MARKET COMMENTARY

Fixed income market review and outlook

May 2024

Review

- U.S. May data continued to point to the resilience of its economy. Headline U.S. Personal Consumption Expenditure ("PCE") price index and core PCE remained at 2.7% and 2.8% YoY respectively in April. The University of Michigan Consumer Sentiment index for May fell to 67.4 (March: 77.2). The Non-Farm Payroll data showed that the U.S. economy added 185,000 jobs in May (April: 175,000 jobs) although unemployment rate increased to 3.9% in April from 3.8% in the previous month. The U.S. Composite Purchasing Managers' Index ("**PMI**") increased to 54.5 in May (April: 51.3), as both Services and Manufacturing PMI increased to 54.8 and 51.3 respectively in May (April: 51.3 and 50.0). Meanwhile, the Fed funds rate was unchanged at 5.25%-5.50%. However, 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 May had kept its bank rate unchanged at 5.25%. Both the U.K.'s headline and core CPI fell to 3.2% and 4.2% YoY respectively in April (March: 3.4%; 4.5%), while its composite PMI declined to 53.0 in May (April: 54.1) as Manufacturing PMI increased to 51.2 from 49.1, while Services PMI declined to 52.9 compared to the April data of 55.0.

- 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 May, Eurozone's Manufacturing PMI increased to 47.3 from 45.7 in the previous month while the Services PMI declined to 53.2 from 53.3 in the previous month. Eurozone's inflation and core inflation rates for May was flattish at 2.6% and 2.9% respectively compared to 2.4% and 2.7% recorded in the prior month.

- Bank of Japan ("**BoJ**") kept its policy rate to a range of 0.0 to +0.1% while the Reserve Bank of Australia ("**RBA**") decided to keep its cash rate unchanged at 4.35%. In Asia, Bank Negara Malaysia, and the central banks of Indonesia and the Philippines have decided to maintain their policy interest rates at 3.00%, 6.25% and 6.50% respectively in May. Meanwhile, Bank of Thailand did not hold any monetary policy committee meeting in May.

- 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 May. Economic activity data from China showed some improvement, although its economic recovery is perceived to still be fragile. China's imports and exports in April grew by 8.4% and 1.5% respectively YoY in USD terms (March: -1.9%; -7.5%). Retail sales expanded by 2.3% YoY in April 2024 (March: 3.1%), while industrial production grew 6.7% YoY over the same period (March: 4.5%). China's fixed asset investments recorded 4.2% YoY growth in April (March: 4.5%).

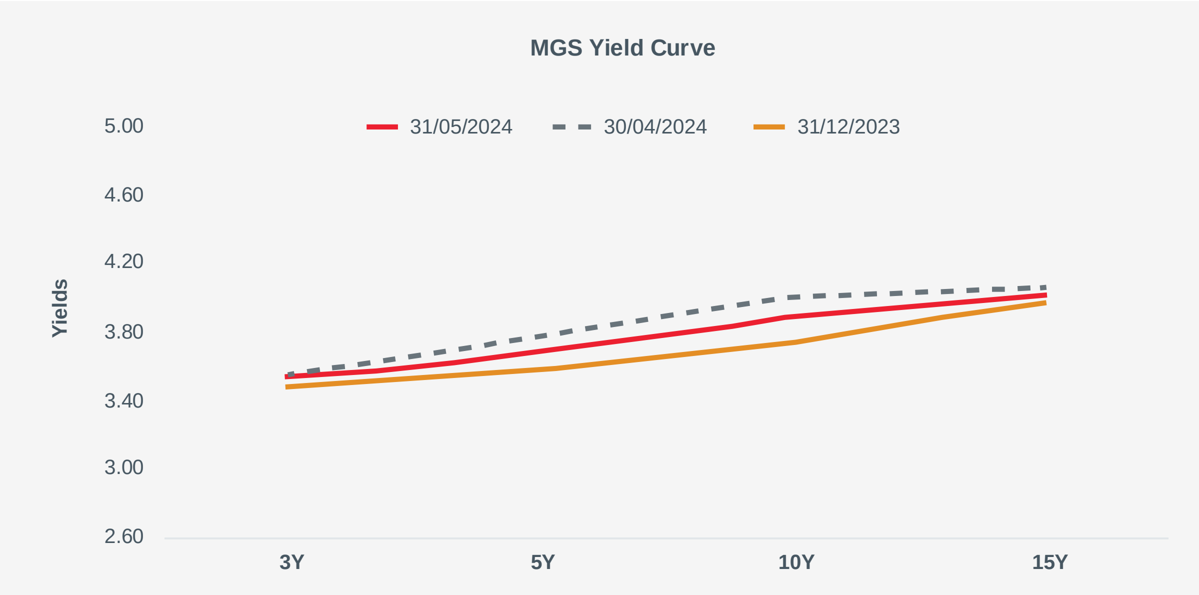
- Malaysia's headline CPI remained at 1.8% YoY, core inflation was higher at 1.9% YoY in April (March: 1.7%), while unemployment rate remained stable at 3.3% in March. BNM international reserves decreased to US$112.8bn as of end-April (end-March: US$113.8bn). The reserves position is sufficient to finance 5.5 months of imports and is 1.0x of the total short-term external debt.

- Three auctions were held in May, the new issue 20Y MGS 05/44, the reopening of 15Y MGII 09/39 and the re-opening of 7Y MGS 04/31. The auctions received an average bid-to-cover ratio of 2.691x.
  - RM3.0b new issue 20-year MGS averaging 4.180% at a bid-to-cover ratio of 3.085x;
  - RM3.0b re-opening 15-year MGII averaging 4.021% at a bid-to-cover ratio of 3.024x; and
  - RM5.0b re-opening 7-year MGS averaging 3.852% at a bid-to-cover ratio of 1.965x.

- Malaysia's MGS curve steepened in the month of May. The yields of the 3-, 5-, 10- and 15-year MGS declined by 4.1 bps, 8.7 bps, 9.8 bps and 4.0 bps to close the month at 3.50%, 3.69%, 3.89% and 4.01% respectively. The yield curve of MGII also steepened, with the 3-, 5-, 10- and 15-year MGII yields decreasing by 6.3 bps, 12.2 bps, 8.9 bps and 2.7 bps to end the month at 3.53%, 3.66%, 3.89% and 4.03% respectively.

BENCHMARK	Dec 2023 Yield	Apr 2024 Yield	May 2024 Yield	MOM Change	YTD Change
3-year MGS	3.48%	3.54%	3.50%	-4.1 bps	+1.9 bps
5-year MGS	3.58%	3.78%	3.69%	-8.7 bp	+10.9 bp
10-year MGS	3.74%	3.99%	3.89%	-9.8 bp	+15.7 bps
15-year MGS	3.97%	4.05%	4.01%	-4.0 bps	+4.2 bps

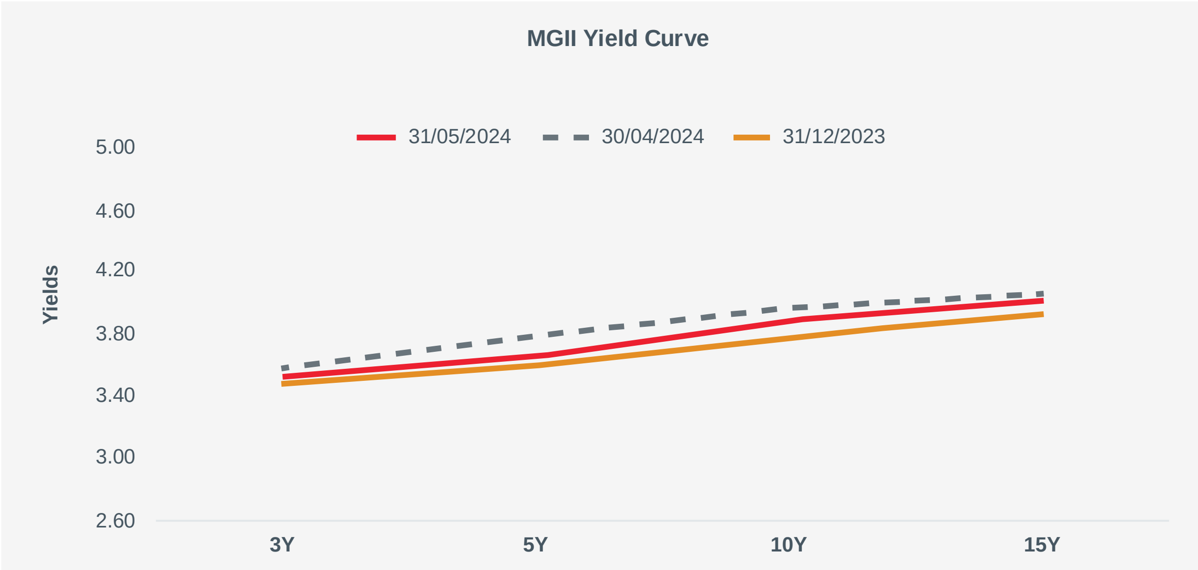
Source: Bloomberg



Source: Bloomberg

BENCHMARK	Dec 2023 Yield	Apr 2024 Yield	May 2024 Yield	MOM Change	YTD Change
3-year MGII	3.49%	3.59%	3.53%	-6.3 bps	+3.5 bps
5-year MGII	3.61%	3.78%	3.66%	-12.2 bps	+5.0 bp
10-year MGII	3.78%	3.98%	3.89%	-8.9 bp	+11.2 bps
15-year MGII	3.93%	4.05%	4.03%	-2.7 bps	+9.7 bps

Source: Bloomberg



Source: Bloomberg

Outlook

- After months of aggressive interest rate hikes by the central banks in developed countries last year, the market is expecting these central banks to cut policy rates this year. 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 given the strong US inflation and economic data which slowed down the US inflation trajectory of 2%. We expect future monetary decisions to be dependent on economic data. Inflation rates seemed to have peaked in the U.K. and the Eurozone, and are declining albeit not in a straight line. 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 potential subsidy rationalisation, 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 June, with the re-opening of 20Y MGII 8/43, the re-opening of 3Y MGS 05/27 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-May-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	3.19
3-mth BNM MN	3.24
3-mth KLIBOR	3.59
CP	
1-mth (P1)	3.77
3-mth (P1)	3.94

Source: Bloomberg/Bondstream
* Maybank2u.com.my

Table 2: Indicative Bond Yields (%)					
	3yr	5yr	7yr	10yr	15yr
MGS	3.59	3.69	3.85	3.91	4.03
GII	3.58	3.70	3.82	3.91	4.02
Swap rate*	3.62	3.71	3.80	3.92	4.13
AAA	3.81	3.92	4.02	4.08	4.20
AA1	3.87	3.99	4.09	4.17	4.34
AA2	3.94	4.04	4.15	4.26	4.49
AA3	4.01	4.10	4.21	4.35	4.64
A1	4.79	5.04	5.30	5.59	5.98
A2	5.42	5.78	6.11	6.53	7.04
A3	6.03	6.51	6.92	7.47	8.11

Source: Bloomberg*/Bondstream

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