

MARKET COMMENTARY

Fixed income market review and outlook

July 2024



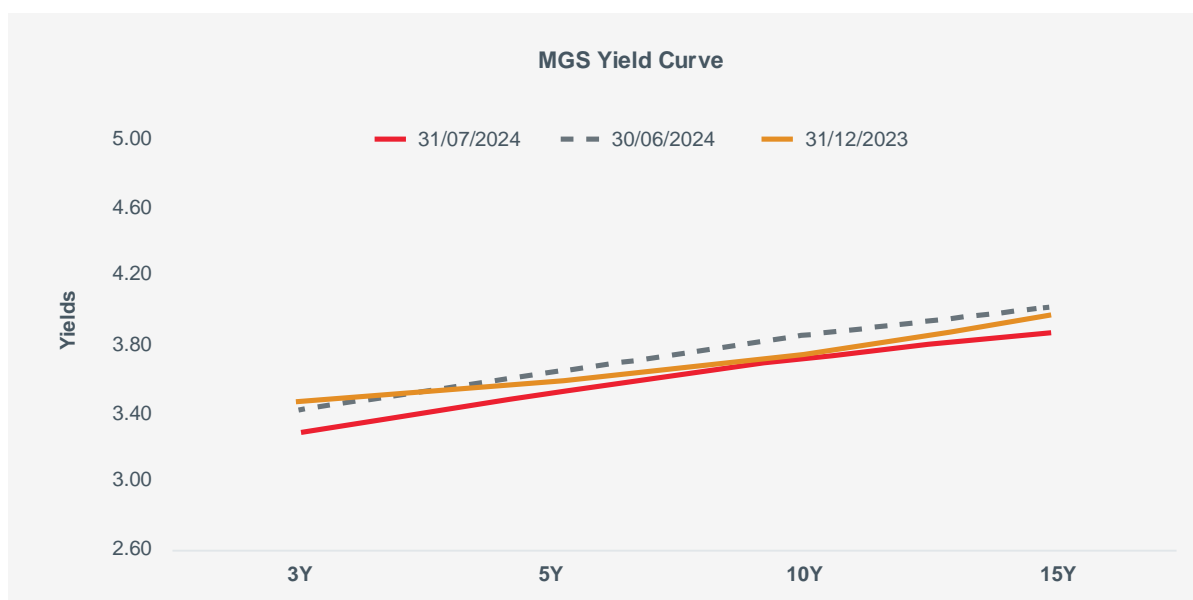
Review

- ▶ 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 confidence that inflation is moving sustainably towards the 2% objective.
- ▶ The economic data from the U.S. indicate signs that the job market may finally be cooling off and inflation is easing. The U.S. labour market added 114,000 jobs in July, significantly lower than the expected increase of 175,000 and the 179,000 jobs added in June. The unemployment rate ticked up to 4.3% in July from 4.1% in June, marking the highest level since October 2021. The headline and core U.S. Personal Consumption Expenditure (“PCE”) price index were moderated at 2.5% and 2.6% YoY in June, respectively (May: 2.6%). The University of Michigan Consumer Sentiment index fell to 66.4 in July (June: 68.2). The S&P U.S. Composite Purchasing Managers' Index (“PMI”) was lower to 54.3 in July (June: 54.8), as both Services and Manufacturing PMI declined to 55.0 and 49.6 respectively (June: 55.3 and 51.6). Meanwhile, the Fed funds rate was held steady at 5.25%-5.50% in July but signalling the possibility of a rate cut in September. Chairman Jerome Powell indicated that “inflation has eased substantially” throughout the year and emphasized that the Fed will remain focused on fulfilling both of its dual mandates: achieving maximum employment and maintaining stable prices.
- ▶ The Bank of England (“BOE”) in its Monetary Policy Committee (“MPC”) meeting on 1 August has initiated its easing cycle with a 25bps (basis points) cut to its bank rate from 5.25% to 5.00%. The U.K.’s inflation rate was steady at 2% in June (May: 2%). Its S&P composite PMI increased to 52.8 in July (June: 52.3) as Manufacturing PMI increased to 52.1 from 50.9, and Services PMI increased to 52.5 compared to the June data of 52.1.
- ▶ The European Central Bank (“ECB”) decided to keep its three key interest rates unchanged in July. The main refinancing operations, marginal lending facility and the deposit facility was at 4.25%, 4.50% and 3.75% respectively. In July, Eurozone’s Manufacturing PMI was at 45.8 (June: 45.8) while its Services PMI fell to 51.9 (June: 52.8). Eurozone’s inflation rate increased slightly to 2.6% (June:2.5%) while its core inflation rate held steady at 2.9% in July.
- ▶ Bank of Japan (“BoJ”) surprised the markets with a 15bps rate hike to 0.25% in July from 0.0-0.1%, while the Reserve Bank of Australia (“RBA”) decided to keep its cash rate unchanged at 4.35% in July. In Asia, Bank Indonesia and the Philippine central bank maintained their policy interest rates at 6.25% and 6.50% respectively in July. Meanwhile, Bank Negara Malaysia (“BNM”) and Bank of Thailand did not hold any monetary policy committee meeting in June.
- ▶ The People’s Bank of China (“PBoC”) reduced its key lending rate in July to support a fragile economic recovery. The 1-year and 5-year loan prime rate was cut by 10bps to 3.35% and 3.85%, respectively. China’s imports in June dropped by 2.3% whereas exports increased by 8.6% YoY in USD terms (May: 1.8%; 7.6%). Retail sales rose by 2% YoY in June (May: 3.7%) and industrial production increased by 5.3% YoY (May: 5.6%). China’s fixed asset investments rose 3.9% YoY growth in June (May: 4.0%).
- ▶ In June, Malaysia’s headline CPI was at 2.0% YoY (May: 2.0%), while core inflation held steady at 1.9% YoY. Unemployment rate remained stable at 3.3% in May. BNM international reserves amounted to US\$113.3bn as at 15 July 2024 (June: US\$113.8bn). The reserves position is sufficient to finance 5.4 months of imports and is 1.0x of the total short-term external debt.

- Three auctions were held in July, the reopening of 5Y MGS 08/29, the reopening of 10Y MGS 11/34 and the reopening of 15Y MGII 04/39. The auctions received an average bid-to-cover ratio of 2.57x.
 - RM5.0b re-opening 5-year MGS averaging 3.672% at a bid-to-cover ratio of 2.187x;
 - RM5.0b re-opening 10-year MGII averaging 3.819% at a bid-to-cover ratio of 2.422x; and
 - RM5.0b re-opening 15-year MGS averaging 3.972% at a bid-to-cover ratio of 3.101x.
- Malaysia's MGS and GII yields trended downward in the month of July. The yields of the 3-, 5-, 10- and 15-year MGS declined by 15bps, 13bps, 15bps and 13bps to close the month at 3.29%, 3.52%, 3.72% and 3.87% respectively. The 3-, 5-, 10- and 15-year MGII yields decreasing by 11bps, 12bps, 14bps and 11bps to end the month at 3.34%, 3.50%, 3.73% and 3.90% respectively.

BENCHMARK	Dec 2023 Yield	June 2024 Yield	July 2024 Yield	MOM Change	YTD Change
3-year MGS	3.48%	3.44%	3.29%	-15 bps	-19 bps
5-year MGS	3.58%	3.64%	3.52%	-13 bps	-7 bps
10-year MGS	3.74%	3.86%	3.72%	-15 bps	-2 bps
15-year MGS	3.97%	4.00%	3.87%	-13 bps	-11 bps

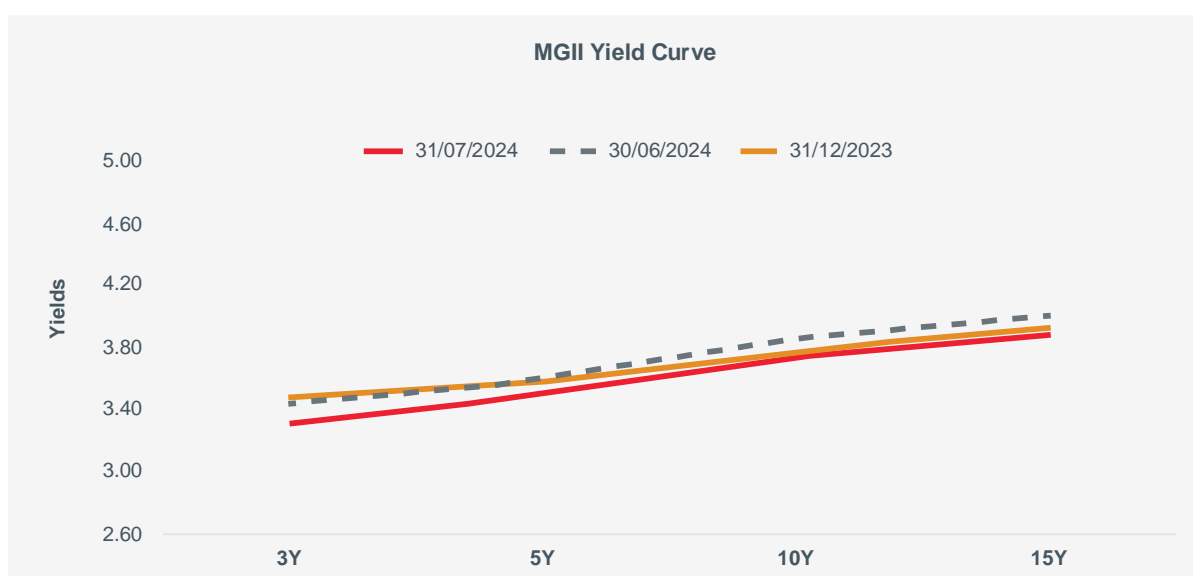
Source: Bloomberg



Source: Bloomberg

BENCHMARK	Dec 2023 Yield	June 2024 Yield	July 2024 Yield	MOM Change	YTD Change
3-year MGII	3.49%	3.45%	3.34%	-11 bps	-15 bps
5-year MGII	3.61%	3.62%	3.50%	-12 bps	-11 bps
10-year MGII	3.78%	3.87%	3.73%	-14 bps	-5 bps
15-year MGII	3.93%	4.02%	3.90%	-11 bps	-3 bps

Source: Bloomberg



Source: Bloomberg

Outlook

- In December 2023, futures traders were expecting the Federal Reserve (“**Fed**”) to cut rates seven times of 25 bps each for the year 2024. This expectation has since been lowered to one or two cuts as the Fed suggested that policy rates may stay elevated for longer until it gained greater confidence that inflation is moving sustainably towards the 2% objective. We expect future monetary decisions to be dependent on economic data. Heightened geopolitical risks continues with the Israel-Hamas war, 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 as the central bank assesses the sustainability of the domestic growth momentum, upside risks to inflation with diesel subsidy rationalization in June and potential petrol subsidy rationalisation by end of the year, global economic growth in developed economies and China, as well as the performance of the Ringgit. 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 July, with the re-opening of 5Y MGS 8/29, the re-opening of 10Y MGII 11/34 and the re-opening of 15Y MGS 04/39. 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-July-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
CP	
1-mth (P1)	3.60
3-mth (P1)	3.70

Source: Bloomberg/Bondstream

* Maybank2u.com.my

Table 2: Indicative Bond Yields (%)					
	3yr	5yr	7yr	10yr	15yr
MGS	3.38	3.52	3.68	3.74	3.88
GII	3.41	3.56	3.69	3.72	3.91
Swap rate*	3.43	3.49	3.56	3.67	3.88
AAA	3.73	3.82	3.90	3.97	4.10
AA1	3.80	3.89	3.96	4.07	4.23
AA2	3.87	3.95	4.03	4.15	4.37
AA3	3.93	4.01	4.09	4.23	4.51
A1	4.72	4.99	5.24	5.55	5.95
A2	5.36	5.74	6.06	6.49	7.01
A3	5.98	6.48	6.88	7.43	8.08

Source: Bloomberg*/Bondstream

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