MARKET COMMENTARY

Fixed income market review and outlook

March 2025

Review

- The Federal Reserve ("Fed") in its March 2025 FOMC meeting decided to hold the federal fund rate unchanged at 4.25% to 4.50%, for a second straight meeting and in line with market expectations. Policymakers have recognised that uncertainty regarding the economic outlook has grown but continued to signal the possibility of two rate cuts in 2025. The U.S. economy added 228k jobs in March 2025, well above the 117K in February and beating forecasts of 135k, indicating that the labour market remains healthy. The unemployment rate rose to 4.2% (Feb: 4.1%). In February 2025, the U.S. PCE Price index increased by 2.5% YoY (Jan: 2.5% YoY), and the core PCE price index rose by 2.8% YoY (Jan: 2.7% YoY). The University of Michigan Consumer Sentiment index fell further to 57.0 in March 2025 from 64.7 in February 2025, as consumers' expectations regarding personal finances, business conditions, unemployment and inflation have worsened. The Manufacturing PMI fell to 49 in March 2025 (Feb: 50.3), while the Service PMI fell to 50.8 (Feb: 53.5), indicating a slowdown in economic activity.

- The Bank of England ("**BOE**") decided to keep its bank rate unchanged at 4.5% during its March meeting, as policymakers took a cautious stance in light of persistently high inflation and uncertainties in global economy. The U.K.'s inflation rate fell to 2.8% in February 2025 (Jan: 3.0%), primarily due to a fall in the cost of clothing and footwear. In February 2025, the services sector grew by 0.3% (Jan: 0.1%), driven by increases in various sub-sectors, including information and communication, wholesale and retail trade and administrative and support. While the production sector saw a significant increase of 1.5% (Jan: -0.5%), due to a rebound in manufacturing output, particularly in automotive and machinery industries.

- The European Central Bank ("**ECB**") lowered its three interest rates by 25 basis points ("bps") in March 2025, reducing the deposit facility rate to 2.50% (from 2.75%), the main refinancing operations to 2.65% (from 2.90%) and the marginal lending facility to 2.90% (from 3.15%). The decision to lower interest rate is influenced by growing worries about sluggish economic growth in the Eurozone, higher inflation and ongoing global uncertainties. In March 2025, Eurozone's inflation rate eased to 2.2% (Feb: 2.3%), primarily due to a slowdown in services inflation, which fell to 3.4% from 3.7% in February. Additionally, energy costs saw a decline of 0.7%, compared to a rise of 0.2%. Its core inflation was at 2.4% (Feb: 2.6%).

- The Reserve Bank of Australia's cash rate was at 4.1% as at end March 2025. In Asia, Bank of Indonesia, Bank of Japan and Bank Negara Malaysia ("**BNM**") kept their interest rate unchanged at 5.75%, 0.50% and 3.0%, respectively, in March 2025. Meanwhile, Bank of Korea, Bank of Thailand, Central Bank of the Philippines did not hold any monetary policy committee meeting in March 2025.

- The People's Bank of China **("PBoC")** kept its key lending rates in March 2025 fixing. The 1-year and 5-year loan prime rates were held at 3.1% and 3.6%, respectively. The PBOC said it would lower its interest rates and the bank's reserve requirement ratio at the appropriate time to support the struggling economy. In January-February 2025, China's imports dropped by 8.4% YoY in USD terms (Dec 2024: 1.0%), reflecting weakening domestic demand, while its exports grew by 2.3% YoY (Dec 2024: 10.7%) which is below market forecasts of 5% partly due to Chinese New Year disruptions. Retail sales rose by 4.0% YoY (Dec 2024: 3.7%) and industrial production expanded by 5.9% YoY (Dec 2024: 6.2%). China's fixed asset investment rose by 4.1% YoY from January-February 2025.

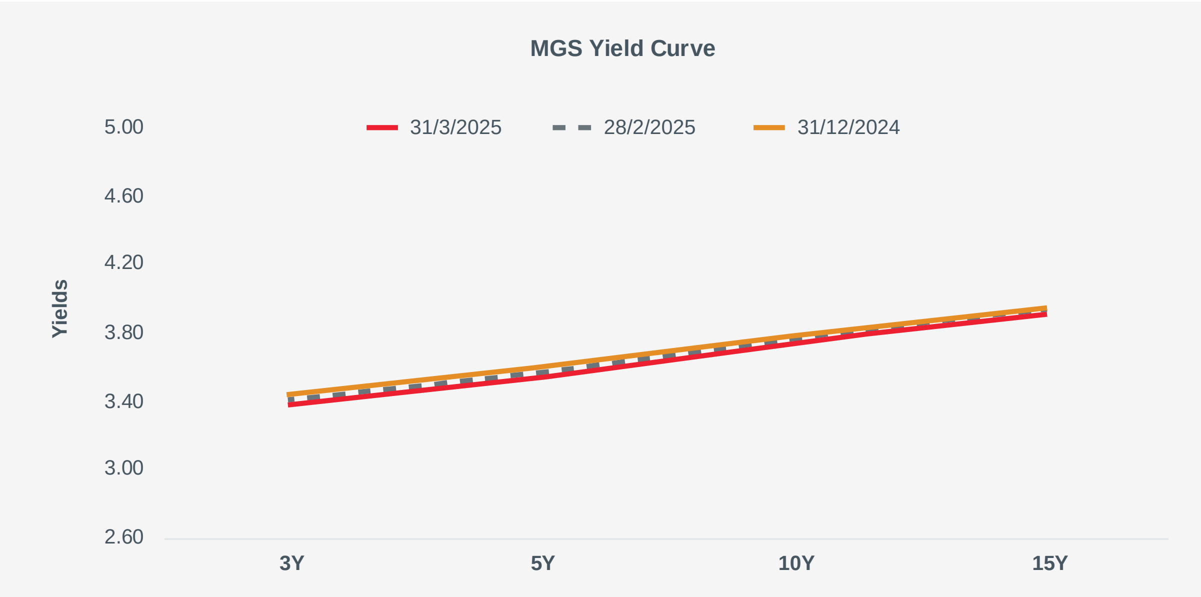
- The headline inflation in Malaysia eased to 1.5% in February 2025 (Jan: 1.7%), while core inflation edged up to 1.9% (Jan: 1.8%). Unemployment rate was steadied at 3.1% in January 2025 (Dec 2024: 3.1%). BNM international reserves amounted to US$117.5bn as at 28 March 2025 (14 Feb: US$117.7bn). The reserves position is sufficient to finance 4.9 months of imports and is 0.9x of the total short-term external debt. The Ringgit appreciated by 0.7% against USD, closing at 4.433 in March 2025 (Feb: 4.4655), driven by the weakness in USD index.

- Three auctions were held in March 2025, the reopening of 15Y MGS 04/39, reopening of 30Y MGII 03/54 and reopening of 10Y MGS 07/34. The auctions received an average bid-to-cover ratio of 2.59x.
  - RM4.0b (including RM1.0b private placement) reopening 15-year MGS averaging yield of 3.956% at a bid-to-cover ratio of 3.018x;
  - RM5.0b (including RM2.0b private placement) reopening 30-year MGII averaging yield of 4.169% at a bid-to-cover ratio of 3.077x; and
  - RM5.0b new issuance 10-year MGS averaging yield of 3.764% at a bid-to-cover ratio of 1.670x.

- In March 2025, Malaysia's MGS and GII yields traded lower, between 1 to 5 bps across the curve, supported by strong buying interest from foreign investors. Foreign fund flows in the local bond market recorded a healthy net foreign inflow of RM3.2 billion in March 2025 (Feb: -RM1.1 billion). YTD, the net foreign fund flow stood at RM3.25 billion. The 10Y UST yield was steadied at 4.23% as at end March 2025 (Feb: 4.24%).

BENCHMARK	Dec 2024 Yield	Feb 2025 Yield	Mar 2025 Yield	MOM Change	YTD Change
3-year MGS	3.47%	3.43%	3.38%	-5 bps	-9 bps
5-year MGS	3.62%	3.58%	3.56%	-2 bps	-5 bps
10-year MGS	3.82%	3.79%	3.77%	-1 bps	-5 bps
15-year MGS	3.97%	3.96%	3.91%	-5 bps	-5 bps

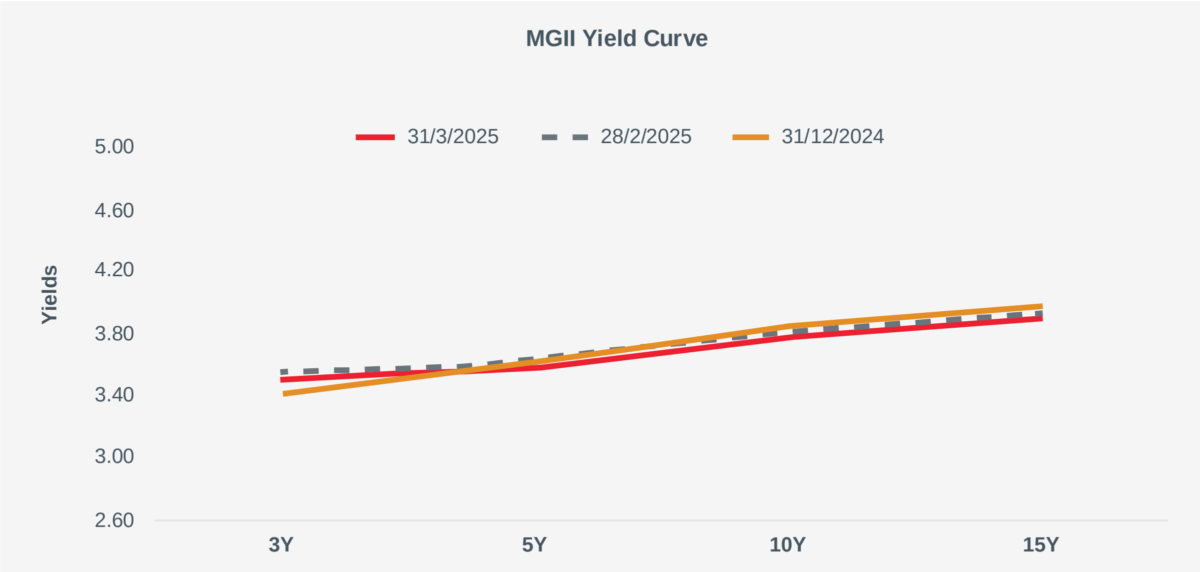
Source: Bloomberg



Source: Bloomberg

BENCHMARK	Dec 2024 Yield	Feb 2025 Yield	Mar 2025 Yield	MOM Change	YTD Change
3-year MGII	3.42%*	3.55%	3.51%	-4 bps	+9 bps
5-year MGII	3.62%	3.63%	3.59%	-4 bps	-3 bps
10-year MGII	3.83%	3.81%	3.78%	-3 bps	-6 bps
15-year MGII	3.98%	3.94%	3.90%	-4 bps	-8 bps

Source: Bloomberg. *MGII3Y Index



Source: Bloomberg

Outlook

- On April 2, 2025, President Donald Trump announced a new tariff policy, declaring the day “Liberation Day”. The policy introduces a baseline tariff of 10% on all imports, with higher reciprocal tariffs imposed on countries with significant trade surpluses with the United States. Key economies facing substantial tariff increases include China (34%), Taiwan (32%), South Korea (25%), Japan (24%), and the European Union (20%). In response, China has already announced countermeasures, which could adversely affect the US exporters and worsen existing economic challenges. The newly tariffs have raised concerns about a potential recession in the US, as market participants worry that they may lead to higher inflation. In anticipation of these economic pressures, trades are betting on at least four rate cuts in 2025, projecting a decrease to 3.00% to 3.25% by the end of the year, down from the current rate of 4.25% to 4.50%. The Fed is closely monitoring the economic impact of the tariffs and plans to take a cautious approach, focusing on evolving conditions before making any decision regarding rate cuts. Ongoing geopolitical risks and escalation of the trade war between US and its trading partners are expected to further introduce uncertainties in the market and influence the trajectory of the global markets.

- In Malaysia, BNM has acknowledged the potential impacts of the 24% reciprocal tariff imposed by President Donald Trump. Nevertheless, BNM emphasized the resilience and diversification of the Malaysia economy, with the service sector accounting for 60% of GDP. As a result, there is no immediate need to revise the GDP growth forecast for 2025, which remains at 4.5% to 5.5%. BNM is expected to maintain the OPR at 3.0% in 2025, consistent with the current economic outlook and inflation expectations. However, there is room for BNM to adjust OPR, if necessary, given the prevailing low inflation environment. The BNM Annual Report 2024 projects that inflation will remain manageable, forecasting at a range of 2.0% to 3.5% for 2025. Nonetheless, potential upside risks – such as rising global commodity prices, ongoing geopolitical tensions, further shifts in US trade policy and the implementation of targeted petrol subsidy – could exert inflationary pressures.

- Three auctions are expected in the month of April 2025, with the re-opening of 15Y MGII 07/40, re-opening of 3Y MGS 04/28 and new issuance of 10Y MGII 04/35. 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-Mar-25
MBB O/N*	1.30
MBB 1-Week*	1.40
MBB 1-Mth FD*	2.20
MBB 6-Mth FD*	2.45
MBB 1-Year FD*	2.45
1-mth BNM MN	3.12
3-mth BNM MN	3.16
3-mth KLIBOR	3.66
CP	
1-mth (P1)	3.76
3-mth (P1)	3.93

Source: Bloomberg/Bondstream
* Maybank2u.com.my

Table 2: Indicative Bond Yields (%)					
	3yr	**5yr**	**7yr**	**10yr**	**15yr**
MGS	3.45	3.60	3.71	3.80	3.93
GII	3.48	3.56	3.74	3.79	3.89
Swap rate*	3.43	3.47	3.54	3.64	3.76
AAA	3.73	3.79	3.85	3.91	4.05
AA1	3.82	3.90	3.98	4.06	4.21
AA2	3.90	3.98	4.06	4.17	4.39
AA3	3.97	4.07	4.16	4.29	4.56
A1	4.78	5.04	5.27	5.57	6.01
A2	5.42	5.81	6.13	6.54	7.08
A3	6.04	6.56	6.97	7.48	8.15

Source: Bloomberg*/Bondstream

Disclaimer