Hong Leong Bank

Quarterly Market Outlook 4Q2023

Global Markets

October 2023

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Global Central Banks Policy Rates Outlook

	Current	4Q23	1Q24	2Q24	3Q24	Remarks
United States Federal Reserve *Fed Funds Rate*	5.25-5.50	5.50-5.75	5.50-5.75	5.50-5.75	5.25-5.50	25bps hike in 4Q23; 25bps cut in 3Q24
Eurozone European Central Bank *Deposit Rate*	4.50	4.50	4.50	4.25	4.00	No change; 25bps cut each in 2Q and 3Q24
United Kingdom Bank of England *Bank Rate*	5.25	5.25	5.25	5.00	4.75	No change; 25bps cut each in 2Q and 3Q24
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*	4.10	4.10	4.10	4.10	3.85	No change; 25bps cut in 3Q24
New Zealand Reserve Bank of New Zealand *Official Cash Rate*	5.50	5.50	5.50	5.50	5.50	No change
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	2.50	2.50	2.50	No change
Indonesia Bank Indonesia *7-day Reverse Repo Rate*	5.75	5.75	5.75	5.75	5.50	No change; 25bps cut in 3Q24

Source: Bloomberg, Global Markets Research

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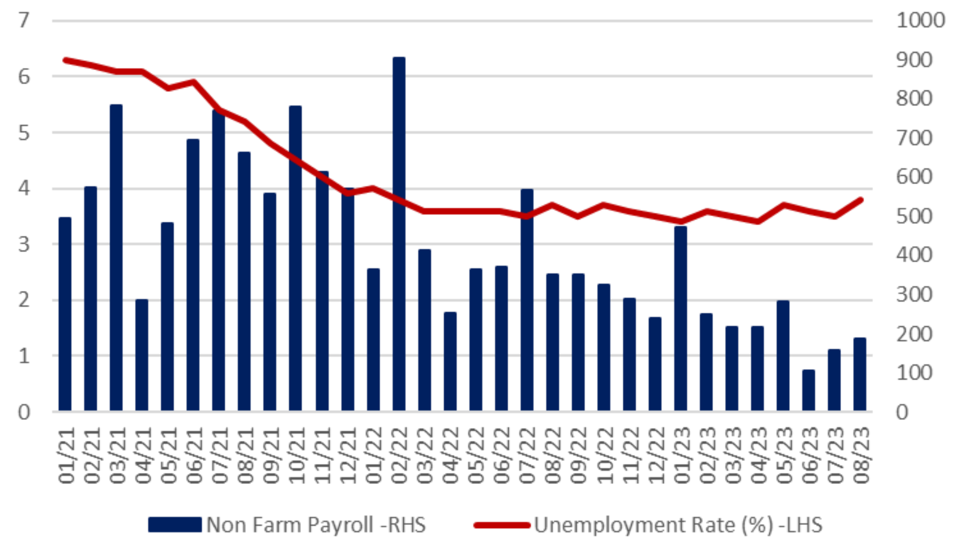
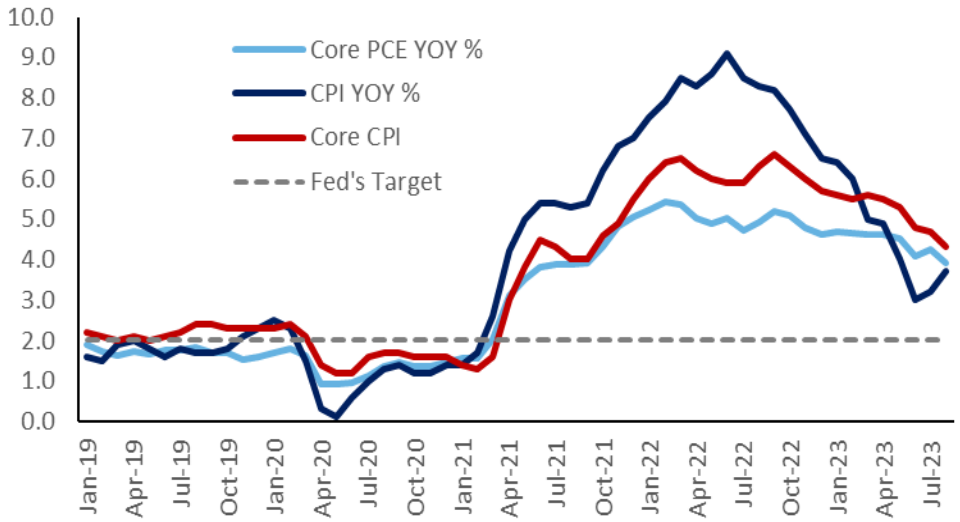
US – On track for soft landing



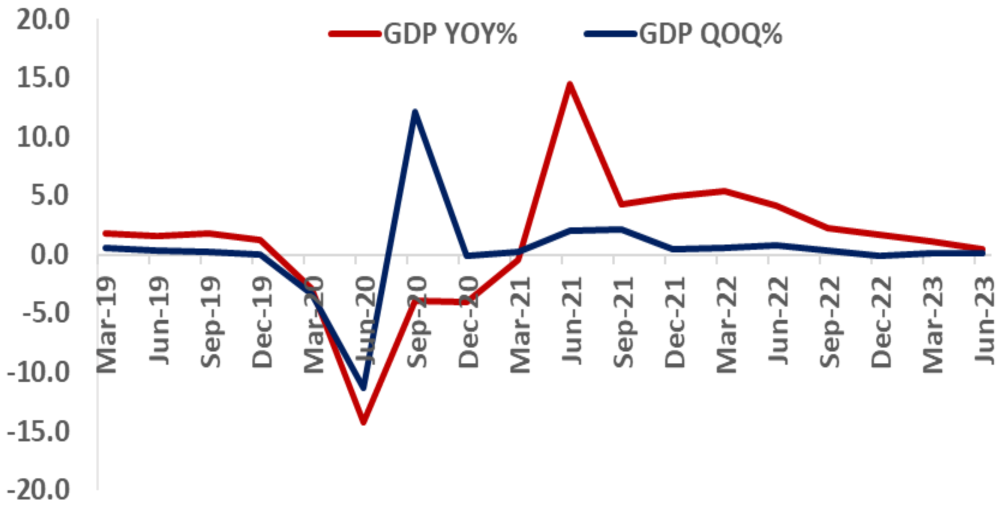


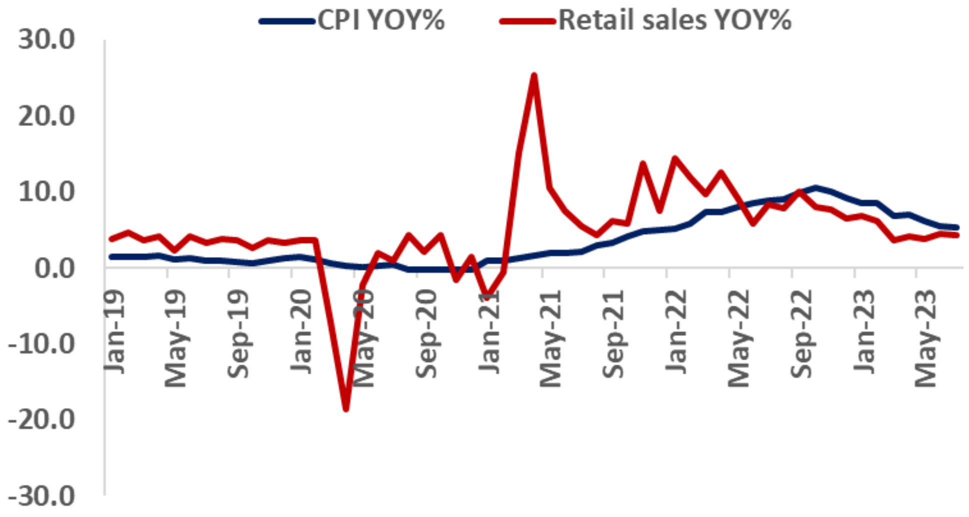
	2021	2022	2023F
GDP (%)	5.9	2.1	2.1
Core PCE Inflation (%)	3.5	5.0	3.7
Fed Funds Rate (%)	0-0.25	4.25-4.50	5.50-5.75
Dollar Index (End of period)	95.67	103.52	107.24

Source: Fed, Bloomberg, HLBB Global Markets Research

- Growth in the US economy continued to stay surprisingly resilient although there are emerging signs of softening in the services sector and labour market.
- Higher headline NFP @ +187k; offset by -110k net two-month revision; jobless rate ticked higher to a 1.5-year high at 3.8%
- Headline CPI spiked again in August driven by higher energy prices; moderation in core inflation remains intact despite the bump in headline
- Upside risk to inflation outlook following recent rise in global commodity prices would support the case of higher rates for longer; pushing back expectations of any rate cuts to 2H of 2024

Eurozone – Growth divergence between the various member countries



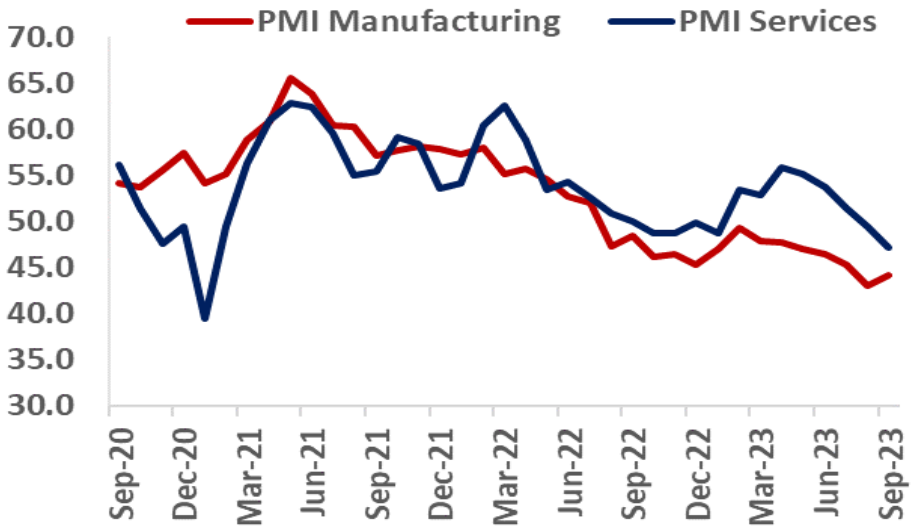


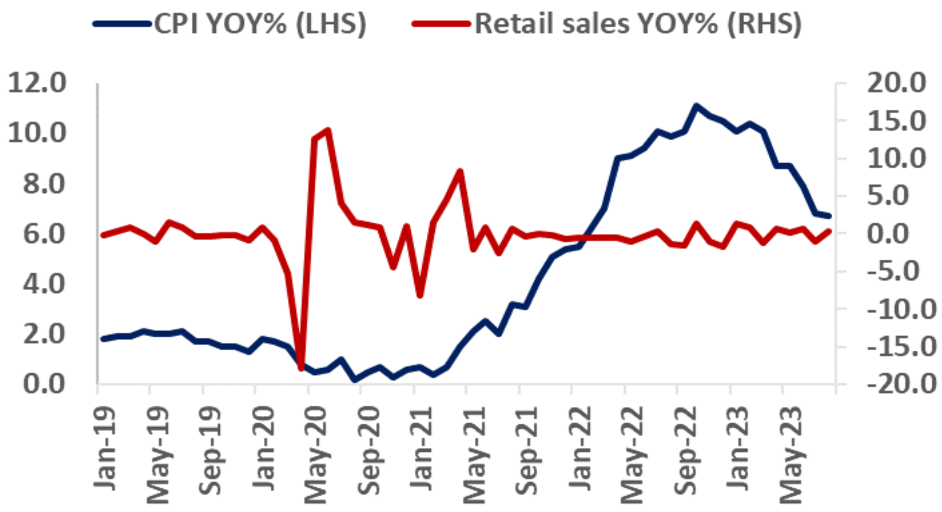
	2021	2022	2023F
GDP (%)	5.3	3.5	0.7
Inflation (%)	2.6	8.4	5.6
Deposit Facility Rate (%)	-0.50	2.50	4.50
EUR/USD (End of period)	1.1370	1.0705	1.0362

Source: ECB, Bloomberg, HLBB Global Markets Research

- Downward revision in GDP due to weakness in domestic demand, particularly consumption; upward revision in inflation on higher energy prices
- Risks from geopolitical tensions, climate risks, overtightening in monetary policy, stagflation
- Solid majority supported latest rate hike, some preferred to pause. While President Lagarde commented that it cannot be said that interest rate has peaked, we remain skeptical given that Germany, the bloc’s biggest economy, remains in doldrums

UK – Downside surprises in inflation ended BOE's policy tightening sooner than expected



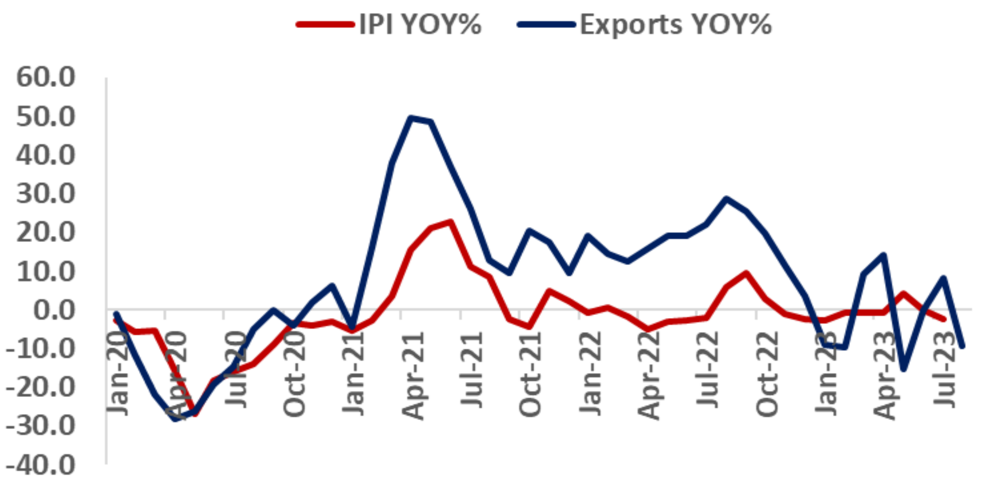


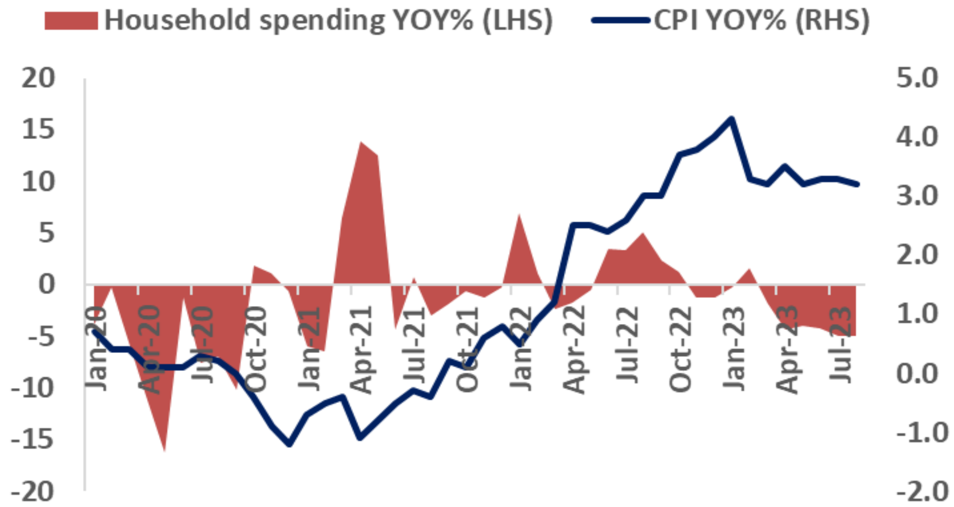
	2021	2022	2023F
GDP (%)	8.5	4.3	0.5
Inflation (%)	2.6	9.1	5.0
Bank Rate (%)	0.25	3.50	5.25
GBP/USD (End of Period)	1.3532	1.2083	1.1955

Source: Bank of England, Bloomberg, HLBB Global Markets Research

- BOE delivered a surprised pause given the downside surprises in August inflation prints, loosening labour market and softening business confidence Inflation will continue fall in the near term despite rising oil prices.
- Composite PMI fell for the second month running and at the fastest pace since January 2021. Steeper than expected drop in the service sector which more than offset a slower decrease in the manufacturing sector. Input price inflations saw its largest monthly fall in 2023, reaffirming BOE's inflation view.

Japan – No change to ultraloose monetary policy stance



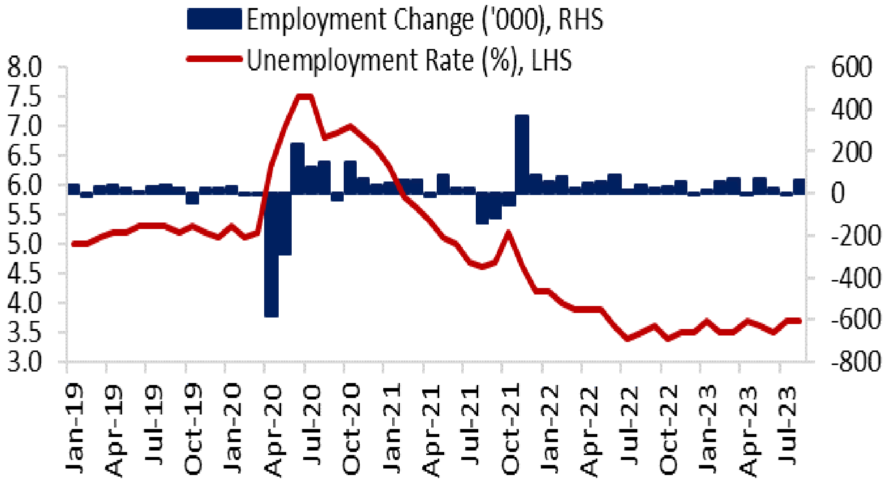


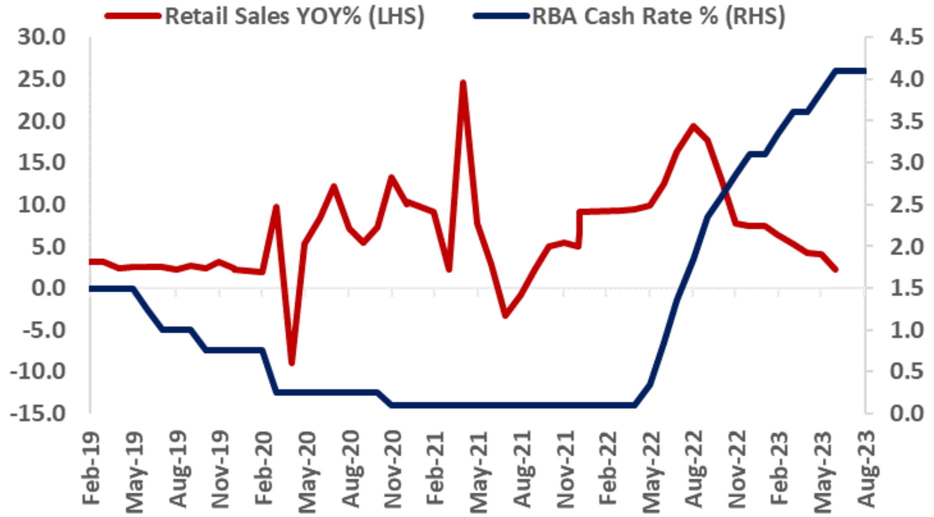
	2021	2022	2023F
GDP (%)	2.3	1.0	1.3
Core Inflation (%)	0.0	3.0	2.5
Policy Balance Rate	0.0	-0.1	-0.1
USD/JPY	115.08	131.12	150.12

Source: BOJ, Bloomberg, HLBB Global Markets Research

- BOJ to maintain its ultraloose monetary policy stance, especially amid moderate economic recovery and decelerating inflation on the back of waning effects from past imported inflation
- Extremely high uncertainties – external demand, commodity prices, and domestic firms' wage- and price-setting behavior.
- Exports registered its second consecutive month of contraction in August, while household spending worsened to -5.0% y/y

Australia – Below trend growth



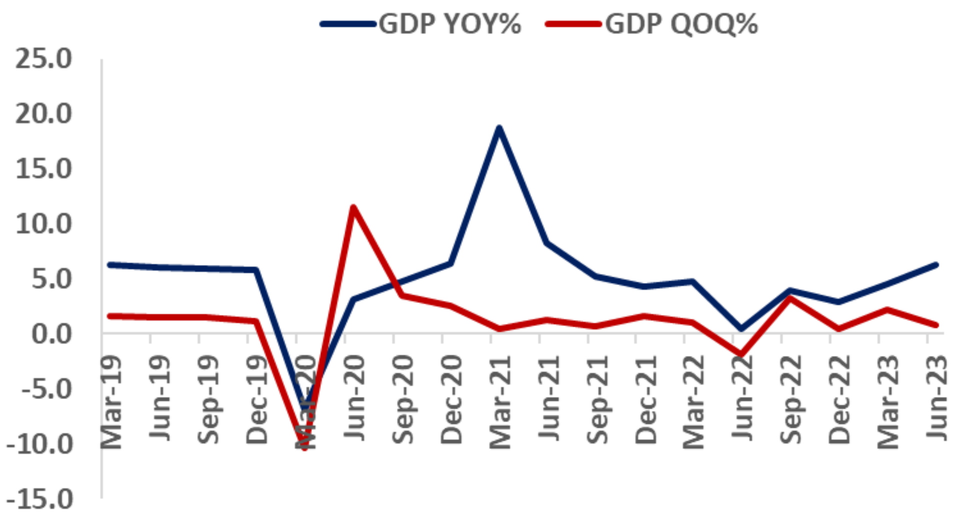


	2021	2022	2023F
GDP (%)	5.3	3.7	1.5
Inflation (%)	2.9	6.6	6.6
Cash Rate (%)	0.10	3.10	4.10
AUD/USD	0.7263	0.6813	0.6403

Source: RBA, Bloomberg, HLBB Global Markets Research

- Below trend growth for the economy (2024f: +1.3%, 2025f: +2.0% vs 10Y 2013-2022: +2.4%). Inflation expected to retreat to its 2%-3% target only in 2025
- Unemployment rate expected to rise gradually to around 4.5% late next year (Aug: 3.7%), but still below 5.5% 10Y average in 2013-2022. Employment change has moderated from average of 48.1k in 1Q to 31.3k in 2Q and 31.2k in Jul-Aug
- Uncertainties stemming from services price inflation, household consumption, lags effect of monetary policy, still tight labour market and increased uncertainty for the Chinese economy due to the property market

China – Tentative signs of bottoming out

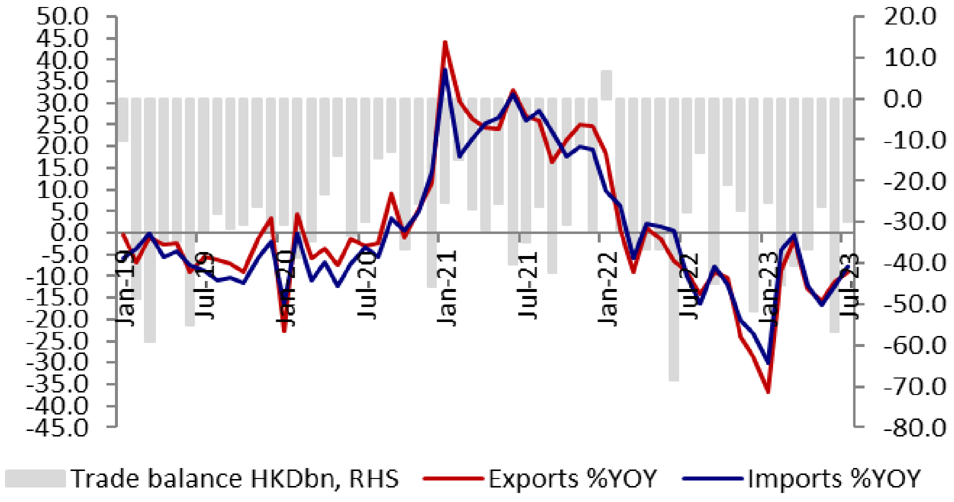


	2021	2022	2023F
GDP (%)	8.4	3.0	5.0
Inflation (%)	0.9	2.0	0.60
1Y LPR (%)	3.80	3.65	3.45
USD/CNY	6.3561	6.9220	7.3345

Source: PBOC, Bloomberg, HLBB Global Markets Research

- Bigger than expected pick-up in August retail sales and IPI offered telltale signs the China economy may be bottoming; but remains susceptible to downside risks. This includes weaker than expected recovery in domestic demand and property market woes
- Expect PBoC to introduce targeted policy measures rather than interest rate cuts to support domestic demand and boost confidence
- Potentially more targeted stimulus and RRR cut; intervention to support the yuan

Hong Kong – Tourism the saving grace

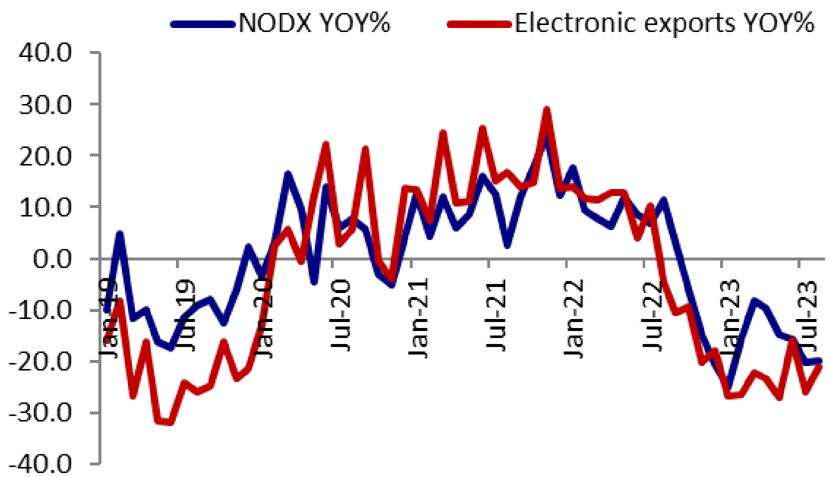


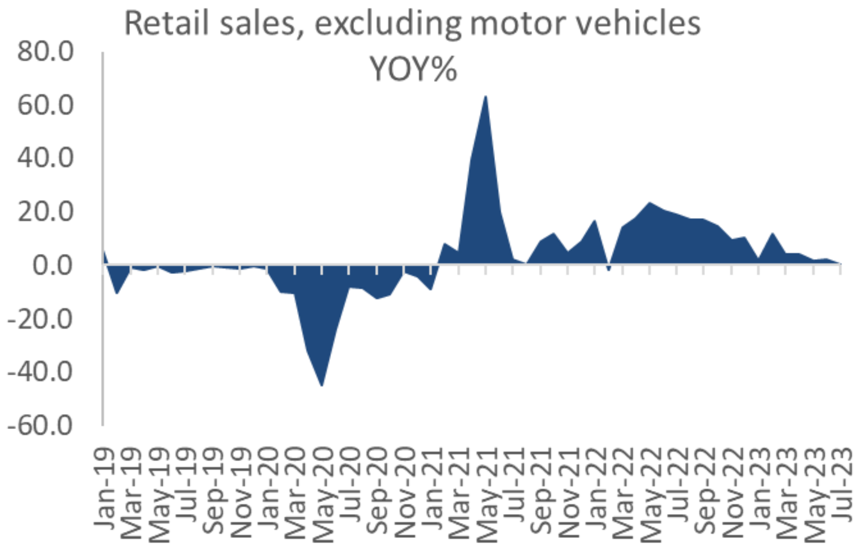
	2021	2022	2023F
GDP (%)	6.4	-3.5	4.0-5.0
Inflation (%)	1.6	1.9	2.0-2.4
Base Rate	0.50	4.75	5.50
USD/HKD	7.7966	7.8016	7.8300

Source: HK Economy, Bloomberg, HLBB Global Markets Research

- Reopening of air and land borders benefitted consumer spending through higher tourist arrivals;
- Improved labour market conditions and the Government's various measures will provide additional support to private consumption
- Inflation have and should stay moderate in the near term
- Downside risks from tight financial conditions, and slower than expected China-led recovery in exports

Singapore – Signs of stabilizing external demand and moderate domestic demand



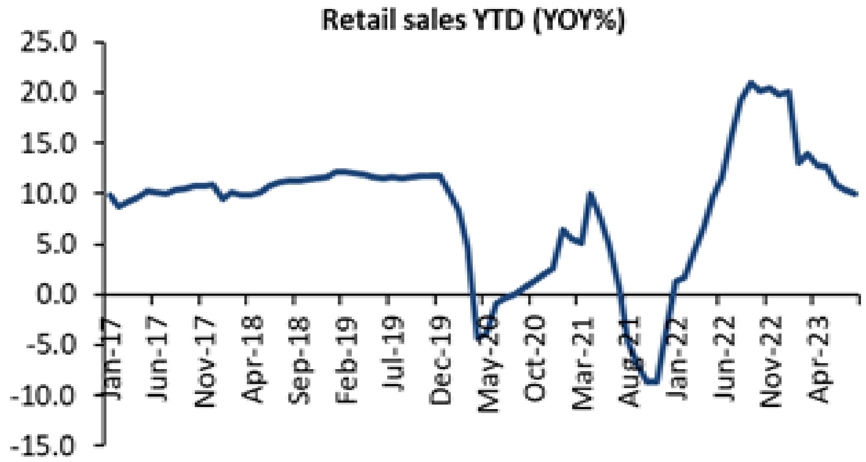


	2021	2022	2023F
GDP (%)	7.9	3.7	0.5-1.5
Inflation (%)	2.3	6.1	4.5-5.5
3m SIBOR (%)	0.44	4.25	4.25
USD/SGD	1.3490	1.3395	1.3799

Source: MTI, Bloomberg, HLBB Global Markets Research

- Tentative signs that the industrial production maybe stabilizing given improving global semiconductor sales and PMI. Still, uncertainties in external demand will continue to pose downside risks, as seen in the double-digit contraction in exports
- Moderate domestic demand; Retail sales grew a mere 1.1% y/y in July
- Milder inflationary pressures on lower imported inflation, easing global supply chain restrictions as well as slower increase in labour costs
- Expect MAS to maintain the slope, band, centre of the S$NEER on the back of below-trend growth

Vietnam – 3Q GDP surprised on the upside for the second quarter

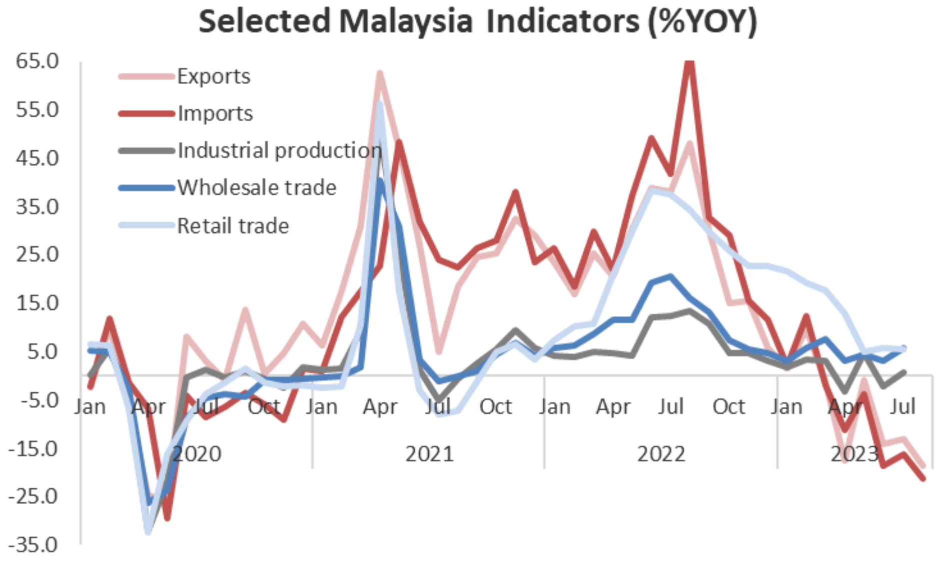


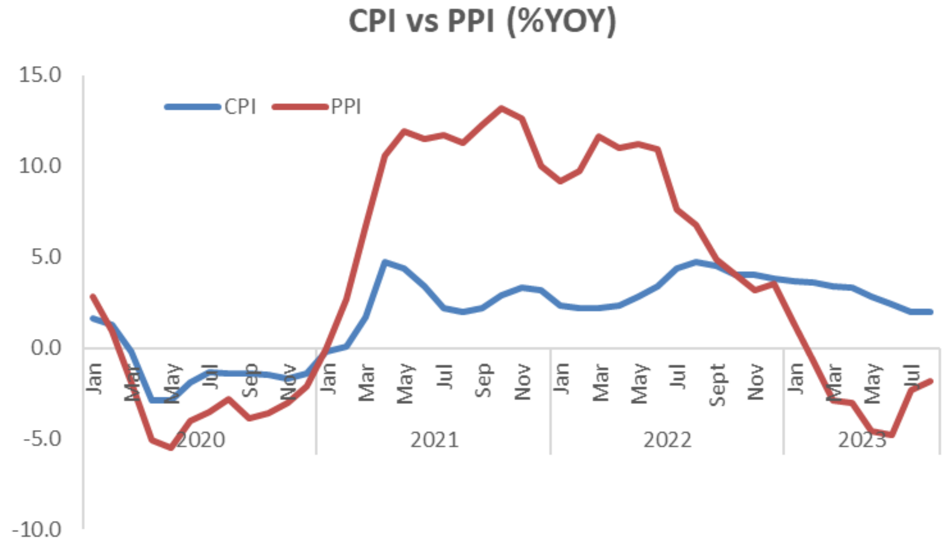
	2021	2022	2023F
GDP (%)	2.6	8.0	5.0
Inflation (%)	2.0	3.4	3.0
SBV Refinancing Rate (%)	4.00	6.00	4.00
USD/VND	22,826	23,633	23,600

Source: Bloomberg, HLBB Global Markets Research

- 3Q GDP growth picked up to +5.3% y/y, underpinned by exports and manufacturing
- Domestic demand to support growth, underpinned by still moderate inflation, looser monetary policy, tourist spending, acceleration in public spending and rising food prices, which will support agriculture exports
- Government's targeted GDP growth of 6.5% appears a tall order at this juncture
- Notable increase in the number of businesses ceasing operations.
- To support businesses, SBV is expected to cut rates by another 50bps by end 2023.

Malaysia – Slower growth in 2023 amid external headwinds and unfavorable base effect





	2021	2022	2023F
GDP (%)	3.1	8.2	3.1
Inflation (%)	2.5	3.3	2.6
OPR (%)	1.75	2.75	3.00
USD/MYR	4.20	4.40	4.74

Source: Bloomberg, HLBB Global Markets Research

- Susceptible to slower external demand due to lagged effects from policy tightening, tightened financial conditions, elevated inflation, ongoing geopolitical standoffs, and weaker than expected growth outlook in the China economy
- Continuous improvement in labour market condition and speedy implementation of investment projects could serve as a “shock absorber”, but 2H growth will be impacted by high base effect
- Inflation poised to remain muted due to retreat in supply-driven pressure while demand-pull inflation is expected to be contained by prospects of slower economic growth

Markets Outlook - FX

FX – Further USD strength likely in short term, but weakness seen next year; MYR remains vulnerable in the near term

	12-month Outlook
+	**MYR**: Economic outlook remains soft for 2H, as does the sentiment for MYR. Should benefit from expected stronger Chinese economy in 2024 as effect of piecemeal stimulus starts to show **AUD & NZD**: Likely to benefit from the recent rise in commodity prices, along with CA **JPY:** To exhibit a bullish bias as the Bank of Japan continues to prepare the market for an end to negative rates **CNY**: Property sector to continue to be a drag; piecemeal stimulus expected to provide a boost **SGD:** Economy expected to do better as electronic exports recover, steady policy expected from MAS
-	**USD:** To continue to head higher in the short term; seen softening ahead in the next year as growth and inflation recede further **EUR**: ECB hiking cycle has come to an end. Higher recession risk in the Eurozone vis-a-vis the US should keep a lid on the currency **GBP:** Inflation has receded but wage growth remains strong. BoE is likely to be on hold. Economic headwinds expected from mortgage resets

FX Forecasts

	29-Sep	Q4-23	Q1-24	Q2-24	Q3-24
DXY	106.17	107.24	106.70	105.63	104.58
USD/CAD	1.36	1.37	1.36	1.34	1.33
EUR/USD	1.06	1.04	1.04	1.04	1.05
GBP/USD	1.22	1.20	1.20	1.20	1.21
USD/CHF	0.92	0.92	0.92	0.91	0.91
AUD/USD	0.64	0.64	0.65	0.66	0.67
NZD/USD	0.60	0.59	0.60	0.61	0.61
USD/JPY	149	150	147	144	141
USD/MYR	4.70	4.74	4.69	4.65	4.60
USD/SGD	1.37	1.38	1.37	1.35	1.34
USD/CNY	7.30	7.33	7.24	7.15	7.06

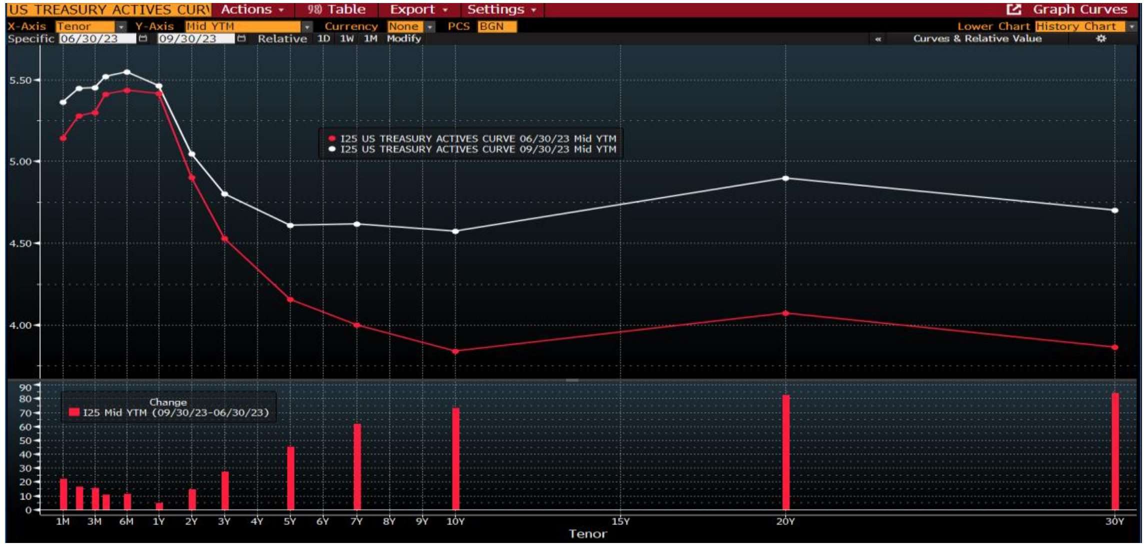
Markets Outlook – Fixed Income

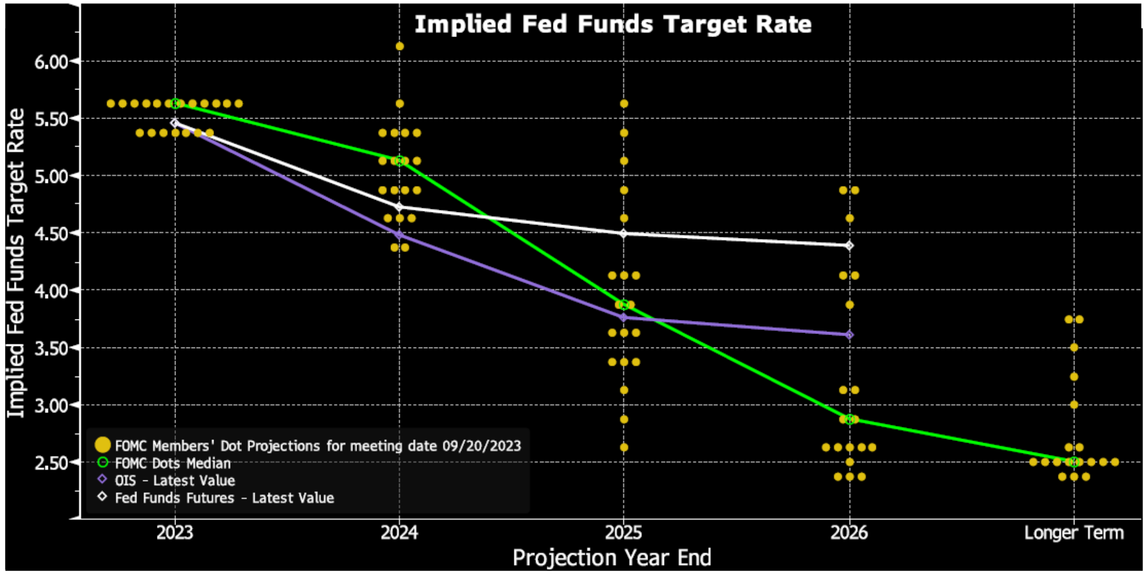
	CURRENT	4Q2023	1Q2024	2Q2024	3Q2024
UST 10Y	4.80%	4.80-5.00%	4.70-4.80%	4.50-4.70%	4.40-4.60%
MGS 10Y	4.12%	4.00-4.20%	3.90-4.00%	3.70-3.90%	3.60-3.80%
SGS 10Y	3.50%	3.40-3.60%	3.30-3.50%	3.10-3.30%	3.00-3.20%

Sovereigns – Hawkish US rate environment causing nervousness and seen to defy earlier strong belief that the Fed is on its last leg. Despite safe-appeal status and attractive yields, bond portfolios may be stretched

UST	Yields to continue to be elevated on strong economic data and hawkish FedSpeak (expect 25bps hike in Nov or Dec) as risk-off appetite may be impacted by bond MTM movements. Risks – high inflation, strong economic data
MGS	Expectations on interest rate pause will likely support rangetrading movements. Despite closer correlation to USTs, expect local institutional participation to smoothen volatilities Risks - weak MYR against a firm USD, deluge of government bond supply
SGS	US inflationary conditions to cause concern despite expectations of a pause in October by MAS via S$NEER non-interference. Attractive yields when compared to other similar AAA-rated sovereigns may provide some support despite positive correlation with rising UST yields Risks - spillover effect of inflationary conditions in US, rising oil prices

US Fixed Income – Robust economic data reinforces concerns over hawkish rate climate





Source: Bloomberg, HLBB Global Markets Research

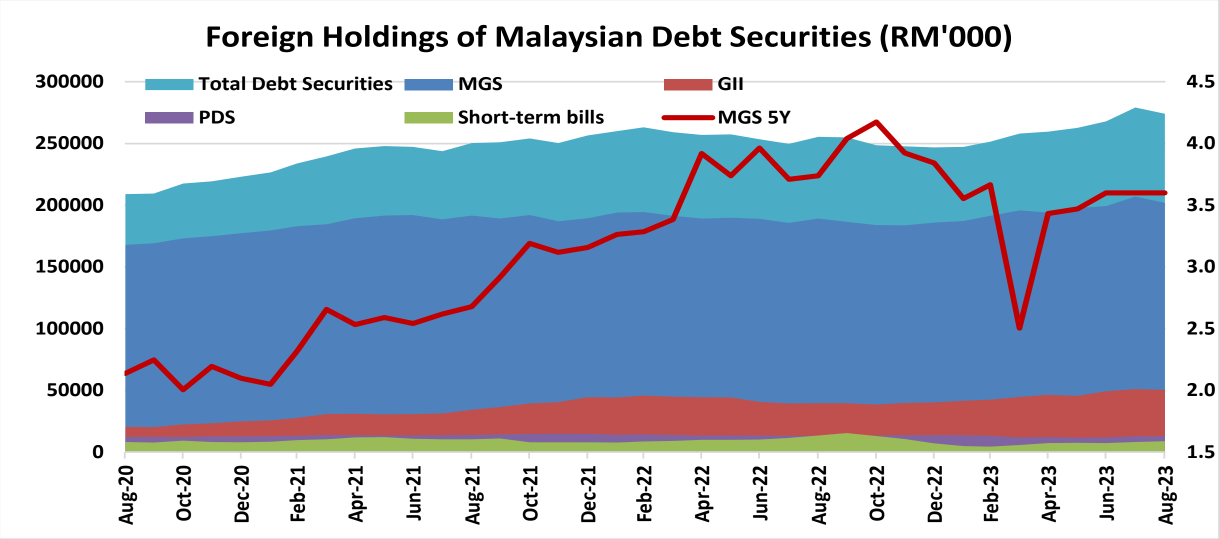
- **UST** -- UST's weakened considerably for the quarter under review as overall benchmark yields spiked between 15-84bps across. The curve bear-steepened as the longer-ends saw the biggest selloff. The yield curve unwound its previous deep inversion of 108bps to a mere 48bps at the time of writing. **We expect the FOMC to raise Fed Funds Rate in November/December by 25bps to between 5.50-5.75%** due to a resilient US economy, which has underlined the "higher for longer interest rate narrative".
- The Fed's Dot plot median projection brings the Fed Funds Rate to about ~5.625% for 2023 from current 5.25-5.50% range, pointing to one more 25bps hike for the year. Key areas to watch include key central bank interest rate decisions, rising oil prices and China's apparent economic risks mainly stemming from the property sector. **We expect 10Y UST to range higher between 4.80-5.00% for 4Q2023.** Expect volatility and rising yields on the back of a hawkish climate that has overwhelmed earlier sporadic views of an economic slowdown, to plague bonds.

- **Corporates** –Investment-grade corporate bonds saw improved appetite with the Bloomberg Barclays US Corporate Bond Index posting a loss of 3.1% (2Q2023: +0.3%); with spreads maintaining ~120bps as at end-September. Total quarterly IG maturities for upcoming quarter expected at ~$125b versus gross issuances of ~$210b (YTD: $980b). **We are mildly positive on IG in sectors such as energy, transport and communication whilst taking cognizance of potential financial stress in banks issuances for now. Any duration preference will be capped between 2-5 years for this upcoming quarter.**

Malaysia Fixed Income – Currency weakness and deluge of supply may weigh on bonds

MGS/GII issuance pipeline in 2023

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 (Mat on 10/32)	10	Jan	Q1	6/1/2023	4,500	4,500		4,500	2.093	4.109	4.135	4.147	58.3%
2	15-yr Reopening of MGS (Mat on 6/38)	15	Jan	Q1	13/1/2023	4,500	3,000	2,500	10,000	2.825	4.110	4.151	4.160	73.3%
3	5.5-yr New Issue of MGII (Mat on 07/28)	5	Jan	Q1	27/1/2023	5,000	5,000		15,000	3.395	3.580	3.599	3.610	80.8%
4	7-yr Reopening of MGS (Mat on 04/30)	7	Feb	Q1	3/2/2023	4,500	5,000		20,000	2.460	3.610	3.656	3.660	25.0%
5	20.5-yr New Issue of MGII (Mat on 08/43)	20	Feb	Q1	13/2/2023	5,000	2,500	2,500	25,000	2.662	4.257	4.291	4.308	87.5%
6	3-yr Reopening of MGS (Mat on 07/26)	3	Feb	Q1	20/2/2023	4,500	5,500		30,500	1.691	3.438	3.458	3.472	10.0%
7	15-yr Reopening of MGII 03/38	15	Feb	Q1	27/2/2023	5,000	3,000	2,500	36,000	1.986	4.160	4.177	4.188	27.8%
8	10-yr Reopening of MGS 07/32	10	Mar	Q1	3/3/2023	4,500	4,500		40,500	1.670	4.035	4.066	4.089	28.3%
9	7-yr Reopening of MGII 09/30	7	Mar	Q1	14/3/2023	4,500	5,000		45,500	1.586	3.760	3.792	3.814	100.0%
10	30-yr New Issue of MGS 03/53	30	Mar	Q1	30/3/2023	5,000	2,500	2,500	50,500	1.970	4.370	4.457	4.489	65.5%
11	10-yr Reopening of MGII (Mat on 10/32)	10	Apr	Q2	7/4/2023	4,500	4,500		55,000	2.367	3.922	3.936	3.948	15.0%
12	5-yr New Issue of MGS (Mat on 04/28)	5	Apr	Q2	19/4/2023	5,000	5,000		60,000	2.434	3.500	3.519	3.528	72.4%
13	30-yr Reopening of MGII 05/52	30	Apr	Q2	26/4/2023	4,500	2,500	2,500	65,000	2.153	4.270	4.294	4.308	51.8%
14	7-yr Reopening of MGS (Mat on 04/30)	7	May	Q2	11/5/2023	4,500	5,000		70,000	2.183	3.590	3.604	3.615	81.7%
15	20-yr Reopening of MGII (Mat on 08/43)	20	May	Q2	23/5/2023	5,000	3,000	2,500	75,500	1.747	4.155	4.182	4.207	28.0%
16	15-yr Reopening of MGS (Mat on 06/38)	15	May	Q2	30/5/2023	4,500	3,000	1,500	80,000	2.201	3.990	4.023	4.033	48.4%
17	3-yr Reopening of MGII 09/26	3	Jun	Q2	7/6/2023	4,500	4,500		84,500	1.759	3.420	3.435	3.447	15.6%
18	20-yr Reopening of MGS 10/42	20	Jun	Q2	21/6/2023	4,500	3,000	2,500	90,000	1.877	4.168	4.195	4.208	11.8%
19	5-yr Reopening of MGII 07/28	5	Jun	Q2	28/6/2023	5,000	5,500		95,500	1.813	3.657	3.677	3.691	100.0%
20	10-yr Reopening of MGS 11/33	10	Jul	Q2	13/7/2023	4,500	5,500		101,000	2.641	3.830	3.860	3.868	50.3%
21	7-yr Reopening of MGII (Mat on 09/30)	7	Jul	Q3	20/7/2023	4,500	5,000		106,000	2.295	3.760	3.788	3.798	65.0%
22	3-yr Reopening of MGS (Mat on 07/26)	3	Jul	Q3	30/7/2023	4,500	4,500		110,500	1.908	3.455	3.483	3.498	75.9%
23	30-yr Reopening of MGII 05/52	30	Aug	Q3	7/8/2023	4,500	3,000	2,000	115,500	2.557	4.318	4.362	4.378	61.5%
24	5-yr Reopening of MGS 04/28	5	Aug	Q3	14/8/2023	5,000	5,000		120,500	1.718	3.630	3.647	3.662	41.7%
25	20-yr Reopening of MGII 08/43	20	Aug	Q3	22/8/2023	5,000	3,000	2,000	125,500	1.992	4.240	4.285	4.301	62.5%
26	15-yr Reopening of MGS 06/38	15	Aug	Q3	29/8/2023	4,500	3,000	1,000	129,500	2.118	4.030	4.049	4.062	20.0%
27	3-yr Reopening of MGII 09/26	3	Sep	Q3	12/9/2023	4,500	4,500		134,000	2.167	3.528	3.539	3.546	40.3%
28	30-yr Reopening of MGS (Mat on 03/53)	30	Sep	Q3	21/9/2023	5,000	3,500	1,500	139,000	1.897	4.415	4.454	4.475	100.0%
29	5-yr Reopening of MGII (Mat on 07/28)	5	Sep	Q3	27/9/2023	5,000	5,000		144,000	1.954	3.795	3.808	3.820	15.4%
30	20-yr Reopening of MGS 10/42	20	Oct	Q4	28/9/2023	4,500	3,500	2,000	149,500					
22	10-yr Reopening of MGII (Mat on 08/33)	10	Oct	Q4		4,500								
22	7-yr Reopening of MGS (Mat on 04/30)	7	Oct	Q4		5,000								
33	30-yr Reopening of MGII 05/52	30	Nov	Q4		4,500								
34	5-yr Reopening of MGS 04/28	5	Nov	Q4		5,000								
35	7-yr Reopening of MGII (Mat on 09/30)	7	Nov	Q4		4,500								
36	3-yr Reopening of GII (Mat on 09/26)	3	Dec	Q4		4,000								
37	10-yr Reopening of MGS 11/33	10	Dec	Q4		4,000								
	Gross MGS/GII supply in 2023					172,000	122,000	27,500	149,500	PROJECTED TOTAL ISSUANCE SIZE = 168-172b				

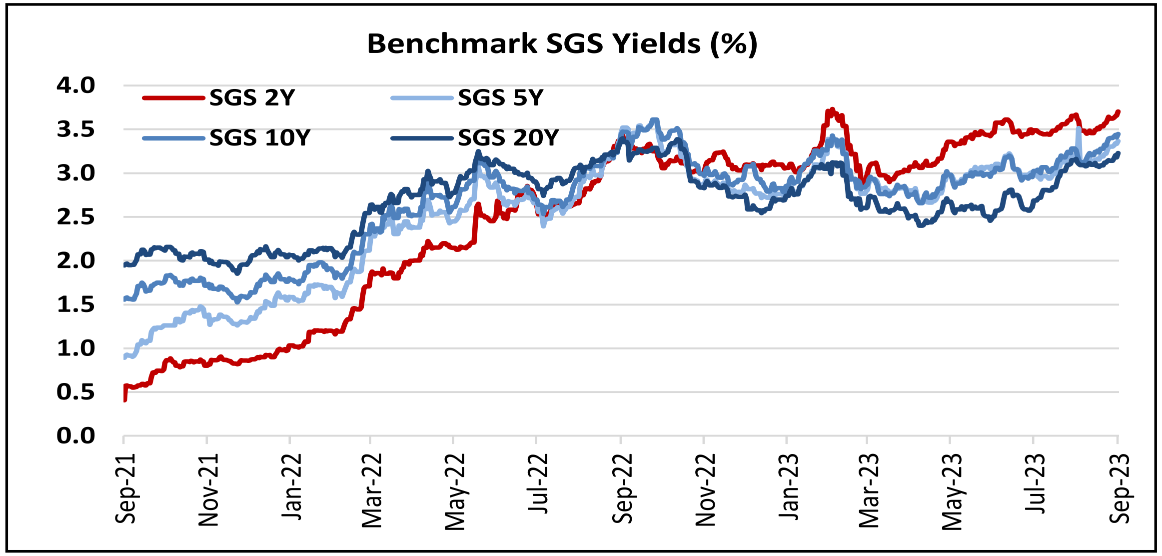


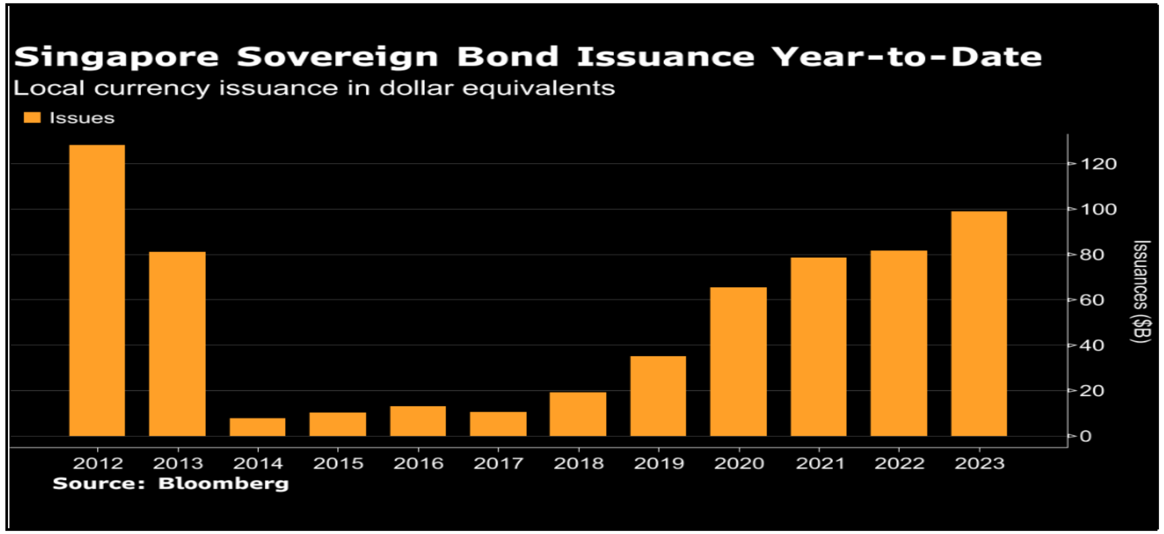
- **Government Bonds** – Both MGS and GII saw the curve sharpen sharply q/q as overall benchmark yields spiked between 7-25bps with the belly and longer-ends weakening more than other parts of the curve. Foreign holdings of overall MYR bonds jumped RM6.3b higher from end-March to RM274.2b as at end-Aug 2023. Government auctions in 3Q2022 saw better bidding metrics circa ~2.13x for all 10 auctions despite higher gross issuances of RM48.5b (2Q2022: 9 auctions; BTC 2.07x; gross issuances RM39.5b). We continue to project OPR to stay pat at 3.00% for 4Q2023.
- Concerns abound over the deluge supply despite projected reduction in fiscal deficit from 5.6% in 2022 to 5.0% in 2023, with actual issuances currently 6% above our estimated gross issuances of RM168-172b for the year. Other concerns include the current weakness seen in regional currencies including the MYR amid sustained USD strength. Elsewhere, we expect the well-diversified, appetite and depth of local investment institutions to provide support for both primary participation and secondary market activities. The 5-7Y sector looks promising whilst our **10Y MGS yield target range for 4Q2023 is revised higher to between 4.00-4.20%.**

- **Corporate Bonds/Sukuk** --Corporate bonds/sukuk issuances (including GG-bonds) was pretty consistent @ RM32.1b in 3Q2023 (2Q2023: RM31.9b) and within the run-rate for our projected gross issuances of between RM110-130b for 2023. Whilst we note strong demand for credits, we tend to favour the 7Y-10Y GG (10-13 bps spreads), 5-7Y AAA (25bps) and 10-20Y AA2-rated bonds (~45-70bps) in sectors comprising, utilities (i.e. telco, electricity, sewerage and toll operators.

Source: Bloomberg, BNM, HLBB Global Markets Research

Singapore Fixed Income – Some negative duration preferred; steady corporate credits to attract demand





- **SGS** – SGS underperformed q/q, mirroring UST movements as overall benchmark yields jumped higher between 10-65bps with the longer-ends pressured the most. The Bloomberg Global Singapore Bond Total Return Index notched a loss of 2.7% for 3Q2023 (2Q2023: +0.6%). Total YTD issuances were ~S$136b, up 21% compared to same period last year. The SGS yield curve has continued to unwind its inversion. MAS meeting is likely to be held on 10-13 Oct and market is expecting the policy setting to remain unchanged as Singapore core inflation data shows signs of slowing. In addition, SGD NEER to remain close to the top of the trading band.
- Singapore Savings Bond 10Y average yield has reached a YTD high of 3.32%. Expect previous strong demand for bonds to be put on hold due to higher UST yields despite the republic's AAA-rating. **Overall, we continue to adopt a cautious stance at this juncture due to recent strong US economic data and hawkish interest rate outlook in the US. Nevertheless, the 2-10Y sector is enticing in terms of yield-carry proposition. We project SGS 10Y to range higher between 3.40-3.60% levels.**

- **Corporate** – There were at least S$3.3b worth of Tier2 notes issued by banks for reserve capital requirements with financials still forming easily 80% of issuances. The deluge of Singapore dollar liquidity has accelerated demand especially for bank-related debt with HSBC, Lloyds, Credit Agricole and AIA raising funds. **We continue to favour a strike of balance between shorter-duration and quality IG instead of HY.**

Source: Bloomberg, HLBB Global Markets Research

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