MARKET COMMENTARY

Fixed income market review and outlook

June 2025

Review

- In June 2025, the Federal Reserve ("Fed") held the federal funds rate steady at 4.25%-4.50%, citing cautious evaluation of President Trump's policies, economic impacts and ongoing uncertainty. The U.S. economy added 147,000 jobs in June 2025, slightly above May's upwardly revised figure of 144,000 and exceeding the forecast of 110,000, signaling that the labour market remains resilience. The unemployment rate fell to 4.1% from 4.2% in May. Inflation showed a modest uptick, with the U.S. PCE Price index rose by 2.3% YoY in May (Apr: 2.2%) and the core PCE price index, which excludes food and energy, increased by 2.7% (Apr: 2.5%). The University of Michigan Consumer Sentiment index climbed to 60.7 in June 2025, compared to 52.2 in May, reflecting greater optimism about personal finances and the broader business environment. Manufacturing activity remained in contraction, thought at a slower pace, with PMI rising to 49 in June 2025 (May: 48.5). Meanwhile, the Service PMI rose to 50.8 (May: 49.9), supported by stronger business activity and new orders.

- The Bank of England kept its Bank Rate unchanged at 4.25% in June 2025 amid global uncertainty, inflation pressures and mixed economic signals, while highlighting two-sided inflation risks related to rising prices amid the Middle East conflict and potential US trade disruptions. In May 2025, the U.K.'s inflation rate decreased slightly to 3.4% (Apr: 3.5%), driven mainly by lower transport costs. Core Inflation rate eased to 3.5% (Apr: 3.8%), due to a slowdown in CPI services and an acceleration in CPI goods. Retail sales dropped by 1.3% in May 2025 (Apr: 5.0%), mainly due to a significant decline in food sales and reduced consumer spending. In April 2025, UK industrial production fell by 0.3% (Mar: -0.7%), while manufacturing production rose by 0.4% (Mar: -0.8%).

- The European Central Bank ("ECB") reduced its key ECB interest rate by 25 basis points ("bps") in June 2025, lowering the deposit facility rate to 2.00%, the main refinancing rate to 2.15%, and the marginal lending facility to 2.40%, based on updated inflation and economic forecasts. The ECB signaled a pause on rate cuts, citing stabilising inflation near the 2% target, a broadly stable growth outlook and interest rates nearing a neutral level. Inflation is projected to be around 2% in 2025, 1.6% in 2026 and 2.0% in 2027, while core inflation is expected at 2.4% in 2025 and easing to 1.9% in 2026-2027. GDP growth is forecasted at 0.9% in 2025, 1.1% in 2026 and 1.3% in 2027, supported by higher real incomes, strong labour markets, and increased government investment, despite ongoing trade policy uncertainties. In June 2025, Eurozone's inflation rate rose slightly to 2.0% (May: 1.9%), while its core inflation held steady at 2.3% (May: 2.3%). In April 2025, the Eurozone's industrial production rose by 0.8% (Mar: 3.7%). This slowdown mainly due to the fading impact of front-loading orders ahead of potential US tariffs and a turning inventory cycle.

- The Reserve Bank of Australia maintained its cash rate at 3.85% in June 2025. In Asia, Central Bank of the Philippines lowered its interest rate by 25 bps to 5.25% in June 2025 to support economic growth. Meanwhile, Bank Indonesia, Bank of Japan and Bank of Thailand kept their interest rate unchanged at 5.5%, 0.5% and 1.75%, respectively. The Bank of Korea and Bank Negara Malaysia ("BNM") did not hold any monetary policy committee meetings in May 2025.

- The People's Bank of China kept its key lending rates unchanged in June 2025. The 1-year and 5-year loan prime rates was at 3.0% and 3.5%, respectively. In May 2025, China's imports declined by 3.4% YoY in USD terms (Apr: -0.2%), driven by subdued domestic demand and US tariffs, with US imports falling 18%, amid ongoing trade tensions despite a tentative agreement to reduce tariffs. Meanwhile, exports increased by 4.8% YoY (Apr: +8.1%), marking the slowest growth in three months due to a 34.5% decline in exports to the US amid lingering trade tensions and tariffs. Retail sales increased by 6.4% YoY (Apr: 5.1%) and industrial production grew by 5.8% YoY (Apr 2025: 6.1%). China's fixed asset investment rose by 3.7% YoY from January-May 2025 (Jan-Apr 2025: 4.0%).

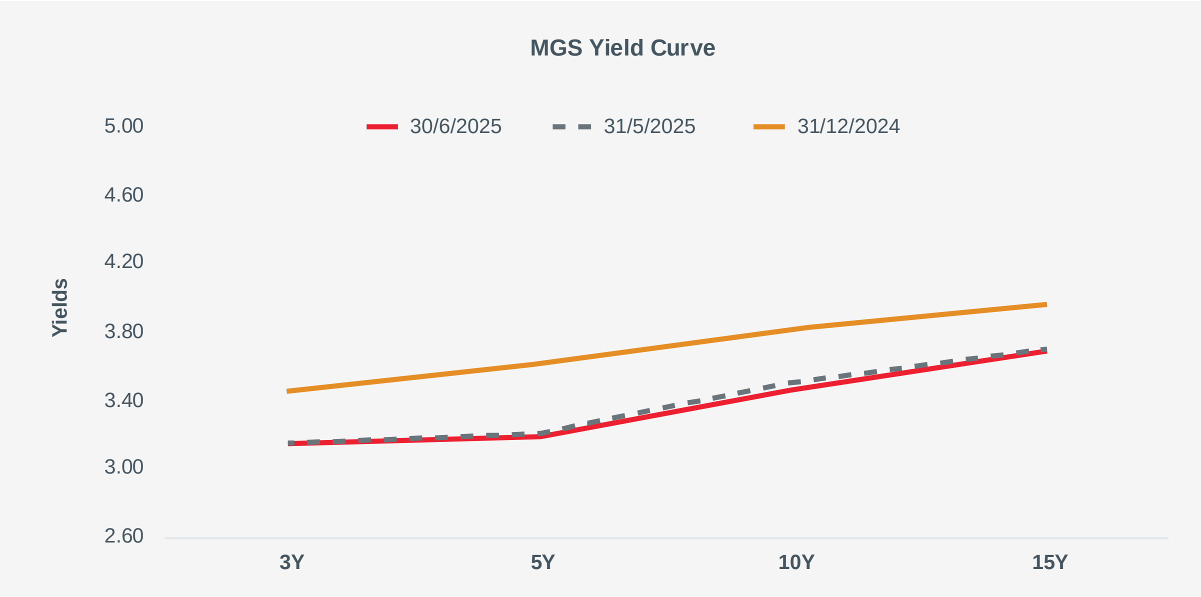
- In May 2025, the headline inflation in Malaysia eased to 1.2% (Apr: 1.4%), while core inflation moderated to 1.8% (Apr: 2.0%). Unemployment rate dropped to 3.0% in April 2025 (Mar:3.1%). BNM international reserves amounted to US$120.6bn as of 30 Jun 2025 (15 May: US$119.1bn). The reserves position is sufficient to finance 4.8 months of imports and is 0.9x of the total short-term external debt. The Ringgit appreciated further by 0.9% against USD, closing at 4.2125 at end June 2025 (May: 4.2500), as Ringgit gained against the weakening of US dollar. The U.S. dollar weakened in June 2025 due to fading tariff concerns, dovish Fed signals, and declining investor confidence in U.S. fiscal policy.

- Three auctions were held in June 2025, reopening of 15Y MGS 04/39, reopening of 30Y MGII 03/54 and new issue of 10Y MGS 07/35. The auctions received an average bid-to-cover ratio of 3.053x.
  - RM4.0b (including RM1.0b private placement) reopening of 15Y MGS 04/39 averaging yield of 3.712% at a bid-to-cover ratio of 2.857x;
  - RM5.0b (including RM2.0b private placement) reopening of 30Y MGII 03/54 averaging yield of 4.01% at a bid-to-cover ratio of 3.295x; and
  - RM5.0b new issue of 10Y MGS 07/35 averaging yield of 3.476% at a bid-to-cover ratio of 3.008x.

- In June 2025, Malaysia's MGS and GII yields declined further by 1 to 5 bps across the curve, as market priced in a probable 25bps rate cut by BNM. Foreign fund flows in the local bond market recorded a net foreign outflow of RM5.4 billion in June 2025 (May: RM13.4 billion). YTD, the net foreign fund inflows stood at RM21.4 billion. The 10Y UST yield to 4.23% as at end May 2025 (May: 4.40%), due to growing expectations of Fed rate cuts, economic uncertainty and strong demand for safe-haven assets.

BENCHMARK	Dec 2024 Yield	May 2025 Yield	Jun 2025 Yield	MOM Change	YTD Change
3-year MGS	3.47%	3.16%	3.15%	-1 bps	-32 bps
5-year MGS	3.62%	3.21%	3.19%	-2 bps	-43 bps
10-year MGS	3.82%	3.52%	3.47%	-5 bps	-35 bps
15-year MGS	3.97%	3.69%	3.68%	-1 bps	-28 bps

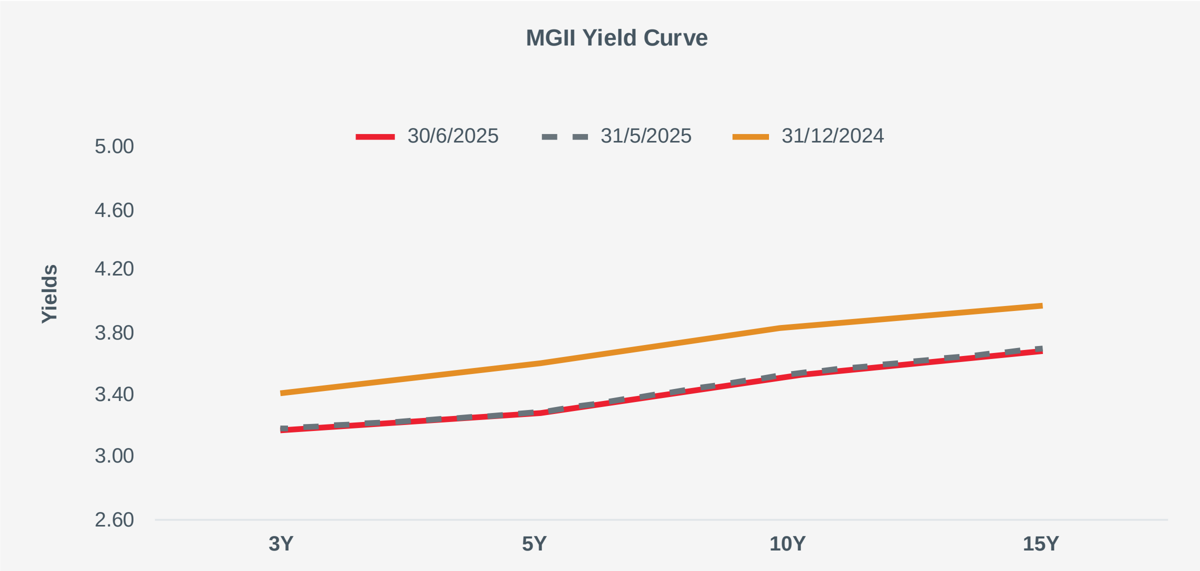
Source: Bloomberg



Source: Bloomberg

BENCHMARK	Dec 2024 Yield	May 2025 Yield	Jun 2025 Yield	MOM Change	YTD Change
3-year MGII	3.42%*	3.18%	3.18%	0 bp	-24 bps
5-year MGII	3.62%	3.29%	3.28%	-1 bp	-34 bps
10-year MGII	3.83%	3.53%	3.51%	-2 bp	-33 bps
15-year MGII	3.98%	3.69%	3.70%	+1 bp	-28 bps

Source: Bloomberg. *MGII3Y Index



Source: Bloomberg

Outlook

- In June 2025, the Fed held rates steady at 4.25%-4.5% for the fourth consecutive meeting, reflecting a cautious approach amid ongoing economic uncertainties related to recent policy changes from Trump's administration. While policymakers acknowledge some reduction in outlook uncertainty, they opted to keep rates unchanged while signaling slower future rate cuts due to elevated uncertainty and downward revisions to economic projections for growth, inflation and employment. The Fed is adopting a "wait and learn" approach to assess the full impact of tariffs on inflation before making any policy adjustments, emphasizing that future rate decisions will depend heavily on incoming data. Currently, the Fed projects two rate cuts later in 2025, with only one additional quarter-percentage-point cut expected in 2026 and 2027. It has lowered its GDP growth forecasts for 2025 and 2026 to 1.4% and 1.6%, respectively, while maintaining the 2027 estimate at 1.8%. Unemployment is forecasted to rise slightly to 4.5% in both 2025 and 2026. Inflation is expected to rise to 3.0% in 2025 before easing to 2.4% in 2026 and 2.1% in 2027.

- On trade negotiations with its key trading partners, the US has made progress with finalised deals with the UK, a framework agreement with China and a new deal with Vietnam. However, many talks remain incomplete and with limited details released and the July 9 tariff deadline approaching, unsolved issues continue to pose risks to global trade stability and market sentiment. 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 U.S.'s decision to impose a 25% tariff on all Malaysian exports starting 1 August 2025 is expected to significantly weigh on GDP growth. Although the Malaysian government is actively negotiating to avoid the hike, the uncertainty and potential implementation of the tariff could dampen export growth, weaken investor sentiment and slow overall economic activity. This external shock may prompt BNM to adopt a more accommodative monetary policy stance, including a potential overnight policy rate cut, to support domestic demand and cushion the impact on growth. Meanwhile, the expansion of the Sales and Service Tax effectively 1 July 2025 is likely to exert some upward pressure on inflation but is expected to remain manageable within a range of 2.0% to 3.5% for 2025. Nonetheless, upside risks to inflation persist, driven by rising global commodity prices, financial market volatility and the effects of domestic policy measures.

- Three auctions are expected in the month of July 2025, with reopening of 7Y MGII 10/31, new issue of 30Y MGS 07/55 and reopening of 10Y MGII 04/35. 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 (%)	
	30-June-25
MBB O/N*	1.30
MBB 1-Week*	1.40
MBB 1-Mth FD*	2.20
MBB 6-Mth FD*	2.45
MBB 1-Year FD*	2.45
1-mth BNM MN	3.00
3-mth BNM MN	3.02
3-mth KLIBOR	3.50
CP	
1-mth (P1)	3.67
3-mth (P1)	3.83

Source: Bloomberg/Bondstream
* Maybank2u.com.my

Table 2: Indicative Bond Yields (%)					
	3yr	5yr	7yr	10yr	15yr
MGS	3.16	3.20	3.41	3.47	3.70
GII	3.17	3.26	3.42	3.51	3.72
Swap rate*	3.13	3.21	3.31	3.45	3.63
AAA	3.60	3.64	3.68	3.74	3.84
AA1	3.70	3.75	3.79	3.85	3.96
AA2	3.77	3.84	3.88	3.98	4.20
AA3	3.85	3.92	3.97	4.10	4.41
A1	4.70	4.97	5.18	5.48	5.91
A2	5.34	5.74	6.04	6.45	6.98
A3	5.97	6.50	6.88	7.39	8.05

Source: Bloomberg*/Bondstream

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