Quarterly Market Outlook 2Q2021

Global Markets

April2021

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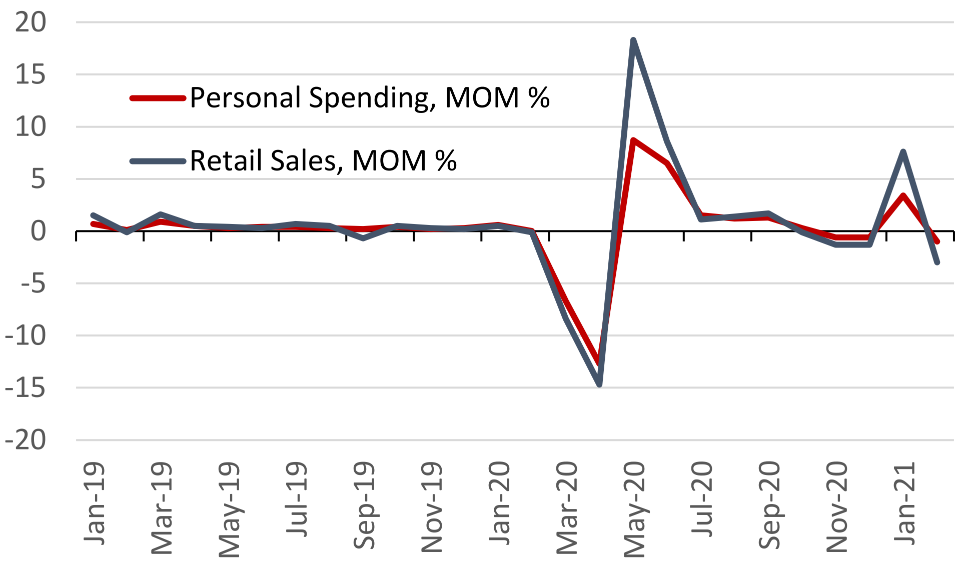
Global Central Banks Policy Rates Outlook – At a Glance

	Current	2Q21	3Q21	4Q21	1Q22	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 2021**
Eurozone European Central Bank *Deposit Rate*	**-0.50**	-0.50	-0.50	-0.50	-0.50	**No change in 2021**
United Kingdom Bank of England *Bank Rate*	**0.10**	0.10	0.10	0.10	0.10	**No change in 2021**
Japan Bank of Japan *Policy Balance Rate*	**-0.10**	-0.10	-0.10	-0.10	-0.10	**No change in 2021**
Australia Reserve Bank of Australia *Cash Rate*	**0.10**	0.25	0.25	0.25	0.25	**No change in 2021**
New Zealand Reserve Bank of New Zealand *Official Cash Rate*	**0.25**	0.25	0.25	0.25	0.25	**No change in 2021**
Malaysia Bank Negara Malaysia *Overnight Policy Rate*	**1.75**	1.75	1.75	1.75	1.75	**No change in 2021**
Thailand The Bank of Thailand *1-Day Repurchase Rate*	**0.50**	0.50	0.50	0.50	0.50	**No change in 2021**
Indonesia Bank Indonesia *7-day Reverse Repo Rate*	**3.50**	3.50	3.50	3.50	3.50	**No change in 2021**

Source: Bloomberg, Global Markets Research

US – Fiscal injection to spur strong rebound in 2Q

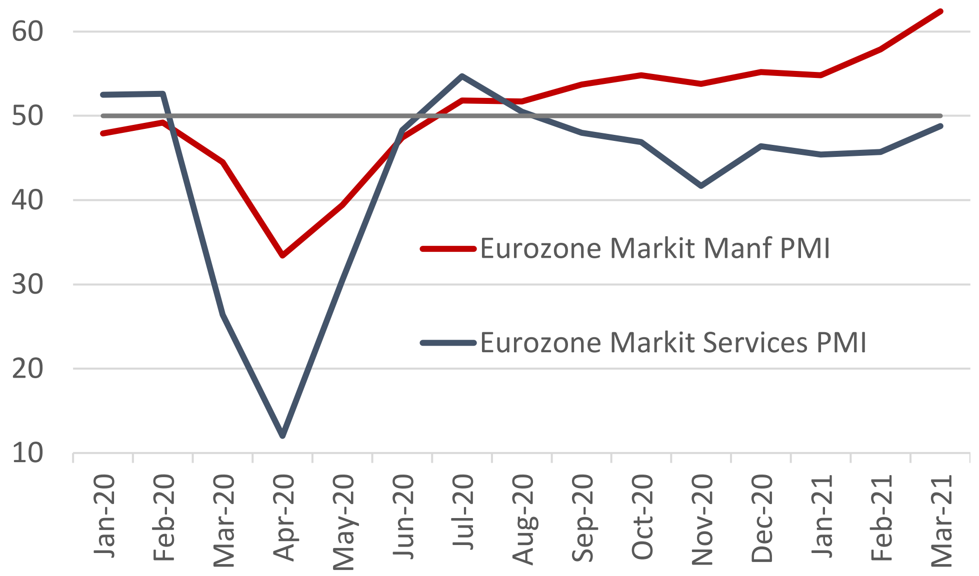


Forecasts	2020	2021f
GDP (%)	-3.5	6.5*
Core PCE Inflation (%)	1.4	2.2*
Fed Funds Rate (%)	0-0.25	0-0.25
Dollar Index (End of period)	89.9	91.5

**Federal Reserve's Forecast*
Source: Bloomberg, HLBB Global Markets Research

- **Strong economic prospect** thanks to (1) quick vaccination rate, (2) fiscal stimulus injections in the form of income transfer (3) generally easing pandemic in the US.
- The pandemic **housing boom to moderate** in coming months amid higher borrowing costs.
- Maintain base scenario for the **Federal Reserve to keep its policy unchanged**: (1) elevated unemployment, (2) symmetric inflation target (3) still-loose financial conditions (4) Fed's continuously dovish stance.
- **Downside risks:** Preliminary loosening of restrictions rules may cause new wave. Supply chain constraints continued to plague manufacturing industry, slowing the recovery potentials. Polarized congressional politics serves as hurdle for major legislation efforts.

Eurozone – Third Covid wave to delay bloc's recovery

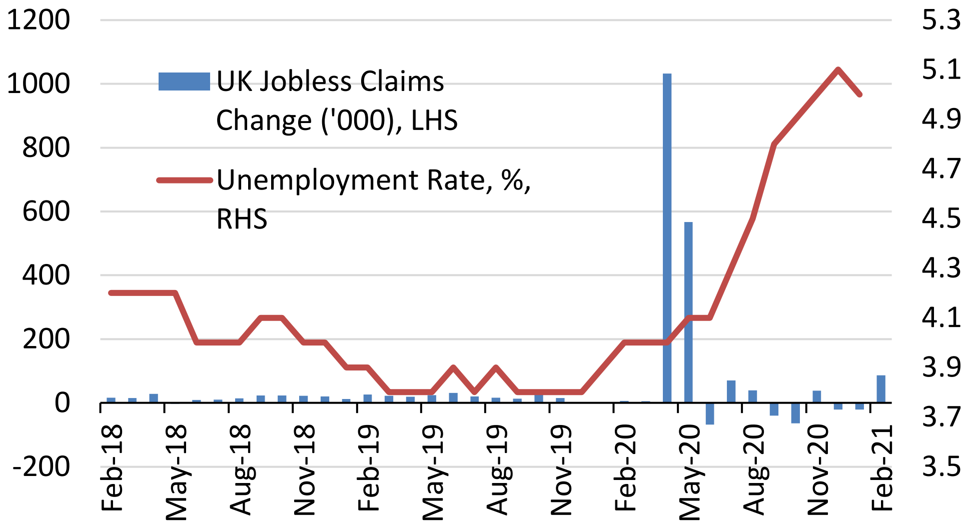


Forecasts	2020	2021
GDP (%)	-6.6	4.0*
Inflation (%)	0.3	1.5*
Deposit Facility Rate (%)	-0.5	-0.5
EUR/USD (End of period)	1.22	1.20

**ECB's Forecast*
Source: Bloomberg, HLBB Global Markets Research

- **Sluggish rate of recovery** amid third Covid wave across Europe, extended lockdowns and slower vaccination pace.
- Job protection schemes continue to prevent a massive rise in unemployment.
- Divergence in manufacturing and services sectors. Industrial productions, spurred by strong manufacturing growth have returned to pre-pandemic level.
- **Services industry struggles to recover** (PMI below 50 for seventh month). Despite recent rise, retail trade unable to return to pre-pandemic levels.
- **ECB to stay pat** on all its key rates and the €1.85 trillion PEPP envelope.

UK – Improved prospects and lesser uncertainties

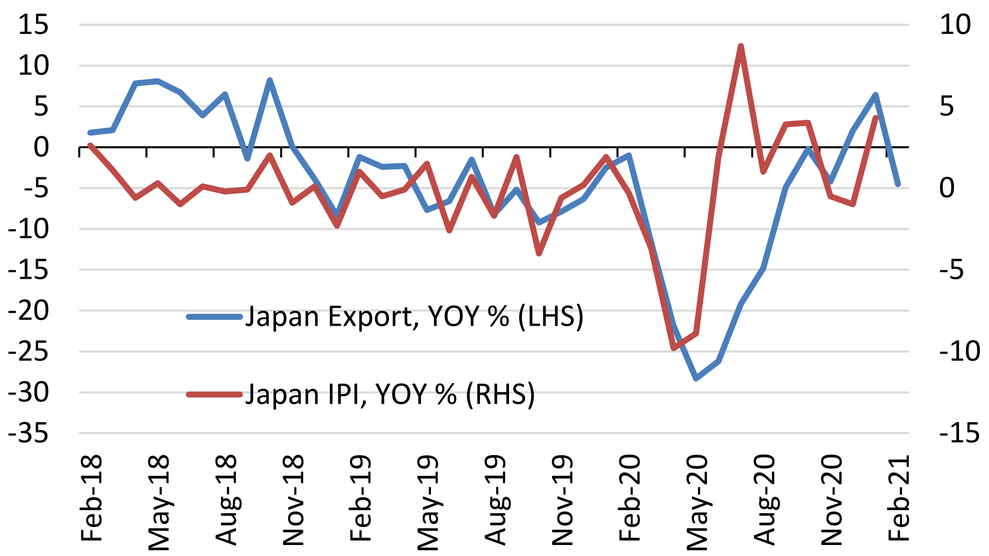


Forecasts	2020	2021
GDP (%)	-10.0	5.0*
Inflation (%)	0.9	2.0*
Bank Rate (%)	0.1	0.1
GBP/USD (End of Period)	1.37	1.40

**BOE's Forecast*
Source: Bloomberg, HLBB Global Markets Research

- **To fare better than the Eurozone** due to faster vaccination rates as well as government's new four-step plan to ease England's lockdown by 21 June.
- Pandemic's **impact on job market remained masked by the coronavirus job protection scheme**. Expect some near term improvement in the job market but expect substantial rise in unemployment after the furlough program expires in September.
- BOE to keep loose monetary policy as it maintains its "appropriate policy" stance. The **prospect of a strong recovery removed the pressure to cut rates to negatives, focus shifts to possibility of rate tightening as yields rose.**
- Exports to EU to gradually recover after an adjustment period. Exports to others to ride on pickup in external demand and the UK-Singapore trade agreement.

Japan – Divergence in manufacturing and services

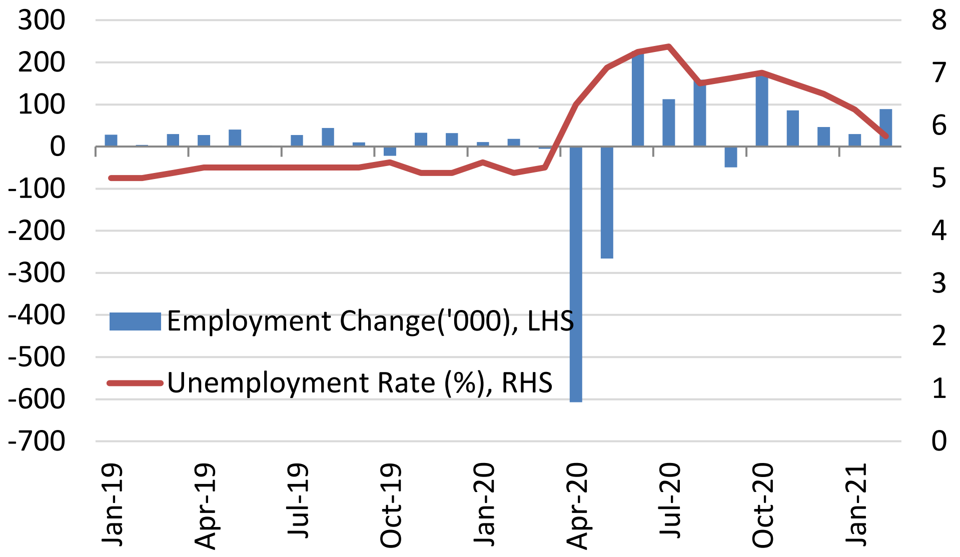


Forecasts	2020	2021
GDP (%)	-4.9	3.9*
Core Inflation (%)	0.0	0.5*
Policy Balance Rate	-0.1	-0.1
USD/JPY		109.00

**BOJ's Forecast*
Source: Bloomberg, HLBB Global Markets Research

- **Risks to growth remained tilted to the downside.** Slow vaccination rates makes economy vulnerable to new Covid wave.
- **Divergence** between manufacturing (alongside international trade) and domestic services industry. This is evident in the steady growth in industry-related indicators such as machine tool orders, industrial production and exports.
- **Sluggish wage growth** amid the pandemic which in turn leads to **continued weakness in household spending** is expected to continue weighing on services sector.
- Expect **BOJ to maintain ultra-loose policy** given its commitment to its price mandate. Recent policy tweaks meant to introduce more flexibility in operations.

Australia – Pandemic under control



Forecasts	2020	2021
GDP (%)	-2.4	4.0*
Inflation (%)	0.9	1.5*
Cash Rate (%)	0.1	0.1
AUD/USD	0.77	0.78

**RBA's Forecast*
Source: Bloomberg, HLBB Global Markets Research

- Expect **robust recovery** after having sustainably contained the pandemic since Sep-20. Both manufacturing's and services sectors' indicators point to rapid growth in activity, supported by domestic and foreign demand.

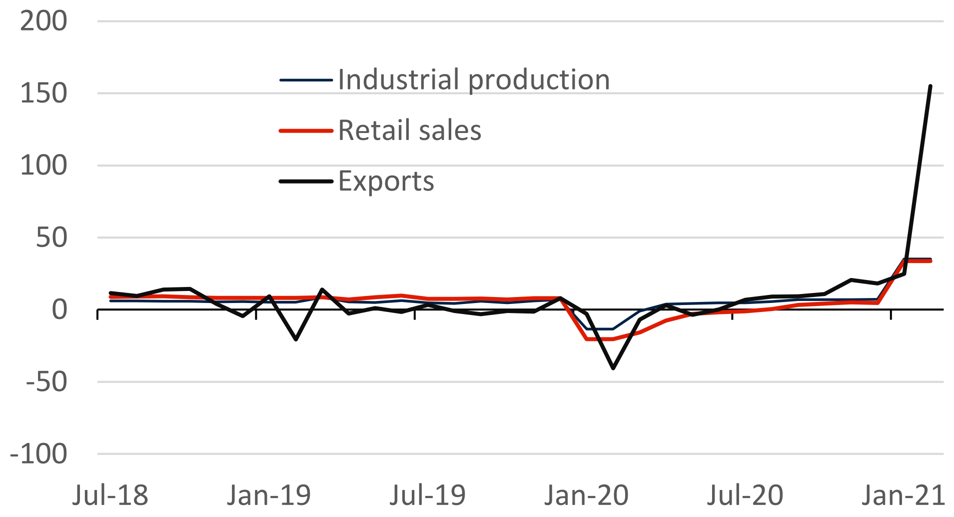
- **Falling unemployment rate** and especially the recent increase in full-time jobs are supportive of household spending. The expiry of the Jobseeker scheme in March could have some negative impacts.

- The **housing boom** also contributes to increased household wealth but surging home prices and home loans suggest possible intervention by APRA.

- Impact of the trade skirmishes with China yet to materialize given the mainland's strong iron ore and lithium demands.

- **The RBA is expected to maintain loose monetary policy**, aiming for more sustainable rise in wages.

China – Looking for quality growth

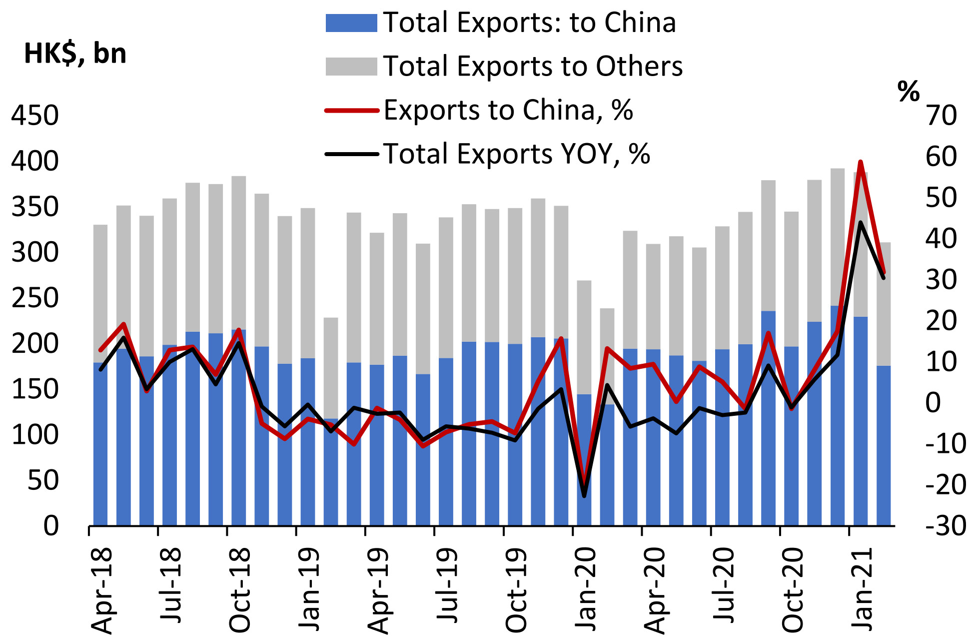


Forecasts	2020	2021	2022
GDP (%)	2.3	9.2	5.7
Inflation (%)	2.5	1.3	2.5
5Y LPR (%)	4.65	4.65	4.65
USD/CNY	6.53	6.45	NA

Source: Bloomberg, HLBB Global Markets Research

- **Underlying growth is set to stay positive over the coming months.** Low base effects will likely see high growth figures in 1Q-2021, before coming off.
- **GDP growth looks set to be supported by industrial production and exports.** Consumer spending (retail sales) and investments look to grow more modestly, from some cautiousness and a lack of a broad-based fiscal stimulus. However, this should support more sustainability in the medium term.
- **China has set an over 6% growth target in 2021** to focus on quality rather than quantity growth, during the annual "Two Sessions" meeting.

Hong Kong – Exports to remain a bright spot

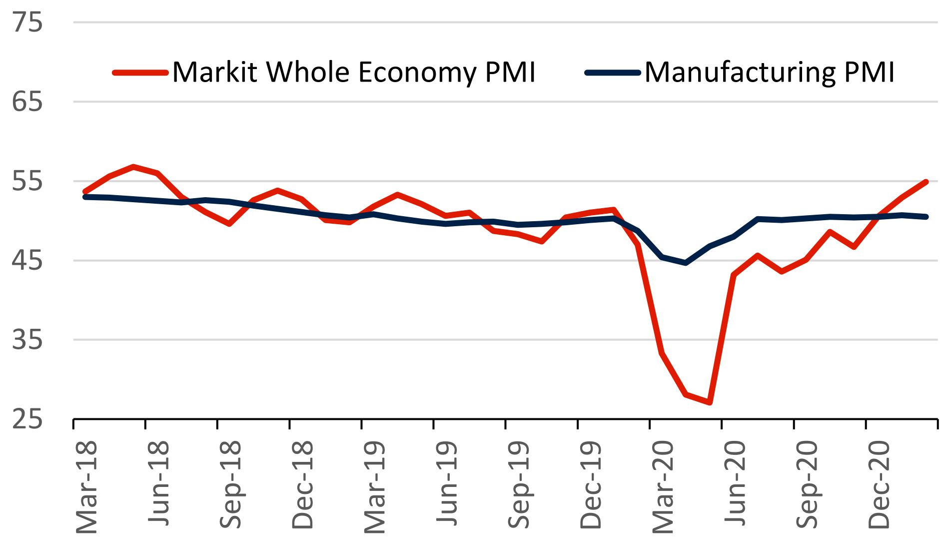


Forecasts	2020	2021
GDP (%)	-6.1	4.5*
Inflation (%)	0.3	1.6*
Base Rate	0.86	0.86
USD/HKD	7.75	7.76**

**HK Government's Forecast*
*** Bloomberg's Consensus Forecast*
Source: Bloomberg, HLBB Global Markets Research

- **Expect positive GDP readings in 1Q onwards** on favourable base effects.
- The loosening of restrictions pave way for some recovery in spending but overall **services sector to continue bearing the brunt from the absence of international tourists.**
- Expect the pandemic to be well contained given its stringent Covid restriction but expect some setbacks i.e. small Covid waves along the way .
- Higher house prices could contribute to overall household wealth, a positive sign for consumption.
- **Exports to benefit** from continuously solid demand from Mainland China as well as the general gain in global demand.

Singapore - Beneficiary of Global Recovery



Forecasts	2020	2021	2022
GDP (%)	-5.4	6.3	3.5
Inflation (%)	-0.2	1.3	1.0
3m SIBOR (%)	0.4	0.4	0.45
USD/SGD	1.32	1.33	NA

Source: Bloomberg, HLBB Global Markets Research

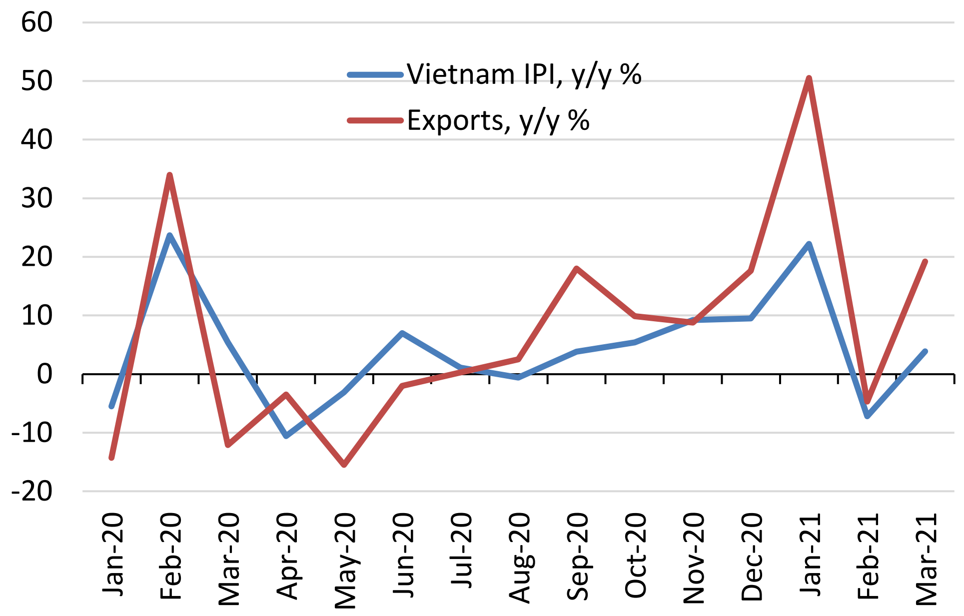
- **Singapore is experiencing an uneven recovery.** Manufacturing and modern services growth stays healthy while external-oriented services continues to languish in the doldrums.

- Domestic-oriented services and construction should rebound gradually over the coming year.

- The government's FY2021 Budget will likely cushion the adverse impact of the worst hit sectors, as it focuses on adapting and thriving post-Covid-19.

- **We expect the MAS to maintain its monetary policy stance**, despite rising inflationary pressures.

Vietnam – Strong growth to ensue after minor setback



Forecasts	2020	2021
GDP (%)	2.9	7.5*
Inflation (%)	3.2	3.3*
SBV Refinancing Rate (%)	4.0	4.0
USD/VND*	23,098	23,014*

** Bloomberg's Consensus Forecast*
Source: Bloomberg, HLBB Global Markets Research

- **Expect more robust growth in 2Q** after new Covid wave in late January capped growth potentials in 1Q.
- Expect **services sector to lag behind manufacturing** as tourism sector remained shuttered to foreign visitors.
- Manufacturing sector and exports to benefit from general pickup in global demand.
- Vietnam could arrange nonbusiness travel bubbles with low risk countries as global vaccination rates pick up
- **Expect the SBV to maintain its refinancing rate**, in anticipation of further recovery in credit growth.
- Government setting a **target of 6% growth for 2021** and has ambition to reach as high as 6.5%.

Malaysia – Broad-based but uneven recovery

** 2021 forecast by BNM*

Forecasts	2020	2021
GDP (%)	-5.6	5.0
Inflation (%)	-1.1	2.2
OPR (%)	1.75	1.75
USD/MYR	4.02	4.08

Source: Bloomberg, HLBB Global Markets Research

- **Private sector-led recovery** in domestic demand, complemented by rebound in public sector activities and exports.
- Jumps in imports of consumption goods added to signs of recovery in domestic demand as the MCO restrictions were loosened.
- **Favourable exports outlook** supported by strong global demand for semiconductor.
- Higher headline inflation on base and oil effect; **core CPI to stay subdued**
- **Expect BNM to maintain OPR** at the current level given its neutral policy stance. Any potential rate hike is unlikely as spike in inflation is transitory.

FX Outlook

	1Q-21A	2Q-21F	3Q-21F	4Q-21F	1Q-22F
DXY	93.23	92.50	92.00	91.50	90.75
USD/CAD	1.2562	1.26	1.25	1.24	1.23
EUR/USD	1.1730	1.1850	1.1900	1.2000	1.2100
GBP/USD	1.3783	1.3850	1.3950	1.4000	1.4100
USD/CHF	0.9436	0.95	0.94	0.93	0.92
AUD/USD	0.7598	0.76	0.77	0.78	0.79
NZD/USD	0.6985	0.70	0.71	0.72	0.73
USD/JPY	110.72	111.00	110.00	109.00	108.00
USD/MYR	4.1450	4.15	4.10	4.08	4.05
USD/SGD	1.3448	1.36	1.35	1.33	1.32
USD/CNY	6.5647	6.60	6.55	6.45	6.40

Source: Bloomberg, HLBB Global Markets Research

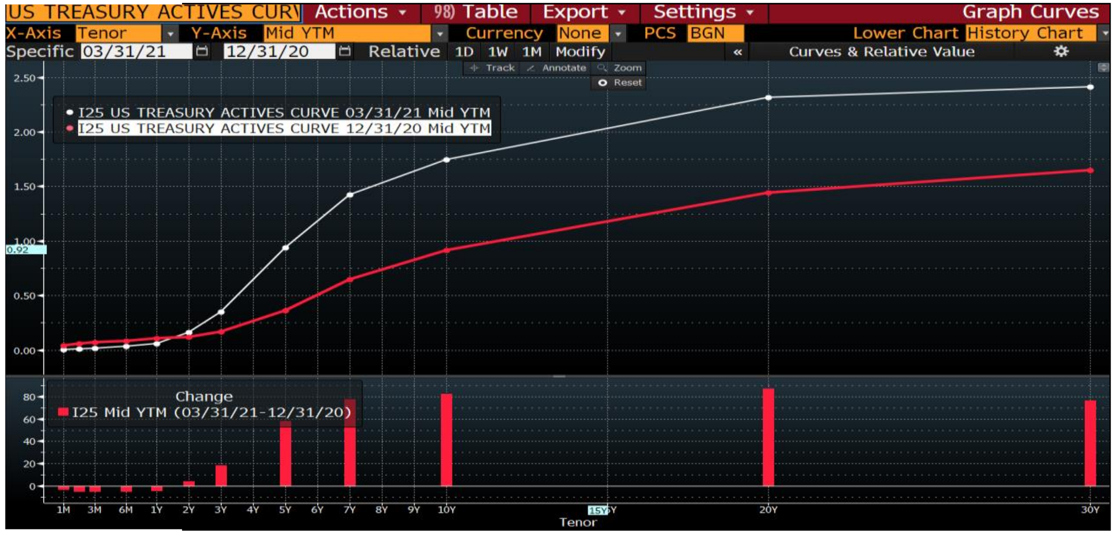
- **We now see the reflation trade, alongside concerns of rising yields, persisting for longer.** This has been buoyed by elevated energy prices, even as supply side disruptions have come off.

- **We continue to see complications in the dollar.** Concerns from higher inflation have stayed elevated. The US producer price index has seen its highest increase in a decade in January. As a result, DXY is likely to peak in mid-2021, until market's beliefs on growth and inflation becomes more balanced. We forecast DXY to head up to 92.50 by the end of 2Q-2021, before coming off to 91.50 by the end of 2021.

- **We maintain the view of some EUR and JPY underperformance compared to GBP's resurgence.** Commodity-related currencies (including the AUD and CAD) will likely stay as outperformers. The CNY will also likely be supported by some improvements in economic data in the coming months. We flagged how industrial production and exports will stay favorable for the China economy in 2021.

- For USD/MYR, we forecast a peak of 4.15 by the end of June 2021, before a return to 4.08 by the end of December 2021.

US Fixed Income – Yield pressure and heavy supply to weigh on the curve



- **UST** -- UST's spike further QOQ extending out from 2Y onwards with overall benchmark yields rising between 58-77bps. The UST 2Y yield moved 4bps up at 0.16% whilst the much-watched UST 10Y yield spiked the most by 82bps at 1.74% as at end 1Q2021. The curve bear-steepened to its widest levels in more than 5-years with both the 2s10s and 5s30s spreads between 145-155bps; due to incessant reflation trade. The Biden-led administration is set to obtain approval for additional $2.25 trillion infrastructure-related spending following the recent approval of $1.9 trillion bill. We expect no change in the monetary policy side as the Fed Dot Plot projection show rates staying pat throughout 2023. Expect UST10Y to range between 1.60-1.80% for 2Q2021 and we are generally underweight nominal UST's but still favor inflation-linked bonds.

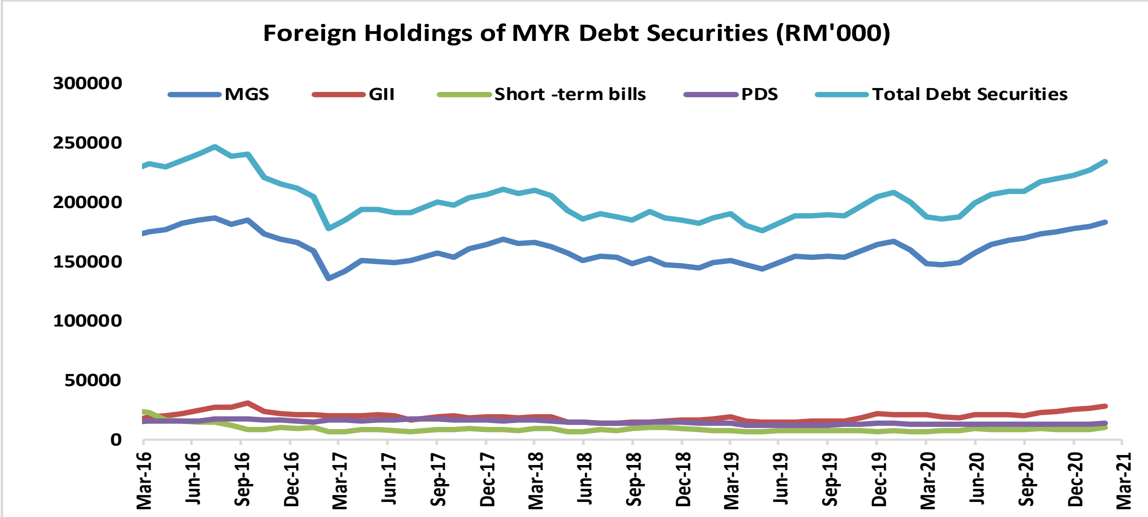
- **Corporates** – The benefit from the narrowing in spreads to almost pre-pandemic levels was mitigated by the negative impact from the broader rise in rates -- the Bloomberg Barclays US Corporate Bond Index's ~5% drop was the worst quarterly return since 2008. Nevertheless spreads have tightened from a high of 100bps in February to 91bps currently and expected to sustain in view of expected improvements in credit relative to the economy, as vaccine rollouts and lifting of movement restriction gather momentum. Issuances are expected to drop by 15% q/q to $370b in 2Q2021 (1Q: $435b, 2021: $1.3 trillion) whilst issuers capitalize on current lower rates. We are mildly positive on IG issuances that include cyclical commodities, telecommunications and financials in the 7Y and 20Y tranches.

Source: HLBB Global Markets Research

Malaysia Fixed Income – Re-rating & supply concerns may weigh on bond yields

MGS/GII issuance pipeline in 2021

No	Stock	Tenure (yrs)	Tender Month	Quarter	Tender Date	Projected Issuance Size (RM mil)	Actual Auction Issuance (RM mil)	Actual Private Placement	Actual Issuance YTD	BTC (times)	Low	Average	High	Cut-off
1	7-yr reopening of MGS (Mat on 06/28)	7	Jan	Q1	6/1/2021	3,500	3,500		3,500	2.026	2.406	2.449	2.463	50.0%
2	15.5-yr new Issuance of GII (Mat on 7/36)	15	Jan	Q1	14/1/2021	4,500	3,000	1,500	8,000	2.917	3.385	3.447	3.475	95.5%
3	10-yr Reopening of MGS (Mat on 04/31)	10	Jan	Q1	21/1/2021	4,000	4,000		12,000	1.992	2.684	2.714	2.730	91.7%
4	5-yr Reopening of GII (Mat on 03/26)	5	Feb	Q1	3/2/2021	4,500	4,500		16,500	2.067	2.230	2.252	2.260	63.2%
5	20-yr Reopening of MGS (Mat on 05/40)	20	Feb	Q1	17/2/2021	4,500	2,000	2,000	20,500	2.224	3.901	3.969	4.010	90.0%
6	7-yr Reopening of GII (Mat on 09/27)	7	Feb	Q1	24/2/2021	3,500	3,500		24,000	2.196	2.792	2.806	2.824	82.5%
7	30-yr Reopening of MGS (Mat on 06/50)	30	Mar	Q1	5/3/2021	4,000	2,000	2,000	28,000	2.023	4.443	4.486	4.549	20.0%
8	10-yr Reopening of GII (Mat on 10/30)	10	Mar	Q1	11/3/2021	4,000	4,000		32,000	1.799	3.500	3.561	3.589	15.0%
9	5-yr Reopening of MGS (Mat on 09/25)	5	Mar	Q1	22/3/2021	4,500	4,500		36,500	1.789	2.751	2.764	2.783	30.0%
10	20.5-yr New Issue of GII (Mat on 09/41)	20	Mar	Q1	30/3/2021	4,500	2,000	2,000	40,500	2.575	4.390	4.417	4.435	85.7%
11	7-yr Reopening of MGS (Mat on 06/28)	7	Apr	Q2		4,000								
12	15-yr Reopening of GII (Mat on 7/36)	15	Apr	Q2		4,000								
13	3-yr Reopening of MGS (Mat on 06/24)	3	Apr	Q2		4,000								
14	30-yr Reopening of GII (Mat on 11/49)	30	May	Q2		4,000								
15	15-yr Reopening of MGS (Mat on 05/35)	15	May	Q2		4,500								
16	5-yr Reopening of GII (Mat on 03/26)	5	May	Q2		4,000								
17	10-yr Reopening of MGS (Mat on 04/31)	10	Jun	Q2		4,500								
18	3-yr Reopening of GII (Mat on 10/24)	3	Jun	Q2		4,500								
19	20-yr Reopening MGS (Mat on 05/40)	20	Jun	Q2		4,000								
20	15-yr Reopening of GII (Mat on 07/36)	15	Jul	Q3		4,500								
21	5-yr Reopening of MGS (Mat on 11/26)	5	Jul	Q3		4,000								
22	10-yr Reopening of GII (Mat on 10/30)	10	Jul	Q3		4,000								
23	30-yr Reopening of MGS (Mat on 06/50)	30	Aug	Q3		4,500								
24	7-yr Reopening of GII (Mat on 08/28)	7	Aug	Q3		4,500								
25	3-yr Reopening of MGS (Mat on 06/24)	3	Aug	Q3		4,000								
26	20-yr Reopening of GII (Mat on 09/41)	20	Sep	Q3		4,500								
27	10-yr Reopening of MGS (Mat on 04/31)	10	Sep	Q3		4,500								
28	5-yr Reopening of GII (Mat on 03/26)	5	Sep	Q3		4,000								
29	7-yr Reopening of MGS (Mat on 06/28)	7	Oct	Q4		4,000								
30	30-yr Reopening of GII (Mat on 11/49)	30	Oct	Q4		4,000								
31	5-yr Reopening of MGS (Mat on 11/26)	5	Oct	Q4		4,000								
32	10-yr Reopening of GII (Mat on 10/30)	10	Oct	Q4		4,000								
33	15-yr Reopening of MGS (Mat on 05/35)	15	Nov	Q4		4,500								
34	3-yr Reopening of GII (Mat on 10/24)	3	Nov	Q4		4,000								
35	20-yr Reopening of MGS (Mat on 05/40)	20	Nov	Q4		4,000								
36	7-yr Reopening of GII (Mat on 08/28)	7	Dec	Q4		3,500								
37	3-yr Reopening of MGS (Mat on 06/24)	3	Dec	Q4		3,000								
	Gross MGS/GII supply in 2021					152,500	33,000	7,500	36,500	PROJECTED TOTAL ISSUANCE SIZE = 152,500				



Source: HLBB Global Markets Research

- **Government Bonds** – The quarter under review saw local govvies tracking UST movements with the curve bear-steepening as overall benchmark yields spiked between 25-86bps. EPF's restrained bond market activities for 1H2021 due to the various withdrawal schemes, coupled with the higher projected total government debt-to-GDP ratio of 58.5% for end-2021 by MOF, weighed on the curve. The reaffirmation of Moody's A3 ratings on GOM's long-term issue and local currency senior unsecured debt along with FTSE Russell's decision to maintain Malaysia in the World Government Bond Index and removal from watchlist is expected to provide support for local govvies. Our 10Y MGS yield target is slightly lower @ 3.15-35% levels. We reaffirm our house view that BNM would keep OPR unchanged at 1.75% this year

- **Corporate Bonds/Sukuk** -- The decrease in overall Corporate bonds/sukuk issuances (including GG-bonds) to RM30.9b (4Q2020: RM40.4b) did not correspond with demand as yields spiked q/q. Nevertheless the continuing risk of widening yield spreads, solid demand is noted by the sizeable buy-side institutional investors. We favour conglomerates, toll-operators and utilities in the attractive GG (spreads: 30-50bps) and also AAA (credit spreads ~58-98bps) especially in the 10Y, 20Y sectors, as higher economic activities improves earnings recovery in 2Q2021. For extra yield-carry, unrated bonds may appeal to investors who are willing to take extra credit risk.

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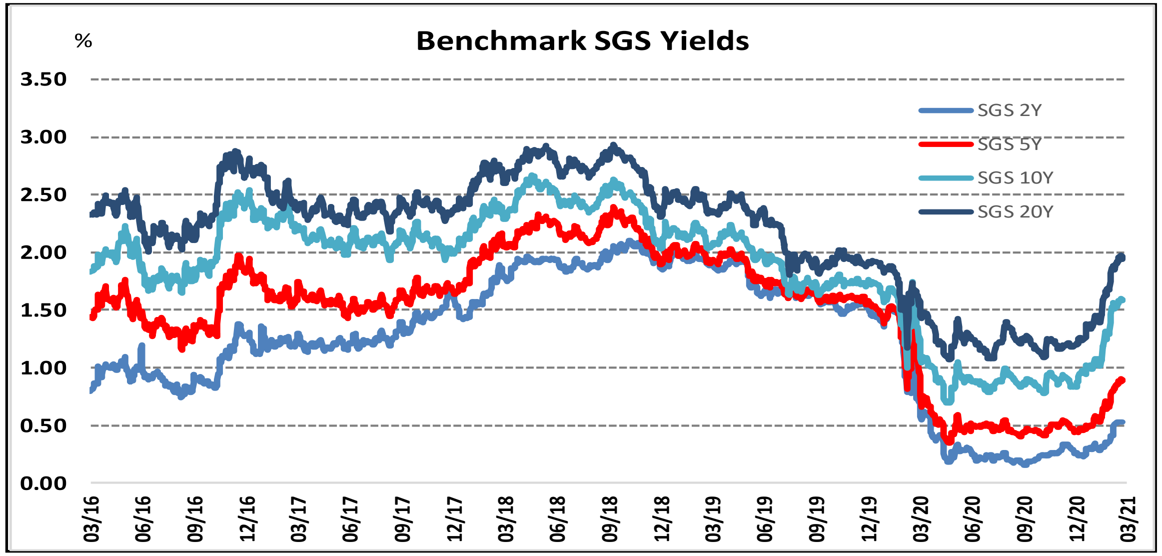
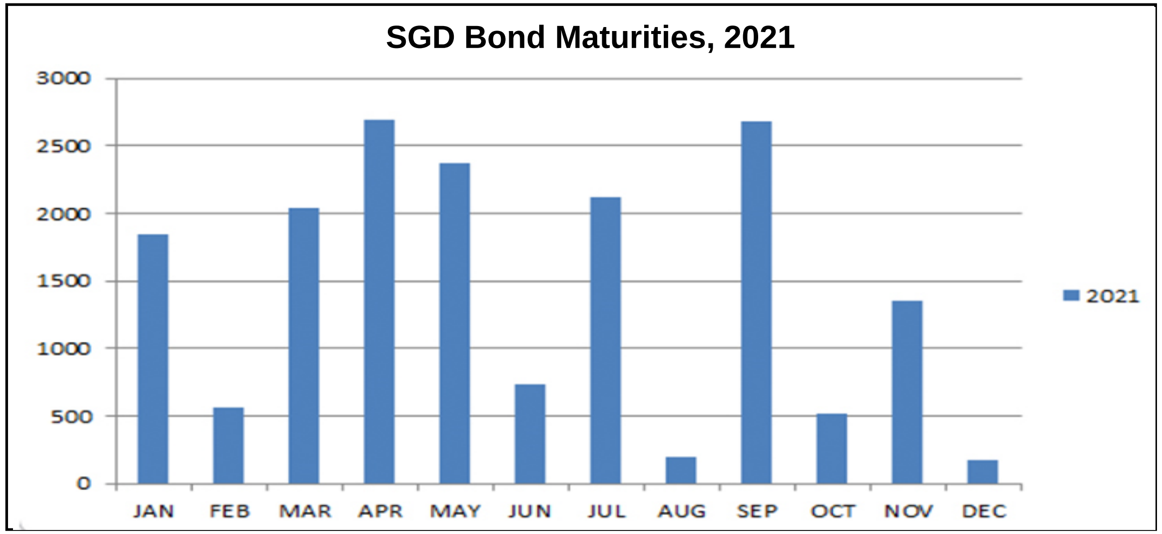
Singapore Fixed Income – Neutral to slightly Negative bias





Source: HLBB Global Markets Research

- **SGS** – The SGS performance lagged behind many developed markets as the curve steepened sharply as overall benchmark yields were pressured, spiking between 21-89bps. The Bloomberg Barclay Global Singapore Bond Index lost 5.6% in 1Q2021 (2020: +8% returns); Meanwhile MAS may maintain its policy settings on hold in the upcoming April review and may reduce the dovish tone to reflect risks that inflation may overshoot amid a robust growth outlook. Nevertheless the SGD NEER is expected to maintain above parity to reflect SGD outperformance against Asian currencies. The republic's proposed issuance of infrastructure bonds (via green bonds) as much as S$90b is projected only in 4Q2021 and is not expected to dampen the sovereigns. Nevertheless, we are neutral-to- slightly negative bias for 2Q2021 as investors may be tempted to switch to risk assets.

- **Corporate** – The remarkable containment of COVID-19, lifting of movement restriction and efficient vaccine rollouts are expected to boost corporate earnings. Expect pipeline supply in 2021 to be outstripped by demand due to sizeable corporate bond maturities of SGD5.8b in 2Q2021 (Overall 2021:SGD17b). These maturities which consist mainly of HDB bonds totalling ~S$4.8b) are highest in 2Q2021 (Refer to Bloomberg chart on the left) and strong demand for credits by affluent Singapore investors with large pool of savings should augur well for potential issuers. We are slightly positive on Financials namely OCBC, DBS and UOB-related names ahead of the expiry of debt moratoriums and sustainability of asset quality.

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