MARKET COMMENTARY

FIXED INCOME MARKET REVIEW AND OUTLOOK

July 2019

REVIEW

- On the domestic front, the fifth Monetary Policy Committee ("MPC") meeting for 2019 was held on 9 July 2019. The MPC has decided to maintain the Overnight Policy Rate ("OPR") at 3.00%, consistent with the market's expectation. While the baseline projection for domestic growth remains within the 4.3-4.8%, it is subject to downside risk from ongoing uncertainties in the global and domestic environment, worsening trade tensions and extended weakness in commodity-related sectors. That said, we think BNM's future monetary policy decisions are likely to be data-dependent.

- Separately, Malaysia's sovereign rating was reaffirmed by international rating agencies, Fitch and S&P, at A- with stable outlook. The rating agencies cited Government's efforts to restore the country's finances through rigorous fiscal management, including in managing its overall debt and liabilities. They further acknowledged Malaysia's still strong and broad-based medium-term growth with a diversified export base.

- In June 2019, inflation came out meeting consensus at +1.50% YoY vs. +0.2% YoY in May 2019. The abolishment of the Goods and Services Tax ("GST") to zero-rated on 1st June 2018 led to the increase in some of the index of the main groups namely Furnishings, Household Equipment & Routine Household Maintenance (+3.1%), Recreation Services & Culture (+2.7%), Food & Non-Alcoholic Beverages (+2.3%) and Housing, Water, Electricity, Gas & Other Fuels (+2.3%). As such, inflation is likely to stay high between the month of June and September given the low base effect during the tax holiday period in 2018. Meanwhile, core inflation accelerated to +1.90% YoY in Jun vs +0.4% YoY in May.

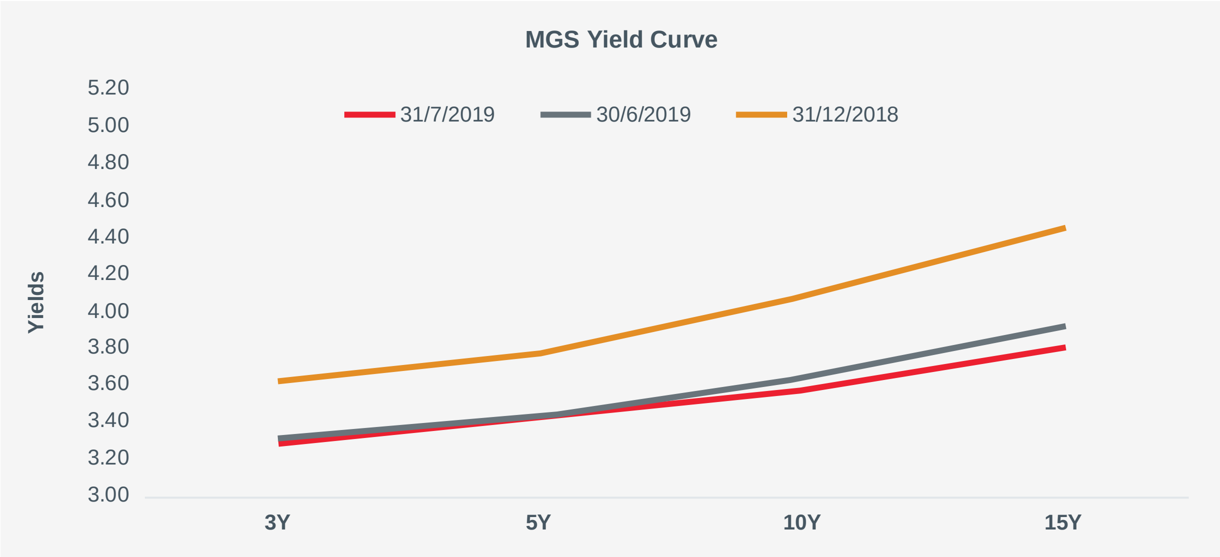
- Malaysia sovereign bonds curve generally bull-flattened in July with yields for 3-, 10- and 15-years MGS moved lower by 2-11 bps to close lower at 3.27%, 3.57% and 3.80% respectively. In July, sovereign bonds yields continued their move lower across the curve in line with lower global sovereign yields as global central banks start to either pre-emptively cut policy rates or signal their readiness to loosen monetary policies in a bid to counter slower economic growth. Similarly, MGII yields 3-, 10- and 15-years moved lower by 1-10bps respectively to close at 3.31%, 3.61% and 3.81% respectively.

- There were three government bond auctions in July:
  - RM3.5b new issue of the 15-year MGS averaging 3.828% at a bid-to-cover ratio of 3.437x.
  - RM3.0b re-opening of the 7-year MGII averaging 3.582% at a bid-to-cover ratio of 2.874x.
  - RM2.0b re-opening of the 30-year MGS averaging 4.181% at bid-to-cover ratio of 2.490x.

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

BENCHMARK	31/12/2018 Yield	30/6/2019 Yield	31/7/2019 Yield	MOM Change	YTD Change
3-year MGS	3.62%	3.29%	3.27%	- 2 bps	- 35 bps
5-year MGS	3.76%	3.42%	3.43%	+ 1 bps	- 33 bps
10-year MGS	4.07%	3.63%	3.57%	- 6 bps	- 50 bps
15-year MGS	4.44%	3.91%	3.80%	- 11 bps	- 64 bps

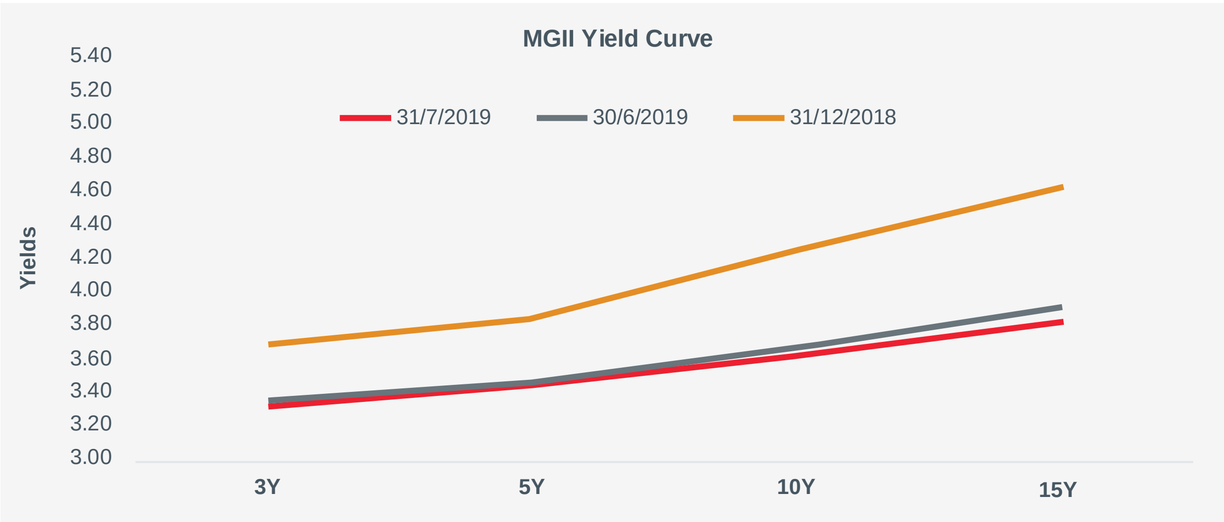
Source: Bloomberg



Source: Bloomberg

BENCHMARK	31/12/2018 Yield	30/6/2019 Yield	31/7/2019 Yield	MOM Change	YTD Change
3-year MGII	3.68%	3.34%	3.31%	- 3 bps	- 37 bps
5-year MGII	3.83%	3.44%	3.43%	- 1 bps	- 40 bps
10-year MGII	4.24%	3.65%	3.61%	- 4 bps	- 63 bps
15-year MGII	4.61%	3.91%	3.81%	-10 bps	- 80 bps

Source: Bloomberg



Source: Bloomberg

OUTLOOK

- In the US, Federal Open Market Committee ("FOMC") lowered its policy rate to the range of 2.00%-2.25% during the July meeting. This is in line with the market's anticipation of at least a 25bps cut. The cut is seen as an "insurance" cut as unemployment rates remained low and inflation rate stayed below the 2% target. The tone of the committee has changed in contrast to the earlier statements suggesting that this rate cut is a one-off cut. Chair Powell is quoted saying that this 25bps cut was "essentially a mid-cycle adjustment" but later clarified that he "did not say just one rate cut". He also made it clear that he does not see the current state of economy warranting the start of a rate cut cycle. Nonetheless, the wording "to act as appropriate" has been maintained in the FOMC statement, leaving room for further policy adjustment.

- IMF recently downgraded their global growth forecast to 3.2% for 2019 and 3.5% for 2020, 0.1% lower both years compared to the April forecast. IMF highlighted the downside risk to their forecast among others from the trade and technology tensions which dent sentiment and slow investment, mounting disinflationary pressures which increase debt service difficulties and constraint monetary policy space to counter downturns. At this point, investment and demand for consumer durables have been subdued across advanced and emerging economies as firms and households continue to hold back on long-term spending. Accordingly, global trade remains sluggish. On this backdrop, global central banks have turned cautious on the growth outlook and have either loosen their monetary policies or signaled their intention to do so.

- In July, there will be three MYR government bond auctions, re-opening of 5-year and 10-year MGII and a re-opening of 20y MGS against one RM6.0 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 market is expected to see a pickup in supply in August from refinancing needs 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-Jul-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	3.09%
3-mth BNM MN	3.11%
3-mth KLIBOR	3.46%
CP	
1-mth (P1)	3.50%
3-mth (P1)	3.76%

Source: Bloomberg/Bondstream
* Maybank2u.com.my

Table 2: Indicative Bond Yields (%)

	3 yr	5yr	7yr	10yr	15yr
MGS	3.32	3.44	3.55	3.59	3.81
GII	3.34	3.42	3.59	3.62	3.81
Swap rate*	3.36	3.41	3.47	3.57	3.77
AAA	3.65	3.76	3.83	3.92	4.13
AA1	3.76	3.87	3.94	4.04	4.26
AA2	3.92	4.01	4.09	4.19	4.43
AA3	4.04	4.13	4.20	4.30	4.55
A1	4.32	4.51	4.68	4.93	5.37
A2	4.88	5.29	5.62	6.09	6.81
A3	5.57	6.16	6.59	7.19	8.02

Source: Bloomberg*/Bondstream

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