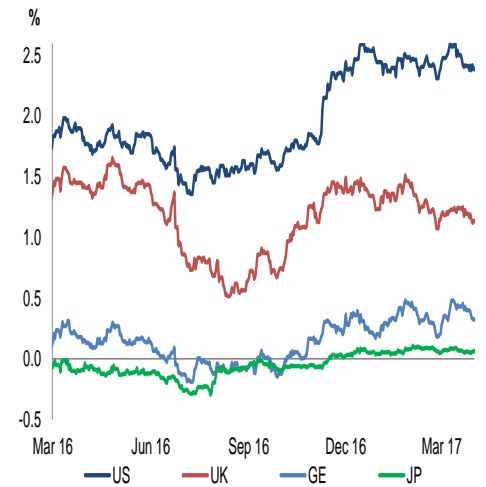


UK Triggered Article 50; Tough US Fiscal Outlook Weighed on USD

Global Markets:

- US & UK: FOMC lifted rates by 25bps; uncertainties continue to plague UK outlook.** The US Federal Reserve increased its interest benchmark by 25bps on March 15th for the second quarter in a row. The central bank's forward guidance helped markets, including EM, to cushion the decision and mitigate excess volatility. The post FOMC bond rally illustrates that the decision was fully priced in, identical to what one would expect if the Fed had eased; overall the 10y UST recovered losses closing flat by -0.2bps and the USD dropped by -0.76% m-o-m. The Dollar setback and UST resilience were also further exacerbated as President Trump and his administration were snubbed by Congress to repeal Obama's healthcare plan questioning the president's ability to be a deal-maker and to deliver on pledges of fiscal policies. Over in the UK, Gilt yields were little changed while the Sterling outperformed within the G10 space m-o-m, as PM May's government officially triggered Article 50 of the Lisbon Treaty despite several setbacks in the House of Lords earlier in the month. Uncertainties surrounding Brexit negotiations continued to keep a lid on upward yield movements, despite the more optimistic economic outlook post-referendum alongside hawkish BoE market expectations on the accelerating inflation.
- Eurozone: Widening core-peripheral spreads ahead of French Elections.** The result of the Dutch presidential election came as a relief as the far-right party did not manage to win the race despite leading in the polls for over a year. The Euro rallied, also bolstered by a softer USD post-FOMC decision, and closed 0.72% higher over the month of March and the spread between 10y Dutch yield and 10y Bund yield tightened. Yet looking forward, we continue to favour the Bund as the safe haven of choice in Europe ahead of the French election (April 23rd) with wider spreads expected, while the Euro could retest previous lows in the 1.0450/1.0500 area.
- Japan & Australia: Poor performance on AUD as weak commodity prices weighed on the resource exporter.** The Japanese Yen strongly appreciated over the course of March as: (i) being fully priced-in, the FOMC's market reaction caused the USD to weaken; and (ii) US political noises with President Trump's failure to repeal the healthcare plan spurred a risk-off sentiment. JGB falls ahead and after BoJ's decision to cut the size of its purchases of 1-5 JGBs in April causing the 2y yield to rise by 7.7bps while leaving the rest of the program unchanged. Over in Australia, AUD was one of the poorest performers among G10 FX m-o-m, despite the softer dollar which is conventionally AUD-positive, given the c.12% decline in iron ore prices over the abovementioned period. 2y and 10y ACGB yields tightened c.6bps and c.2bps m-o-m respectively, given lower DM yields alongside soft Australian labour data due.

Chart 1: Major 10y Bond Yields



Source: Bloomberg, RHBFIG

Chart 2: Selected AxJ 10y Bond Yields



Source: Bloomberg, RHBFIG

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AxJ Markets:

- ◆ **Developed AxJ: Extended rally on KRW following ruling on President Park's impeachment.** Mixed movements were seen on the SGS curve, with yields on 10y declining by 6bps m-o-m to 2.25%, supporting a widening 10y SGS-UST spread in March. The recovery in external export demand has further dampened expectations for further MAS easing this year, with the rising price pressures suggesting possible tightening monetary policies in 2018. SGD broke the 1.40/USD resistance level but failed to materially appreciate further as investors continue to await further insights from US fiscal outlook. South Korean Constitutional Court's affirmative ruling on President Park's impeachment spurred extended rallies on the KRW, as prospect for a 2H17 supplementary budget by the new President diminished likelihood for further BoK easing this year. USDKRW retraced from its 1,160 intra-month high to end the month at 1,119, registering the second best performance behind THB. While pickup in South Korean's CPI towards the 2% target could cement BoK's neutral stance, we see the widening 3/10y KTB spread towards its 18-month high appearing attractive for investors to shift to a neutral duration stance against a backdrop of weak demand push price pressures.
- ◆ **Emerging AxJ: Mixed currency movements on AxJ currencies, with CNY underperforming the bloc despite mirroring FOMC's rate hike.** PBoC mirrored FOMC's tightening policies as it lifted the reverse repo and MLF rates by 10bps for the second time this year post FOMC announcement, signaling its firm commitment to support deleveraging in the economy. Yields on CGBs however, remained relatively stable m-o-m compared to its offshore counterpart, mitigated by the prospect of CGB inclusions into major indices. Performance on CNY was lackluster despite softer movements seen on USD as China reported its first monthly trade deficit, attributed to higher commodity prices and rising domestic demand. While the deficit is likely to be a blip, external pressure from the Trump administration continue to exacerbate concerns on CNY given risk of protectionist trade policies. Turning to Thailand, pace of foreign reserves accumulation stalled over the course of March, with THB emerging as the strongest FX performer across the region, appreciating by 1.67% to 34.35/USD. Despite diminished prospects of further BoT easing, strong demand for ThaiGBs were in line with increased risk appetite within the AxJ region over March, keeping yields on 10y ThaiGB anchored at 2.69%. Elsewhere, 3y and 10y MGS yields climbed c.9-19bps m-o-m on rising inflation, lack of foreign buying and the possibility of expanding short-selling of government securities. USDMYR fell 0.34% m-o-m on the softer dollar movements, although volatility remained contained, in contrast to the wild swings seen after the US election; foreign reserves fell USD0.1bn as of mid-March, although the measure was off by USD3.4bn since the peak in mid-November 2016. IndoGBs appeared to be the outperformer within our AxJ coverage space m-o-m, despite surging headline inflationary pressures alongside rising BI reluctance to take benchmark rates lower. A successful conclusion to the tax amnesty program (additional IDR130.2trn in revenue) and optimistic speculations of an impending S&P rating upgrade drove foreign purchases of Indonesian government securities (USD2.23trn in March). Meanwhile, USDIDR remained stable within the 13,300 handle m-o-m.

Monthly Sovereign Rates and FX Changes

Country	2y			10y				2/10y Spread (bps)	Currency **	FX Rate (per USD)	
	Closing Yield (%)	Yield Change (bps)	3m Avg Yield (%)	Closing Yield (%)	Yield Change (bps)	3m Avg Yield (%)	Current vs 3m Avg (bps)			Last Traded Price	Daily Change (%)
US	1.254	-0.6	1.237	2.387	-0.2	2.443	-5.6	113.3	DXY	100.350	-0.76
										ADXY	105.520
UK	0.118	2.4	0.119	1.138	-1.1	1.271	-13.3	102.0	GBP	1.2550	1.37
GE	-0.750	15.9	-0.781	0.325	11.9	0.362	-3.7	107.5			
FR	-0.305	23.7	-0.511	0.966	8.0	0.980	-1.4	127.1			
SP	-0.184	-4.2	-0.236	1.652	1.6	1.646	0.6	183.6	EUR	1.0652	0.72
IT	-0.065	-2.8	-0.043	2.309	23.0	2.172	13.7	237.4			
PO	0.551	58.0	0.134	3.954	10.0	4.006	-5.2	340.3			
JP	-0.186	7.7	-0.238	0.070	1.4	0.077	-0.7	25.6	JPY	111.39	-1.22
AU	1.749	-5.6	1.829	2.701	-2.1	2.766	-6.5	95.2	AUD	0.7629	-0.37
SG	1.323	9.5	1.233	2.246	-6.0	2.309	-6.2	92.3	SGD	1.3971	-0.43
SK*	1.668	0.1	1.660	2.190	3.5	2.173	1.7	52.2	KRW	1,118.5	-1.05
CH	2.701	0.0	2.674	3.279	-3.3	3.324	-4.5	57.8	CNY	6.8872	0.29
CH (offshore)*	4.247	3.7	4.191	4.564	26.3	4.278	28.7	31.7	CNH	6.8715	0.23
MY*	3.504	18.6	3.365	4.139	8.7	4.131	0.8	63.5	MYR	4.426	-0.34
									SGD/MYR	3.1650	-0.04
TH	1.536	2.3	1.649	2.687	1.6	2.709	-2.2	115.1	THB	34.353	-1.67
ID*	6.618	-41.5	6.950	7.015	-48.9	7.435	-42.0	39.7	IDR	13,322.0	-0.12

Source: RHBFC, Bloomberg

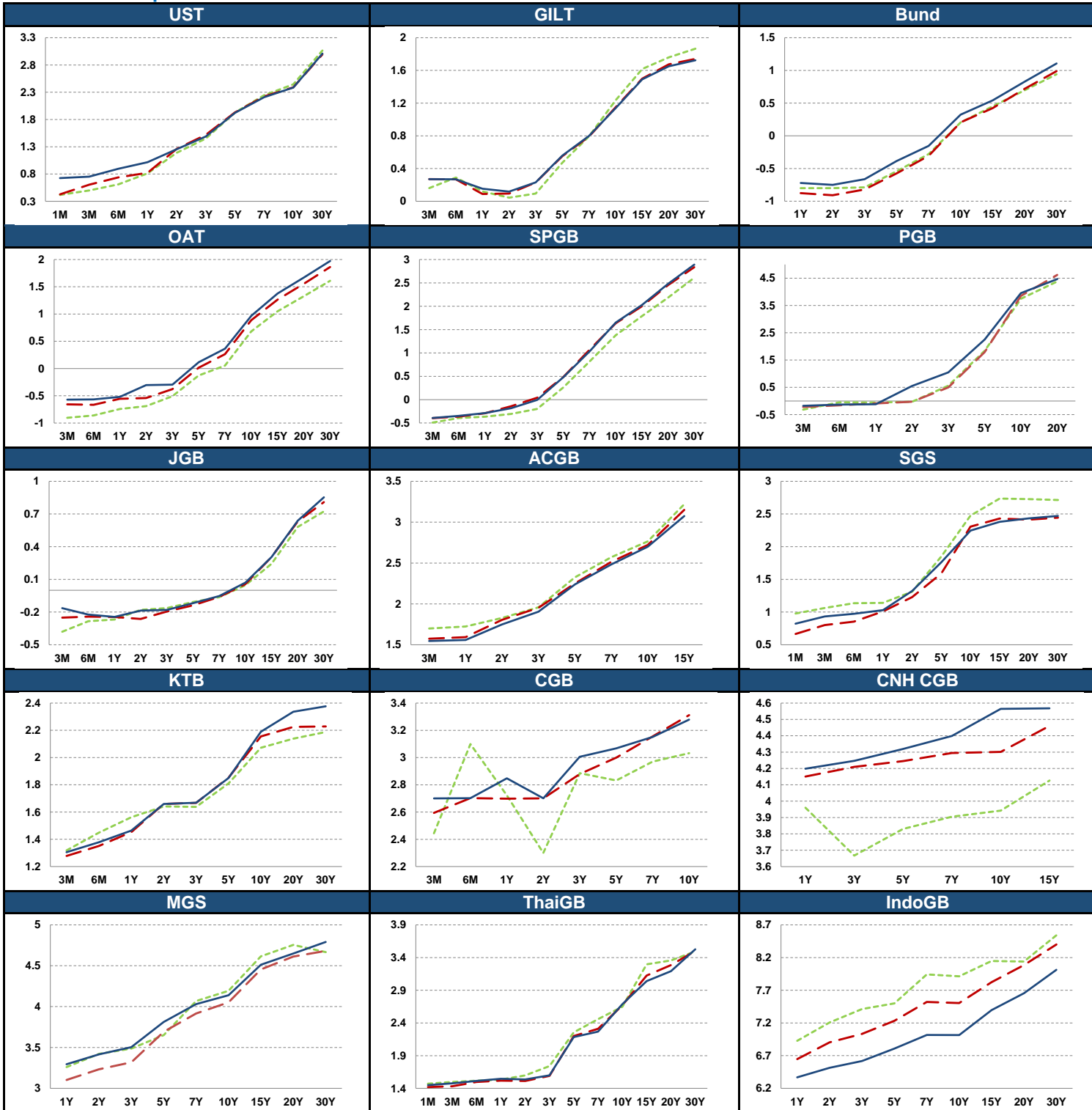
*3y

**Against USD unless otherwise mentioned

***Green and Red fonts denote gains or losses in the corresponding bonds and currencies.

Yield Curve Recap

--- 30-Dec-16 - - - 28-Feb-17 — 31-Mar-17



Source: RHBFIG, Bloomberg

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