ARECA CAPITAL

FUND MANAGER'S INSIGHTS

FIXED INCOME - FEBRUARY

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US : Recent developments suggest a growing call to rate hikes. Hawks are expecting a hike as soon as March FOMC meeting. The stock market also reflects the optimism of a quicker and stronger US growth. This is even before any concrete fiscal plan as alluded by the Trump administration. In spite of rumours of corporate tax cuts and actual budget expansion into infrastructure rebuilding, the conservative call will be still, **probably two (0.25%) hikes in 2017.**

Europe and Japan : The **EU** remain steadfast in their determination to keep rates low in their fight to boost inflation and ensuring liquidity. However, their concern may now shift to elections in France in April. Barring any unexpected results, **interest rates will likely remain easy in the EU** despite pressure from Germany. Recent pick up in sentiment in **Japan** stems from the resultant weaker Yen and US economic recovery. Coincidence or Abenomics genius, **interest rates policy will have to persist a while more** for further evidence.

China : In defending its currency, **China's Reserves** fell below US$3 trillion mark, the first time since 2011. There were some concerns on its rating. It has been noted that they will raise short term rates if necessary to curb outflows, a slight departure from previously. However, for now the overbearing focus remain domestic issues, hence **stable and low interest rates will prevail** until clarity is attained from US policies.

Malaysia : Keeping to the need for stability, and the possibility of General Elections and squeezed disposable income, maintaining easy monetary policy is priority with a faint possibility an interest rate cut.