Quarterly Market Outlook 4Q2021

Global Markets

October 2021

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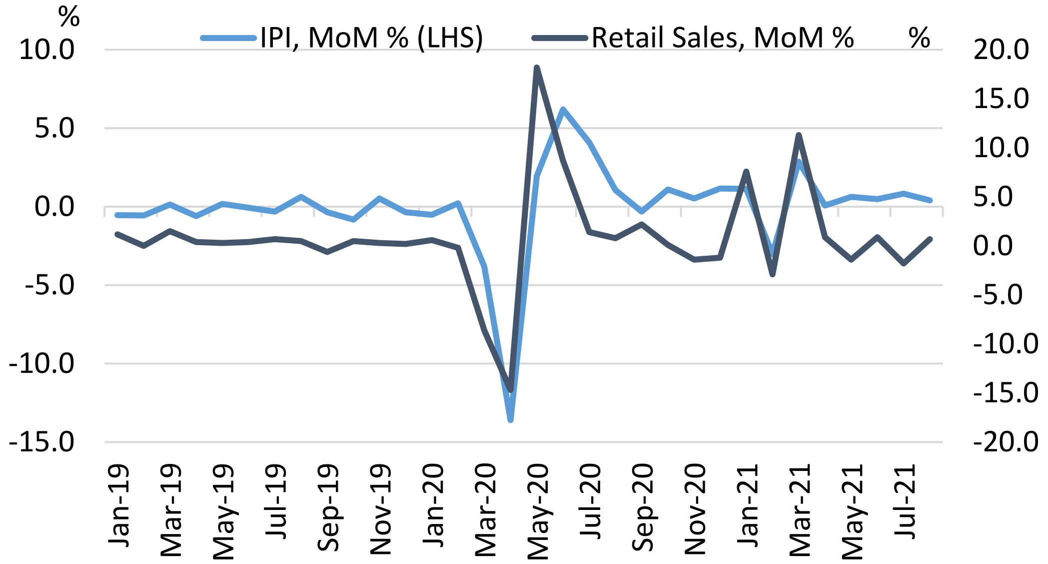
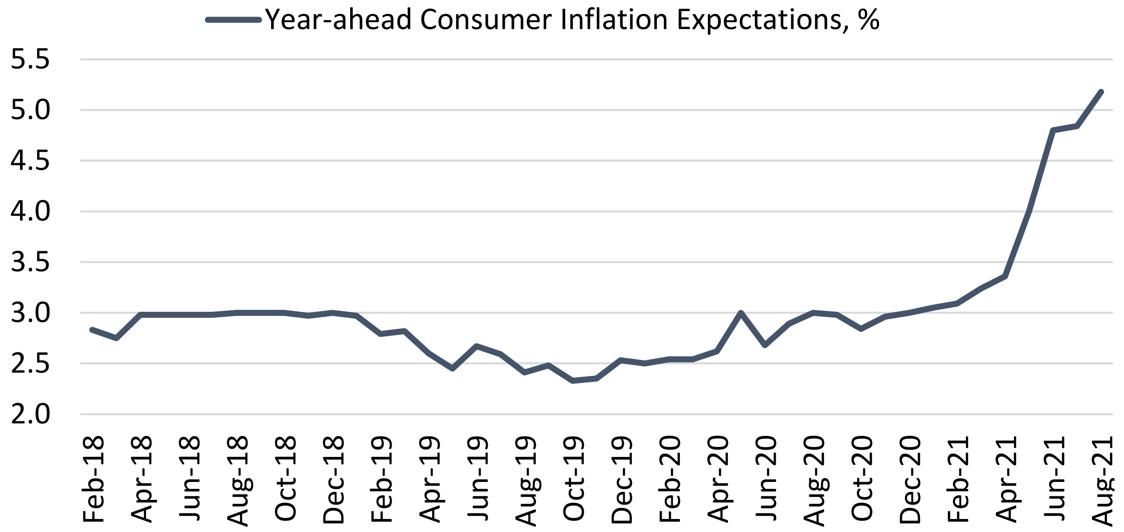
Global Central Banks Policy Rates Outlook

	Current	4Q21	1Q22	2Q22	3Q22	Remarks
United States Federal Reserve *Fed Funds Rate*	**0-0.25**	0-0.25	0-0.25	0-0.25	0-0.25	**Hike in 4Q22**
Eurozone European Central Bank *Deposit Rate*	**-0.50**	-0.50	-0.50	-0.50	-0.50	**No change**
United Kingdom Bank of England *Bank Rate*	**0.10**	0.10	0.10	0.10	0.25	**Hike in 3Q22**
Japan Bank of Japan *Policy Balance Rate*	**-0.10**	-0.10	-0.10	-0.10	-0.10	**No change**
Australia Reserve Bank of Australia *Cash Rate*	**0.10**	0.10	0.10	0.10	0.10	**No change**
New Zealand Reserve Bank of New Zealand *Official Cash Rate*	**0.25**	0.75	0.75	0.75	0.75	**2 hikes in 4Q21**
Malaysia Bank Negara Malaysia *Overnight Policy Rate*	**1.75**	1.75	1.75	1.75	1.75	**No change**
Thailand The Bank of Thailand *1-Day Repurchase Rate*	**0.50**	0.50	0.50	0.50	0.50	**No change**
Indonesia Bank Indonesia *7-day Reverse Repo Rate*	**3.50**	3.50	3.50	3.50	3.50	**No change**

Source: Bloomberg, Global Markets Research

US – Firm economic outlook paves way for Fed's normalization



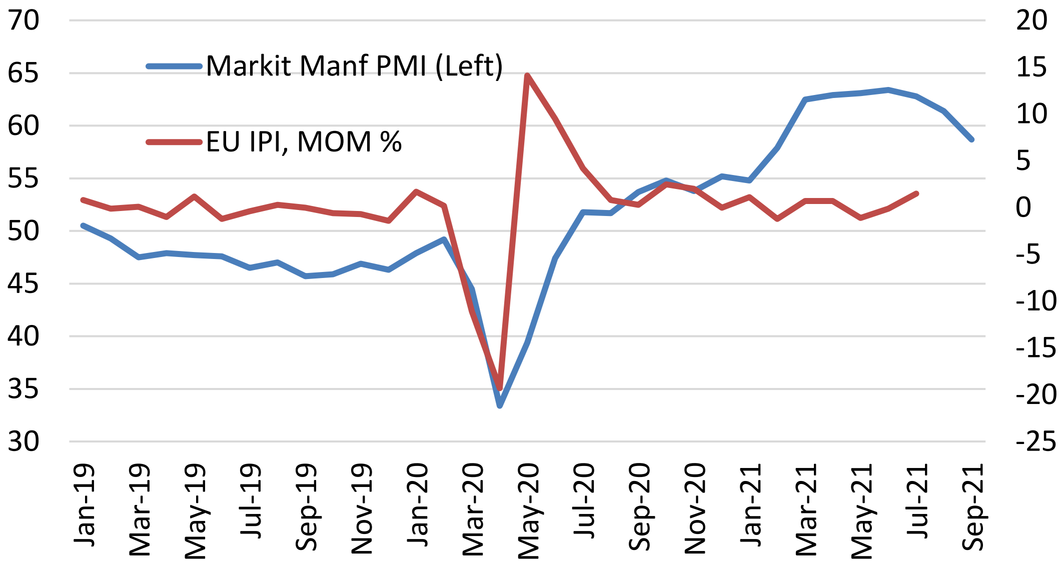


Forecasts	2020	2021f
GDP (%)	-3.5	5.9*
Inflation (%)	1.2	4.2*
Fed Funds Rate (%)	0-0.25	0-0.25
Dollar Index (End of period)	89.9	91.5

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

- Economic recovery retained its momentum albeit showing signs of sluggishness, driven by renewed public cautiousness over Covid, higher inflation expectations, supply chain bottlenecks and labor shortages.
- The pandemic housing boom moderated further as tight supply turned away potential buyers but underlying demand appears intact.
- Fed turned hawkish and upgrade inflation view while expecting softer than previously expected growth for the rest of 2021 amid higher Covid cases.

Eurozone – Recovery remains intact

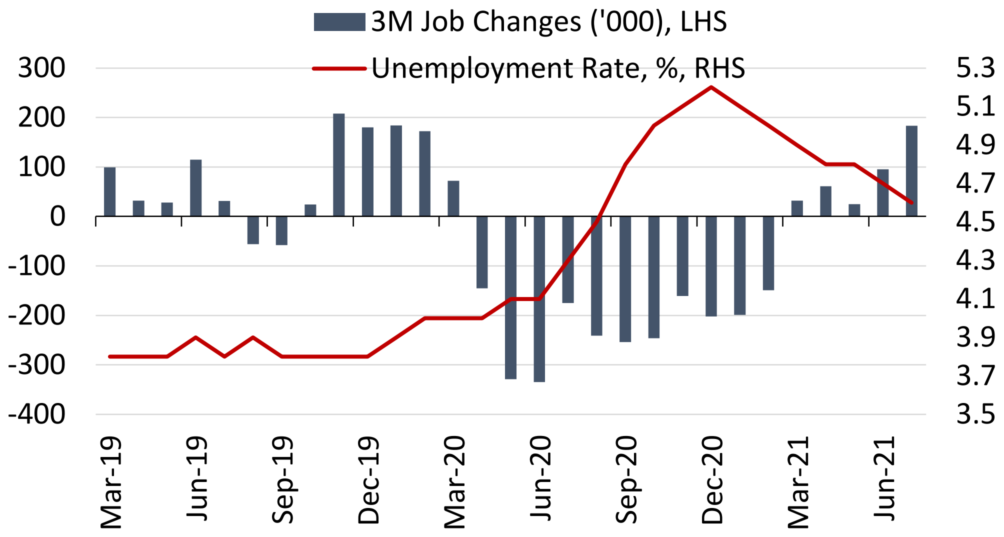


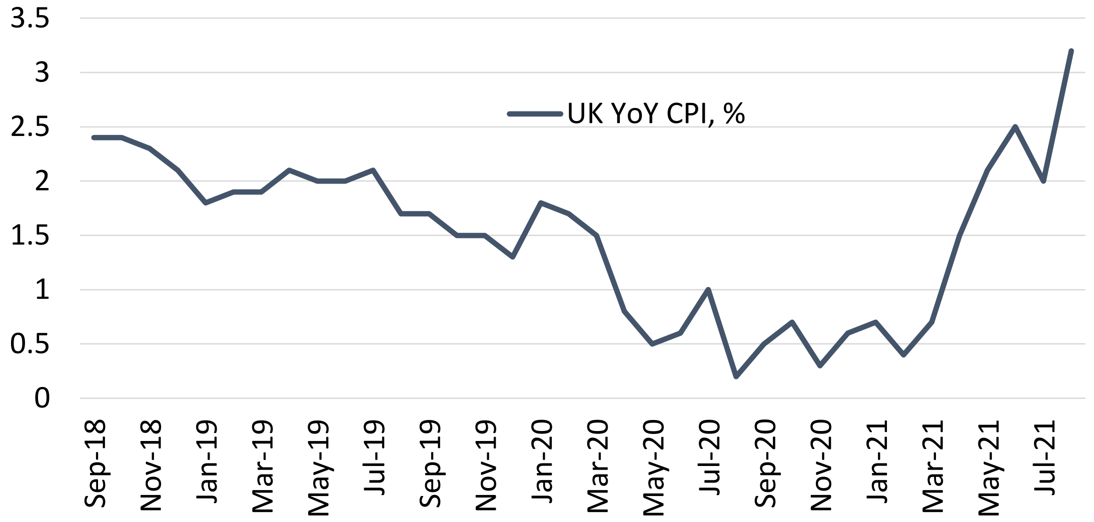
Forecasts	2020	2021
GDP (%)	-6.5	5.0*
Inflation (%)	0.3	2.2*
Deposit Facility Rate (%)	-0.5	-0.5
EUR/USD (End of period)	1.22	1.19

- Recovery is intact but growth is expected to slow heading into 4Q after pent-up demand eased while supply chain bottlenecks weighed on manufacturing sector.
- Hiring expectations remain strong and may drive up wages; expect little impact from the gradual end of the furlough programs.
- ECB's normalization pace may lag the Fed's with higher inflation, thereby posing a threat.

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

UK – Higher inflation and fading momentum



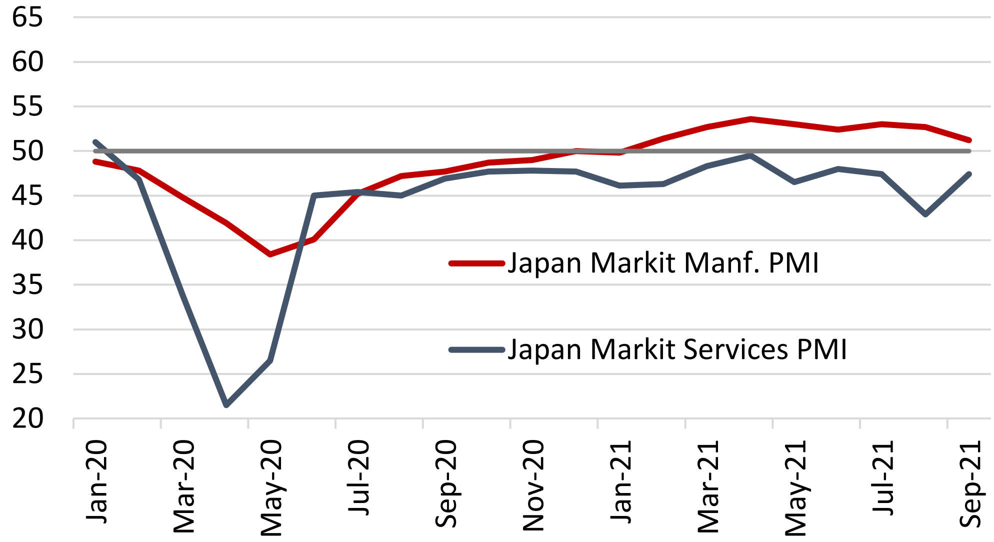


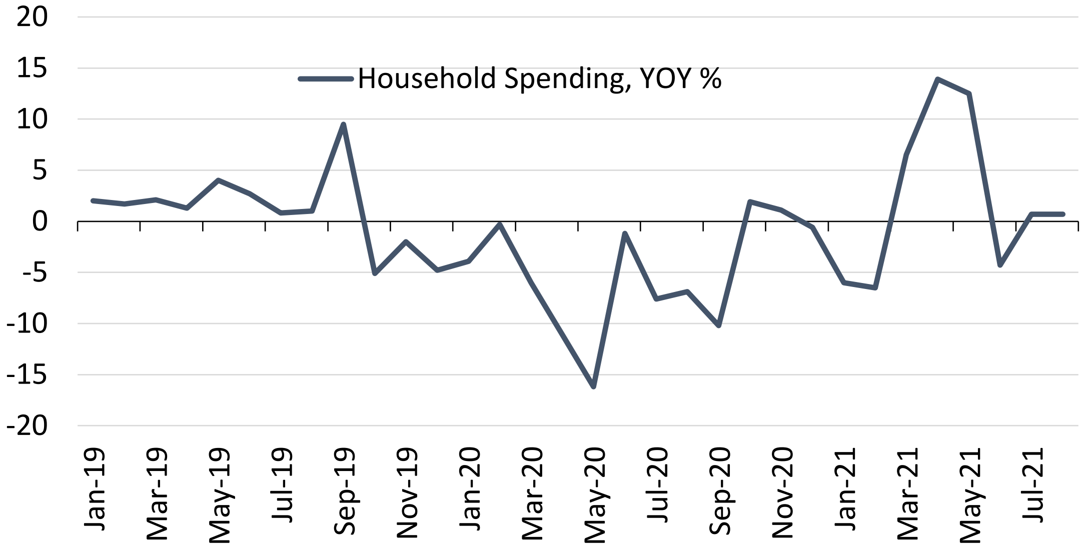
Forecasts	2020	2021
GDP (%)	-10.0	7.3*
Inflation (%)	0.9	4.0*
Bank Rate (%)	0.10	0.10
GBP/USD (End of Period)	1.367	1.41

- Fading reopening momentum, supply chain constraints, higher energy prices, end of furlough program and spread of Covid may slow growth in 4Q.
- BOE may turn more cautious in 4Q taking into account above factors. Normalization pace is also expected to be slower than the Fed's although BOE may begin hiking rates first.

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

Japan – Ultra loose policy to stay



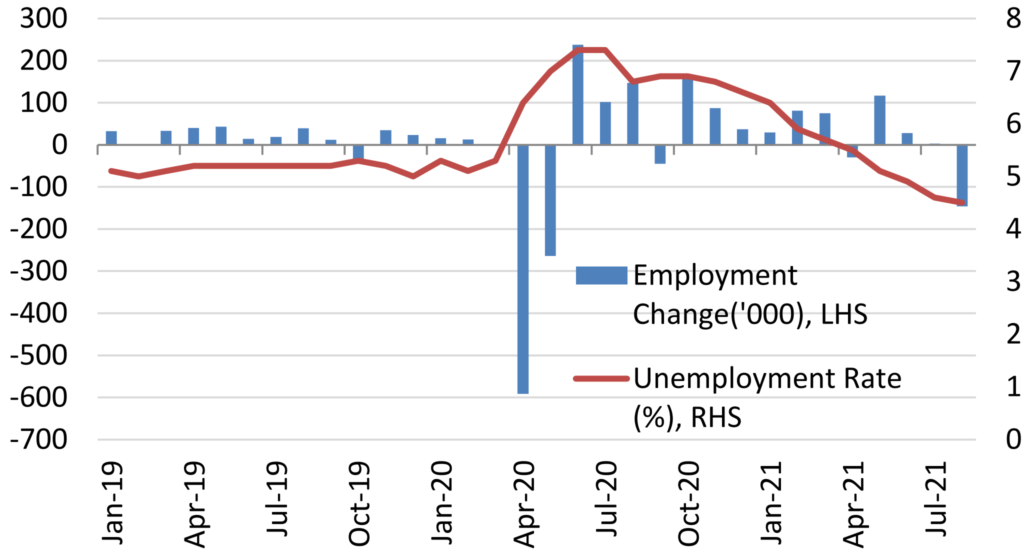


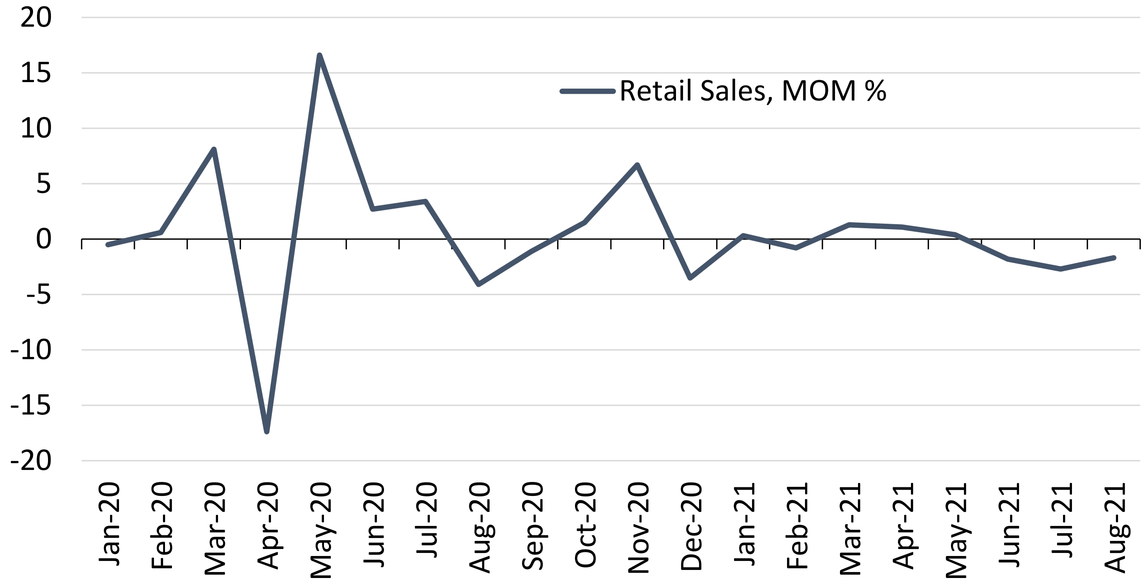
Forecasts	2020	2021
GDP (%)	-4.7	3.9*
Core Inflation (%)	-0.4	0.6*
Policy Balance Rate	-0.1	-0.1
USD/JPY	103.25	108.00

- Continued divergence between manufacturing and services sector.
- Supply chain constraints cap growth potential and cautious public sentiment may weigh on spending.
- BOJ is expected to maintain ultraloose policy.

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

Australia – Harsh Covid rules put economy at risk





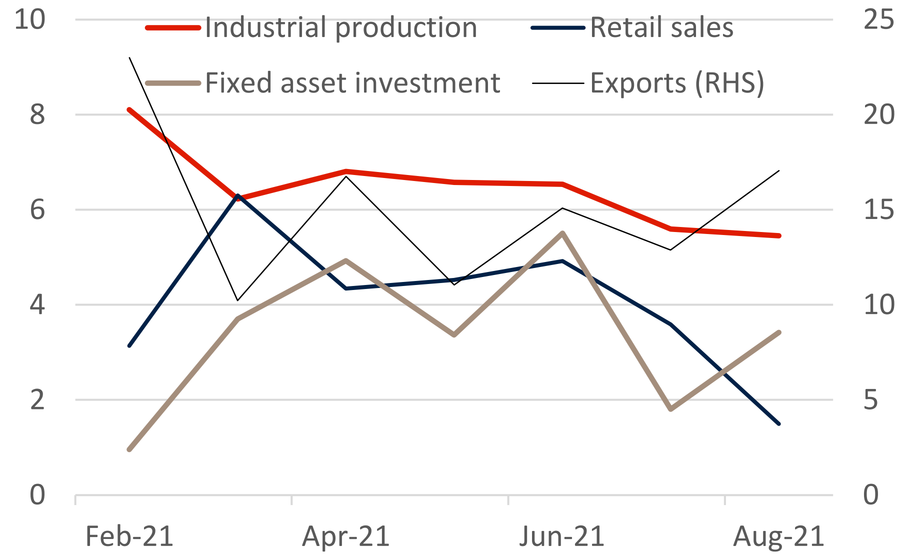
Forecasts	2020	2021
GDP (%)	-2.4	4.8*
Inflation (%)	0.9	2.5*
Cash Rate (%)	0.1	0.1
AUD/USD	0.7694	0.74

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

- Weaker China's growth, strict lockdown rules and relatively slower vaccination rates are expected to weigh on Australia's growth.
- Job losses in August may extend to 4Q if authorities do not adopt a looser Covid strategy. This post downside risks to consumer spending.
- RBA put tapering on hold till February next year, removing near term uncertainties.

China – Near-term Slowdown to Fade

Key China data (2019-2021 CAGR %)



Forecasts	2020	2021	2022
GDP (%)	2.3	8.5	5.7
Inflation (%)	2.5	1.3	2.5
5Y LPR (%)	4.65	4.65	4.65
USD/CNY	6.53	6.45	6.40

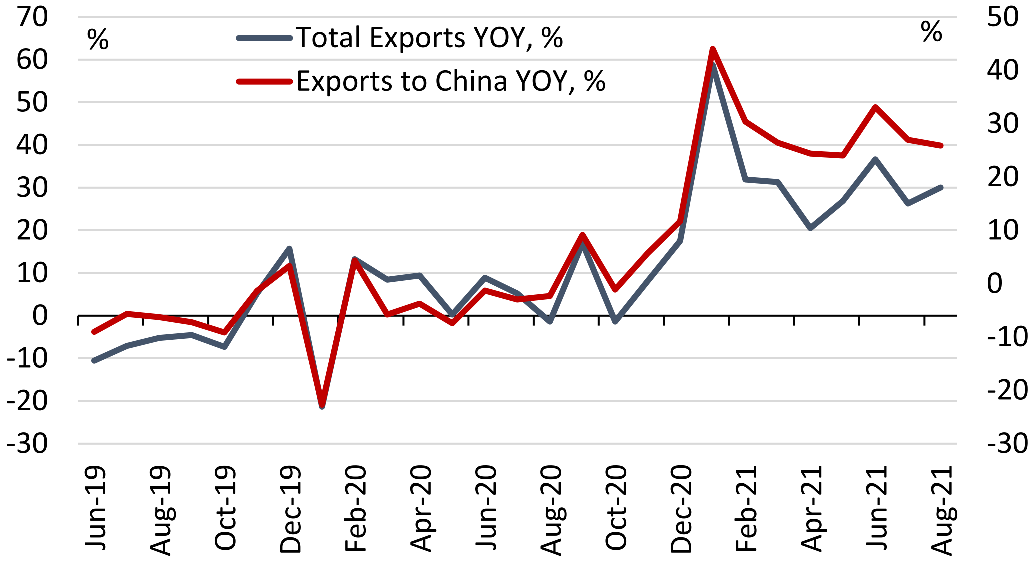
Source: Bloomberg, HLBB Global Markets Research

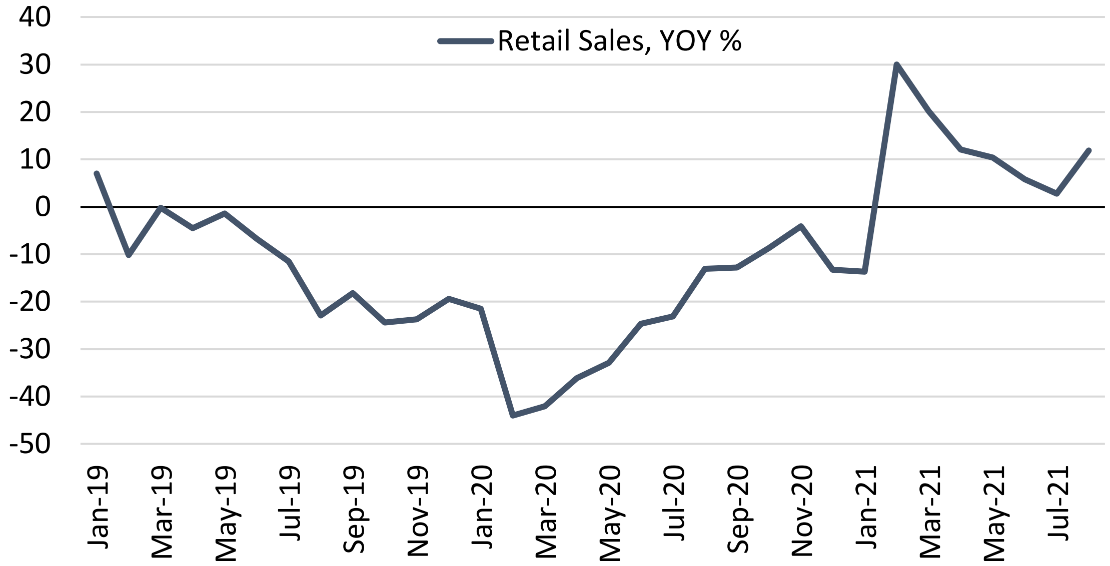
- China's economic slowdown may persist near-term before slight improvements by the end of the year. In August, retail sales and industrial production growth slowed further. Consumer spending at restaurants as well as consumer goods, pulled back as China struggled with the delta variant of Covid-19. For industrial production, manufacturing and power supply production slowed.

- Having high producer inflation and low consumer inflation likely indicate that authorities are more focused on imbalances between upstream and downstream companies, and less on high PPI impacting CPI.

- We continue to expect nuanced policy changes, most likely on the reserve requirement ratio.

Hong Kong – Absence of tourist caps on retail growth



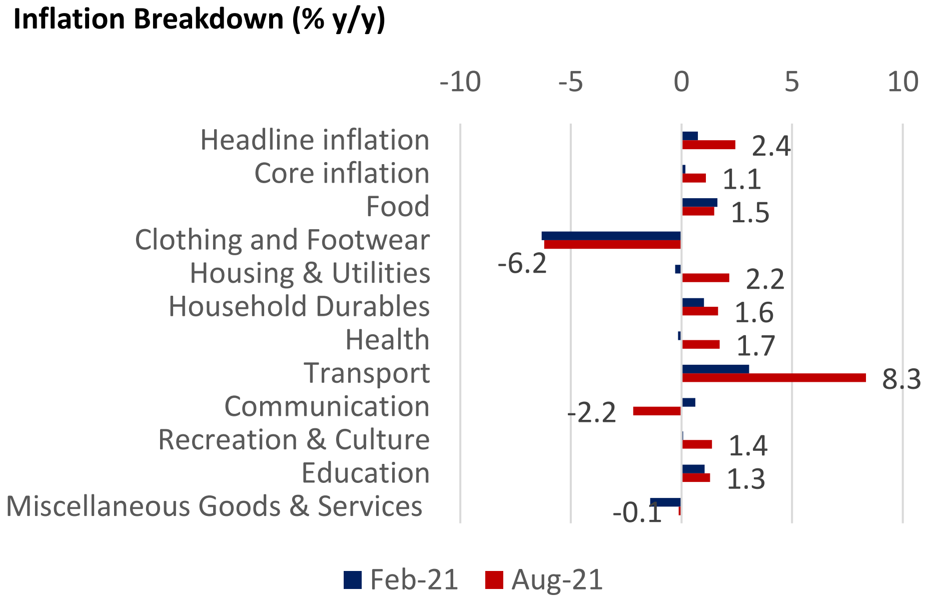


Forecasts	2020	2021
GDP (%)	-6.1	6.0*
Inflation (%)	0.3	1.6*
Base Rate	0.50	0.50
USD/HKD	7.7531	7.78**

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

- Hong Kong's recovery supported by benign Covid environment and still decent Chinese demand. Retail sector may benefit from government's online vouchers in the short-term.
- Slowing growth momentum in China poses a downside risk and absence of tourists limited growth.

Singapore – Gradually Moving Towards the Finishing Line



Forecasts	2020	2021	2022
GDP (%)	-5.4	6.2	3.7
Headline (Core) Inflation (%)	-0.2 (-0.2)	1.9 (0.9)	1.2 (1.2)
3m SIBOR (%)	0.41	0.45	0.65
USD/SGD	1.32	1.35	1.34

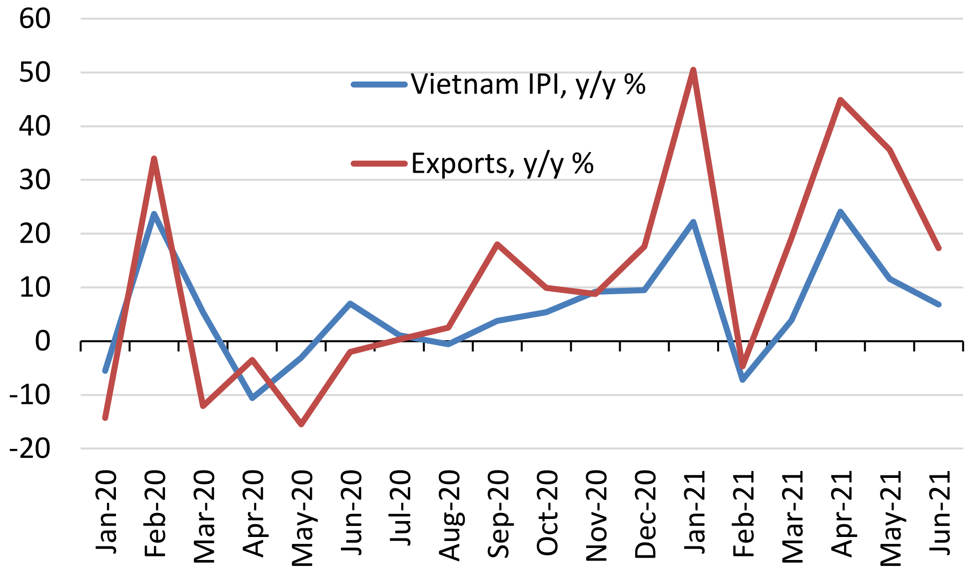
Source: Bloomberg, HLBB Global Markets Research

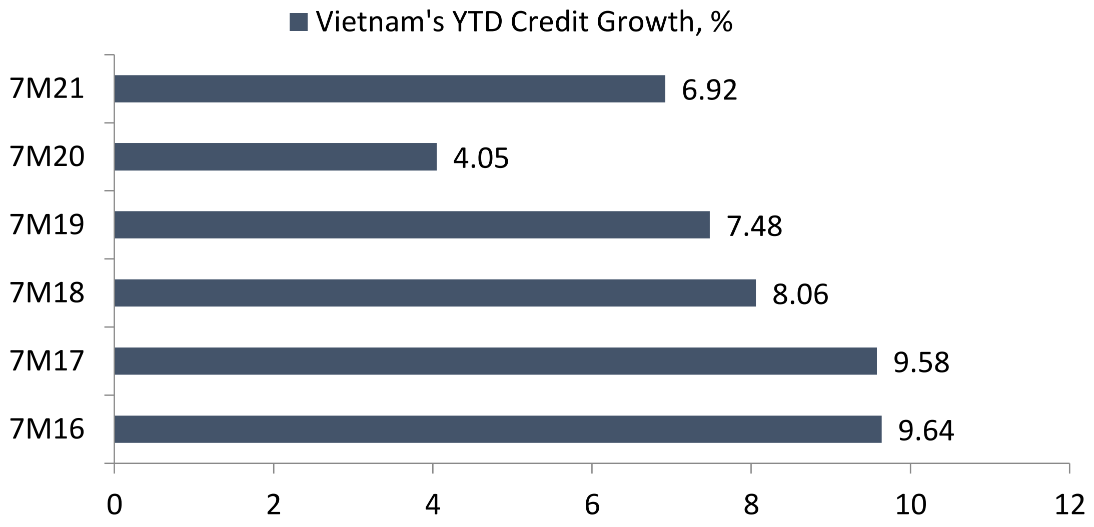
- Although there are some downside risks near-term to the 3Q GDP growth outlook, we see some upside in 2022, as recovery in the Asia economies picks up steam. This include some bottoming out of downside risks from China and ASEAN's potential rebound. We think that the MAS may place a range of 3-5% GDP growth for Singapore in 2022.

- Inflation pressures are broadening, but it is likely gradual.

- We now think that the upcoming Monetary Authority of Singapore meeting is likely a "live" meeting, as the decision turns into a close call. At the minimum, the MAS will possibly signal a readiness to move to a modest and gradual appreciation of the SGD NEER in April 2022, barring any unexpected surprises. We stick to our forecast that MAS will stay pat in October.

Vietnam – Shift in Covid strategy offers some optimism





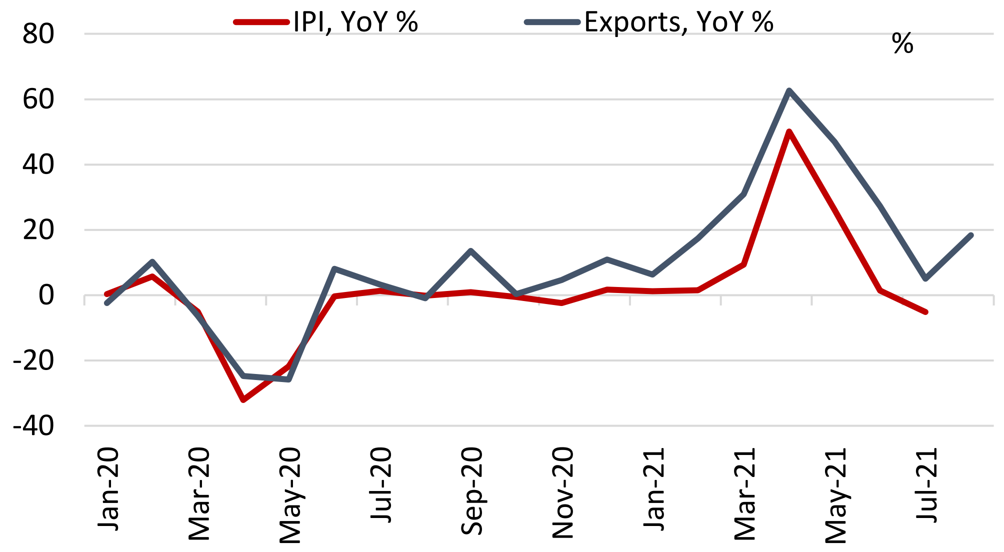
Forecasts	2020	2021
GDP (%)	2.9	5.3*
Inflation (%)	3.2	2.7*
SBV Refinancing Rate (%)	4.0	4.0
USD/VND*	23,098	22,875*

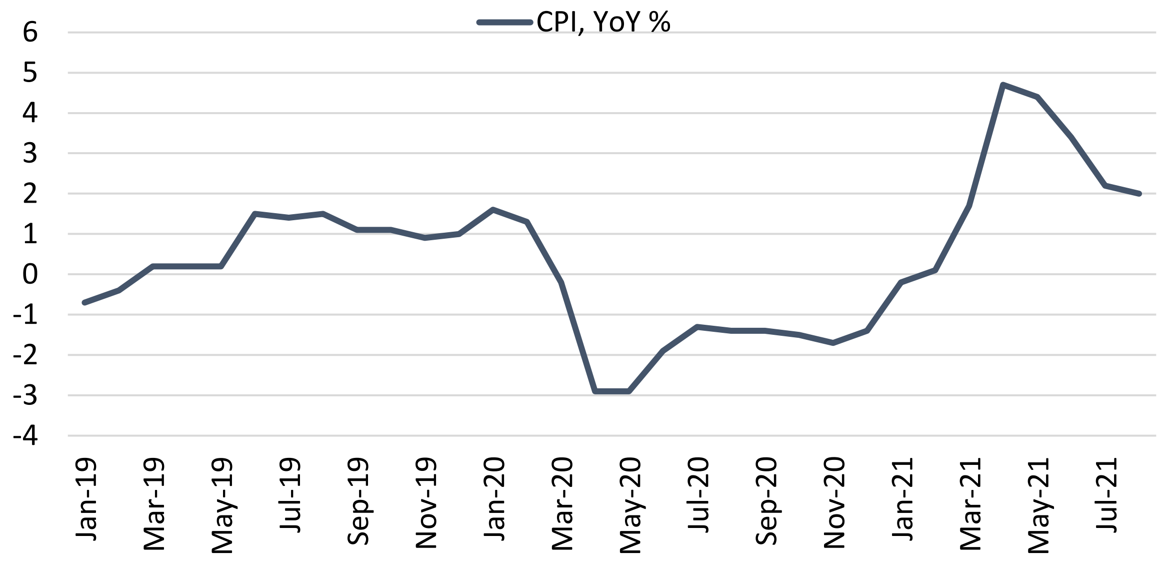
** Bloomberg Consensus Forecasts*
Source: Bloomberg, HLBB Global Markets Research

- Economy at risk as high Covid cases and related restrictions weighed on activity. Some rebound expected from the government's decision to switch its zero Covid policy.

- Absence of tourists and public cautiousness to continue weigh on spending. SBV to maintain rate on slow credit growth but inflation remains a threat.

Malaysia – Advancement to next recovery phase





Forecasts	2020	2021
GDP (%)	-5.6	2.7
Inflation (%)	-1.1	2.4
OPR (%)	1.75	1.75
USD/MYR	4.0205	4.15

Source: Bloomberg, HLBB Global Markets Research

- Phase-by-phase economic reopening to underpin recovery in 4Q but effective containment still plays a crucial role.
- Spending may be capped by continuously cautious sentiment while slower US and Chinese growth poses risk on the external front.
- Inflationary pressures remained subdued. Expect BNM to maintain OPR at current rate as growth agenda is prioritized.

Markets Outlook – FX

FX – Driven by Policy Normalization Expectations

	12-month Outlook
+	**USD:** Fed tapering and rate hike expectations to drive dollar strength. **MYR**: Recovery story **SGD**: Expectations of MAS moving to currency appreciation policy
=	**CNY**: China's currency stability policy
–	**JPY**: BOJ's more accommodative monetary policy **EUR and GBP**: To eventually weaken somewhat from dollar strength.
?	**AUD, NZD, CAD**: Vulnerable to risk aversion and corrections to commodity prices.

FX Forecasts

	30-Sep	Q4-21	Q1-22	Q2-22	Q3-22
DXY	94.23	94.50	95.00	95.50	96.50
USD/CAD	1.2680	1.25	1.24	1.23	1.24
EUR/USD	1.1580	1.15	1.14	1.14	1.13
GBP/USD	1.3474	1.35	1.35	1.34	1.33
AUD/USD	0.7227	0.72	0.71	0.71	0.70
NZD/USD	0.6899	0.69	0.69	0.68	0.68
USD/JPY	111.29	112	113	114	115
USD/MYR	4.1860	4.15	4.15	4.15	4.15
USD/SGD	1.3577	1.35	1.34	1.33	1.34
USD/CNY	6.4448	6.45	6.45	6.45	6.50

Source: Bloomberg, HLBB Global Markets Research

Markets Outlook – Fixed income

Fixed Income – Focus on Yield Differentials

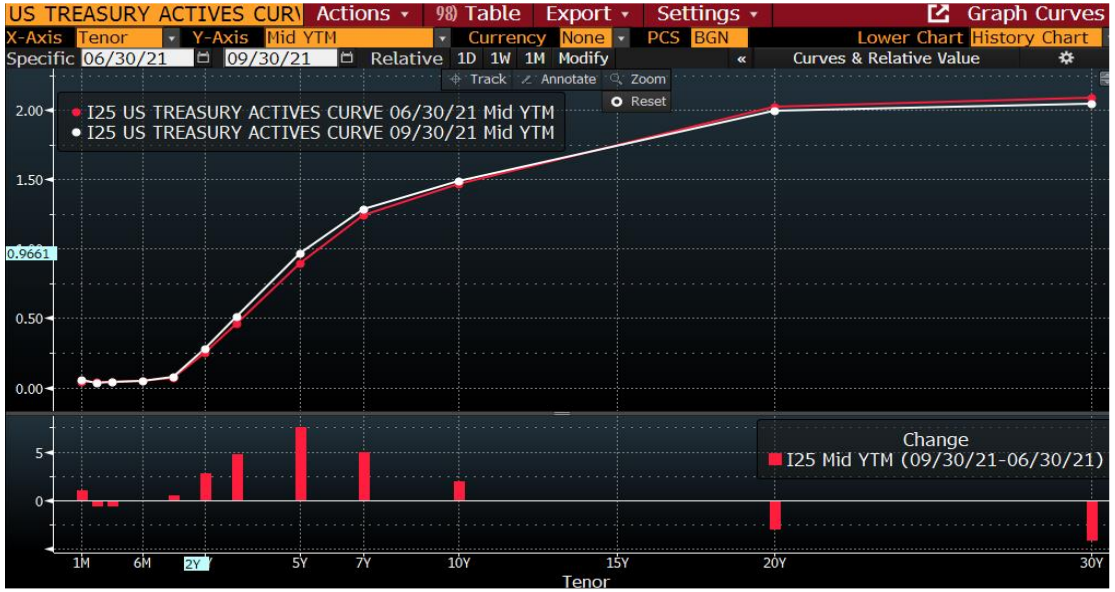
–	**Sovereigns**: Yields (in the US some and other major economies) are looking to move higher, meaning downside risks for bond prices.
=	**Asia credit**: Some modest opportunities with equity recover, but weighed down by rising interest rate environment
=	**Investment grade**: Expect slight reversion in yield compression with emerging support on yield-carry requirements. Expect range movements. Still, an important part of any diversified portfolio
=	**High yield**: Selective opportunities available when risk appetites improves

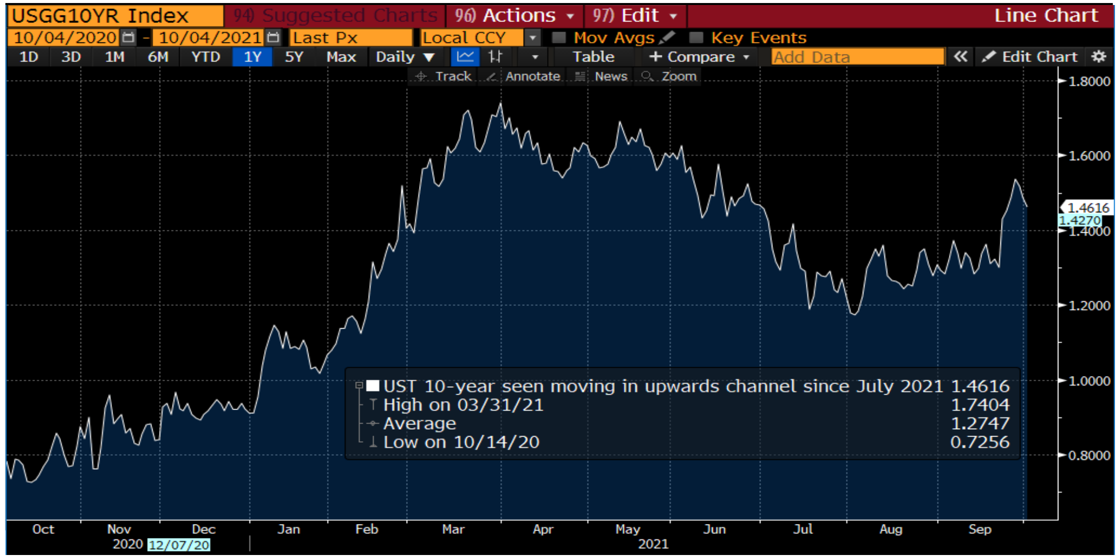
Central Bank Forecasts (%)

	Q2-21A	Q4-21	Q1-22	Q2-22	Q3-22
Fed	0.25-0.50	0.25-0.50	0.25-0.50	0.25-0.50	0.25-0.50
BOC	0.25	0.25	0.25	0.25	0.25
ECB	-0.50	-0.50	-0.50	-0.50	-0.50
BOE	0.10	0.10	0.10	0.10	0.25
SNB	-0.75	-0.75	-0.75	-0.75	-0.75
RBA	0.10	0.10	0.10	0.10	0.10
RBNZ	0.25	0.75	0.75	0.75	0.75
BOJ	-0.10	-0.10	-0.10	-0.10	-0.10
BNM	1.75	1.75	1.75	1.75	1.75
MAS	Hold	Hold	-	Tighten	
PBOC	Hold	Hold	Hold	Hold	Hold

Source: Bloomberg, HLBB Global Markets Research

US Fixed Income – Asset-tapering and hawkish Dot Plot to weigh on the curve





Source: Bloomberg, HLBB Global Markets Research

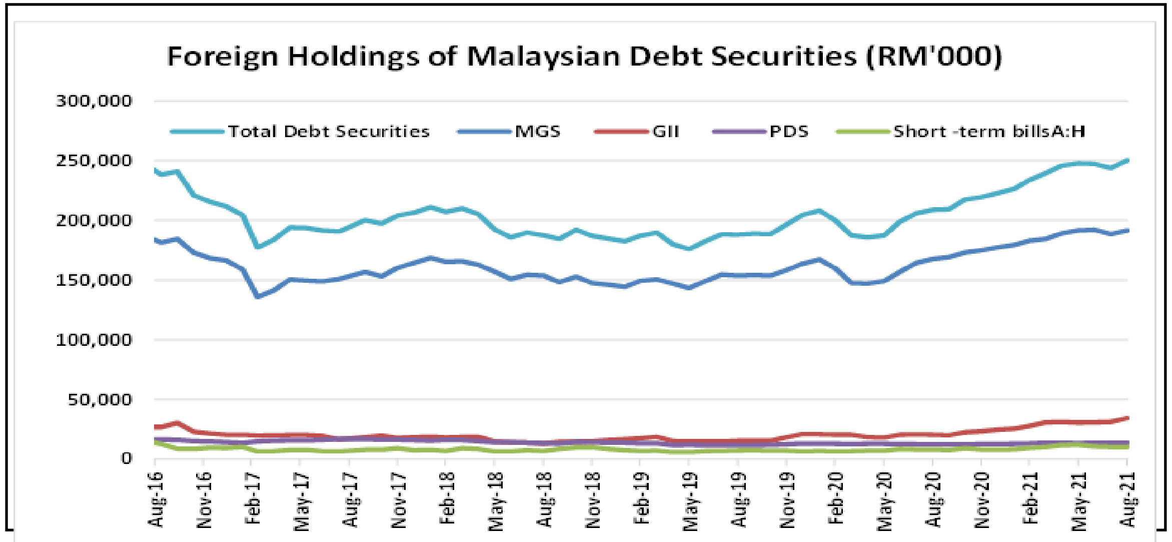
- **UST** -- UST's closing levels did not reflect the volatilities seen throughout the quarter under review. Overall benchmark yields rose between 2-7bps across, save for the long bond with the UST 2Y yield closing 3bps higher at 0.28% whilst the much-watched UST 10Y edged 2bps up at 1.48%. The curve flattened slightly with the back end 5s30s spread ending lower @ 108bps (2Q2021:120bps). Fed Chair Powell said that commencement of US asset-tapering involving $120b monthly purchases of both USTs and MBS could begin in November and end in mid-June next year. This stemmed from higher inflation expectations, ebbing COVID-19 cases and steady improvement in jobs market. The updated dot plot projections turned more hawkish overall for the next 3 years with policy makers evenly split with the lift-off next year with at least one (1) hike first. Expect UST10Y to range higher between 1.60-1.80% for 4Q2021 despite institutional and other sovereign support as the Fed's taper tantrum for the coming quarter may turn out stronger than in 2013.

- **Corporates** – Investment-grade corporate bonds have somewhat maintained their spreads in 3Q2021 in the region of 80-90bps on yield-carry requirements. The Bloomberg Barclays US Corporate Bond Index was literally unchanged with a meagre parrish returns for 3Q (2Q21: 3.7%) whilst spreads have widened only slightly from the low 80's in June to about 85bps currently due to lesser elasticity vis-à-vis USTs as vaccine rollouts and lifting of movement restrictions allows for the ramp-up in economic activities. Issuances are expected to rise by 10% q/q to $390b in 4Q21 (3Q: $352b, 2Q:$410b, YTD2021: $1.2 trillion). We are mildly positive on IG jumbo issuers i.e. conglomerates such as Apple, JPMorgan, Walmart, Verizon and Amazon.com. We favor issuances within the 7Y sector for maximization of yield roll-down purposes as the steeper spread curves compensates for the slightly shallower yield curve.

Malaysia Fixed Income – Higher fiscal deficit and statutory debt to impact bonds

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	Total 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	7/4/2021	4,000	4,500		45,000	1.590	2.933	2.963	2.981	30.0%
12	15-yr Reopening of GII (Mat on 7/36)	15	Apr	Q2	14/4/2021	4,000	2,500	2,000	49,500	2.545	3.975	4.010	4.034	96.0%
13	3-yr Reopening of MGS (Mat on 06/24)	3	Apr	Q2	21/4/2021	4,000	4,500		54,000	2.086	2.346	2.363	2.373	62.4%
14	30-yr Reopening of GII (Mat on 11/49)	30	May	Q2	7/5/2021	4,000	2,000	2,000	58,000	2.433	4.540	4.568	4.581	30.0%
15	15-yr Reopening of MGS (Mat on 05/35)	15	May	Q2	19/5/2021	4,500	2,500	2,000	62,500	2.445	3.930	3.956	3.970	21.4%
16	5-yr Reopening of GII (Mat on 03/26)	5	May	Q2	28/5/2021	4,000	4,500		67,000	2.003	2.700	2.728	2.739	100.0%
17	10-yr Reopening of MGS (Mat on 04/31)	10	Jun	Q2	8/6/2021	4,500	4,500	500	72,000	1.966	3.287	3.313	3.333	87.0%
18	3-yr Reopening of GII (Mat on 10/24)	3	Jun	Q2	22/6/2021	4,500	4,500		76,500	2.001	2.330	2.341	2.350	58.2%
19	20-yr Reopening MGS (Mat on 05/40)	20	Jun	Q2	29/6/2021	4,000	2,000	2,000	80,500	2.651	4.223	4.254	4.268	86.0%
20	15-yr Reopening of GII (Mat on 07/36)	15	Jul	Q3	14/7/2021	4,500	2,500	2,000	85,000	3.056	3.969	3.982	3.992	96.0%
21	5-yr Reopening of MGS (Mat on 11/26)	5	Jul	Q3	22/7/2021	4,000	5,000		90,000	1.505	2.585	2.616	2.644	47.8%
22	10-yr Reopening of GII (Mat on 10/30)	10	Jul	Q3	30/7/2021	4,000	3,500	2,000	95,500	3.403	3.273	3.286	3.297	2.1%
23	30-yr Reopening of MGS (Mat on 06/50)	30	Aug	Q3	5/8/2021	4,500	2,000	2,000	99,500	2.280	4.259	4.289	4.300	55.3%
24	7-yr Reopening of GII (Mat on 10/28)	7	Aug	Q3	17/8/2021	4,500	4,500		104,000	1.980	3.145	3.163	3.178	100.0%
25	3-yr Reopening of MGS (Mat on 06/24)	3	Aug	Q3	25/8/2021	4,000	**5,000**		109,000	1.950	2.338	2.355	2.363	90.0%
26	20-yr Reopening of GII (Mat on 09/41)	20	Sep	Q3	2/9/2021	4,500	**2,500**	2,000	113,500	2.687	4.165	4.178	4.191	87.3%
27	10-yr Reopening of MGS (Mat on 04/31)	10	Sep	Q3	14/9/2021	4,500	4,000	1,500	119,000	1.606	3.270	3.292	3.310	20.0%
28	5-yr Reopening of GII (Mat on 03/26)	5	Sep	Q3	29/9/2021	4,000	4,000		123,000	2.133	3.000	3.025	3.040	90.0%
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		4,500		X						
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		4,500		X						
33	15-yr Reopening of MGS (Mat on 05/35)	15	Nov	Q4		5,000		X						
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		4,500		X						
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		3,500								
	Gross MGS/GII supply in 2021					160,500	97,500	25,500	123,000	PROJECTED TOTAL ISSUANCE SIZE = 160,500				

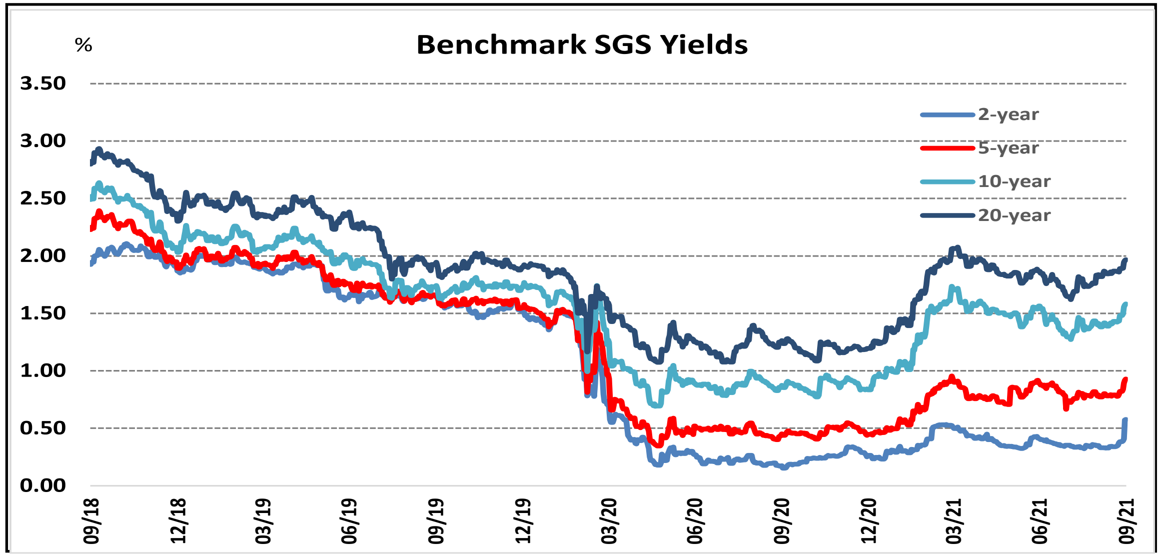


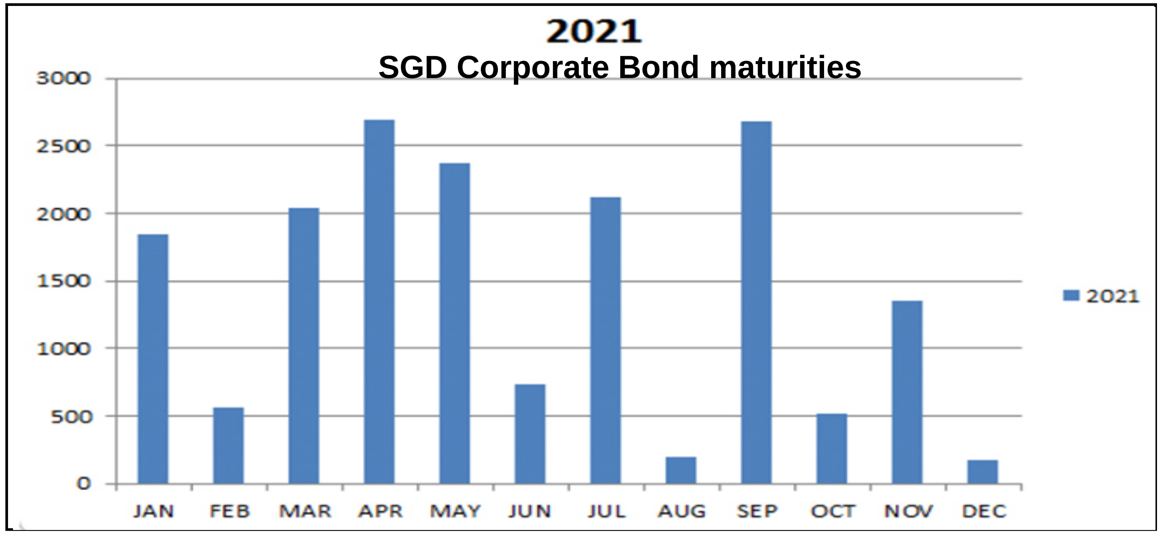
Source: HLBB Global Markets Research

- **Government Bonds** –Overall benchmark yields mostly spiked between 3-38bps save for the longer-ends. This was due to the culmination of several factors that included earlier fears over the change in government and increase in fiscal deficit to between 6.5-7.0% of GDP, in addition to the proposal to increase statutory debt limit from 60% to 65%. Nevertheless, the completion of various EPF withdrawals under the i-Lestari and i-Sinar program coupled with the tapering of i-Citra withdrawal scheme with a RM30b target; will allow EPF to increase its secondary market activities. Rising global bond yields emanating from potential US asset-tapering fears has emboldened the bear bonds. The additional fiscal injection of RM15b via PERKASA+ and PEMULIH stimulus has prompted us to revise our total govvies issuance from RM152.5b to RM160.5b for 2021. Our 10Y MGS yield target is now revised higher to 3.45-65% levels.

- **Corporate Bonds/Sukuk** --Corporate bonds/sukuk issuances (including GG-bonds) maintained at RM27.0b (2Q2021: RM27.4b) and on track to meet our projected gross issuances of between RM90-110b for 2021. Demand was robust but yields ended mostly mixed q/q. Expect decent demand in 4Q21 to continue due to the depth and well-diversified institutional investor base whilst credit metrics are expected to improve due to the lifting of movement restrictions. We favour utilities involved in sewerage, water, electricity, telecommunications and also the logistics sector. With the reopening of economic sectors, we are positive on AAA-AA sectors that provide yield-carry of between 37-57bps.

Singapore Fixed Income – Neutral-to-negative as correlation to USTs remain prominent





- **SGS** – SGS ended weak q/q, in tandem with weaker USTs as the curve shifted higher with overall benchmark yields rising between 2-8bps. The Bloomberg Global Singapore Bond Total Index lost a meagre 0.13% for 3Q21 (2Q21: +1.72%); Meanwhile, rising UST and global bond yields due to inflationary pressures remain a concern despite the republic's AAA-rated status. MAS has issued ~S$112b of bonds; up 15% to-date compared to prior year and projected to maintain its policy stance at its next bi-yearly review in October. The perceived tapering of US bond purchases by the Fed may cause local inter-bank rates to firm and subsequently see SGS yields rise further. The republic has successfully issued its maiden S$2.6b 30Y SGS infrastructure cum green bonds (i.e. SINGA) on 28th September with a coupon of 1.875%. Overall, we are slightly negative in 4Q21 as the correlation to USTs remain significant.

- **Corporate** –Singapore's corporates are seen to take advantage of tighter credit spreads and low interest rate to issue perpetual bonds. Expect bond pipeline supply in 2021 to be matched by lower corporate bond maturities of SGD2.1b in 4Q2021 (3Q2021:S$4.9b, referenced to chart on the left). The tapering of strong demand for credits by Singapore investors may be accentuated by the lower maturities mentioned above whilst focus shifts to rising bond yields in the US. Nevertheless for "hold-to-maturity" clients, we are positive on semi quasi issuances like SGX, conglomerates like SIA, Keppel Corp and also continue to advocate interest in Financials like OCBC, DBS Group and UOB-related bonds within the 5-7Y space. .

Source: HLBB Global Markets Research

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