Resilient bond market in 2025

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MARKETS

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MARC Ratings Bhd chief economist Ray Choy

PETALING JAYA: While the local bond market has so far been quite resilient, domestic inflationary pressures and global uncertainties may temporarily pose market risks to ringgit bonds.

Generally, higher inflationary pressures may cause bond yields to rise and bond prices to be lower due to weaker demand for bonds.

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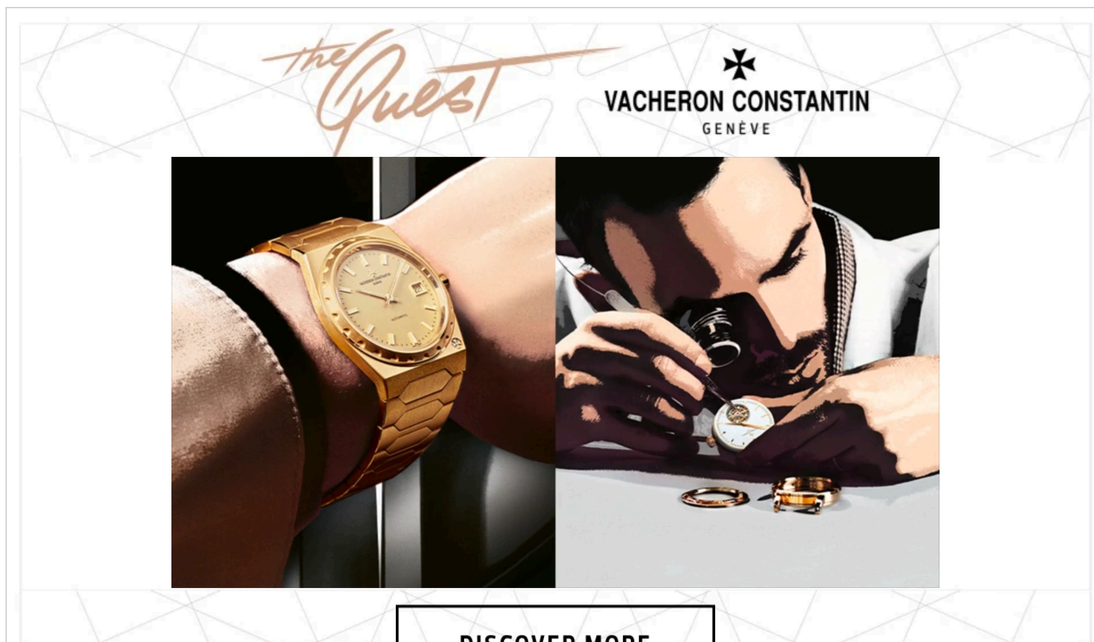

Bond yields and bond prices have an inverse relationship. When bond yields go up, prices come down and vice versa. Yield refers to the earnings from an investment over a specific period.

MARC Ratings Bhd chief economist Ray Choy told StarBiz he foresees a manageable and temporary increase in bond market risks in 2025, on account of both domestic and global factors.

"Domestically, inflation is likely to increase due to subsidy retargeting which will cause the RON95 petrol price to increase, the implementation of a higher sales and service tax or SST, a possible increase in electricity prices, higher wages and the ongoing adjustment of food prices to market levels.

"Additionally, inflation will be supported by strong demand, with Malaysia likely to record above average gross domestic product (GDP) growth of about 5% in 2025.

"However, the consensus had already expected higher inflation this year. Hence, inflation prints will not come as a surprise and any market reaction will be both temporary and muted," he noted.

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The economy grew 5% in the fourth quarter of 2024 (4Q24), slightly above market expectations and the official advance estimate of 4.8%. On a quarter-on-quarter seasonally-adjusted basis, growth declined by 1.1%.

For the entire year of 2024, Malaysia's economy grew 5.1%.

While the evolution of domestic drivers of inflation in Malaysia is quite predictable, external risks would likely be difficult to forecast, he said.

At present, he said the US-China trade war is developing, and while US tariff policy against China has been less aggressive than expected at the initial stage, risks are tilted towards progressively higher tariffs by the United States.

“Geopolitical aggression by the United States could further affect supply chains in the rest of the world apart from China, namely, the Middle East and South America, leading to higher global factors of inflation.

“Hence, the US monetary policy has turned less dovish due to persistent perceived inflation, which lowers expectations of interest rate cuts. This will cause greater volatility in emerging market currencies and bonds, including Malaysia,” Choy said.

OCBC Bank (M) Bhd head of global markets Stantley Tan

OCBC Bank (M) Bhd head of global markets Stantley Tan is positive on the outlook for the local bond market entering 2025, given various factors.

However, he said since US president Donald Trump took up office at the White House, uncertainty and volatility have increased in line with market consensus.

"On the local front, the government's drive towards fiscal consolidation adds an idiosyncratic tailwind, and going by central bank and government expectations, local price pressures arising from such consolidation measures should be contained," Tan said.

He said this has resulted in local bonds being more resilient amidst heightened macro volatility and instilled greater confidence for local bond investors.

"As for Trump's policies, markets are fluctuating between the implementation of a very aggressive US trade policy versus recent indications that such announcements were merely serving as bargaining tools, for example the recent renegotiations with Canada and Mexico.

"As a result, we can anticipate that volatility will remain high until the narrative becomes more defined," Tan said.

Bond Pricing Agency Malaysia chief executive officer Meor Amri Meor Ayob said overall, the ringgit bond market has shown resilience against the flow-on effects arising from the tariffs imposed by Trump on certain countries and the broader trade war.

He said the Malaysian Government Securities or MGS bond yields have been fluctuating within a narrow range for quite some time. "While ringgit bond yields are slightly influenced by movements in US Treasury yields, which are impacted by the tariffs, the effect remains minimal.

"However, no one can truly predict Trump's intentions. Recently, he has repeatedly threatened BRICS – an alliance that includes Malaysia – with tariffs to discourage them from moving away from the US dollar. The impact of his impending actions remains to be seen," he said.

He said the ringgit bond market should fare better this year than in 2024 unless there is a fallout from the tariffs imposed by Trump.

Malaysia's economy is on a steady growth path and inflation in the country remains low at this juncture.

"Bank Negara is expected to hold the benchmark interest rate at 3% throughout the year as well, paving the way for a relatively stable interest rate environment which typically bodes well for the bond market," Meor Amri said.

OCBC's Tan expects the local bond market to fare better in 2025 compared to 2024 mainly due to fiscal consolidation efforts, and the current monetary policy that appears supportive of growth amidst balanced inflation expectations.

As the narrative for further escalation in tariff war accelerates, he said the expectation is slower global trade activities which is likely to lead to softening aggregate global productivity (i.e. lower GDP in affected countries). This expectation is bullish for bond markets as it supports higher bond prices, he noted.

On whether the demand for government bonds will be higher than corporate bonds, and the demand for long term bonds will exceed short term bonds for this year, Tan said MGS may hold better prospects given that sovereign risk ought to improve with fiscal consolidation.

“Corporate bond credit spreads are also very tight at current levels and judging from historical trends, slowing growth cycles (mainly as a result of ongoing tariff war) may lead to widening credit spreads as earnings expectations deteriorate.

“Demand for long dated or long term bonds will depend very much on real money investors’ appetite, while shorter duration bonds will likely see greater price volatility on the back of policy uncertainties and repricing of monetary policy responses,” he said.

Long-term bonds are debt securities issued by governments or corporations with maturity dates typically exceeding 10 years.

MARC’s Choy said, overall, concerns on rising inflation would likely lead to reduced preference for long-dated bonds, leading to a reallocation towards short- and medium-tenured bonds. Fortunately for government bonds, the demand-supply dynamic is favourable due to the government’s ongoing reduction of the fiscal deficit.

“Similarly, corporate bond supply has been constrained relative to the ongoing growth of available investment funds, which will lead to continued support for corporate bonds.

“Corporate bond demand will likely remain selective to companies with strong balance sheets, as margin compression could be a concern in 2025 due to rising input costs,” he said.

Meanwhile, the Malaysian bond market charted a more moderate foreign fund inflow of RM4.8bil in 2024 compared with RM23.6bil in 2023, exacerbated by persistent bond market selloffs throughout most of the year amid heightened uncertainties over the US Federal Reserve’s (Fed) interest rate outlook and the view that rate cuts might not be as forthcoming as initially expected.