

FIXED INCOME | Aug-23 Fixed Income Review

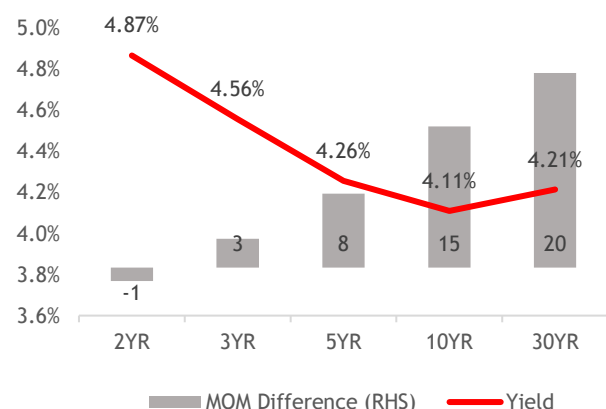
Benchmark MGS 10-Year Stable Despite Volatile UST

- The continuously changing market sentiment caused volatility in the UST market. The yield curve saw the longer-end rising much faster than the shorter-end. The 10-year UST yield ended the review month +15bps higher at 4.11 % (Jul-23: 3.96%), while the 3-year yield edged up by +3bps to 4.56%.
- MGS 10-year yield saw little change. MGS observed rising buying interest at the shorter end as the 3-Year recorded a -3bps decline to 3.46% while the 10-year MGS yield rose by +1bps to end the month at 3.84%.
- Expect MGS 10-Year yield to end the year at around 3.77%. MGS 10-year yield to move lower once it becomes clear that the Fed hit the pause button, i.e. no further widening of OPR-FFR differential.
- Foreign holdings of Malaysian bonds at all-time high in Jul-23. Foreign holding of Malaysian bond reached an all-time high in Jul-23 at RM279.2b.

US Treasury

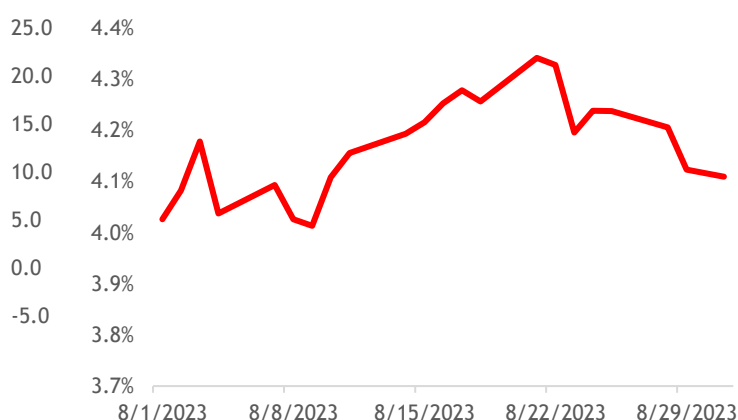
The continuously changing market sentiment caused volatility in the UST market. The yield curve saw the longer-end rising much faster than the shorter-end. The 10-year UST yield ended the review month +15bps higher at 4.11% (Jul-23: 3.96%), while the 3-year yield edged up by +3bps to 4.56%. As a result, the 10Y-3Y yield negative spread narrowed but remained very much inverted at -45bps (Jul-23: -56bps). The bond market shrugged off the Fitch Rating downgrade early in the month as Jul-23 non-farm payroll data fell below market expectations, indicating an easing tightness in the US labor market. However, hawkish sentiment caused apprehension within the market heading toward the Fed’s Chair address at Jackson Hole, resulting in the 10-year yield to peak at 4.34% around mid-month, the highest since 2007. However, despite the hawkish tone of Fed’s Chairman at the Jackson Hole Symposium, the 10-year yield sloped downward on further indications of an easing labour market, rather limited economic growth, and easing inflation.

Chart 1: UST Yield and MOM Difference (bps)



Source: Bloomberg, MIDFR

Chart 2: UST 10-year Yield Movement



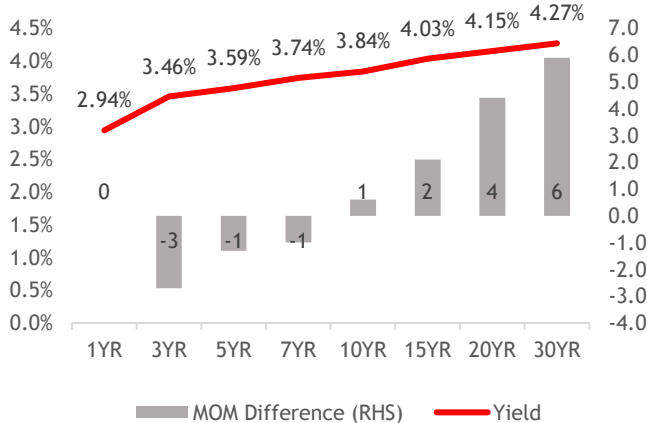
Source: Bloomberg, MIDFR

All eyes on Sep-23 FOMC. The focus will be on the FOMC meeting on 19-20 Sep-23, which will decide the short-term direction of the UST market. Market is expecting the Fed to keep the rate status quo in view of the overall easing inflation, despite recent data showing a slight rise in core PCE prices but within market expectations. UST will likely experience continuous volatility on data releases ahead of the FOMC FFR decision. With the Fed expected to skip the rate hike in Sep-23, the policy-sensitive yield of the shorter end will likely experience a decline. Meanwhile, the slower GDP growth, moderating labour market and slower inflation expectations might cause a slower rise in the longer-end yields. Nevertheless, as the Fed is expected to keep the rate elevated for quite some time, it is likely that yields for the longer-end will continue being of the rise. We opine the UST 10-year yield to end higher at around 4.20% level in Sep-23, narrowing the negative 10Y-3Y spread further.

Malaysian Government Bonds

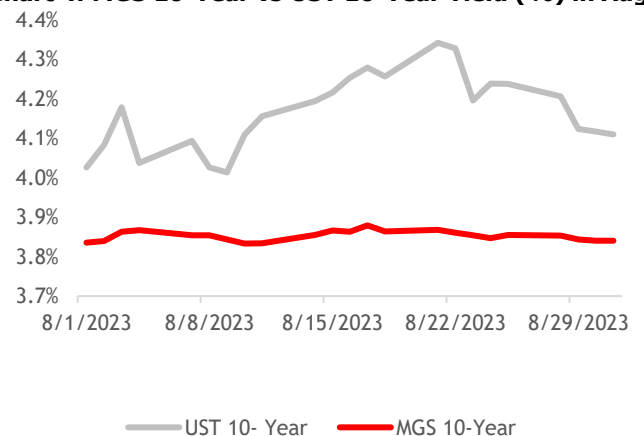
MGS 10-year yield saw little change. MGS observed rising interest at the shorter end as the 3-year recorded a -3bps decline to 3.46% while the 10-year MGS yield rose by +1bps to end the month at 3.84%. Considering the volatile UST, Malaysian govies have remained relatively stable as the 10-Year MGS hovered between 3.83%-3.88%. We opine that the relative stability within the MGS market stemmed from expectations that the BNM will keep the OPR steady while inflation is on a sustained deceleration trend. Volume traded declined to RM66.9b after recording a 4-month high of RM96.8b in Jul-23, with a wider trading breadth as the top 10 traded govies made up a smaller 44.6% of the total traded government bonds (Jul-23: 51.6%). The lesser activities in the secondary market might be due to the greater total new issuance of government bonds during the month.

Chart 3: MGS Yield Curve and MOM Difference (bps)



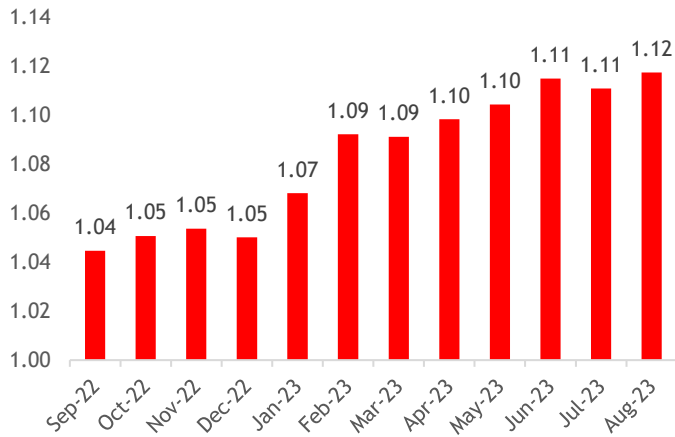
Source: Bloomberg, MIDFR

Chart 4: MGS 10-Year vs UST 10-Year Yield (%) in Aug-23



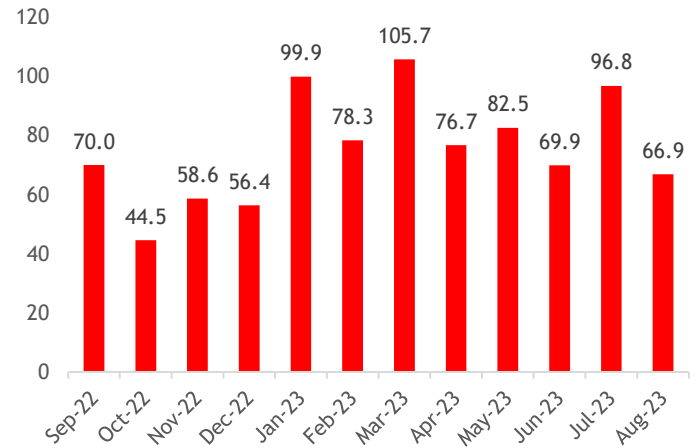
Source: Bloomberg, MIDFR

Chart 5: Volume of Outstanding Government Bond (RM t)



Source: Bondstream, MIDFR

Chart 6: Volume of Government Bond Traded (RM b)



Source: Bondstream, MIDFR

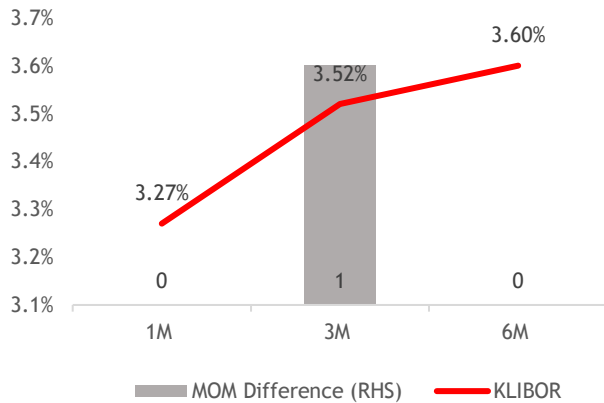
Large private placement in Aug-23 resulted in lower average BTC. The 4 auctions totalling RM14.0b in Aug-23 registered an average bit-to-cover (BTC) ratio of 2.11x (Aug-23: 2.30x). The lower BTC was owed to a significant chunk of the RM19.0b new issuance which was put under private placement compared to total RM14.5b issuance in Jul-23 with no private placement. Besides the RM5.0b private placement sapping appetite from larger institutions, the larger net issuance size of RM9.0b (Jul-23: RM4.5b) also caused lower auctions participations due to the lack of rollover funds. As of Aug-23, the total outstanding amount of government bonds rose to RM1.12t (Jul-23: RM1.11t), yet to reach RM1.2t projected by the government for this year.

MGS 10-year yield to end the year at around 3.77%. We expect the MGS 10-year yield to move lower once it becomes clear that the Fed has hit the pause button, confirming a direction for no further widening of the OPR-FFR differential. We foresee MGS-10 ending the year at around 3.77% and averaging at 3.80% this year (year-to-date average: 3.84%). We expect the yield for the 3QCY23 to end at 3.80% with an average of 3.84%, slightly lower than the current quarterly average of 3.85%. Our optimism stemmed from the local and global easing inflation rate, while BNM is expected to leave the OPR status quo while the Fed is nearing the end of its tightening cycle.

Interbank Money Market

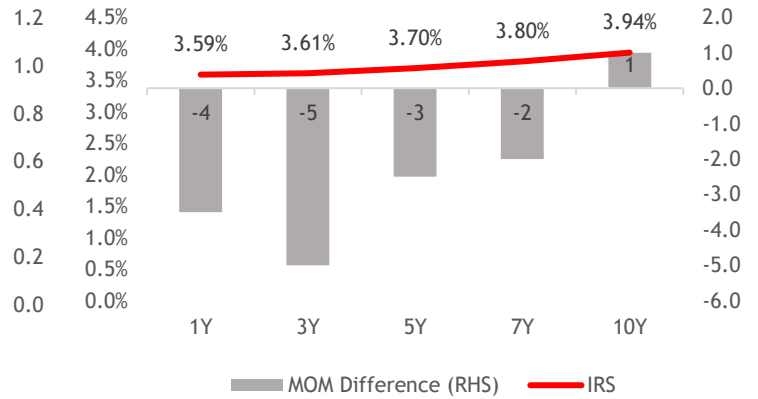
Little movement in KLIBOR. Aside from 3M KLIBOR which ended the month higher by +1bps, other KLIBOR rates remained unchanged in Aug-23. IRS market rates, however, were generally lower except for the longer-end 10-Year which inched up slightly by +1bps. The 3-Year IRS moved down the most by -5bps. The relatively stable interbank rate and IRS market were in line with the stable MGS market for the review period.

Chart 7: KLIBOR Movement and MOM Difference (bps)



Source: Bloomberg, MIDFR

Chart 8: IRS Movement and MOM Difference (bps)



Source: Bloomberg, MIDFR

Corporate Bonds

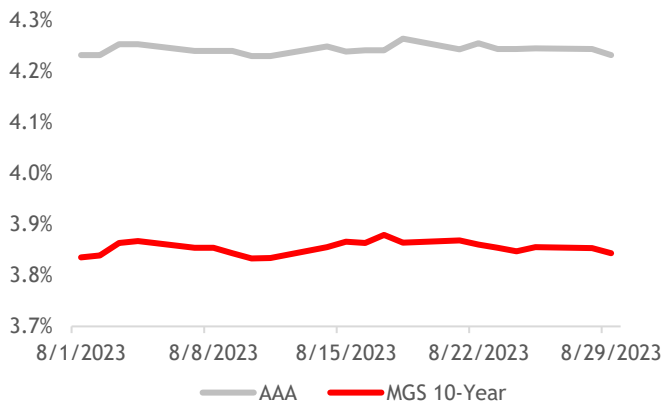
Increased activity within the corporate space. Corporate bonds (including quasi-government) saw an increase in trading volume at RM18.1b (Jul-23: RM13.4), the highest for the year. The higher-rated AAA and AA1 saw yield changes between -5bps to +1bps across all tenures. Meanwhile, appetite for higher-yielding papers declined as yields for the lower-rated A1 and BBB1 rose by +1bps or remained unchanged. The 10 top-traded corporate bonds (excluding BNM) totalled to RM2.15b, led by SIME DARBY 7/33 and PTPTN 2/34.

Table 1: Corporate Bond End Period Yield and MOM Yield Change

Rating Class	1Y	2Y	3Y	5Y	7Y	10Y
AAA	3.68	3.78	3.86	3.99	4.09	4.21
AA1	3.78	3.86	3.94	4.06	4.16	4.30
A1	4.36	4.63	4.92	5.26	5.53	5.79
BBB1	5.54	6.11	6.67	7.26	7.88	8.60
MOM Difference (bps)						
AAA	+1	-1	-1	-4	-3	-1
AA1	+0	-3	-2	-4	-5	-4
A1	+1	+1	+1	+0	+0	+0
BBB1	+0	+0	+0	+1	+0	+1

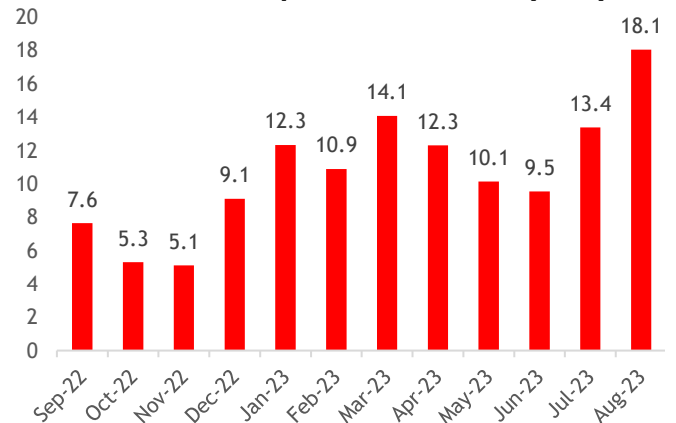
Source: Bondstream, MIDFR

Chart 9: 10-Year AAA vs 10-Year MGS (%)



Source: Bondstream, MIDFR

Chart 10: Volume of Corporate Bond Traded (RM b)



Source: Bondstream, MIDFR

New corporate issuance registered a decline. Primary issuance declined to 3-month low at RM8.4b in Aug-23. The new issuance was led by the AAA-rated CAGAMAS 1-5 years with coupon range of 3.600%-4.000%, totalling RM1.63b. Notably, the AA1-rated YTL, which was issued at a total of RM1.4b with tenure ranging 5-15 years and coupon range of 4.300%-4.740%, made up 16.6% of the total corporate bond issuance.

Table 2: Corporate Bond Issuance for Aug-23

Issuer Name	Issued Amount (RM million)	Rating
Cagamas Berhad	1,625	AAA
YTL Power International Berhad	1,400	AA1
Malaysia Rail Link Sdn Berhad	650	GG
Sime Darby Property Berhad	600	AA1
Eco World Capital Berhad	550	AA3
ALSREIT Capital Sdn Berhad	455	NR(LT)
MTT Shipping Sdn Berhad	420	AA3
Sunway Healthcare Treasury Sdn Berhad	387	NR(LT)
Mercedes-Benz Services Malaysia Sdn Berhad	350	AAA
Poseidon ABS Berhad	320	AA2
MY E.G. Services Berhad	300	AA3
Zamarad Assets Berhad	254	AAA
Perbadanan Kemajuan Negeri Selangor	230	AA3
DRB-Hicom Berhad	200	A3
Toyota Capital Malaysia Sdn Berhad	150	AAA
Pac Lease Berhad	145	AA2
Sabah Development Bank Berhad	107	AA1
Silver Formula ABS Berhad	95	NR(LT)
Tumpuan Azam Sdn Berhad	29	NR(LT)
Malayan Banking Berhad	27	AAA
Tanjung Pinang Development Sdn Berhad	25	NR(LT)
West Coast Expressway Sdn Berhad	23	NR(LT)
CIMB Bank Berhad	17	AAA
Liziz Standaco Sdn Berhad	17	NR(LT)
BGRB Venture Sdn Berhad	15	NR(LT)
Setia Fontaines Sdn Berhad (fka Setia Recreation Sdn Berhad)	13	NR(LT)
Impiana Hotels Berhad (fka Bio Osmo Berhad)	8	NR(LT)
XL Holdings Berhad (fka Xian Leng Holdings Berhad)	4	NR(LT)
Reneuco Berhad (fka Kumpulan Powernet Berhad)	3	NR(LT)
Total	8,416	

Source: Bondstream, MIDFR

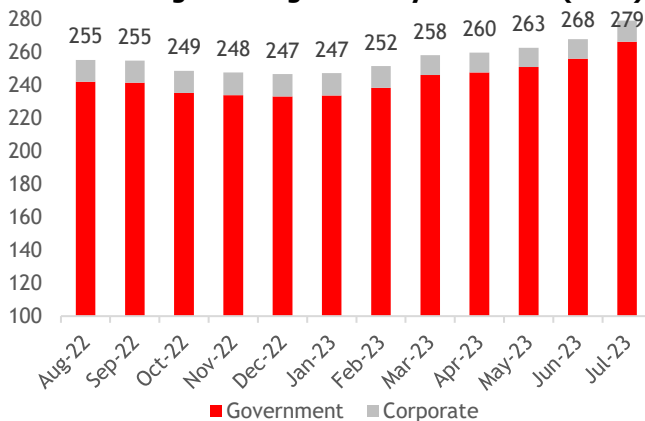
Corporate bond markets to continue performing. We opine corporate bond to continue garnering interest in view of the easing inflation and overall robust domestic demand, which will instil confidence in the corporate bond

market. We expect interest will continue to be concentrated on the higher-rated papers on lingering concerns over global monetary policies.

Foreign Holdings of Malaysian Bonds

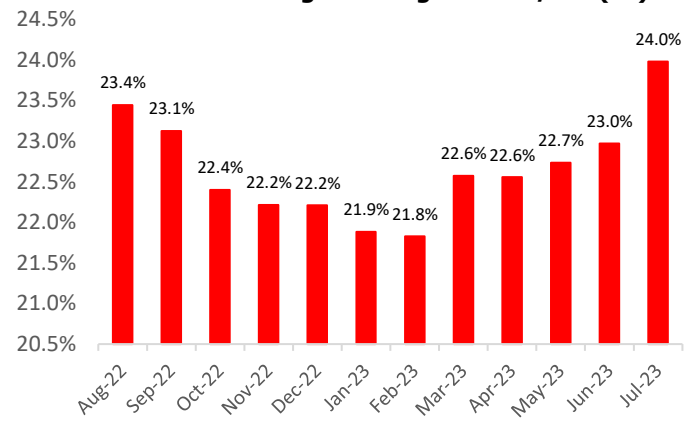
Foreign holdings of Malaysian bonds at all-time high in Jul-23. Foreign holding of Malaysian bonds reached an all-time high in Jul-23 at RM279.2b. Foreign holdings of govvnies, totalled RM266.3b, accounted for 24.0% of the total outstanding government bonds, the highest in 14 months and surpassing the pre-pandemic year average (2019 average: 23.1%). The share of government bonds in the total foreign holdings of Malaysian bonds saw marginal decline to 95.4% (Jul-23: 95.6%) as foreign interest on Malaysian corporate bonds rose by +8.3%mom to RM12.9b. The faster inflows into the Malaysian bond market since May-23 was attributable to the resolution of the US debt ceiling, which saw investors moving away from the safety of the USD. The momentum continued until Jul-23 on fading expectations for another hike by the Fed, as the US central bank is nearing the end of its tightening cycle. 📈

Chart 11: Foreign Holdings of Malaysian Bonds (RM b)



Source: Bondstream, BNM, MIDFR

Chart 12: Share of Foreign Holdings of MGS/GII (%)



Source: Bondstream, BNM, MIDFR

APPENDICES

Table 3: MGS/GII Auctions Calendar

Tender Date	Issues	Quarter	Month	Issue Date	Issuance (RM million)	Private Placement (RM million)	BTC (Times)
9/1/2023	10-yr Reopening of MGII 10/32 4.193%	1QCY23	January	9/1/2023	4,500.00		2.09
16/1/2023	15-yr Reopening of MGS 06/38 4.893%	1QCY23	January	16/1/2023	3,000.00	2,500.00	2.83
27/1/2023	5.5-yr New Issue of MGII (Mat on 07/28)	1QCY23	January	30/1/2023	5,000.00		3.40
7/2/2023	7-yr Reopening of MGS 04/30 4.498%	1QCY23	February	7/2/2023	5,000.00		2.46
14/2/2023	20.5-yr New Issue of MGII (Mat on 08/43)	1QCY23	February	14/2/2023	2,500.00	2,500.00	2.66
21/2/2023	3-yr Reopening of MGS 07/26 3.906%	1QCY23	February	21/2/2023	5,500.00		1.69
28/2/2023	Sustainability 15-yr Reopening of MGII 03/38 4.662%	1QCY23	February	28/2/2023	3,500.00	2,000.00	1.99
6/3/2023	10-yr Reopening of MGS 07/32 3.582%	1QCY23	March	6/3/2023	4,500.00		1.67
15/3/2023	7-yr Reopening of MGII 09/30 4.245%	1QCY23	March	15/3/2023	5,000.00		1.59
31/3/2023	30-yr New Issue of MGS (Mat on 03/53)	1QCY23	March	31/3/2023	2,500.00	2,500.00	1.97
10/4/2023	10-yr Reopening of MGII 10/32 4.193%	2QCY23	April	10/4/2023	4,500.00		2.37
19/4/2023	5-yr New Issue of MGS (Mat on 04/28)	2QCY23	April	20/4/2023	5,000.00		2.43
27/4/2023	30-yr Reopening of MGII 05/52 5.357%	2QCY23	April	27/4/2023	2,500.00	2,500.00	2.15
15/5/2023	7-yr Reopening of MGS 04/30 4.498%	2QCY23	May	16/5/2023	5,000.00		2.18
24/5/2023	20-yr Reopening of MGII (Mat on 08/43)	2QCY23	May	24/5/2023	3,000.00	2,500.00	1.75
31/5/2023	15-yr Reopening of MGS 06/38 4.893%	2QCY23	May	31/5/2023	3,000.00	1,500.00	2.20
8/6/2023	3-yr Reopening of MGII 09/26 4.070%	2QCY23	June	8/6/2023	4,500.00		1.76
22/6/2023	20-yr Reopening of MGS 10/42 4.696%	2QCY23	June	22/6/2023	3,000.00	2,500.00	1.88
30/6/2023	5-yr Reopening of MGII (Mat on 07/28)	2QCY23	June	30/6/2023	5,500.00		1.81
13/7/2023	10-yr Reopening of MGS 11/33 4.642%	3QCY23	July	14/7/2023	5,500.00		2.64
20/7/2023	7-yr Reopening of MGII 09/30 4.245%	3QCY23	July	21/7/2023	5,000.00		2.30
28/7/2023	3-yr Reopening of MGS 07/26 3.906%	3QCY23	July	31/7/2023	4,500.00		1.91
7/8/2023	30-yr Reopening of MGII 05/52 5.357%	3QCY23	August	8/8/2023	3,000.00	2,000.00	2.56
15/8/2023	5-yr Reopening of MGS (Mat on 04/28)	3QCY23	August	15/8/2023	5,000.00		1.77
22/8/2023	20-yr Reopening of MGII (Mat on 08/43)	3QCY23	August	23/8/2023	3,000.00	2,000.00	1.99
29/8/2023	15-yr Reopening of MGS 06/38 4.893%	3QCY23	August	30/8/2023	3,000.00	1,000.00	2.12
	3-yr Reopening of MGII 09/26 4.070%	3QCY23	September	-	-		
	30-yr Reopening of MGS (Mat on 03/53)	3QCY23	September	-	-		
	5-yr Reopening of MGII (Mat on 07/28)	3QCY23	September	-	-		
	20-yr Reopening of MGS 10/42 4.696%	4QCY23	October	-	-		
	10-yr Reopening of MGII 08/33 4.582%	4QCY23	October	-	-		
	7-yr Reopening of MGS 04/30 4.498%	4QCY23	October	-	-		
	30-yr Reopening of MGII 05/52 5.357%	4QCY23	November	-	-		
	5-yr Reopening of MGS (Mat on 04/28)	4QCY23	November	-	-		
	7-yr Reopening of MGII 09/30 4.245%	4QCY23	November	-	-		
	3-yr Reopening of MGII 09/26 4.070%	4QCY23	December	-	-		
	10-yr Reopening of MGS 11/33 4.642%	4QCY23	December	-	-		

Source: Bondstream, BNM, MIDFR

Table 4: Top Traded Government Bonds

Stock Name	Traded Amount (RM million)
MGS 3/2019 3.478% 14.06.2024	4,752.03
MGS 3/2018 4.642% 07.11.2033	4,097.39
GII MURABAHAH 3/2015 4.245% 30.09.2030	3,246.26
MGS 2/2023 3.519% 20.04.2028	3,246.17
MGS 1/2014 4.181% 15.07.2024	2,860.34
GII MURABAHAH 1/2022 4.193% 07.10.2032	2,594.21
MGS 1/2018 3.882% 14.03.2025	2,437.50
MGS 1/2016 3.800% 17.08.2023	2,396.21
MGS 1/2019 3.906% 15.07.2026	2,129.40
MGS 4/2018 4.893% 08.06.2038	2,062.11
Total	29,822

Source: Bondstream, MIDFR

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