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MARKET COMMENTARY

Fixed income market review and outlook

October 2024

Review

- In October, the U.S. labour market added only 12,000 jobs, marking the slowest growth since 2010, well below the 223,000 jobs added in September and forecasts of 113,000. This contrasted with the unemployment rate, which remained unchanged at 4.1% in October, mainly influenced by significant data distortions caused by strikes at Boeing and disruptions in employment in some industries due to hurricanes. In September, the U.S. headline PCE price index dropped to 2.1% from 2.2%, while the core PCE price index stayed at 2.7%. The University of Michigan Consumer Sentiment index increased for a third consecutive month to 70.5 in September, compared to 70.1 in August. The S&P Global U.S. Composite Purchasing Managers Index ("**PMI**") edged up to 54.1 in October (Sept: 54.0), signalling steady growth in US business activities. The Services PMI was 55.0 in October, compared to 55.2 in September, while the Manufacturing PMI was 48.5 in October, up from 47.3 in September. The Federal Reserve ("**Fed**") interest rate was 4.75%-5.00% at end October.

- The Bank of England's bank rate was 5.00% at the end of October. The U.K.'s inflation rate fell to 1.7% in September (August: 2.2%). Its S&P composite PMI fell to 51.8 in October (Sept: 52.6), indicating slower growth in both manufacturing (PMI at 49.9 vs 51.5) and services (PMI at 52 vs 52.4).

- The European Central Bank ("**ECB**") lowered its key interest rates by 25 bps in October. The deposit facility rate, main refinancing operations and marginal lending facility at 3.25% (from 3.50%), 3.40% (from 3.65%) and 3.65% (from 3.90%), respectively. In October, Eurozone's Manufacturing PMI increased to 46.0 (Sept: 45.0) whereas its Services PMI fell to 51.2 (Sept: 51.4). Eurozone's inflation rate rose to 2.0% (Sept: 1.8%), while its core inflation rate stayed at 2.7%. The ECB remains committed to restrictive rates to ensure inflation reaches its medium-term goal of 2%.

- The Reserve Bank of Australia kept its cash rate unchanged at 4.35% in November. In Asia, the Bank of Indonesia kept its interest rate steady at 6.00% while the Philippine Central Bank lowered its benchmark interest rate by 25 bps to 6% in October. Additionally, the Bank of Thailand unexpectedly lowered its key interest rate by 25 bps to 2.25% in October, marking its first rate cut since early 2020, amid a sluggish economy and inflation remaining below the lower limit of its target range of 1% to 3%. Meanwhile, Bank Negara Malaysia ("**BNM**") and Bank of Japan did not hold any monetary policy committee meeting in October.

- The People's Bank of China **("PBoC")** lowered its key lending rate by 25 bps in October, intensifying its efforts to bolster a struggling economy. The 1-year and 5-year loan prime rates were reduced to 3.1% (from 3.35%) and 3.6% (from 3.85%), respectively. In September, China's imports rose by 0.3% while exports grew by 2.4% YoY in USD terms (August: 0.5%; 8.7%), amid a weak global demand. Retail sales climbed by 3.2% YoY (August: 2.1%) and industrial production grew 5.4% YoY (August: 4.5%) in September. China's fixed asset investments stayed at 3.4% YoY growth in September.

- In September, **Malaysia**'s headline CPI was at 1.8% YoY (August: 1.9%) and core inflation rose by 1.8% YoY. Unemployment rate improved to 3.2% in August (July: 3.3%). BNM international reserves amounted to US$119.6bn as at 15 October 2024 (Sept: US$119.7bn). The reserves position is sufficient to finance 4.8 months of imports and is 0.9x of the total short-term external debt.

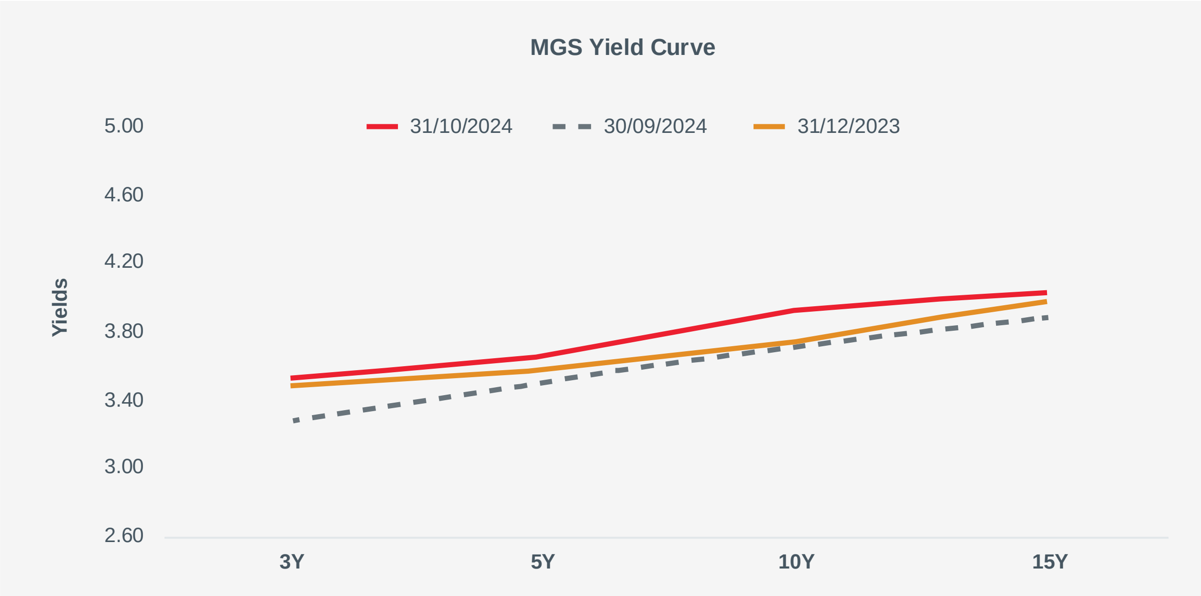
- In October, the Ringgit experienced a downturn, concluding the month at 4.40 (Sept: 4.11) against the US dollar due to rising caution ahead of the upcoming US election in November. Looking ahead, Bank Negara expects the Ringgit to gain support from the narrowing interest rate differentials between Malaysia and advanced economies, bolstered by a promising local economic outlook, ongoing domestic structural reforms, and continued efforts to promote capital inflows.

- Four auctions were held in October, the reopening of 3Y MGS 05/27, reopening of 10Y MGII 11/34, reopening of 20Y MGS 05/44 and reopening of 7Y MGII 10/31. The auctions received an average bid-to-cover ratio of 1.811x.
  - RM4.5b re-opening 3-year MGS averaging 3.426% at a bid-to-cover ratio of 1.606x;
  - RM4.5b re-opening 10-year MGS averaging 3.832% at a bid-to-cover ratio of 1.602x;
  - RM5.0b (including RM2.0b of private placement) reopening of 20-year MGS averaging 4.136% at a bid-to-cover ratio of 2.039x; and
  - RM5.0b re-opening 7-year MGII averaging 3.914% at a bid-to-cover ratio of 1.997x.

- Malaysia's MGS and GII posted losses in the month of October, affected by the weak performance in US and global bond markets. The 3-, 5-, 10- and 15-year MGS yields increased by 27bps, 16bps, 21bps and 15 bps to 3.53%, 3.67%, 3.93% and 4.03%, respectively. The 3-, 5-, 10- and 15-year MGII yields increased by 14bps, 18bps, 18bps and 12bps to 3.45%, 3.68%, 3.93% and 4.01%, respectively.

BENCHMARK	Dec 2023 Yield	Sept 2024 Yield	Oct 2024 Yield	MOM Change	YTD Change
3-year MGS	3.48%	3.26%	3.53%	+27 bps	+6 bps
5-year MGS	3.58%	3.50%	3.67%	+16 bps	+9 bps
10-year MGS	3.74%	3.71%	3.92%	+21 bps	+19 bps
15-year MGS	3.97%	3.88%	4.03%	+15 bps	+6 bps

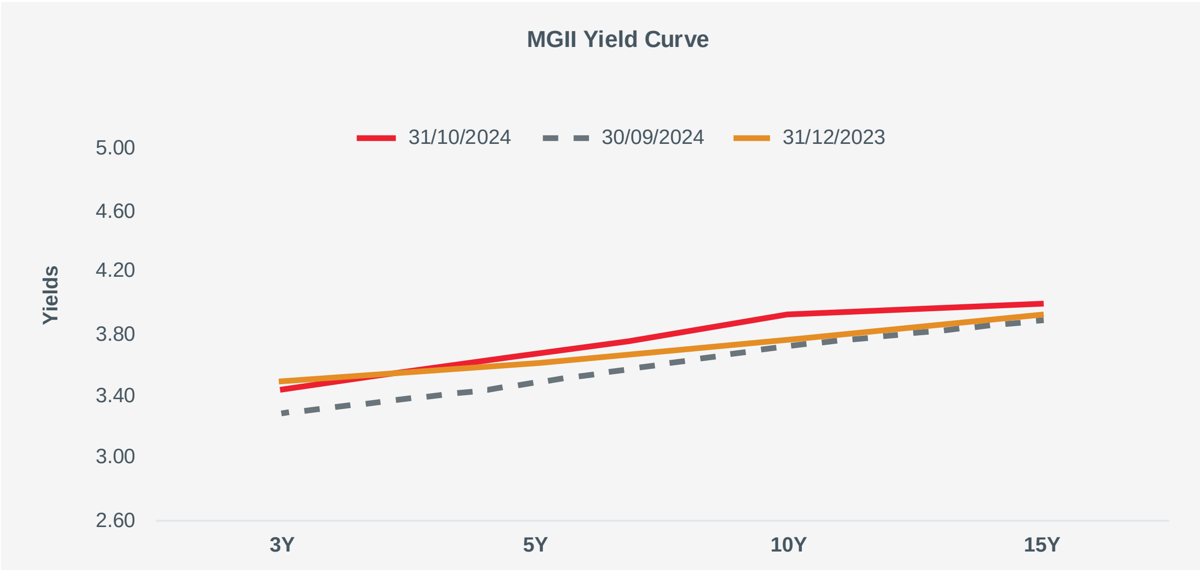
Source: Bloomberg



Source: Bloomberg

BENCHMARK	Dec 2023 Yield	Sept 2024 Yield	Oct 2024 Yield	MOM Change	YTD Change
3-year MGII	3.49%	3.31%	3.45%	+14 bp	-4 bps
5-year MGII	3.61%	3.50%	3.68%	+18 bps	+8 bps
10-year MGII	3.78%	3.75%	3.93%	+18 bps	+15 bps
15-year MGII	3.93%	3.90%	4.01%	+12 bps	+8 bps

Source: Bloomberg



Source: Bloomberg

Outlook

- In November 2024, the FOMC reduced the Fed funds interest rate by 25 bps to a range of 4.5% to 4.75%, in line with expectations, while noting an uncertain outlook and awareness of risks related to both sides of their dual mandates (inflation is moving back towards target while unemployment is closer to target). Fed Chair Jerome Powell stated that no decision has been made regarding the central bank's policy actions for December, but cited that the Fed is prepared to make changes to its monetary policy due to uncertainty. Market will be closely monitoring the Fed's plans for signalling, especially after Trump's re-election as his policies could potentially lead to increased inflation.

- 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 China. Meanwhile, Premier Li Qiang recently expressed confidence that China would meet its GDP target of around 5% in 2024, supported by the positive momentum from the recent fiscal and monetary policies. PBoC and the Ministry of Housing introduced a series of measures aimed at easing the financial burden on property owners and regain public confidence, to support economic growth.

- The Malaysia Budget 2025, presented on 18 October 2024, outlines a strategic plan for economic growth with a RM421 billion allocation. It focuses on addressing inequality, infrastructure development, and public welfare, while ensuring fiscal responsibility, sustainable development and social well-being. 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.

- 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.

- Three auctions are expected in the month of November, with the re-opening of 15Y MGS 04/39, the re-opening of 5Y MGII 07/29 and the re-opening of 10Y MGS 07/34. 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-Oct-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	3.13
3-mth BNM MN	3.17
3-mth KLIBOR	3.58
CP	
1-mth (P1)	3.75
3-mth (P1)	3.91

Source: Bloomberg/Bondstream
* Maybank2u.com.my

Table 2: Indicative Bond Yields (%)					
	3yr	**5yr**	**7yr**	**10yr**	**15yr**
MGS	3.58	3.70	3.92	3.93	4.02
GII	3.53	3.71	3.92	3.95	4.03
Swap rate*	3.52	3.57	3.66	3.76	3.82
AAA	3.80	3.93	4.04	4.09	4.18
AA1	3.86	3.99	4.12	4.18	4.30
AA2	3.93	4.04	4.18	4.25	4.43
AA3	3.98	4.09	4.23	4.31	4.56
A1	4.74	5.02	5.30	5.59	5.98
A2	5.39	5.77	6.13	6.53	7.04
A3	6.01	6.52	6.96	7.47	8.11

Source: Bloomberg*/Bondstream

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