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MARKET COMMENTARY

Fixed income market review and outlook

April 2025

Review

- In the first quarter of 2025, the U.S. economy experienced a slight contraction, with GDP declining by 0.3%, marking the first negative growth since early 2022. This downturn was largely driven by a surge in imports as companies and consumers rushed to stockpile goods in anticipation of President Trump's tariffs. The U.S. economy added 177k jobs in April 2025, reflecting a slowdown from the downwardly revised 185k jobs in March, and unemployment rate remained at 4.2%. In March 2025, the U.S. PCE Price index increased by 2.3% YoY (Feb: 2.7% YoY), and the core PCE price index rose by 2.6% YoY (Feb: 3.0% YoY). The University of Michigan Consumer Sentiment index fell to 52.2 April 2025 from 57.0 in March 2025, amid growing concerns over trade policy volatility and the potential for rising inflation. The Manufacturing PMI slipped slightly to 48.7 in April 2025 (Mar: 49.0) amid shrinking output and rising prices, while the Service PMI increased to 51.6 (Mar: 50.8), indicating an improvement in the non-manufacturing sector. The federal funds rate was at 4.25% to 4.5% in April 2025.

- The Bank of England's bank rate was at 4.5% in April 2025. The U.K.'s inflation rate slowed to 2.6% in March 2025 (Feb: 2.8%), driven by price drops in recreation and culture, as well as a fall in motor fuel prices. Core inflation also eased to 3.4% (Feb: 3.5%). In February 2025, UK industrial production increased by 0.1% YoY (Jan: -0.5%) and manufacturing production increased by 0.3% YoY (Jan: -0.9% YoY). Retail sales rose 2.6% YoY in Mar 2025 (Feb: 1.8%), driven by non-food stores, particularly clothing and outdoor retailers, benefiting from good weather.

- The European Central Bank has lowered its three interest rates by 25 basis points ("bps") in April 2025, bringing the deposit facility rate to 2.25% (from 2.50%), the main refinancing operations to 2.40% (from 2.65%) and the marginal lending facility to 2.65% (from 2.90%). This decision underscores increasing confidence that inflation is on a sustainable path back toward the 2% target. In April 2025, Eurozone's inflation rate remained steady at 2.2% (Mar: 2.2%), while its core inflation accelerated to 2.7% at 2.4% (Mar: 2.4%). Services inflation picked up significantly, reaching 3.9% compared to 3.5% in March, partly influenced by Easter timing effects.

- The Reserve Bank of Australia's cash rate was at 4.1% in April 2025. In Asia, both Bank of Thailand and Central Bank of Philippines lowered their benchmark interest rate by 25 bps in April 2025 – Thailand to 1.75% to support the economy amid US tariffs, and Philippines to 5.5% to support growth amid easing inflation and global trade tensions. Bank of Indonesia and Bank of Korea kept their interest rate unchanged at 5.75% and 2.75%, respectively, in April 2025. Meanwhile, Bank Negara Malaysia ("BNM") and Bank of Japan did not hold any monetary policy committee meeting in April 2025.

- The People's Bank of China kept its key lending rates in April 2025 fixing, primarily to observe and assess the impact of ongoing US trade disputes before taking any further action. The 1-year and 5-year loan prime rates were held at 3.1% and 3.6%, respectively. In March 2025, China's imports declined by 4.3% YoY in USD terms (Jan-Feb 2025: -8.4%), amid ongoing weakness in domestic demand ahead of significant US tariff hikes, while its exports surged by 12.4% YoY (Jan-Feb 2025: 2.3%), suggesting a possible frontloading of shipments in anticipation of the latest US tariffs coming into effect. Retail sales rose by 5.9% YoY (Jan- Feb 2025: 4.0%) and industrial production rose by 7.7% YoY (Jan-Feb 2025: 5.9%). China's fixed asset investment rose by 4.2% YoY from January-March 2025 (Jan-Feb 2025: 4.1%).

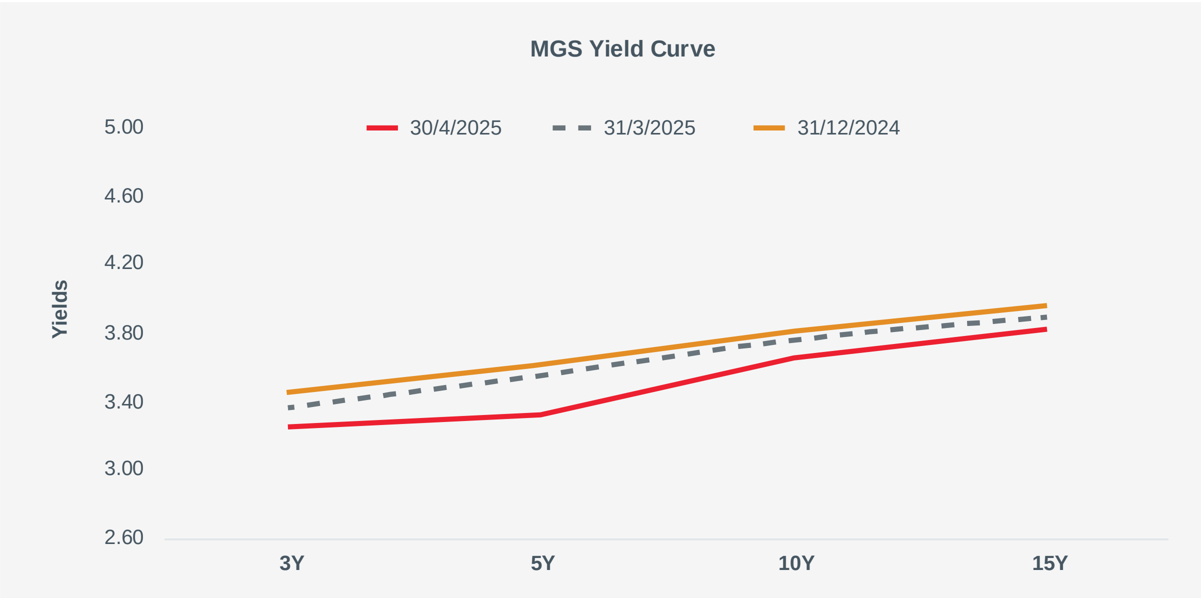
- The headline inflation in Malaysia was 1.4% in March 2025 (Feb: 1.5%), and its core inflation rate remained steady at 1.9%. Unemployment rate was steadied at 3.1% as of February 2025. BNM international reserves amounted to US$118.4bn as of 15 April 2025 (28 Mar: US$117.5bn). The reserves position is sufficient to finance 4.9 months of imports and is 0.9x of the total short-term external debt. The Ringgit appreciated by 2.6% against USD, closing at 4.3175 (March: 4.433), as USD has been weakening due to uncertainty around tariffs, inflation and interest rates in the U.S.

- Three auctions were held in April 2025, the reopening of 15Y MGII 07/40, reopening of 3Y MGS 04/28 and new issue of 10Y MGII 04/35. The auctions received an average bid-to-cover ratio of 2.84x.
  - RM4.0b (including RM1.0b private placement) reopening 15-year MGII averaging yield of 3.748% at a bid-to-cover ratio of 3.362x;
  - RM5.0b reopening 3-year MGS averaging yield of 3.467% at a bid-to-cover ratio of 3.177x; and
  - RM5.0b new issue 10-year MGII averaging yield of 3.625% at a bid-to-cover ratio of 1.995x.

- In April 2025, Malaysia's MGS and GII yields edged lower, between 9 to 24 bps across the curve, driven largely by increasing expectations of an OPR cut amid escalating global trade tensions. Foreign fund flows in the local bond market recorded a strong net foreign inflow of RM10.2 billion in April 2025 (Mar: RM3.2 billion). YTD, the net foreign fund flow stood at RM13.46 billion. The 10Y UST yield ended lower at 4.16% as at end April 2025 (Mar: 4.23%).

BENCHMARK	Dec 2024 Yield	Mar 2025 Yield	Apr 2025 Yield	MOM Change	YTD Change
3-year MGS	3.47%	3.38%	3.26%	-12 bps	-21 bps
5-year MGS	3.62%	3.56%	3.33%	-24 bps	-29 bps
10-year MGS	3.82%	3.77%	3.66%	-11 bps	-16 bps
15-year MGS	3.97%	3.91%	3.82%	-9 bps	-15 bps

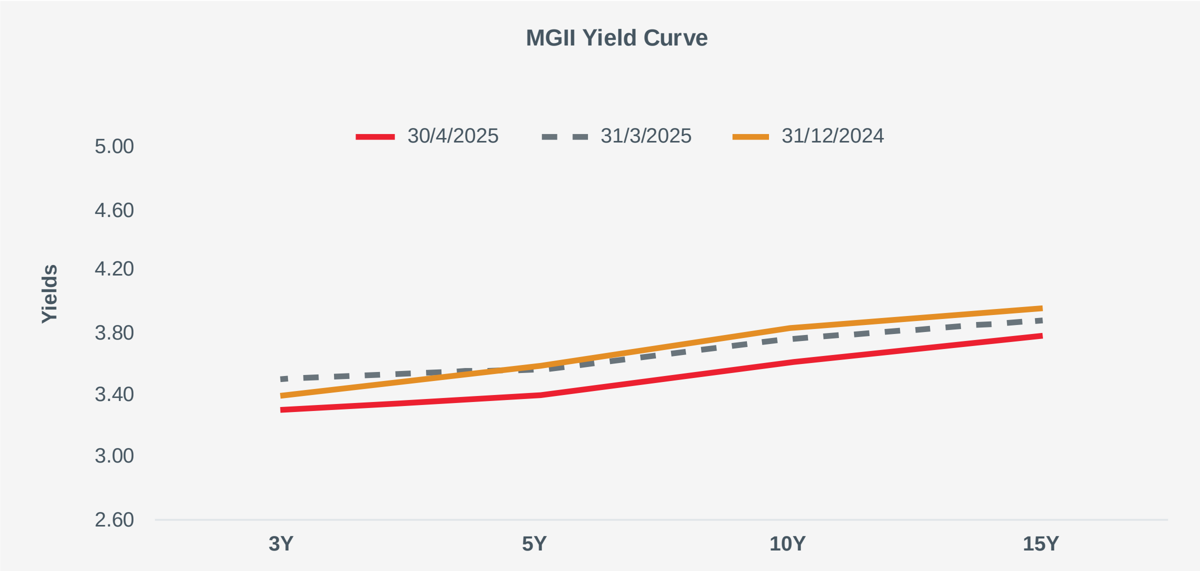
Source: Bloomberg



Source: Bloomberg

BENCHMARK	Dec 2024 Yield	Mar 2025 Yield	Apr 2025 Yield	MOM Change	YTD Change
3-year MGII	3.42%*	3.51%	3.32%	-20 bps	-10 bps
5-year MGII	3.62%	3.59%	3.41%	-18 bps	-21 bps
10-year MGII	3.83%	3.78%	3.62%	-16 bps	-22 bps
15-year MGII	3.98%	3.90%	3.79%	-11 bps	-19 bps

Source: Bloomberg. *MGII3Y Index



Source: Bloomberg

Outlook

- On 2 April, President Trump announced a new tariff policy, declaring the day “Liberation Day”. On 9 April, President Trump announced a 90-day pause on tariffs for most international trading partners, excluding China, in response to significant market turmoil and fears of recession. The pause aims to give trading partners time to negotiate deals and avoid tariffs. The unpredictability of the Trump administration makes it unclear what will happen once the pause ends. The International Monetary Fund has downgraded its 2025 U.S. growth forecast from 2.7% to 1.8%, citing trade tensions and weakening consumer confidence. It also revised its inflation expectations for the U.S. to 3% for 2025, up from the previous forecast of 2%. Despite these challenges, the Federal Reserve is expected to keep interest rates unchanged at its upcoming meeting, maintaining the 4.25% to 4.5% range since December 2024, as policymakers are waiting for clearer economic signals before making any changes to the interest rate. The tariffs have negatively impacted consumer and business sentiment, manufacturing, and GDP, which contracted by 0.3% in the quarter of 2025. Ongoing geopolitical risks, escalating trade tensions, 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 to better support economy, depending on ongoing economic conditions and developments in tariff negotiations. BNM is expected to maintain the OPR at 3.0% in 2025, aligned with the current economic outlook and inflation expectations. Nonetheless, given the prevailing low inflation environment, there is room for BNM to adjust OPR if necessary and it is a scenario that could play out if growth slows or as pre-emptive measures. The inflation is projected to remain manageable, within a range of 2.0% to 3.5% for 2025. However, upside risks to inflation exist, including rising global commodity prices, ongoing geopolitical tensions, further shifts in US trade policy and the implementation of targeted petrol subsidies, all of which could exert upward pressure on price.

- Two auctions are expected in the month of May 2025, with new issue of 5Y MGS 05/30 and new issue 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 (%)	
	30-Apr-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	3.10
3-mth BNM MN	3.14
3-mth KLIBOR	3.65
CP	
1-mth (P1)	3.75
3-mth (P1)	3.92

Source: Bloomberg/Bondstream
* Maybank2u.com.my

Table 2: Indicative Bond Yields (%)					
	3yr	**5yr**	**7yr**	**10yr**	**15yr**
MGS	3.24	3.40	3.55	3.68	3.83
GII	3.30	3.39	3.56	3.62	3.78
Swap rate*	3.25	3.29	3.40	3.50	3.60
AAA	3.66	3.71	3.78	3.86	3.97
AA1	3.76	3.82	3.89	3.99	4.13
AA2	3.85	3.91	3.98	4.11	4.33
AA3	3.94	4.01	4.08	4.22	4.50
A1	4.74	4.99	5.22	5.52	5.93
A2	5.38	5.76	6.08	6.49	7.00
A3	6.01	6.52	6.92	7.43	8.07

Source: Bloomberg*/Bondstream

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