

# MARKET COMMENTARY

## FIXED INCOME MARKET REVIEW AND OUTLOOK

February 2021





## REVIEW

- The Federal Reserve (**the “Fed”**) Chair Jerome Powell called for an expansive national effort to support the job market at the Economic Club of New York. The Fed Chair’s speech was pretty much similar to his comments at the Jan 2021 Federal Open Market Committee (**“FOMC”**) meeting and reiterated he is not worried about inflation. Meanwhile, the minutes of the Jan 2021 FOMC meeting, when the Fed kept its federal funds rate (**“FFR”**) unchanged, indicated that the Fed remains committed to keeping the FFR near zero until substantial further progress has been achieved toward the committee’s inflation and employment targets. The minutes also showed the officials’ view that it is likely to take some time before these goals are met for the Fed to scale back its massive asset-purchases programme. Meanwhile, the Fed officials broadly agreed that the economy’s medium-term prospects had improved although uncertainty remained elevated. Members of the committee also view the vaccination progress being essential to support consumer spending and the economic recovery. Overall, the minutes contained views that are consistent with key information shared by the Fed Chair Powell at the press conference held after the FOMC meeting.
- President Biden’s USD1.9t relief package reached a key milestone in end-Feb 2021 after the House of Representatives voted 219-212 to pass the stimulus aid. The bill, which covers USD1,400 checks, enhanced jobless benefits and aide to state and local governments, has been sent to the Senate. It is understood that the Senate will introduce its version of the relief package that excludes the USD15/hour minimum wage proposal. The plan is likely to be passed along party lines and signed into law by 14 Mar 2021. Earlier on, Treasury Secretary Janet Yellen argued that President Biden’s proposed package would help the country to return to full employment next year. Meanwhile, it was reported that the USD600 stimulus checks, passed in Dec 2020, have boosted Jan 2021’s disposal income by 11.4%, leading to a 2.4% increase in consumer spending. Personal saving rate also rose 20.5%, providing support to a potential post-pandemic pent-up spending.
- On US-China relations, it was reported that the Biden administration will review all national security measures put in place by former President Donald Trump, including the US-China Phase 1 trade deal signed in Jan 2020. Recall that the deal entails China’s commitment to boost its U.S. imports by USD200b from 2017’s level in 2020 and 2021. Specifically, China agreed to increase its imports of goods and services, make changes in the areas of intellectual property, technology transfers, agriculture, financial services and the currency while in return, the U.S. agreed to cancel or lower some additional tariffs on China’s products. Meanwhile, President Biden and his counterpart, the President of China, Xi Jinping, held their first telephone call on the eve of the Lunar new year for a wide-ranging conversation. It is understood that Biden had raised issues over Beijing’s economic practices, coercion of Taiwan, human rights abuse in Xinjiang and Beijing’s increasingly assertive action in the region, amongst others. Meanwhile, President Xi had cautioned Biden during the call that confrontation would be a “disaster for both countries”. Elsewhere, Janet Yellen expressed her strong support for G7’s efforts to tackle climate change and emphasized the revival in U.S. multilateralism under Biden’s administration at her first meeting of G7 finance ministers, raising hopes for the possibility of reaching agreement in global policy such as climate and digital taxes. Yellen also urged G7 members to go big on fiscal support to ensure a robust and lasting recovery.
- The month of Feb 2021 also saw some positive developments on the pandemic front. In the U.S., new Covid-19 cases declined sharply while vaccination progress has been accelerated, providing support to optimism on a robust economic recovery in the coming months. Meanwhile, President Joe Biden announced that the U.S. will have enough vaccine supply to inoculate 300m Americans by end of the summer after the country secured contractual commitments from Moderna and Pfizer-BioNTech to deliver 600m doses of vaccine by end of Jul 2021. Also, Johnson & Johnson became the third vaccine that is approved by the U.S. Food and Drug Administration for emergency use. The vaccine was earlier on reported to be 72% effective in the U.S. at preventing Covid-19 infections and 58% effective against the South Africa variant of the virus and the latest finding shows the vaccine is 85% effective in preventing severe Covid-19 cases that require hospitalization. The President also vowed to have



enough vaccine supply to vaccinate all American adults by end of May 2021 when he announced the unusual partnership between Merck & Co and Johnson & Johnson, two rival pharmaceutical companies, on the production of the latter's vaccine.

- Having said that, South Africa scrapped the rollout of the AstraZeneca-Oxford vaccine in the country after the vaccine failed to prevent mild to moderate disease of the new Covid-19 variant that dominated the country's new infections. Instead, the country started to administer the unapproved Johnson & Johnson vaccine to its frontline workers as its Health Minister believes the Johnson & Johnson vaccine, which is still being tested internationally, is safe. Independent experts advising the World Health Organization ("**WHO**") on the other hand had recommended the use of AstraZeneca-Oxford vaccine and WHO has subsequently issued its approval to the vaccine and recommended for its use even in countries that have the circulation of the variant. In addition, the AstraZeneca-Oxford vaccine was also granted provisional approval by the Australian medicine regulator. It is also interesting to note that some expect the AstraZeneca vaccine's low price and ease of transport and storage could over time make it one of the most widely used globally.
- On a separate note, former President Donald Trump acquitted on charges of inciting the mob that attacked the U.S. Capitol in Jan 2021 after only seven of the 50 Republican senators voted to find him "guilty" compared to the required 17 Republican votes to secure a conviction of Trump. While the result of Trump's second impeachment trial is a foregone conclusion after most Republican senators voted to dismiss the trial before the trial started, Republican senators who have been critical of Trump are of the view that the impeachment trial itself has effectively ended any chance of Trump becoming the party's presidential nominee in 2024, one of goals of the Democratic impeachment managers.
- In Malaysia, the Movement Control Order ("**MCO**") imposed on Selangor, Kuala Lumpur, Johor and Penang has been lifted and replaced with conditional MCO ("**CMCO**") from 5 Mar 2021 until 18 Mar 2021, following the encouraging decline in daily confirmed cases, while the rest of the country will be placed under the least restrictive recovery MCO. In addition, travelling across districts is now allowed although the prohibition on crossing states remains in force during CMCO. Recall that the government had in end-Jan 2021 stepped up restriction with the imposition of full MCO on all states, except for Sarawak, until 18 Feb 2021 although rules were later relaxed to allow more businesses to operate with pre-determined restrictions. The said MCO was later extended to 4 Mar 2021 for Selangor, Kuala Lumpur, Johor and Penang while the other states, Putrajaya and Labuan were placed under the less restrictive CMCO with the 10km radius movement restriction lifted. It is also worth noting the varying degrees of MCO that started on 13 Jan 2021 have brought down the infectivity rate to 0.8.
- It is encouraging to see that Malaysia's vaccination plan has continued to gain positive traction. At the time of writing, it is reported that the government has secured 66.7m doses of vaccines to cover approximately 110% of the population. To manage the implementation of the nationwide vaccination plan, the Covid-19 Immunisation Task Force has been set up by the government. With the receipt of its first two batches of Pfizer-BioNTech vaccine on 21 Feb and 24 Feb respectively (close to 500,000 doses), Malaysia's nationwide vaccination plan has been rolled out as planned with an estimated 126,000 people to be inoculated daily at 605 vaccination centers across the country beginning late Feb 2021. Prime Minister Muhyiddin Yassin was the first person to receive the Covid-19 vaccine. It is equally important to note that all foreign citizens residing in Malaysia will be receiving vaccines for free under Malaysia's immunization programme. Meanwhile, Pharmaniaga Bhd had also received the first 300,000 doses of the Sinovac vaccine under its fill-and-finish arrangement while Duopharma Biotech Bhd is expected to receive its 6.4m doses of the Sputnik V vaccine, under a similar fill-and-finish arrangement with Russia's Gamaleya Research Institute of Epidemiology and Microbiology, in stages from the end of Mar 2021.
- Another favourable development to note is the creation of the Immunitee Health Passport ("**IHP**"), a system designed to store personal immunization records in a secure manner as well as allowing information to be verified electronically in the blockchain, by a Malaysian digital health company Immunitee together with its partner, Affinidi, a company founded by Temasek. The IHP, which will be



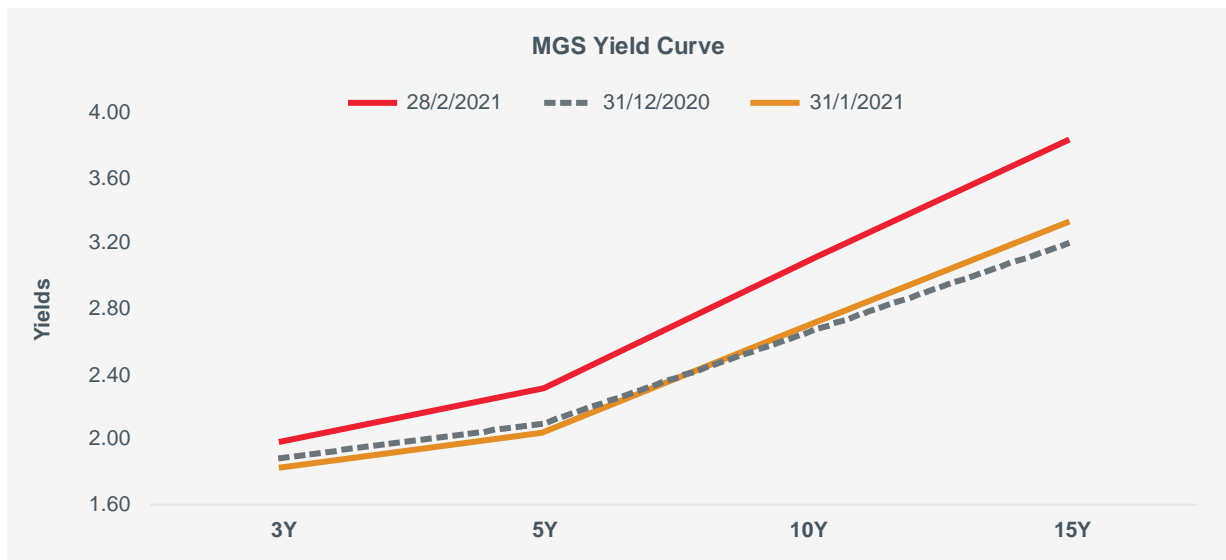
officially launched in Mar 2021, has been accepted for use by Singapore authorities, making it the first in what is shaping up to be a requirement for travel in a Covid-19 world. Meanwhile, plans to issue Covid-19 passports via MySejahtera app or in physical form is currently being deliberated by the government. Also, International Trade and Industry Minister Datuk Seri Mohamed Azmin Ali was quoted as saying the ASEAN economic ministers have proposed a common digital vaccine certificate although specific timeline has not been set.

- On the economic front, Malaysia's 4Q2020 GDP fell 0.3% QoQ (-3.4% YoY), attributable mainly to a larger drag from private consumption on the back of various movement restrictions imposed in 2020. The full year GDP of -5.6% YoY, the worst since the 1997/98 Asian Financial Crisis, was marginally lower than the government's -3.5%-5.5% forecast range. In the analyst briefing session, Bank Negara Malaysia ("**BNM**") remains hopeful that the strong external trades, turnaround in public and private sector expenditure and policy measures will drive Malaysia's recovery from 2Q2021 after an expected weaker 1Q2021 following the re-imposition of MCO. The central bank will release its revised 2021 growth forecast in conjunction with its 2020 Annual Report on 24 Mar 2021. Meanwhile, Malaysia's job market is still struggling to register a sustainable recovery with the unemployment rate staying unchanged at 4.8% in Dec 2020 (Nov 2020: 4.8%) and averaged 4.5% for 2020 (2019: 3.3%), attributable to the imposition of conditional MCO in 4Q2020. Having said that, we note that the government is confident of meeting its jobless rate target of 3.5% by 2021 and is set to announce additional strategy in mid-Mar 2021 to further mitigate the Covid-19 impact.
- BNM kept its Overnight Policy Rate ("**OPR**") unchanged at its second Monetary Policy Committee ("**MPC**") meeting of the year. The central bank considers its current monetary policy stance as appropriate and accommodative and reiterated its commitment to utilize its policy levers to foster a sustainable economic recovery. It has also indicated that its monetary stance going forward will continue to be determined by new data and information and their implications on inflation and growth. In its MPC statement, BNM noted that global economic recovery is gaining momentum, supported by improved manufacturing and trade activity, while ongoing vaccination programmes in many economies together with policy support will improve private demand and labour market conditions. On the domestic front, BNM acknowledges that growth in 1Q2021 will be affected by containment measures but remains hopeful of a recovery from 2Q2021 onwards. Notably, the recently rolled out vaccine programme is anticipated to lift sentiment and economic activity. Besides, BNM views the current financial conditions as supportive despite the recent bouts of volatility and anticipates headline inflation to spike temporarily in 2Q2021, due to the low base effect, before moderating to a more subdued level thereafter.
- Malaysia's sovereign yield curve steepened sharply in Feb 2021. The yields of the 3-, 5-, 10- and 15-year MGS surged 14bps, 27bps, 38bps and 50bps to close the month at 1.98%, 2.32%, 3.08% and 3.82% respectively. While the shorter end of the curve was pretty much anchored by BNM's accommodative monetary stance, the significant jump in US Treasury yields, driven by an expected sizable stimulus aid and reflation trades, the encouraging vaccines rollout news locally and globally as well as the increased possibility of BNM holding its OPR unchanged exerted pressure on the longer-end of the curve. Likewise, MGII yields moved higher during the month, with the 3-, 5-, 10- and 15-year MGII closing 15bps, 42bps, 46bps and 36bps higher at 2.03%, 2.62%, 3.22% and 3.80% respectively.
- Three auctions were held in the month of Feb 2021, the re-opening of the 5-year MGII 03/26, the re-opening of the 20-year MGS 05/40 and the re-opening of the 7-year MGII 09/27. The auctions received decent demand with an average bid-to-cover ratio of 2.17x given the lower-than-expected auction size.
  - RM4.5b re-opening of the 5-year MGII averaging 2.252% at a bid-to-cover ratio of 2.067x;
  - RM2.0b re-opening of 20-year MGS averaging 3.969% at a bid-to-cover ratio of 2.224x; and
  - RM3.5b re-opening of the 7-year MGII averaging 2.806% at a bid-to-cover ratio of 2.196x.



BENCHMARK	31/12/2020 Yield	31/01/2021 Yield	28/02/2021 Yield	MOM Change	YTD Change
3-year MGS	1.88%	1.84%	1.98%	+ 14 bps	+ 10 bps
5-year MGS	2.10%	2.05%	2.32%	+ 27 bps	+ 22 bps
10-year MGS	2.65%	2.70%	3.08%	+ 38 bps	+ 43 bps
15-year MGS	3.19%	3.32%	3.82%	+ 50 bps	+ 63 bps

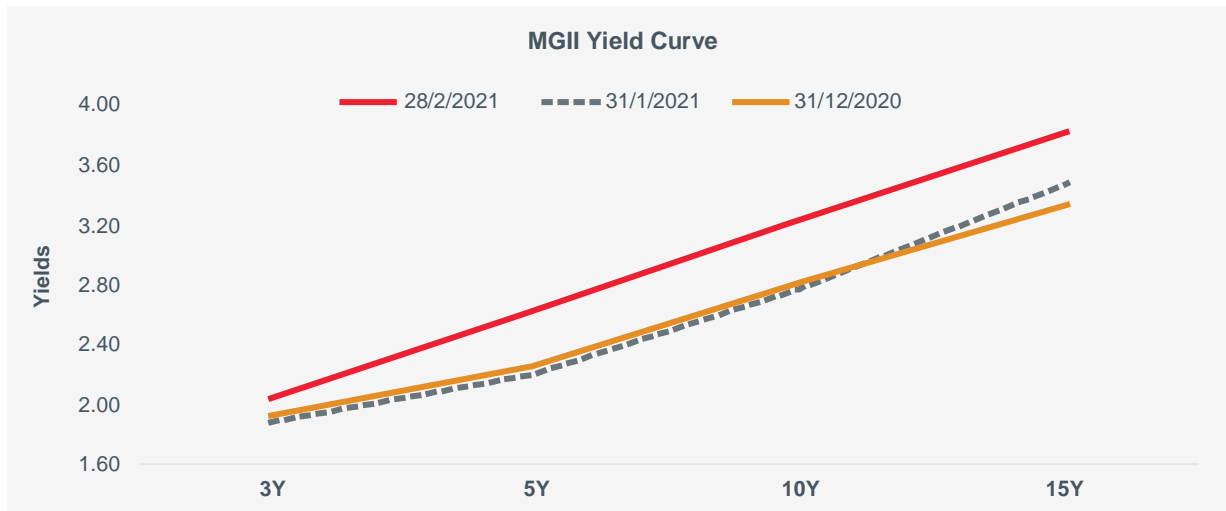
Source: Bloomberg



Source: Bloomberg

BENCHMARK	31/12/2020 Yield	31/01/2021 Yield	28/02/2021 Yield	MOM Change	YTD Change
3-year MGII	1.92%	1.88%	2.03%	+ 15 bps	+ 11 bps
5-year MGII	2.26%	2.20%	2.62%	+ 42 bps	+ 36 bps
10-year MGII	2.81%	2.76%	3.22%	+ 46 bps	+ 41 bps
15-year MGII	3.32%	3.44%	3.80%	+ 36 bps	+ 48 bps

Source: Bloomberg



Source: Bloomberg

## OUTLOOK

- The confirmed Covid-19 cases continue to rise across the world, albeit at a slower pace, surpassing 114m with over 2.5m fatalities while vaccine efficacy continues to be the most concerning part of the coronavirus outbreak following reports that three major vaccines, from AstraZeneca-Oxford, Johnson & Johnson and Novavax were shown to be less effective against the South Africa variant. Having said that, major vaccines are found to be still effective against the British variant that is more contagious although faster transmission may require a higher percentage of the population to get vaccinated to achieve herd immunity. It is also important to note that vaccine producers are not standing still with AstraZeneca-Oxford reported to be working on a vaccine for the South Africa variant while Moderna announced that it has developed a modified version of its vaccine, targeting the South Africa variant.
- Other positive developments include the confirmation on Pfizer-BioNTech and AstraZeneca-Oxford vaccines' strong protection against the coronavirus in Israel and the U.K. as well as the news that 20 countries have approved the Russia's Sputnik V vaccine and it is now being considered for approval in the EU. Also, the latest studies suggest that Pfizer-BioNTech's vaccine is effective even with just one dose, which could effectively expedite the vaccination process worldwide. Also, new data from the U.K. showed that one shot of Pfizer-BioNTech's vaccine offered 57% reduction of cases among senior citizens over the age of 80 and two doses increased such protection to 88%. The encouraging findings have led to Prime Minister Boris Johnson announcing plans for the re-opening of schools and allowing small group gathering next month. Pfizer-BioNTech has also announced that -13 degrees Fahrenheit, the range where most pharmacy freezers operate, will be sufficient to store its vaccines compared to the previous temperature requirement of -76 degrees Fahrenheit, an encouraging news for the vaccine's distribution.
- Presently, we understand that more than 265m doses of the Covid-19 vaccines have been administered across 108 countries or at a daily rate of 6.1m doses. In Malaysia, the National Pharmaceutical Regulatory Agency ("NPRA") received three applications to register the Sinovac, Sputnik V and AstraZeneca-Oxford Covid-19 vaccines for use in Malaysia and granted its conditional approval for Astra-Zeneca-Oxford and Sinovac. Recall that similar approval was granted by NPRA to Pfizer-BioNTech's vaccine last month. In addition, the country's vaccination campaign has been rolled out as planned in Feb 2021 and the government now expects the vaccination plan to be completed before end-2021, ahead of its initial projected completion date in Feb 2022.





- Following the declaration of the state of emergency by the King on 12 Jan 2021, 19 members of the Independent Special Committee (“ISC”) have been appointed after the consent of the King was obtained. The ISC was established under Section 2 of the Emergency Ordinance (Essential Powers) 2021 to advise the King on the continuing existence as well as the ending of the emergency in Malaysia. Meanwhile, the Royal House issued a statement that the parliament may convene during the emergency period after an audience was granted to Dewan Negara president Tan Sri Rais Yatim and Dewan Rakyat speaker Datuk Azhar Harun by the King. Separately, Prime Minister Muhyiddin Yassin reiterated his commitment to hold a general election after the Covid-19 crisis comes under control. Recall that Malaysia’s state of emergency is set to end on the 1 Aug 2021.
- The Malaysian economy ended 2020 on a weak note which was not too much of a surprise in view of the imposition of CMCO in the 4Q2020. Against this backdrop, growth in 1Q2021 is likely to remain weak, consistent with stricter mobility restrictions during the MCO. Having said that, the successful rollout of the national vaccination plan coupled with stronger exports performance, arising from a more synchronized global recovery, will support a sustained recovery from 2Q2021 onwards, barring unforeseen circumstances. Despite the fresh lockdowns in 1Q2021, the government has maintained its 2021 growth forecast range of 6.5%-7.5% and Finance Minister Tengku Datuk Sri Zafrul also shared that the reopening of more economic sectors under the MCO reduces the GDP losses to RM300m/day compared to RM2.4b/day previously in 2020. Meanwhile, the World Bank is projecting a global economic growth of 4.0% in 2021 and expects Malaysia’s economy to grow between 5.6%-6.7%, supported by the sustained vaccine rollout progress that will boost consumption although it cautioned that slow progress of vaccine deployment, ineffective virus containment and political uncertainties, amongst others, are downside risks to the outlook.
- BNM again left its OPR rate unchanged at 1.75% at its MPC meeting held on 4 Mar 2021 for the fourth consecutive meeting since Jul 2020. We believe the decision reflects the central bank’s confidence over the country’s recovery trajectory, premised on the government’s fiscal stimulus packages, the expansionary 2021 Budget, the availability of various financing schemes for businesses as well as the targeted repayment assistance programme. While the accompanying MPC statement warned that downside risks to growth remain, we note the latest MPC statement features a comparatively more upbeat tone. Overall, we continue to believe “targeted direct stimulus” is a more effective way in sustaining growth and shoring up economic activities and BNM’s upcoming OPR decision will be largely data dependent.
- There will be four auctions in Mar 2021, the 30Y reopening of MGS 06/50, the 10Y reopening of MGII 10/30, the 5Y reopening of MGS 09/25 and the 20.5Y new MGII 09/41. While there is still ample liquidity in the system, the outcome of these auctions is likely to be influenced by prevailing market sentiment. On the corporate front, we expect mixed demand for corporate bonds as investors continue to be selective in their investments.
- Malaysia’s sovereign yield curve has bear steepened since early of the year, signalling continued comfort with the narrative of a recovering economy and higher inflationary pressure in 2021. We expect the bond market to remain volatile as investors tussle between hopes of a vaccine-induced recovery and concerns over the economic impact brought about by the varying degrees of movement restrictions imposed by the government, on top of the volatile U.S Treasury market. On balance, we still see a bear steepening bias in Malaysia’s sovereign yield curve where the shorter end of the curve continues to be anchored by BNM’s accommodative monetary stance while the longer-end of the curve will remain under pressure based on the expected economic recovery as well as unfavourable demand-supply dynamics. Going forward, we believe the performance of the bond market will continue to be dictated by economic data, effectiveness of pandemic containment measures, the vaccine rollout progress, as well as global risk sentiment.



**Table 1: Indicative Rates (%)**

	28-Feb-21
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	1.75
3-mth BNM MN	1.75
3-mth KLIBOR	1.94
<b>CP</b>	
1-mth (P1)	2.35
3-mth (P1)	2.47

Source: Bloomberg/Bondstream

\* Maybank2u.com.my

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

	3 yr	5yr	7yr	10yr	15yr
MGS	2.10	2.43	2.82	3.07	3.85
GII	2.18	2.59	3.00	3.27	3.87
Swap rate*	2.26	2.54	2.75	3.04	3.27
AAA	2.47	2.85	3.16	3.60	4.19
AA1	2.64	2.96	3.24	3.67	4.25
AA2	2.77	3.10	3.38	3.78	4.32
AA3	2.90	3.23	3.54	3.92	4.43
A1	4.11	4.44	4.74	5.12	5.73
A2	4.89	5.34	5.75	6.25	7.04
A3	5.66	6.24	6.72	7.38	8.27

Source: Bloomberg\*/Bondstream





#### Disclaimer

This document is prepared for information purposes only and may not be published, circulated, reproduced or distributed in whole or part, whether directly or indirectly, to any other person without the prior written consent of Eastspring Investments Berhad. It should not be construed as an offer or solicitation for the subscription, purchase or sale of any securities mentioned herein. Whilst we have taken all reasonable care to ensure that the information contained in this document is not untrue or misleading at the time of publication, we cannot guarantee its accuracy or completeness. Any opinion or estimate contained in this document is subject to change without notice. Investors may wish to seek advice from a professional adviser before making a commitment to invest in units of any of our funds. Eastspring Investments Berhad and its related and affiliated corporations together with their respective directors and officers may have or may take positions in the securities mentioned in this document and may also perform or seek to perform other investment services for the corporations whose securities are mentioned in this document as well as other parties. The graphs or charts are included for illustrative purposes only. Past performance is not necessarily a guide to future performance. The predictions, projections, or forecast on the economy, securities markets or the economic trends of the markets are not necessarily indicative of the future or likely performance of Eastspring Investments Berhad or any funds managed by Eastspring Investments Berhad. The value and any income accruing to the investments, if any, may fall as well as rise. An investment is subject to investment risks, including the possible loss of the principal amount invested. Eastspring Investments companies (excluding JV companies) are ultimately whollyowned/indirect subsidiaries of Prudential plc of the United Kingdom. Eastspring Investments companies (including JV companies) and Prudential plc are not affiliated in any manner with Prudential Financial, Inc., a company whose principal place of business is in the United States of America or with the Prudential Assurance Company, a subsidiary of M&G plc, a company incorporated in the United Kingdom.