

MARKET COMMENTARY

Fixed income market review and outlook

February 2024



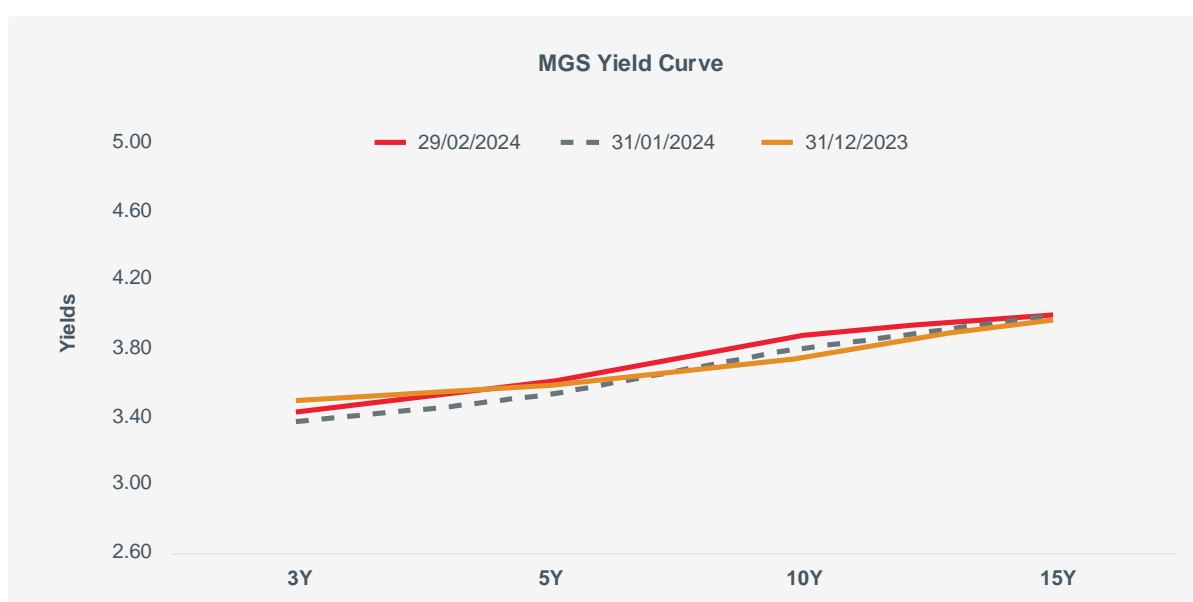
Review

- U.S. February data still showed the resilience of its economy. Both headline and core U.S. Personal Consumption Expenditure (“**PCE**”) price index continued its downtrend to 2.4% and 2.8% respectively in January (December: 2.6%; 2.9%). The University of Michigan Consumer Sentiment index for February recorded a marginal increase to 79.6 from 79.0 in the prior month. The U.S. Composite Purchasing Managers' Index (“**PMI**”) declined slightly to 51.4 in February from revised 52.0 in January, as Services PMI recorded a decline to 51.3 in February from the revised 52.5 despite Manufacturing PMI remaining expansionary at 52.2 from 50.7 last month. The Federal Open Market Committee (“**FOMC**”) did not hold any meeting in February. However, the minutes of the meeting released during the month revealed that Members agreed that it would not be appropriate to reduce the target range until they had gained greater confidence that inflation was moving sustainably toward 2%.
- In early February, the Bank of England (“**BOE**”) in its Monetary Policy Committee (“**MPC**”) meeting in February kept its bank rate unchanged at 5.25%. The U.K.'s headline and core inflation rate remained flattish at 4.0% and 5.1% respectively in January, while its composite PMI continued to stay above 50 points at 53.3 in February (January revised: 52.9) as Manufacturing PMI improved to 47.5 from 47.0 while Services PMI remained unchanged at 54.3 compared to the revised January data. Britain's economy entered a technical recession in the fourth quarter of 2023 after it shrank by 0.3% QoQ (3Q2023: -0.1% QoQ).
- Eurozone's composite PMI increased to 48.9 in February from the 47.9 in the previous month, as services PMI rose to 50.0 (January: 48.4) while Manufacturing PMI declined slightly to 46.5 (December: 46.6). Eurozone's flash inflation and core inflation rates for February declined further to 2.6% and 3.1% respectively compared to 2.8% and 3.3% recorded in the prior month. Eurozone just avoided a technical recession, with its zero GDP growth in the fourth quarter of 2023 (3Q2023: -0.1% QoQ). The European Central Bank (“**ECB**”) did not hold any meeting in February.
- The Reserve Bank of Australia (“**RBA**”) maintained its cash rate at 4.35%. In Asia, the central banks of Indonesia, the Philippines and Thailand decided to maintain their policy interest rates at 6.00%, 6.50% and 2.50% respectively. Meanwhile, Bank Negara Malaysia (“**BNM**”) did not hold any monetary policy committee meeting in February.
- The People's Bank of China (“**PBoC**”) lowered its 5-year loan prime rate (“**LPR**”) by 25 bps to 3.95% in February, while the 1-year LPR was unchanged at 3.45%.
- Malaysia's headline CPI and core CPI remained low at 1.5% and 1.8% YoY respectively in January (December: 1.5%; 1.9%). Unemployment rate remained stable at 3.3% in December 2023. BNM international reserves increased slightly to US\$115.4bn as of mid-February (mid-Jan: US\$115.1bn). The reserves position is sufficient to finance 5.5 months of imports and is 1.0x of the total short-term external debt. Malaysia's 4th quarter 2023 GDP expanded by 3.0% YoY, below the advance estimate of 3.4%. For the full year of 2023, Malaysia's economy grew by 3.7%, which has normalized compared to the previous year's growth of 8.7%.
- Four auctions were held in February, the re-opening 7Y MGS 04/31, the re-opening of 20Y MGII 08/43, the re-opening of 3Y MGS 05/27 and the reopening of 15Y MGII 09/39. The auctions received an average bid-to-cover ratio of 2.467x.
 - RM5.0b re-opening 7-year MGS averaging 3.779% at a bid-to-cover ratio of 2.155x;
 - RM3.0b re-opening 20-year MGII averaging 4.163% at a bid-to-cover ratio of 3.037x;
 - RM5.0b re-opening 3-year MGS averaging 3.488% at a bid-to-cover ratio of 1.703x; and
 - RM3.0b re-opening 15-year MGII averaging 3.990% at a bid-to-cover ratio of 2.973x.

- Malaysia's MGS curve shifted upwards in the month of February. The yields of the 3-, 5-, 10- and 15-year MGS increased by 8 bps, 8 bps, 7 bps and 3 bps to close the month at 3.43%, 3.60%, 3.86% and 3.99% respectively. The yield curve of MGII also followed the same trend, with the 3-, 5-, 10- and 15-year MGII yields rising by 4 bps, 5 bps, 4 bps and 4 bps to end the month at 3.47%, 3.62%, 3.86% and 3.99% respectively.

BENCHMARK	Dec 2023 Yield	Jan 2024 Yield	Feb 2024 Yield	MOM Change	YTD Change
3-year MGS	3.48%	3.35%	3.43%	+8 bps	-5 bps
5-year MGS	3.58%	3.52%	3.60%	+8 bps	+2 bps
10-year MGS	3.74%	3.79%	3.86%	+7 bps	+12 bps
15-year MGS	3.97%	3.96%	3.99%	+3 bps	+2 bps

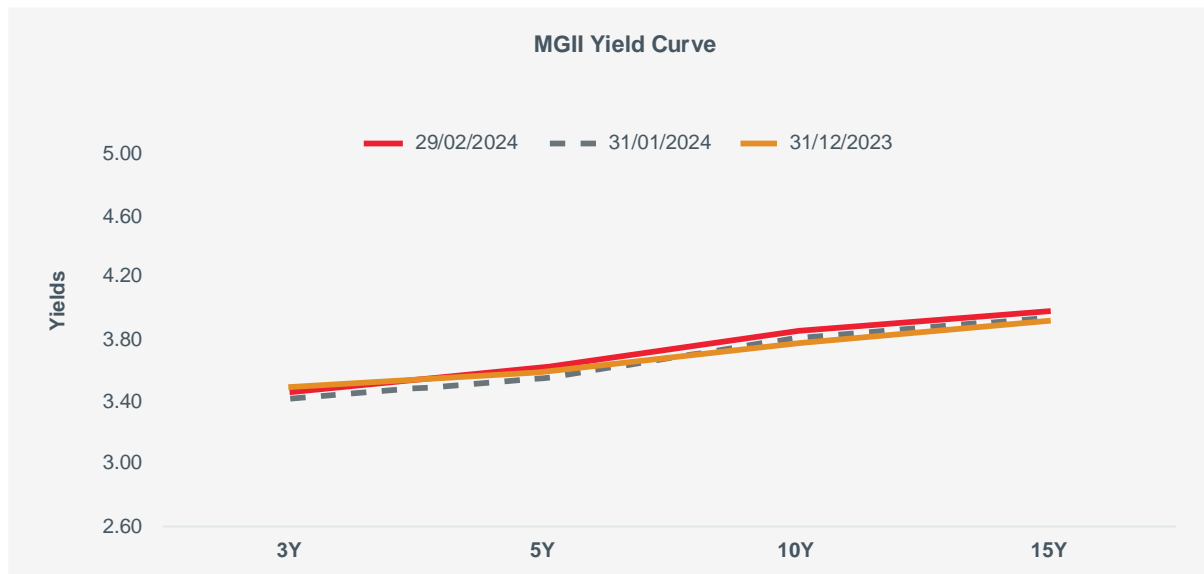
Source: Bloomberg



Source: Bloomberg

BENCHMARK	Dec 2023 Yield	Jan 2024 Yield	Feb 2024 Yield	MOM Change	YTD Change
3-year MGII	3.49%	3.43%	3.47%	+4 bps	-2 bps
5-year MGII	3.61%	3.57%	3.62%	+5 bps	+2 bps
10-year MGII	3.78%	3.82%	3.86%	+4 bps	+8 bps
15-year MGII	3.93%	3.96%	3.99%	+4 bps	+6 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 rates seemed to have peaked in the U.S., U.K. and the Eurozone, and are on declining trend (albeit not in a straight line) towards the target of 2%. Heightened geopolitical risks continues with the Israel-Hamas war, on top of the ongoing Russia-Ukraine war and the 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. With the roll out of the targeted subsidy programme for RON95 petrol expected in the second half of 2024, inflation is expected to come in higher in 2024. 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").
- Two auctions are expected in the month of March, with the re-opening 10Y MGS 11/33 and the new issue of 30Y MGII 03/54. 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 (%)

	29-Feb-24
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	3.17
3-mth BNM MN	3.22
3-mth KLIBOR	3.56
CP	
1-mth (P1)	3.82
3-mth (P1)	3.98

Source: Bloomberg/Bondstream

* Maybank2u.com.my

Table 2: Indicative Bond Yields (%)

	3yr	5yr	7yr	10yr	15yr
MGS	3.47	3.64	3.77	3.88	4.02
GII	3.52	3.66	3.79	3.88	4.01
Swap rate*	3.59	3.67	3.79	3.92	4.13
AAA	3.77	3.88	3.96	4.03	4.17
AA1	3.85	3.97	4.05	4.16	4.35
AA2	3.94	4.06	4.15	4.29	4.54
AA3	4.04	4.15	4.25	4.41	4.73
A1	4.81	5.16	5.41	5.67	6.06
A2	5.43	5.86	6.20	6.61	7.11
A3	6.02	6.55	6.98	7.54	8.17

Source: Bloomberg*/Bondstream

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