MARKET COMMENTARY

FIXED INCOME MARKET REVIEW AND OUTLOOK

December 2019

REVIEW

- November'19 headline inflation recorded lower at +0.90% YoY compared to October (+1.1% YoY) primarily due to lower increase in Food & Non-Alcoholic Beverages, +1.5% YoY (Oct: +1.8% YoY) and larger contraction in transportation costs -2.4% Yoy (Oct: -2.3% YoY). On the other hand, core inflation remained stable at +1.4% YoY in November. With the delay in the targeted fuel subsidy implementation and the lapse of tax holiday impact, inflation rate for 2019 is expected to be anchored around the current level. For the full year, BNM maintains its inflation forecast at 0.70% - 1.70% while the government expects 2019 inflation to be subdued at 1.00%.

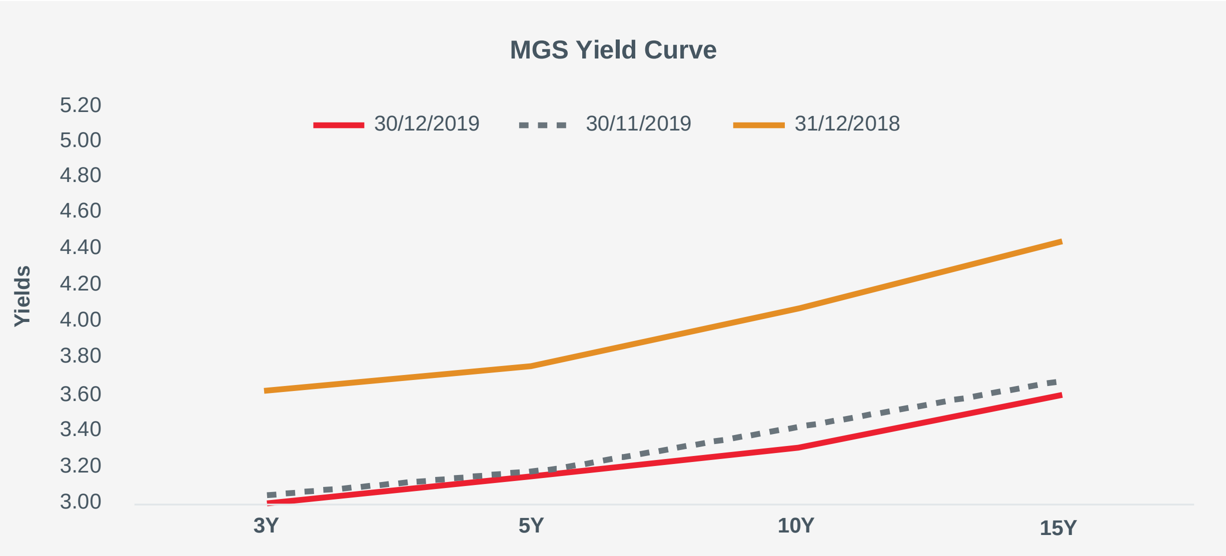
- Malaysia sovereign bond yields shifted lower in December where 3-, 5-, 10- and 15-years MGS decreased by 3-12bps to close at 2.98%, 3.15%, 3.30% and 3.60% respectively. Seasonally December is low in market liquidity and we saw ample demand from foreign buyers on domestic short-dated government bonds, tracking the recent Ringgit strength, while the local investors position their holdings going into 2020. Broadly, we expect the direction of domestic bond market in the next few months to be largely hinged on BNM monetary policy and potential index exclusion in March 2020, while it is also susceptible to the global market sentiment on the back of fragile geopolitical settings. MGII yield curve also shifted downwards during the month, as 3-year closed 7bps lower at 3.06%, 5-year moved 5bps lower to 3.19%, 10-years moved 8bps lower to 3.42% and 15-years moved lower by 5bps to close at 3.72%.

- There was one government bond auction in December:
  - RM3.0b re-opening of the 15-year MGS averaging 3.679% at a bid-to-cover ratio of 1.610x.

- Meanwhile, trading in corporate bonds for the month of December mostly concentrated in selected quasi-government and AAA rated bonds.

BENCHMARK	31/12/2018 Yield	30/11/2019 Yield	31/12/2019 Yield	MOM Change	YTD Change
3-year MGS	3.62%	3.05%	2.98%	- 7 bps	- 64 bps
5-year MGS	3.76%	3.18%	3.15%	- 3 bps	- 61 bps
10-year MGS	4.07%	3.42%	3.30%	- 12 bps	- 77 bps
15-year MGS	4.44%	3.68%	3.60%	- 8 bps	- 84 bps

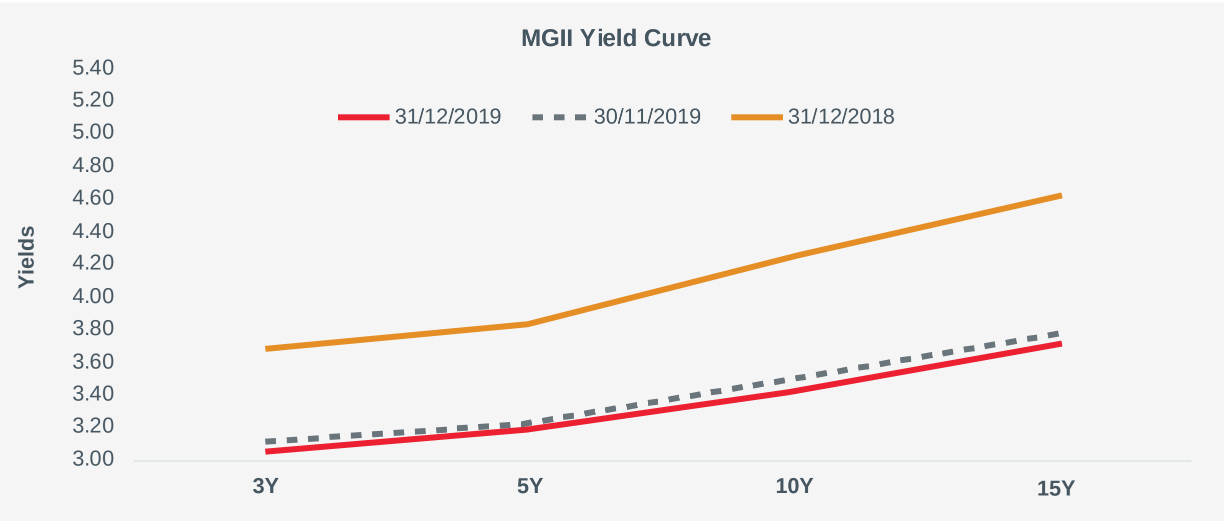
Source: Bloomberg



Source: Bloomberg

BENCHMARK	31/12/2018 Yield	30/11/2019 Yield	31/12/2019 Yield	MOM Change	YTD Change
3-year MGII	3.68%	3.13%	3.06%	- 7 bps	- 62 bps
5-year MGII	3.83%	3.24%	3.19%	- 5 bps	- 64 bps
10-year MGII	4.24%	3.50%	3.42%	- 8 bps	- 82 bps
15-year MGII	4.61%	3.77%	3.72%	- 5 bps	- 89 bps

Source: Bloomberg



Source: Bloomberg

OUTLOOK

- The year 2019 ended with a global risk-on sentiment in December, backed by positive progress from the US-China Phase 1 deal. While the deal is expected to be formally signed by both sides in mid-January, US on its part has cancelled the increased tariffs on $160bn of Chinese import that were due to take effect on 15 December, with further possibility of reduction on existing tariffs. China also cancelled its retaliatory tariffs due on the same day and committed to increase $200bn of US goods purchase over the next two years. In UK, Prime Minister Johnson won the UK election by a wide margin, giving him more control over the parliament and subsequently his plan to leave EU by 31 January 2020. The positive US-China deal and better clarity on Brexit reduced two of the geopolitical risks that had plagued markets for years which immediately drove up the market sentiment. For 2020, while we see a broadly improving geopolitical backdrop, investors will continue to follow the US-China talks closely as a complete resolution of trade war is still far in sight, given the deep differences in US and China's demands.

- US Federal Reserve ("Fed") convened its final meeting in December where the policymakers, unanimously, delivered a pause on further rate cut and maintained its policy rate in the range of 1.50% to 1.75%. This contrasts with the recent few meetings where there have been at least one or two dissenting voters. The united decision was not entirely surprising as economic data has been resilient and the recent policy rate cuts have yet to fully filter through the economy which also accorded the Fed some policy space in the event of economic weakness. The policy language for the December meeting was largely consistent with the previous meeting in November that the US economy remains firm and the committee would monitor "global developments and muted inflationary pressures". Fed also maintained its forecast for a firm US economic growth over the next two years however with a lower inflation expectation which reduces the likelihood of a rate hike in the near future. Though the Fed's new "dot plot" indicates that trajectory of interest rate in 2020 to be flat, we believe monetary policy for 2020 will remain data dependent.

- Domestically, Bank Negara Malaysia ("BNM") will convene its first Monetary Policy Committee ("MPC") meeting for 2020 in January. For 2020, the pro-growth fiscal measures announced by the government in the budget are likely to reduce the pressure on monetary policy to push growth. BNM's monetary policy direction for 2020 broadly is expected to be data-dependent and event-driven given the uncertainties surrounding geopolitical developments and the drag that they have on global growth.

- In January, there will be a re-opening of 3-year and 7-year MGS on top of a 15-year MGII re-opening with no government bond maturity. Historically, bid-to-cover ratios have been strong for the government bond auctions in the first half of the year as such the auctions in January are likely to be met with strong demand.

- On the corporate bond front, the pickup in new issuances seen in 2019 is expected to be sustained into 2020 amidst the relatively low-interest rate environment which is still favorable for issuers. We expect demand for corporate bonds to remain strong due to scarcity of quality corporate bond supply and ample domestic liquidity.

Table 1: Indicative Rates	
	31-Dec-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	3.01%
3-mth BNM MN	3.01%
3-mth KLIBOR	3.35%
CP	
1-mth (P1)	3.45%
3-mth (P1)	3.65%

Source: Bloomberg/Bondstream
* Maybank2u.com.my

Table 2: Indicative Bond Yields (%)

	3yr	5yr	7yr	10yr	15yr
MGS	3.07	3.22	3.31	3.32	3.61
GII	3.04	3.22	3.33	3.45	3.74
Swap rate*	3.28	3.32	3.36	3.40	3.60
AAA	3.55	3.67	3.76	3.89	4.11
AA1	3.66	3.80	3.90	4.05	4.28
AA2	3.76	3.91	4.02	4.18	4.43
AA3	3.86	4.03	4.15	4.31	4.57
A1	4.43	4.73	5.01	5.37	6.00
A2	5.09	5.58	5.97	6.50	7.35
A3	5.79	6.43	6.93	7.57	8.45

Source: Bloomberg*/Bondstream