

MARKET COMMENTARY

FIXED INCOME MARKET REVIEW AND OUTLOOK

August 2020



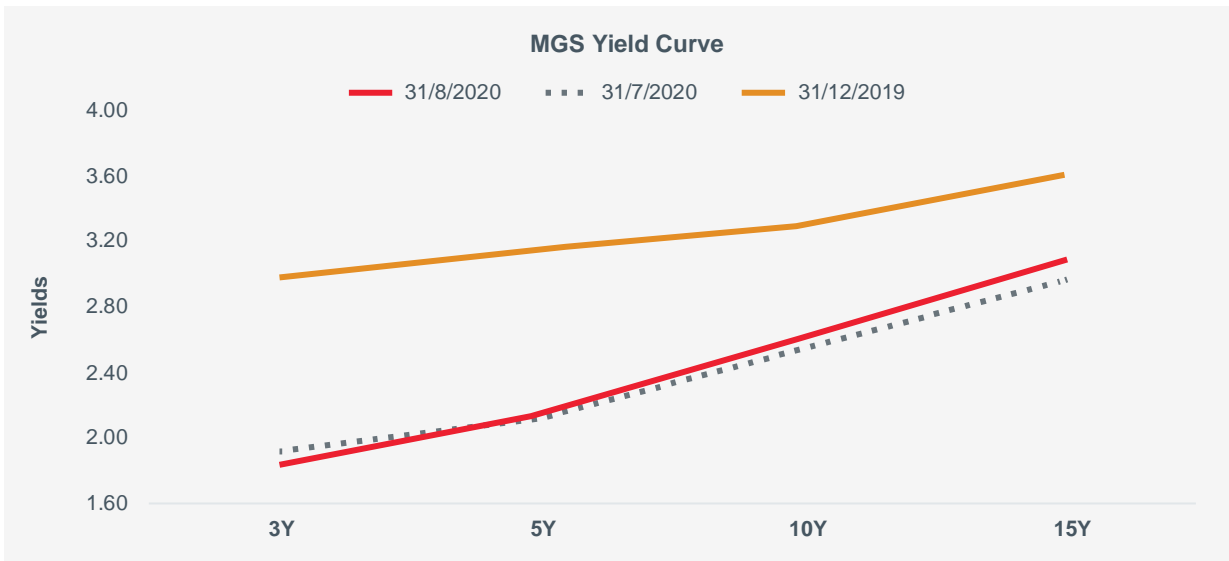


REVIEW

- Domestically, Malaysia government has announced several economic stimulus packages this year to mitigate the economic impact from the Covid-19 outbreak. As a result, the government's debt to GDP ratio was projected to breach the self-imposed limit of 55% by the end of this year. In August, parliament passed the bill to temporarily raise government's debt ceiling to 60% until 2023 to enable government financing for economic stimulus packages and recovery plans and related matters. The last time government raised its debt ceiling was during the global financial crisis in 2009, from 45% to 55%.
- July 2020's headline inflation declined at a milder rate of -1.3% YoY (June: -1.9%), mainly due to lower deflation in Transport, -10.3% YoY (June: -14.3%). Meanwhile, core inflation was slightly lower at 1.1% YoY (June: 1.2% YoY).
- Malaysia's sovereign bond yields closed mixed in August 2020 as 3-, 5-, 10- and 15-years MGS yields moved -6bps, +3ps, +7bps and +12bps to close at 1.85%, 2.14%, 2.62% and 3.08% respectively. Contrary to the earlier month, market sentiment in August was weaker on the back of renewed supply concerns as parliament approved the temporary new federal debt ceiling limit, generally weak demands on the government bond auctions during the month and upward yield pressure in the regional bond market, tracking US Treasuries. Similarly, MGII yields ended mixed during the month, as 3-, 5-, 10- and 15-year GII yields closed -12bps, -2bps, +11bps and +16bps at 1.85%, 2.05%, 2.67% and 3.18%, respectively.
- There were 3 government bond auctions in August:
 - RM4.0b re-opening of the 7-year MGII averaging 2.280% at a bid-to-cover ratio of 2.045x.
 - RM4.0b re-opening of the 20-year MGS averaging 3.240% at a bid-to-cover ratio of 1.469x.
 - RM4.0b re-opening of the 15-year MGII averaging 3.032% at bid-to-cover ratio of 1.423x.

BENCHMARK	31/12/2019 Yield	31/7/2020 Yield	31/8/2020 Yield	MOM Change	YTD Change
3-year MGS	2.98%	1.91%	1.85%	- 6 bps	- 113 bps
5-year MGS	3.15%	2.11%	2.14%	+ 3 bps	- 101 bps
10-year MGS	3.30%	2.55%	2.62%	+ 7 bps	- 68 bps
15-year MGS	3.60%	2.96%	3.08%	+ 12 bps	- 52 bps

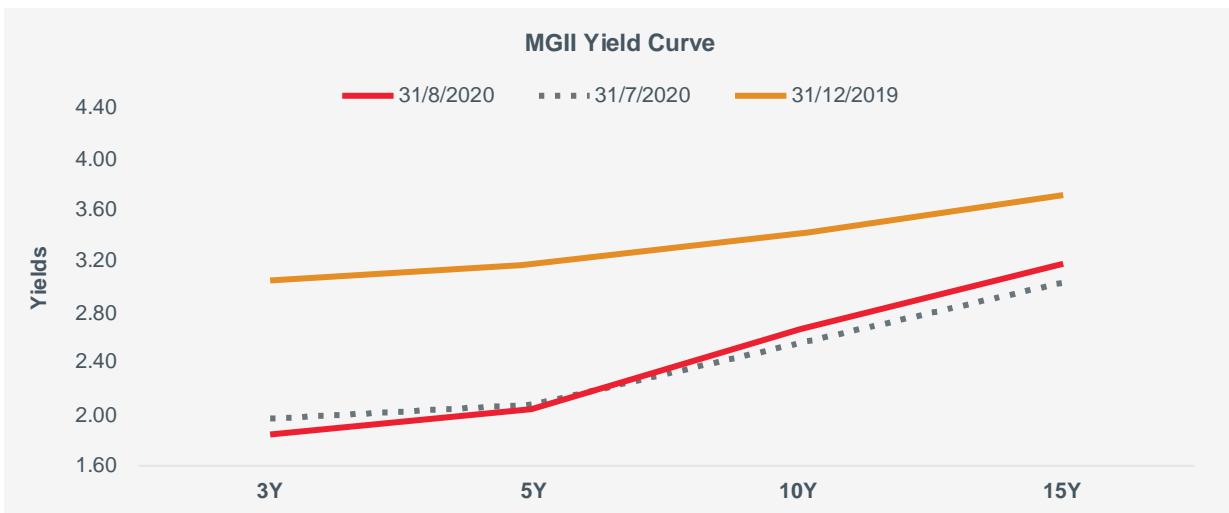
Source: Bloomberg



Source: Bloomberg

BENCHMARK	31/12/2019 Yield	31/7/2020 Yield	31/8/2020 Yield	MOM Change	YTD Change
3-year MGII	3.06%	1.97%	1.85%	- 12 bps	- 121 bps
5-year MGII	3.19%	2.07%	2.05%	- 2 bps	- 114 bps
10-year MGII	3.42%	2.56%	2.67%	+ 11 bps	- 75 bps
15-year MGII	3.72%	3.02%	3.18%	+ 16 bps	- 54 bps

Source: Bloomberg



Source: Bloomberg



OUTLOOK

- ▶ Nine months after the first reported Covid-19 case in Wuhan, the pandemic is still not showing signs of slowing down with global confirmed cases topping 25 million. The unabated infections have sent various countries to either reimpose lockdowns or tightened social distancing requirements in order to control the virus spread. In its latest update, IMF warns that global economy is facing a deeper downturn than it previously projected in April as economic recovery remains uneven and protracted as businesses around the world struggle to operate amid the ongoing outbreak. IMF predicts that global economy to shrink 4.9% in 2020, lower than the 3% contraction it predicted in April. World Bank forecast stands at 5.2% contraction. While economists broadly are optimistic of a global economic improvement towards the year end, the outlook remains cloudy from the ongoing pandemic.
- ▶ US-China relationship remained strained in August. Trump cancelled a trade talk between two nations that was meant to review the phase one trade deal amidst thorny points on the spread of Covid-19, Hong Kong's autonomy, China's treatment of ethnic minorities and Beijing's military expansion in the South China Sea. US' crackdown on Chinese tech companies also took another turn in the month when Trump signed an executive order forcing ByteDance, a Chinese multinational internet technology company, to either sell or spin off its TikTok business in the US within 90 days. China later announced a countermove that any sale would require Beijing's approval under new restrictions it imposed on the export of artificial intelligence technologies. As US presidential election draws closer, tension between US and China will likely remain elevated as Trump's hard stance on China continues to be popular with the American electorates, driving investors' sentiments and market volatilities.
- ▶ Fed Chair Powell, at the annual Jackson Hole Economic Policy Symposium, announced a tweak to the central bank's policy framework to allow inflation to run higher for some period of time to make up for periods when inflation is too low and unemployment to stay lower to support the economy. Powell said the central bank formally agreed to a policy of average inflation targeting, essentially allowing inflation to run above the Fed's 2% target for an extended period of time, a shift from the previous absolute inflation target. 10y UST yield jumped after the speech as market was cautious of the scenario that Fed will "engineer" an overshoot of inflation in order to achieve its "average 2% target". UST curve closed the month bear-steepened, with 2y and 10y UST rising 2bps and 20bps to 0.13% and 0.73%, respectively.
- ▶ Domestically, Bank Negara Malaysia ("BNM") maintained the OPR at 1.75% in the recent Monetary Policy Committee ("MPC") meeting in September as the economic recovery externally and domestically continues to be underway. Economists were almost evenly split between another 25bps cut and no change prior to the meeting, with the latter having a thin majority of 12 out of 21 economists surveyed. BNM expects improvement in economic activities to continue into 2021, although the pace of recovery will be uneven across sectors and the broad outlook is still weighed by downside risks and uncertainty, largely due to the risk of resurgence of the Covid-19 infections. With one remaining MPC meeting in the year, BNM's monetary policy will likely continue to be data-dependent as underlying economic risks remain fluid. In the near-term, market volatility is expected to still be present on the back of multiple risk events in the coming few months, with the immediate one being announcement of FTSE Russell's index review on 24 September where Malaysia risks being dropped off from the index.
- ▶ There are re-openings of 5y and 7y MGS, and 30y MGII in September. While there is still ample liquidity in the system, we believe the outcome of the auctions will depend on the prevailing market sentiment. On the corporate bond front, we expect demand for corporate bonds to remain mixed, with a preference for higher quality names due to the ongoing economic challenges. While corporate issuances have picked up recently on the back of the low interest rate environment, total issuances in 2020 will likely be lower year-on-year as corporates assess their funding needs on the back of slower economic activities.



Table 1: Indicative Rates

	31-Aug-20
MBB O/N*	0.25%
MBB1-Week*	0.35%
MBB 1-Mth FD*	1.50%
MBB 6-Mth FD*	1.80%
MBB 1-Year FD*	1.85%
1-mth BNM MN	1.68%
3-mth BNM MN	1.69%
3-mth KLIBOR	1.98%
CP	
1-mth (P1)	2.36%
3-mth (P1)	2.47%

Source: Bloomberg/Bondstream

* Maybank2u.com.my

Table 2: Indicative Bond Yields (%)

	3 yr	5yr	7yr	10yr	15yr
MGS	1.88	2.08	2.34	2.69	3.16
GII	1.88	2.14	2.35	2.58	3.20
Swap rate*	1.98	2.18	2.36	2.59	2.79
AAA	2.44	2.62	2.79	3.04	3.43
AA1	2.69	2.89	3.08	3.30	3.69
AA2	2.89	3.08	3.26	3.46	3.89
AA3	3.02	3.21	3.39	3.57	4.03
A1	4.12	4.42	4.70	5.06	5.63
A2	4.94	5.36	5.76	6.24	6.99
A3	5.76	6.31	6.78	7.42	8.27

Source: Bloomberg*/Bondstream



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