Hong Leong Bank

Quarterly Market Outlook 3Q2020

Global Markets

July 2020

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Global Growth Outlook

Real GDP (% YOY)	Latest 2 Quarters		Actual	Forecast		Forecast (official)	
	4Q19	1Q20	2019	2020	2021	2020	2021
World	-		2.9	-3.7*(-1.0)*	**5.1** *(3.6)*	**-4.9** *(-3.0)*	**5.4** *(5.8)*
DM/ G10	0.8	-3.3	1.7	**-6.1** (-1.3)	**4.3** *(2.2)*	-	-
US	2.3	0.3	2.3	**-5.6** *(-3.0)*	**4.1** *(3.3)*	**-6.5** *(-5.9)*	**5.0** *(4.7)*
Eurozone	1.0	-3.1	1.2	**-8.1** *(-3.4)*	**5.4** *(2.5)*	***-8.7*** *(-7.5)*	***5.2*** *(4.7)*
UK	1.1	-1.6	1.4	**-8.2** *(-2.9)*	**5.7** *(2.3)*	**-14.0** *(-6.5)*	**15.0** *(4.0)*
Japan	-0.7	-1.7	0.7	**-4.9** *(-2.2)*	**2.5** *(1.4)*	**-4.0** *(-5.2)*	**3.4** *(3.0)*
BRICs	4.9	-4.1	5.2	**0.8** *(2.6)*	**5.4** *(5.5)*	-	-
China	6.0	-6.8	6.1	**1.8** *(3.0)*	**8.0** *(6.5)*	-	-
India*	4.1	3.1	6.1	**4.2** *(4.9)*	**-4.5** *(5.2)*	-	-
Asia ex-Japan	5.0	-3.8	5.3	**1.3** *(3.1)*	**5.5** *(5.6)*	-	-
EMEA	3.1	1.9	2.5	**-4.6***(0.5)*	**3.6** *(2.7)*	**-**	**-**

Source: Bloomberg, official sources
Figures in ( ) are previous forecasts
**FY ending Mar-20 and Mar-21 respectively*

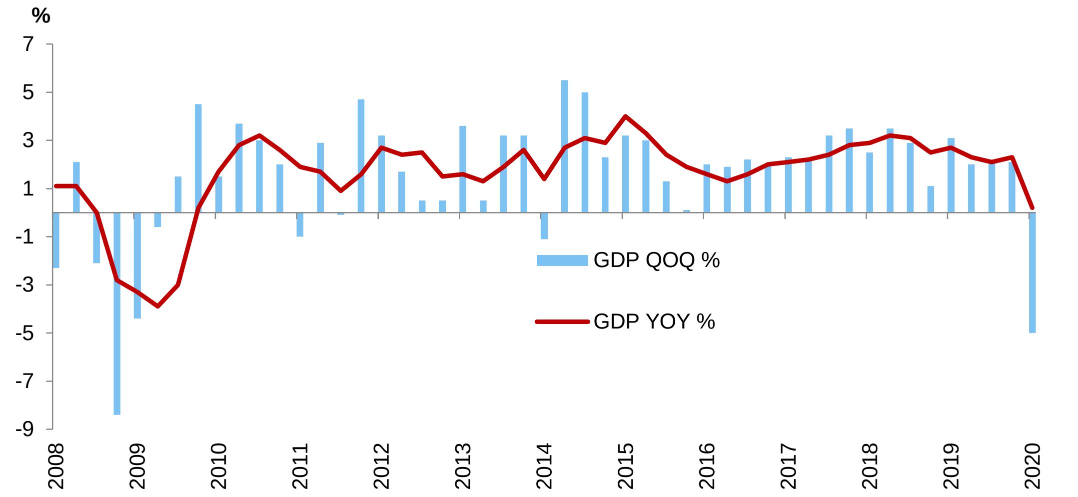
Global Central Banks Policy Rates Outlook

	Current	3Q20	4Q20	1Q21	2Q21	Remarks
United States Federal Reserve *Fed Funds Rate*	**0-0.25**	0-0.25	0-0.25	0-0.25	0-0.25	**No further cut in 2020**
Eurozone European Central Bank *Deposit Rate*	**-0.50**	-0.50	-0.50	-0.50	-0.50	**No cut in 2020**
United Kingdom Bank of England *Bank Rate*	**0.10**	0.10	0.10	0.10	0.10	**No further cut in 2020**
Japan Bank of Japan *Policy Balance Rate*	**-0.10**	-0.10	-0.10	-0.10	-0.10	**No cut in 2020**
Australia Reserve Bank of Australia *Cash Rate*	**0.25**	0.25	0.25	0.25	0.25	**No further cut in 2020**
New Zealand Reserve Bank of New Zealand *Official Cash Rate*	**0.25**	0.25	0.25	0.25	0.25	**No further cut in 2020**
Malaysia Bank Negara Malaysia *Overnight Policy Rate*	**2.00**	2.00	2.00	2.00	2.00	**No further cut in 2020**
Thailand The Bank of Thailand *1-Day Repurchase Rate*	**0.50**	0.50	0.50	0.50	0.50	**No further cut in 2020**
Indonesia Bank Indonesia *7-day Reverse Repo Rate*	**4.25**	4.00	4.00	4.00	4.00	**Further cut in 2020**
Philippines Bangko Sentral ng Pilipinas *Overnight Reverse Repo Rate*	**2.25**	2.00	2.00	2.00	2.00	**Further cut in 2020**

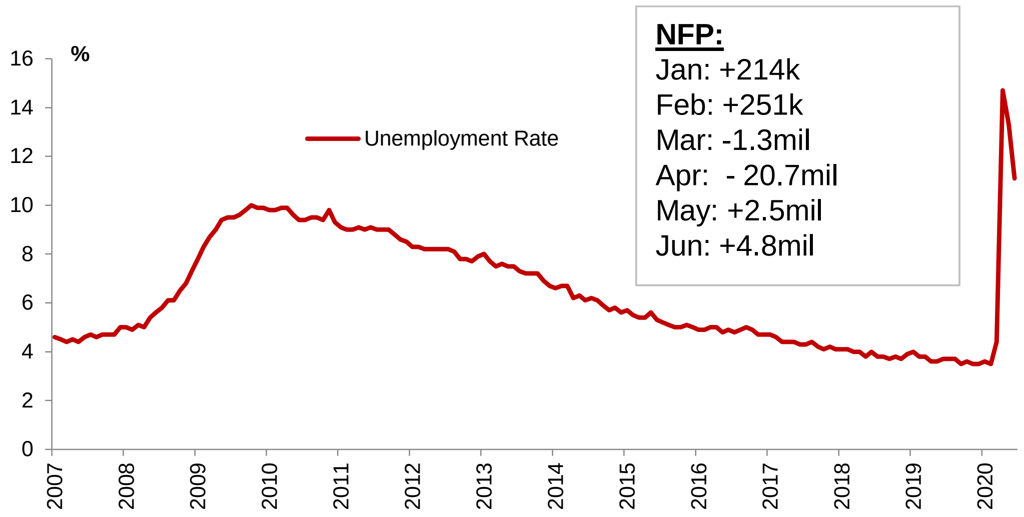
Source: Bloomberg, Global Markets Research

The US – Data rebounding, second virus wave a standing threat

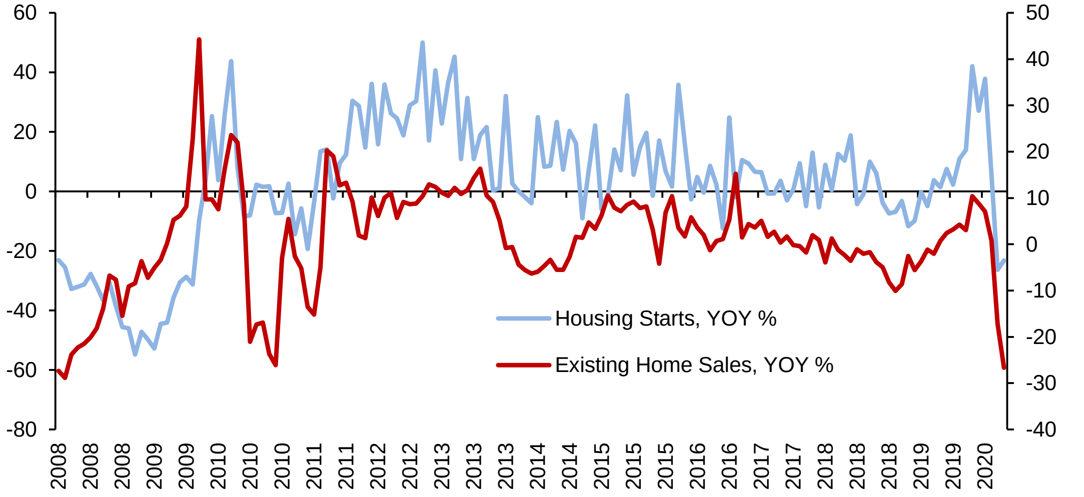
1Q GDP contracted 5% QOQ annualized rate



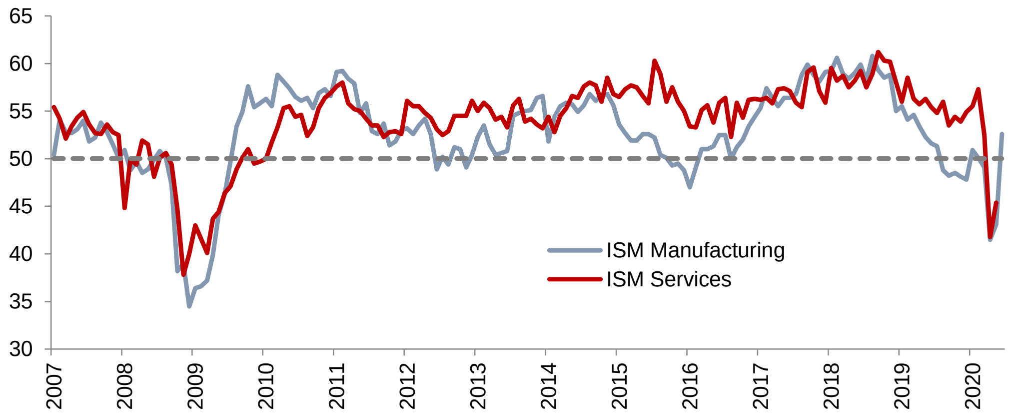
Recovery in job markets remained uncertain



Housing data are resilient; limited inventory sales and overall growth

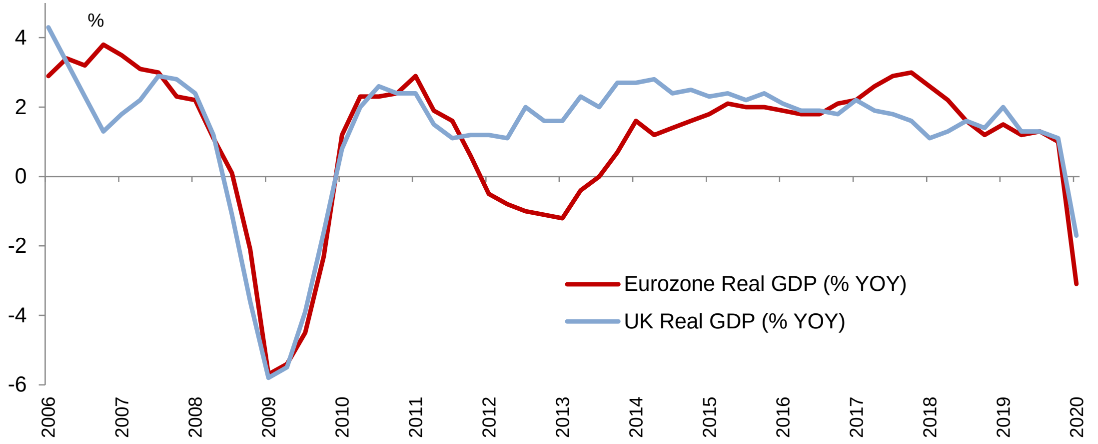


PMI shows rebound in services and manufacturing activities

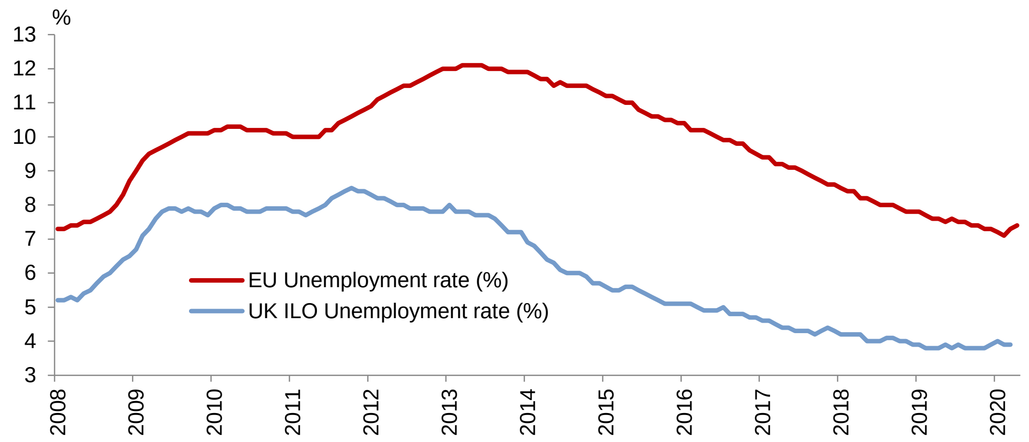


The EU and UK – Equally vulnerable to second waves

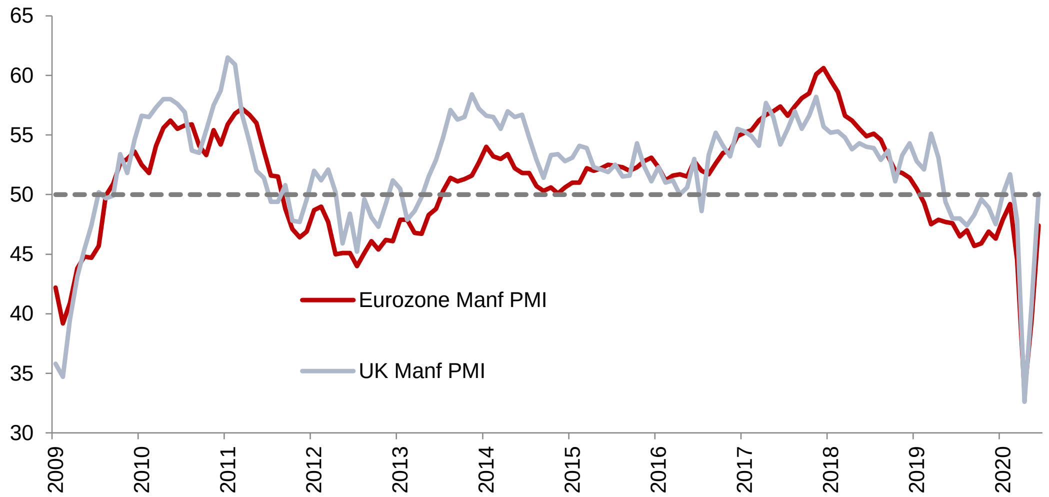
GDP is expected to recover after sharp contractions.



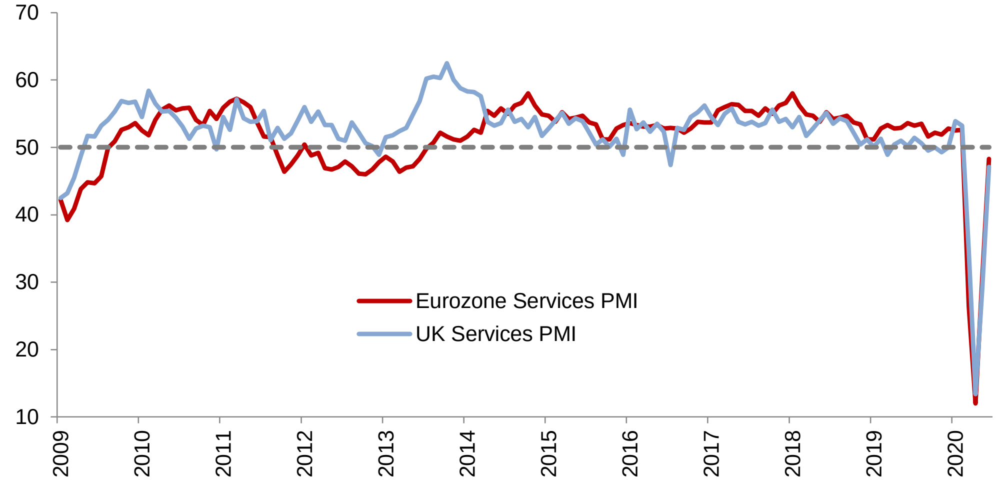
Steady jobless rates thanks to stronger job protection programs



Sharp rebounds observed in manufacturing

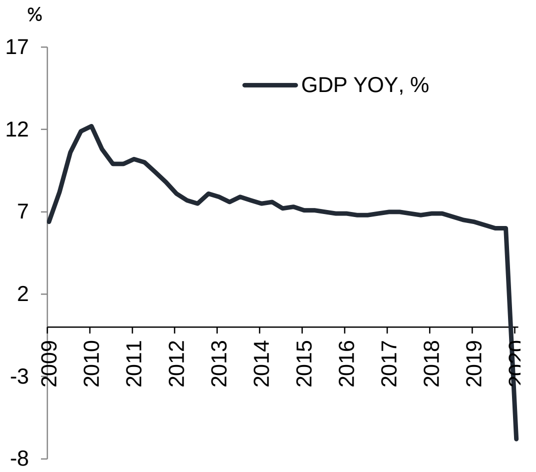


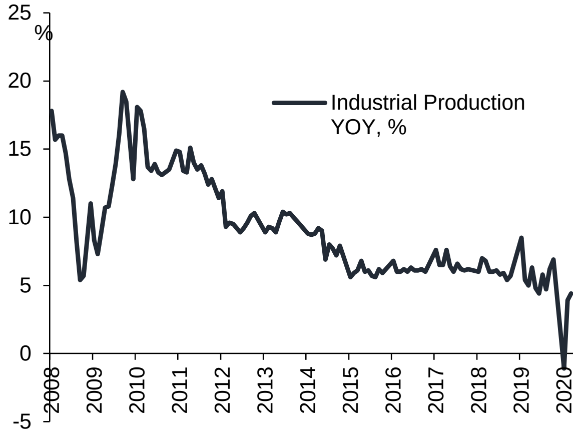
Services saw equally dramatic recovery



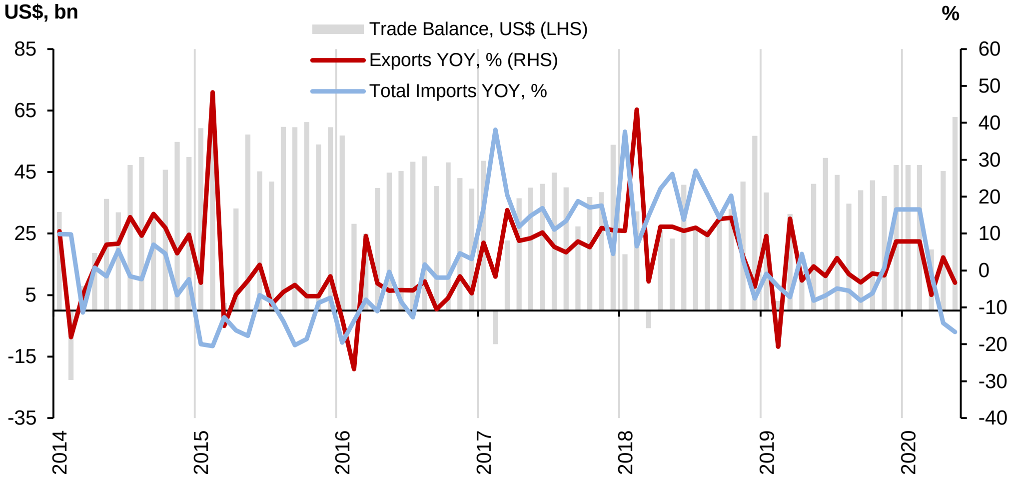
China – Indicators point to rapid recovery; authorities refused to provide guidance

GDP contracted 6.8% in 1Q; indicators are pointing to rapid recovery

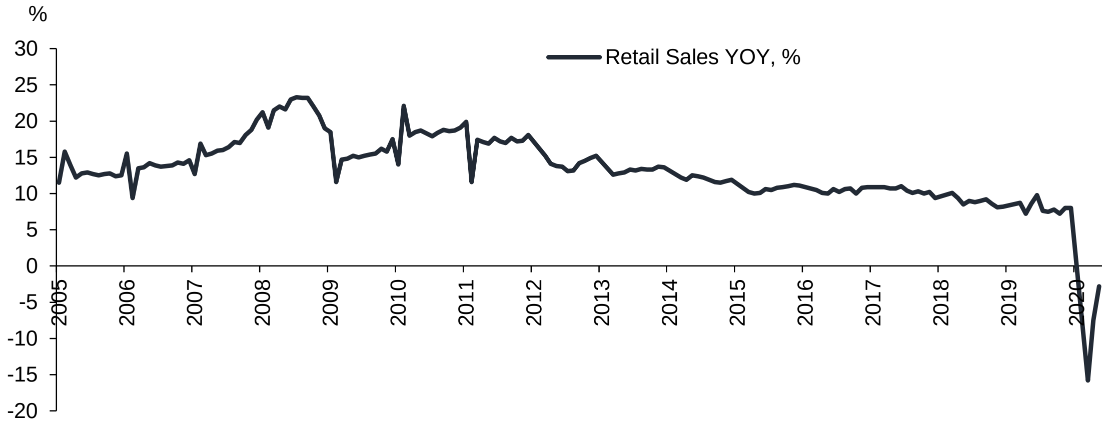




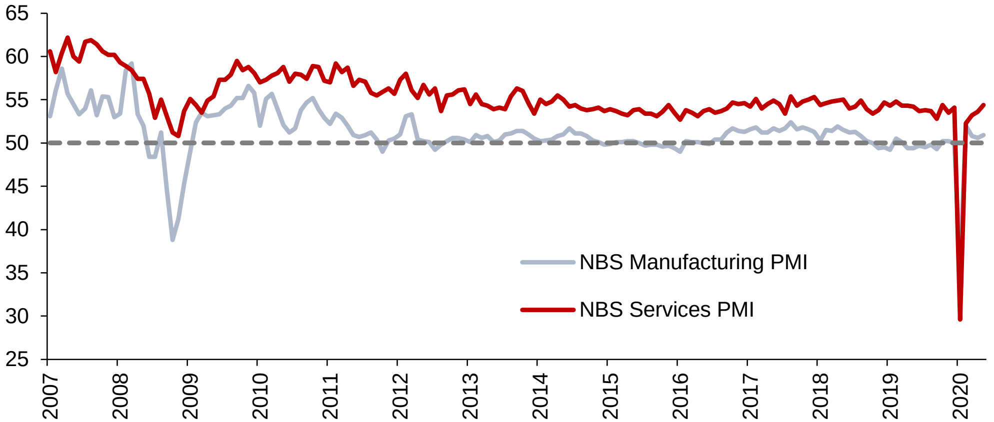
Exports swung between gains and losses while imports recorded double-digit decline as global trade remained battered.



Retail sales are regaining footing but remains weak



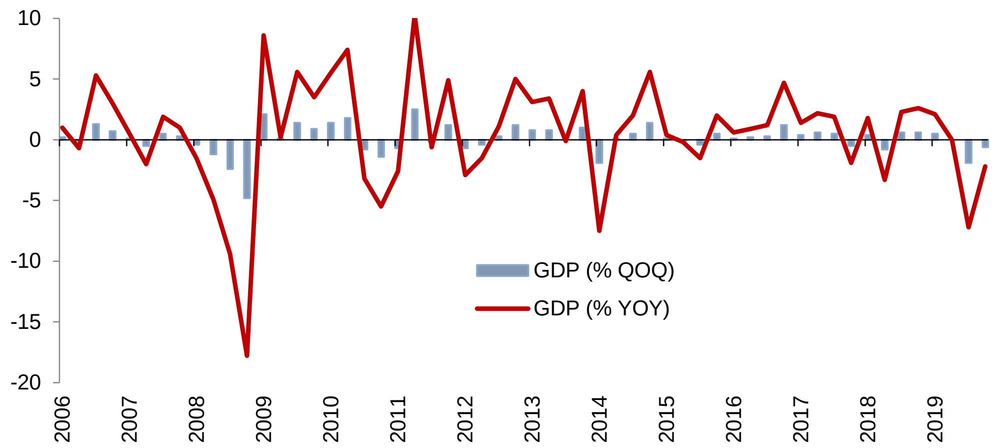
Continuous recovery in services and manufacturing



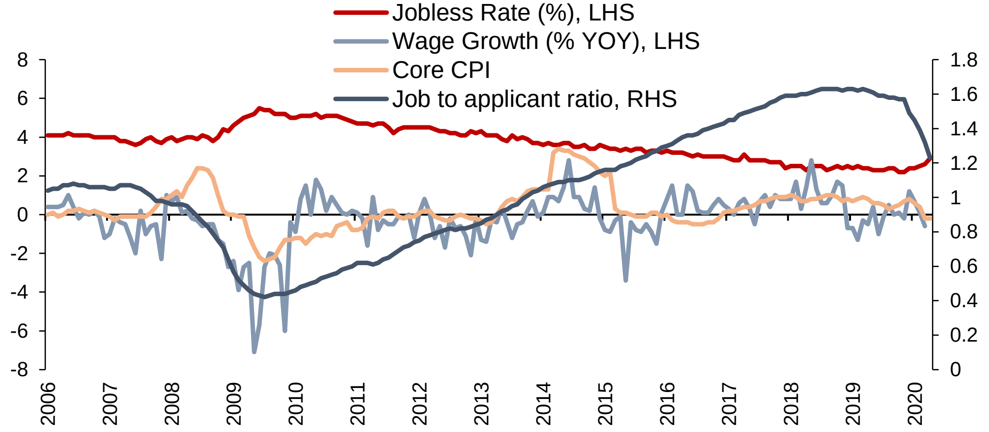
Note: Retail sales, IPI and trade data are for Jan-Feb 2020

Japan — Pandemic strained already fragile economy

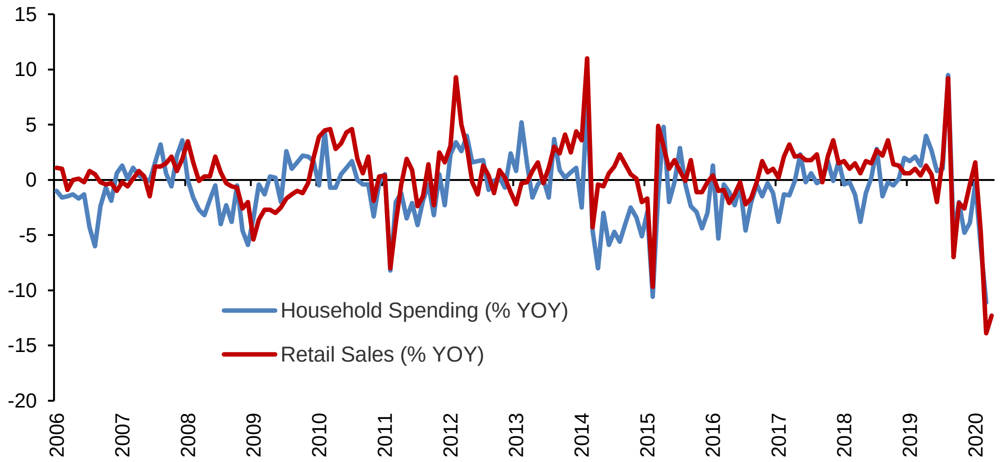
Smaller contraction in 1Q; 2Q may be worse when lockdown imposed



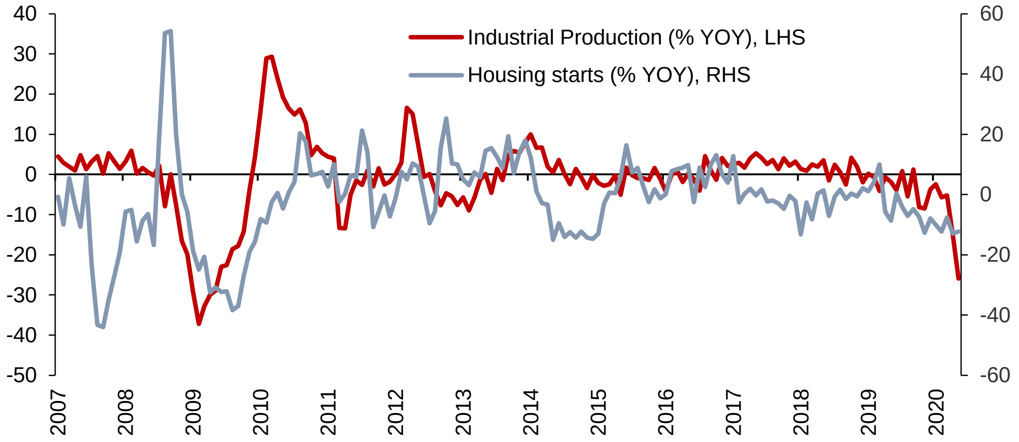
Steady jobless rate thanks to job protection program, labour market remains tight although job availability fell



Spending dived after lockdown started in April

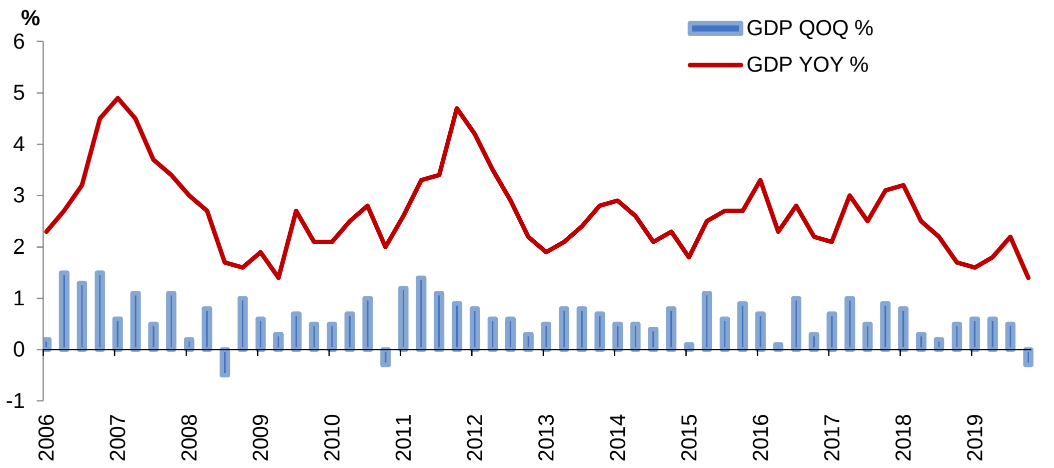


Industrial production extended decline

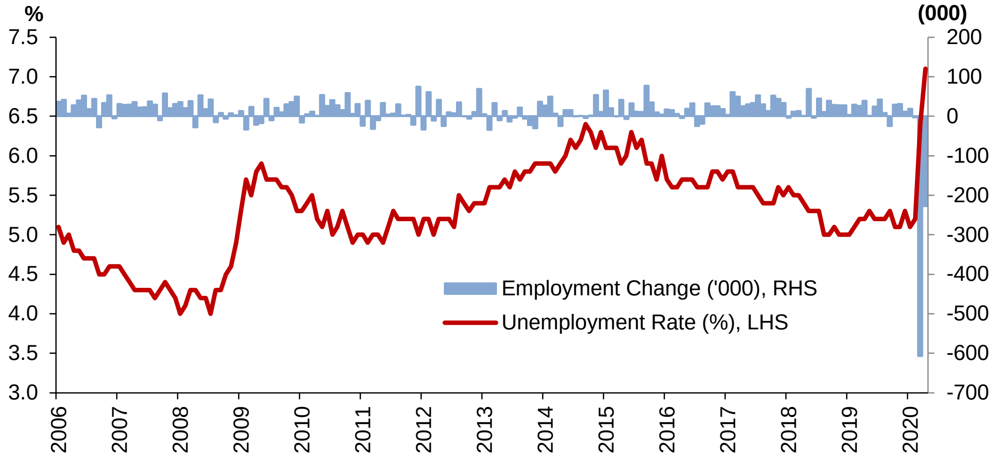


Australia – Recovery expected in 3Q onwards as the economy reopens

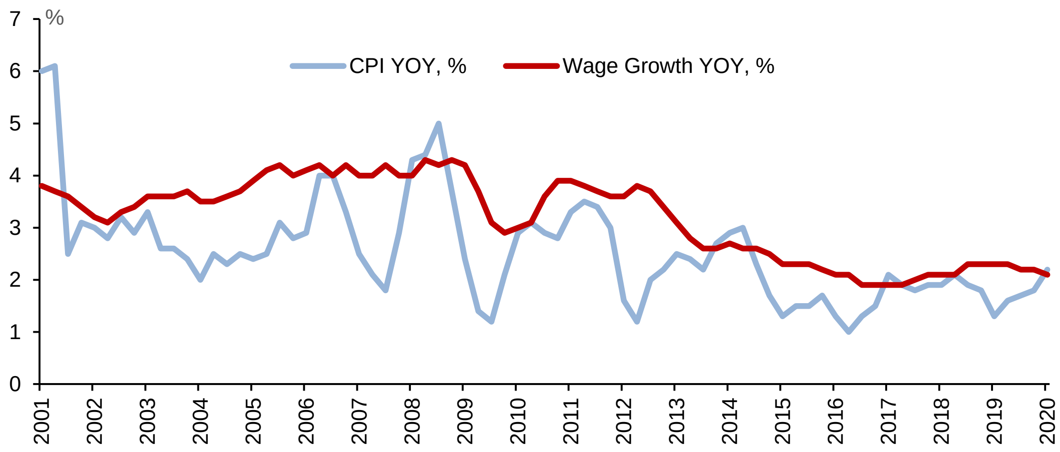
Minor contraction in 1Q GDP as virus was relatively contained



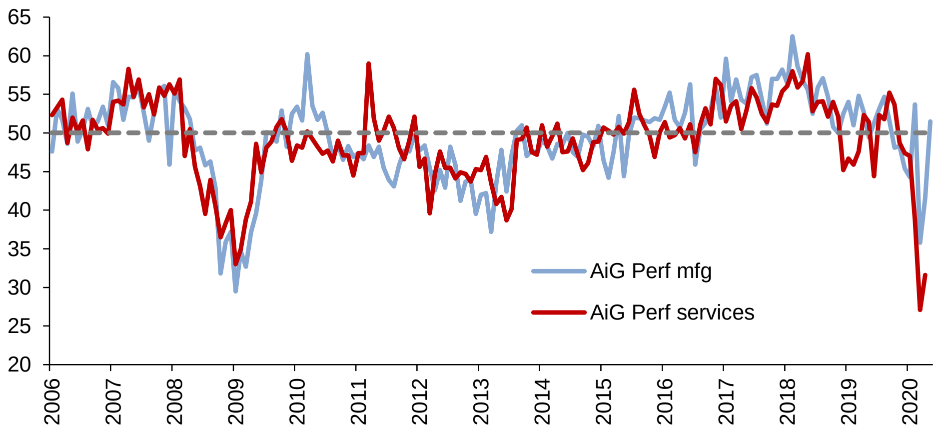
Expect jobs to return in July as economy reopens



Higher inflation on favourable base; subdued wage growth

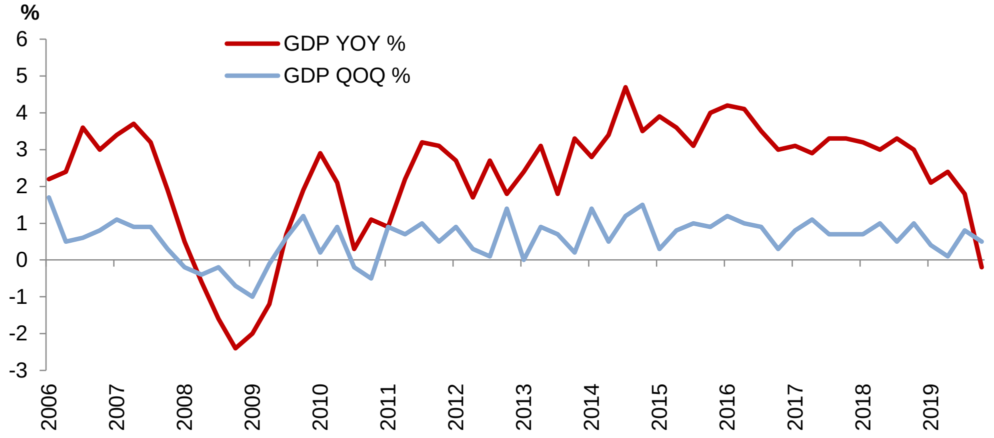


PMIs point to recovery

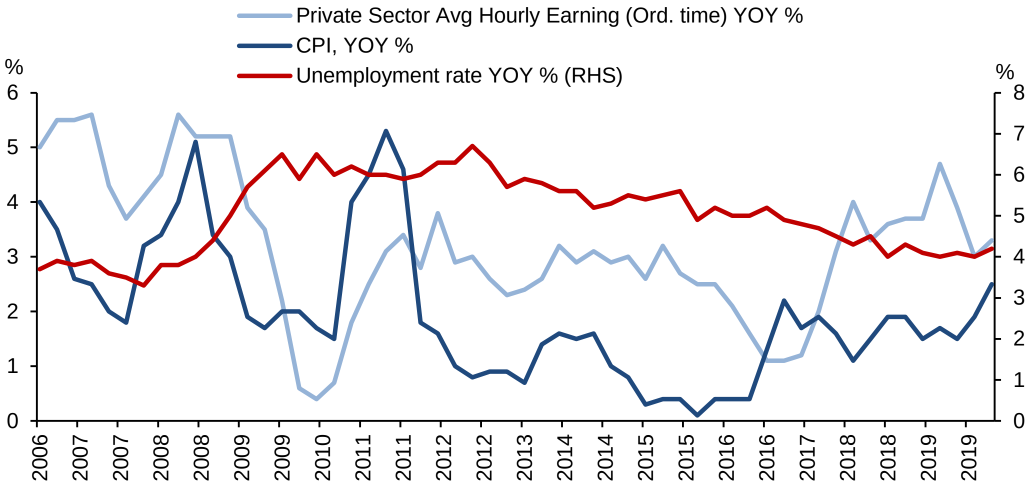


New Zealand — Domestic and trade sector to recover after virus containment

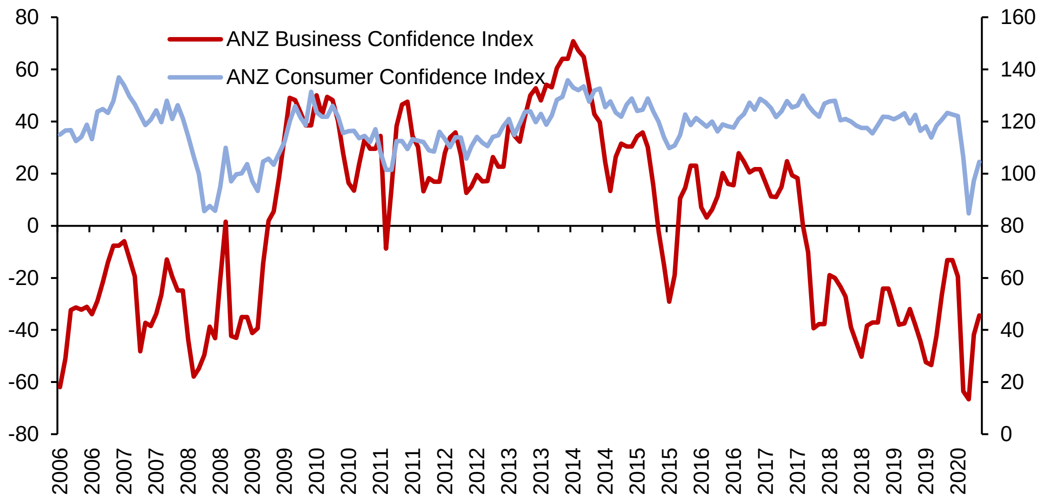
Small contraction in 1Q GDP growth; rebound expected in 3Q



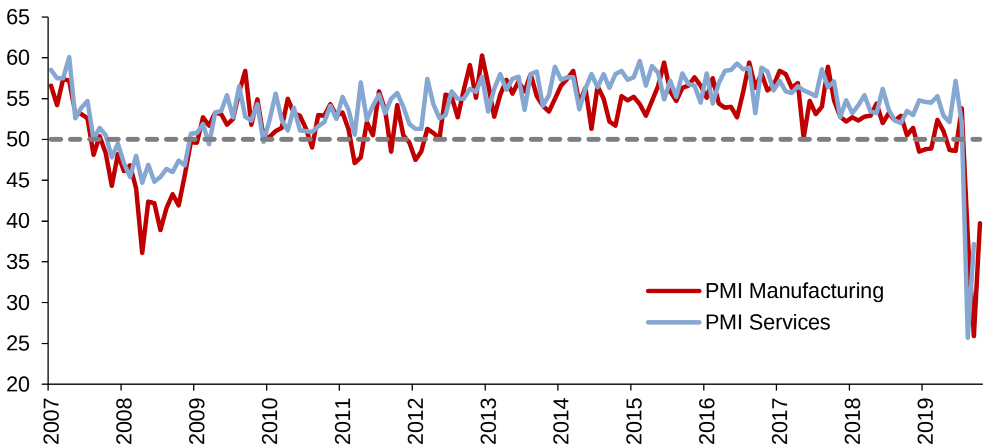
Unemployment rate ticked slightly higher



Mixed sentiments among consumers and businesses

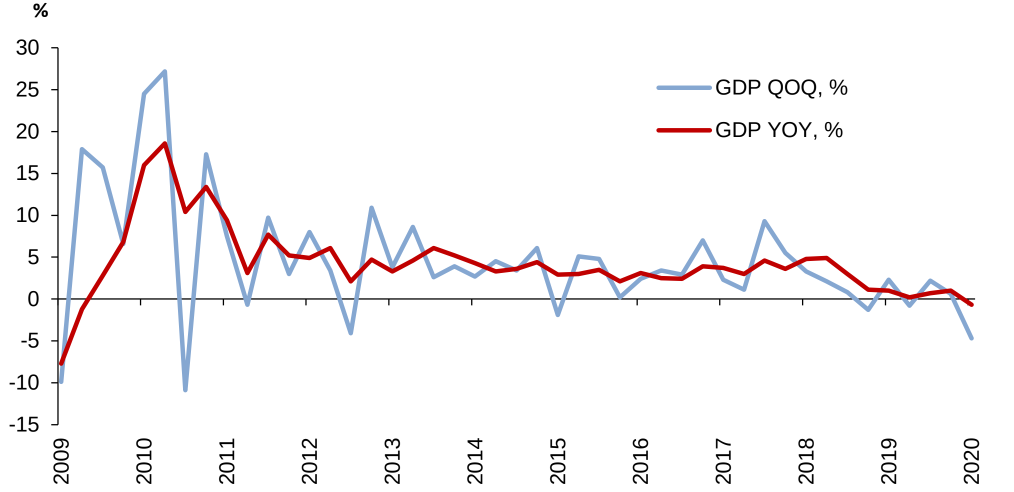


Manufacturing and services recovering but tourism likely to be subdued

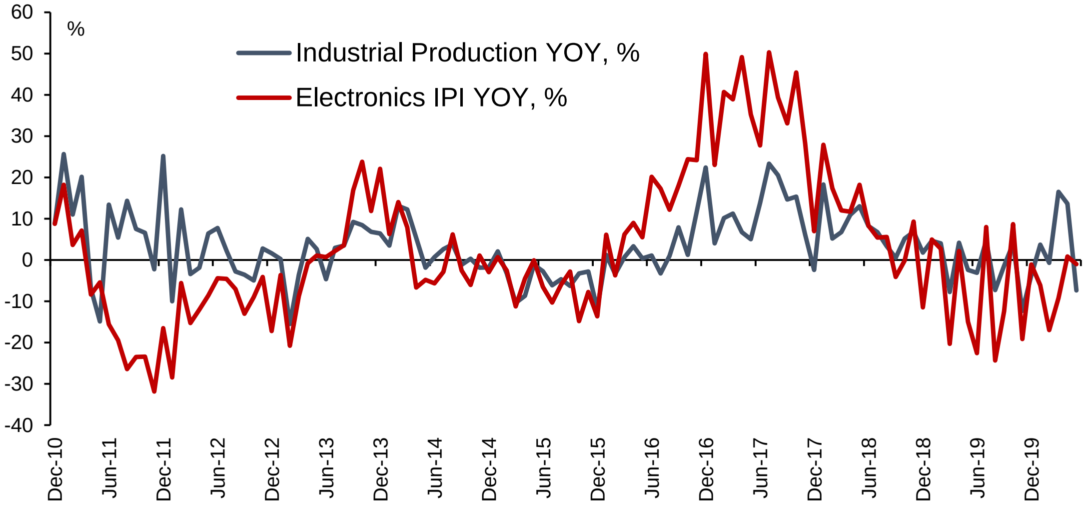


Singapore – Economy to rebound sharply in 2H after collapsing in 2Q, to return to trend level in 4Q

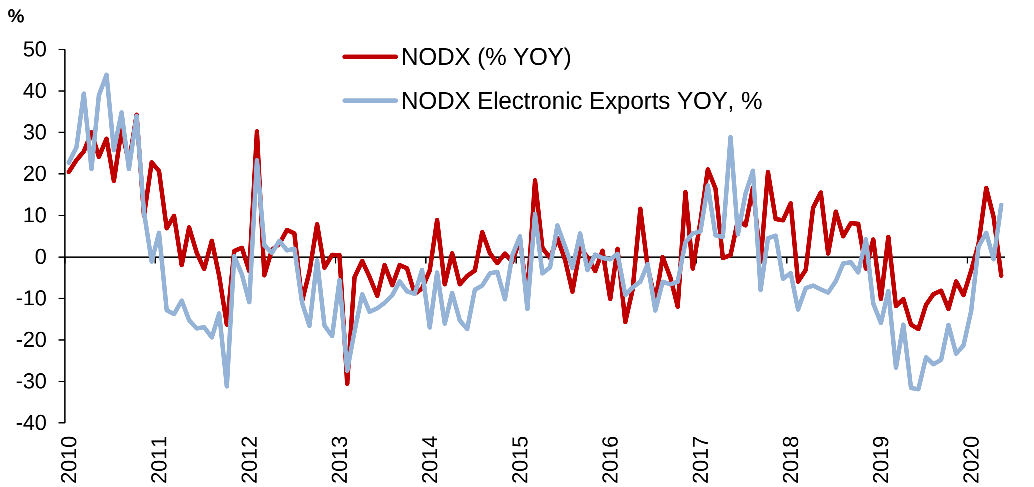
Expect GDP to contract 12.3% in 2Q, -4.8% in 2020



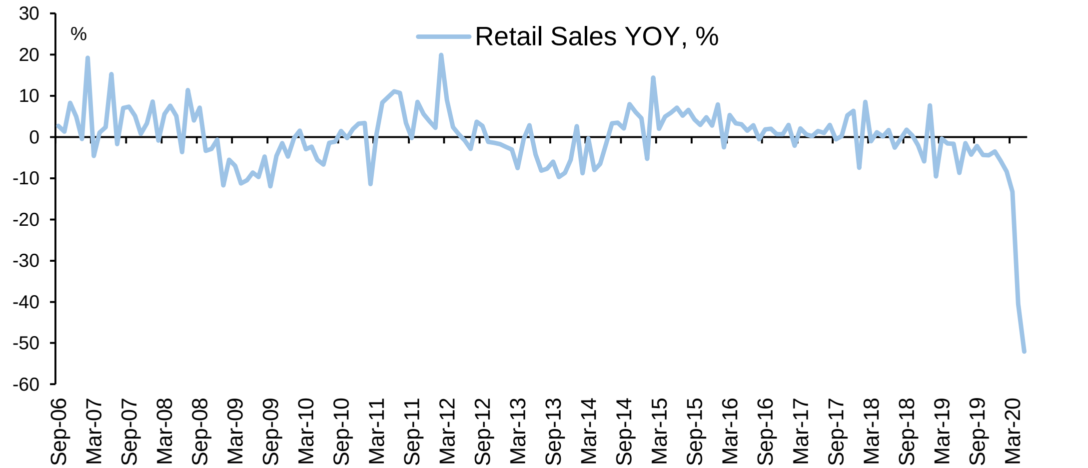
Industrial productions driven by volatile biomedicals



Positive NODX growth thanks to favourable base

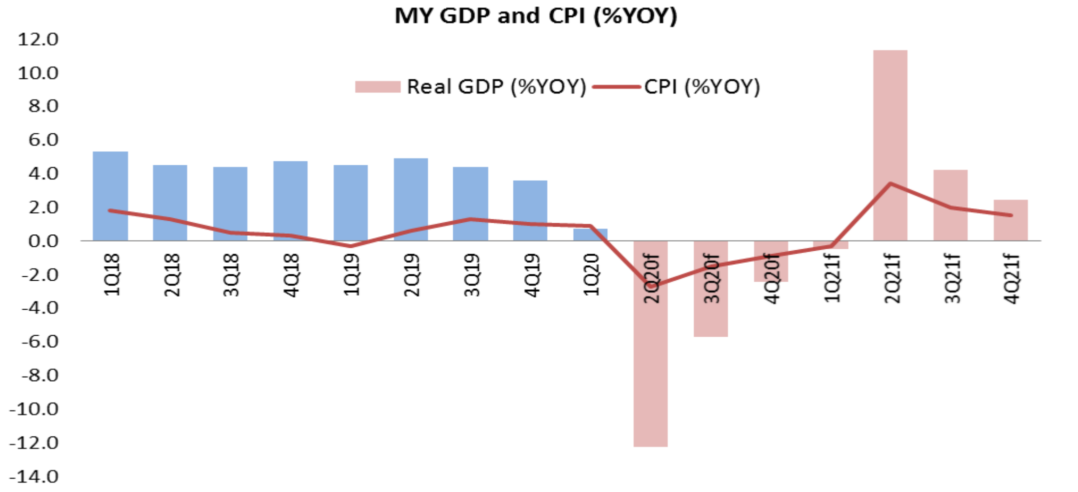


Retail sales is expected to remain weak

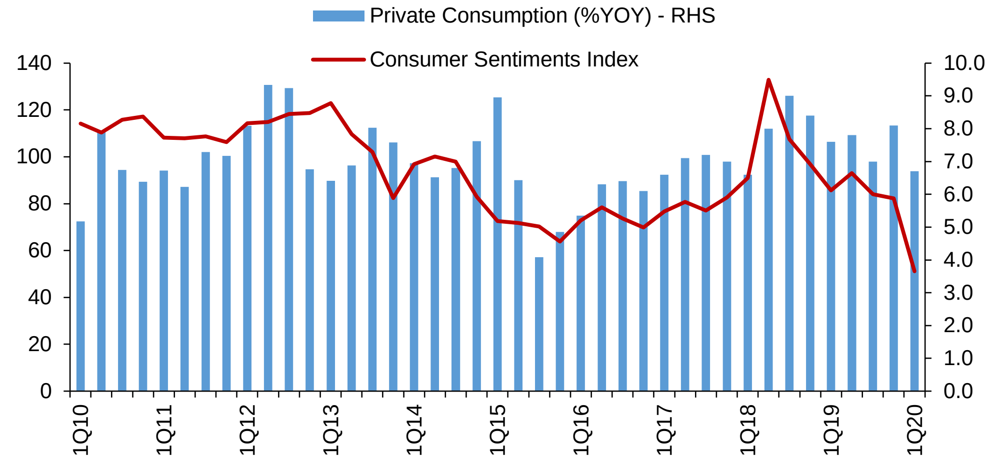


Malaysia – Cautious over a V-shape recovery

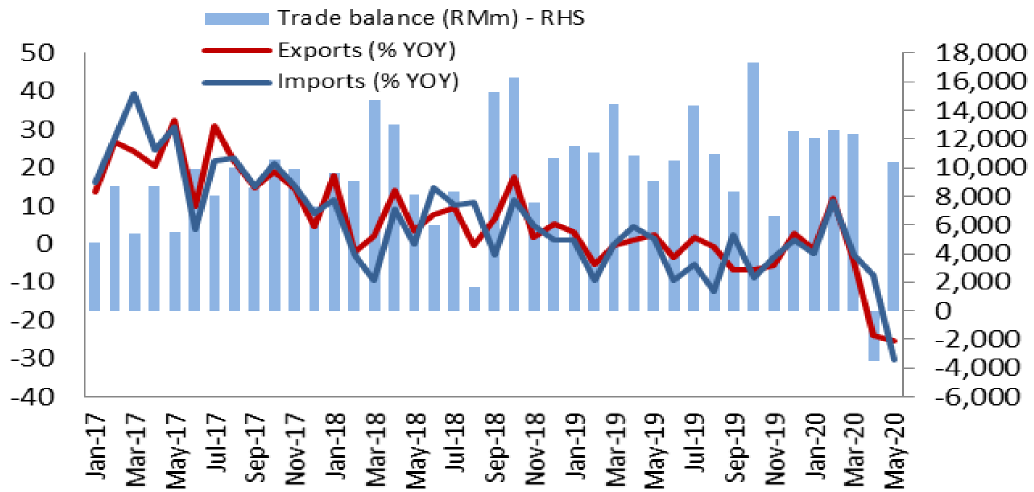
Contractions in real GDP and CPI from 2Q onwards



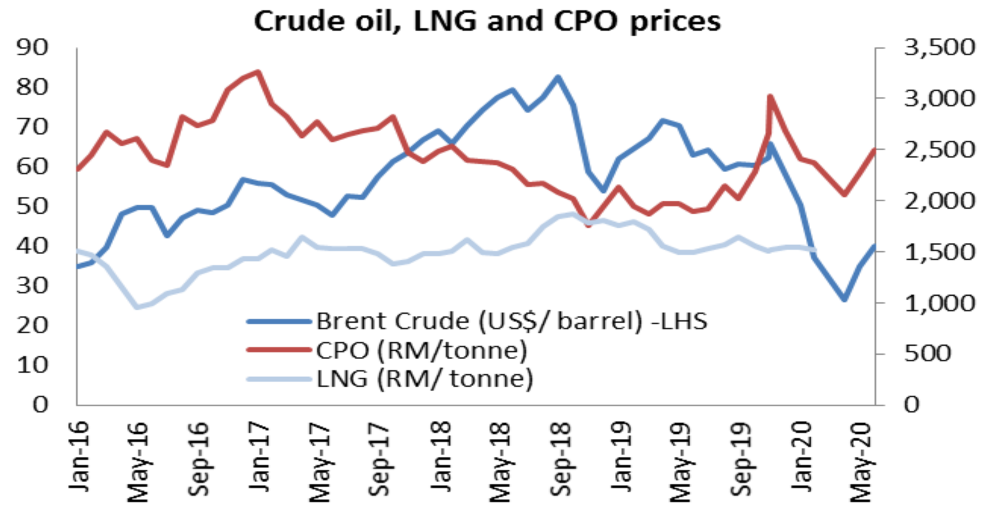
Private consumption to remain subdued



Expect 25-30% contraction in exports and imports



Commodity prices recovering but outlook still vulnerable to pandemic



FX Outlook – 3Q2020

Currency	Outlook	Comments
USDMYR	↘	• Bearish on anticipated USD weakness amid improvement in risk sentiments. • MYR to be supported by still positive yield differentials and potentially a return to EM assets as risk appetite improves.
EURUSD	↗	• EUR is bullish amid reversal in USD strength. Odds of more aggressive QEs from the Fed relative to ECB will also favour the EUR.
GBPUSD	↗	• Expect some slight bullishness in the sterling amid a less dovish BOE.
USDJPY	↗	• Expect improving risk sentiments to dampen demand for safety bids in JPY.
AUDUSD	↗	• Bullish bias riding on gradual improvement in risk sentiments and global oil prices
USDSGD	↘	• Bearish bias on the back of reversal in USD strength, and expected improvement in risk sentiments.

Source: Global Markets Research

FX Forecast – 3Q2020

Currency Pair	30 Jun 20 closing	End 3Q20 closing	End 4Q20 closing	End 1Q21 closing	End2Q21 closing
EUR/USD	1.1234	1.1450	1.1500	1.1550	1.1600
GBP/USD	1.2401	1.2700	1.2750	1.2800	1.2800
USD/JPY	107.93	108.00	109.00	108.00	107.00
AUD/USD	0.6903	0.7050	0.7100	0.7150	0.7200
USD/SGD	1.3936	1.38	1.37	1.37	1.36
USD/MYR	4.2865	4.25	4.20	4.20	4.15
EUR/MYR	4.8028	4.87	4.83	4.85	4.81
GBP/MYR	5.2562	5.40	5.36	5.38	5.31
AUD/MYR	2.9328	3.00	2.98	3.00	2.99
SGD/MYR	3.0676	3.09	3.07	3.08	3.05

Source: Bloomberg, Global Markets Research

FX Technical Analysis

USDMYR: USDMYR remains technically bearish. However, absence of fresh catalysts to drive the pair either way and neutral momentum will likely allow the pair to continue rangetrade at 4.25-4.30 near term. The pair needs to break above the 4.35 handle to shrug off its current bearishness while a break below 4.25 is expected to reinforce its bearishness leading the pair towards 4.20.
Resistances: 4.2963, 4.3254, 4.3546
Supports: 4.2602, 4.2250, 4.2019

AUDUSD: AUDUSD is technically bullish in line with our fundamental view supported by an improving commodity market as well as prospect of a weaker USD. The pair may test 0.68 first on intermittent USD strength before heading back up to 0.70-0.71 ranges. A break of the 0.65-0.66 handles could potentially revive the bears.

Resistances: 0.7004. 0.7169, 0.7300
Supports: 0.6839, 0.6737, 0.6655

Source: Bloomberg; Global Markets Research

Fixed Income Outlook

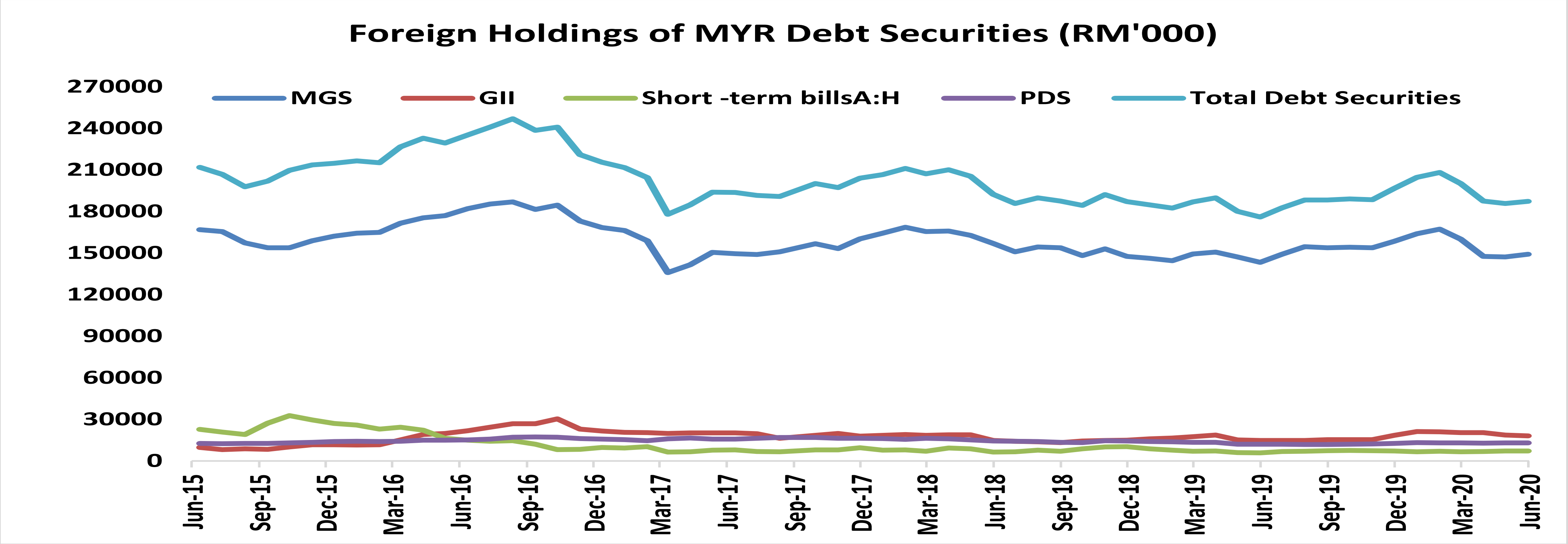
MGS/GII issuance pipeline in 2020

No	Stock	Tenure (yrs)	Tender Month	Quarter	Tender Date	Projected Issuance Size (RM mil)	Actual Auction Issuance (RM mil)	Private Placement X	Auction Amt Issued YTD	BTC (times)	Low	Average	High	Cut-off
1	7-yr reopening of MGS (Mat on 05/27)	7	Jan	Q1	8/1/2020	4,000	3,500		3,500	2.498	3.259	3.281	3.288	57.1%
2	15-yr Reopening of GII (Mat on 11/34)	15	Jan	Q1	14/1/2020	4,000	2,500	1,000	6,000	3.396	3.500	3.507	3.513	42.9%
3	3-yr Reopening of MGS (Mat on 3/23)	3	Jan	Q1	23/1/2020	3,000	3,000		9,000	2.183	2.837	2.858	2.875	80.0%
4	30-yr Reopening of GII (Mat on 11/49)	30	Feb	Q1	4/2/2020	3,000	2,500	1,500	11,500	2.328	3.747	3.780	3.792	66.7%
5	10-yr Reopening of MGS (Mat on 08/29)	10	Feb	Q1	13/2/2020	3,000	4,000		15,500	2.036	2.860	2.888	2.898	80.0%
6	5-yr Reopening of GII (Mat on 10/24)	5	Feb	Q1	20/2/2020	3,000	4,000		19,500	2.776	2.817	2.845	2.852	46.2%
7	15-yr Reopening of MGS (Mat on 07/34)	15	Mar	Q1	5/3/2020	4,000	3,500	500	23,000	2.247	3.008	3.027	3.036	80.0%
8	20-yr Reopening of GII (Mat on 09/39)	20	Mar	Q1	12/3/2020	4,000	2,800	1,500	25,800	2.182	3.295	3.344	3.373	91.7%
9	5-yr Reopening of MGS (Mat on 09/25)	5	Mar	Q1	20/3/2020	3,000	4,000		29,800	2.080	3.372	3.450	3.494	80.0%
10	7.5-yr New Issue of GII (Mat on 09/27)	7	Mar	Q1	30/3/2020	4,000	3,500	1,000	33,300	2.874	3.391	3.422	3.454	100.0%
11	20-yr Reopening of MGS (Mat on 05/40)	20	Apr	Q2	6/4/2020	4,000	3,500	1,500	36,800	1.973	3.828	3.855	3.888	14.3%
12	10.5-yr New Issue of GII (Mat on 10/30)	10	Apr	Q2	14/4/2020	5,000	4,000	1,000	40,800	3.118	3.439	3.465	3.479	13.9%
13	7-yr Reopening of MGS (Mat on 05/27)	7	Apr	Q2	29/4/2020	4,500	4,000		44,800	2.239	2.668	2.679	2.689	61.9%
14	15-yr Reopening of GII (Mat on 11/34)	15	May	Q2	14/5/2020	5,000	3,500	1,500	48,300	2.171	3.210	3.235	3.269	50.0%
15	10-yr Reopening of MGS (Mat on 08/29)	10	May	Q2	21/5/2020	4,500	4,500		52,800	1.732	2.777	2.799	2.820	43.5%
16	3-yr Reopening of GII (Mat on 05/23)	3	Jun	Q2	3/6/2020	4,500	4,500		57,300	2.502	2.285	2.306	2.318	50.0%
17	30-yr New Issue of MGS (Mat on 06/50)	30	Jun	Q2	12/6/2020	5,000	3,000	2,500	60,300	2.167	4.013	4.065	4.098	78.0%
18	20-yr Reopening GII (Mat on 09/39)	20	Jun	Q2	29/6/2020	5,000	3,500	2,000	63,800	2.055	3.707	3.761	3.797	100.0%
19	3-yr Reopening of MGS (Mat on 03/23)	3	Jul	Q3		5,000								
20	10-yr Reopening of GII (Mat on 10/30)	10	Jul	Q3		5,000								
21	15-yr Reopening of MGS (Mat on 07/34)	15	Jul	Q3		5,000								
22	7-yr Reopening of GII (Mat on 09/27)	7	Aug	Q3		5,000								
23	20-yr Reopening of MGS (Mat on 05/40)	20	Aug	Q3		5,500		X						
24	15-yr Reopening of GII (Mat on 11/34)	15	Aug	Q3		5,500		X						
25	7-yr Reopening of MGS (Mat on 05/27)	7	Sep	Q3		5,000								
26	30-yr Reopening of GII (Mat on 11/49)	30	Sep	Q3		5,000		X						
27	5-yr Reopening of MGS (Mat on 09/25)	5	Sep	Q3		5,000								
28	3-yr Reopening of GII (Mat on 05/23)	3	Oct	Q4		5,000								
29	10.5-yr New Issue of MGS (Mat on 04/31)	10	Oct	Q4		5,000								
30	5-yr Reopening of GII (Mat on 03/26)	5	Oct	Q4		5,000								
31	30-yr Reopening of MGS (Mat on 06/50)	30	Nov	Q4		5,600		X						
32	7-yr Reopening of GII (Mat on 09/27)	7	Nov	Q4		5,000								
33	15-yr Reopening of MGS (Mat on 07/34)	15	Nov	Q4		5,000								
34	10-yr Reopening of GII (Mat on 10/30)	10	Dec	Q4		5,000		X						
	Gross MGS/GII supply in 2020					159,400		14,000						

Overall MGS/GII BTC ratios maintained steady @ 2.46x in 2Q2020 (1Q2020: 2.44x) following earlier weakness seen during end-March and early-April period as safe-haven bids surfaced due to the severe COVID-19 virus pandemic. Inaction by FTSE Russell on WGBI seen boosting confidence in MYR bonds.

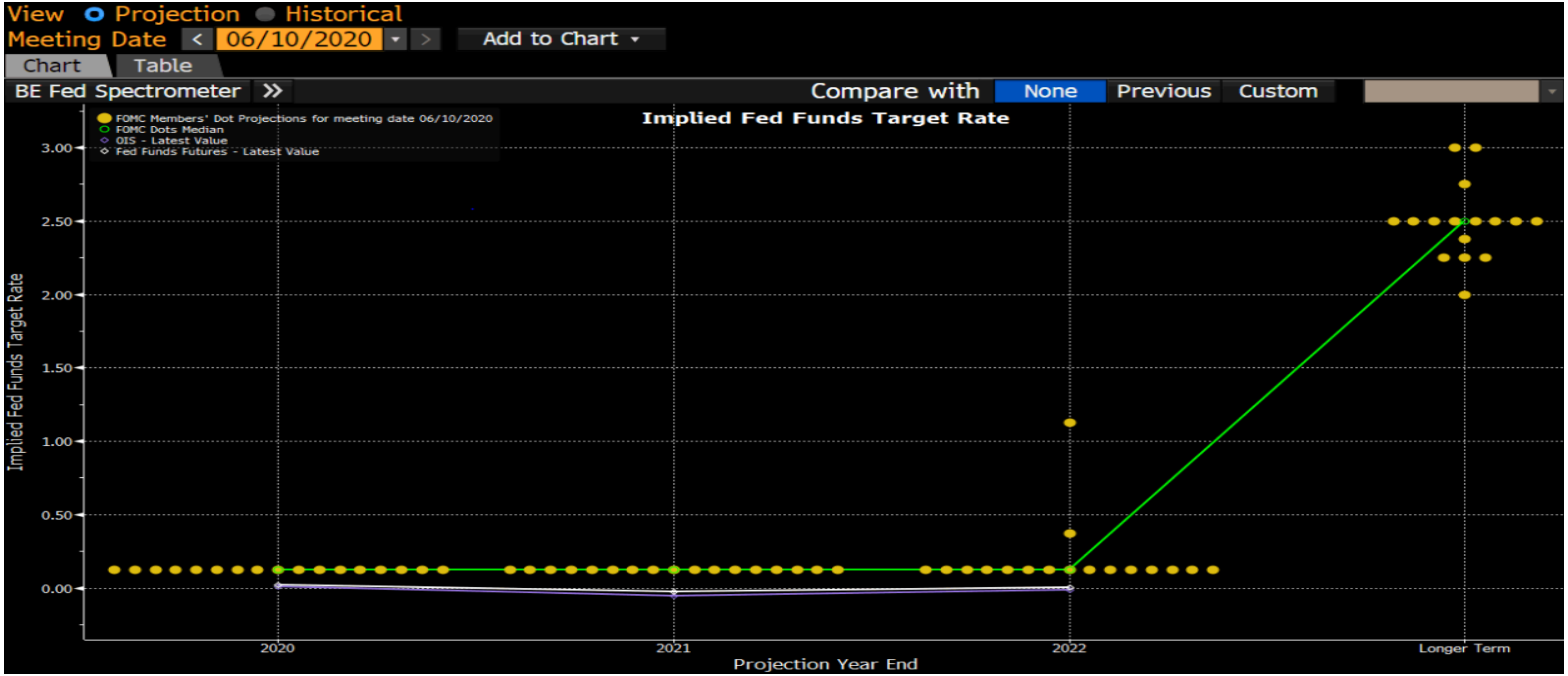
Gross MGS/GII supply for 2020 has now been revised up to RM159.4b (2019: RM115.7b) to reflect the Govt's various economic stimulus packages and oil revenue shortfall. Sizeable maturities are skewed towards the coming 3rd quarter.

Monthly foreign holdings of overall MYR bonds eased marginally to RM187.3b as at end-May 2020 from RM187.8b as at end-Mar 2020



Foreign holdings of MYR govt bonds i.e. MGS + GII + SPK peaked in the beginning of the year at RM188.2; falling to RM168.3 in 1Q2020 before consolidating at RM167.2b (i.e. 21.9% of total outstanding govt bonds) as at end-May. The potential change leading to either a reduction or removal of the present weightage of 0.4% in the FTSE Russell WGBI has been postponed until September. The Fed's subsequent change from a dovish to neutral stance this year has also boosted global sovereign bond purchases in view of their safe-appeal status despite some supply concerns arising from higher fiscal deficits following the launching of various economic stimulus packages. Investors continue to search for yield amidst the current deluge of negative-yielding global debt and are attracted to Corporate Bonds/Sukuk with decent spreads.

Fed dot plot shows Fed officials projection for rates to stay pat through 2022



Investors have dialed down expectations of further monetary easing against a backdrop of a series of rate cuts to combat the economic malaise from the COVID-19 virus pandemic. The Fed has kickstarted its $2.9 trillion stimulus (i.e. 15% of GDP); that includes an asset purchase program of $750b to boost the market's efficiency, liquidity and investor confidence via the Primary Market Corporate Credit Facility for new debt and also the Secondary Market Corporate Credit Facility for outstanding debt like HY bonds and Fixed Income ETF's. Meanwhile the Fed's balance sheet is expected to expand in 2020 again; having expanded from ~$4.2 trillion in early-march to about ~$7.1 trillion as at end-June.

Country	3M Views		Comments/ Outlook
US	**Maturity Preference**		**<u>Sovereigns</u>** UST's ended mixed between a wide range i.e. -6 to +18bps in 2Q2019 with the front-end of the curve richer whilst the longer ends were pressured causing the curve to steepen. The UST2Y however rallied by 6bps @ 0.16% whereas the much-watched UST10Y spiked 7bps QOQ moving within a narrower 0.57-0.90% range before settling at 0.66%. The Bloomberg Barclays US Treasury Index has returned a meagre +0.5% QOQ (previous QOQ: 8.0%) but overall +8.5% YTD. Latest ISM manufacturing activity above the 50-handle for June coupled with further rebound in NFP jobs data of 4.9m for June (April: -20.5m) however show glimpses of US economic recovery. Nevertheless investors are seen slightly jittery as the 2nd wave of COVID-19 infections in the US may hamper efforts by the authorities to lift earlier lock-downs completely. The tepid inflationary conditions along with the high unemployment rate of ~11.1%; near a historical high may help support the rates asset class with safe-haven bids. Additional supply may be mostly offset by the Fed's purchases with total monthly purchases of $80b of UST's and $40b of MBS . We expect a mild pickup in global growth in the next 6-12 months, as the massive $2.9 trillion policy stimulus pierces through to the real economy. Despite the Fed staying pat on interest rates, its neutral view on the rate outlook suggests expectations for further rate cuts are unlikely for 3Q2020. The **10-year UST is expected to be range-bound between 0.6-0.8%; finding good support at 0.8%** levels for this quarter. The flipside to our forecast are eradication of COVID-19 virus threat, vaccine discovery and also improving US-China trade matters and change in the Fed's interest rate outlook for 3Q2020. **The medium-term durations in 3Q2020 potentially offer slightly better risk-reward metrics .** **<u>Corporate</u>** The record amount of Investment Grade (IG) issuances 2Q2019 under review caused total YTD issuances up 96% to $1.16b compared to similar run-rate of $591b in 2019. Nevertheless total issuances have surpassed $769b for 2019 with gross new issuances still expected to be robust albeit at ~ $700b in 1H2020; and on track to reach $1.0 trillion in 2020 on lower funding costs compared to ~$350b in 2019. (About $220b in US dollar IG Corporate Bonds are were due in 1H2020 with bulk i.e. 56% owned by the financial sector). The Bloomberg Barclays US Corporate Total Return Value (for IG), which had a market value $6.56 trillion has narrowed at least by 120bps spread over UST's from ~271bps in 1Q2020 to an impressive ~153bps in 2Q2020); confirming strong investor demand for safer credits and yield . We note that the average returns were +8.9% QOQ and +4.9% for YTD. The Bloomberg Barclays US Corporate High Yield Total Return Index (for HY) however produced a whopping return of +10.1% QOQ but -3.9% YTD compared. **We are mildly positive on IG issuances in the belly between 2-5Y tenures** despite credit fundamentals including interest coverage and leverage showing some deterioration with the worst of the recession's effects yet to be fully disclosed. The uncertainty could culminate a preferential shift into sectors that support essential services such as water, severage and power that ought to maintain steady credit standing. Meanwhile, **we prefer to avoid both asset-backed securities (ABS) within the structured- finance market the HY sector due to severe business impact following COVID-19 pandemic and stretched balance sheets.**
	Short-to-medium		
	Policy Rate	**Yield Curve**	
	The Fed last left interest rates near zero (0.00-0.25%) in its FOMC meetings in April and May; having cut the Fed Funds Rate earlier in March by a total of 150bps to between 0.00-0.25%. It has signaled it expects to keep interest rates on hold this year. The Fed dot plot sees rates staying pat for the year whilst the Fed Fund Futures show traders expecting a 2.7% chance of a 25bps rate cut in July and a 6.1% chance of a similar cut in September's FOMC 2020 meeting. Future adjustments to monetary policy would continue to be data dependent and likely to take into account economic conditions and also US-China trade matters. Our house projection is calling for rates to stay pat in 2020.	The yield curve has maintained its stance at ~50bps spread for the quarter under review. We opine that the Fed will eventually implement yield-curve control sooner than later; evidenced lately by levels seen in the belly. This entails bond purchases that will be used to pin down yields on certain maturities to a specific target. Nevertheless, we expect a steep curve to maintain at the mid-to-longer tenures (i.e. 10s30s have moved form 65bps to 75bps at the time of writing)	

Country	3M Views		Comments/ Outlook
Singapore	**Maturity Preference**		**<u>Sovereigns</u>** The SGS yield curve diverged from UST's with the curve generally flatter instead as yields declined between 20-35bps QOQ. The nation's sovereign bonds maintained its impressive performance compared to some of its Asian peers with YTD returns 6.9% (2Q2020: 2.9%; 1Q2020: 3.8%). The short 2Y rallied 30bps at 0.27% whilst the 10Y yield closed 20bps lower at 0.89%. The 2Q2020 GDP growth consensus is expected to be worse at -10.0% (1Q2020: -0.7%) as the republic bears the full brunt of deceleration in trade and business arising from the COVID-19 virus pandemic. Broadly weaker economic condition indicates that MAS will maintain loose monetary policy to cushion faltering growth and benign inflation. The upcoming general elections are deemed to be non-event as the current political climate is expected to remain stable under the present ruling party. The SGS 2020 auction calendar revealed a duration-heavy tone that included S$800m of 30Y bonds, S$2b of 15Y issuances; besides S$2.5b of 2Y notes for the year. Redemptions and low money-market rates are expected to provide ample support for auctions. Singapore continues to be one of the 10 sovereign markets with AAA ratings (from all three rating agencies) that pays one of the highest yields. The current deluge of negative and/or low-yielding sovereign bonds that are reported to be around USD$16 trillion is expected to boost investors appetite; with **the 5Y-10Y space seeing relative value going forward for 3Q2020.** **<u>Corporate</u>** Singapore's trade-reliant and open economy has nevertheless witnessed distressed debts such as the high-profile Hyflux Ltd (water-treatment firm), KrisEnergy (O&G unit that's partly-held by Keppel Corp), MMI International (hard drive component manufacturer), Swiber Holdings and Ezra Holdings Ltd to name a few; affecting many retail investors in a thriving High Net-Worth sector. The lower rates and yields have caused Singapore investors with abundant liquidity to earlier opt for riskier corporate bonds. Nevertheless, with US rates skewed towards the neutral 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.** Investment-grade/quality credits i.e. banks such DBS, UOB, and OCBC are worthy of attention. Additional issuances especially Perps which saw a record issuances in 2019 have been on the rise partly speculated by the upcoming issuances of digital bank licenses. The logistics sector is expected to see some recovery; but oil & gas coupled with construction-related debts may fall under undue stress. Risks to our recommendations include the quick recovery from the virus pandemic due to vaccine discoveries and drastic change in US-China trade matters.
	Medium		
	Policy Rate	**Yield Curve**	
	On the monetary policy front, MAS is seen to deliberately leave more liquidity in the banking system to moderate higher funding costs. We expect MAS to stay pat after its last easing on 30th March. Reduction of the currency band slope is anticipated . The SGDNEER has risen 0.6% year on year on a six-month rolling average basis, and has increased 0.9% year on year on a 12-month rolling average basis. The republic continues to be in the US Treasury semi-annual currency monitoring list among other countries such as Malaysia and Vietnam.	SGS curve is expected to steepen; mirroring UST's due to expansion in fiscal stimulus to combat the economic malaise caused by the COVID-19 virus pandemic. This could also be attributed to local money-market rates being anchored at relatively low levels.	

Country	3M Views		Comments/ Outlook
Malaysia	**Maturity Preference**		**Sovereigns** QOQ, local govvies saw different fortunes with MYR curve steeper for the quarter under review. The front-ends rallied between 1-3bps whereas bonds extending out from 7Y tenures saw yields spike between 4-24bps along the curve. With the FTSE Russell Index WGBI weightage decision involving MYR bonds at the back-burner for now until September, investors brushed aside initial concerns pertaining to additional supply concerns. These are attributed to the various economic stimulus packages totaling RM295b which is expected to see the fiscal deficit spike to between 5.9-6.4% for 2020. Global central banks and governments have been kept busy with new and additional fiscal stimulus to combat the economic slump worldwide and continue to asses the outlook in interest rates. Nevertheless, liquidity was fairly abundant and participation from both foreign and local institutional funds were evident as foreign holdings of overall MYR bonds and MYR govvies dipped slightly by ~RM500m to RM187.3b and RM167.2b respectively. Traders and investors are now diversified in their views as to the interest rate direction and magnitude of move going forward. We continue to foresee decent institutional demand on the back of stable MYR levels and comparable EM relative values which can attract sporadic interest from offshore banking institutions. We have revised higher our gross govvies issuances to RM159.4b; having taken into account the higher targeted budget deficit and also shortfall in oil revenue for this year. Despite shifts in global trade uncertainties, the positive interest-rate differentials may continue to entice investors in EM sovereign debt; thereby benefitting Malaysia. **The 3Y, 15-20Y GII along with the 7Y and also 15-20Y MGS space reflect some values on the curve for 3Q2020. We expect the 10Y to range between 2.80-3.00% levels with strong support at 3.00% levels (2Q2020: 3.00%-3.20%)**. **Corporate** Corporate bonds/Sukuk issuances eased to RM16.9b as at 2Q2020; compared to 1Q2020's RM21.7b. YTD gross supply for 2020 of RM38.6b is below the run-rate with our estimate at between RM80-90b (Actual 2019: RM130.8b). The ongoing implementation of major infrastructure projects like MRT 2, LRT 3, Bandar Malaysia, Penang Mega Infrastructure Project (PMI), Pan Borneo Highway and other projects in the pipeline such as the High Speed Rail (HSR), East Coast Rail Link (ECRL) and National Fiberisation and Connectivity Plan (NFCP) will continue to spur further bond issuances. Trading activities for corporate bonds saw continued daily volume maintain at circa RM736m daily (1Q2020:RM777m) with interest fairly distributed across the GG, AAA 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 bond names like DANAINFRA, PRASARANA and LPPSA are expected to be well-sought after for liquidity purposes and also lesser portfolio slippage by investors. **The 7Y and 15-20Y GG sector (current yield spreads over MGS @ +27bps and +21bps respectively) and also the 3Y and 15-20Y AA-rated papers (current yield spreads over MGS @ +56bps and + 55-66bps respectively) are seen more attractive in their respective part of the curves. We would avoid retail, auto, leisure, property-backed issuers but prefer those in utilities, tolling and also conglomerates with a diversified business profile.** Unrated bonds and perps are also to provide alternative and juicier yields; especially for retail investors.
	Duration neutral-longer		
	Policy Rate	**Yield Curve**	
	The MPC in its last meeting on 5th of May delivered an OPR cut of 50bps to 2.00% in line with our projection as the economy plunged due to the COVID-19 virus pandemic. We are neutral on any further cuts pending the full impact of earlier 100bps cuts on the economy barring escalation of downside growth risks. We expect full year 2020 GDP to contract 4.9%, exacerbated by the twin effects of a delicate political climate and weak oil prices.	Current yield curve has steepened as the front-end reflects investors belief in further rate cuts causing preference for shorter tenures. Nevertheless we anticipate a slightly flatter curve in 3Q2020 going forward as the country emerges from its recent MCO/ lockdowns whilst the economy picks up momentum. We anticipate demand for 15-20Y tenures to outweigh the ultra-long bond; yet exerting some flattening pressure on that part of the curve.	

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