

# BOND EDITION

EVERYTHING ON THE MALAYSIAN FIXED INCOME SCENE- JUNE 2021

NOMURA ASSET MANAGEMENT MALAYSIA

## *MONEY MARKET*

Malaysia's headline inflation softened marginally to register +4.4% YoY (Apr-2021: +4.7% YoY) while core inflation edged up to +0.8% YoY in May (Apr-2021: +0.7% YoY). As stricter movement restrictions were re-imposed in May, price growth in fuel price and food & beverages slowed while prices in furniture & furnishing, healthcare, housing & utilities, and education picked up. Headline inflation remained high in May due to year-ago low base effect. Going forward, this trend is expected to continue into 2H2021, but at a declining rate as the low base effect subsides. Meanwhile, deposit rates remained broadly stable through the month ahead of the upcoming Bank Negara Malaysia's Monetary Policy Committee meeting in July.

## *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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