Hong Leong Bank

Quarterly Market Outlook 1Q2025

Global Markets

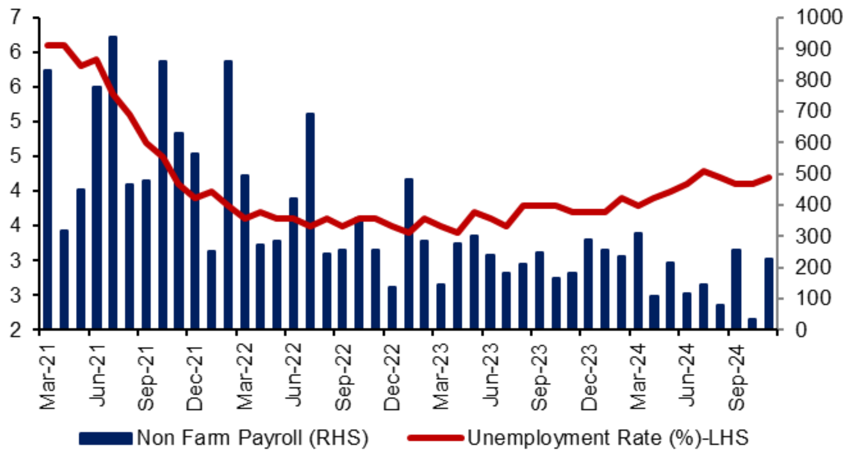
January 2025

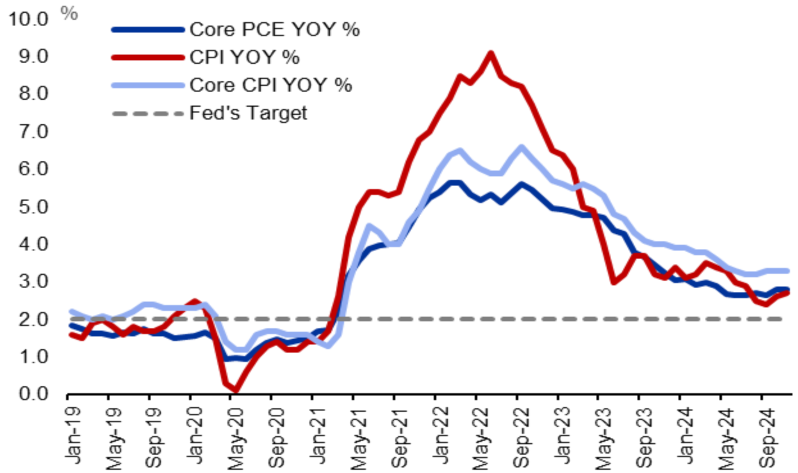
Global Central Banks Policy Rates Outlook

	Current	1Q25	2Q25	3Q25	4Q25	Remarks
United States Federal Reserve *Fed Funds Rate*	4.25-4.50	4.00-4.25 (-25bps)	3.75-4.00 (-25bps)	3.75-4.00	3.75-4.00	**-50bps**
Eurozone European Central Bank *Deposit Rate*	3.00	2.50 (-50bps)	2.00 (-50bps)	2.00	2.00	**-100bps**
United Kingdom Bank of England *Bank Rate*	4.75	4.50 (-25bps)	4.25 (-25bps)	4.00 (-25bps)	4.00	**-75bps**
Japan Bank of Japan *Policy Balance Rate*	0.25	0.50 (+25bps)	0.50	0.75 (+25bps)	0.75	**+50bps**
Australia Reserve Bank of Australia *Cash Rate*	4.35	4.35	4.10 (-25bps)	3.85 (-25bps)	3.60 (-25bps)	**-75bps**
New Zealand Reserve Bank of New Zealand *Official Cash Rate*	4.25	3.75 (-50bps)	3.50 (-25bps)	3.25 (-25bps)	3.00 (-25bps)	**-125bps**
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*	2.25	2.25	2.00 (-25bps)	2.00	2.00	**-25bps**
Indonesia Bank Indonesia *7-day Reverse Repo Rate*	6.00	5.75 (-25bps)	5.50 (-25bps)	5.25 (-25bps)	5.25	**-75bps**

Source: Bloomberg, HLBB Global Markets Research

US – Less confidence in disinflationary path with Trump 2.0



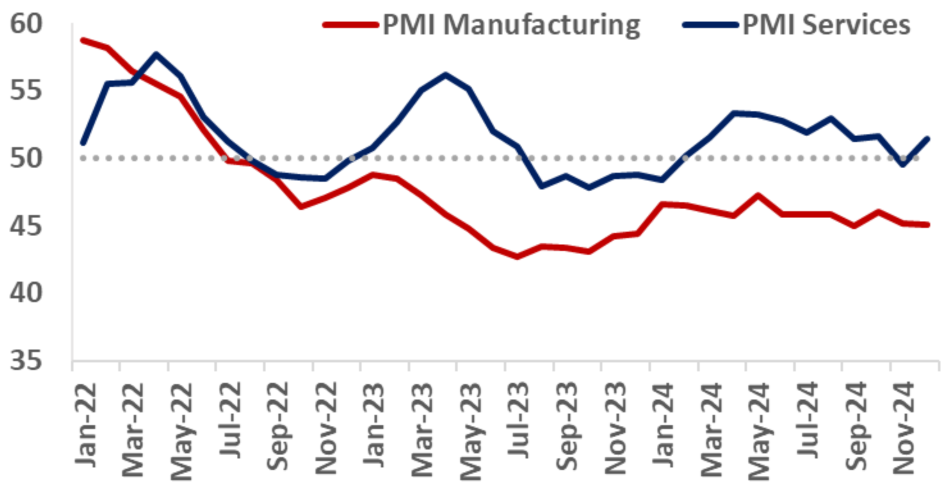


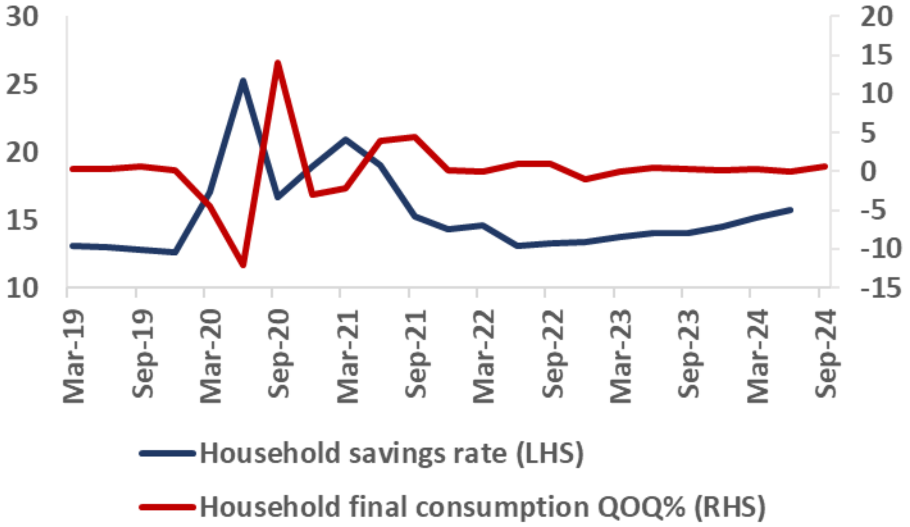
	2023	2024e	2025F
GDP (%)	2.9	2.5	2.1
Core PCE Inflation (%)	4.2	2.8	2.5
Fed Funds Rate (%)	5.25-5.50	4.25-4.50	3.75-4.00
Dollar Index (End of period)	101.33	108.48	104.45

Source: Fed, Bloomberg, HLBB Global Markets Research

- The US economy and labour market have remained solid and better than expected; protectionist policies could temper global trade and possibly US GDP
- Protectionist policies raises stagflationary risks (potentially higher gas prices from Canada, food prices from Mexico) – looking for better clarity in 1Q which will likely materialize in 2H; burden of tariffs will fall on consumers, especially lower income earners, and/or importers
- Potential beneficiaries from protectionist policies: auto, manufacturing, critical supply chain-related sectors; and last but not least consumers (potentially) because of the buying American, hiring Americans manifesto

Eurozone – Weak growth bigger threat than inflation



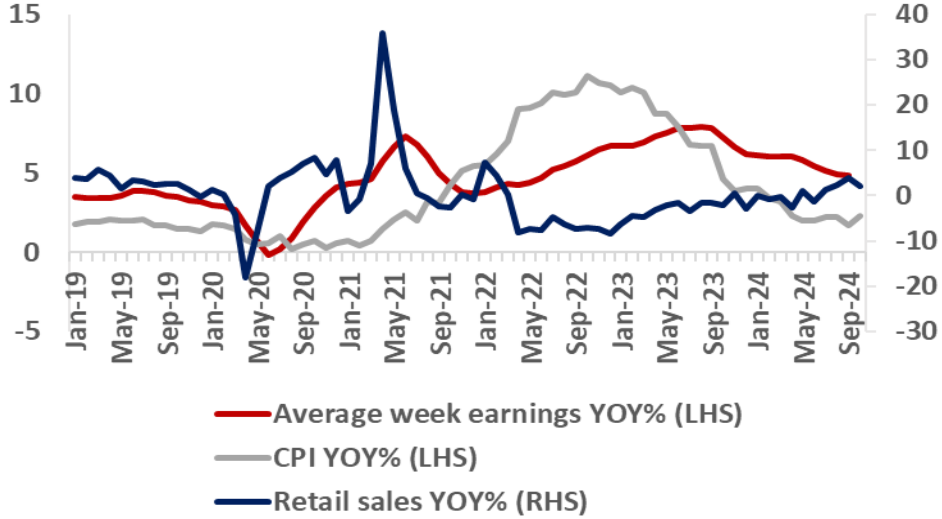


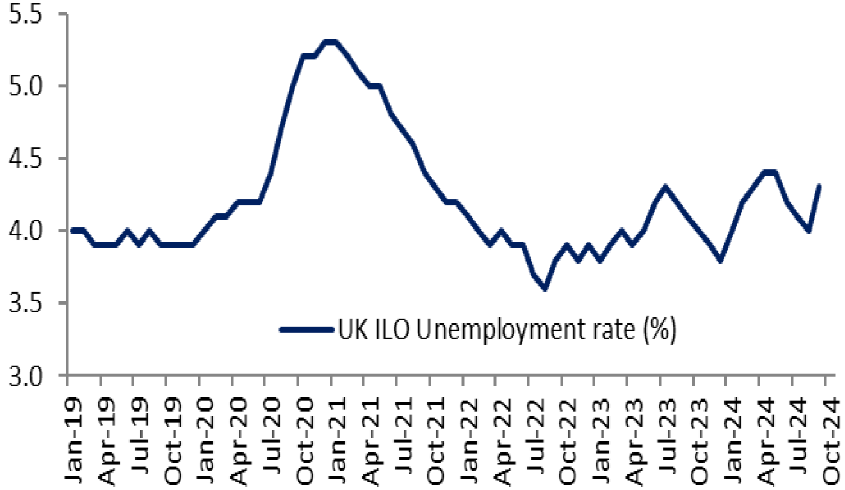
	2023	2024e	2025F
GDP (%)	0.4	0.7	1.1
Inflation (%)	5.5	2.4	2.1
Deposit Facility Rate (%)	4.00	3.00	2.00
EUR/USD (End of period)	1.1039	1.0354	1.06

Source: ECB, Bloomberg, HLBB Global Markets Research

- Weakening across activities and countries – manufacturing PMI still contractionary, services sector expanding at slower pace as compared to its peak in 2Q of 2024; Concerns about global trade outlook, geopolitical, political & policy uncertainty
- Disconnect between high savings rate and private consumption – recovery likely supported by growth in real income, lower inflation, improved confidence, savings above pre-pandemic levels, fading out effects from the restrictive monetary policies

UK – Autumn Budget prompted a hawkish cut



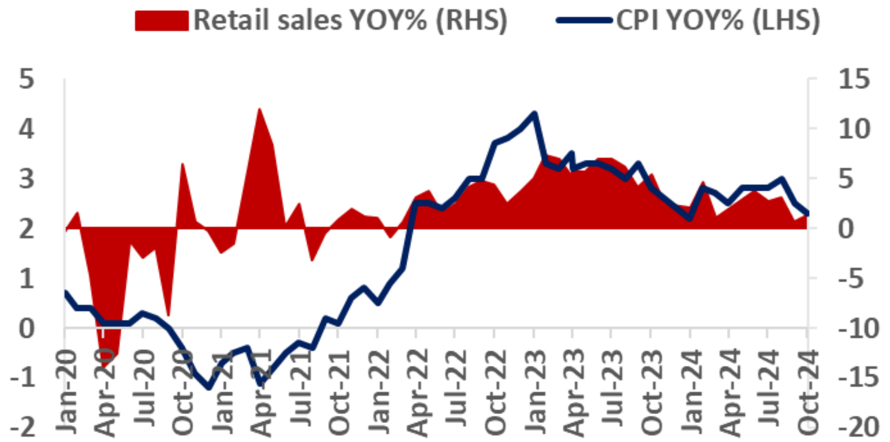


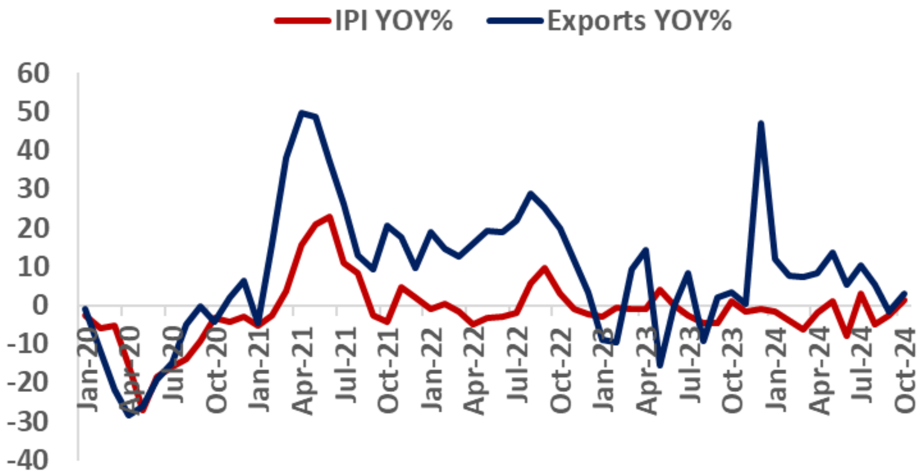
	2023	20243	2025F
GDP (%)	0.4	1.0	1.5
Inflation (%)	7.4	2.3	2.8
Bank Rate (%)	5.25	4.75	4.00
GBP/USD (End of Period)	1.2731	1.2516	1.27

Source: BOE, Bloomberg, HLBB Global Markets Research

- The government expects stronger and front-loaded government spending from Autumn Budget to boost GDP, and offset the impact of higher taxes; CPI to increase by just under 0.5ppts, hence prompted a hawkish BOE cut
- We remain skeptical as this raises uncertainty for the labour market and businesses; increase in employers National Insurance contribution and National Living Wage (April 2025: +6.7%) could lead to cash flow constraints for businesses, especially SMEs

Japan – Moderate economic recovery and the rare few in rate hike cycle



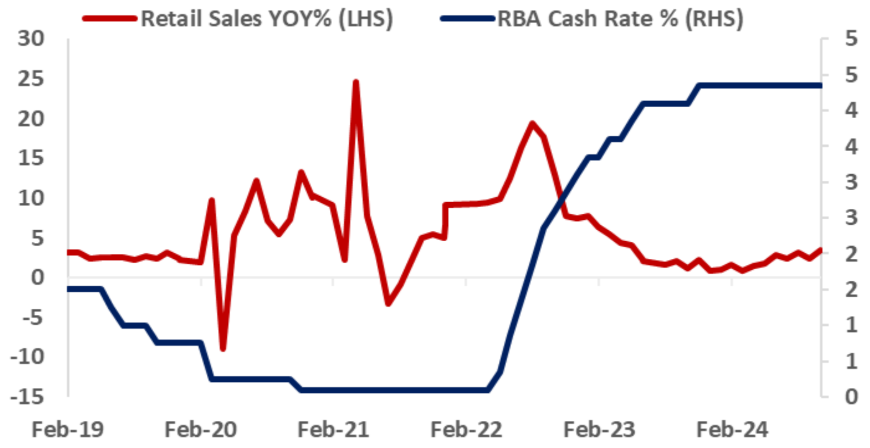


	2023	2024e	2025F
GDP (%)	1.7	0.6	1.1
Core Inflation (%)	2.8	2.5	1.9
Policy Balance Rate	-0.1	0.25	0.75
USD/JPY	141.04	157.20	146.00

Source: BOJ, Bloomberg, HLBB Global Markets Research

- Likely to grow above its potential growth, with private consumption on a gradual growth path
- Risks stem from the global economic outlook (IPI and exports have been more or less flat), developments in commodity prices and domestic firms' wage- and price-setting behavior
- With firms tilted toward raising wages and prices recently, BOJ has said that exchange rate developments are more likely to affect prices now as compared to the past, suggesting that the JPY may play a bigger role in policy rate decisions

Australia – More confidence inflation is moving towards target

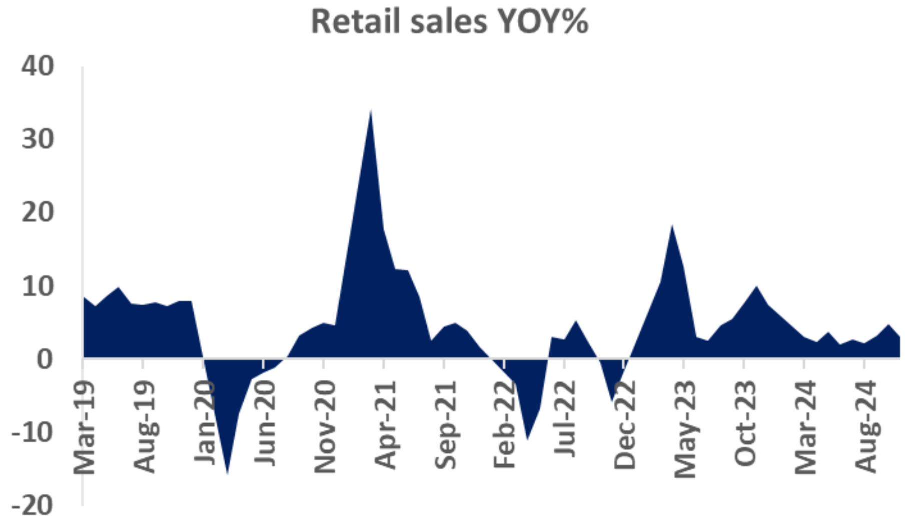


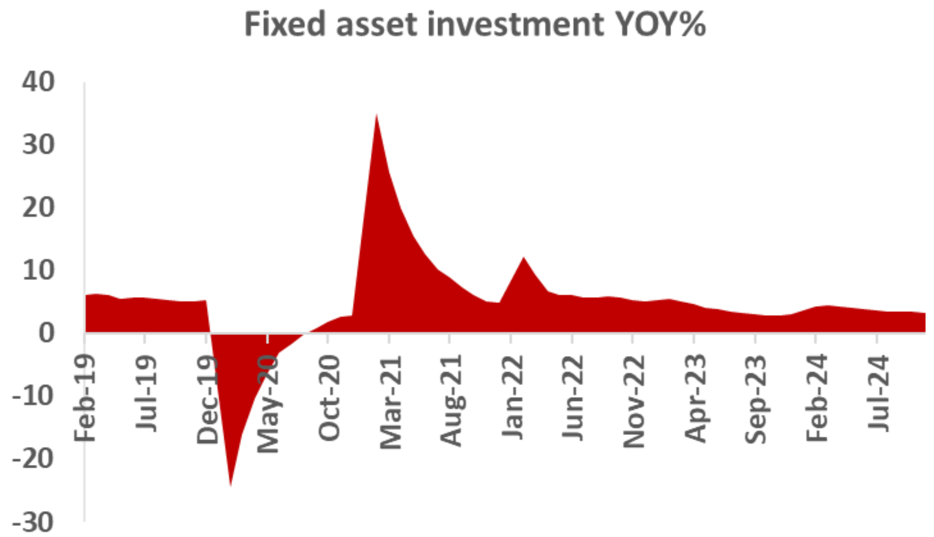
	2023	2024e	2025F
GDP (%)	2.0	1.2	2.2
Inflation (%)	5.6	2.6	3.7
Cash Rate (%)	4.35	4.35	3.60
AUD/USD	0.6812	0.6188	0.66

Source: RBA, Bloomberg, HLBB Global Markets Research

- Underlying inflation remains high at this juncture (trimmed mean: +3.2%) but RBA is more confident that inflation is moving towards target - one good quarterly inflation outcome is needed for RBA to be confident that such a decline in inflation was sustainable. We maintain our view that the first rate cut will only take place in 2Q
- Rate hike no longer on the drawing board, especially with risks of a slower than expected recovery in consumption, and additional threat of slower demand from China, its major trading partner

China – Glimpses of stability despite still sluggish data



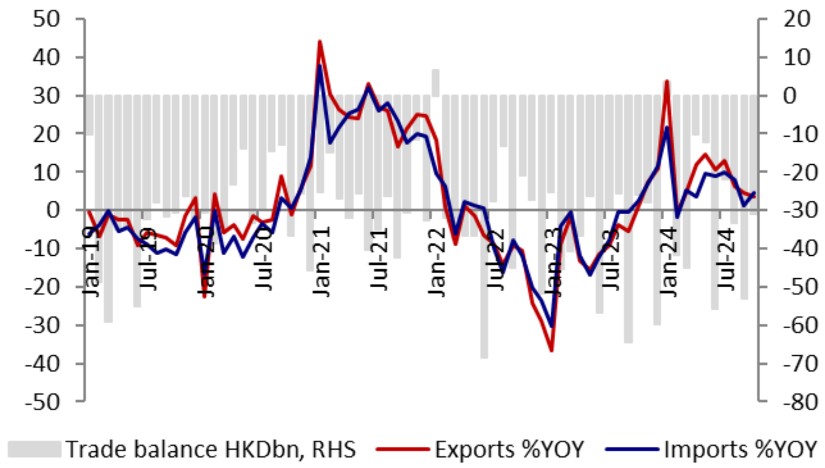


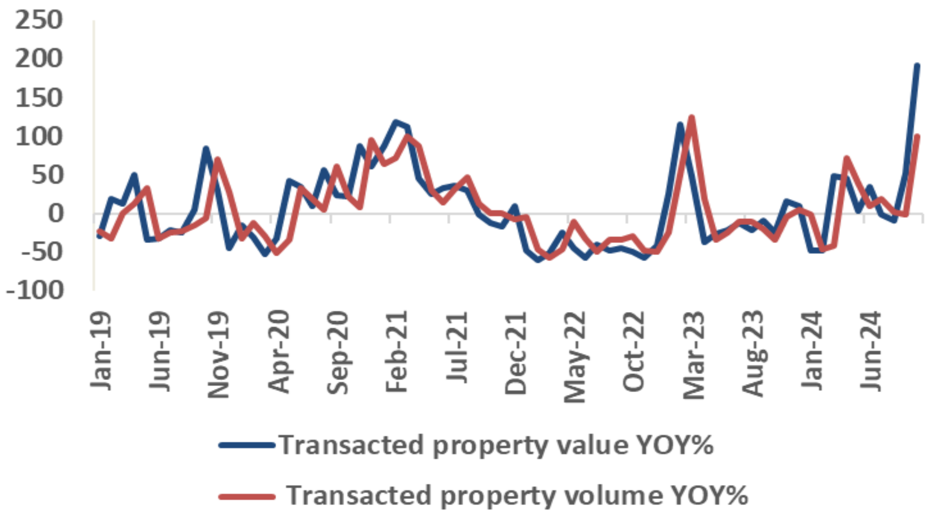
	2023	2024e	2025F
GDP (%)	5.2	4.8	4.5
Inflation (%)	0.2	0.4	0.9
1Y LPR (%)	3.45	3.10	2.85
USD/CNY	7.1000	7.2993	7.15

Source: National People's Congress, Bloomberg, HLBB Global Markets Research

- Watching out for retaliation from China - US accounts for 15% of China's exports and impact from trade tension will depend on the elasticity in demand, China's export prices, the latter potentially offsetting impact of higher tariffs
- Consumers have remained risk-averse despite the favourable labour data (jobless rate: 5.0%), as such, PBoC has vowed more financial supports for consumption, lower interest rates and RRR
- Housing demand may not see a meaningful revival if property is no longer a preferred asset class. We view the doubling of its financial support for the "whitelist" real estate favourably - alleviating buyers concerns

Hong Kong – Impact of budget visible but a strong HKD is not helping consumption



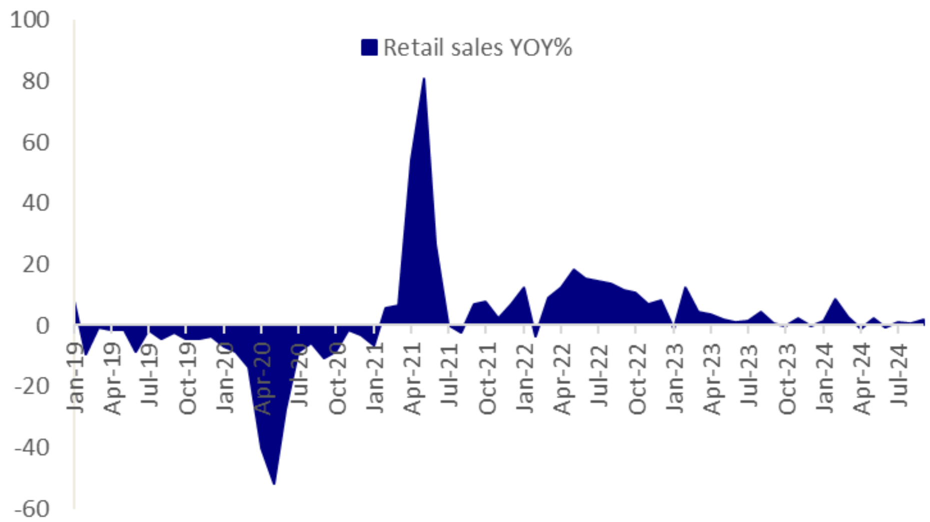


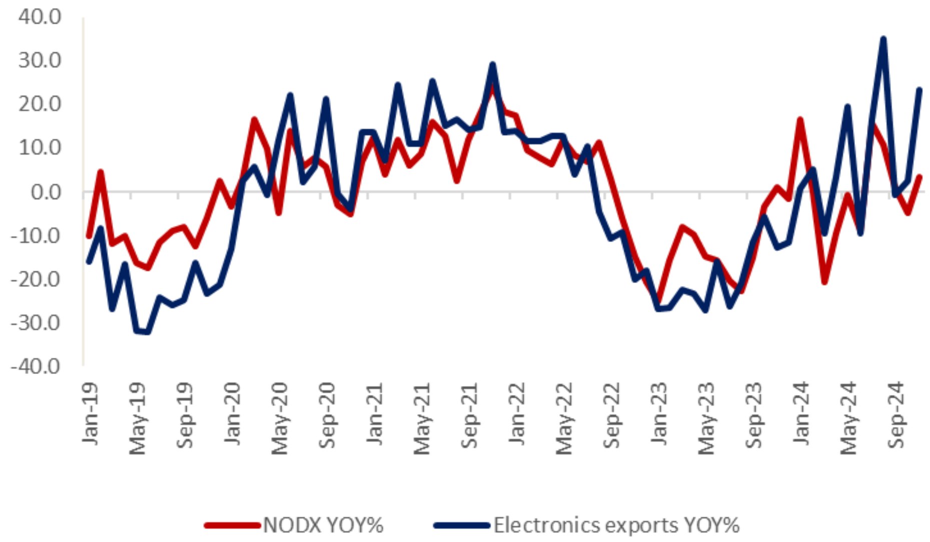
	2023	2024e	2025F
GDP (%)	3.3	2.5	2.5
Inflation (%)	2.1	1.7	2.0
3-month Hibor	5.15	4.37	3.12
USD/HKD	7.8115	7.7686	7.80

Source: HK Economy, Bloomberg, HLBB Global Markets Research

- Goods exports could benefit from improved outlook for China; but increased global economic uncertainties, escalation of trade tension could weigh on a sustainable trade recovery
- Consumer spending to remain soft as a strong HKD encourages outbound tourism, deter tourist arrivals/spending. 1Q spending to benefit from seasonal factors & a tight labour market.
- Gradually easing financial conditions, improved China outlook, stimulus measures in the latest Budget could boost sentiment and private investment – two quarters of expansion in property transactions. pick up in acquisitions of machinery, equipment & intellectual property (one of the targeted sector by the Government)

Singapore – Status quo for MAS likely for 1Q, all eyes on the upcoming budget



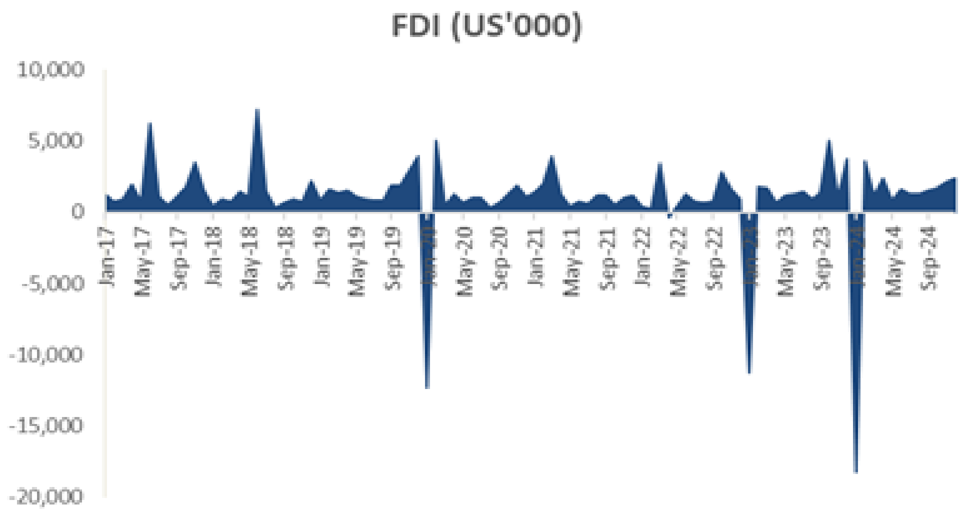


	2023	2024e	2025F
GDP (%)	1.1	4.0	1.0-3.0
Inflation (%)	4.8	2.5	1.5-2.5
3m SIBOR (%)	4.06	3.30	2.55
USD/SGD	1.3203	1.3657	1.29

Source: MTI, Bloomberg, HLBB Global Markets Research

- Softer growth in 2025 likely due to slower GDP growth amongst its largest trading partners; Manufacturing & trade will continue to benefit from strong demand for high-end semiconductor chips amid PC refresh cycle and roll-out of AI devices
- Risks predominantly external driven, while noting that domestic consumption has and may remain weak due to increased outbound tourism and GST hike
- Risk to inflation are balanced, giving MAS the leeway to ease if need be later into the year
- Cost of living , job security concerns likely be addressed in Budget 2025

Vietnam – Positive economic outlook

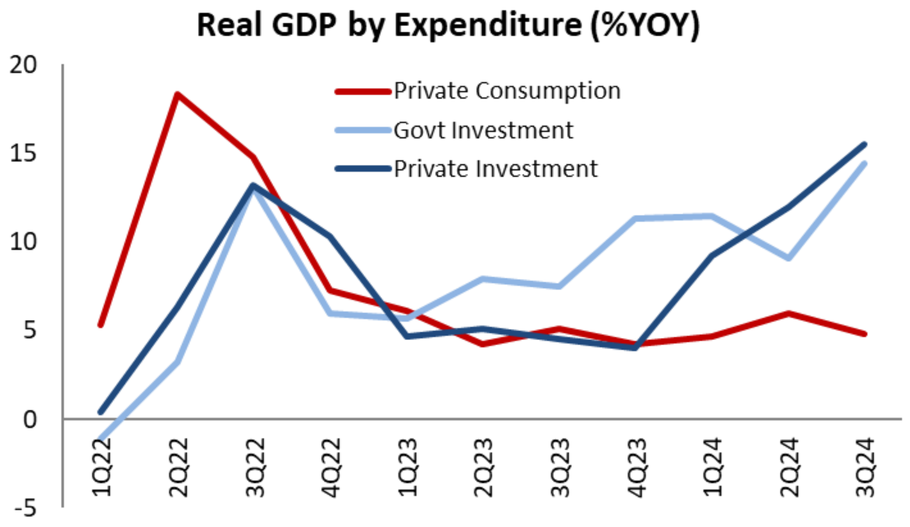


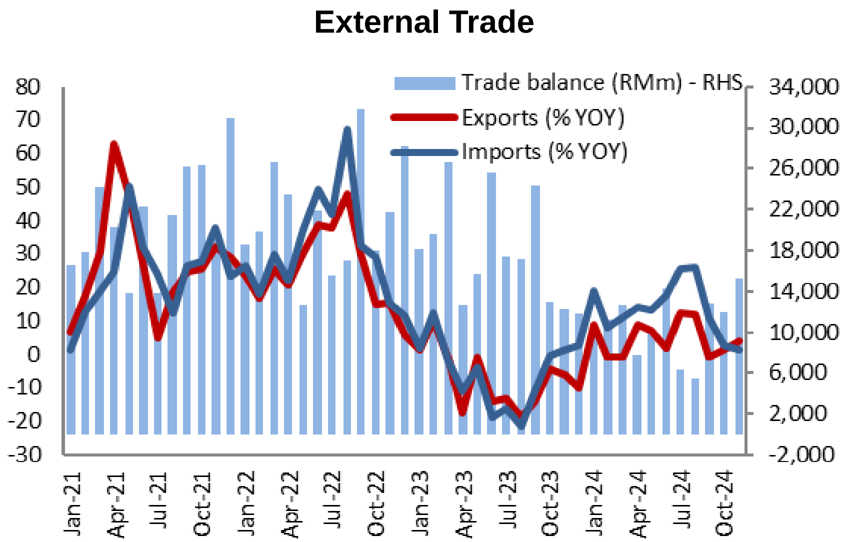
	2023	2024	2025F
GDP (%)	5.1	7.1	6.5-7.0
Inflation (%)	3.3	3.6	3.5
SBV Refinancing Rate (%)	4.50	4.50	4.50
USD/VND	24,269	25,485	25,325

Source: Bloomberg, HLBB Global Markets Research

- Positive economic outlook, supported by moderate growth for manufactured exports & tourism, accommodative monetary policies, as well as resilient consumer spending and investment
- Viable alternative to China in the production of electronics - has since pulled in capital from tech giants like Samsung Electronics and Intel
- Prime Minister pushing for 8.0% growth, underpinned by faster disbursement of funds, big infrastructure projects like the 3000-km expressway and "basic" completion of Long Tranh International Airport's initial phase

Malaysia – Normalising private consumption; sustained growth in investment & exports





	2023	2024e	2025F
GDP (%)	3.7	5.2	4.5
Inflation (%)	2.5	1.8	2.0-3.0
OPR (%)	3.00	3.00	3.00
USD/MYR	4.5940	4.4722	4.35

- Cautiously optimistic; steady labour market, continued wage growth, cash assistance, and civil servants payrise should support consumption.
- Strength in investment driven by private sector likely into 2025, in high tech and knowledge intensive industries; will also support construction activities
- Expectations of narrowing interest rate differentials (due to easing US Fed rate) and well-contained headline inflation suggests that OPR will likely be maintained throughout 2025

Source: Bloomberg, BNM, DOS, HLBB Global Markets Research

Markets Outlook - FX

FX – USD to head higher in 1H before declining in 2H; JPY to outperform as BoJ hikes further and rate differentials narrow; MYR to weaken before gradually recover in 2025

12-month Outlook

+	**EUR & GBP:** Economies likely to benefit from previous and continued rate cuts, but forward looking indicators suggest some softness ahead, with the currencies likely to underperform other majors **JPY:** Reduced policy rate differential will be positive for the JPY as other major central banks ease policy; BoJ to continue to normalize policy with more rate hikes **AUD:** Likely to benefit from a brighter outlook for China and economy should benefit from monetary easing by the RBA amidst stable commodity prices **CNY**: Expect continued fiscal and monetary stimulus this year to soften blow from property sector doldrums and boost domestic demand, while external sector likely to see short term surge before introduction of new tariffs **MYR**: Reduced policy rate differential as BNM stands pat amidst continued resilient domestic demand and a further improvement in the government finances; to continue to appreciate in a more gradual manner **SGD:** To appreciate on continued robust economy, but measures to cool property market are expected to be introduced to soften property prices
-	**USD:** To remain firm and edge higher in 1H25 on fiscal measures of incoming administration and resultant boost to economy and sentiment, before softening in 2H as economy begins to show more signs of moderation

FX Forecasts

	31-Dec	Q1-25	Q2-25	Q3-25	Q4-25
DXY	108.49	109.03	108.76	106.58	104.45
USD/CAD	1.44	1.45	1.45	1.42	1.39
EUR/USD	1.04	1.03	1.03	1.05	1.06
GBP/USD	1.25	1.24	1.24	1.25	1.27
USD/CHF	0.91	0.91	0.91	0.90	0.88
AUD/USD	0.62	0.62	0.63	0.64	0.66
NZD/USD	0.56	0.56	0.56	0.57	0.58
USD/JPY	157	158	155	150	146
USD/MYR	4.47	4.55	4.50	4.40	4.35
USD/SGD	1.37	1.37	1.35	1.32	1.29
USD/CNY	7.30	7.37	7.30	7.23	7.15

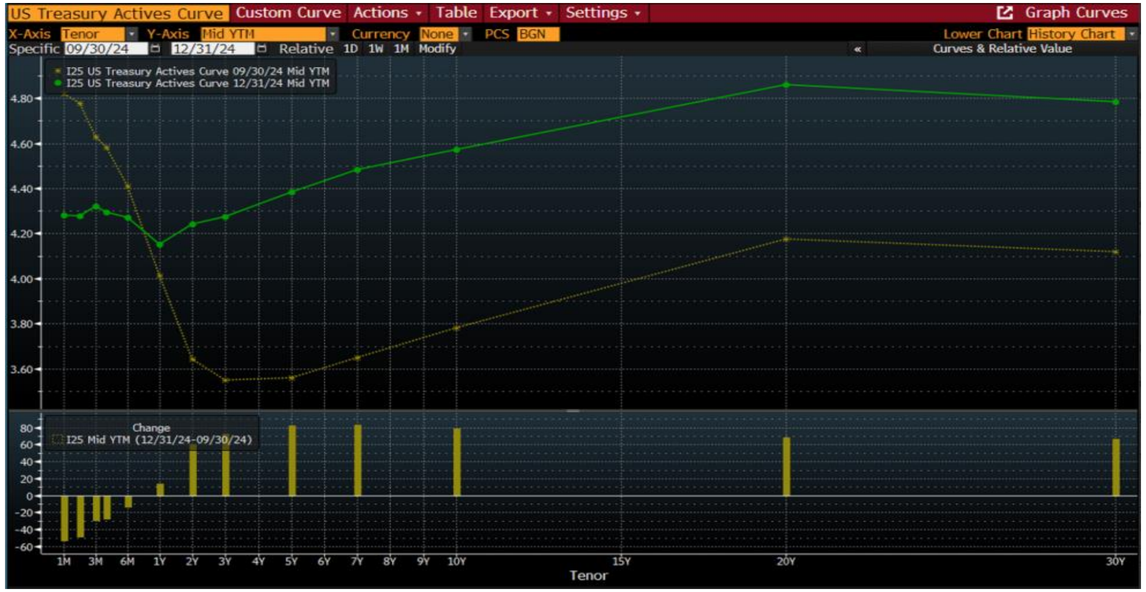
Markets Outlook – Fixed Income

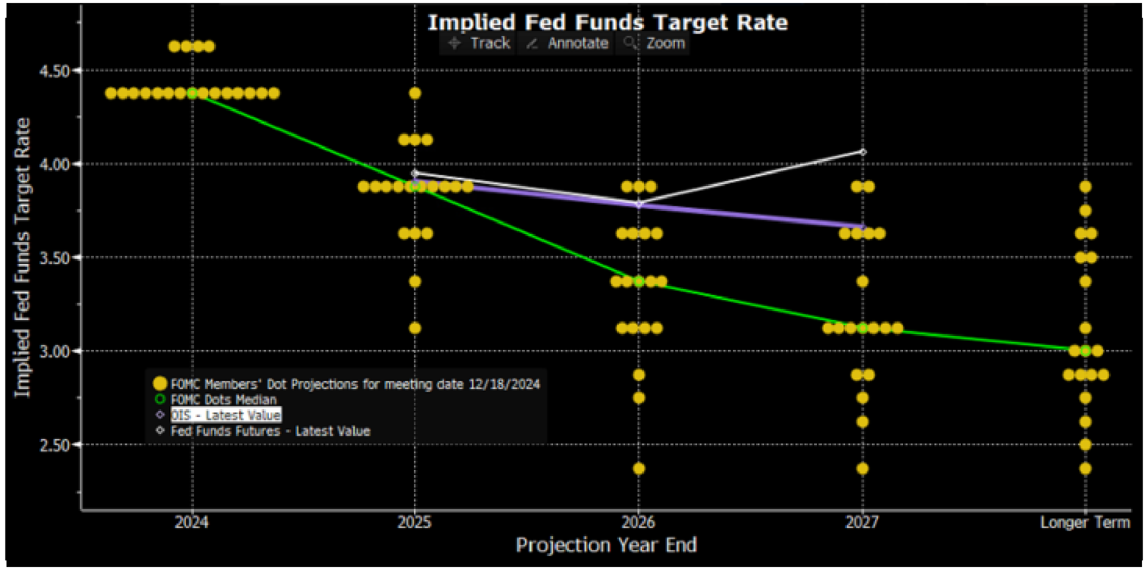
	CURRENT	1Q2025	2Q2025	3Q2025	4Q2025
UST 10Y	4.67%	4.50%	4.40%	4.30%	4.20%
MGS 10Y	3.82%	3.85%	3.80%	3.75%	3.70%
SGS 10Y	2.96%	2.90%	2.85%	2.80%	2.75%

Sovereigns – Bonds seen to be range bound in 1Q with a more constructive outlook as the year progresses; MGS/GII to underperform in the near term on possible further foreign outflows

UST	Bond yields see to head lower in 1Q and throughout 2025. The FOMC is likely to ease policy in a more gradual manner as we veer closer to the perceived neutral rate, with 25bps reduction seen in 1Q versus 50bps reductions in each of the past two quarters Risks – the anticipated expansionary policies of the incoming administration result in a renewed and sustained bout of higher inflation
MGS	Positive growth and well-contained inflation will allow BNM to maintain a stable OPR. MGS/GII expected to rangetrade in 1Q, and head lower as the year progresses. Risks – foreign outflows seen in 4Q24 pick up pace
SGS	Positive correlation with USTs likely to result in SGS yields declining. MAS is expected to continue maintaining an unchanged policy stance at its quarterly meeting in January Risks – Rise in trade tensions/tariffs adversely affect the export sector

US Fixed Income – Yields to head lower in 1Q25; Fed to cut at a more gradual pace



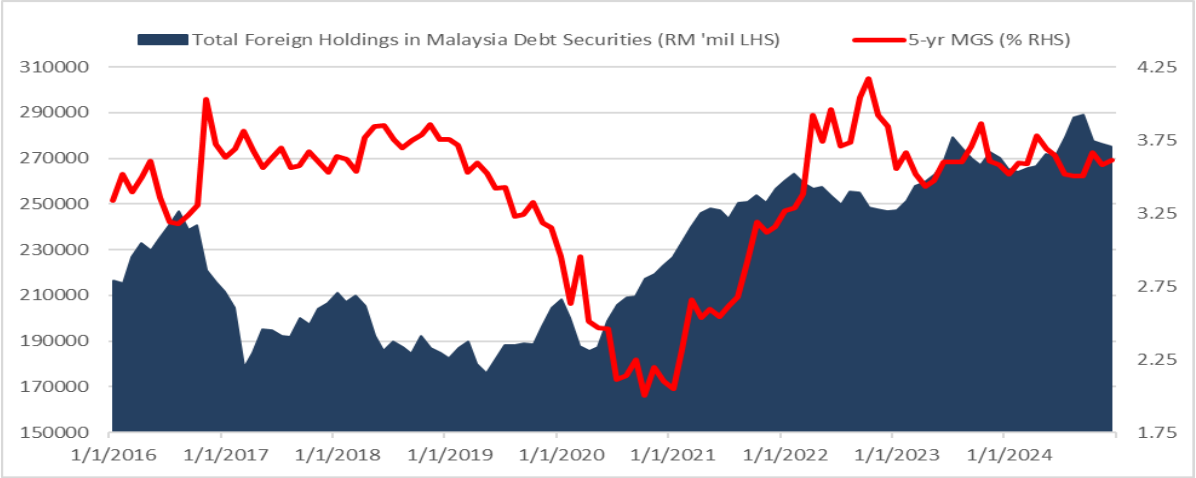


Source: Bloomberg, HLBB Global Markets Research

- **UST** -- USTs sold off in 4Q, driven by the results of the US presidential election, which saw Donald Trump and the Republican party win convincingly. With the incoming government expected to embark on fiscal expansionary policies (extension and deepening of previous tax cuts which were going to expire in 2025) which are seen to be inflationary, yields headed north as the market pared back expectations of rate reductions.
- Benchmark yields surged by 14-83bps for the quarter (3Q24: 39-111bps lower) as the market pared back expectations of future cuts, with Fed Fund Futures pointing to 43bps of cuts for 2025 at the end of 4Q, versus 118bps of cuts priced for 2025 as at end of 3Q.
- The curve bear-steepened for the quarter, with the UST 2s10s curve closing the year at +33bps (3Q24: +14bps)
- The Fed reduced rates by 25bps a clip at the two FOMC meetings in 4Q, and the Fed's Dot plot median projection during the Dec FOMC pointed to a further 50bps reduction in the Fed Funds Rate for 2025, down significantly from the 100bps they had indicated for 2025 in the September Dot plot.
- **We expect the FOMC to continue easing policy but in a more gradual manner, seeing a further reduction of the Fed Funds Rate by 25bps in 1Q.**
- Economic data during the quarter remained more robust than expected, with 3Q GDP printing at a respectable level of 3.1% q/q annualized. The unemployment rate ticked up to 4.2% in Nov (Sep: 4.1%), and inflation remained on the stable side, with core PCE and core CPI for November coming in at 2.8% and 3.3% respectively (Sep: 2.7% and 3.3%)
- **Looking ahead, we see bonds heading higher in 1Q, and expect the 10Y UST yield to fall to around 4.50% by the end of 1Q25** from the current level of 4.67%. A lot has been priced in already with regards to potential expansionary fiscal policies of a Trump administration, and the economy and labor market should see some gradual cooling down

- **Corporates** –Corporate bonds were softer for the quarter with the Bloomberg US Corporate Bond Index posting a fall of 3.0% in 4Q24 (3Q24: +5.8%). USD Corporate issuance fell in 4Q24, with issuance of IG bonds for the quarter declining to USD247bn (3Q24: USD461bn).

Malaysia Fixed Income – MGS/GII yields to inch higher in 1Q25; BNM to hold steady

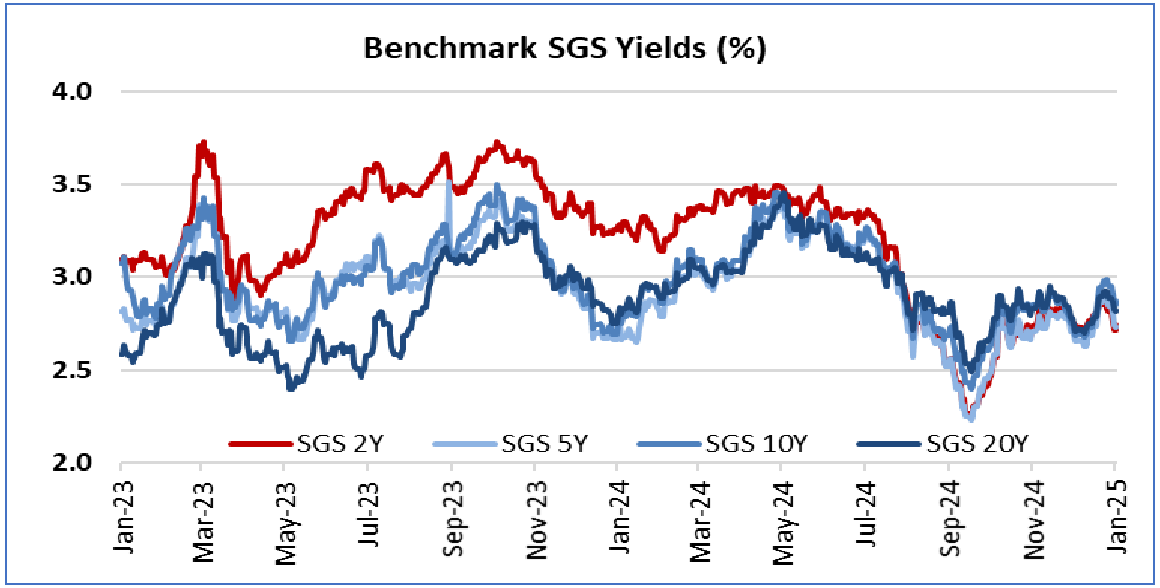


Source: Bloomberg, BNM, HLBB Global Markets Research

- **Government Bonds** – MGS and GII were softer in 4Q24 as overall benchmark yields closed mixed between -1 and +15bps q/q (3Q24: lower by 4 to 19bps) with the shorter end of the maturity spectrum leading the decline in bonds for the quarter. GII generally outperformed MGS for the quarter.
- Foreign holdings of MYR bonds were reduced by RM13.9b during the quarter to RM275.2bn as at end 4Q24, from the RM289.1bn seen at the end of 3Q24
- Government auctions in 4Q24 saw poorer bidding metrics despite lower gross issuance of RM26.5bn after the government cancelled an auction due to reduced funding requirements, with the average BTC plunging to 1.95x across 7 auctions (3Q24: 10 auctions; average BTC 2.30x; gross issuances RM50.0bn).
- BNM left interest rates unchanged during their policy meet on Nov 06 and continued to strike a neutral tone in the monetary policy statement; we expect the policy rate to continue to be held steady in 1Q25 and throughout 2025.
- Economic growth in 3Q24 came in slightly north of expectations at 5.3% y/y, and we foresee continued momentum in 4Q with full year 2024 growth expected at a solid 5.2%, before moderating to 4.5% in 2025. Inflation surprised on the downside, with the latest CPI number in November at 1.8% y/y, pointing to a continued absence of price pressures domestically.
- Bonds are expected to trade in a range this quarter, with a RM164bn in gross issuance expected in 2025 (2024: RM175bn), of which RM45.5bn is expected in 1Q25. **We expect 10Y MGS yields to inch higher in 1Q25 to the 3.85% area.**

- **Corporate Bonds/Sukuk** – Corporate spreads remained steady in 4Q24, with AAA and AA2 spreads in 10Y space closing at 27 and 44bps respectively (3Q24: 27 and 44bps) amidst a slight reduction in supply with issuances (including GG bonds) receding to RM34.5bn in 4Q24 (3Q24: RM37.8bn). We expect issuance to be on the low side in 1Q25, and for corporate spreads to remain tight.

Singapore Fixed Income – SGS yields expected to edge lower



- **SGS** – Singapore Government Securities were weaker q/q, taking cue from the sell-off in USTs for the quarter, as overall benchmark yields rose between 17 to 29bps (3Q24: lower by 44 to 91bps), with the shorter-dated maturities seeing the larger rises in yield.
- The SGS yield curve flattened slightly during the quarter, with SGS 2s10s closing the year at +14bps at the end of 4Q (3Q24: +19bps)
- The Bloomberg Global Singapore Bond Total Return Index recorded a pullback of 2.2% for 4Q24 (3Q24: +5.4%), reflecting the decline in bonds for the quarter.
- There were no SGS issuances for 4Q24 (3Q24: SGD6.0bn).
- The Monetary Authority of Singapore is expected to maintain an unchanged policy stance at its upcoming quarterly meeting in January
- **We expect SGS yields to head slightly lower in 1Q25, in line with UST yields. The SGS 10Y is expected to end the quarter around the 2.90% level**.

Source: Bloomberg, HLBB Global Markets Research

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