Macro Watch: Central Banks Step Up **Easing Measures**

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As countries are assailed by the Covid-19 pandemic, global central banks have embarked on significant monetary stimulus measures to keep the economy floating. The US Federal Reserve (Fed) took the unprecedented step by pledging unlimited quantitative easing (QE) to support its economy. In the following interview, Maggie Wong, Senior Portfolio Manager of Affin Hwang AM shares a macro overview of markets and outlook for Asian bonds.

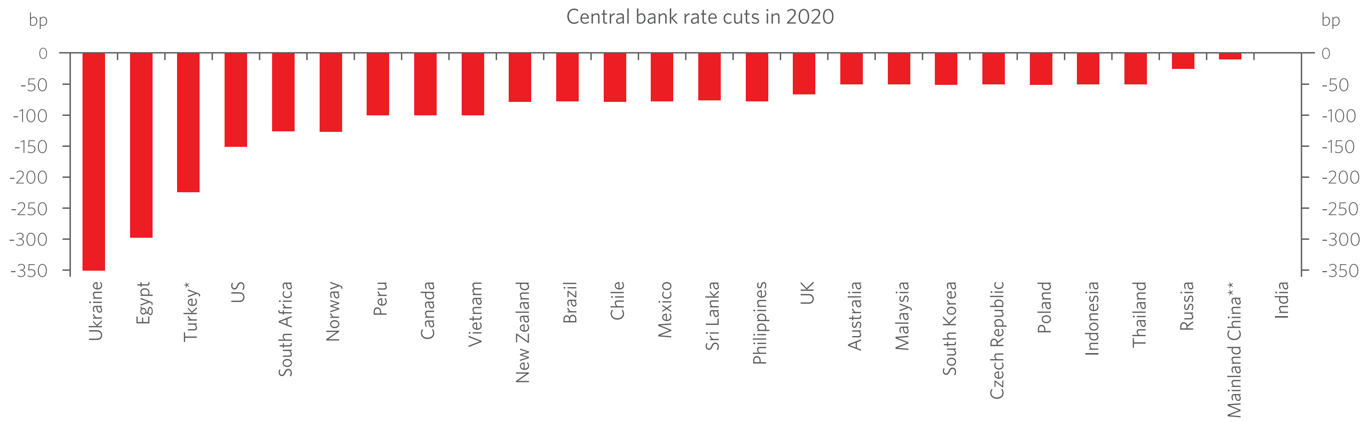
01 Where are we in the interest rate cycle looking ahead to the next six to nine months?

In response to the Covid-19 outbreak, we saw policymakers rushing to call for emergency meetings followed by significant rate cuts. For example, the Fed has cut rates by a total of 150bps in March, fully reversing the 3 year interest rate hike cycle that started in December 2015 and subsequently ended in 2018.

Other central banks that had followed suit include Australia, New Zealand, Canada, Norway, South Korea and many others. In aggregate, global interest rates have declined by more than 15% in 2020. This is in addition to a total of c.27% interest rate cuts in 2019.

Taking the European Central Bank (ECB) and Bank of Japan (BOJ) as a cue which have yet to cut rates this year, we see limited downside on interest rates for the major central banks given increasing doubts over the effectiveness of negative interest rates. As we head towards zero interest rate territory for major economies, we have less policy ammunition tools now as compared to before. Thus, we expect that policymakers are likely to stay on hold for now.

On the other hand, looking ahead for the next six to nine months, we see very low likelihood of interest rates rising as inflationary pressures remain benign.



Source: HSBS, Refinitiv Datastream/ Note: *Turkey policy rate is the one-week repo rate. **Mainland China policy rate is 1-year Loan Prime Rate.

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02 Which currencies do you think can continue to outperform against the US dollar in theyear ahead?

The US Dollar tends to appreciate in a slow global growth environment as it is perceived to a safe haven asset. As such, the dollar index has gained 5.1% year-to-date, outperforming all G10 and Asian currencies. In the near term, the USD is likely to remain strong in the absence of strong global economic recovery.

Though looking ahead, our expectation is that the US Dollar is likely to trend weaker as US policymakers embark on significant fiscal and monetary stimulus. Currencies that could outperform on the back of this include the Euro (EUR), Renminbi (RMB) and Sterling Pound (GBP).

03 From the macro standpoint, which economies do you think are likely to give us cause for concern as we go forward?

We believe the western economies are still behind the curve on the Covid-19 outbreak. As more cities go into lockdown mode, the economic impact will be significant as global supply and demand chains are disrupted. Among the major economies, we think the G3 (US, Eurozone and Japan) could go into technical recession by 3Q'2020 as unemployment will rise significantly before the positive impact from the stimulus kicks-in.

We are also concerned with certain emerging economies that have seen significant currency depreciation with the recent selloff in risk assets and collapse in oil prices, namely Indonesia, Mexico, Brazil and India among others.

04 How are Asian bond markets performing at the moment compared to the global bond market, where are the bright spots and where do you see the best opportunities arising?

The Asian bond market saw a significant drawdown in line with the selloff in global risk assets. The market was also hit by outflows and margin calls which exacerbated the selloff. This correction is healthy as the market has been trading at an expensive level.

Post-selloff, the investment grade index has widened by 150bp and the high yield index has also widened by 740bps.

While we maintain our cautious stance on risk assets given the weak economic outlook, we do see opportunity emerging within the Asian credit space. That said, in this kind of weak growth environment, default rates are expected to rise.

We prefer to stick to quality names, for example, strong Chinese banks and state owned enterprises (SOE), Singapore and Australia bank capital papers.

In the high yield space, we like selected Chinese property names that has been hit in this selloff as well.