Regional

Market outlook

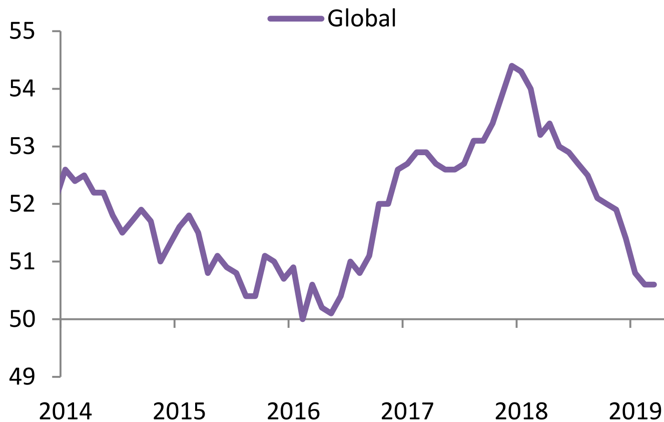
China
Brunei
Hong Kong
Malaysia
Thailand
Vietnam
Cambodia
Singapore
Indonesia
Laos

Market insights for you

RHB Bank Berhad (6171-M)

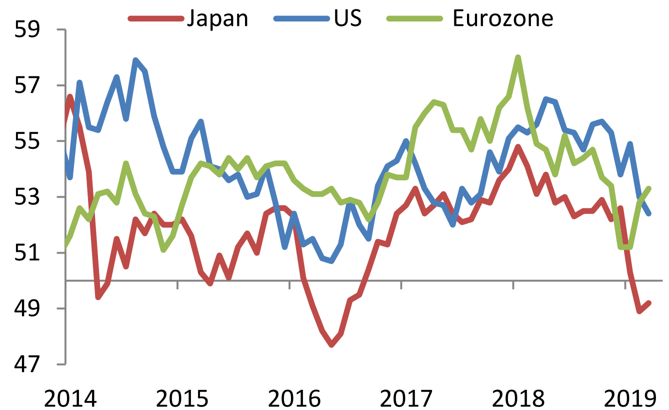
Global PMI

JP Morgan Global Manufacturing PMI



Source: RHB AM, Bloomberg, 5 April 2019

Developed Market Manufacturing PMIs

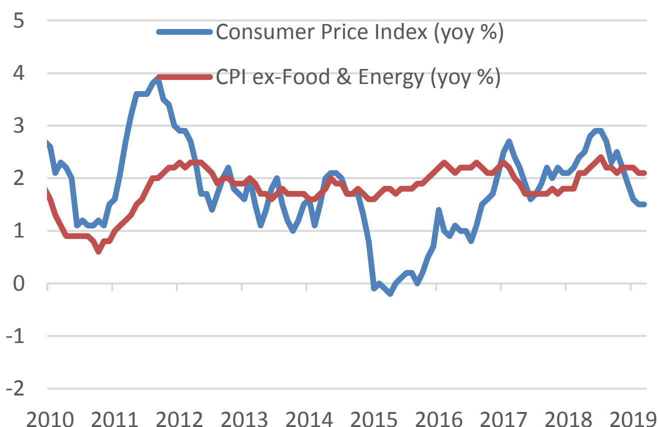


Source: RHB AM, Bloomberg, 5 April 2019

- JP Morgan Global Manufacturing PMI eased to 50.6 in March. The average reading for 1Q19 of 50.7 indicates a growth deceleration vs 4Q's 51.8.
- In 1Q, we saw a softer PMI in US and Europe while Japan went into contraction territory in February and March 2019.

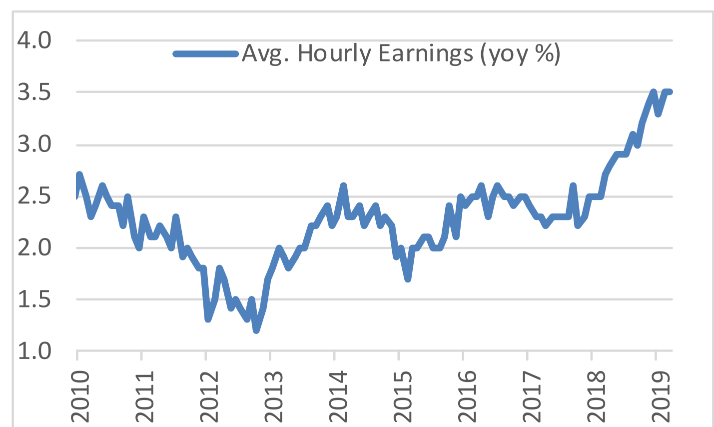
US

US Core CPI Index



Source: RHB AM, Bloomberg, 5 April 2019

Labor Market remained strong



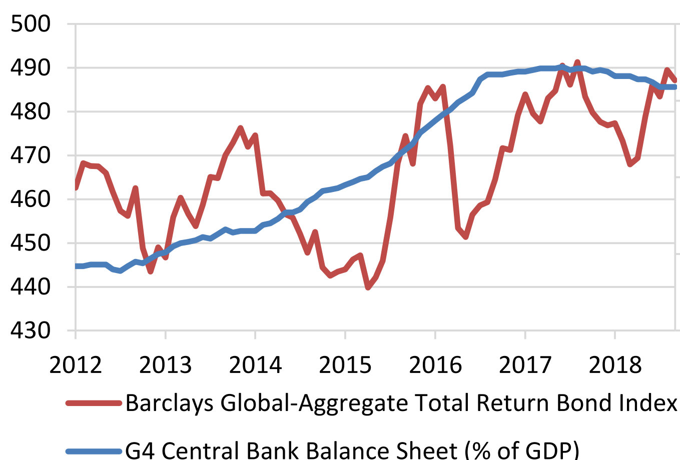
Source: RHB AM, Bloomberg, 5 April 2019

- Recent inflation remained benign amid slowing economic growth.
- The US Fed kept interest rate unchanged in March's meeting and pivot towards a more cautious stance. Expect zero rate hike in 2019.
- Futures market pricing in no rate hike this year and next year.

Economic Highlights

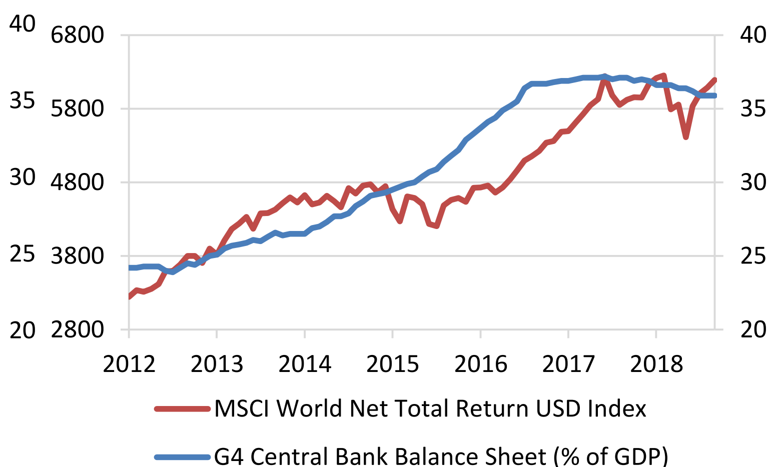
Global

Barclays Global-Aggregate Total Bond Return Index vs G4 Central Bank balance sheet (% of GDP)



Source: RHB AM, Bloomberg, 5 April 2019

MSCI World Net Total Return Index vs G4 Central Bank balance sheet (% of GDP)

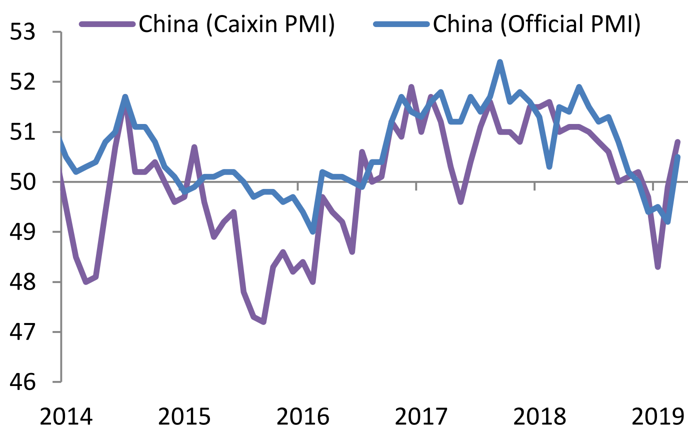


Source: RHB AM, Bloomberg, 5 April 2019

- G4 central banks have supplied a dramatic amount of liquidity since the GFC but has begun to taper off going into 2019.
- Main asset classes appear to have benefitted from the liquidity expansion supplied by the central banks.
- As central banks start to tighten policy, particularly in the US where pace of treasuries runoff will slowdown starting in May 2019, markets are set to face headwinds.

China

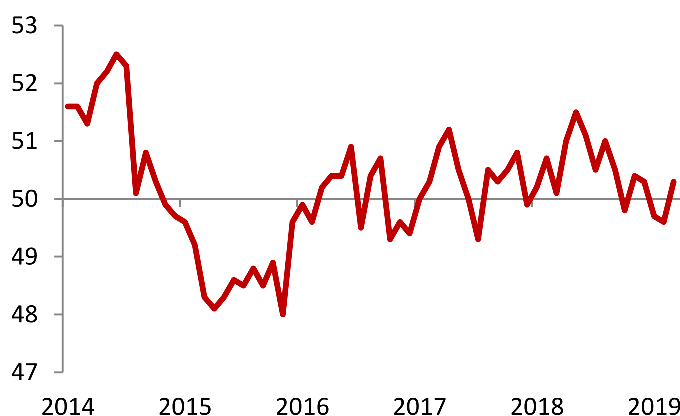
China PMIs (Caixin)



Source: RHB AM, Bloomberg, 22 January 2019

ASEAN

Manufacturing PMIs



Source: RHB AM, Bloomberg, 22 January 2019

- China's Caixin and official PMIs recovered back to expansion territory in March as government supportive polices are feeding through to the economy.
- Manufacturing PMI bounced back to the expansionary territory in ASEAN in March after contracting for the first two months of 2019

Global

The MSCI AC World Index rose 1.0% in March, bringing the year to date performance up by 11.6% after dovish monetary policy shift from the Federal Reserve and European Central Bank (ECB). Most sectors registered positive returns in March, with real estate (+4.5%), information technology (+3.8%) and consumer staples (+3.8%) outperforming industrials (-0.6%) and financials (-2.7%). Within regions, the United States was the best performer (+1.7%) in March, followed by Asia ex Japan (+1.6%), Europe (+0.1%) and Japan (-0.3%).

The FOMC followed through with a dovish statement after the ECB. The committee left interest rates unchanged and signaled that it had no appetite for raising them for the remainder of the year. The median projections for two rate hikes in 2019 made during the December meeting was cut to none after the March meeting, but median projections maintained expectations for one more rate hike in the outlook for next year. Forward guidance remains unchanged since the last meeting in January. In particular, the committee will continue to “be patient” in assessing the outlook to determine if any “adjustment” to the current policy is needed. The announcement that balance sheet runoff will conclude after September was in line with market expectations. The surprise was the pace of the treasuries runoff, which would start in May when the caps are reduced from US$30 billion per month to US$15 billion per month. After September, these caps go to zero and MBS principal payments (below US$20 billion per month) will be reinvested in Treasuries, thus ending the balance sheet runoff.

In Europe, the ECB announced fresh rounds of stimulus measures to help support the slowing economy, including new rounds of cheap loans to banks through a new series of “targeted long-term refinancing operations” (TLTRO-III) designed to increase lending to businesses and consumers in the real economy. The council kept its plans to reinvest cash from maturing bonds for a prolonged period of time, and policy interest rates will be kept at historic lows, at least until the end of 2019. The TLTRO-III loans will be launched on a quarterly basis from September 2019 to March 2021, and each loan will have a maturity of two years. The decisions were made along with ECB’s update on growth forecasts, which lowered from 1.7% to 1.1% - a 0.6% decline mainly attributed to the waning global growth momentum and persistent uncertainties related to geopolitical factors. EU granted the UK with an extra 2 weeks until 12th April to decide to either leave the EU with no agreement or request for a longer extension.

The Bank of Japan (BoJ) is still pursuing QE and continues to leave its monetary operation directives unchanged at its March MPM meeting. In contrast with Kuroda’s confident stance at the press conference after the March MPM, the “Summary of Opinions at the MPM meeting on 13 – 14 March” minutes released saw that the discussion for potential additional easing measures have increased. Four opinions - an increase from one in the January meeting - recommending that the BoJ should prepare for additional easing were raised. With the March Tankan business sentiment worsening, the odds that the BoJ could change policy at the April meeting has subsequently increased.

Equity Market

India (+9.1%), China (+2.4%) and Taiwan (+2.3%) were the best performing countries within Asia in March. India bounced (+9.1%) as macro variables such as inflation, rates and FX benefited from the favorable trend. Opinion polls also suggest a better than expected performance by the incumbent Government in the upcoming National Elections expected in April - May. The Reserve Bank of India is widely expected to deliver its second straight rate cut. On a year to date basis, India (+6.8%) still underperformed against Asia ex Japan (11.2%).

The outperformance in China continued to be driven by positive developments in US-China trade negotiations and signs of domestic policy easing feeding through to the economy. On the domestic side, slates of growth-supportive measures have been rolled out, most notably the VAT cut which was effective on 1st April. Furthermore, Chinese government and policy bank bonds will also be added to the Bloomberg Global Aggregate Index for the first time.

Equity Market

China/Hong Kong

Year to date we experienced a strong quarter in HK/China market due to the easing tension of trade war and supportive measures of China (HSI index +12.4%; MSCI +17.9%). We continue to remain bullish towards China in 2Q. There are more signs of relief between US and China, as both sides want to reach a deal eventually. Furthermore, the Chinese government keeps launching more supportive policies to cushion the economy, such as the promising VAT cut. Although valuation is trading closer to average level, China offshore markets should continue to benefit from a series of government initiatives to uplift market sentiment, as well as the increased weighting inclusion of A-share into MSCI index. At sector level, we still like insurers and brokers mainly because of their strong A-share exposure. Also, we have not changed our long term core views and remained constructive on technology and consumption sectors. We believe their secular growth story is still very much intact with a much lower valuation comparing to peaks. We think these trends will continue to strengthen and remain to be the key themes this year. At company level, we suggest to balance the portfolio with both defensive and growth companies to achieve a more consistent return. Companies with strong balance sheet, good cash flow and visible earning growth with a reasonable valuation will be our priority. This has proved to allow us to better weather through market turbulence.

Singapore

The Straits Times Index rallied 4.7% along with the global equites. For 2018, GDP grew 3.3%. Growth could moderate in 2019 on softening external demand and possible impact on trade war. Singapore's February core inflation at 1.5%. MAS has cut its inflation forecast by 0.5% on lower oil prices with core forecast to stay within 1.5-2.5% in 2019. There could be a possibility that MAS might be weakening its hawkish bias in the April meeting. The 2019 budget was announced. This budget impact was quite muted to the equity market. Policies to tightened foreign worker quotas in services, higher diesel tax could raise cost pressures on businesses while a GST rise would be directly impacted by consumers.

Singapore is in a property down cycle driven by the cooling measures and developers pushing out more launches. Private residential property prices are down 0.6% q/q in 1Q19. Public housing (HDB) resale prices down another 0.3% in 1Q19. Mortgage rates are also up 60-70bps, +2% y/y, for the 3month SIBOR . Overall, we believe markets will be volatile as trade tension outcome is still uncertain.

Indonesia

In 4Q18, market volatility continued in October. JCI closed lower while Bond market got more pressure, mostly from IDR depreciation. Concern on widening CAD was the main reason behind this volatility. Getting into November, Indonesia market showed some recovery. JCI closed higher and surpassed 6,000 level as fund flow recorded positive. Bond market also got more inflow, which was supported by IDR appreciation. Weakening of USD currency to global currency, easing oil price and foreign fund inflow were the driver for IDR appreciation. IDR started to move below IDR15,000/USD, strengthened 6.1% to IDR14,302/USD.

JCI continue its recovery in December, up 2.3% MoM. As a result, JCI closed the year with a remarkable recovery from its lowest level at 5,633 in July, closed at 6,194.5, a 2.5% YoY negative return. This in line with the bond market (BINDO Index) that delivered 2.2% YoY negative return, amid some outflow of bond market in December. BINDO Index was closed at 224.955, slightly up 0.2% MoM. IDR moved relatively sideways and closed at IDR14,390/USD. For FY2018, IDR dropped by 6% YoY against USD. Foreign reserves improvement, which started in October, continued to end of December, increased to USD120 billion level from October level of USD 115.2 billion. This reserve figure is equivalent to near 7 months of import and sufficient to service the government debts, well above the international standard of reserve adequacy of 3 months of imports.

For 1Q19, we expect foreign inflow to continue and support both JCI and Bonds market. Therefore, big caps will benefit from the situation. In addition Banks, Consumer (selective stocks), as well as Telecommunication and Cigarettes, are the sectors that will benefit from government assistance program that provide additional purchasing power. Some domestic volatility potential will coming from heated tension of politics as we approached Election Day in 17 April for Presidential and Parliamentary elections. However, we also see this period as a period when more money will be circulated into the economic, which will also positive for the market.

Malaysia

FBM KLCI declined by 2.78% or 41 points to close at 1641 points for the first quarter 2019, which was the worst performing among other countries in the region. Banking sector was hit due to the expectations of interest rate cut and glove sector suffered due to the concerns of oversupply. However, the lower market capitalization stocks performed strongly after suffered badly in 2018. The construction and oil & gas sectors performed strongly due to the positive news flows and recovery in the oil price. MYR also strengthened to 4.08 from 4.13 as at end of December 2018.

The foreigners were the net seller due to unattractive Malaysia's corporate earnings growth relative to other countries in the region. In addition, the quarterly results announcement was not inspiring as more companies missed expectation.

Although emerging markets seems to be in a 'sweet spot' for few reasons like benign inflation expectations, a dovish Fed and reasonable optimism about both Chinese stimulus and a US-China trade deal, Malaysia has failed to perform in line with its regional peers.

We expect the equity market to be still volatile in the second quarter of 2019. However, we are of the opinion that the worst may be behind us already. The recovery in the oil price will help boost the government's revenue as one third of revenue comes from oil and oil related sector. This will alleviate the fear of the government not meeting up with expectation of lowering the budget deficit to 3.4% in 2019 from 3.8% in 2018. Subsequently, this will give some confidence to the investors on the stability of Ringgit in view of interest cut by Bank Negara Malaysia.

Corporate earnings will be the key factor in determining the direction of KLCI in second quarter of 2019. Investors will be closely monitoring whether the corporate earnings downgrade have bottomed out. The low expectation of corporate earnings growth for 2019 is positive but the investors would also like to see if corporate earnings could improve, otherwise FBMKLCI will be trading within narrow trading band and performance will be lagging regional peers if the positive sentiment on the trade talk between US and China continues in the second quarter of 2019.

Global Bond Market

U.S. Treasuries and G10 Bonds

US Treasury (“UST”) 10-year yields started out the month of March 2019 at 2.75% and rallied massively through the course of the month, closing at 2.405% as the FOMC revised their median dot plot expectations to no rate hike for 2019. In terms of supply, the UST issued a total of $1,112 bio (vs $ 968bio last month), across bills and 2y, 3y, 5y, 7y, 10y and 30y bonds in the month of February 2019, with supply distribution still mainly skewed in the front end bills of 1 to 6 month tenor.

On US economics, the Institute of Supply Management (“ISM”) Manufacturing Index for March 2019 surprised on the upside at 55.3, higher than consensus expectations of 54.5 and February’s 54.2 print. Nonfarm Payrolls (“NFP”) in the United States released for February 2019 disappointed the 180k expectations at a reading of only 20,000 new jobs created, but the previous month’s print of 304,000 was revised slightly higher to 311,000. Average Hourly Earnings for February increased by 3.4% YoY (+0.4%MoM), slightly above consensus estimates. Unemployment Rate decreased to 3.8%YoY for February 2019 (Previous month was 4%). On inflation, the United States Personal Consumption Expenditure (“PCE”), the Fed’s preferred measure of inflation, printed at 1.80% YoY for January 2019, slightly below expectations and below the Fed’s 2% target. US December 2018 trade deficit (exp. $57.9 Bio) was higher than expectations, widening to $59.8Bio from November’s revised $50.5Bio deficit.

The Federal Open Market Committee’s (FOMC) March meeting on Wednesday 20 March 2019 was more dovish than what markets expected, where policy rates were kept unchanged at 2.25-2.50% in a unanimous decision. The latest dot plots show that the median projection of the Fed policy rates were lowered to 2.4% (from 2.9% in December 2018) which implies no more hikes in 2019. In a separate statement, the FOMC showed that they intend to slow the reduction of Treasury securities by reducing the cap on monthly redemptions from the current level of $30 billion to $15 billion beginning in May 2019 and to conclude the balance sheet reduction program at the end of September 2019. In their FOMC statement, the Fed lowered its growth outlook (2019 GDP growth lowered to 2.1% from 2.3%, 2019 PCE inflation to 1.8% from 1.9% and 2019 unemployment rate revised to 3.7% from 3.5%), saying “the labor market remains strong but that growth of economic activity has slowed from its solid rate in the fourth quarter”

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Credit Market

At the end of March 2019 close, the benchmark 2-, 5-, 10- and 30-year UST were last traded at 2.26% (Feb-2019: 2.51% -25bps), 2.23% (2.51%; -28bps), 2.405% (2.715%; -31bps) and 2.81% (3.08%; -27bps) respectively. The US Treasury bond yield curve had a parallel shift lower by 25bps from February due to no rate hike expectations; US 3m and 10y yields inverted for the first time since 2007 as market starts to price in a general slowdown in overall global growth, as 10y German Bund yields also turned negative and 10y Japanese Government Bonds trade at -10bps

Ringgit Sovereign Bond

Malaysian Ringgit ("MYR") finally reversed the decline against the United States Dollar ("USD") in December 2018, seen since April 2018. USDMYR rallied from 4.1652 at the start of the month and closed the end of the year at 4.1335 but reached a high of 4.1855 briefly before USD weakened, representing a +0.77% total return, the 3rd best performing Asian country behind Japanese Yen and Indian Ruppee. On the local rates, both of Malaysia's sovereign papers ie; Malaysia Government Securities ("MGS") and Government Investment Issues ("GII") completed the year with a strong note and posted monthly gains across the yield curve aided by year-end positioning and rebalancing trading interest. The longer-end of the sovereign curve seen supported as levels continue to be strongly demanded and inched lower in the absence of upbeat inflation data and backed by recent rally in UST on the external front, anchored by strong domestic support. Auction calendar was released in the middle of the month and appeared to be moderately higher supply of longer duration but unlikely to weigh on the long-end part of the curve given demand from private placements, which clearly have a strong appetite for duration. Overall, the curve has bull-flattened and closed the month lower with 20-year MGS turned out to be the best performer as the yield adjusted 12 bps lower as investors seen extending duration on slower growth outlook and modest inflation expectation. At month-end closed, MGS yields 3-, 5-, 7-, 10-, 15-, 20- and 30-year MGS were reported at 3.61% (Nov-2018: 3.69%), 3.76% (3.86%), 3.99% (4.04%), 4.07% (4.13%), 4.45% (4.54%), 4.64% (4.75%) and 4.86% (4.92%) respectively. The Government Investment Issues ("GII") – Shariah compliant version of MGS mirrored the same pattern with its MGS counterpart as the whole curve ended lower with the exception of the GII 10-year due to it going to be replaced soon in January 2019 . At month end close, the 3-, 5-, 7-, 10-, 15-, 20- and 30-year GII were reported at 3.69% (Nov-2018: 3.78%), 3.83% (3.93%), 4.06% (4.15%), 4.24% (4.22%), 4.53% (4.59%), 4.77% (4.78%) and 4.91% (4.94%) respectively.

On the local economic front, Malaysia's Consumer Prices Index ("CPI") for November 2018 reverted to a moderate pace of an increase of 0.2% which is lower than consensus expectation of 0.4% and at a 3-months low (October 2018:0.6%). According to Department of Statistics of Malaysia, all major CPI components recorded slower prices in November with exception of tobacco and education segment. The slowdown in headline inflation was largely due to the waning Sales and Services Tax ("SST") and high base effects impact in transport (-2.3%), communication (-1.3%) as well as recreation, services and culture (-0.3%). On the other hand, alcoholic and tobacco price inflation accelerated to a 2-year high after cigarette prices were raised 1%-4% during the month. Consumer price inflation for education picked up to 1.4% while food and non-alcoholic beverages held relatively stable at 1.1% despite the recent hike in egg prices attributed from a drop in supply and higher costs of imported animal feed following the unfavorable exchange rate. As the year-to-date inflation decelerated further to 1.0% and no major driver is expected to push inflation up significantly in the final month of the year, we foresee CPI for 2018 to be in a range of 1.0% to 1.2%. Going forward in 2019, economists forecasted inflation to be at around 2.0% to 2.5% due to the expectation of floating domestic fuel prices in the second half of 2019 and a weaker MYR are key contributors to domestic cost push inflation.

Ringgit Corporate Bond

In the Malaysian Ringgit corporate bond/sukuk space, overall monthly trading volume remain supported as investors continuously filling-up their portfolio position for absolute yield preservation amid further yield compression in the government securities space and moderate fresh supply in the corporate/sukuk space. Overall trading volume recorded MYR10.40 billion, slightly higher compared to MYR10.09 billion recorded in previous month. However, the average daily volume closed lower at about MYR495 million in March 2019, compared to MYR594 average daily volume recorded in previous month due to higher number of trading days. We noticed that most of the trading activities were highly concentrated in Government Guaranteed ("GG") papers despite spread tightening in the space. The volume for GG surged 16% higher month-on-month and recorded 51.8% of the overall trading activities in the ringgit corporate/sukuk market in March 2019. Overall during the month, a combination of Government Guaranteed ("GG") and AAA space changing hands at about 69% followed by AA space by 24% and single-A or lower by 15%. which witnessed the highest number of trades, changing hands at about 62% followed by AA space by 34% and single-A or lower by 7%.

Within the Government Guaranteed ("GG")/AAA space, Prasarana Malaysia Berhad was the most sought after as the transaction volume garnered MYR1.46 billion across the tenors which saw the yield closed lower by a whopping 20 bps month-over-month. Higher volume that surpassing a billion mark was also seen in Danainfra Nasional Berhad issuance which recorded around MYR1.21 billion in transaction volume across the. On average, the yield closed 20 bps to 24 bps lower especially on the longer tenor universe.

In AAA space, demand for Danga Capital were also seen in the longer-dated tenor with more than MYR300 million trade changing hands with the yield closed down to 13 bps lower compared to previous month. Telekom Malaysia on a different issuance, attracted more than MYR300 million of trading volume during the month and the yield closed 17 bps lower on the 2028 maturity. Elsewhere in AA-rated space, Edra Energy bonds, top the trading activities for the second consecutive months with MYR350 million changing hands across the tenor to possibly real money investors and closed the month at approximately 11 bps to 15 bps lower compared to last month. The bonds continue to attract demand from investors searching for higher yield preservation. In the A-rated space, UMW Perpetual Sukuk was back in the radar and printed some MYR200 million of transaction volume during the month which saw the yield tighter by 14 bps compared to previous month's closed.

In the primary issuance space, total supply in March 2019 has been grossly higher at a total issue size of MYR8.64 billion with 60% of the total issuances being dominated by GG space. The total issuance in March 2019 was slightly higher compared to MYR8.27 billion recorded in February month. In term of issuer, Perbadanan Tabung Pendidikan Tinggi Nasional ("PTPTN") emerged as the largest issuer in March with its MYR3.0 billion size with tenors ranging from 10-year, 15-year and 20-year. The final yield ended at 4.27%, 4.58% and 4.80% respectively. On the other issuance, Prasarana Malaysia Berhad was also seen tapping the bond market during the month with an issue size of MYR 1.5 billion. The issuance tenor was for 10-year, 12-year and 15-year at a final yield of at 4.20%, 4.38% and 4.53 respectively. In a single-A space, the subsidiary of IJM Corporation, IJM Land Berhad issued its first Perpetual Sukuk with two maturity ; Non-Callable 7-year and Non-Callable 8-year with a final yield of 5.65% and 5.73%. Both were issued at a size of MYR650 million respectively. On a financial sector, we noted Hong Leong Financial Group ("HLFG") raised about MYR400 million on its Perpetual Non-Callable 5-year at a yield of 4.82%.

Outlook & Strategy

The rally we saw in US Treasury yields in December 2018 and January 2019 resumed their descent after a brief reprieve in February 2019 due to the FOMC language and sudden dovish pivot by Fed members. Ongoing issues like the uncertainty on how the US China trade tensions escalation play out, Brexit negotiation issues with the EU, weaker than expected European factory data, stagnant oil prices and overall poor global growth readings are the main contributors to the rally in fixed income. The Standard & Poor's 500 Index ("SPX") closed at 2,834.40 (+1.79% MoM) while the SPX Volatility Index ("VIX") showed no signs of equity distress, staying below 20 throughout the month and eventually closing the month at 13.71.

Credit Market

Our view on the flattening of the UST yield curve has played out but the pace and the extent of it was a mild surprise because the Fed's FOMC language was less dovish than expected. The associated tightening in financial market conditions if overly excessive would exacerbate the risks associated with the US corporate sector's heavily leveraged balance sheet. Global growth slowdown is likely to eventually affect the US economy and we would expect US GDP and corporate earnings growth to moderate in 2019, vis a vis any additional measures taken to deleverage the balance sheets.

The Chinese Yuan (CNY) remained range-bound against the USD, closing just a touch above 6.70 at 6.7121 on March 2019 end from 6.7062 at the start of the month. The trade surplus narrowed to USD 4.12bn in February, as export growth unexpectedly declined by over 20% in the February 2019 at -20.7% YoY while Imports fell 5.2%YoY attributed mainly to Lunar New year holidays as factories shut down for a week. Trade with the US declined in February despite the trade talks, with exports to the US in dollar terms dropping by 28.6% YoY from a year ago and imports slumping by 26.2%. China Manufacturing PMI beat expectations at 50.5 for March 2019 vs 49.2 reading for February 2019. 4th Quarter 2018 GDP registered at 6.4%YoY and annual real GDP growth slipped to 6.6%YoY overall in 2018, the lowest since 1990

For the global strategy this year, we are cognizant of the risks that threaten global growth with the positive US economic growth momentum we witnessed in 2018 finally starting to show signs of wear as we close the 1st quarter of 2019. U.S. Treasury yields have reversed their upward trajectory, as the Fed's dovish pivot in the last FOMC of 2018 led the market to price out any probability of a further rate hike in 2019 , and Powell reaffirming claims in the latest March 2019 FOMC as the median dot plots were revised downward post meeting. The ECB had also delayed their policy rate hike initially planned for as early as the second half of 2019, as they downgraded their growth projections for the region earlier this month. The euro area is set to grow 1.1% this year, down from a December forecast of 1.7%. Trade tensions between the U.S., China and the rest of the world are likely to drag on throughout 2019, despite the Democrats taking control of the lower House in Congress.

Given the exceptional flatness of the UST curve, we see more value in the shorter to middle parts of the curve, such as the 3 – 5 year tenor. In terms of positioning, we prefer a shorter duration compared to the benchmark, and implement tactical duration trades to take advantage of the opportunities that arise from higher valuations.

Any major risk off events could potentially lead to 'flight to quality' trades that benefit U.S. Treasuries, leading to lower U.S. yields. Risk off events could be triggered by either possible contagion effects from emerging countries such as Argentina and Turkey, political surprises in a heavy 2019 Asian election year which will be the dominant 2Q 19 spotlight, or by escalating tensions caused by worsening trade tensions between the U.S. and China.

Credit Market

In Malaysia, focus has been shifted towards BNM Annual Report that has been released on 27th March 2019 as market brace for clues on BNM assessment with regard to Malaysia economy. This come after BNM MPC, held at the early part of the month decided to maintain the Overnight Policy Rate ("OPR") at 3.25% as widely expected with a dovish statement on growth and inflation front. Through our observation, the latest BNM Annual Report reflects affirmation on its dovish tilt towards the Malaysia economic condition with 2019 GDP forecast being lowered down to 4.3% - 4.8%, which is below Budget 2019's projection of 4.9% growth. This takes into account on a smaller contribution from net exports due to uncertain development on external front which could potentially impacting external demand and adding to negative spillovers from lower trade activities. With regards to inflation, BNM in its latest Annual Report has forecasted lower 2019 headline inflation to a range of 0.7% - 1.7% in comparison to much higher Budget 2019's initial projection of 2.5% - 3.5%. This latest revision on CPI number came about from the lower oil prices vis-à-vis a year ago and consideration on a price ceiling implementation for domestic retail fuel prices. With BNM Annual Report stated priority in ensuring policy to remain accommodative for growth amid subdued inflation and to strive building policy space in any pre-emptive move, an OPR cut in 2019 has now become more reflective in BNM's base case scenario.

On our domestic strategy, following the release of BNM Annual Report, it has been clear that the risk profile of domestic growth outlook and subdued headline inflation would eventually permit a lower policy rate in a pre-emptive move to support growth. However, the expectation for BNM rate cut has been a major factor that drive recent rally in government space and has been increasingly priced in by the market. At this juncture, we believe that the current yields are becoming less attractive on absolute yield basis to the investors but still supportive given the domestic supply and demand profile. We are of a view that in any occurrence of MGS/GII correction from this current level, domestic participants would likely remain supportive to buy on dips for the portfolio re-positioning. With the expectations of favorable bond market sentiments in 2019 while remaining cautious on a risk of tightening pricing, we would advocate active management strategy in deploying cash into undervalued government bonds and selective credits with reasonable relative value as our overall positions strategy. Any correction in yield for MGS/GII and high graded corporates could present an opportunistic buying as we believe there is still ample liquidity in domestic market searching for yield and quality assets.

Oil

WTI ($/bbl)

Source: Bloomberg. 4 April 2019

Brent has finally returned to $70/bbl in recent weeks as global inventories were driven sharply lower led by OPEC's Saudi-led cuts. Blackouts in Venezuela and Iran sanction are also tightening supply while demand growth has been reasonably solid. Going forward, further drawdowns with minimal supply growth from US, Russia and ex-OPEC should lead to Brent having a relatively strong 2Q. However, OPEC has shown flexibility and willingness to add production (due to the large spare capacity in OPEC) and considering that a wave of long-cycle projects are expected to come online in 2020, we caution against any huge upside to prices in the longer term (also, any large upside in the nearer-term would likely be short-lived)

Gold

December/January market volatility certainly contributed to gold's recent rally but we have seen the rally lose steam sometime in early February, despite a significant decrease in the US 10 year rates (which implies weaker economic growth). The disconnect may be attributable to real rates acting as a poor proxy for risk lately as most risk assets such as Equities and VIX both point to improving risk sentiment in 1Q. However, another crucial indicator in the form of US unemployment rate has remain low and this should keep late-cycle worries elevated, thus supporting the demand for gold. Other factors such as weak European growth and negative real rates in the region should also support gold prices.

Copper

Source: Bloomberg. 5 April 2019

Given copper's importance as a global growth proxy, the rebound in 1Q19 did not come as a surprise as risk-on sentiment has broadly returned along with a more dovish Fed. Copper's delta to improved macro sentiment should be the highest – specifically on the resolution of US-China trade deal and the increased liquidity/stimulus into China. On the demand side, we still see a constructive market for copper given several initiatives in China i.e. Infrastructure stimulus, home appliance stimulus, auto stimulus, and monetary easing. On the supply side, smelter output is also likely to be constrained in 1H19 while mine supply risks are high. As such, we expect the copper market to register a slight deficit in 2019 given the current demand/supply trajectories. We expect to see copper to hold or go slightly higher going forward.

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