Hong Leong Bank

Quarterly Market Outlook 1Q2021

Global Markets

January 2021

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Global Growth Outlook

Real GDP (% YOY)	Latest 2 Quarters		Actual	Forecast		Forecast (official)	
	2Q20	3Q20	2019	2020	2021	2020	2021
World	-	-	2.9	**-4.4***(-3.9)*	**5.2** *(5.2)*	**-4.4***(-4.9)*	**5.2** *(5.4)*
DM/ G10	-23.1	15.3	1.7	**-5.2** (-5.8)	**4.0** *(4.2)*	-	-
US	-9.0	-2.8	2.3	**-3.5** *(-4.3)*	**3.9** *(3.7)*	**-2.4** *(-3.7)*	**4.2** *(4.0)*
Eurozone	-14.7	-4.3	1.2	**-7.4** *(-8.0)*	**4.6** *(5.5)*	**-7.3** *(-8.0)*	**3.9** *(5.0)*
UK	-20.8	-8.6	1.4	**-11.3** *(-10.0)*	**5.3** *(6.3)*	**-11.0** *(-9.5)*	**7.3** *(9.0)*
Japan	-10.3	-5.7	0.7	**-5.3** *(-5.7)*	**2.7** *(2.5)*	**-5.5** *(-4.7)*	**3.6** *(3.3)*
BRICs	-2.6	1.9	5.2	**0.9** *(0.6)*	**5.4** *(4.9)*	-	-
China	3.2	4.9	6.1	**2.0** *(2.1)*	**8.3** *(8.0)*	-	-
India*	-23.9	-7.5	6.1	**-8.5***(-8.0)*	**9.2** *(8.1)*	-	-
Asia ex-Japan	-2.4	1.7	5.3	**0.8** *(0.8)*	**5.5** *(5.1)*	-	-
EMEA	-9.5	-2.0	2.5	**-3.8***(-4.5)*	**3.6** *(3.8)*	**-**	**-**

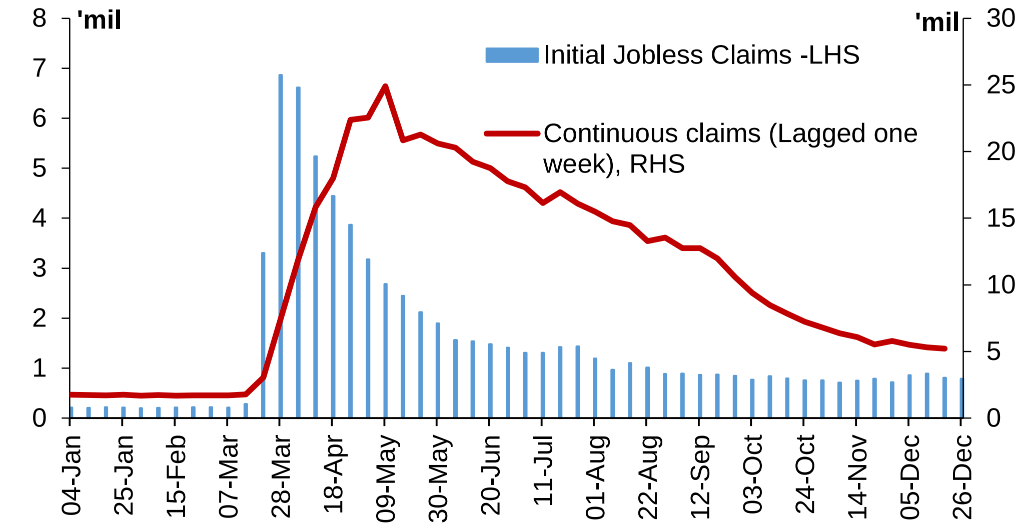
Source: Bloomberg, official sources
Figures in ( ) are previous forecasts
**FY ending Mar-21 and Mar-22 respectively*

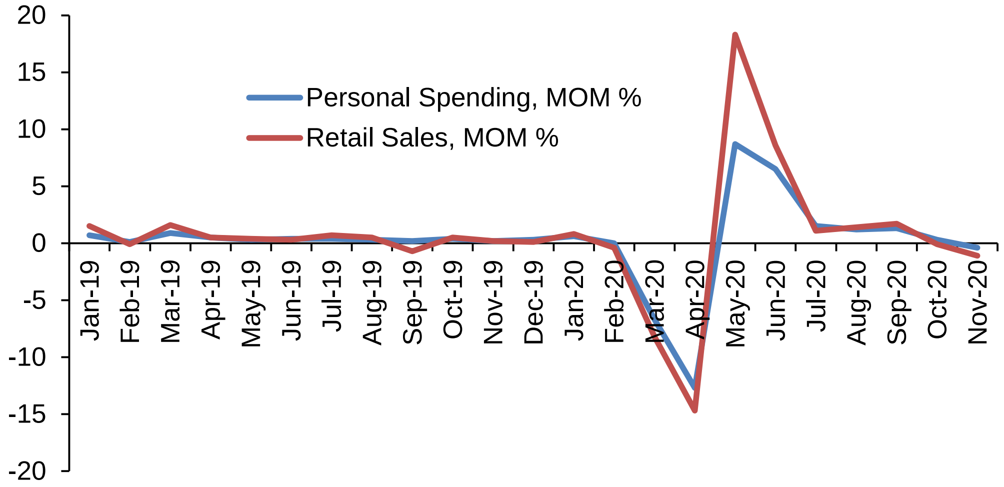
Global Central Banks Policy Outlook

	Current	1Q21	2Q21	3Q21	4Q21	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	**Potential cut/ Easing bias**
Thailand The Bank of Thailand *1-Day Repurchase Rate*	**0.50**	0.50	0.50	0.50	0.50	**Potential cut/ Easing bias**
Indonesia Bank Indonesia *7-day Reverse Repo Rate*	**4.00**	3.75	3.75	3.75	3.75	**Plenty of room to cut**
Singapore Monetary Authority of Singapore *SGD NEER*	**-**	-	On hold	-	On hold	**No change in 2021**

Source: Bloomberg, HLBB Global Markets Research

US - Mixed recovery as job growth slowed; hope on more stimulus

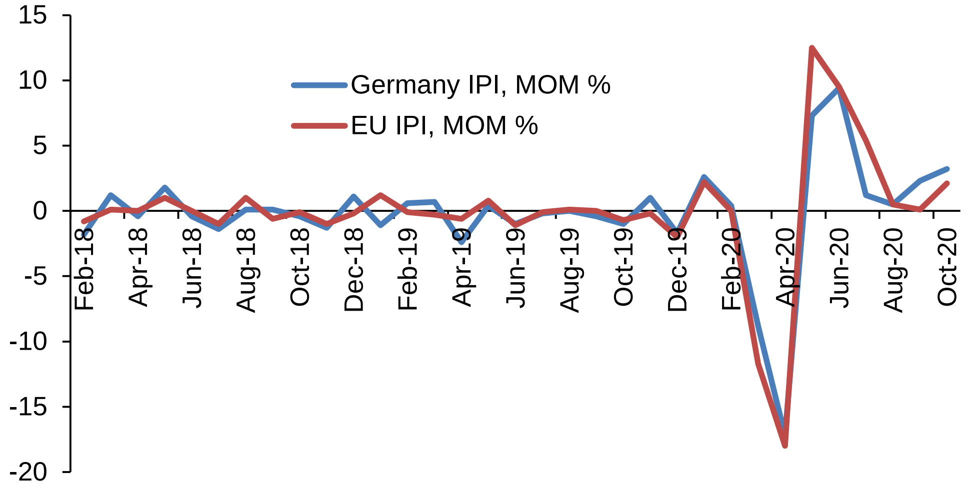


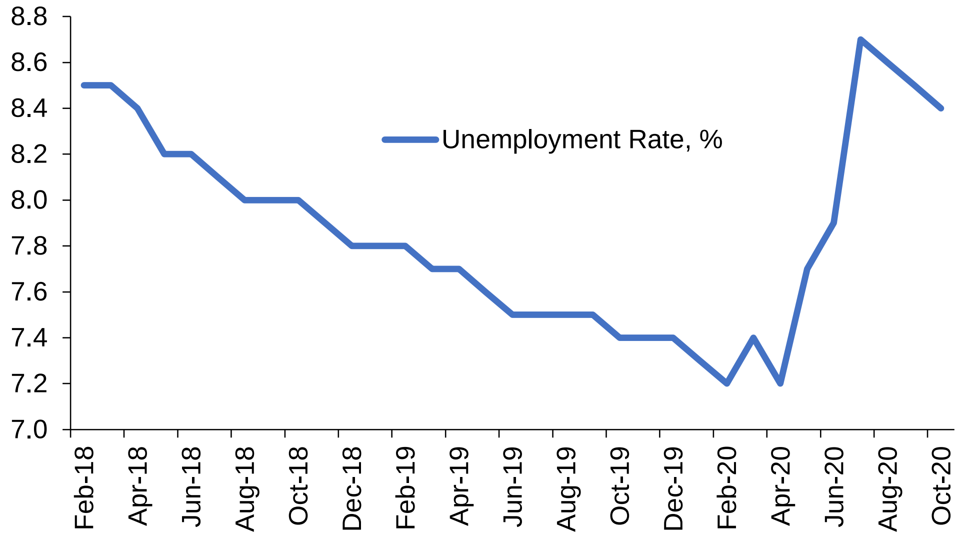


Source: Bloomberg, HLBB Global Markets Research

- **Slower labour market revival**; surging coronavirus cases pose downside risk to economic recovery.
- **Consumer spending outlook is uncertain** after coming off the steep recovery; effect of first stimulus checks had tapered off.
- **A Democrats-controlled Congress** alongside the Biden Administration to offer more meaningful fiscal expansion, instantly brightening spending prospect.
- **Manufacturing expansion is expected to continue** but weighed down by Covid-19 related supply constraint/disruption.
- **The bright spot remains on the housing sector** as low borrowing rates, change in working culture (ability to work from home) spurred suburban shifts. Downside remains the lack of (housing) supply.

Eurozone – Lockdowns to delay bloc's recovery





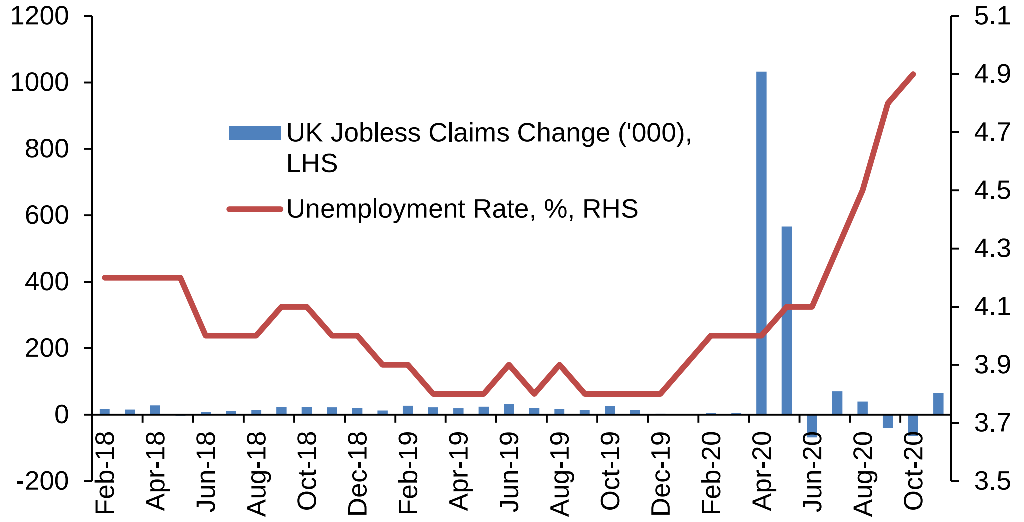
- **Extended and stricter lockdowns to delay economic recovery.** New Covid-19 strain poses downside risk to economy despite vaccine rollout.

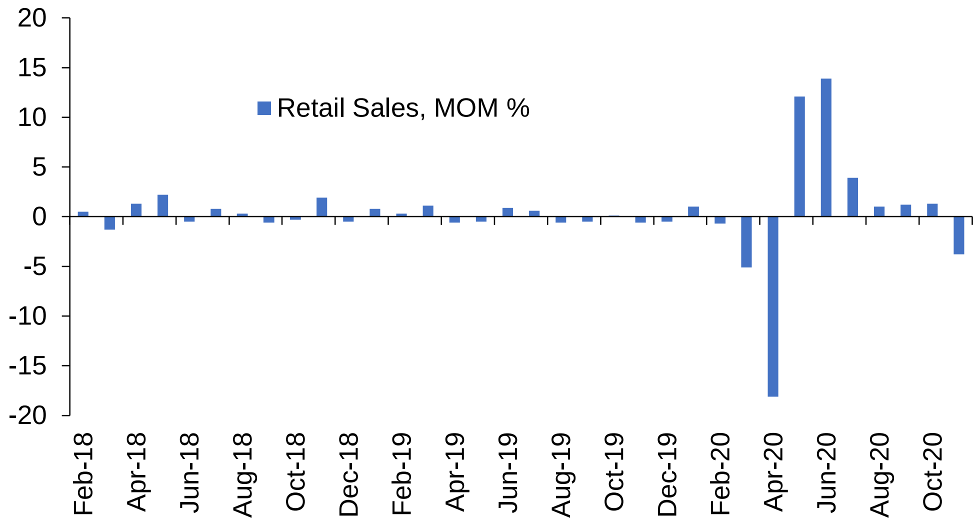
- **Pandemic related supply constraint** to drag on overall manufacturing sector. Germany is expected to remain a growth driver.

- **Unemployment rate has fallen from peak.** Sustained growth in manufacturing would recreate more employments but extended lockdowns threatened services job.

Source: Bloomberg, HLBB Global Markets Research

UK – Near term prospects falter amid raging pandemic

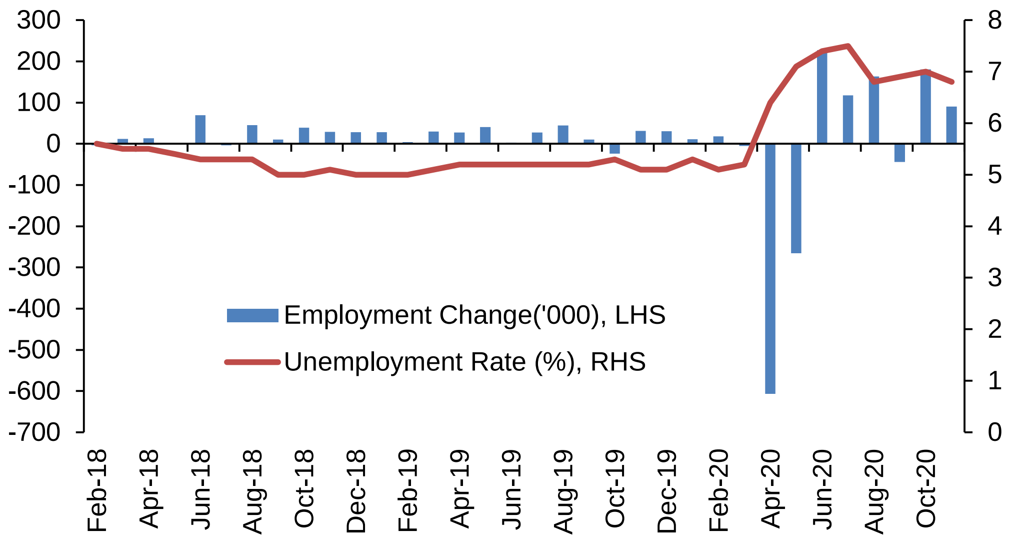


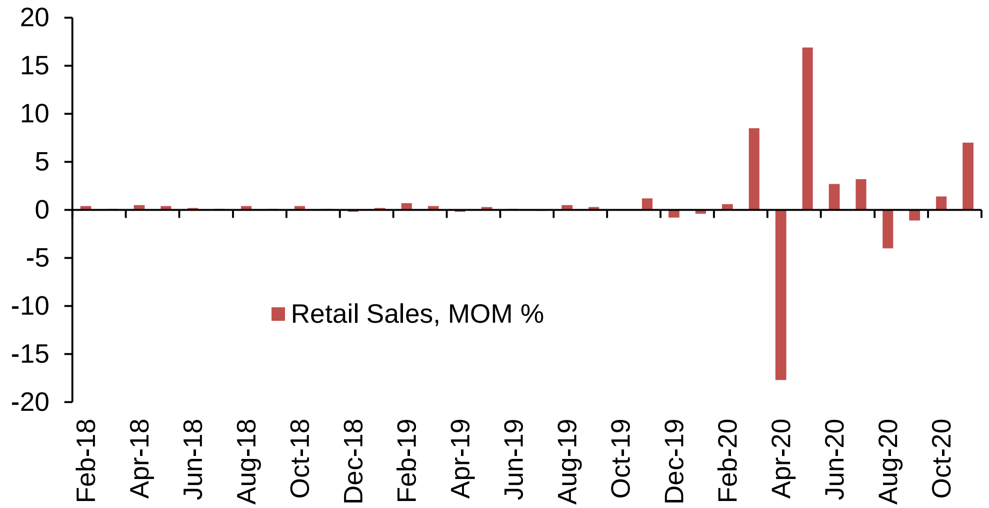


- **Near-to-medium term economic recovery prospect dampens** considerably after third lockdown was ordered.
- **Less generous job retention scheme alongside stricter restrictions are negatives** for job market and retail sector - higher jobless rate and jobless claims.
- **Post-Brexit adjustment/hiccup an added risk** potentially derailing recovery efforts

Source: Bloomberg, HLBB Global Markets Research

Australia – Heightened dispute with China a new risk

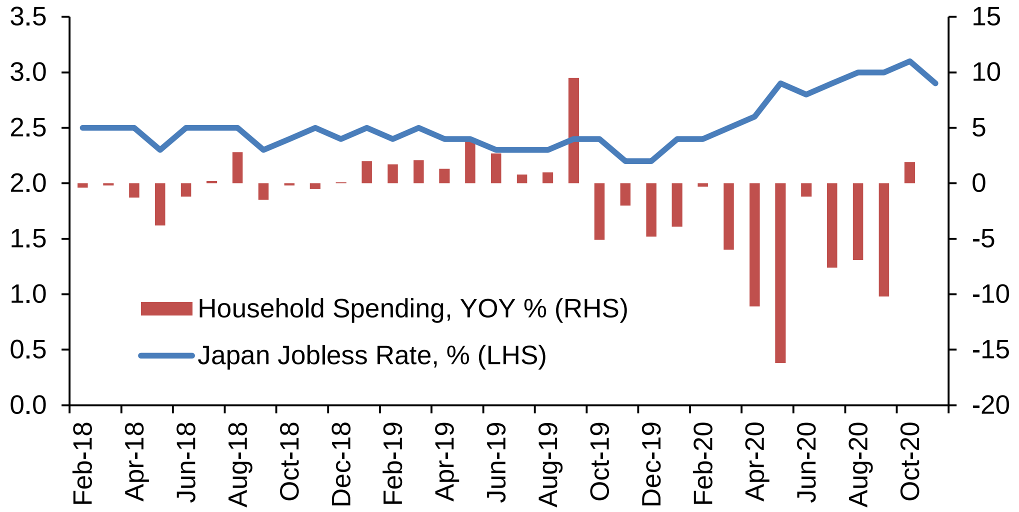


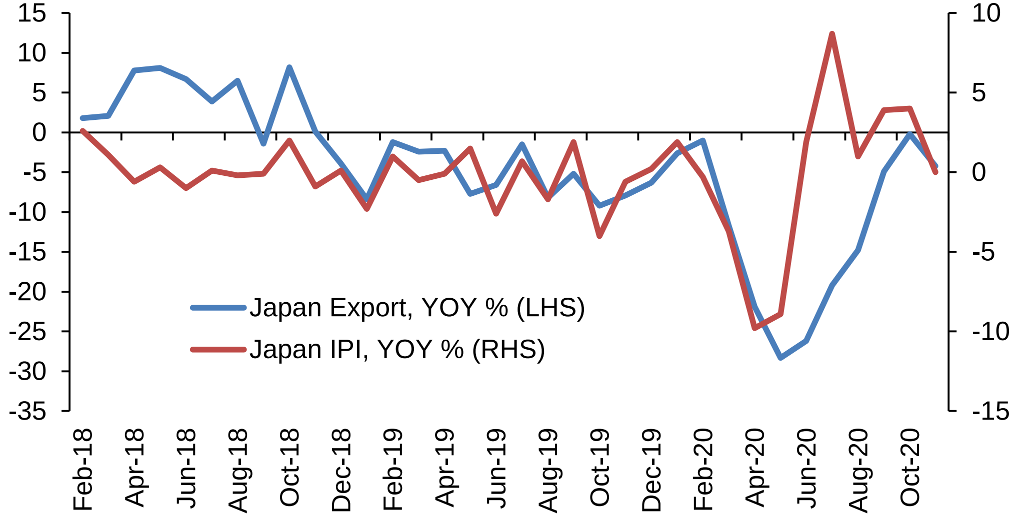


Source: Bloomberg, HLBB Global Markets Research

- **Gradual economic recovery** after recent emergence from hard lockdown in the Victoria state.
- **Firms expected to raise employments** as labour force also expanded.
- **Growth in services sector** - retail sales seen improving post lockdown.
- **Downside risk from trade dispute with China**, its biggest trading partner.

Japan – Third virus wave dragging on already weak economy

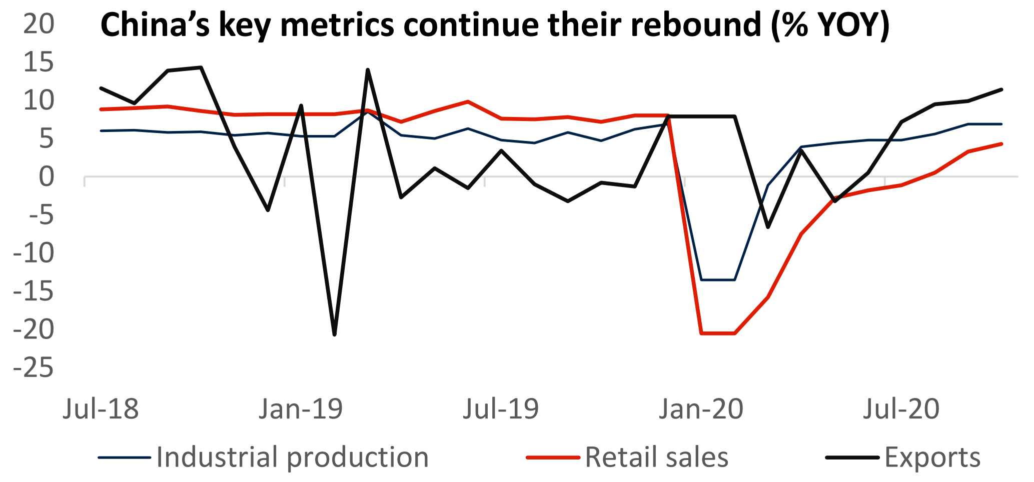




Source: Bloomberg, HLBB Global Markets Research

- **Manufacturing and international trade to benefit** from rebound in global demand. PMIs are pointing to stabilisation at factories.
- **Third virus wave an immediate threat to recovery** and could once again lead to rescheduling of the Tokyo Olympics resulting in economic losses.
- **Consumer spending remains cautious as job market weakened.** Inflation is expected to remain weak.

China – Positioning for pre-eminence

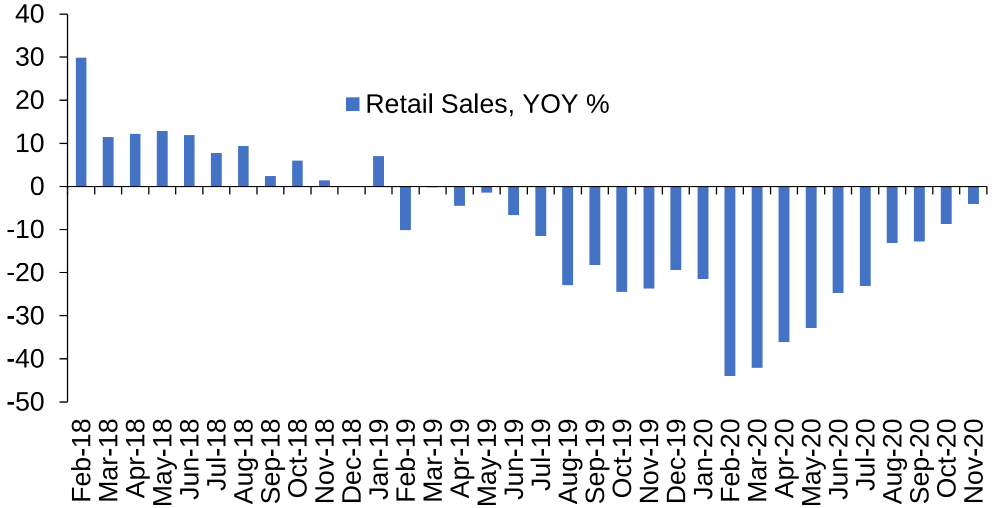


Forecasts	2020	2021
GDP (%)	1.7	8.0
Inflation (%, Avg)	3.0	2.7
5Y LPR (%)	4.65	4.65
USD/CNY	6.53	6.25

- **We forecast elevated 8% GDP growth in 2021, supported by base effects.** Growth is likely consumer-led as Covid-19 vaccination spreads, confidence returns and labor market improves.
- **Export growth (>9% YOY Aug-Nov 2020) has also been strong and should persist.** The recent RCEP deal is positive for intra-Asia trade.
- **Inflation (particularly core) may start to rebound from muted levels from mid-2021.** We expect food inflation to taper off in contrast.
- **We expect the People's Bank of China to maintain a neutral stance for now.** PBOC should allow modest CNY strengthening, while injecting liquidity if needed. We do not expect many interest rate moves.

Source: Bloomberg, HLBB Global Markets Research

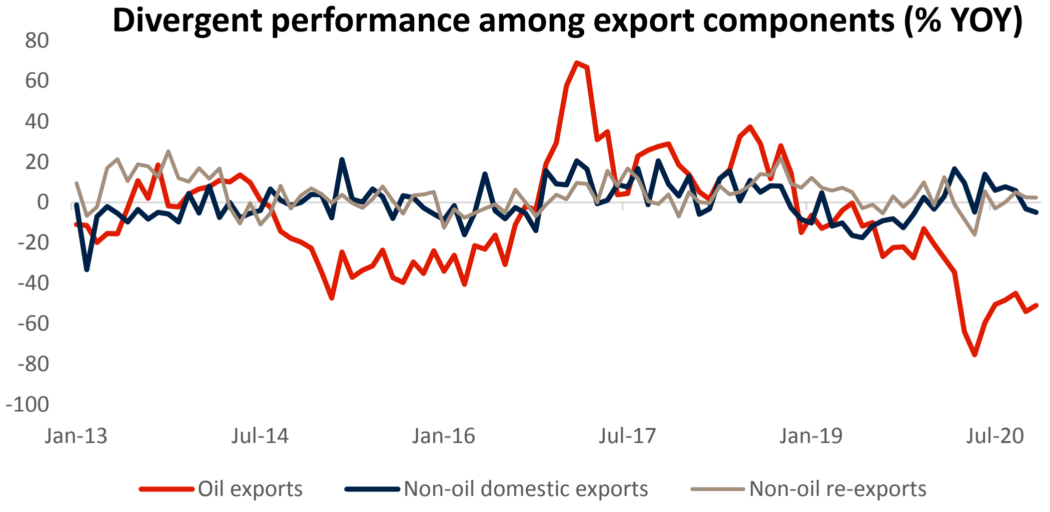
Hong Kong – Piggybacking on China's recovery



- **Economy showing more signs of stabilisation**, although still in downturn.
- **Prospect for recovery brightened alongside firmer rebound in China.** Hong Kong still exports more than 50% of its goods to China and strong demand from Mainland set the course for its trade sector.
- **Domestic demand is improving.** Retail sales narrowed its decline to single-digit recently, driven by purchases of durable household items. Sales may improve further this month ahead of Lunar New Year.

Source: Bloomberg, HLBB Global Markets Research

Singapore – Some bottlenecks against swift recovery



Forecasts	2020	2021
GDP (%)	-5.8	6.3
Inflation (%, Avg)	-0.2	0.5
3m SIBOR (%)	0.40	0.40
USD/SGD	1.32	1.285

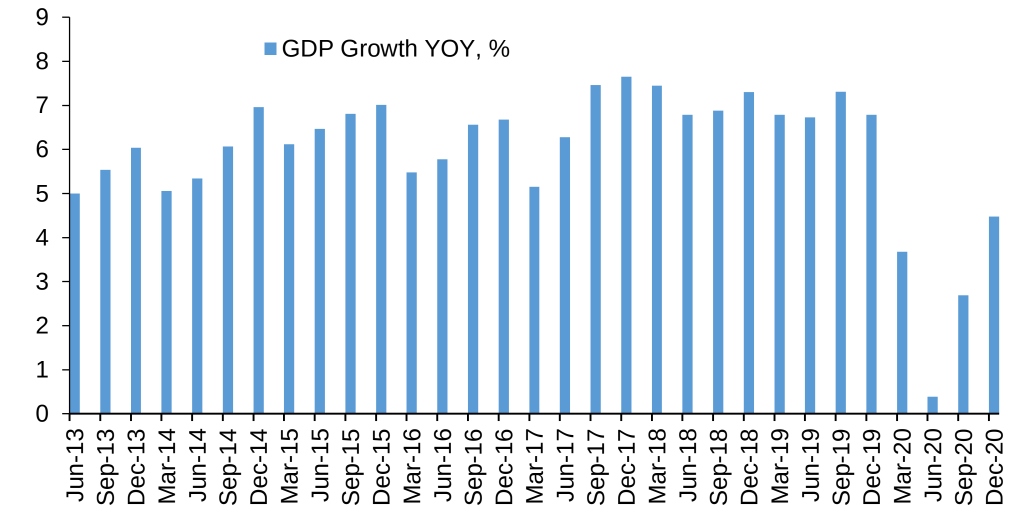
Source: Bloomberg, HLBB Global Markets Research

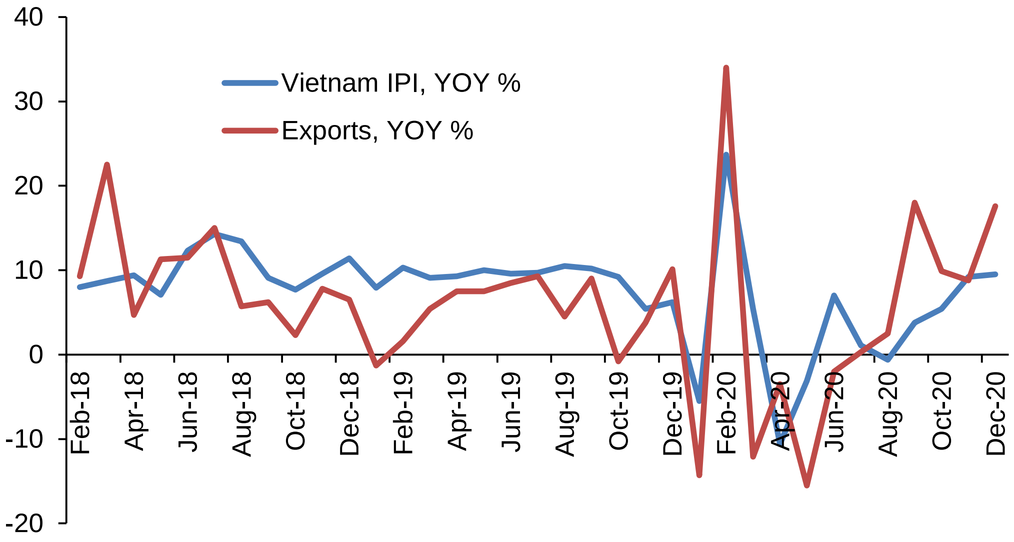
- **A rebound in services sector activities is likely to underpin GDP growth in 2021.** Vaccination program will take place mostly in 1H-2021. Domestic sectors (services and construction) are likely benefit from improved activity levels.

- **Export growth (particularly electronics) should benefit from advance rebound in Asia trade.** Still, oil-related products are still in a slump and may persist for 1H-2021 (see chart).

- **We expect Monetary Authority of Singapore to maintain policy settings in April 2021.** Inflation may still stay benign while financial conditions stay fragile.

Vietnam – Outperforming ASEAN neighbours





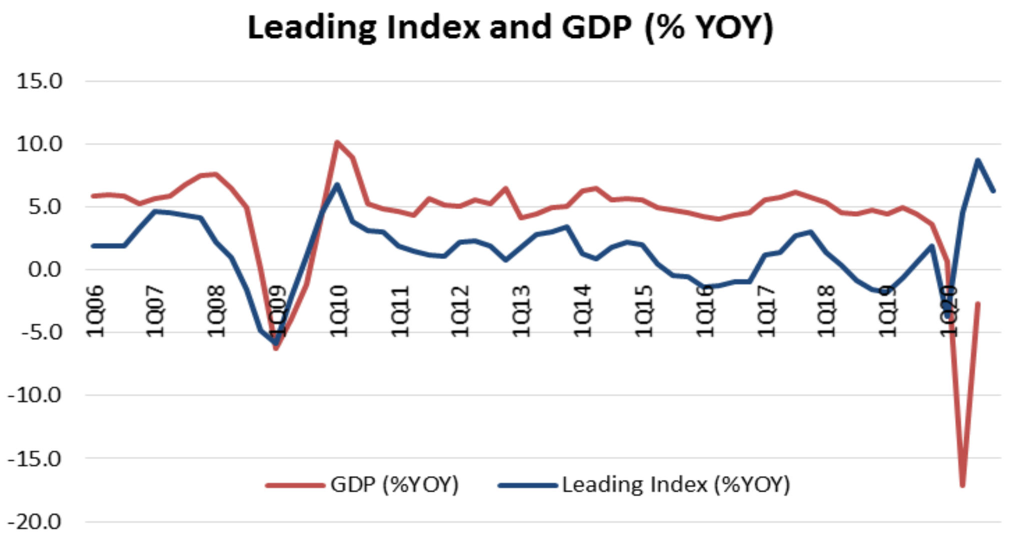
- **Economy managed to stave off recession** thanks to low virus cases but global pandemic sent annual growth level to the lowest in more than 30 years.

- **Manufacturing and trade sectors benefited** from US-China trade dispute and is set to continue driving growth in 2021**.**

- **Government set ambitious growth target of 6.5% for 2021** (pre-pandemic 2020 target: 6.0%) anticipating further economic revival.

Source: Bloomberg, HLBB Global Markets Research

Malaysia – Cautious recovery in 2021



Forecasts	2020	2021
GDP (%)	-6.0	5.4
Inflation (%, Avg)	-1.0	1.3
OPR (%)	1.75	1.75
USD/MYR	4.02	3.88

Source: Department of Statistics Malaysia, HLBB Global Markets Research

- **Broad-based recovery** expected from both domestic and external front – aided by global recovery, policy measures and low base effect from last year's slump
- **Private consumption** (~60% of GDP) expected to turn around but remained subdued and below long-run average, constrained by to softer job market and consumer sentiments; but stimulus measures will provide some support
- **Overall investment** to remain weak and see narrower declines amid bleak business outlook
- **Net exports** will remain a main growth pillar in 2021 as gains in exports outweigh imports
- **No change to OPR** - BNM to maintain OPR at current accommodative level of 1.75%, barring substantial shift in downside risk.

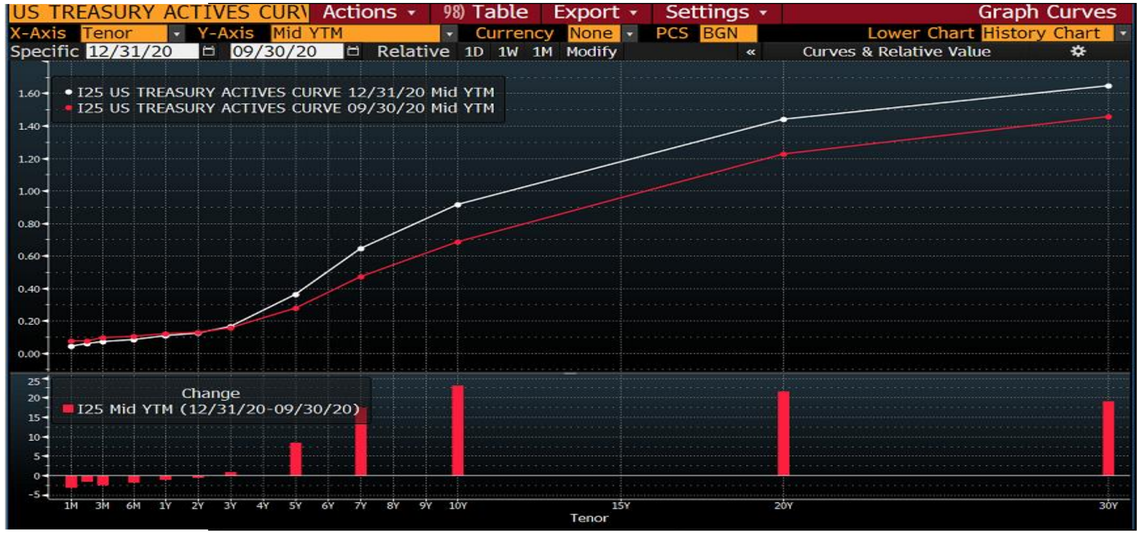
FX Outlook

		Q4-20A	Q1-21	Q2-21	Q3-21	Q4-21
▼	DXY	89.94	88.50	89.00	88.50	87.50
▼	USD/CAD	1.273	1.255	1.260	1.240	1.230
▲	EUR/USD	1.222	1.245	1.240	1.245	1.255
▲	GBP/USD	1.367	1.385	1.375	1.385	1.400
▼	USD/CHF	0.885	0.870	0.875	0.870	0.865
▲	AUD/USD	0.769	0.780	0.770	0.780	0.795
▲	NZD/USD	0.718	0.730	0.725	0.735	0.745
▼	USD/JPY	103.25	102.5	103.5	103.0	101.0
▼	USD/MYR	4.020	3.900	3.950	3.900	3.880
▼	USD/SGD	1.322	1.305	1.310	1.300	1.285
▼	USD/CNY	6.503	6.350	6.400	6.350	6.250

Source: Bloomberg, HLBB Global Markets Research

- **We expect another year of dollar weakness.** Without significant fiscal impulse, the US Federal Reserve will likely keep monetary policy at current accommodativeness. Negative real US interest rates, a global recovery and market appetite for risky assets are usually dollar negative.
- **We expect some gains in EUR and GBP.** Fundamentals are soft, even as a Brexit deal provides some relief to the pound. However, the Eurozone and the UK should recover from a raging pandemic, as immunization rates rise.
- **Potential for commodity price recovery positive for AUD, NZD, CAD, MYR.** These G10 and other Asia currencies benefit from risk-on mood. Downside risk is that the respective central banks resist from moving to negative interest rate policies.
- **A strong CNY may support other Asian currencies (such as MYR and SGD).** We are positive on intra-Asia trade leading the global recovery.

US Fixed Income – Upward pressure on yields amid recovery expectations



UST

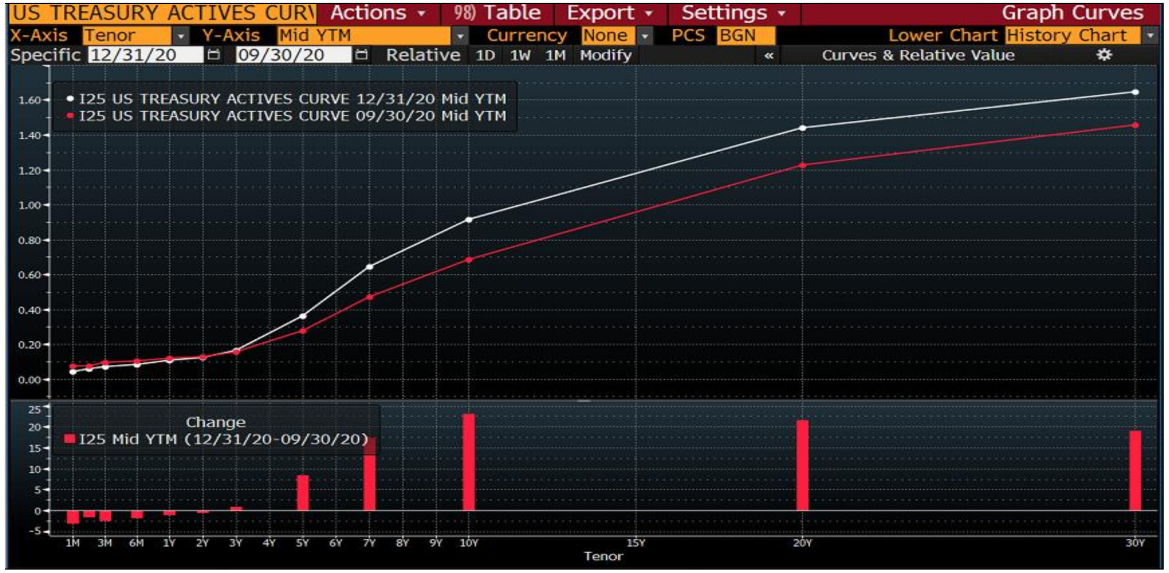
- Upward pressure on UST yields were seen extending out from 5Y onwards with **overall benchmark yields settled between 0-23bps higher QOQ.** The UST 2Y however maintained at 0.12% whilst the much-watched UST 10Y spiked the most by 23bps at 0.91% as at end-4Q2020. The curve has steepened to its widest levels in four years.
- Expect the Republican-led govt to exert their influence and this could potentially lead to upward pressure on both interest rates and inflation; as well as higher taxes to pay for additional fiscal stimulus.
- With the recent additional $900b fiscal bill, expect no change in the monetary policy side as the Fed Dot Plot projection show rates staying pat throughout 2021 and extends up to 2023. The Fed may embark on yield-curve control and enhancing its forward guidance. Potential tapering of the Fed's bond-buying may ensue.
- **Expect 10Y UST to range between 0.95-1.15% for 1Q2021** but we are generally underweight nominal UST's but akin to favor inflation-linked bonds .

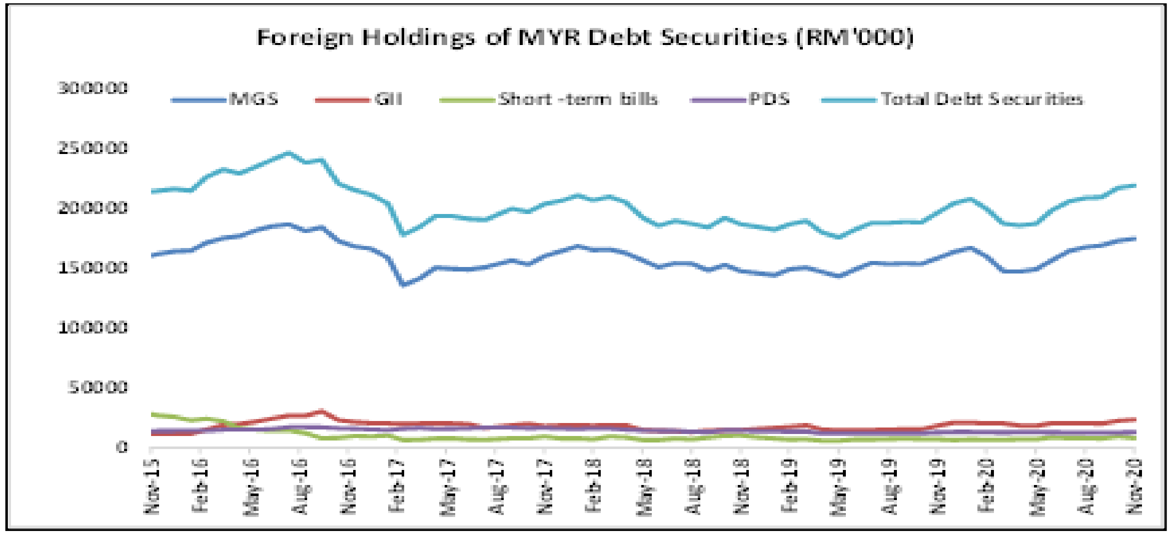
Corporates

– On average about one third of IG Corporates which have an OAS spread of 100bps have negative outlook or review from S&P; including 35% of all BBB's; whilst Moody's is more sanguine at 20%. Issuances are expected to drop by 25% to $300b in 1Q2021 (2021: $1.3 trillion).
- Average HY issuances are expected at ~$70b for 1Q2021; the lowest among all quarters; compared to the average of $108b per quarter last year (2020 total ~ $432b).
- **We are still mildly positive on IG issuances that include energy and essential services such as water, sewerage and power** that are expected to maintain credit standing.

Source: Bloomberg, HLBB Global Markets Research

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





Source: Bloomberg, BNM, HLBB Global Markets Research

Government Bonds

- MYR government bonds saw the opposite of UST performance with the curve bull-steepening QOQ; pivoted along the 10Y. **Overall benchmark yields ended between -15 to +3bps with the longer-ends slightly pressured.**
- Expect some upward pressure on yields based on our projected front-end loading of supplies whilst taking cognizance of EPF's restrained appetite for 1H2021.
- Following Fitch's earlier downgrade, expect some nervousness ahead of further potential rating announcements. FTSE Russell's potential re-classification of Malaysia bond weightage in the WGBI end-March is another pivotal event.
- **Our 10Y MGS yield target is 2.65-85% levels.**

Corporate Bonds/Sukuk

- **The consistent supply of GG-bonds due to the roll-out of mega infrastructure projects should be monitored for signs of widening yield-risk.** However, decent demand metrics by the relatively wide base on the buy-side should augur well on yield-carry requirements.
- **We favour conglomerates, toll, utilities and also energy-related issuers** in the AAA (credit spreads ~43-70bps) and AA-space (credit spreads for AA2 ~75-100bps) as economic recovery takes shape in 1Q2021.
- For yield-carry requirements, unrated bonds are an option. However many of these issuances are from the property sector that may be highly leveraged.

Malaysia Fixed Income – 2021 Auction Calendar

MGS/GII issuance pipeline in 2021						
No	Stock	Tenure (yrs)	Tender Month	Quarter	Projected Issuance Size (RM mil)	Private Placement X
1	7-yr reopening of MGS (Mat on 06/28)	7	Jan	Q1	3,500	
2	15.5-yr new Issuance of GII (Mat on 7/36)	15	Jan	Q1	3,000	1,500
3	10-yr Reopening of MGS (Mat on 04/31)	10	Jan	Q1	4,000	
4	5-yr Reopening of GII (Mat on 03/26)	5	Feb	Q1	4,500	
5	20-yr Reopening of MGS (Mat on 05/40)	20	Feb	Q1	2,000	2,500
6	7-yr Reopening of GII (Mat on 09/27)	7	Feb	Q1	3,500	
7	30-yr Reopening of MGS (Mat on 06/50)	30	Mar	Q1	2,000	2,000
8	10-yr Reopening of GII (Mat on 10/30)	10	Mar	Q1	4,000	
9	5-yr Reopening of MGS (Mat on 09/25)	5	Mar	Q1	4,500	
10	20.5-yr New Issue of GII (Mat on 09/41)	20	Mar	Q1	2,000	2,500
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	3,000	1,000
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	2,000	2,000
15	15-yr Reopening of MGS (Mat on 05/35)	15	May	Q2	3,000	1,500
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	3,500	1,000
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	2,000	2,000
20	15-yr Reopening of GII (Mat on 07/36)	15	Jul	Q3	3,000	1,500
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	2,500	1,500
23	30-yr Reopening of MGS (Mat on 06/50)	30	Aug	Q3	2,000	2,500
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	3,000	1,500
27	10-yr Reopening of MGS (Mat on 04/31)	10	Sep	Q3	3,500	1,000
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	2,000	2,000
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	2,000	2,000
33	15-yr Reopening of MGS (Mat on 05/35)	15	Nov	Q4	3,000	1,500
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	2,000	2,000
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	

- Government bond tenders in 2020 ended the year on a weaker average BTC ratio of 2.22x as opposed to the 2.54x in 2019.

- Total maturities in 2021 continue to be sizeable at ~RM73.7b. Gross MGS/GII supply is expected to rise to circa RM152.5b (net of projected RM6.0b SPK bond switch). On a net MGS/GII supply perspective, **the estimated net supply of circa RM72.8b is more than 2020 and remains elevated compared to previous years.**

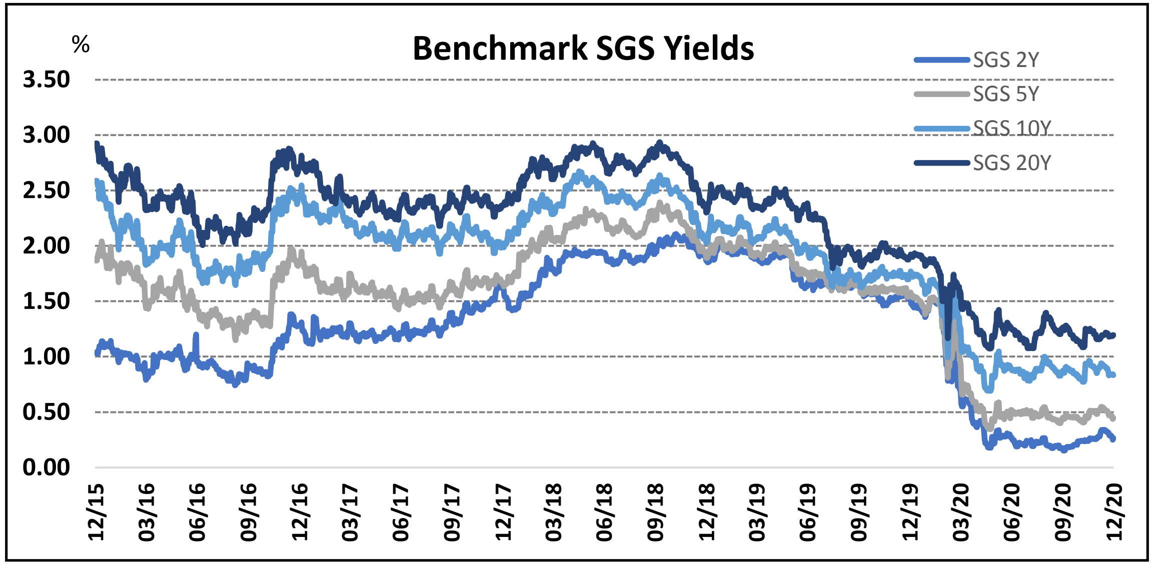
- Issuance supply for 2021 is slightly skewed towards the shorter tenures i.e. belly and also some long tenures i.e. 20Y with main targeted tenures still being within 3-15Y space.

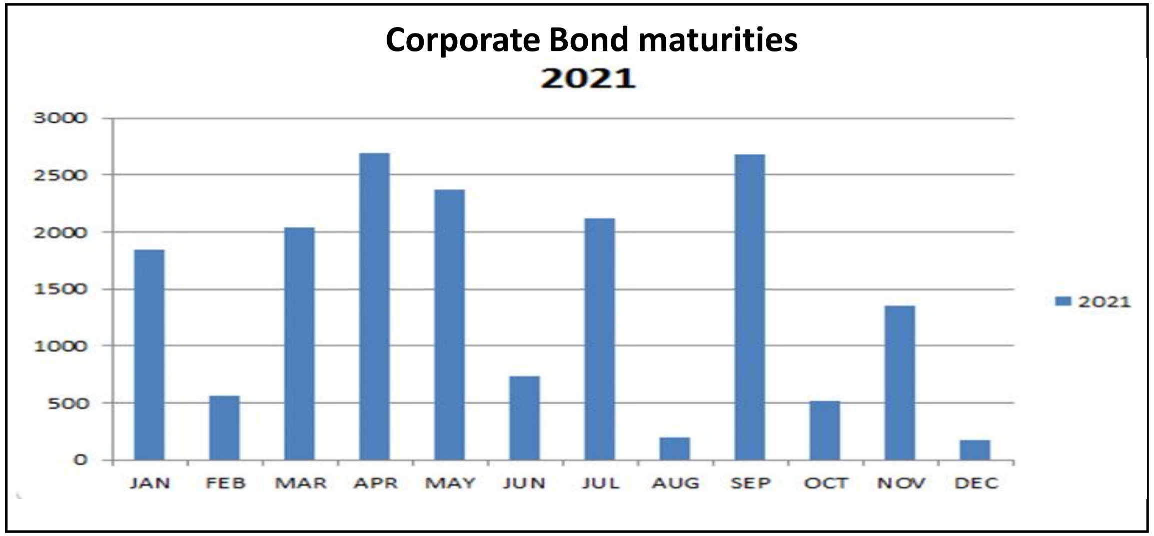
- Federal Government's funding requirements are projected to be primarily funded onshore via issuances of MGS/GII save for the scheduled USD800m foreign currency-denominated debt maturity by the Government of Malaysia (GOM) in July which is expected to be rolled over.

- Continued presence of foreign institutional investor appetite in view of the deluge of negative-yielding global debt and also relatively liquid and diversified local institutional base may help provide support; barring shocks from further sovereign rating changes and FTSE Russell WGBI weightage changes.

Source: BNM, HLBB Global Markets Research

Singapore Fixed Income – corporate supply-maturity mismatch may see retail demand spike





Source: Bloomberg, HLBB Global Markets Research

SGS

– **The SGS curve flattened overall** as benchmark yields were pressured on the front-ends; closing mixed between -3 to +3bps QOQ. SGS bonds returned 8% for 2020; a feat unlikely to be repeated this year as MAS may not continuously embark on using exchange rate as the main policy tool.

- **The ultra-long debt may continue to outperform** some of its peers as the government taps on its large pool of fiscal reserves rather than borrowings to finance various stimulus packages to combat the economic impact of the virus pandemic.

- Generally we are **neutral for 1Q2021** as gains may be capped despite the flush global liquidity and limited supply relative to other markets.

Corporate

– With a relatively high savings rate, **individual demand for corporate bonds are likely to be sustained** for yield-carry purposes; offsetting banks proprietary appetite as loan books are expected to be on an uptrend on expectations of an economic recovery as removal of movement restriction and vaccine rollouts take place.

- Nevertheless, **expect supply in 2021 to be outstripped by demand amid bond maturities** of SGD17.0b in 2021 (1Q2021: SGD4.5b); thus creating demand mainly from retailers. The chart on the left reveals corporate bond maturities in SGD for 2021.

- **We like medium-duration in sectors that encompass financials, conglomerates and state-owned entities.**

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