

# MARKET COMMENTARY

## FIXED INCOME MARKET REVIEW AND OUTLOOK

February 2020



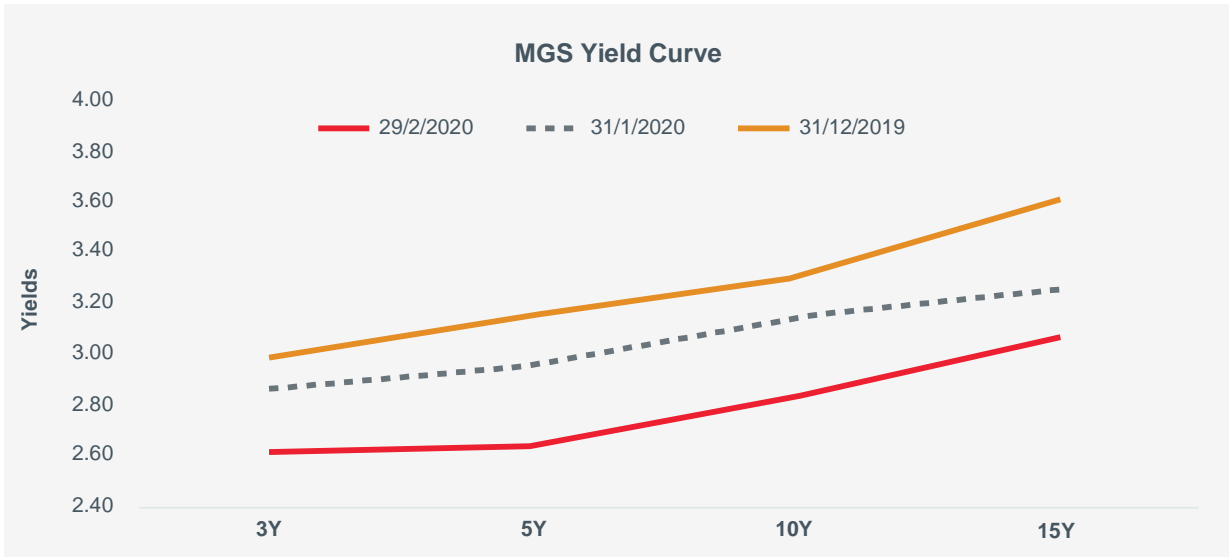


## REVIEW

- Malaysia GDP grew 3.6% YoY in 4Q2019, lower than the consensus estimate of 4.1% YoY and remained the weakest quarter since 3Q2009. The weak GDP number was driven by poor net exports (-9.8% YoY) whilst private consumption remained (+8.1% YoY) robust. The Malaysian government revised its 2020 GDP growth expectations from 4.8% to a range of 3.2% to 4.2%, on the back of weak global economic conditions and the COVID-19 impact.
- CPI rose 1.6% YoY in January 2020, higher than December 2019's reading of 1.0% YoY. The increase in inflation was driven by transport (+3.9% YoY), miscellaneous goods and services (+2.5% YoY), housing, water, electricity, gas and other fuels (+1.7% YoY), education (+1.7% YoY) and communication (+1.5% YoY). Higher retail fuel prices - average price of RON95 in January 2020 was RM2.08 per litre vs RM1.98 per litre in January 2019 - were a key factor in the higher inflation reading. Meanwhile, core inflation rose to 1.7% YoY (Dec: +1.4% YoY).
- Malaysia sovereign bond yields fell across the curve in February 2020, with the belly of the curve seeing the greatest decline. 3-, 5-, 10- and 15-years MGS fell by 25bps, 32bps, 31bps and 20bps to close at 2.61%, 2.63%, 2.82% and 3.05% respectively. The decline in MGS yields was driven by the market expecting a further BNM rate cut following the weak 4Q2019 GDP numbers, concerns over the fallout of the Covid 19 virus and lower global bond yields. While MGS yields rose on fears of political uncertainty following the surprise collapse of the Pakatan Harapan government, weak economic fundamentals and strong investor demand led to a quick recovery in bond prices. We expect the current low yield environment to be supported in the near term by expectations of weaker economic growth, exacerbated by the COVID-19 outbreak and domestic political uncertainty. Similarly, MGII yield curve shifted lower during the month, as 3-, 5-, 10- and 15-year closed 23bps, 33bps, 34bps and 29bps lower at 2.68%, 2.68%, 2.86% and 3.06%, respectively.
- There were 3 government bond auctions in February:
  - RM2.5b re-opening of the 30-year GII averaging 3.780% at a bid-to-cover ratio of 2.328x.
  - RM4.0b re-opening of the 10-year MGS averaging 2.888% at a bid-to-cover ratio of 2.036x
  - RM4.0b re-opening of the 5-year GII averaging 2.845% at a bid-to-cover ratio of 2.776x.
- Meanwhile, trading in corporate bonds for the month of February mostly concentrated in selected quasi-government and AAA rated bonds as new corporate issuances, excluding GGs, continued to remain lacklustre.

BENCHMARK	31/12/2019 Yield	31/1/2020 Yield	28/2/2020 Yield	MOM Change	YTD Change
3-year MGS	2.98%	2.86%	2.61%	- 25 bps	- 38 bps
5-year MGS	3.15%	2.95%	2.63%	- 32 bps	- 52 bps
10-year MGS	3.30%	3.13%	2.82%	- 31 bps	- 48 bps
15-year MGS	3.60%	3.25%	3.05%	- 20 bps	- 55 bps

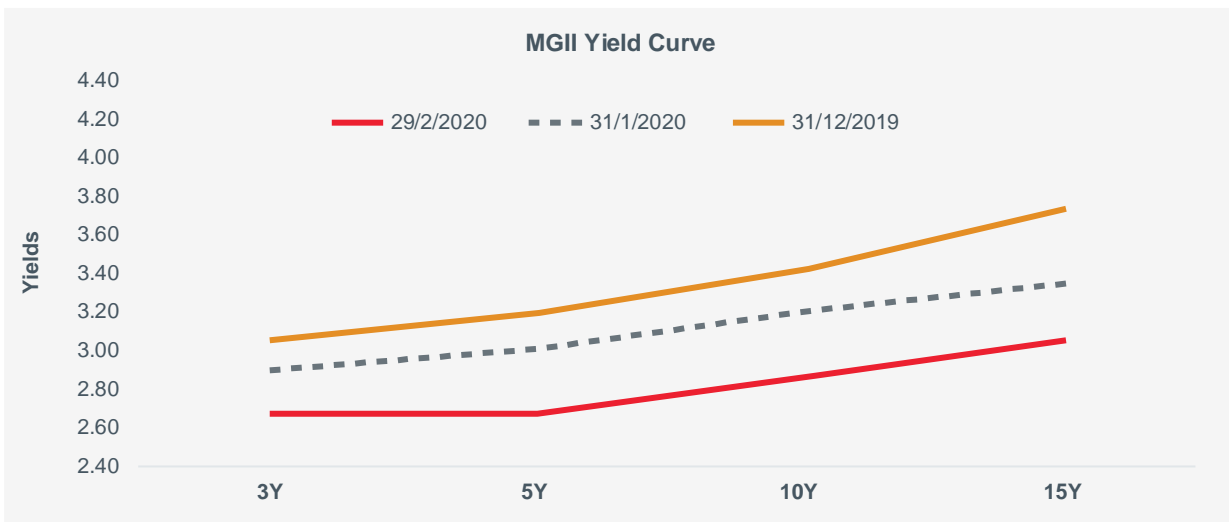
Source: Bloomberg



Source: Bloomberg

BENCHMARK	31/12/2019 Yield	31/1/2020 Yield	28/2/2020 Yield	MOM Change	YTD Change
3-year MGII	3.06%	2.91%	2.68%	- 23 bps	- 38 bps
5-year MGII	3.19%	3.01%	2.68%	- 33 bps	- 51 bps
10-year MGII	3.42%	3.20%	2.86%	- 34 bps	- 55 bps
15-year MGII	3.72%	3.35%	3.06%	- 29 bps	- 66 bps

Source: Bloomberg



Source: Bloomberg



## OUTLOOK

- ▶ China's efforts to stem the COVID-19 outbreak appear to have a positive outcome with the reported number of daily infections dropping and Chinese authorities are optimistic that new infections may drop to zero by the end of March 2020. However, the virus has spread out of China, with global infection clusters being reported across the globe and most new cases are now outside of China. The spread of the virus posed highly-adverse impacts to the economic activities, especially travel related sectors, as well as a severe disruption to the global supply chains.
- ▶ Worries over global economic growth and the fear of COVID-19 turning into a full-blown global pandemic saw 10-year US Treasury yields fall from 1.51% to 1.15% mom in February 2020. Despite the limited efficacy of rate cuts in combating the supply side disruption caused by the COVID-19 outbreak, the market is expecting the Fed to embark on a series of rate cuts to provide the economy with some support measures during these turbulent times.
- ▶ On the domestic economic front, 4Q2019 GDP indicated that global economic tensions have already adversely impacted Malaysia's exports, even without the headwinds of the Covid-19 outbreak. The robust domestic demand and private consumption figures seen in 4Q2019 may come under pressure given that consumer sentiment remains weak and the propensity for consumers to spend may be further curtailed by worries over the COVID-19 outbreak. The impact of the recently announced fiscal stimulus will also take time to flow into the economy. Further loosening of global monetary policy and low domestic inflation may provide Bank Negara with room to act. Inflation is likely to remain subdued going forward as on the back of weaker oil prices.
- ▶ In March, there will be re-openings of 15-year MGS, 20-year MGII and 5-year MGS as well as a new issuance of 7.5-year GII. We believe the demand for government bond auctions will remain healthy as seen in the last three government auctions in February on the back of ample domestic liquidity. On the corporate bond front, 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**

	<b>28-Feb-20</b>
MBB O/N*	1.30%
MBB1-Week*	1.40%
MBB 1-Mth FD*	2.65%
MBB 6-Mth FD*	2.80%
MBB 1-Year FD*	2.85%
1-mth BNM MN	2.66%
3-mth BNM MN	2.67%
3-mth KLIBOR	3.08%
<b>CP</b>	
1-mth (P1)	3.12%
3-mth (P1)	3.34%

Source: Bloomberg/Bondstream

\* Maybank2u.com.my

**Table 2: Indicative Bond Yields (%)**

	<b>3yr</b>	<b>5yr</b>	<b>7yr</b>	<b>10yr</b>	<b>15yr</b>
MGS	2.60	2.66	2.74	2.84	3.08
GII	2.65	2.69	2.79	2.89	3.09
Swap rate*	2.70	2.71	2.79	2.95	3.13
AAA	3.04	3.10	3.16	3.23	3.47
AA1	3.22	3.28	3.34	3.44	3.68
AA2	3.38	3.47	3.53	3.65	3.91
AA3	3.51	3.61	3.69	3.83	4.11
A1	4.09	4.32	4.53	4.84	5.43
A2	4.81	5.17	5.51	5.98	6.78
A3	5.53	6.06	6.52	7.15	7.98

Source: Bloomberg\*/Bondstream



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