MARKET COMMENTARY

Fixed income market review and outlook

May 2025

Review

- At its May 2025 meeting, the Federal Reserve ("Fed") kept interest rates steady at 4.25%-4.5% and maintained a "wait-and-see" approach amid rising economic uncertainty. While inflation remains slightly above the 2% target and the labour market is still strong, the Fed acknowledged increased risks of both higher inflation and unemployment, partly driven by recent trade policy developments. The U.S. economy added 139k jobs in May 2025, slightly above expectations of 130k and a modest slowdown from April's downwardly revised figure of 147k. The unemployment rate held steady at 4.2%. Despite the softer job growth, the labour market showed signs of resilience. In April 2025, the U.S. PCE Price index eased to 2.1% YoY (Mar: 2.3%), while the core PCE price index declined to 2.5% (Mar: 2.7%). The University of Michigan Consumer Sentiment index remained flat at 52.2 in May 2025, reflecting persistent concerns about inflation and volatility in tariff policy. The Manufacturing PMI fell to 48.5 In May 2025 (Apr: 48.7) amid economic uncertainty and trade policy volatility, while the Service PMI declined to 49.9 (Apr: 51.6), signalling the first contraction since June 2024 due to rising concerns over tariffs. Adding to the uncertainty, Moody's downgraded the U.S. sovereign credit rating from Aaa to Aa1, citing heightened concerns over the country's fiscal discipline and political uncertainty.

- In May 2025, the Bank of England cut the Bank Rate by 25 basis points ("bps") to 4.25% amid slowing growth, easing inflation and rising global uncertainty, particularly due to the potential impact of US tariffs, while signalling a cautious, data-driven approach going forward. The U.K.'s inflation rate rose sharply to 3.5% in April 2025 (Mar: 2.6%), driven by a surge in housing and utility costs. Core inflation rose to 3.8% (Feb: 3.4%), attributed to higher prices in goods. However, inflation is expected to ease again as energy-related price spikes fade, economic growth slows, and tight monetary policy continues to curb demand. In March 2025, UK industrial production fell by 0.7% (Feb: +0.4%), while manufacturing production declined by 0.8% (Feb: +0.5%). Retail sales rose sharply by 5.0% in April 2025 (Mar: 1.9%), driven by favourable weather, Easter timing and robust consumer spending.

- As of May 2025, the European Central Bank ("ECB") maintained its deposit facility rate at 2.25%, the main refinancing rate at 2.40%, and the marginal lending facility at 2.65%. The ECB sees its inflation fight nearing completion but cautious that ongoing trade tensions could pose short-term price pressures and long-term inflation risks, despite disinflation remaining the prevailing trend. In May 2025, Eurozone's inflation rate fell to 1.9% (Apr: 2.2%), mainly due to lower energy and service prices. Its core inflation fell to 2.3% (Apr: 2.7%). In March 2025, the Eurozone's industrial production increased by 3.6% (Feb: 1.0%), driven by increased output in capital goods and durable consumer goods, which surged due to frontloading of production ahead of U.S. tariffs.

- The Reserve Bank of Australia cut its cash rate by 25 bps to 3.85% in May 2025, citing easing inflation within target and rising global economic uncertainty. In Asia, both the Bank of Korea and Bank Indonesia also reduced their policy rate by 25 bps in May 2025 – Korea to 2.5%, to support slowing economic growth and address concerns over US tariffs, and Indonesia to 5.5%, to support domestic demand amid external pressures. Meanwhile, the Bank of Japan and Bank Negara Malaysia ("BNM") kept their interest rate unchanged at 0.5% and 3.00%, respectively, with BNM also announcing a 100-bps reduction in the Statutory Reserve Requirement ratio—from 2% to 1%—effective May 16. The Bank of Thailand and the Central Bank of the Philippines did not hold any monetary policy committee meetings in May 2025.

- The People's Bank of China cut its key lending rates to record lows in May 2025 to support a sluggish economy and mitigate risks from ongoing U.S. trade tensions, in line with earlier broad monetary easing measures. The 1-year and 5-year loan prime rates were lowered by 10 bps to 3.0% and 3.5%, respectively. In April 2025, China's imports declined by 0.2% YoY in USD terms, easing from a 4.3% drop in March 2025 as Beijing intensified efforts to boost domestic demand and counter the impact of steep US tariffs. Meanwhile, exports rose by 8.1% YoY, a notable slowdown from the 12.4% increase in March, as shipments to the US were dampened by tariffs and uncertainty surrounding trade negotiations. Retail sales increased by 5.1% YoY (Mar: 5.9%) and industrial production grew by 6.1% YoY (Mar 2025: 7.7%). China's fixed asset investment rose by 4.0% YoY from January-April 2025 (Jan-Mar 2025: 4.2%).

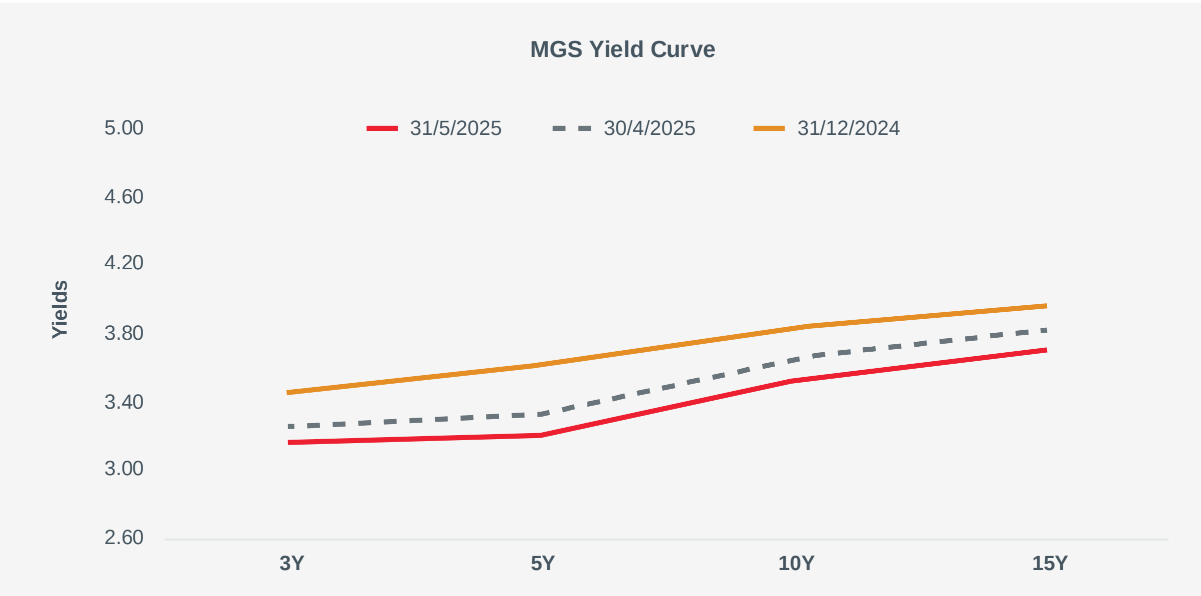
- Malaysia's economy grew by 4.4% in 1Q 2025 (4Q 2024: 4.9%), supported by strong domestic demand, resilient household spending, and steady investment, despite weaker exports and a contraction in the mining sector. The headline inflation in Malaysia remained unchanged at 1.4% in April 2025 (Mar: 1.4%), while its core inflation rate edged higher to 2.0% (Mar: 1.9%). Unemployment rate was steadied at 3.1% as of March 2025. BNM international reserves amounted to US$119.1bn as of 15 May 2025 (15 Apr: US$118.4bn). 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 appreciated by 1.6% against USD, closing at 4.2500 (Apr: 4.3170), as USD weakened further in May 2025 due to deteriorating confidence in US fiscal policy, Moody's downgrade of the US sovereign rating and concerns over rising national debt.

- Two auctions were held in May 2025, new issue of 5Y MGS 05/30 and new issue of 20Y MGII 05/45. The auctions received an average bid-to-cover ratio of 2.726x.
    - RM5.0b new 5-year MGS 05/30 averaging yield of 3.336% at a bid-to-cover ratio of 2.133x; and
    - RM5.0b (including RM2.0b private placement) new 20-year MGII 05/45 averaging yield of 3.775% at a bid-to-cover ratio of 3.318x.

- In May 2025, Malaysia's MGS and GII yields declined by 9 to 14 bps across the curve, driven by continued demand from both local and foreign investors. Foreign fund flows in the local bond market recorded a second consecutive month of strong net foreign inflows of RM13.4 billion in May 2025 (Apr: RM10.2 billion). YTD, the net foreign fund inflows stood at RM26.87 billion. The 10Y UST yield climbed higher to 4.41% as at end May 2025 (Apr: 4.17%), as traders reacted to trade war tensions and economic data.

BENCHMARK	Dec 2024 Yield	Apr 2025 Yield	May 2025 Yield	MOM Change	YTD Change
3-year MGS	3.47%	3.26%	3.16%	-10 bps	-31 bps
5-year MGS	3.62%	3.33%	3.21%	-12 bps	-41 bps
10-year MGS	3.82%	3.66%	3.52%	-13 bps	-29 bps
15-year MGS	3.97%	3.82%	3.69%	-13 bps	-27 bps

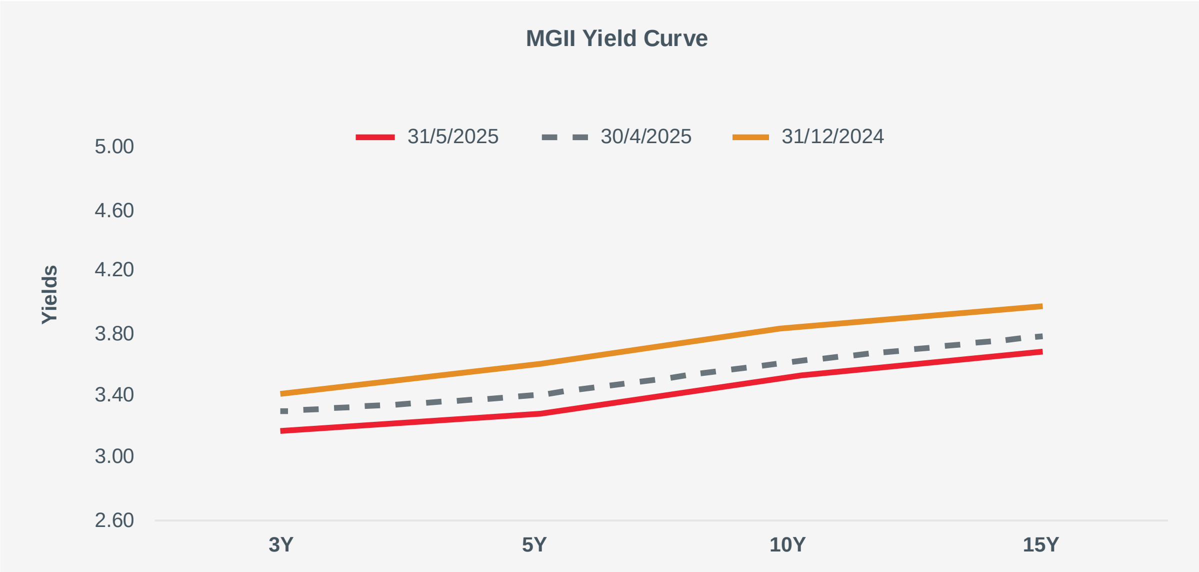
Source: Bloomberg



Source: Bloomberg

BENCHMARK	Dec 2024 Yield	Apr 2025 Yield	May 2025 Yield	MOM Change	YTD Change
3-year MGII	3.42%*	3.32%	3.18%	-14 bps	-24 bps
5-year MGII	3.62%	3.41%	3.29%	-12 bps	-32 bps
10-year MGII	3.83%	3.62%	3.53%	-9 bps	-31 bps
15-year MGII	3.98%	3.79%	3.69%	-10 bps	-29 bps

Source: Bloomberg. *MGII3Y Index



Source: Bloomberg

Outlook

- In May 2025, US markets were unsettled by President Trump's trade policy shifts, mixed economic data and evolving interest rate expectations. The Fed held rates steady at 4.25%-4.5%, citing stalled progress on inflation progress and early signs of labour market weakness. The May FOMC minutes confirmed the Fed's cautious stance, with no urgency to cut interest rates amid elevated uncertainty from recent trade developments. According to the CME FedWatch Tool, markets widely expect rate to remain unchanged at the upcoming June 18 FOMC meeting, supported by recent data showing solid growth, low unemployment, and gradually easing inflation. However, policymakers remain cautious, awaiting clearer signals before adjusting policy. Markets are increasingly pricing in the possibility of rate cuts later this year, particularly if economic activity continues to slow. Trade negotiations with key partners are ongoing, but risks remain as the deadline for suspended tariffs approaches and broader agreements are still pending. Additionally, concerns over fiscal mismanagement following Moody's credit rating downgrade, political instability, and aggressive federal restructuring continue to cloud the outlook. Ongoing geopolitical tensions, unsolved trade issues, and slower growth in China are expected to further introduce uncertainties in the market and influence the trajectory of the global markets.

- In Malaysia, the government has projected economic growth of between 4.5% to 5.5% in 2025. However, this projection may be revised depending on ongoing economic conditions and the outcome of ongoing tariff negotiations. BNM kept the OPR unchanged at 3.00% during its May MPC meeting, but the MPC statement took on a more dovish tone, emphasizing rising external risks - particularly from global trade tensions and tariff uncertainties - and noting that domestic growth could be affected if these risks persist. This suggests a greater openness to policy easing should conditions worsen. The inflation is projected to remain manageable, within a range of 2.0% to 3.5% for 2025 despite core and headline inflation well below 2%. However, upside risks to inflation exist, including rising global commodity prices, financial market volatility and impact of domestic policy measures, including tariffs, all of which could exert upward pressure on prices.

- Three auctions are expected in the month of June 2025, with reopening of 15Y MGS 04/39, reopening of 30Y MGII 03/54 and new issue of 10Y MGS 07/35. 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 (%)	
	31-May-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	3.02
3-mth BNM MN	3.04
3-mth KLIBOR	3.50
CP	
1-mth (P1)	3.67
3-mth (P1)	3.84

Source: Bloomberg/Bondstream
* Maybank2u.com.my

Table 2: Indicative Bond Yields (%)					
	3yr	**5yr**	**7yr**	**10yr**	**15yr**
MGS	3.17	3.20	3.38	3.56	3.70
GII	3.16	3.28	3.43	3.53	3.67
Swap rate*	3.14	3.23	3.33	3.47	3.61
AAA	3.59	3.63	3.68	3.75	3.86
AA1	3.70	3.77	3.81	3.88	4.00
AA2	3.77	3.86	3.92	4.02	4.25
AA3	3.86	3.94	4.01	4.15	4.46
A1	4.71	4.97	5.18	5.48	5.91
A2	5.35	5.74	6.04	6.45	6.98
A3	5.98	6.50	6.88	7.39	8.05

Source: Bloomberg*/Bondstream

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