Quarterly Market Outlook 2Q2019

Global Markets

April 2019

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Global Growth Outlook

Real GDP (% YOY)	Latest 2 Quarters		Actual	Forecast (private)		Forecast (official)	
	3Q18	**4Q18**	**2018**	**2019**	**2020**	**2019**	**2020**
World	-	-	3.7	**3.4** *(3.5)*	**3.3**	**3.5** *(3.7)*	**3.6**
DM/ G10	2.1	1.8	2.3	**1.8** *(2.1)*	**1.7**	**-**	**-**
US	3.0	3.0	2.9	**2.4** *(2.6)*	**1.9**	**2.1** *(2.3)*	**1.9** *(2.0)*
Eurozone	1.6	1.1	1.8	**1.2** *(1.6)*	**1.4**	**1.1** *(1.7)*	**1.6** *(1.7)*
UK	1.6	1.4	1.4	**1.3** *(1.5)*	**1.5**	**1.2** *(1.7)*	**1.5** *(1.7)*
Japan	0.1	0.3	0.8	**0.7** *(0.9)*	**0.5**	**0.9** *(0.8)*	**1.0** *(0.8)*
BRICs	5.5	5.8	5.7	**5.5** *(5.6)*	**5.5**	**-**	**-**
China	6.5	6.4	6.6	**6.2** *(6.2)*	**6.0**	**~6.0**	**-**
India*	7.0	6.6	7.2	**7.0** *(7.3)*	**7.3**	**7.6** *(7.6)*	**-**
Asia ex-Japan	5.8	5.7	6	**5.7** *(5.7)*	**5.6**	**-**	**-**
EMEA	2.6	2.1	3	**2.1** *(2.3)*	**2.6**	**-**	**-**

Source: Bloomberg, official sources
Figures in ( ) are previous forecasts
**FY ending Mar-19 and Mar-20 respectively*

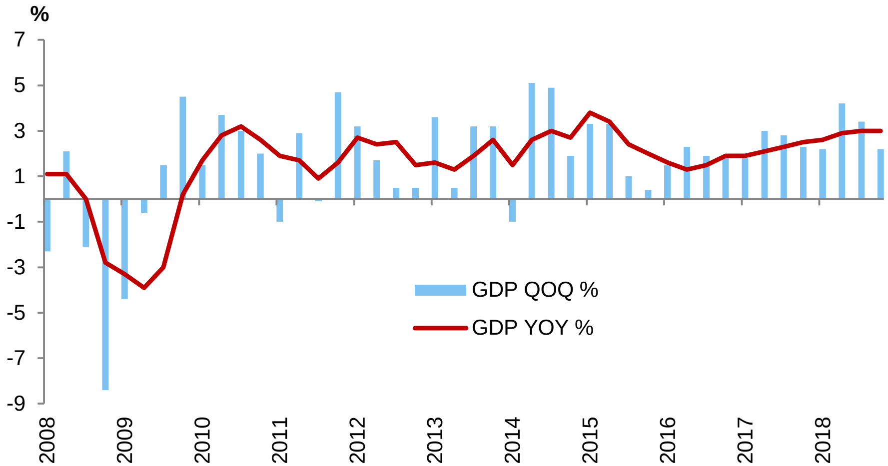
Global Central Banks Policy Rate Outlook

	Current	2Q19	3Q19	4Q19	1Q20	
United States Federal Reserve *Fed Funds Rate*	**2.25 - 2.50**	2.25-2.50	2.25-2.50	2.25-2.50	2.25-2.50	**No hike in 2019**
Eurozone European Central Bank *Main Refinancing Operation Rate*	**0.00**	0.00	0.00	0.00	0.00	**No 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	**Potential cut in 2019**
New Zealand Reserve Bank of New Zealand *Official Cash Rate*	**1.75**	1.75	1.75	1.75	1.75	**Potential cut in 2019**
Malaysia Bank Negara Malaysia *Overnight Policy Rate*	**3.25**	3.00	3.00	3.00	3.00	**1 cut 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	**Potential cut in 2019**

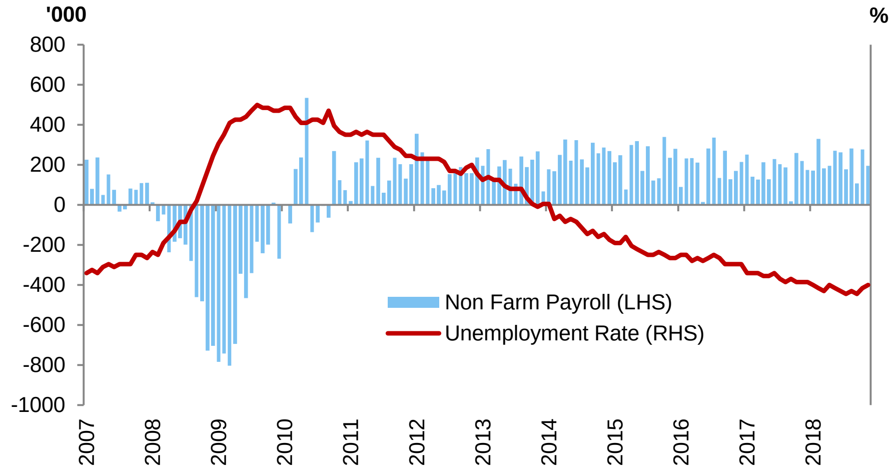
Source: Bloomberg, Global Markets Research

The US – Fed pauses rate hike on slower than expected growth outlook

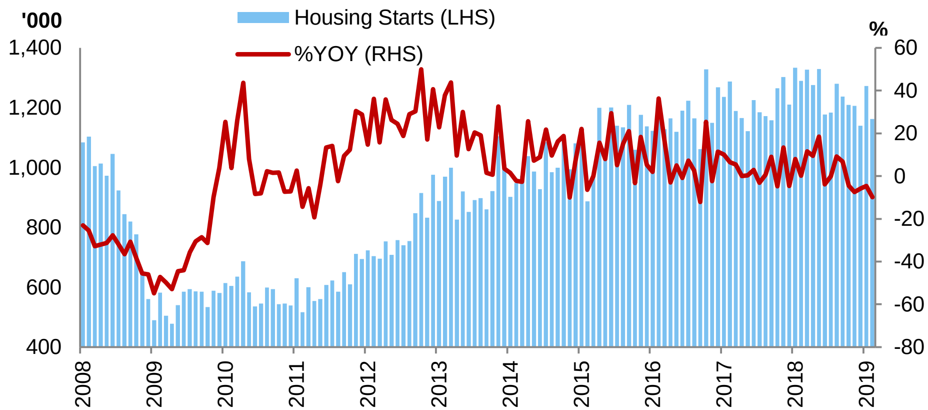
2018 GDP growth at 2.9%; Weaker manufacturing, consumer spending, investment suggest moderating growth ahead.



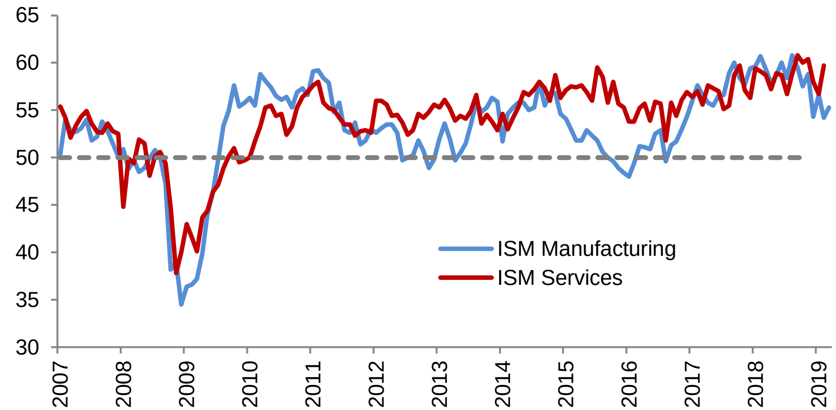
Stronger than ever labour market - Job creations may have peaked, wage growth to pick up further.



Mixed signals in the housing market, rate pause offers room for potential recovery.

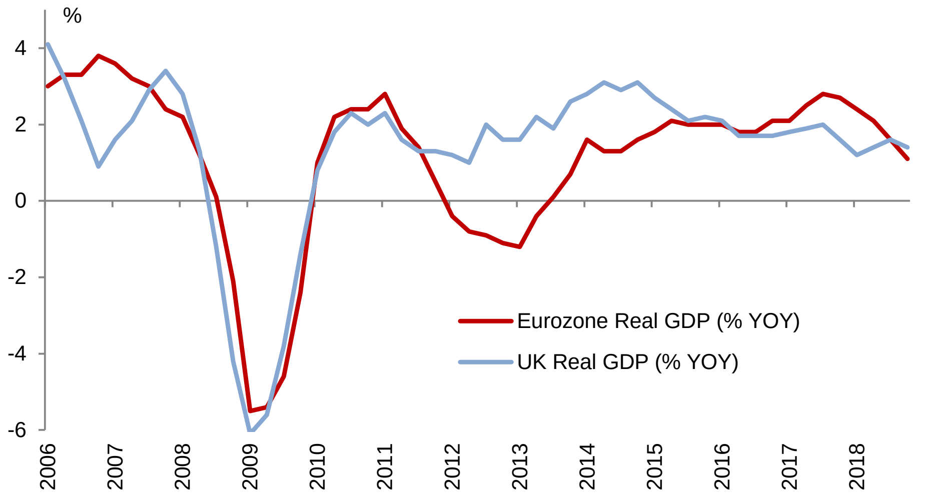


Manufacturing sector to moderate, services sector offered mixed signs, likely to see a downtrend in growth.

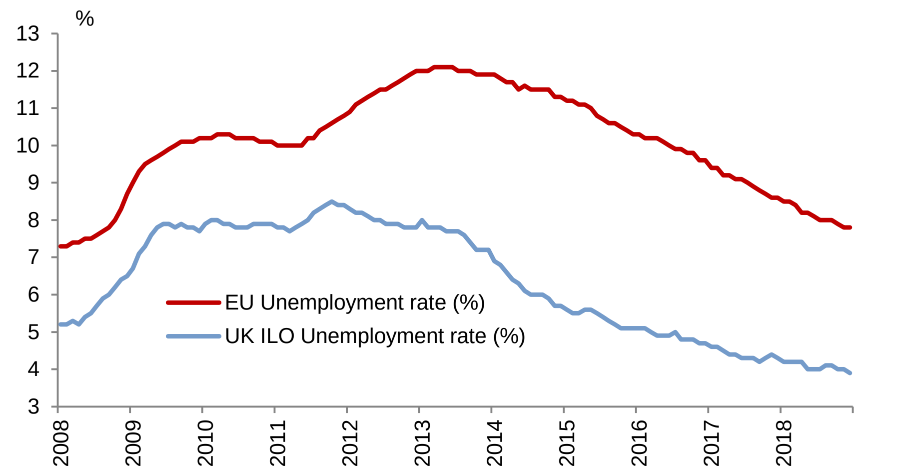


The EU and UK – ECB delays rate hike on dimming growth outlook and muted inflation; Heightening Brexit uncertainties gripping UK economies

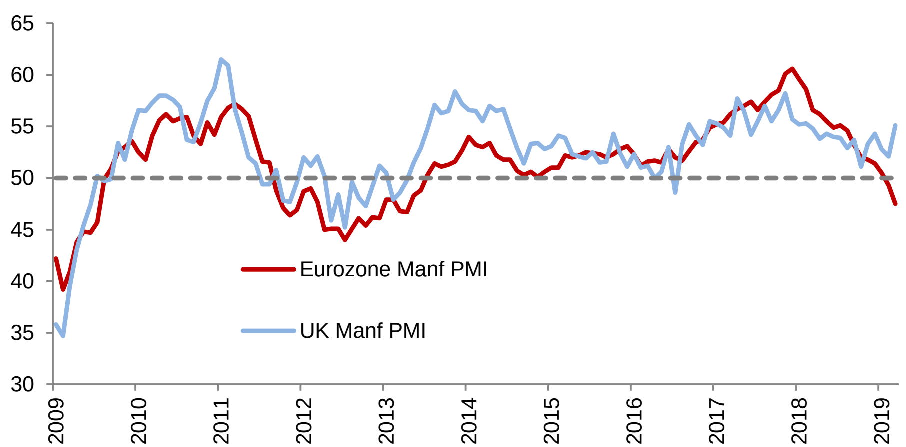
Moderating growth prospect for both Eurozone and UK against slower global backdrop.



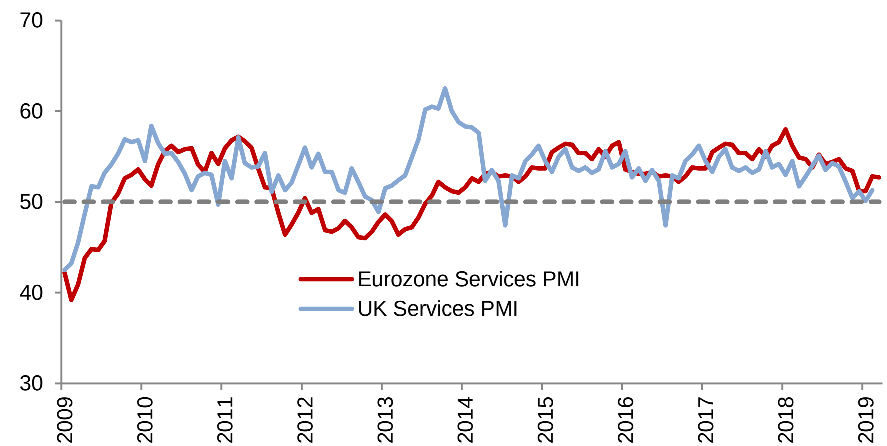
Solid labour market characterized by low unemployment and higher wage growth.



Weakening manufacturing for Eurozone; Sales, productions boosted UK manufacturing ahead of Brexit.

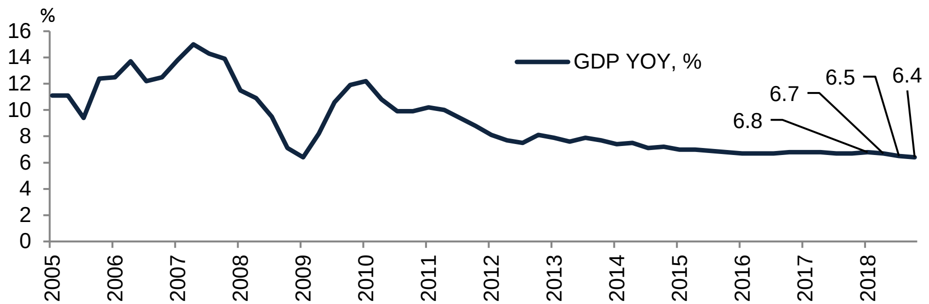


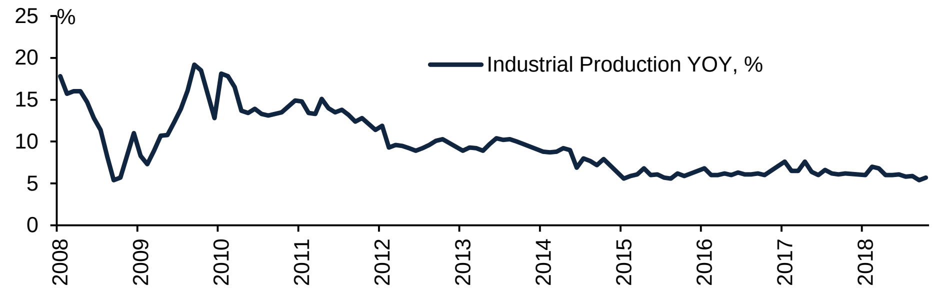
Services sector weaker than expected for both Eurozone and UK.



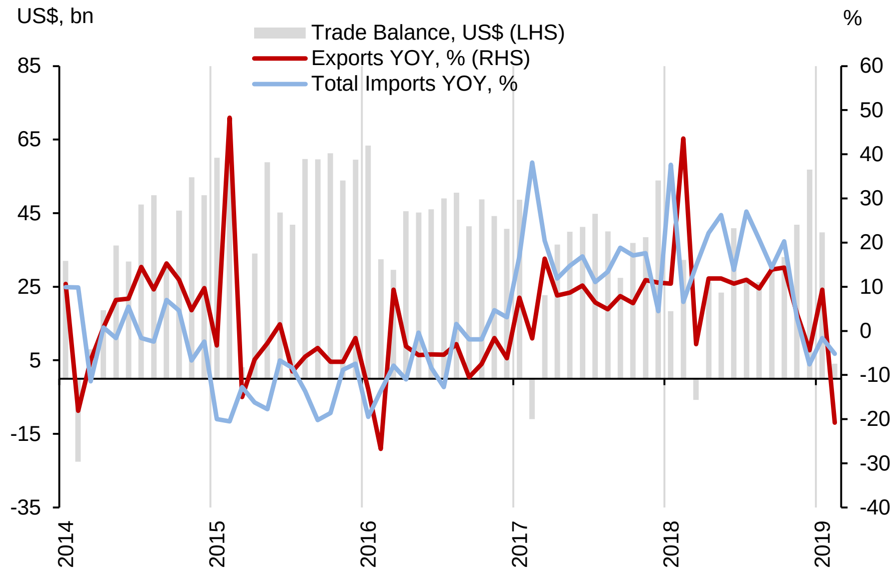
China – Growth trudges along slippery terrain, slower demand and trade dispute weighing on outlook

Growth trajectory to slow, industrial productions likely to rebound in March following new year break.

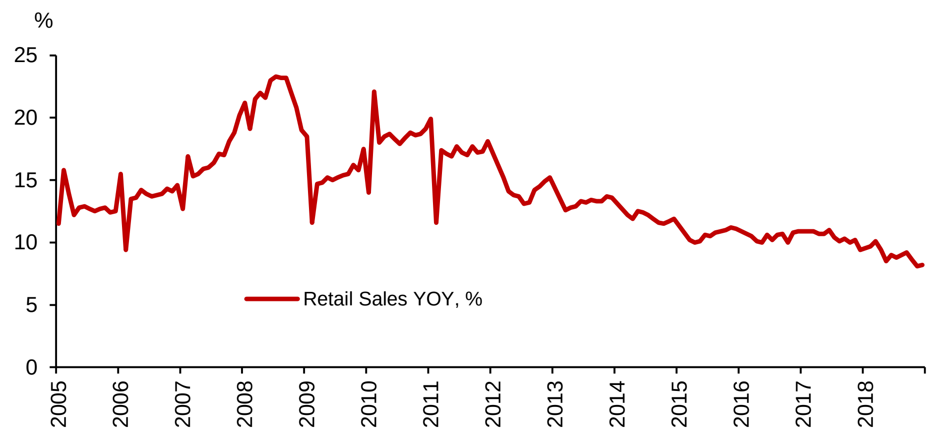




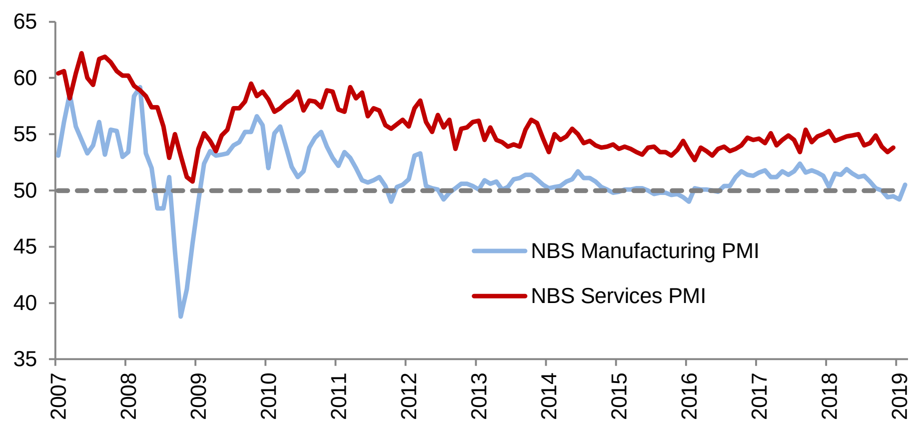
Foreign trade weakens on US trade dispute and slower global demand.



Historically weak retail sales point to subdued consumer demand

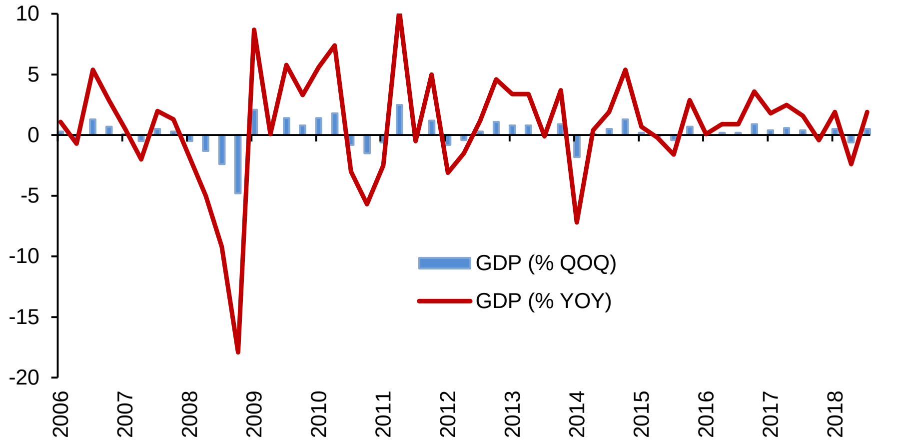


Manufacturing staged a rebound, services stays solid.

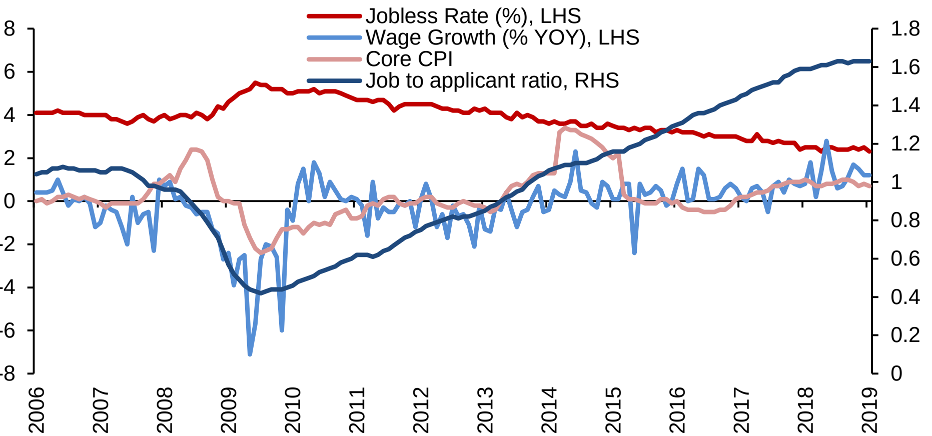


Japan – Slower capex and manufacturing output; Temporary lift in consumption ahead of October's tax hike

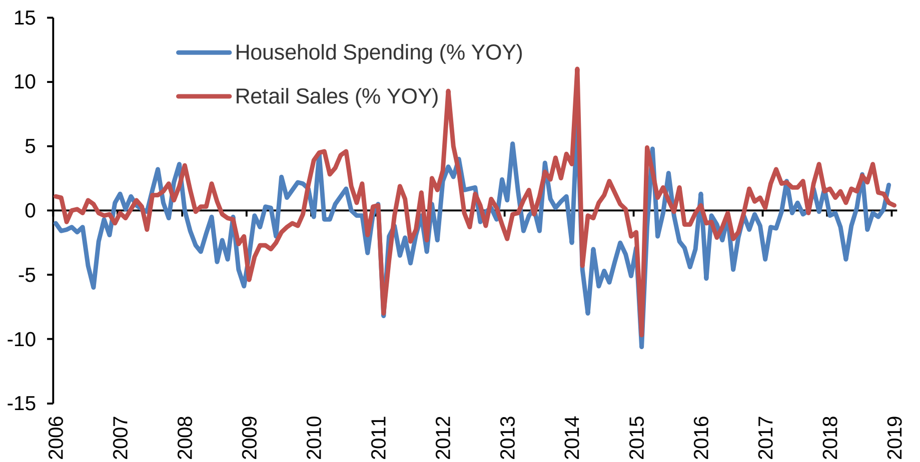
4Q rebound likely short-lived as productions and spending slowed. Upcoming October tax hikes weighing down on optimism.



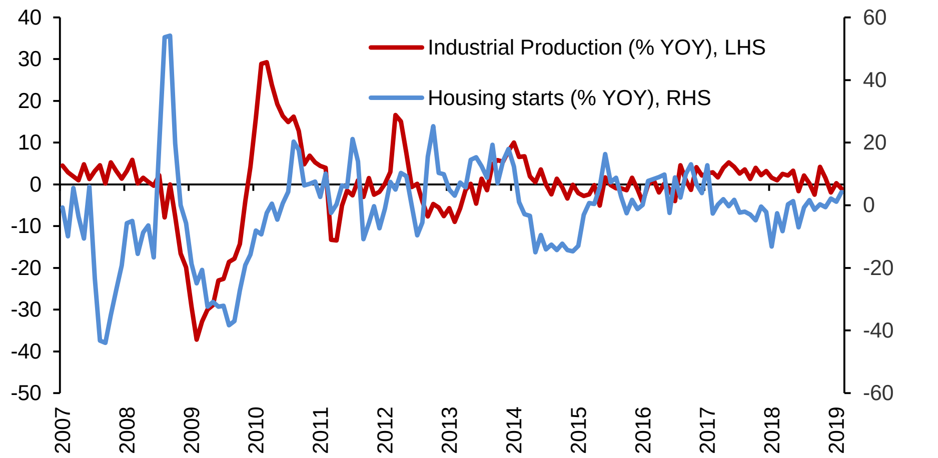
Labour market remains tight on severe workers shortages. Revised immigration law might lead to some influx of foreign blue-collared workers in near term. Inflation to stay subdued.



Consumptions remain tepid amidst weakening optimism.

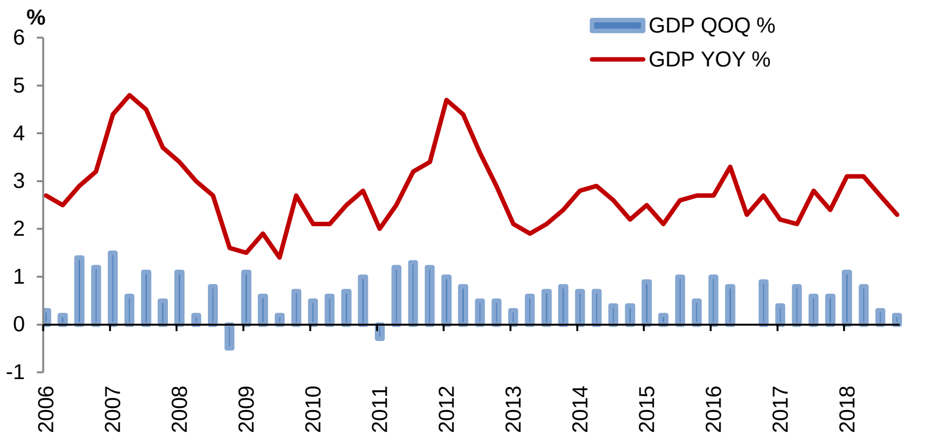


Production likely slow, as firms scaled back on capex.

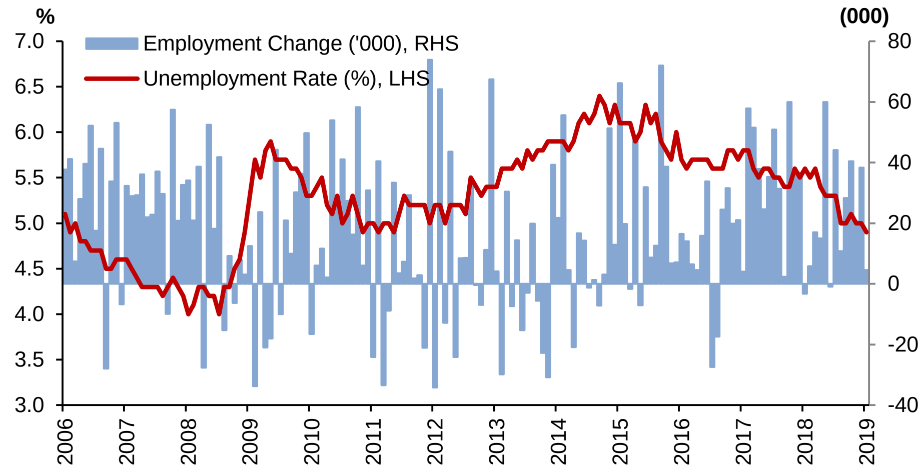


Australia – Manufacturing and services slow, consumption supported by stronger labour market; RBA turned dovish

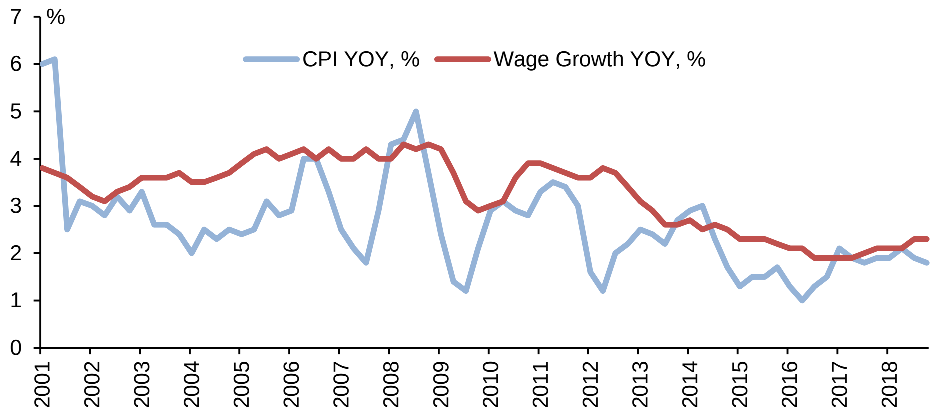
Disappointing 4Q GDP growth and dovish RBA suggest a likely cut in cash rate.



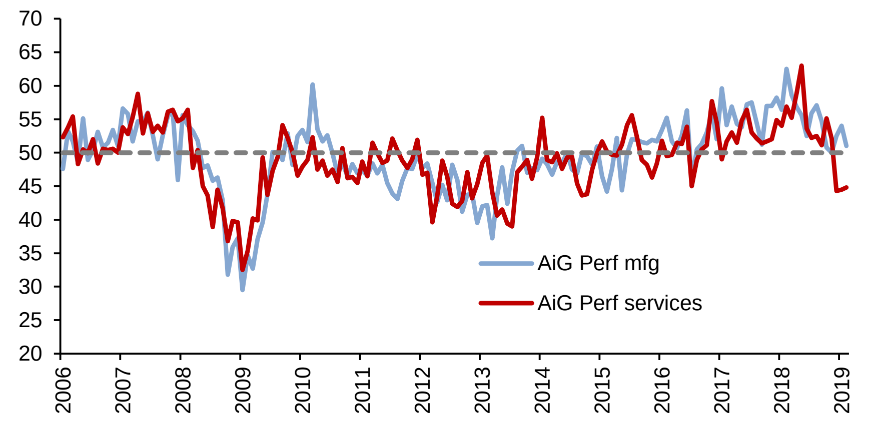
Strengthening labour market with impressive job creations.



..but wage growth and inflation are yet to catch up.

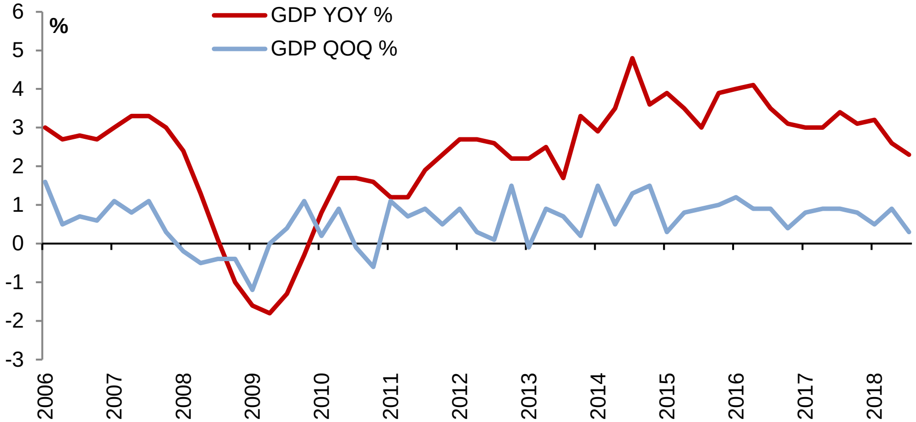


Manufacturing and services PMI weakened, suggesting sluggish growth in both sectors.

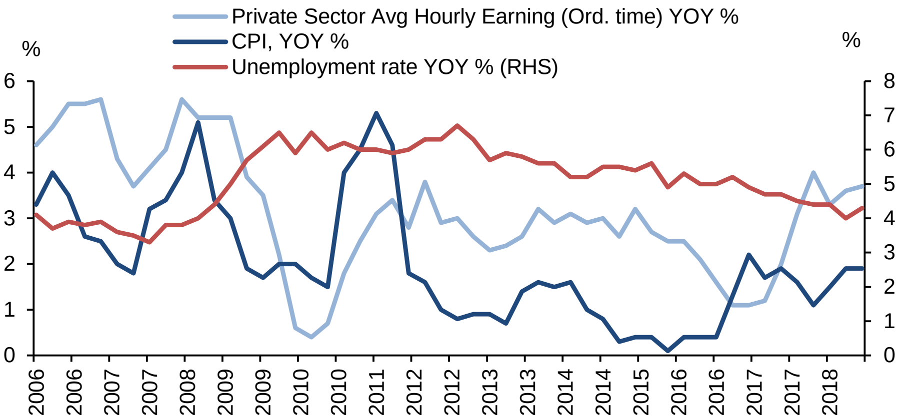


New Zealand – RBNZ dovish tilt suggests rate cut in 2019

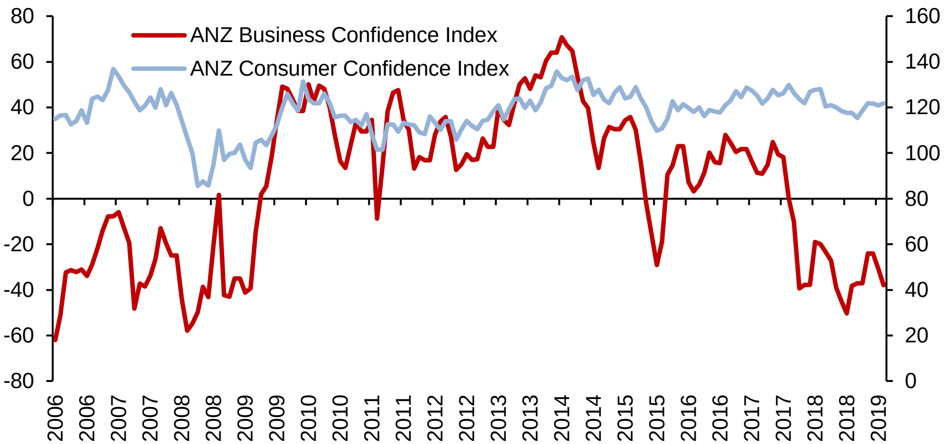
4Q GDP rebound offered reliefs, RBNZ to take a wait-and-see approach in 1Q, but recent dovish tilt suggests a likely cut in 2H19.



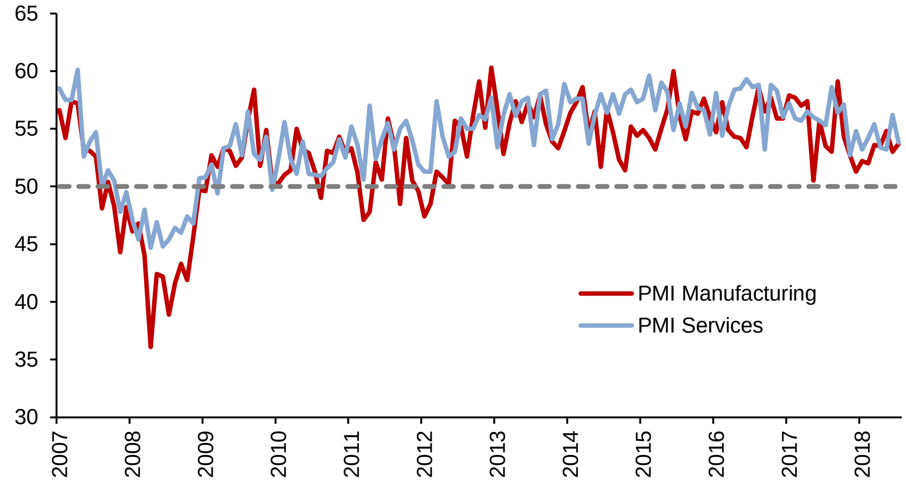
Inflation still below RBNZ 2% midpoint target and is likely to stay so amidst weaker consumer spending.



Sustained consumer confidence, business confidence weakened.

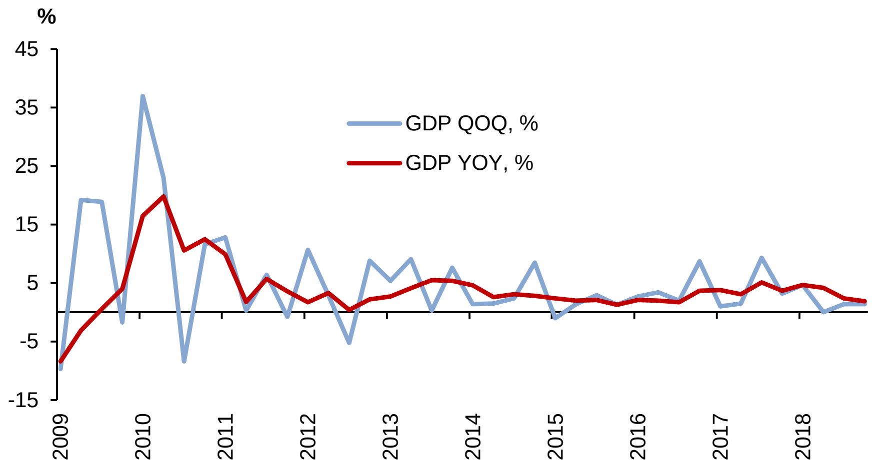


Manufacturing growth recovered minimally, services sector remained solid.

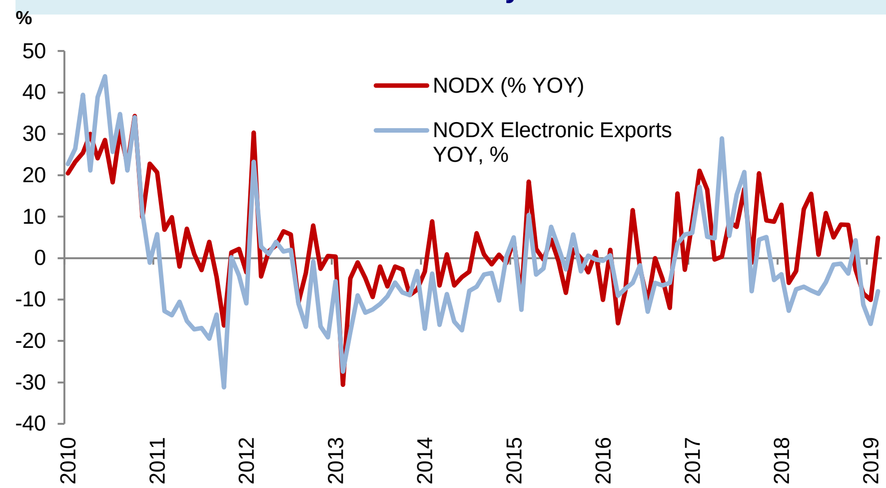


Singapore – Deteriorating consumptions, slower exports weighing down on outlook

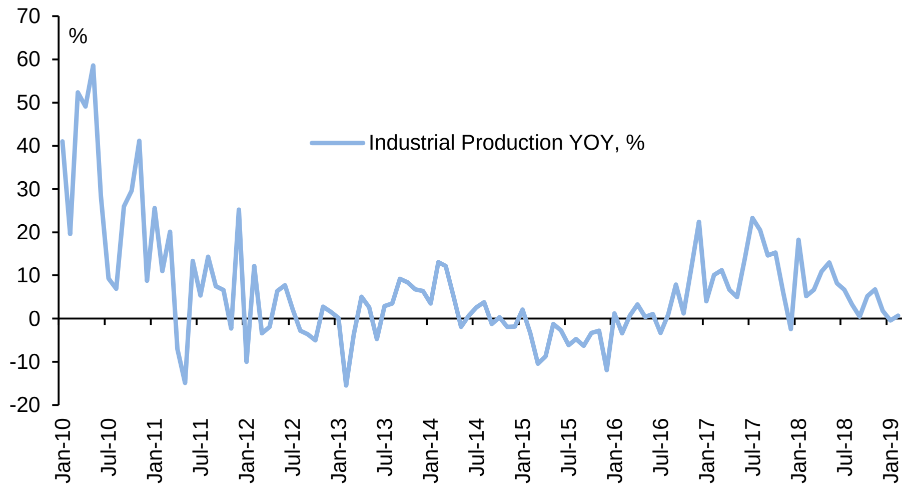
Sluggish growth outlook amidst falling consumptions, weaker productions.



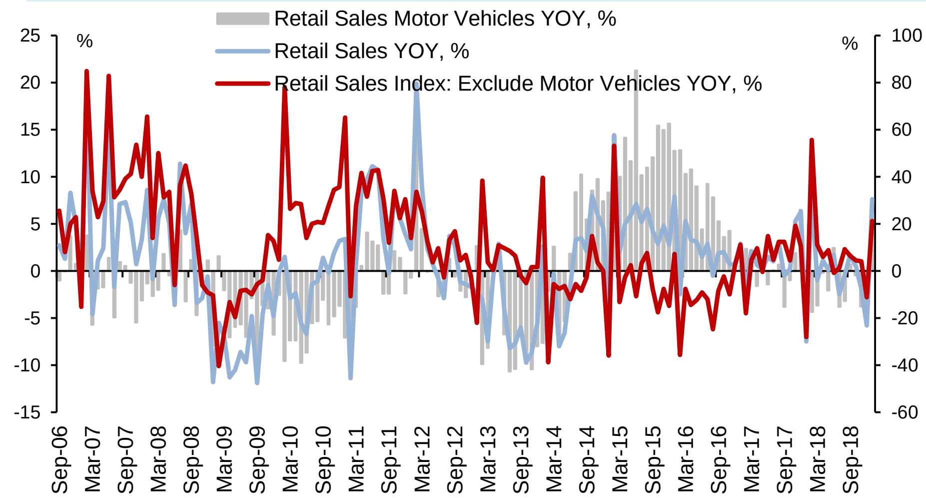
NODX rebounded, but electronics shipments remains in contractionary mode.



Slowing production growth as foreign demand softened.

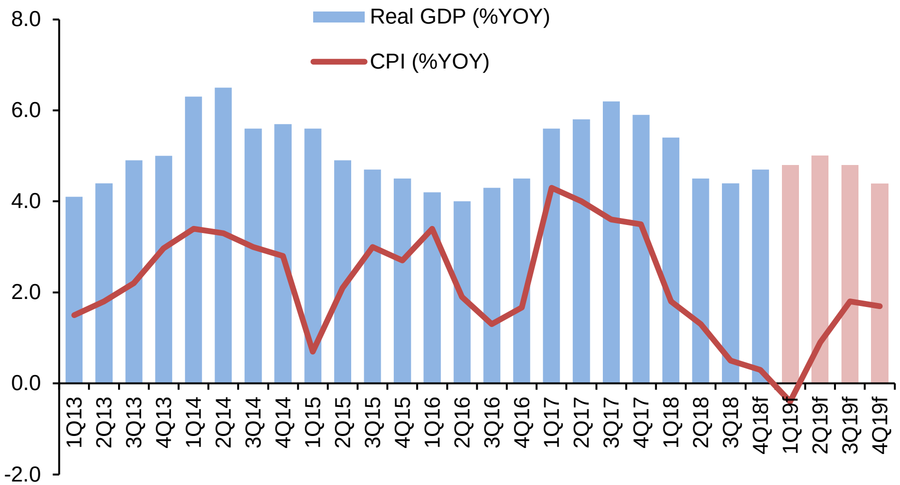


Still weak retail sales as domestic consumption remains in hibernating mode.

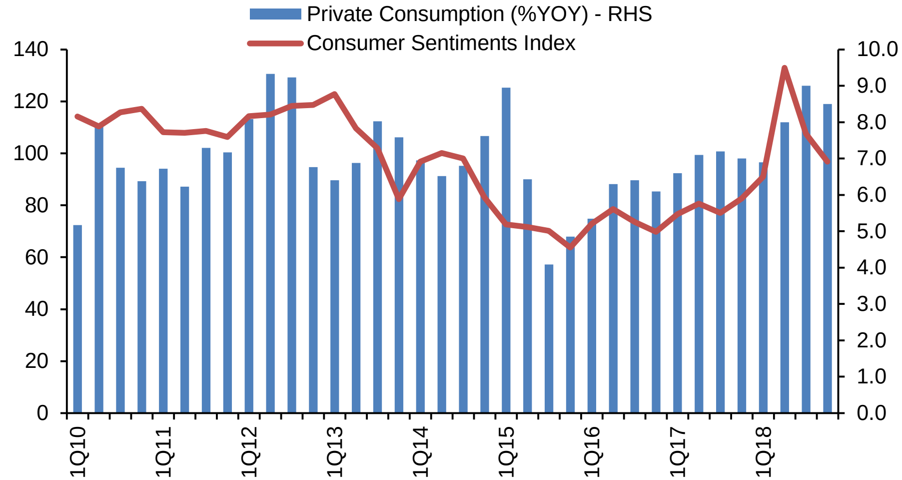


Malaysia – Downside growth risks open the door for a rate cut in 2Q19

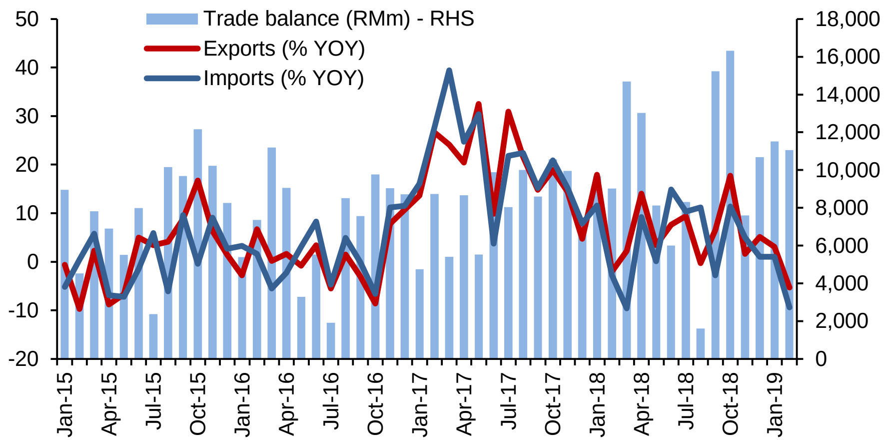
Maintain full year 2019 GDP projection at 4.7%. CPI to recover in 2Q.



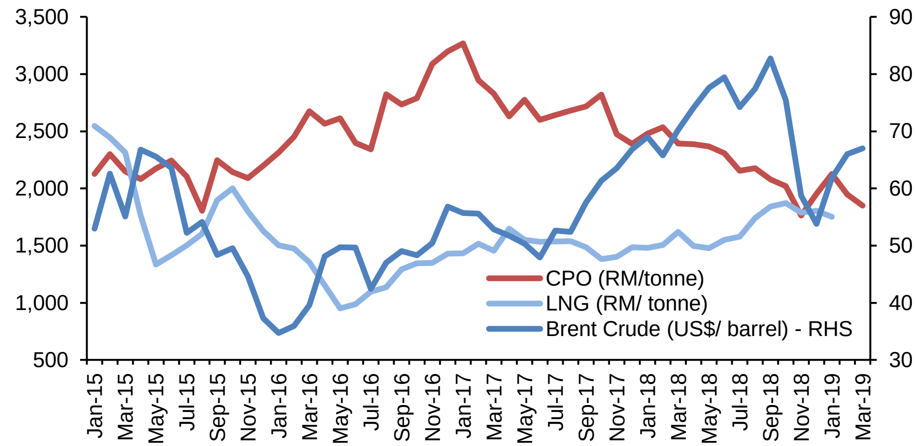
Expect moderate expansion in domestic demand to support overall growth.



Exports to contract in the short term reflecting slower global growth.



Brent crude is expected to stabilize at $60-70/barrel. CPO prices to be supported by easing stockpiles but remains soft.



FX Outlook – 2Q19

Currency	Outlook	Comments
USDMYR	➔	• USD likely to rangetrade on haven demand despite a dovish Fed; MYR under pressure amid potential OPR cut.
EURUSD	➔	• Sideway trading amid lack of positive catalysts, lingering geopolitical risks and dovish ECB.
GBPUSD	➚	• Expect sterling to turn bullish once the dust surrounding Brexit uncertainties settles by May, the latest.
USDJPY	➘	• JPY expected to find more support on likelihood of extended refuge demand on a subdued USD and softer global growth outlook
AUDUSD	➔	• Could gain on an a lackluster USD and potential monetary stimulus from China, but upsides likely limited as global growth outlook remains soft
NZDUSD	➔	• Could gain on a lackluster USD and potential monetary stimulus from China, but upsides likely limited as global growth outlook remains soft
USDSGD	➔	• MAS is expected to refrain from continuing its gradual appreciation policy stance, supporting SGD

Source: Global Markets Research

FX Forecasts

Currency Pair	Close on 29 Mar 19	End 2Q19 closing	End 3Q19 closing	End 4Q19 closing	End 1Q20 closing
EUR/USD	1.1218	1.11-1.13	1.13-1.15	1.13-1.15	1.15-1.17
GBP/USD	1.3035	1.30-1.32	1.32-1.34	1.34-1.36	1.34-1.36
USD/JPY	110.86	109-111	108-110	108-110	108-110
AUD/USD	0.7096	0.70-0.72	0.70-0.72	0.70-0.72	0.70-0.72
NZD/USD	0.6804	0.67-0.69	0.67-0.69	0.67-0.69	0.67-0.69
USD/SGD	1.3557	1.34-1.36	1.34-1.36	1.34-1.36	1.34-1.36
USD/MYR	4.0820	4.07-4.09	4.07-4-09	4.07-4.09	4.07-4.09
EUR/MYR	4.5766	4.56-4.58	4.64-4.66	4.64-4.66	4.72-4.74
GBP/MYR	5.3179	5.33-5.35	5.42-5.44	5.50-5.52	5.50-5.52
AUD/MYR	2.8940	2.89-2.91	2.89-2.91	2.89-2.91	2.89-2.91
SGD/MYR	3.0129	3.01-3.03	3.01-3.03	3.01-3.03	3.01-3.03

Source: Bloomberg, Global Markets Research

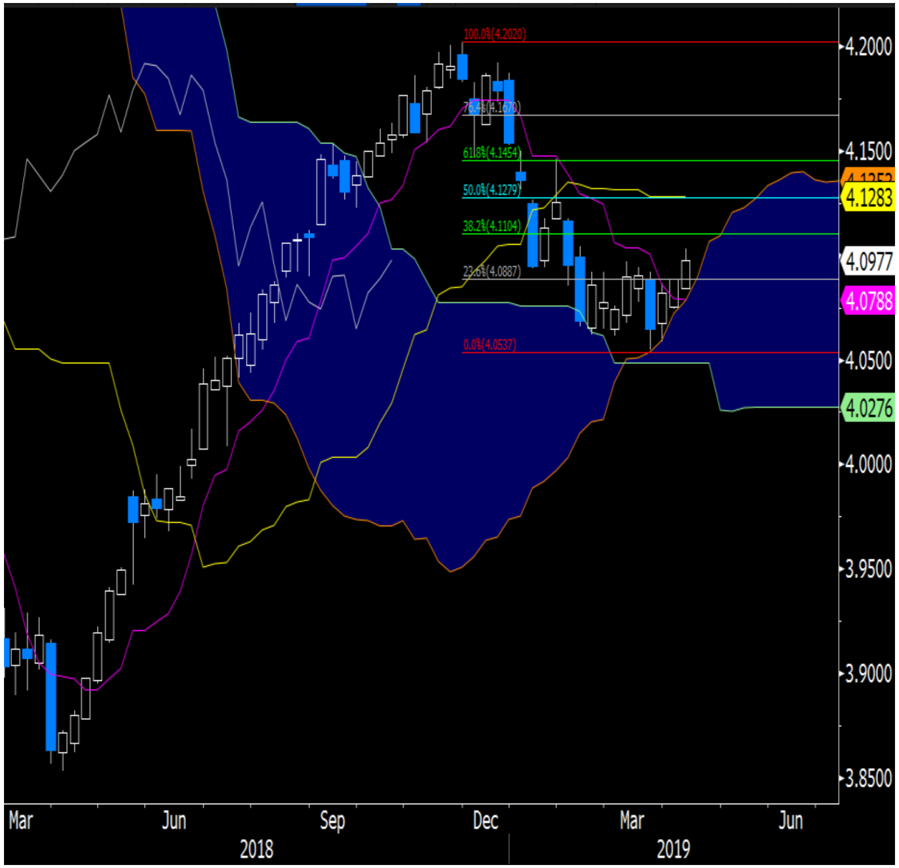
FX Technical Analysis

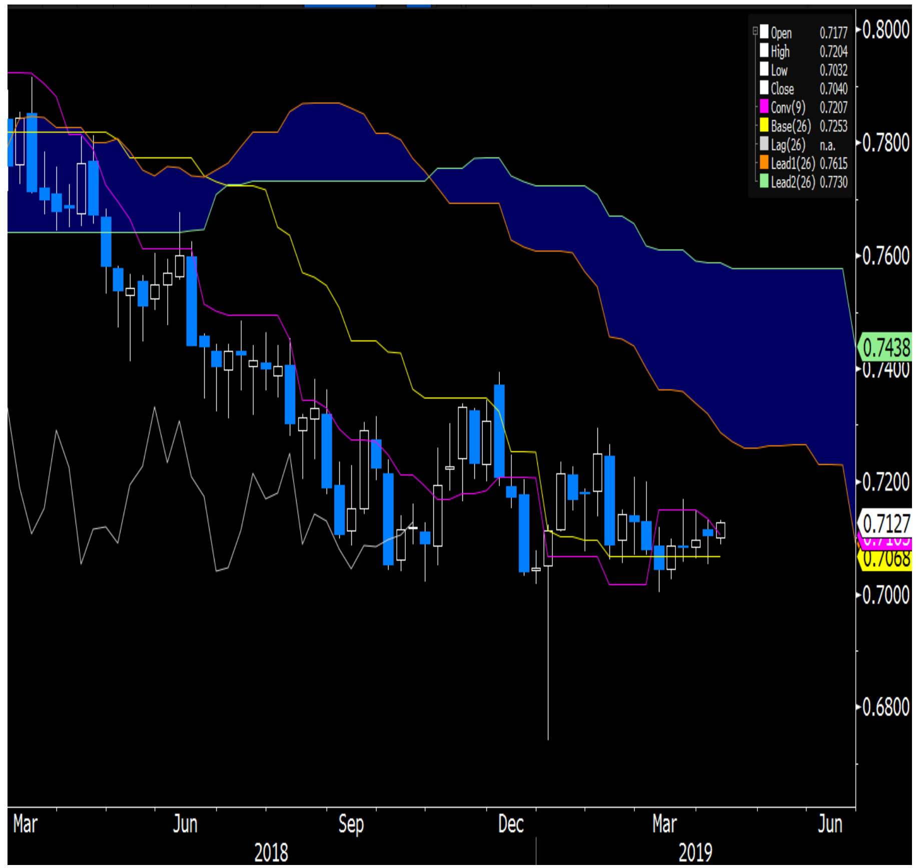
USDMYR: Weekly chart suggests an upward move with the pair moving above the Ichimoku cloud and positive momentum indicators picking up. USDMYR is expected to head towards 4.1107, after which 4.1282 will be targeted.

Resistances: 4.1107, 4.1282, 4.1456
Supports: 4.0892, 4.0543, 4.0473

AUDUSD: Added signs the pair is forming a bottom with the 0.7000 region serving as a strong support. Upside however seems limited at this juncture, being capped around 0.7200 unless it manages to break 0.7244.

Resistances: 0.7151, 0.7198, 0.7244
Supports: 0.7094, 0.7001, 0.6945





** updated on 9 April 2019*

Source: Bloomberg, Global Markets Research

Fixed Income

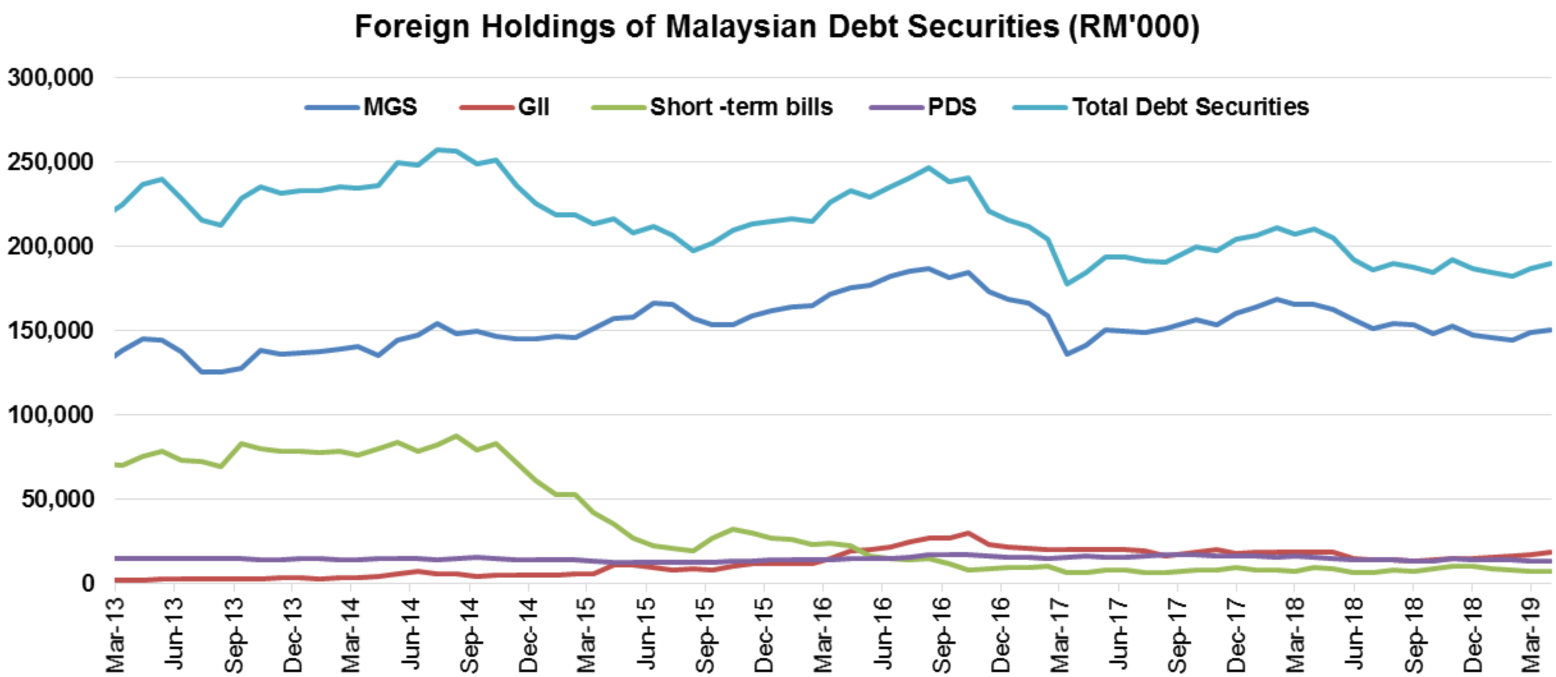
Average MGS/GII BTC ratios jumped to 2.70x in 1Q 2019 (Both 4Q 2018 and overall 2018: 2.29x) amid strong EM inflows on potential pause rising Fed fund rates

Reducing gross MGS/GII supply to RM113.5bn on account of Samurai bond issuances

MGS/GII issuance pipeline in 2019

No	Stock	Tenure (yrs)	Tender Month	Quarter	Tender Date	Projected Issuance Size (RM mil)	Actual Auction Issuance (RM mil)	Private Placement	Amt Issued YTD	BTC (times)	Low	Average	High	Cut-off
1	10.5-yr New Issue of GII (Mat on 07/29)	10	Jan	Q1	8/1/2019		3,500	1,500	3,500	4.067	4.110	4.130	4.135	86.1%
2	7.5-yr New Issue of MGS (Mat on 07/26)	7	Jan	Q1	14/1/2019		3,500	500	7,000	2.216	3.890	3.906	3.914	8.2%
3	5-yr Reopening of GII (Mat on 11/23)	5	Jan	Q1	30/1/2019		4,000		11,000	1.974	3.845	3.862	3.873	19.0%
4	10.5-yr New Issue of MGS (Mat on 08/29)	10	Feb	Q1	14/2/2019		4,000	1,000	15,000	2.536	3.867	3.885	3.893	31.6%
5	15-yr Reopening of GII (Mat on 06/33)	15	Feb	Q1	27/2/2019		2,000	1,000	17,000	3.906	4.360	4.370	4.375	33.9%
6	3-yr Reopening of MGS (Mat on 03/22)	3	Mar	Q1	7/3/2019		3,000		20,000	3.132	3.470	3.483	3.487	70.0%
7	20.5-yr New Issue of GII (Mat on 09/39)	20	Mar	Q1	14/3/2019		2,500	2,000	22,500	2.758	4.445	4.467	4.480	14.5%
8	30-yr Reopening of MGS (Mat on 07/48)	30	Mar	Q1	21/3/2019		2,000	2,000	24,500	1.718	4.550	4.591	4.629	25.0%
9	7-yr New Issue of GII (Mat on 03/26)	7	Mar	Q1	28/3/2019		4,000		28,500	2.330	3.699	3.726	3.745	21.2%
10	15-yr Reopening of MGS (Mat on 11/33)	15	Apr	Q2	5/4/2019		2,500	1,000	31,000					
11	5.5-yr New Issue of GII (Mat on 10/24)	5	Apr	Q2		4,000								
12	7-yr Reopening of MGS (Mat on 07/26)	7	Apr	Q2		3,000								
13	30.5-yr New Issue of GII (Mat on 11/49)	30	May	Q2		3,000								
14	10-yr Reopening of MGS (Mat on 08/29)	10	May	Q2		3,500								
15	15.5-yr New Issue of GII (Mat on 11/34)	15	May	Q2		4,000								
16	5-yr New Issue of MGS (Mat on 06/34)	5	Jun	Q2		4,000								
17	20-yr Reopening of GII (Mat on 09/39)	20	Jun	Q2		3,000								
18	15-yr New Issue of MGS (Mat on 07/34)	15	Jul	Q3		4,000								
19	7-yr Reopening of GII (Mat on 3/26)	7	Jul	Q3		3,000								
20	30-yr Reopening of MGS (Mat on 07/48)	30	Jul	Q3		2,500								
21	5-yr Reopening of GII (Mat on 10/24)	5	Aug	Q3		3,500								
22	20-yr Reopening of MGS (Mat on 06/38)	20	Aug	Q3		3,000								
23	10-yr Reopening of GII (Mat on 7/29)	10	Aug	Q3		3,500								
24	7-yr Reopening of MGS (Mat on 07/26)	7	Sep	Q3		3,500								
25	15-yr Reopening of GII (Mat on 11/34)	15	Sep	Q3		3,000								
26	10-yr Reopening of MGS (Mat on 08/29)	10	Oct	Q4		3,000								
27	20-yr Reopening of GII (Mat on 09/39)	20	Oct	Q4		2,500								
28	5-yr Reopening of MGS (Mat on 06/24)	5	Oct	Q4		3,500								
29	3.5-yr New Issue of GII (Mat on 05/23)	3	Nov	Q4		4,000								
30	20.5-yr New Issue of MGS (Mat on 05/40)	20	Nov	Q4		4,000								
31	10-yr Reopening of GII (Mat on 07/29)	10	Nov	Q4		3,000								
32	15-yr Reopening of MGS (Mat on 07/34)	15	Dec	Q4		3,000								
	Gross MGS/GII supply in 2019					113,500	31,000	9,000						

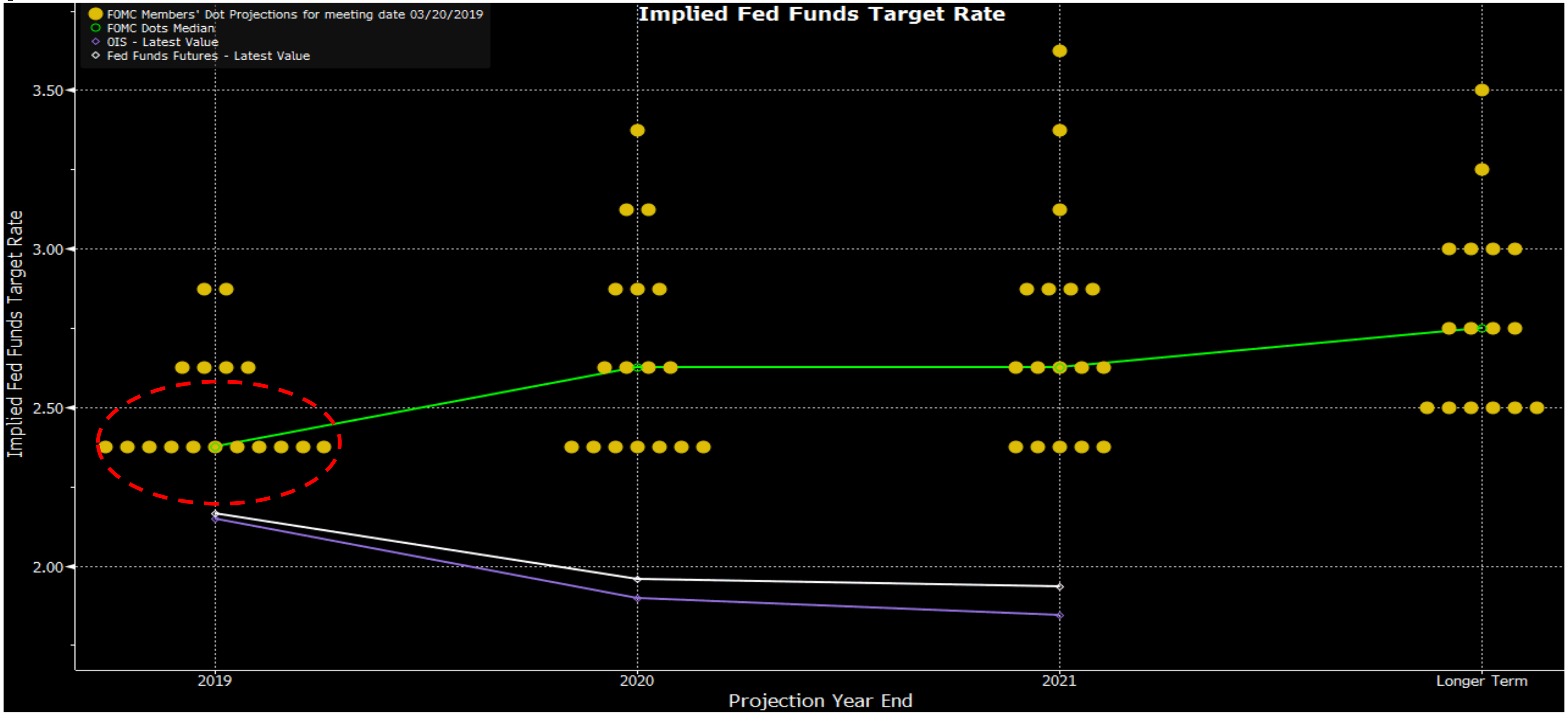
Monthly foreign holdings of MYR bonds higher @ RM190b as at end-Mar vs RM184.8b as at end-2018



Source : BNM, Bloomberg, HLB Global Markets Research

Foreign holdings of MYR government bonds i.e. MGS + GII + SPK (which has zero foreign holdings) saw demand return. The marginal outflows from RM162b @ Dec-18 to RM161b in Jan-19 saw a substantial reversal in February and March to record an uptick to RM169.4b @ Mar-19, off the low ebb from Nov18-Jan19 period amid strong EM inflows due to potential pause in US interest rate hikes and “dovish-like” statements by BNM amid global growth concerns and ongoing US-China trade conflicts. MGS foreign holdings improved by approximately RM4.5b from Dec-18 to RM150.7b as at end-Mar (i.e. 38.7% of total outstanding MGS bonds) whilst GII edged higher by RM2.8b to RM18.7b for the same period (i.e. 5.8% of outstanding GII bonds).

Fed dot plot suggests a pause in 2019 while futures prices in a cut



Source: Bloomberg

The March 2019 FOMC meeting saw policy makers backtrack on the earlier fast pace of tightening seen in 2018 which included four (4) official hikes of 25bps each in March, June, September and December 2018. The abrupt change from two (2) hikes to none for 2019 is mainly due to softer global growth outlook, that was augmented by trade conflicts and global policy shift as well as slower momentum in inflation. The Fed's monthly balance sheet reduction will be adjusted from current $30b cap to $15b in May for UST; allowing it to scale back from ~$3.9 trillion currently to a targeted level of $3.7 trillion with completion date estimated by Sep-2019. Beginning Oct, the Fed will also roll its maturing holdings of MBS into UST's; using a monthly cap of $20b.

Fixed Income Outlook

Country	3M Views		Comments/ Outlook
US	**Maturity Preference**		**Sovereigns** Bond investors saw UST rally massively for 1Q 2019 amid a steeper UST yield curve; depicted by substantial movement in the 2Y10Y spread and 5Y30Y spreads at 14bps and 58bps respectively. The 2Y (2.26%) closed at the lower range of wider 2.20-2.61% range; likewise the 10Y (2.69%) rallied 28bps as it moved within a massive range of 2.37-2.78% levels. Investors are aware of mixed signals from US economic data with jobs data stronger (i.e. NFP) but weaker average hourly earnings. ISM manufacturing data however remains steadfast. Nevertheless the global rates asset class is expected to re-price when data validates a stable economy and the somewhat over-dovish view by investors wane; causing global rates to re-enact its upward move. The ongoing Fed's balance sheet reduction (at least until September) together with the $1.5 trillion tax reduction package coupled with $300b of additional stimulus are ongoing operations that may yet impact the movement of yields via supply concerns. The 10-year UST ranged between a recent low/high of 2.37-2.78% for 1Q2019 may rise but find good support at 2.70% levels for this quarter. The downside to our forecast are the unresolved US-China trade barriers, potential Fed rate cuts for 2019, impact of real money investors (i.e. pension funds, SWF's and lifers) that are able to absorb and address supply concerns especially on the long-end. Nevertheless the successful balance of the growth and inflation make us more wary on further rallies in UST's. The medium-term maturities if at all potentially offer better risk-reward stance. **Corporate** US High Yield (HY) i.e. junk bonds saw continued investor appetite; driving premiums lower at ~309bps spread from 526bps as at end 4Q2018 whilst ignoring lingering trade tensions. The Bloomberg Barclays US Corporate High Yield Total Return Index (for HY) +produced a return of +7.6% q-o-q; the best since 2003 whilst the Bloomberg Barclays US Corporate Total Return Value (for IG), dropped from 153bps (4Q 2018) to 119bps (1Q 2019) spread over UST's; the lowest seen for 2019 YTD and averaged +4.7% q-o-q; making both bond asset classes more attractive than equities. The low default (still for now!), dovish Fed, strong technical reflected in net inflows and also slower issuance has boosted risk assets. There were total 81 deals amounting to $61b priced for 1Q2019 versus 287 deals amounting to $165b for whole of 2018. IG pipeline for the coming quarter is ramped up with many potential deals including 3-30Y tenures by oil giant Saudi Aramco, $5-6b of 5-30Y tenures by internet giant Tencent Holdings and 5Y tenures by BOC Aviation and also AIA Group's 10Y Fixed Rate Bond expected at 118bps spread. Despite the late cycle in credit; we are positive on IG issuances as credit fundamentals still look good with decent interest coverage. Investment grade new issuance more than doubled year-ago levels affirming that the U.S. economy, while softer, isn't yet cascading toward recession. Meanwhile, we are akin to avoiding HY sector due to potential stretched balance sheets that may cause widening spreads in this late economic cycle.
	Duration medium		
	Policy Rate	**Yield Curve**	
	Fed have revised the earlier **two (2)** rounds of 25bps Fed Funds Rate hike in 2019 to a complete pause for now. This compares to the dovish pivot in January, replacing the earlier reference to further gradual rate increases with a pledge for patience instead. We have maintained our house projection of no rate adjustment for 2Q and subsequently for the remainder of 2019.	Yield curve may maintain its inverted stance on the front-end forcibly due to central bank policy that's kept interest rates exceptionally low since the financial crisis in 2008. Flattening stance may re-emerge soon especially on the long-end as the 5s30s spread widened to its steepest level in more than 1Y.	

Fixed Income Outlook

Country	3M Views		Comments/ Outlook
Singapore	**Maturity Preference**		**Sovereigns** The SGS yield curve saw a flattening bias up to 20Y outwards, with the short 2Y moving 3bps higher at 1.90% whilst the 5-30Y yields were more volatile and mildly lower between 1-3bps. The closing levels were: 5Y @ 1.93%; 10Y @ 2.06%; 20Y @ 2.36% and 30Y @ 2.53% after trading within ranges of 20-25bps for the quarter under review. SGS were seen tracking UST's. Local sovereigns have returned 1.3% in March after losing 1.1% in the first two months of the year. Despite mixed economic data out of US and the current pause in rate hikes; we believe that Singapore authorities see growth easing to slightly below the midpoint of a 1.5-3.5% range this year, after reaching 3.3% in 2018, with inflation remaining benign. Monetary Authority of Singapore is more likely to keep policy unchanged rather than to tighten. While Singapore's yield curve has been tracking UST's, there may be limits to a flattening of the its yield curve. Arguments for aggressive or prolonged MAS tightening are lacking, but SGD NEER should remain above the midpoint unless market expectations shift to an easing by the central bank. SGS may benefit as concern over slowing global growth spurs demand for haven assets. Singapore is one of only 10 sovereign markets with AAA ratings from all three major agencies, and its 5Y notes offer higher yields than the other nine. **Corporate** Despite the potential impact of the U.S.-China trade war which is a risk to the global economy, the regional economies are benefiting as companies adjust supply chains to take account of rising tariffs in the U.S. and China. Singapore as an export-reliant nation is deemed to be seeing logistics operators reporting a far higher volume of business. However credit defaults in Singapore could occur (following both Hyflux Ltd's and Ezra Holdings Ltd's debt collapse last year) which affected some 34,000 retail investors as lending conditions adjust to the economic slowdown. The low rates and yields have caused Singapore investors to opt for riskier bonds to chase for yields with abundant liquidity driving smaller companies to tap the debt market. Nevertheless exposure to SGD shorter-duration and high-quality bank credits may be beneficial. Following UOB's recent 10NC5 USD Bond; a 3Y offering by DBS Group Holdings Ltd rated AA2 may be in the offing soon. A substantial portion of Corporate bonds issued are from entities within the property sector which may have yet to see the slowdown taper off. These bonds continue to face competition from National Savings Bond whereby investors are allowed to purchase up to SGD200k each.
	Duration neutral		
	Policy Rate	**Yield Curve**	
	There is a high possibility that MAS will keep the slope of the SGD NEER band unchanged at 1% in April to support economic growth and inflation against external headwinds. It is also expected to maintain its other policy settings i.e. the centre and width of the currency band.	SGS curve is expected to flatten slightly with elevated USD/SGD forward points keeping the front-end from a stronger rally. Strong potential to track movement in UST yields.	

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 rallied between 22-39bps for the quarter under review as the MYR sovereign curve shifted sharply lower from January through March amid abundant liquidity and EM inflows as the Fed indicated a pause in its interest rate hike cycle. Values are now less compelling partly due to lower yields and competition with another asset classes i.e. equities. Bonds extending out from 10Y rallied most supported by local followed by foreign institutional investors on greater clarity of fiscal policy and confidence in the government’s administration. On the international front, the unresolved US-China global trade conflicts and rate pause by the Fed has caused market players to even predict a rate cut in the US on the back of a potential stall in global growth. We foresee healthy local institutional demand on the back of stable MYR and comparable EM relative values which have also begun attracting interest from offshore banking institutions in the short to belly off the runs 19-25’s. BNM’s recent dovish-like statements in March allows the central bank to utilize “policy options” at its disposal. We opine that an OPR cut this quarter is highly likely. The recent Samurai bond issuance of ~RM7.4b at favourable coupon rate and lower overall costs has allowed the nation to potentially reduce the remainder of MGS and GII issuances under the auction calendar 2019 in order to ascertain that deficit is reduced from 3.7% to 3.4% of GDP. Hence, Malaysia’s sovereign bonds may look attractive relative to regional sovereigns. The 7Y, 15Y MGS and 5Y, 20Y GII space may still offer “decent value proposition” given kinks in the curve and also supportive supply-demand metrics whilst the 10Y sectors are fairly-rich and expected to find decent support at 3.90-4.00% levels (1Q2019:3.75-4.06%)
<u>Corporate</u>
Corporate bonds/Sukuk issuances was maintained at RM26.3b as at end 1Q 2019 (4Q 2018: RM26.1b). Our projected gross supply for 2019 remains subdued between RM85-95b (2018:RM105b). Greater clarity of fiscal measures including the excitement of reinstating some of the major infrastructure projects like the KL-Singapore High Speed Rail (HSR) and East Coast Rail Link (ECRL). Trading activities for corporate bonds also spiked to circa RM440m daily volume (3Q 2018:RM560m) with interest skewed mainly towards the GG-segment followed by the AAA-AA part of the curve as portfolio managers chased for papers down the credit curve; causing yields to drop between 20-40bps. We continue to like both the AAA and the AA-space due to slight inelasticity compared to GG bonds and attractive carry on utilities and energy sub-sector under infrastructure names like TELEKOM, TENAGA, SOUTHERN POWER, EDRA, SEB, JEP, MALAKOFF and BGSM compared to toll-related companies like LITRAK, GAMUDA, KESAS and even PLUS. We have re-assessed our earlier positives on Finance/Banking sectors which have rallied last quarter and find them less-compelling. Slight values are seen emerging within the 7Y AAA-AA sector amid decent spreads of +50-80bps for this part of the yield curve and provides better value than Govt-guaranteed bonds which have outperformed in 2018 by 10-20bps from the relatively stable supply despite the downsizing of government’s commitments and contingent liabilities.</td></tr>
<tr><td colspan="2">Duration neutral</td></tr>
<tr><td>Policy Rate</td><td>Yield Curve</td></tr>
<tr><td>Expect a 25bps cut in OPR to 3.00% (MPC was last seen hiking 25bps during 1Q 2018). Expect 1Q 2019 GDP growth to be sustained at 4.8%; closer to both 4Q 2018 and full year 2018’s 4.7%</td><td>Slightly neutral to-steeper yield curve may be expected on negative duration requirements. Potential values seen in 5-20Y namely the 5Y,20Y GII and also the 7Y,15Y MGS govvies. AAA-AA rated Corps/Sukuk along the belly i.e. 7Y tenures may still have some room to run</td></tr>
</table>

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