Hong Leong Bank

Quarterly Market Outlook 1Q2020

Global Markets

January 2020

Content

Global Growth Outlook

Real GDP (% YOY)	Latest 2 Quarters		Actual	Forecast		Forecast (official)	
	2Q19	3Q19	2018	2019	2020	2019	2020
World	-	-	3.6	**3.0** *(3.2)*	**3.0** *(3.1)*	**3.0** *(3.2)*	**3.4** (3.5)
DM/ G10	1.6	1.7	2.3	**1.7** *(1.7)*	**1.5** *(1.5)*	-	-
US	2.3	2.1	2.9	**2.3***(2.3)*	**1.8** *(1.7)*	**2.2** *(2.2)*	**2.0** *(2.0)*
Eurozone	1.2	1.2	1.9	**1.2** *(1.1)*	**1.0** *(1.0)*	**1.2** *(1.1)*	**1.1** *(1.2)*
UK	1.2	1.1	1.4	**1.3** *(1.2)*	**1.0** *(1.1)*	**1.4** *(1.3)*	**1.2** *(1.3)*
Japan	0.9	1.7	0.8	**0.9** *(0.9)*	**0.4** *(0.3)*	**0.6** *(0.7)*	**0.7** *(0.9)*
BRICs	5.0	4.9	5.7	**5.1** *(5.3)*	**5.1** *(5.3)*	-	-
China	6.2	6.0	6.6	**6.1** *(6.2)*	**5.9** *(6.0)*	**6.0-6.5%**	-
India*	5.0	4.5	7.2	**6.8** *(6.5)*	**5.1** *(6.3)*		-
Asia ex-Japan	5.2	5.0	6.0	**5.3** *(5.5)*	**5.2** *(5.4)*	-	-
EMEA	1.8	2.4	3.0	**2.1** *(1.9)*	**2.5** *(2.4)*	-	-

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

Global Central Banks Policy Rates Outlook

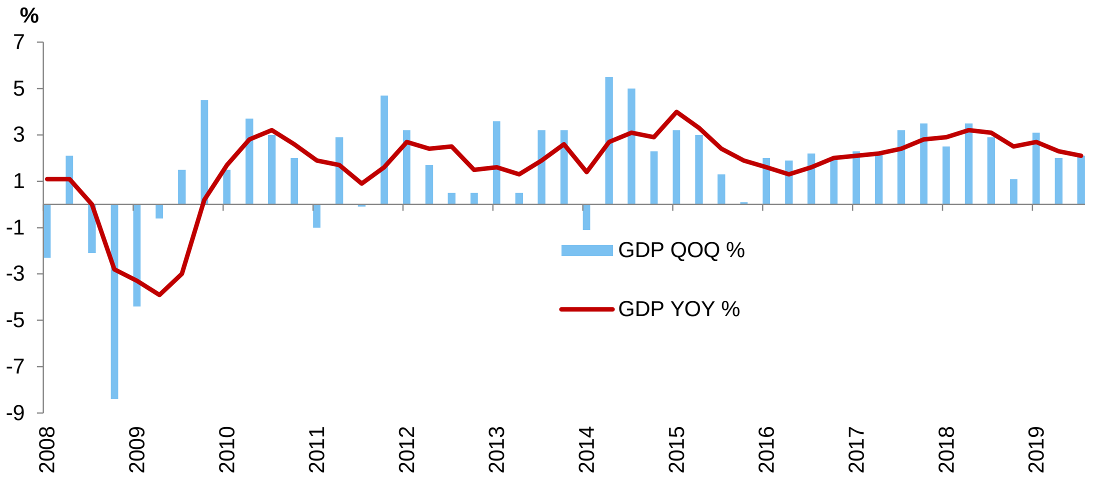
	Current	1Q20	2Q20	3Q20	4Q20	Remarks
United States Federal Reserve *Fed Funds Rate*	**1.5-1.75**	1.5-1.75	1.5-1.75	1.5-1.75	1.5-1.75	**No cut in 2020**
Eurozone European Central Bank *Deposit Rate*	**-0.50**	-0.50	-0.50	-0.50	-0.50	**No cut in 2020**
United Kingdom Bank of England *Bank Rate*	**0.75**	0.75	0.75	0.75	0.75	**No cut, subject to Brexit**
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*	**0.75**	0.50	0.50	0.50	0.50	**1 cut in 1Q20**
New Zealand Reserve Bank of New Zealand *Official Cash Rate*	**1.00**	1.00	1.00	1.00	1.00	**No cut in 2020**
Malaysia Bank Negara Malaysia *Overnight Policy Rate*	**3.00**	3.00	3.00	3.00	3.00	**No cut in 2020**
Thailand The Bank of Thailand *1-Day Repurchase Rate*	**1.25**	1.25	1.25	1.25	1.25	**No cut in 2020**
Indonesia Bank Indonesia *7-day Reverse Repo Rate*	**5.00**	5.00	4.75	4.75	4.75	**1 cut by 1H20**
Philippines Bangko Sentral ng Pilipinas *Overnight Reverse Repo Rate*	**4.00**	3.75	3.75	3.75	3.75	**1 cut by 1Q20**

Source: Bloomberg, Global Markets Research

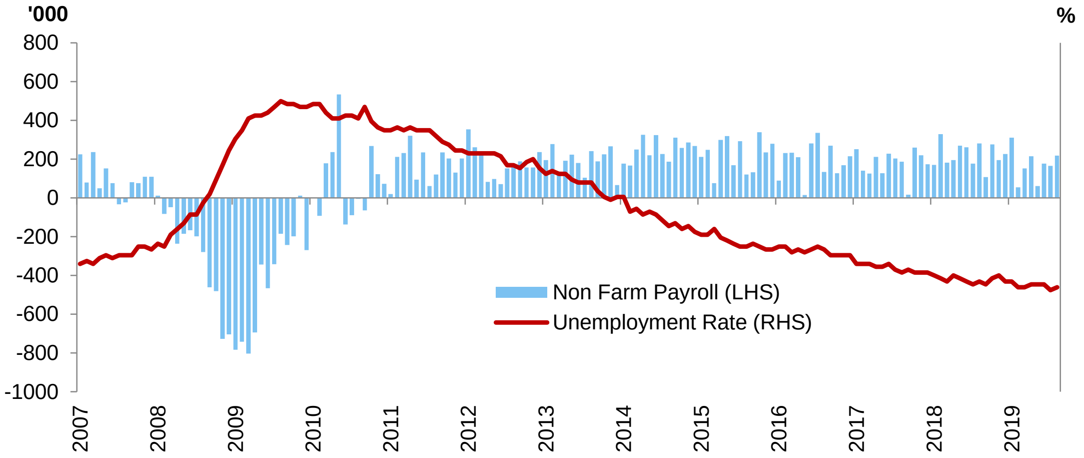
Hong Leong Bank

The US – Solid fundamentals supported by firm labour market; Fed to hold rate in 2020

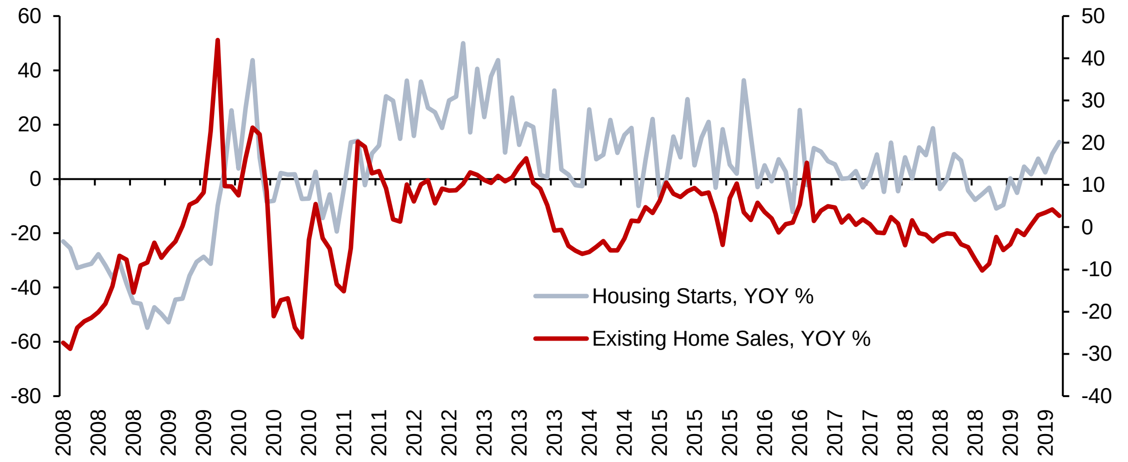
3Q GDP growth pulled back but remained solid; expect consumer spending to continue supporting the economy.



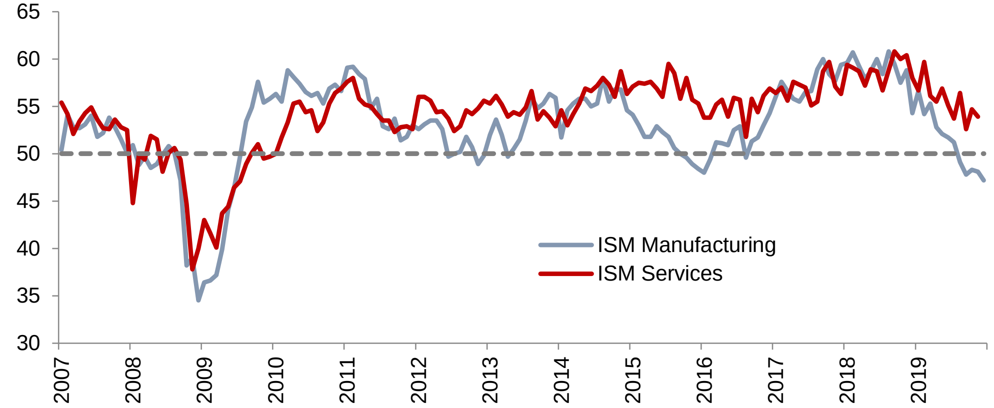
Job market in firm shape, with unemployment rate remaining at historically low level.



Housing market is firming up amidst low borrowing cost and returning demand

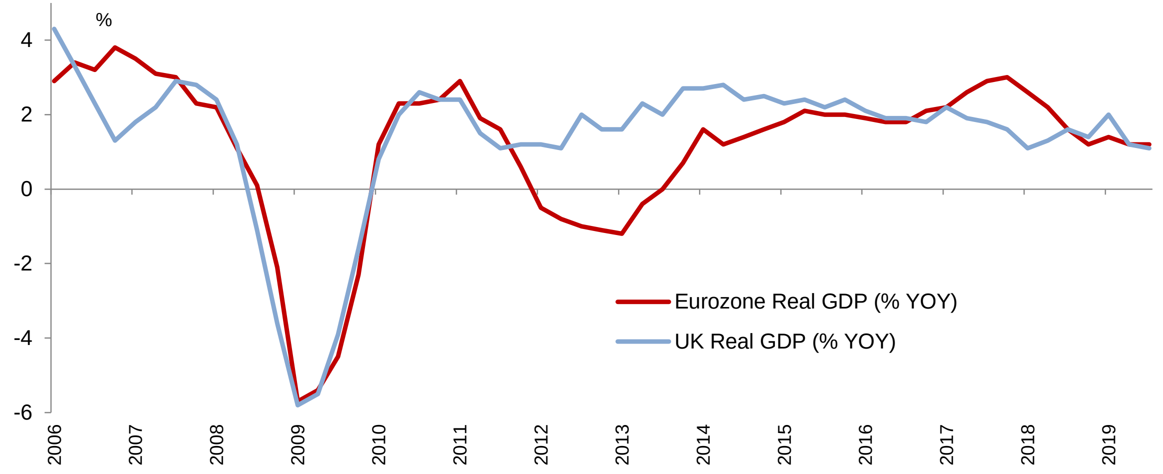


Manufacturing business activities continue to contract; services in comfortable expansion territory.

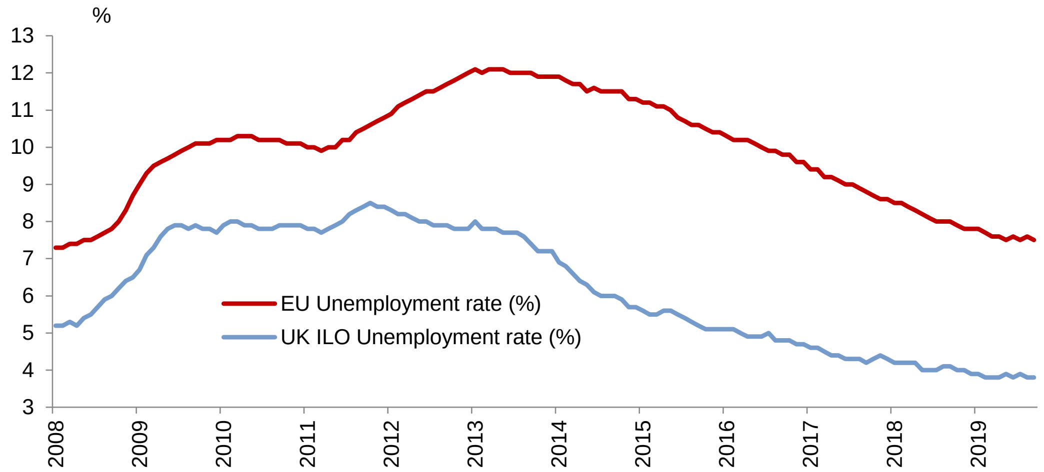


The EU and UK – Manufacturing downturn deepened; Easing Brexit uncertainties helped lift sentiment

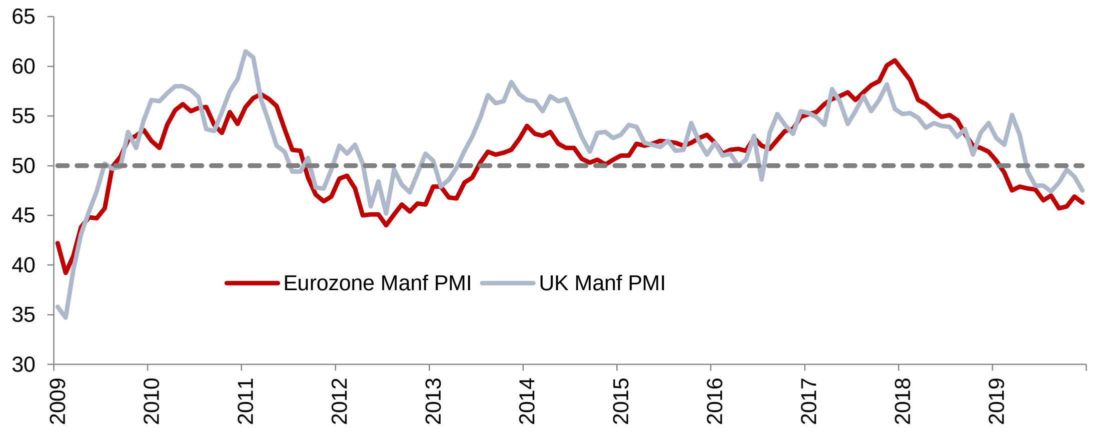
Growth stabilized in 3Q; outlook still skews to the softer side



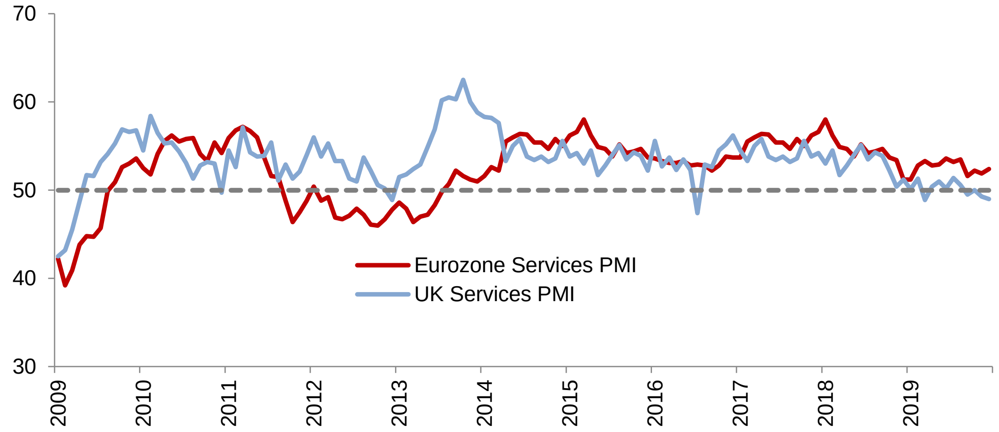
Labour markets remain tight in both Eurozone and UK



Manufacturing downturn deepened, rounding off 4Q in contraction

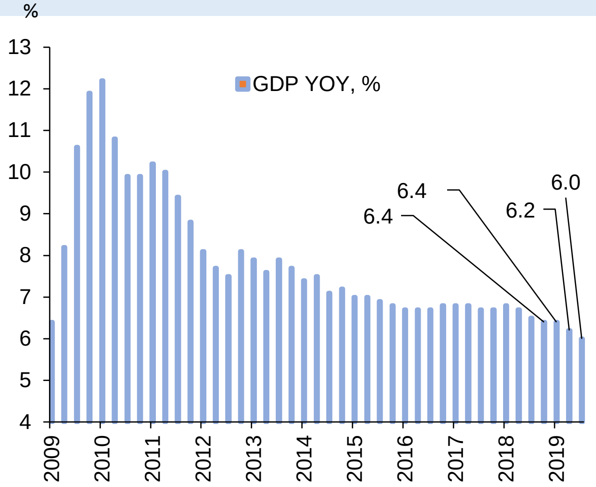


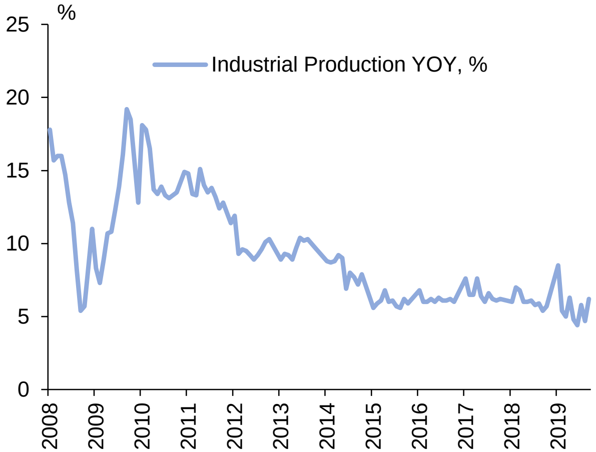
Services continues growing in Eurozone and stabilizing in the UK.



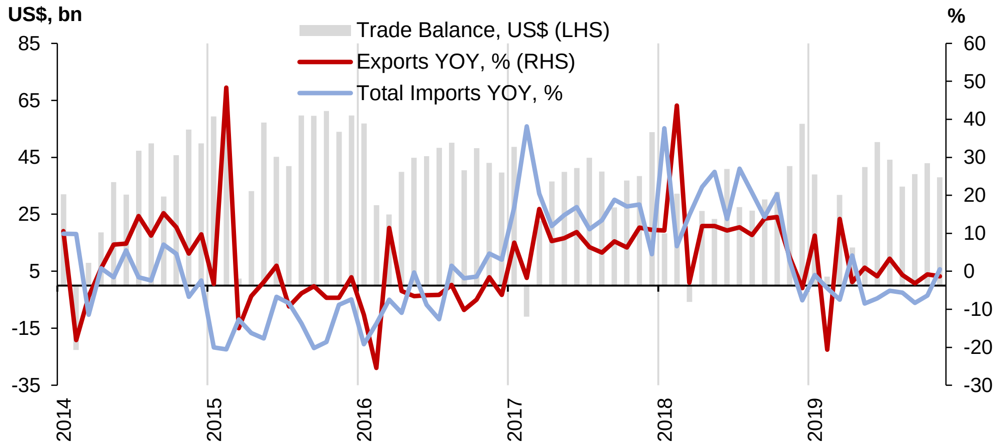
China — Data remained weak heading into 2020, economy to be supported by government stimulus

Growth continued to decelerate into the second half; slight rebound expected ahead of Lunar New Year

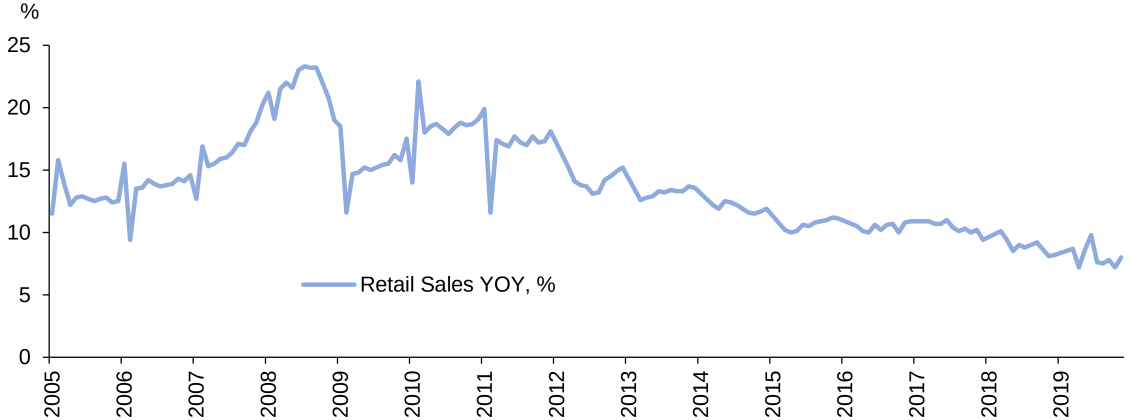




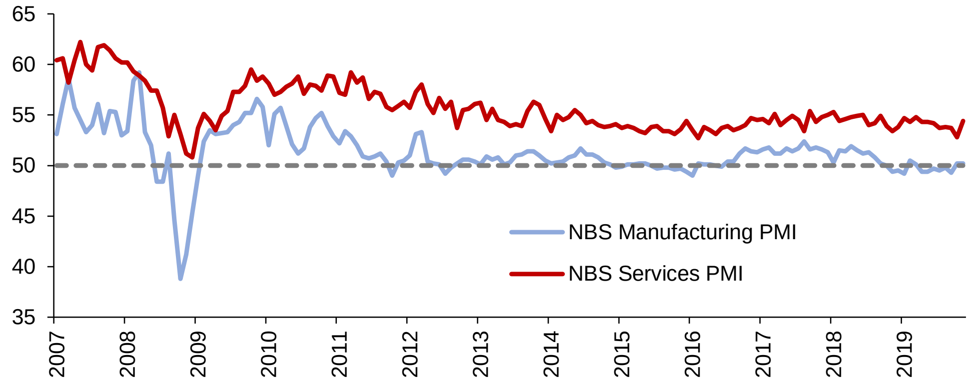
Exports in losing streak amidst poor global demand; expected to improve in 1Q after signing phase one trade deal.



Retail sales growth trending down amidst more cautious spending behavior.

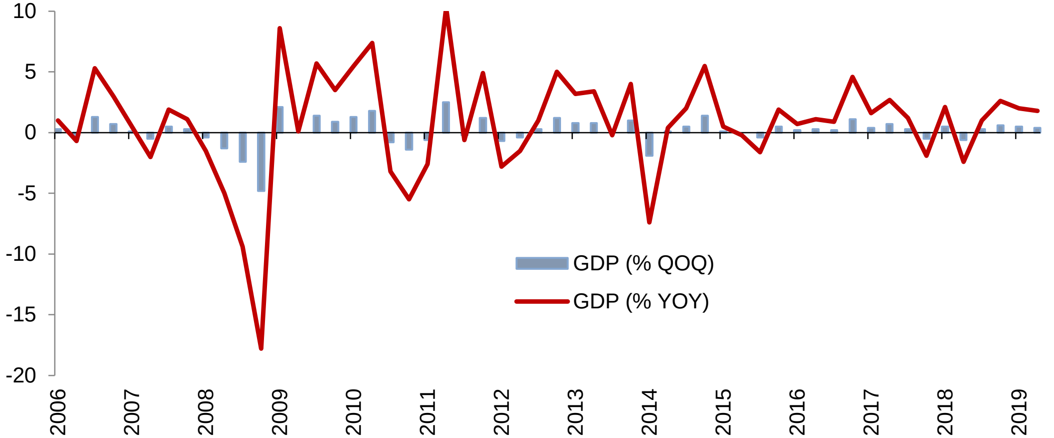


Manufacturing activities stabilized following a near 6-month slump, Services sector in solid state.

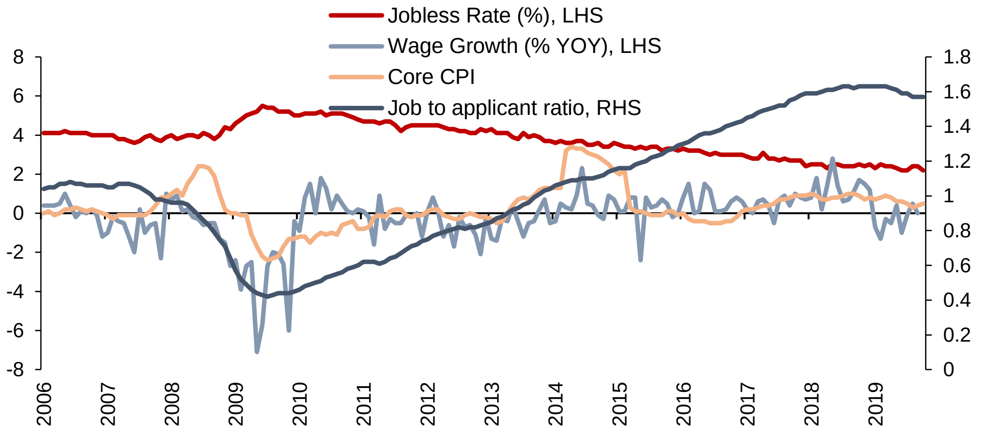


Japan — Weak manufacturing and services spell poor start to 2020

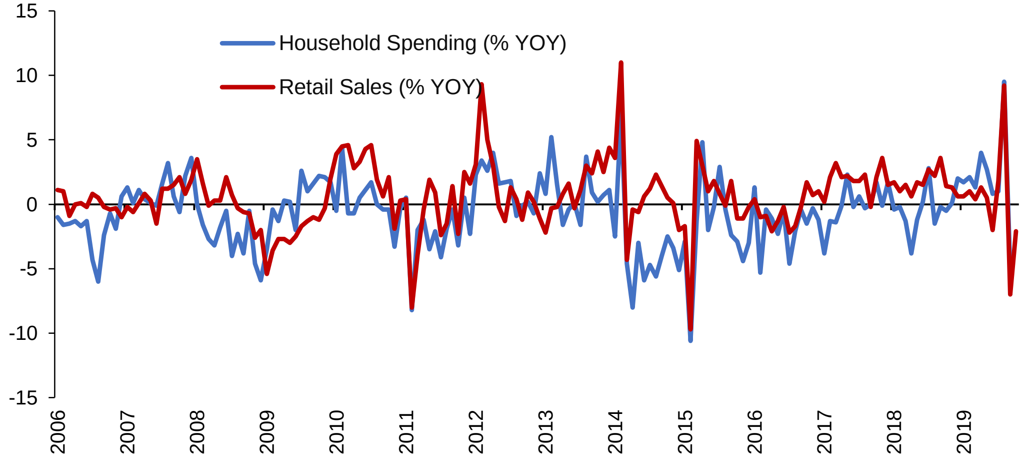
Expect contraction in 4Q as manufacturing and services activities slumped.



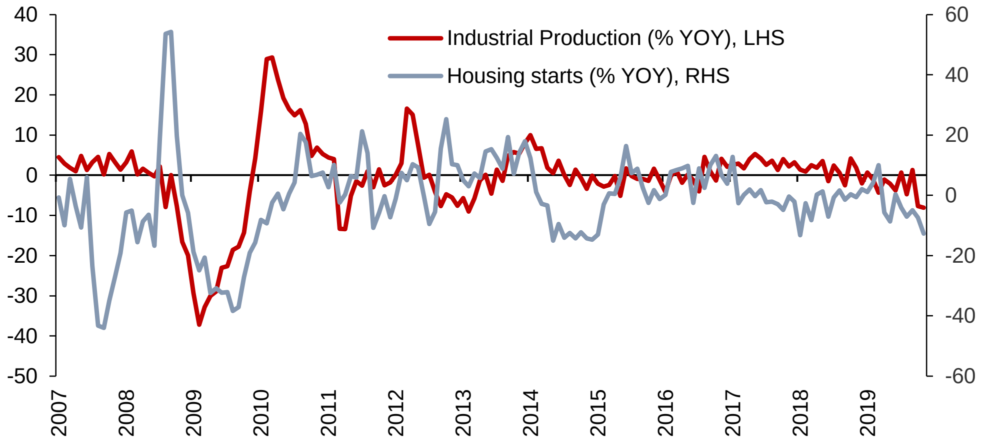
Tight labor market with flattish wages; Inflation lost momentum.



Temporary distortion to spending amidst adjustment to sales tax hike, effect to wane in 1Q.

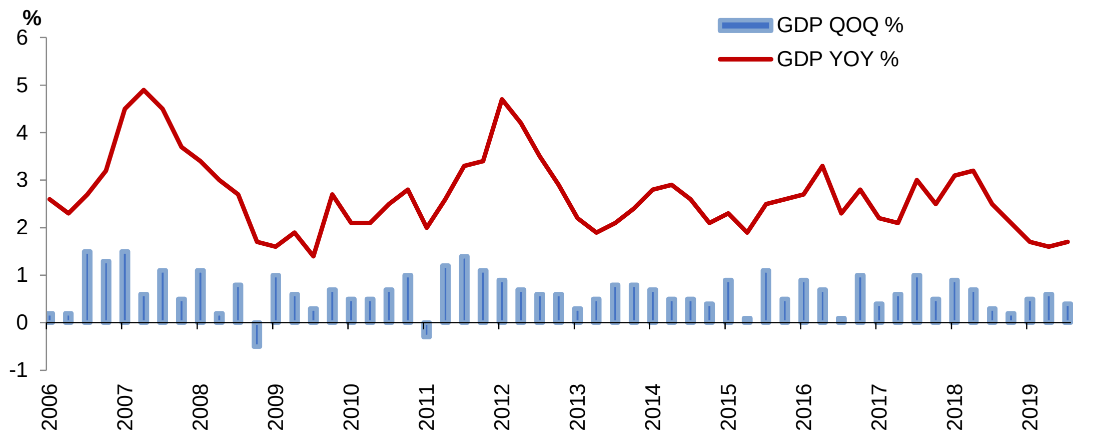


Manufacturing downturn deteriorated on the back of poor overseas demand and disruption caused by typhoon,

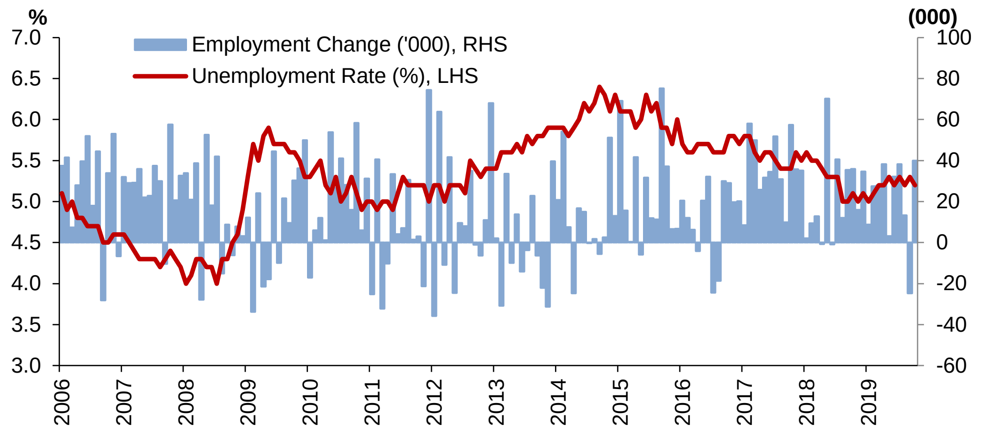


Australia – Manufacturing sector slumped, odds of RBA cutting rate increased

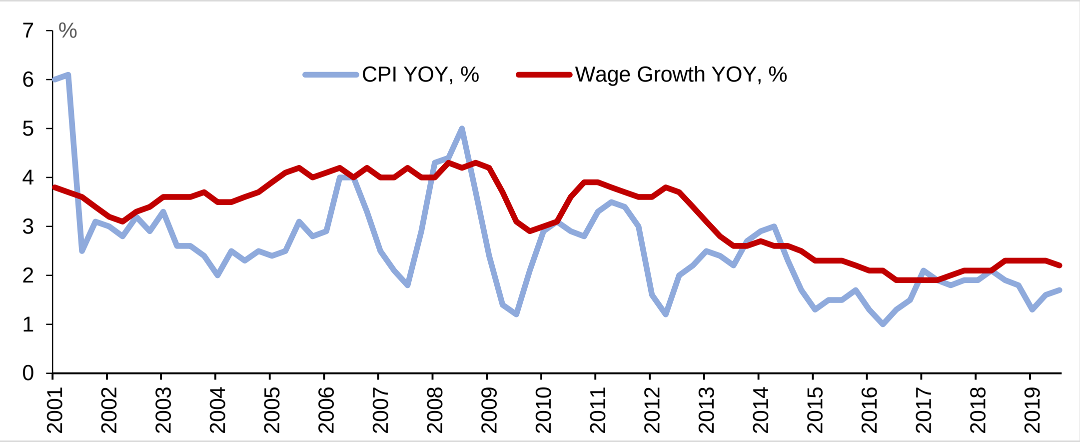
Growth stabilized in 3Q, recent wildfire weighs on an uncertain outlook.



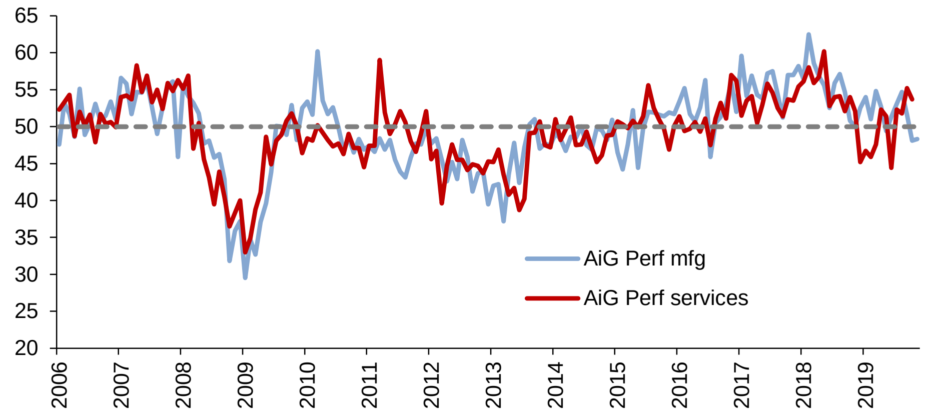
Solid labour market kept RBA from cutting rate thus far.



Wage growth pulled back from recent high, CPI inflation remained subdued and below RBA's target.

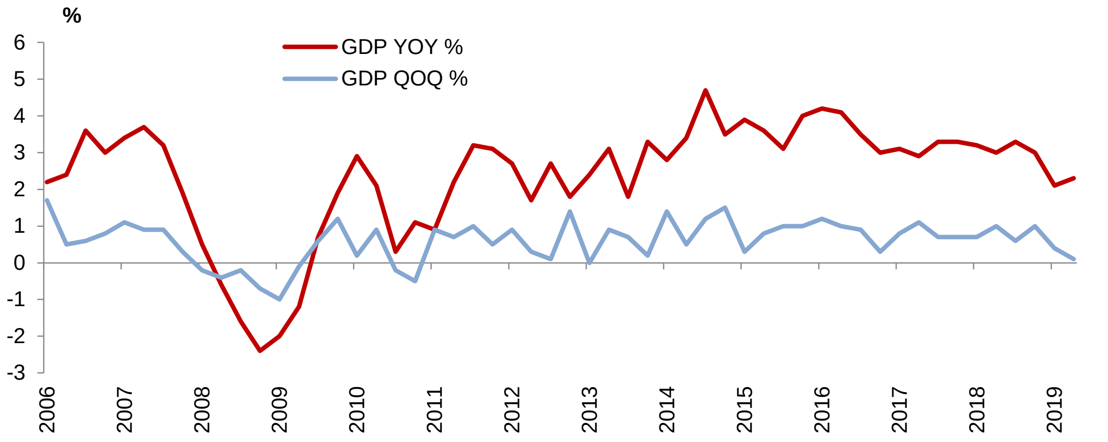


Manufacturing ended 2019 on a poor note, pointing to weak 1Q outlook; services recovered.

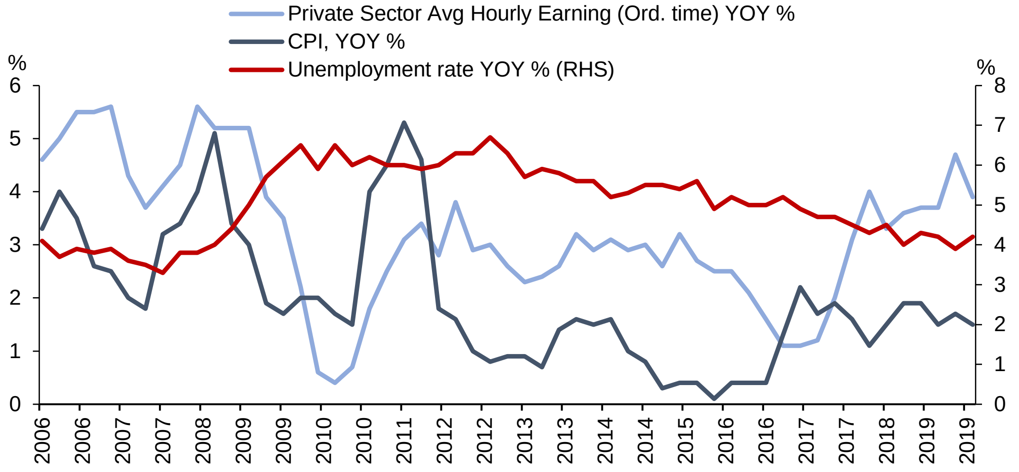


New Zealand — RBNZ likely to stay put as economy stabilizes, confidence improves

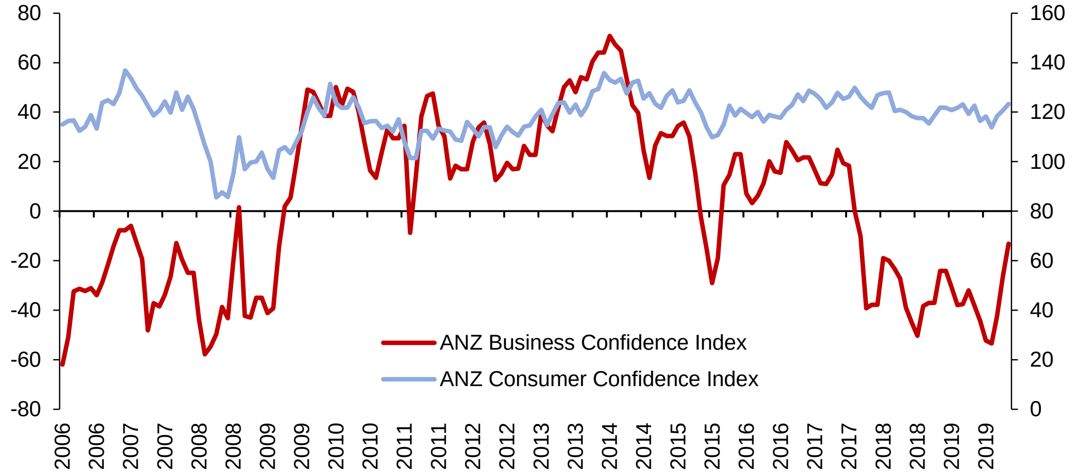
GDP growth staged a strong rebound in 3Q, RBNZ paused after earlier cuts



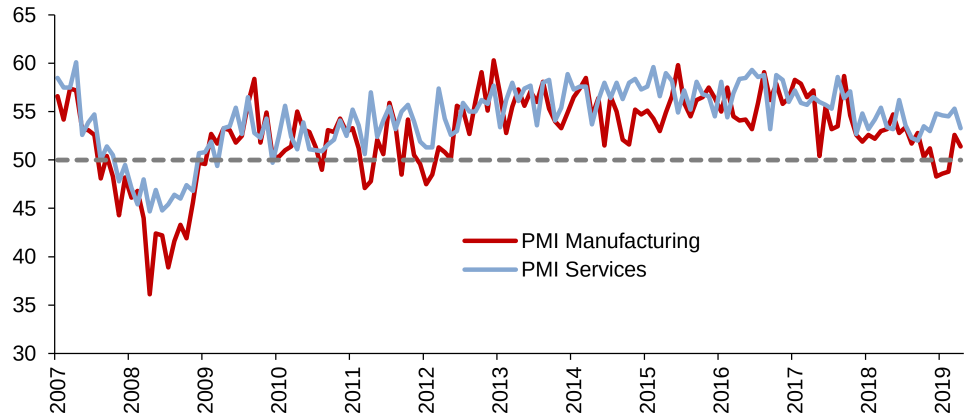
Labour market flashed signs of weakness, CPI still below RBNZ target



Business and consumer confidence improved tremendously at year-end.

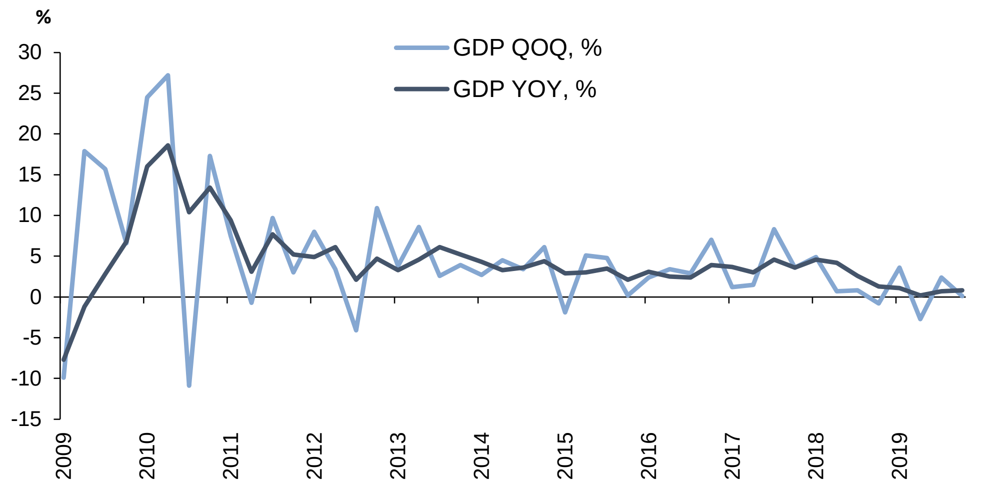


Manufacturing sector rebounded In 4Q, services still at comfortable growth.

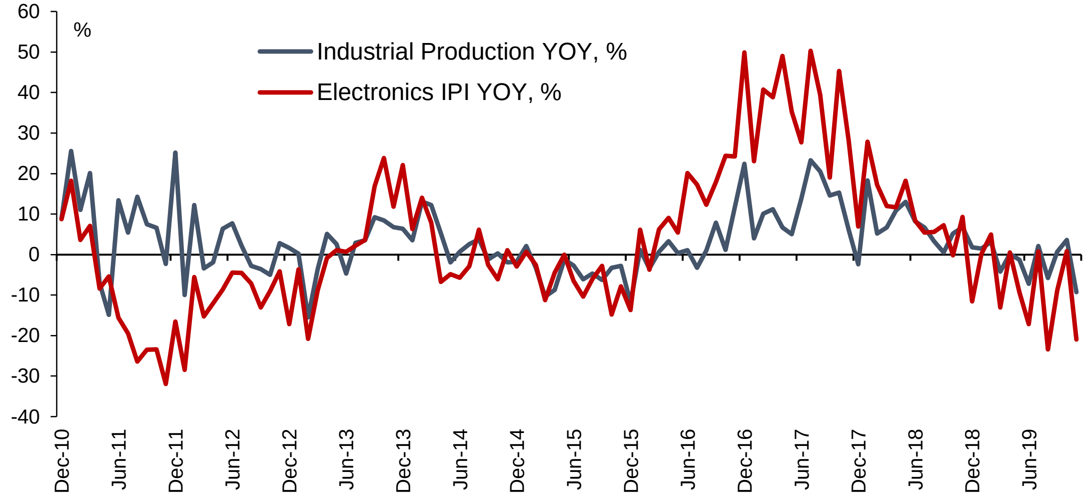


Singapore – Economy hit a trough, outlook still clouded by poor international trade

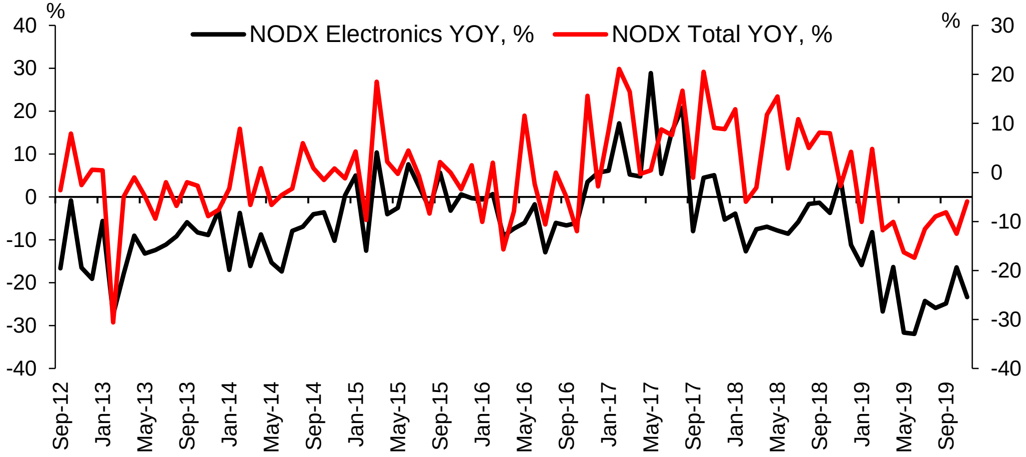
Economy bottomed out and rebounded in 4Q.



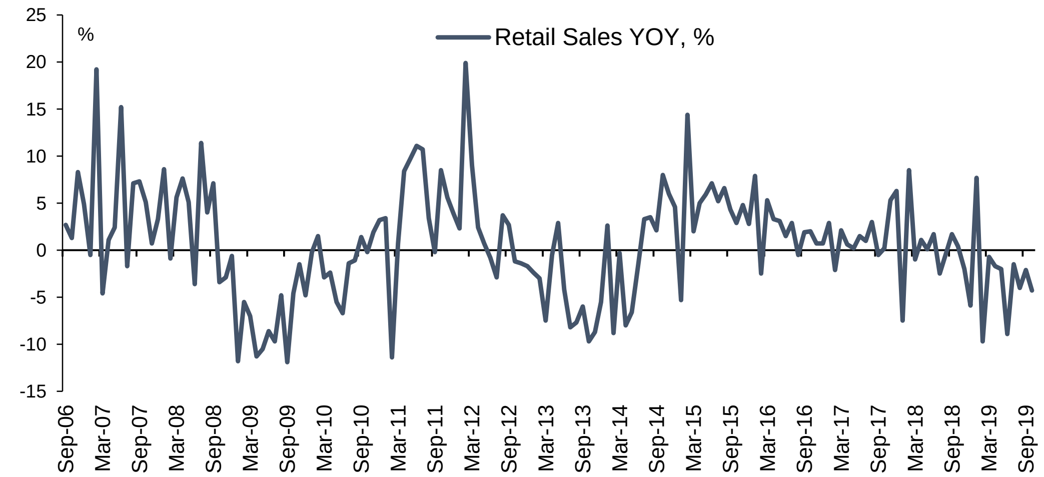
Manufacturing rebound was short-lived as foreign demand remains poor.



NODX in losing streak on the back of poor electronic demand.

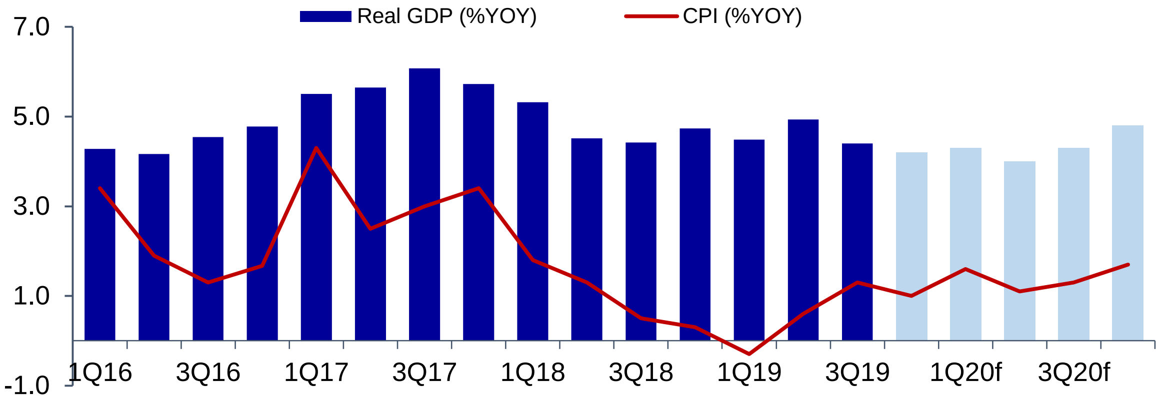


Retail sector continued to underperform on poor vehicle sales.

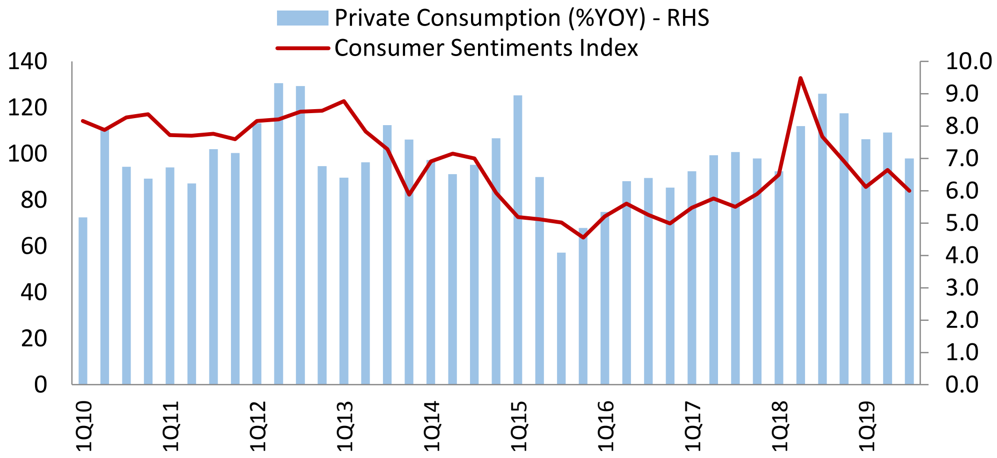


Malaysia – Softer growth momentum heading into 2020, OPR adjustment not imminent

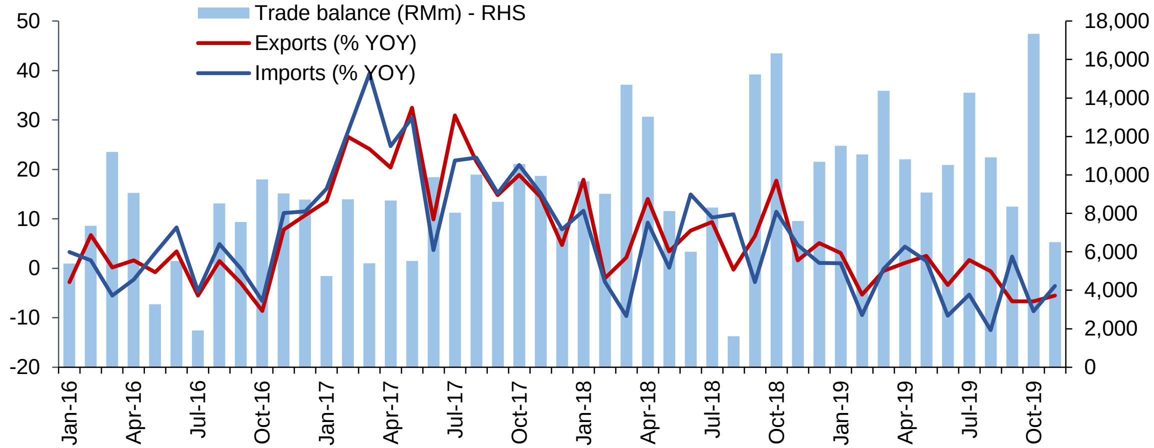
**Expect GDP growth at 4.5% in 2019 and 4.3% in 2020.
CPI to see continuous modest gain.**



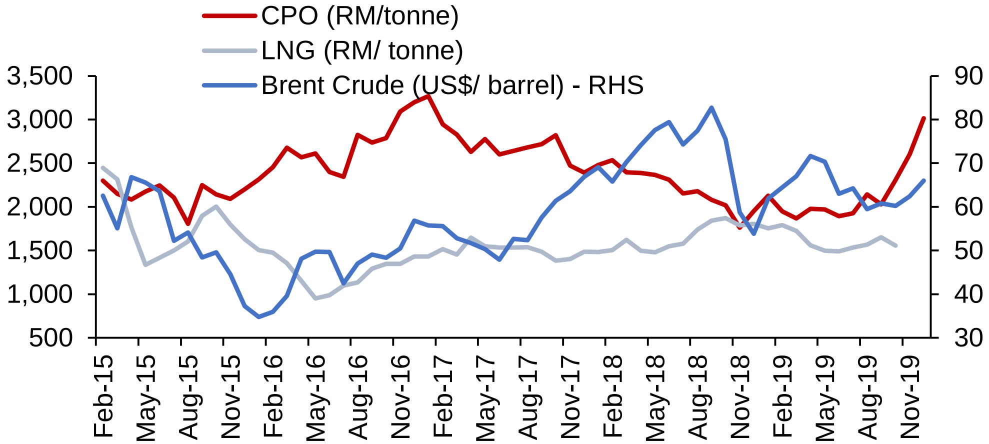
Private consumption slowed in 3Q and likely stays soft



Exports continue to fall victim to poor global trade.



Spike in Brent crude and CPO prices (>RM3,000) is positive for the Malaysian economy



FX Outlook – 1Q2020

Currency	Outlook	Comments
USDMYR	↗	• Neutral with a bullish bias intertwined between sustained USD strength and potential escalation of geo-political risks that would dampen demand for EM currencies. Recovery in commodity prices could however help provide the much needed boost to overall growth prospects, hence reducing the odds for policy easing and cap losses on the MYR.
EURUSD	→	• EUR is slightly bearish amid ECB easing bias vis-à-vis the Fed pause, but losses likely limited on the back of a firm USD supported by haven demand.
GBPUSD	↘	• Expect GBP to remain volatile with a downwards bias as Brexit uncertainties continue to prevail.
USDJPY	↘	• JPY continues to be supported by general risk aversion in the markets as geopolitical risks loom.
AUDUSD	↘	• Bearish bias on potentially further easing by RBA in 1Q, on top of China slowdown concern and expectation of risk-off in the markets.
NZDUSD	↘	• Bearish bias on risks of further easing by RBNZ further out into the year, on top of China slowdown concern and expectation of risk-off in the markets.
USDSGD	↗	• Bearish bias on overall USD strength and likelihood of paring of demand for EM currencies, and relatively weaker outlook in the Singapore economy vis-à-vis the US.

Source: Global Markets Research

FX Forecast – 1Q2020

Currency Pair	31 Dec 19 closing	End 1Q20 closing	End 2Q20 closing	End 3Q20 closing	End4Q20 closing
EUR/USD	1.1213	1.10-1.12	1.11-1.13	1.13-1.15	1.13-1.15
GBP/USD	1.3257	1.30-1.32	1.30-1.32	1.31-1.33	1.32-1.34
USD/JPY	108.61	106-108	105-107	105-107	106-108
AUD/USD	0.7021	0.68-0.70	0.68-0.70	0.68-0.70	0.68-0.70
NZD/USD	0.6740	0.65-0.67	0.65-0.67	0.65-0.67	0.65-0.67
USD/SGD	1.3459	1.34-1.36	1.33-1.35	1.32-1.34	1.31-1.33
USD/MYR	4.0910	4.09-4.11	4.08-4.10	4.07-4.09	4.05-4.07
EUR/MYR	4.5875	4.54-4.56	4.57-4.59	4.64-4.66	4.62-4.64
GBP/MYR	5.3772	5.35-5.37	5.35-5.37	5.38-5.40	5.39-5.41
AUD/MYR	2.8676	2.82-2.84	2.81-2.83	2.81-2.83	2.79-2.81
SGD/MYR	3.0412	3.02-3.04	3.04-3.06	3.06-3.08	3.07-3.09

Source: Bloomberg, Global Markets Research

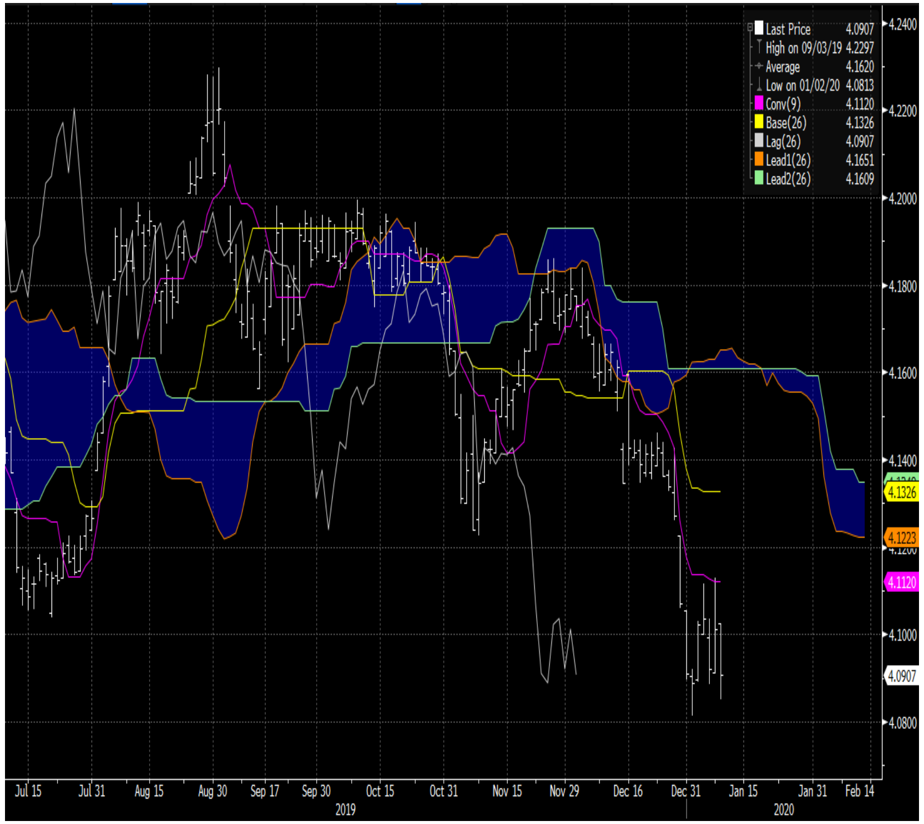
FX Technical Analysis

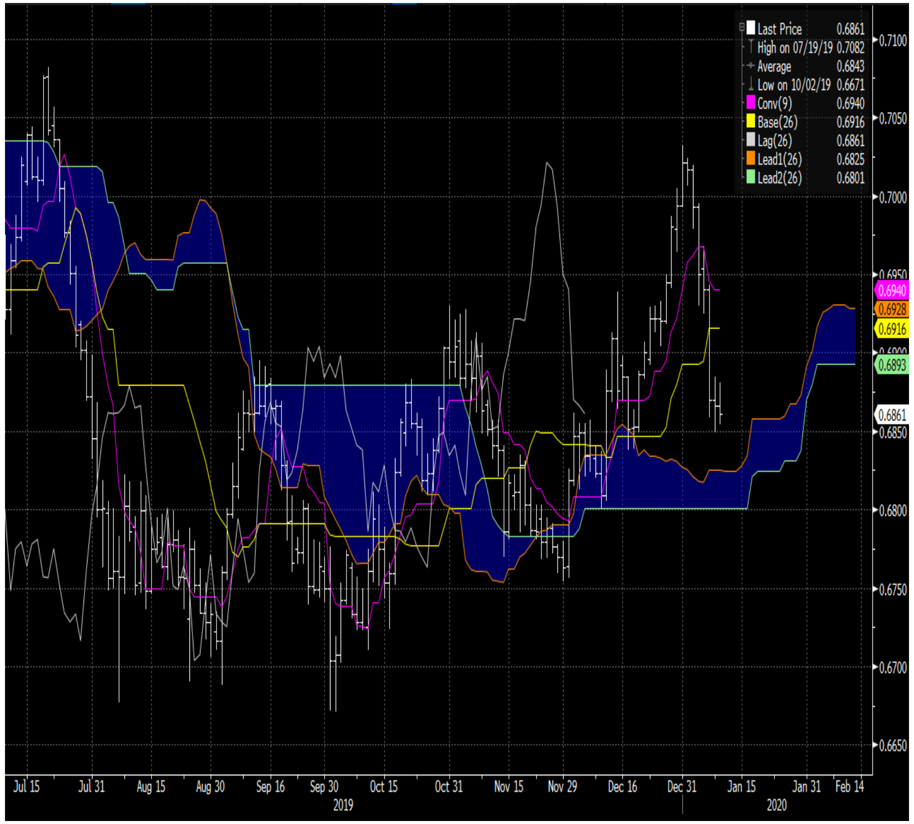
USDMYR: Chart suggests USDMYR remains bearish, below the Ichimoku cloud. Other indicators however showed the pair is consolidating at the lower Bollinger Band reinforced by reducing negative momentum Expect a bounce back above 4.10 but upside looks capped by the 4.12 handle.

Resistances: 4.1118, 4.1206, 4.1340
Supports: 4.0896, 4.0718, 4.0652

AUDUSD: AUDUSD is bearish in our view amid a generally risk-off environment, potential RBA easing, China slowdown concern and yet to quantify economic losses from the bush fire. Negative MACD is building up and is expected to lead the pair to test the 0.6800 key handle.

Resistances: 0.6928, 0.7021, 0.7114
Supports: 0.6825, 0.6751, 0.6674





Source: Bloomberg Global Markets Research

Fixed Income Outlook

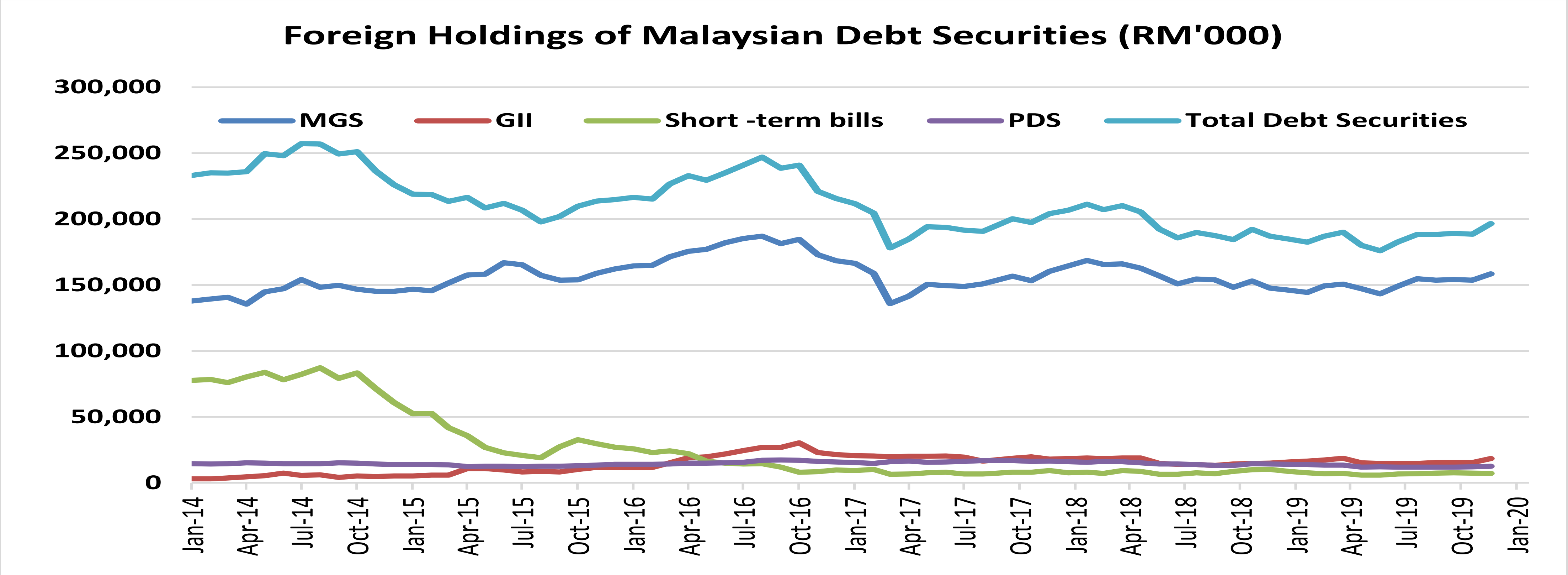
Overall MGS/GII BTC ratios improved to ~2.54x in 2019 (2018: 2.29x) on positive yield-carry requirements coupled with safe-appeal status amid a deluge of negative-yielding global debt.

Gross MGS/GII supply for 2020 has been revised down to RM117.4b (2019: RM115.7b) to reflect the Govt’s proposed samurai bond issuance whilst sizeable maturities are skewed towards the middle of the year; we expect front-loading of issuances in 1H of the year

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	8/1/2019	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		4,000		X						
3	3-yr Reopening of MGS (Mat on 3/23)	3	Jan	Q1		3,000								
4	30-yr Reopening of GII (Mat on 11/49)	30	Feb	Q1		3,000		X						
5	10-yr Reopening of MGS (Mat on 08/29)	10	Feb	Q1		3,000								
6	5-yr Reopening of GII (Mat on 10/24)	5	Feb	Q1		3,000								
7	15-yr Reopening of MGS (Mat on 07/34)	15	Mar	Q1		4,000		X						
8	20-yr Reopening of GII (Mat on 09/39)	20	Mar	Q1		4,000		X						
9	5-yr Reopening of MGS (Mat on 09/25)	5	Mar	Q1		3,000								
10	7.5-yr New Issue of GII (Mat on 09/27)	7	Mar	Q1		4,000		X						
11	20-yr Reopening of MGS (Mat on 05/40)	20	Apr	Q2		4,000		X						
12	10.5-yr New Issue of GII (Mat on 10/30)	10	Apr	Q2		4,000		X						
13	7-yr Reopening of MGS (Mat on 05/27)	7	Apr	Q2		3,500								
14	15-yr Reopening of GII (Mat on 11/34)	15	May	Q2		3,500		X						
15	10-yr Reopening of MGS (Mat on 08/29)	10	May	Q2		3,500								
16	3-yr Reopening of GII (Mat on 05/23)	3	Jun	Q2		3,000								
17	30-yr New Issue of MGS (Mat on 06/50)	30	Jun	Q2		3,500		X						
18	20-yr Reopening GII (Mat on 09/39)	20	Jun	Q2		3,500		X						
19	3-yr Reopening of MGS (Mat on 03/23)	3	Jul	Q3		3,500								
20	10-yr Reopening of GII (Mat on 10/30)	10	Jul	Q3		3,500								
21	15-yr Reopening of MGS (Mat on 07/34)	15	Jul	Q3		3,000								
22	7-yr Reopening of GII (Mat on 09/27)	7	Aug	Q3		3,500								
23	20-yr Reopening of MGS (Mat on 05/40)	20	Aug	Q3		4,000		X						
24	15-yr Reopening of GII (Mat on 11/34)	15	Aug	Q3		3,500		X						
25	7-yr Reopening of MGS (Mat on 05/27)	7	Sep	Q3		3,000								
26	30-yr Reopening of GII (Mat on 11/49)	30	Sep	Q3		3,000		X						
27	5-yr Reopening of MGS (Mat on 09/25)	5	Sep	Q3		3,000								
28	3-yr Reopening of GII (Mat on 05/23)	3	Oct	Q4		3,000								
29	10.5-yr New Issue of MGS (Mat on 04/31)	10	Oct	Q4		4,000								
30	5-yr Reopening of GII (Mat on 03/26)	5	Oct	Q4		4,000								
31	30-yr Reopening of MGS (Mat on 06/50)	30	Nov	Q4		3,000		X						
32	7-yr Reopening of GII (Mat on 09/27)	7	Nov	Q4		3,500								
33	15-yr Reopening of MGS (Mat on 07/34)	15	Nov	Q4		3,000								
34	10-yr Reopening of GII (Mat on 10/30)	10	Dec	Q4		3,400		X						
	Gross MGS/GII supply in 2020					117,400		-						

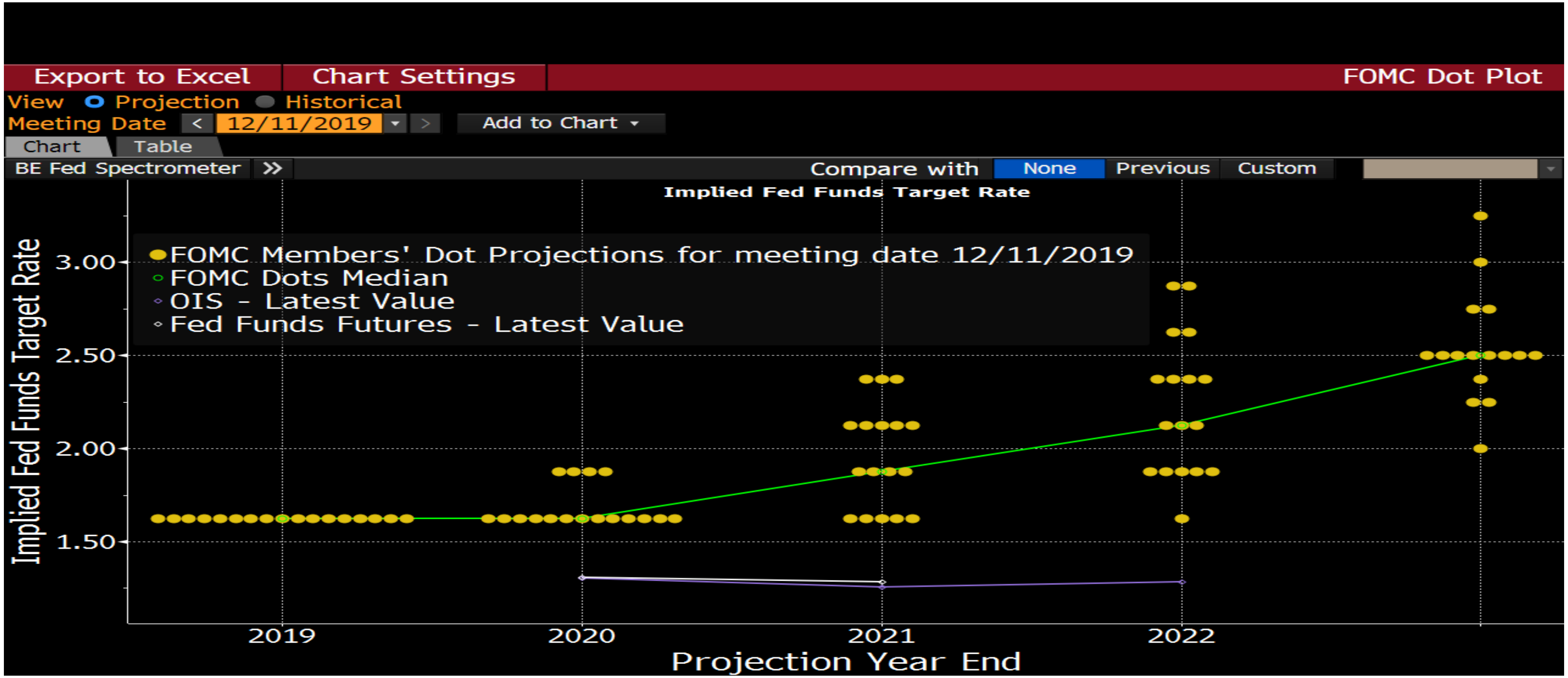
Foreign holdings of overall MYR bonds spiked RM8.1b MOM and RM15.6b QOQ to RM204.7b as at end-Dec 2019



Foreign holdings of MYR government bonds i.e. MGS + GII + SPK rose 9.1% QOQ; from RM169.5b in Sept 2019 to RM185.0bn in Dec 2019. This marked a continuous recovery from the low of RM158.0bn back in May 2019 following earlier mounting concerns that the existing weightage of 0.4% could be reduced in the FTSE Russell WGBI.

The Fed's subsequent change from a dovish to neutral stance late last year coupled with the agreement between the US and China to sign a trade pact phase one boosted risk-on sentiment which supported the EM fixed income asset class. MGS foreign holdings saw the biggest increase of RM5.4bn among all categories of bonds from RM158.4b (40.5%) at end-Nov to RM163.9b (41.6%) at end-Dec.

Latest Fed Dot plot saw a shift from a dovish stance by Fed which resulted in three (3) rate cuts in 2019 to a neutral tone going into 2020



Investors have dialed back expectations of further monetary easing against a backdrop of a tentative US-China trade agreement as well as decent economic data that still points to a healthy US economy. The Fed officials view the current level of rates as “likely to remain appropriate for some time”. This was in contrast to the fast pace of tightening seen in 2018 which included four (4) official hikes of 25bps each in March, June, September and December 2018, followed by three rate cuts in 2019. The main culprit that sparked concerns over a US recession were US-China global trade conflicts and geopolitical risks. Meanwhile the Fed’s balance sheet normalization was completed in August 2019 to the targeted level of $3.76 trillion. Nevertheless following the spike in Repo rates in September last year, the Fed announced that it would begin to organically grow the Balance Sheet again at a pace of $60b per month; mainly in T-bills until the 2nd quarter of 2020.

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<table>
<tr><th>Country</th><th colspan="2">3M Views</th><th>Comments/ Outlook</th></tr>
<tr><td rowspan="5">US</td><td colspan="2">Maturity Preference</td><td rowspan="5"><u>Sovereigns</u>
UST's ended weaker in 4Q2019 compared to the 3Q rally with the front-end of the curve steeper as yields extending out from 3Y rose between 4-28bps. The 2Y UST however rallied by 5bps @ 1.57% whereas the much-watched 10Y UST spiked by a massive 25bps QOQ moving within a narrower 1.53-1.94% range before settling at 1.92%. The Bloomberg Barclays US Treasury Index has returned a poor -0.8% QOQ (previous QOQ: 2.4%) but overall gained 6.5% for the entire 2019. Investors are seen more confident compared to earlier conflicting signals as recent US economic data in November/December 2019 i.e. the solid jobs report, the stabilization in ISM manufacturing activity and improvement in trade deficit numbers are believed to lead to a recovery in US growth. However the tepid inflationary conditions along with the low unemployment rate of ~3.6%; a 50-year low may help support the rates asset class along with safe-haven bids that may be ignited by geopolitical landscape involving the US and Iran. The September spike in Repo money market rates has been fairly well-contained as the Fed pumped up to $200b of funds to stabilize the rate which spiked to 10%; not seen since the global credit crisis in 2008. We expect a pickup in global growth in the next 6-12 months, as policy stimulus makes impact 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 likely done for now. The 10-year UST is expected to be range-bound between 1.70-2.00%; finding good support at 2.00% levels for this quarter. The factors effecting a flipside to our forecast are ~ US-China trade matters going awry, rising risk of geo-political tensions and change in the Fed's interest rate outlook for 1Q2020. passive real money investors (i.e. SWF's, lifers, pension funds etc). The medium-term maturities in 1Q2020 potentially offer better risk-reward posture.

<u>Corporate</u>
The record amount of Investment Grade (IG) issuances in 4Q2019 under review surged to the highest this year totaling $871b for 2019 (2018: $777b) with gross new issuances still expected to be robust albeit 5-8% lower in 1Q2020 on lower funding costs. The Bloomberg Barclays US Corporate Total Return Value (for IG), tightened further from 120bps (3Q2019) to 100bps spread over UST's; denoting strong investor demand for yield and averaged returns of a mere +1.2% q-o-q and 12.7% for entire 2019. The Bloomberg Barclays US Corporate High Yield Total Return Index (for HY) also tightened to ~420bps but however produced a lower return of +2.5% q-o-q and 12.6% YTD compared to the previous quarter. About $176b in US dollar IG Corporate Bonds are due in 1Q2020 mainly from the financial sector. Proposed M&A activities are deemed to be a big issuing catalyst. We are mildly positive on IG issuances in the belly between 2-7Y tenures on decent credit fundamentals helped by tepid inflation and central banks mainly maintaining monetary stance but are wary of a move in UST's which may challenge corporate debt returns. Preference is in sectors such as energy, healthcare and chemicals that maintain steady credit standing. Meanwhile, we prefer to avoid the HY sector due to volatility, and potential stretched balance sheets. However investors preference for shorter tenors in Europe coupled with lower M & A activity in US may drive investors more towards Euro IG issuances.</td></tr>
<tr><td colspan="2">Duration neutral</td></tr>
<tr><td>Policy Rate</td><td>Yield Curve</td></tr>
<tr><td>The Fed has cut interest rates again via the Fed Funds Rate in 4Q 2019 to 1.50-1.75%. The Fed has signaled it expects to keep interest rates on hold this year following three (3) cuts in 2019. The Fed Fund Futures show a mere potential 9% chance of a rate hike in January's FOMC 2020 meeting and almost equal 10% chance of either a rate hike or a cut in its March meeting. Future adjustments to monetary policy would continue to be data dependent and likely to make adjustments to take into account geopolitical-tensions between US and Iran. Our house projection is calling for rates to stay pat in 2020.</td><td>Yield curve has widened instead from a mere 9bps as at 3Q2019 to 30bps as at 4Q2019 (at the time of writing the 2s10s spread is at 27bps); brushing aside earlier implications of potential recessionary conditions. The about-change came as the Fed subsequently imposed central bank policies to move interest rates exceptionally low since the 2008 financial crisis. Nevertheless silver lining in spurring economic growth evidenced from solid jobs data, and US-China trade deal progress may be dented by sudden surge in US-Iran geopolitical tensions.</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 tracked UST's with the shorter-end yields declining between 10-15bps with the rest of the curve almost unchanged QOQ. Nevertheless overall its bonds underperformed its Asian peers despite a 4.7% return for 2019. The short 2Y rallied 12bps lower at 1.52% whilst the 10Y yield was almost unchanged at 1.73%. Based on a confluence of recent inspiring economic data out of US and the Fed's neutral stance on interest rates, we believe that 4Q 2019 growth will ease further due to the ongoing impact from US-China trade tariff matters. The full year GDP growth of 0.7% for 2019 (4Q2019: 0.8%; 3Q2019: 0.5%) was a tad better than consensus. Markit Singapore PMI above 50 indicates that MAS may not necessarily opt for a looser monetary policy to cushion earlier falling growth and benign inflation going into 2020. With the potential mend in relations between US and China via the upcoming phase 1 trade agreement; global trade recovery is expected to benefit the trade-reliant economy slump impacting the entire region. The SGS 2020 auction calendar reveals a duration-heavy tone with issuances that will be weighted more towards the long-tenors. Singapore is one of the 10 sovereign markets with AAA ratings (from all three rating agencies) that pays one of the highest yields among them. Coupled with the deluge of negative-yielding sovereign bonds that are reported to be around USD$16 trillion; we expect the 5Y-10Y space to see vibrancy and potential performance going forward for 1Q2020.
<u>Corporate</u>
Singapore's trade-reliant economy has seen just 89 issues amounting to SGD24b (2018: SGD22.1b; 2012 peak: SGD31.6b) whilst fears of soured-debt remains elevated as US-China trade tensions and slower growth took a swipe at the nation's firms causing additional distressed debts such as credit defaults by high-profile collapse of water-treatment firm Hyflux Ltd, an O&G unit that's partly-held by Keppel Corp i.e. KrisEnergy, MMI International (hard drive component manufacturer), Swiber Holdings, Ezra Holdings Ltd etc. which has affected many retail investors in a thriving High Net-Worth market . Pacific International Li and Century Sunshine Group both missed their call dates for their USD and SGD bonds The lower rates and yields have caused Singapore investors to opt for riskier bonds to chase for yields with abundant liquidity. Nevertheless, with US rates skewed towards the 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. High-quality conglomerates and bank credits such as Investment-grade/quality credits CapitalLand, Thomson Medical Group, UOB, OCBC and DBS may attract attention. Additional issuances especially Perps which saw a record issuances in 2019 may be on the rise due to capital-raising activities as 21 various applications were received by MAS for both full and wholesale digital bank licenses. Stress may likely emerge in sectors such as logistics; in addition to some that have been struggling as mentioned above i.e. oil & gas and construction. Risks to our recommendations include the resumption of US-China trade war, potential political impeachment, BREXIT, tensions leading to war in the middle east and slowing economic growth.</td></tr>
<tr><td colspan="2">Duration medium</td></tr>
<tr><td>Policy Rate</td><td>Yield Curve</td></tr>
<tr><td>On the monetary policy front, MAS had earlier reduced the SGD NEER appreciation in October 2019 that capped the currency gains. Whilst the SGD remains supported in the spot market, the higher forward points may signal upward pressure on local interest rates and bond yields. Expect higher short-end rates if the fallout from a weaker SGD emerges. The republic continues to be in the US Treasury semi-annual currency monitoring list along with Malaysia and Vietnam among others.</td><td>SGS curve is expected to steepen and shift higher with the short-end poised to remain elevated due to rising USDSGD forward points. Nevertheless we expect the SGS to track the movement in UST yields.</td></tr>
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<tr><td rowspan="4">Malaysia</td><td colspan="2">Maturity Preference</td><td rowspan="4"><u>Sovereigns</u>
QOQ, local govvies saw different fortunes anchored at the 7-10Y part-of-the curve. The front-ends rallied between 1-13bps whereas bonds extending out from 10Y tenures saw yields spike between 5-20bps along the curve. The MYR sovereign curve which flattened during the quarter under review brushed aside concerns pertaining to the FTSE Russell Index WGBI weightage decision involving MYR bonds in September. Liquidity was fairly abundant and participation from both foreign and local institutional funds were evident; resulting in a 2-year high in foreign holdings of overall MYR bonds of RM204.7b. The cause for an overweight on MYR bonds continue to outweigh uncertainties on the weightage at least until the next review in March 2020. Global central banks may be tempted to re-look their earlier dovish-tilt in view of improving US-China trade matters and Fed's neutral stance on interest rates. Traders and investors are now dialing back earlier projections of continued rate cuts save for some concerns over middle-east tensions between US and Iran. We continue to foresee healthy local institutional demand on the back of stable MYR levels and comparable EM relative values which will continue to attract sporadic interest from offshore banking institutions. We have revised lower our gross govvies issuances to RM117.4b; having taken into account the targeted budget deficit of 3.2% for this year. Despite shifts in global trade uncertainties, the positive interest-rate differentials may continue to entice investors in EM sovereign debt with Malaysia also benefitting. The 7-10Y, 15Y GII along with the 7Y and also 15Y MGS space reflect decent value on the curve for 1Q2020. We expect the 10Y to range between 3.15-3.35% levels with strong support at 3.40% levels (4Q19: 3.26%-3.44%)..

<u>Corporate</u>
Corporate bonds/Sukuk issuances continued to ramp up to RM26.7b as at 4Q19; similar to 3Q2019's RM26.6b. Gross supply for 2019 of RM130.8b exceeded most estimates of between RM90-110b (Actual 2018: RM105b). The continuation of major infrastructure projects like MRT 2, LRT 3, Bandar Malaysia, Klang Valley Double Tracking and East Coast Rail Link (ECRL) has and will continue to spur further bond issuances. Trading activities for corporate bonds saw daily volume fall circa to RM460m daily (3Q19:RM708m) 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 PTPTN, JCORP, DANAINFRA, PRASARANA, LPPSA are expected to be well-sought after potentially due to less slippage by portfolio investors. The bulk of GG bonds have outperformed YTD but may not undergo mild correction in line with the solid appetite and underlying govvies performance. We foresee overall interest to emerge within the 5-10Y GG sector (current yield spreads over MGS are +13 to +23bps) and also the 5Y and 10-15Y AA-rated papers amid decent spreads of +51 to +66bps for this part of the curve.. We continue to expect more unrated bonds and perps to come on-stream as corporates find it justifiable in terms of cost of funds, whilst undergoing less cumbersome procedures via SC guidelines.</td></tr>
<tr><td colspan="2">Duration neutral</td></tr>
<tr><td>Policy Rate</td><td>Yield Curve</td></tr>
<tr><td>The decision by the BNM MPC to stay pat on the OPR at 3.00% at the last MPC meeting in November was in line with our projection as monetary policy remains accommodative as domestic drivers of growth alongside stable labor market and wage growth are expected to support economic activity with 4Q2019 and full-year GDP growth revised slightly lower at 4.2% and 4.5% respectively. We foresee BNM staying pat on rates for 1Q2020.</td><td>Current yield curve steepened slightly and investors may continue to adopt negative duration if external global trade and economic conditions deteriorate. 6-10Y tenures currently display flattish characteristics with the 30Y slipping below the 4.0% handle again recently; mimicking the brief spell in August last year</td></tr>
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