

FIXED INCOME | Sep-23 Fixed Income Review

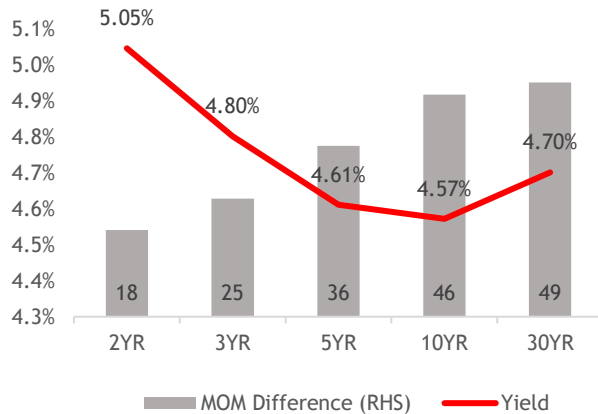
MGS to Remain Volatile Ahead of Fed's Pause

- *The US treasury market witnessed another bear steepening in Sep-23 as yield rose faster for the longer end. The 10-year UST yield ended the review month +46bps higher at 4.57% (Aug-23: 4.11%), while the 3-year yield edged up by +25bps to 4.80%. The 10-year UST yield registered a broadly increasing trend ahead of the FOMC decision. It continued to remain on a rising trend after the Sep-23 FOMC meeting following the Fed's hawkish tone by keeping the possibility for another hike open.*
- *MGS's 10-year yield broadly followed the UST 10-year yield trend. MGS yields were higher across the board in Sep-23 as Fed hawkish sentiment and rising demand for the safety of the USD saw the demand for other assets, including MGS declined. MGS's 10-year yield ended 2 months of relative stability as the yield rose +13bps to end the month at 3.97% while the 3-year yield increased by +10bps to close at 3.56%.*
- *Maintained call for MGS 10-year yield to end the year at 3.77%. We remain optimistic for the 10-year MGS yield to move lower once the Fed's pause is imminent, establishing no further widening of the OPR-FFR differential. We foresee MGS-10 ending the year at around 3.77%.*
- *Foreign holdings of Malaysian bonds fell in Aug-23. The value of foreign holding of Malaysian bonds fell from an all-time high to RM274.2b in Aug-23 (Jul-23: RM279.2b). The decline in foreign holdings of Malaysian bonds in Aug-23 stemmed from concerns over elevated US inflation and risk aversion, which caused a retreat towards USD away from riskier assets.*

US Treasury

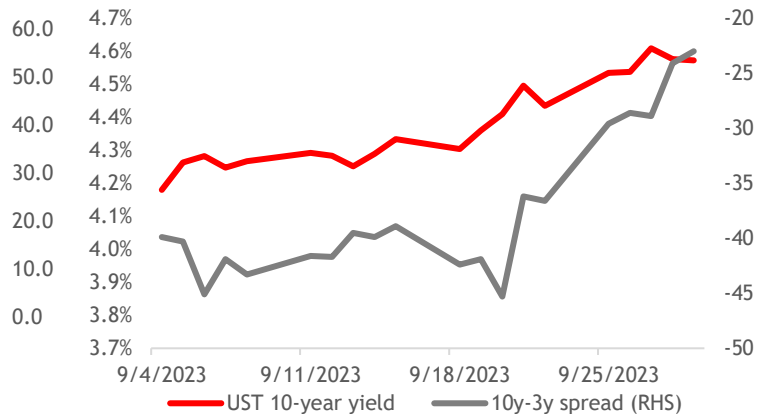
Fed's hawkishness and risk aversion pushed US Treasury yields higher. The US treasury market witnessed another bear steepening in Sep-23 as yield rose faster for the longer end. The 10-year UST yield ended the review month +46bps higher at 4.57% (Aug-23: 4.11%), while the 3-year yield edged up by +25bps to 4.80%. The much faster rise on the longer end saw the 10Y-3Y yield negative spread narrowed significantly to -23bps (Jul-23: -45bps). The 10-year UST yield registered a broadly increasing trend ahead of the FOMC decision. It continued to remain on a rising trend after the Sep-23 FOMC meeting following the Fed's hawkish tone by keeping the possibility for another hike open. Additionally, the risk aversion factor, which stemmed from a possible government shutdown, also triggered a flight to safety, resulting in the 10-year yield peaking at 4.61% towards the end of the month, the highest since Oct-07. However, the 10-year UST yield ended the month lower following the softer Aug-23 core PCE inflation. Moreover, the resilient labour market also contributed to the rising yield as employment remained sturdy despite the higher interest rate environment.

Chart 1: UST Yield and MOM Difference (bps)



Source: Bloomberg, MIDFR

Chart 2: UST 10-year Yield Movement and 10y-3y Yield Spread (bps)



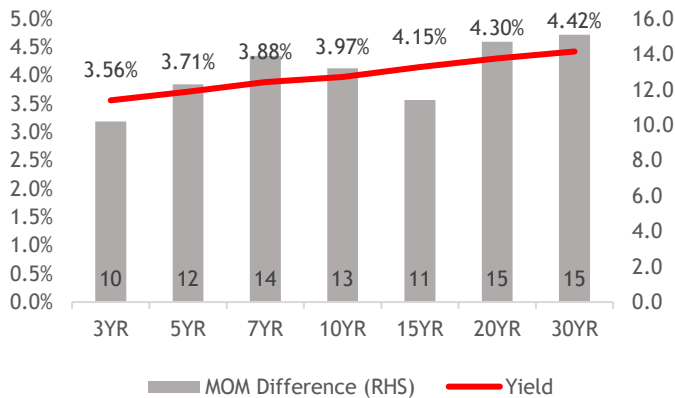
Source: Bloomberg, MIDFR

UST to remain volatile ahead of pause confirmation. Despite the market bets of no more rate hikes, the Fed is keeping its option open for another hike before the year-end. Following Fed's hawkish pause on Sep-23, the UST will likely remain volatile, reacting to economic data releases until the much-awaited pause is confirmed. The recent inflation data signals easing demand-led inflation as core PCE inflation eased further, although headline PCE inflation accelerated mainly due to higher fuel prices. The easing core PCE inflation signals the Fed is nearing the end of its tightening cycle. Hence, UST treasury yield is likely to be lower in the coming months as market priced in no further hikes by the Fed. The policy-sensitive shorter-end yields will likely experience a faster decline. As the Fed is expected to keep the rate elevated for quite some time, yields for the longer end will likely remain high. We opine the UST 10-year yield to end at around 4.45% level in Oct-23, although the faster decline in 3-year yield will see a further narrowing of the negative 10Y-3Y spread.

Malaysian Government Bonds

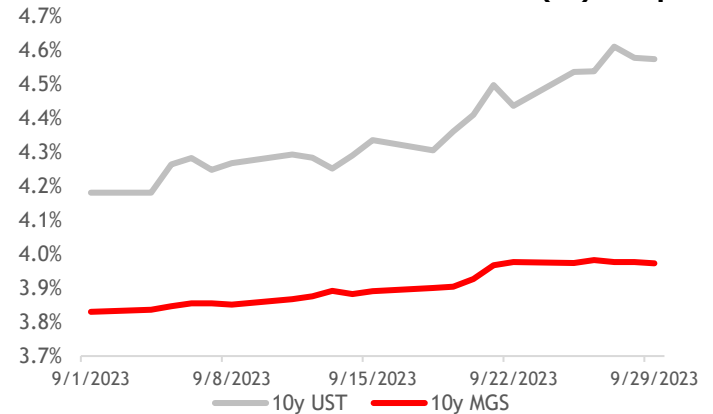
MGS's 10-year yield broadly followed the UST 10-year yield trend. MGS yields were higher across the board in Sep-23 as Fed hawkish sentiment and rising demand for the safety of the USD saw the demand for other assets, including MGS decline. MGS's 10-year yield ended 2 months of relative stability as the yield rose +13bps to end the month at 3.97% while the 3-year yield increased by +10bps to close at 3.56%. Intra-month movement saw the 10-year MGS yield hovered between 3.83% to 3.98%, closing the month only slightly lower than its peak. We opine that the higher yield was due to repricing from the still hawkish Fed, risk aversion from the possibility of US Government shutdown and the weakening of ringgit. Volume traded declined for the second month in a row to RM52.8b (Aug-23:RM66.9b), with a slightly wider trading breadth as the top 10 traded governments made up a smaller 42.3% of the total traded government bonds (Aug-23: 44.6%). The more tepid activities in the secondary market reflected the market apprehension in addition the the larger total net issuance during the month.

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



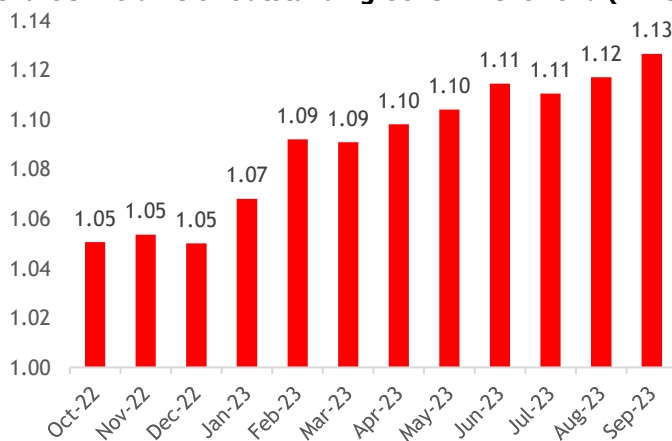
Source: Bloomberg, MIDFR

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



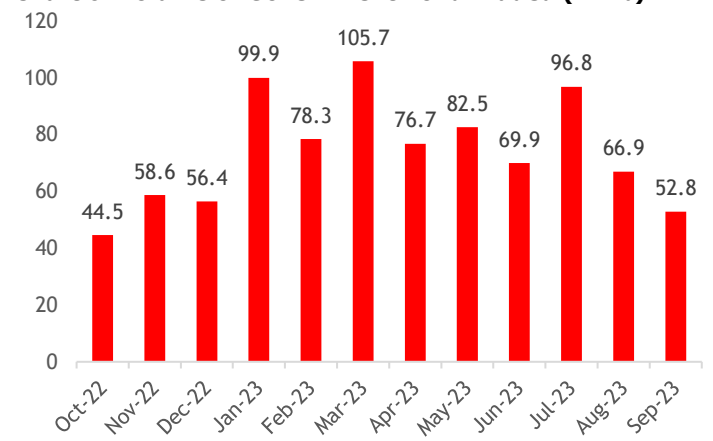
Source: Bloomberg, MIDFR

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



Source: Bondstream, MIDFR

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



Source: Bondstream, MIDFR

Much smaller new issuance in Sep-23. New issuance in Sep-23 consists of 3 auctions totalling RM13.0b with an average bit-to-cover (BTC) ratio of 2.01x (Aug-23: 2.11x) and private issuance amounting RM1.5b, totalled to RM14.5b new issuance (Aug-23: RM19.0b). Similarly, the lower BTC was owed to a cautious market, as BTC fell despite the smaller size of private placement. Besides, the larger net issuance size of RM14.50b (Aug-23: RM9.0b) also caused lower auction participation due to the lack of rollover funds. As of Sep-23, the total outstanding amount of government bonds rose to RM1.13t (Jul-23: RM1.12t), inching closer to RM1.2t projected by the government for this year.

Maintained call for MGS 10-year yield to end the year at 3.77%. We remain optimistic for the 10-year MGS yield to move lower once the Fed's pause is imminent, establishing no further widening of the OPR-FFR differential. We foresee MGS-10 ending the year at around 3.77% and averaging at around 3.80% this year (year-to-date average: 3.84%). We continue to foresee positive development in the domestic bond market to be underpinned by easing local and global inflation rates, and BNM leaving the OPR status quo while the Fed expected to hold the rate steady.

Table 1: Quarterly Forecast for MYR and MGS 10-year yield

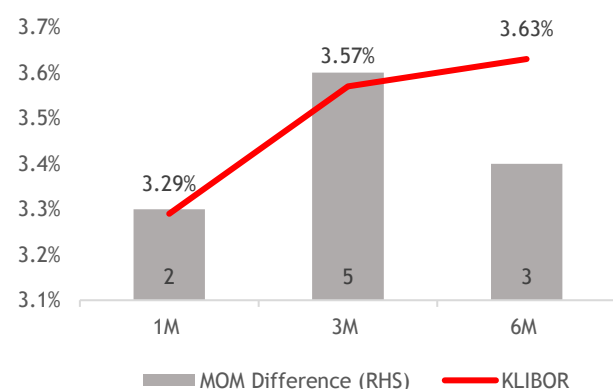
Indicator	4Q23f	1Q24f	2Q24f	3Q24f	4Q24f
Exchange Rate, vs USD (average)	4.39	4.40	4.28	4.21	4.11
Exchange Rate, vs USD (end-period)	4.30	4.39	4.23	4.16	4.10
10Y Government Bond Yield (average)	3.78	3.75	3.72	3.63	3.62
10Y Government Bond Yield (end-period)	3.77	3.75	3.65	3.63	3.60

Source: MIDFR

Interbank Money Market

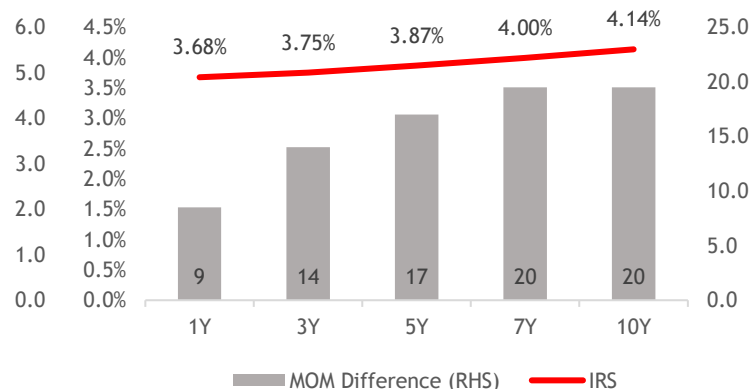
3M KLIBOR jumped +5bps higher. KLIBOR was higher across the board, led by the 3M KLIBOR, which jumped higher by +5bps. IRS market rates also were higher all around, led by the longer ends as the 10-Year IRS jumped higher by +20bps. The rising interbank rates and IRS market were reflective of the higher MGS yields for the review period.

Chart 7: KLIBOR and MOM Difference (bps)



Source: Bloomberg, MIDFR

Chart 8: IRS and MOM Difference (bps)



Source: Bloomberg, MIDFR

Corporate Bonds

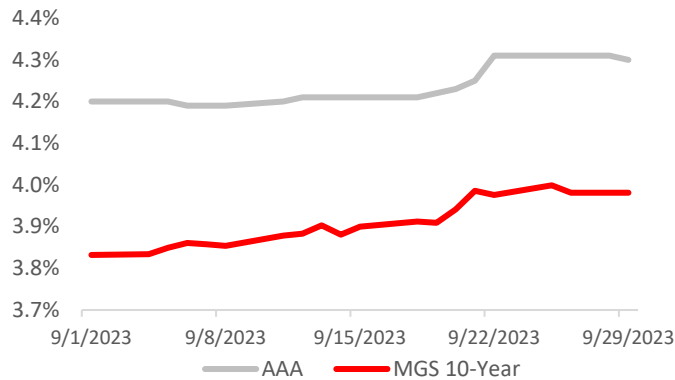
Decreased activity within the corporate space. Corporate bonds (including quasi-government and BNM) saw a decline in trading volume at RM16.1b (Aug-23: RM18.1), a drop from the highest level for the year. The higher-rated AAA and AA1 saw yield changes between +5bps to +12bps across all tenures. Meanwhile, the lower-rated A1 and BBB1 hovered between unchanged and +2bps. The 10 top-traded corporate bonds (excluding BNM) totalled RM2.69b, led by SEB 7/33 and LPPSA 4/39.

Table 2: Corporate Bond End Period Yield and MOM Yield Change

Rating Class	1Y	2Y	3Y	5Y	7Y	10Y
AAA	3.75	3.88	3.96	4.09	4.21	4.3
AA1	3.83	3.95	4.02	4.15	4.27	4.38
A1	4.36	4.64	4.93	5.28	5.55	5.8
BBB1	5.55	6.12	6.67	7.27	7.9	8.62
MOM Difference (bps)						
AAA	+7	+10	+10	+10	+12	+9
AA1	+5	+9	+8	+9	+11	+8
A1	+0	+1	+1	+2	+2	+1
BBB1	+1	+1	+0	+1	+2	+2

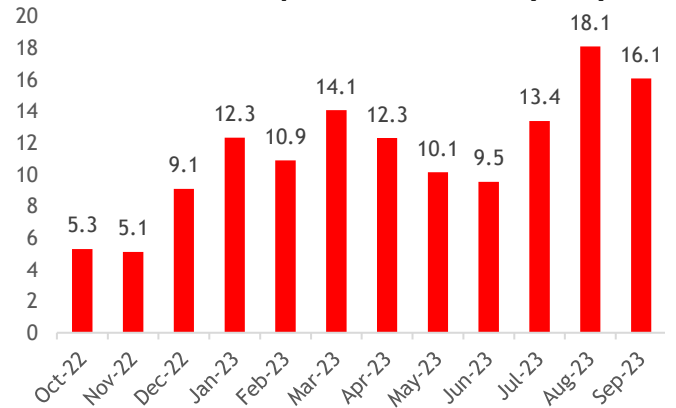
Source: Bondstream, MIDFR

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 an increase. Primary issuance rebounded to RM8.6b in Sep-23 (Aug-23:RM8.4b). The new issuance was led by 4-6 years STJ with a coupon range of 6.05%-6.08%, totalling RM3.06b. Notably, the AAA-rated CAGAMAS, with total issuance of RM650m with tenure ranging from 1-2 years and coupon range of 3.67%-3.86%, made up 7.5% of the total corporate bond issuance.

Table 3: Corporate Bond Issuance for Sep-23

Issuer Name	Issued Amount (RM million)	Rating
Seaport Terminal (Johore) Sdn Berhad	3,063	NR(LT)
Cagamas Berhad	650	AAA
YTL Corporation Berhad	625	AA1
OSK Rated Bond Sdn Berhad	500	AA2
Press Metal Aluminium Holdings Berhad	500	AA2
reNIKOLA Solar II Sdn Berhad	390	AA2
Duopharma Biotech Berhad (fka CCM Duopharma Biotech Berhad)	364	NR(LT)
Hap Seng Management Sdn Berhad	350	NR(LT)
Bank Muamalat Malaysia Berhad	350	BBB2
UEM Sunrise Berhad	350	AA3
Cypark Renewable Energy Sdn Berhad	265	NR(LT)
AEON Credit Service (M) Berhad	250	AA3
Sunway Velocity Mall Sdn Berhad	150	NR(LT)
Toyota Capital Malaysia Sdn Berhad	150	AAA
Acetrend Corporation Sdn Berhad	140	NR(LT)
Perbadanan Kemajuan Negeri Selangor	130	AA3
Singer (Malaysia) Sdn Berhad	100	A2
Sabah Credit Corporation	80	AA1
Puncak Selasih Sdn Berhad	55	NR(LT)
Solarvest Holdings Berhad	50	A1
ORIX Credit Malaysia Sdn Berhad	50	AA2
Laksana Positif Sdn Berhad	30	NR(LT)
LBS Bina Holdings Sdn Berhad	20	NR(LT)
Tumpuan Azam Sdn Berhad	16	NR(LT)
West Coast Expressway Sdn Berhad	7	NR(LT)
Reneuco Berhad (fka Kumpulan Powernet Berhad)	5	NR(LT)
BGRB Venture Sdn Berhad	4	NR(LT)
Impiana Hotels Berhad (fka Bio Osmo Berhad)	3	NR(LT)
Total	8,646	

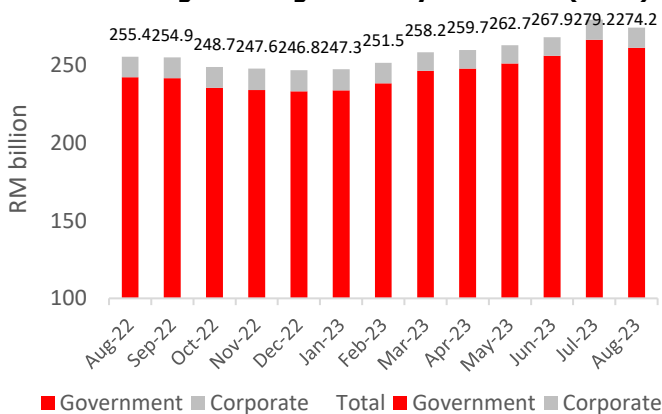
Source: Bondstream, MIDFR

Corporate bond to garner interest once Fed's pause in sight. We opine corporate bonds to follow similar trend as govies and will see increase interest once Fed's interest rate direction become clear. For now, we expect the corporate bond market to remain tepid, over lingering concerns on the global interest rate environment.

Foreign Holdings of Malaysian Bonds

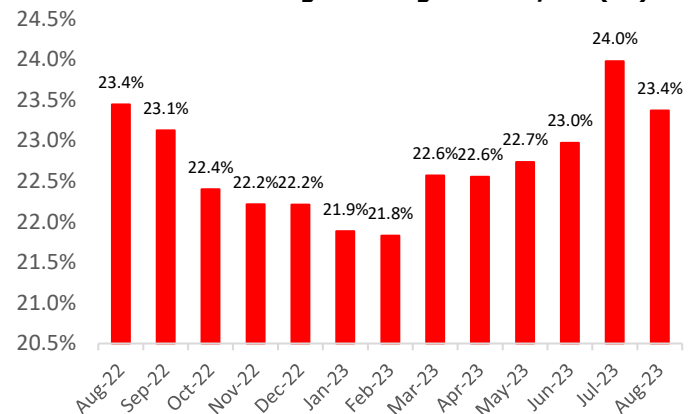
Foreign holdings of Malaysian bonds fell in Aug-23. The value of foreign holding of Malaysian bonds fell from an all-time high to RM274.2b in Aug-23 (Jul-23: RM279.2b). Foreign holdings of govvnies totalled RM261.1b, accounted for 23.4% of the total outstanding government bonds which was lower than 24.0% in Jul-23 but remained above the pre-pandemic average (2019 average: 23.1%). The share of government bonds in the total foreign holdings of Malaysian bonds registered 2nd month of decline to 95.2% (Jul-23: 95.4%) as foreign holdings of Malaysian corporate bonds rose by +1.6%mom to RM13.1b. The decline in foreign holdings of Malaysian bonds in Aug-23 stemmed from concerns over elevated US inflation and risk aversion, which caused a retreat towards USD away from riskier assets. Given the Fed's still hawkish signal despite the recent pause, further weakening in ringgit, and the fear of a US government shutdown in Sep-23, we expect foreign holdings to register a consecutive decline in Sep-23. 📉

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 4: 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
12/9/2023	3-yr Reopening of MGII 09/26 4.070%	3QCY23	September	13/9/2023	4,500.00		2.17
21/9/2023	30-yr Reopening of MGS (Mat on 03/53)	3QCY23	September	22/9/2023	3,500.00	1,500.00	1.90
27/9/2023	5-yr Reopening of MGII (Mat on 07/28)	3QCY23	September	29/9/2023	5,000.00		1.95
	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 5: Top Traded Government Bonds

Stock Name	Traded Amount (RM million)
GII MURABAHAH 1/2023 3.599% 31.07.2028	2,864.39
GII MURABAHAH 3/2016 4.070% 30.09.2026	2,690.16
MGS 3/2018 4.642% 07.11.2033	2,486.01
MGS 3/2019 3.478% 14.06.2024	2,432.60
GII MURABAHAH 1/2022 4.193% 07.10.2032	2,405.52
MGS 1/2018 3.882% 14.03.2025	2,146.31
MGS 4/2018 4.893% 08.06.2038	2,035.39
MGS 5/2013 3.733% 15.06.2028	1,833.70
MGS 1/2022 3.582% 15.07.2032	1,739.56
MGS 2/2023 3.519% 20.04.2028	1,708.73
Total	22,342

Source: Bondstream, MIDFR

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