Hong Leong Bank

Global Markets Research
Weekly Market Highlights

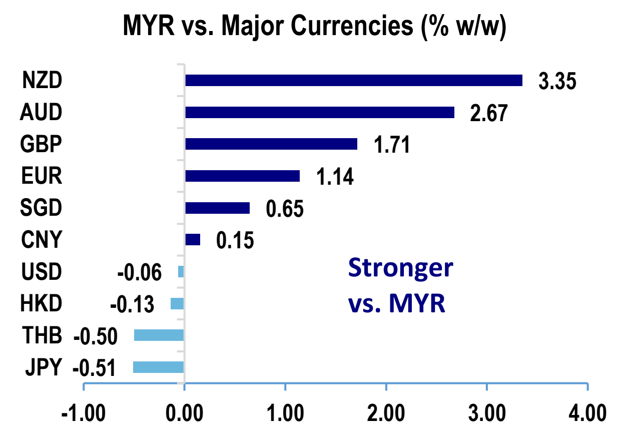
Markets

	Last Closing	WOW%	YTD %
Dow Jones Ind.	31,402.01	-0.3	2.6
S&P 500	3,829.34	-2.2	2.0
FTSE 100	6,651.96	0.5	3.0
Hang Seng	30,074.17	-1.7	10.4
KLCI	1,581.54	0.4	-2.8
STI	2,973.54	2.2	4.6
Dollar Index	90.13	-0.5	0.2
WTI oil ($/bbl)	63.53	5.0	31.0
Brent oil ($/bbl)	66.88	4.6	29.1
Gold (S/oz)	1,775.40	0.1	-6.6

Source: Bloomberg

- **US stocks fell this week as investors sold tech shares.** The Dow Jones Industrial Average was 0.3% w/w lower as at Thursday closing despite hitting a record high in the middle of the week. Fed Chair Jerome Powell's dovish congressional testimony did not stop investors from selling treasuries. The dollar broadly weakened this week; gold futures were little changed. Oil prices rallied (+4.6 to +5% w/w) to more-than-one-year highs. The RBNZ kept its Official Cash Rate unchanged at 0.25%.
- **Initial jobless claims in the US was 111k lower at 730k last week**, this bodes well for the economy, implying that businesses are hiring although the energy crisis in central US particularly in Texas last week could have temporarily disrupted filings. The UK's recorded slightly higher unemployment rate. **The Hong Kong economy contracted by 6.1% for the full year of 2020. Japan's industrial output rebounded.** Key data next week are the US nonfarm payroll job report as well as a series of manufacturing and services PMI. The RBA is set to deliver its latest policy decision.

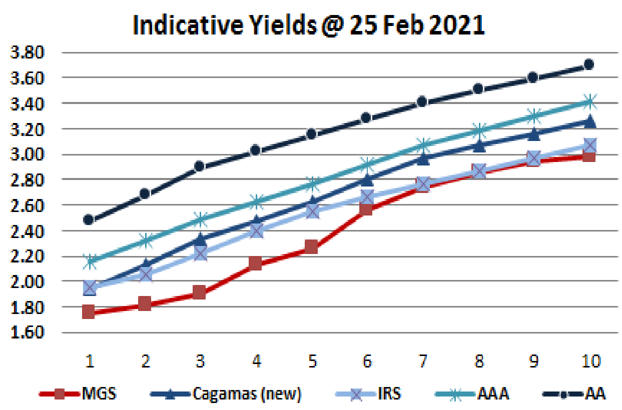
Forex



Source: Bloomberg

- **MYR:** MYR traded within a tight range of 4.0370-4.0465 this week before ended the week flat at 4.0400 against the USD. The spike in UST yields triggered by the shift in inflation expectations have roiled markets, with some spillover effects into the MYR market this morning. USD/MYR jumped to a high of 4.0630 this morning before retreating somewhat to the 4.05 levels at time of writing. We expect MYR to stay ***Neutral*** at 4.04-4.07 next week ahead of BNM OPR decision where we do not expect any change in rates and policy tone.
- **USD**: The DXY was overall 0.51% down w/w (19 to 25 February) However, Pair staged a late rebound on Thursday's session after hitting a weekly low of 89.68, ending the day above the 90 mark. Economic data is supportive of a US recovery. However, rising US yields present a concern to the recovery story and we may see some continued volatility for the week ahead. We cautiously stay ***Neutral-to-Bearish*** on the USD for the week ahead, within a range of 89.80-91.10. For the week ahead, focus is on ISM and non-farm payrolls data.

Fixed Income



Source: Bloomberg

- **UST:** The week under review saw UST's under tremendous pressure as investors and traders digested the economic stimulus of $1.9 trillion, better-than-expected jobless claims, durable goods and rising inflationary conditions. Overall benchmark yields spiked between 17-26bps across, causing the curve to shift dramatically higher. The benchmark UST 2Y rose 7bps at 0.18% whilst the 10Y spiked 22bps to 1.52%. Meanwhile the auction exercises consisting of $60b 2Y, $61b 5Y and $62b 7Y generally saw weak bidding metrics with BTC ratios of 2.44x, 2.24x and 2.04x each. Expect UST's to continue being pressured in the coming week due to reflation trades and improving growth outlook.
- **MGS/GII:** Local govvies whipsawed with some pressure seen; evidenced by the narrower-than-expected decline in January's inflation data and possibility that BNM may not embark on further rate cuts for now. Overall benchmark MGS yields closed mixed between -8 to +5bps for MGS whilst GII's generally were pressured. The auction exercise for the 7Y GII 9/27 saw some institutional support. Expect trading next week to be largely influenced by movement in UST's as the reflation trade signals seen in global bonds may push Malaysia's yield curve steeper as well.

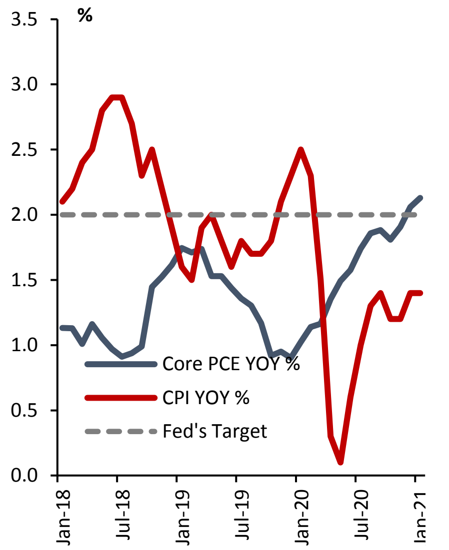
Macroeconomic Updates

- **US stocks fell this week as investors sold tech shares.** The Dow Jones Industrial Average was 0.3% w/w lower as at Thursday closing despite hitting a record high in the middle of the week; the S&P 500 fell 2.2% and NASDAQ tanked more than 5.0% on a weekly basis. Fed Chair Jerome Powell's dovish congressional testimony did not stop investors from selling treasuries. Recent jump in inflation expectations have spurred the selloff in US treasuries leading yields to spike subtantially (*see fixed income analysis, page 4*) as investors feared that the US central bank might taper its bond buying program or pushed forward plan to raise interest rates. This view was further supported by the latest set of jobless claims data and the ongoing vaccination drives. The dollar broadly weakened this week; gold futures were little changed. Oil prices rallied (+4.6 to +5% w/w) to more-than-one-year highs. The RBNZ kept its Official Cash Rate unchanged at 0.25% and maintained its LSAP program. The central bank expressed optimism on the global vaccination effort but continued to warn that the high economic uncertainty.

- **Initial jobless claims in the US was 111k lower at 730k last week**, this bodes well for the economy, implying that businesses are hiring although the energy crisis in central US particularly in Texas last week could have temporarily disrupted filings. Notably, the orders of durable goods in the US continued to rise, a sign of continuous business spending. The 4Q GDP growth was revised higher to 4.1% q/q , for the full year of 2020, the US economy shrank 3.5%. In the housing sector, the decline in pending home sales as well as falling mortgages applications are early signs of easing housing demand.

- Elsewhere, Eurozone's inflation jumped to 0.9% y/y in January as services inflation surged. Overall economic sentiment improved on the back of vaccine optimism. The UK's unemployment rate rose to 5.1% in the three months to December; the government's furlough scheme has helped prevent a sharp increase in jobless rate thus far. In Japan, industrial production staged a strong 4.2% m/m rebound in January (Dec: -1.0%) after pulling back for two months straight in Nov-Dec. Retail sales also registered a smaller decline despite the raging pandemic in January. **The Hong Kong economy contracted by 6.1% for the full year of 2020,** its sharpest contraction on record that overshadowed the downturns during the Asian Financial Crisis and Global Financial Crisis. However the outlook for Hong Kong turned more positive in recent months amid strong external demand particularly from China. This is evident in the sharp gain in January's exports data (+44% y/y).

Rising inflation in the US spurred the selloff in treasuries



Source: Bloomberg

The Week Ahead…

- The week begins with IHS Markit's releasing a series of its manufacturing PMI reports for February. Apart from the US ISM Manufacturing index which is the most watchable factory gauge, there is also January's construction spending numbers, a key indicator for US GDP and the housing market in general.

- On Tuesday, the RBA is expected to keep its cash rate unchanged at 0.1%; markets look towards any comments regarding the strong AUD and spiking Australian bond yields. In the data docket, there are Japan's jobless rate and the job-to-applicant ratio as well Eurozone's preliminary HICP inflation reading.

- On Wednesday, the services PMIs for the US, Eurozone, UK, Japan and China are expected to offer more insights into the services sector conditions of these major economies. Other notable releases of the day are Australia's 4Q GDP report as well as the US ADP private employment data.

- On Thursday, the Federal Reserve publishes its first Beige Book of the year. Bank Negara Malaysia is expected to keep the Overnight Policy Rate steady at 1.75%. Key data releases are Australia's trade data, Eurozone's retail sales and unemployment rate, followed by US durable goods orders and the weekly jobless claims data.

- The US Bureau of Labour Statistic releases the highly watched nonfarm job report on Friday. (*Please refer to appendix for next week's economic calendar).*

Foreign Exchange Market

- **MYR:** MYR traded within a tight range of 4.0370-4.0465 this week before ended the week flat at 4.0400 against the USD. The spike in UST yields triggered by the shift in inflation expectations have roiled markets, with some spillover effects into the MYR market this morning. USD/MYR jumped to a high of 4.0630 this morning before retreating somewhat to the 4.05 levels at time of writing. We expect MYR to stay ***Neutral*** at 4.04-4.07 next week ahead of BNM OPR decision where we do not expect any change in rates and policy tone.

- **USD**: The DXY was overall 0.51% down w/w (19 to 25 February) However, Pair staged a late rebound on Thursday's session after hitting a weekly low of 89.68, ending the day above the 90 mark. Economic data is supportive of a US recovery. However, rising US yields present a concern to the recovery story and we may see some continued volatility for the week ahead. We cautiously stay ***Neutral-to-Bearish*** on the USD for the week ahead, within a range of 89.80-91.10. For the week ahead, focus is on ISM and non-farm payrolls data.

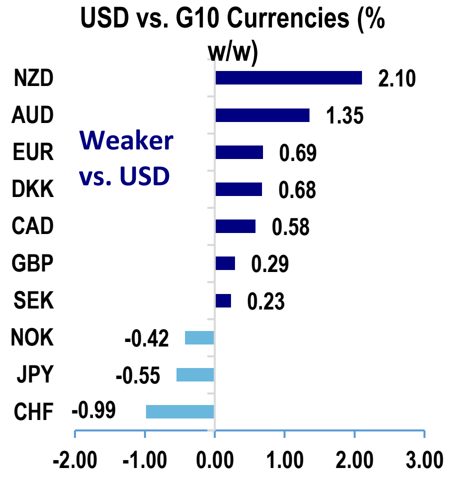
- **EUR**: EUR/USD reached a weekly high of 1.2243 on 25 February, but retreated thereafter from concerns on rising yields. Confidence indices improved in February. We are ***Neutral-to-Bullish*** on the EUR for the week ahead, within a range of 1.2050-1.2280. Risks are for some downsides and volatility. Attention is on preliminary CPI prints for February, and retail sales data.

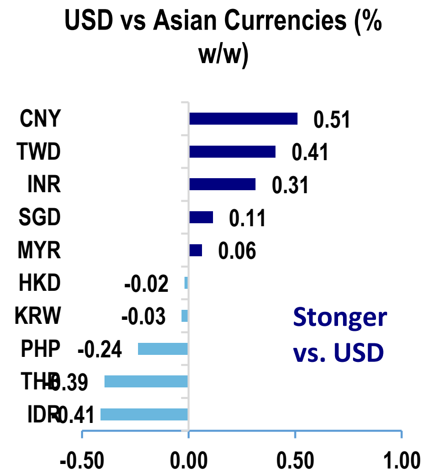
- **GBP**: GBP/USD was initially in a position of strength, touching a high of 1.4237 on 24 February. Risk aversion however, swiftly pulled the pair back to close to the 1.4000 big figure. We stay cautiously ***Neutral-to-Bullish*** on the GBP, with some risks of correction. If GBP moves higher again, the focus is on the 2018 high of 1.4377. However, a correction to 1.4000 may turn momentum away from the previous uptrend.

- **JPY**: USD/JPY was higher over the past 5 sessions, in both risk aversion and improving market sentiment conditions. This brought pair to a high of 106.40 on 25 February. Economic data was mixed, with positive industrial production data amid sluggish retail sales trends. We are ***Neutral-to-Bearish*** on the JPY for the coming week. A move above 107.00 shifts attention towards a 106.50-108.00 range.

- **AUD**: AUD/USD benefitted from rising commodity prices initially, and was able to breach a psychological 0.80 big figure on 25 February, from a close of 0.7768 on the 18th. Pair however retreated from concerns of higher yields and inflation outweighing the economic recovery. We are ***Neutral-to-Bullish*** on the AUD for the week ahead. We watch support at 0.7790, in case of any pullback. A rebound closer to 0.8000 again will next turn attention to the 2018 high of 0.8136.

- **SGD**: USD/SGD grinded downwards for the past week before a sharp rebound. From a close of 1.3272 on 18 February, pair was down to a low of 1.3165 on 25 February. However, rising US yields caused USD/SGD to pike to a 1.3257 close, after a high of 1.3269. For the week ahead, we are ***Neutral*** and see a range of 1.3157 to 1.3390. Volatility has returned and may threaten more ups and downs within a relatively anchored SGD. The SGD may remain an underperforming currency compared to G10 and other Asian ones. For the week ahead, focus is on Singapore's PMIs, which we expect a slight improvement compared to the previous month.





Source: Bloomberg

Forecasts

	Q1-21	Q2-21	Q3-21	Q4-21
DXY	88.50	89.00	88.50	87.50
EUR/USD	1.245	1.240	1.245	1.255
GBP/USD	1.385	1.375	1.385	1.400
AUD/USD	0.780	0.770	0.780	0.795
USD/JPY	102.5	103.5	103.0	101.0
USD/MYR	3.900	3.950	3.900	3.880
USD/SGD	1.305	1.310	1.300	1.285

	Q1-21	Q2-21	Q3-21	Q4-21
EUR/MYR	4.86	4.90	4.86	4.87
GBP/MYR	5.40	5.43	5.40	5.43
AUD/MYR	3.04	3.04	3.04	3.08
SGD/MYR	2.99	3.02	3.00	3.02

Source: HLBB Global Markets

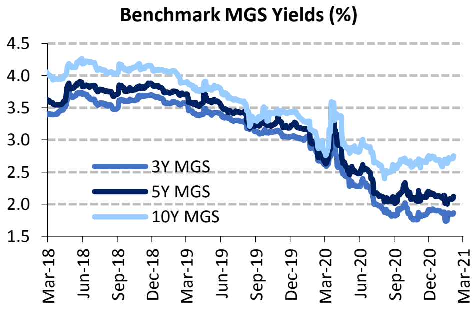
Fixed Income

- **UST:** The week under review saw UST's under tremendous pressure as investors and traders digested the economic stimulus of $1.9 trillion, better-than-expected jobless claims, durable goods and rising inflationary conditions. Overall benchmark yields spiked between 17-26bps across, causing the curve to shift dramatically higher. The benchmark UST 2Y; reflective of interest rate predictions up 7bps at 0.18% whilst the much-watched 10Y which traded within a wider range of 1.30%-1.52%; spiked 22bps to 1.52%. Meanwhile the auction exercises consisting of $60b 2Y, $61b 5Y and $62b 7Y generally saw weak bidding metrics with BTC ratios of 2.44x, 2.24x and 2.04x each. The ongoing Fedspeaks ceased to have any meaningful effect for now. Expect UST's to continue being pressured in the coming week due to reflation trades and improving growth outlook.

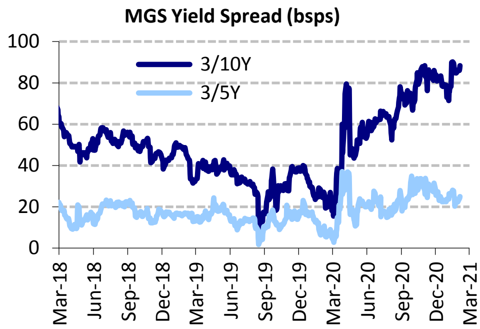
- **MGS/GII:** Local govvies whipsawed with some pressure seen; evidenced by the narrower-than-expected decline in January's inflation data and possibility that BNM may not embark on further rate cuts for now. Overall benchmark MGS yields closed mixed between -8 to +5bps for MGS whilst GII's generally were pressured. Interest was seen mainly in the off-the-run 21's, 29's, 34's and also benchmark 5Y, 10Y MGS/GII bonds. The benchmark 5Y MGS 9/25 yield declined 8bps at 2.26% whilst the 10Y MGS 4/31 benchmark edged 1bps at 3.01% levels. Average daily secondary market volume however fell @ RM3.56b versus prior week's tepid RM4.13b. The auction exercise for the 7Y GII 9/27 saw some institutional support due to duration-specific requirements resulting in a strong BTC ratio 2.196x and awarded at 2.806%. Expect trading next week to be largely influenced by movement in UST's as the reflation trade signals seen in global bonds may push Malaysia's yield curve steeper as well.

- **MYR Corporate Bonds/ Sukuk:** The week under review saw investor interest sustain in the secondary market for corporate bonds/Sukuk/govt-guaranteed bonds despite weaker govvies. Activity was mainly centered across the GG-AA part of the curve as yields closed mostly mixed-to-higher amid slight uptick in average daily market volume of RM468m compared to prior holiday-shortened week's RM430m. Topping the weekly volume was DANGA 2/26 (AAA) which rose 8bps at 2.75%, followed by DANAINFRA 3/32(GG) which spiked 13bps at 3.47% levels. Third largest volume was seen in DANUM 2/26 (AAA) which also rose 8bps at 2.72%. Higher frequency of bond trades were seen in DANA, DANGA, MMC Corp, Southern Power and odd-lot transactions in CIMB perps and Eco World-related bonds. Meanwhile the prominent issuances for the week consisted of CAGAMAS Bhd's AAA-rated 1Y papers totaling RM400m with a coupon of 2.1%; followed by DANAINFRA Nasional Bhd's 7-30Y bonds amounting to RM2.2b with coupons ranging between 2.84-4.36%.

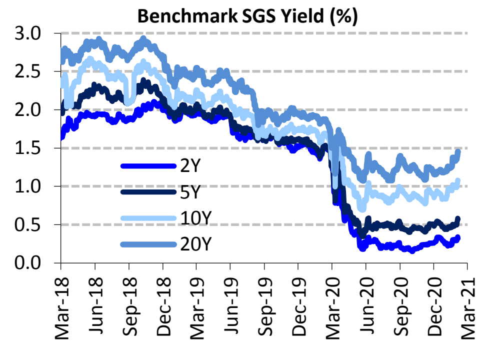
- **SGS:** SGS (govvies) taking cue from UST movements; ended weaker w/w across the curve with overall benchmark yields rising substantially between 3-10bps. The curve bear-steepened with the 2Y rising 3bps at 0.34% levels whilst the 10Y (which traded within a wide 13bps range), spiked 10bps at 1.28%. The 2Y bond auction this week drew a BTC ratio of 2.08x (previous auction in August: 1.98x). The republic is expected to issue ~SGD3.0b of infrastructure-related green bonds before the year-end to finance selected public infrastructure projects. Earlier, MAS together with MOT said that they expected inflation in domestic services to increase as the economy recovers from the pandemic (the government sets its expectations for headline inflation to stay within the -0.5 to +0.5% band). Separately, Fitch Ratings has assigned ratings of A+/Stable (Class A-1 bonds), A/Stable (Class A-2 bonds) and BBB/Stable (Class B Bonds) to Astrea V Pte; a private equity collaterized fund obligation under the umbrella of Temasek Holdings with approximately $1.5b in NAV and $156m of unfunded capital commitments.



Source: Bloomberg



Source: Bloomberg



Source: Bloomberg

Rating Actions

Issuer	PDS Description	Rating/ Outlook	Action
George Kent (Malaysia) Berhad	Proposed RM100.0 million Islamic Commercial Papers (ICP) Programme and RM500.0 million Islamic Medium-Term Notes (IMTN) Programme (Sukuk Wakalah Programmes) subject to a combined limit of RM500.0 million.	MARC-1IS and A+IS	Assigned
Alpha Circle Sdn Bhd	Senior Sukuk Musharakah of A-IS Junior Sukuk Musharakah of BBB-IS on MARCWatch Negative.	Outlook from Stable to Negative	Downgraded
UiTM Solar Power Dua Sdn Bhd	Proposed Green SRI Sukuk of up to RM100.0 million.	AA-IS	Assigned
Cendana Sejati Sdn Bhd	RM360 million Senior Sukuk Murabahah Medium Term Notes Programme (Senior Sukuk Programme)	From C3/Negative to D	Downgraded

Source: MARC/RAM

Economic Calendar

Date	Time	Country	Event	Period	Prior
01/03	05:30	AU	AiG Perf of Mfg Index	Feb	55.3
	08:30	AU	Home Loans Value MoM	Jan	8.6%
	08:30	VN	Markit Vietnam PMI Mfg	Feb	51.3
	08:30	MA	Markit Malaysia PMI Mfg	Feb	48.9
	08:30	JN	Jibun Bank Japan PMI Mfg	Feb F	50.6
	09:45	CH	Caixin China PMI Mfg	Feb	51.5
	17:00	EC	Markit Eurozone Manufacturing PMI	Feb F	57.7
	17:30	UK	Net Consumer Credit	Jan	-1.0b
	17:30	UK	Markit UK PMI Manufacturing SA	Feb F	54.9
	22:45	US	Markit US Manufacturing PMI	Feb F	58.5
	23:00	US	Construction Spending MoM	Jan	1.0%
	23:00	US	ISM Manufacturing	Feb	58.7
02/03	07:30	JN	Jobless Rate	Jan	2.9%
	07:30	JN	Job-To-Applicant Ratio	Jan	1.06
	11:30	AU	RBA Cash Rate Target	Mar-02	0.1%
	15:00	UK	Nationwide House Px NSA YoY	Feb	6.4%
	18:00	EC	CPI Estimate YoY	Feb	0.9%
	21:00	SI	Purchasing Managers Index	Feb	50.7
03/03	08:30	AU	GDP SA QoQ	4Q	3.30%
	08:30	SI	Markit Singapore PMI	Feb	52.9
	08:30	HK	Markit Hong Kong PMI	Feb	47.8
	08:30	JN	Jibun Bank Japan PMI Services	Feb F	45.8
	09:45	CH	Caixin China PMI Services	Feb	52
	16:30	HK	Retail Sales Value YoY	Jan	-13.2%
	17:00	EC	Markit Eurozone Services PMI	Feb F	44.7
	17:30	UK	Markit/CIPS UK Services PMI	Feb F	49.7
	18:00	EC	PPI YoY	Jan	-1.1%
	20:00	US	MBA Mortgage Applications	Feb-26	-11.4%
	21:15	US	ADP Employment Change	Feb	174k
	22:45	US	Markit US Services PMI	Feb F	58.9
	23:00	US	ISM Services Index	Feb	58.7
04/03	03:00	US	U.S. Federal Reserve Releases Beige Book		
	08:30	AU	Exports MoM	Jan	3%
	08:30	AU	Retail Sales MoM	Jan F	0.6%
	15:00	MA	BNM Overnight Policy Rate	Mar-04	1.75%
	18:00	EC	Unemployment Rate	Jan	8.3%
	18:00	EC	Retail Sales MoM	Jan	2.0%
	21:30	US	Initial Jobless Claims	Feb-27	--
	23:00	US	Durable Goods Orders	Jan F	--
	23:00	US	Factory Orders	Jan	1.1%
	23:00	US	Cap Goods Orders Nondef Ex Air	Jan F	--
05/03	05:30	AU	AiG Perf of Services Index	Feb	54.3
	13:00	SI	Retail Sales YoY	Jan	-3.6%
	15:00	MA	Foreign Reserves	Feb-26	$109.7b
	21:30	US	Change in Nonfarm Payrolls	Feb	49k
	21:30	US	Unemployment Rate	Feb	6.3%
	21:30	US	Trade Balance	Jan	-$66.6b

Source: Bloomberg

Hong Leong Bank Berhad
Fixed Income & Economic Research, Global Markets
Level 8, Hong Leong Tower
6, Jalan Damanlela
Bukit Damansara
50490 Kuala Lumpur
Tel: 603-2081 1221
Fax: 603-2081 8936
Email: HLMarkets@hlbb.hongleong.com.my