MARKET COMMENTARY

Fixed income market review and outlook

September 2024

Review

- The Federal Reserve ("**Fed**") cut its Fed funds rate by a massive 50bps to 4.75%-5.00% in September, marking its first rate cut since March 2020, and cited progress on inflation reduction and a balanced assessment of risk as the rationale for the move. In September, the U.S. labour market added 254,000 jobs, well above the 150,000 Dow Jones consensus forecast. It marks the highest job growth in six months and exceeds the average monthly increase of 203,000 over the prior 12 months. The unemployment rate fell to 4.1% from 4.2% in August. In August, the U.S. headline Personal Consumption Expenditure ("**PCE**") price index moderated to 2.2% year-on-year compared to 2.5% in July, whereas the U.S. core PCE price index increased to 2.7% from 2.6% in the previous month. The University of Michigan Consumer Sentiment index was higher at 70.1 in September (August: 67.9). The S&P U.S. Composite Purchasing Managers' Index ("**PMI**") edged lower to 54.0 in September (August: 54.6), as both Services PMI and Manufacturing PMI eased to 55.2 and 47.3 in September, respectively (August: 55.7 and 47.9).

- The **Bank of England** kept its bank rate unchanged at 5.00% in September, following a 25bps cut in August. The U.K.'s inflation rate was at 2.2% in August (July: 2.2%). Its S&P composite PMI fell to 52.6 in September (August: 53.8) as Manufacturing PMI fell to 51.5 from 52.5 and Services PMI fell to 52.4 from 53.7. Even though growth moderated, overall business activity stayed robust, driven by rising domestic demand, especially from technology, real estate, and leisure services.

- The **European Central Bank** ("ECB") cut the deposit facility rate by 25bps to 3.5% (from 3.75%) in September to ease monetary policy restrictions, reflecting an updated inflation outlook. The interest rates on main refinancing operations and marginal lending facility were lowered to 3.65% (from 4.25%) and 3.90% (from 4.50%), respectively. In August, Eurozone's Manufacturing PMI fell to 45.0 (August: 45.8) and its Services PMI fell to 51.4 (August: 52.9). Eurozone's inflation rate fell to 1.8% (August: 2.2%) and its core inflation rate fell to 2.7% in August (August: 2.8%). The ECB remains committed to bringing inflation back to its 2% target.

- The Reserve Bank of Australia kept its cash rate unchanged at 4.35% in September. In Asia, Bank Negara Malaysia ("**BNM**") and Bank of Japan maintained their policy interest rate at 3.00% and 0.25% respectively in September. The Bank of Indonesia unexpectedly cut its interest rate by 25 bps to 6.00% in September. Meanwhile, the Philippine Central Bank, Bank of Thailand and Bank of Japan did not hold any monetary policy committee meeting in September.

- In September 2024, China announced a new stimulus package aimed at boosting economic growth through a series of targeted measures include interest rate cuts, a reduced reserve requirement ratio and support for the struggling real estate sector. The **People's Bank of China** kept its key lending rate unchanged in September. The 1-year and 5-year loan prime rate was at 3.35% and 3.85%, respectively. In August, China's imports rose by 0.5% while exports increased by 8.7% YoY in USD terms (July: 7.2%; 7.0%). Retail sales expanded by 2.1% YoY in August (July: 2.7%) and industrial production rose by 4.5% YoY (July: 5.1%). China's fixed asset investments rose 3.4% YoY growth in August (July: 3.6%).

- In August, **Malaysia**'s headline CPI was at 1.9% YoY (July: 2.0%), while core inflation remained steady at 1.9% YoY. Unemployment rate remained stable at 3.3% in July. BNM international reserves amounted to US$119.7bn as at end September (July: US$116.8bn). The reserves position is sufficient to finance 4.8 months of imports and is 0.9x of the total short-term external debt.

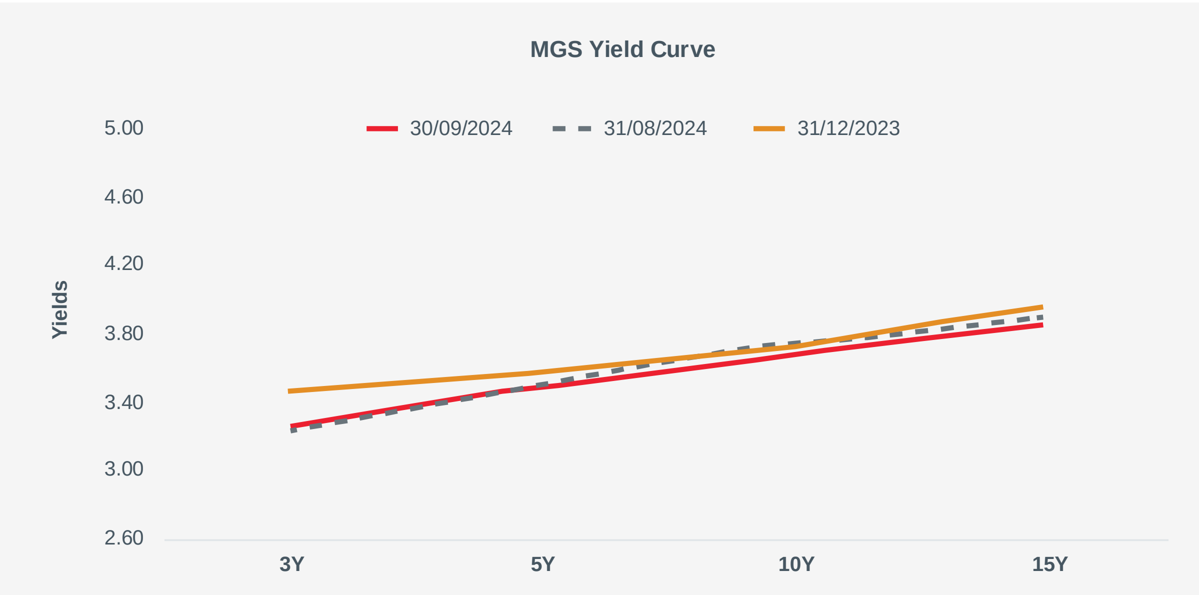
- The Ringgit strengthened further in September 2024, appreciating by 5.1% against the US Dollar (RM4.11 vs. end August: RM4.32), driven primarily by the 50bps cut in Fed funds rate, as well as the ongoing coordinated efforts by the Government and BNM to encourage repatriation and conversion of foreign income proceeds by government-linked companies and corporates. Crude oil prices spiked to US$80.93 on 7 October (end Sept: US$71.77) amid fears of escalating Middle East tensions and their impact on global oil supply. The oil prices movement in the near term is likely to be influenced by demand and supply and the risk of the supply disruption from conflict in the Middle East.

- Three auctions were held in September, the reopening of 20Y MGII 08/43, reopening of 7Y MGS 04/31 and reopening of 30Y MGII 03/54. The auctions received an average bid-to-cover ratio of 1.837x.
  - RM5.0b (including RM2.0b of private placement) re-opening 20-year MGII averaging 4.084% at a bid-to-cover ratio of 1.922x;
  - RM5.5b re-opening 7-year MGS averaging 3.687% at a bid-to-cover ratio of 1.729x; and
  - RM5.0b (including RM2.0b of private placement) reopening of 30-year MGII averaging 4.198% at a bid-to-cover ratio of 1.86x.

- Malaysia's MGS and GII yields ended mostly lower in the month of September. The 3-year MGS increased by 2bps to 3.26%, whereas the 5-, 10- and 15-year MGS yields declined by 1bp, 6bps and 4bps to 3.50%, 3.71% and 3.88%, respectively. The 3-, 5-, 10- and 15-year MGII yields declined by 1bp, 2bps, 3bps and 4bps to 3.31%, 3.50%, 3.75% and 3.90%, respectively.

BENCHMARK	Dec 2023 Yield	August 2024 Yield	September 2024 Yield	MOM Change	YTD Change
3-year MGS	3.48%	3.25%	3.26%	+2 bps	-21 bps
5-year MGS	3.58%	3.51%	3.50%	-1 bp	-8 bps
10-year MGS	3.74%	3.76%	3.71%	-6 bps	-3 bps
15-year MGS	3.97%	3.92%	3.88%	-4 bps	-9 bps

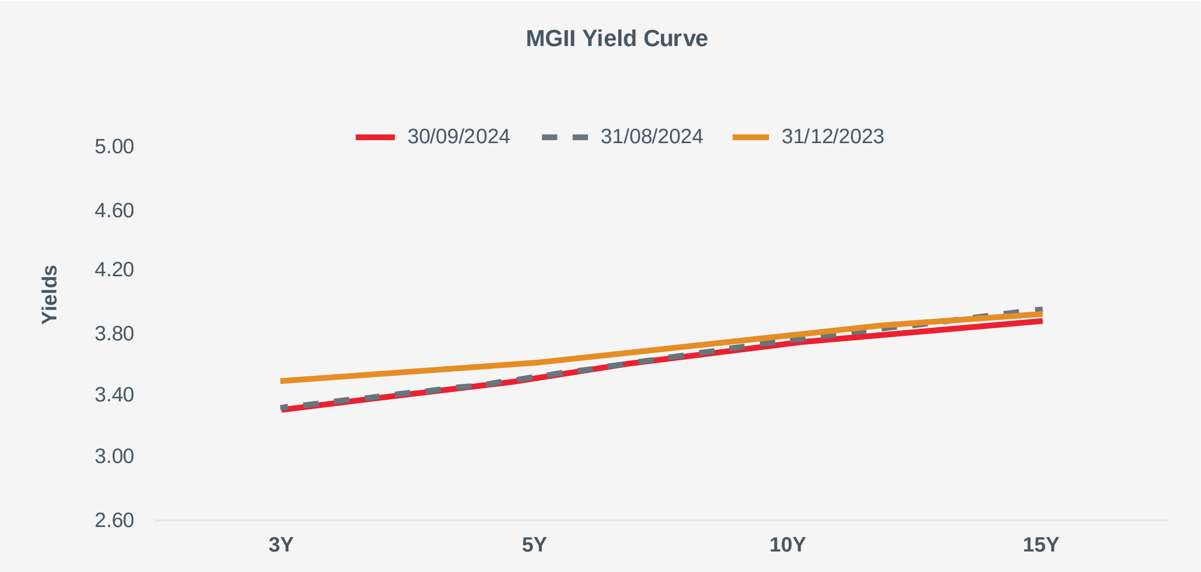
Source: Bloomberg



Source: Bloomberg

BENCHMARK	Dec 2023 Yield	August 2024 Yield	September 2024 Yield	MOM Change	YTD Change
3-year MGII	3.49%	3.32%	3.31%	-1 bp	-18 bps
5-year MGII	3.61%	3.52%	3.50%	-2 bps	-10bps
10-year MGII	3.78%	3.78%	3.75%	-3 bps	-3 bps
15-year MGII	3.93%	3.94%	3.90%	-4 bps	-3 bps

Source: Bloomberg



Source: Bloomberg

Outlook

- U.S. labour growth accelerated well beyond market expectations in September, indicating that the labour market is more positive than the broader market expected. The stronger jobs data, along with inflation trending towards the 2.0% target, has strengthened the market's view that the Fed will cut its key interest rate by 25bps at each of its two remaining meetings in 2024, positioning the rate at 4.25% to 4.50% by the end of 2024. Fed Chairperson Jerome Powell believes that if the economy performs as anticipated, the Fed will support a more gradual approach to interest rate cuts. 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 (inflation is moving back towards target while unemployment is closer to target). Heightened geopolitical risks continues 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. 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. BNM is closely monitoring developments to assess domestic inflation and growth trends for 2025, with the aim of maintaining a monetary policy that supports sustainable economic growth while ensuring price stability. Market participants generally expect OPR to stay at 3.00% over the next 6-12 months, as the current monetary policy approach continues to bolster the economy and aligns with the existing outlook for inflation and growth. Third MADANI budget is scheduled to be tabled in parliament on 18 October 2024. Budget 2025 aims to strike a middle ground between managing inflationary pressures, promoting sustainable economic growth and continuing the path of fiscal consolidation. Market is expecting Government to provide more direction on the implementation of RON95 subsidy rationalisation and/or reintroduction of a Goods and Services Tax in the Budget 2025. 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 and New Industrial Master Plan.

- Four auctions are expected in the month of October, with the re-opening of 3Y MGS 05/27, the re-opening of 10Y MGII 11/34, the re-opening of 20Y MGS 05/44 and the re-opening of 7Y MGII 10/31. 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-Sep-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	3.12
3-mth BNM MN	3.15
3-mth KLIBOR	3.55
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	3.36	3.51	3.70	3.72	3.90
GII	3.38	3.53	3.69	3.75	3.92
Swap rate*	3.40	3.45	3.53	3.62	3.67
AAA	3.73	3.80	3.88	3.96	4.09
AA1	3.79	3.86	3.94	4.03	4.22
AA2	3.84	3.91	3.99	4.10	4.35
AA3	3.89	3.96	4.04	4.16	4.47
A1	4.68	4.95	5.21	5.54	5.94
A2	5.34	5.71	6.05	6.49	7.00
A3	5.96	6.46	6.88	7.43	8.07

Source: Bloomberg*/Bondstream

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