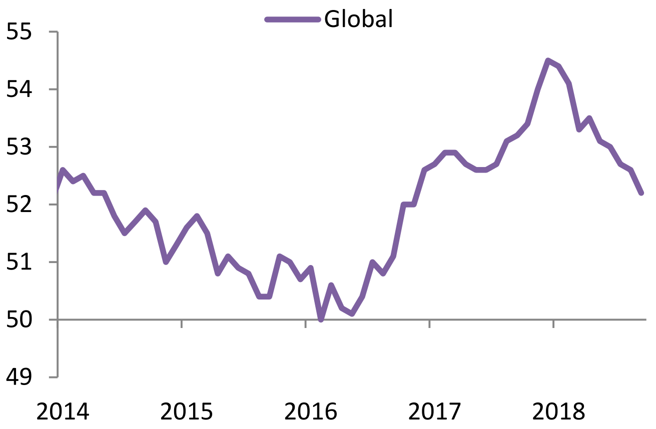
REGIONAL MARKET OUTLOOK

Quarter 4, 2018

TOGETHER WE PROGRESS

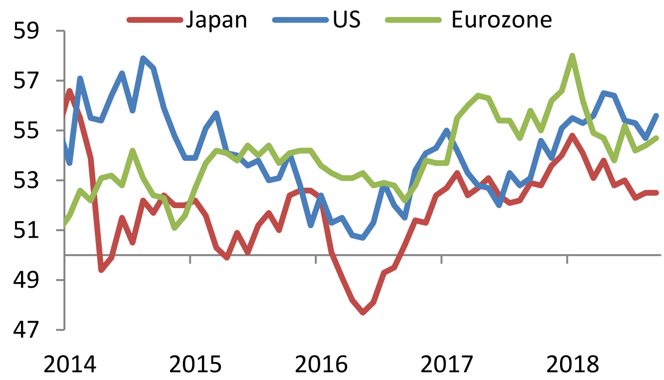
Global PMI

JP Morgan Global Manufacturing PMI



Source: RHB AM, Bloomberg, 10 October 2018

Developed Market Manufacturing PMIs

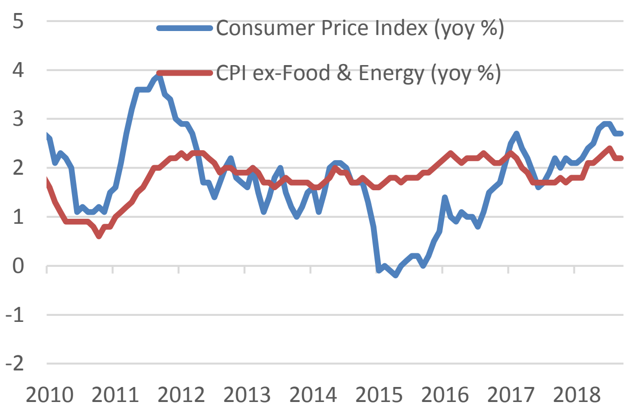


Source: RHB AM, Bloomberg, 10 October 2018

- JP Morgan Global Manufacturing PMI eased to 52.2 in September from 52.6 in August. The average reading for 3Q of 52.5 indicates a mild growth deceleration vs 2Q's 53.2.
- In 3Q, we saw a softer PMI in US, Europe and Japan.

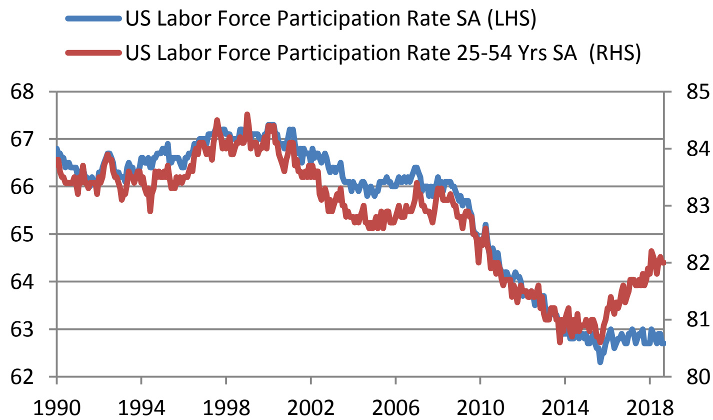
US

2017 US Core CPI Index



Source: RHB AM, Bloomberg, 10 October 2018

Labor Market remained strong

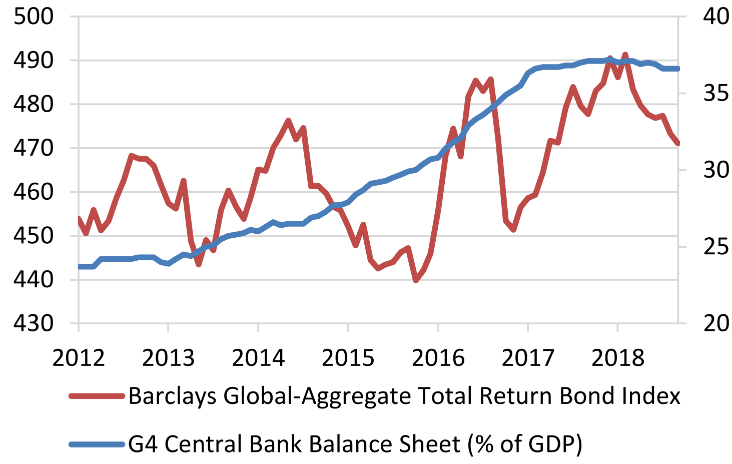


Source: RHB AM, Bloomberg, 10 October 2018

- Recent core inflation eased amid drop in used car prices. We continue to believe firming in labour costs and energy prices would feed through to consumer prices.
- The US Fed has continued to increase interest rates gradually. FOMC see one more hike on December and three more hikes next year.
- Further rate hikes or strengthening of the USD will be negative for Asian Equities.

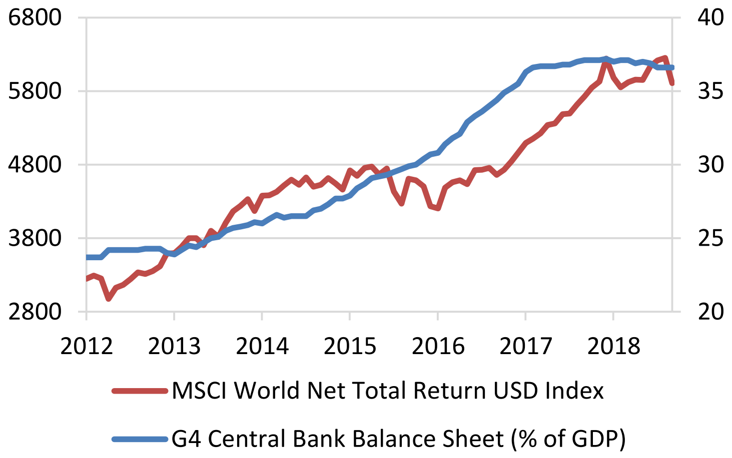
Global

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



Source: RHB AM, Bloomberg, 10 October 2018

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

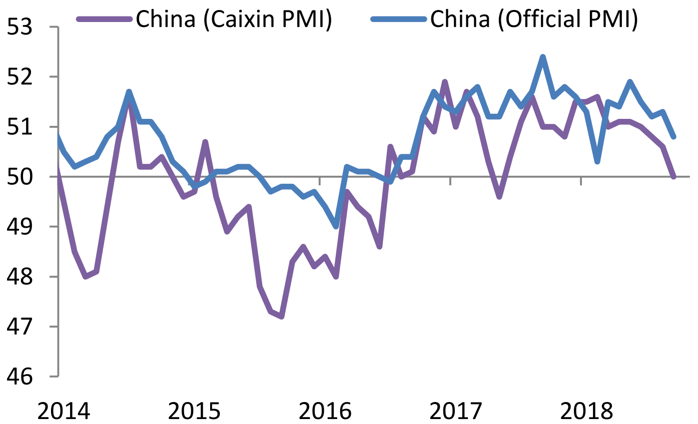


Source: RHB AM, Bloomberg, 10 October 2018

- G4 central banks have supplied a dramatic amount of liquidity since the GFC and has remained relatively stable in % of GDP terms this year.
- Main asset classes appear to have benefitted from the liquidity expansion supplied by the central banks.
- As central banks start to tighten policy, markets are set to face headwinds.

China

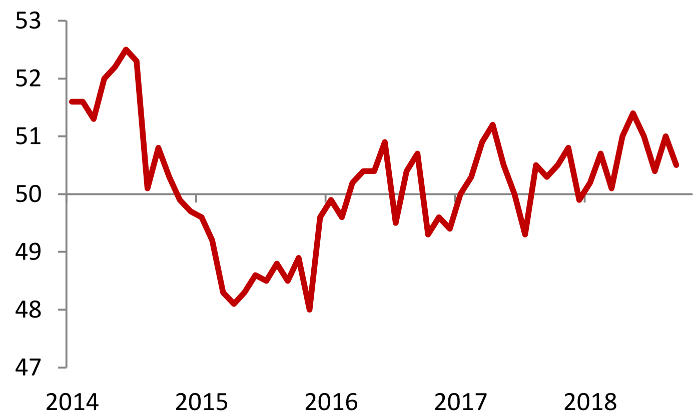
China PMIs (Caixin)



Source: RHB AM, Bloomberg, 10 October 2018

ASEAN

Manufacturing PMIs



Source: RHB AM, Bloomberg, 10 October 2018

- China's Caixin and official PMIs remained expansionary amid slower than 2Q 2018.
- Manufacturing PMI remains expansionary in most part of Asia except for Singapore in September.

Global

For the third quarter of 2018, global equity return was positive at 3.8% (USD terms) for equity investors. More importantly, the divergence between major indices were widened. The S&P500 rose +7.2% while the European bourses was performing well in July but fell short in August as the sell-off of Turkey Lira put concern to the European banking sector. Euro Stoxx close the third quarter flat at 0.1%. Italian FTSE MIB (-4.2%) and German DZX30 (-0.5%) while the French CAC40 (+3.2%) posted gains.

The third quarter was once again filled with political noise, but ultimately, investors held their nerves and continued to push risk assets higher. In August, the US sanctions may have been the trigger for the declines in Lira, but the concern about Turkey's rising inflation (15.8% y-y in July) and economic vulnerability was already acute to start with.

The Trump administration initiated the anti trade policy with an annoucement of a 25% tariff on Chinese products on 15th June. Since then, two phases of trade tariff has been implemented. The first phase was a price tag of 25% for $50 billion. The second phase was a price tag of 10% for another $200 billion and this will be increased to 25% on 1st January 2019. Unfortunately, China sent back a strong retaliatory message which sent the financial markets on a risk off mode once again where the CSI 300 was down 2.1% in 3Q.

On the macro-economic front, the activity picture remained strong. Leading indicators signalle sustained growth and businesses remained confident. The global manufacturing PMI remained solid with average reading of 52.5 indicates a mild growth deceleration vs 2Q's 53.2. In 3Q, we saw a softer PMI in US, Europe and Japan.

In its October update, the IMF World Economic Outlook report saw its first revision downwards of the global growth forecasts. The 2018 and 2019 growth project are cut by 0.2pts to 3.7% in both 2018 and 2019, unchanged from 3.7% in 2017. The strong 5.2% growth in world trade volume is estimated to slow down to 4.2% in 2018 and 4.0% in 2019 with downside risk as any escalation of trade tension would hurt long –term growth.

Business confidence in Germany has been improving since its low in July 2018 according to the Ifo institute survey. Japanese Tankan surveys has eased moderately since the quarter ending December 2017. With the increasing tensions on the anti-trade policy, one could hope that the recent revival in capital investment can be continued.

The recent equity valuation are attractive as investors stayed cautious amid the uncertainty brought up by the ongoing trade disputes. With the mid-term election in November and ongoing tensions from trade talks and sanctions, the financial markets would be challenging and investors will continue to focus on companies which exhibit earnings visibility and defensive qualities.

Singapore

The Straits Times Index was relatively flat in the 3Q as the trade war escalated between China and the US. Core inflation will continue to have upward pressure driven by rising imported inflation and wage pressures. As expected, the MAS steeped the SGD NEER in October. Singapore's MAS expects to see GDP growth closer to 3% in 2018 and moderating lower to 2.5% growth next year. Overall, we believe markets will be volatile leading up to the mid term elections in the US and possible extension of the trade war into next year. Currently the STI is trading at 11x FY19 PE which is slightly below its -1 std deviation, which may start to offer value.

Indonesia

3Q18 was a volatile period for JCI as strengthening USD, coupled with deteriorating Current Account Deficit triggered broad market sell-off in the Indo equity market. However, JCI still managed to appreciate by 3.1% during 3Q18, while YTD the index is down -6.0%. Bond market also experienced heavy selling, especially by foreign investors in the beginning of the month, before it turned more positive after the Central Bank of Indonesia increased its policy rate by 25 bps. The yield of 10-Yr government bond dropped the -8.7 bps to 8.20% as a result. Looking forward to 4Q18, the market should remain challenging driven by both external and internal factors. Uncertainty of global economics due to trade tensions sentiment, stronger USD and Fed rate tightening cycle has resulted in higher volatility to the global capital market. In addition, crude oil price has been rising to above USD80/barrels, which will continue to put pressure on both Indonesia's CAD outlook and IDR. Although Indonesia macro condition is more robust compared to 2013 taper tantrum, it still faces short-term risks in the CAD (4.4% in 2013 vs 3% 2018). The government and Bank Indonesia must choose stability over growth strategy in the short term, by accepting lower economic growth to suppress the persistently-high CAD. YTD Aug 2018 trade deficit has reached USD4bn. In the second week of October 2018, IDR depreciated further to c.15,300/USD, the weakest since 1998. The Central Bank has been actively trying to defend the IDR, which resulted in the fall of the Indo foreign reserve by IDR3.1bn to USD 114.8bn by the end of September 2018 (-11.9% YTD). However, the current level is still considered safe, as it would be able to finance 6.3 months of imports and sufficient to service the government debts. The Indonesia Government recently introduced several policies to curb imports. BI's rate hikes are necessary steps to address these challenges, but we believe it would take a lot more to stabilize the IDR. The biggest sticking point in government policy right now is its stubbornness to reduce subsidized fuel and electricity price hikes.

China/Hong Kong

In 3Q18, we had a weak quarter in HK/China market due to the slowing China's economy and trade war uncertainty. However, on earnings level, we still saw a solid picture in which over half companies met market expectation with 24% of them beat. We also felt comforted after the government launched more favourable measures to support the overall economy. We expect the market to remain volatile in the coming quarter and see a range-bound pattern towards year end. Valuation-wise, we think there will be more supports as the market is trading close to historical lows with a 9x forward P/E, especially for traditional industries. But for high valued stocks, we still see further downside as investors' risk appetite keeps on shrinking. We advise to skew portfolios towards companies with strong balance sheet, good cash flow and clear policy outlook. We also believe sector and stock selections hold the key to next year's performance.

Malaysia

Market Review

FBM KLCI rose 5.3% MoM in July 2018, mirroring the strong performance in ASEAN. Overnight Policy Rate was unchanged, MYR was stable while 10Y MGS fell 4.1% mom to 4.07%. Bank Negara Malaysia (BNM) kept the OPR unchanged at 3.25% at its fourth monetary policy meeting this year. This is the first meeting chaired by new Governor Nor Shamsiah. The decision came widely expected. Inflation rate slowed sharply in June 2018 to +0.8% YoY (May 2018: +1.8% YoY) as the zero rating of GST resulted in slower increases or declines in prices of CPI basket of goods and services. S&P Global Ratings expects Malaysia to record strong consumption growth in 2018, driven by steady income growth amid a one-off boost in the second quarter following the phasing out of the goods and services tax (GST).

For the month of August 18, global equity market continued to rise. However, China continued on its downtrend as the US upped the ante in the Sino-US trade conflict by preparing to impose harsher tariffs on an additional USD200bn worth of Chinese imports. The FBMKLCI started the month relatively stable, before turning positive in the second week of the month supported by foreign inflows. The index later declined on Aug. 13, 2018 on selling pressure due to the issue with the Turkey crisis. The Lira crumbled after Trump approved of higher tariffs and threat of sanctions. The index staged a recovery on the 20th of August 2018, on optimism over US-China trade talks which boosted sentiments. This buoyed the index to close at an intraday high on 23 August 2018, lifted by index heavyweights. The positive momentum continued; with the index then closed at its three-month high on news of the new NAFTA deal which improved investors risk appetite. Foreigners net sold MYR98.9mn worth of shares, bringing the total YTD net selling to MYR8.6bn.

Equity Market

On the economic front, Malaysia's Q218 GDP growth of only 4.5%yoy was a sharp miss of the Bloomberg consensus for 5.2% yoy. However, the underlying data are better than the headline implies. Domestic demand growth accelerated to 5.6% yoy from 4.1%yoy driven by consumption. The miss in the overall number came from shocks from the mining and agriculture sector that seem to be reversing

For the month of September 2018, FBM KLCI decline -26.5pts, or -1.5% MoM to 1,793 while MYR weakened 0.79% to 4.1390 in the month despite oil price rising +5%. However, Sept also saw net monthly inflows from foreign funds for the first time since GE14, albeit small, at +RM66.3m, thanks to the FTSE rebalancing on 21 Sept which resulted in net inflows into Malaysia with the inclusion of Hartalega and Dialog into the index.

The key headline in September 2018 was the end of the tax holiday with SST being re-introduced. The other big news is the announcement of the cancellation of 3 China-backed projects namely the East Coast Railway (ECRL) and the 2 gas pipeline projects estimated at US$23bn, with the penalty fee yet to be negotiated. More changes were seen in corporate Malaysia with the GLCs leading the pack. A new MCMC head was announced together with new heads at FGV, LTAT and MARA, while CIMB's chairman announced stepping down from his role at the end of the year.

The BNM MPC meeting held in the month did not reveal any surprises, as low inflation and the current account surplus provide flexibility for keeping policy rates on hold at 3.25%. The next and last MPC meeting for the year is scheduled on 8 Nov.

For the quarter FBMKLCI Index was up by 101.65 points. or 6.0%.

Market Outlook

We continue to expect the OPR to stay unchanged at 3.25% for the rest of this year. The tone of the latest MPC statement was expectedly more dovish, and we think BNM is likely in a wait-and-see mode. Lower headline inflation gives BNM room to ease monetary policy if needed. But for now, a steady growth path supported by sustained domestic demand and net exports should keep the policy rate flat.

Investors will be closely tracking development regarding policy and leadership changes at the government-linked investment companies. However, we believe near-term uncertainty, especially around Malaysia's fiscal deficit situation after the withdrawal of GST, could remain a sticking point especially for foreign investors.

The market is expected to remain in its consolidation phase over next three months due to a combination of external and domestic factors such as trade-related tensions, slowdown in global growth momentum and worsening China growth amidst deleveraging.

Equity Market

The EM currency weakness over the last six months is the result of dollar strength amid heightened trade tensions, while medium-term headwinds are not diminishing. The USD:MYR has weakened almost 7% against the USD since the last six months, to 4.14. While the MYR has held up relatively well vs. EM due to central bank exchange rulings and a positive current account surplus, what may work against the MYR is the high level of foreign ownership of 40% in Malaysia Government Securities (MGS), leaving little room for policy error, given the narrow fiscal space. A weaker MYR would be positive for exporters (including rubber manufacturers and tech), petrochemicals, plantations and tourism.

That said, we are reluctant to be underweight on the market and would still like to give the benefit of the doubt to the new government as they come out with policies and direction to deliver on their promise of reforms over medium-term. We believe an economy with less leakages will likely be able to fully realise its growth potential and investors may be more willing to give a higher valuation premium eventually. With this in mind, we see value emerging for investors with medium-term investment horizon and investing opportunities in selected themes/sectors/stocks at more palatable valuations.

The coming budget in 2 Nov 18 will be closely watched as investors will see how the new government will chart economy growth going forward. As the priority is to reduce the nation debt, we believe that certain sectors will face lower allocation and some form of taxes may be introduced to increase the national revenue.

In our view apart from global factors, return of foreign funds will hinge on 1) reaffirmation of MY sovereign credit rating 2) RM stability 3) market earnings/GDP outlook and 4) greater clarity on GLC leadership. We see upcoming Budget on 2 Nov as a key market event unlike previous Budgets.

Global Bond Market

U.S. Treasuries and G10 Bonds

US Treasury (“UST”) 10-year yields started the month of September 2018 at 2.90% and resumed the climb higher , as fears of USTR imposing 25% on the additional 200bio on additional tariffs for imports from China concluded with just 10% imposed, which the treasury market seemed to react favorably to. The heavy corporate bond supply as the market comes back from summer holidays could possibly be another factor for US Treasury selling as investors reposition into higher yields from corporate bonds.

In terms of supply, the UST issued a total of $773 bio (vs $ 867bio last month), across bills and 2y, 5y, 7y, 10y and 30y bonds in the month of September 2018 with supply distribution still mainly skewed in the front end bills of 1 to 6 month tenor.

In terms of significant economic data release, the Institute of Supply Management (“ISM”) Manufacturing Index for August 2018 printed at 61.3, much higher than the 57.6 expected. Nonfarm Payrolls (“NFP”) in the United States released for August 2018 showed the economy added 201,000 new jobs, which beat the 190,000 expectations, and higher than July’s revised reading of +147,000. Average Hourly Earnings increased more than expected at 2.9% YoY (+0.4%MoM), beating consensus estimates of 2.7%. On inflation, the United States Personal Consumption Expenditure (“PCE”), the Fed’s preferred measure of inflation, printed at 2.0% YoY for July 2018. Unemployment Rate was 3.9%YoY for August 2018 (Previous month was 3.9%). U.S. July Trade deficit widened the most in 3 years by nearly 10% Month on Month from -$45.7bio in June to $50.1bio. The widening trade deficit was within expectations and is the first trade data since imposition of 25% tariffs on Chinese imports worth $34bio.

At the end of September 2018 close, the benchmark 2-, 5-, 10- and 30-year UST were last traded at 2.82% (August-2018: 2.63% +19bps), 2.95% (2.74%; +21bps), 3.06% (2.86%; +20bps) and 3.20% (3.02%; +18bps) respectively. The US Treasury bond yield curve had an almost parallel shift higher on better risk sentiment, higher Bund yields and repricing in of the widely expected 25bp rate hike in the FOMC

The Bank of Japan ("BOJ") meeting on July 31st maintained the policy balance rate at -0.10% and a 10y JGB yield target at 0%, cutting the inflation forecast for the current year FY19 and FY20 as it says likely to take more time than expected to achieve the 2% inflation target. Other salient points;

- To allow upward and downward movement in the 10-year yield as much as 20bps above or below 0% target
- Intends to keep very low rates for an "extended period of time"
- Introduces forward guidance, says strengthening framework for continuous powerful monetary easing

In Asia, China's August Industrial production ("IP") growth was in line with market expectations, up marginally in August 2018 to 6.1% from 6.0% in July 2018 – partly due to a favourable base effect. After accelerating temporarily in April and May, the industrial sector appears to have stabilised at around 6.0% growth. China's government has clearly shifted its policy priority to stabilising growth from deleveraging amid escalating tensions with the US and will likely make a concerted effort to achieve its 6.5% growth target for 2018.

Meanwhile, the People's Bank of China ("PBoC") has removed its tightening monetary policy bias, providing ample liquidity in the interbank market. Recent remarks by PBoC officials suggest a preference for total social financing ("TSF") to grow in pace with nominal Growth Domestic Product ("GDP"). However, we believe unclogging the transmission mechanism in order to channel financing to the real economy remains a key challenge.

Ringgit Sovereign Bond

Malaysian Ringgit ("MYR") continued to depreciate in September 2018, the 5th consecutive month since April against the United States Dollar ("USD") despite Brent crude continuing to rally. USDMYR climbed from 4.1285 at the start of the month and closed the end of the month above the 4.1383, representing a -0.71% total return, and overall the 5th worst performing Asian currency after the Japanese Yen ("JPY"), Indian Rupee ("INR"), Indonesia Rupiah ("IDR") and Philippine Peso ("PHP') . Local government bond yields appear to be holding up well as levels continue to be supported during the month. Although the Malaysia Government Securities ("MGS") drifted higher at the early part of the month by 10-15 basis points ("bps") as the fear of contagion risks from the sell-off of Emerging Market ("EM") currencies, local bond market remain resilient, anchored by strong domestic support. We believe onshore real money support has remained supportive in recent months, reflected by strong bid to cover ("BTC") trends from concluded government bond tenders. Overall, the curve has bear-flattened during the month with short-tenor MGS softened about 10 bps while the longer-tenor cheapened just by less than 3 bps as the upward movement in yields at the early part of the month ended with bargain hunting opportunity for some investors. At month-end closed, MGS yields 3-, 5-, 7-, 10-, 15-, 20- and 30-year MGS were reported at 3.60% (Aug-2018: 3.48%), 3.75% (3.70%), 3.95% (3.94%), 4.07% (4.04%), 4.49% (4.47%), 4.68% (4.68%) and 4.91% (4.90%) respectively. The Government Investment Issues ("GII") – Shariah compliant version of MGS mirrored the same pattern with its MGS counterpart as the short-tenor yield ended higher while the backend of the curve flattened. At month end close, the 3-, 5-, 7-, 10-, 15-, 20- and 30-year GII were reported at 3.70% (Aug-2018: 3.51%), 3.87% (3.82%), 4.02% (4.00%), 4.14% (4.14%), 4.56% (4.53%), 4.75% (4.75%) and 4.93% (4.92%) respectively

On the economic front, BNM at their last Monetary Policy Meeting ("MPC") kept policy rates on hold as widely expected. However, the MPC was seen to be less optimistic on domestic growth as the "ongoing infrastructure projects" are no longer a driver of fixed investments. Therefore, public spending was seen to weigh heavily to support the domestic growth for the time being. We are of the view that the upcoming Budget 2019, scheduled to be on 2nd November 2018 will provide further clarification on Government efforts and plans to improve domestic growth while maintaining a prudent fiscal tone.

Despite the downside surprise in the 2nd Quarter 2018 GDP, BNM takes comfort from strength in underlying demand noting that external demand remains relatively robust despite some slight moderation in exports. However, BNM has now lowered down its 2018 GDP forecast at around 5.0% from 5.5%-6.0% previously. With lower Malaysia GDP forecasted for 2018, BNM is expected to maintain the OPR at 3.25% signalling comfort with its current policy stance. We expect BNM to maintain rates through 2H18, as the temporary disinflation weakens the case for rate hikes, while financial stability considerations may raise the hurdle for rate cuts.

Ringgit Corporate Bond

In the ringgit corporate bond space, overall monthly trading volume moderated in the month of September 2018 amid higher government bond yields as the markets were caught by surprise on the overall contagion risk fears on emerging market currencies. On top of that, lesser trading days also contributed to overall lower trading volume of MYR9.34 billion compared to MYR11.82 billion recorded last month. However, as yields adjusted higher and the emerging market risks look to be contained, liquidity appeared to improve towards the end of the month as quarter-end buying flowed in and the average daily volume managed to close at about MYR550 million in September 2018, which is just slightly lower than the average daily volume recorded in previous month of August 2018 amounted to MYR563 million. Most of the trading activities were highly concentrated in Government Guaranteed ("GG") space. Nevertheless on a monthly basis, AAA space showed better trading activities with longer dated Tenaga and Danga emerged as highly traded names in the space alongside the usual short-dated Cagamas bond. During the month, a combination of Government Guaranteed ("GG") and AAA space witnessed the highest number of trades, changing hands at about 58% followed by AA space by 40% and single-A or lower by 2%.

Within the Government Guaranteed ("GG")/AAA space, Danainfra garnered more than MYR1 billion in transaction volume across the tenors which saw the yield for longer maturity of 2030 and 2033 closing lower by 2 basis points month-over-month. Volume was also seen in Prasarana papers which recorded about MYR900 million in transaction volume across the maturity. The 2024 maturity traded 5 basis points higher for the good amount of MYR410 million. For AAA space, the short-tenor Danga maturing in 2020 saw some MYR230 million changing hands with the yield closed 5 basis points lower compared to previous month. While the newly issued Tenaga assembled some MYR310 million trades for both maturity of 2033 and 2038 and closed 2 basis points lower towards the month end. Elsewhere in AA-rated space, Sarawak Energy Berhad ("SEB") continue to top the trading activities with more than MYR400 million changing hands across the tenor with the 2035 maturity closed at 8 basis points lower compared to last month as demand for the name emerged better after the Rating Agency Malaysia ("RAM") revised SEB's issuer rating to positive outlook in August 2018. For the A-rated universe, Bank Islam sub-ordinated paper printed some RM90 million transaction volume during the month which saw the yield softened by 1 basis point higher.

In the primary market space, we witnessed moderate fresh primary issuances in the month of September, with a cumulative issuances of less than MYR2 billion. In the GG space, Prasarana raised a total of RM1 billion in size for the 3-year, 5-year, 7-year and 10-year maturity, which closed at a final yield of 3.94%, 4.03%, 4.16% and 4.32% respectively. HSBC Amanah, rated AAA, also managed to issue MYR500 million in 5-year maturity at a final yield of 4.30%. On another note, UMW Holdings rated AA2, issued approximately MYR200 million for its 5-year paper at a coupon of 4.65% and privately placed to investors at a final yield of 4.60%. Another AA3 issuer, BGSM Management raised MYR200 million for its 3-year and 5-year maturity with a final yield of 4.55% and 4.65% respectively.

Outlook & Strategy

The selloff in US Treasury yields resumed when EM contagion risk fears subsided and Italian bond yield selling off amid upcoming budget concerns and Draghi's remarks about a "relatively vigorous" pickup in underlying euro-area inflation. The Standard & Poor's 500 Index ("SPX") closed at 2,914 (+0.43% MoM) while the SPX Volatility Index ("VIX") stayed range bound and low, closing the month little changed at 12.12.

Turkey raised interest rates by 625 bps from 17.75% to 24% on 13 September as the central bank reasserts their independence on monetary policy in spite of Erdogan's insistence on keeping rates low. The Turkish lira surged as much as 4.6% against USD in reaction to the higher than expected rate hike. Overall, the Turkish Lira appreciated by as much as 7.4% against the USD (representing a +7.99% spot total return) to 6.0559 as of 28 September 2018.

In China, post the 10% (instead of 25% as initially expected) tariffs on an additional US$200bn Chinese imports announced by the United States Trade Representative ("USTR") on 18 September to take into effect on 24 September, China swiftly responded with an additional $60bio of tariffs on US Imports in the range of 5% to 10% and a week later announced that it would cut import tariffs on numerous non-American goods which will take into effect November 1, in a move that analysts believe were designed to protect Chinese consumers against the US Trade Tariffs. Trade tensions between the US and China rose slightly higher over the end of the month as Beijing withdrew from the negotiations that had been tentatively scheduled to take place in Washington on 27-28 September. Chinese officials may try and re-schedule something next month, but Beijing may likely not engage in substantive conversations until after the mid-terms in Nov. The People's Bank of China ("PBOC") left short-term rates unchanged on 27 September, choosing not to follow the 25bp benchmark interest rate rise by the FOMC despite the risk of continued downward pressure on the CNY.

We still retain our core view that Advanced Economy ("AE") rates (with the exception of Quantitative Easing ("QE") countries like Europe and Japan) will continue the ascent this year, though at a slower rate depending on how the "trade war" plays out, and medium term we are expecting 10y treasuries to trade around 3% on the fiscal deficit and debt burden. That said, dampening the surge in US yields would depend on how the "global trade war tensions" and EM "crisis" plays out. Our broader global bond strategy is to take profit on bonds that have surpassed their fair values given current valuations and redeploy the cash into undervalued government bonds or credits for repositioning.

Credit Market

On the domestic MYR front, as we had stated previously, the recent upward adjustment of yields emerged as a trading opportunity to tactically acquire bonds for investments since we do not anticipate further rate hikes domestically for this year. However, with domestic growth seen stabilizing and BNM appeared to be comfortable with the current policy stance, we are in a view that the recent data is not yet sufficient to push BNM into considering a rate cut. Therefore, we are expecting the current government bond yields to be range-bound as further upward adjustment in the local government bonds yield will entice real money support and bargain hunters while we think the hurdle has increased for the curve to shift significantly lower in the absence of either large foreign inflows or an explicit dovish signal from the central bank. In terms of corporate bonds, we remain constructive on the demand and supply dynamics in this space as supply remains moderate. There were only a total of MYR20.2 billion issuances in the 3rd Quarter of 2018 versus MYR25.4 billion issued in the 2nd Quarter of 2018. With over MYR26 billion maturity expected in this upcoming final quarter of the year from both corporate and government bonds space, we anticipate these to bode well for the supply and demand dynamics of the local bonds market as investors searching for higher new issuance yield premium for the portfolio. It will also cap further deterioration in yields for corporate bonds segment while lending support to secondary market trading. Therefore, strategically, we will tactically invest in corporate bonds where we see yields as attractive vis a vis its decent credit fundamentals; notwithstanding higher participation in new issuances to ride on the re-pricing of yields to boost overall portfolio yield.

Oil

WTI ($/bbl)

Source: Bloomberg. October, 2018.

We are keeping to our view of WTI range US$65-75 for 2019, as we approach deadline for Iran sanction in Nov. Fundamental remains attractive and oil provides a good hedge against increased geopolitical risks as well as an inflation hedge during late cycle economic growth. The tightness in inventories is resulting in a positive carry of about +5-6% annualised in the oil market. In the next 6 months, oil market has to navigate its way through: supportive factors like Iran sanction (Nov 3), unplanned outrages from Venezuela / Libya and Nigeria, pinch from underinvestment in E&P resulting in low inventory level as well as contradictory factors like OPEC+/US politic before the midterm election, unwinding of speculative positioning and potential demand decline due to trade tension on the back of higher oil prices in 4Q18 then into 1H19. Tension should ease slightly into 2H as US oil starts entering the market.

Gold

Gold price has been declining in 2018 due mainly to (1) decelerating EM growth and (2) EM currencies depreciation, leading to deteriorating dollar purchasing power and hence gold demand from EM countries. The sell-off was further exacerbated by the liquidation of speculative positions on Comex and ETFs on the back of stronger US dollar trend, dimming near-term gold prospects. As federal reserve continues with its gradual interest rate hike to reverse their expansionary monetary policy since GFC 10 years ago, we believe it's unlikely to see inflation to creep up in the short-to-medium term. As such, we are of the view that gold price will remain range-bound as there is no reason for investors to buy into this non-yielding asset class under a low inflation environment.

Commodity Market

Copper

Source: Bloomberg. October, 2018.

Copper prices have fallen -5.6% as the market risk off in 3Q, reflecting the pessimism in the sentiment. Preliminary China's trade data for September, we saw that copper unwrought and semi import grew +21% yoy – the highest since Mar 2016. Similarly, copper concentrate imports increased +31% yoy to 1.9mt, bringing year to date volume to 15mt (+20% yoy). Gradually, we are seeing a shift in physical market dynamics as spot treatment and refining charges (TCs/TCRs) start to creep up as metal availability tightened. Underlying demand seems to be on a recovery path as low prices induce some re-stocking in the market. Feedback from the ground indicates increased activity levels in the power grid, particularly in the north of China. Despite the underlying strength, copper has been used as one of the proxy to express views on China weakness. Copper has a strong correlation to the global economy and risk appetite. The tear between macro triggers and micro improvement will continue to play out until end of the year until market finds its footing.

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