eastspring investments

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MARKET COMMENTARY

Fixed income market review and outlook

November 2024

Review

- In November, the Federal Reserve ("**Fed")** cut interest rates by 25 basis points (bps) to 4.50-4.75%, citing that labour market conditions had generally eased, and inflation was still "somewhat elevated". The U.S. headline and core PCE price indexes rose by 2.3% (Sept: 2.1%) and 2.8% (Sept: 2.7%), respectively in October. The nonfarm payrolls report for October was distorted by the strike at Boeing and impact of hurricanes in Southeastern states. The report showed only 12,000 jobs were added in October. The University of Michigan Consumer Sentiment index continued its four-month trend of steady increases, rising from to 71.8 in November compared to 70.5 in October. The S&P Global U.S. Composite Purchasing Managers Index ("**PMI**") climbed to 54.9 in November (Oct: 54.1), indicating a strong monthly rise in overall output, driven primarily by the Services PMI at 56.1 (Oct: 55.0) and Manufacturing PMI at 49.7 (Oct: 48.5). There were signs of demand stabilising in the manufacturing sector.

- The Bank of England reduced its bank rate by 25bps to 4.75% in November, marking the second decrease in its cutting cycle that began in August. The U.K.'s inflation rate went up to 2.3% in October (Sept: 1.7%) The S&P Global UK Composite PMI fell further to 50.5 in November (Oct: 51.8), amid subdued customer demand and weaker business confidence in manufacturing (PMI at 48.0 vs 49.9) and services (PMI at 50.8 vs 52), respectively.

- The European Central Bank ("**ECB**")'s deposit facility rate, main refinancing operations and marginal lending facility was at 3.25%, 3.40% and 3.65% in November, respectively. Policymakers highlighted that any potential decisions regarding rate cuts would be contingent on the economic outlook and additional signs of easing inflationary pressures. Eurozone's inflation rate accelerated to 2.3% in November (Oct: 2.0%), while its core inflation rate stayed at 2.7%. In November, Eurozone's Manufacturing and Services PMI fell to 45.2 (Oct: 46.0) and 49.5 (Oct: 51.6), respectively amid declining output and business activities.

- The Reserve Bank of Australia kept its cash rate unchanged at 4.35% in November. The Bank of Korea surprised the markets by lowering its interest rate by 25bps to 3.0%, seeking to strengthen the economy in light of uncertainties surrounding US trade. In Asia, the Bank of Indonesia and Bank Negara Malaysia ("**BNM")** kept their interest rate unchanged at 6.00% and 3.00%, respectively in November 2024. Meanwhile, Philippine Central Bank, Bank of Thailand and Bank of Japan did not hold any monetary policy committee meeting in November.

- The People's Bank of China **("PBoC")** kept its key lending rates at the November fixing, which reflected the PBOC's ongoing assessment of existing stimulus. The 1-year and 5-year loan prime rates were held at 3.1%and 3.6%, respectively. In October, China's imports shrank 2.3% YoY in USD terms (Sept: +0.3%) amid weak domestic demand, while its exports surged by 12.7% (Sept: 2.4%) as manufacturers are front-loading orders in anticipation of further tariffs from the US. Retail sales increased by 4.8% YoY (Sept: 3.2%) and industrial production expanded by 5.3% YoY (Sept: 5.3%) in October. China's fixed asset investments stayed at 3.4% YoY growth in October.

- Malaysia's economy grew by 5.3% YoY in 3Q2024 (2Q2024: 5.9%), driven by robust investment activity and a sustained rise in exports. In October, Malaysia's headline CPI stood at 1.9% YoY (Sept: 1.8%) and core inflation increased by 1.8% YoY. Unemployment rate improved to 3.2% in October (Sept: 3.4%). BNM international reserves amounted to US$118.0bn as at 15 November 2024 (15 Oct: US$119.6bn). The reserves position is sufficient to finance 4.6 months of imports and is 0.9x of the total short-term external debt. The Ringgit continued to depreciate by 1.0% in the month of November against the USD, closing at 4.4395, influenced by the US presidential election.

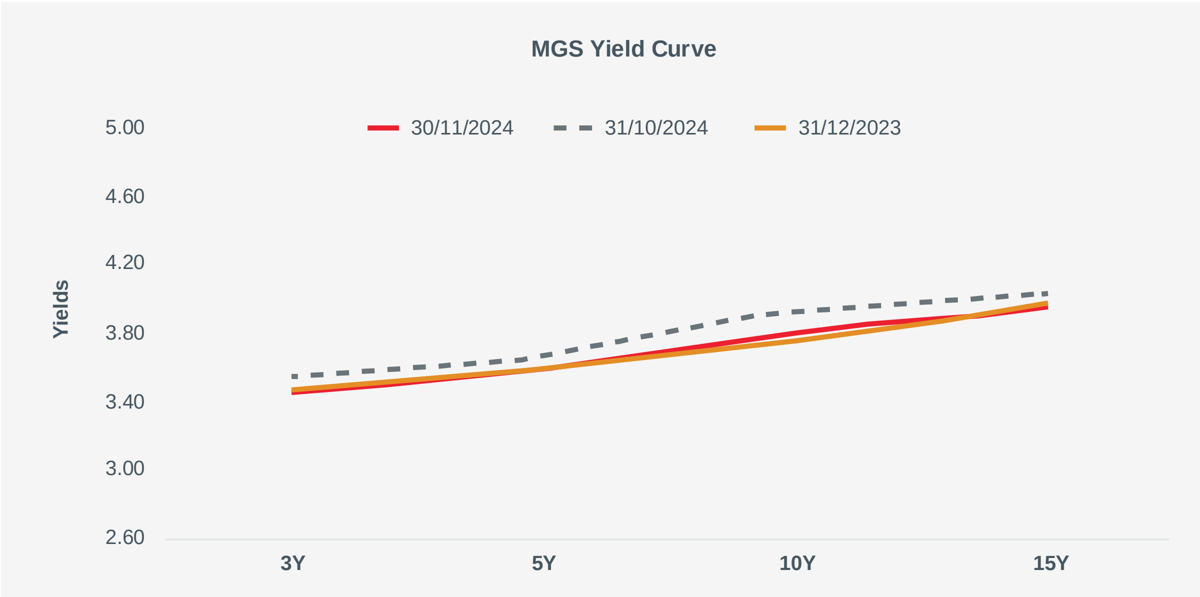
- Foreign fund flows in the local bond market fell into negative territory with a net outflow of RM11.4 billion in October, compared to a net inflow of RM1 billion in September. This decline was driven by heightened global uncertainty which led to a reduced appetite for local bonds. Despite this setback, Nov YTD figures still show a cumulative net inflow of RM7.3 billion (Oct YTD: RM20.4 billion).

- Two auctions were held in November, the reopening of 15Y MGS 04/39 and reopening of 5Y MGII 07/29. The auctions received an average bid-to-cover ratio of 2.3385x.
  - RM5.0b (including RM2.0b of private placement) re-opening 15-year MGS averaging 4.015% at a bid-to-cover ratio of 2.672x; and
  - RM4.5b re-opening 5-year MGII averaging 3.657% at a bid-to-cover ratio of 2.005x.

- In November, Malaysia's MGS and GII yields declined across the tenure, tracking UST movements. The 10Y UST ended the month at 4.17%, reflecting a decrease of 11bps. The 3-, 5-, 10- and 15-year MGS yields declined by 7bps, 9bps, 12bps and 9bps to 3.46%, 3.58%, 3.81% and 3.94%, respectively. The 3-, 5-, 10- and 15-year MGII yields declined by 10bps, 8bps, 12bps and 5bps to 3.35%, 3.61%, 3.81% and 3.96%, respectively.

BENCHMARK	Dec 2023 Yield	Oct 2024 Yield	Nov 2024 Yield	MOM Change	YTD Change
3-year MGS	3.48%	3.53%	3.46%	-7 bps	-1 bp
5-year MGS	3.58%	3.67%	3.58%	-9 bps	0 bps
10-year MGS	3.74%	3.92%	3.81%	-12 bps	+7 bps
15-year MGS	3.97%	4.03%	3.94%	-9 bps	+3 bps

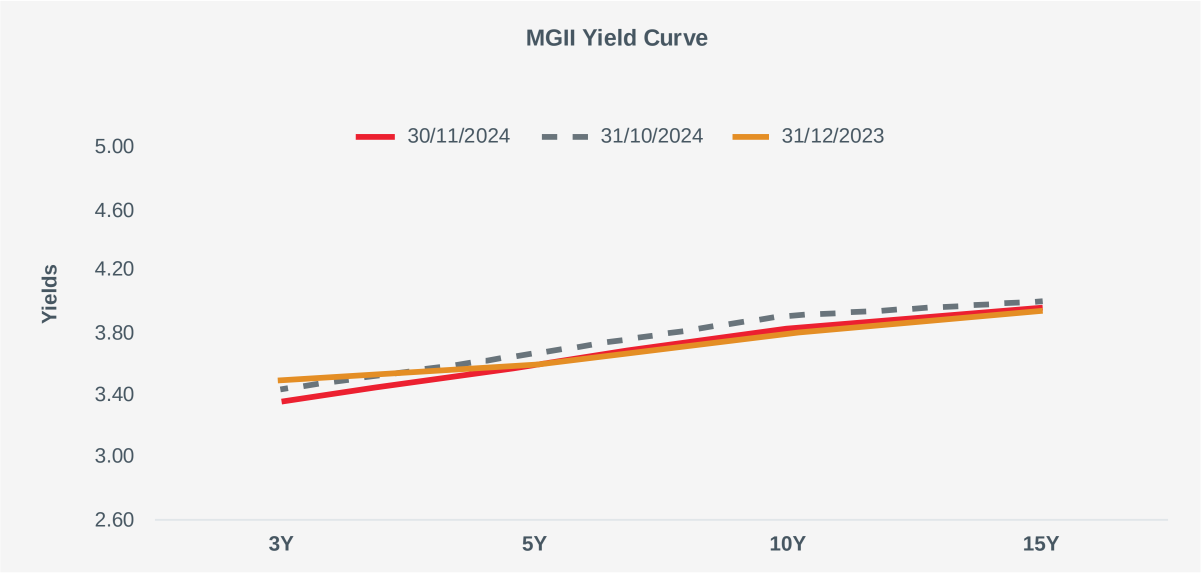
Source: Bloomberg



Source: Bloomberg

BENCHMARK	Dec 2023 Yield	Oct 2024 Yield	Nov 2024 Yield	MOM Change	YTD Change
3-year MGII	3.49%	3.45%	3.35%	-10 bps	-14 bps
5-year MGII	3.61%	3.68%	3.61%	-8 bps	0 bps
10-year MGII	3.78%	3.93%	3.81%	-12 bps	+3 bps
15-year MGII	3.93%	4.01%	3.96%	-5 bps	+3 bps

Source: Bloomberg



Source: Bloomberg

Outlook

- Donald Trump's win in the presidential elections heightened expectations that the Fed may need to maintain elevated interest rates for an extended period, as his proposed policies and tariffs are expected to create inflationary pressures. Nevertheless, the markets continue to anticipate another interest rate cut of 25 bps in December's FOMC meeting, influenced by softer labour market conditions, robust productivity growth and easing inflation trends. The minutes from the FOMC's November meeting indicate a cautious stance towards achieving a neutral interest rate, influenced by better-than-expected performance of the US economy. Thus, we believe that the Fed will continue its gradual but consistent downward adjustment of interest rates. Additionally, the Fed has clearly communicated its intentions up to this point, so if they were to pause, we believe Powell would likely provide signals to avoid surprising the market during the forthcoming FOMC meeting.

- Looking forward, we expect Fed to reduce its target range for the Fed funds rate towards a neutral stance over time, with the size and timing of the cuts depending on incoming data, the evolving outlook and the balance of risks on both sides of the dual mandates. Heightened geopolitical risks continue with the Israel-Hamas war in the Middle East, on top of the ongoing Russia-Ukraine war and trade tensions between U.S. and its trading partners, i.e., Canada, Mexico and China, are expected to generate uncertainties and influence the trajectory of the global markets. President-elect Donald Trump had recently announced a plan for significant tariffs on key trading partners, intending to sign an executive order imposing 25% tariffs on all goods imported from Canada and Mexico and a 10% tariff on goods from China on his first day in office. This follows previous threats of 60% tariffs on China and a general tariff of 10% to 20% on other imports, indicating a protectionist approach that could significantly alter the US economy.

- BNM has decided to maintain the Overnight Policy Rate ("OPR") at 3% for 2024, with future adjustments being data dependent. BNM is closely monitoring developments to assess domestic inflation and growth trends, aiming to support economic growth while ensuring price stability. It is noted that the upside risk to inflation would be dependent on the extent of spillover effects of domestic policy measures, such as RON95 petrol subsidy rationalisation and higher labour costs under Budget 2025 as well as global commodity prices and financial market developments. However, market participants generally expect OPR to stay at 3.00% over the next 6 to 12 months as the current monetary policy approach continues to support the economy and aligns with the prevailing outlook for inflation and growth. Malaysia's economy is expected to grow by 4.5%-5.5% in 2025, driven by strong domestic demand and export recovery. Inflation is projected to increase moderately to 2.0%-3.5%. The government plans to cut the deficit from 4.3% in 2024 to 3.8% in 2025, aiming for 3% by 2026.

- Two auctions are expected in the month of December, with the re-opening of 10Y MGS 07/34 and 3Y MGII 09/27. 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-Nov-24
MBB O/N*	1.30
MBB 1-Week*	1.40
MBB 1-Mth FD*	2.30
MBB 6-Mth FD*	2.50
MBB 1-Year FD*	2.50
1-mth BNM MN	3.14
3-mth BNM MN	3.17
3-mth KLIBOR	3.62
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	3.51	3.62	3.77	3.82	3.96
GII	3.47	3.64	3.77	3.82	3.98
Swap rate*	3.45	3.48	3.57	3.68	3.89
AAA	3.84	3.93	4.01	4.06	4.15
AA1	3.91	4.00	4.09	4.16	4.28
AA2	3.97	4.07	4.17	4.24	4.42
AA3	4.04	4.14	4.24	4.32	4.57
A1	4.76	5.04	5.28	5.57	5.99
A2	5.41	5.80	6.12	6.52	7.06
A3	6.03	6.55	6.95	7.46	8.13

Source: Bloomberg*/Bondstream

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