retail participants may prove beneficial.</td></tr>
<tr><td colspan="2">Duration short-to-medium</td></tr>
<tr><td>Policy Rate</td><td>Yield Curve</td></tr>
<tr><td>With recent higher US interest rates; SGD NEER continues to hold in the upper end of its trading band at 1.4% above mid-point even as GDP growth softened in 4Q 2018. We expect the MAS to tighten its policy again in April 2019 due to the tight labour market, above-potential growth and rising core inflation.</td><td>SGS curve is expected to track potential movement in UST yields.</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>
Local govvies were volatile during the quarter under review as the MYR sovereign curve saw elevated yields in October ease through December amid low liquidity due to lack of investor interest towards the year-end festivities and holidays. However, appetite is seen returning strongly as values emerge amid greater clarity of fiscal measures based on releases of 11MP (2016-2021) Mid-term review and Budget 2019. Overall benchmark yields ended mixed between -4 to +4bps with curve seen flattening. Bonds extending out from 10Y rallied mostly supported by local institutional investors. On the international front, threats mainly from US-China global trade conflicts and further tightening of liquidity by the US Fed which ignited the sell-off in EM financial assets in August-October period has abated. Hence we foresee healthy local/institutional demand on the back of stable MYR and emerging relative values which have also begun attracting interest from offshore banking institutions especially in the shorter-end off the runs 19-25's and both 10Y MGS/GII bonds. With BNM expected to stay pat on rates, Malaysia's bonds may look attractive relative to regional sovereigns and their respective risk-profile. We anticipate steady foreign holdings position in view of the recent volatility of holdings due to "global currents". The 7-8Y and 15Y space still offers "decent value proposition" given supportive supply-demand metrics whilst the 5Y and 10Y are fairly-rich and expected to hover between 3.70-80% (3Q: 3.75-89%) levels and 4.00-4.10% (4Q: 4.06-18%) respectively.

<u>Corporate</u>
Corporate bonds/Sukuk issuances was higher at RM26.2b as at end 4Q 2018 (3Q 2018: RM21.3b). Total projected gross supply for 2018 between RM95-105b was spot on with RM100.5b issued for the year (median of total issuances). Trading activities for corporate bonds also spiked to circa RM440m daily volume (3Q 2018:RM560m) with interest skewed mainly towards the GG and AA segment as portfolio managers continue to weigh between credit quality and yield requirements. We continue to expect appetite to skew towards both the AAA and the AA-space and like names like SOUTHERN POWER, EDRA, SEB, TENAGA, LITRAK, DUKE within the infrastructure sector consisting of tolled-roads/power sub-sector bonds for yield enhancement purposes. The Finance/Banking sectors are also recommended especially the 10NC5 bonds issued by Bank Islam, Affin, Hong Leong, Maybank, CIMB and RHB. We also foresee values in the 7Y AAA papers and 10Y AA-rated bonds due to decent spreads of 50-70bps against MGS for this part of the yield curve and provides better value than Govt-guaranteed bonds which have outperformed in 2018 by 5-15bps in view of scarcity/supply due to government's reductions of commitments and contingent liabilities.</td></tr>
<tr><td colspan="2">Duration neutral; watch the 7-8Y and 15Y govvies space; AAA-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 during 1Q 2018. Expect lower 1Q 2019 GDP growth at 3.9% versus 4.1% for 4Q 2018</td><td>Flatter yield curve with potential values seen in the 7-8Y and 15Y Govvies space although we expect marginal risks of higher yields due to risks of EM portfolio flows; induced by continuous US Fed rate hikes, US-China trade disputes and/ or even Federal deficit numbers</td></tr>
</table>

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