eastspring investments

A Prudential plc company

MARKET COMMENTARY

Fixed income market review and outlook

April 2023

Review

- U.S. Gross Domestic Product ("**GDP**") in the first quarter of 2023 increased at an annualised rate of 1.1%, showing a deceleration compared to the previous quarter of +2.6% (1Q 2022 : +1.6%). Although consumer spending grew QoQ, it could not offset the decline in private inventory investment and a slowdown in non-residential fixed investment.

- The U.S. Personal Consumption Expenditures ("**PCE**") price index for March seemed to be cooling down, growing at a slower rate of 4.2% YoY, below the upwardly revised 5.1% recorded in February. U.S. Core PCE, however, remained flattish at 4.6% compared to the restated 4.7% in the previous month of February. U.S. non-farm payrolls grew by 236,000 in March 2023, well below February's upwardly revised data of 326,000. Meanwhile, unemployment rate decreased to 3.5% and 3.4% respectively in March and April (February : 3.6%).

- The University of Michigan consumer sentiment index increased to 63.5 in April from 62.0 recorded in March. U.S. Composite Purchasing Managers' Index ("**PMI**") improved to 53.5 in April from the revised figure of 52.3 in March, with improvement coming from the U.S. Services PMI which recorded a reading of 53.7 from the upwardly revised 52.6 in the previous month of March. U.S. Manufacturing PMI also recorded an increase to 50.2 in April (March : 49.2), surpassing 50 for the first time since October 2022.

- U.S.' troubled regional bank, First Republic Bank was seized by the regulators. Federal Deposit Insurance Corporation ("**FDIC**") subsequently sold it to JPMorgan Chase & Co. for US$10.6 bn to take control of most of the regional bank's assets. At the point of writing, the Federal Reserve ("**Fed**") raised the target range for the fed funds rate ("**FFR**") by 25bps to 5.00%-5.25% in its May Federal Open Market Committee ("**FOMC**") meeting, with the Fed omitting the line "additional policy firming may be appropriate" from its statement.

- The Eurozone's composite PMI continued its trend of improvement to 54.1 in April, from the restated 53.7 in the previous month of March, mainly contributed by higher Services PMI which rose to 56.2 compared to the revised reading of 55.0 in the previous month. The Eurozone inflation rate for April reversed its declining trend to increase marginally to 7.0% from 6.9% in March while core inflation rate declined slightly to 5.6% in April from 5.7% the previous month. Meanwhile, U.K. composite PMI had risen in April to 53.9 from 52.2 in the previous month, mainly coming from improved services PMI of 54.9 in April (March revised : 52.9).

- The European Central Bank ("**ECB**") and Bank of England **("BoE")** did not have any monetary policy meeting in April. However, in ECB's latest May monetary policy meeting, the three key ECB interest rates were raised by 25bps. As a result, the interest rates on the main refinancing, the marginal lending facility and the deposit facility will be increased to 3.75%, 4.00% and 3.25% respectively. The ECB also cited that "inflation outlook continues to be too high for too long".

- After leaving the cash rate unchanged at 3.60% in its April meeting for just one month, the Reserve Bank of Australia ("**RBA**") decided to increase the cash rate target by 25 basis points to 3.85%. RBA cited that although inflation in Australia has passed its peak, it is still too high at 7% and will take some time before it is back in the target range of 2-3%.

- In Asia, Bank Indonesia ("**BI**") kept its benchmark interest rates unchanged for a third consecutive meeting at 5.75%. Other central banks in Malaysia, Thailand and the Philippines did not have any MPC meetings scheduled in April. However, at the point of writing, Bank Negara Malaysia ("**BNM**") had decided to hike the Overnight Policy Rate ("**OPR**") by 25 bps to 3.00% in May Monetary Policy Committee ("**MPC**") Meeting, in its move to normalise the degree of monetary accommodation to prevent future financial imbalances.

- The People's Bank of China ("**PBoC**") kept its key lending rates, 1- and 5-year loan prime rates ("**LPR**") unchanged at 3.65% and 4.30% respectively. Exports from China unexpectedly showed positive growth of 14.8% YoY in March, rebounding from a 6.8% drop in January-February combined. Imports showed a slower rate of decline of 1.4% in March compared to January-February combined of -10.2%. China's economic data in March continues to show uptrend following the lifting of zero-Covid policy, with retail sales and industrial production coming in higher at 10.6% and 3.9% respectively compared to January-February combined figures of 3.5% and 2.4% respectively. The only economic indicator that showed a slower pace was fixed asset investment, which grew by 5.1% YoY for the 3M2023 (2M2023 revised : 5.5% YoY).

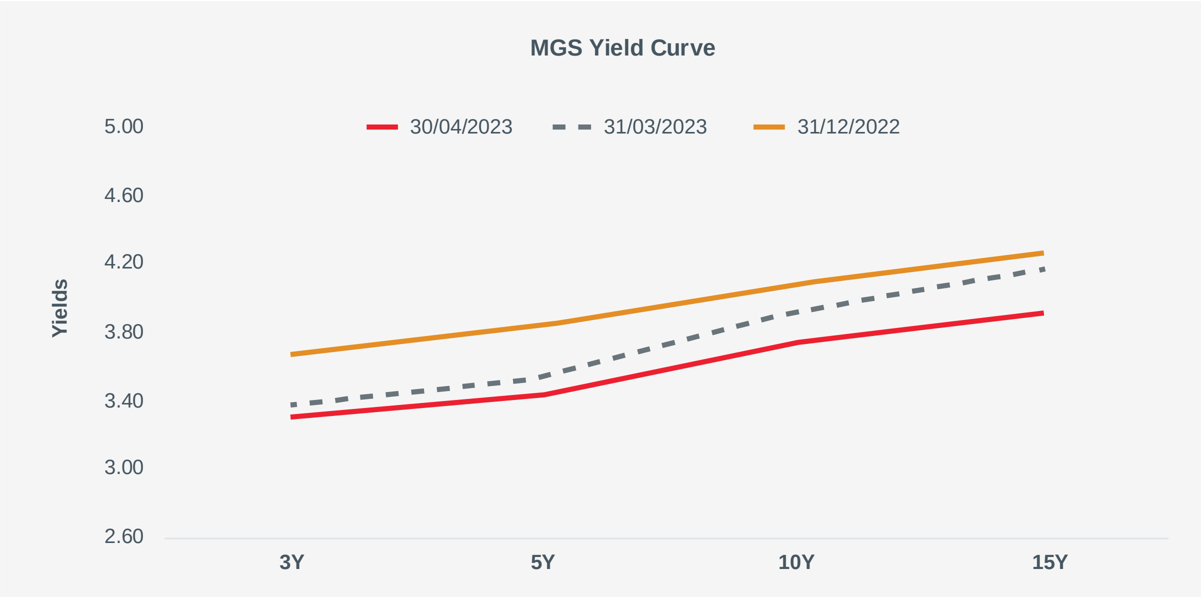
- Malaysia's Consumer Price Index ("**CPI**") and core CPI eased to 3.4% and 3.8% respectively in March 2023 from February's figure of 3.7% and 3.9% respectively. 4 out of the 12 sub-sectors registered quicker growth, mainly coming from services-related or discretionary spending. BNM's international reserves increased to US$115.9bn as of mid-April (end Feb : US$114.3bn). The reserves position is sufficient to finance 5.1 months of imports and is 1.1x of the total short-term external debt.

- Three auctions were held in April, the re-opening of the 10Y MGII 10/32, a new issue of the 5Y MGS 04/28 and the re-opening of 30Y MGII 05/52. The auctions received an average bid-to-cover ratio of 2.318x.
  - RM4.5b re-opening 10-year MGII averaging 3.936% at a bid-to-cover ratio of 2.367x;
  - RM5.0b new issue of 5-year MGS averaging 3.519% at a bid-to-cover ratio of 2.434x; and
  - RM2.5b re-opening 30-year MGII averaging 4.294% at a bid-to-cover ratio of 2.153x.

- Malaysia's MGS curve bull flattened in the month of April. The yields of the 3-, 5-, 10- and 15-year MGS declined by 7 bps, 11 bps, 18 bps and 25 bps respectively to close the month at 3.31%, 3.43%, 3.73% and 3.92% respectively. The yields of MGII also followed a similar trend with the 3-, 5-, 10- and 15-year MGII fell by 10 bps, 11 bps, 15 bps and 24 bps to end the month at 3.20%, 3.49%, 3.81% and 3.93% respectively.

BENCHMARK	Dec 2022 Yield	Mar 2023 Yield	Apr 2023 Yield	MOM Change	YTD Change
3-year MGS	3.67%	3.38%	3.31%	-7 bps	- 36 bps
5-year MGS	3.84%	3.54%	3.43%	-11 bps	- 41 bps
10-year MGS	4.07%	3.91%	3.73%	-18 bps	- 34 bps
15-year MGS	4.26%	4.16%	3.92%	-25 bps	- 35 bps

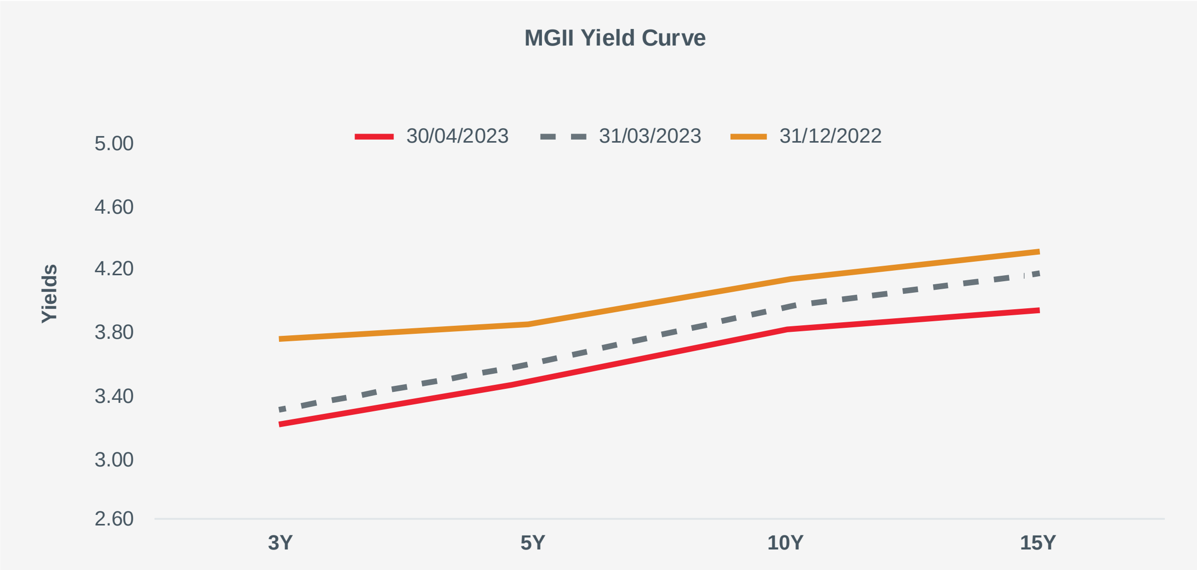
Source: Bloomberg



Source: Bloomberg

BENCHMARK	Dec 2022 Yield	Mar 2023 Yield	Apr 2023 Yield	MOM Change	YTD Change
3-year MGII	3.76%	3.30%	3.20%	- 10 bps	- 56 bps
5-year MGII	3.85%	3.60%	3.49%	- 11 bps	- 36 bps
10-year MGII	4.13%	3.96%	3.81%	- 15 bps	- 32 bps
15-year MGII	4.31%	4.17%	3.93%	- 24 bps	- 38 bps

Source: Bloomberg



Source: Bloomberg

Outlook

- The International Monetary Fund ("IMF") in its World Economic Outlook projects global growth to soften from 3.4% in 2022 to 2.8% in 2023 before rising slightly to 3.0% in 2024. Global headline inflation is expected to decelerate from 8.7% in 2022 to 7.0% in 2023 on the back of lower commodity prices, but core inflation is likely to decline more slowly.
- Inflation seems to have peaked in U.S. and the Eurozone on the back of higher base and lower energy prices YoY. However, current inflation rates are still far from the target range of respective central banks. Some volatility is expected in the near team especially in the U.S. as the banking sector (particularly regional banks) remains in focus amidst contagion fears. Central banks need to balance the slowing growth outlook with high inflation in making monetary decisions. Concerns about U.S. debt ceiling is also growing after a warning from U.S. Secretary of Treasury that the Treasury could run out of cash as early as June, if Congress does not raise or suspend the debt limit before that.
- For Malaysia, BNM's decision on the OPR will also be data dependent as the central bank assesses the sustainability of the current domestic growth momentum, given the risks of slower-than-expected growth especially in developed economies and upside risks to inflation given potential removal of subsidies. The upcoming elections to be held in six states may add some uncertainty in the coming months.
- There will be three auctions in the month of May 2023, with the re-opening of the 7Y MGS 04/30, the re-opening of 20Y MGII 08/43 and the re-opening of 15Y MGS 06/38. While there is still ample liquidity in the system, the outcome of these auctions is likely to be influenced by prevailing market sentiment both from local and foreign investors. On the corporate front, we expect mixed demand for corporate bonds as investors continue to be selective in their investments.

Table 1: Indicative Rates (%)

	30-Apr-23
MBB O/N*	1.10
MBB 1-Week*	1.20
MBB 1-Mth FD*	2.45
MBB 6-Mth FD*	2.80
MBB 1-Year FD*	2.85
1-mth BNM MN	2.80
3-mth BNM MN	2.88
3-mth KLIBOR	3.51
CP	
1-mth (P1)	3.72
3-mth (P1)	3.94

Source: Bloomberg/Bondstream
* Maybank2u.com.my

Table 2: Indicative Bond Yields (%)					
	3yr	**5yr**	**7yr**	**10yr**	**15yr**
MGS	3.29	3.45	3.66	3.74	3.93
GII	3.25	3.47	3.68	3.84	3.96
Swap rate*	3.37	3.45	3.57	3.71	3.95
AAA	3.95	4.08	4.17	4.31	4.50
AA1	4.05	4.18	4.29	4.47	4.71
AA2	4.14	4.30	4.42	4.63	4.92
AA3	4.25	4.42	4.57	4.80	5.12
A1	4.99	5.30	5.58	5.86	6.14
A2	5.58	5.96	6.34	6.78	7.19
A3	6.16	6.64	7.10	7.68	8.24

Source: Bloomberg*/Bondstream