ARECA CAPITAL

FUND MANAGER'S INSIGHTS

FIXED INCOME - MARCH

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US : Rate hike in March is now a foregone conclusion. It is now left to the language that accompanies the hike and the dot plot that will dictate sentiment. Rhetoric has been hawkish following strong labour and housing data in Trump's first month justifying the expectation of 3 hikes for the year. Tax reforms and expansionary fiscal budget that is yet to be unveiled is providing support for this call. For now, **2017 will likely see 3 hikes or Fed Fund rate of 1.50%** by year-end.

Europe and Japan : Rising inflation in **Japan** is unlikely to trigger a change in interest rates policy as BOJ has expressed tolerance for overshooting. Besides recent rise in price has to be attributed the Trump effect of weakening the YEN. Similarly in **Europe,** recovery and inflation outlook may have turned the corner but **interest rates will likely remain easy in the Japan and the EU** throughout this year until global growth takes a firm grip.

China : China's gradual shift to consumption and service based economy is lauded but may have interim problems. Declining exports and reserves sounded some alarm bells recently while credit growth remains a bane. Capital controls may be introduced to stem outflows as growth outlook is adjusted downwards. Trump's trade policies with China is still unknown. Forex policies may be a larger concern while **stable and low interest rates prevail**.

Malaysia : Higher cost push inflation outlook is balanced out by lower disposable income. The need for stable environment in a likely General Elections year leads us to believe that **easy and supportive monetary policy is a priority.**