MARKET COMMENTARY

Fixed income market review and outlook

February 2025

Review

- The U.S. economy added 143k jobs in January 2025, which was softer than expected, as the forecast had anticipated 175k jobs. However, there were upward revisions to job gains in the previous two months, with a total of 100k more jobs added in November and December than initially reported, indicating that US labour market remains stable. The unemployment rate decreased to 4.0% (Dec 2024: 4.1%). The U.S. PCE Price index ticking down to 2.5% YoY in January from 2.6% in December. The core PCE price index fell to 2.6% from 2.9%. The University of Michigan Consumer Sentiment index fell to 64.7 in February from 71.1 in January, due to inflation worries and concerns about tariffs. The S&P Global U.S. Composite Purchasing Managers Index ("**PMI**") was 50.4 (Jan: 52.7) in February, indicating a slowdown in business activity in the private sector. Manufacturing PMI rose to 52.7 (Jan: 51.2), while the service PMI fell to 49.7 (Jan: 52.9). The fed fund rate was at 4.25% to 4.50% as at end February 2025.

- In February 2025, the Bank of England ("**BOE**") cut its bank rate by 25 basis points (bps) to 4.5% from 4.75%. The BOE reiterated its position that the monetary easing is anticipated to be gradual in 2025 as growing concerns about economic growth are influenced by persistent underlying services inflation. The U.K.'s inflation rate rose sharply to 3% in January 2025 (Dec 2024: 2.5%), due to the increase in cost of oil and gas and food prices. The S&P Global UK Composite PMI was at 50.5 (Jan: 50.6) in February 2025, reflecting a sharper decline in the Manufacturing PMI, which fell to 46.4 from 48.3, while the Services PMI showed growth at 51.1, up from 50.8.

- The European Central Bank ("**ECB**")'s deposit facility rate, main refinancing operations and marginal lending facility was at 2.75%, 2.90% and 3.15% in February, respectively. In February 2025, Eurozone's inflation rate eased slightly to 2.4% (Jan: 2.5%), influenced by a slower price growth for services and energy. Its core inflation rate was at 2.6% (Jan: 2.7%). In February, the Eurozone Composite PMI at 50.2 (Jan: 50.2), supported by an expansion in Services PMI (50.7 vs 51.3) and a slower contraction in the manufacturing PMI (47.3 vs 46.6).

- The Reserve Bank of Australia cut its cash rate by 25 bps to 4.1% in its February meeting, citing a further slowdown in underlying inflation as the reason for the cut. This marked the first rate cut since November 2020. In Asia, the Bank of Korea and the Bank of Thailand lowered their interest rate by 25 bps to 2.75% and 2.0% respectively in the February 2025 meetings. Both Bank of Indonesia and Central Bank of the Philippines kept their interest rate unchanged at 5.75% in February 2025. Meanwhile, Bank Negara Malaysia ("**BNM**") and Bank of Japan did not hold any monetary policy committee meeting in February 2025.

- The People's Bank of China **("PBoC")** kept its key lending rates in February 2025 fixing. The 1-year and 5-year loan prime rates were held at 3.1% and 3.6%, respectively. The decision was made amid yuan fluctuation and US President Donald Trump's aggressive trade policy to strengthen the US economy through import taxes. In January-February 2025, China's imports dropped by 8.4% YoY in USD terms (Dec: 1.0%), reflecting weakening domestic demand, while its exports grew by 2.3% YoY (Dec: 10.7%) which is below market forecasts of 5% partly due to Chinese New Year disruptions. Retail sales rose by 3.7% YoY (Nov: 3.0%) and industrial production grew by 6.2% YoY (Nov: 5.4%) in December. China's fixed asset investment rose by 3.2% YoY from January to December 2024.

- Malaysia's economy grew by 5.0% in the 4Q2024 (3Q2024: 5.4%), driven by continued expansion in domestic demand, strong investment and a rebound in exports. For 2024, the economy grew by 5.1% (2023: 3.6%). In January 2025, Malaysia's headline was steadied at 1.7% YoY, whereas core CPI increased slightly to 1.8% YoY (Dec 2024: 1.6%). Unemployment rate fell to 3.1% in December 2024 (Nov 2024: 3.2%). BNM international reserves amounted to US$117.7bn as of 14 February 2025 (15 Jan: US$115.5bn). The reserves position is sufficient to finance 5.0 months of imports and is 0.9x of the total short-term external debt. The Ringgit depreciated by 1.1% against USD, closing at 4.4665 in February 2025 (Jan: 4.4153), influenced by global trade landscape.

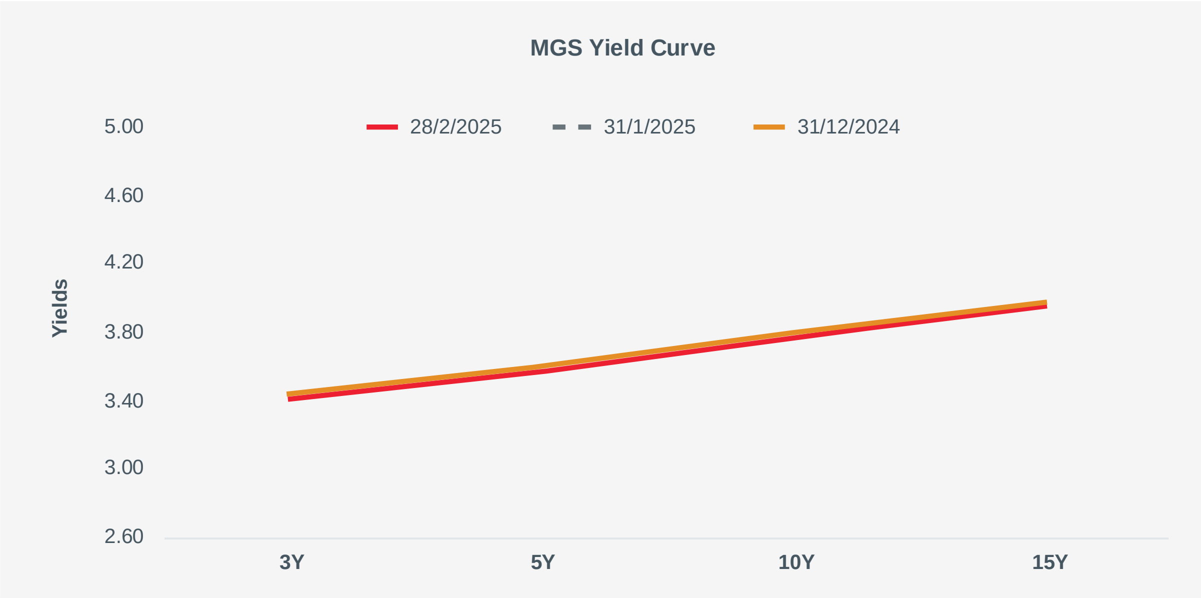
- Four auctions were held in February 2025, the reopening of 30Y MGS 03/53, reopening of 7Y MGII 10/31, reopening of 20Y MGS 05/44 and new issuance of 5.5Y MGII 08/30. The auctions received an average bid-to-cover ratio of 2.84x.

- RM4.5b (including RM2.0b private placement) reopening 30-year MGS averaging yield of 4.186% at a bid-to-cover ratio of 2.36x;
- RM5.0b reopening 7-year MGII averaging yield of 3.785% at a bid-to-cover ratio of 2.867x;
- RM4.5b (including RM2.0b private placement) reopening 20-year MGS averaging yield of 4.068% at a bid-to-cover ratio of 2.987x; and
- RM5.5b new issuance 5.5-year MGII averaging yield of 3.635% at a bid-to-cover ratio of 3.165x.

- In February 2025, Malaysia's MGS and GII yields were mostly ended lower except for 5Y MGII which increased marginally by 1bp. The 10Y UST ended lower by 34 bps to 4.24% (Jan: 4.58%) as more signs emerged that the US economy may be slowing, boosting demand for UST. In February 2025, the local bond market experienced a negative net foreign fund flow of RM1.12 billion (Jan: +RM1.15 billion). YTD, the net foreign fund flow stood at RM28.4 million.

BENCHMARK	Dec 2024 Yield	Jan 2025 Yield	Feb 2025 Yield	MOM Change	YTD Change
3-year MGS	3.47%	3.45%	3.43%	-2 bps	-4 bps
5-year MGS	3.62%	3.62%	3.58%	-3 bps	-3 bps
10-year MGS	3.82%	3.81%	3.79%	-2 bps	-3 bps
15-year MGS	3.97%	3.97%	3.96%	-1 bp	-1 bp

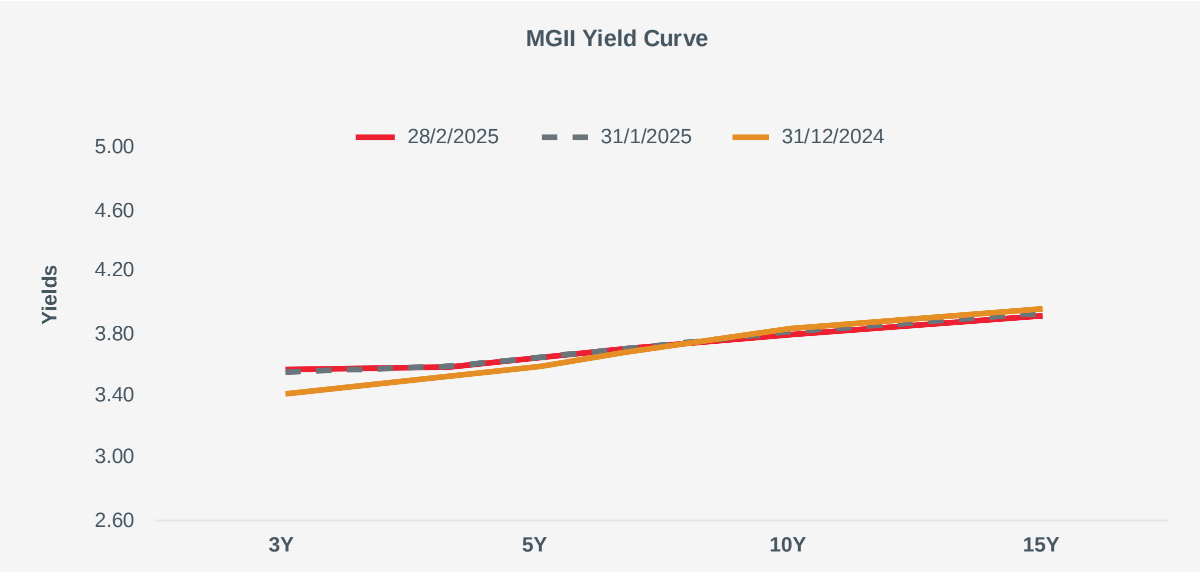
Source: Bloomberg



Source: Bloomberg

BENCHMARK	Dec 2024 Yield	Jan 2025 Yield	Feb 2025 Yield	MOM Change	YTD Change
3-year MGII	3.42%*	3.56%	3.55%	-1 bp	+13 bps
5-year MGII	3.62%	3.62%	3.63%	1 bp	1 bp
10-year MGII	3.83%	3.82%	3.81%	-1 bp	-2 bps
15-year MGII	3.98%	3.95%	3.94%	-1 bp	-4 bps

Source: Bloomberg. *MGII3Y Index



Source: Bloomberg

Outlook

- In January, Federal Reserve ("Fed") officials decided to maintain current interest rates, emphasizing the necessity for further reductions in inflation before considering any cuts. The FOMC expressed unanimous concerns over the potential impacts of President Donald Trump's tariffs and other policy changes on inflation. They noted that current policies are less restrictive than before, allowing time to assess economic conditions. The market anticipates that the Fed will implement two to three interest rate cuts in 2025, with the first cut expected during the FOMC meetings in June or July. While there is broad consensus that rates will decrease, the extent of these cuts remains uncertain. The most probable scenario involves three cuts of 25 bps each, which would lower the interest rate from 4.25% to 4.5% to 3.5% to 3.75%, according to CME Group's FedWatch Tool. Continued heightened geopolitical risks and trade tensions between U.S. and its trading partners, i.e., Canada, Mexico and China, are expected to create uncertainties and influence the trajectory of the global markets. President Donald Trump's recent imposition of 25% tariffs on goods imported from China and Mexico prompted immediate vows of retaliation from both countries. Additionally, China, which has faced a second 10% tariff on US exports, responded with measures targeting US's agricultural sector.

- BNM is expected to maintain OPR at 3.0% in 2025 as the current monetary policy continues to support the economy and aligns with the prevailing outlook for inflation and growth. It is noted that the upside risk to inflation would be dependent on the extent of spillover effects of domestic policy measures, such as the RON95 petrol subsidy rationalisation and higher labour costs under Budget 2025, expanded sales and services tax scope, an expected increase in electricity tariffs as well as global commodity prices and financial market developments. Malaysia's economy is expected to grow by 4.5%-5.5% in 2025, driven by stronger domestic demand and export recovery. Inflation is projected to increase moderately to 2.0%-3.5%. The government plans to cut the deficit from 4.3% in 2024 to 3.8% in 2025, aiming for 3% by 2026.

- Three auctions are expected in the month of March 2025, with the re-opening of 15Y MGS 04/39, re-opening of 30Y MGII 03/54 and re-opening of 10Y MGS 07/34. 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 2: Indicative Bond Yields (%)

	3yr	5yr	7yr	10yr	15yr
MGS	3.50	3.63	3.75	3.81	3.98
GII	3.52	3.59	3.78	3.82	3.92
Swap rate*	3.53	3.55	3.63	3.72	3.88
AAA	3.79	3.84	3.90	3.97	4.08
AA1	3.87	3.94	4.00	4.08	4.24
AA2	3.94	4.02	4.10	4.19	4.41
AA3	4.01	4.10	4.18	4.30	4.57
A1	4.78	5.04	5.27	5.57	6.01
A2	5.42	5.81	6.13	6.54	7.08
A3	6.04	6.56	6.97	7.48	8.15

Source: Bloomberg*/Bondstream

Disclaimer