MARKET COMMENTARY

Fixed income market review and outlook

January 2024

Review

- U.S. January data showed the resilience of its economy. Both U.S. Personal Consumption Expenditure ("**PCE**") and Core PCE price index continued its downtrend to 2.6% and 2.9% respectively in December (November: 2.6%; 3.2%). The University of Michigan Consumer Sentiment index for January recorded a strong increase to 79.0 from 69.7 in the prior month. The U.S. Composite Purchasing Managers' Index ("**PMI**") increased to 52.3 in January 2024 from the revised 50.9 in December, as Manufacturing PMI turned expansionary at 50.7 while Services PMI continued rising to 52.9 (December revised: 47.9; 51.4). After an upward revision in the Nonfarm Payroll ("**NFP**") for December 2023 from 216,000 to 333,000, the U.S. economy added higher-than-expected 353,000 jobs in January 2024. Unemployment rate remained unchanged at 3.7% in January. The Federal Open Market Committee ("**FOMC**") unanimously decided to maintain the target range for the federal funds rate at 5.25-5.50%. In its latest statement, recent indicators suggest that economic activity "has been expanding at a solid pace", compared to the previous statement which suggested that "growth of economic activity has slowed".

- At the point of writing, the Bank of England ("**BOE**") in its Monetary Policy Committee ("**MPC**") meeting in February kept its bank rate unchanged at 5.25%. BOE expects the U.K.'s inflation rate to fall temporarily to the 2% target in the second quarter of 2024 before increasing again in the third and fourth quarter. The U.K.'s inflation rate reversed its downward trajectory in December to 4.0% from 3.9% recorded last month, while its composite PMI stayed above 50 points for the third month at 52.5 in January (December revised: 52.1) as both Services and Manufacturing PMIs improved to 53.8 and 47.0 respectively (December revised: 53.4; 46.2).

- 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. ECB stated that the declining trend in underlying inflation has continued. Eurozone's composite PMI increased marginally to 47.9 in January from the upwardly revised 47.6 in the previous month, as Manufacturing PMI increased to 46.6 while Services PMI declined slightly to 48.4 (December revised: 44.4; 48.8). Eurozone's flash inflation and core inflation rates for January 2024 went down marginally to 2.8% and 3.3% respectively compared to 2.9% and 3.4% recorded in December 2023.

- The Reserve Bank of Australia ("**RBA**") did not hold any monetary policy meeting in January. In Asia, the central bank of Indonesia and Bank Negara Malaysia ("**BNM**") both decided to maintain their policy interest rates at 6.00% and 3.00% respectively. Meanwhile, the central banks of Thailand and the Philippines did not hold any monetary policy committee meeting in January.

- The People's Bank of China ("**PBoC**") again kept its key lending rate, 1-year and 5-year loan prime rate ("**LPR**") unchanged at 3.45% and 4.20% respectively in January. However, PBOC cut the reserve requirements ("**RRR**") by 50bps effective 5th February 2024. Economic activity data from China continued to show some improvement compared to the past few months, although its economic recovery is perceived to still be fragile. China's imports increased by 0.2% YoY in December after contracting by 0.7% YoY (revised) in the previous month. However, exports continued to grow for the second month by 2.3% YoY in December compared to the revised 0.7% in November. Its retail sales grew by 7.4% YoY in December (November: 10.1%) while the industrial production growth was recorded at 6.8% (November: 6.6%). China's fixed asset investments recorded 3.0% YoY growth for 12M2023 (11M2023: 2.9% YoY). China's economy expanded by 5.2% in 2023, exceeding the official target of around 5.0%.

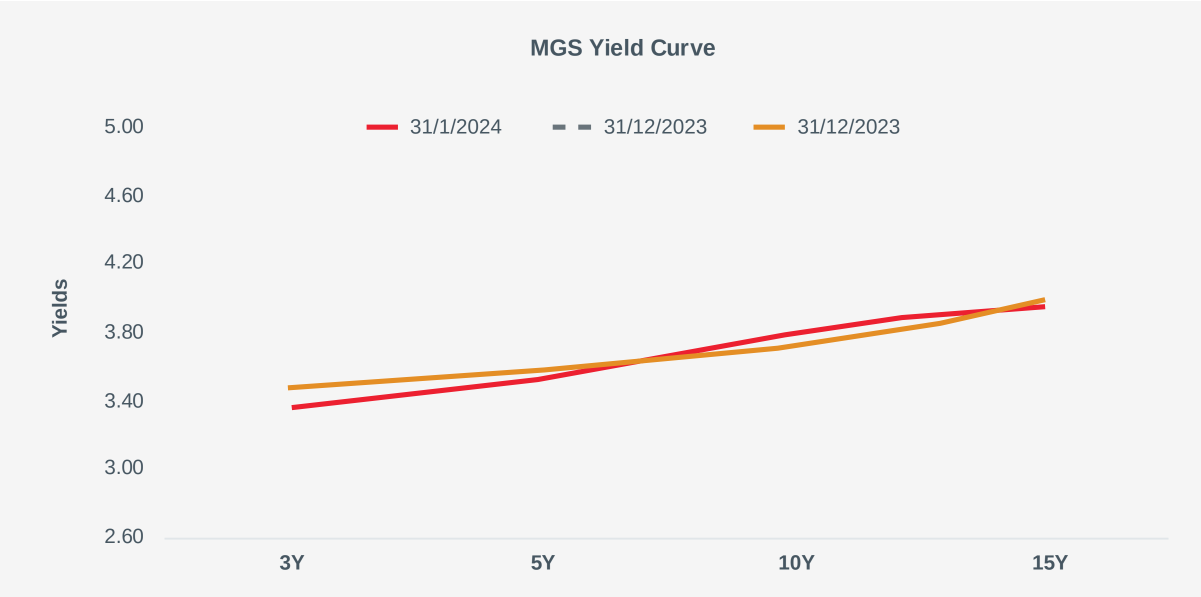
- Malaysia's headline CPI and core CPI remained low at 1.5% and 1.9% YoY respectively in December (November: 1.5%; 2.0%). Unemployment rate fell slightly to 3.3% in November from 3.4% in the prior month. BNM international reserves increased to US$115.1bn as of mid-January (mid-Dec: US$112.8bn). The reserves position is sufficient to finance 5.4 months of imports and is 1.0x of the total short-term external debt. According to advance estimate, Malaysia's 4Q2023 real GDP expanded by 3.4% YoY, a tad higher compared to last quarter's growth rate of 3.3%.

- Three auctions were held in January 2024, the re-opening 10Y MGII 08/33, the re-opening 30Y MGS 03/53 and the re-opening of 5Y MGII 07/28. The auctions received an average bid-to-cover ratio of 3.279x, thanks to the 5Y MGII auction which garnered strong bids of 4.402x.
  - RM5.0b re-opening 10-year MGII averaging 3.908% at a bid-to-cover ratio of 2.445x;
  - RM3.0b re-opening 30-year MGS averaging 4.243% at a bid-to-cover ratio of 2.990x; and
  - RM5.0b re-opening 5-year MGII averaging 3.620% at a bid-to-cover ratio of 4.402x.

- Malaysia's MGS curve steepened in the month of January. The yields of the 3-, 5- and 15-year MGS declined by 13 bps, 6 bps and 1 bp to close the month at 3.35%, 3.52% and 3.96% respectively while the 10-year MGS yield increased by 5 bps to 3.79%. The yield curve of MGII also steepened, with the 3- and 5-year decreasing by 6bps and 3bps to 3.43% and 3.57% respectively, while 10- and 15-year MGII yields increased by 4bps and 3bps to end the month at 3.82% and 3.96% respectively.

BENCHMARK	Dec 2023 Yield	Dec 2023 Yield	Jan 2024 Yield	MOM Change	YTD Change
3-year MGS	3.48%	3.48%	3.35%	-13 bps	-13 bps
5-year MGS	3.58%	3.58%	3.52%	-6 bps	-6 bps
10-year MGS	3.74%	3.74%	3.79%	+5 bps	+5 bps
15-year MGS	3.97%	3.97%	3.96%	-1 bps	-1 bps

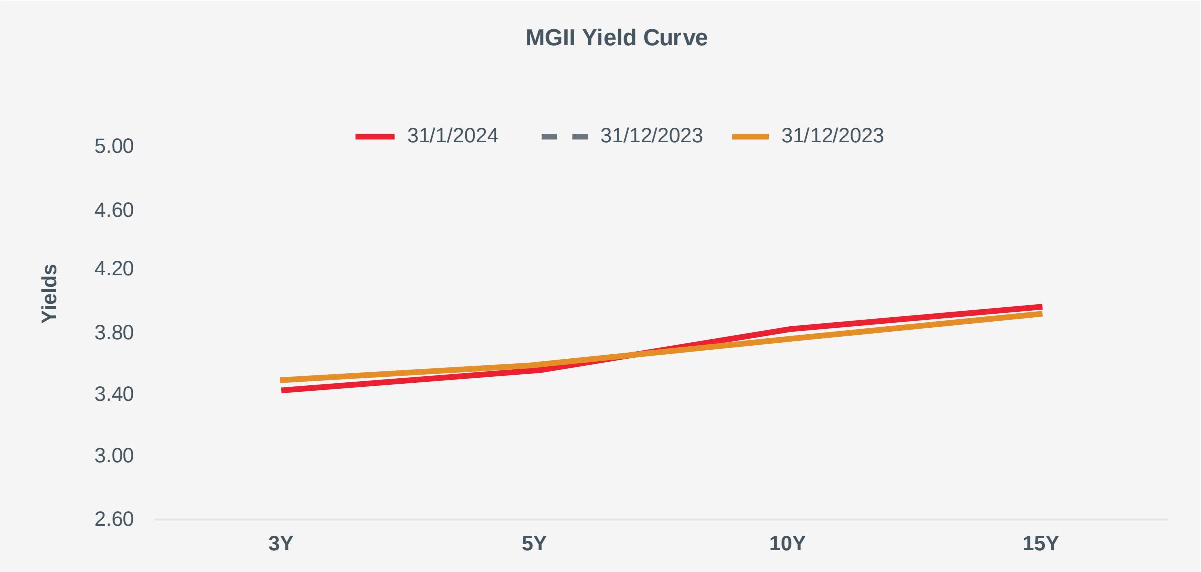
Source: Bloomberg



Source: Bloomberg

BENCHMARK	Dec 2023 Yield	Dec 2023 Yield	Jan 2024 Yield	MOM Change	YTD Change
3-year MGII	3.49%	3.49%	3.43%	-6 bps	-6 bps
5-year MGII	3.61%	3.61%	3.57%	-3 bps	-3 bps
10-year MGII	3.78%	3.78%	3.82%	+4 bps	+4 bps
15-year MGII	3.93%	3.93%	3.96%	+3 bps	+3 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 declining (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. 2024 will also be a year of elections, with countries such as India, Indonesia and the U.S. going to the polls to vote. Although China's GDP growth met its government target of 5% in 2023, the latest IMF forecast projected China to grow at 4.6% in 2024 (OECD forecast: 4.7%) on the back of property sector stress despite fiscal support provided. IMF also forecasted global growth of 3.1% in 2024 and 3.2% in 2025, while global headline inflation is expected to fall to 5.8% in 2024 and to 4.4% in 2025.

- 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 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").

- There will be three auctions in the month of February, with the re-opening 7Y MGS 04/31, the re-opening of 20Y MGII 08/43 and the re-opening of 3Y MGS 05/27. 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-Jan-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	3.57
CP	
1-mth (P1)	3.79
3-mth (P1)	3.97

Source: Bloomberg/Bondstream
* Maybank2u.com.my

Table 2: Indicative Bond Yields (%)

	3yr	5yr	7yr	10yr	15yr
MGS	3.45	3.61	3.73	3.81	3.98
GII	3.46	3.61	3.78	3.84	3.97
Swap rate*	3.45	3.57	3.69	3.82	4.04
AAA	3.78	3.89	3.98	4.05	4.18
AA1	3.86	3.96	4.06	4.17	4.36
AA2	3.95	4.05	4.16	4.29	4.54
AA3	4.02	4.13	4.26	4.41	4.71
A1	4.81	5.16	5.41	5.65	6.02
A2	5.42	5.85	6.19	6.59	7.08
A3	6.01	6.54	6.97	7.52	8.14

Source: Bloomberg*/Bondstream