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MARKET COMMENTARY

FIXED INCOME MARKET REVIEW AND OUTLOOK

March 2021

REVIEW

- The Federal Reserve **(the "Fed")** left its federal funds rate **("FFR")** unchanged at 0%-0.25% and pledged to keep its asset purchase programme of at least USD120b US Treasury and mortgage-backed securities intact at its Mar 2021 Federal Open Market Committee **("FOMC")** meeting, with the Committee members, on average, not expecting any rate hikes through 2023. Meanwhile, the Fed revised notably upward its 2021 GDP growth, unemployment rate and inflation to 6.5%, 4.5% and 2.4% respectively from its Dec 2020's forecasted 4.2%, 5.0% and 1.8%. During the post-meeting press conference, Fed Chair Jerome Powell shared that the Fed will not act on forecasts but actual data and that brief rises in inflation past the 2.0% target would not be sufficient for a rate hike. Powell also continued to hold the course and indicated that the recent spike in US Treasury yields is not a sign of financial conditions tightening.

- After the enactment of the USD1.9tr Covid-19 relief bill, President Biden shifted his focus to his ambitious "Build Back Better" infrastructure plan that is split into two phases. Phase 1, named "American Jobs Plan" worth USD2.3tr, was unveiled in end-Mar 2021, focusing mainly on an 8-year infrastructure investment plan to repair the country's aging infrastructure and job creation while Phase two, named the "American Families Plan" with an estimated price tag of USD1tr, is expected to be announced in Apr 2021. The multitrillion-dollar proposal will be funded largely by a hike in the country's corporate tax to 28%, after it was lowered to 21% from 35% by the previous administration, over a 15-year period and other tax-related measures.

- In Europe, the European Central Bank **("ECB")** left its Pandemic Emergency Purchase Programme unchanged at a total of EUR1.85tr until Mar 2022. ECB now expects the Eurozone to grow 4.0% and 4.1% in 2021 and 2022 compared to its Dec 2020 forecast of 3.9% and 4.2% in 2021 and 2022 and believes inflation rate will come in at 1.5% and 1.2% in 2021 and 2022 respectively.

- The US-China relations remain tense. The first high-level meeting between U.S. Secretary of State Anthony Blinken and National Security Advisor Jake Sullivan and China's Foreign Minister, Wang Yi, and member of the ruling Politburo Yang Jiechi in mid-Mar 2021 descended into a war of words over human rights, business practices and democracy. In addition, the new U.S. Trade Representative Katherine Tai in her first interview said that U.S. is not ready to lift tariffs on imports from China in the near future although it is open to have trade negotiations. China on the other hand announced a tit-for-tat sanction against two Americans, a Canadian as well as a rights advocacy body in response to sanctions imposed by the U.S. and Canada over allegations of human rights abuses in Xinjiang.

- While vaccination rollout has been gaining ground globally, the efforts suffered some setbacks after more than a dozen European and Asian countries suspended the AstraZeneca-Oxford's vaccine due to reported cases of severe blood clots on people who received the vaccine although some of those countries later lifted their suspension after health authorities concluded that the vaccine's benefits outweigh its risk. Daily doses administered in the US accelerated to almost 3m, and Biden's new goal is to double vaccinations to 200m shots in his first 100 days in office. Also, Johnson & Johnson's vaccine became the third Covid-19 vaccine approved by the World Health Organization **("WHO")** for emergency use in Mar 2021, after Pfizer-BioNTech and AstraZeneca-Oxford.

- In Malaysia, the Conditional Movement Control Order **("CMCO")** imposed on Selangor, Kuala Lumpur, Johor, Kelantan and Penang has been extended further to 14 Apr 2021 while Sarawak's CMCO would take effect until 12 Apr 2021. Other states and federal territories' Recovery MCO **("RMCO")** status will also be extended to 14 Apr 2021. Malaysia's vaccination plan continued to gain positive traction with 787,504 people receiving at least one dose of Covid-19 vaccine in early Apr 2021.

- Malaysian government announced another fiscal stimulus package, PEMERKASA, worth RM20b in mid-Mar 2021, bringing the country's total fiscal assistance to RM340b. Key measures under PEMERKASA include additional RM2b allocation for vaccines, RM1.2b cash handouts for the B40 households, RM3b fuel subsidies, wage subsidy extension, special grants and microcredits for SMEs as well as RM2.5b worth of small projects nationwide. The latest fiscal package involves RM11b of direct fiscal injection by the government and could lead to an increase in the country's 2021 deficit to 6% (2020: -6.2%) from the earlier estimate of 5.4% although the debt-to-GDP level is expected to come in at 58.5%, still under the 60% statutory debt limit. The higher projected deficit will also increase Malaysia's average 2021-2023 budget deficit to 4.8% from 4.5% under the Medium-Term Fiscal Framework. That said, the government is committed to fiscal consolidation which appears achievable as the bulk of the fiscal injections are non-recurring measures. Separately, the tabling of the 12th Malaysia Plan **("12MP")** has been postponed to a date to be determined due to the Covid-19 pandemic.

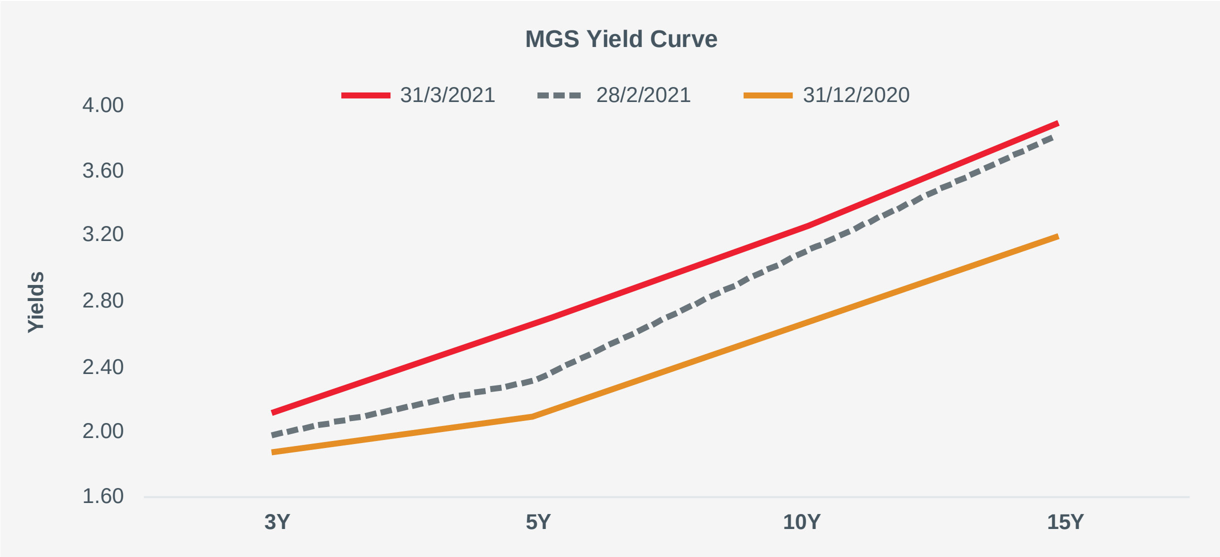
- Bank Negara Malaysia **("BNM")** released its 2020 annual report and expects Malaysia's GDP to grow 6.0%-7.5%, slightly lower than its previous forecast of 6.5%-7.5%. Correspondingly, Malaysia's headline inflation is expected to average 2.5%-4.0% in 2021 with a spike expected in 2Q2021. BNM also reiterated its commitment for its monetary policy to remain accommodative to support a sustained recovery in 2021. On financial stability, BNM's latest stress tests on banks reaffirmed the banks and insurers' ability to withstand severe economic shocks.

- Malaysia's sovereign yield curve moved higher in Mar 2021. The yields of the 3-, 5-, 10- and 15-year MGS surged 15bps, 34bps, 16bps and 6bps to close the month at 2.13%, 2.66%, 3.24% and 3.88% respectively. While the shorter end of the curve was pretty much anchored by BNM's accommodative monetary stance, the spike in US Treasury yields, driven mainly by reflation trades, the encouraging vaccines rollout news locally and globally as well as improving economic outlook exerted pressure on the mid- to longer-end of the curve. Likewise, MGII yields moved higher during the month, with the 3-, 5-, 10- and 15-year MGII closing 11bps, 11bps, 13bps and 23bps higher at 2.14%, 2.73%, 3.35% and 4.03% respectively.

- Four auctions were held in the month of Mar 2021, the re-opening of the 30-year MGS 06/50, the re-opening of the 10-year MGII 10/30, the re-opening of the 5-year MGS 09/25 and the new 20.5-year MGII 09/41. The auctions received decent demand with an average bid-to-cover ratio of 2.047x.
  - RM2.0b re-opening of the 30-year MGS averaging 4.486% at a bid-to-cover ratio of 2.023x;
  - RM4.0b re-opening of 10-year MGII averaging 3.561% at a bid-to-cover ratio of 1.799x;
  - RM4.5b re-opening of the 5-year MGS averaging 2.764% at a bid-to-cover ratio of 1.789x; and
  - RM2.0b new 20.5-year MGII averaging 4.417% at a bid-to-cover ratio of 2.575x.

BENCHMARK	Dec 2020 Yield	Feb 2021 Yield	Mar 2021 Yield	MOM Change	YTD Change
3-year MGS	1.88%	1.98%	2.13%	+ 15 bps	+ 25 bps
5-year MGS	2.10%	2.32%	2.66%	+ 34 bps	+ 56 bps
10-year MGS	2.65%	3.08%	3.24%	+ 16 bps	+ 59 bps
15-year MGS	3.19%	3.82%	3.88%	+ 6 bps	+ 69 bps

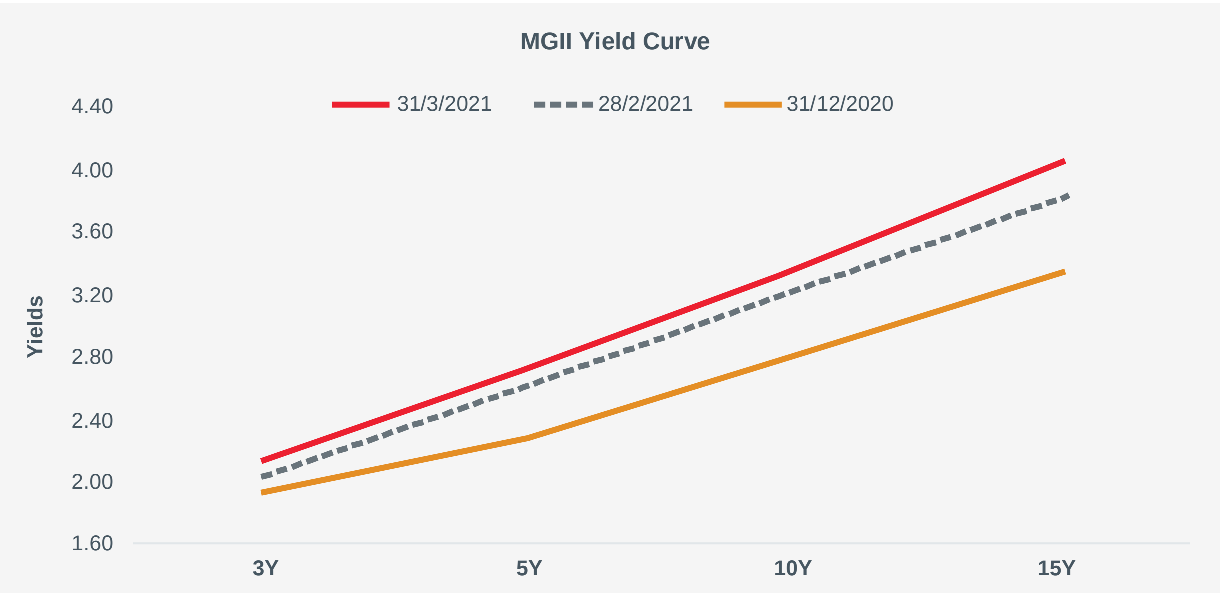
Source: Bloomberg



Source: Bloomberg

BENCHMARK	Dec 2020 Yield	Feb 2021 Yield	Mar 2021 Yield	MOM Change	YTD Change
3-year MGII	1.92%	2.03%	2.14%	+ 11 bps	+ 22 bps
5-year MGII	2.26%	2.62%	2.73%	+ 11 bps	+ 47 bps
10-year MGII	2.81%	3.22%	3.35%	+ 13 bps	+ 54 bps
15-year MGII	3.32%	3.80%	4.03%	+ 23 bps	+ 71 bps

Source: Bloomberg



Source: Bloomberg

OUTLOOK

- The confirmed Covid-19 cases continue to rise across the world, albeit at a slower pace, surpassing 130m with over 2.8m fatalities. Presently, we understand that more than 658m doses of the Covid-19 vaccines have been administered across 151 countries or at a daily rate of 16.5m doses.

- Malaysia's headline inflation rate returned to the positive territory in Feb 2021 after registering the first annual deflation since 1969 in 2020. In Feb 2021, Malaysia's inflation rate grew a marginal 0.1% YoY (Jan 2021: -0.2% YoY), as the 1.4% YoY increase in Food & Non-alcoholic Beverages helped offset the 2.0% YoY and 0.8% YoY declines in Transport (Jan 2021: -5.1% YoY) and Housing, Water, Electricity, Gas & Others Fuels (Jan 2021: -0.7% YoY). Despite the marginal 0.1% YoY inflation rate in Feb 2021, headline inflation is set to accelerate in the coming months on the back of improving economic activity as well as the low base effect from the plunge in oil price in 2Q2020.

- Elsewhere, FTSE Russell removed Malaysia from the watchlist of its flagship World Government Bond Index **("WGBI")** and retained its membership in the index although at a slightly lower weight of 0.37% from 0.39% previously following the inclusion of China's government bonds to the index over a phase-in period of 36 months starting 29 Oct 2021. FSTE Russell noted Malaysia's improvement in secondary market liquidity as well as enhanced foreign exchange market structure and liquidity that support increasing market access to non-resident investors since Malaysia was placed on the watchlist of the WGBI index two years ago. The decision by FSTE Russell is welcome as it has effectively removed one of Malaysian bond market's uncertainties and is expected to contribute positively to trading flows.

- There will be three auctions in Apr 2021, the 7Y reopening of MGS 06/28, the 15Y reopening of MGII 07/36 and the 3Y reopening of MGS 06/24. 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 quite a fair bit since early of the year, underpinned by the narrative of a recovering economy and higher inflationary pressure in 2021. We expect the bond market to remain volatile as investors respond to improving economic indicators and the expected spike in inflation in the coming months. Overall, we still see a 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 on the expected economic recovery as well as unfavourable demand-supply dynamics, which is reinforced by the government's plan to fund the major part of its RM11b direct fiscal injection under the PEMERKASA package via MYR-denominated government debt. 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 (%)	
	31-Mar-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	1.77
3-mth BNM MN	1.77
3-mth KLIBOR	1.94
CP	
1-mth (P1)	2.37
3-mth (P1)	2.53

Source: Bloomberg/Bondstream
* Maybank2u.com.my

Table 2: Indicative Bond Yields (%)					
	3 yr	**5yr**	**7yr**	**10yr**	**15yr**
MGS	2.37	2.76	3.09	3.24	4.00
GII	2.30	2.74	3.12	3.41	3.90
Swap rate*	2.46	2.79	2.93	3.22	3.53
AAA	2.95	3.39	3.78	4.16	4.64
AA1	3.07	3.50	3.91	4.28	4.71
AA2	3.20	3.61	4.00	4.37	4.77
AA3	3.28	3.69	4.09	4.49	4.86
A1	4.16	4.52	4.88	5.29	5.90
A2	4.97	5.46	5.93	6.45	7.22
A3	5.74	6.36	6.91	7.61	8.46

Source: Bloomberg*/Bondstream