Quarterly Market Outlook 4Q2019

Global Markets

October 2019

Content

Global Growth Outlook

Real GDP (% YOY)	Latest 2 Quarters		Actual	Forecast		Forecast (official)	
	1Q19	2Q19	2018	2019	2020	2019	2020
World	-	-	3.6	**3.2** *(3.3)*	**3.1** *(3.3)*	**3.2** *(3.3)*	**3.5** *(3.6)*
DM/ G10	2.2	1.6	2.3	**1.7** *(1.8)*	**1.5** *(1.6)*	-	-
US	2.7	2.3	2.9	**2.3** *(2.5)*	**1.7** *(1.8)*	**2.2** *(2.1)*	**2.0** *(2.0)*
Eurozone	1.3	1.2	1.9	**1.1** *(1.2)*	**1.0** *(1.3)*	**1.1** *(1.2)*	**1.2** *(1.4)*
UK	2.1	1.3	1.4	**1.2** *(1.4)*	**1.1** *(1.4)*	**1.3** *(1.5)*	**1.3** *(1.6)*
Japan	1.0	1.0	0.8	**0.9** *(0.7)*	**0.3** *(0.4)*	**0.7** *(0.8)*	**0.9** *(0.9)*
BRICs	5.2	5	5.7	**5.3** *(5.4)*	**5.3** *(5.4)*	-	-
China	6.4	6.2	6.6	**6.2** *(6.2)*	**6.0**	**6.0-6.5%**	-
India*	5.8	5	7.2	**6.5** *(7.0)*	**6.3** *(7.0)*	**7.6** *(7.6)*	-
Asia ex-Japan	5.5	5.2	6.0	**5.5** *(5.7)*	**5.4** *(5.6)*	-	-
EMEA	1.6	1.9	3.0	**1.9** *(2.0)*	**2.4** *(2.6)*	-	-

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

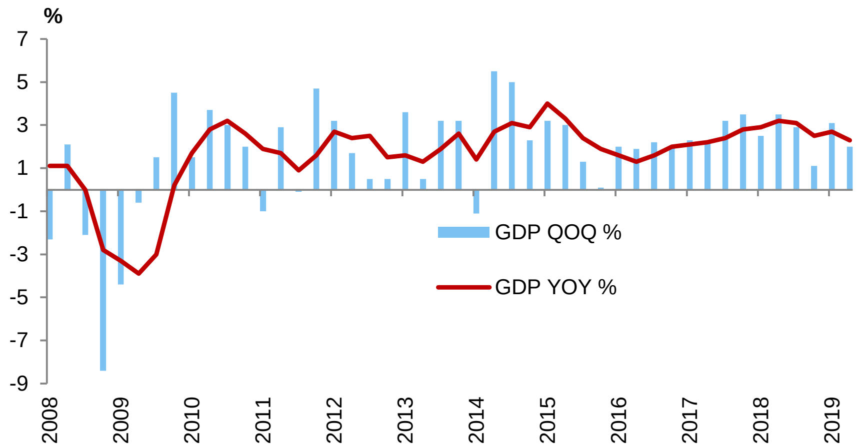
Global Central Banks Policy Rate Outlook

	Current	4Q19	1Q20	2Q20	3Q20	
United States Federal Reserve *Fed Funds Rate*	**1.75-2.00**	1.50-1.75	1.50-1.75	1.50-1.75	1.50-1.75	**1 cut in 4Q19**
Eurozone European Central Bank *Main Refinancing Operation Rate*	**0.00**	0.00	0.00	0.00	0.00	**No change 4Q19**
United Kingdom Bank of England *Bank Rate*	**0.75**	0.75	0.75	0.75	0.75	**Driven by Brexit outcome**
Japan Bank of Japan *Policy Balance Rate*	**-0.10**	-0.10	-0.10	-0.10	-0.10	**No change in 2019**
Australia Reserve Bank of Australia *Cash Rate*	**0.75**	0.50	0.50	0.50	0.50	**1 cut in 4Q19**
New Zealand Reserve Bank of New Zealand *Official Cash Rate*	**1.00**	0.75	0.75	0.75	0.75	**1 cut in 4Q19**
Malaysia Bank Negara Malaysia *Overnight Policy Rate*	**3.00**	3.00	3.00	3.00	3.00	**No change in 4Q19**
Thailand The Bank of Thailand *1-Day Repurchase Rate*	**1.5**	1.5	1.5	1.5	1.5	**No change in 4Q19**
Indonesia Bank Indonesia *7-day Reverse Repo Rate*	**5.25**	5.25	5.25	5.25	5.25	**No change in 4Q19**
Philippines Bangko Sentral ng Pilipinas *Overnight Reverse Repo Rate*	**4.25**	4.25	4.25	4.25	4.25	**No change in 2019**

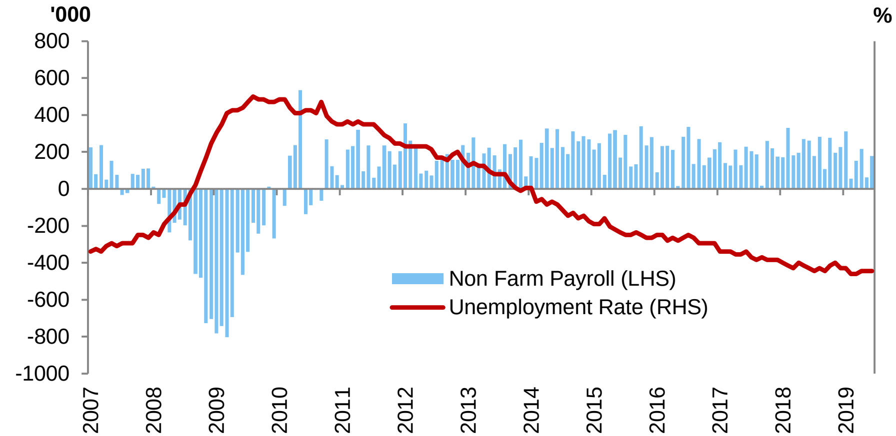
Source: Bloomberg, Global Markets Research

The US – Softening growth; Fed interest rate outlook remains uncertain

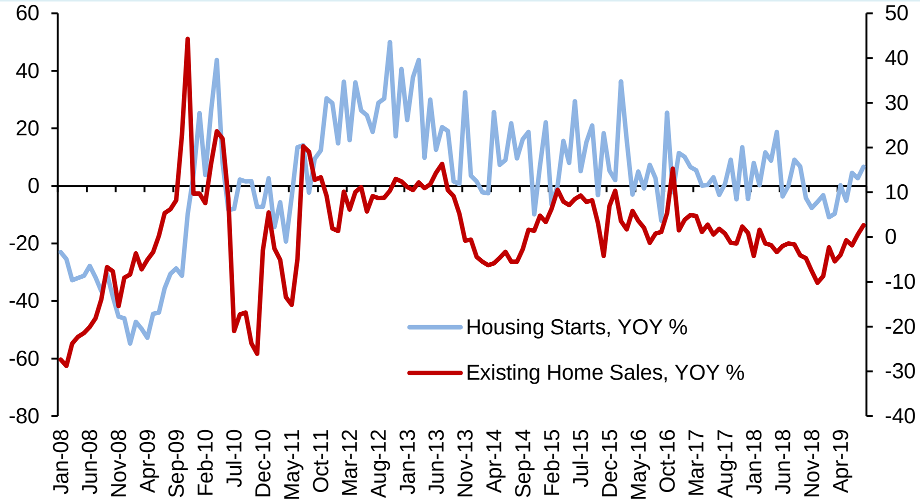
2Q GDP slowed as expected, growth was supported by consumer spending



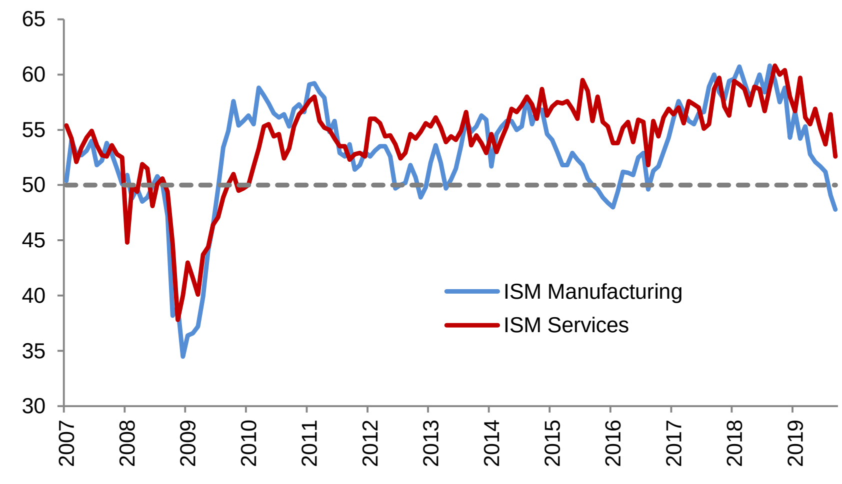
Mixed job data as hiring slowed but unemployment rate fell to 50-year low



Momentum is building up in the housing market but prices remained subdued

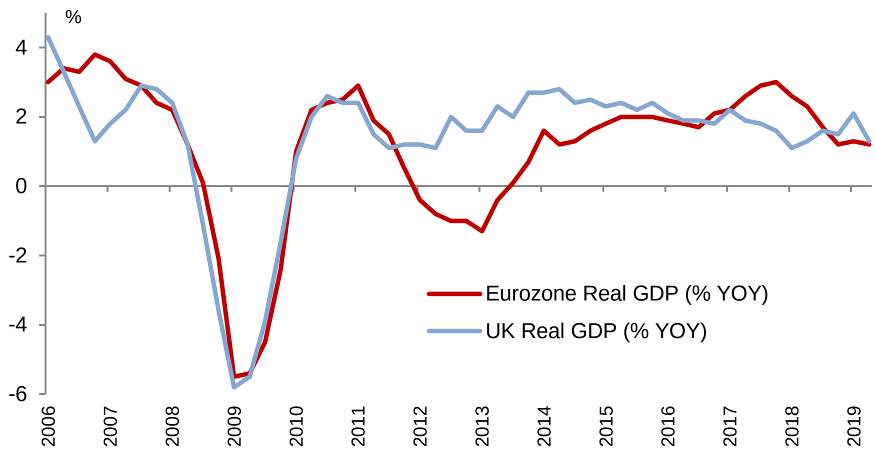


Manufacturing PMI slipped below 50.0 to signal contraction alongside slower expansion of the services sector

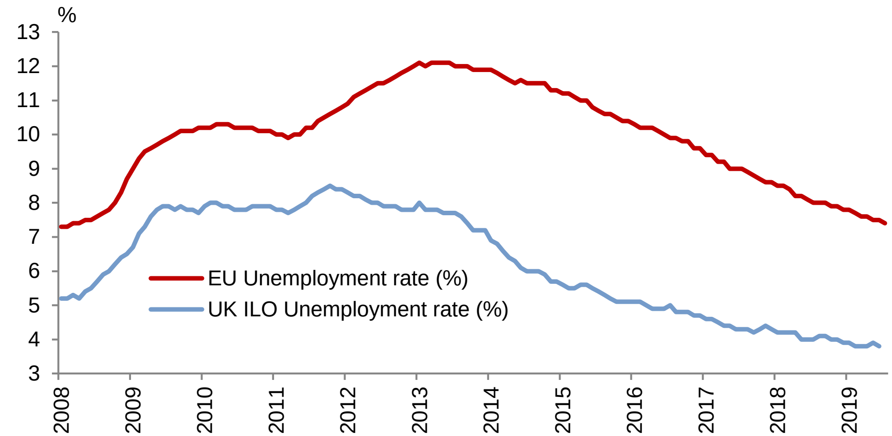


The EU and UK – ECB cut deposit rate and reintroduced QE; BOE maintains hawkish bias

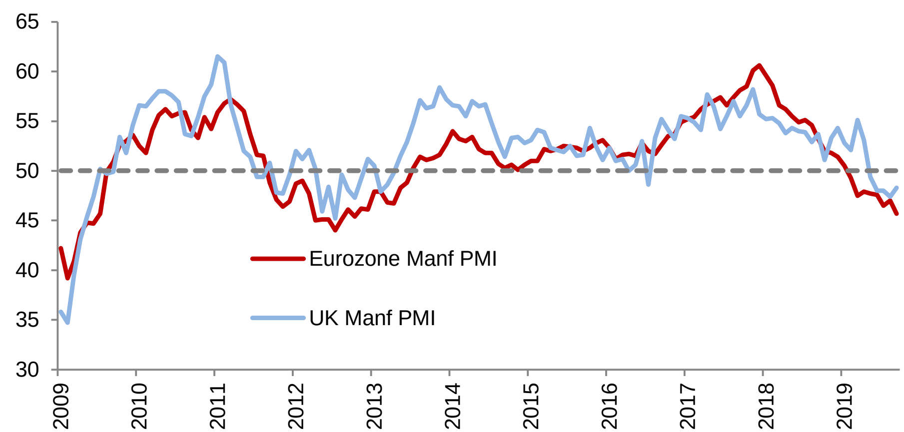
Eurozone and UK growth outlook weakened further



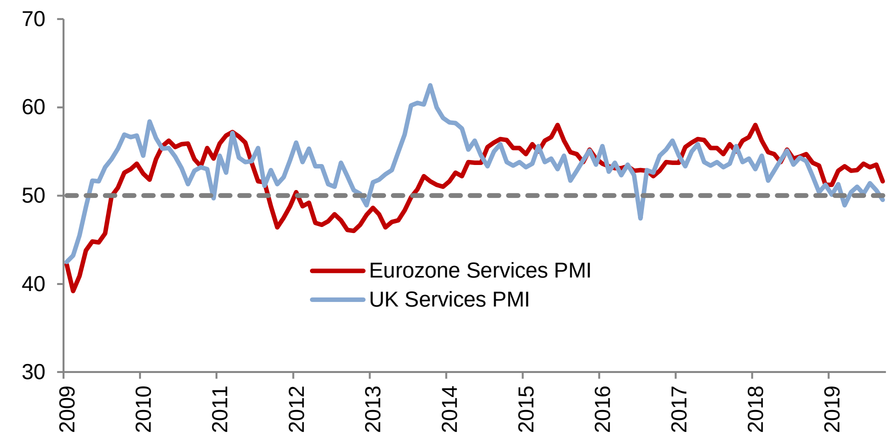
Job market remains firm in both Eurozone and UK



Manufacturing downturn deepened amidst a global synchronized slowdown

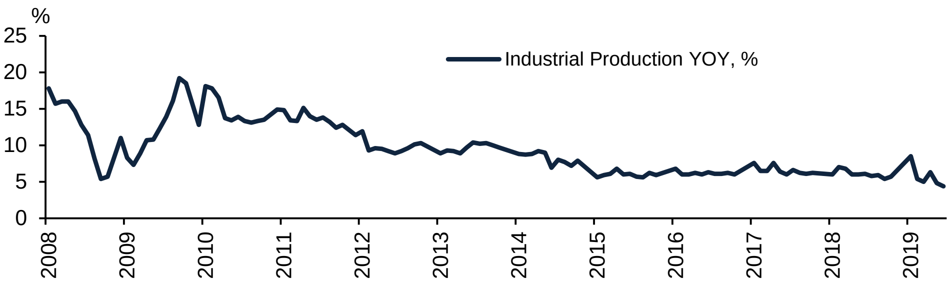


Services growth seen tapering off but is expected to remain supported by a firm labour market

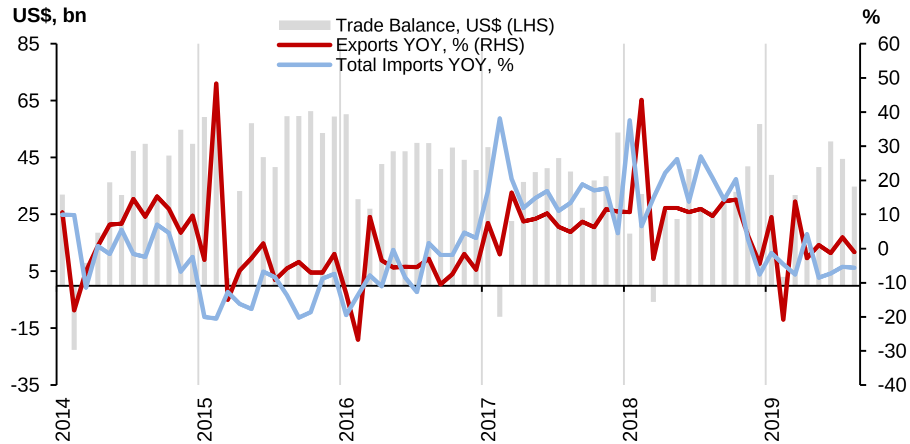


China – Data are turning weaker but is relatively solid compared to global peers

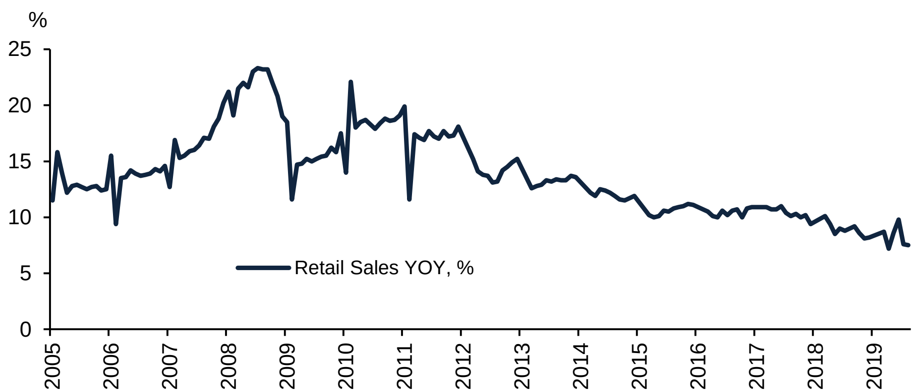
Growth pulled back as widely expected but remain above a solid 6%.



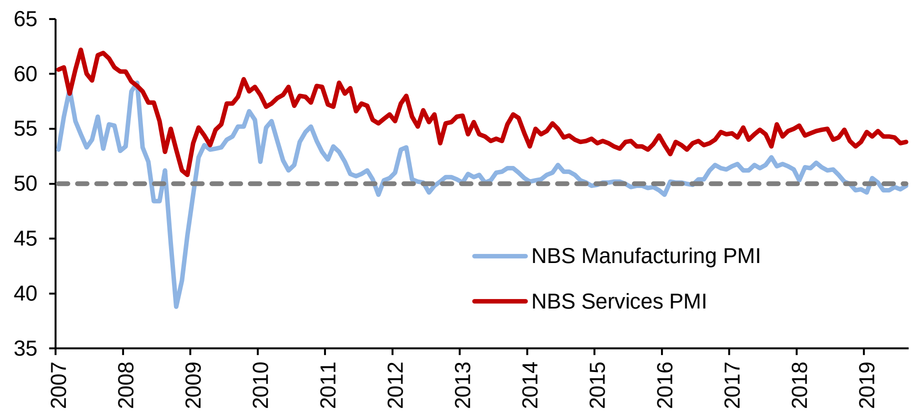
Lacklustre performance in exports; Imports continued to fall



Retail sales saw weaker performance since last review as consumers turned cautious

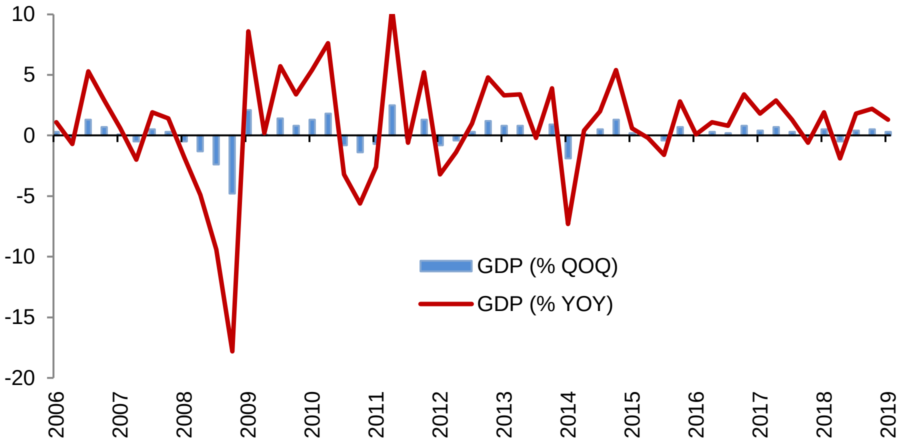


Manufacturing stayed under pressure; Services sector in solid state

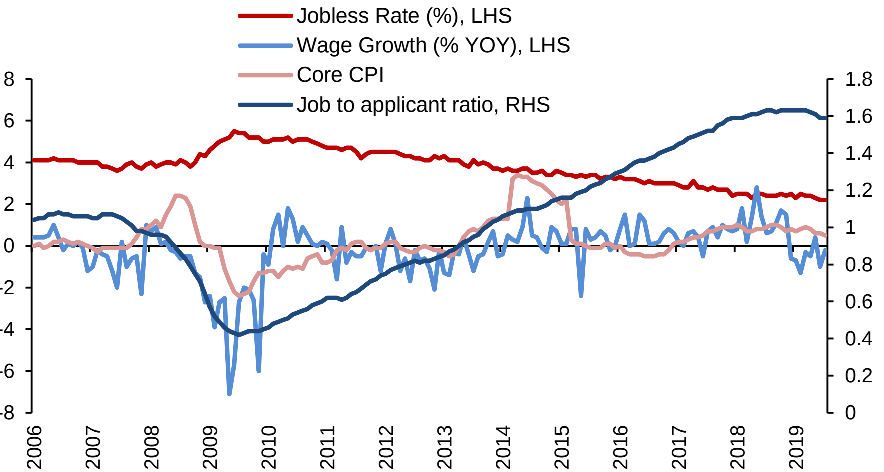


Japan – Mixed outlook in view of weaker external trade & consumer spending but still-solid trend in investment

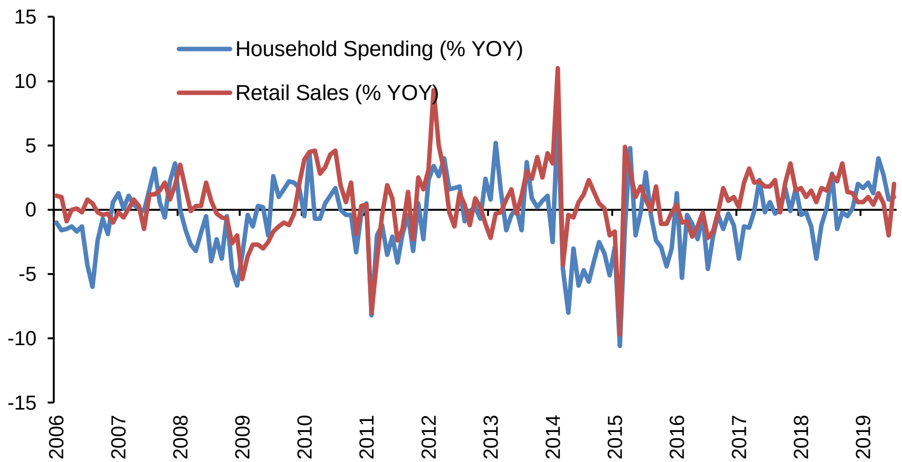
Softer growth in 2Q, supported by private consumption ahead of October sales tax hike



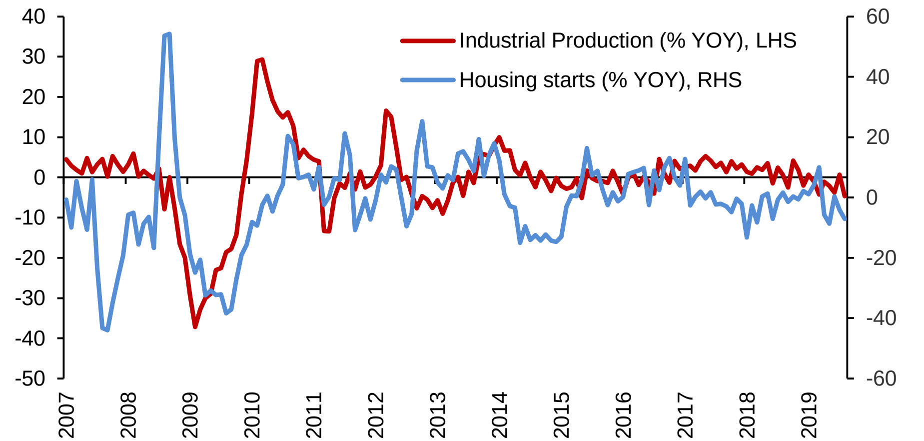
Labour market remains tight but wages have been falling; Inflation nowhere near BOJ target



Household spending on gaining streak prior to tax hike

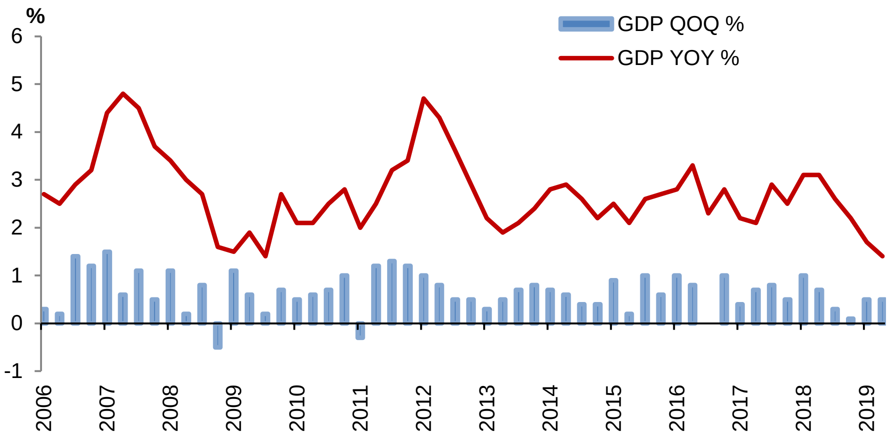


Manufacturing sector weighed down by poor overseas demand

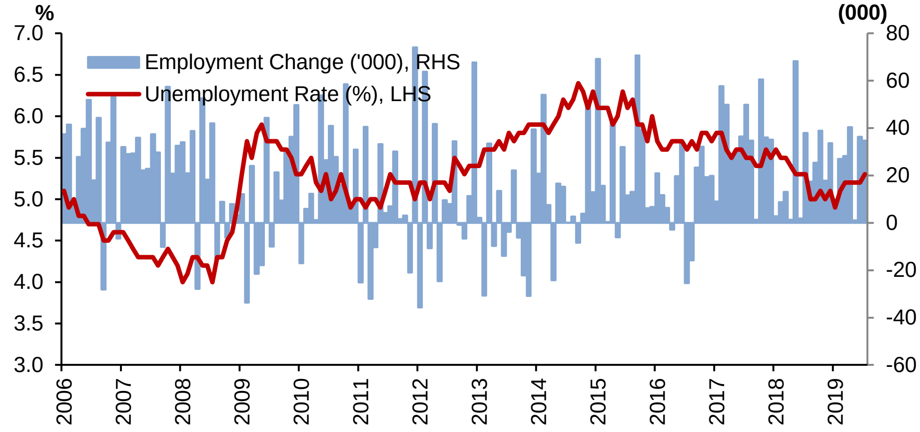


Australia – Do not rule out further RBA easing

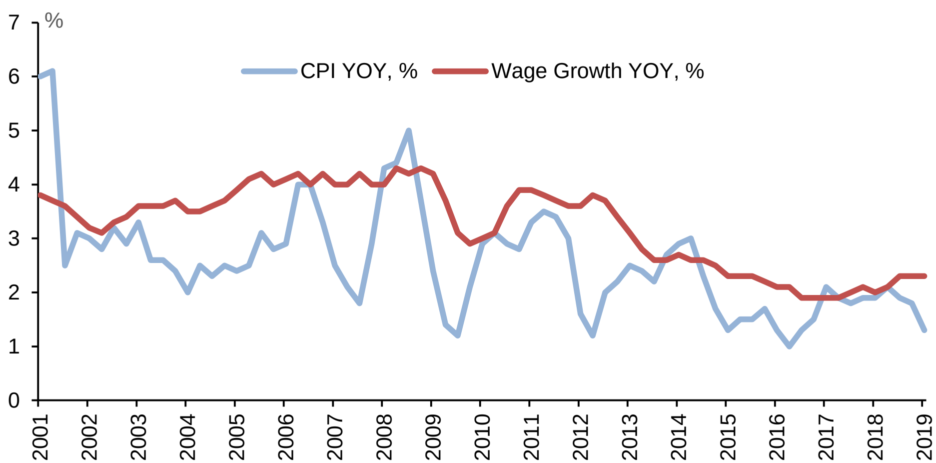
Growth pulled back in 2Q, consumption outlook remains uncertain



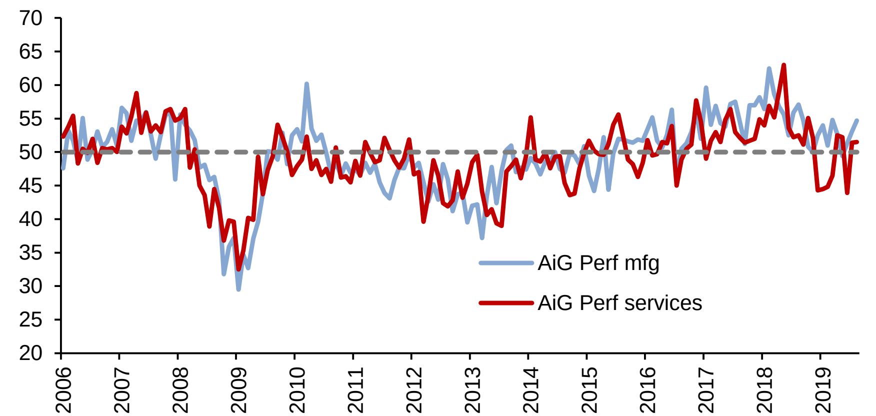
Labour market appeared solid but RBA expressed some concerns



Wage growth continued to picked up modestly, but CPI inflation weakened

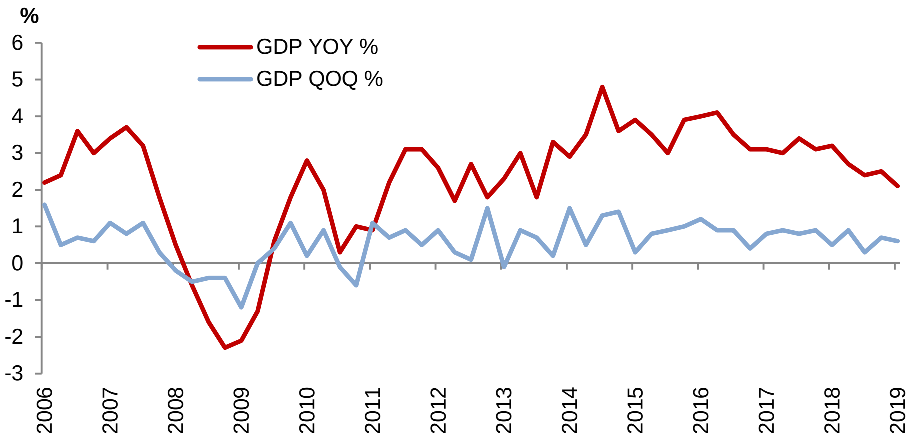


Manufacturing and services sectors regained strength

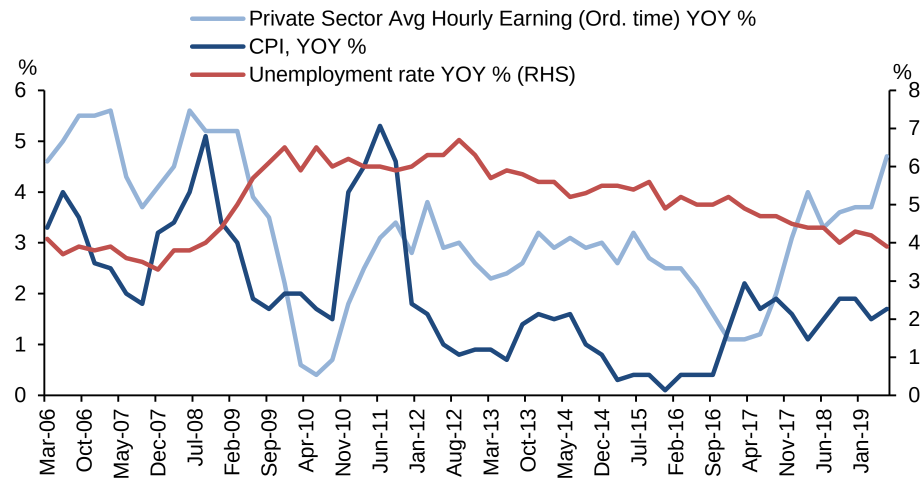


New Zealand – Deteriorating business confidence a worrying sign

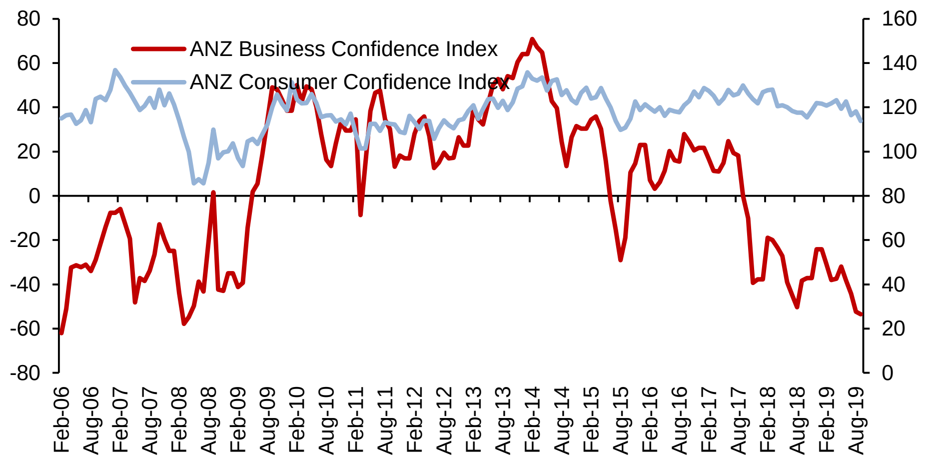
Growth pulled back to more than 5-year low in 2Q



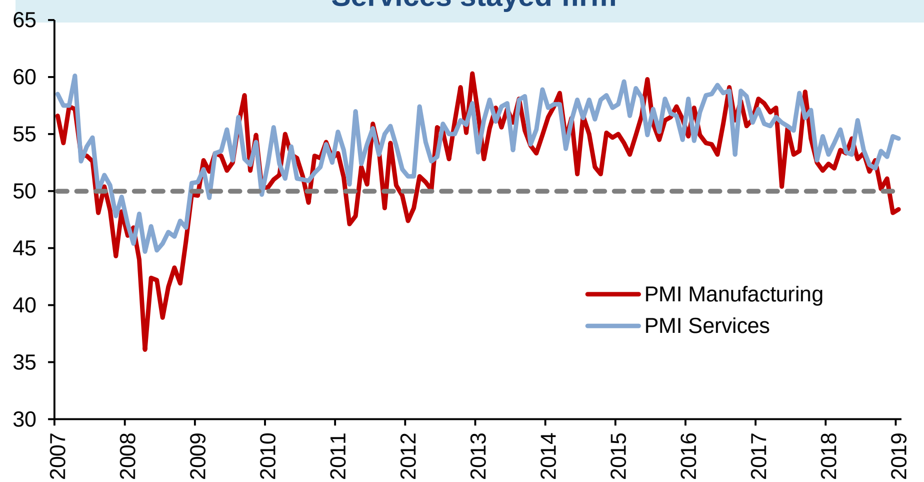
Solid labour market, CPI still below RBNZ target



Confidence faltered despite lower interest rates environment

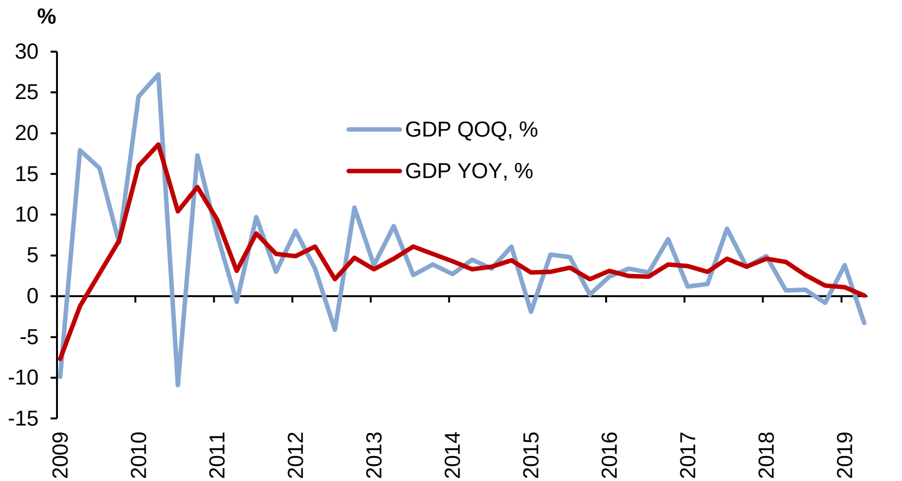


Manufacturing sector weighed down by external demand; Services stayed firm

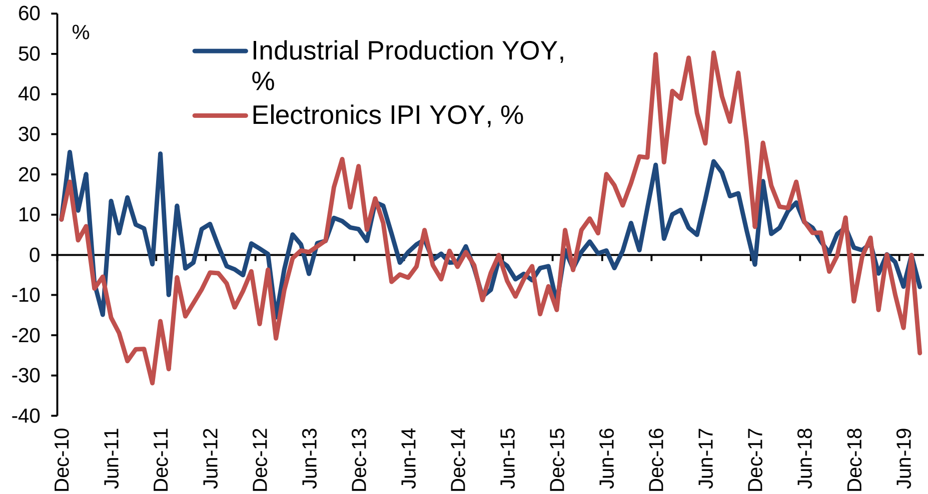


Singapore – Outlook turned negative; expect MAS to ease policy

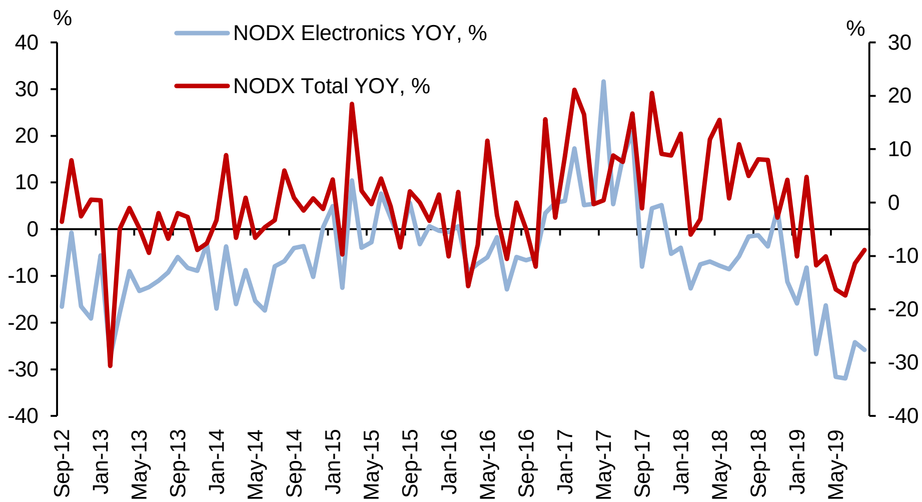
Manufacturing downturn and poor consumer demand led GDP to contract in 2Q



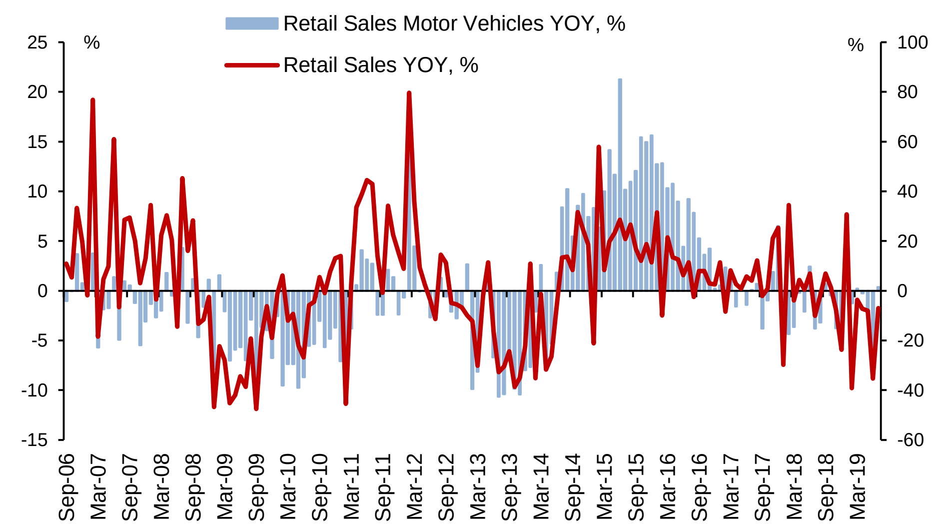
Manufacturing pressured by weak global electronic demand



External trade sector fell victim to poor electronic demand, trade uncertainty

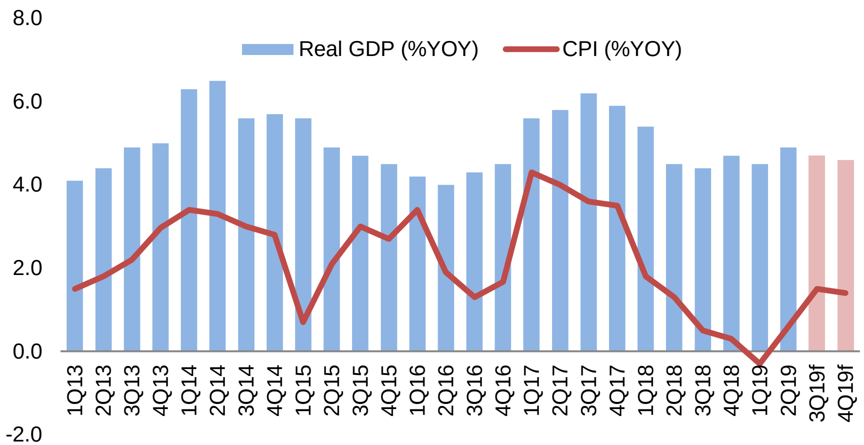


Retail sector remains a weak spot

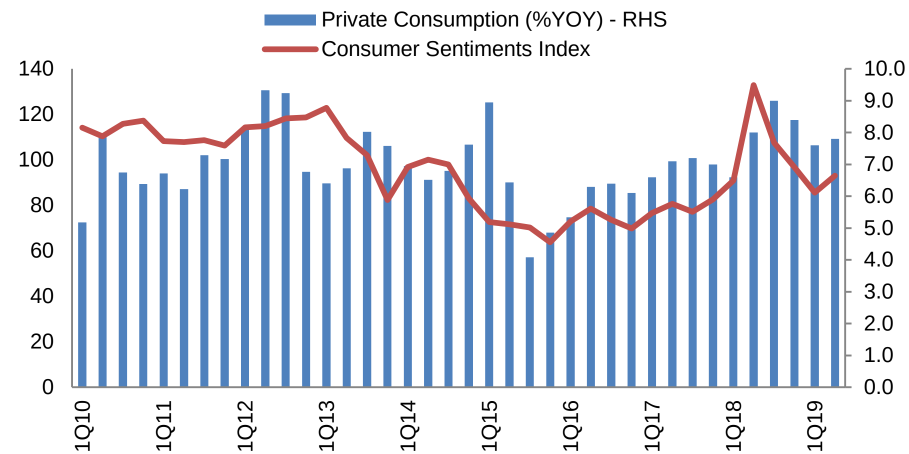


Malaysia – Modest growth momentum amidst subdued global demand

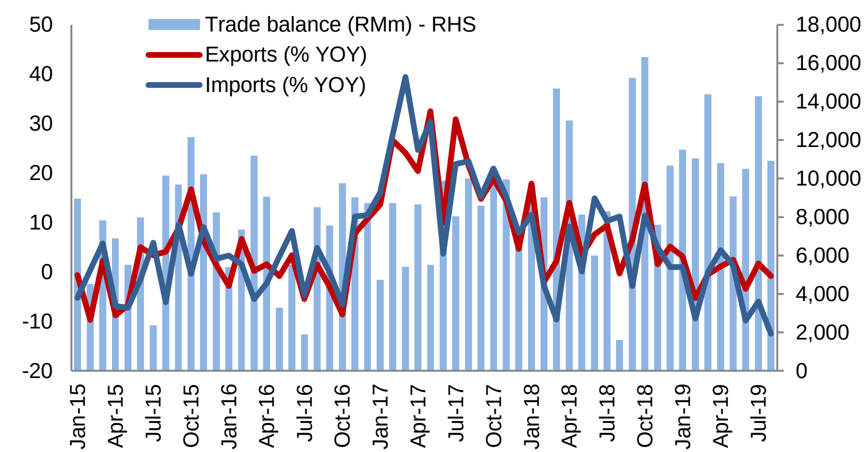
Maintain full year 2019 GDP projection at 4.7%. CPI spiked as expected in 2H.



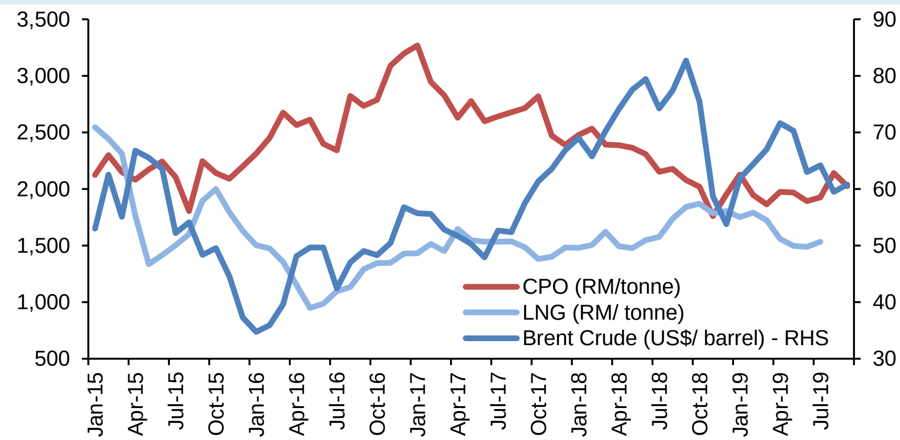
Domestic consumptions remains a main pillar to support growth



Surprising fall in August exports signals lackluster external trade outlook



Brent crude continues to weaken and range between $60-$65; CPO prices remained supported



FX Outlook – 4Q19

Currency	Outlook	Comments
USDMYR	➚	• USD likely to find support on expected ECB easing which is expected to begin in November, hence dampening the MYR. Ongoing nagging issues over trade and the resultant impact on growth would also limit any potential gains in MYR.
EURUSD	➘	• EUR likely to lose ground on expected ECB easing which will start in November as well as slower growth across Eurozone members.
GBPUSD	➘	• Expect GBP to remain volatile with a downwards bias as Brexit uncertainty and slower world economic growth continue to be weighing factors.
USDJPY	➘	• JPY continues to be supported on softer global growth outlook and lower UST yields. Shorter term direction likely influenced by US equities movement due to US-China headlines.
AUDUSD	➘	• Set to potentially grind lower on sustained USD strength and below 0.6930 pivot. Shorter term direction to be influenced by developments in US-China headlines.
NZDUSD	➘	• RBNZ has followed the RBA to adopt a less dovish stance. NZD however, looks set to continue path lower so long as it continues to trade below medium term resistance of 0.6550.
USDSGD	➚	• SGD is expected to weaken on overall USD strength due to ECB easing and on weaker growth factors exacerbated by trade issues, prompting MAS to ease.

Source: Global Markets Research

FX Forecasts – 4Q

Currency Pair	Close on 30 Sep 19	End 4Q19 closing	End 1Q20 closing	End 2Q20 closing	End 3Q20 closing
EUR/USD	1.0899	1.08-1.10	1.09-1.10	1.09-1.10	1.10-1.11
GBP/USD	1.2289	1.19-1.21	1.20-1.22	1.20-1.22	1.21-1.23
USD/JPY	108.08	105-106	106-107	107-108	108-109
AUD/USD	0.6750	0.66-0.68	0.67-0.69	0.67-0.69	0.68-0.70
NZD/USD	0.6263	0.61-0.63	0.62-0.64	0.62-0.64	0.63-0.65
USD/SGD	1.3819	1.37-1.39	1.36-1.38	1.36-1.38	1.35-1.37
USD/MYR	4.1877	4.20-4.22	4.19-4.21	4.18-4.20	4.17-4.19
EUR/MYR	4.5735	4.58-4.60	4.59-4.61	4.57-4.59	4.60-4.62
GBP/MYR	5.1657	5.04-5.06	5.07-5.09	5.06-5.08	5.09-5.11
AUD/MYR	2.8289	2.81-2.83	2.84-2.86	2.84-2.86	2.87-2.89
SGD/MYR	3.0304	3.04-3.06	3.06-3.08	3.05-3.07	3.06-3.08

Source: Bloomberg, Global Markets Research

FX Technical Analysis

USDMYR: Chart suggests a slight bullish bias still prevails as the pair stays above the Ichimoku cloud. A break of the Upper Bollinger Band @ 4.2038 will likely pave the way towards 4.2300.

Resistances: 4.2017, 4.2124, 4.2297
Supports: 4.1843, 4.1760, 4.1563

AUDUSD: Technicals suggest AUDUSD remains bearish with the bottom of the Ichimoku Cloud acting as short term resistance as the US-China tussle shows no signs of a near term resolution.

Resistances: 0.6780, 0.6797, 0.6820
Supports: 0.6722, 0.6699, 0.6676

Source: Bloomberg Global Markets Research

Fixed Income

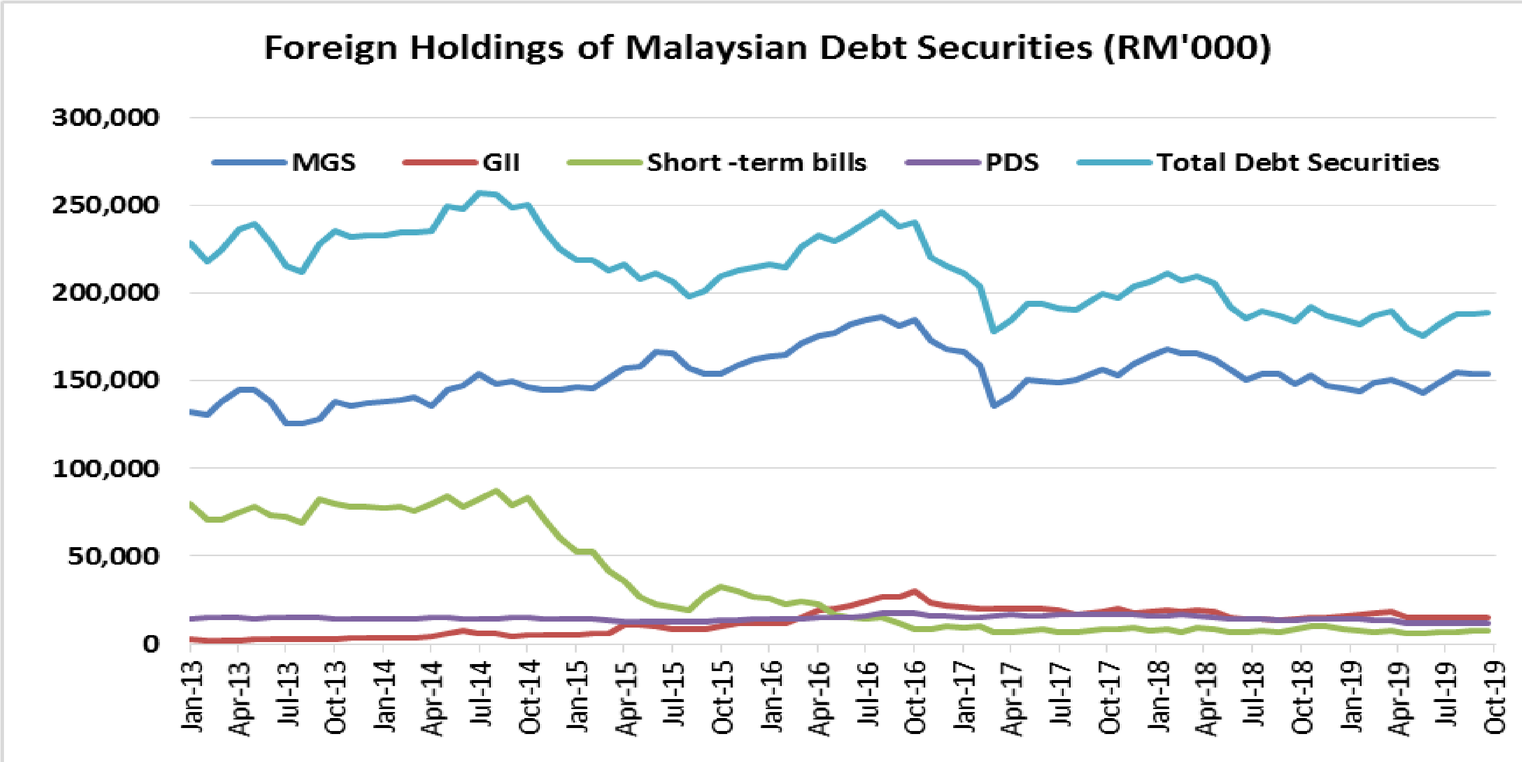
- Average MGS/GII BTC ratios improved to ~2.82x in 3Q 2019 (2Q 2019: 2.58x and overall YTD 2019: 2.70x) on safe-appeal status and decent yields in comparison with many global sovereigns.

- Gross MGS/GII supply for 2019 revised marginally higher to RM115bn with RM93.0bn (81%) issuances completed YTD Sept and subscribed by both onshore and offshore investors .

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	Auction 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	4,000	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	4,000	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	3,500	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	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	3,000	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	3,500	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	4,000	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	3,500	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	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	4,000	2,500	1,000	31,000	2.792	4.058	4.065	4.071	40.0%
11	5.5-yr New Issue of GII (Mat on 10/24)	5	Apr	Q2	12/4/2019	4,000	3,500		34,500	2.313	3.627	3.655	3.669	64.7%
12	7-yr Reopening of MGS (Mat on 07/26)	7	Apr	Q2	29/4/2019	3,000	3,000	500	37,500	1.510	3.735	3.757	3.777	75.0%
13	30.5-yr New Issue of GII (Mat on 11/49)	30	May	Q2	14/5/2019	3,000	2,000	2,000	39,500	3.298	4.625	4.638	4.663	100.0%
14	10-yr Reopening of MGS (Mat on 08/29)	10	May	Q2	23/5/2019	3,500	4,000		43,500	1.840	3.810	3.836	3.852	22.0%
15	15.5-yr New Issue of GII (Mat on 11/34)	15	May	Q2	30/5/2019	4,000	2,500	1,500	46,000	3.380	4.105	4.119	4.126	44.4%
16	5-yr New Issue of MGS (Mat on 06/24)	5	Jun	Q2	13/6/2019	4,000	4,000		50,000	2.489	3.466	3.478	3.484	8.3%
17	20-yr Reopening of GII (Mat on 09/39)	20	Jun	Q2	27/6/2019	3,000	2,000	2,000	52,000	4.275	4.070	4.074	4.079	59.1%
18	15-yr New Issue of MGS (Mat on 07/34)	15	Jul	Q3	4/7/2019	4,000	3,500		55,500	3.437	3.805	3.828	3.835	73.5%
19	7-yr Reopening of GII (Mat on 3/26)	7	Jul	Q3	12/7/2019	3,000	3,000	500	58,500	2.874	3.568	3.582	3.586	70.0%
20	30-yr Reopening of MGS (Mat on 07/48)	30	Jul	Q3	26/7/2019	2,500	2,000	1,500	60,500	2.490	4.170	4.181	4.208	100.0%
21	5-yr Reopening of GII (Mat on 10/24)	5	Aug	Q3	8/8/2019	3,500	3,000		63,500	4.137	3.329	3.345	3.349	10.7%
22	20-yr Reopening of MGS (Mat on 06/38)	20	Aug	Q3	14/8/2019	3,000	3,000	1,000	66,500	3.150	3.745	3.753	3.758	81.1%
23	10-yr Reopening of GII (Mat on 7/29)	10	Aug	Q3	29/8/2019	3,500	3,000		69,500	2.000	3.290	3.318	3.330	80.0%
24	7-yr Reopening of MGS (Mat on 07/26)	7	Sep	Q3	19/9/2019	3,500	3,000		72,500	1.210	3.350	3.392	3.433	81.3%
25	15-yr Reopening of GII (Mat on 11/34)	15	Sep	Q3	27/9/2019	3,000	2,000	500	74,500	3.195	3.603	3.632	3.643	20.0%
26	10-yr Reopening of MGS (Mat on 08/29)	10	Oct	Q4	7/10/2019	4,000	3,000		77,500	1.233	3.330	3.407	3.480	35.0%
27	20-yr Reopening of GII (Mat on 09/39)	20	Oct	Q4		3,000								
28	5-yr Reopening of MGS (Mat on 06/24)	5	Oct	Q4		3,000								
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		3,500								
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		2,500								
	Gross MGS/GII supply in 2019					94,500		18,500						

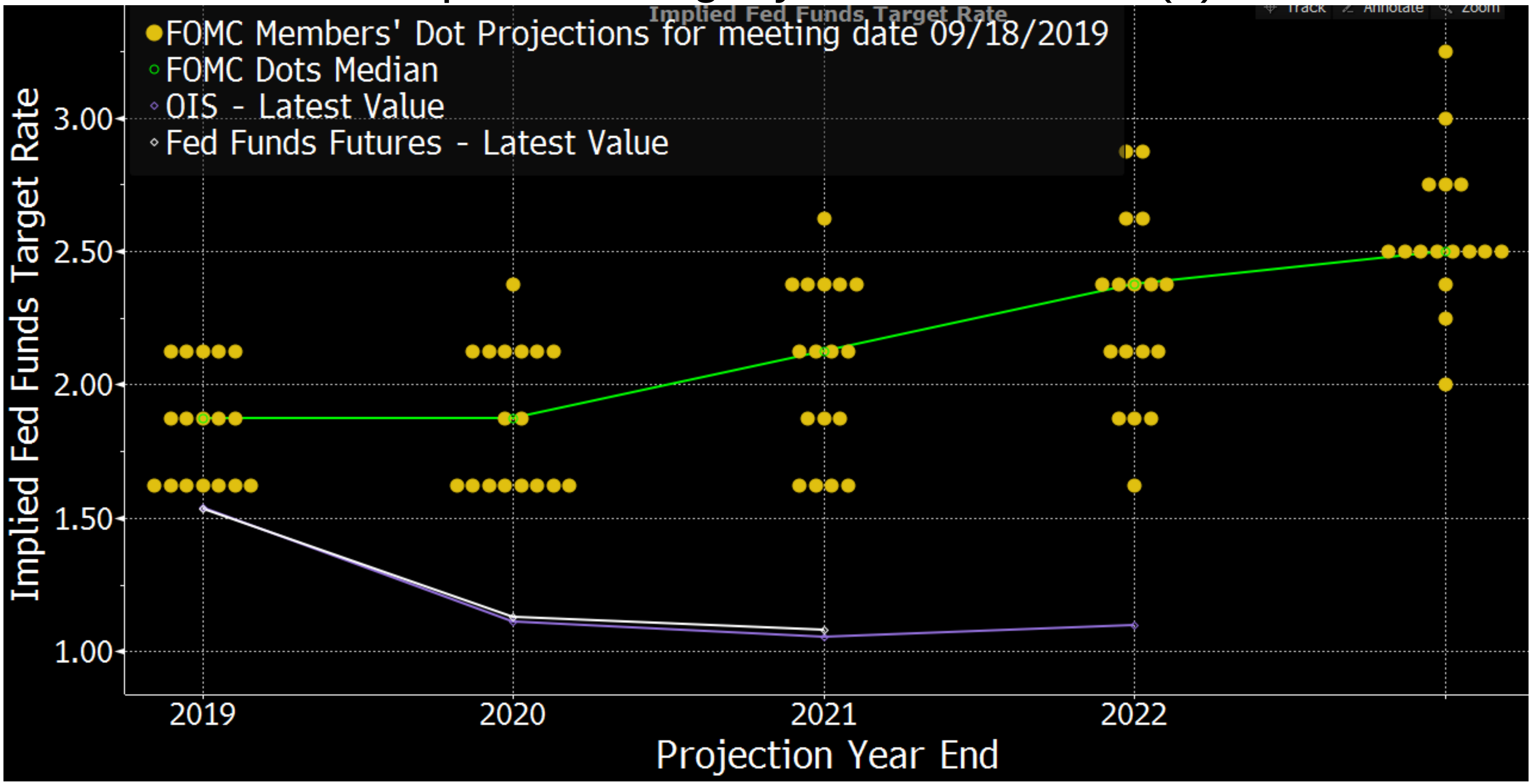
Foreign holdings of overall MYR bonds rose by RM6.5b QOQ to RM189.1b @ end-Sep (RM182.6b @ end-June)



Source : BNM, Bloomberg, HLB Global Markets Research

Foreign holdings of MYR government bonds i.e. MGS + GII + SPK rose QOQ; depicting a "V-shape" pattern for 1st three(3) quarters. These were steady throughout 3Q at ~RM169b levels @ end Sep19 despite earlier concerns arising from FTSE Russell WGBI decision; which ultimately resulted in no exclusion and minimal weightage change @ ~0.4%; at least until March 2020. The dovish Fed and other global central bankers due to trade and growth concerns which originated from US-China trade conflicts also supported the fixed income asset class. MGS foreign holdings saw the highest QOQ rise of RM5.0b among all categories of bonds from RM149.1b (36.9%) @ end-Jun to RM154.2b (37.5%) @ end-Sept; whilst GII rose by RM672m to RM15.3b (4.7%) for the same period.

Fed dot plot signals a potential pause for the remainder of 2019 while futures prices in slightly more than one (1) rate cut



Both the August and September FOMC meetings saw rates cut by 25bps each as expected but opened the door for a non-committal stance on further reductions. This was in contrast to the fast pace of normalization seen in 2018 which included four (4) official hikes of 25bps each in March, June, September and December 2018. This is mainly due to concerns over a US recession, punctuated by negative yield debt. The main culprit that sparked off the discomfort were US-China and similar trade conflicts. Meanwhile the Fed's monthly balance sheet run-off has been completed a month earlier in August allowing it to rollover all UST principal payments and re-invest them again. Since then, the Fed balance sheet has inched back up slightly from ~$3.83 trillion in June to $3.86 trillion in September as the Fed seeks to expand its balance sheet again.

Fixed Income Outlook

<table>
<tr><th>Country</th><th colspan="2">3M Views</th><th>Comments/ Outlook</th></tr>
<tr><td rowspan="4">US</td><td colspan="2">Maturity Preference</td><td rowspan="4"><u>Sovereigns</u>
UST’s extended its rally in 3Q 2019 amid a slightly flatter curve extending out from the 5Y tenures; as the 2Y10Y spread (which was briefly inverted!) moved back to positive territory i.e. from 14bps to 10bps. The 2Y @1.46% declined 30bps and closed at the lower range of the wide 1.43-1.91% band. Likewise the 10Y (2.01%) rallied a massive 33bps QOQ moving within a wide 1.46-2.14% range before settling at 1.68%. The Bloomberg Barclays US Treasury Index has returned a stellar 2.4% QOQ and 7.7% for the first nine(9) months of 2019 and set to rival the performance of 2011; when the annual increase was below 10%. Investors are wary of conflicting signals from US economic data; i.e. the deterioration in back-to-back manufacturing activity (i.e. ISM manufacturing Index) for both Aug and Sep versus the decent September jobs data (i.e. NFP), tepid inflationary conditions along with the unemployment rate of 3.5%; a 50-year low. The global rates asset class continues to benefit from safe-haven bids ignited by shifts in global trade uncertainties and interest-rate differentials. The recent turmoil in money market rates has been fairly well-contained as the Fed pumped up to $200b of funds to stabilize the rate which spiked to 10%; not seen since the global financial crisis in 2008. Despite the Fed cutting interest rates, its noncommittal view on the rate outlook suggests expectations for rate cuts are likely overdone. The 10-year UST is expected to find good support at 1.90% levels for this quarter. The flipside to our forecast are ~ resolve of US-China trade deadlock, little risk of geo-political tensions, and pause in further Fed rate cuts for 2019, passive real money investors (i.e. SWF’s, lifers, pension funds etc). The medium-term maturities for 3Q still potentially offer better risk-reward posture.

<u>Corporate</u>
The record number of Investment Grade (IG) companies that issued bonds for the quarter under review surged to the highest this year with September alone seeing 127 deals totaling $155b despite the volatile month for UST’s. investor concerns reduced appetite as premiums widened from ~310bps spread as at end 2Q2019 to 4.20% presently. The Bloomberg Barclays US Corporate Total Return Value (for IG), maintained at ~120bps (3Q2019) spread over UST’s; off the lowest in July 2019 and averaged returns of +4.0% q-o-q and 14.0% YTD. The Bloomberg Barclays US Corporate High Yield Total Return Index (for HY) produced a lower return of +0.6% q-o-q and 10.9% YTD compared to the previous quarter. Total issuance of $235b through 3Q2019 has run ~30% ahead of same period of $180b. Again, foreign investors who had opted not to hedge their currency risks would have benefited as the dollar strengthened. We are still positive on IG issuances between 1-6Y tenures on decent credit fundamentals such as energy and chemicals as suppressed yields, tame inflation and global central banks easing should maintain demand for US credits. Meanwhile, we prefer to avoid the HY sector due to potential stretched balance sheets and 12-month trailing default rate in the US; estimated at 2.8% for September, up from 2.5% in August. S&P has downgraded 164 issuers compared to 64 upgrades including prominent WeWork that provides co-working spaces for individuals and entrepreneurs.</td></tr>
<tr><td colspan="2">Duration medium</td></tr>
<tr><td>Policy Rate</td><td>Yield Curve</td></tr>
<tr><td>The Fed has cut its Fed Fund Rate twice in 3Q 2019 to 1.75-2.00%. However its recent non-committal stance has raised eyebrows as the implied futures show a potential 77% chance of a rate cut in October followed by 91% odds in December. Future adjustments to monetary policy would likely be data-dependent and the Fed would closely monitor the economy including the recent spike in Repo rates within the money markets. Our house projection is calling for one (1) more rate cut in 4Q (i.e. for the remainder of 2019).</td><td>Yield curve has flattened further from 14bps to 4bps q-o-q; and was even inverted for a brief period in end-Aug. This inverted stance on the front-end is due to central bank policy that has kept interest rates exceptionally low since the 2008 financial crisis. However it has since reverted back to normal i.e. following two (2) successive rate cuts totaling 50bps and expectations that these may spur economic growth.</td></tr>
</table>

Fixed Income Outlook

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<tr><th>Country</th><th colspan="2">3M Views</th><th>Comments/ Outlook</th></tr>
<tr><td rowspan="4">Singapore</td><td colspan="2">Maturity Preference</td><td rowspan="4"><u>Sovereigns</u>
The SGS yield curve tracks UST’s sharp flattening-bias as bonds outperformed for 3Q2019 save for the short 2Y which edged a mere 2bps higher at 1.65%. The 5-10Y yields rallied between +2 to -32bps lower (5Y @ 1.65%; 10Y @ 1.73%) whilst the 20Y rallied the most by 56bps @ 1.83%. Based on a confluence of recent conflicting economic data out of US and the Fed’s non-committal view of further rate cuts; we believe that 3Q 2019 growth will ease further due to the ongoing impact from US-China trade tariff matters. Full year GDP growth is expected to range between 0.0-1.0% this year. Dimming growth prospects and rising risks of a technical recession may cause MAS to opt for a looser monetary policy to cushion falling growth and tepid inflation concerns well into 2020. With inflation remaining benign and global trade slump impacting the entire region, expect the Monetary Authority of Singapore to embark on policy-easing measures come October. SGD NEER may not remain above the midpoint of estimated policy band if market expectations shift to an easing by the central bank, allowing SGS to benefit as safe-haven asset due to slowing global growth. Singapore is one of only 10 sovereign markets with AAA ratings from all three rating agencies which pays one of the highest yields among them with the mountain of negative-yielding sovereign bonds that have swelled to ~USD$17 trillion.

<u>Corporate</u>
Singapore’s trade-reliant economy may take a see more soured-debt as US-China trade tensions take a swipe at the nation’s firms causing additional distressed debts such as credit defaults by KrisEnergy (O&G explorer), MMI International (hard drive component manufacturer), Hyflux Ltd, Swiber Holdings, Ezra Holdings Ltd etc. which had affected many retail investors. The lower rates and yields have caused Singapore investors to opt for riskier bonds to chase for yields with abundant liquidity. Nevertheless, with US rates skewed towards the lower side, expect demand for duration to improve along with the hunt for yield-carry outlook. Hence, we reiterate our earlier stance to continue medium term duration to enhance returns. Corporate fundamentals in Asia remain on solid footing and valuations for Asian dollar bonds are particularly compelling at the moment versus the U.S. and the negative yields in Europe. Investors are advised to monitor narrowing credit spreads as global trade issues may plague corporates and stretch credit metrics. High-quality conglomerates and bank credits such as Investment-grade/quality credits DBS, UOB, OCBC, F&N, Keppel Corp, Oxley Holdings Ltd and Fraser’s Property Ltd). Risks to our recommendations include the dogged US-China trade war, potential political impeachment in the US, flaring tensions in the middle east, slowing economic growth and BREXIT among others.</td></tr>
<tr><td colspan="2">Duration medium-term</td></tr>
<tr><td>Policy Rate</td><td>Yield Curve</td></tr>
<tr><td>Strong possibility has emerged for MAS to ease monetary policy in October. This could see the current SGD NEER policy band fall by 50bps to 0.5% with risks tilted to an aggressive 100bps slope reduction to 0% in order to support economic growth due to external headwinds. Expect higher short-end rates if the fallout from a weaker SGD emerges. Meanwhile Singapore continues to be in the US Treasury semi-annual currency monitoring list.</td><td>SGS curve is expected to maintain a flattish stance with the medium-long end poised to yank lower yield-wise. Expect the SGS to continue track the movement in UST yields.</td></tr>
</table>

Fixed Income Outlook

Country	3M Views		Comments/ Outlook
Malaysia	**Maturity Preference**		Sovereigns Local govvies rallied between 10-55bps across the curve; led by the mid-tenured bonds i.e. 7Y outwards for the quarter under review. The MYR sovereign curve continued to see yields decline sharply from June through September amid some nervous selling prior to the FTSE Russell Index WGBI decision involving MYR bonds in September. However liquidity was fairly abundant and participation from local institutional funds helped along with steady foreign holdings supported the cause for an overweight on bonds as MYR bonds continue to be accorded the same weightage at least until the next review in March 2020. Global central banks are still geared towards a dovish-tilt in view of unresolved and ongoing US-China trade tariffs and conflicts; punctuated by slowing economic growth. Traders and investors have even predicted a rate cut in the US on the back of global growth concerns and tepid inflation. We continue to foresee healthy local institutional demand on the back of stable MYR levels and comparable EM relative values which will continue to attract sporadic interest from offshore banking institutions. We have revised higher our gross govvies issuances to RM115b; having taken into account the targeted budget deficit of 3.4% for this year on account of a potentially better GDP at constant price. **The 6-7Y, 15Y GII along with the 7Y, 20Y MGS space reflects decent value on the curve for now. Expect the 10Y to find support at 3.55-3.70% levels (3Q19: 3.75%-3.95%)** Corporate Corporate bonds/Sukuk issuances eased to RM21.2b as at 3Q19 versus RM23.6b as at end 2Q19. Our projected gross supply for 2019 however is raised slightly to between RM90-100b (Actual 2018: RM105b). The commencement and potential renegotiation of major infrastructure projects like the Bandar Malaysia, Klang Valley Double Tracking and East Coast Rail Link (ECRL) may spur further bond issuances. Trading activities for corporate bonds saw daily volume fall circa to RM530m daily (2Q19:RM740m) with interest skewed mainly towards both the GG and AA-segment of the curve as yields dropped between 15-35bps. **We continue to like both the GG and the AA-space due to both liquidity and yield pick-up features**. The GG and energy-related names like PTPTN, DANAINFRA, PRASARANA, LPPSA, JEP, SEB, JEV, EDRA, Southern Power, MALAKOFF along with the resilient toll-related PLUS are expected to be well-sought after. Meanwhile Fitch Ratings has downgraded Malaysia-based palm-oil producer Sime Darby Plantation Berhad's Long-Term Issuer Default Rating (IDR) to 'BBB' from 'BBB+' with a stable outlook. Values exist within the 7-15Y GG sector and also the 5Y and 7-10Y AA-rated papers amid decent spreads of +40 to +60bps for this part of the curve. (The bulk of GG bonds have outperformed YTD but are believed to undergo mild correction in line with the overall sedate govvies outlook as current yields remain compressed at a mere 6-16bps spread over MGS). We also expect more unrated bonds and perps to come on-stream as corporates find it justifiable in terms of cost of funds, and less cumbersome procedures as well compared to the uninspiring equities channel.
	Duration neutral		
	Policy Rate	**Yield Curve**	
	The decision by the MPC to stay pat on the OPR at 3.00% in September was in line with our projection. Domestic drivers of growth alongside stable labor market and wage growth are expected to support economic activity. Expect 3Q2019 GDP growth a tad lower at 4.6% but foresee slight downside risks to our full year GDP growth of 4.7% depending on how external risks evolve in 4Q.	Current flat yield curve expected to be maintained on positive duration requirements. Potential values seen in 6-7Y, 15Y GII and 7Y, 20Y MGS bonds. The strange inversion between both 7Y and 10Y has reverted to normal. Expect demand for 7-15Y GG bonds and 5Y, 7-10Y AA-rated papers to persist on liquidity and yield pick-up requirements.	

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