Quarterly Market Outlook 3Q2019

Global Markets

July 2019

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Global Growth Outlook

Real GDP (% YOY)	Latest 2 Quarters		Actual	Forecast		Forecast (official)	
	4Q18	1Q19	2018	2019	2020	2019	2020
World	-	-	3.6	**3.3** *(3.4)*	**3.3**	**3.3** *(3.5)*	**3.6**
DM/ G10	1.8	2.1	2.3	**1.8** *(1.8)*	**1.6** *(1.7)*	**-**	**-**
US	3.0	3.2	2.9	**2.5** *(2.4)*	**1.8** *(1.9)*	**2.1** *(2.1)*	**2.0** *(1.9)*
Eurozone	1.2	1.2	1.9	**1.2** *(1.2)*	**1.3** *(1.4)*	**1.2** *(1.1)*	**1.4** *(1.6)*
UK	1.4	1.8	1.4	**1.4** *(1.3)*	**1.4** *(1.5)*	**1.5** *(1.2)*	**1.6** *(1.5)*
Japan	0.3	0.9	0.8	**0.7** *(0.7)*	**0.4** *(0.5)*	**0.8** *(0.9)*	**0.9** *(1.0)*
BRICs	5.5	5.2	5.7	**5.4** *(5.5)*	**5.4** *(5.5)*	**-**	**-**
China	6.4	6.4	6.6	**6.2** *(6.2)*	**6.0**	**-**	**-**
India*	6.6	5.8	7.2	**7.0** *(7.0)*	**7.0** *(7.3)*	**7.6** *(7.6)*	**-**
Asia ex-Japan	5.7	5.5	6.0	**5.7** *(5.7)*	**5.6** *(5.6)*	**-**	**-**
EMEA	2.2	1.4	3.0	**2.0** *(2.1)*	**2.6** *(2.6)*	**-**	**-**

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

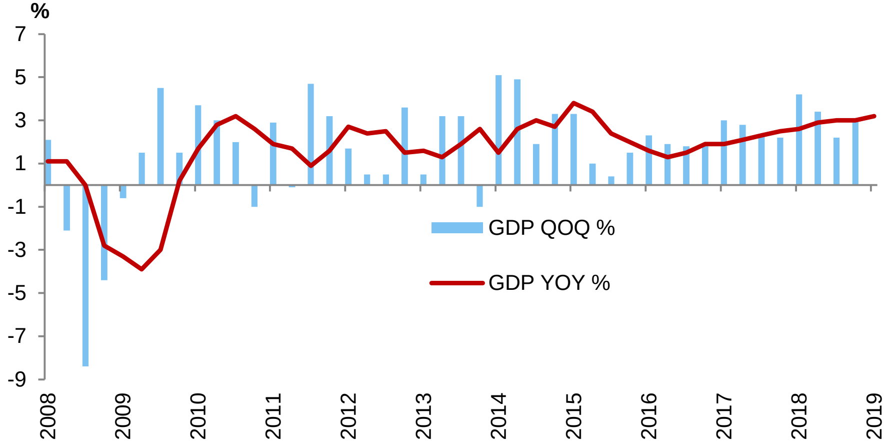
Global Central Banks Policy Rate Outlook

	Current (2Q19)	3Q19	4Q19	1Q20	2Q20	
United States Federal Reserve *Fed Funds Rate*	**2.25 - 2.50**	2.00-2.25	2.00-2.25	2.00-2.25	2.00-2.25	1 cut in 3Q19
Eurozone European Central Bank *Main Refinancing Operation Rate*	**0.00**	0.00	0.00	0.00	0.00	No change in 2019
United Kingdom Bank of England *Bank Rate*	**0.75**	0.75	0.75	0.75	0.75	No change in 2019
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*	**1.25**	1.00	1.00	1.00	1.00	1 cut in 3Q19
New Zealand Reserve Bank of New Zealand *Official Cash Rate*	**1.50**	1.25	1.25	1.25	1.25	1 cut in 3Q19
Malaysia Bank Negara Malaysia *Overnight Policy Rate*	**3.00**	3.00	3.00	3.00	3.00	No change in 2019
Thailand The Bank of Thailand *1-Day Repurchase Rate*	**1.75**	1.50	1.50	1.50	1.50	1 cut in 3Q19
Indonesia Bank Indonesia *7-day Reverse Repo Rate*	**6.00**	6.00	6.00	6.00	6.00	No change in 2019
Philippines Bangko Sentral ng Pilipinas *Overnight Reverse Repo Rate*	**4.5**	4.5	4.5	4.5	4.5	No change in 2019

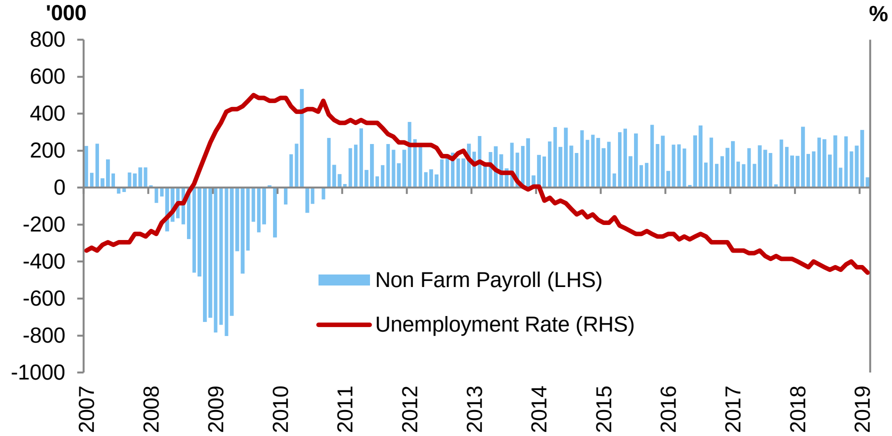
Source: Bloomberg, Global Markets Research

The US – Fed turned dovish, widely expected to cut rate in July

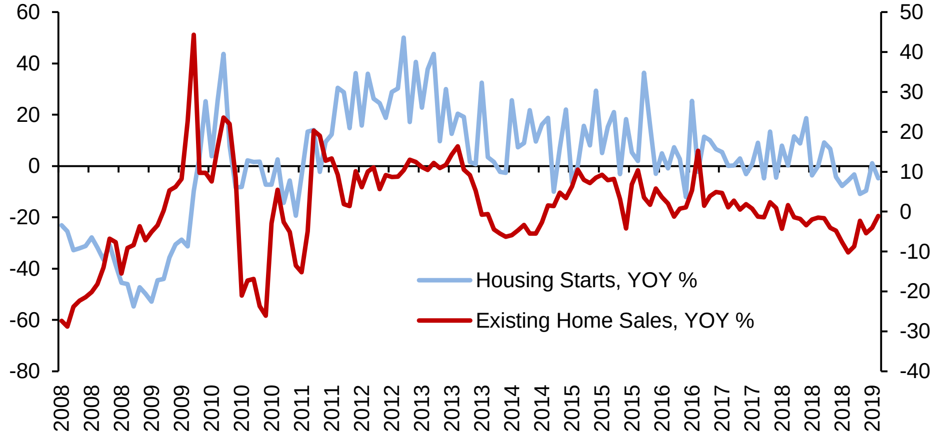
2019 1Q GDP growth beat expectations, mainly spurred by government spending and net exports. Sharp pullback in PCE growth and the fall in imports indicate cautious consumers.



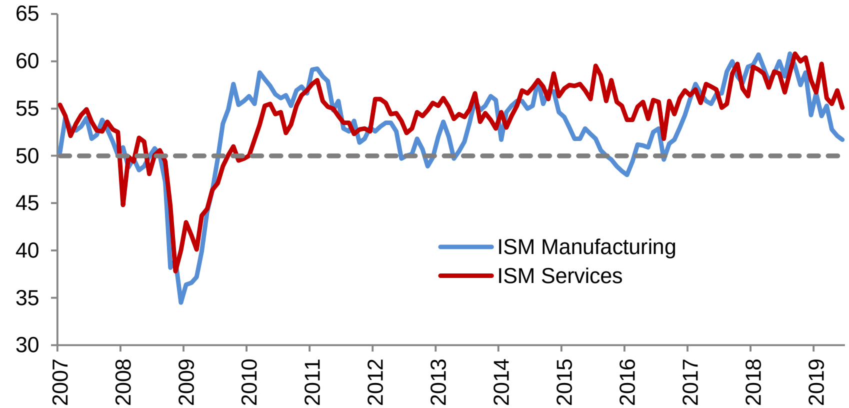
Labour market remained solid but hiring appeared to have slowed down. Wage growth steadied.



Housing markets flashed mixed signals- sideway trends in sales, homebuilding and subdued gain in house prices.

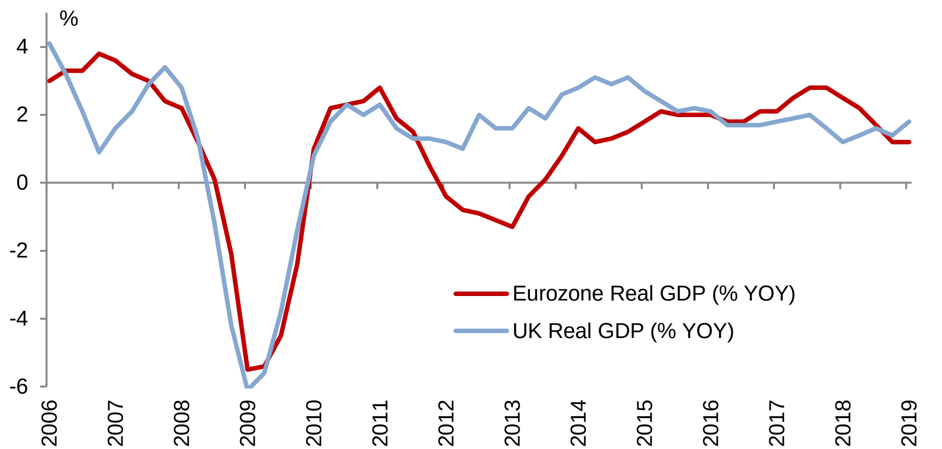


Apparent slowdown in manufacturing PMI; services sector growth easing

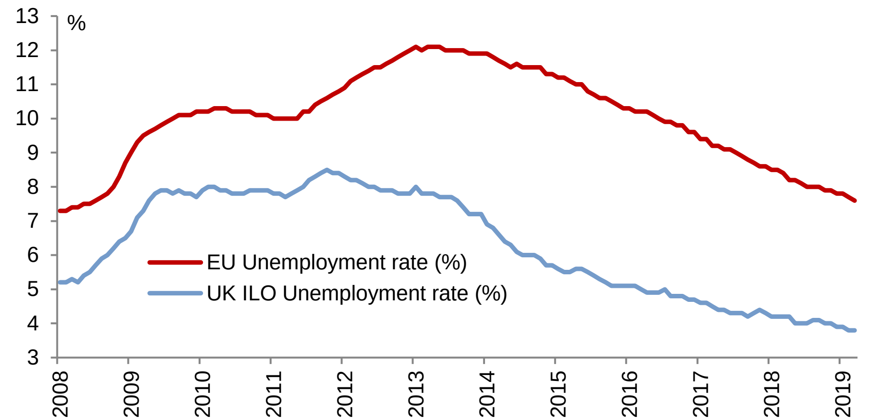


The EU and UK – ECB delayed rate hike again; BOE constrained by Brexit

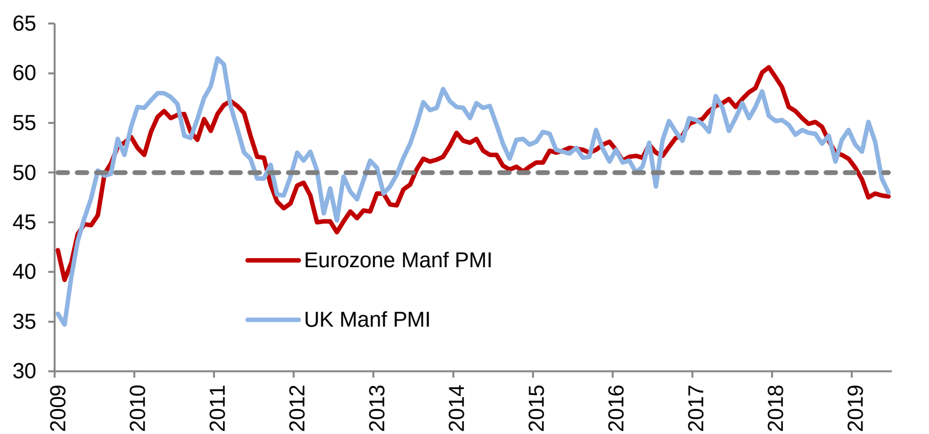
UK growth to pull back after pre-Brexit deadline bumps in 1Q; Eurozone growth outlook subdued.



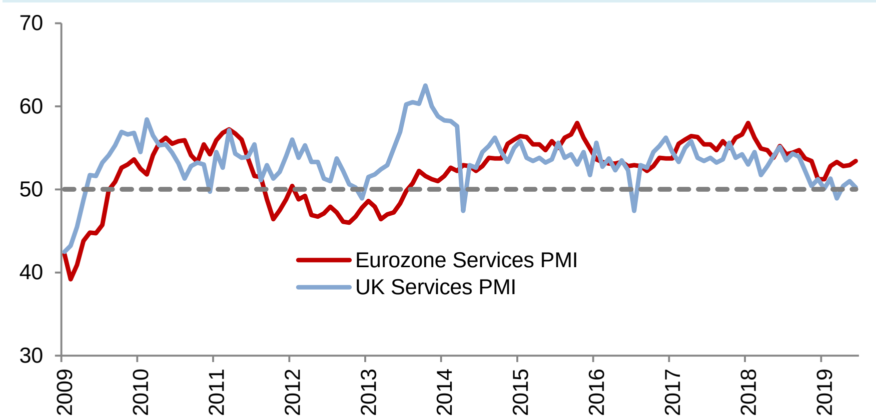
Unemployment rate fell amidst solid job gains; wage growth picked up in Eurozone and in the UK.



Weak global demand pressures Eurozone manufacturing output; UK manufacturing growth easing off.

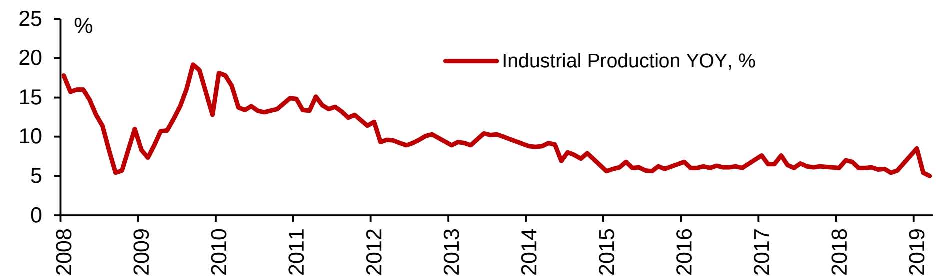


Solid services sector reflects resilience in consumer demand and labour market in Eurozone, UK services PMI weakened to just a touch above 50.0

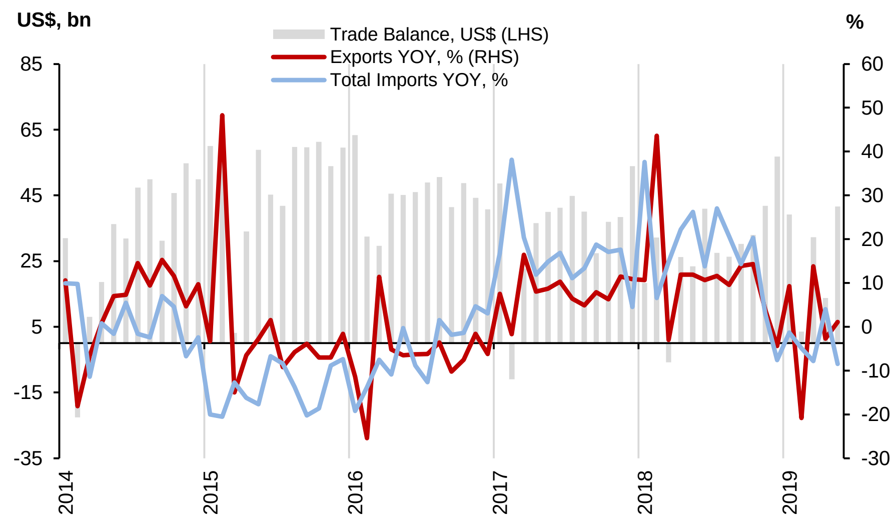


China – Manufacturing downturn and weak consumer demand weighing on outlook, expect more stimulus ahead

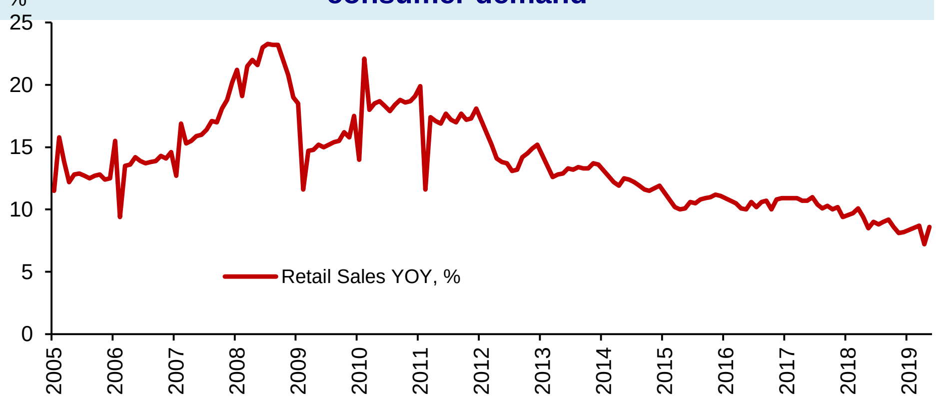
Growth stabilized in 1Q and poised for continuous slowdown



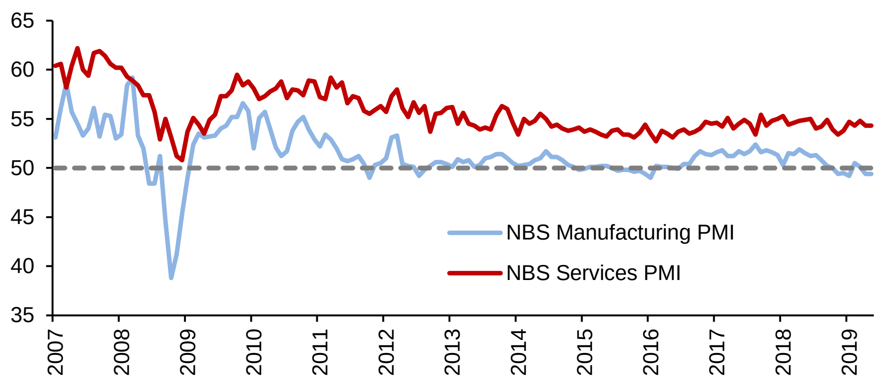
Sideway trends in exports; imports falling as demand for overseas goods weakens



Retail sales remained historically weak, pointing to subdued consumer demand

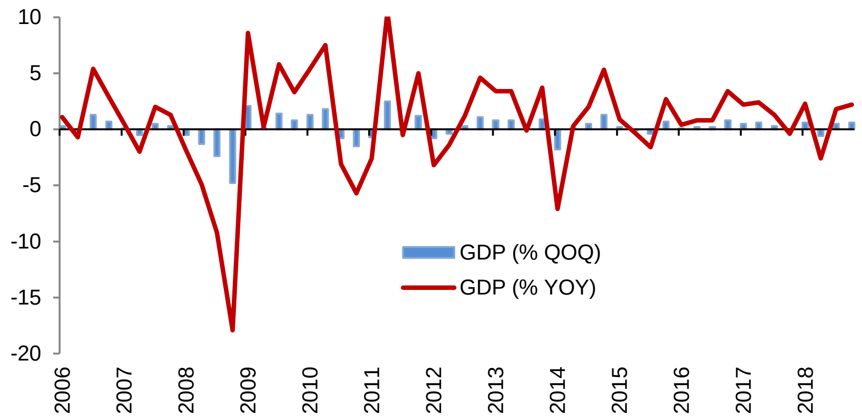


Manufacturing weakness persists, services sector showing signs of easing growth

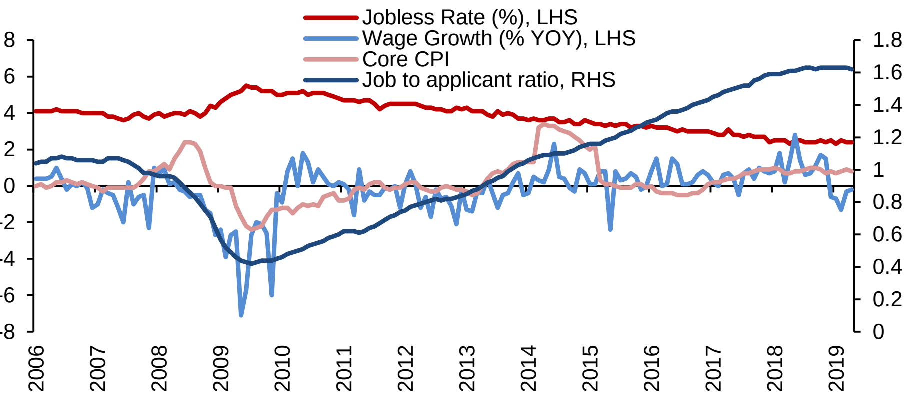


Japan – BOJ keeps ultra-loose policy intact despite positive 1Q growth, as inflation stays subdued. External trade sector likely weaken further

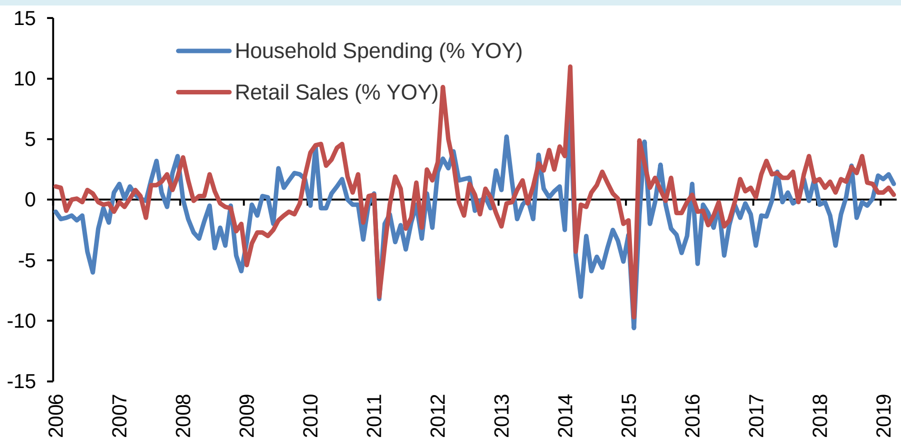
Growth came in faster than expected in 1Q19, lifted by capital spending.



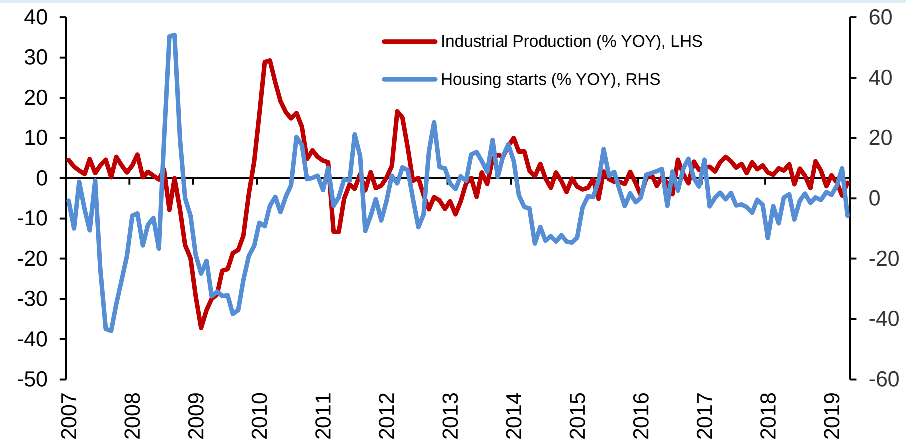
Labour market remains tight, inflation hovering at levels below 1%, still far below BOJ's 2.0% target.



Household spending appeared supported since early 2019, government unlikely to postpone October sales tax hike

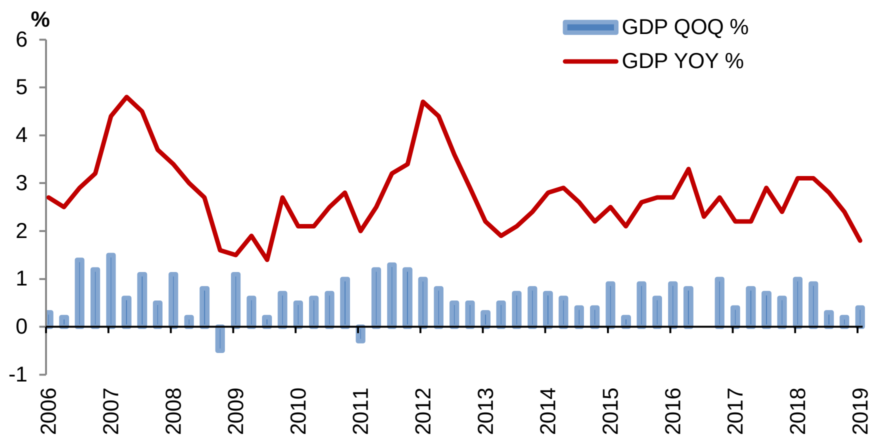


Factory output fell amidst weakening external trade sector

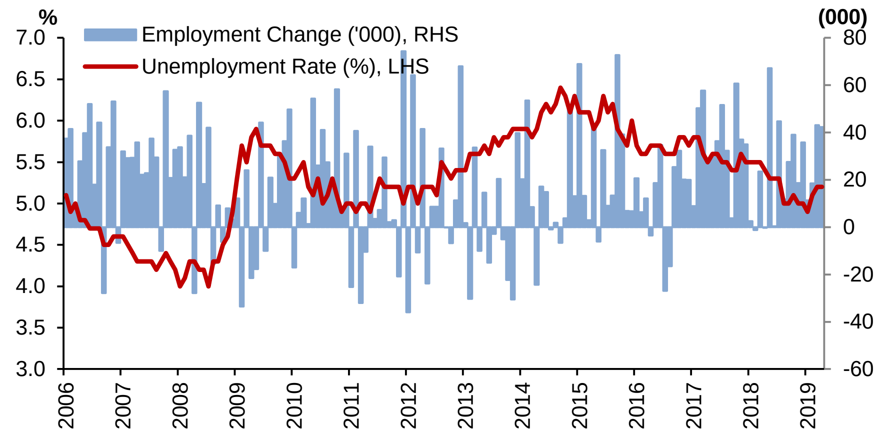


Australia – RBA's dovish stance implied more rate cuts in 2019

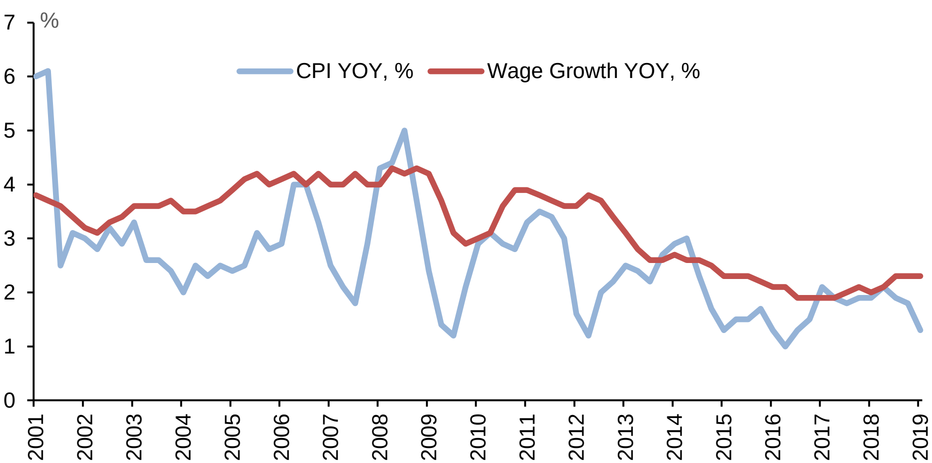
Huge miss in 1Q GDP led RBA to cut cash rate.



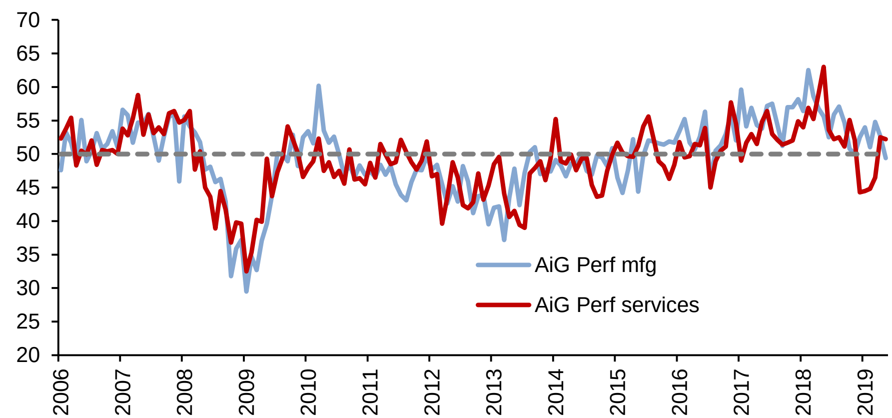
Labour market appeared solid; uptick in unemployment rate due to higher participation rate.



Wage growth picked up slightly and stabilized but CPI growth softened.

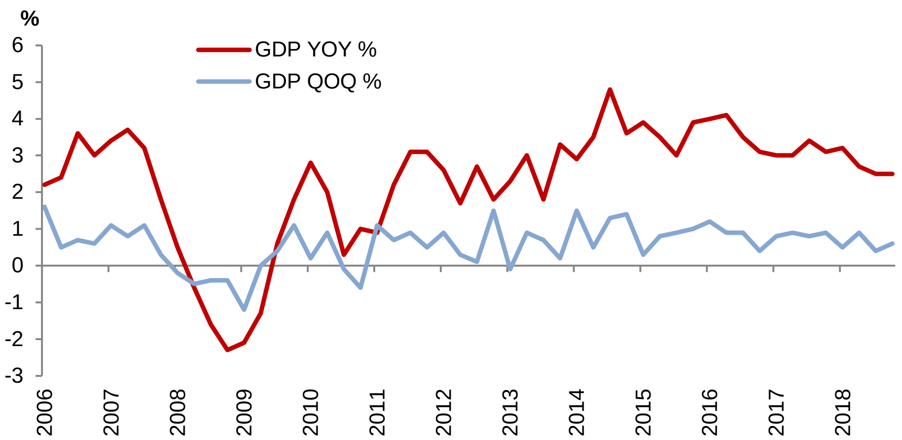


Services PMI rebounded and stabilized after four months of contractions, manufacturing PMI fell below 50.0

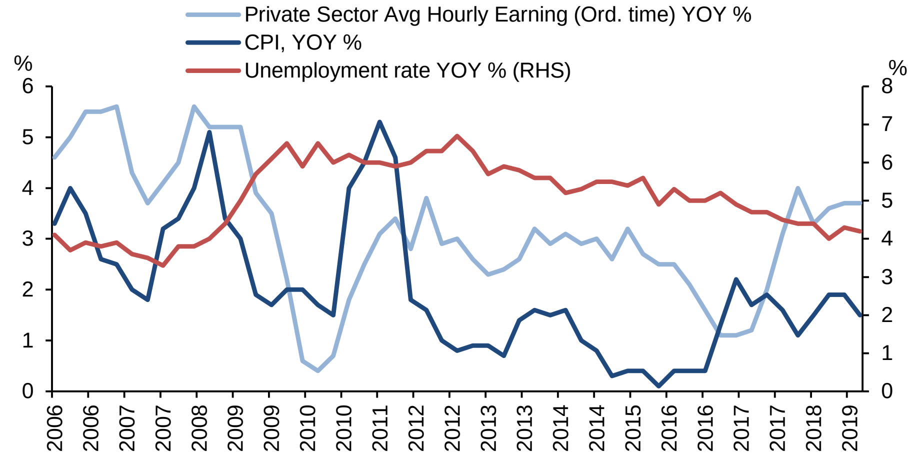


New Zealand – RBNZ's dovish bias suggests more cuts are in the pipeline

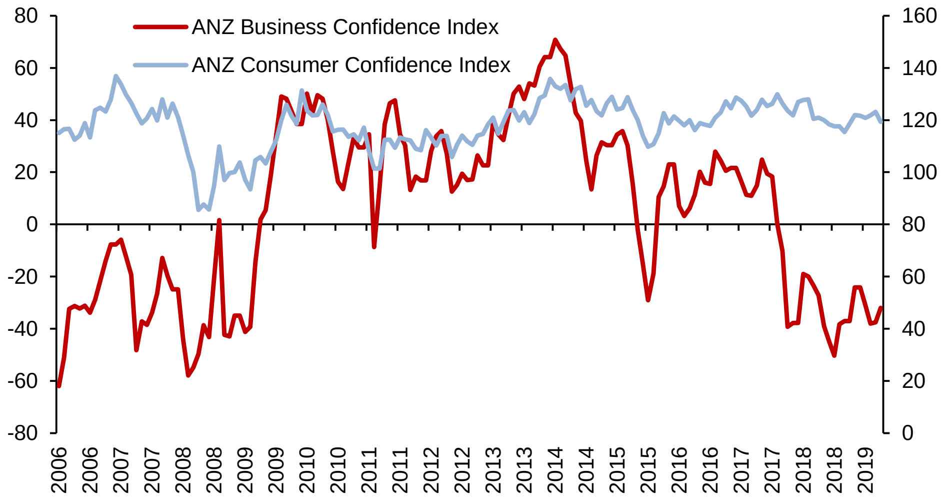
Growth relatively steady in 1Q, supported by uptick in constructions.



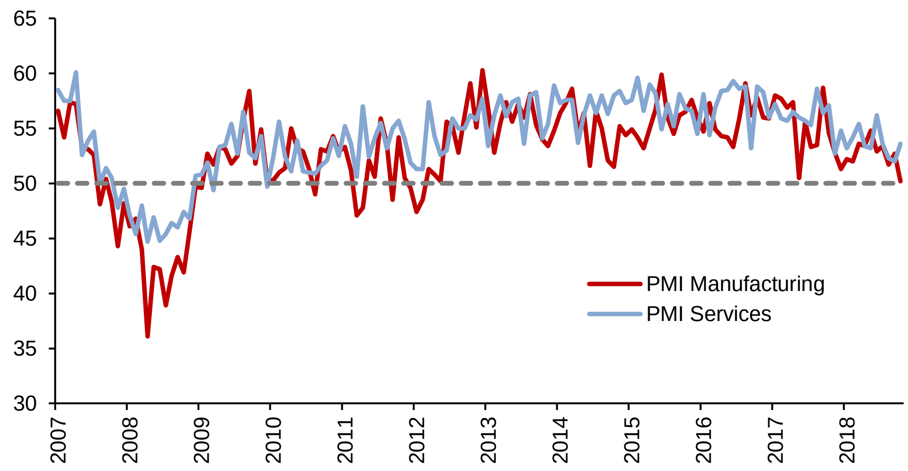
Disappointing CPI triggered a cut in OCR; wage growth in private sector seen picking up



Consumer confidence faltered, business confidence stayed weak

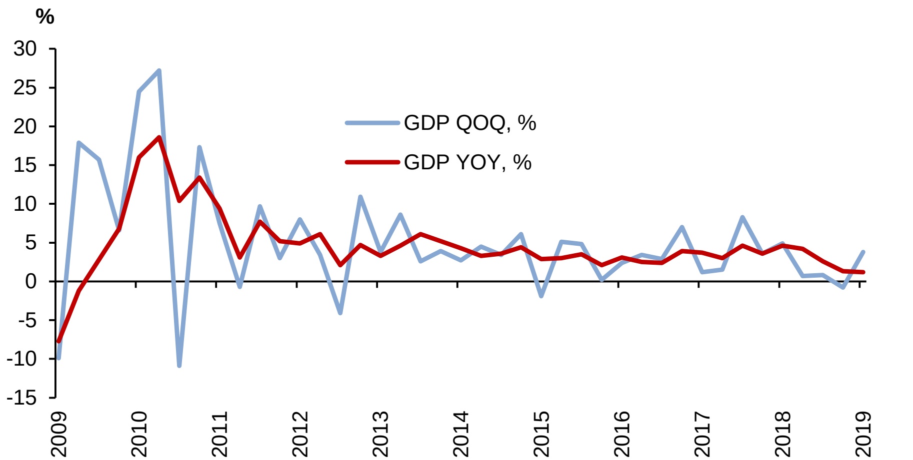


Manufacturing PMI ticked lower, services PMI trended sideways but still above 50.0

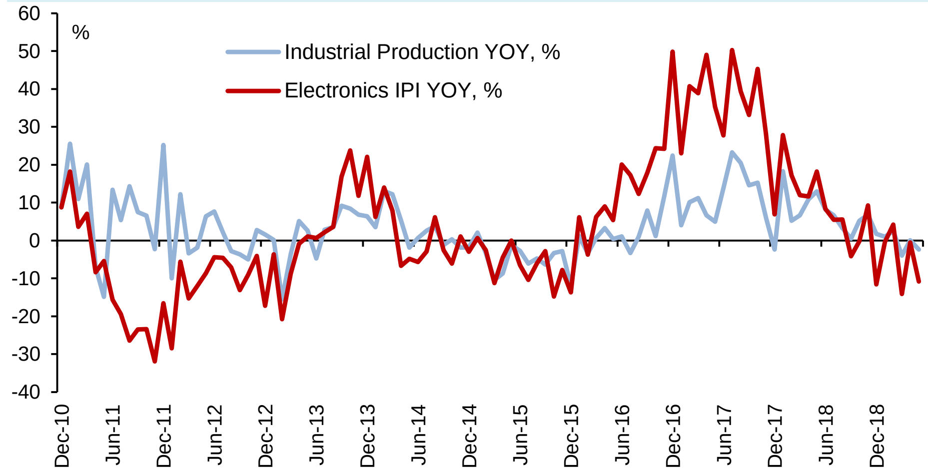


Singapore – Weighed by poor factory productions, exports and consumer spending

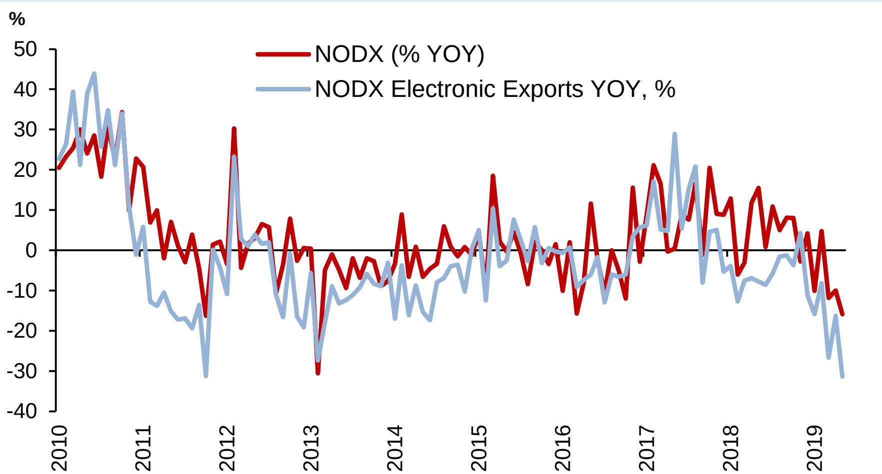
Growth momentum continued to lose traction in 1Q dragged by manufacturing productions.



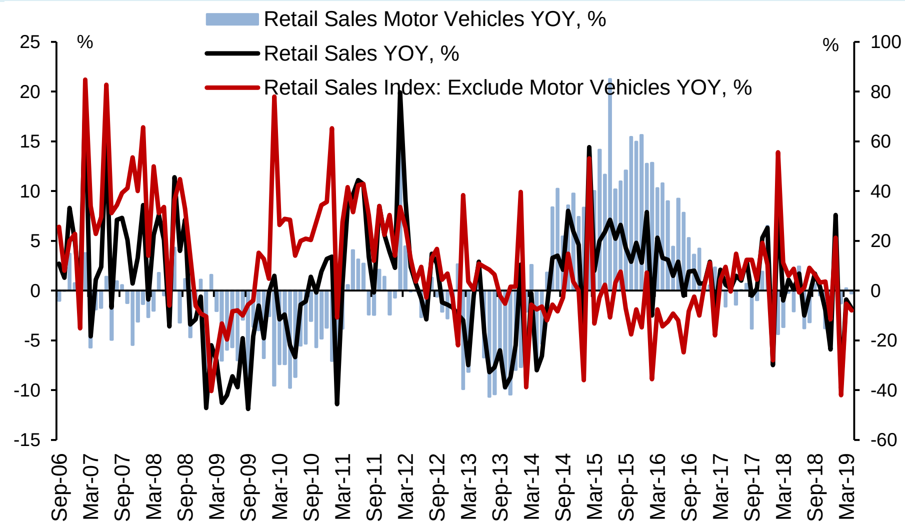
Manufacturing sector in downturn, dragged by weak global electronics demand.



External trade sector weakened further as overseas demand plunged.

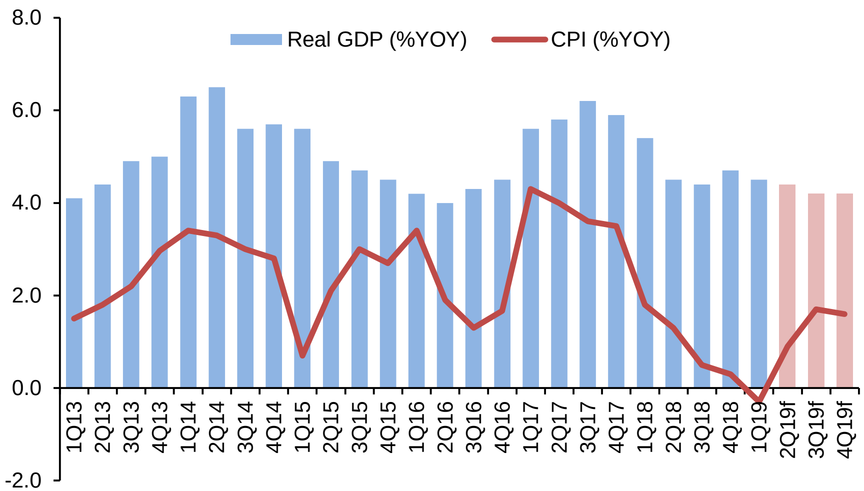


Retail sector underperformed as consumers continued to scale back on spending amid bleak outlook.

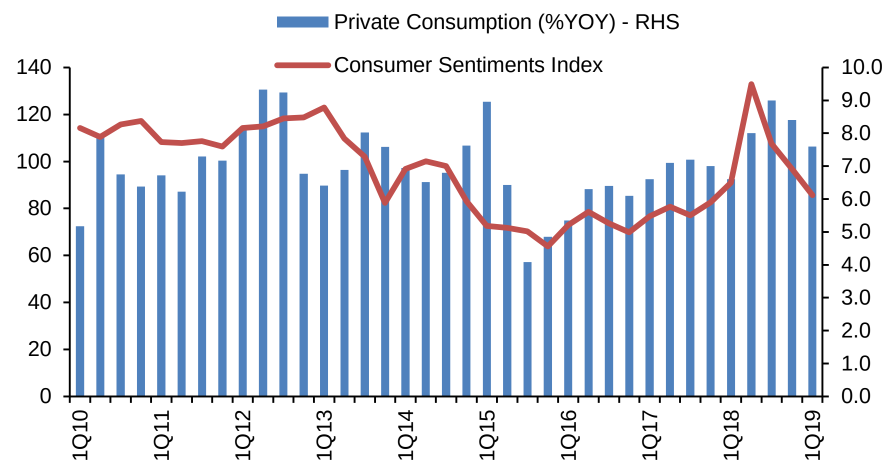


Malaysia – Expect modest growth momentum amidst challenging external environment

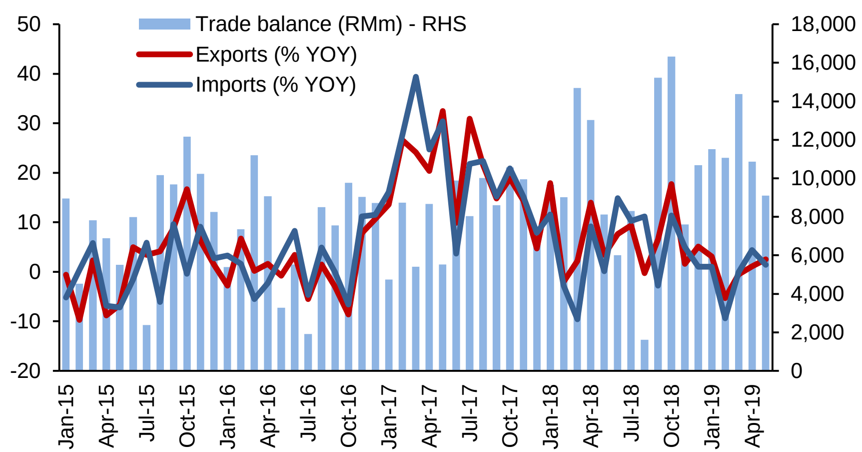
Foresee downside risks to full year 2019 GDP projection at 4.7%; CPI to spike in 2H.



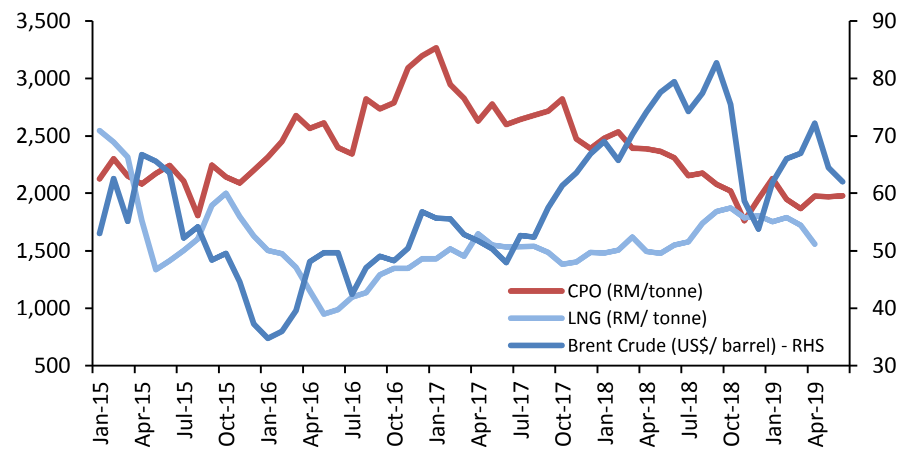
Domestic consumptions to remain the key pillar to overall economic growth.



Turnaround in exports likely unsustainable as trade uncertainties linger.



Brent crude continues to range between $60-$65; CPO prices supported by falling stockpiles.



FX Outlook – 3Q19

Currency	Outlook	Comments
USDMYR	➔	• USD likely to continue to be under pressure as the Fed recalibrates monetary policy to address potential economic slowdown due to trade tensions, keeping MYR supported.
EURUSD	➚	• EUR likely to benefit from the weak USD over potential Fed rate cuts. Although ECB is currently dovish and plans to reintroduce monetary easing, the scale is unlikely to be greater than a Fed rate cut.
GBPUSD	➚	• Expect sterling to remain bullish on overall weak USD. We may start to see weakness only closer to the October deadline if there is a lack of development on Brexit.
USDJPY	➔	• JPY expected to find more support on a subdued USD and softer global growth outlook.
AUDUSD	➘	• Upsides likely limited as RBA remains dovish due to global growth outlook, but could be supported by a lackluster USD and potential monetary stimulus from China.
NZDUSD	➘	• Upsides likely limited as RBNZ remains dovish due to global growth outlook, but could be supported by a lackluster USD and potential monetary stimulus from China.
USDSGD	➘	• SGD is expected to gain on overall weak USD. MAS likely to remain neutral and maintain the slope of SGD appreciation.

Source: Global Markets Research

FX Forecasts

Currency Pair	Close on 28 Jun 19	End 3Q19 closing	End 4Q19 closing	End 1Q20 closing	End 2Q20 closing
EUR/USD	1.1368	1.12-1.14	1.12-1.14	1.13-1.15	1.14-1.16
GBP/USD	1.2693	1.26-1.28	1.26-1.28	1.27-1.29	1.28-1.30
USD/JPY	107.88	107-108	106-107	105-106	104-105
AUD/USD	0.702	0.68-0.70	0.68-0.70	0.68-0.70	0.69-0.71
NZD/USD	0.6717	0.65-0.67	0.65-0.67	0.65-0.67	0.66-0.68
USD/SGD	1.3522	1.34-1.36	1.33-1.35	1.33-1.35	1.32-1.34
USD/MYR	4.13	4.13-4.15	4.12-4.14	4.12-4.14	4.10-4.12
EUR/MYR	4.695	4.67-4.69	4.66-4.68	4.69-4.71	4.72-4.74
GBP/MYR	5.2422	5.25-5.27	5.23-5.25	5.28-5.30	5.29-5.31
AUD/MYR	2.8993	2.85-2.87	2.84-2.86	2.84-2.86	2.87-2.89
SGD/MYR	3.0543	3.06-3.08	3.07-3.09	3.07-3.09	3.08-3.10

Source: Bloomberg, Global Markets Research

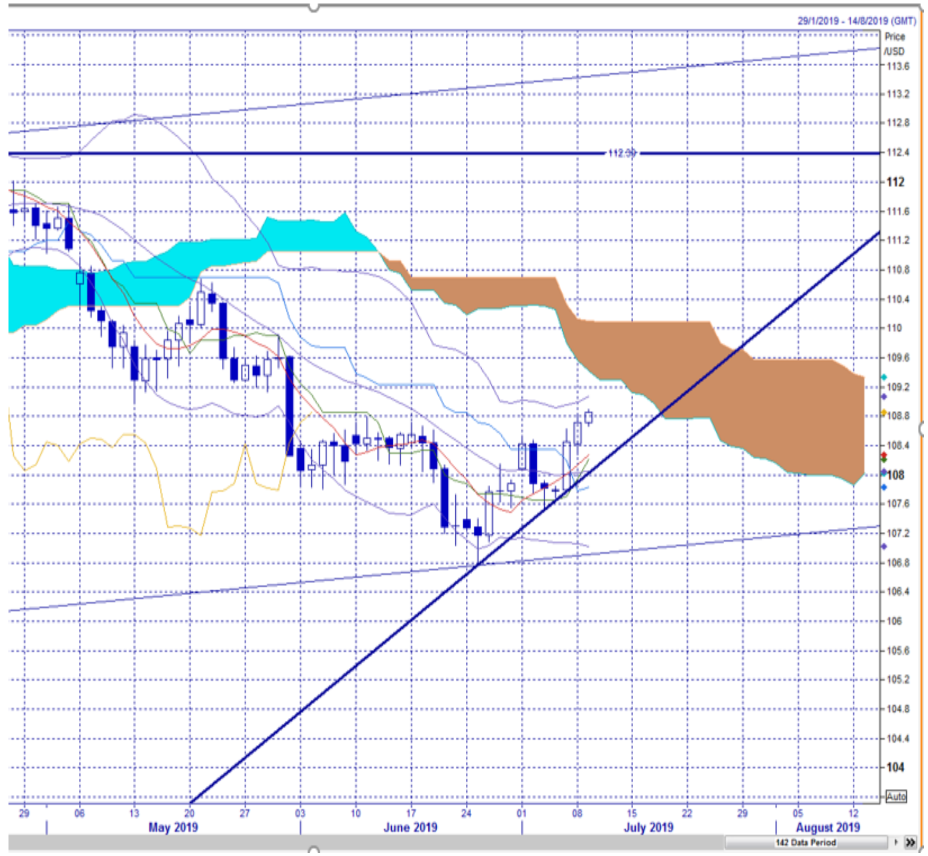
FX Technical Analysis

GBPUSD: Chart suggests a downward move with the pair moving to threaten 1.2441 YTD low. Lead indicators suggesting more downside towards 1.20. (1.1979 low last Jan 2017)

Resistances: 1.2526, 1.2624, 1.2783
Supports: 1.2400, 1.2368, 1.2111

USDJPY: Bullish in line with UST yields. Ichimoku Cloud to act as short term resistance ahead of FOMC. 109.58 acting as 50% Fibo retracement level from 112.39 to 106.77 as short term upside target.

Resistances: 108.98, 109.58, 110.11
Supports: 108.40, 107.70, 107.20



** updated on 10 July 2019*
Source: Refinitiv, Global Markets Research

Fixed Income

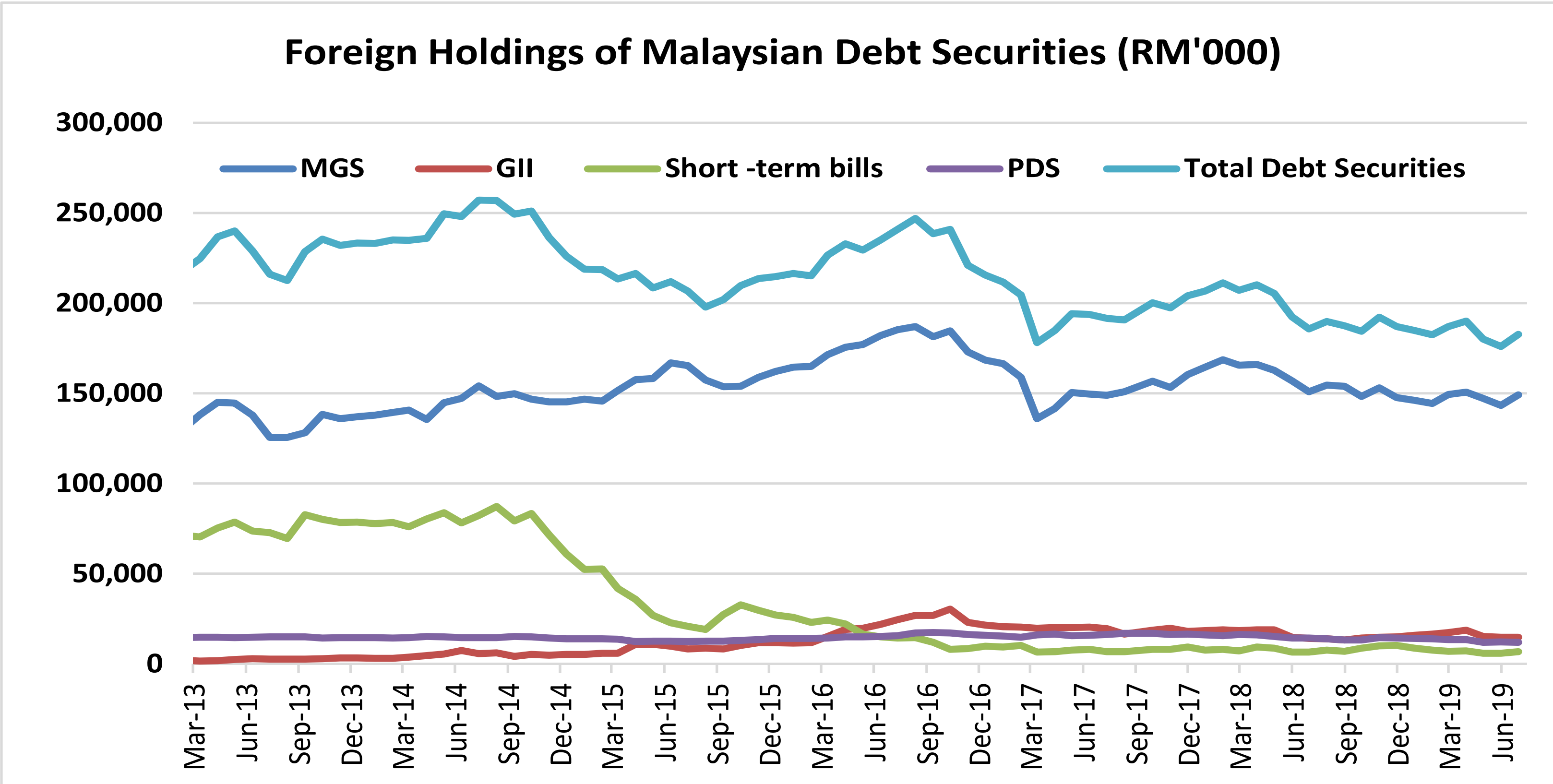
- Average MGS/GII BTC ratios eased to ~2.55x in 2Q 2019 (Both 1Q 2019: 2.70x and overall YTD 2019: 2.68x) amid safe-haven bids for US assets due to dovish interest rate views.

- Gross MGS/GII supply maintained at RM116.0bn with RM71.0bn (61.2%) issuances completed mostly by real money onshore investors

MGS/GII issuance pipeline in 2019

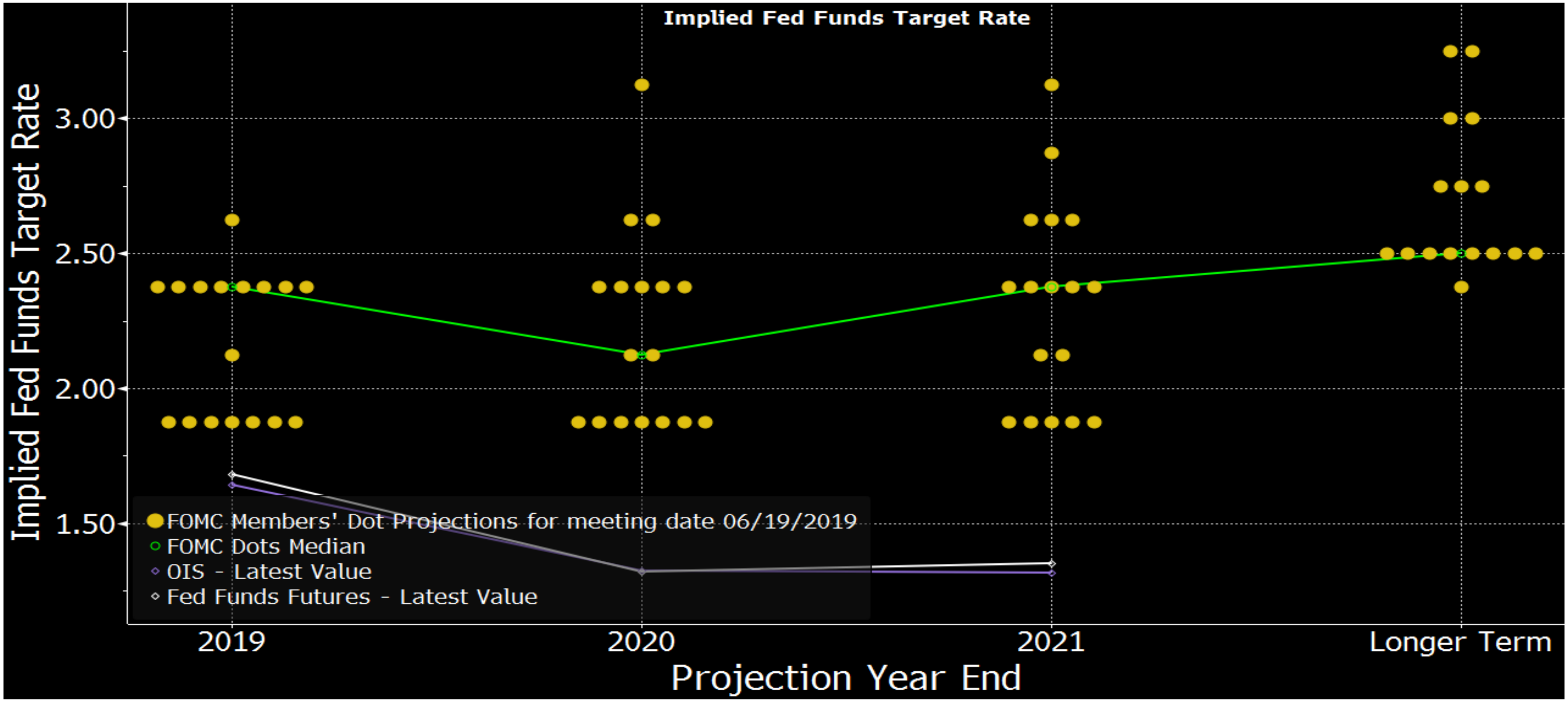
No	Stock	Tenure (yrs)	Tender Month	Quarter	Tender Date	Projected Issuance Size (RM mil)	Actual Auction Issuance (RM mil)	Private Placement	Amt Issued YTD	BTC (times)	Low	Average	High	Cut-off
1	10.5-yr New Issue of GII (Mat on 07/29)	10	Jan	Q1	8/1/2019	4,000	3,500	1,500	3,500	4.067	4.110	4.130	4.135	86.1%
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	3,500	500	38,000	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	40,000	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		44,000	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		2,500	1,500	46,500	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		50,500	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	52,500	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		56,000	3.437	3.805	3.828	3.835	73.5%
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					100,000		15,000						

Monthly foreign holdings of MYR bonds lower @ RM183b as at end-June 2019 vs RM190.0b @ end-March



Foreign holdings of MYR government bonds i.e. MGS + GII + SPK fell QOQ. The outflows (especially in April and May) from the recent YTD peak of RM169.4b @ Mar-19 to RM163.8b @ June-19 was due to triple whammy concerns (potential exclusion from Norweigian Sovereign Wealthfund, FTSE Russell WGBI, and negative rating comment) as well as dovish Fed amid global growth concerns emanating mainly from ongoing US-China trade conflicts. MGS foreign holdings fell by a mere RM1.5b from end-Mar to RM149.2b as at end-June (i.e. 36.9% of total outstanding MGS bonds) whilst GII dropped by RM4.0b to RM14.7b for the same period (i.e. 4.4% of outstanding GII bonds).

Fed dot plot continues to signal a pause for 2019 while futures prices in more than two rate cuts



Source: Bloomberg

The June 2019 FOMC meeting left rates unchanged as expected but opened the door for a rate cut by removing the "patience" stance. (Compare this with fast pace of tightening seen in 2018 which included four (4) official hikes of 25bps each in March, June, September and December 2018 and the subsequent abrupt change from two (2) hikes to none for 2019). This is mainly due to softer global growth outlook, that is punctuated by trade conflicts and global policy shift; along with slower momentum in inflation. Meanwhile the Fed's monthly balance sheet reduction will be unwound at end-Sep 2019 by another $35b per month in May through September (an additional $175b); allowing it to scale back from ~$3.83 trillion currently to a targeted level of $3.7 trillion by Sep-2019.

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<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>
The UST rally extended in 2Q 2019 amid a steeper UST yield curve; depicted by substantial increase in the 2Y10Y spread and 5Y30Y spreads from 14bps to 26bps and from 58bps to 76bps respectively. The 2Y (1.76%) closed at the lower range of the wide 1.73-2.41% range; likewise the 10Y (2.01%) rallied a massive 40bps QOQ moving within a range of 1.95-2.59% levels. Investors are aware of signals from strong US economic data i.e. solid jobs data (i.e. NFP) and tepid inflationary conditions. However, although ISM manufacturing data remains steadfast; the rate of change is seen stalling. The global rates asset class has benefitted from safe-haven bids ignited by shifts in global trade uncertainties. It remains to be seen if and when a re-pricing emerges from fresh data that validates a stable economy and omits the somewhat over-dovish view by investors. As mentioned earlier, the ongoing Fed's balance sheet reduction (until September) together with the earlier $1.5 trillion tax reduction package and $300b of additional stimulus are ongoing operations that have not weighed on the curve at all due to limiting supply. The 10-year UST may rise but find good support at 2.30% levels for this quarter. The downside to our forecast are the unresolved US-China trade barriers, geo-political flares (eg US-Iran, US-North Korea), potential Fed rate cuts for 2019, aggressive activities of real money investors (i.e. lifers, pension funds, SWF's) that are able to absorb and address supply concerns especially on the long-end. The medium-term maturities for 3Q still potentially offer better risk-reward posture
<u>Corporate</u>
The spillover to US Corporates i.e. High Yield (HY) i.e. junk bonds and Investment Grade (IG) was evident with strong investor appetite; maintaining premiums at ~310bps spread as at end 2Q2019 amid lingering trade tensions. The Bloomberg Barclays US Corporate High Yield Total Return Index (for HY) produced a magnificent return of +2.3% q-o-q and 10.3% YTD. Total issuance through 1H2019 has run ~15% ahead of year-ago levels at $139b, including $5.6b in Perpetuals. The Bloomberg Barclays US Corporate Total Return Value (for IG), narrowed further from 119bps (1Q2019) to 114bps (2Q2019) spread over UST's; the lowest since April 2019 and averaged returns of +5.3% q-o-q and 10.2% YTD. Foreign investors who had opted not to hedge their currency risks would have benefited the most as the dollar strengthened. IG pipeline for the coming quarter is ramped up with many potential deals including 3-10Y tenures by giant Panasonic Corporation potentially to be rated A3 by Moody's and A- by S&P. Despite the late cycle in credit; we are positive on IG issuances as credit fundamentals look ok with decent interest coverage. The funding environment continues to improve as interest rates drop and spreads grind tighter in response to the dovish FOMC. Meanwhile, we prefer to avoid the HY sector due to potential stretched balance sheets despite a rather quiet maturity calendar (just $9b due in 3Q2019 or ~$20b for 2H2019).</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 maintained its earlier pause in the Fed Funds Rate in 2Q 2019. However it has left itself plenty of room to manoeuver by removing its "patient-stance" after having left its benchmark rates between 2.25-2.50% on 19th June. Future adjustments to monetary policy would likely to be data-dependent and it would closely monitor the economy in the light of waning inflation and growing "uncertainties'. Our house projection is calling for one (1) rate cut in 3Q and/or for the remainder of 2019.</td><td>Yield curve has now been inverted for a full month, cementing expectations for a grim economic outlook. The 3-month versus 10-year spread is at its widest and closely watched by investors and policymakers. This inverted stance especially on the front-end is understandably due to central bank policy that has kept interest rates exceptionally low since the 2008 financial crisis.</td></tr>
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<tr><td rowspan="4">Singapore</td><td colspan="2">Maturity Preference</td><td rowspan="4"><u>Sovereigns</u>
The SGS yield curve which tracks UST's rather closely saw a steepening-bias pivoted at the 15Y, with the short 2Y moving aggressively 26bps lower at 1.64% whilst the 5-10Y yields rallied between 8-16bps lower. The closing levels for 2Q2019 were: 5Y @ 1.76%; 10Y @ 1.99% whilst both the 20Y and 30Y were 3-4bps slightly higher @ 2.39% and 2.57% respectively. Local sovereigns have however underperformed most of its global peers for the quarter under review; returning a mere 0.7% since March. Despite decent economic data out of US and the present elimination of rate hikes; we believe that Singapore authorities see growth easing to slightly below the midpoint of a 1.5-2.5% range this year, as back to back decline in PMI data (which covers manufacturing, construction and services) may end a rally in SGD. With inflation remaining benign and global trade and tech slump hanging over 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. Hence SGS may continue to benefit as concern over slowing global growth spurs demand for safe-haven assets. Note that Singapore is one of only 10 sovereign markets with AAA ratings from all three rating agencies, and its 5Y and 10Y notes offer one of the highest yields among the ten.

<u>Corporate</u>
Despite the potential impact of the U.S.-China trade war which is a risk to the global economy, the regional economies are temporarily expected to take advantage and benefit from re-routing of manufacturing orders/ supply chains. Nevertheless several credit defaults in Singapore since 2016 (i.e. Hyflux Ltd, Swiber Holdings, Ezra Holdings Ltd's etc) has affected many retail investors as lending conditions adjust to the economic slowdown. The lower 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. With US rates skewed towards the lower side, expect demand for duration to improve along with the hunt for yield-carry outlook. Hence, we revise our earlier stance from short to medium term duration to enhance returns. Nevertheless, exposure to recent surge in Perps are to be cautioned in terms of callable features etc. Investors are advised to monitor narrowing credit spreads as global trade issues may plague corporates and stretch credit metrics. as SGD shorter-duration and high-quality bank credits may be beneficial. We prefer Investment-grade or quality credits on names such as F & N, Oxley Holdings Ltd, Fraser's Property ltd and UOB (Note it has recently embarked on a 10NC5 USD Bond). Separately, the National Savings Bond are now deemed to face competition from bank deposits.</td></tr>
<tr><td colspan="2">Duration medium-term</td></tr>
<tr><td>Policy Rate</td><td>Yield Curve</td></tr>
<tr><td>Possibility emerges for MAS to ease monetary policy in October which could cause the current SGD NEER (~1.6-1.8% above mid-point) to soften from its current position at the top of the policy band to support economic growth due to external headwinds. Expect higher short-end rates if the fallout from a weaker SGD emerges. Meanwhile Singapore's inclusion in the US Treasury currency monitoring list will be closely tracked.</td><td>SGS curve is expected to maintain steeper bias instead with the front-end poised to yank lower yield-wise. Expect the SGS to continue track movement in UST yields.</td></tr>
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<tr><td rowspan="5">Malaysia</td><td colspan="2">Maturity Preference</td><td rowspan="5"><u>Sovereigns</u>
Local govvies rallied between 8-25bps across the curve; led by the mid to long-end for the quarter under review as the MYR sovereign curve continued to see yields decline sharply lower from March through June amid abundant liquidity and strong participation from local institutional funds as the Fed indicated a pause in its interest rate hike cycle. Values have become less compelling partly due to declining yields and competition with equities. Bonds extending out from 10Y rallied most amid ongoing US-China global trade conflict and rate pause by the Fed. Traders and investors have even predicted a rate cut in the US on the back of global growth concerns and tepid inflation. We continue foresee healthy local institutional demand on the back of stable MYR and comparable EM relative values which have also continued attracting interest from offshore banking institutions in the short and also belly off-the-runs 19-23's. BNM's recent statement on 9th July admitted that monetary policy is accommodative for now. The Samurai bond issuance of ~RM7.4b in March and future potential of a Panda bond issuance will lower overall costs and reduce the remainder of MGS and GII issuances under the auction calendar 2019. The 7-9Y and 20Y MGS space may still offer decent value proposition following the compression in GII bond yields on the curve whilst the 10Y sector slowly retreats from "rich valuations". Expect the 10Y to find decent support at 3.85-3.95% levels (2Q19:3.90%-4.10%)

<u>Corporate</u>
Corporate bonds/Sukuk issuances spiked to RM51.2b as at 2Q19 versus RM26.3b as at end 1Q19. Our projected gross supply for 2019 remains lukewarm between RM85-95b (Actual 2018: RM105b). The ongoing clarity of fiscal measures including the reinstating some of the major infrastructure projects like the Bandar Malaysia, Klang Valley Double Track project and East Coast Rail Link (ECRL) may enable entities such as Gamuda, WCT, IJM, Lafarge, Annjoo, Lion Industries, YTL, George Kent, Econpile, Prestar, MRCB to participate actively. Trading activities for corporate bonds also spiked further to circa RM740m daily (2Q19:RM440m) with interest skewed mainly towards the GG-segment followed by the AAA-AA part of the curve as portfolio managers maintained their interest up to the AA-part of the credit curve; causing yields to drop between 15-35bps. We continue to like both the AAA and the AA-space due to both liquidity and inelasticity feature that helps cushion levels compared to GG bonds. The utilities and energy-related under names like TELEKOM, TENAGA, JEP, SEB, JEP, MALAKOFF along with resilient toll-related companies like PLUS, and target of takeover issuers i.e. LITRAK, GAMUDA, KESAS are seen to also provide higher yield-carry than GG bonds with strong cash-flows. Some values exist within the 2-3Y and 7Y AAA-AA sector amid decent spreads of +50 to +80bps for this part of the yield curve and provides better value than Govt-guaranteed bonds which have outperformed YTD and compressed to a mere 10-18bps spread over MGS bonds partly due to limited supply coming on-stream.</td></tr>
<tr><td colspan="2">Duration neutral</td></tr>
<tr><td>Policy Rate</td><td>Yield Curve</td></tr>
<tr><td>The 25bps cut in OPR to 3.00% in May was expected as per our projection.
Subsequently, OPR was maintained at 3.00% at the July MPC meeting as monetary policy remains accommodative while BNM continues to monitor risks to domestic growth and inflation.
Expect 2Q2019 GDP growth to be a tad lower at 4.4% (1Q2019: 4.5%), and foresee downside risks to our full year GDP growth of 4.7%.</td><td>Slightly flatter yield curve expected on positive duration requirements. Potential values seen in 7-9Y and 20Y MGS. The 5Y space for Govt-guaranteed bonds still exhibits decent valuations while the AAA-AA rated Corps/Sukuk along the belly i.e. 2-3Y and 7Y tenures still have some yield pick-up.</td></tr>
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