A member of Prudential plc (UK)

MARKET COMMENTARY

FIXED INCOME MARKET REVIEW AND OUTLOOK

November 2020

REVIEW

- Malaysia's Gross Domestic Product ("GDP") growth for the 3Q 2020 recovered to -2.7% YoY (2Q 2020: -17.1% YoY), driven by reopening of economic activities and lifting of interstate travel ban which allowed more economic sectors to resume their operations. On the expenditure side, private consumption recovered significantly with a milder contraction of 2.1% YoY in 3Q20 (2Q20: -18.5%) backed by gradual recovery in broad income conditions, while the investment on fixed assets remained weak at -11.6% YoY (2Q20: -28.9%) due to the decline in all type of assets namely structure, machinery & equipment and other assets. On the production side, manufacturing sector improved to +3.3% YoY (2Q20: -18.3%), while other sectors showed a smaller contraction compared to 2Q.

- The government announced an expansionary Budget 2021 in November focusing on fiscal support to boost growth given the challenging economic condition due to Covid-19 impact. Annual GDP in 2021 is projected to grow 6.5% to 7.5%, underpinned by a strong rebound in global trades, consumer sentiments, public and private investments. Government's revenue in 2021 is projected to grow 4.2% YoY, driven mainly by higher tax collections. Notably, development expenditure is set to increase 38.0% YoY to RM69.0billion in 2021 and the government is committed to continue several infrastructure projects that are expected to have high multiplier impact on the economy. Fiscal deficit is expected to be lower at 5.4% (2020E: 6.0%) in 2021. Meanwhile, total gross MGS/MGII issuances is expected to be between RM145-155billion for next year. While the headline issuance figures are large, they are still within market's expectation. We note that government funding can also be raised through increased issuance of government treasury bills, like what we have seen this year.

- In November, Bank Negara Malaysia ("BNM") held its Overnight Policy Rate ("OPR") steady at 1.75% in its Monetary Policy Committee ("MPC") meeting. BNM acknowledges that the recent resurgence of Covid-19 cases locally will affect the momentum of the economic recovery seen during the 3Q2020, however it expects the annual 2020 GDP growth to still be within its forecast range of -3.5% to -5.5% before recording further improvement in 2021. The policy statement came out with a neutral tone and future OPR decisions will likely depend on the prevailing economic conditions.

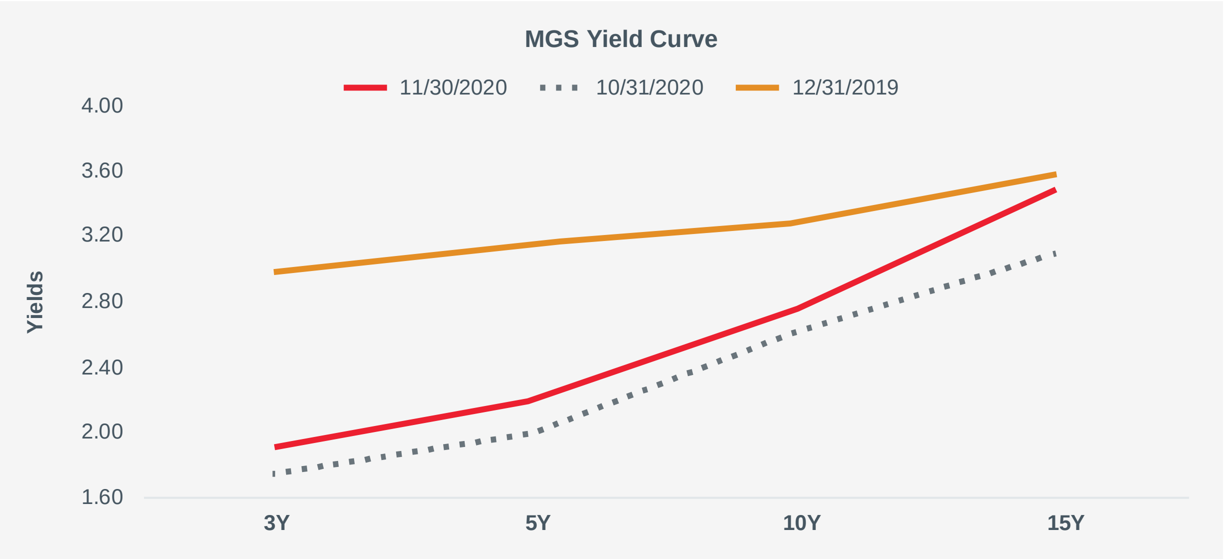
- October 2020's headline inflation declined 1.5% YoY (September: -1.4%), mainly due to price deflation in Transport, -10.2% YoY (September: -9.9%) and Housing, Water, Electricity, Gas & Other Fuels, -3.0% YoY (September: -3.0%). Meanwhile, October 2020's core inflation recorded lower at 0.8% YoY (September: 1.0% YoY).

- Malaysia's sovereign yield curve shifted upward in November 2020 as 3-, 5-, 10, 15-years MGS yields moved higher by 16bps, 20bps, 13bps, 39bps to close at 1.91%, 2.20%, 2.75%, 3.49% respectively. The rise in the yields generally driven by the reaction to BNM's decision to keep the OPR unchanged and weaker bond market sentiment due to the improving global growth prospect from vaccine development progress, incoming large bond supplies to support the expansionary budget, news on EPF Account 1 withdrawals, exacerbated by the recent weak government bond auction results. Similarly, MGII yield curve also moved higher during the month, with 3-, 5-, 10- and 15-year GII yields closed 19bps, 21bps, 20bps and 24bps higher at 1.98%, 2.38%, 2.79% and 3.45%, respectively.

- There were 3 government bond auctions in November:
    - RM3.0b re-opening of the 30-year MGS averaging 4.049% at a bid-to-cover ratio of 1.994x.
    - RM4.0b re-opening of the 7-year MGII averaging 2.521% at bid-to-cover ratio of 1.616x.
    - RM3.0b re-opening of the 15-year MGS averaging 3.432% at a bid-to-cover ratio of 1.481x.

BENCHMARK	31/12/2019 Yield	31/10/2020 Yield	30/11/2020 Yield	MOM Change	YTD Change
3-year MGS	2.98%	1.75%	1.91%	+ 16 bps	- 107 bps
5-year MGS	3.15%	2.00%	2.20%	+ 20 bps	- 95 bps
10-year MGS	3.30%	2.62%	2.75%	+ 13 bps	- 55 bps
15-year MGS	3.60%	3.10%	3.49%	+ 39 bps	- 11 bps

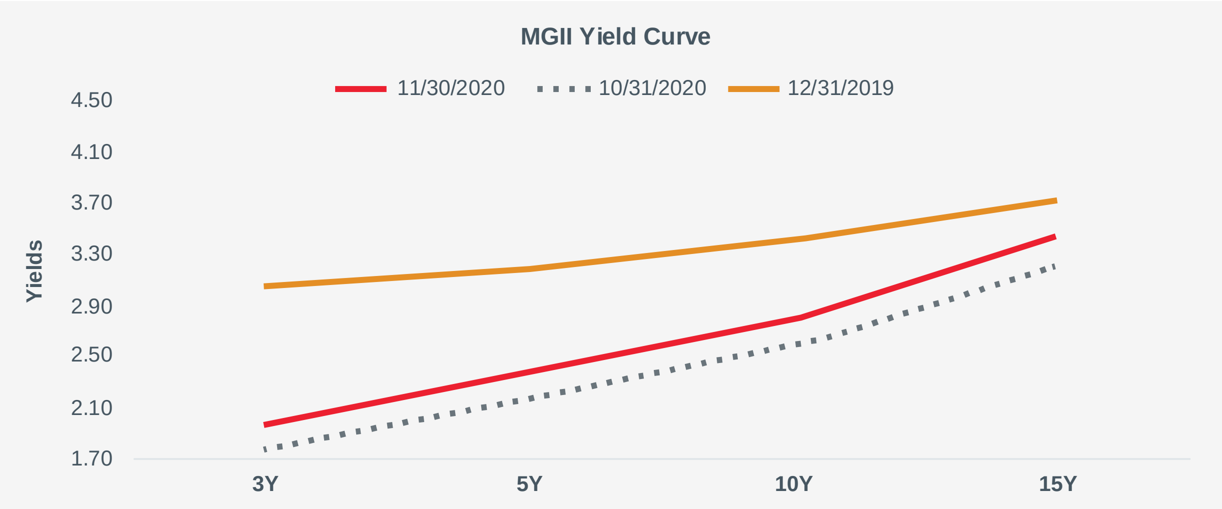
Source: Bloomberg



Source: Bloomberg

BENCHMARK	31/12/2019 Yield	31/10/2020 Yield	30/11/2020 Yield	MOM Change	YTD Change
3-year MGII	3.06%	1.79%	1.98%	+ 19 bps	- 108 bps
5-year MGII	3.19%	2.17%	2.38%	+ 21 bps	- 81 bps
10-year MGII	3.42%	2.59%	2.79%	+ 20 bps	- 63 bps
15-year MGII	3.72%	3.21%	3.45%	+ 24 bps	- 27 bps

Source: Bloomberg



Source: Bloomberg

OUTLOOK

- Daily Covid-19 infections continued to record new highs globally and countries around the world were re-imposing new restrictions orders. However, market sentiment was lifted by vaccine optimism following the announcements from Pfizer, Moderna and AstraZeneca on the high effectiveness in their experimental coronavirus vaccine during phase 3 trials. Coupled with the announcement of Joe Biden as the 46th US President-elect, markets have seen a risk-asset rally on expectations of a good economic recovery in 2021. It is broadly expected that the US-China trade negotiations can be restarted on a more stable and predictable platform, though the pressure on China such as intellectual property and human rights issues may persist. A bipartisan group of US Senators and House of representative lawmakers unveiled a USD 908billion stimulus relief package in a bid to end the previous gridlock further lifted market sentiment.

- On 4th December 2020, Fitch Ratings ("Fitch") downgraded Malaysia's Long-Term Sovereign Rating to BBB+/Stable from A-/Negative, citing weakened key credit metrics triggered by the Covid-19 pandemic, as well as the lingering political uncertainty that weighs on the policy outlook and governance standards. The rating agency expects Malaysia's GDP to contract 6.1% YoY in 2020 before registering a 6.7% growth in 2021.

- The only auction in December, the re-opening of a 10-year MGII was on 7th December, the next trading day after the Fitch's downgrade. The auction closed 20bps higher than the previous day, with the higher yields proving to be attractive enough to garner a strong BTC of 2.619x which subsequently led to a recovery in sentiment, with the 10y GII rallying by 10bps post-auction. Overall, the market was well supported by local investors and was little impacted by the downgrade with MGS yields increasing around 3 bps on average. Going forward, we expect the local bond market movement to be anchored by the domestic risk factors such as the sustainability of economic and public finances recovery, inflation expectations, bond supply and demand dynamics, policy setting as well as politics.

- 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.

Table 1: Indicative Rates	
	30-Nov-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	1.69%
3-mth BNM MN	1.68%
3-mth KLIBOR	1.93%
CP	
1-mth (P1)	2.21%
3-mth (P1)	2.41%

Source: Bloomberg/Bondstream
* Maybank2u.com.my

Table 2: Indicative Bond Yields (%)					
	3 yr	**5yr**	**7yr**	**10yr**	**15yr**
MGS	2.00	2.22	2.64	2.75	3.55
GII	2.09	2.32	2.72	2.84	3.54
Swap rate*	2.08	2.26	2.45	2.65	2.86
AAA	2.48	2.70	2.96	3.29	3.78
AA1	2.69	2.90	3.12	3.43	3.91
AA2	2.85	3.05	3.27	3.54	4.02
AA3	3.01	3.20	3.41	3.67	4.14
A1	4.12	4.41	4.70	5.06	5.65
A2	4.89	5.31	5.71	6.19	6.96
A3	5.66	6.21	6.68	7.32	8.19

Source: Bloomberg*/Bondstream