

CHARTBOOK

ASEAN Framing a Future



Inflation Fears vs. Late-cycle Risk

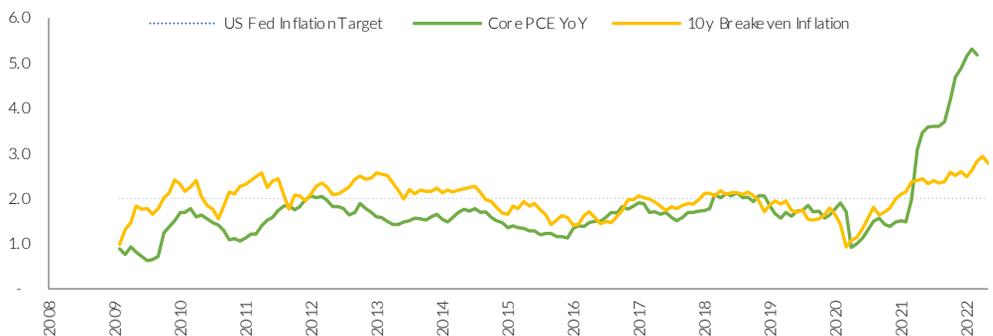


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Head, Fixed Income Research

With US inflation at a multi-decade high, the Fed is in inflation-fighting mode. The US rates market has priced in for a steep rise in interest rate by about 300bp over a 12-month period, the most aggressive tightening since at least the mid-1990s.

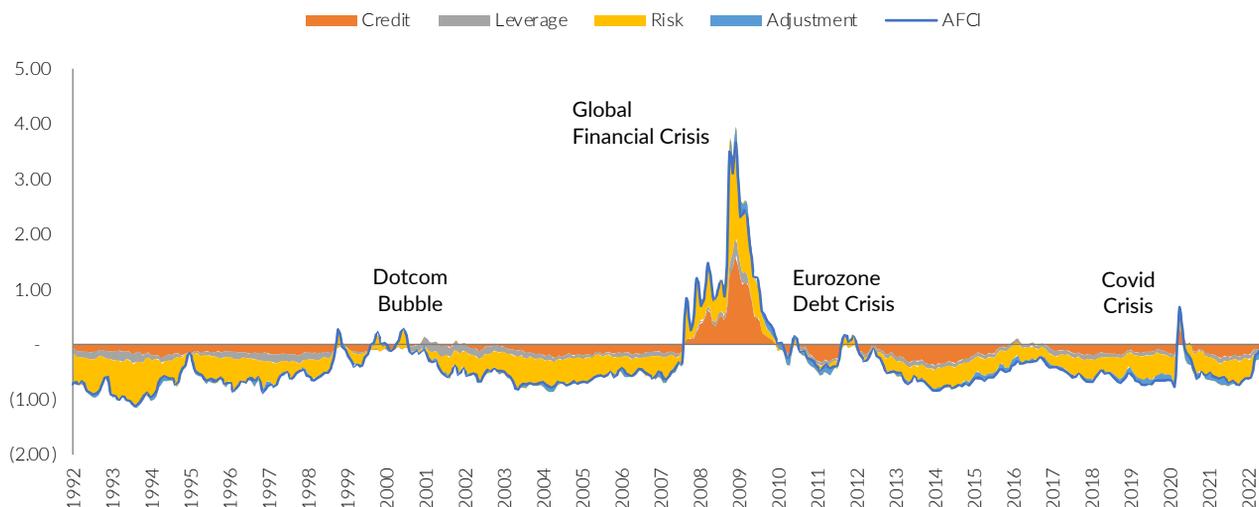
As inflation pressures peak, the 10-year breakeven rate, a market-based measure of long-term inflation expectations, has receded to 2.70-2.80% after rising above 3.00%, a record high, in April.

Peak US Inflation to Peak Inflation Expectations?



Source: CEIC (1Q20-1Q21; 2020); Maybank Kim Eng (2021-2022)

Tightening US Financial Conditions May Raise Haven Demand



Source: Maybank IBG Research

Financial conditions in the US have tightened considerably. The Chicago Fed Adjusted National Financial Conditions Index has increased from -0.63 at the beginning of the year to +0.06 as of 6 May 2022. A negative/positive figure indicates looser/tighter than average financial conditions.

This is the highest reading since 2011 if we exclude March-April 2020 when the global financial market was in a meltdown entering the pandemic. A further deterioration in financial conditions is expected to raise haven demand for UST.

EM Asia Government Bond Yearly Total Return in Local Currency

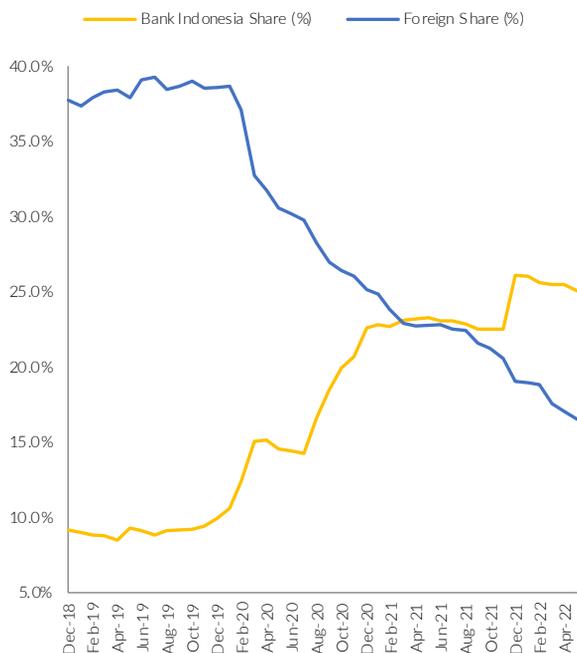


Source: Maybank IBG Research

The UST market posted a negative total return of -9.1% YTD as of 17 May. While highly correlated with the UST, ASEAN government bonds generally outperformed UST measured in local currency with total return of between -3.2% and -6.3% for Indonesia, Malaysia, Philippines and Singapore, except for Thailand which recorded a larger YTD loss at -11.4%.

The losses of regional bonds are wider after including FX effect, as all regional currencies are weaker against the USD this year.

Indonesia: Rupiah Bonds Are Exposed to Policy Exit Risk



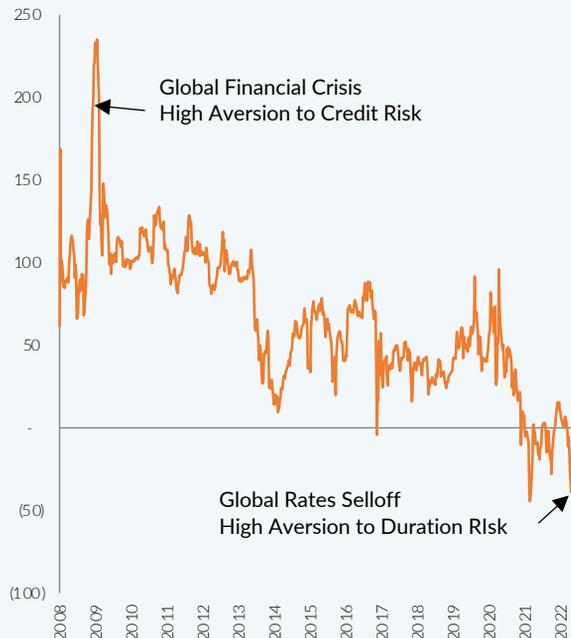
Source: Maybank IBG Research

The foreign share of Rupiah government bonds has fallen sharply from close to 40% pre-Covid to around 17% currently, due to persistent foreign outflows and significant purchases by Bank Indonesia to address funding gap during the pandemic.

Bank Indonesia now holds a larger share at about 25%, anchoring market stability over the past two years.

With both growth and inflation normalising to levels near pre-Covid, both IndoGB and Rupiah may be exposed to policy exit risk as Bank Indonesia reduces its presence in the market.

Malaysia: Disproportionate Duration-Credit Risk Pricing



Source: Maybank IBG Research

The global rates selloff has resulted in significant aversion to duration risk. In Ringgit bonds, ultra-long government bond yields are trading at or near record highs. Following the hawkish repricing, MYR rates market has essentially priced in for a full normalisation by BNM.

The current duration-credit risk pricing of MYR bonds is disproportionately wide. We use 15y MGS as a proxy for duration risk and composite 5y AA3 onshore credit spreads as a proxy for credit risk. We recommend investors to extend duration in MGS and GII.



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