

FUND COMMENTARY

MARCH 2014

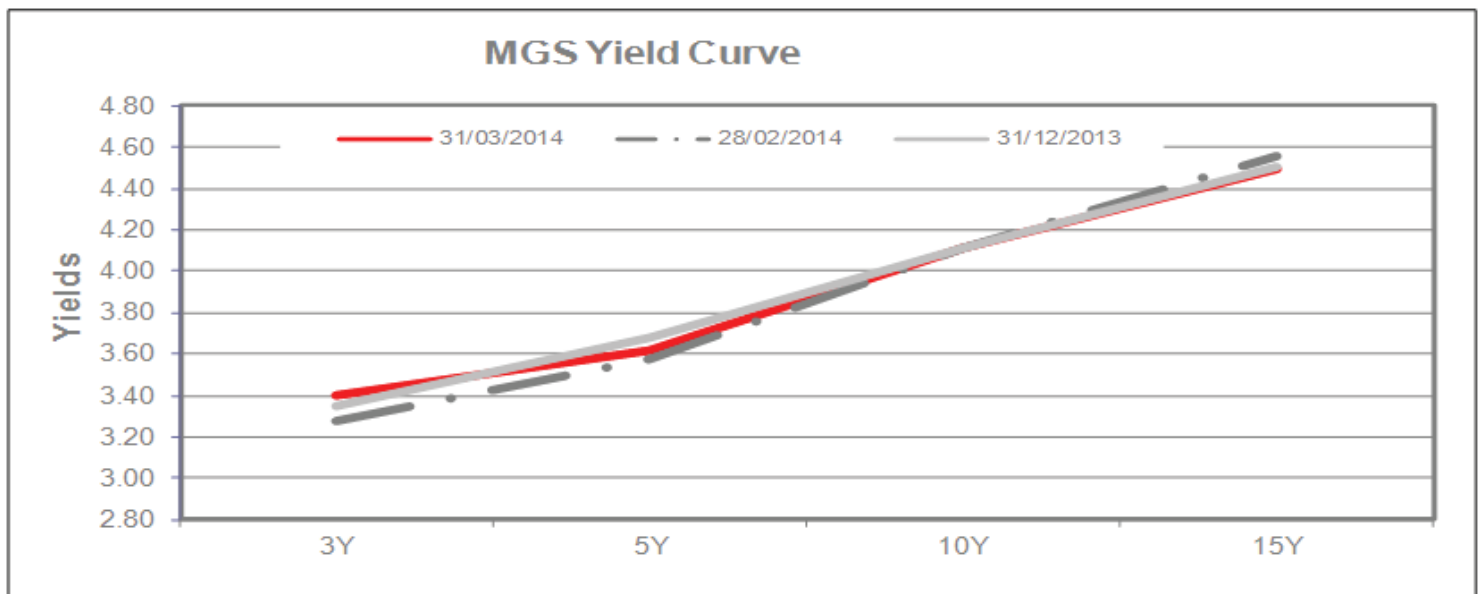
Fixed Income Market Review & Outlook

REVIEW

- Headline inflation rose to 3.5% yoy in February from 3.4% yoy in January. This was largely due to a rise in core inflation, which rose to 3.3% yoy in February from 3.0% yoy in January. It was boosted by Housing, Water, Electricity, Gas & Other Fuels, which rose to 3.5% yoy in February from 3.2% yoy in January. Food & Non-Alcoholic beverages slowed to 3.8% yoy in February from 4.2% yoy in January.
- Sovereign bond auctions in March 2014 were:
 1. RM4bn new 3-year MGS averaging 3.394% at a bid-to-cover ratio of 2.18x.
 2. RM2.5bn re-opening 10-year GII averaging 4.236% at a bid-to-cover ratio of 2.51x.
 3. RM4bn new 7.5-year MGS averaging 4.048% at a bid-to-cover ratio of 2.27x.
- There will be 3 auctions in April, a 7.5-year SPK, a 15-year GII and a 5.5-year MGS.
- During the month, the yields closed mixed across tenors, with larger rises seen in shorter tenors yields than longer tenor yields for both MGS & MGII.

BENCHMARK	31/12/2013 Yield	28/02/2014 Yield	31/03/2014 Yield	MOM Change	YTD Change
3-year MGS	3.35%	3.27%	3.40%	+13bps	-5bps
5-year MGS	3.68%	3.57%	3.61%	+4bps	-7bps
10-year MGS	4.11%	4.11%	4.11%	unch	unch
15-year MGS	4.50%	4.55%	4.50%	-5bps	unch

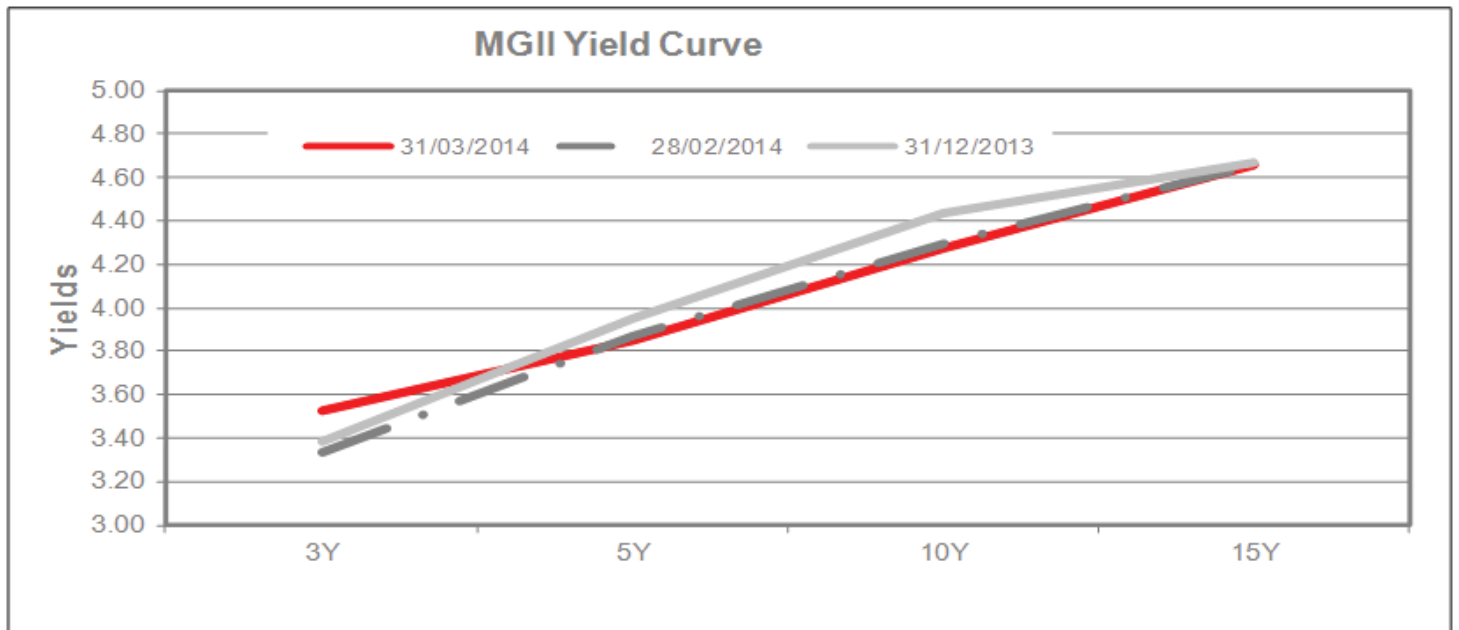
Source: Bloomberg



Source: Bloomberg

BENCHMARK	31/12/2013 Yield	28/02/2014 Yield	31/03/2014 Yield	MOM Change	YTD Change
3-year MGS	3.38%	3.34%	3.52%	+18bp	+14bps
5-year MGS	3.95%	3.87%	3.85%	-2bps	-10bps
10-year MGS	4.43%	4.30%	4.27%	-3bps	-16bps
15-year MGS	4.66%	4.65%	4.65%	unch	-1bps

Source: Bloomberg



Source: Bloomberg

- Trading in corporate bonds remains largely in selected quasi-government, AAA and AA bonds.

OUTLOOK

- At the MPC meeting on 6 March, BNM kept the OPR unchanged at 3.0%. BNM noted that the global economic expansion remained moderate. In the advanced economies, recovery has been modest and uneven whereas in Asia, growth is supported by improvements in the external sector amid moderating domestic demand in some economies. The international financial markets continued to be volatile on policy shifts in some major economies and geopolitical developments.
- For the Malaysian economy, the latest indicators suggest further improvement in exports and continued expansion in private sector investment spending. Exports should continue to benefit from the recovery in the advanced economies and from regional demand. Investment activity should remain robust on private capital spending. Domestic demand is expected to moderate on public sector consolidation and private consumption trending towards its long term average.
- Inflation has been gradually rising due to supply disruptions following adverse weather conditions and increases in domestic costs. Going forward, inflation is expected to be affected by higher domestic costs but mitigated by subdued by external price pressures and moderate domestic demand conditions.
- The MPC will continue to evaluate the global and domestic economic and financial developments and their implications on the overall outlook for inflation and growth of the Malaysian economy. The MPC will also continue to monitor for signs of destabilising risks of financial imbalances.
- On 19 March, the Federal Reserve Chairman, Janet Yellen stated that the Fed may end its Quantitative Easing bond purchases by fall and increase the Federal Funds Rate around "6 months" after the last bond purchases. Her "6 months" statement sent jitters through the bond and equity markets. However, on 31 March, she stated that the Fed would be maintaining its stimulus for "some time", emphasizing that there remains considerable slack in the US economy and its labor market. The Fed's bond buying program was cut to USD 55b in March meeting and expectations are that the Fed will further declare a reduction in its 29-30 April meeting. Whilst gradual tapering of the QE programme is already anticipated by the local bond market, volatility is still likely to persist.

OUTLOOK

- ▶ BNM also forecast 2014 inflation of 3% to 4%, from 2.1% in 2013. The inflation forecast number is higher than the current OPR rate of 3%, signifying a negative real interest rate, and feeds market speculation of an OPR hike in 2H14.

Table 1: Indicative Rates	
	31-Mar-14
MBB O/N*	1.80%
MBB 1-Week*	1.90%
MBB 1-Mth FD*	3.00%
MBB 6-Mth FD*	3.10%
MBB 1-Year FD*	3.15%
1-mth BNM MN	3.00%
3-mth BNM MN	3.01%
3-mth KLIBOR	3.33%
CP	
1-mth (P1)	3.29%
3-mth (P1)	n/a

Source: Bloomberg/ Bondstream

* Maybank2u.com.my

Table 2: Indicative Bond Yields (%)					
	3yr	5yr	7yr	10yr	15yr
MGS	3.41	3.74	4.00	4.11	4.43
GII	3.56	3.84	4.13	4.27	4.63
Swap rate*	3.77	3.99	4.18	4.58	4.85
AAA	4.01	4.34	4.68	4.96	5.26
AA1	4.16	4.52	4.86	5.14	5.44
AA2	4.33	4.72	5.06	5.34	5.64
AA3	4.50	4.90	5.27	5.55	5.87
A1	5.46	5.93	6.38	7.05	7.77
A2	6.52	7.05	7.54	8.25	9.03
A3	7.58	8.15	8.68	9.46	10.33

Source: Bloomberg*/ Bondstream