

MARKET COMMENTARY

FIXED INCOME MARKET REVIEW AND OUTLOOK

February 2019



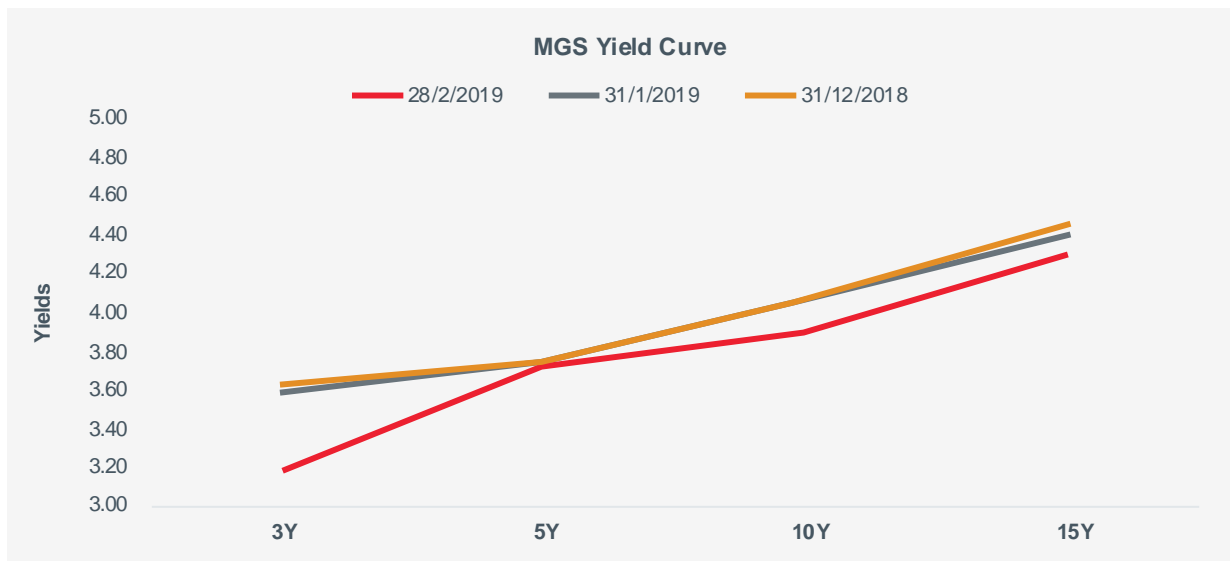


REVIEW

- On the economic front, Malaysia's economy expanded +4.7% YoY in the final quarter of 2018, higher than market consensus of 4.5% YoY and 3Q18 of +4.4% YoY. Compared to last year, the economy slowed to +4.7% YoY in 2018 from the +5.9% YoY recorded in 2017. During the fourth quarter, Services and Manufacturing sectors remained key drivers of the economy, whilst moderated by commodities. Overall, Malaysia's economic growth is expected to be broadly sustained, supported mainly by domestic demand while gradual recovery in commodity production will also help to provide support to growth.
- Separately, January'19 headline inflation decreased to -0.7% YoY compared with +0.2% YoY Dec'18. This was the first deflation reported since 2009 and was mainly due to lower transportation costs (Jan'19: -7.8% YoY, Dec'18: -2.0% YoY). The decrease in transportation cost was because of lower global fuel prices coupled with the change to weekly pricing fuel subsidy model. Similarly, core inflation moderated to +0.2% YoY in January'19 from +0.4% YoY in December'18.
- Malaysia sovereign bonds yields for 3-, 5-, 10- and 15-years MGS decreased by 4-39bps in February to close lower at 3.19%, 3.72%, 3.89% and 4.29% respectively. In February, sovereign bonds yields moved due to continued buying interest from local investors. Similarly, MGII yields 3-, 5-, 10- and 15-years moved lower by 3-9bps respectively to close at 3.64%, 3.81%, 4.03% and 4.37% respectively.
- There were two government bond auctions in February:
 - RM4.0b new issue of the 10.5-year MGS averaging 3.885% at a bid-to-cover ratio of 2.536x.
 - RM2.0b re-opening of the 15-year MGII averaging 4.370% at a bid-to-cover ratio of 3.906x.
- Meanwhile, trading in corporate bonds increased in the month of February with most trades concentrated in selected quasi-government and AAs rated bonds.

BENCHMARK	31/12/2018 Yield	31/1/2019 Yield	28/2/2019 Yield	MOM Change	YTD Change
3-year MGS	3.62%	3.58%	3.19%	-39 bps	-43 bps
5-year MGS	3.76%	3.76%	3.72%	-4 bps	-4 bps
10-year MGS	4.07%	4.06%	3.89%	-17 bps	-18 bps
15-year MGS	4.44%	4.39%	4.29%	-10 bps	-15 bps

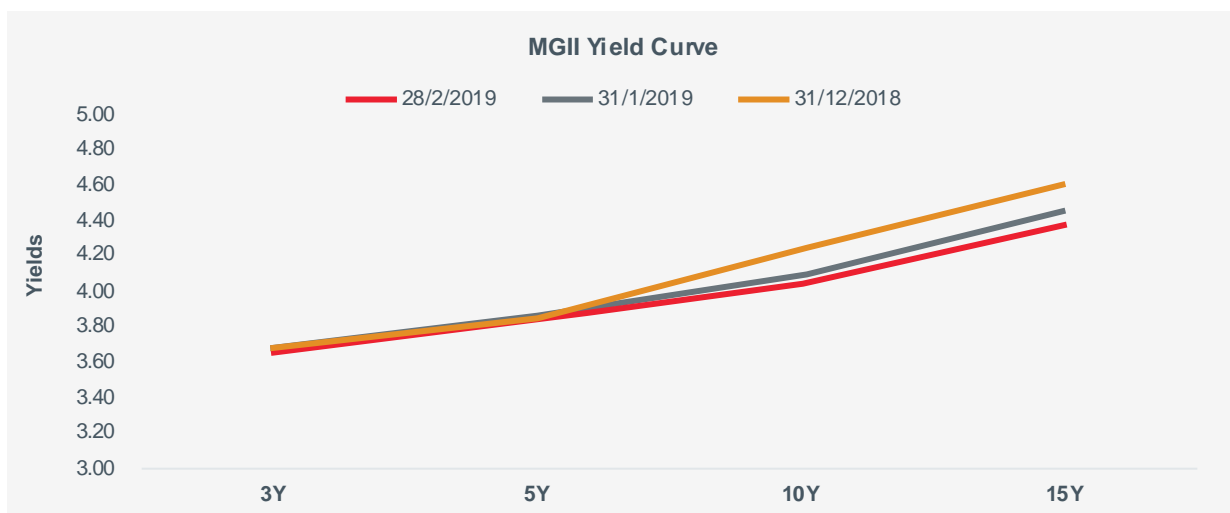
Source: Bloomberg



Source: Bloomberg

BENCHMARK	31/12/2018 Yield	31/1/2019 Yield	28/2/2019 Yield	MOM Change	YTD Change
3-year MGII	3.68%	3.67%	3.64%	-3 bps	-4 bps
5-year MGII	3.83%	3.86%	3.81%	-5 bps	-2 bps
10-year MGII	4.24%	4.09%	4.03%	-6 bps	-21 bps
15-year MGII	4.61%	4.46%	4.37%	-9 bps	-24 bps

Source: Bloomberg



Source: Bloomberg



OUTLOOK

- In the latest release of the FOMC's minutes on 20 February, the Committee continued to see sustained expansion of economic activity, strong labour market conditions and inflation near the 2% objective. However, in light of the current global economic developments and muted inflation pressures, the Committee acknowledge that it will be patient in determining the future adjustments to the Federal Funds Rate. The Committee acknowledged that the "patient" approach will give an opportunity for the central bank to judge the response of economic activity and inflation to the recent steps taken earlier.
- Separately, the Committee also discussed on the possibility to scale back its balance sheet reduction plan. The Committee believes that it would be appropriate to adjust the details of its balance sheet normalization plan given the current global economic conditions. The Fed is expected to announce a new transparent plan to stop reducing its balance sheet later this year.
- On the domestic front, the second Monetary Policy Committee ("MPC") meeting for 2019 held on 5 March saw Bank Negara Malaysia ("BNM") maintained the Overnight Policy Rate ("OPR") at 3.25%. Bank Negara believes that the current level of the OPR is consistent with its intended policy stance. Bank Negara expects domestic growth to be sustained in 2019 but materialization of downside risk from unresolved trade tension could weigh on growth. Furthermore, BNM expects inflation to remain low in the immediate term due to policy measures while underlying inflation is expected to be sustained, supported by the steady expansion in economic activity. We expect BNM to monitor the domestic and global economy further before making any changes to its monetary policy stance.
- In March, there will be four MYR government bond auctions, a re-opening of 3-year MGS, a new issue of 20.5-year MGII, a re-opening of 30-year MGS and a new issue of 7-year MGII. There will also be a maturity of around RM7billion of MGS/MGII during the month. Sovereign bonds yields are expected to remain volatile given the global economic uncertainties while investors continue their search for yields. Furthermore, the larger supply of sovereign bonds may create a surplus pressure in the market, but we expect domestic sovereign bond market to remain supported by ample liquidity and strong investor demand.
- On the corporate bond front, the market is expected to see a decent supply in March as yields have decreased over the past two months which is favourable for issuers. We expect demand for corporate bonds to remain strong due to scarcity of quality corporate bond supply.



Table 1: Indicative Rates

	28-Feb-19
MBB O/N*	1.90%
MBB1-Week*	2.00%
MBB 1-Mth FD*	3.15%
MBB 6-Mth FD*	3.30%
MBB 1-Year FD*	3.35%
1-mth BNM MN	3.26%
3-mth BNM MN	3.28%
3-mth KLIBOR	3.69%
CP	
1-mth (P1)	n/a
3-mth (P1)	n/a

Source: Bloomberg/Bondstream

* Maybank2u.com.my

Table 2: Indicative Bond Yields (%)

	3 yr	5yr	7yr	10yr	15yr
MGS	3.60	3.76	3.86	3.88	4.32
GII	3.64	3.85	4.00	4.02	4.42
Swap rate*	3.69	3.79	3.91	4.06	4.26
AAA	4.22	4.33	4.43	4.53	4.79
AA1	4.32	4.43	4.54	4.63	4.91
AA2	4.41	4.52	4.63	4.72	5.02
AA3	4.66	4.83	4.99	5.15	5.54
A1	5.41	5.82	6.17	6.56	7.27
A2	6.24	6.81	7.23	7.80	8.63
A3	7.04	7.70	8.19	8.89	9.80

Source: Bloomberg*/Bondstream



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