A member of Prudential plc (UK)

MARKET COMMENTARY

FIXED INCOME MARKET REVIEW AND OUTLOOK

April 2020

REVIEW

- In its 2019 Annual Report, Bank Negara Malaysia ("BNM") projected 2020 GDP growth to be between -2.0% and + 0.5% YoY. BNM expects growth to be dragged down by weak exports (forecast: -8.7% YoY) and private investment (forecast: -1.6% YoY) due to weak global demand, supply chain disruptions and Covid-19 containment measures both abroad and domestic. Inflation is forecasted to between -1.5% and 0.5% YoY on the back of low energy prices and weak demand whilst core-inflation is forecasted to be between 0.8% and 1.3% YoY due to the weak labour market and the economy operating below capacity.

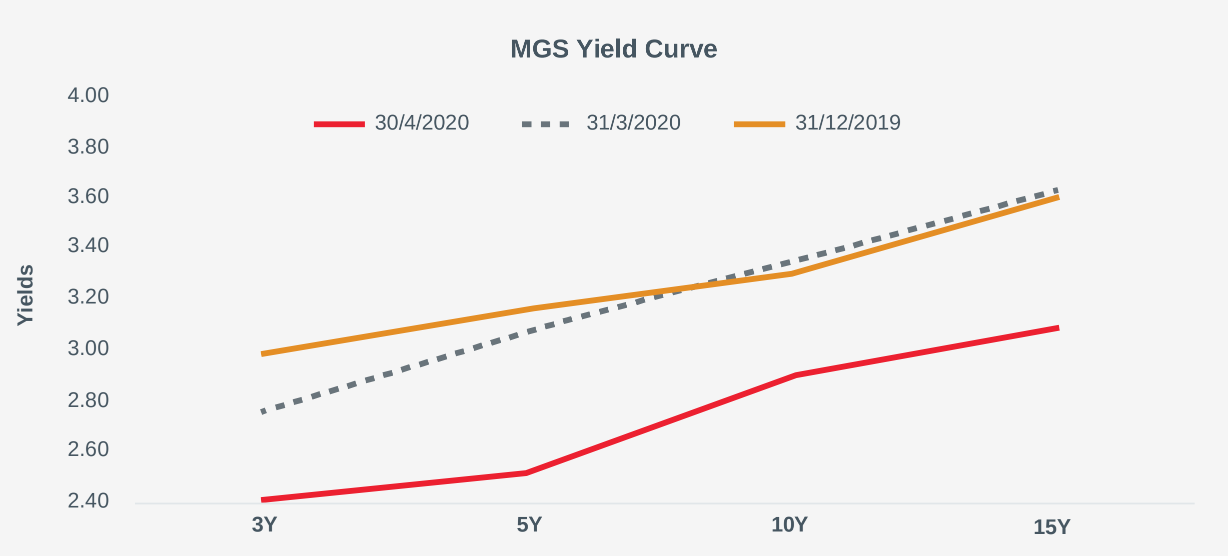
- CPI declined by 0.2% YoY in March 2020, lower than February 2020's reading of +1.3% YoY. Meanwhile, core inflation was unchanged at 1.3% YoY (Feb: 1.3% YoY).

- Malaysia sovereign bond yields fell across the curve in April 2020, with 3-, 5-, 10- and 15-years MGS yields decreasing by 35bps, 56bps, 46bps and 54bps to close at 2.40%, 2.51%, 2.89% and 3.08% respectively. The decline in yields reflected buying interest from both local and foreign investors due to the expected BNM policy easing in the May Monetary Policy Committee ("MPC"). Similarly, MGII yield curve shifted lower during the month, as 3-, 5-, 10- and 15-year GII yields closed 43ps, 42bps, 61bps and 57bps lower at 2.47%, 2.58%, 2.84% and 3.15%, respectively.

- There were 3 government bond auctions in April:
  - RM3.5b re-opening of the 20-year MGS averaging 3.855% at a bid-to-cover ratio of 1.973x.
  - RM4.0b new 10.5-year GII averaging 3.465% at a bid-to-cover ratio of 3.118x.
  - RM4.0b re-opening of the 7-year MGS averaging 2.679% at a bid-to-cover ratio of 2.239x

BENCHMARK	31/12/2019 Yield	31/3/2020 Yield	30/4/2020 Yield	MOM Change	YTD Change
3-year MGS	2.98%	2.75%	2.40%	-35 bps	-58 bps
5-year MGS	3.15%	3.07%	2.51%	-56 bps	-64 bps
10-year MGS	3.30%	3.35%	2.89%	-46 bps	-41 bps
15-year MGS	3.60%	3.62%	3.08%	-54 bps	-52 bps

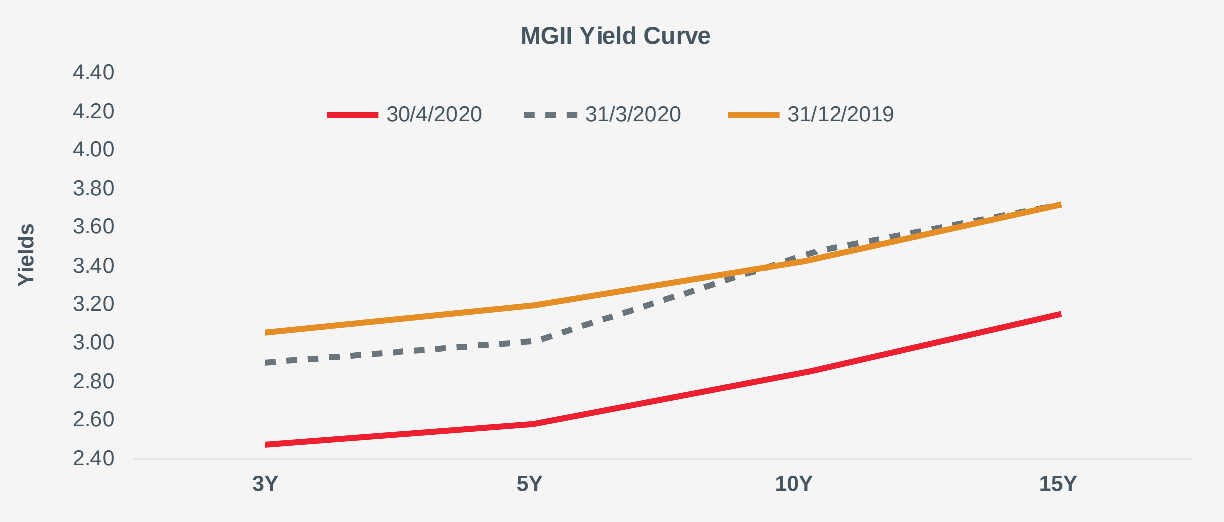
Source: Bloomberg



Source: Bloomberg

BENCHMARK	31/12/2019 Yield	31/3/2020 Yield	30/4/2020 Yield	MOM Change	YTD Change
3-year MGII	3.06%	2.90%	2.47%	-43 bps	- 59 bps
5-year MGII	3.19%	3.00%	2.58%	-42 bps	- 61 bps
10-year MGII	3.42%	3.45%	2.84%	-61 bps	-58 bps
15-year MGII	3.72%	3.72%	3.15%	-57 bps	-57 bps

Source: Bloomberg



Source: Bloomberg

OUTLOOK

- After imposing movement restrictions and economic shutdowns to gain control over the Covid-19 pandemic, governments across the world sought ways of easing the blanket lockdowns as the economic cost became unaffordable. Several states in the US, the country hardest hit by the pandemic, have started relaxing restrictions as unemployment has risen sharply, 33 million jobless claims have been made over the last 7 weeks up to first week of May Oil prices recorded their first ever negative readings in the month of April, WTI was once traded at $40/barrel, despite the US, Saudi and Russia-led pact for record cuts in oil production, as the lockdown severely reduced oil demand and storage capacity was exhausted.
- Moving forward there is likely to be an increase in US-China geopolitical tensions as the US seeks to punish China for what it deems to be coverups of the Covid-19 pandemic. President Trump has threatened new tariffs against China and the US has tightened restrictions of US tech exports to China. Given that this is an election year in the US and both Republicans and Democrats parties wish to appear as being tough on China, there is likely to be no rapprochement between the two countries in the near term. Beyond the Covid-19 pandemic-related headlines, global market sentiment is expected to turn cautious again on this resurgence of US-China tension.
- On the domestic front, the movement control order (“MCO”) has now been extended until at least 12 May 2020. The government has relaxed some aspects of the MCO given the economic cost – each day of the MCO was estimated to cost MYR 2.4 billion in economic output – and reduction in Covid-19 new infection. Most economic activities will be allowed to operate from 4 May 2020 on the condition that social distancing guidelines and stricter health and safety SOP are adhered to. We believe that the government will continue to gradually ease the restrictions but mass movement of people, i.e. “balik kampung” and bazaars, will continue to be curtailed. After taking a backseat by the Covid-19 pandemic, Malaysian politics may move back into the limelight as the ex-Prime Minister Mahathir Mohammad seeks a no-confidence motion against the new government. There will be a special 1 day sitting of parliament on 18 May 2020, followed by a full sitting of parliament for 25 days starting on 13 July 2020.
- BNM cut its Overnight Policy Rate (“OPR”) by 50 basis points to 2.0% on 5 May 2020, the third consecutive cut for the year, bringing the OPR to its lowest level since 2009. The cut was in line with consensus expectations and the local bond market had largely priced in the cut due to the sharp slowdown in both the global and domestic economies. BNM also announced that financial institutions may use MGS and GII to meet statutory reserve requirements (“SRR”) from 16 May 2020 until 31 May 2021 which is expected to release around MYR 16 billion of liquidity into the banking system. BNM’s monetary policy direction for 2H2020 is broadly expected to be data-dependent given the uncertainties surrounding the Covid-19’s impact on the domestic economic activities.
- In May, there will be re-openings of 15-year GII and 10-year MGS, which we expect to be well supported from the additional liquidity in the financial system. On the corporate bond front, we expect demand for corporate bonds to be mixed, with a preference for higher quality names. Corporate issuances have stalled in recent months as corporates assessed the need for additional funding in a low demand environment.

Table 1: Indicative Rates	
	30-Apr-20
MBB O/N*	1.00%
MBB1-Week*	1.10%
MBB 1-Mth FD*	2.40%
MBB 6-Mth FD*	2.55%
MBB 1-Year FD*	2.60%
1-mth BNM MN	2.35%
3-mth BNM MN	2.36%
3-mth KLIBOR	2.79%
CP	
1-mth (P1)	3.11%
3-mth (P1)	3.26%

Source: Bloomberg/Bondstream
* Maybank2u.com.my

Table 2: Indicative Bond Yields (%)

	3yr	5yr	7yr	10yr	15yr
MGS	2.41	2.48	2.68	2.90	3.13
GII	2.47	2.57	2.63	2.82	3.20
Swap rate*	2.27	2.36	2.48	2.67	3.00
AAA	3.01	3.11	3.24	3.41	3.65
AA1	3.19	3.31	3.44	3.64	3.93
AA2	3.35	3.47	3.59	3.84	4.15
AA3	3.49	3.62	3.74	4.00	4.35
A1	4.31	4.59	4.86	5.22	5.76
A2	5.08	5.48	5.86	6.36	7.10
A3	5.84	6.40	6.85	7.51	8.33

Source: Bloomberg*/Bondstream