

MARKET COMMENTARY

Fixed income market review and outlook

August 2024



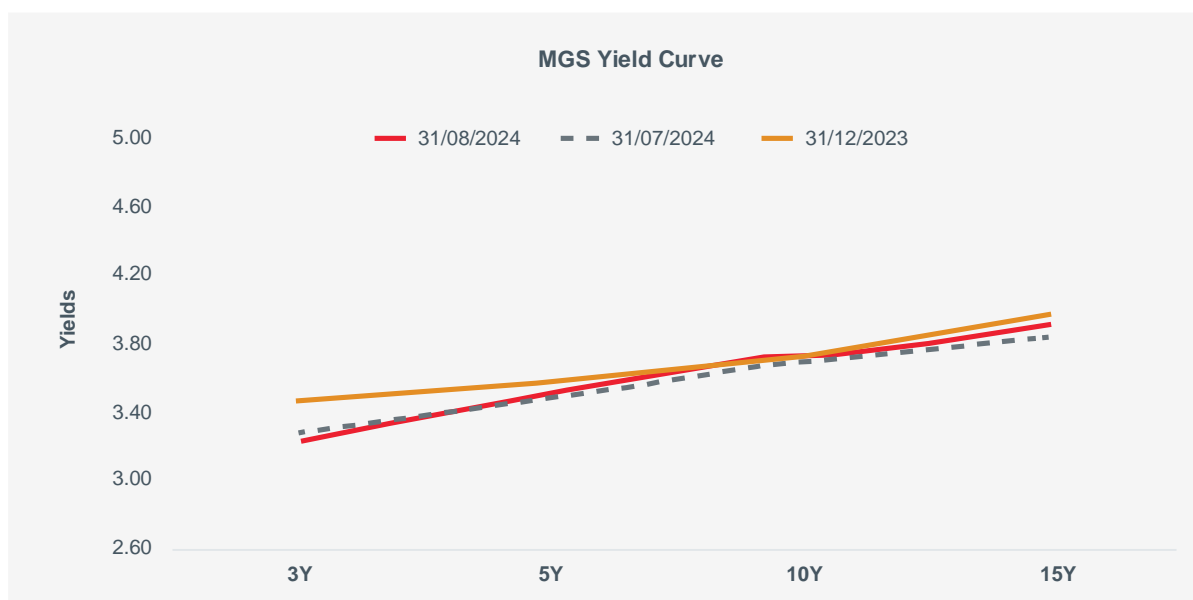
Review

- ▶ U.S. June data continued to point to the resilience of its economy. Both headline and core U.S. Personal Consumption Expenditure (“PCE”) price index were lower at 2.6% YoY in May (April: 2.7% and 2.8% respectively). The University of Michigan Consumer Sentiment index for June dropped to 68.2 (May: 69.1). The Non-Farm Payroll data showed that the U.S. economy added 206,000 jobs in June (May: 218,000 jobs) although unemployment rate increased to 4.1% in June (May: 4.0%). The U.S. Composite Purchasing Managers' Index (“PMI”) increased to 54.8 in June (May: 54.5), as both Services and Manufacturing PMI increased to 55.3 and 51.6 respectively (May: 54.8 and 51.3). Meanwhile, the Fed funds rate was unchanged at 5.25%-5.50%. The minutes of the Federal Open Market Committee (“FOMC”) meeting suggested that rates may stay elevated for longer until it has gained greater
- ▶ The latest reports on U.S. economic data have indicated continuing growth but there is a slowdown in the labour market. In August, the U.S. labour market added 142,000 jobs, up from 89,000 in July but below the 161,000 consensus forecast from Dow Jones, indicating a slowing labour market. The unemployment rate came in as expected at 4.2% in August (4.3% in July). The headline and core U.S. Personal Consumption Expenditure (“PCE”) price index remained at 2.5% and 2.6% year-over-year in July, respectively (June: 2.5% and 2.6%). The University of Michigan Consumer Sentiment index rose to 67.9 in August (July: 66.4). The S&P U.S. Composite Purchasing Managers' Index (“PMI”) increased slightly to 54.6 in July (July: 54.3), as Services PMI edged up to 55.7 (July: 55.0) whereas Manufacturing PMI fell to 47.9 (July: 49.6). Meanwhile, the Fed funds rate was held steady at 5.25%-5.50% in August. Chairman Jerome Powell indicated that the Fed would cut its Fed funds rate in the upcoming September meeting during his speech at the Jackson Hole Economic Symposium given that the inflation is trending towards the 2% target.
- ▶ The Bank of England (“BOE”) in its Monetary Policy Committee (“MPC”) lowered its bank rate to 5% (from 5.25%) in its August meeting, while indicating that it will move cautiously in easing its monetary policy further until officials can be more confident that inflation will stay low. The U.K.'s inflation rate edged up to 2.2% in July (June: 2.0%), but below the forecasts of 2.3%. Its S&P composite PMI rose to 53.8 in August (July: 52.8) as Manufacturing PMI increased to 52.5 from 52.1 and Services PMI increased to 53.7 from 52.5.
- ▶ There is no European Central Bank (“ECB”) meeting scheduled in the month of August. The main refinancing operations, marginal lending facility and the deposit facility was at 4.25%, 4.50% and 3.75% respectively. In August, Eurozone's Manufacturing PMI remained at 45.8 (July: 45.8) while its Services PMI fell to 52.9 (July: 51.9). Eurozone's inflation rate fell to 2.2% (July: 2.6%) and its core inflation rate slowed to 2.8% in August (July: 2.9%).
- ▶ The Reserve Bank of Australia (“RBA”) kept its cash rate unchanged at 4.35% in August. In Asia, the Bank of Indonesia and the Bank of Thailand maintained their policy interest rates at 6.25% and 2.50% respectively in August. The Philippine Central Bank unexpectedly reduced its benchmark interest rate by 25 basis points to 6.25% in August, as headline inflation is projected to trend downward to its target range of 2-4%. Meanwhile, Bank Negara Malaysia (“BNM”) and Bank of Japan did not hold any monetary policy committee meeting in August.
- ▶ The People's Bank of China (“PBoC”) kept its key lending rate unchanged in August. The 1-year and 5-year loan prime rate was at 3.35% and 3.85%, respectively. China's imports in July grew by 7.2% and exports expanded by 7.0% YoY in USD terms (June: -2.3%; +8.6%). Retail sales grew by 2.7% YoY in July (June: 2.0%) and industrial production advanced by 5.1% YoY (June: 5.3%). China's fixed asset investments rose 3.6% YoY growth in July (June: 3.9%).
- ▶ In July, Malaysia's headline CPI remained at 2.0% YoY (June: 2.0%), while core inflation held steady at 1.9% YoY. Unemployment rate remained stable at 3.3% in June. BNM international reserves amounted to US\$116.8bn as at end August (July: US\$114.7bn). The reserves position is sufficient to finance 5.4 months of imports and is 1.0x of the total short-term external debt.
- ▶ Four auctions were held in August, the reopening of 7Y MGII 10/31, reopening of 30Y MGS 03/53, reopening of 5Y MGII 07/29 and reopening of 10Y MGS 07/34. The auctions received an average bid-to-cover ratio of 2.57x.

- RM5.0b re-opening 7-year MGII averaging 3.726% at a bid-to-cover ratio of 2.331x;
 - RM5.0b (including RM2.0b of private placement) re-opening 30-year MGS averaging 4.172% at a bid-to-cover ratio of 1.952x;
 - RM4.0b reopening of 5-year MGII averaging 3.488% at a bid-to-cover ratio of 3.683 times; and
 - RM5.5b re-opening 10-year MGS averaging 3.76% at a bid-to-cover ratio of 1.994x.
- Malaysia's MGS and GII yields ended mixed in the month of August. The 3- and 5-year MGS yields declined by 4bps and 1bp to end at 3.25% and 3.51%, respectively, whereas both 10- and 15-year MGS yields increased by 5bps to 3.76% and 3.92%, respectively. The 3-year MGII yields declined by 2 bps to 3.32% whereas the 5-, 10- and 15-year MGII yields increased by 2bps, 5bps and 4bps to 3.52%, 3.78% and 3.94%, respectively.

BENCHMARK	Dec 2023 Yield	July 2024 Yield	August 2024 Yield	MOM Change	YTD Change
3-year MGS	3.48%	3.29%	3.25%	-4 bps	-23 bps
5-year MGS	3.58%	3.52%	3.51%	-1 bp	-7 bps
10-year MGS	3.74%	3.72%	3.76%	+5 bps	+3 bps
15-year MGS	3.97%	3.87%	3.92%	+5 bps	-5 bps

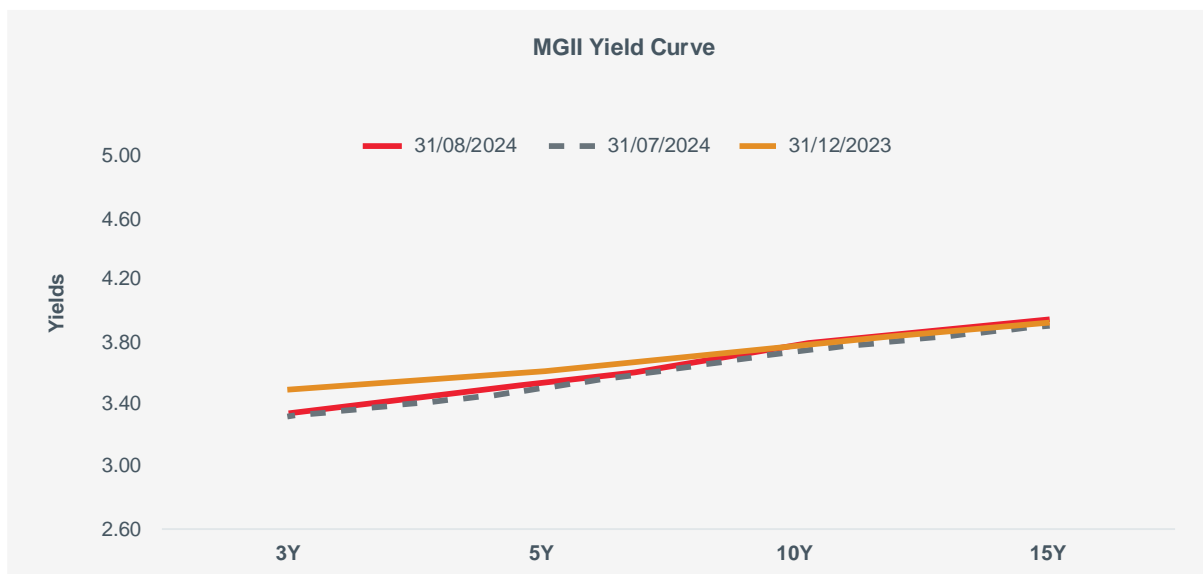
Source: Bloomberg



Source: Bloomberg

BENCHMARK	Dec 2023 Yield	July 2024 Yield	August 2024 Yield	MOM Change	YTD Change
3-year MGII	3.49%	3.34%	3.32%	-2 bps	-17 bps
5-year MGII	3.61%	3.50%	3.52%	+2 bps	-9 bps
10-year MGII	3.78%	3.73%	3.78%	+5 bps	0 bp
15-year MGII	3.93%	3.90%	3.94%	+4 bps	1 bp

Source: Bloomberg



Source: Bloomberg

Outlook

- ▶ Recent weaker-than-expected labour data has left the market concerned that the monetary easing may have been delayed for too long. Markets are currently projecting four Fed rate cuts in 2024 but are uncertain about the size and scope of the Fed rate cuts. Chairman Jerome Powell's speech at the Jackson Hole Economic Symposium in August noted that the labour market is cooling quickly following the disappointing jobs reports. He also noted that the FOMC has gained further confidence that inflation is trending towards the 2% target, indicating a clear view that it is time to adjust monetary policy to less restrictive conditions. Therefore, we expect that future monetary policy decisions will depend on incoming data, the evolving outlook and balance of risks to both side of the dual mandates (inflation is moving back towards target while unemployment is closer to target). Heightened geopolitical risks continues with the Israel-Hamas war in the Middle East, on top of the ongoing Russia-Ukraine war and trade tensions between U.S. and China. The U.S. presidential election towards the end of the year will also add to the uncertainty. Meanwhile, China's economic growth is expected to be slower in 2024, due to its real estate slump and weaker demand for exports.
- ▶ For Malaysia, BNM's decision on the Overnight Policy Rate ("OPR") will also be data dependent. BNM is closely monitoring developments to assess domestic inflation and growth trends for 2025, with the aim of maintaining a monetary policy that supports sustainable economic growth while ensuring price stability. Market participants generally expect OPR to stay at 3% over the next 6-12 months, as the current monetary policy approach continues to bolster the economy and aligns with the existing outlook for inflation and growth. Malaysia's growth momentum in the next few years will depend on the execution of the policy blueprints such as MADANI Economy, National Energy Transition Roadmap ("NETR") and New Industrial Master Plan ("NIMP").
- ▶ Three auctions are expected in the month of September, with the re-opening of 20Y MGII 08/43, the re-opening of 7Y MGS 04/31 and the re-opening of 30Y MGII 03/54. While there is ample liquidity in the system, the outcome of these auctions is likely to be influenced by prevailing market sentiment both from local and foreign investors. On the corporate front, we expect mixed demand for corporate bonds as investors continue to be selective in their investments amidst the significant compression in credit spreads.

Table 1: Indicative Rates (%)

	31-Aug-24
MBB O/N*	1.30
MBB 1-Week*	1.40
MBB 1-Mth FD*	2.40
MBB 6-Mth FD*	2.60
MBB 1-Year FD*	2.60
1-mth BNM MN	3.12
3-mth BNM MN	3.15
3-mth KLIBOR	3.53
CP	
1-mth (P1)	3.75
3-mth (P1)	3.92

Source: Bloomberg/Bondstream

* Maybank2u.com.my

Table 2: Indicative Bond Yields (%)

	3yr	5yr	7yr	10yr	15yr
MGS	3.37	3.52	3.72	3.77	3.91
GII	3.39	3.53	3.70	3.79	3.95
Swap rate*	3.37	3.43	3.50	3.62	3.67
AAA	3.74	3.82	3.88	3.96	4.11
AA1	3.77	3.85	3.91	4.01	4.17
AA2	3.82	3.90	3.97	4.09	4.30
AA3	3.87	3.96	4.03	4.16	4.43
A1	4.30	4.49	4.66	4.87	5.22
A2	5.02	5.35	5.66	6.02	6.47
A3	5.65	6.09	6.47	6.96	7.54

Source: Bloomberg*/Bondstream

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