

Global Markets Research

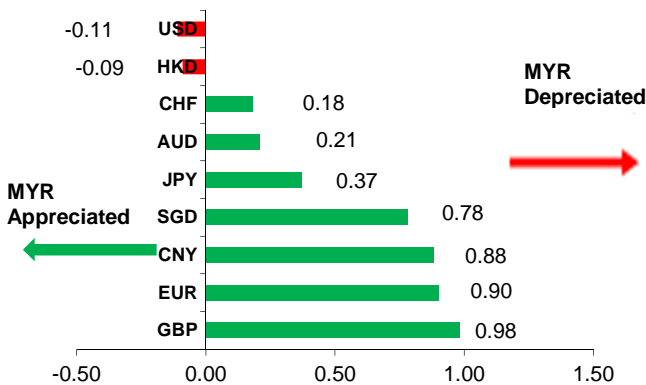
Weekly Market Highlights

Weekly Performance

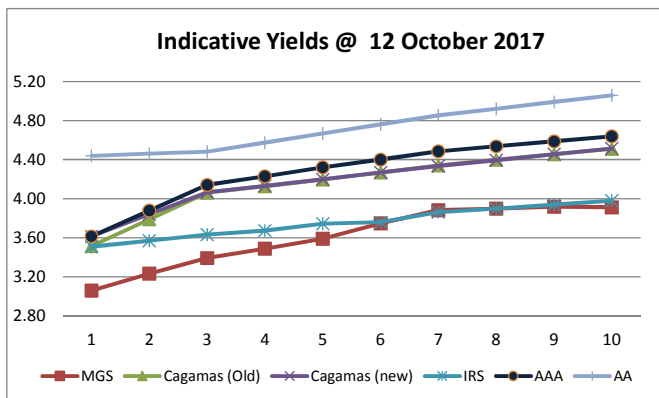
	Macro	Currency	Equity	10-y Govt Bond Yields
US	↔	↓	↑	↓
EU	↑	↑	↓	↓
UK	↑	↑	↑	↑
Japan	↑	↑	↑	↑
Malaysia	↑	↑	↓	↔
China	↔	↑	↑	↑
Hong Kong	↑	↑	↑	↓
Singapore	↑	↑	↑	↓

Weekly MYR Performance

MYR vs Major Counterparts (% WOW)



Indicative Yields



Please see important disclosure at the end of the report

Macroeconomics

- FOMC minutes reiterated that policy makers were divided in the last policy decision to keep interest rates on hold in September, citing below target inflation as the biggest concern. This is seen as a tad dovish in our view, but markets appeared to be holding firm on prospects of another rate hike before year end. Fed Powell in his speech yesterday shared that monetary policy normalization should continue to be gradual as long as the US economy evolves roughly as expected. Meanwhile, Fed Kashkari remarked that the Fed should pause until inflation creeps back up to the Fed's 2% target.
- IMF has upgraded US growth forecast by 0.1ppt from its July update to 2.2% even though it still marks a downgrade from its April outlook. World growth forecasts have been upgraded to 3.6% and 3.7% for this and next year as a result, with more optimistic outlook in the majors and China except the UK. This week's data has been positive overall, reaffirming that global economic recovery remains on track.
- There are some market-moving data in the pipeline next week. In the US, the Fed Beige Book, industrial production, housing starts, existing home sales, initial jobless claims, Empire manufacturing, Philly Fed business outlook and leading index are on the deck. We expect the Fed to maintain its view that the US economy remains on a moderate and modest growth path. In Europe, Eurozone and UK CPI, PPI, and RPI will take center stage to see if the upmove in inflation is sustained.
- In Asia, China 3Q GDP, due a day after the kickoff of the 19th National Party Congress, will certainly be closely watched. Even though the Chinese economy is expected to slowdown, the pace of moderation remains very muted, which would continue to be supportive of growth outlook not only regionally but also globally. Back in Malaysia, all eyes will be on CPI where further uptick in the reading is expected. We are penciling a 4.0% YOY increase for the month of September, stemming from reacceleration in transport prices.

Forex

- MYR fell against 9 G10s but managed to advance 0.11% WOW to 4.2238 against USD after enduring sharp losses in the final hours of trading in the last 2 days that overturned early gains. We turn neutral on MYR against USD, more on technical signals than fundamental factors. Data flow next week suggests an absence of positive catalyst to drive either MYR or USD gains, though we reckon that recent decline post-FOMC is a sign that markets are losing interest in USD. Technically, USDMYR failed to close below 4.2200, which raised doubts over the sustainability of current bearish bias. Below this level, the pair has scope to slide to 4.2050, otherwise, it takes aim at 4.2380.
- USD weakened against all G10s while the Dollar Index fell 0.96% WOW to 93.06, pressured by sliding buying interest from 1-day closure of US market and risk aversion ahead of FOMC minutes, then softer market confidence on future Fed rate hikes. We are slightly bearish on USD next week as we anticipate scant buying interest amid a lack of major catalyst to drive gains as well as market perception of soft prospects of quicker future rate hikes. However, caution that political woes in Eurozone and the UK have not abated; any renewed concerns will channel the flow into USD. Bearish bias in the Dollar Index still prevails, thus we opine that it will target 92.63 next, below which 92.30 is under threat.

Fixed Income

- UST traded mixed over the past week, coming under pressure in the earlier part of the week influenced by anxiety ahead of the release of FOMC minutes, as well as paring of risk aversion following suspension of Independence Referendum by Catalonia. UST eventually closed the week on firmer note following two consecutive days of gains as markets digested the minutes. UST yields fell in the 5Y, 10Y and 30Y space by 2-5bps WOW, flattening the yield curve. Gain was supported by robust demand for auctions totalling USD56bn this week. We maintain the view that yields could extend its gradual climb higher amid prospects of the Fed continuous policy normalization.
- Local govies took the cue from the US markets and ended little changed this week amid lack of fresh leads. 3Y, 5Y and 10Y note yields ended the week flat at 3.40%, 3.60% and 3.89% respectively. Trading volume also turned softer to approximately RM8.1bn vs RM13.1bn the preceding week, as investors preferred to stay on the sideline ahead of FOMC minutes. Trading activities have since picked up from below RM1.0bn on Monday to RM2.3bn yesterday, but still off the levels seen last week. This week's reopening auction of RM1.5bn 20Y GII 8/37 was well-received, attracted a BTC of 2.15x and an average yield of 4.785% higher than the BTC of 1.78x during the new issuance in August, despite looming expectations of another Fed rate hike before year end. Markets will be looking up to CPI release next week for leads. We are expecting further pick-up in the September CPI to 4.0% YOY driven by quicker gain in transport prices.

Contents

Macroeconomics	Page 3
Forex	Page 4
Trading Idea	Page 5
FX Technicals	Page 6
Fixed Income	Page 7
Economic Calendar	Page 9

Macroeconomics

6-month Macro Outlook

	Economy	Inflation	Interest Rate	Currency
US	↔	↔	↑	↔
EU	↑	↔	↔	↔
UK	↓	↔	↔	↓
Japan	↔	↔	↔	↓
Australia	↔	↔	↔	↔
China	↔	↔	↔	↓
Malaysia	↓	↓	↔	↑
Thailand	↔	↔	↔	↑
Indonesia	↔	↔	↔	↑
Singapore	↔	↔	↔	↑

Review

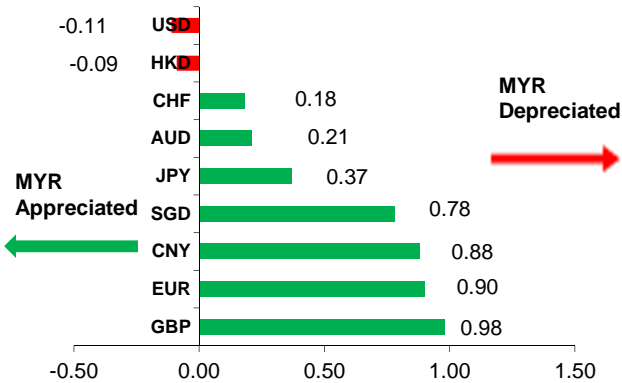
- FOMC minutes reiterated that policy makers were divided in the last policy decision to keep interest rates on hold in September, citing below target inflation as the biggest concern. This is seen as a tad dovish in our view, but markets appeared to be holding firm on prospects of another rate hike before year end. Fed Funds Implied Probabilities for a December rate hike stood unchanged at 77% post-FOMC minutes. Even if the Fed could still probably deliver another rate hike this year, we are of the view that the pace of interest rate increases will remain very measured next year, especially with the potential change in Fed Chair when Yellen's term expires in February.
- Fed Powell in his speech yesterday shared that monetary policy normalization should continue to be gradual as long as the US economy evolves roughly as expected. Meanwhile, Fed Kashkari remarked that the Fed should pause until inflation creeps back up to the Fed's 2% target. US data has been a mixed bag over the week. The storm-distorted fall in headline NFP did little damage to believes that the US labour market is tightening, as other underlying job details were all solid. IMF has upgraded US growth forecast by 0.1ppt from its July update to 2.2% even though it still marks a downgrade from its April outlook. World growth forecasts have been upgraded to 3.6% and 3.7% for this and next year as a result, with more optimistic outlook in the majors and China except the UK. This week's data has been positive overall, reaffirming that global economic recovery remains on track.
- Singapore advance 3Q GDP estimate surprised on the upside with a 4.6% YOY print and MAS kept its monetary policy unchanged as expected. The drop of the "extended period" phrase in the statement spurred expectations that MAS could be shifting away from its neutral stance amid brightening growth outlook.
- In Malaysia, both exports and IPI suggest the Malaysian economy will continue to expand at a favourable pace in 3Q. Exports normalized from post-Raya seasonal swings but growth at 21.5% in August remained robust. Industrial production picked up further to increase at its fastest pace since Mar-15, by 6.8% YOY in August, underpinned by continuous expansion in all the three main sectors. Taking cue from the still favourable economic indicators thus far, we are confident that the Malaysian economy is on track, if not surpass, our full year real GDP growth projection of 5.4% for 2017.

The Week Ahead...

- There are some market-moving data in the pipeline next week. In the US, the Fed will release its Beige Book that will offer its latest assessment on the health of the US economy, on top of the scheduled releases of industrial production, housing starts, existing home sales, initial jobless claims, Empire manufacturing, Philly Fed business outlook and leading index. We expect the Fed to maintain its view that the US economy remains on a moderate and modest growth path.
- In Europe, Eurozone and UK CPI, PPI, and RPI will take center stage to see if the upmove in inflation is sustained. Trade balance and ZEW expectation surveys in EU, Rightmove house prices, employment change and jobless rate, retail sales in the UK are also on the deck.
- In Asia, China 3Q GDP, due a day after the kickoff of the 19th National Party Congress, will certainly be closely watched. Even though the Chinese economy is expected to slowdown, the pace of moderation remains very muted, which would continue to be supportive of growth outlook not only regionally but also globally. Retail sales, industrial production, fixed asset investment, CPI, PPI will likely take a backseat with the GDP print taking center stage.
- On top of that, other major Asian releases include Japan industrial production, trade balance, all industry activity index, and machine tool orders; Singapore NODX, Australia job reports and New Zealand CPI and services index. Back in Malaysia, all eyes will be on CPI where further uptick in the reading is expected. We are penciling a 4.0% YOY increase for the month of September, stemming from reacceleration in transport prices.

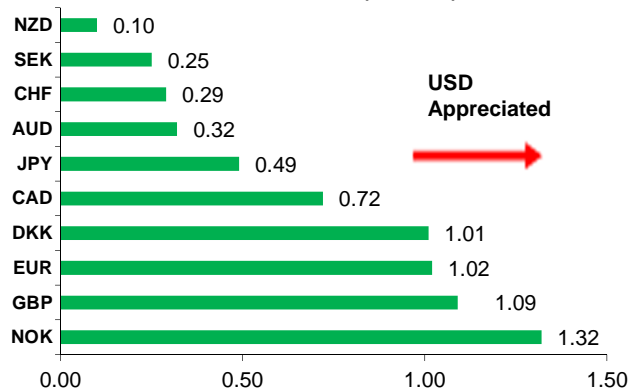
Forex

MYR vs Major Counterparts (% WOW)



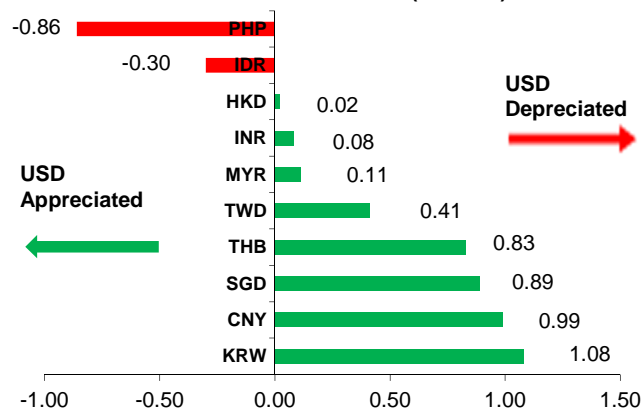
Source: Bloomberg

USD vs the G10s (% WOW)



Source: Bloomberg

USD vs Asian Currencies (% WOW)



Source: Bloomberg

Review & Outlook

- MYR:** MYR fell against 9 G10s but managed to advance 0.11% WOW to 4.2238 against USD after enduring sharp losses in the final hours of trading in the last 2 days that overturned early gains. We turn neutral on MYR against USD, more on technical signals than fundamental factors. Data flow next week suggests an absence of positive catalyst to drive either MYR or USD gains, though we reckon that recent decline post-FOMC is a sign that markets are losing interest in USD. Technically, USDMYR failed to close below 4.2200, which raised doubts over the sustainability of current bearish bias. Below this level, the pair has scope to slide to 4.2050, otherwise, it takes aim at 4.2380.
- USD:** USD weakened against all G10s while the Dollar Index fell 0.96% WOW to 93.06, pressured by sliding buying interest from 1-day closure of US market and risk aversion ahead of FOMC minutes, then softer market confidence on future Fed rate hikes. We are slightly bearish on USD next week as we anticipate scant buying interest amid a lack of major catalyst to drive gains as well as market perception of soft prospects of quicker future rate hikes. However, caution that political woes in Eurozone and the UK have not abated; any renewed concerns will channel the flow into USD. Bearish bias in the Dollar Index still prevails, thus we opine that it will target 92.63 next, below which 92.30 is under threat.
- EUR:** EUR surged 1.02% WOW to 1.1830 against USD and climbed against 7 G10s as risk sentiment returned after political woes in Spain eased while the greenback retreated. EUR is slightly bullish in line with our view of a soft USD, with support from firmer buying interest as political woes retreat further. We reckon that larger direction on EUR will depend on USD performance. Technical indicators continue to suggest EURUSD will be closing above 1.1860 soon, thus we maintain a bullish view on this pair. Expect gains to test 1.1907 – 1.1917, but caution that this is a strong resistance range that could halt further advances.
- GBP:** GBP surged 1.09% WOW to 1.3262 and advanced against 8 G10s, lifted by firmer UK data that shored up bets on a near-term BOE rate hike and further ease in political woes in the UK. We are bullish on GBP in anticipation of USD staying soft next week. There is potential for strong gains if consumer prices show signs of picking up, further fueling recent view on BOE rate hike. Bearish bias continues to retreat through the week, giving room for climbs. We expect GBPUSD to head to 1.3342 next, above which a path to 1.3486 will be exposed. Having said that, the pair must hold above 1.3191 to sustain current upside strength.
- JPY:** JPY strengthened 0.49% WOW to 112.28 against USD but was mixed against the G10s. Support for JPY is likely to prevail amid a soft USD. Signs of weakness in China's data will spark further flight to safety, not to mention potential emergence of political concerns in Eurozone and the UK. Bearish bias has emerged since mid-week, thus we set sights on a drop to 111.86 in the next leg lower. Failure to hold above this range exposes a drop to 110.99.
- AUD:** AUD advanced 0.32% WOW to 0.7820 against USD but fell against 6 G10s. Expect a firmer AUD against a retreating USD, supported by rising commodities as well as potential upsides in Australia employment data. Caution that a set of softer than expected China data will cut AUDUSD gains. AUDUSD has recaptured 0.7800 that separates the bulls and the bears. Expect gains while above this level, with scope to test as high as 0.7900 before fatigue sets in.
- SGD:** SGD advanced 0.89% WOW to 1.3524 against USD and strengthened against 6 G10s. SGD is expected to remain firm against a soft USD, supported by likelihood of firmer risk appetite in the markets and signs of growth momentum in Singapore. A strong NODX figure next week will buoy SGD further. Technical landscape has turned bearish since the emergence of bearish bias. USDSGD is poised to fall to 1.3447 going forward, below which 1.3400 will be under threat.

Technical Analysis:

Currency	Current price	14-day RSI	Support - Resistance		Moving Averages			Call
					30 Days	100 Days	200 Days	
EURUSD	1.1915	54.3150	1.1765	1.2049	1.1860	1.1468	1.1054	Negative
GBPUSD	1.3391	71.7490	1.2667	1.3394	1.3003	1.2948	1.2695	Neutral
USDJPY	110.1200	52.3030	108.1900	110.8400	109.6400	111.1400	112.2800	Positive
USDCNY	6.5476	36.8530	6.4632	6.6903	6.6114	6.7567	6.8270	Positive
USDSGD	1.3465	39.1230	1.3402	1.3661	1.3566	1.3744	1.3955	Positive
AUDUSD	0.7998	55.8300	0.7877	0.8065	0.7944	0.7714	0.7620	Neutral
NZDUSD	0.7226	46.0240	0.7152	0.7314	0.7257	0.7210	0.7137	Positive
USDMYR	4.1935	26.6220	4.1729	4.3262	4.2622	4.2910	4.3692	Negative
EURMYR	4.9966	41.2200	4.9834	5.1123	5.0508	4.8957	4.8107	Negative
GBPMYR	5.6157	63.3680	5.4615	5.5912	5.5500	5.5518	5.5366	Negative
JPYMYR	3.8084	36.6360	3.8051	3.9645	3.8872	3.8648	3.8897	Negative
CHFMYR	4.3540	35.8490	4.3496	4.5057	4.4279	4.4208	4.4166	Negative
SGDMYR	3.1142	33.6900	3.1133	3.1611	3.1410	3.1184	3.1265	Negative
AUDMYR	3.3537	40.5230	3.3592	3.4090	3.3856	3.3025	3.3234	Negative
NZDMYR	3.0304	33.5980	3.0167	3.1503	3.1055	3.0861	3.1165	Negative

➤ **Trader's Comment:**

The USD started the week off on the back foot after China returned from their Golden Week break. Taking cues from China, USD traded soft within recent range with EURUSD and USDCNH leading the USD weakness story. EURUSD traded to a high of 1.1880 levels from 1.1700 levels before settling around 1.1845 levels at time of writing. USDCNH tanked from 6.6520 levels to 6.5630 levels at time of writing, entering into the downside of the daily Bollinger Band and triggering a few bearish technicals. In sympathy to EUR and CNY, the rest of the majors also followed suit albeit in a slower fashion. USDJPY was locked in 112.00-113.00 amidst heavy options interest on both ends, GBPUSD started off the week around 1.3055 levels but trades around 1.3270 levels aided by the softer USD and the possibility of a Brexit deal which allows the UK a slower transition out of the EU.

We await US retail sales and CPI data to gain an insight into US inflation as that apparently remains as the key concern via the previous FOMC minutes. Fed members are unsure if inflation cooling off was a one off effect or a longer medium term trend. This could potentially decide the way the USD moves for the rest of the month as market readjusts expectations to a Fed December hike and beyond.

Locally, USDMYR traded lower from a high of around 4.2350 levels to a low of 4.2100 before settling around 4.2200 at time of writing in sympathy with regionals and weaker USD in general. Chartwise, the pair seems consolidating around the 4.20-4.25 region trading closely around the Ichimoku Cloud resistance at around 4.2300 zone. Earlier, MAS released their MPC statement removing the 'extended period' keyword from their usual statement implying a slightly more hawkish stance which should influence a slightly lower USDMYR. But as stated above, market participants would more likely be looking towards US inflation data as the more likely guide as to where the USD is heading to.

Technical Charts

USDMYR



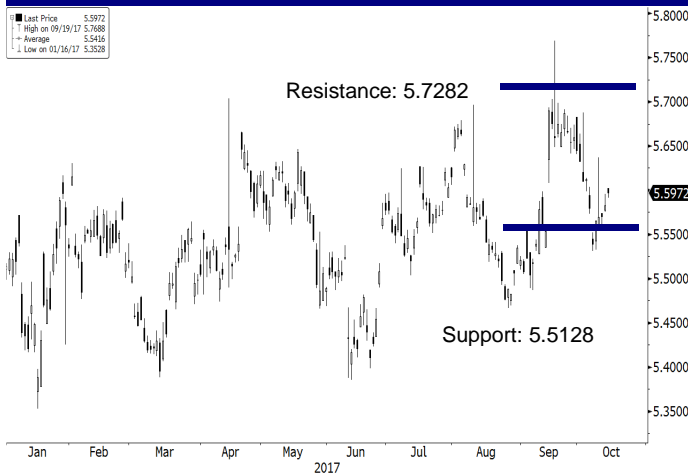
Source: Bloomberg

EURMYR



Source: Bloomberg

GBPMYR



Source: Bloomberg

JPYMYR



Source: Bloomberg

AUDMYR



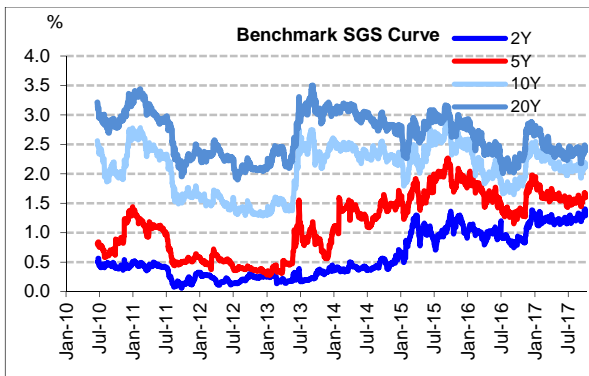
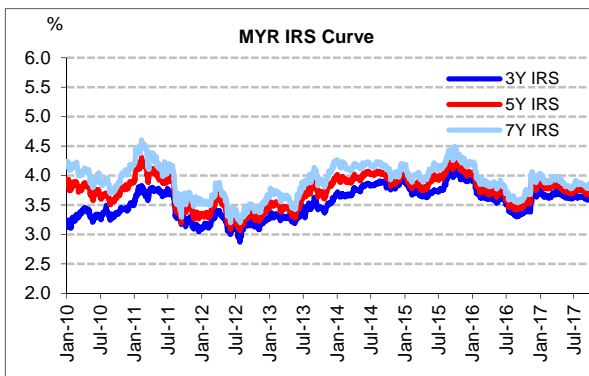
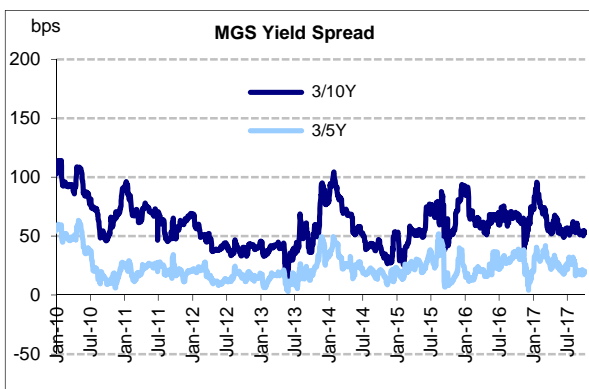
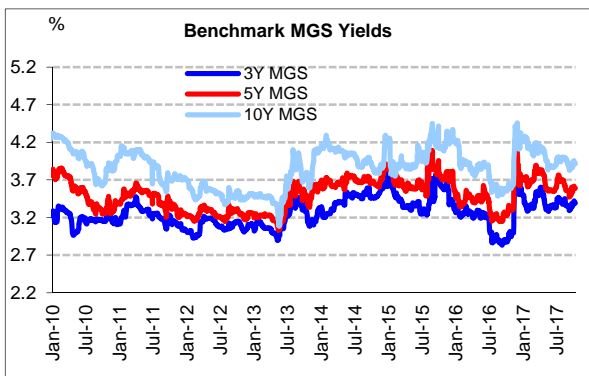
Source: Bloomberg

SGDMYR



Source: Bloomberg

Fixed Income



Review & Outlook

- UST traded mixed over the past week, coming under pressure in the earlier part of the week influenced by anxiety ahead of the release of FOMC minutes, as well as paring of risk aversion following suspension of Independence Referendum by Catalonia. UST eventually closed the week on firmer note following two consecutive days of gains as markets digested the minutes. UST yields fell in the 5Y, 10Y and 30Y space by 2-5bps WOW, flattening the yield curve by 4bps to 81bps as the 2Y note yields edged marginally higher by 1bp to 1.52%. The 10s and 30s edged lower to 2.32% (-4bps) and 2.85% (-5bps) respectively as at yesterday's close. Gain was supported by robust demand for auctions of USD24bn 3Y notes, USD20bn 10Y notes, and USD12bn 30Y bonds, which attracted BTC of 2.83x, 2.54x, and 2.53x respectively. We maintain the view that yields could extend its gradual climb higher amid prospects of the Fed continuous policy normalization.
- Local govies took the cue from the US markets and ended little changed this week amid lack of fresh leads. 3Y, 5Y and 10Y note yields ended the week flat at 3.40%, 3.60% and 3.89% respectively. Trading volume also turned softer to approximately RM8.1bn vs RM13.1bn the preceding week, as investors preferred to stay on the sideline ahead of FOMC minutes. Trading activities have since picked up from below RM1.0bn on Monday to RM2.3bn yesterday, but still off the levels seen last week. This week's reopening auction of RM1.5bn 20Y GII 8/37 was well-received, attracted a BTC of 2.15x and an average yield of 4.785%, higher than the BTC of 1.78x during the new issuance in August, despite looming expectations of another Fed rate hike before year end. Markets will be looking up to CPI release next week for leads. We are expecting further pick-up in the September CPI to 4.0% YOY driven by quicker gain in transport prices.
- In the corporate bond/ sukuk space, we saw increased trading activities with approximately RM2.4bn dealt. Trading in GG papers "took a breather" with more subdued volumes whilst the AA-rated papers continued to take center stage on yield pick-up requirements by end investors. We expect trading in the corporate bond markets will continue to take leads from MGS/GII movements next week.
- SGS advanced for another week, tracking movement in the UST this time around, with bond yields losing a further 5-6bps WOW. The 10s shed 6bps to 2.072% while the 2s traded 5bps inner at 1.297%. Upbeat Singapore data spanning from retail sales to advance estimate of 3Q GDP all point to a brighter growth picture for the Singapore economy and should boost the appeal of SGS. As a result, MAS shifted to a slightly more hawkish bias, paving the way for an eventual move from its current neutral monetary policy as growth outlook improves. Next week's NODX will be watched for more clues on the sustainability of export-led growth in the Singapore economy.

Rating Actions

Nil

Source: RAM, MARC

Economic Calendar Release Date						
Date	Country	Event	Reporting Period	Survey	Prior	Revised
10/20	Malaysia	CPI YOY	Sept	4.1%	3.7%	--
		Foreign reserves	Oct 13	--	\$101.2b	--
10/27		Budget 2018				--
10/16	US	Empire manufacturing	Oct	20.0	24.4	--
10/17		Industrial production MOM	Sept	0.3%	-0.9%	--
		NAHB housing market index	Oct	63	64	--
10/18		Housing starts MOM	Sept	0.0%	-0.8%	--
		Building permits MOM	Sept	-3.3%	5.7%	3.4%
10/19		Fed Beige Book				--
		Initial jobless claims	Oct 14	--	243k	--
		Philly Fed biz outlook	Oct	20.5	23.8	--
		Leading index	Sept	0.1%	0.4%	--
10/20		Existing home sales MOM	Sept	-0.9%	-1.7%	--
10/23		Chicago Fed national activity index	Sept	--	-0.31	--
10/24		Markit PMI manufacturing	Oct P	--	53.1	--
		Markit PMI services	Oct P	--	55.3	--
		Richmond Fed manufacturing	Oct	--	19	--
10/25		MBA mortgage applications	Oct 20	--	--	--
		Durable goods orders	Sept P	0.3%	2.0%	--
		New home sales MOM	Sept	-1.8%	-3.4%	--
10/26		Initial jobless claims	Oct 21	--	--	--
		Pending home sales MOM	Sept	--	-2.6%	--
		Kansas City Fed manufacturing	Oct	--	17	--
10/27		GDP QOQ	3Q A	2.0%	3.1%	--
		Uni Michigan consumer sentiments	Oct F	--	--	--
10/16	EU	Trade balance	Aug	--	€18.6b	--
10/17		CPI YOY	Sept F	1.5%	1.5%	1.5%
		ZEW expectations survey	Oct	--	31.7	--
10/18		Construction output MOM	Aug	--	0.2%	--
10/20		ECB current account	Aug	--	€25.1b	--
10/24		Markit PMI manufacturing	Oct P	--	58.1	--
		Markit PMI services	Oct P	--	55.8	--
10/25-11/6		EC economic forecasts				--
10/26		ECB main refinancing rate	Oct 26	--	0.00%	--
10/16	UK	Rightmove house prices YOY	Oct	--	1.1%	--
10/17		CPI YOY	Sept	3.0%	2.9%	--
		RPI YOY	Sept	3.9%	3.9%	--
		PPI Output YOY	Sept	3.3%	3.4%	--
10/18		Jobless claims change	Sept	--	-2.8k	--
		ILO unemployment rate	Aug	4.3%	4.3%	--
		Employment change 3M/3M	Aug	--	181k	--
10/19		Retail sales incl auto MOM	Sept	-0.1%	1.0%	--
10/20		PSNCR	Sept	--	0.0b	--
10/23		CBI total orders	Oct	--	7	--
10/25		GDP QOQ	3Q A	--	0.3%	--
		Index of services	Aug	--	-0.2%	--
10/26		CBI reported sales	Oct	--	42	--
10/16	Japan	Industrial production MOM	Aug F	--	2.1%	--
10/19		Trade balance	Sept	¥559.6b	¥113.6b	¥112.6b
		All industry activity index	Aug	0.2%	-0.1%	--
		Machine tool orders YOY	Sept F	--	45.3%	--
10/23		Leading index	Aug F	--	106.8	--

		Coincident index	Aug F	--	117.6	--
		Nationwide dept store sales YOY	Sept	--	2.0%	--
10/24		Nikkei PMI manufacturing	Oct P	--	52.9	--
		Supermarket sales YOY	Sept	--	-0.5%	--
10/26		PPI services YOY	Sept	--	0.8%	--
10/27		National CPI YOY	Sept	--	0.7%	--
10/16	China	CPI YOY	Sept	1.6%	1.8%	--
		PPI YOY	Sept	6.4%	6.3%	--
10/19		GDP YOY	3Q	6.8%	6.9%	--
		Retail sales YOY	Sept	10.2%	10.1%	--
		Fixed assets ex rural investment YTD YOY	Sept	7.7%	7.8%	--
		Industrial production	Sept	6.4%	6.0%	--
10/27		Industrial profits	Sept	--	24.0%	--
10/19	Hong Kong	Unemployment rate	Sept	3.1%	3.1%	--
10/23		CPI YOY	Sept	--	1.9%	--
10/26		Exports YOY	Sept	--	7.4%	--
10/17	Singapore	NODX YOY	Sept	12.7%	17.0%	--
10/23		CPI YOY	Sept	--	0.4%	--
10/26		Industrial production YOY	Sept	--	19.1%	--
10/27		Unemployment rate	3Q	--	2.2%	--
10/18	Australia	Westpac leading index MOM	Sept	--	-0.08%	--
10/19		Employment change	Sept	15.0k	54.2k	--
		Jobless rate	Sept	5.6%	5.6%	--
10/25		CPI YOY	3Q	--	1.9%	--
10/26		Import price index QOQ	3Q	--	-0.1%	--
		Export price index QOQ	3Q	--	-5.7%	--
10/27		PPI YOY	3Q	--	1.7%	--
10/16	New Zealand	Performance services	Sept	--	57.3	--
10/17		CPI YOY	3Q	1.9%	1.7%	--
10/26		Trade balance NZD	Sept	--	-\$1235m	--

Source: Bloomberg

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