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MARKET COMMENTARY

Fixed income market review and outlook

June 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 Bank of England ("**BOE**") in its Monetary Policy Committee ("**MPC**") meeting in June had kept its bank rate unchanged at 5.25%. The U.K.'s inflation rate fell to 2% in May from 2.3% in April. Its composite PMI declined to 52.3 in June (May: 53.0) as Manufacturing PMI declined to 50.9 from 51.2, and Services PMI declined to 51.2 compared to the May data of 52.9.

- The European Central Bank ("**ECB**") decided to cut its three key interest rates on the main refinancing operations, marginal lending facility and the deposit facility by 25bps to 4.25%, 4.50% and 3.75% respectively in June. In June, Eurozone's Manufacturing PMI increased to 45.8 (May: 47.3) while the Services PMI declined to 52.8 (May: 53.2). Eurozone's inflation rate fell to 2.5% (May:2.6%) while core inflation rate held steady at 2.9% in June.

- Bank of Japan ("**BoJ**") kept its policy rate at 0.0 to +0.1%, while the Reserve Bank of Australia ("**RBA**") decided to keep its cash rate unchanged at 4.35% in June. In Asia, Bank of Thailand, and the central banks of Indonesia and the Philippines maintained their policy interest rates at 2.50%, 6.25% and 6.50% respectively in June. Meanwhile, Bank Negara Malaysia **("BNM")** did not hold any monetary policy committee meeting in June.

- The People's Bank of China ("PBoC") maintained its key lending rate, 1-year and 5-year loan prime rate ("LPR") at 3.45% and 3.95% respectively in June. Economic activity data from China showed some improvement, although its economic recovery is perceived to still be fragile. China's imports and exports in May rose by 8.4% and 7.6% respectively YoY in USD terms (April: 8.4%; 1.5%). Retail sales expanded by 3.7% YoY in May 2024 (April: 2.3%) and industrial production grew 5.6% YoY over the same period (April: 6.7%). China's fixed asset investments registered 4.0% YoY growth in May (April: 4.2%).

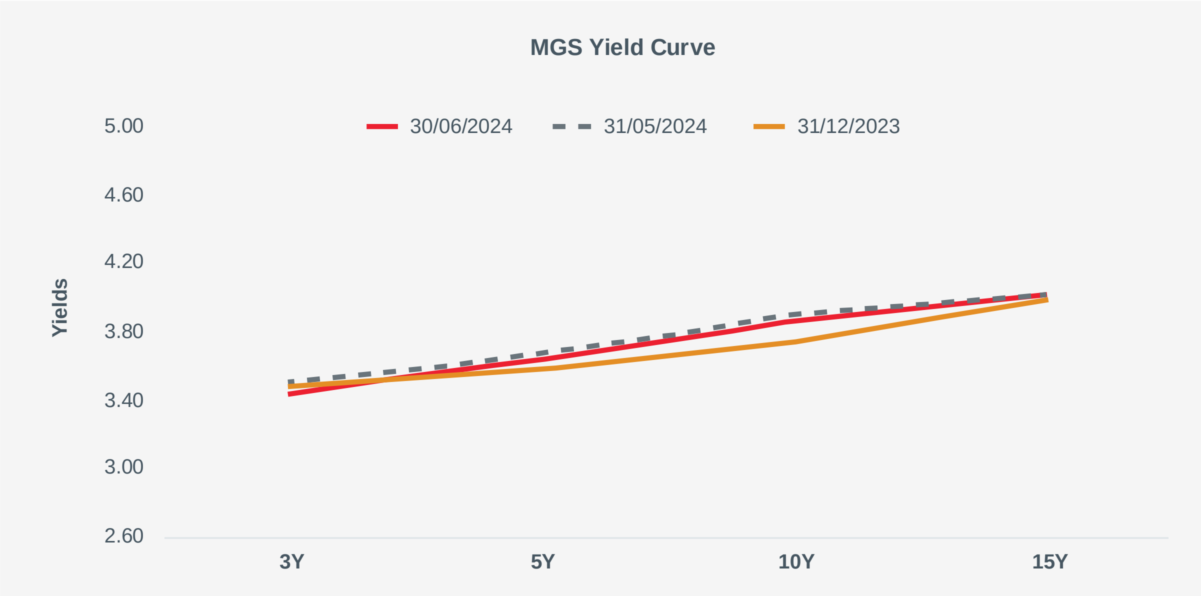
- Malaysia's headline CPI increased to 2.0% YoY (April: 1.8%), while core inflation held steady at 1.9% YoY. Unemployment rate remained stable at 3.3% in April. BNM international reserves decreased to US$113.8bn as of end-June (end-May: US$113.6bn). The reserves position is sufficient to finance 5.4 months of imports and is 1.0x of the total short-term external debt.

- Four auctions were held in June, the reopening of 20Y MGII 08/43, the reopening of 3Y MGS 05/27, the reopening of 30Y MGII 03/54 and the re-opening of 5Y MGS 08/29. The auctions received an average bid-to-cover ratio of 2.462x.
    - RM3.0b re-opening 20-year MGII averaging 4.133% at a bid-to-cover ratio of 3.475x;
    - RM5.0b re-opening 3-year MGS averaging 3.545% at a bid-to-cover ratio of 1.682x;
    - RM3.0b re-opening 30-year MGII averaging 4.241% at a bid-to-cover ratio of 2.504x; and
    - RM5.0b re-opening 5-year MGS averaging 3.672% at a bid-to-cover ratio of 2.187x

- Malaysia's MGS curve steepened in the month of June. The yields of the 3-, 5-, 10- and 15-year MGS declined by 5.7 bps, 4.7 bps, 3.2 bps and 1.4 bps to close the month at 3.44%, 3.64%, 3.86% and 4.00% respectively. The yield curve of MGII also steepened, with the 3-, 5-, 10- and 15-year MGII yields decreasing by 8.0 bps, 3.9 bps, 2.1 bps and 1.1 bps to end the month at 3.45%, 3.62%, 3.87% and 4.02% respectively.

BENCHMARK	Dec 2023 Yield	May 2024 Yield	Jun 2024 Yield	MOM Change	YTD Change
3-year MGS	3.48%	3.50%	3.44%	-5.7 bps	-3.8 bps
5-year MGS	3.58%	3.69%	3.64%	-4.7 bps	+6.2 bps
10-year MGS	3.74%	3.89%	3.86%	-3.2 bps	+12.5 bps
15-year MGS	3.97%	4.01%	4.00%	-1.4 bps	+2.8 bps

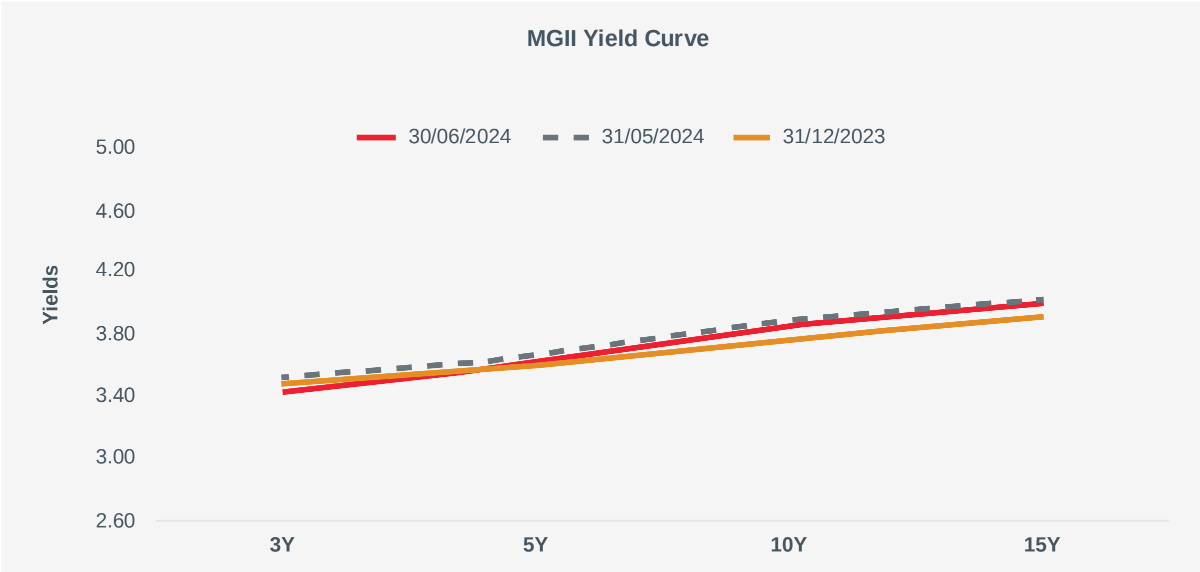
Source: Bloomberg



Source: Bloomberg

BENCHMARK	Dec 2023 Yield	May 2024 Yield	Jun 2024 Yield	MOM Change	YTD Change
3-year MGII	3.49%	3.53%	3.45%	-8.0 bps	-4.5 bps
5-year MGII	3.61%	3.66%	3.62%	-3.9 bps	+1.1 bp
10-year MGII	3.78%	3.89%	3.87%	-2.1 bps	+9.1 bps
15-year MGII	3.93%	4.03%	4.02%	-1.1 bps	+8.6 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 (%)	
	30-June-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	3.20
3-mth BNM MN	3.24
3-mth KLIBOR	3.59
CP	
1-mth (P1)	3.80
3-mth (P1)	3.97

Source: Bloomberg/Bondstream
* Maybank2u.com.my

Table 2: Indicative Bond Yields (%)					
	3yr	**5yr**	**7yr**	**10yr**	**15yr**
MGS	3.53	3.65	3.80	3.88	4.01
GII	3.52	3.67	3.78	3.89	4.01
Swap rate*	3.56	3.63	3.73	3.84	4.06
AAA	3.80	3.88	3.96	4.08	4.18
AA1	3.83	3.91	3.99	4.12	4.25
AA2	3.90	3.98	4.06	4.19	4.38
AA3	3.96	4.04	4.13	4.27	4.51
A1	4.38	4.55	4.73	4.95	5.28
A2	5.09	5.41	5.70	6.06	6.51
A3	5.71	6.15	6.52	7.00	7.58

Source: Bloomberg*/Bondstream

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