MARKET COMMENTARY

Fixed income market review and outlook

October 2022

Review

- The minutes of the September FOMC meeting released on 12 October 2022 mentioned that inflation is well above the Committee's 2% objective and shows little signs of abating so far, with supply and demand imbalances in the economy continuing. Recent indicators point to modest growth in spending and production. Job gains have been robust in recent months, and the unemployment rate (3.5% in September) has remained low. At the point of writing, the Federal Reserve had raised its short-term borrowing rate by another 75bps to a target range of 3.75% to 4.00%, the highest level since January 2008.

- The U.S. economy grew at an annual rate of 2.6% in 3Q2022, marking a sharp turnaround after six months of contraction. However, dissecting the numbers further shows that net exports of goods and services added 2.77 percentage points to the headline total, meaning GDP essentially would have been flat otherwise.

- Globally, the tightening cycle continued in October 2022 to tame high inflation. The Reserve Bank of Australia **("RBA")** raised its official cash rate by 25bps to 2.60%. YTD, RBA has delivered a total of 250bps hikes. Similarly, Bank of England **("BoE")** increased its policy rate by another 50bps to 2.25% and began selling short-term government debt to trim its balance sheet, while European Central Bank **("ECB")** raised its refinancing operations, marginal lending facility and deposit facility by 75bps to 2.00%, 2.25% and 1.50% respectively. ECB also hinted at more hikes in the coming months but sounded a cautious note on the deteriorating growth outlook for the eurozone economy. Meanwhile, central banks in ASEAN stayed on the course of their normalization path with Indonesia (+50bps) and Vietnam (+100bps) raising their policy rates in the month. At the point of writing, Bank Negara Malaysia (BNM) had hiked rates by another 25bps, bringing the Overnight Policy Rate to 2.75%. Other central banks in the Philippines and Thailand will meet in November and are expected to continue the normalization path.

- China's September 2022 exports slowed to 5.7% YoY (Aug 2022: +7.1% YoY) while imports came in relatively flat at 0.3% YoY (Aug 2022: 0.3% YoY), on slower external demand. September 2022 economic data came in mixed with retail sales coming in lower than expected, while industrial production beat expectations, growing at 2.5% YoY and 6.3% YoY respectively (Aug 2022: +5.4%; +4.2%). Meanwhile, fixed asset investment inched up to 5.9% YoY for the 9M2022 (8M2022: +5.8% YoY). The People's Bank of China kept its benchmark lending rates unchanged in October. The one-year loan prime rate ("LPR") remained at 3.65%, while the five-year LPR, a reference rate for mortgages, was maintained at 4.3%. The 20th National Congress of the Chinese Communist Party ("Party Congress") concluded on 22 October 2022, and the new leadership team was announced after the 1st Plenary Session the next day. President Xi Jinping's core leadership has been further solidified, thus reaffirming China's policy continuity.

- On 5 October 2022, OPEC+ announced that it would be reducing oil production by 2 million barrels per day (mb/d). International Energy Agency ("IEA") expects the decline in OPEC+ supply will be smaller than the announced production targets, with the majority of the alliance's members already producing well below their ceilings due to capacity constraints. IEA estimated for a decrease of around 1 mb/d in OPEC+ crude oil output, with the bulk of the cuts delivered by Saudi Arabia and the UAE. Meanwhile, Russia has suspended its part of the deal allowing Ukraine to ship grain from its Black Sea ports. Grain markets also faced other issues, including low water levels in the Mississippi River that slows the export of U.S. farm products and a disappointing corn crop in the U.S (down 8% YoY).

- UK Prime Minister Liz Truss resigned after just 45 days in office following a failed tax-cutting Budget. She is replaced by Rishi Sunak who will announce the delayed Budget on 17 November 2022 with expectations of years of tax rises to make up the UK fiscal gap.

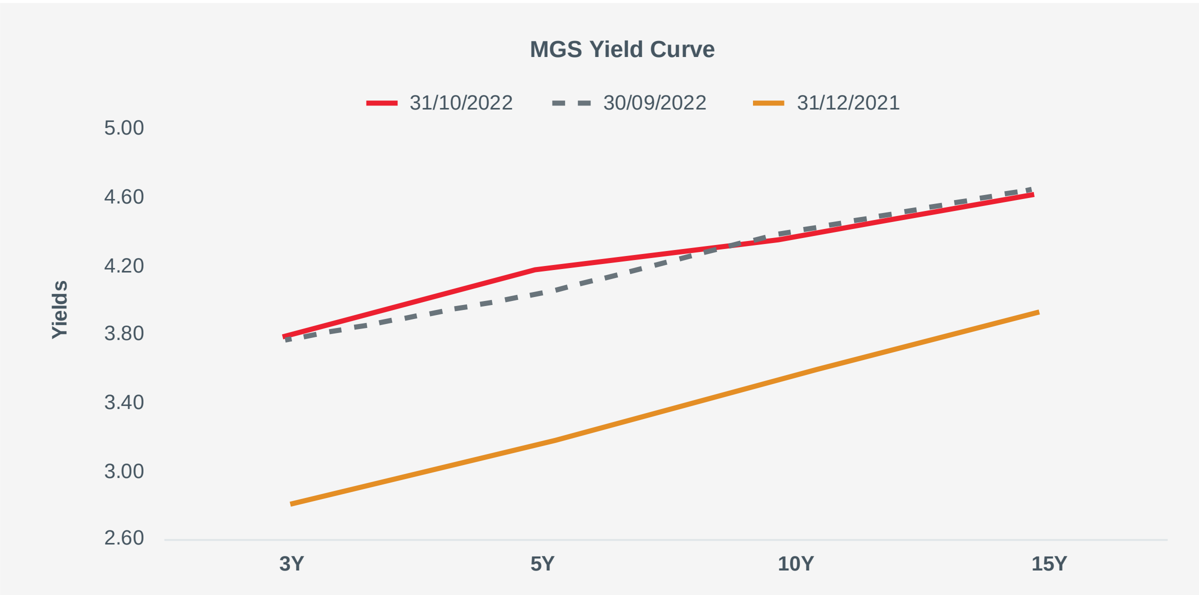
- In Malaysia, inflation rate in September 2022 was at 4.5%, lower than 4.7% in August 2022. Core inflation however, registered an increase of 4.0% in September 2022 as compared to 3.8% in August 2022, higher than the upper end of BNM's forecast of 2.0% to 3.0% range in 2022. The Malaysian Budget 2023 was announced on 7 October 2022 but will be re-tabled towards the year end as the Malaysian Parliament has been dissolved on 10 October 2022, paving the way for the 15th General Election (GE15) on 19 November 2022. According to Budget 2023, Malaysia's economy is estimated to grow by 6.5% to 7% in 2022 (World Bank forecasts 6.4% for 2022), and 4% to 5% in 2023, while the fiscal deficit is expected to shrink to 5.5% of GDP in 2023 from 5.8% of GDP in 2022. MYR continued to weaken against USD in October 2022, from 4.6410 at the start of the month to 4.7265 at the end of October (source: BNM).

- Three auctions were held in October 2022, the re-opening of the 3Y MGS 03/25, the re-opening of the 10Y MGII 10/32 and the re-opening of 20Y MGS 10/42. The auctions received an average bid-to-cover ratio of 1.86x.
  - RM5.0b re-opening 3-year MGS averaging 3.823% at a bid-to-cover ratio of 1.920x;
  - RM3.5b re-opening of 10-year MGII averaging 4.506% at a bid-to-cover ratio of 1.739x; and
  - RM2.5b new 20-year MGS averaging 4.795% at a bid-to-cover ratio of 1.913x

- Malaysia's MGS curve flattened in the month of October 2022. The yields of the 3- and 5-year MGS increased by 2bps and 13bps to close the month at 3.79% and 4.17% respectively, while 10- and 15-year MGS declined by 4bps and 3bps to close at 4.37% and 4.62% respectively. Meanwhile, yields of MGII rose higher where yields of the 3-, 5-, 10- and 15-year MGII increased by 5bps, 14bps, 4bps and 3bps to end the month at 3.85%, 4.17%, 4.46% and 4.71% respectively.

BENCHMARK	Dec 2021 Yield	Sep 2022 Yield	Oct 2022 Yield	MOM Change	YTD Change
3-year MGS	2.81%	3.77%	3.79%	+ 2 bps	+ 98 bps
5-year MGS	3.16%	4.04%	4.17%	+ 13 bps	+ 102 bps
10-year MGS	3.56%	4.41%	4.37%	- 4 bps	+ 81 bps
15-year MGS	3.94%	4.65%	4.62%	- 3 bps	+ 68 bps

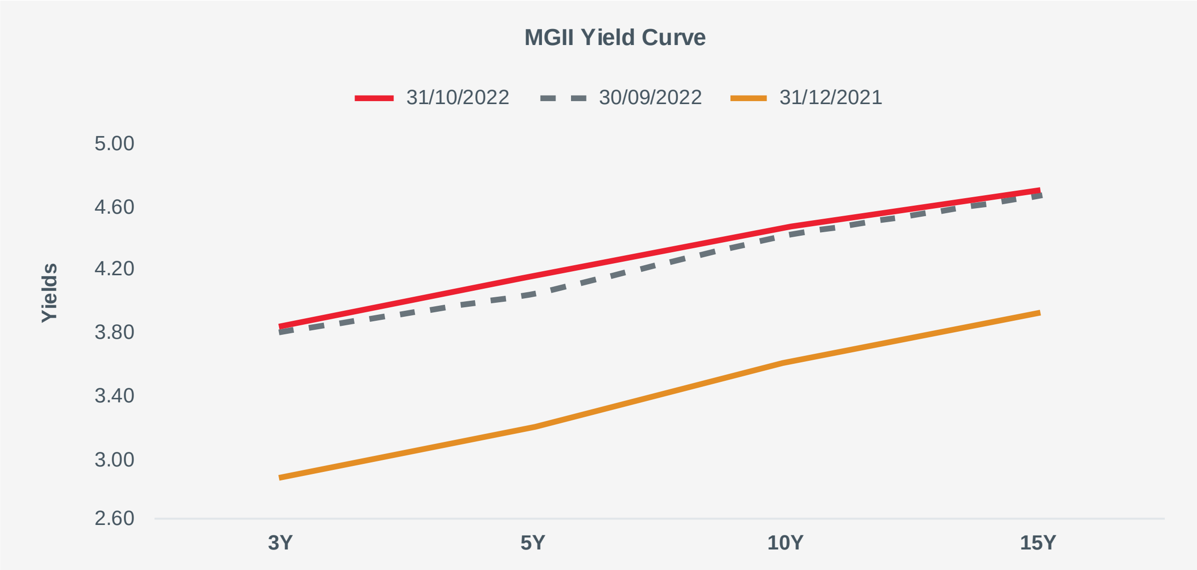
Source: Bloomberg



Source: Bloomberg

BENCHMARK	Dec 2021 Yield	Sep 2022 Yield	Oct 2022 Yield	MOM Change	YTD Change
3-year MGII	2.90%	3.80%	3.85%	+ 5 bps	+ 95 bps
5-year MGII	3.21%	4.04%	4.17%	+ 14 bps	+ 96 bps
10-year MGII	3.62%	4.42%	4.46%	+ 4 bps	+ 83 bps
15-year MGII	3.93%	4.68%	4.71%	+ 3 bps	+ 78 bps

Source: Bloomberg



Source: Bloomberg

Outlook

- The U.S. mid-term elections on 8 November 2022 will decide who controls the Congress as well as state legislatures and governor's offices. The outcome in favour of the Republicans will see them having the power to stop President Joe Biden's bills from being passed by Congress and result in a gridlock. In the EU, Russia which previously was the European Union's ("EU") top supplier of gas, has cut supplies in retaliation for EU sanctions over the war in Ukraine resulting in a risk of an energy crises in winter. However, EU has ramped up imports from Norway and Algeria as well as liquefied natural gas (LNG) from the U.S. to compensate. Its gas storage facilities are now 91% full, well exceeding the 80% target that EU officials set to reach by November but this has sent energy prices soaring. The International Monetary Fund ("IMF") warned that EU's energy crisis is not a transitory shock and that the winter of 2023 will likely be worse.

- GE15 may bring about political uncertainties in November 2022 over which coalition will form the government and who will helm the leadership. Issues which concern Malaysians are mainly on rising costs of living and corruption, while for the younger voters, their worries are mainly on jobs and wages. Budget 2023 may also see adjustments when re-tabled by the new government.

- The elevated inflation rate, reflecting supply and demand imbalances related to the pandemic, higher food and energy prices as well as broader price pressures will persist. The Russia-Ukraine war and China's zero-Covid policy will continue to disrupt prices. Central banks in developed markets are maintaining their hawkish stance to fight inflation and the resultant deterioration in economic activities will continue to cause market volatilities. That said, Asian central banks are expected to maintain their respective pace of rate hikes given the still resilient domestic growth in the region despite the continued currency weakness. In Malaysia, policy normalization has been gradual and measured. While the MPC statement appears to be relatively upbeat on domestic growth, we opine that future monetary policy decisions will depend largely on the central bank's expectation of the sustainability of the current growth momentum given the increased external and political uncertainties.

- There will be three auctions in the month of November 2022, the re-opening of the 7Y MGII 07/29, the re-opening of the 5Y MGS 11/27 and the re-opening of 30Y MGII 05/52. 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.

Table 1: Indicative Rates (%)	
	31-Oct-22
MBB O/N*	0.90
MBB1-Week*	1.00
MBB 1-Mth FD*	2.20
MBB 6-Mth FD*	2.55
MBB 1-Year FD*	2.60
1-mth BNM MN	2.61
3-mth BNM MN	2.73
3-mth KLIBOR	3.16
CP	
1-mth (P1)	3.22
3-mth (P1)	3.47

Source: Bloomberg/Bondstream
* Maybank2u.com.my

Table 2: Indicative Bond Yields (%)					
	3yr	**5yr**	**7yr**	**10yr**	**15yr**
MGS	3.93	4.18	4.29	4.36	4.65
GII	3.85	4.19	4.35	4.46	4.64
Swap rate*	3.99	4.19	4.31	4.44	4.76
AAA	4.42	4.61	4.83	4.95	5.21
AA1	4.50	4.71	4.95	5.08	5.35
AA2	4.58	4.80	5.08	5.21	5.49
AA3	4.67	4.89	5.21	5.35	5.63
A1	5.26	5.55	5.94	6.17	6.48
A2	5.86	6.24	6.68	7.06	7.51
A3	6.45	6.92	7.42	7.95	8.55

Source: Bloomberg*/Bondstream

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