MARKET COMMENTARY

Fixed income market review and outlook

October 2023

Review

- The Federal Reserve (“**Fed**”) again maintained its benchmark federal funds rate (“**FFR**”) at 5.25% to 5.50%. The Fed stated that the U.S. economic activity expanded at a strong pace in the third quarter and job gains had remained strong although moderated compared to the start of the year. However, inflation remains elevated and hence, the Fed will still monitor inflation risks.

- Both U.S. Personal Consumption Expenditure (“**PCE**”) and Core PCE price index declined marginally to 3.44% and 3.68% respectively in September (August revised: 3.45%; 3.84%). The University of Michigan Consumer Sentiment index for September moderated further to 63.8 in October from the downward revised reading of 67.9 in the previous month. The U.S. Composite Purchasing Managers' Index (“**PMI**”) however recorded an increase to 51.0 in October from the revised 50.2 in September, as both Manufacturing and Services PMI improved. Nonfarm payroll (“**NFP**”) increased by 336,000 in September while its August number was revised from 187,000 to 227,000. At the point of writing, the NFP for October increased at a lower amount of 150,000. Meanwhile, unemployment rate held steady at 3.8% in September.

- The U.K.’s inflation rate remained the same in September at 6.7%, while its composite PMI increased slightly to 48.6 in October (September revised: 48.5) with both Manufacturing and Services PMI remained contractionary at 44.8 and 49.2 (September revised: 44.3; 49.3). At the point of writing, the Bank of England (“**BOE**”) kept its bank rate unchanged at 5.25% for a second consecutive meeting, citing that monetary policy will likely need to be restrictive for an extended period of time.

- After 10 consecutive hikes, the European Central Bank (“**ECB**”) decided to keep its three key interest rates on the main refinancing operations, marginal lending facility and the deposit facility unchanged at 4.50%, 4.75% and 4.00% respectively and stated that it will be data-dependent going forward. Both the Eurozone’s Consumer Price Index (“**CPI**”) and core CPI continued to decline to 2.9% and 4.2% YoY respectively (August: 4.3%; 4.5%). The Eurozone’s composite PMI also declined to 46.5 from the revised 47.2 in the previous month, due to the fall in both Services and Manufacturing PMI.

- The Reserve Bank of Australia (“**RBA**”) in its October meeting maintained its cash target rate at 4.10%, another pause after the September meeting. In Asia, the central banks of Indonesia and the Philippines raised their policy interest rates by 25 bps to 6.00% and 6.50% respectively. Meanwhile, Bank of Thailand and Bank Negara Malaysia (“BNM”) did not have any Monetary Policy Committee meeting in October. At the point of writing however, BNM decided to leave the OPR unchanged at 3.00% for the third time, in its November meeting.

- The People’s Bank of China (“**PBoC**”) maintained its key lending rate, 1-year and 5-year loan prime rate (“**LPR**”) at 3.45% and 4.20% respectively. China's economy grew at a rate of 4.9% YoY in the third quarter of 2023 with year-to-date growth of 5.2% YoY. China’s exports shrank by 6.2% YoY in September compared to the revised -8.7% in August, while imports also declined by 6.3% YoY in September (August: -7.3%). China’s fixed asset investments grew at a marginally slower rate of 3.1% YoY for 9M2023 (8M2023: 3.2% YoY). However, its retail sales grew at a stronger pace of 5.5% in September compared to 4.6% in August while the industrial production growth was unchanged at 4.5% in September. Despite activity data from China seen to be bottoming out compared to the past few months, its economic recovery is perceived to still be fragile.

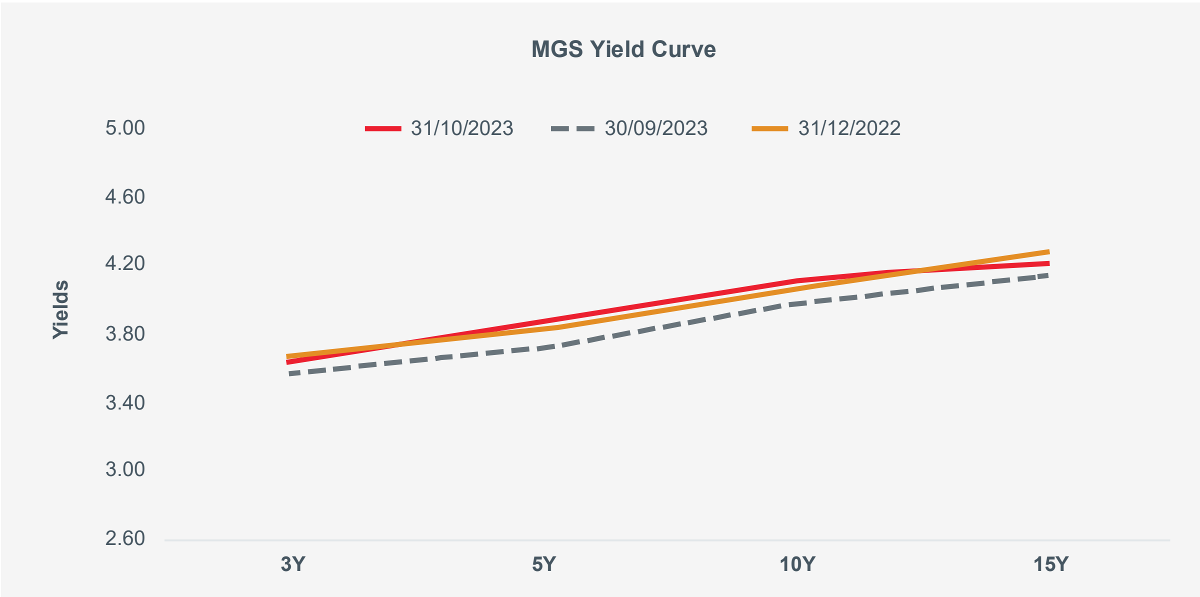
- Malaysia’s 2024 Budget was tabled in October, whereby the country’s real GDP is projected to grow at 4-5% and the fiscal deficit to GDP is forecasted to be lower at 4.3% as compared to the expected 5.0% in 2023. The government remains on track to meet the medium-term fiscal deficit to GDP target of 3%. Malaysia’s CPI declined marginally to 1.9% in September (August: 2.0%) while core CPI was flattish at 2.5%. Unemployment rate remained unchanged at 3.4% from June to August 2023. BNM’s international reserves declined to US$108.9bn as of mid-Oct (mid-Sep: US$111.5bn). The reserves position is sufficient to finance 5.1 months of imports and is 1.0x of the total short-term external debt.

- Three auctions were held in October, the re-opening of the 20Y MGS 10/42, the re-opening 10Y MGII 08/33 and the re-opening of 7Y MGS 04/30. The auctions received an average bid-to-cover ratio of 1.970x.
  - RM3.5b re-opening 20-year MGS averaging 4.487% at a bid-to-cover ratio of 1.772x;
  - RM5.5b re-opening 10-year MGII averaging 4.093% at a bid-to-cover ratio of 2.733x; and
  - RM5.0b re-opening 7-year MGS averaging 4.134% at a bid-to-cover ratio of 1.406x.

- Malaysia's MGS curve shifted upwards in the month of October. The yields of the 3-, 5-, 10- and 15-year MGS increased by 8bps, 15bps, 12bps and 8bps to close the month at 3.64%, 3.86%, 4.10% and 4.23% respectively. The yields of MGII also followed a similar trend with the 3-, 5-, 10- and 15-year MGII increased by 10bps, 9bps, 9bps and 12bps to end the month at 3.69%, 3.88%, 4.08% and 4.23% respectively.

BENCHMARK	Dec 2022 Yield	Sep 2023 Yield	Oct 2023 Yield	MOM Change	YTD Change
3-year MGS	3.67%	3.56%	3.64%	8 bps	- 3 bps
5-year MGS	3.84%	3.71%	3.86%	15 bps	2 bps
10-year MGS	4.07%	3.97%	4.10%	12 bps	3 bps
15-year MGS	4.26%	4.15%	4.23%	8 bps	- 3 bps

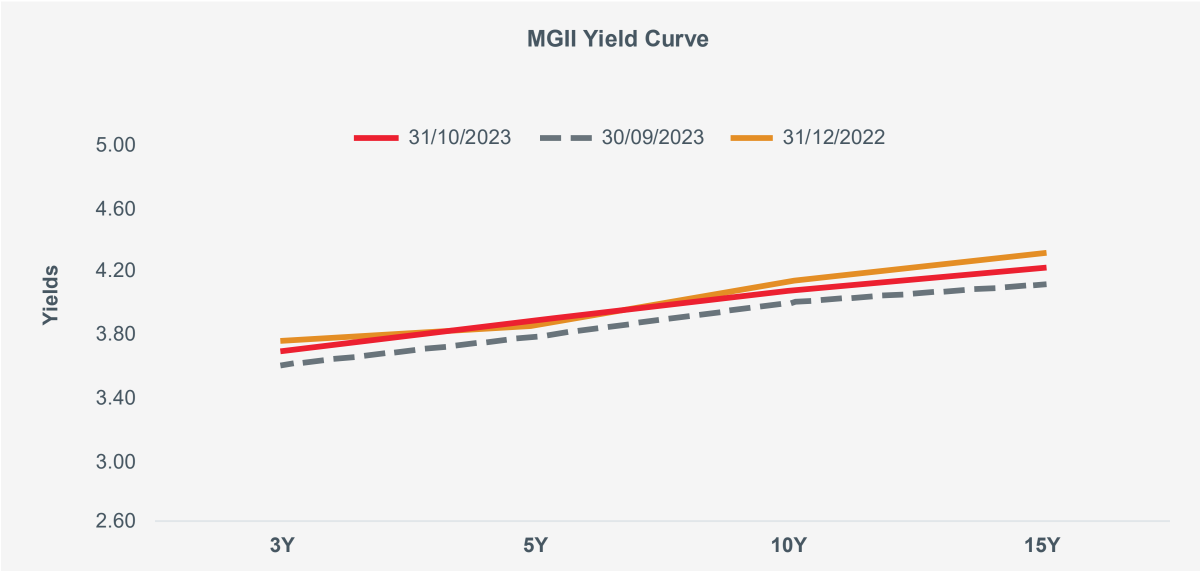
Source: Bloomberg



Source: Bloomberg

BENCHMARK	Dec 2022 Yield	Sep 2023 Yield	Oct 2023 Yield	MOM Change	YTD Change
3-year MGII	3.76%	3.60%	3.69%	10 bps	- 7 bps
5-year MGII	3.85%	3.79%	3.88%	9 bps	2 bps
10-year MGII	4.13%	4.00%	4.08%	9 bps	- 5 bps
15-year MGII	4.31%	4.12%	4.23%	12 bps	- 8 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. Although inflation rates seemed to have peaked in the U.S., U.K. and the Eurozone, they are still far from the target of 2% while rising crude oil and food prices may keep inflation elevated. Geopolitical risks have heightened following the Israel-Hamas war, on top of the ongoing Russia-Ukraine war and the tensions between U.S. and China.
- For Malaysia, BNM's decision on the OPR will also be data dependent as the central bank assesses the sustainability of the domestic growth momentum, upside risks to inflation with potential subsidies rationalisation, global economic growth in developed economies and China, as well as the performance of the Ringgit.
- There will be three auctions in the month of November 2023, with the re-opening of the 30Y MGII 05/52, the re-opening 5Y MGS 04/28 and the re-opening of 7Y MGII 09/30. 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-Oct-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	3.19
3-mth BNM MN	3.24
3-mth KLIBOR	3.65
CP	
1-mth (P1)	3.78
3-mth (P1)	3.93

Source: Bloomberg/Bondstream
* Maybank2u.com.my

Table 2: Indicative Bond Yields (%)					
	3yr	5yr	7yr	10yr	15yr
MGS	3.70	5.91	4.09	4.10	4.27
GII	3.70	3.88	4.07	4.09	4.26
Swap rate*	3.85	3.95	4.10	4.23	4.43
AAA	4.10	4.26	4.40	4.49	4.63
AA1	4.18	4.33	4.47	4.57	4.75
AA2	4.25	4.40	4.54	4.66	4.90
AA3	4.32	4.47	4.61	4.74	5.06
A1	5.04	5.42	5.68	5.91	6.24
A2	5.61	6.09	6.45	6.48	7.29
A3	6.19	6.77	7.21	7.75	8.34

Source: Bloomberg*/Bondstream