Hong Leong Bank

Quarterly Market Outlook 2Q2020

Global Markets

April 2020

Content

Global Growth Outlook

Real GDP (% YOY)	Latest 2 Quarters		Actual	Forecast		Forecast (IMF)	
	3Q19	4Q19	2019	2020	2021	2020	2021
World	-	-	2.9	**-1.0** *(3.4)*	**3.6**	**-3.0** *(3.3)*	**5.8** *(3.4)*
DM/ G10	1.6	0.8	1.7	**-1.3** *(1.5)*	**2.2**	-	-
US	2.1	2.1	2.3	**-3.0** *(1.8)*	**3.3**	**-5.9** *(2.0)*	**4.7** *(1.7)*
Eurozone	1.3	1.0	1.2	**-3.4** *(1.0)*	**2.5**	***-7.5*** *(1.3)*	***4.7*** *(1.4)*
UK	1.3	1.1	1.4	**-2.9** *(1.0)*	**2.3**	**-6.5** *(1.4)*	**4.0** *(1.5)*
Japan	1.7	-0.7	0.7	**-2.2** *(0.4)*	**1.4**	**-5.2** *(0.7)*	**3.0** *(0.5)*
BRICs	5.0	5.0	5.2	**2.6** *(5.1)*	**5.5**	-	-
China	6.0	6.0	6.1	**3.0** *(5.9)*	**6.5**	**1.2** *(6.0)*	**9.2** *(5.8)*
India*	5.1	4.7	6.1	**4.9** *(5.1)*	**5.2**	**1.9***(5.8)*	**7.4** *(6.5)*
Asia ex-Japan	5.1	5.1	5.3	**3.1***(5.2)*	**5.6**	-	-
EMEA	2.3	3.0	2.5	**0.5** *(2.5)*	**2.7**	**-**	**-**

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

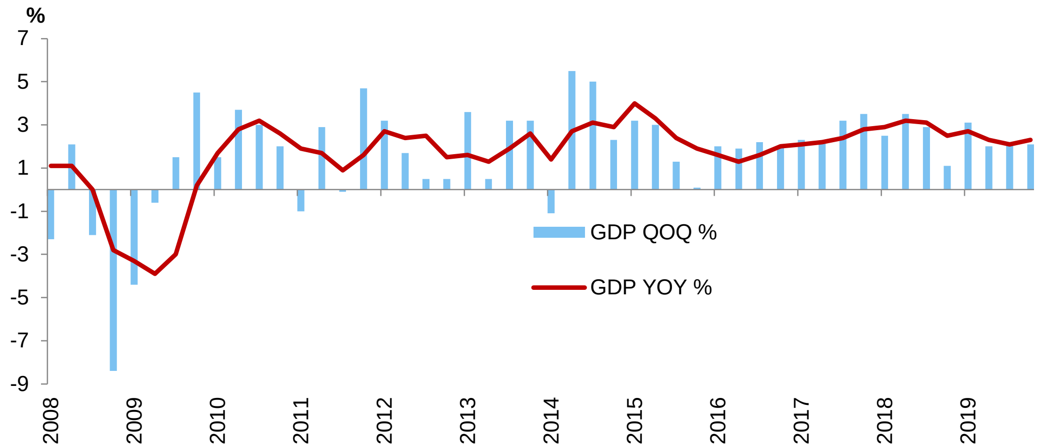
Global Central Banks Policy Rates Outlook

	Current	2Q20	3Q20	4Q20	1Q21	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*	**2.50**	2.00	2.00	2.00	2.00	**50bps cut by 2Q**
Thailand The Bank of Thailand *1-Day Repurchase Rate*	**0.75**	0.50	0.25	0.25	0.25	**Further cuts in 2020**
Indonesia Bank Indonesia *7-day Reverse Repo Rate*	**4.50**	4.25	4.00	4.00	4.00	**Further cuts in 2020**
Philippines Bangko Sentral ng Pilipinas *Overnight Reverse Repo Rate*	**3.25**	2.75	2.50	2.50	2.50	**Further cuts in 2020**

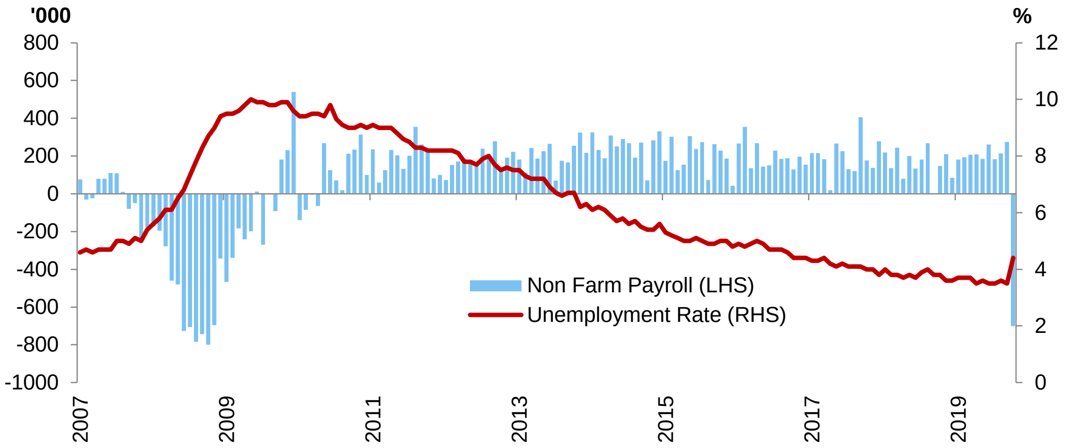
Source: Bloomberg, Global Markets Research

The US – Decade long expansion unraveled by global pandemic

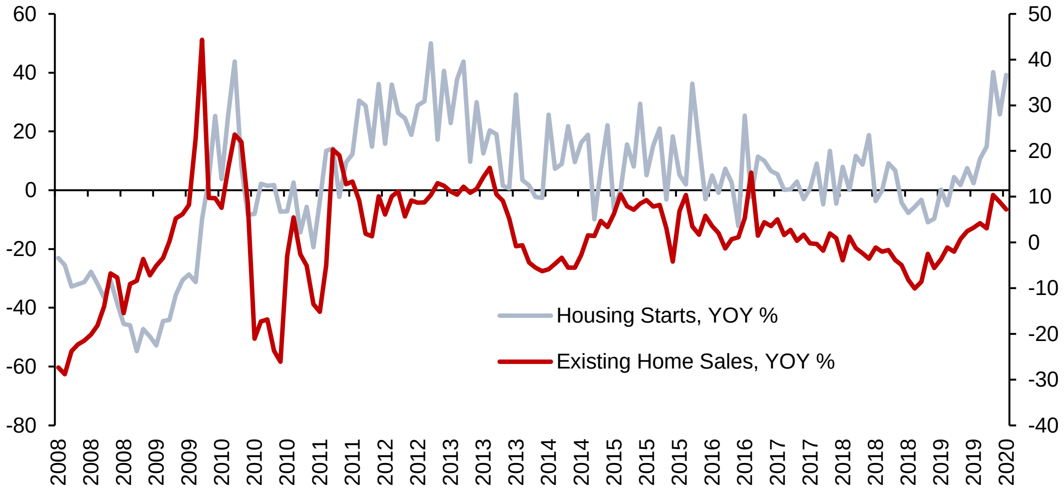
Steady 4Q GDP growth, 1Q20 contraction to outsize 2008-2009 recession



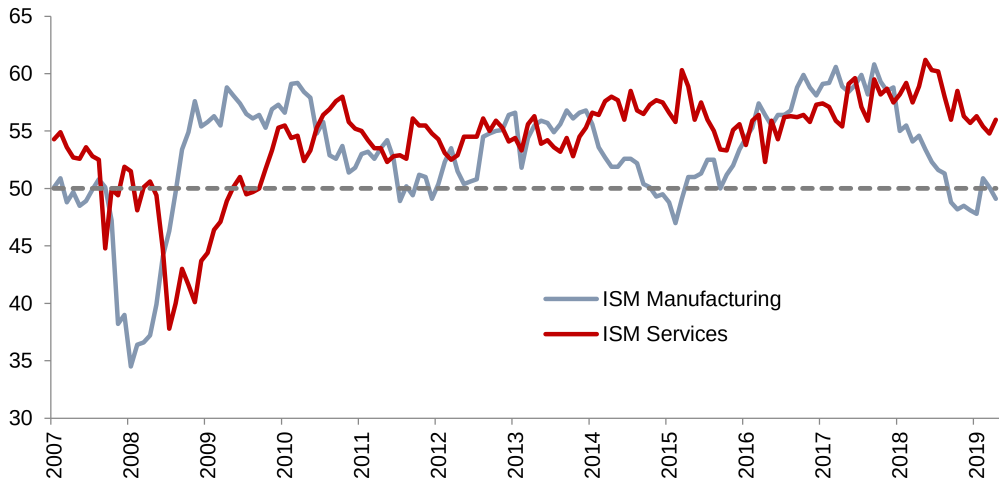
Job losses and unemployment rate set to spike in 2Q as Covid-19 pandemic deepens



Housing recovery to pause as social distancing curbs activity

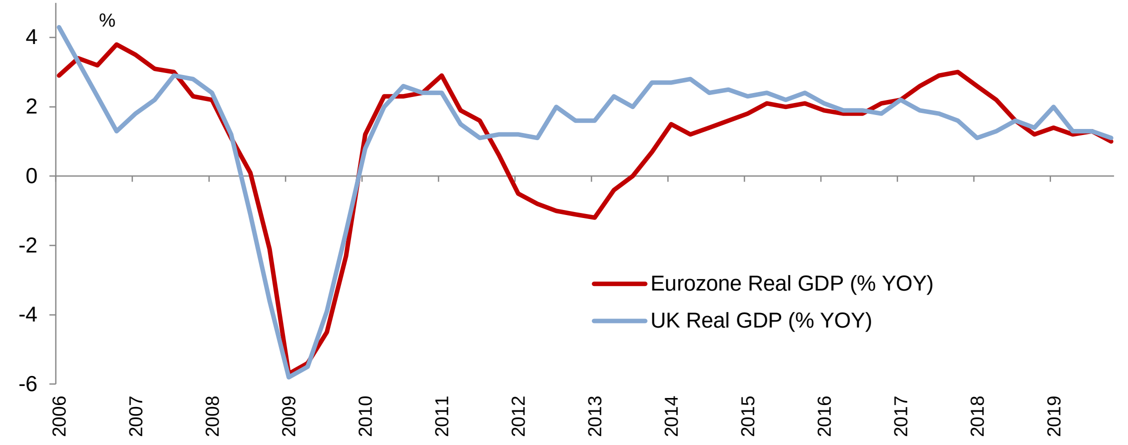


Services and manufacturing poised to see larger contraction ahead

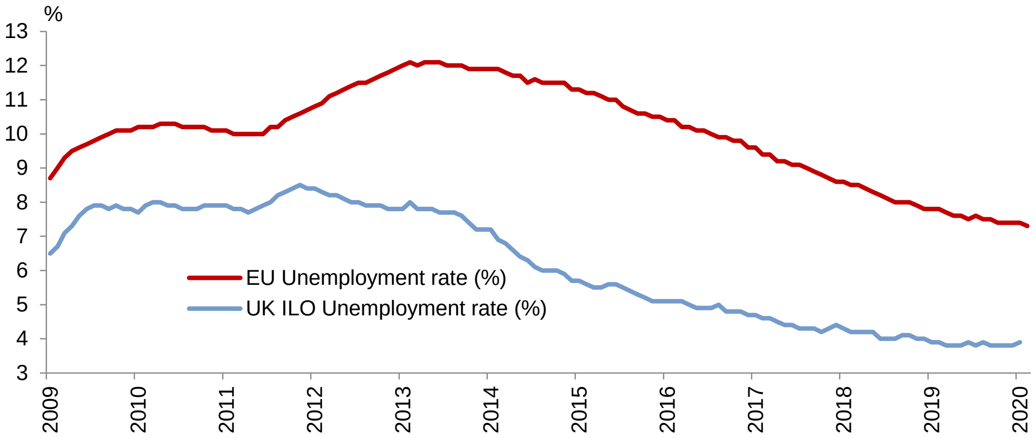


The EU and UK – Pandemic shattered already weak growth trajectory

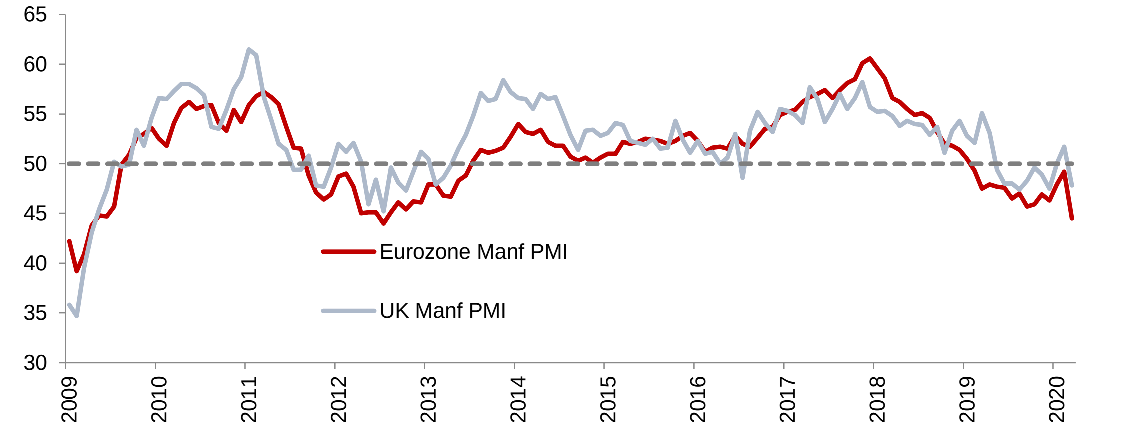
Stabilization in GDP growth to be broken off by pandemic



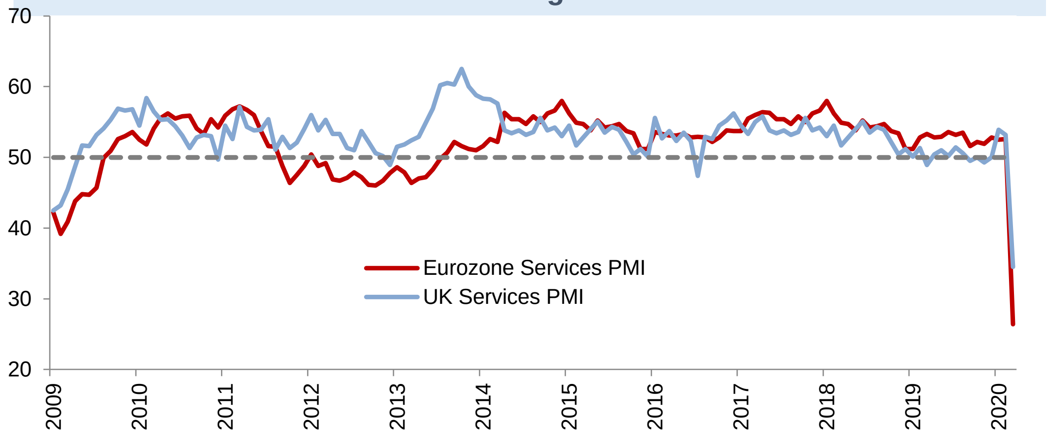
Jobless rates set to climb again despite fiscal policies to protect jobs



Manufacturing to experience deeper contractions

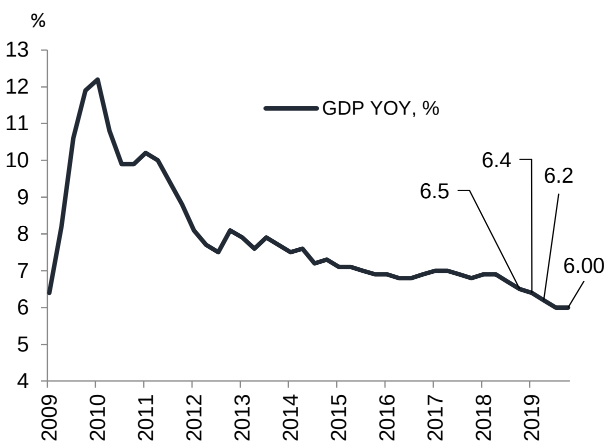


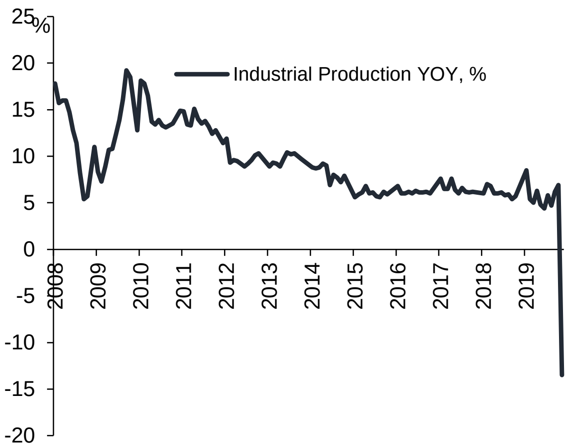
Services PMIs plunged to fresh lows, falling victim to strict social distancing rules



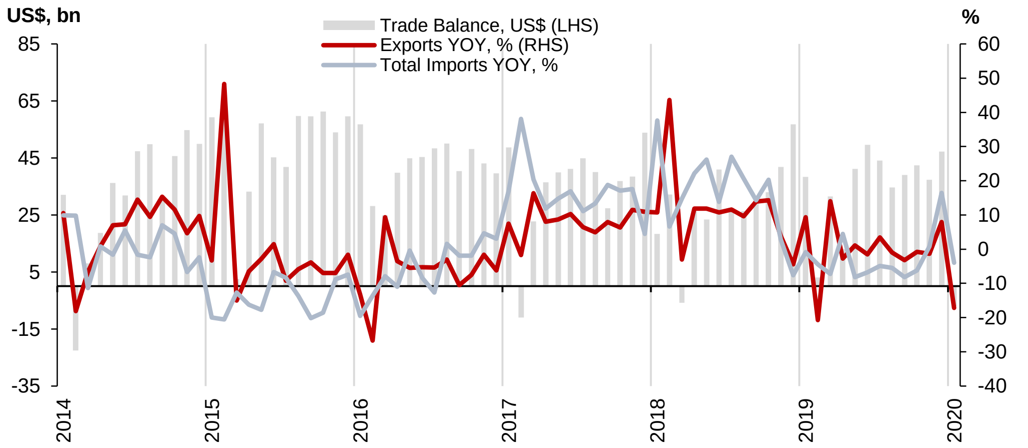
China – Economy rebooted after virus peaked in Hubei province, expect rebound in 2Q.

Expect GDP to contract 2.8% YOY in Q1, returning to +4.4% in Q2

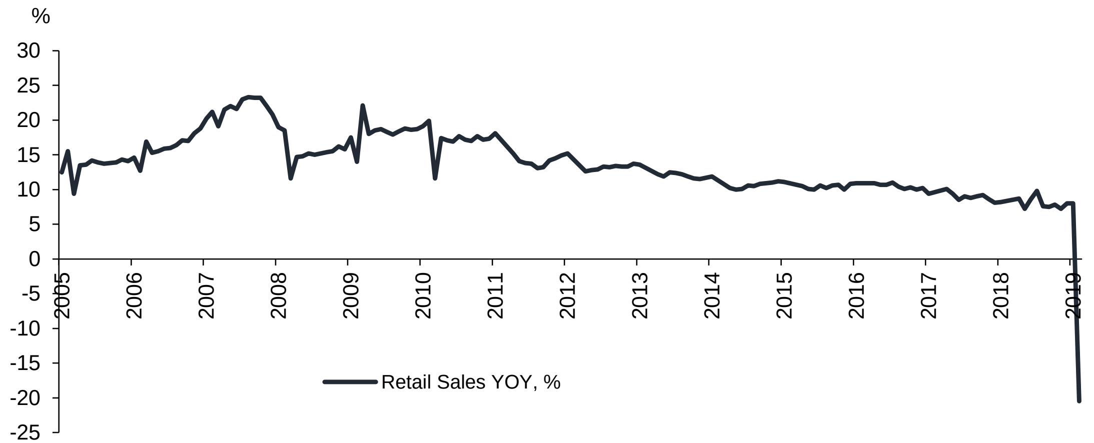




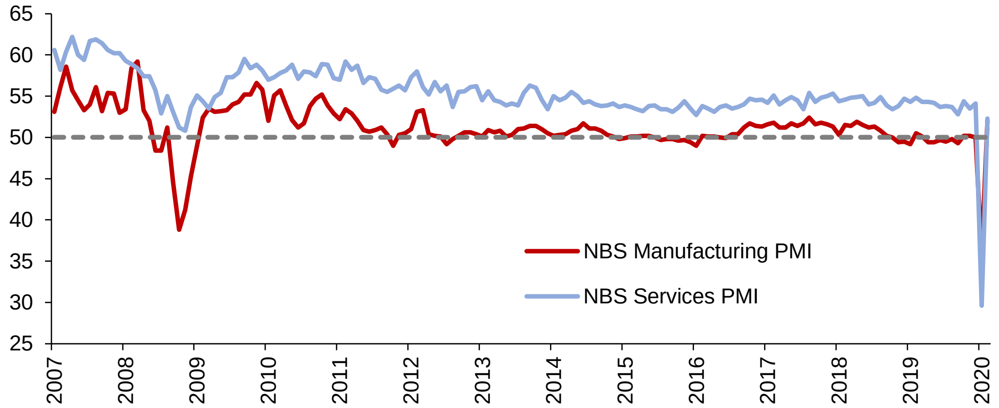
Exports market crimped by pandemic supply disruption and as buyers worldwide shut businesses



Retail sales is expected to recover somewhat but remain weak.



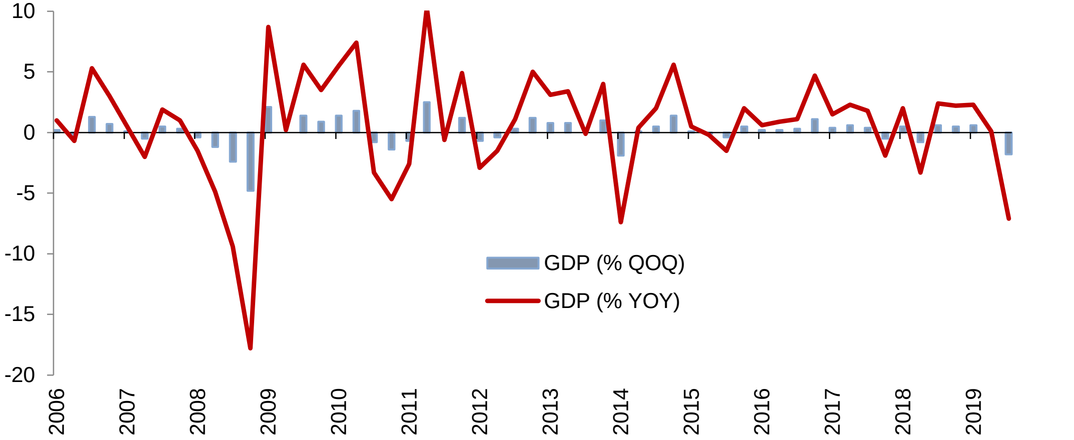
Sharp rebound in PMIs, but NBA cautions against too much optimism



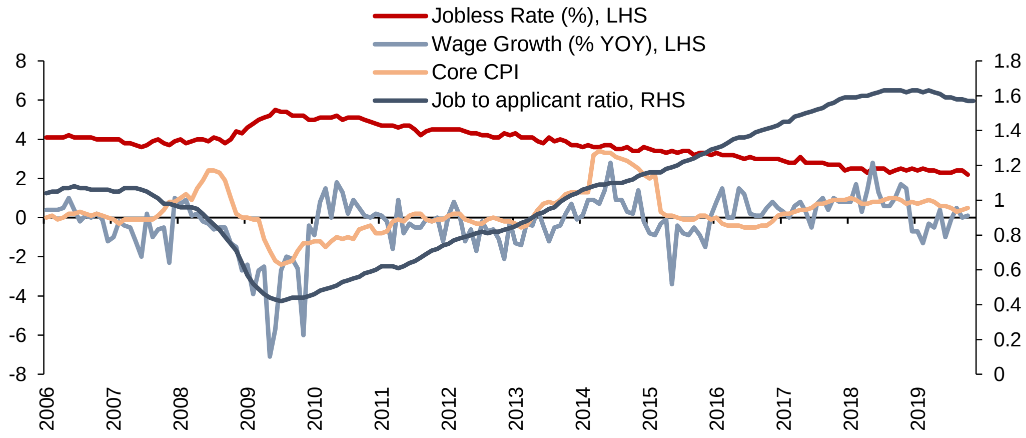
Note: Retail sales, IPI and trade data are for Jan-Feb 2020

Japan — Further contraction and lower inflation, as Olympic-related boost delayed to 2021

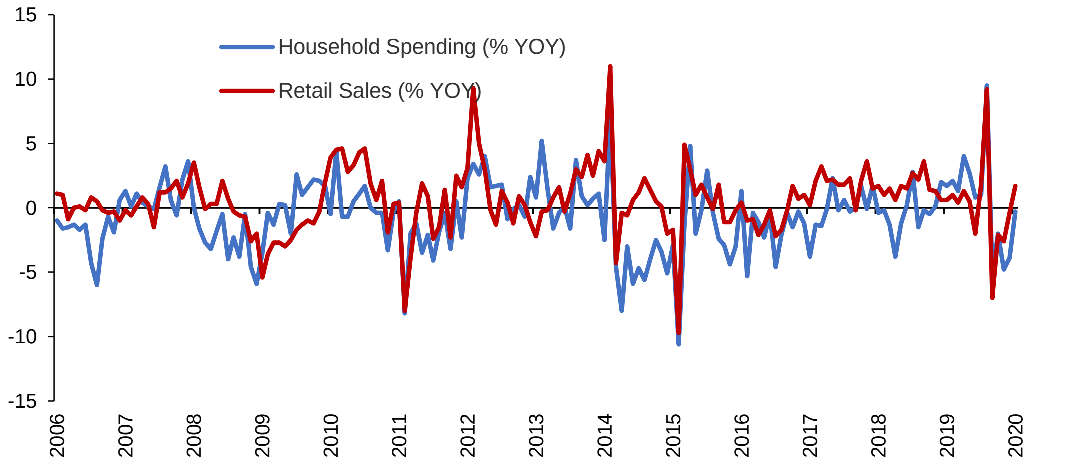
Economy contracted in 4Q as expected following typhoon and sales tax hike.



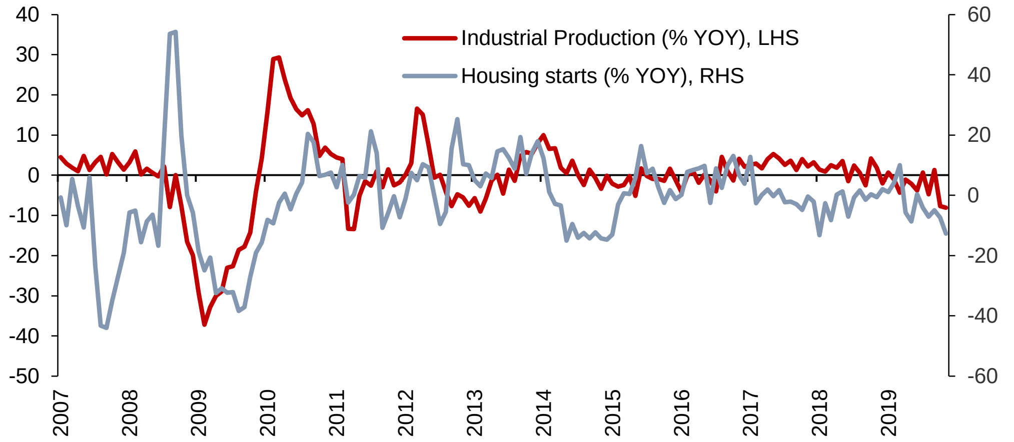
Renewed weakness in labour market; as seen in falling job availability.



Temporary distortion to spending amidst adjustment to sales tax hike, gains to reverse going forward

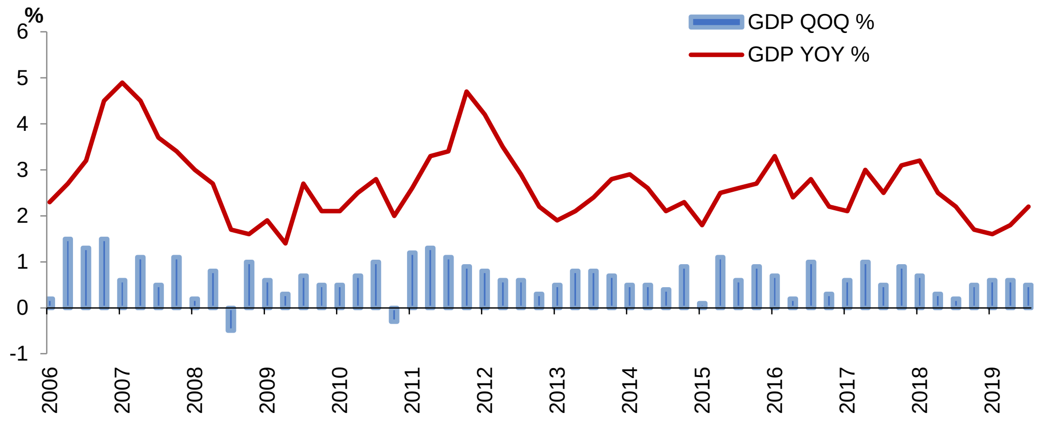


Manufacturing downturn deteriorated on the back of poor overseas demand and disruption caused by typhoon, tax hike

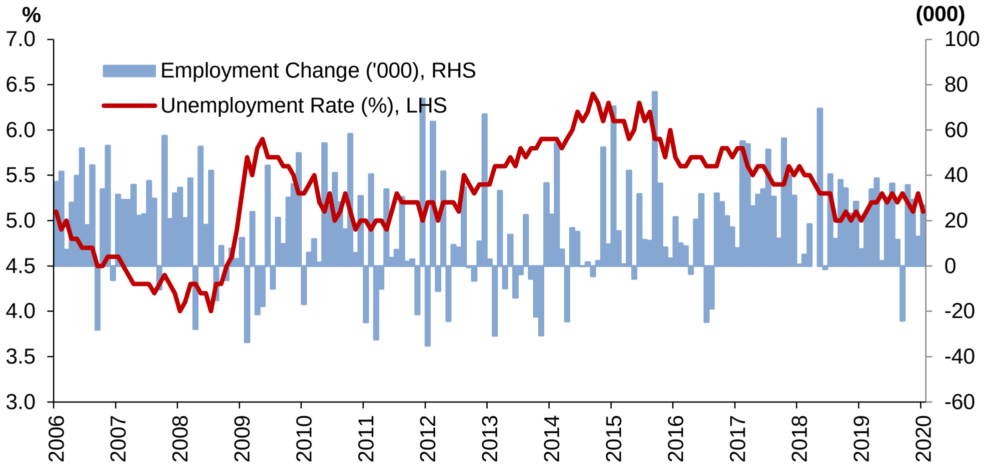


Australia – Services sector battered by drop in Chinese spending

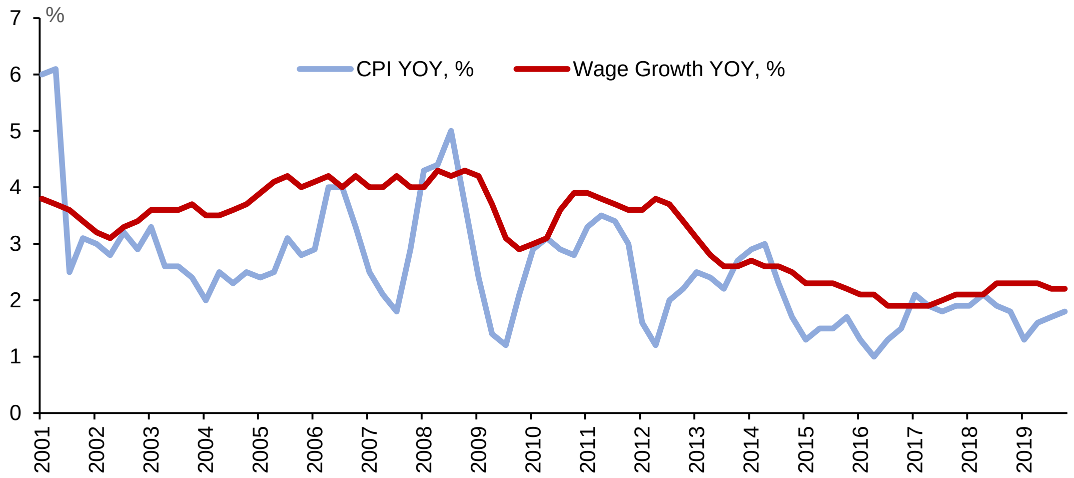
Decent growth in 4Q despite bushfire; 1Q growth poised to plunge.



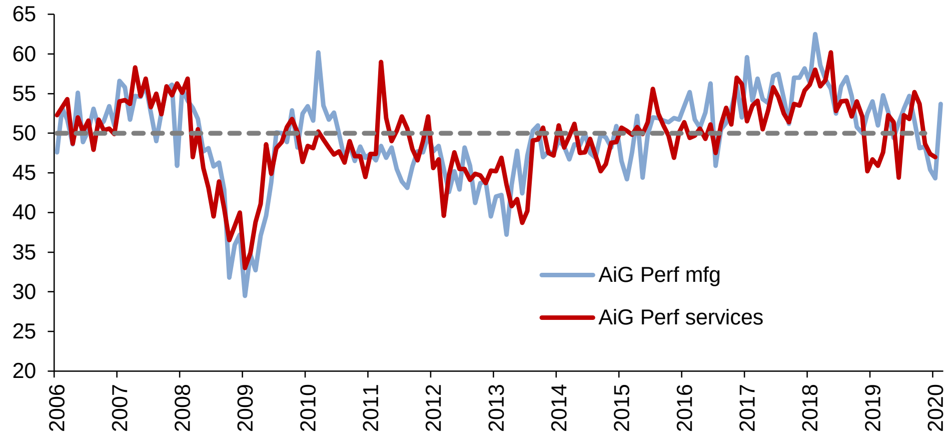
A labour market recovery to be undone by Covid-19



Wage growth, inflation remained subdued

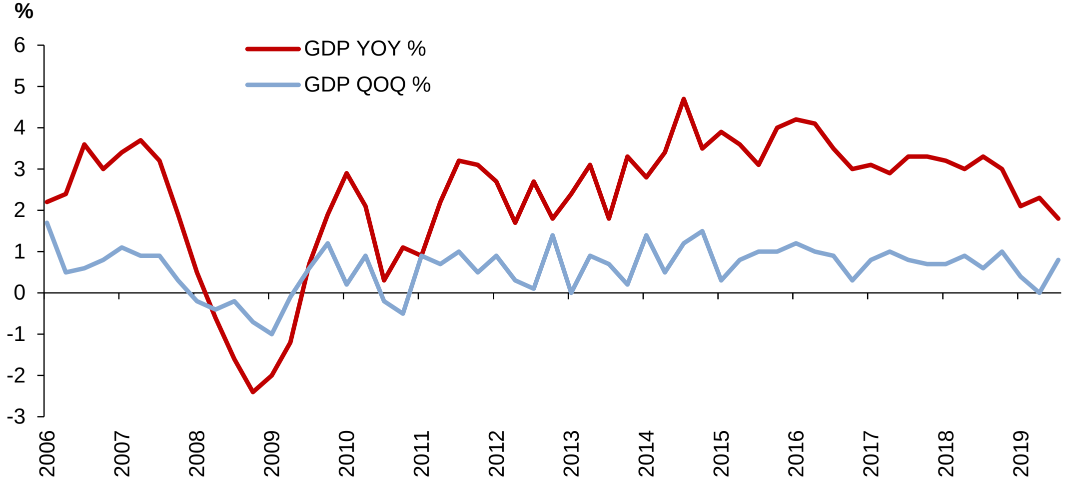


Already weak services to be weighed down further; rebound in manufacturing to be short-lived

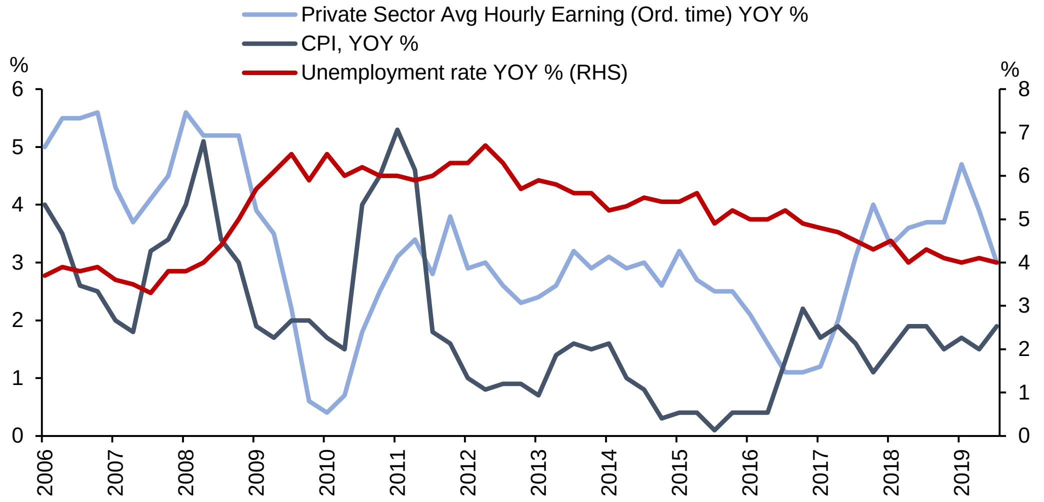


New Zealand – Services sector hit by collapse in tourism

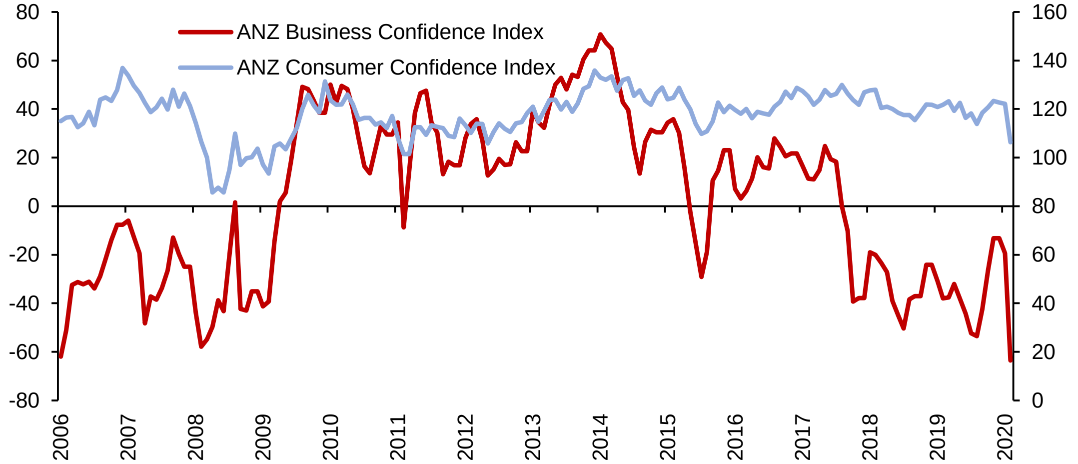
Slowing since early 2019; heading into recession



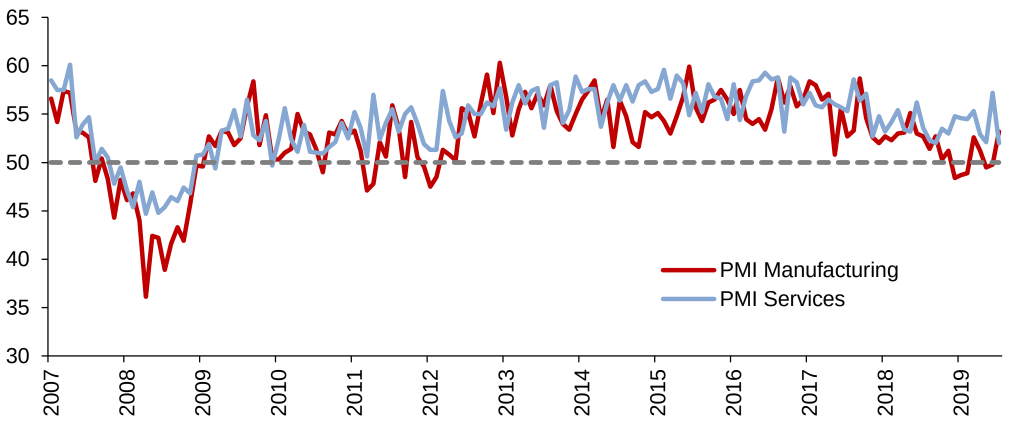
Steady labour market to be rocked by Covid-19 pandemic



Sentiment plunged dramatically in response to pandemic

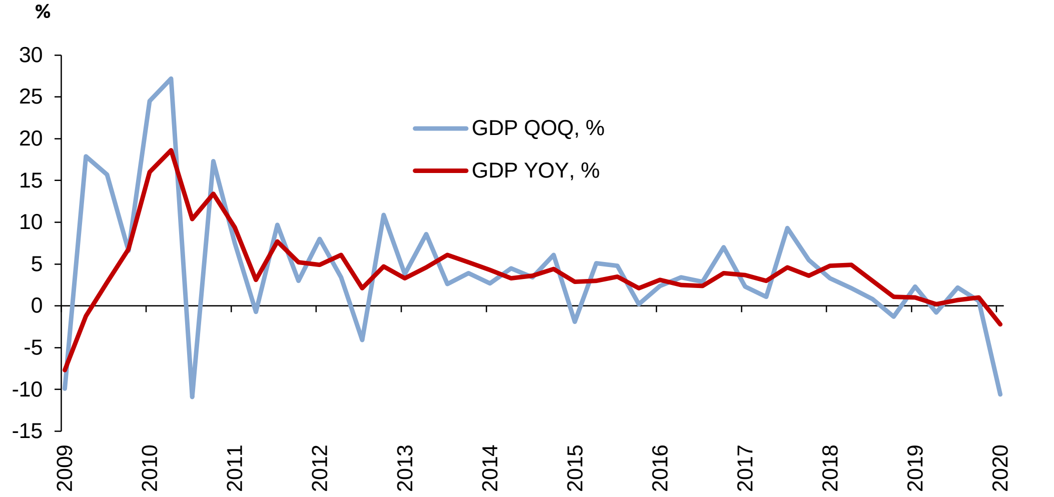


Brief recovery in services and manufacturing

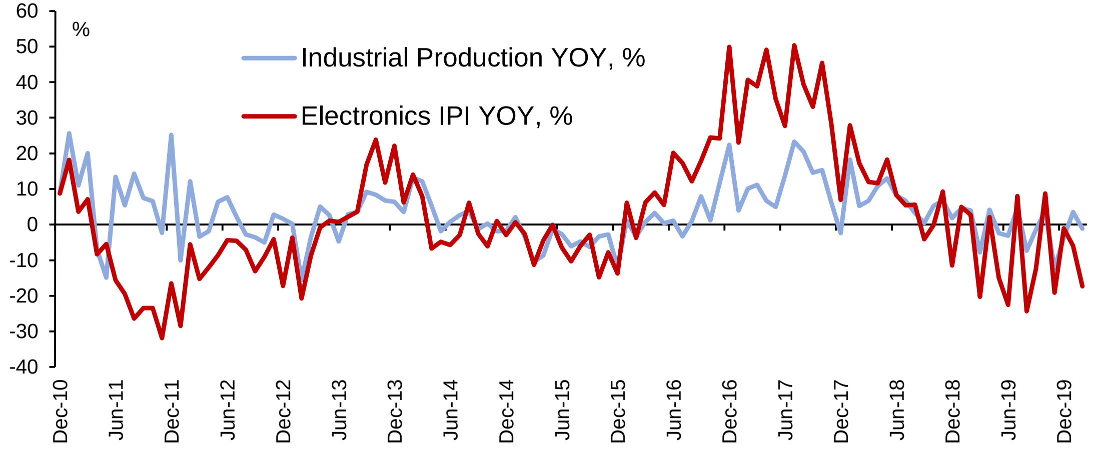


Singapore – Recovery thrown out of window

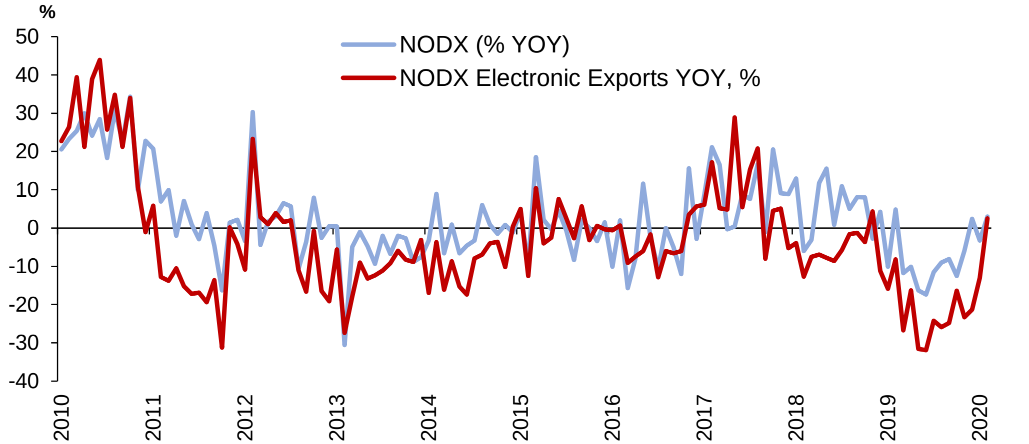
Expect GDP to contract 2.7% YOY in 2020



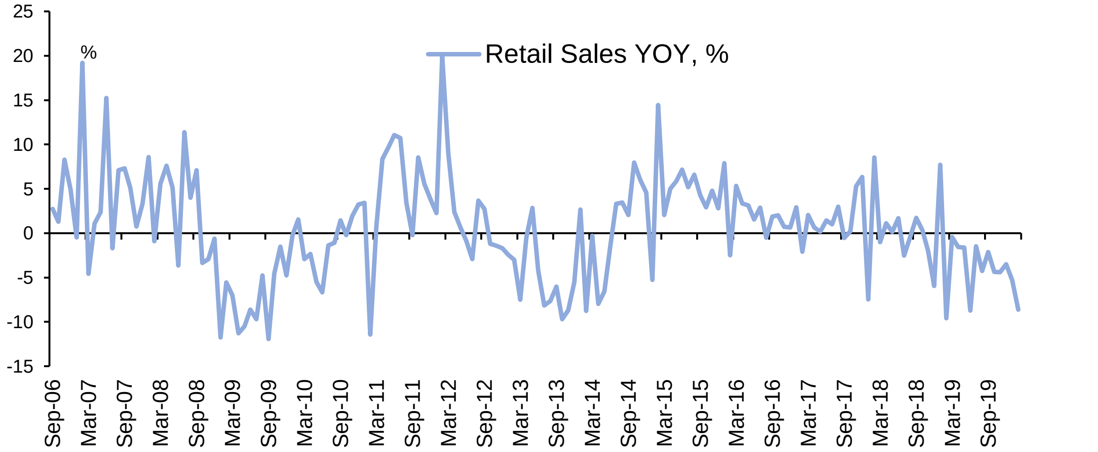
Most sectors may see negative growth. Biomedical to remain as outperformers



Feb NODX rebounded on base effect, negative outlook on dimming global growth and Covid-19 disruption

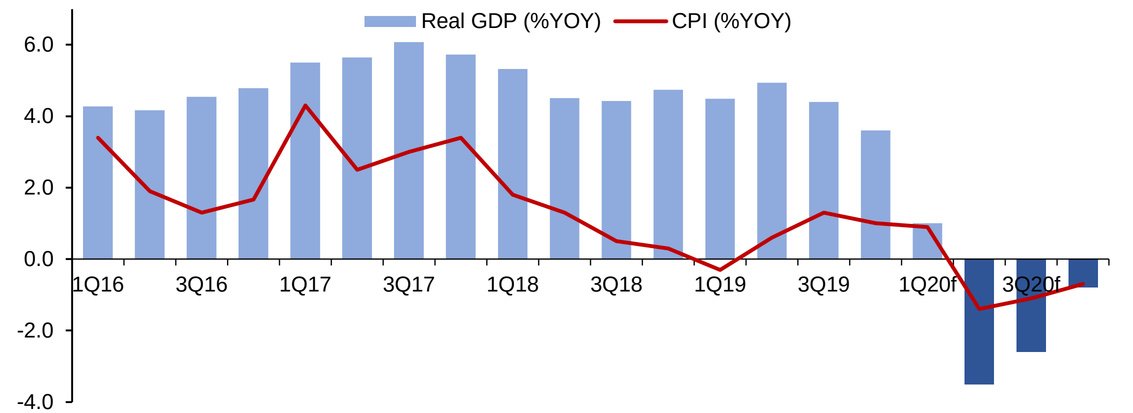


Expect more distortions in March and coming months, from some degree of stockpiling in some items and collapse in demand for others.

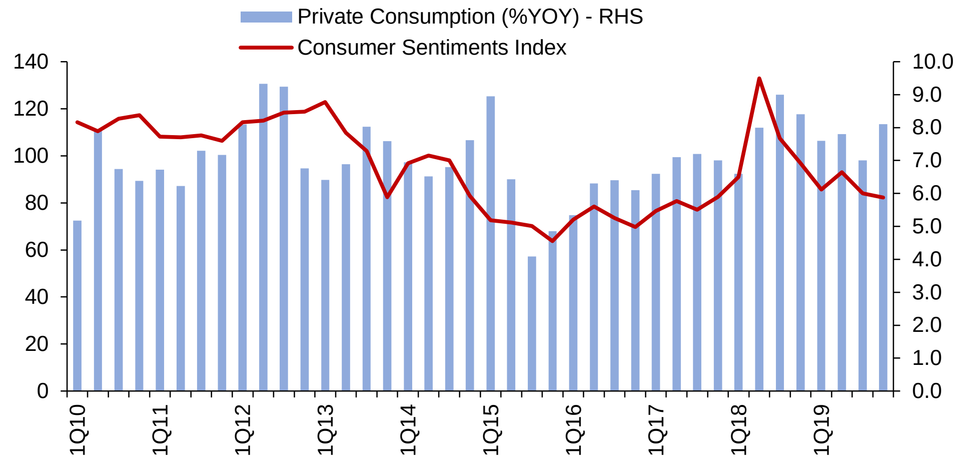


Malaysia – Expect first annual contraction since Global Financial Crisis

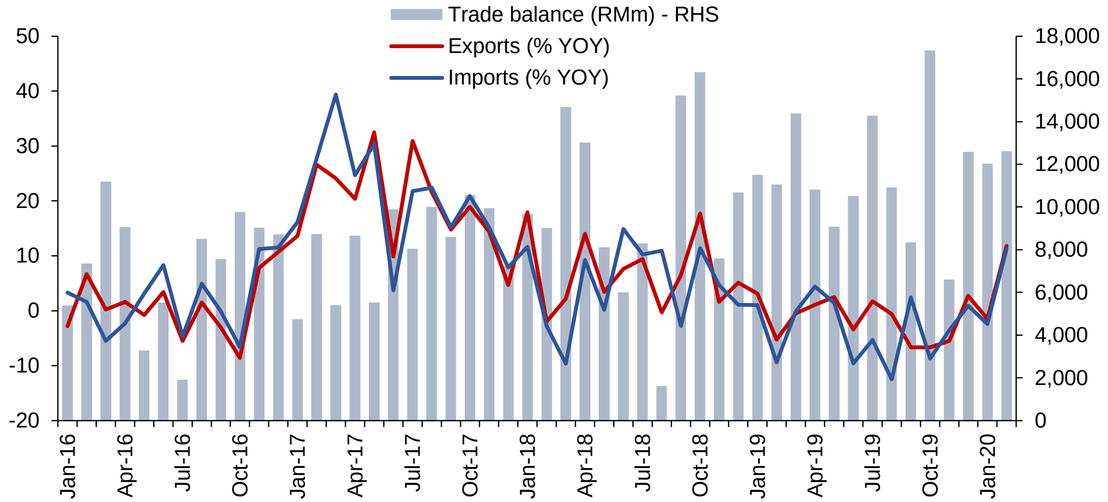
Expect GDP to contract 1.5% in 2020; CPI to decline in 2Q onwards.



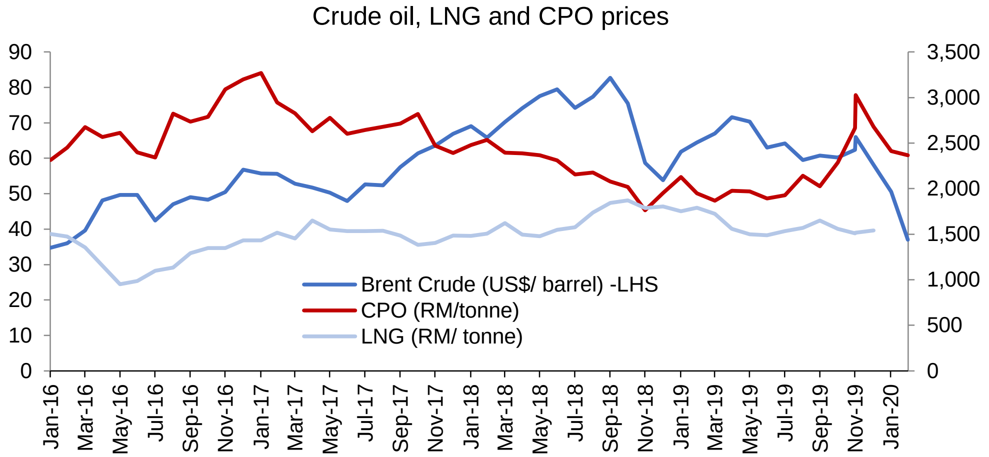
Private consumption to take substantial hit from 1Q onwards



Expect double-digit fall in exports in March onwards



Collapse in oil prices serves as a fiscal drag



FX Outlook – 2Q2020

Currency	Outlook	Comments
USDMYR	➘	• Bearish overall in anticipation of renewed USD weakness amid softer haven appeal in line with gradual recovery in sentiments, while unprecedented QEs seems yet to be priced in. • MYR to be supported by still positive yield differentials.
EURUSD	➔	• EUR is neutral despite expected reversal in USD strength, as equally gruesome growth outlook in the euro region and ECB's massive QE will likely keep a lid on upward climb in EUR.
GBPUSD	➚	• Expect some slight bullishness in the sterling amid a less dovish BOE.
USDJPY	➘	• JPY continues to be supported by general risk aversion in the markets as global recessionary risks loom.
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 – 2Q2020

Currency Pair	31 Mar 20 closing	End 2Q20 closing	End 3Q20 closing	End 4Q20 closing	End1Q21 closing
EUR/USD	1.0994	1.1000	1.1050	1.1100	1.1000
GBP/USD	1.2307	1.2400	1.2550	1.2600	1.2500
USD/JPY	108.41	107.00	106.00	105.50	106.50
AUD/USD	0.6180	0.63	0.625	0.62	0.62
USD/SGD	1.4245	1.41	1.40	1.39	1.40
USD/MYR	4.3100	4.30	4.25	4.20	4.25
EUR/MYR	4.7384	4.73	4.70	4.66	4.68
GBP/MYR	5.3043	5.33	5.33	5.29	5.31
AUD/MYR	2.6636	2.71	2.66	2.60	2.64
SGD/MYR	3.0256	3.05	3.04	3.02	3.04

Source: Bloomberg, Global Markets Research

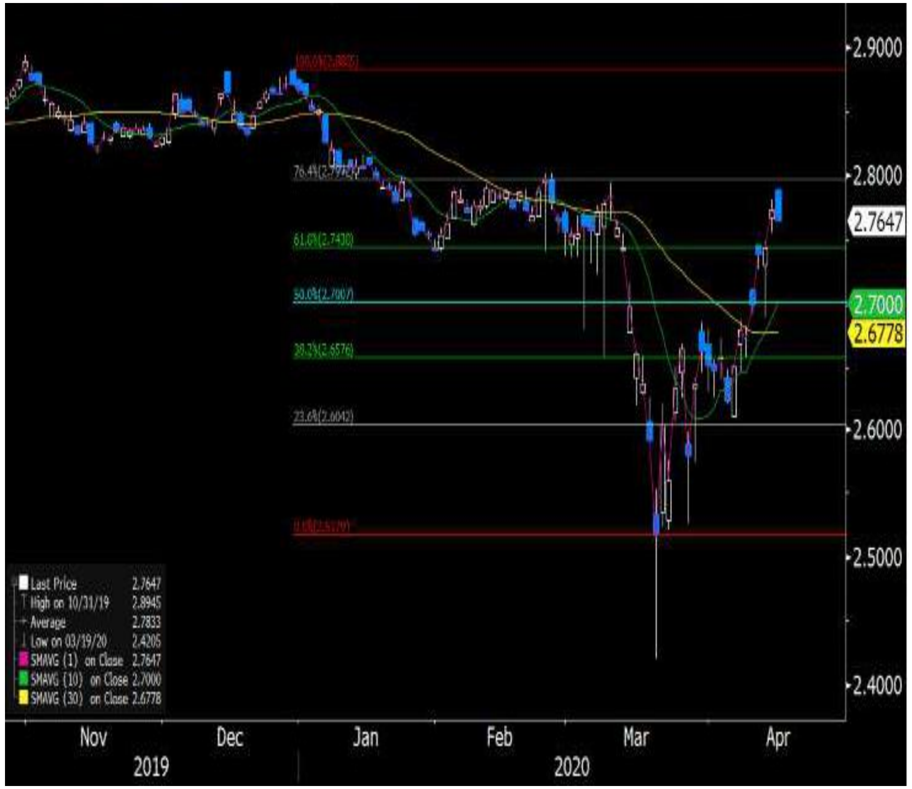
FX Technical Analysis

<u>USDMYR:</u> USDMYR is turning bearish, after pulling back from the 4.40-4.45 region. Continuous trading below 4.35 amid absence of fesh negative catalysts will further reinforce its bearish bias while the pair would require a break above 4.3823 for the bulls to return. Expect further down move to test 4.3065, a break .of which would lead the pair towards 4.2726.

Resistances: 4.3404, 4.3823, 4.4500
Supports: 4.3065, 4.2726, 4.2337

<u>AUDMYR:</u> The climb in AUDMYR looks stretched and further upward movement looks capped by the 2.80 key handle. The pair is expected to gyrate lower from the current level in anticipation of some recovery in MYR, outweighing expected Aussie gains. More policy room by BNM vis-à-vis RBA in supporting the economy would also bode well for the MYR.

Resistances: 2.7972, 2.8835, 2.9000
Supports: 2.7438, 2.7007, 2.6576



Source: Bloomberg; Global Markets Research

Fixed Income Outlook

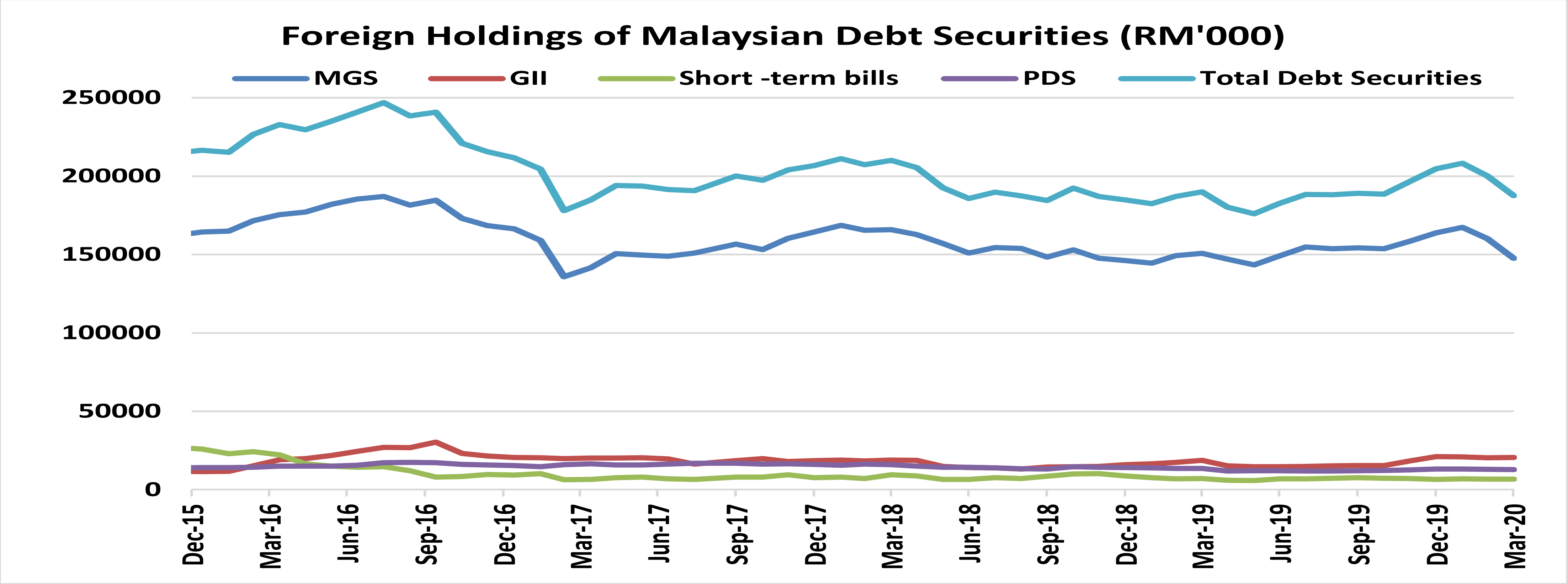
Gross MGS/GII supply for 2020 has been revised up from RM117.4b to RM149.4b (2019: RM115.7b) to reflect potential funding of the government's Economic Stimulus Packages. With sizeable maturities skewed towards the middle of the year; we expect heavy loading of issuances for the first nine(9) months of the year.

Overall MGS/GII BTC ratios jumped to ~2.59x in 1Q2020 (4Q2019: 1.98x) on positive yield-carry requirements coupled with safe-appeal status amid a deluge of negative-yielding global debt. The current April month however saw some of the largest two bids submitted i.e. RM12.5-13.5b for the 20Y MGS and new issuance of 10Y GII.

MGS/GII issuance pipeline in 2020

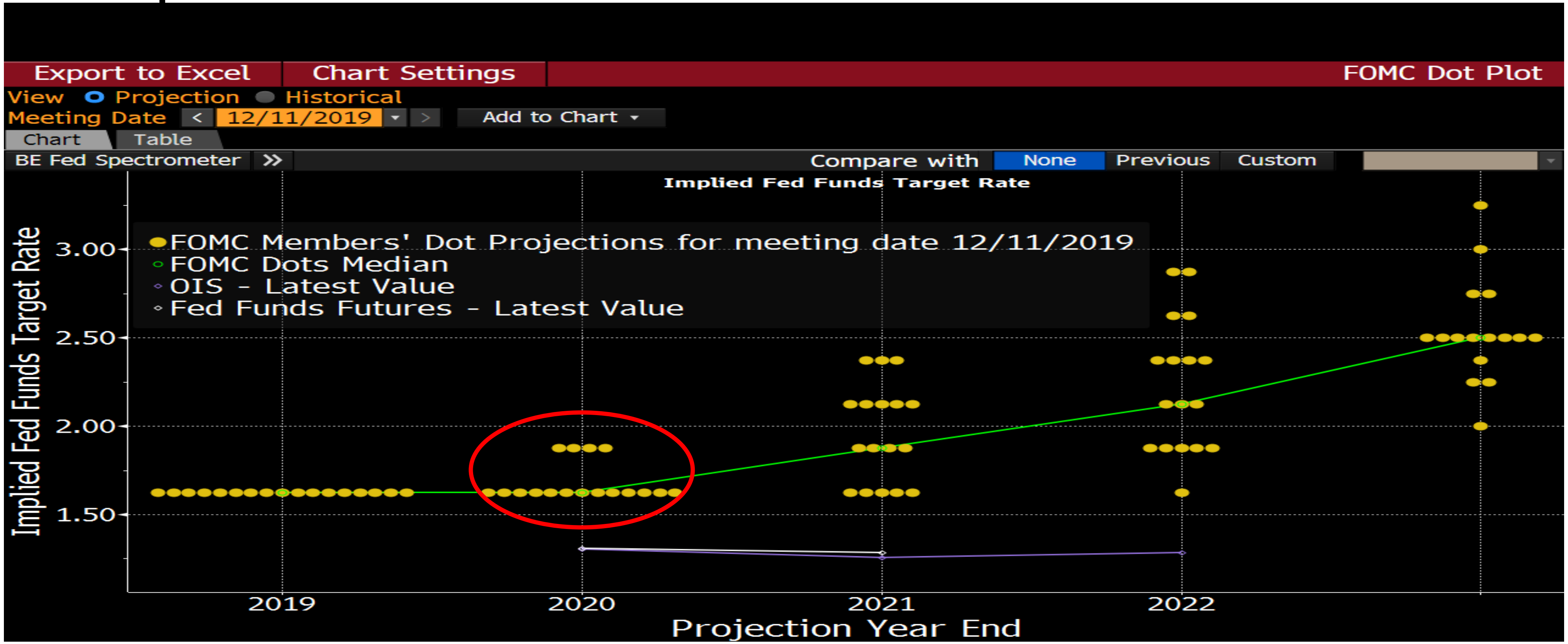
No	Stock	Tenure (yrs)	Tender Month	Quarter	Tender Date	Projected Issuance Size (RM mil)	Actual Auction Issuance (RM mil)	Private Placement X	Auction Amt Issued YTD	BTC (times)	Low	Average	High	Cut-off
1	7-yr reopening of MGS (Mat on 05/27)	7	Jan	Q1	8/1/2020	4,000	3,500		3,500	2.498	3.259	3.281	3.288	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		4,500								
14	15-yr Reopening of GII (Mat on 11/34)	15	May	Q2		5,000		X						
15	10-yr Reopening of MGS (Mat on 08/29)	10	May	Q2		4,500								
16	3-yr Reopening of GII (Mat on 05/23)	3	Jun	Q2		4,500								
17	30-yr New Issue of MGS (Mat on 06/50)	30	Jun	Q2		4,500		X						
18	20-yr Reopening GII (Mat on 09/39)	20	Jun	Q2		4,500		X						
19	3-yr Reopening of MGS (Mat on 03/23)	3	Jul	Q3		4,500								
20	10-yr Reopening of GII (Mat on 10/30)	10	Jul	Q3		4,500								
21	15-yr Reopening of MGS (Mat on 07/34)	15	Jul	Q3		4,500								
22	7-yr Reopening of GII (Mat on 09/27)	7	Aug	Q3		4,500								
23	20-yr Reopening of MGS (Mat on 05/40)	20	Aug	Q3		5,000		X						
24	15-yr Reopening of GII (Mat on 11/34)	15	Aug	Q3		5,000		X						
25	7-yr Reopening of MGS (Mat on 05/27)	7	Sep	Q3		4,500								
26	30-yr Reopening of GII (Mat on 11/49)	30	Sep	Q3		4,500		X						
27	5-yr Reopening of MGS (Mat on 09/25)	5	Sep	Q3		4,500								
28	3-yr Reopening of GII (Mat on 05/23)	3	Oct	Q4		4,500								
29	10.5-yr New Issue of MGS (Mat on 04/31)	10	Oct	Q4		4,500								
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		4,600		X						
32	7-yr Reopening of GII (Mat on 09/27)	7	Nov	Q4		4,500								
33	15-yr Reopening of MGS (Mat on 07/34)	15	Nov	Q4		4,500								
34	10-yr Reopening of GII (Mat on 10/30)	10	Dec	Q4		4,500		X						
	Gross MGS/GII supply in 2020					141,400		8,000						

Foreign holdings of overall MYR bonds fell RM12.3b MOM and RM16.9b QOQ to RM187.8b as at end-Mar 2020



Foreign holdings of MYR government bonds i.e. MGS + GII + SPK similarly dropped 9.1% QOQ; from RM185.5b in Dec 2019 to RM168.4bn in Mar 2020. The YTD outflows were a marked departure from earlier inflows recorded during the 2nd half of 2019 following major events that included the COVID-19 virus pandemic, political changes, initial concerns over the nation's reduction or exclusion from the FTSE Russell WGBI and recently the plunge in oil prices. MGS foreign holdings saw the biggest decrease i.e. RM16.2b among all categories of bonds from RM163.9b (41.6% of total) at end-Dec 2019 to RM147.6b (36.8% of total) at end-Mar 2020.

Contrary to its December dot plot which suggested a rate pause in 2020, the Fed delivered two (2) abrupt rate cuts totaling 125bps in March to combat the impact of COVID-19 black swan event; the Fed did not provide an update on its dot plot in March



Further monetary easing was evident as many central banks scrambled to cut rates against the backlash of COVID-19 virus pandemic which is seen to push the global economy and US in particular towards its 1st contraction since 2009. The Fed cut 125bps in total in March, in contrast to the earlier three (3) rate cuts of 25bps each in 2019 and subsequent neutral stance taken at end of last year. Meanwhile the Fed has embarked on a massive asset-buying program that will boost the balance sheet to a record $6.13 trillion; akin to a financial crisis QE but to support market-functioning in reality. This includes $2.3 trillion stimulus package consisting of $600b in loans to help struggling US industries and also $500b in asset purchases including Munis, IG and also HY (junk bonds).

Fixed Income Outlook

Country	3M Views		Comments/ Outlook
US	**Maturity Preference**		**Sovereigns** UST's ended strong in 1Q2020 compared to the 4Q2019 rally on safe-haven bids with the belly of the curve steeper as yields declined sharply between 106-133bps. The 2Y UST moved 133bps lower @ 0.24% whereas the much-watched 10Y UST similarly fell by a 125bps QOQ moving within a wider 0.54-1.92% range before settling at 0.67%. The Bloomberg Barclays US Treasury Index has returned solid 8.0% returns QOQ (previous QOQ: -0.8%). Despite the tepid inflationary conditions, the weakness in jobs data for March coincided with the COVID-19 virus pandemic and may help support the rates asset class along with safe-haven bids. In the coming months the US Treasury and Fed Reserve Board will increase its holdings of Treasury securities by at least $500 billion and its holdings of agency mortgage-backed securities by at least $200 billion. The Committee will also reinvest all principal payments from the Federal Reserve's holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities, Under the Fed's $2.3 trillion economic rescue package; banks will get to offer 4-year loans to companies up to 10,000 employees and also directly buy bonds of states. The **10-year UST is expected to be range-bound between 0.7-0.9%; finding good support at 0.9%** levels for this quarter. The flipside factors to our forecast are the duration and speed in the eradication of the ongoing COVID-19 virus pandemic and the swift restoration of global chain supplies. **The belly i.e. 5Y and 10-20Y stretch of the curve potentially offer better risk-reward posture for 2Q2020.** **Corporate** The Bloomberg Barclays US Corporate Total Return Value (for IG), widened further from 100bps (4Q2019) to 250bps spread over UST's; denoting weaker investor demand for yield and averaged losses of 3.6% q-o-q. The Bloomberg Barclays US Corporate High Yield Total Return Index (for HY) also widened from 350bps to ~800bps but however produced a bigger loss of 8.54% q-o-q compared to the previous quarter. The market for new IG debt has boomed since the Fed and US Treasury announced monetary and fiscal stimulus recently to help contain the economic fallout from the pandemic. Although the IG sector will benefit from both, the default rate for riskier companies is expected to triple to 10% by December. Most of the central bank's junk-bond intervention will likely be limited to "fallen angels," or companies that were rated investment grade on March 22 when the program was introduced. The fallen-angel rules apply to both of the vehicles that the Fed has created to buy corporate bonds: One will buy up to $250b of debt in secondary trading, and the other will buy up to $500b directly from companies. which may challenge corporate debt returns. **We are mildly positive on IG issuances in the belly between 3-7Y tenures on decent credit fundamentals in sectors such as telecommunication, healthcare and utilities** that can maintain credit standing under these strenuous times. **We prefer to avoid the HY sector as economic contraction will aggravate debt-servicing abilities.**
	Duration neutral		
	Policy Rate	**Yield Curve**	
	The Fed has cut its Fed Fund Rate again by 125bps in 1Q 2020 to between 0-0.25%. The Fed has signaled it is prepared to use its full range of tools to support credit flow to households and business and promote maximum employment and price stability goals. The woes from March NFP data which plummeted by 701k was compounded further by a spike in initial jobless claims totalling 16.7m over the last three weeks. The current Fed Fund Futures surprisingly revealed a 12% chance of a rate hike instead whilst the and CME FedWatch Tool surprisingly stated a 100% probability of a rate hike in April. Our house projection nevertheless is calling for rates to stay pat in 2020.	Yield curve has steepened instead from 30bps as at 4Q2019 to 53bps as at 1Q2020 (at the time of writing the 2s10s spread is at 50bps); indicating investors view that the Fed will not hesitate to ease rates further to reduce the impact of the COVID-19 virus pandemic crisis on the global economy which may be far worse in the near term than the Global Financial Crisis of 2008/09.	

Fixed Income Outlook

Country	3M Views		Comments/ Outlook
Singapore	**Maturity Preference**		**Sovereigns** The SGS yield curve tracked UST's with the yields declining sharply between 35-85bps; led across the curve which ended lower QOQ. The short 2Y rallied pushing yields 81bps lower at 0.71% whilst the 10Y yield declined 46bps at 1.73%. Fundamentals in Singapore are set to look relatively weak in April and in 2020. The economy contracted by 2.2% YOY and 10.6% QOQ in 1Q2020; its weakest since 2009; largely due to COID-19 disruptions. Expect 2020 GDP to notch -2.7% with inflation averaging -0.2%. It announced a third SGD 5.1b Budget, titled "Solidarity" that comes after the "Unity" Budget (18th February) and "Resilience" Supplementary Budget (26th March). This has increased the proposed FY2020 Budget deficit to 8.9% of GDP. As mentioned before, the SGS 2020 auction calendar reveals a duration-heavy tone with issuances that are weighed more towards the long-tenors. Singapore's AAA-rating coupled with the deluge of negative-yielding sovereign bonds in the region of around USD$16 trillion may **continue to see activity, support and values in the belly i.e. 5Y-10Y space for 2Q2020.** **Corporate** Transaction volume in the Singapore Corporate bond market grew 23.7%, amounting to a total issuance of $21.07b from 75 deals for 1Q2020. The retail offerings by SIA, Temasek and Azalea Group which were launched in the wake of a high profile default by Hyflux of its retail perpetual securities is still testament to the strong retail appetite. Another trend observed this year is the strong investor interest in bank capital issuances from offshore international banks. However, Moody's Investors Service has downgraded its outlook on Singapore's banking system to "negative" as the city state grapples with an economic slowdown and declining interest rates amid the Covid-19 pandemic. **Nevertheless, we opine that bonds issue by high-quality conglomerates in the more resilient sectors like utilities, financial services and health services (essential services that may not require human contact) are defensive and attractive by nature**. In contrast, the sectors that are badly affected by the pandemic i.e. construction, electronics, air transport, accommodation, food services and retail trade be avoided. Stress may also 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 quicker-than-expected economic recovery due to the eradication of the virus pandemic.
	Duration medium		
	Policy Rate	**Yield Curve**	
	On the monetary policy front, MAS had announced on 30th March that it will **ease monetary policy via**: ~No-appreciation currency policy by adopting "0% appreciation of the policy band" ~Re-centring by "starting at the prevailing level of the SGD NEER" ~Maintaining width of policy band. This has stabilised expectations on the SGD compared to its trade-weighted peers. The republic is relying mostly on fiscal policy to support the current economic recession.	SGS curve is expected to mirror UST's - steepen but shift lower.	

Fixed Income Outlook

Country	3M Views		Comments/ Outlook
Malaysia	**Maturity Preference**		Sovereigns Local govvies ended weaker as the shorter end succumbed with yields rising between 4-20bps extending up until 10Y tenures. 10Y tenures saw yields spike between 5-20bps along the curve, pertaining to the FTSE Russell WGBI weightage decision involving MYR bonds in September, recent change in ruling government, plunge in oil prices; but most of all additional supply concerns arising from the three(3) additional Economic Stimulus Packages which are expected to put a strain to the fiscal deficit. We have revised higher our gross govvies issuances to RM149.4b; on a higher budget deficit of between 5.2-5.7% for this year. Foreign holdings nose-dived by RM16.8b in 1Q2020. Fitch downgraded Malaysia rating outlook to negative whilst still maintaining it's A- rating whereas S&P and Moody's maintained their outlook. We have revised full-year GDP growth sharply lower at -1.5% (in line with the latest BNM projection), and suggest 2020 could potentially see the first recession since the 2008/09 GFC. However the silver lining is that we foresee some decent local and foreign institutional demand on the back of an already cheaper entry point on current MYR levels and comparable EM relative values. The positive interest-rate differentials may entice real money investors into the EM sovereign debt space benefitting Malaysia. **The 7Y, 15Y MGS space reflect decent value on the curve for 2Q2020. We expect the 10Y to range between 3.00-3.20% levels following another potential rate cut in the upcoming May MPC meeting with strong support at 3.20% levels.** Corporate Corporate bonds/Sukuk issuances eased to RM21.7b as at 1Q2020; compared to 4Q2019's RM26.6b. The resumption of major infrastructure projects like MRT 2, LRT 3, Klang Valley Double Tracking Penang highway and East Coast Rail Link (ECRL) is also expected to spur further bond issuances. Trading activities for corporate bonds however saw daily volume spike to circa RM760m daily (4Q2019:RM460m) with interest skewed slightly towards the GG followed by both AAA and AA-segment of the curve as yields dropped between 10-45bps. **We continue to like both the GG and the AA-space due to both liquidity and yield pick-up.** The GG bond names like GOVCO, PASB, PTPTN, DANAINFRA, PRASARANA, LPPSA are expected to be to be well-bid by portfolio investors. The bulk of GG bonds have outperformed YTD and still seen robust enough to provide both yield-carry and liquidity. **We foresee values emerging within the 5-10Y GG sector (current yield spreads over MGS are between 27-45bps) and also the 5Y, 15-20Y AAA-rated (spreads of ~45-56bps) and also AA-rated papers (spreads of 51-66bps)**. Unrated bonds and perps which have been coming on-stream my need to be re-looked as corporate cash flows may be disrupted due to the MCO movement to prevent the spread of the COVID-19 virus.
	Duration neutral-long		
	Policy Rate	**Yield Curve**	
	The decision by the BNM MPC to cut the OPR swiftly by 25bps each in Jan and March from 3.0% to 2.5% was seen as a pro-active stance and in line with our projection as a precautionary move due to downside risks to the economy. Monetary policy is expected to remain accommodative to support economic activity with our house of view of another 50bps rate cut for this quarter.	The yield curve ended steeper and investors may adopt negative duration as we expect further rate cuts to combat far-reaching Covid-19 related fallouts on health, socio-economy and supply chain shocks that would push the nation and many major economies into recession. This is in addition to the plunge in global crude oil prices. The 7-10Y tenures currently remains flattish with the 30Y remaining slightly above the 4.0% handle.	

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