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MARKET COMMENTARY

FIXED INCOME MARKET REVIEW AND OUTLOOK

August 2019

REVIEW

- Malaysia's Gross Domestic Product ("GDP") registered a higher growth of 4.9% in the second quarter of 2019 (1Q 2019: 4.5%), supported by continued expansion in domestic demand. On a quarter-on-quarter seasonally-adjusted basis, the economy grew by 1.0% (1Q 2019: 1.1%). Private sector activity continued to drive growth – private consumption increased +7.8% (1Q 2019: 7.6%) which was supported by firm household spending backed by continued income growth and moderately low inflation, further boosted by selected Government measures such as cash handouts to the B40 segment. For the year, official BNM GDP growth forecast remained at 4.3 – 4.8%.

- Headline inflation in July 2019 was +1.40% YoY (June: +1.5% YoY) driven by Furnishings, Household Equipment & Routine Household Maintenance (+3.3% YoY), Food & Non-Alcoholic Beverages (+2.4% YoY), Recreation Services & Culture (+2.4% YoY), Alcoholic Beverages & Tobacco (+2.3% YoY) and Communication (+2.1% YoY). Core inflation was relatively stable at +2.0% YoY (June: +1.9% YoY). Lower base effect from consumption tax holiday (0% GST) in Jun-Aug 2018 and soon-to-be-implemented targeted fuel subsidy – flotation of currently fixed RON95 petrol and diesel prices – will contribute to elevated inflation for the rest of 2019. For the full year, BNM maintains its headline inflation forecast of 0.7 – 1.70%.

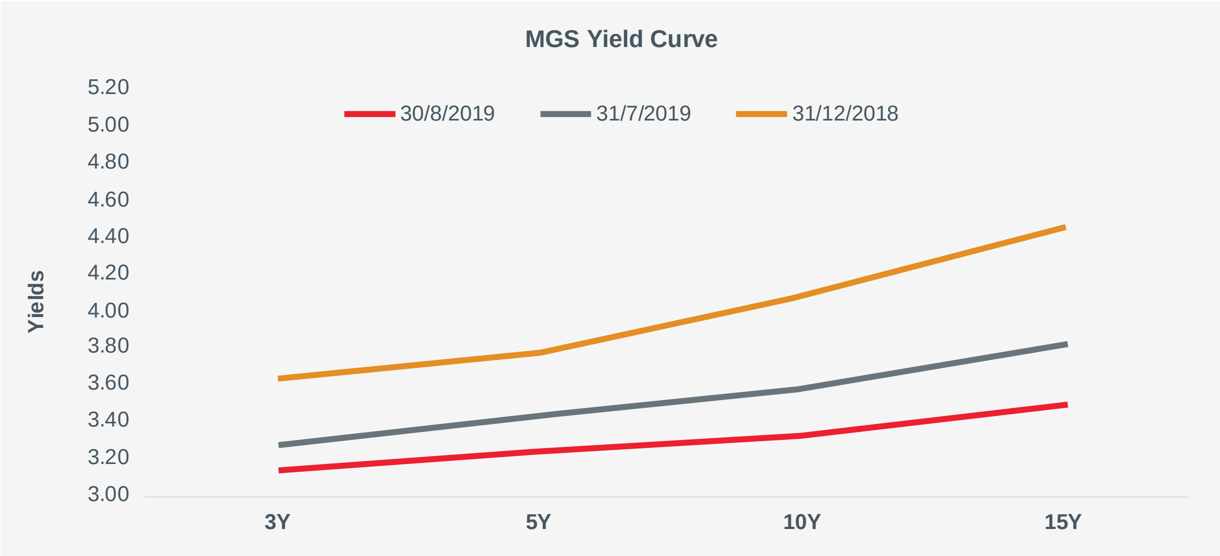
- Malaysia sovereign bond curve bull-flattened in August with yields for 3-, 10- and 15-years MGS moved lower by 15-32 bps to close lower at 3.12%, 3.32% and 3.48% respectively. In August, sovereign bonds yields continued their move lower across the curve in line with lower global sovereign yields as global central banks start to loosen monetary policies in a bid to counter slower economic growth. Similarly, MGII yields 3-, 10- and 15-years moved lower by 19-40bps to close at 3.13%, 3.36% and 3.51% respectively.

- There were three government bond auctions in August:
  - RM3.0b re-opening of the 5-year MGII averaging 3.345% at a bid-to-cover ratio of 4.137x.
  - RM3.0b re-opening of the 20-year MGS averaging 3.753% at a bid-to-cover ratio of 3.150x.
  - RM3.0b re-opening of the 10-year MGII averaging 3.318% at bid-to-cover ratio of 2.000x.

- Meanwhile, trading in corporate bonds for the month of August mostly concentrated in selected quasi-government, AAAs and AAs rated bonds.

BENCHMARK	31/12/2018 Yield	31/7/2019 Yield	30/8/2019 Yield	MOM Change	YTD Change
3-year MGS	3.62%	3.27%	3.12%	- 15 bps	- 50 bps
5-year MGS	3.76%	3.43%	3.23%	- 20 bps	- 53 bps
10-year MGS	4.07%	3.57%	3.32%	- 25 bps	- 75 bps
15-year MGS	4.44%	3.80%	3.48%	- 32 bps	- 96 bps

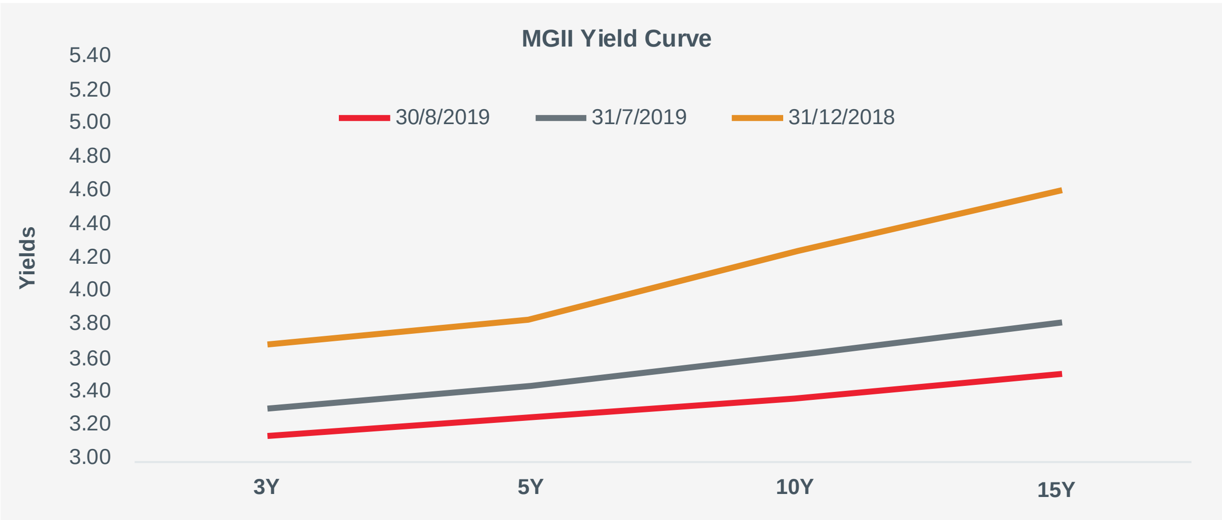
Source: Bloomberg



Source: Bloomberg

BENCHMARK	31/12/2018 Yield	31/7/2019 Yield	30/8/2019 Yield	MOM Change	YTD Change
3-year MGII	3.68%	3.31%	3.13%	- 18 bps	- 55 bps
5-year MGII	3.83%	3.43%	3.25%	- 18 bps	- 58 bps
10-year MGII	4.24%	3.61%	3.36%	- 25 bps	- 88 bps
15-year MGII	4.61%	3.81%	3.51%	-30 bps	- 110 bps

Source: Bloomberg



Source: Bloomberg

OUTLOOK

- Trade tension took another turn in August when US and China exchanged another round of tariffs against each other, virtually covering all of the two economies' USD660 billion in annual trade. US had announced a 10% of tariff on US300 billion of Chinese imports early in August as President Trump accused China of walking back against its pledge to immediately import US agricultural products in large quantities. China later retaliated by doubling the tariff on US75b US goods to 10% and re-imposing tariff on US autos and automotive parts. This was further met by additional 5% tariff by US on all existing tariff on Chinese goods. Market is expecting a long and protracted trade negotiation between the two economies as no end is in sight at the moment. The lingering uncertainties will continue to weigh on global sentiments and add volatilities to the market.

- The US Federal Reserve's ("Fed") next policy meeting is scheduled to take place in September. Recall that in July, Fed delivered its first policy rate cut since 2009 as a protection against an increasing downside risk to the economy. During Fed's Chair Powell's speech at Jackson Hole in August, he reinforced Fed's commitment and openness to act as appropriate to sustain the expansion of US economic activities. Fed is expected to continue to be open to further monetary policy easing on the back of deteriorating global economic outlook. At the time of writing, Fed Funds Rate Futures are already implying a 100% chance of another consequential 25bps cut in September.

- On Malaysia, the fifth Monetary Policy Committee ("MPC") meeting for 2019 will be held on 12 September 2019. Previously, BNM maintained the Overnight Policy Rate ("OPR") at 3.00% during its July meeting and reiterated that the current level of OPR remains accommodative and supportive of economic activity. However, BNM still sees some softening in the near term global economic outlook, with considerable downside risks remaining primarily from prolonged trade tensions. Local economists are predicting another 25bps cut to OPR in the 2H19 and both swap and bond markets have already priced in the cut.

- In September, there will be two MYR government bond auctions, re-opening of 7-year MGS and 15-year MGII against a RM8.0 billion MGII maturity. The domestic sovereign bond market is expected to be supported on the back of still deep domestic liquidity as evidenced by the above-average bid-to-cover ratio from the recent government bond auctions.

- On the corporate bond front, the pickup in supply is expected to be maintained in September from refinancing activities on the back of upcoming corporate bond maturities, and the relatively low-interest rate environment which is favorable for issuers. We expect demand for corporate bonds to remain strong due to 1) scarcity of quality corporate bond supply and 2) still deep liquidity in the local bond market.

Table 1: Indicative Rates	
	31-Aug-19
MBB O/N*	1.60%
MBB1-Week*	1.70%
MBB 1-Mth FD*	2.90%
MBB 6-Mth FD*	3.05%
MBB 1-Year FD*	3.10%
1-mth BNM MN	3.07%
3-mth BNM MN	3.09%
3-mth KLIBOR	3.40%
CP	
1-mth (P1)	3.45%
3-mth (P1)	3.69%

Source: Bloomberg/Bondstream
* Maybank2u.com.my

Table 2: Indicative Bond Yields (%)

	3 yr	5yr	7yr	10yr	15yr
MGS	3.17	3.24	3.28	3.32	3.49
GII	3.16	3.25	3.32	3.36	3.51
Swap rate*	3.18	3.22	3.23	3.33	3.45
AAA	3.48	3.54	3.60	3.69	3.90
AA1	3.67	3.73	3.81	3.93	4.16
AA2	3.81	3.87	3.95	4.07	4.30
AA3	3.93	3.99	4.06	4.18	4.42
A1	4.40	4.71	5.00	5.40	6.03
A2	5.10	5.63	6.04	6.60	7.41
A3	5.80	6.47	6.96	7.62	8.50

Source: Bloomberg*/Bondstream