Quarterly Market Outlook 4Q2020

Global Markets

October 2020

Hong Leong Bank

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Global Growth Outlook

Real GDP (% YOY)	Latest 2 Quarters		Actual	Forecast		Forecast (official)	
	1Q20	2Q20	2019	2020	2021	2020	2021
World	-	-	2.9	**-3.9***(-3.7)*	**5.2** *(5.1)*	**-4.9** *(-4.9)*	**5.4** *(5.4)*
DM/ G10	-3.3	-23.0	1.7	**-5.8** (-6.1)	**4.2** *(4.3)*	-	-
US	0.3	-9.0	2.3	**-4.3** *(-5.6)*	**3.7** *(4.1)*	**-3.7** *(-6.5)*	**4.0** *(5.0)*
Eurozone	-3.2	-14.7	1.2	**-8.0** *(-8.1)*	**5.5** *(5.4)*	***-8.0*** *(-8.7)*	***5.0*** *(5.2)*
UK	-2.1	-26.2	1.4	**-10.0** *(-8.2)*	**6.3** *(5.7)*	**-9.5** *(-14.0)*	**9.0** *(15.0)*
Japan	-1.8	-9.9	0.7	**-5.7** *(-4.9)*	**2.5** *(2.5)*	**-4.7** *(-4.0)*	**3.3** *(3.4)*
BRICs	-4.1	-3.1	5.2	**0.6** *(0.8)*	**4.9** *(5.4)*	-	-
China	-6.8	3.2	6.1	**2.1** *(1.8)*	**8.0** *(8.0)*	-	-
India*	3.1	-23.9	6.1	**-8.0***(4.2)*	**8.1** *(-4.5)*	-	-
Asia ex-Japan	-3.8	-2.8	5.3	**0.8** *(1.3)*	**5.1** *(5.5)*	-	-
EMEA	1.8	-9.6	2.5	**-4.5***(-4.6)*	**3.8** *(3.6)*	**-**	**-**

Source: Bloomberg, official sources
Figures in ( ) are previous forecasts
**FY ending Mar-21 and Mar-22 respectively*

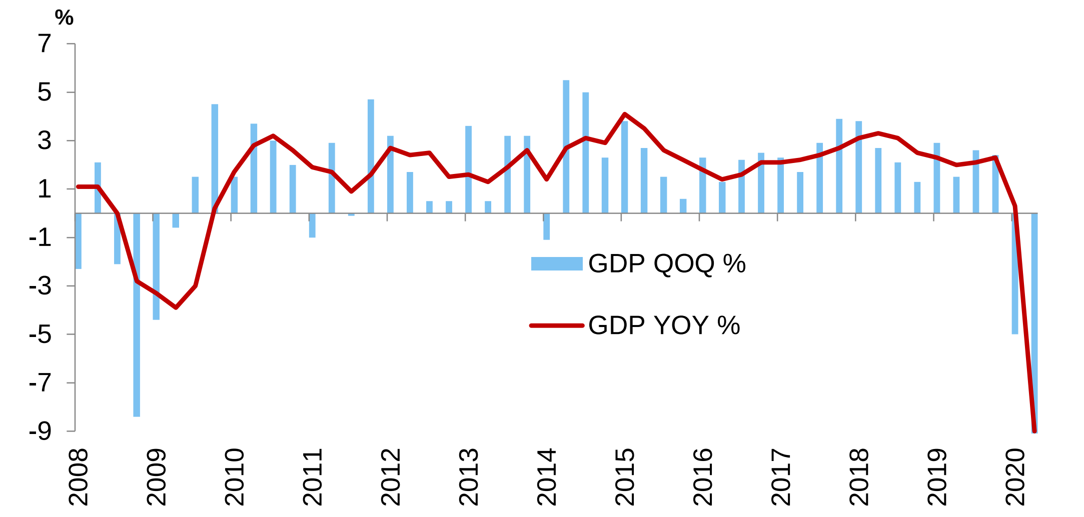
Global Central Banks Policy Rates Outlook

	Current	4Q20	1Q21	2Q21	3Q21	Remarks
United States Federal Reserve *Fed Funds Rate*	**0-0.25**	0-0.25	0-0.25	0-0.25	0-0.25	**No change in 2020**
Eurozone European Central Bank *Deposit Rate*	**-0.50**	-0.50	-0.50	-0.50	-0.50	**No change in 2020**
United Kingdom Bank of England *Bank Rate*	**0.10**	0.10	0.10	0.10	0.10	**No change in 2020**
Japan Bank of Japan *Policy Balance Rate*	**-0.10**	-0.10	-0.10	-0.10	-0.10	**No change in 2020**
Australia Reserve Bank of Australia *Cash Rate*	**0.25**	0.25	0.25	0.25	0.25	**No change in 2020**
New Zealand Reserve Bank of New Zealand *Official Cash Rate*	**0.25**	0.25	0.25	0.25	0.25	**No change in 2020**
Malaysia Bank Negara Malaysia *Overnight Policy Rate*	**1.75**	1.50	1.50	1.50	1.50	**One cut in 4Q20**
Thailand The Bank of Thailand *1-Day Repurchase Rate*	**0.50**	0.50	0.50	0.50	0.50	**No change in 2020**
Indonesia Bank Indonesia *7-day Reverse Repo Rate*	**4.00**	4.00	4.00	4.00	4.00	**No change in 2020**
Philippines Bangko Sentral ng Pilipinas *Overnight Reverse Repo Rate*	**2.25**	2.25	2.25	2.25	2.25	**No change in 2020**

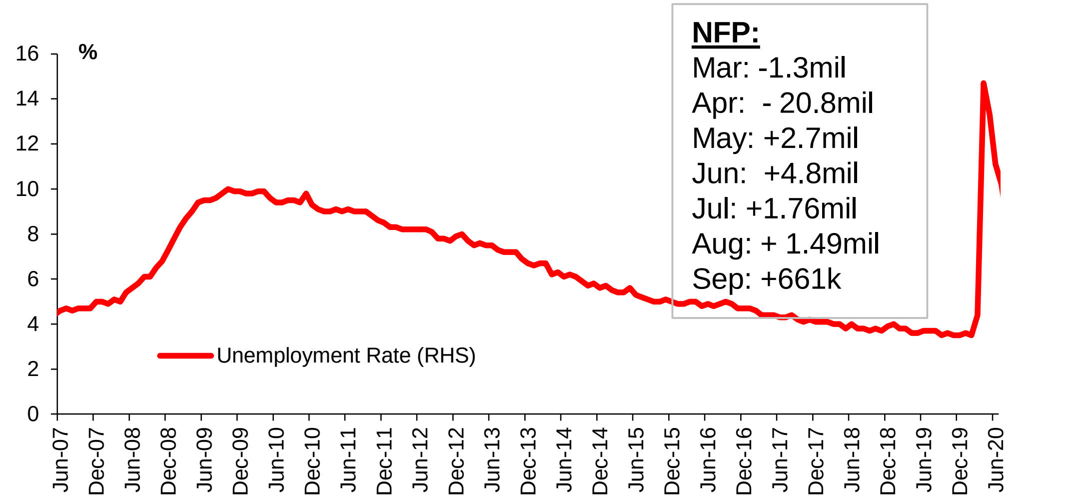
Source: Bloomberg, Global Markets Research

The US – Mixed recovery prospects as job growth slowed

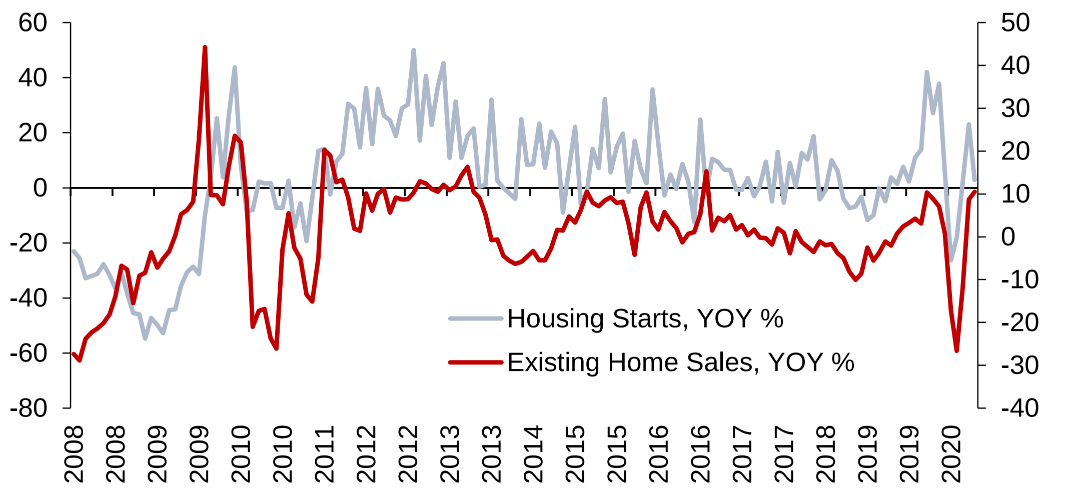
Real GDP contracted at annualised rate of 31.4% QOQ in 2Q.



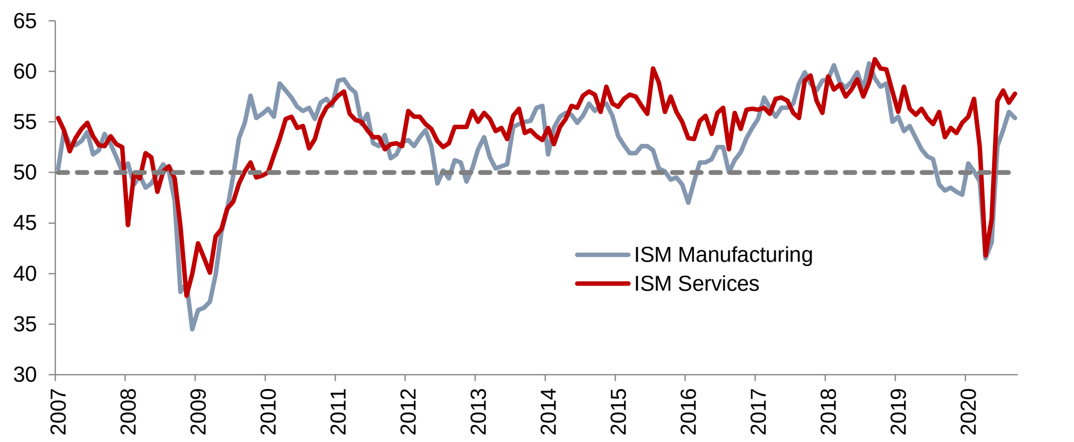
Job growth has slowed in recent weeks.



Housing sector is expected to be a bright spot supported by low rates.

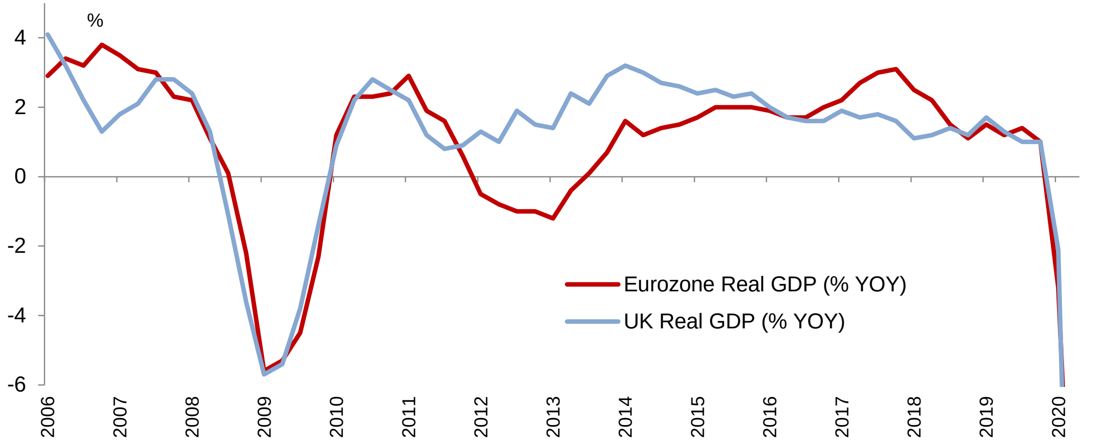


PMIs have risen further in recent months.

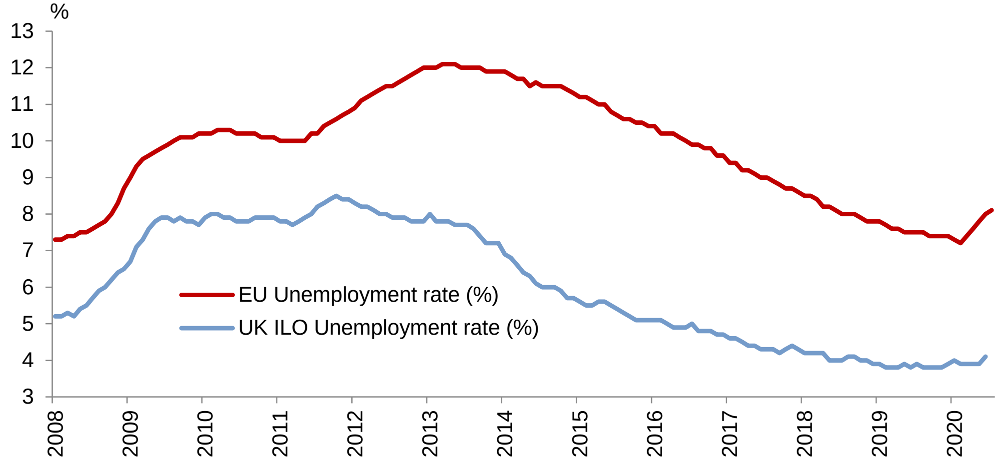


The EU and UK – Gloomy outlook for UK; uneven recovery in the euro area

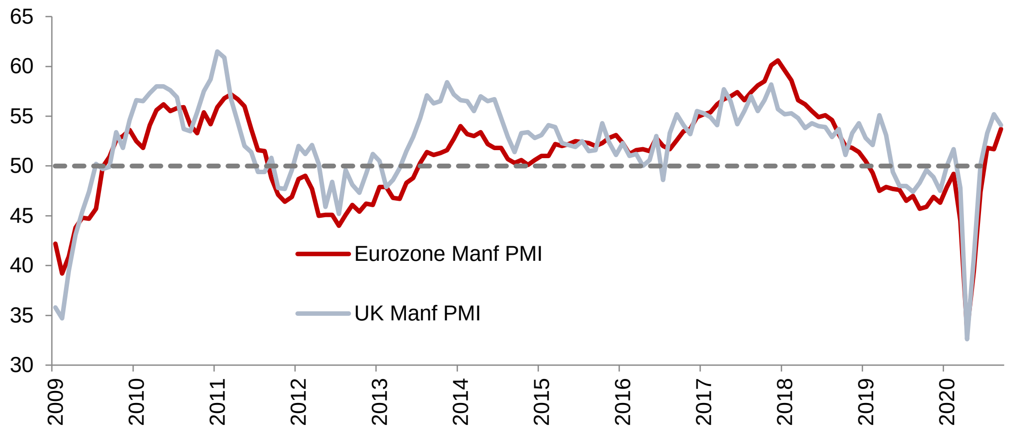
Worst contraction on record.



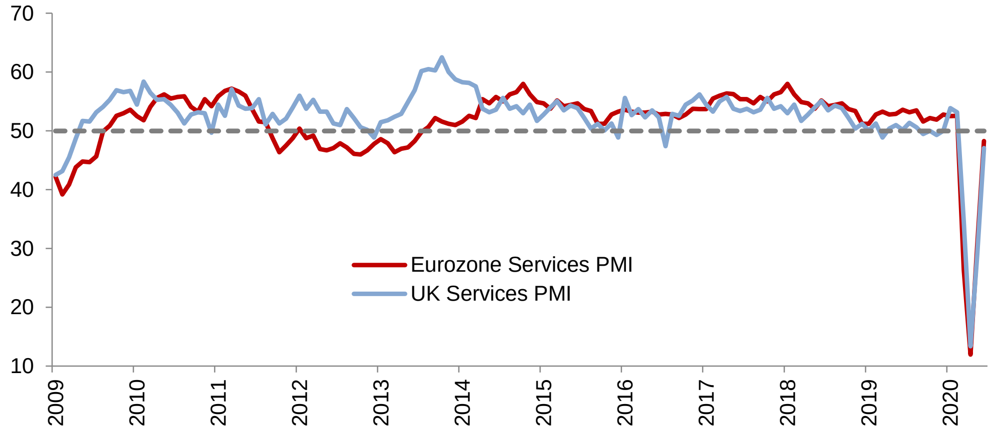
Jobless rates rose more slowly in the UK vs EU



Manufacturing sector continued to recover.

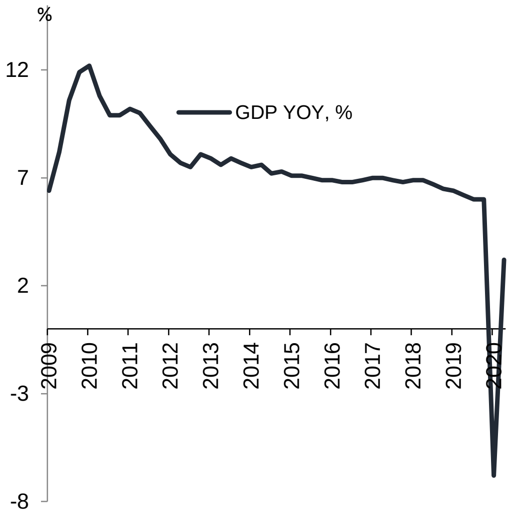


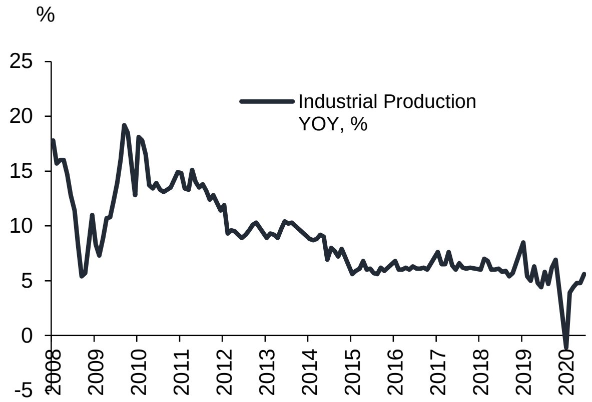
Services sector lost some momentum



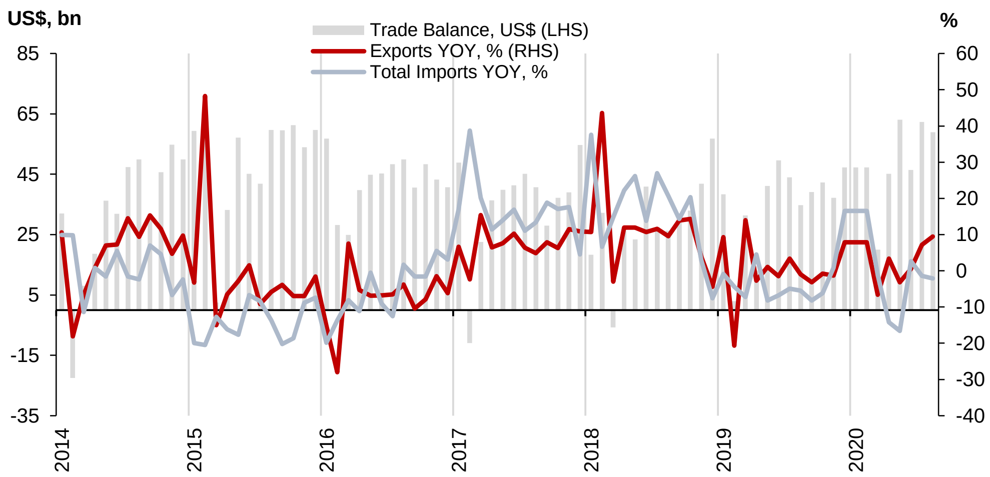
China – Steady return to normality

Industrial production gradually recovers

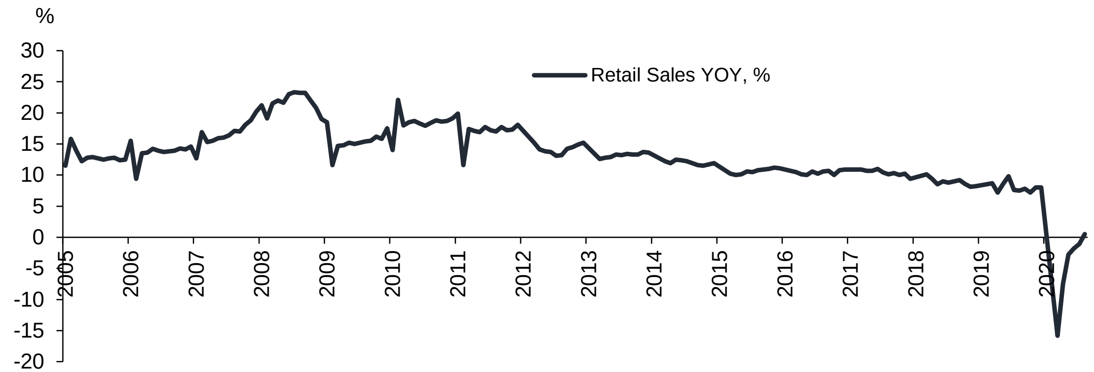




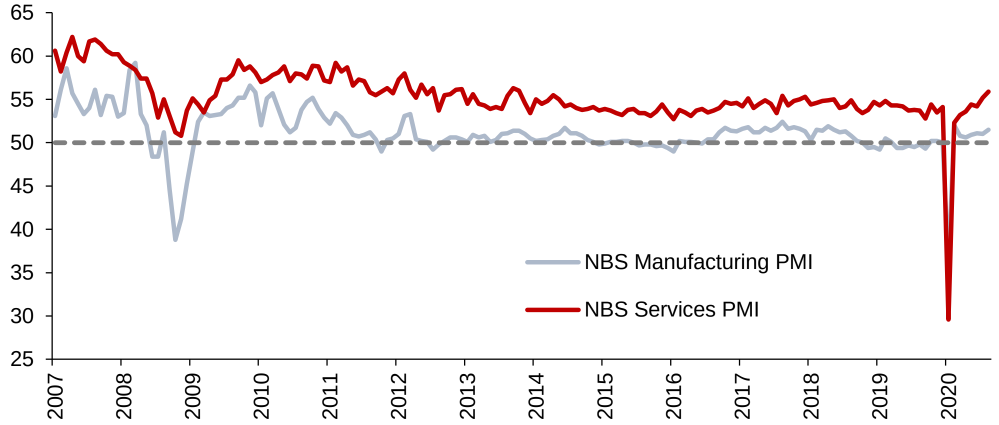
Exports have gained for third straight month



Retail sales posted growth for first time in six months



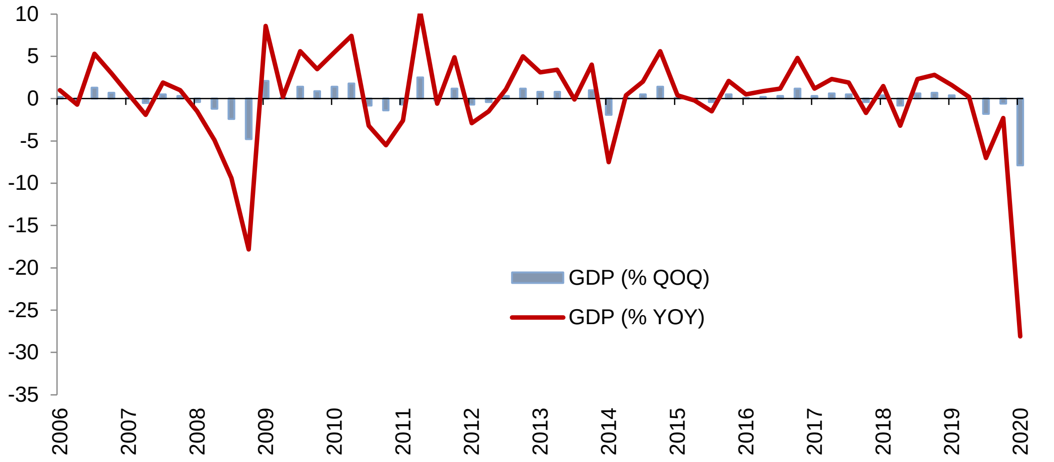
Continuous recovery in services and manufacturing



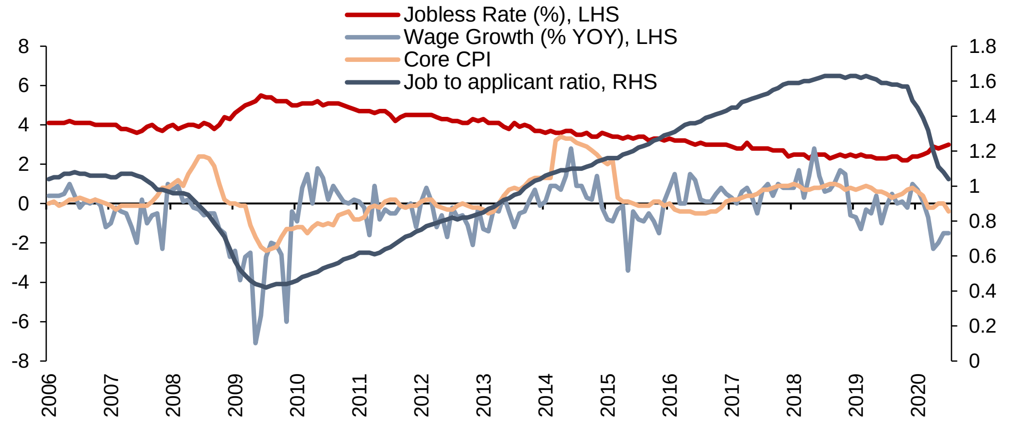
Note: Retail sales, IPI and trade data are for Jan-Feb 2020

Japan ─ The struggle to recover is real

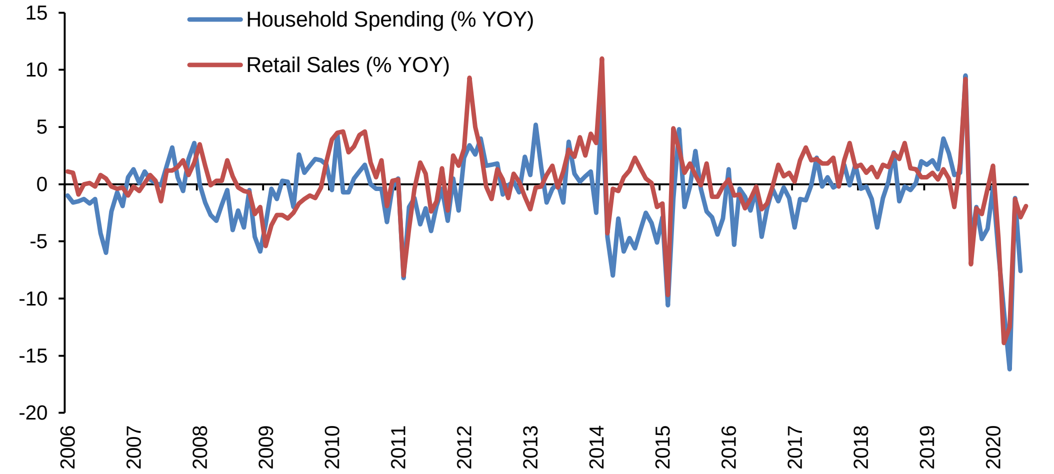
GDP contracted for the third consecutive quarters



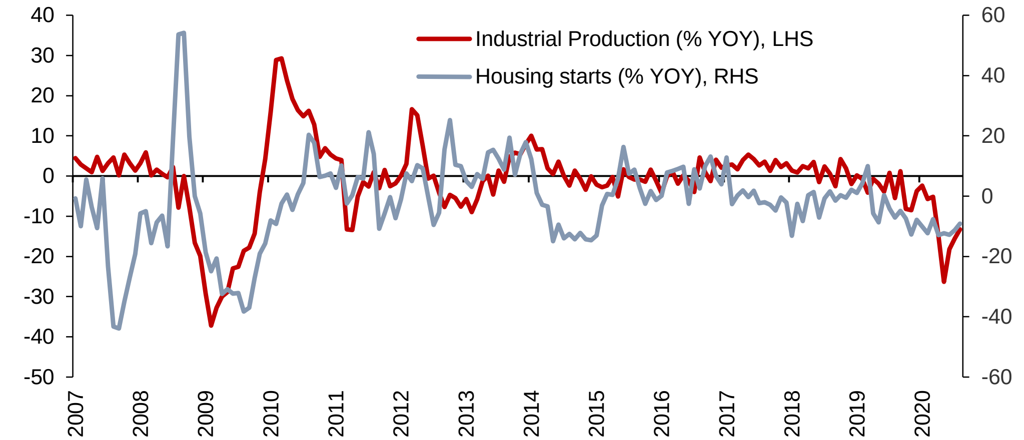
Jobless rate crept up; job availability becoming fewer



Household spending and retail sales growth still at negatives

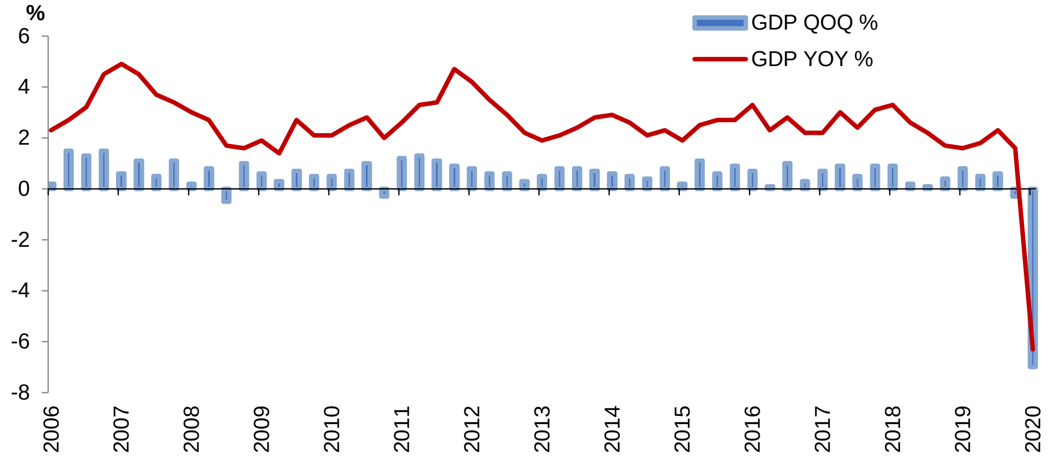


Industrial production extended decline

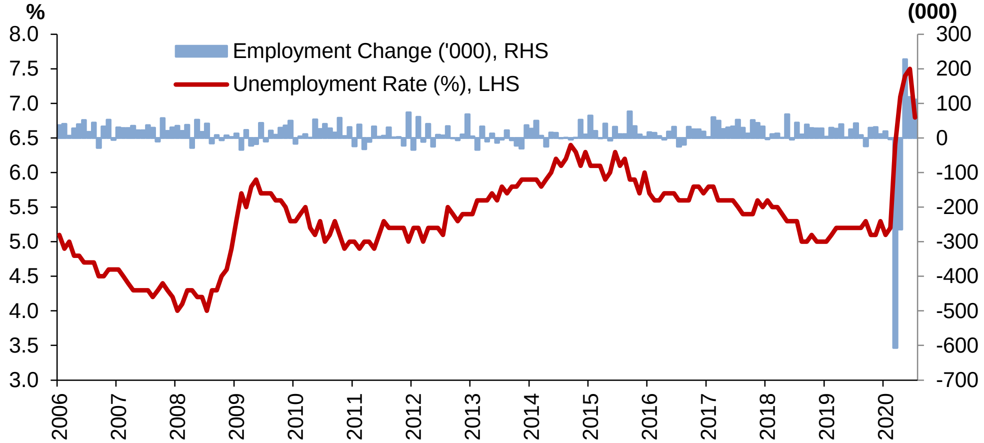


Australia – Recovery prospect weighed down by virus-stricken Victoria

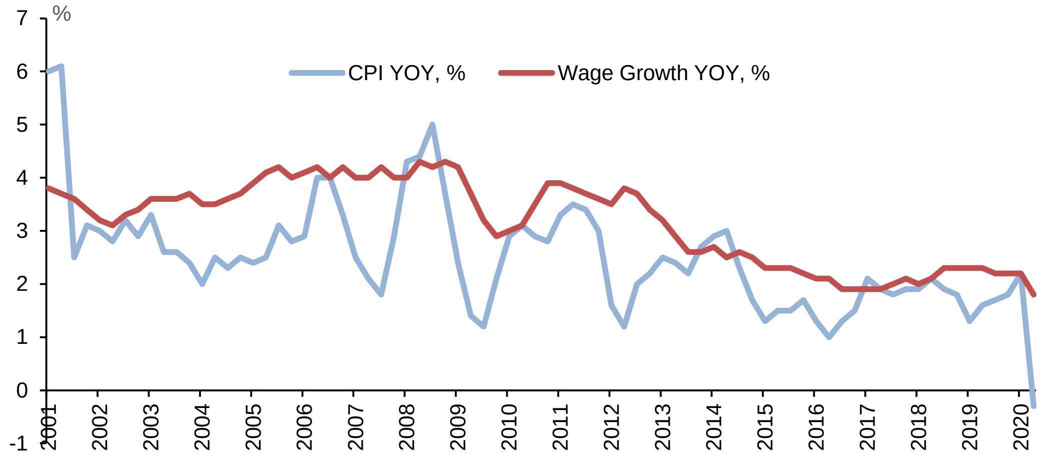
A smaller than expected contraction in 2Q



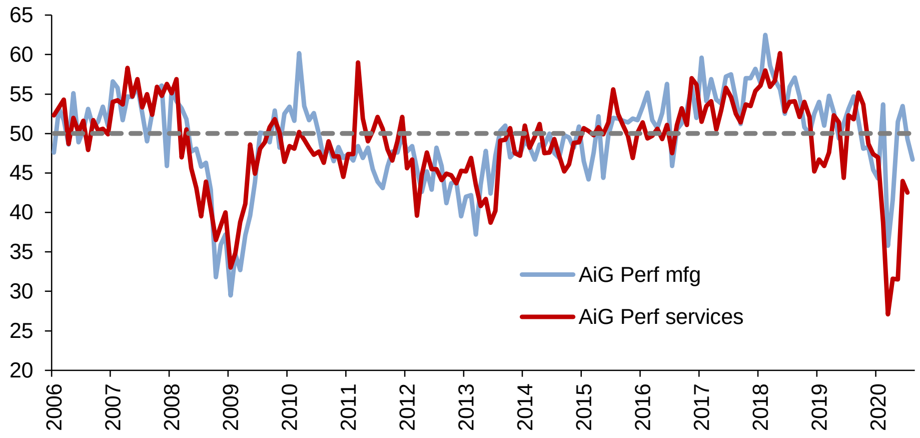
Recent job gains were not sufficient to reduce unemployment rate



CPI post negative YOY growth for the first time since 1998



PMIs have slipped into contractionary mode again



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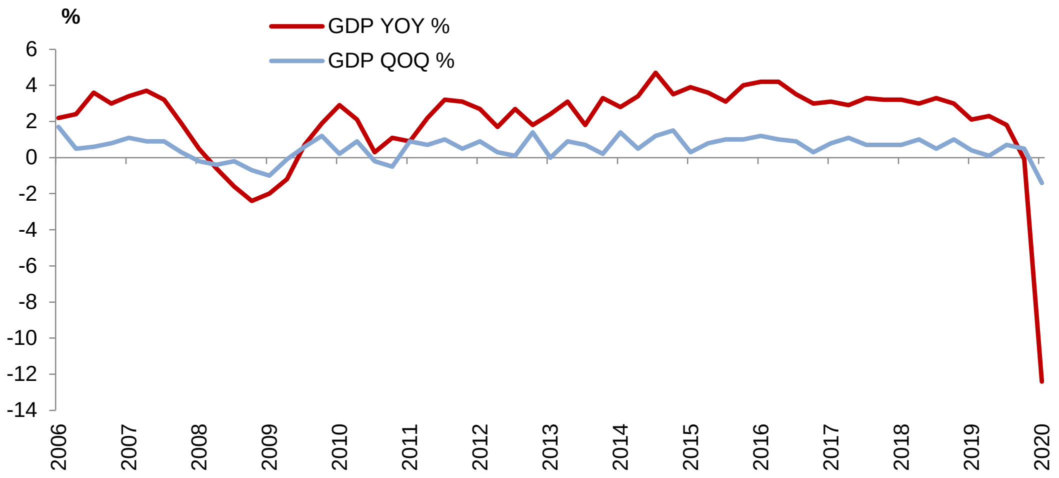
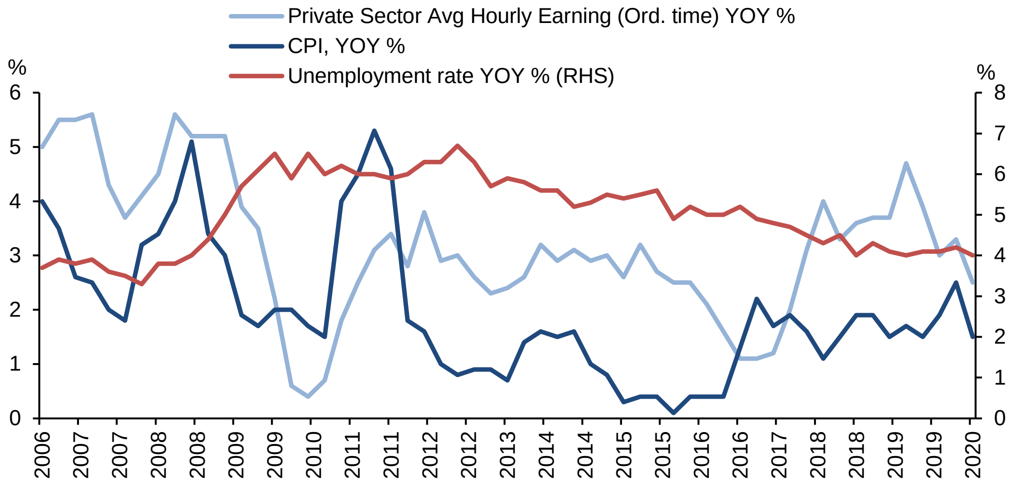
New Zealand — Suffered similar fate despite low virus transmission

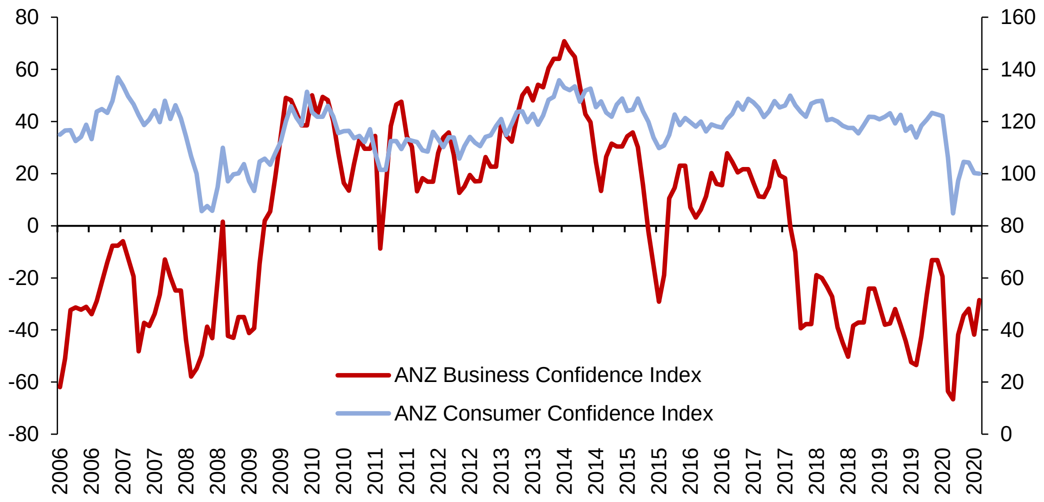
GDP contracted 12% QOQ despite successful containment of virus



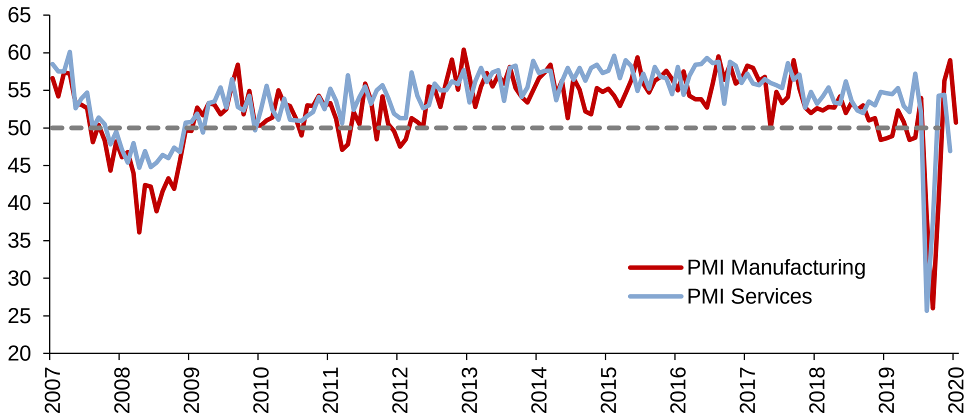
Unemployment rate remains steady



Some improvements in sentiments

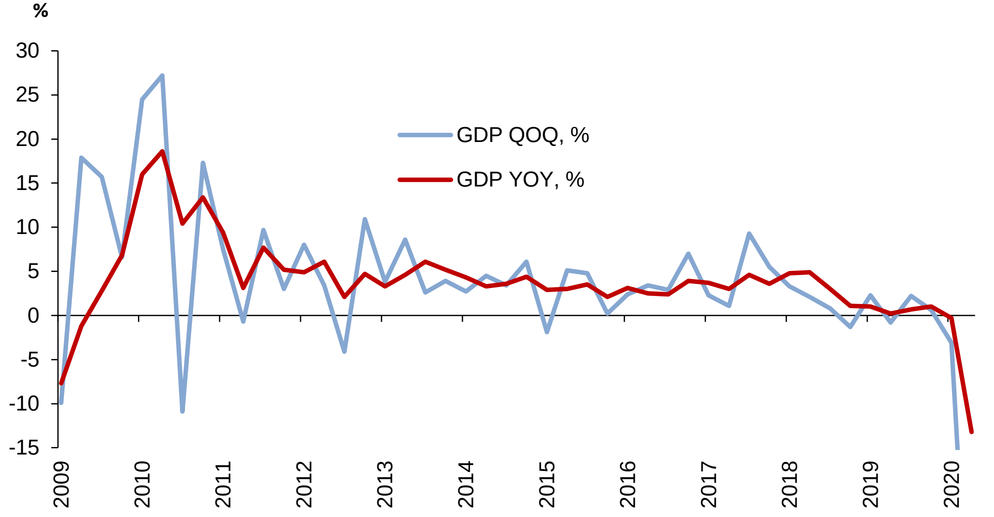


PMIs remain weak

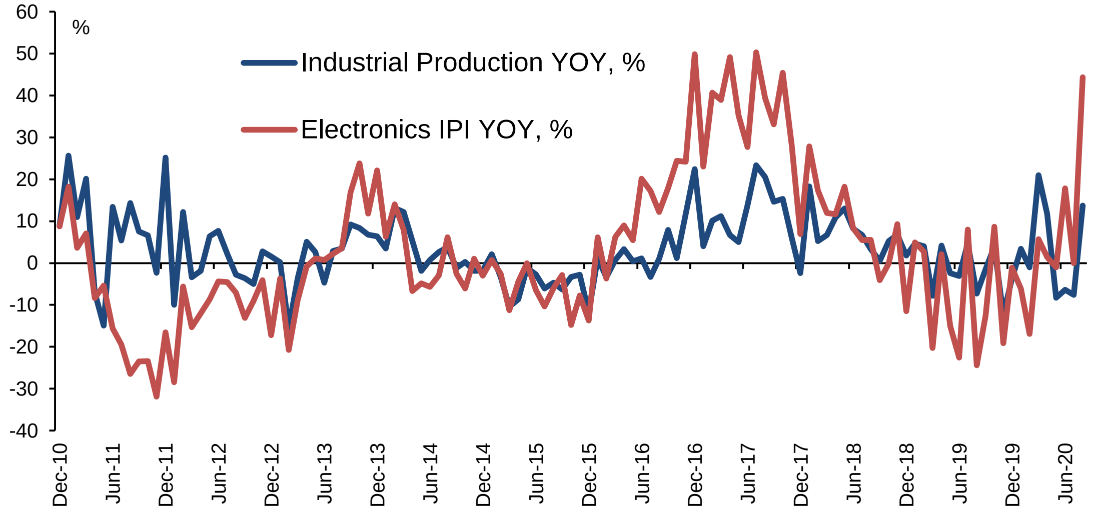


Singapore – Long road to recovery

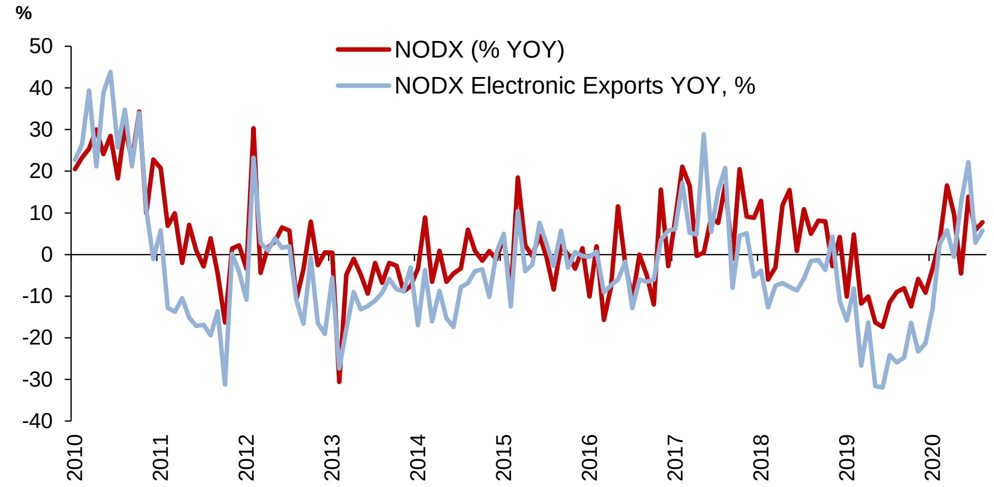
Expect growth to only return in 2Q 2021.



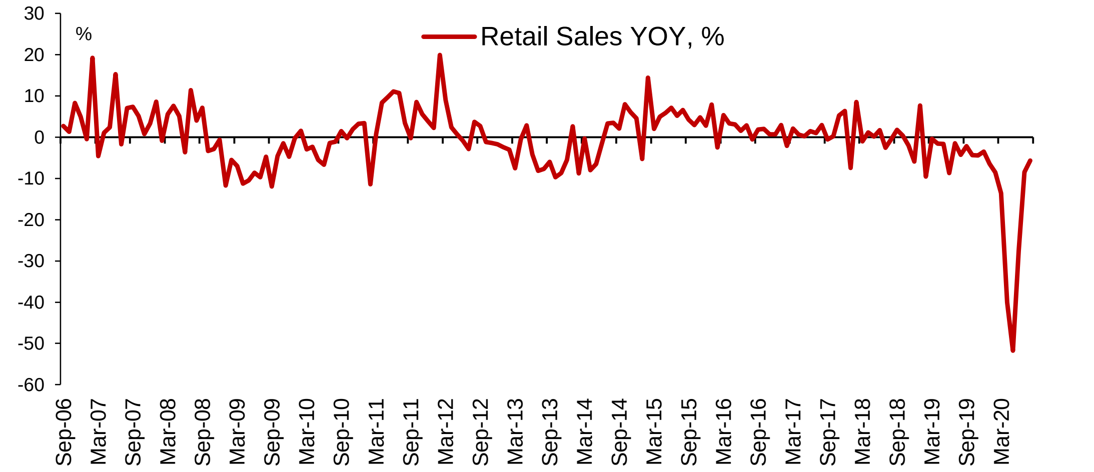
Industrial productions surged on low base



NODX rose recently thanks to some broad-based pickup in demand

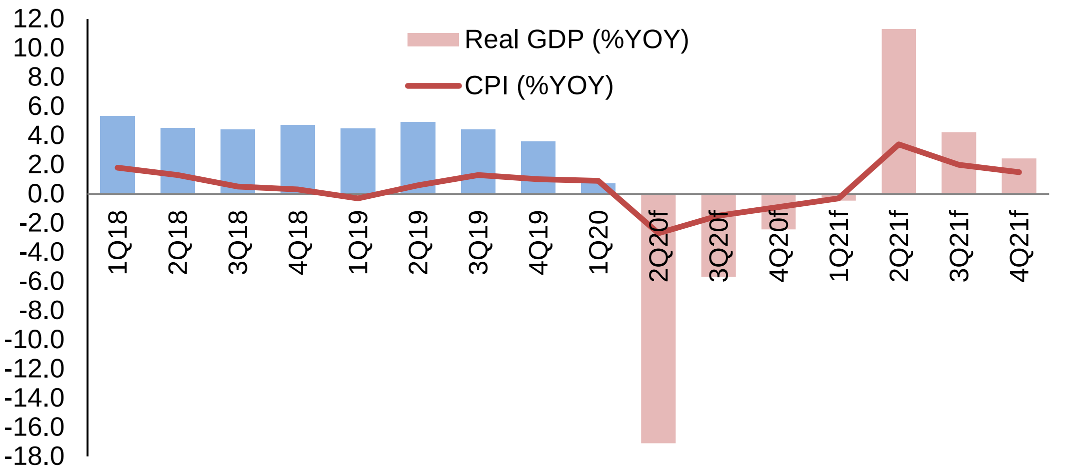


Retail sales have improved but likely to remain weak.

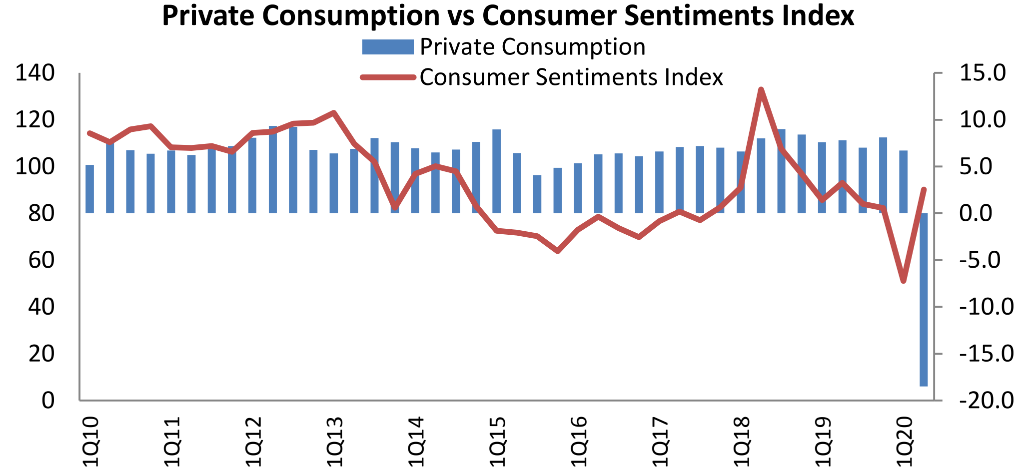


Malaysia – Increased challenge in 4Q

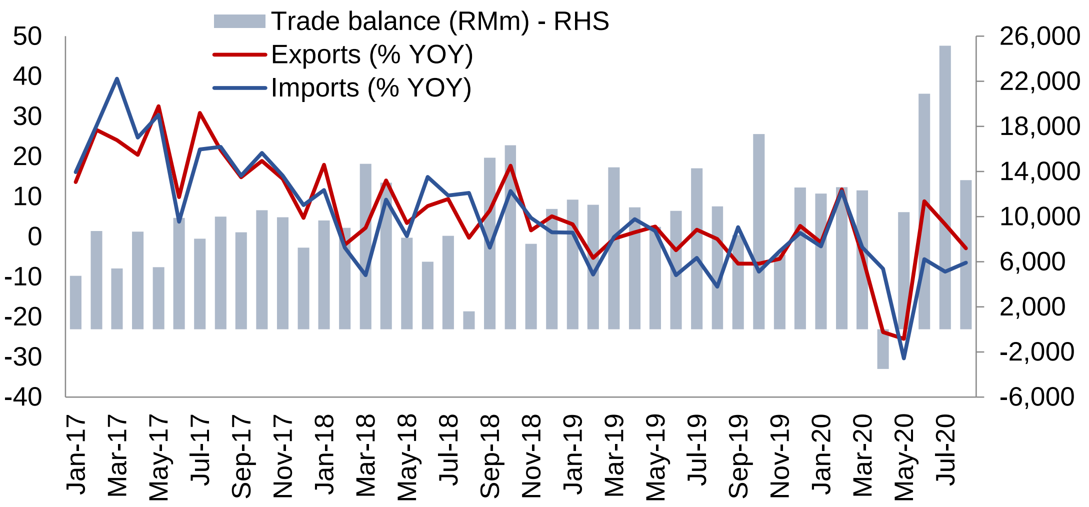
Foresee downside risk to our 2020 GDP projection of -4.9%



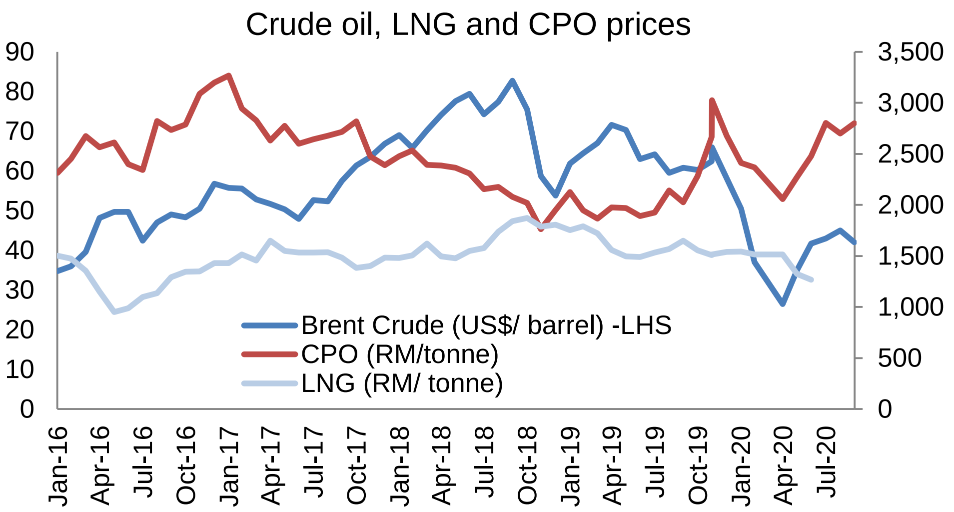
Private consumption to remain subdued



Renewed decline in exports a sign of patchy recovery



Crude oil prices remain low; higher CPO prices a saviour



FX Outlook – 4Q2020

Currency	Outlook	Comments
USDMYR	➘	• Bearish on anticipated USD weakness amid improvement in risk sentiments once volatility surrounding US elections dissipates. • 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 USD weakness. Odds of more aggressive QEs from the Fed relative to ECB will also favour the EUR.
GBPUSD	➔	• Negativity from dovish BOE and Brexit uncertainties to be offset by prospects of a weaker USD.
USDJPY	➘	• Stronger JPY amid broad USD weakness.
AUDUSD	➚	• Expect bullish outlook for Aussie in line with improvement in risk sentiments and decent recovery in the China economy
USDSGD	➘	• Bearish bias on the back of reversal in USD strength, and expected improvement in risk sentiments.

Source: Global Markets Research

FX Forecast – 4Q2020

Currency Pair	30 Sept 20 closing	End 4Q20 closing	End 1Q21 closing	End 2Q21 closing	End 3Q21 closing
EUR/USD	1.1721	1.23	1.24	1.25	1.22
GBP/USD	1.2920	1.29	1.30	1.31	1.29
USD/JPY	105.45	103	102	101	103
AUD/USD	0.7162	0.75	0.76	0.77	0.75
USD/SGD	1.3654	1.34	1.33	1.32	1.34
USD/MYR	4.1565	4.13	4.10	4.08	4.10
EUR/MYR	4.8666	5.08	5.08	5.10	5.00
GBP/MYR	5.3286	5.33	5.33	5.34	5.29
AUD/MYR	2.9584	3.10	3.12	3.14	3.08
SGD/MYR	3.0340	3.08	3.08	3.09	3.06

Source: Bloomberg, Global Markets Research

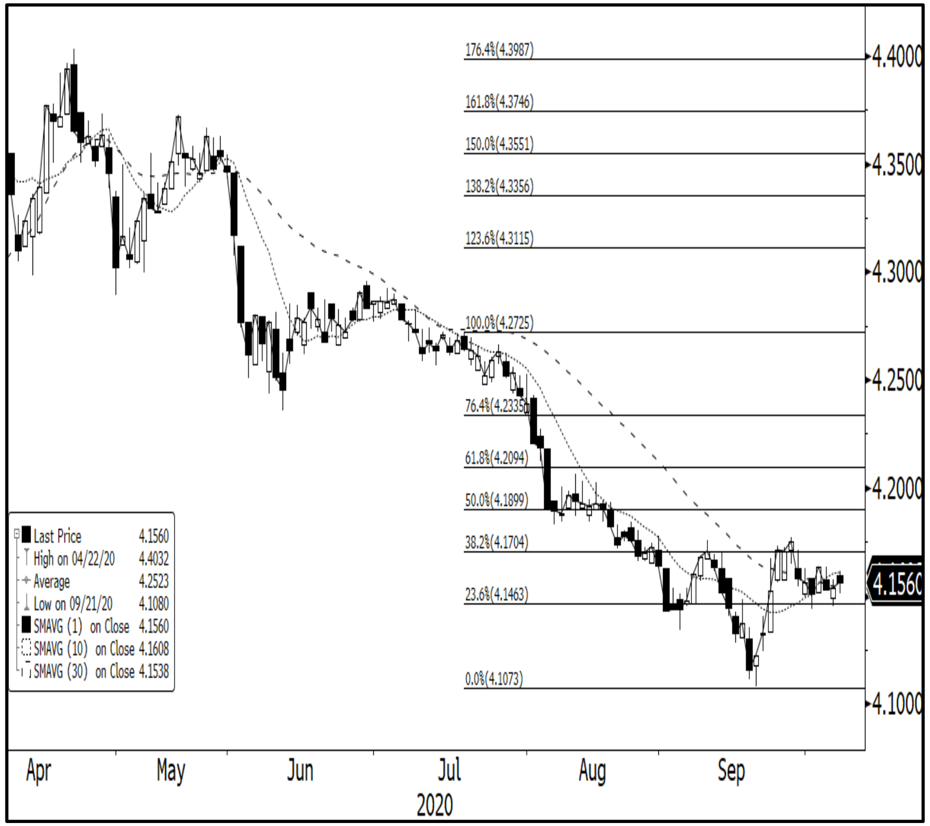
FX Technical Analysis

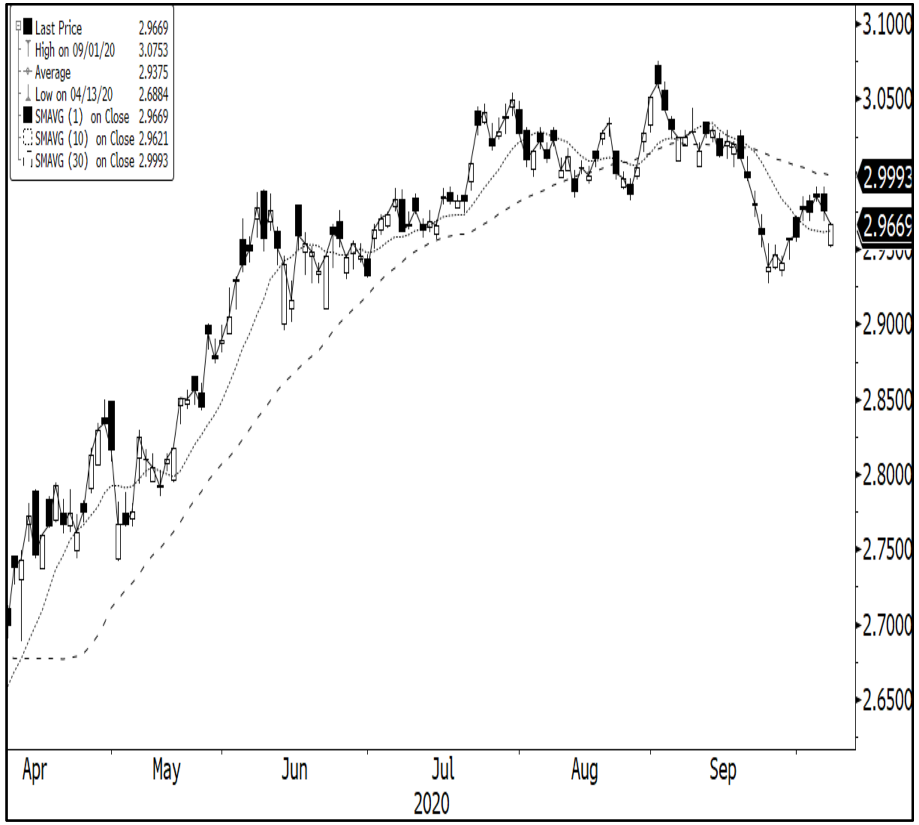
USDMYR: USDMYR remains technically bearish and momentum indicator is in slight negative territory. This, coupled with expectations for a weaker USD, we expect the pair to head towards the next support at 4.13 levels before heading down towards 4.10.

Resistances: 4.1840, 4.2202, 4.2795
Supports: 4.1313, 4.0918, 4.0720

AUDMYR: AUDMYR is currently trading below the Ichimuku cloud but there are signs of a bullish tilt as observed in recent attempts to break above it. Momentum indictors are positive and bullishness is picking up. We expect the pair to head towards 3.02-3.04 levels before testing 3.09 handle.

Resistances: 2.9931. 3.0386, 3.0928
Supports: 2.9215, 2.8608, 2.8217





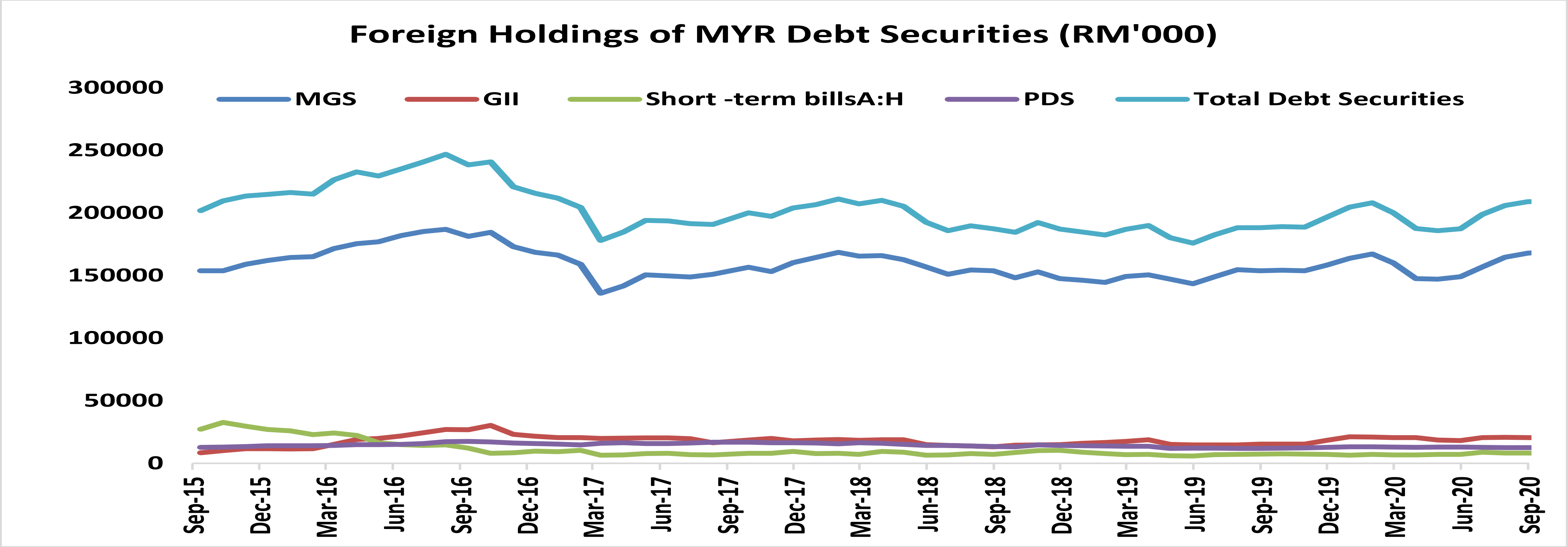
Source: Bloomberg; Global Markets Research

Overall MGS/GII BTC ratios fell sharply @ 2.06x in 3Q2020 (2Q2020: 2.46x) following earlier supply concerns, FTSE Russell issue and also delicate political situation amid the current COVID-19 virus pandemic. FTSE Russell's latest decision to maintain MYR bonds on its WGBI watchlist until March 2021 may see initial disappointment evaporate as foreigners continued to increase holdings in MYR debt securities albeit more modestly. Gross MGS/GII supply for 2020 has been revised to between RM145-150b (2019: RM115.7b) to reflect the government's economic stimulus packages. Potential risks from sizeable maturities skewed towards the 3Q are now out of the way.

MGS/GII issuance pipeline in 2020

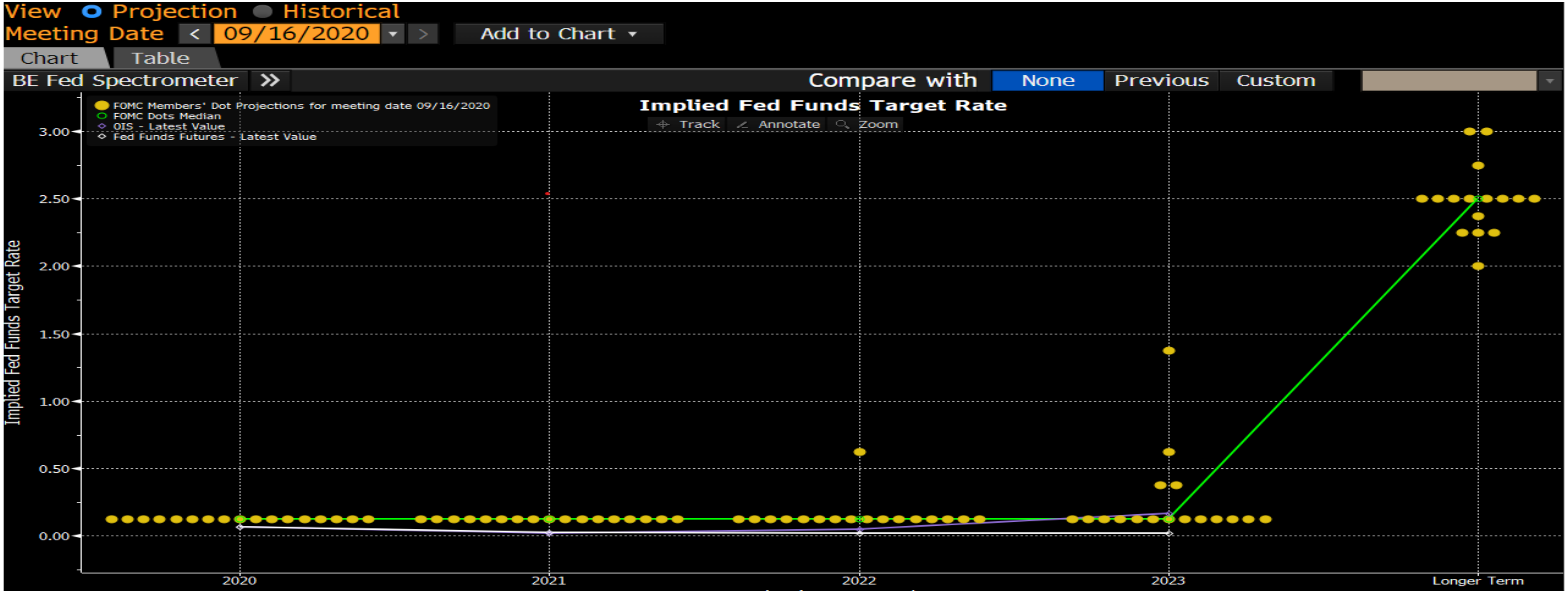
No	Stock	Tenure (yrs)	Tender Month	Quarter	Tender Date	Projected Issuance Size (RM mil)	Actual Auction Issuance (RM mil)	Private Placement X	Auction Amt Issued YTD	BTC (times)	Low	Average	High	Cut-off
1	7-yr reopening of MGS (Mat on 05/27)	7	Jan	Q1	8/1/2020	4,000	3,500		3,500	2.498	3.259	3.281	3.288	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	9/7/2020	5,000	5,000		68,800	2.512	1.987	2.002	2.010	15.7%
20	10-yr Reopening of GII (Mat on 10/30)	10	Jul	Q3	16/7/2020	5,000	5,000		73,800	2.591	2.650	2.665	2.679	90.9%
21	15-yr Reopening of MGS (Mat on 07/34)	15	Jul	Q3	23/7/2020	5,000	5,000		78,800	2.105	2.950	2.970	2.985	13.7%
22	7-yr Reopening of GII (Mat on 09/27)	7	Aug	Q3	1/8/2020	5,000	4,000		82,800	2.045	2.265	2.280	2.285	76.5%
23	20-yr Reopening of MGS (Mat on 05/40)	20	Aug	Q3	13/8/2020	5,500	4,000	1,500	86,800	1.469	3.200	3.240	3.273	20.0%
24	15-yr Reopening of GII (Mat on 11/34)	15	Aug	Q3	26/8/2020	5,500	4,000	1,000	90,800	1.423	2.995	3.032	3.080	38.0%
25	7-yr Reopening of MGS (Mat on 05/27)	7	Sep	Q3	3/9/2020	5,000	3,500		94,300	1.538	2.254	2.291	2.340	63.3%
26	30-yr Reopening of GII (Mat on 11/49)	30	Sep	Q3	17/9/2020	5,000	3,000	500	97,300	1.358	3.985	4.178	4.351	90.0%
27	5-yr Reopening of MGS (Mat on 09/25)	5	Sep	Q3	29/9/2020	4,000	5,000		102,300	2.803	2.360	2.389	2.405	33.0%
28	3-yr Reopening of GII (Mat on 05/23)	3	Oct	Q4		4,000								
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		4,500			`					
31	30-yr Reopening of MGS (Mat on 06/50)	30	Nov	Q4		4,000		X						
32	7-yr Reopening of GII (Mat on 09/27)	7	Nov	Q4		4,000								
33	15-yr Reopening of MGS (Mat on 07/34)	15	Nov	Q4		4,100								
34	10-yr Reopening of GII (Mat on 10/30)	10	Dec	Q4		4,500		X						
	Gross MGS/GII supply in 2020					149,400		17,000						

Monthly foreign holdings of overall MYR bonds jumped to RM209.5 as at end-Sep 2020 from RM198.9b as at end-June 2020



Foreign holdings of MYR govt bonds i.e. MGS + GII + SPK which fell to a YTD low of RM165.8b as at end-April of the year has surpassed its previous peak (last seen at RM 188.2b as at end-Jan) by an increase of RM12.0b during the 3Q2020 (i.e. 23.1% of total outstanding govt bonds as at end-Sep. FTSE Russell on the 24th Sep has maintained the nation's bonds on watchlist until March 2021 with the existing weightage of ~0.4% WGBI. The Fed's intention to leave rates unchanged at least until 2023 has boosted global sovereign bond purchases including EM Asia in view of yield-carry and backed by safe-appeal status despite elevated supply concerns arising from higher fiscal spending required due to the COVID-19 virus pandemic. The current deluge of negative-yielding global debt may also see a spill-over into Govt-guaranteed/Corporate Bonds/Sukuk with decent spreads.

Following three (3) YTD rate cuts of 150bps to 0.00-0.25%, the Fed Dot Plot sees rates staying pat up to end-2023, as opposed to the end-2021 earlier



The Fed has signaled that they expect no further monetary easing for the remainder of the year right up through 2023; against an earlier backdrop of a series of rate cuts to combat the economic fallout from the COVID-19 virus pandemic. The Fed has reiterated to continue its QE program, conduct open market purchases of UST's and MBS if needed and conduct overnight REPO agreement operations. These are expected to be ongoing until inflation rises above to 2.0% levels whilst maintaining "maximum employment" instead. Current significant gaps exist between the Democrats' $2.2 trillion proposal and a $1.6 trillion offer backed by the White House. Meanwhile the Fed's balance sheet of $7.1 trillion remains higher following the $2.9 trillion QE purchases since the onset of COVID-19 pandemic and is expected to exceed $10 trillion by the end of the year.

Country	3M Views		Comments/ Outlook
US	**Maturity Preference**		**Sovereigns** UST benchmark yields ended mostly mixed between a tight range of a mere -1 to +6bps in 3Q2020 with the longer-ends pressured causing the curve to steepen extending out from 7Y. The UST 2Y edged 2bps @ 0.13% whereas the much-watched UST 10Y rose 2bps instead QOQ moving within a narrower 0.50-0.78% range before settling at 0.69%. The Bloomberg Barclays US Treasury Index has returned a meagre +0.2% QOQ (previous QOQ: 0.5%) but overall +8.9% YTD. The US economy added 661k jobs in September (Aug: +1.49mil), fewer than analysts' expectation of 859k gains. The US ISM Manufacturing PMI edged lower to 55.4 in September (Aug: 56.0) as new orders growth slowed substantially. Nevertheless investors are seen slightly jittery as the resurgence of 2nd wave of COVID-19 infections in the US may necessitate containment measures again. The tepid inflationary conditions along with the improvement in unemployment rate to 7.9% from 14.7%; a historical high, may help support the rates asset class with safe-haven bids. Additional supply may be partly offset by the Fed's asset purchase program with total monthly purchases of $80b of UST's and $40b of MBS. We expect a smaller contraction in growth than expected in the next 3 months, as the earlier 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 4Q2020. The **10-year UST is expected to be range-bound between 0.65-0.85%; finding good support at 0.85%** levels for this quarter. The flipside to our forecast are sudden unprecedented vaccine discovery for COVID-19 virus and also improving global trade especially with an improvement in US-China ties and change in the Fed's interest rate outlook for 4Q2020. **The medium-term durations in 4Q2020 potentially offer better risk-reward metrics.** **Corporate** Total issuances for Investment-Grade (IG) have reached $1.5 trillion YTD with gross new issuances still expected to be robust and on track to reach $2.0 trillion for 2020 on lower funding costs. (Note that about $147b in US dollar IG Corporate Bonds are due in 4Q2020 with bulk i.e. 50% from the financial sector). The Bloomberg Barclays US Corporate Total Return Value (for IG), which had a market value $6.56 trillion has seen option-adjusted spreads widen slightly to 131bps from 120bps in 3Q2020; despite strong investor demand for safer credits and yield . We note that the average returns were a mere +1.5% QOQ and +6.6% for YTD. The Bloomberg Barclays US Corporate High Yield Total Return Index (for HY) however produced a higher QOQ return of +4.6% and -3.9% YTD respectively. **We are mildly positive on IG issuances in the belly between 3-7Y tenures** on steady credit fundamentals with a preferential bias into sectors that support essential services such as water, severage and power that ought to maintain steady credit standing. Meanwhile, **we prefer to avoid the High Yield sector due to record issuances, heavy fund outflows and mounting worries about the economy and election which has dragged these bonds to its 1st loss since March despite having rallied after the Fed intervened in April. Expect business impact following COVID-19 pandemic and stretched balance sheets to be of concern going forward.**
	Medium		
	Policy Rate	**Yield Curve**	
	The Fed last left interest rates unchanged near zero (0.00-0.25%) in its FOMC meetings in July, August and Sep; having cut the Fed Funds Rate earlier in 2020 by a total of 150bps. It has signaled it expects to keep interest rates on hold through end-2023 whilst the Fed Fund Futures show traders expecting a 3.0% chance of a 25bps rate cut in November and also in December FOMC meetings later this year. Future adjustments to monetary policy would continue to be data dependent based on the recovery arising from the ongoing COVID-19 pandemic and global trade. Our house projection calls for rates to stay pat in 4Q 2020.	The yield curve widened slightly from ~50bps to 55bps spread for the quarter under review. (The 10s30s spread has nevertheless remained at ~77bps). We opine that rates are at all-time lows and that the Fed will stay pat on rates in the foreseeable future. Nevertheless a clear and undisputed winner in the US elections in Nov may cause bear-steepening of the curve due to possibly easier mandate to embark on further fiscal stimulus. Meanwhile we expect the Fed to use these policy tools: • implement yield-curve control which entails bond purchases that will be used to cap yields on certain maturities especially a the belly. • Strengthen its forward guidance on its target and future path for the Overnight FFR	

<table>
<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 showed spreads narrow towards UST's with the curve generally flatter extending out from 15Y onwards as overall yields drifted lower between 6-10bps QOQ. The nation's sovereign bonds posted its smallest quarterly gain of +0.7% in 3Q2020 (1Q2020 and 2Q2020 – gains of 3.0% each) amid heavy supply of debt. Nevertheless this pales in comparison compared to general global government bond rally of ~2.5% for the quarter under review. The short 2Y gained the most as yields rallied 10bps at 0.17% whilst the 10Y yield closed 6bps lower at 0.88%. The 3Q2020 GDP growth consensus is expected to narrow to 7-8% YOY decrease in 3QGDP (2Q2020: -13.2%) as the republic slowly recovers from the full brunt of deceleration in trade and business arising from the COVID-19 virus pandemic. Hence we foresee an eventual mild uptick in the economy upon proposals to lift restrictions in stages especially in travel etc. provided US-China relations does not deteriorate further. The SGS 2020 auction calendar reveals one last scheduled exercise for the year involving the auction of 5Y notes n October. 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 top three(3) 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-15Y space still seeing relative value going forward for 3Q2020.

<u>Corporate</u>
Singapore's open and trade-reliant economy did not witness distressed debts for 2Q2020 similar to earlier high-profile ones like Hyflux Ltd, KrisEnergy, MMI International, Swiber Holdings and Ezra Holdings Ltd which affected many retail investors; especially in the High Net-Worth sector. 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 advocate our interest in medium term duration to enhance returns especially in Investment-grade/quality credits including banks, financial institutions, statutory boards and also government-linked corporations. The recent $2.75b 3-part debt AAA-rated issuance involving 10Y, 30.5Y and 50Y tenures by Temasek Holdings Pte Ltd was a huge success attracting ~SGD5.0b of orders & priced at spreads of 47, 90 and 110bps. Additional issuances especially Perps by high-grade issuers are also seeing record issuances in the current low interest rate environment. The recovery in the logistics and resilience in healthcare-sectors sector are expected to boost sentiment However oil & gas coupled with construction-related debts may see stretched balance sheets. Risks to our recommendations include improving US-China trade ties and vaccine discoveries pertaining to the COVID-19 pandemic.</td></tr>
<tr><td colspan="2">Medium</td></tr>
<tr><td>Policy Rate</td><td>Yield Curve</td></tr>
<tr><td>We expect MAS to keep its SGD NEER policy settings in Oct 2020. Hence MAS will likely keep its exchange rate policy somewhat accommodative. It has been moving slightly above the upper half of the centre of the policy band-width; thus reflecting USD volatility along with weaker fundamentals of the Singapore economy. The republic continues to be in the US Treasury semi-annual currency monitoring list among other countries such as Malaysia and Vietnam.</td><td>SGS curve has shifted downwards led by the short-end in 3Q2020. expected to maintain steepness; somewhat plateauing from the 15Y tenures and above. Decent spreads over UST's are seen between 4-15Y tenures.</td></tr>
</table>

Country	3M Views		Comments/ Outlook
Malaysia	**Maturity Preference**		**Sovereigns** QOQ, local govvies saw strong demand as overall benchmark yields fell between 19-26bps resulting in the curve shifting lower. Some earlier concerns over the FTSE Russell WGBI weightage decision involving MYR bonds and supply concerns over another economic stimulus package "KITA PRIHATIN" saw some selling in September. Nevertheless investors brushed aside the decision on 24th Sep to maintain the nation on watchlist until March next year as yields turned attractive. The various economic stimulus packages now totaling RM305b is expected to see the fiscal deficit to spike 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 assess the impact of its earlier dovish-tilt. 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 jumped (see earlier slide). Traders and investors are now divided in their views as to the interest rate direction and magnitude of move going forward as the threat of a 2nd wave of COVID-19 infections become evident. 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 between RM145-150b; having taken into account the higher targeted budget deficit, shortfall in oil revenue for this year and non-issuance of foreign-currency denominated bonds. Despite shifts in global trade uncertainties, the positive interest-rate differentials may continue to entice investors in EM sovereign debt; thereby benefitting Malaysia; provided political stability is maintained. **The 7Y, 15-20Y GII along with the 5Y, 10Y MGS space reflect better values on the curve for 4Q2020. We expect the 10Y to range between 2.60-2.80% levels with strong support at 2.80% levels (3Q2020: 2.80%-3.00%)**. **Corporate** Corporate bonds/Sukuk issuances fell to RM24.8b as at 3Q2020; compared to 2Q2020's RM41.7b. YTD gross supply for 2020 of RM63.4b is within 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) and East Coast Rail Link (ECRL) will keep potential bond issuances busy. Trading activities for corporate bonds saw continued daily volume ease at circa RM651m daily (2Q2020:RM736m) with interest fairly distributed across the GG, AAA and AA-segment of the curve as yields dropped between 8-46bps. **We continue to like both the GG due to both liquidity and stronger credit metrics and also the AA-sector for yield pick-up features**. The GG bond names like PASB, DANAINFRA, PRASARANA and LPPSA are expected to be well-sought after on lesser portfolio slippage by investors. **The 5Y, 7Y and 20Y GG sector (current yield spreads over MGS @ +18bps, +20bps and +45bps respectively) and also the 3Y and 15-20Y AA1-rated papers (current yield spreads over MGS are +55bps and +42-44bps) are seen more attractive in their respective part of the curves. We would avoid retail, auto, leisure, property-backed issuers but prefer those in power, utilities, tolling and also conglomerates with a diversified business profile.** Unrated bonds and perps are also able to provide alternative and juicier yields; especially for retail investors but one has to be mindful of the property-related issuances.
	Duration neutral-longer		
	Policy Rate	**Yield Curve**	
	The MPC in its last meeting on 10th Sep 2020 left the OPR unchanged at 1.75%, citing continuous improvement in growth outlook. The less dovish policy tone where MPC views the current policy stance as "appropriate and accommodative" suggests BNM has no immediate plans for further rate cut at its next meeting in November. However, the recent resurgence in Covid-19 cases to fresh daily high in Malaysia reintroduces odds of another rate cut as early as November. We also foresee downside risks to our full year 2020 growth projection of -4.9% as the localized lockdown would certainly impede economic activities though at a lesser extent compared to the nationwide lockdown back in March/ April.	Current yield curve has shifted lower almost in parallel fashion reflecting investors earlier belief in further rate cuts. Nevertheless we continue to anticipate a slightly flatter curve in 4Q2020 going forward on decent comparable yield levels and tepid inflation. We anticipate demand for 15-20Y to exert slight flattening pressure.	

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