ARECA CAPITAL

FUND MANAGER'S INSIGHTS

FIXED INCOME – FEBRUARY 18

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US : Is the US moving towards trade protectionism? Are they adopting a weak USD policy? Are they structurally shifting towards an export based economy, taking back low value-add jobs they consciously shipped out since the 70's? Notwithstanding these, rates outlook is gaining more hawks. Dot plot shows 3 hikes for 2018 but if growth momentum gains footing and inflation rises above expectations, hawks may push for 4 hikes. For now, the market **expects 2 to 3 hikes for 2018**.

Europe: Growth has been encouraging to the extent of some calling for earlier withdrawal of QE. However, **ECB President Draghi** has maintained that accommodative policy is still needed. **Interest rates outlook may firm towards end of 2018,** post scheduled QE pullback.

Japan : Optimism in economy has gained some traction. Official BOJ **Japanese Tankan** for December quarter shows 25 (Tankan index of -100 to +100 with above 0 indicating optimism) highest since 2006 while unofficial **Reuters Tankan** for January reads 33. However, **negative interest rates and accommodative policies** will likely prevail with possible QE taper by second half of 2018.

Malaysia : Accompanying statement by BNM reinforces the believe and confidence in external and domestic growth factors. This January rate hike is seen as a step towards normalization with current status deemed accommodative. This means that they are open to possible hikes down the road, especially if growth accelerates and inflation threatens to surge as a result higher oil and commodity prices. **One more 0.25% rate hike by end of 2018** is possible once General Elections is over.