

BOND EDITION

EVERYTHING ON THE MALAYSIAN FIXED INCOME SCENE- MAY 2021

NOMURA ASSET MANAGEMENT MALAYSIA

MONEY MARKET

In its May Monetary Policy Committee meeting, Bank Negara Malaysia (BNM) kept the Overnight Policy Rate unchanged at 1.75%. BNM sounded neutral in its monetary policy statement as it indicated further improvement in both global and local economy while it continued to highlight the potential downside risks to the economic recovery. BNM held the view that the anticipated spike in headline inflation in 2Q2021 will be temporary and transitory due to cost-push factor of higher global oil prices. Though BNM considered the current monetary policy stance to be appropriate and accommodative, it kept the door open for further rate cut should the downside risks materialize as it reiterated that future monetary policy will be data dependent.

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LOCAL BONDS

Tracking global yield movements, Government Investment Issue (GII) yield curve flattened in June. This was amidst a hawkish surprise from the US Federal Reserve, the implementation of a nationwide Full Movement Control Order (FMCO), and the announcement of an additional MYR 150 billion economic stimulus package, known as PEMULIH, which involves a direct fiscal injection of MYR 10 billion. In particular, long-end of the curve outperformed with yields declining circa 7 bps MoM while front-end of the curve fell 2-5 bps MoM. S&P Global Ratings reaffirmed Malaysia's foreign currency and local currency long-term issuer ratings at A- and A, respectively, and reiterated negative watch on the ratings. It has also revised its GDP forecast for Malaysia to 4.1% from 6.2% previously to account for the impact of MCO 3.0 since June 1.

As global yield curves flattened following the Federal Reserve's Federal Open Market Committee meeting, we continued investing our cash position into GII and corporate sukuk at the 5-10Y portion of the curve. As we maintain our view that the domestic yield curve is unjustifiably steep, coupled with a fairly wide credit spread, we continue to express our investment strategy through buying corporate sukuk at the belly of the curve.

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