

MARKET COMMENTARY

Fixed income market review and outlook

April 2024



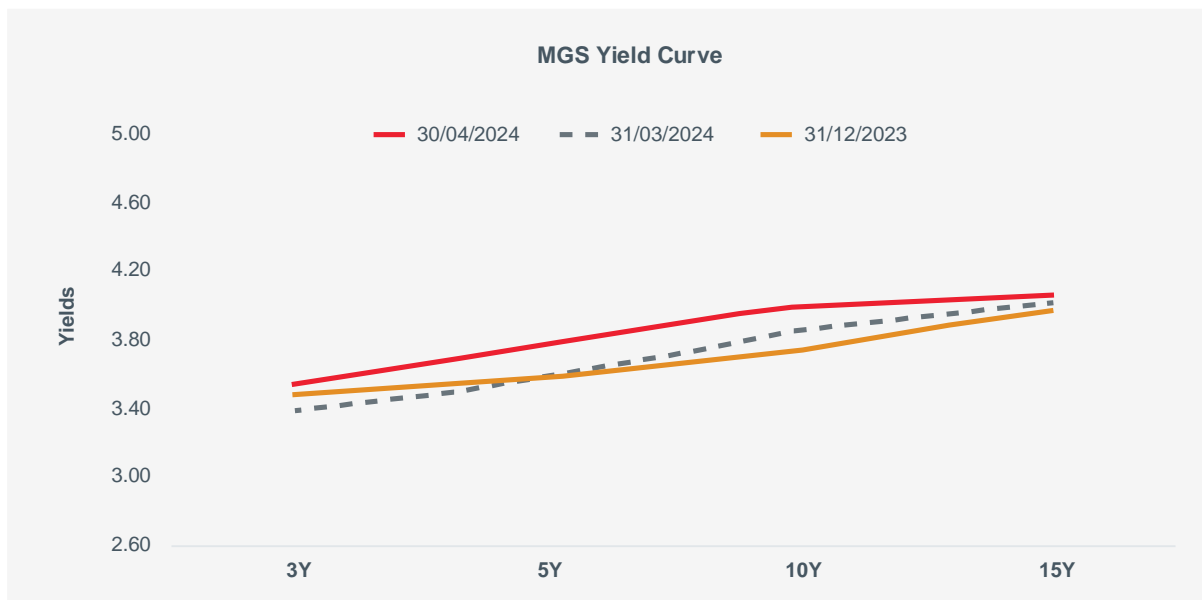
Review

- ▶ U.S. April data continued to point to the resilience of its economy. Headline U.S. Personal Consumption Expenditure (“PCE”) price index increased to 2.7% YoY, while the U.S. core PCE remained at 2.8% YoY in March (February: 2.5%; 2.8%). The University of Michigan Consumer Sentiment index for April fell to 77.2 (March: 79.4). The Non-Farm Payroll data showed that the U.S. economy added 175,000 jobs in April (March: 315,000 jobs) although unemployment rate increased to 3.9% in April from 3.8% in the previous month. The U.S. Composite Purchasing Managers' Index (“PMI”) declined marginally to 51.3 in April (March: 52.1), as both Services and Manufacturing PMI recorded a decline to 51.3 and 50.0 respectively in April (March: 51.7 and 51.9). Meanwhile, the Federal Open Market Committee (“FOMC”) voted unanimously to keep the Fed funds rate unchanged at 5.25%-5.50%. The Fed intends to gradually reduce the pace of the monthly reduction of US Treasuries to US\$25 bil (from US\$60 bil currently) and noted that there is a slow progress towards the 2% inflation objective.
- ▶ No Monetary Policy Committee meeting was held by the Bank of England in April. Both the U.K.'s headline and core inflation rate fell to 3.2% and 4.2% YoY respectively in March (February: 3.4%; 4.5%), while its composite PMI continued to remain expansionary at 54.1 in April (March: 52.8) as Manufacturing PMI lowered to 49.1 from 50.3, while Services PMI declined to 55.0 compared to the March data of 53.1.
- ▶ 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. In April, Eurozone's Manufacturing PMI decreased to 45.7 from 46.1 in the previous month while the Services PMI increased to 53.3 from 51.5 in the previous month. Eurozone's inflation and core inflation rates for April was flattish at 2.4% and 2.7% respectively compared to 2.4% and 2.9% recorded in the prior month.
- ▶ Bank of Japan (“BoJ”) kept its policy rate to a range of 0.0 to +0.1% while the Reserve Bank of Australia (“RBA”) decided to keep its cash rate unchanged at 4.35% on 7 May 2024. In Asia, Bank Indonesia had raised the BI-Rate by 25bps to 6.25% while the central banks of the Philippines and Thailand had decided to maintain their policy rates in April. No monetary policy committee meeting was held by Malaysia in April.
- ▶ 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 3.95% respectively in April. Economic activity data from China showed some improvement, although its economic recovery is perceived to still be fragile. China's imports and exports in April contracted by 1.9% and 7.5% respectively YoY in USD terms (Feb: -8.2%; 5.6%). Retail sales expanded by 3.1% YoY in March 2024 (January-February 2024: 5.5%), while industrial production grew 4.5% YoY over the same period (January-February 2024: 7.0%). China's fixed asset investments recorded 4.5% YoY growth in March 2024 (February 2024: 4.2%).
- ▶ Malaysia's headline CPI remained at 1.8% YoY, core inflation was lower at 1.7% YoY in March (February: 1.8%), while unemployment rate remained stable at 3.3% in February. BNM international reserves decreased to US\$113.4bn as of mid-April (mid-March: US\$113.8bn). The reserves position is sufficient to finance 5.6 months of imports and is 1.0x of the total short-term external debt.
- ▶ Three auctions were held in April, the new issue 7.5Y MGII 10/31, the new issue of 15Y MGS 04/39 and the re-opening of 3Y MGII 09/26. The auctions received an average bid-to-cover ratio of 2.413x.

 - ▶ RM4.5b new issue 7.5-year MGII averaging 3.804% at a bid-to-cover ratio of 3.333x;
 - ▶ RM3.0b new issue 15-year MGS averaging 4.054% at a bid-to-cover ratio of 2.159x; and
 - ▶ RM5.0b re-opening 3-year MGII averaging 3.574% at a bid-to-cover ratio of 1.746x.
- ▶ Malaysia's MGS curve shifted upwards in the month of April. The yields of the 3-, 5-, 10- and 15-year MGS increased by 15.1 bps, 19.1 bps, 13.8 bps and 3.9 bps to close the month at 3.54%, 3.78%, 3.99% and 4.05% respectively. The yield curve of MGII also followed the same trend, with the 3-, 5-, 10- and 15-year MGII yields rising by 15.1 bps, 18.0 bps, 13.2 bps and 9.2 bps to end the month at 3.59%, 3.78%, 3.98% and 4.05% respectively.

BENCHMARK	Dec 2023 Yield	Mar 2024 Yield	Apr 2024 Yield	MOM Change	YTD Change
3-year MGS	3.48%	3.39%	3.54%	+15.1 bps	+6.0 bps
5-year MGS	3.58%	3.59%	3.78%	+19.1 bp	+19.6 bp
10-year MGS	3.74%	3.85%	3.99%	+13.8 bp	+25.5 bps
15-year MGS	3.97%	4.01%	4.05%	+3.9 bps	+8.2 bps

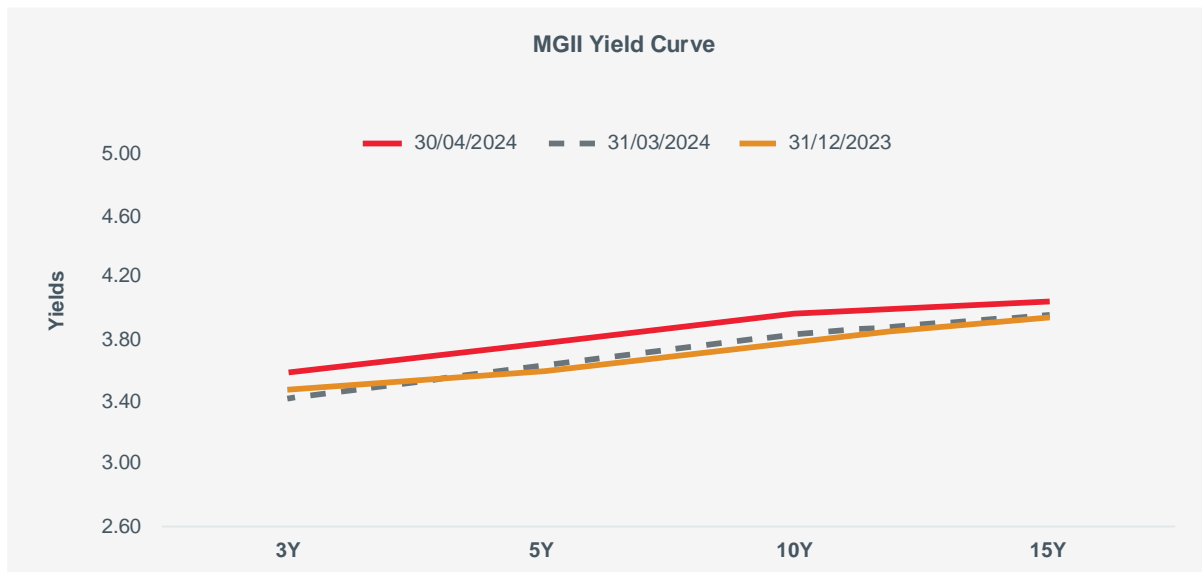
Source: Bloomberg



Source: Bloomberg

BENCHMARK	Dec 2023 Yield	Mar 2024 Yield	Apr 2024 Yield	MOM Change	YTD Change
3-year MGII	3.49%	3.44%	3.59%	+15.1 bps	+9.8 bps
5-year MGII	3.61%	3.60%	3.78%	+18.0 bps	+17.2 bp
10-year MGII	3.78%	3.85%	3.98%	+13.2 bp	+20.1 bps
15-year MGII	3.93%	3.96%	4.05%	+9.2 bps	+12.4 bps

Source: Bloomberg



Source: Bloomberg

Outlook

- After months of aggressive interest rate hikes by the central banks in developed countries last year, the market is expecting these central banks to cut policy rates this year. In December 2023, futures traders were expecting the Federal Reserve (“**Fed**”) to cut rates seven times of 25 bps each for the year 2024. This expectation has since been lowered to one or two cuts as the Fed suggested that policy rates may stay elevated for longer given the strong US inflation and economic data which slowed down the US inflation trajectory of 2%. We expect future monetary decisions to be dependent on economic data. Inflation rates seemed to have peaked in the U.K. and the Eurozone, and are declining albeit not in a straight line. Heightened geopolitical risks continues with the Israel-Hamas war, on top of the ongoing Russia-Ukraine war and trade tensions between U.S. and China. The U.S. presidential election towards the end of the year will also add to the uncertainty. Meanwhile, China’s economic growth is expected to be slower in 2024, due to its real estate slump and weaker demand for exports.
- For Malaysia, BNM’s decision on the Overnight Policy Rate (“**OPR**”) will also be data dependent as the central bank assesses the sustainability of the domestic growth momentum, upside risks to inflation with potential subsidy rationalisation, global economic growth in developed economies and China, as well as the performance of the Ringgit. Malaysia’s growth momentum in the next few years will depend on the execution of the policy blueprints such as MADANI Economy, National Energy Transition Roadmap (“**NETR**”) and New Industrial Master Plan (“**NIMP**”).
- Three auctions are expected in the month of May, with the new issue of 20Y MGS 5/44, the re-opening of 15Y MGII 09/39 and the re-opening of 7Y MGS 04/31. While there is 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 amidst the significant compression in credit spreads.

Table 1: Indicative Rates (%)

	30-Apr-24
MBB O/N*	1.30
MBB 1-Week*	1.40
MBB 1-Mth FD*	2.50
MBB 6-Mth FD*	2.70
MBB 1-Year FD*	2.70
1-mth BNM MN	3.19
3-mth BNM MN	3.24
3-mth KLIBOR	3.59
CP	
1-mth (P1)	3.80
3-mth (P1)	3.97

Source: Bloomberg/Bondstream

* Maybank2u.com.my

Table 2: Indicative Bond Yields (%)

	3yr	5yr	7yr	10yr	15yr
MGS	3.61	3.77	3.90	3.99	4.06
GII	3.66	3.80	3.88	4.00	4.08
Swap rate*	3.71	3.80	3.91	4.03	4.23
AAA	3.83	3.97	4.09	4.16	4.28
AA1	3.91	4.04	4.14	4.25	4.41
AA2	3.98	4.10	4.20	4.34	4.57
AA3	4.06	4.18	4.28	4.43	4.72
A1	4.82	5.09	5.38	5.66	6.03
A2	5.45	5.83	6.19	6.60	7.09
A3	6.06	6.56	6.99	7.53	8.15

Source: Bloomberg*/Bondstream

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