

## FIXED INCOME | Oct-23 Fixed Income Review

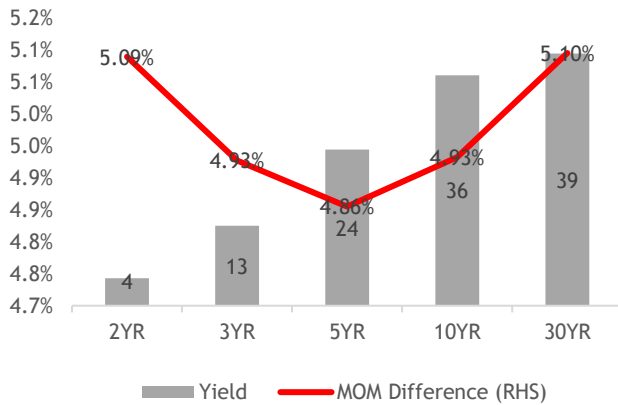
### MGS Yields Jumped on Haven Demand in Oct-23

- *The US treasury market witnessed another bear steepening in Oct-23 as investors demanded higher yield to compensate for the higher risk and uncertainties for holding the longer-dated securities. The 10-year UST yield ended +36bps higher at 4.93% in Oct-23 (Sep-23: 4.57%), while the 3-year yield edged up by +13bps also to 4.93% (Sep-23: 4.80%). The 10-year UST yield registered the highest daily closing at 4.99% on 19th Oct-23, the highest level since 2007 after brushing the 5.00% handle. However, the 10-year UST yield ended the month lower as the annual core PCE inflation continued to moderate, reducing need for further hike and solidifying expectations for the Fed to stay pat on its FFR decision.*
- *MGS yields were higher across the board in Oct-23, tracking the increase in UST yields which caused investors to reprice the domestic bond market. Relative to previous month, MGS's 10-year yield rose +10bps to end the month at 4.07% while the 3-year yield increased by +9bps to close at 3.66%. Intra-month movement saw the 10-year MGS yield hovered between 3.98% to 4.16%, closing the month considerably lower from the highs during the month.*
- *We kept our target for MGS 10-year yield to end the year at 3.77%. We remain optimistic for the 10-year MGS yield to move lower on the UST lead, following expectations for Fed to eventually be less hawkish after another pause in the Nov-23 decision.*
- *Foreign holding of Malaysian bonds fell for the second month in a row to RM269.7b in Sep-23 (Aug-23: RM274.2b). Foreign holdings of govies made up RM256.6b or 22.8% of the total outstanding government bonds the lowest in 4 months and were under the pre-pandemic average (2019 average: 23.1%).*

#### US Treasury

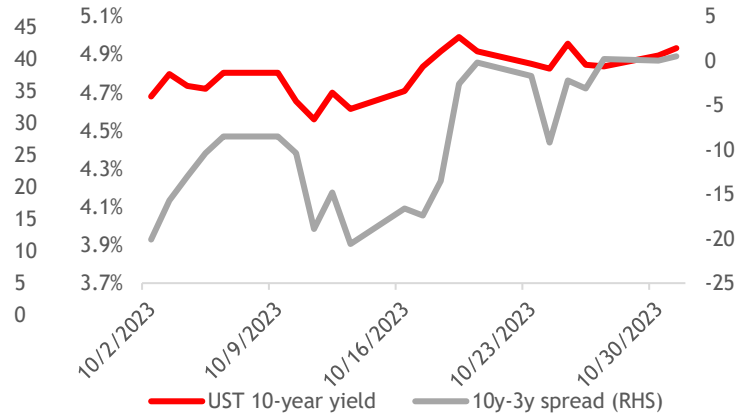
**Fed's "higher for longer" pushed the 10-year UST yield to new highs since 2007.** The US treasury market witnessed another bear steepening in Oct-23 as investors demanded higher yield to compensate for the higher risk and uncertainties for holding the longer-dated securities. The 10-year UST yield ended +36bps higher at 4.93% in Oct-23 (Sep-23: 4.57%), while the 3-year yield edged up by +13bps also to 4.93% (Sep-23: 4.80%). The negative 10Y-3Y yield spread was almost erased, narrowing to smaller than -1bps from -23bps in the previous month. The 10-year UST yield registered the highest daily closing at 4.99% on 19th Oct-23, the highest level since 2007 after brushing the 5.00% handle. The faster rise in yield for the longer ends also reflects further correction of the yield curve, with the rise in treasury yield underpinned by expectations for the Fed to keep the interest rates "higher for longer," rising uncertainties due to the conflict in the Middle East, and stronger growth expectations. The rising yield stems from higher real yield while inflation expectations although elevated were relatively stable and anchored. However, the 10-year UST yield ended the month lower as the annual core PCE inflation continued to moderate, reducing need for further hike and solidifying expectations for the Fed to stay pat on its FFR decision.

**Chart 1: UST Yield and MOM Difference (bps)**



Source: Bloomberg, MIDFR

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



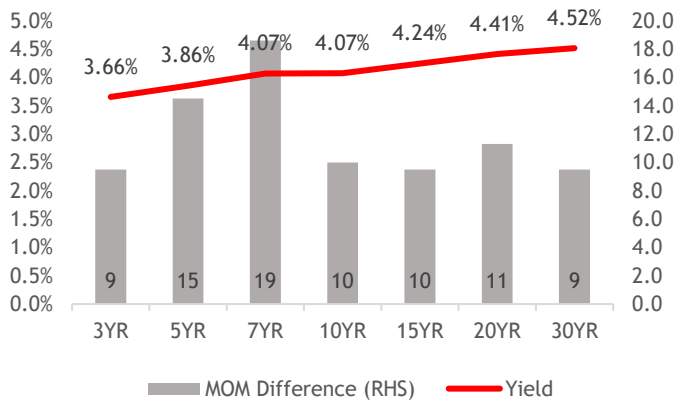
Source: Bloomberg, MIDFR

**UST to experience less volatility as Fed seen less hawkish going forward.** Despite the market expectations for no more rate hikes, the Fed kept the option open for another hike before the year-end after the Nov-23 FOMC meeting. While the recent run-up in the long term rates reduced the need to raise interest rates further, the recent data also signals easing demand-led inflation as core PCE inflation continued to ease, in contrast to headline PCE inflation which accelerated mainly due to higher fuel prices. Despite no more hikes, FFR will likely remain elevated until the Fed is confident that inflation will sustainably trend lower and reach its 2.0% target. The combination of receding expectations of no further hike and the Fed to keep the FFR elevated for longer, we expect shorter ends to experience less volatility while the longer ends to remain elevated. Given some easing in the uncertainties with regards to the geopolitical tensions in the Middle East and together with better clarity in the Fed's interest rate direction, we foresee the 10-year UST yield to hover somewhat lower around 4.50% at the end of this month. In particular, the 10-year yield dropped by -20bps to 4.74% after the Nov-23 FOMC meeting.

### Malaysian Government Bonds

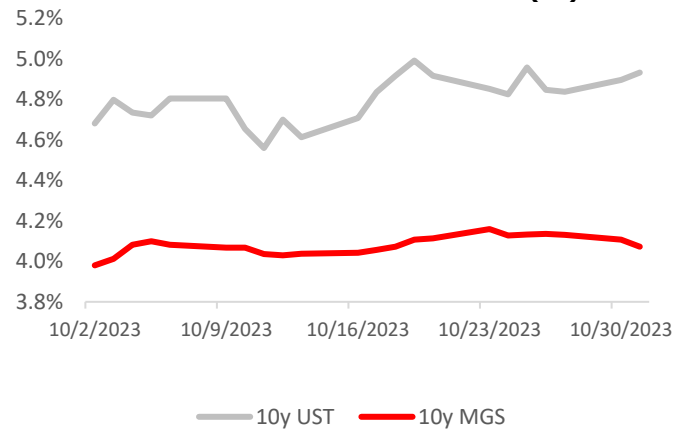
**MGS's 10-year yield jumped on higher UST yields.** MGS yields were higher across the board in Oct-23, tracking the increase in UST yields which caused investors to reprice the domestic bond market. Relative to previous month, MGS's 10-year yield rose +10bps to end the month at 4.07% while the 3-year yield increased by +9bps to close at 3.66%. Intra-month movement saw the 10-year MGS yield hovered between 3.98% to 4.16%, closing the month considerably lower from the highs during the month. The higher yield is aligned with the weakening of EM currencies as a result of outflow of funds from EM countries due to uncertainties from the absence of a definitive pause by the Fed, recent escalation of geopolitical risk and the return of term premium on longer ends UST. Volume traded rose amid increased selling pressure to RM59.6b (Sep-23:RM52.8b), with a slightly narrower trading breadth as the top 10 traded government bonds made up a larger 43.8% of the total traded government bonds (Sep-23: 43.2%). The higher activities in the secondary market also reflected the smaller net issuance in the Oct-23.

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



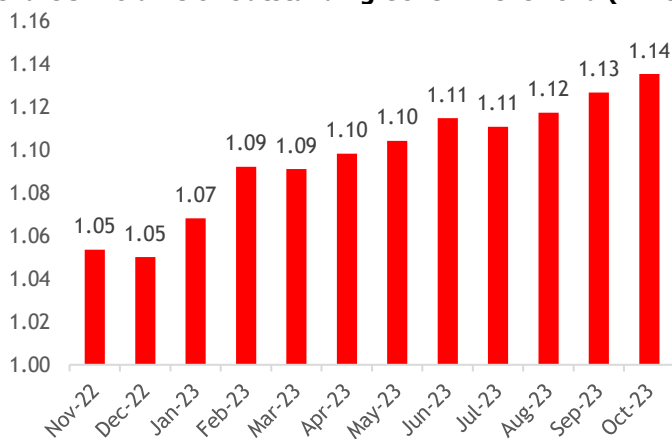
Source: Bloomberg, MIDFR

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



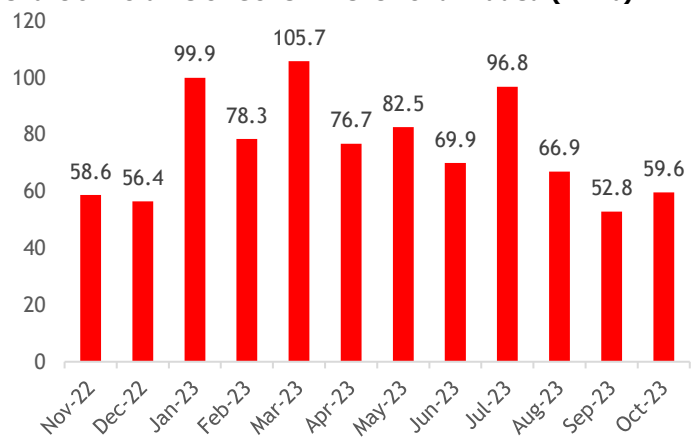
Source: Bloomberg, MIDFR

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



Source: Bondstream, MIDFR

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



Source: Bondstream, MIDFR

**Larger new issuance in Oct-23.** New issuance was higher at RM16.0b in Oct-23 (Sep-23: RM14.5b), with 3 auctions totalling RM14.0b, where the average bit-to-cover (BTC) ratio was at 2.02x (Sep-23: 2.01x), and private issuance amounting RM2.0b. BTC was slightly higher as the net issuance size was smaller at RM12.0b (Sep-23: RM14.5b). As of Oct-23, the total outstanding amount of government bonds rose to RM1.14t (Jul-23: RM1.13t), edging closer to RM1.2t projected by the government for this year.

**We kept our target for MGS 10-year yield to end the year at 3.77%.** We remain optimistic for the 10-year MGS yield to move lower on the UST lead, following expectations for Fed to eventually be less hawkish after another pause in the Nov-23 decision. On that note, we maintain our forecast that the yield for MGS-10 to end the year at around 3.77% but average higher at 3.87% (previous estimate: 3.80%). In addition to easing inflation (locally and globally) and BNM leaving the OPR status quo vis-à-vis the Fed to hold the rate steady and restrictive, we opine yield to move lower in view of the government's commitment to trim the fiscal deficit and consolidate its fiscal position. While we argue fund flows will return back to EM economies as the Fed approaches the end of its

tightening cycle, the commitment to better fiscal discipline and fiscal management will also appeal to foreign investors and once the recent risk aversion subsides.

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

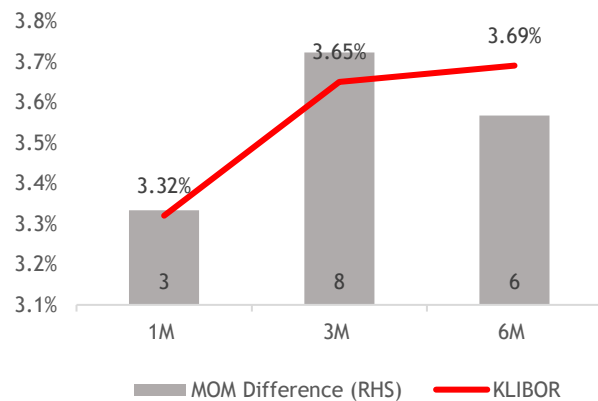
Indicator	3Q23	4Q23f	1Q24f	2Q24f	3Q24f	4Q24f
Exchange Rate, vs USD (average)	4.63	4.58	4.40	4.28	4.21	4.11
Exchange Rate, vs USD (end-period)	4.70	4.30	4.39	4.23	4.16	4.10
10Y Government Bond Yield (average)	3.97	3.97	3.75	3.72	3.63	3.62
10Y Government Bond Yield (end-period)	3.84	3.77	3.75	3.65	3.63	3.60

Source: MIDFR

## Interbank Money Market

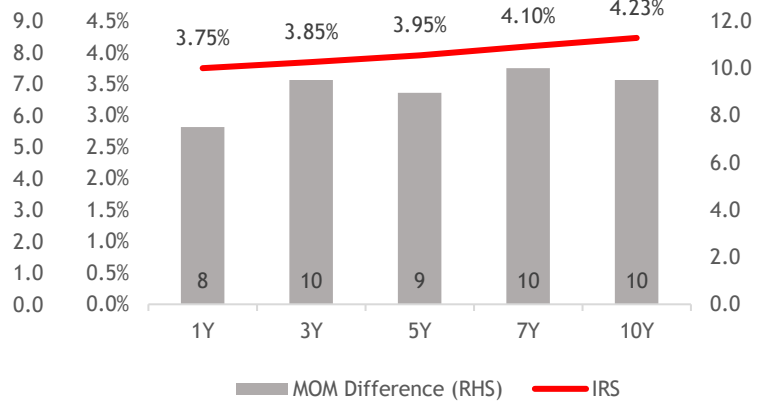
**3M KLIBOR higher by +7bps.** KLIBOR was higher across the board, led by the 3M KLIBOR, which rose higher by +8bps. IRS market rates were also higher all around, led by the longer ends as the 10-Year IRS jumped higher by +10bps. The rising interbank rates and IRS market were aligned with the higher MGS yields during the month.

**Chart 7: KLIBOR and MOM Difference (bps)**



Source: Bloomberg, MIDFR

**Chart 8: IRS and MOM Difference (bps)**



Source: Bloomberg, MIDFR

## Corporate Bonds

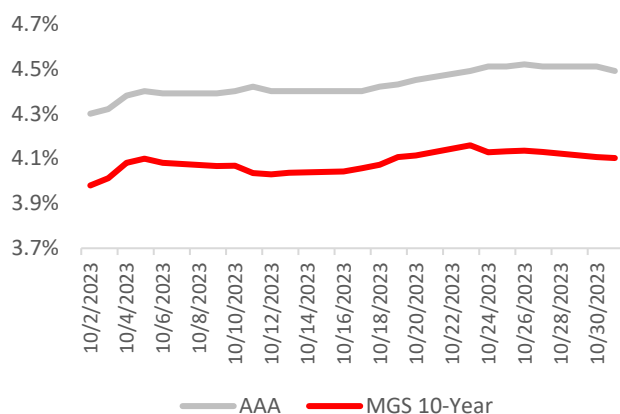
**Decreased activity within the corporate space.** Corporate bonds (including quasi-government and BNM) saw a decline in trading volume at RM13.7b (Sep-23: RM16.1b). The higher-rated AAA and AA1 saw yield changes between +3bps to +20bps across all tenures. Meanwhile, the lower-rated A1 and BBB1 hovered between +3bps and +27bps. The 10 top-traded corporate bonds (excluding BNM) totalled RM3.4b, led by PLUSMK 1/37 and PLUSMK 12/38.

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

Rating Class	1Y	2Y	3Y	5Y	7Y	10Y
AAA	3.79	3.97	4.1	4.26	4.4	4.49
AA1	3.86	4.04	4.18	4.33	4.47	4.57
A1	4.39	4.72	5.04	5.42	5.68	5.91
BBB1	5.72	6.32	6.91	7.54	8.14	8.84
MOM Difference (bps)						
AAA	+4	+9	+14	+17	+19	+19
AA1	+3	+9	+16	+18	+20	+19
A1	+3	+8	+11	+14	+13	+11
BBB1	+17	+20	+24	+27	+24	+22

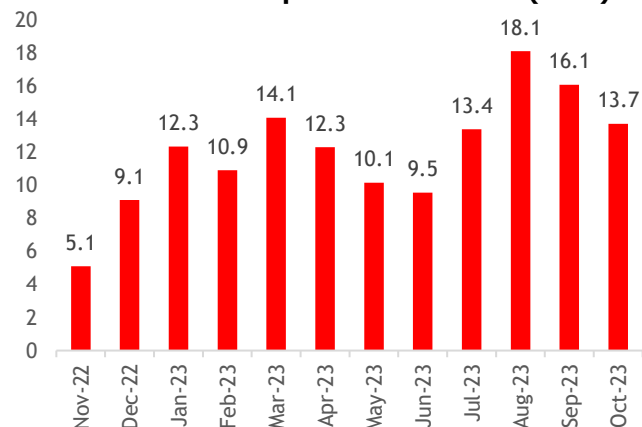
Source: Bondstream, MIDFR

**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 increased further.** Primary issuance rose to RM19.8b in Sep-23 (Sep-23: RM8.6b). The new issuance was led by 1-10 years Cagamas with a coupon range of 3.81%-4.31%, totalling RM3.9b. Notably, the government guaranteed DanaInfra, with a total issuance of RM1.5b and tenure ranging from 7-30 years and coupon range of 4.04%-4.57%, made up 7.6% of the total corporate bond issuance.

**Table 3: Corporate Bond Issuance for Sep-23**


Issuer Name	Issued Amount (RM million)	Rating
Cagamas Berhad	3,935	AAA
DanaInfra Nasional Berhad	1,500	GG
CIMB Group Holdings Berhad	1,300	AA2
CIMB Group Holdings Berhad	1,300	A1
CIMB Bank Berhad	1,300	AA2
CIMB Bank Berhad	1,300	A1
Intiaz Sukuk II Berhad	1,000	AA2
Affin Islamic Bank Berhad	1,000	A3
Pengurusan Air Selangor Sdn Berhad	1,000	AAA
Prasarana Malaysia Berhad	1,000	GG
Affin Islamic Bank Berhad	1,000	A1
Public Bank Berhad	1,000	AA1
SMJ Sdn Berhad	900	AAA
Bank Islam Malaysia Berhad	400	A1
Malayan Cement Berhad (fka Lafarge Malaysia Berhad)	350	AA3
SunREIT Unrated Bond Berhad	300	NR(LT)
Perbadanan Kemajuan Negeri Selangor	250	AA3
SOP Capital Sdn Berhad	200	NR(LT)

ParkCity Damansara Sdn Berhad	200	NR(LT)
WCT Holdings Berhad	150	AA3
Toyota Capital Malaysia Sdn Berhad	150	AAA
YTL REIT MTN Sdn Berhad	140	NR(LT)
BGRB Venture Sdn Berhad	45	NR(LT)
Radimax Group Sdn Berhad	35	NR(LT)
Ideal Water Resources Sdn Berhad	34	NR(LT)
Tumpuan Azam Sdn Berhad	18	NR(LT)
Setia Alamsari Sdn Berhad (fka KL East Sdn Berhad)	13	NR(LT)
West Coast Expressway Sdn Berhad	7	NR(LT)
Reneuco Berhad (fka Kumpulan Powernet Berhad)	7	NR(LT)
Laksana Positif Sdn Berhad	6	NR(LT)
<b>Total</b>	<b>19,839</b>	

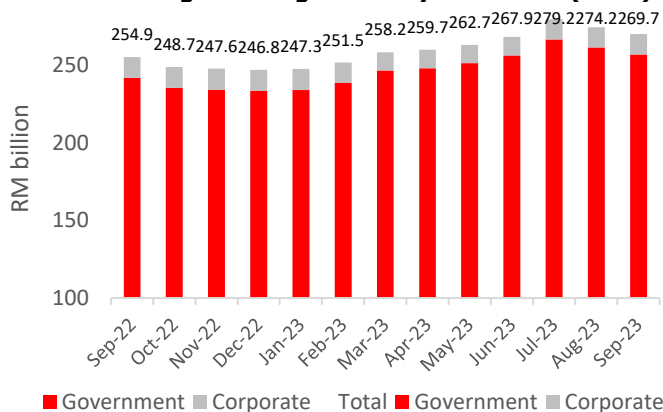
Source: Bondstream, MIDFR

**Interest in corporate bonds to return once FFR pause is definitive.** We opine corporate bonds to follow govies lead and will see return interest once Fed's interest rate is clearer. We foresee the return interest to arrive once Fed's pause is definitive and appetite for riskier assets return.

## Foreign Holdings of Malaysian Bonds

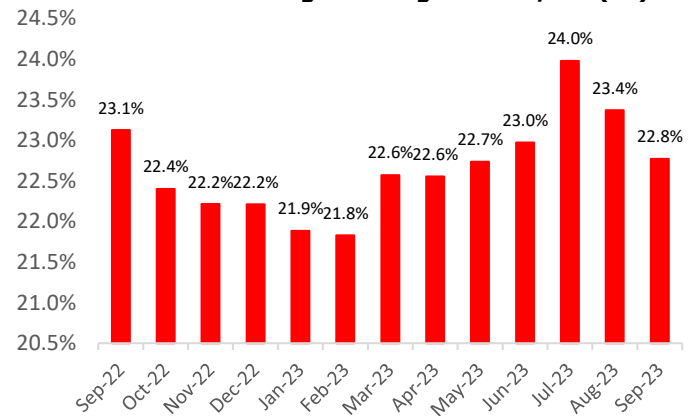
**Foreign holdings of Malaysian bonds at the lowest in 3 months in Sep-23.** Foreign holding of Malaysian bonds fell for the second month in a row to RM269.7b in Sep-23 (Aug-23: RM274.2b). Foreign holdings of govies made up RM256.6b or 22.8% of the total outstanding government bonds the lowest in 4 months and were under the pre-pandemic average (2019 average: 23.1%). The share of government bonds in the total foreign holdings fell to 95.1% (Aug-23: 95.2%), the lowest since Feb-23 as foreign holdings of Malaysian corporate bonds rose by +0.7%mom to RM13.2b. The decline in foreign holdings of Malaysian bonds in Sep-23 continued to be driven by the retreat from riskier assets to USD haven and the repricing of EM's market securities on rising UST yields. As we saw the UST yields jumped at levels last seen in 2007 and MGS yields overall increased across the tenure we foresee a foreign holding to register another decline in Oct-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
6/10/2023	20-yr Reopening of MGS 10/42 4.696%	4QCY23	October	6/10/2023	3,500.00	2,000.00	1.77
12/10/2023	10-yr Reopening of MGII 08/33 4.582%	4QCY23	October	13/10/2023	5,500.00		2.73
23/10/2023	7-yr Reopening of MGS 04/30 4.498%	4QCY23	October	24/10/2023	5,000.00		1.41
	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)
MGS 3/2019 3.478% 14.06.2024	3,191.83
MGS 2/2022 4.696% 15.10.2042	3,168.84
MGS 3/2010 4.498% 15.04.2030	3,168.66
GII MURABAHAH 1/2022 4.193% 07.10.2032	3,118.57
MGS 1/2019 3.906% 15.07.2026	2,549.16
GII MURABAHAH 5/2013 4.582% 30.08.2033	2,480.74
GII MURABAHAH 1/2023 3.599% 31.07.2028	2,178.93
GII MURABAHAH 3/2016 4.070% 30.09.2026	2,106.82
MGS 3/2018 4.642% 07.11.2033	1,985.69
MGS 2/2017 4.059% 30.09.2024	1,900.18
<b>Total</b>	<b>25,849.42</b>

Source: Bondstream, MIDFR

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