Hong Leong Bank

Quarterly Market Outlook 2Q2024

Global Markets

April 2024

Hong Leong Bank

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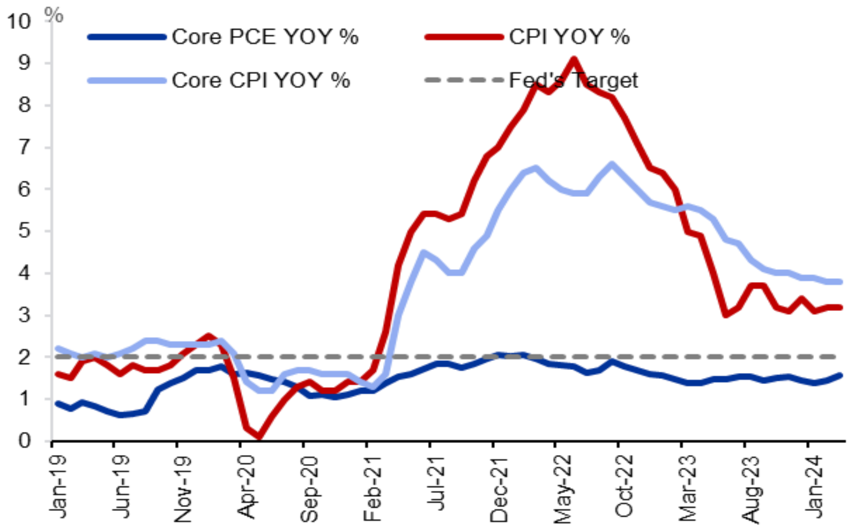
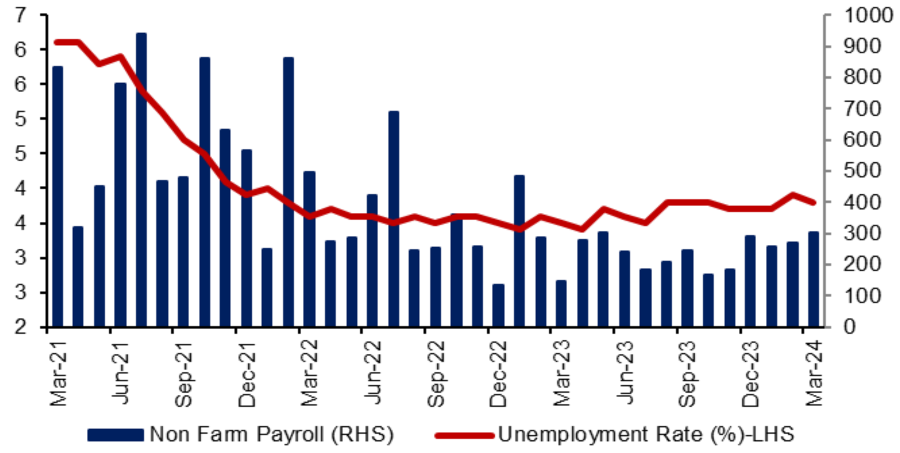
Global Central Banks Policy Rates Outlook

	Current	2Q24	3Q24	4Q24	1Q25	Remarks (Total change in 2Q-4Q 2024)
United States Federal Reserve *Fed Funds Rate*	5.25-5.50	5.25-5.50	4.75-5.00 (-50bps)	4.50-4.75 (-25bps)	4.50-4.75	**-75bps**
Eurozone European Central Bank *Deposit Rate*	4.50	4.25 (-25bps)	3.75 (-50bps)	3.50 (-25bps)	3.50	**-100bps**
United Kingdom Bank of England *Bank Rate*	5.25	5.25	4.75 (-50bps)	4.50 (-25bps)	4.50	**-75bps**
Japan Bank of Japan *Policy Balance Rate*	0-0.10	0–0.10	0–0.10	0–0.10	0–0.10	**No change**
Australia Reserve Bank of Australia *Cash Rate*	4.35	4.35	4.35	4.10 (-25bps)	4.10	**-25bps**
New Zealand Reserve Bank of New Zealand *Official Cash Rate*	5.50	5.50	5.25 (-25bps)	4.75 (-50bps)	4.25 (-25bps)	**-75bps**
Malaysia Bank Negara Malaysia *Overnight Policy Rate*	3.00	3.00	3.00	3.00	3.00	**No change**
Thailand The Bank of Thailand *1-Day Repurchase Rate*	2.50	2.50	2.25 (-25bps)	2.00 (-25bps)	2.00	**-50bps**
Indonesia Bank Indonesia *7-day Reverse Repo Rate*	6.00	6.00	5.50 (-50bps)	5.25 (-25bps)	5.00 (-25bps)	**-75bps**

Source: Bloomberg, HLBB Global Markets Research

US – Humming along a narrative for 3 rate cuts; but we see risk of less cuts



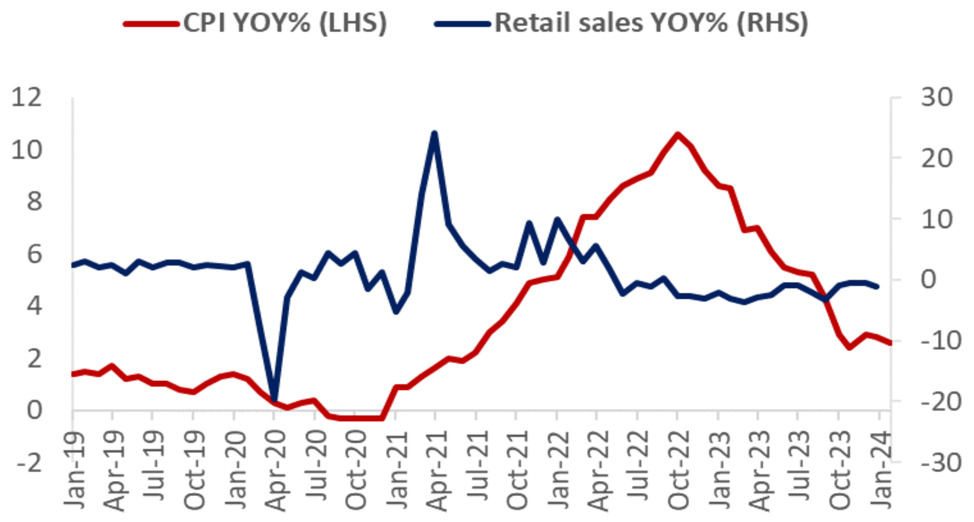


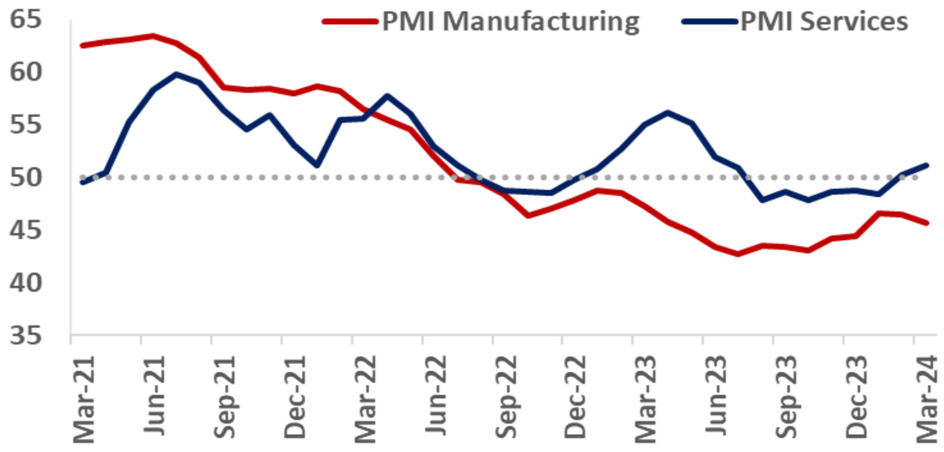
	2022	2023	2024F
GDP (%)	1.9	2.5	2.1
Core PCE Inflation (%)	5.2	3.2	2.6
Fed Funds Rate (%)	4.25-4.50	5.25-5.50	4.50-4.75
Dollar Index (End of period)	103.52	101.33	101.38

Source: Fed, Bloomberg, HLBB Global Markets Research

- Economic activity has been expanding at a solid pace. **Job gains have remained strong**, and the unemployment rate has remained low. **Inflation rate is easing along the lines of what the Fed would like to see**
- Latest dot plot maintained projection for 3 rate cuts this year, but upward revisions for 2025, 2026 and longer run rates. No change to our view for 3 rate cuts at this juncture, but expect to kick off only in July
- Financial conditions continued to tighten as US equities, treasury yields and USD continued to rise

Eurozone – Signs of slower growth; but ECB is waiting for wage growth to cool



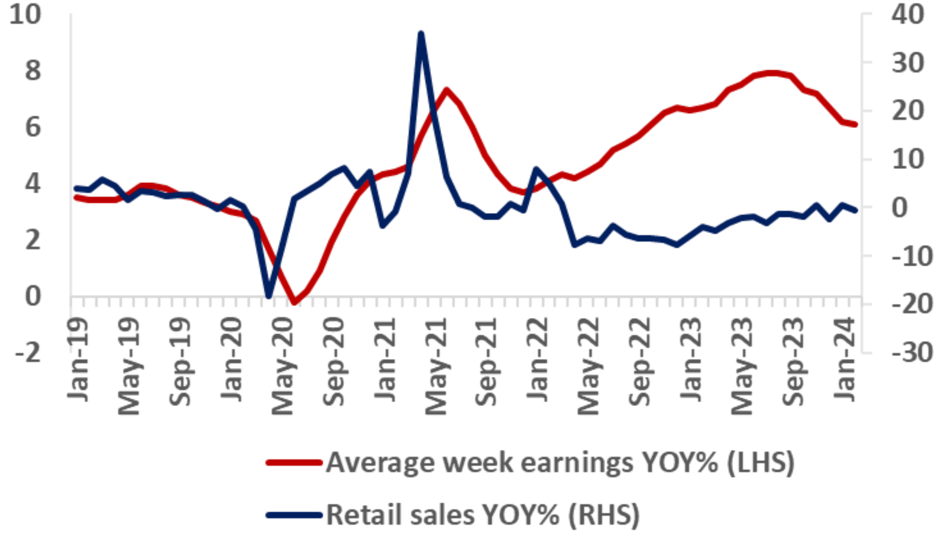


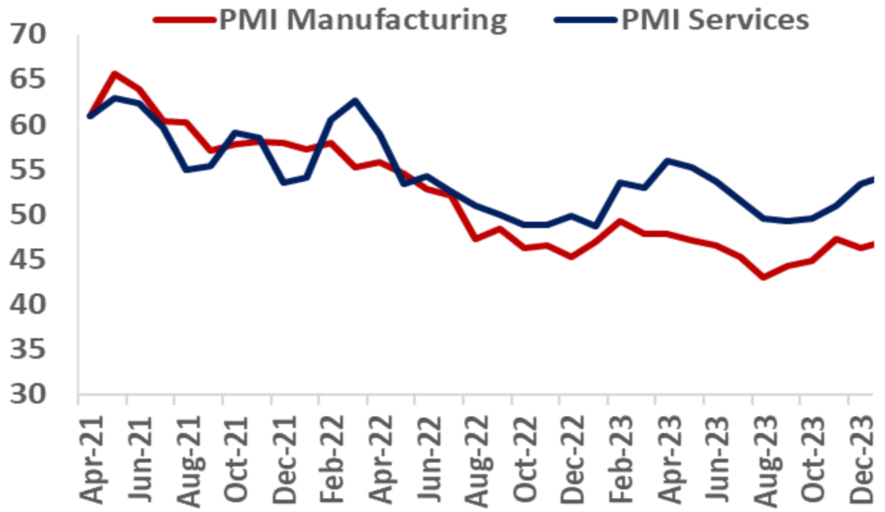
	2022	2023	2024F
GDP (%)	3.4	0.4	0.6
Inflation (%)	8.4	5.5	2.3
Deposit Facility Rate (%)	2.50	4.50	3.50
EUR/USD (End of period)	1.0705	1.1039	1.08

Source: ECB, Bloomberg, HLBB Global Markets Research

- Downwards revisions to GDP and inflation recently, the latter due to lower energy prices, while the ECB expects the former to be supported by consumption followed by investment
- **Strong wage growth is a "devil";** keeping domestic price pressures high but support consumer spending which has floundered
- Manufacturing remained weak, expediting the need to cut rates
- Officials have emphasized the need for more data on wage growth, with **Lagarde commenting that officials will know a little more in April and a lot more in June, but won't commit to further cuts after a likely first move in June**

UK – Expected to pull out of a technical recession



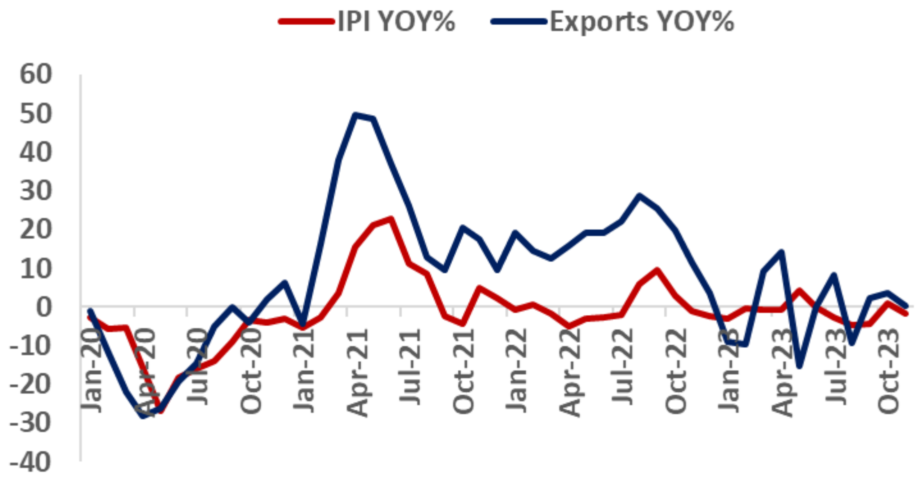


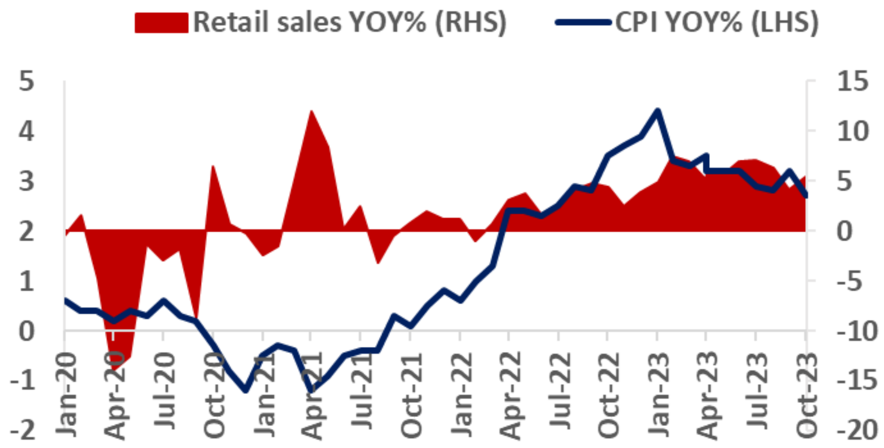
	2022	2023	2024F
GDP (%)	4.5	0.3	0.3
Inflation (%)	9.1	7.4	2.8
Bank Rate (%)	3.50	5.25	4.50
GBP/USD (End of Period)	1.2083	1.2731	1.27

Source: BOE, Bloomberg, HLBB Global Markets Research

- Rebound in January's GDP offered hopes of short-lived technical recession. **GDP projected to grow +0.1% in 1Q and rise further in 2Q** – early signs of recovery from retail sales and S&P PMIs; support from Spring Budget 2024 measures which is expected to add 0.25ppts to GDP growth in coming years
- **Inflation to fall to slightly below the 2% target in 2Q**, marginally weaker than previously expected due to the freeze in fuel duty, but BOE (in February), expects CPI to increase slightly again in 2H due to energy; Services inflation has moderated but remained elevated
- Wage growth has moderated, with reports on greater difficulty to pass costs; Extra headwind from the expiry of fixed mortgage rate deals

Japan – Signaling a possible turning point; BOJ will remain dovish



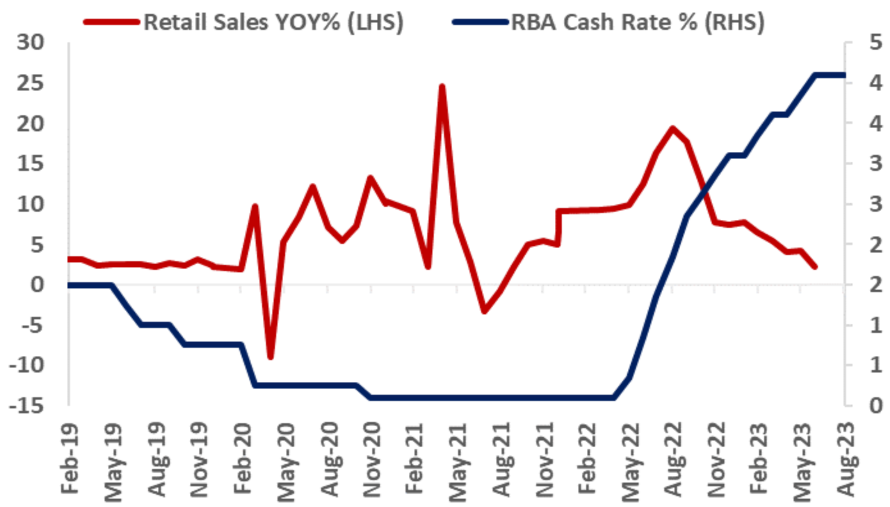


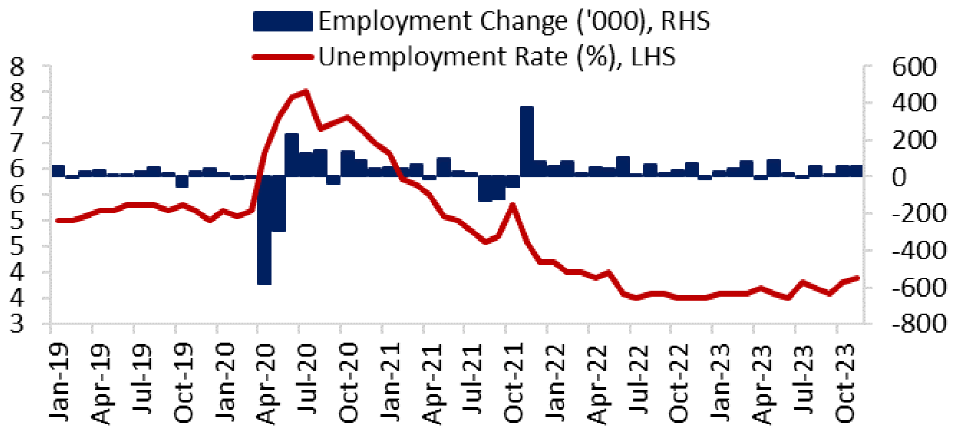
	2022	2023	2024F
GDP (%)	1.0	1.9	1.2
Core Inflation (%)	3.0	2.8	2.4
Policy Balance Rate	-0.1	-0.1	0-0.10
USD/JPY	131.12	141.04	142

Source: BOJ, Bloomberg, HLBB Global Markets Research

- **Biggest wage hike in 33 years at 5.28%** is expected to be a game changer, sending the economy to register moderate and above potential growth rate – 1) Pent-up demand and higher income will boost consumption. 2) Virtuous cycle from income to spending and inflation to gradually intensify
- **BOJ flagged concerns over weak currency** and slower external demand, but we note that capex spending for the manufacturing sector has picked up
- We dot not expect any rapid rate hikes given BOJ's dovish guidance after ending its negative rate regime

Australia – Transitioning to a better balanced economy



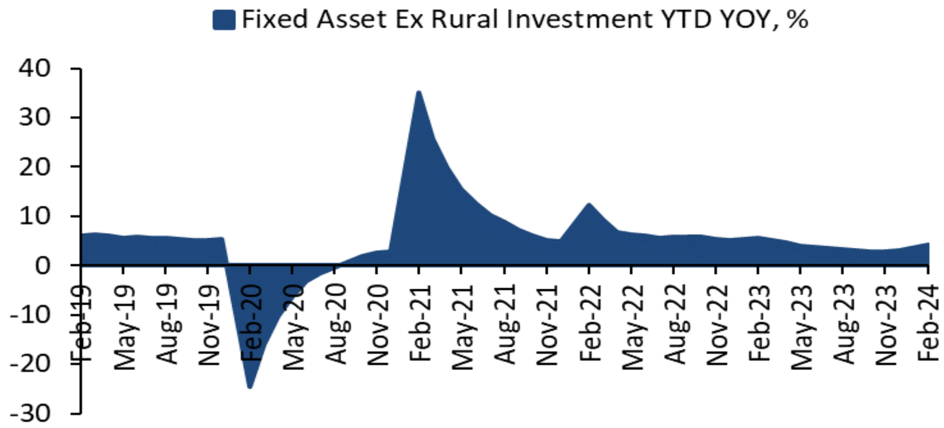


	2022	2023	2024F
GDP (%)	3.8	2.1	1.5
Inflation (%)	6.6	5.6	3.2
Cash Rate (%)	3.10	4.35	4.10
AUD/USD	0.6813	0.6812	0.68

Source: RBA, Bloomberg, HLBB Global Markets Research

- Demand is still greater than supply, but is moving towards a better balance – RBA have flagged concerns that **consumer spending remains particularly weak**; labour market conditions are easing, although still tight - explaining the drop in tightening bias in the March meeting
- RBA wanted to be more confident that inflation is returning to its target range before considering a rate cut - **CPI is expected to taper off to the 2–3% range in 2025, reaching the midpoint in 2026.** Services inflation is still high and is expected to decline only gradually

China – Signs of stability in the economy although property crisis remains a drag

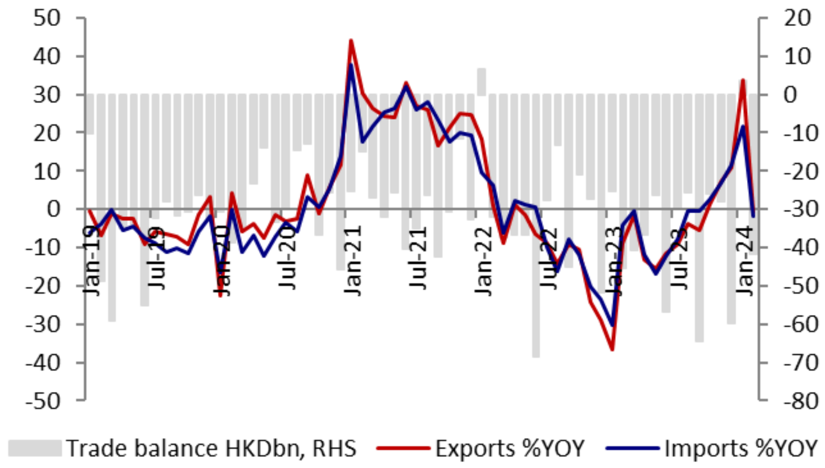


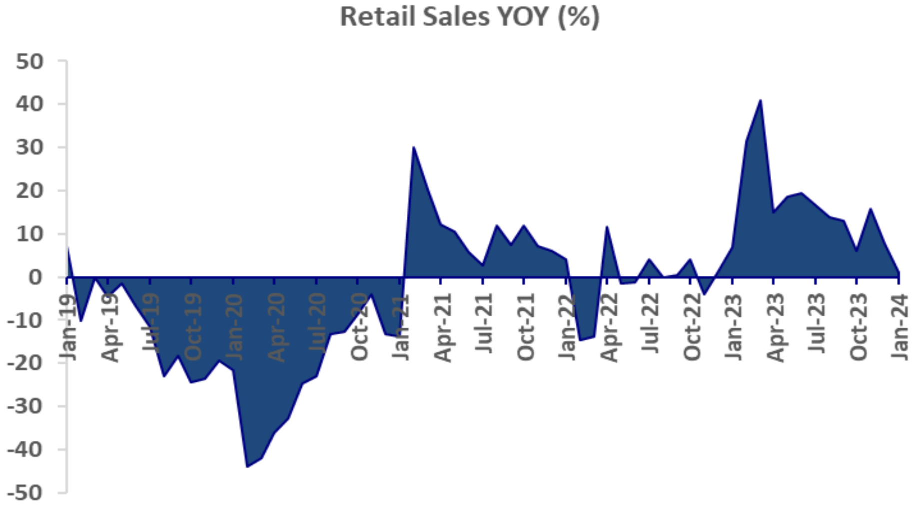
	2022	2023	2024F
GDP (%)	3.0	5.2	5.0
Inflation (%)	2.0	0.2	3.00
1Y LPR (%)	3.65	3.45	3.45
USD/CNY	6.9220	7.1258	6.97

Source: National People's Congress, Bloomberg, HLBB Global Markets Research

- Ongoing policy support have resulted in some stability in growth recently; Stabilizing property sector (albeit still weak) and improvement in external demand could lift growth moving forward
- **Target unemployment rate of around 5.5% this year, with 12m additional urban jobs;** CPI forecast appears bullish considering that the economy may still be at risk with deflationary pressures (Feb's uptick could be due to seasonal clip)
- Budget deficit to narrow to 3% of GDP; Monetary policy to "flexible, appropriate, targeted and effective"; **Selling 1tn yuan of ultra-long special government bonds**, the fourth such sale in the past 26 years to shore up the economy; **Expect cuts in RRR**
- Key targeted sectors: **Military, trade-related, energy, agriculture, real estates**

Hong Kong – Still slow and steady



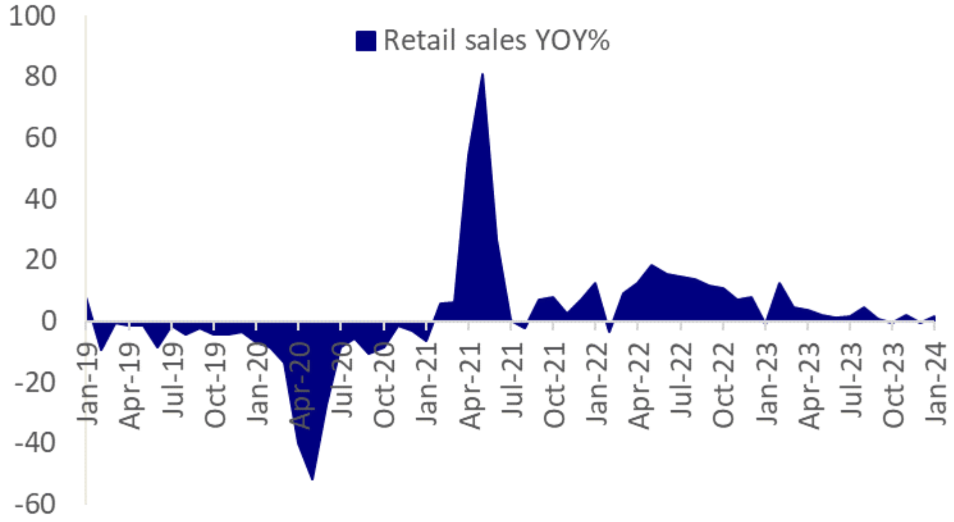


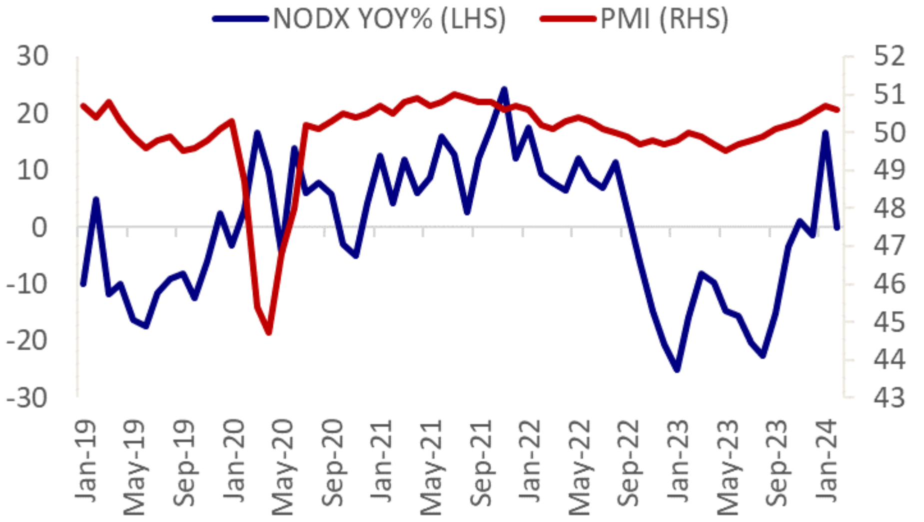
	2022	2023	2024F
GDP (%)	-3.7	3.2	2.5-3.5
Inflation (%)	1.9	2.1	2.4
Base Rate	4.75	5.75	5.00
USD/HKD	7.8016	7.8115	7.79

Source: HK Economy, Bloomberg, HLBB Global Markets Research

- The difficult external environment from geopolitical tensions (which could disrupt supply chains) and from China will pose pressures on exports; may stabilise later if advanced economies cut interest rates
- Businesses will benefit from budget friendly measures like reduced profits tax. Consumption will benefit from tourist arrivals, rising household incomes, with additional boosts from the Government's efforts to promote 80 mega events/tourism and to support consumers like the reduced salaries tax
- Key targeted sectors: **green future, innovation & technology, aviation and maritime, intellectual property, legal & dispute resolution services**

Singapore – E&E exports has turned positive; domestic demand moderated



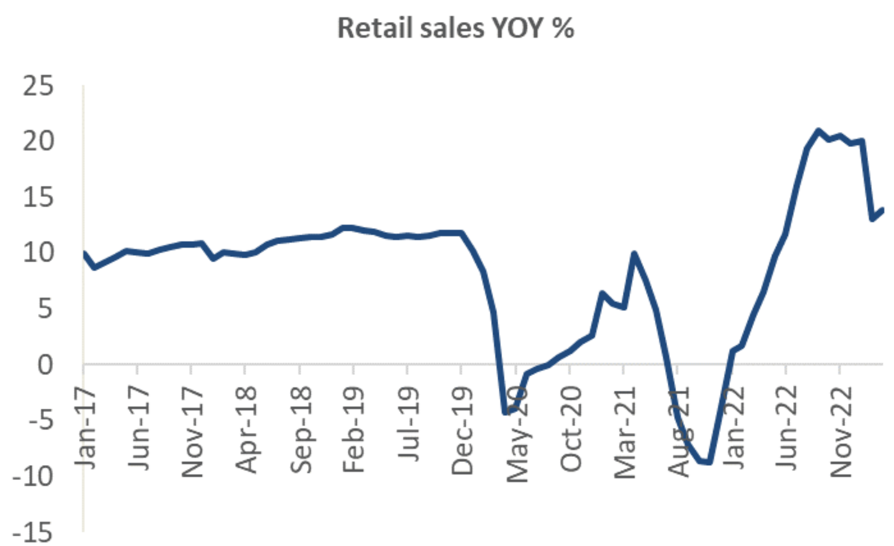


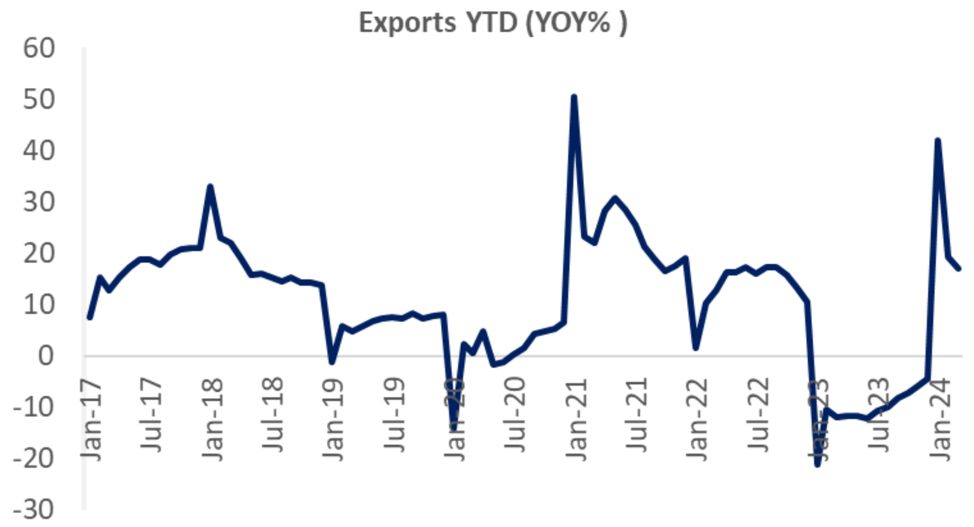
	2022	2023	2024F
GDP (%)	3.8	1.1	1.0-3.0
Inflation (%)	6.1	4.8	2.5-3.5
3m SIBOR (%)	4.25	4.06	3.60
USD/SGD	1.3395	1.3203	1.31

Source: MTI, Bloomberg, HLBB Global Markets Research

- **Manufacturing and trade-related sectors are expected to see a gradual pickup** in growth in tandem with the turnaround in global electronics demand
- Continued recovery in air travel and tourism demand will support growth in tourism-, aviation-related sectors as well as consumer-facing sectors, although the pace is expected to normalize post-revenge travel
- **Signs of easing domestic-demand pull inflation and imported inflation**, the latter due to stronger SGD; Increases in COE supply as well as slower increases in unit labour costs will also help contain prices
- **Expect MAS to maintain the slope, band, centre of the S$NEER** to support domestic demand; with an easing bias

Vietnam – Lower end of the GDP target achievable driven by sturdy consumption



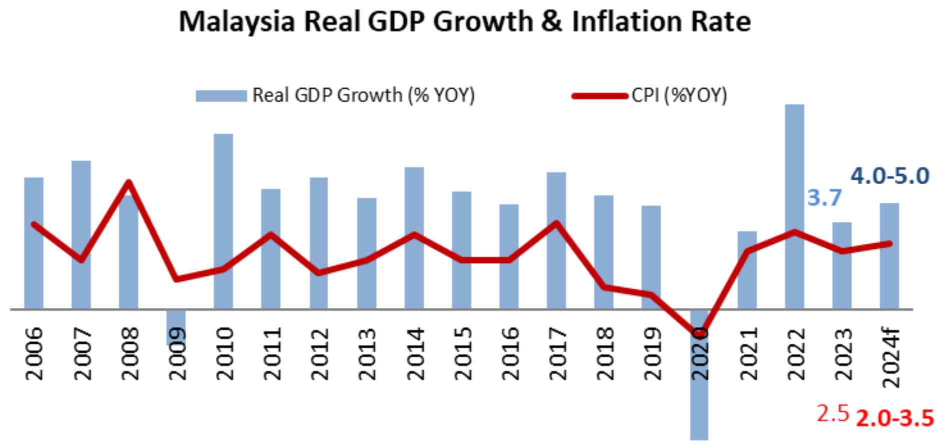


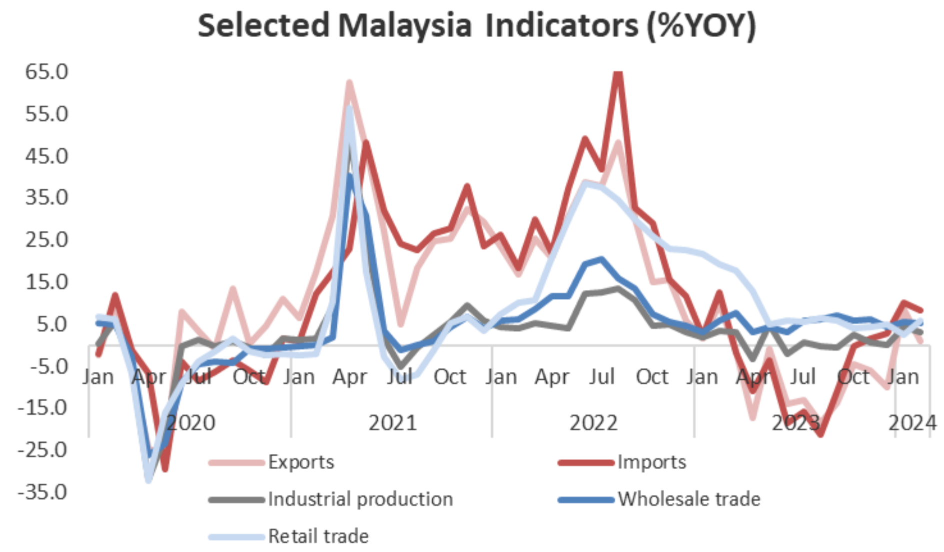
	2022	2023	2024F
GDP (%)	8.0	5.1	6.0-6.5
Inflation (%)	3.2	3.3	3.5
SBV Refinancing Rate (%)	6.00	4.50	4.50
USD/VND	23,633	24,269	24,300

Source: Bloomberg, HLBB Global Markets Research

- Sturdy consumer spending, benefitting from a robust labour market (low unemployment rate of 2.2%) and ongoing influx in tourist arrivals (international visitors rose 72% y/y in 1Q).
- Headwinds from: 1) Pledged FDI is up 13.4% y/y in 1Q, but total implemented capital is softer at only +7.1% y/y. 2) Total lending climbed 0.3% y/y, a far cry from the central bank's target of 15% this year, as **consumers continued to struggle with limited access to banking**. 3) **Political earthquake is a worrying signal for foreign investors.**

Malaysia – Rather broad improvement in indicators point to better growth prospects





	2022	2023	2024F
GDP (%)	8.7	3.7	4.7
Inflation (%)	3.4	2.5	3.2
OPR (%)	2.75	3.00	3.00
USD/MYR	4.4040	4.5940	4.56

Source: Bloomberg, HLBB Global Markets Research

- **Risks on growth outlook remains on the downside** - heightened geopolitical concerns, potential drag from shocks on commodity output. On the flip side, upside risks emanating from greater spillover from the tech upcycle, more robust tourism activity and faster implementation of investment projects
- **Upside risks on inflation** from: 1) secondary impact post-subsidy and price control adjustments. 2) higher input costs due to weak Ringgit and 3) higher global commodity price
- There is no change in our expectation that BNM will maintain the OPR at 3.00%. BNM has flagged uncertainty surrounding its growth prospects, inflation outlook and that policy stance will remain conducive.

Markets Outlook - FX

FX – USD to come under pressure amidst slowing inflation; JPY to get a boost from reduced rate differential; CNY to benefit from government stimulus

	12-month Outlook
+	**JPY:** Reduced policy rate differential will be positive for the JPY as other major central banks ease policy; risk of a possible further BoJ hike in 2H **AUD & NZD**: likely to benefit from improved commodity prices, possible rate reductions likely to lag those of other major central banks **CNY**: Property sector and negative consumer sentiment likely to remain a drag but looks to be priced in somewhat; continued government stimulus to provide an offset **MYR**: Reduced policy rate differential likely to be MYR positive; inflation likely to have bottomed and should continue to head higher as planned subsidies removal kicks in; exports and tourism expected to provide a boost to growth
-	**USD:** Likely to come under pressure, as inflation continues to moderate, allowing the Fed to possibly ease rates starting in the summer. However, downside could be limited given its safe haven appeal should a harder landing for global growth materialize **EUR**: economic momentum has recovered after narrowly skirting a recession; ECB likely to begin rate cuts in June; may end up cutting more than Fed as growth challenges resurface in 2H **GBP:** inflation has slowed amidst a slowdown in wage growth, as economic data continues to be rather resilient. BoE seemingly more comfortable with easing policy, and should push through a few rate reductions

FX Forecasts

	29-Mar	Q2-24	Q3-24	Q4-24	Q1-25
DXY	104.49	103.44	102.41	101.38	100.37
USD/CAD	1.35	1.34	1.33	1.31	1.30
EUR/USD	1.08	1.09	1.10	1.08	1.07
GBP/USD	1.26	1.27	1.28	1.27	1.25
USD/CHF	0.90	0.89	0.88	0.87	0.87
AUD/USD	0.65	0.66	0.67	0.67	0.68
NZD/USD	0.60	0.60	0.61	0.62	0.62
USD/JPY	151	148	145	142	140
USD/MYR	4.73	4.68	4.63	4.56	4.49
USD/SGD	1.35	1.34	1.32	1.31	1.30
USD/CNY	7.22	7.15	7.08	6.97	6.87

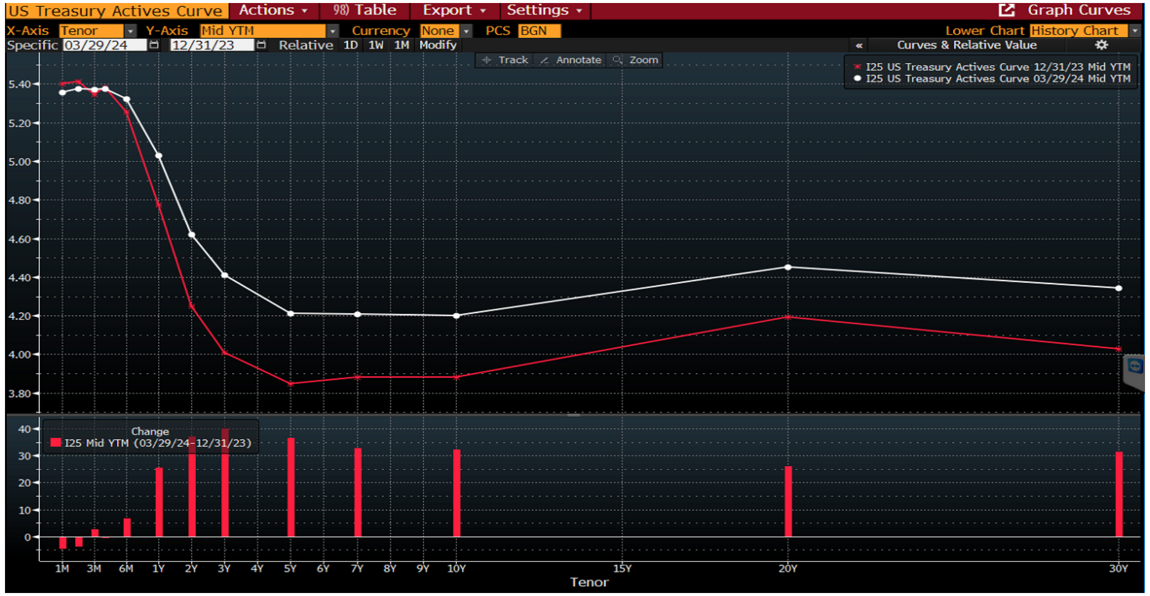
Markets Outlook – Fixed Income

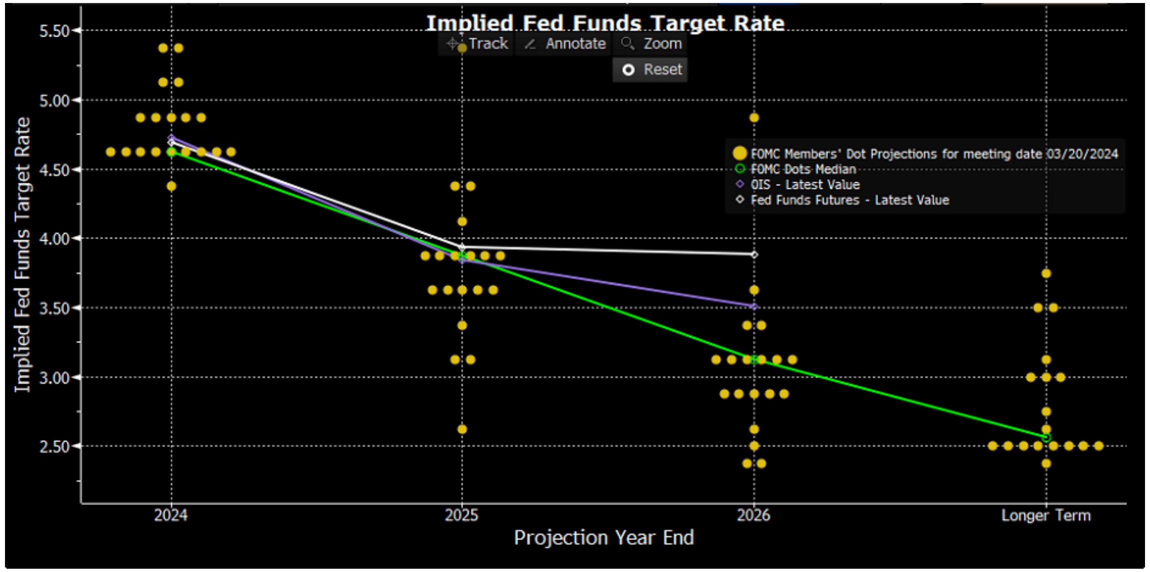
	CURRENT	2Q2024	3Q2024	4Q2024	1Q2025
UST 10Y	4.42%	4.15-4.35%	4.05-4.25%	3.95-4.15%	3.85-4.05%
MGS 10Y	3.86%	3.85-4.05%	3.90-4.10%	3.95-4.15%	3.95-4.15%
SGS 10Y	3.26%	3.10-3.30%	3.05-3.25%	3.00-3.20%	2.95-3.15%

Sovereigns – Bonds should be better bid in 2Q2024 as major global central banks begin easing policy. Continued geopolitical uncertainty to keep a lid on sovereign bond yields

UST	Yields to fall gradually in 2Q as inflation moderates and some signs of a growth slowdown begin to emerge FOMC begins to ease policy in the summer, leading to a bull steepening in the UST curve Risks – a re-acceleration of inflation could keep yields elevated, a deep correction in the equity markets could result in a greater than expected decline in yields
MGS	Low, but rising inflation in 2Q will allow BNM to continue to stand pat on OPR Possible divergence from USTs seen, as MYR bonds have lagged in this UST sell-off, and on the differing inflation scenario domestically Risks – subsidy removals have a larger impact on inflation, expected improvement in exports fizzles out
SGS	Positive correlation with UST movements will see SGS benefit in terms of lower yield movements MAS is expected to stand pat in its policy settings in its April meeting. Risks – Larger than expected drag on economy from uptick in GST; a re-acceleration of inflation

US Fixed Income – More constructive outlook on moderating inflation as Fed prepares to cut





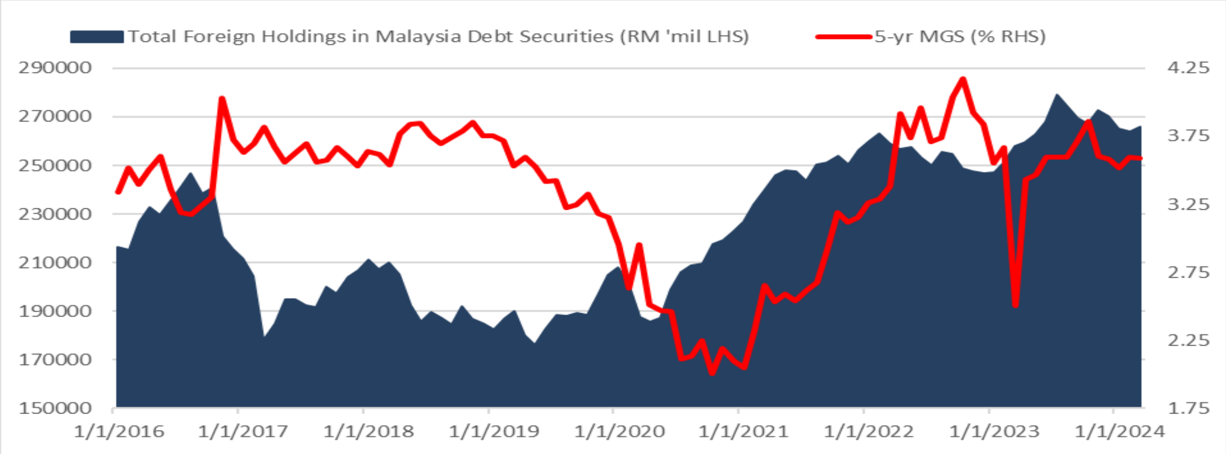
Source: Bloomberg, HLBB Global Markets Research

- **UST** -- USTs traded lower in 1Q, as the US economy continued to defy expectations for a weakening of economic conditions, underpinned by a labour market that has remained surprisingly resilient, amidst continued moderation in inflation.
- Benchmark yields rose by 26-40bps for the quarter (4Q23: 67-80bps higher) as the market dialed back significantly on rate cut expectations, with Fed Fund Futures only pointing to 2-3 Fed cuts for 2024 by the end of 1Q, versus 6-7 cuts priced for 2024 as at the end of the preceding quarter.
- The curve bear-flattened slightly for the quarter, as the front end of the maturity spectrum bore the brunt of the sell off, with 2s10s finishing 1Q at -42bps (4Q23: -37bps)
- The Fed's Dot plot median projection during the March FOMC continued to point to 3 cuts in total for 2024
- **We expect the FOMC to begin reducing the Fed Funds Rate in 3Q, and continue to foresee 3 cuts of 25bps in total for 2024, with risk for lesser cuts.**
- Another solid jobs report at the start of the quarter has seen yields continue to move north in 2Q thus far, with the 10yr rising by a further 22bps to 4.42% **Going forward, we see a more constructive environment for bonds, and expect the 10Y UST yield to head lower towards 4.15-4.35% by the end of 2Q24**, as inflation continues to moderate, and core PCE inches lower towards the Fed's 2.0% preference.

- **Corporates** –Investment-grade corporate bonds were a bit weaker for the quarter given the weaker government bond backdrop with the Bloomberg US Corporate Bond Index posting a loss of 0.4% (4Q23: +8.5%). USD Corporate issuance surged in 1Q24, with issuance of IG bonds rising to USD536.7b (4Q23: USD219b).

Malaysia Fixed Income – Looking slightly vulnerable amidst continued subsidy rationalization

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	10-yr Reopening of MGII 8/33	10	Jan	Q1	5/1/2024	5,000	5,000		5,000	2.445	3.880	3.908	3.920	83.3%
2	30-yr Reopening of MGS 3/53	30	Jan	Q1	12/1/2024	5,000	3,000	2,000	10,000	2.990	4.223	4.243	4.250	84.8%
3	5-yr Reopening of MGII 7/28	5	Jan	Q1	19/1/2024	4,500	5,000		15,000	4.402	3.610	3.620	3.624	51.3%
4	7-yr Reopening of MGS 4/31	7	Feb	Q1	5/2/2024	4,500	5,000		20,000	2.155	3.760	3.779	3.790	6.9%
5	20-yr Reopening of MGII 8/43	20	Feb	Q1	14/2/2024	5,000	3,000	2,000	25,000	3.037	4.144	4.163	4.171	60.0%
6	3-yr Reopening of MGS 5/27	3	Feb	Q1	21/2/2024	4,500	5,000		30,000	1.703	3.470	3.488	3.499	85.0%
7	15-yr Reopening of MGII 9/39	15	Mar	Q1	29/2/2024	5,000	3,000	2,000	35,000	2.973	3.972	3.990	3.998	52.3%
8	10-yr Reopening of MGS 11/33	10	Mar	Q1	14/3/2024	4,500	5,000		40,000	2.046	3.830	3.854	3.865	27.1%
9	30-yr New Issue of MGII (Mat on 3/54)	30	Mar	Q1	21/3/2024	5,000	3,000	2,000	45,000	3.187	4.254	4.280	4.286	90.0%
10	5-yr Reopening of MGS 8/29	5	Apr	Q2	29/3/2024	5,000	5,000		50,000	1.797	3.665	3.681	3.690	11.4%
11	7.5-yr New Issue of MGII (Mat on 10/31)	7	Apr	Q2	5/4/2024	5,000	4,500		54,500	3.333	3.780	3.804	3.815	41.3%
12	15-yr New Issue of MGS (Mat on 4/39)	15	Apr	Q2		5,000								
13	3-yr Reopening of MGII 9/26	3	Apr	Q2		5,000								
14	20-yr New Issue of MGS (Mat on 05/44)	20	May	Q2		5,500								
15	15-yr Reopening of MGII 9/39	15	May	Q2		5,000								
16	7-yr Reopening of MGS (4/31	7	May	Q2		5,000								
17	20-yr Reopening of MGII 8/43	20	Jun	Q2		5,000								
18	3-yr Reopening of MGS 5/27	3	Jun	Q2		4,500								
19	30-yr Reopening of MGII 3/54	30	Jun	Q2		5,000								
20	5-yr Reopening of MGS 8/29	5	Jul	Q3		4,500								
21	10-yr Reopening of MGII 11/34	10	Jul	Q3		4,500								
22	15-yr Reopening of MGS 4/39)	15	Jul	Q3		5,000								
23	7-yr Reopening of MGII 10/31	7	Aug	Q3		5,000								
24	30-yr Reopening of MGS 3/53	30	Aug	Q3		5,000								
25	5-yr Reopening of MGII 7/29	5	Aug	Q3		4,500								
26	10-yr Reopening of MGS 7/34	10	Aug	Q3		5,000								
27	20-yr Reopening of MGII 8/43	20	Sep	Q3		4,500								
28	7-yr Reopening of MGS 4/31	7	Sep	Q3		4,500								
29	30-yr Reopening of MGII 3/54	30	Sep	Q3		5,000								
30	3-yr Reopening of MGS 5/27	3	Oct	Q4		4,500								
31	10-yr Reopening of MGII 11/34	10	Oct	Q4		4,500								
32	20-yr Reopening of MGS 5/44	20	Oct	Q4		5,000								
33	7-yr Reopening of MGII 10/31	7	Oct	Q4		5,000								
34	15-yr Reopening of MGS 4/39)	15	Nov	Q4		5,000								
35	5-yr Reopening of MGII 7/29	5	Nov	Q4		4,500								
36	10-yr Reopening of MGS 7/34	10	Nov	Q4		5,000								
37	3-yr Reopening of GII 9/27	3	Dec	Q4		4,500								
	Gross MGS/GII supply in 2024					178,500	46,500	8,000	-	PROJECTED TOTAL ISSUANCE = RM180b				

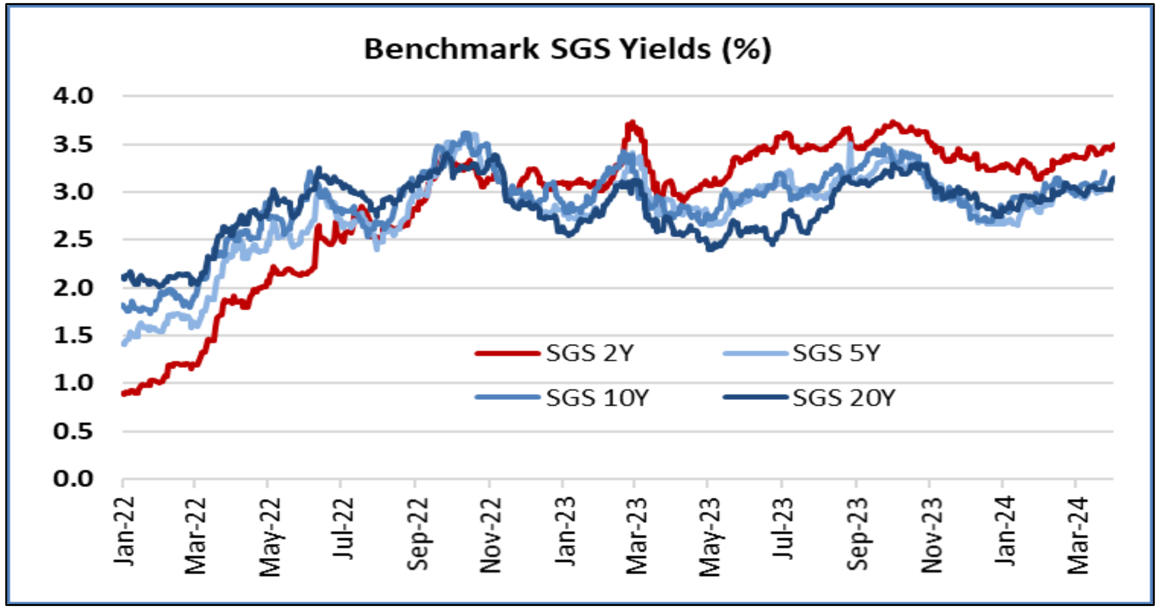


Source: Bloomberg, BNM, HLBB Global Markets Research

- **Government Bonds** – MGS and GII were mixed q/q as overall benchmark yields closed between -6 and +11bps (4Q23: 8-23bps lower) with the 10Y sector underperforming and the 30Y sector registering the best performance.
- Foreign holdings of overall MYR bonds fell by RM4.6b during the quarter, from RM270.4b as at end 4Q23 to RM265.8b as at end 1Q24.
- Government auctions in 1Q24 saw better bidding metrics despite higher gross issuance of RM45.0b and no redemptions, with an average BTC of 2.71x across 9 auctions (4Q23: 8 auctions; average BTC 2.24x; gross issuances RM41.0b).
- BNM left interest rates unchanged during their two policy meets on Jan 24 and Mar 07, and continued to strike a neutral tone in the monetary policy statements; we expect them to continue to stand pat on rates in 2Q and for the remainder of 2024.
- Inflation is expected to head higher, as continued subsidy rationalization takes place amidst low base effects. BNM is expected to be on the lookout for second round effects, and could change their bias should any materialize.
- Local bonds could face a more challenging outlook going forward, after performing decently against the weak global bond backdrop in 1Q24. **We expect 10Y MGS yields to head slightly higher for 2Q24 towards 3.85-4.05%.**

- **Corporate Bonds/Sukuk** – Significant tightening in spreads in 1Q24, with AAA and AA2 spreads in 10Y space closing at 22 and 43bps respectively (4Q23: 45 and 68bps) as issuances fell. Corporate bonds/sukuk issuances (including GG bonds) slowed markedly to RM22.9b in 1Q24 (4Q23: RM34.0b). We expect issuance to pick up in 2Q

Singapore Fixed Income – Slightly positive on SGS; yields expected to inch lower with USTs



- **SGS** – Singapore Government Securities traded lower q/q, mirroring UST movements as overall benchmark yields rose between 21-40bps (4Q23: 42-70bps lower) with the belly of the curve bearing the brunt of the sell-off.
- The SGS yield curve reduced its inversion during the quarter with the sharp sell off in 10yr SGS, with 2s10s standing at -28bps (4Q23: -57bps)
- The Bloomberg Global Singapore Bond Total Return Index recorded a decline of 1.7% for 1Q24 (4Q23: +5.1%).
- Total SGS issuances for 1Q24 rose to SGD6.6b (4Q23: SGD1.5b) for the quarter.
- MAS are expected to stand pat on policy at the next quarterly meeting in early April 2024, as it continues to assess the impact from the uptick in the goods and services tax rate at the start of the year.
- SGS yields have risen further to start off 2Q24, with the 10yr SGS yield rising further to 3.26% post US payrolls, from 3.09% at the end of 1Q24 . **Going forward, we see less volatility this quarter, and expect SGS yields to gradually decline in line with UST yields. We project SGS 10Y to range slightly lower between 3.10-3.30% by the end of 2Q2024.**
- **Corporate** – Issuance picked up steam in 1Q24, with SGD15.6b of bonds issued (4Q23: SGD8.1b) during the quarter. 2024 already looks set to outdo the year before, where total corporate issuance of SGD29.5bn was seen.

Source: Bloomberg, HLBB Global Markets Research

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