

MARKET COMMENTARY

# Fixed income market review and outlook

August 2023



## Review

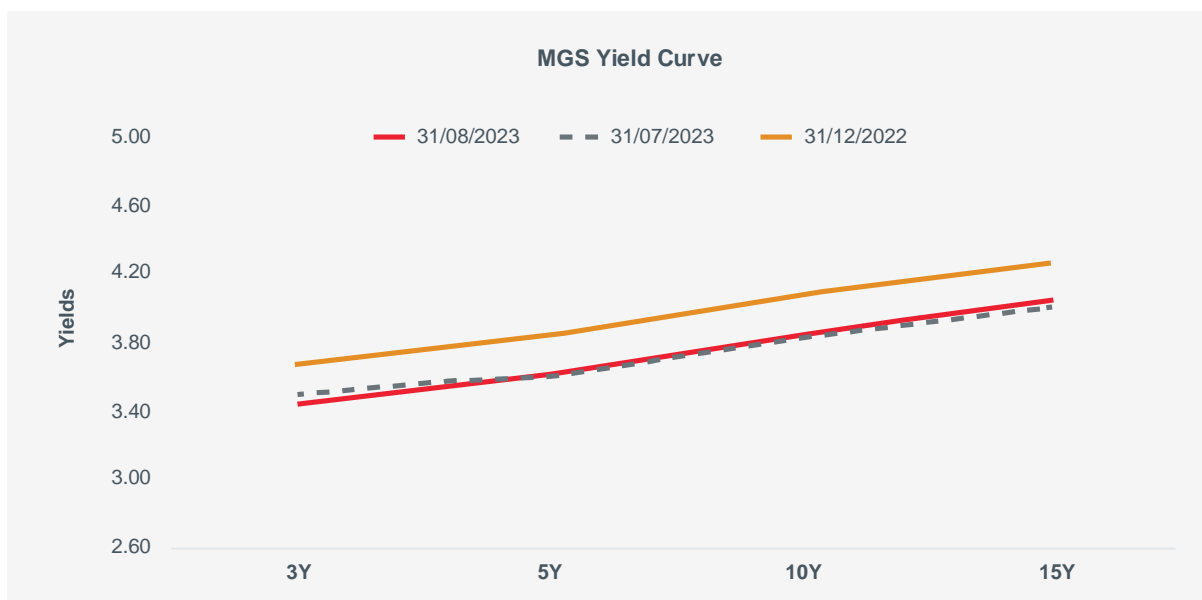
- ▶ Fitch Ratings downgraded U.S.' long-term foreign currency issuer default rating ("IDR") to 'AA+' from 'AAA' in August. At the same time, its Negative rating watch was removed and a Stable outlook was assigned. The rating agency cited expected fiscal deterioration over the next three years and erosion of governance as the reasons. The Federal Reserve did not hold any monetary policy committee meeting in August.
- ▶ The U.S. Personal Consumption Expenditures ("PCE") price index for July increased to 3.3% YoY, from the 3.0% recorded in June, while U.S. Core PCE ticked up to 4.2% YoY compared to 4.1% in June. U.S. non-farm payrolls showed 187,000 job additions in July (June revised: 157,000). U.S. unemployment rate increased to 3.8% in August from 3.5% recorded in the previous month. The University of Michigan consumer sentiment index edged down for a second consecutive month to 69.5 in August (July: 71.2). The U.S. Composite Purchasing Managers' Index ("PMI") also declined from the revised 52.0 in July to 50.4 in August, as a result of a decline in both Services and Manufacturing PMI to 51.0 and 47.9 respectively (July revised: 52.3; 49.0).
- ▶ The U.K.'s inflation rate remained elevated in July at 6.8% (Jun: 7.9%) while its composite PMI continued to decline in August to 47.9 (July revised: 50.8), the first reading below 50 since January 2023, due to the fall in both Services and Manufacturing PMI to 48.7 and 43.0 respectively (July revised: 51.5; 45.3). The Bank of England ("BOE") hiked its bank rate by 25bps to 5.25% in August.
- ▶ In July, the Eurozone's Consumer Price Index ("CPI") remained unchanged at 5.3% YoY, while Core CPI declined marginally to 5.3% YoY compared to 5.5% in July. The Eurozone's composite PMI also declined to 47.0 in August (July revised: 48.6) as Services continued to slip to 48.3 (July revised: 50.9).
- ▶ The Reserve Bank of Australia ("RBA") in its August meeting maintained its cash target rate at 4.10%, another pause after the July meeting. In Asia, the central banks of Indonesia and the Philippines kept their benchmark interest rates unchanged in August at 5.75% and 6.25% respectively, while Bank Negara Malaysia ("BNM") did not have any meeting in August. Meanwhile, Bank of Thailand raised the policy rate by 25 bps from 2.00% to 2.25% on the back of expected continuing economic expansion.
- ▶ The People's Bank of China ("PBoC") cut its key lending rate, 1-year loan prime rate ("LPR") by 10bps to 3.45% while maintaining its 5-year rate unchanged 4.20%. Data from China continued to show a slower growth momentum in July generally. China's exports shrank by 14.5% YoY in June compared to -12.4% in June, while imports also declined by 12.4% YoY in July (June revised: -6.9%). China's fixed asset investments continued to slow down, growing at a slower pace of 3.4% YoY for 7M2023 (6M2023: 3.8% YoY). China's retail sales growth and industrial production declined to 2.5% YoY and 3.7% in July respectively compared to 3.1% and 4.4% YoY in the previous month.
- ▶ Malaysia unveiled its New Industrial Master Plan ("NIMP") 2030 and National Energy Transition Roadmap ("NETR") as part of its medium-long term plan to drive Malaysia's future growth. Meanwhile, the Malaysian economy expanded at a slower pace in 2Q2023, by 2.9% YoY. This is a marked slowdown from the 5.6% YoY growth registered in 1Q2023. Malaysia's CPI and core CPI also continued to retreat to 2.0% and 2.8% in July respectively compared to June's figures of 2.4% and 3.1% respectively. BNM's international reserves increased to US\$112.2bn as of mid-Aug (mid-July: US\$111.8bn). The reserves position is sufficient to finance 5.2 months of imports and is 1.0x of the total short-term external debt.
- ▶ Four auctions were held in August, the re-opening of the 30Y MGII 05/52, the re-opening of 5Y MGS 04/28, the re-opening of 20Y MGII 08/43 and the re-opening of 15Y MGS 06/38. The auctions received an average bid-to-cover ratio of 2.109x.

  - ▶ RM3.0b re-opening 30-year MGII averaging 4.362% at a bid-to-cover ratio of 2.557x;
  - ▶ RM5.0b re-opening 5-year MGS averaging 3.647% at a bid-to-cover ratio of 1.768x;
  - ▶ RM3.0b re-opening 20-year MGII averaging 4.285% at a bid-to-cover ratio of 1.992x; and
  - ▶ RM3.0b re-opening 15-year MGS averaging 4.049% at a bid-to-cover ratio of 2.118x.

- Malaysia's MGS curve steepened in the month of August as the 3-year MGS yield declined by 6bps, 5-year MGS yield remained unchanged while the yields of the 10- and 15-year MGS yields increased by 1 bp and 3bps respectively to close the month at 3.43%, 3.60%, 3.84% and 4.04% respectively. The MGII curve followed the same trend, with 3- and 5-year MGII yields falling by 2 bps and 3 bps respectively while 10- and 15-year MGII yields increased marginally by 2 bps and 1 bp respectively to end the month at 3.46%, 3.62%, 3.88% and 4.00% respectively.

BENCHMARK	Dec 2022 Yield	Jul 2023 Yield	Aug 2023 Yield	MOM Change	YTD Change
3-year MGS	3.67%	3.49%	3.43%	-6 bps	- 24 bps
5-year MGS	3.84%	3.60%	3.60%	0 bp	- 24 bps
10-year MGS	4.07%	3.84%	3.84%	1 bp	- 22 bps
15-year MGS	4.26%	4.01%	4.04%	3 bps	- 22 bps

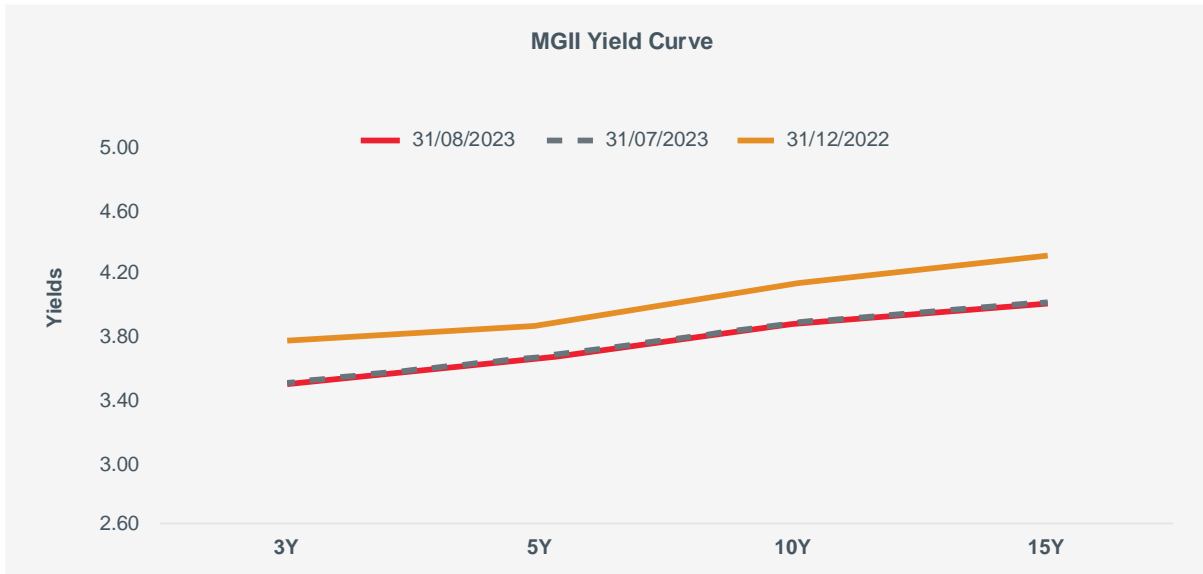
Source: Bloomberg



Source: Bloomberg

BENCHMARK	Dec 2022 Yield	Jul 2023 Yield	Aug 2023 Yield	MOM Change	YTD Change
3-year MGII	3.76%	3.48%	3.46%	-2 bps	- 30 bps
5-year MGII	3.85%	3.65%	3.62%	-3 bps	- 23 bps
10-year MGII	4.13%	3.86%	3.88%	2 bps	- 25 bps
15-year MGII	4.31%	3.99%	4.00%	1 bp	- 31 bps

Source: Bloomberg



Source: Bloomberg

## Outlook

- After months of aggressive interest rate hikes by the central banks in developed countries, future monetary decisions will be dependent on economic data. Inflation seems to have peaked in the U.S. and the Eurozone but still far from the target of 2%.
- 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 and the global economic growth especially in developed economies, the upside risks to inflation with potential removal of subsidies and also the performance of the Ringgit. The recently concluded state elections have removed political uncertainties clouding Malaysia.
- There will be three auctions in the month of September 2023, with the re-opening of the 3Y MGII 09/26, the re-opening 30Y MGS 03/53 and the re-opening of 5Y MGII 07/28. 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 (%)**

	31-Aug-23
MBB O/N*	1.30
MBB 1-Week*	1.40
MBB 1-Mth FD*	2.70
MBB 6-Mth FD*	3.05
MBB 1-Year FD*	3.10
1-mth BNM MN	3.12
3-mth BNM MN	3.17
3-mth KLIBOR	3.52
<b>CP</b>	
1-mth (P1)	3.72
3-mth (P1)	3.90

**Source:** Bloomberg/Bondstream

\* Maybank2u.com.my

<b>Table 2: Indicative Bond Yields (%)</b>					
	<b>3yr</b>	<b>5yr</b>	<b>7yr</b>	<b>10yr</b>	<b>15yr</b>
<b>MGS</b>	3.48	3.63	3.77	3.85	4.06
<b>GII</b>	3.46	3.64	3.79	3.90	4.02
<b>Swap rate*</b>	3.61	3.70	3.80	3.94	4.13
<b>AAA</b>	3.86	3.99	4.09	4.21	4.36
<b>AA1</b>	3.94	4.06	4.16	4.30	4.51
<b>AA2</b>	4.02	4.14	4.25	4.42	4.70
<b>AA3</b>	4.11	4.21	4.34	4.53	4.88
<b>A1</b>	4.92	5.26	5.53	5.79	6.10
<b>A2</b>	5.49	5.93	6.31	6.73	7.16
<b>A3</b>	6.07	6.61	7.07	7.64	8.22

Source: Bloomberg\*/Bondstream

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