Market commentary

Fixed income market review and outlook

July 2025

Review

- The Federal Open Market Committee ("FOMC") held the federal funds rate steady at 4.25% to 4.50% in July 2025, citing slower economic growth and elevated uncertainty, while prepared to adjust policy and committed to its dual mandate. The U.S. economy added 73,000 jobs in July 2025, well below expectations of 110,000. June's payrolls were revised sharply down from 147,000 to 14,000, and May's from 144,000 to 19,000, raising potential warning signs for the labour market. The unemployment rate rose to 4.2% (Jun: 4.1%). In June 2025, the headline PCE price index increased by 2.6% y-o-y (May: 2.3%) and the Core PCE price index increased by 2.8% y-o-y (May: 2.7%), driven by higher goods prices, sticky services inflation, and tariff-related cost pressures. The University of Michigan Consumer Sentiment index rose to 61.7 in July 2025, compared to 60.7 in June, driven by improved perceptions of current conditions and stronger personal financial outlook. The Manufacturing PMI fell to 48.0 in July 2025 (Jun: 49.0), reflecting declines in employment and supplier deliveries. The Service PMI unexpectedly fell to 50.1 (Jun: 50.8), due to seasonal and weather-related disruptions, weaker business activity and new orders, and intensified tariff-related cost pressures.

- The Bank of England's Bank Rate was at 4.25% in July 2025. In June 2025, the UK's inflation rate rose to 3.6% (May: 3.4%), driven by higher petrol prices. Its core Inflation rate unexpectedly accelerated to 3.7% (May: 3.5%), driven by a rise in food price inflation. Retail sales rose by 1.7% June2025 (May: -1.3%), driven by broad-based growth across sectors and better consumer spending. In May 2025, industrial production fell by 0.3% (Apr: 0.3%), while manufacturing production rose by 0.3% (Apr: 0.4%).

- The European Central Bank ("ECB") kept its key ECB interest rate unchanged July 2025, with the deposit facility rate at 2.00%, the main refinancing rate at 2.15%, and the marginal lending facility at 2.40%. The ECB adopts a wait-and-see stance, future rate decisions to be data-dependent and guided by the inflation outlook and potential impact from the global environment including trade tensions. In July 2025, Eurozone's inflation rate and core inflation rate held steady at 2.0% and 2.3%, respectively. In May 2025, the Eurozone's industrial production increased 3.7% (Apr: 0.8%). The increase was driven by a rebound in capital goods, non-durable consumer goods and energy, partly due to renewed front-running of US tariffs.

- The Reserve Bank of Australia kept its cash rate unchanged at 3.85% during its July meeting, citing a more balanced assessment of inflation risks and continued strength in the labour market. In Asia, Bank Negara Malaysia ("BNM") and Bank Indonesia lowered their benchmark interest rates by 25 basis points (bps) to 2.75% and 5.25%, respectively, during their July meeting. BNM's move was a pre-emptive step to support economic growth amid a moderate inflation outlook, while Bank Indonesia's decision aligned with its inflation outlook, stable currency, and ongoing efforts to sustain economic growth. Meanwhile, Bank of Japan and Bank of Korea kept their interest rate unchanged at 0.5% and 2.50%, respectively. Central Bank of the Philippines and Bank of Thailand did not hold any monetary policy committee meetings in July 2025.

- The People's Bank of China kept its key lending rates unchanged in July 2025. The 1-year and 5-year loan prime rates was at 3.0% and 3.5%, respectively. In June 2025, China's imports rose 1.1% YoY in USD terms (May: -3.4%), driven by stronger domestic demand and temporary tariffs relief from the US, while exports increased by 5.8% YoY (May: +4.8%) amid easing tariff pressures ahead of the August deadline. Retail sales increased by 4.8% YoY (May: 6.4%) and industrial production grew by 6.8% YoY (May 2025: 5.8%). China's fixed asset investment rose by 2.8% YoY from January-June 2025 (Jan-May 2025: 3.7%).

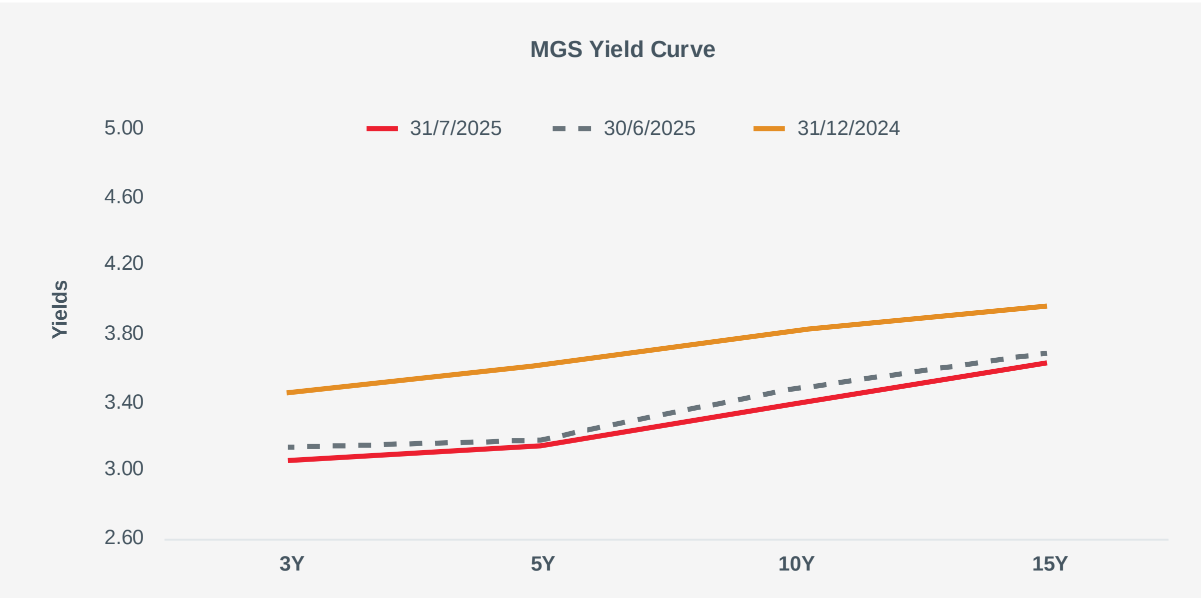
- In June 2025, the headline inflation in Malaysia eased further to 1.1% (May: 1.2%), while core inflation unchanged at 1.8% (May: 1.8%). Unemployment rate dropped to 3.0% in May 2025 (Apr:3.0%). BNM international reserves amounted to US$120.9bn as of 15 July 2025 (30 Jun: US$120.6bn). The reserves position is sufficient to finance 4.8 months of imports and is 0.9x of the total short-term external debt. The Ringgit depreciated by 0.8% against USD, closing at 4.2543 at end July 2025 (Jun: 4.2206).

- Three auctions were held in July 2025, reopening of 7Y MGII 10/31, new issue of 30Y MGS 07/55 and reopening of 10Y MGII 04/35. The auctions received an average bid-to-cover ratio of 2.55x.
  - RM5.0b reopening of 7Y MGII 10/31 averaging yield of 3.367% at a bid-to-cover ratio of 2.922x;
  - RM5.0b (including RM2.0b private placement) new issue of 30Y MGS 07/55 averaging yield of 3.917% at a bid-to-cover ratio of 2.000x; and
  - RM5.0b reopening of 10Y MGII 04/35 averaging yield of 3.468% at a bid-to-cover ratio of 2.728x.

- In July 2025, Malaysia's MGS and GII yields declined by 4 to 10 bps across the curve, largely influenced by BNM's policy rate cut and improved investor sentiment. Foreign fund flows in the local bond market recorded a second consecutive month of net foreign outflow of RM5.5 billion in July 2025 (Apr: -RM5.4 bil). YTD, the net foreign fund inflows stood at RM14.76 billion. The 10Y UST yield to 4.37% as at end May 2025 (Jun: 4.23%), due to reduced expectations for aggressive Fed rate cuts and persistent inflation concerns.

BENCHMARK	Dec 2024 Yield	Jun 2025 Yield	Jul 2025 Yield	MOM Change	YTD Change
3-year MGS	3.47%	3.15%	3.06%	-9 bps	-41 bps
5-year MGS	3.62%	3.19%	3.15%	-4 bps	-46 bps
10-year MGS	3.82%	3.47%	3.37%	-10 bps	-44 bps
15-year MGS	3.97%	3.68%	3.62%	-7 bps	-35 bps

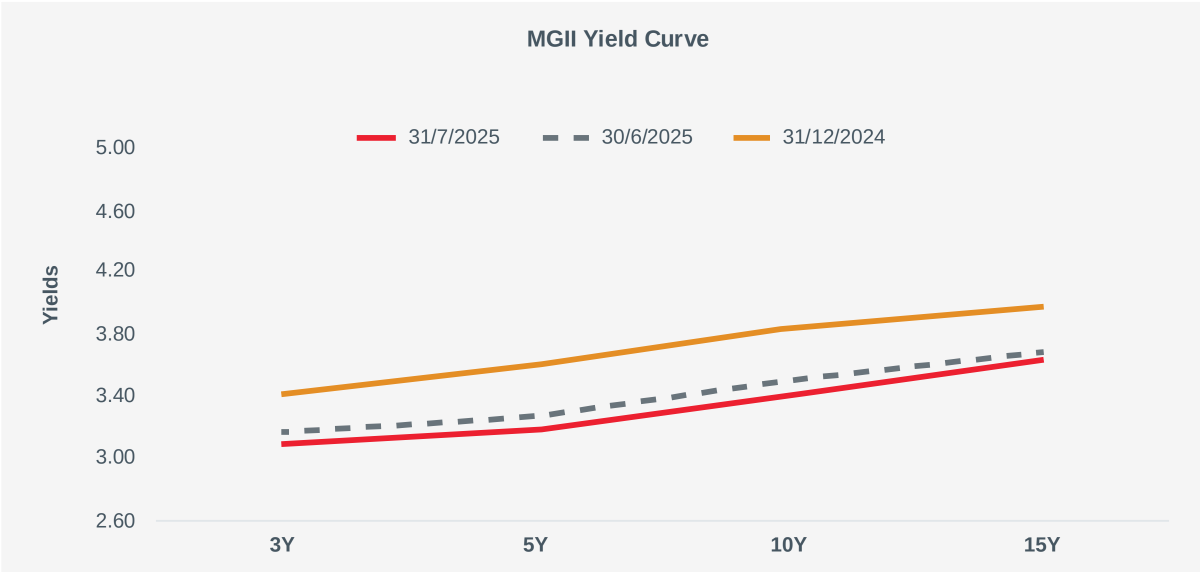
Source: Bloomberg



Source: Bloomberg

BENCHMARK	Dec 2024 Yield	Jun 2025 Yield	Jul 2025 Yield	MOM Change	YTD Change
3-year MGII	3.42%*	3.18%	3.10%	-8 bps	-32 bps
5-year MGII	3.62%	3.28%	3.19%	-9 bps	-42 bps
10-year MGII	3.83%	3.51%	3.41%	-10 bps	-42 bps
15-year MGII	3.98%	3.70%	3.63%	-7 bps	-35 bps

Source: Bloomberg. *MGII3Y Index



Source: Bloomberg

Outlook

- The FOMC left the federal fund rates unchanged at 4.25%-4.5% in July 2025, marking its fifth consecutive meeting without a change. The Committee noted a moderation in economic activity and highlighted that uncertainty around the outlook remains elevated. While labour market conditions remain solid and inflation is still somewhat elevated, the Fed continues to monitor risks to both sides of its dual mandate. The FOMC reaffirmed its readiness to adjust policy if necessary and will continue reducing its balance sheet. Market expectations for a rate cut in September have increased significantly following weaker-than-expected July jobs data. According to the CME FedWatch tool, there is now a 93.2% probability of a 25-bps cut at the September meeting. Overall, markets expect two to three rate cuts in 2025, contingent on upcoming data, particularly August's jobs report and inflation readings.

- The US has finalised trade agreements with its key trading partners including the UK and China. However, negotiations with other major partners such as India, Japan, South Korea, Canada, etc are still ongoing. Partial agreements have also been signed with the EU, Vietnam, Indonesia, etc, reducing some tariffs but leaving key sectors unsolved. Overall, the trade landscape remains fluid, with the potential for further tariff adjustments depending on the outcome of ongoing negotiations. Additionally, concerns over long-term US fiscal health, geopolitical tensions, and slower growth in China are expected to further introduce uncertainties in the market and influence the trajectory of the global markets.

- The US officially reduced its reciprocal tariff on Malaysian exports from 25% to 19% effective 1 August 2025, aligning Malaysia with other Southeast Asian peers. This reduction followed Malaysia's agreement to a comprehensive package that includes up to $150 billion in purchases from US multinationals over five years, $70 billion in cross-border investments and the removal of tariffs on over 98% of US goods. Despite the reduction, the 19% tariff still poses challenge to Malaysia's economic growth, particularly in the short to medium term, as it could dampen export competitiveness in key sectors, slow export growth and exert pressure on the trade surplus. Reflecting these external headwinds, especially tariff-related risks, BNM revised its 2025 GDP growth projection from 4.5%-5.5% to 4.0%-4.8%. Meanwhile, headline inflation is expected to remain moderate, average between 1.5% and 2.3% amid subdued demand and cost conditions. Following a pre-emptive 25 bps cut in the OPR in July, BNM is expected to stay on hold and adopt a data-dependent approach for the remainder of the year, responding to evolving economic conditions as needed.

- Four auctions are expected in the month of August 2025, with reopening of 20Y MGS 05/44, reopening of 15Y MGII 07/40, reopening of 5Y MGS 05/30 and reopening of 20Y MGII 05/45. 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 demand to remain resilient given institutional demand for bonds even though we have seen spreads being compressed significantly.

Table 1: Indicative Rates (%)	
	31-Jul-25
MBB O/N*	1.00
MBB 1-Week*	1.10
MBB 1-Mth FD*	1.95
MBB 6-Mth FD*	2.20
MBB 1-Year FD*	2.20
1-mth BNM MN	2.86
3-mth BNM MN	2.88
3-mth KLIBOR	3.23
CP	
1-mth (P1)	3.56
3-mth (P1)	3.69

Source: Bloomberg/Bondstream
* Maybank2u.com.my

Table 2: Indicative Bond Yields (%)					
	3yr	5yr	7yr	10yr	15yr
MGS	3.08	3.17	3.35	3.38	3.65
GII	3.11	3.19	3.35	3.42	3.64
Swap rate*	3.06	3.13	3.20	3.33	3.52
AAA	3.54	3.59	3.64	3.70	3.81
AA1	3.63	3.68	3.73	3.79	3.93
AA2	3.70	3.77	3.82	3.91	4.14
AA3	3.78	3.85	3.90	4.03	4.35
A1	4.67	4.92	5.14	5.44	5.89
A2	5.31	5.69	6.00	6.41	6.96
A3	5.94	6.45	6.84	7.35	8.03

Source: Bloomberg*/Bondstream

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