

# MARKET COMMENTARY

## FIXED INCOME MARKET REVIEW AND OUTLOOK

May 2020



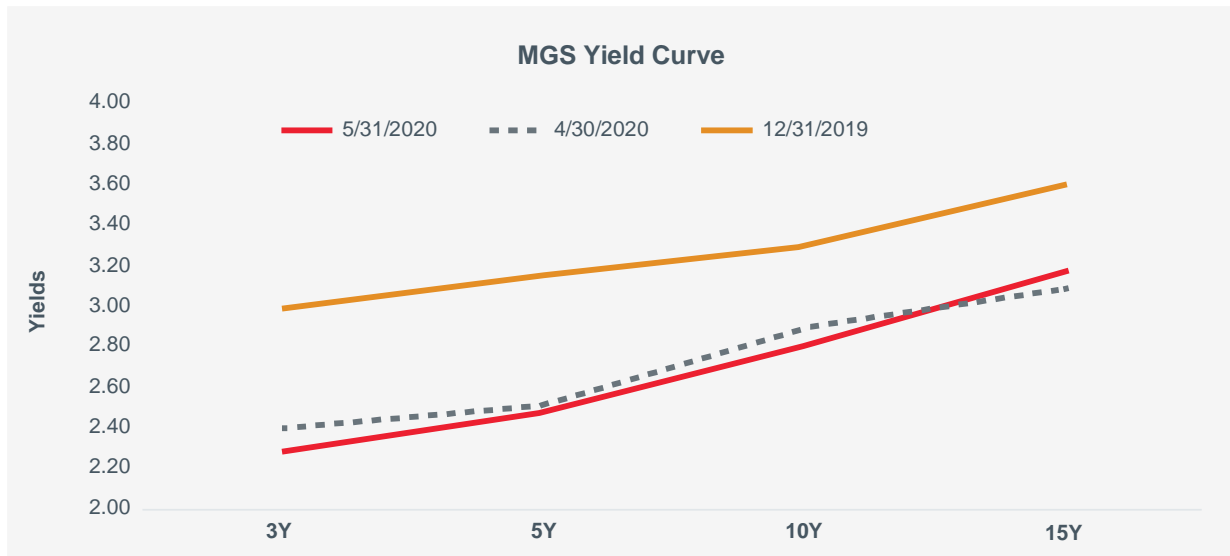


## REVIEW

- Domestically, Bank Negara Malaysia (“BNM”) lowered the Overnight Policy Rate (“OPR”) from 2.50% to 2.00%, the third consecutive cut for the year, bringing the OPR to its lowest level since 2009. In the monetary policy statement, BNM highlighted that the global economic conditions have weakened significantly and the measures to contain the Covid-19 pandemic have disrupted most economic activities. 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.
- April 2020’s headline inflation declined by 2.9% YoY, lower than March 2020’s reading of -0.2% YoY, primarily due to a higher contraction in Transport, -21.5% YoY (Mar: -8.9%). Meanwhile, core inflation was unchanged at 1.3% YoY (Mar: 1.3% YoY).
- Malaysia sovereign bond yield curve steepened in May 2020 with 3-, 5-, 10- and 15-years MGS yields closed -13bps, -4bps, -9bps and +9bps at 2.27%, 2.47%, 2.80% and 3.17% respectively. The mixed yield movement reflected the short-end buying interests from both local and foreign investors, while the longer-end was pressured by profit taking activities following the bond rally in the previous month. Similarly, MGII yield curve steepened during the month, as 3-, 5-, 10- and 15-year GII yields closed -15bps, -11bps, -14bps and +9bps at 2.32%, 2.47%, 2.70% and 3.24%, respectively.
- There were 2 government bond auctions in May:
  - RM3.5b re-opening of the 15-year GII averaging 3.235% at a bid-to-cover ratio of 2.171x.
  - RM4.5b re-opening of the 10-year MGS averaging 2.799% at a bid-to-cover ratio of 1.732x.

| BENCHMARK   | 31/12/2019<br>Yield | 30/4/2020<br>Yield | 29/5/2020<br>Yield | MOM Change | YTD Change |
|-------------|---------------------|--------------------|--------------------|------------|------------|
| 3-year MGS  | 2.98%               | 2.40%              | 2.27%              | -13 bps    | - 71 bps   |
| 5-year MGS  | 3.15%               | 2.51%              | 2.47%              | - 4 bps    | - 68 bps   |
| 10-year MGS | 3.30%               | 2.89%              | 2.80%              | - 9 bps    | - 50 bps   |
| 15-year MGS | 3.60%               | 3.08%              | 3.17%              | + 9 bps    | - 43 bps   |

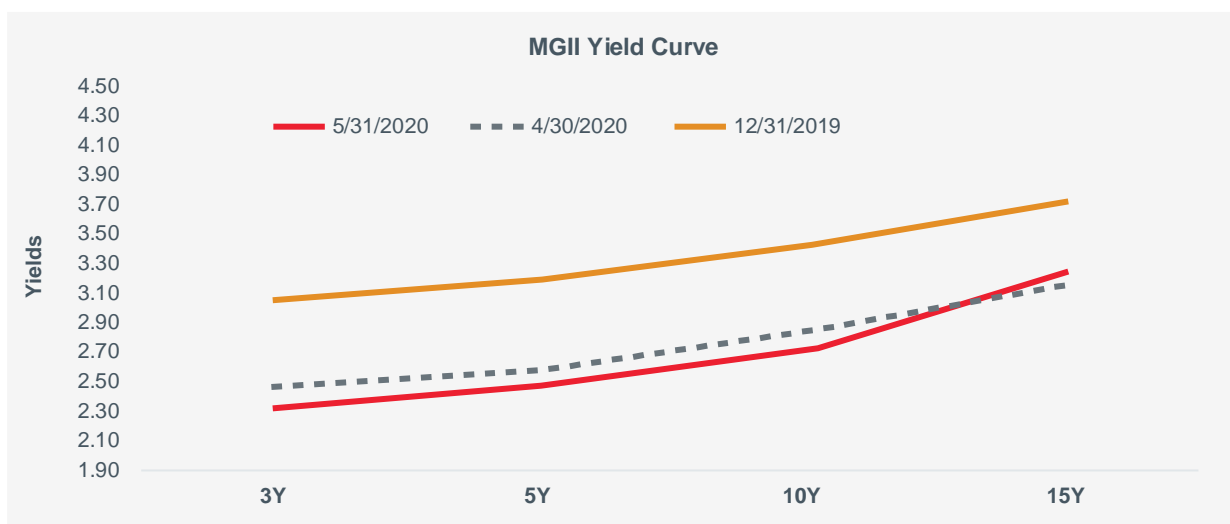
Source: Bloomberg



Source: Bloomberg

| BENCHMARK    | 31/12/2019<br>Yield | 30/4/2020<br>Yield | 29/5/2020<br>Yield | MOM Change | YTD Change |
|--------------|---------------------|--------------------|--------------------|------------|------------|
| 3-year MGII  | 3.06%               | 2.47%              | 2.32%              | - 15 bps   | - 74 bps   |
| 5-year MGII  | 3.19%               | 2.58%              | 2.47%              | - 11 bps   | - 72 bps   |
| 10-year MGII | 3.42%               | 2.84%              | 2.70%              | - 14 bps   | - 72 bps   |
| 15-year MGII | 3.72%               | 3.15%              | 3.24%              | + 9 bps    | - 48 bps   |

Source: Bloomberg



Source: Bloomberg



## OUTLOOK

- Global investment risk appetite improved on the better than anticipated economic recovery and positive news from vaccine developments. Nonetheless, recent headlines have been dominated by the renewed US-China tension and the social unrest in the US. The US announced that it will strip Hong Kong off its special trade status in response to China's new security law to the city, while China ordered state-owned firms to suspend large scale purchases of US farm products- both actions are putting the Phase-one trade deal inked in January in jeopardy. As this is an election year in the US, both Republicans and Democrats wish to appear as being tough on China therefore there is likely to be no rapprochement between the two countries in the near term. Global market sentiment is expected to turn cautious again on this geopolitical risk.
- The US Federal Reserve ("Fed") will convene its FOMC meeting in June 2020 where the policymakers are expected to keep the current 0.00%-0.25% policy rates unchanged. In the April FOMC statement, the Fed highlighted that Covid-19 posed considerable downside risks on economic activity, employment and inflation and the Fed was prepared to use their tools, including asset purchases and lending facilities, as needed to support growth and financial conditions. We believe the future direction of US monetary policy will largely hinge on the underlying economic performance and condition.
- On the domestic front, following the RM260 billion package ("PRIHATIN") announced earlier to bolster an economy hit hard by the pandemic, the government had announced a RM35 billion short-term economic recovery plan ("PENJANA"). The recently announced PENJANA plan will result in the fiscal deficit increasing by RM18b, RM10bn of direct fiscal injection and RM8bn of revenue shortfall from relief measures. The MOF now expects the budget deficit to widen from 4.7%-5.0% (due to PRIHATIN) to 5.8%-6.0% of GDP, and the total government debt to exceed the current self-imposed statutory limit of 55% by about 5%, which would require Parliament approval through a simple majority vote at the next parliamentary session. Simultaneously, the conditional movement control order ("CMCO") will be replaced by a recovery movement control order ("RMCO") effective from 10 June to 31 Aug 2020. As part of the exit strategy of MCO, more economic activities, including domestic tourism, will reopen in phases with standard operating procedures ("SOP") to be adhered to.
- While Covid-19 spread subsided, Malaysia's political uncertainties re-emerged as the ex-Prime Minister Mahathir Mohammad sought a no-confidence motion against the new government in the first parliament sitting in May 2020. However, this motion has been delayed to next parliament sitting scheduled from 13 July to 27 Aug 2020. Should the political risk be heightened, we will likely see volatilities in the domestic bond market.
- In June, there will be re-openings of 3-year GII and 20-year GII and a new issuance of 30-year MGS, which we expect to be well supported by the ample liquidity from the domestic market. 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**

|                | 31-May-20 |
|----------------|-----------|
| MBB O/N*       | 0.50%     |
| MBB1-Week*     | 0.60%     |
| MBB 1-Mth FD*  | 1.90%     |
| MBB 6-Mth FD*  | 2.05%     |
| MBB 1-Year FD* | 2.10%     |
|                |           |
| 1-mth BNM MN   | 2.03%     |
| 3-mth BNM MN   | 2.05%     |
| 3-mth KLIBOR   | 2.29%     |
|                |           |
| <b>CP</b>      |           |
| 1-mth (P1)     | 2.68%     |
| 3-mth (P1)     | 2.88%     |

Source: Bloomberg/Bondstream

\* Maybank2u.com.my

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

|            | 3yr  | 5yr  | 7yr  | 10yr | 15yr |
|------------|------|------|------|------|------|
| MGS        | 2.29 | 2.45 | 2.63 | 2.87 | 3.22 |
| GII        | 2.30 | 2.51 | 2.69 | 2.70 | 3.29 |
| Swap rate* | 2.13 | 2.27 | 2.44 | 2.66 | 2.92 |
| AAA        | 2.87 | 3.02 | 3.17 | 3.34 | 3.63 |
| AA1        | 3.05 | 3.21 | 3.36 | 3.55 | 3.88 |
| AA2        | 3.22 | 3.38 | 3.54 | 3.74 | 4.10 |
| AA3        | 3.37 | 3.53 | 3.69 | 3.92 | 4.30 |
| A1         | 4.20 | 4.49 | 4.77 | 5.10 | 5.65 |
| A2         | 5.00 | 5.40 | 5.80 | 6.27 | 7.01 |
| A3         | 5.80 | 6.36 | 6.82 | 7.45 | 8.29 |

Source: Bloomberg\*/Bondstream



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