

## FIXED INCOME | Nov-23 Fixed Income Review

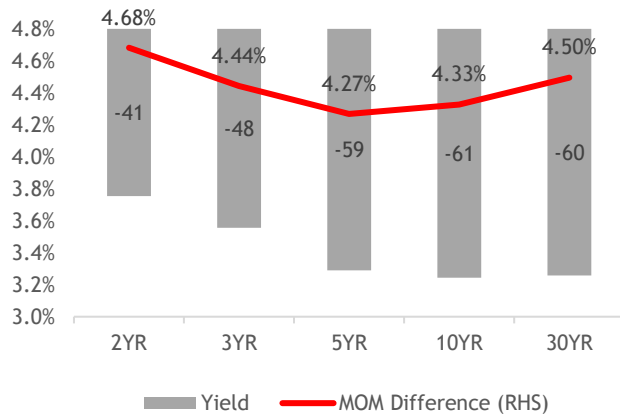
### Bonds Rally in Nov-23

- The 10-year UST yield ended -61bps lower at 4.33% in Nov-23 (Oct-23: 4.93%). Relatively, the 3-year UST yield fell relatively smaller by -48bps to 4.44% (Oct-23: 4.93%). The sharper fall in 10-year yield mainly explained the -12bps fall in the 10Y-3Y spread in Nov-23 (Oct-23: +1bps). The reduced treasury yields captured the decline in both real yield and inflation expectations, with the former registering a much faster descent.*
- MGS yields also decreased across the board in Nov-23, in line with the rally in the UST market. Compared to the previous month, MGS's 10-year yield was -25bps lower, ending the month at 3.82%. The lower yield is in line with the appreciation of EM currencies, backed by the return of foreign fund flows into EMs after the Fed's Nov-23 FOMC decision to keep FFR steady.*
- MGS's 10-year yield is on track to end the year at 3.77%. We remain optimistic that the 10-year MGS yield will move lower after the Dec-23 FOMC meeting, in a way tracking the trend in US treasury yields with Fed no longer needs to raise rates further.*
- Foreign holdings of Malaysian bonds rose in Nov-23. Foreign holding of Malaysian bonds recovered and increased to RM272.6b in Nov-23 (Oct-23: RM267.2b). We believe the flows of foreign funds back to EMs is an indication of fund reallocation following the Fed's decision to keep fed funds rate unchanged after the Nov-23 FOMC meeting and heightened expectations throughout the month that the Fed already reached the end of its tightening cycle.*

#### US Treasury

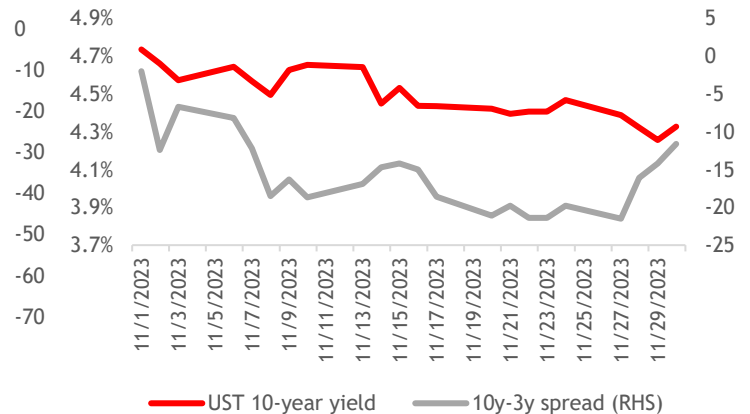
**The 10-year UST yield edged steeply lower in Nov-23.** The 10-year UST yield ended -61bps lower at 4.33% in Nov-23 (Oct-23: 4.93%). Relatively, the 3-year UST yield fell relatively smaller by -48bps to 4.44% (Oct-23: 4.93%). The sharper fall in 10-year yield mainly explained the -12bps fall in the 10Y-3Y spread in Nov-23 (Oct-23: +1bps). Since the Fed concluded its FOMC meeting at the start of the month, the 10-year UST yield broadly trended lower throughout the month, touching 2-month low of 4.26% on 29th Nov-23, led by greater conviction in the market that the Fed already reached the end of its policy tightening in view of further moderation in the core PCE inflation in Oct-23. The yield's downward trend also reflected lower risks from (i) the cooling of conflicts in the Middle East (despite the temporary cease fire), and (ii) the reduced risk of US government shutdown this year, with the passing of a stop-gap funding bill. As a result, the reduced treasury yields captured the decline in both real yield and inflation expectations, with the former registering a much faster descent. Despite the downtrend in UST yields, it was somewhat dampened by the resilience in the US economy after revised data showed the US GDP grew faster in 3QCY23 amid absence of a clear indication of deterioration in the labour market conditions.

**Chart 1: 10-Year UST Yield and MOM Difference (bps)**



Source: Bloomberg, MIDFR

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



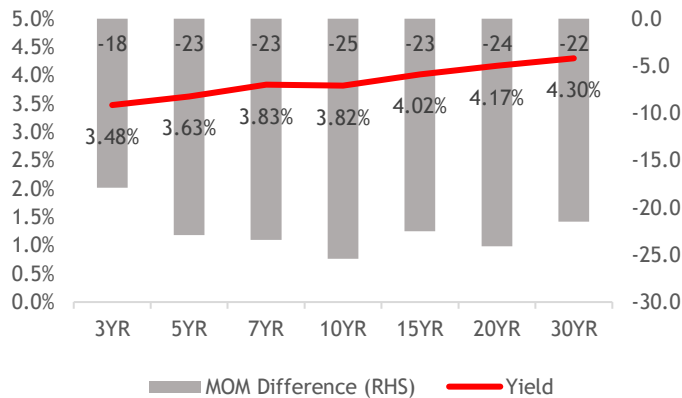
Source: Bloomberg, MIDFR

**UST yields will move lower post-Dec-23 FOMC decision.** The market is almost certain that the Fed will keep the FFR status quo at its Dec-23 FOMC meeting next week as inflation continues to moderate, on track to move closer to the Fed's 2% longer-term target. As we head into next year, we foresee expectations for rate cuts will grow especially if data update shows cooling labour market and softer demand, and yields could go lower reflecting market expectations for policy easing. On the other hand, we opine the Fed will keep its restrictive policy stance to ensure the US inflation will trend sustainably lower. On that note, we opine the shorter-end yields will remain relatively elevated while the longer-end yields will move lower on confirmation that the Fed is done with its tightening cycle. Hence, we foresee the UST 10-year yield to end Dec-23 lower at around 4.05% level.

### Malaysian Government Bonds

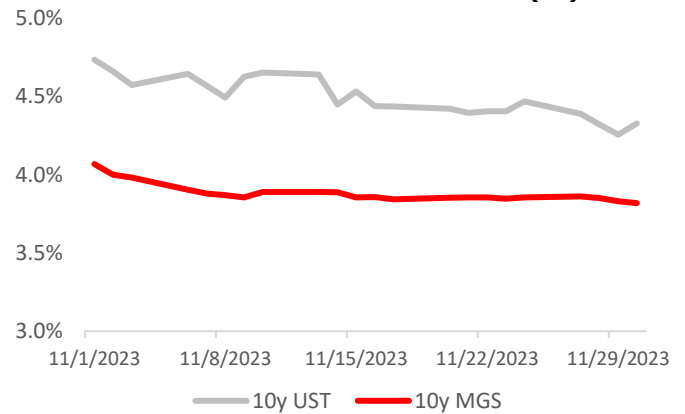
**MGS's 10-year ended the month sharply lower.** MGS yields also decreased across the board in Nov-23, in line with the rally in the UST market. Compared to the previous month, MGS's 10-year yield was -25bps lower, ending the month at 3.82%. Meanwhile, the decline in 3-year yield was not as sharp, falling by -18bps to 3.48%. The intra-month movement saw the 10-year MGS yield moved lower from the highs on the 1st day of the month at 4.07% and ended at its lowest level during the month. The lower yield is in line with the appreciation of EM currencies, backed by the return of foreign fund flows into EMs after the Fed's Nov-23 FOMC decision to keep FFR steady. Volume traded rose to RM67.7b (Oct-23:RM59.8b) reflecting improved buying interest, with a narrower trading breadth as the top 10 traded government bonds made up the higher 50.1% of the total traded government bonds (Oct-23: 43.2%). The increased activities in the secondary market also reflected the significantly smaller net issuance in Nov-23.

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



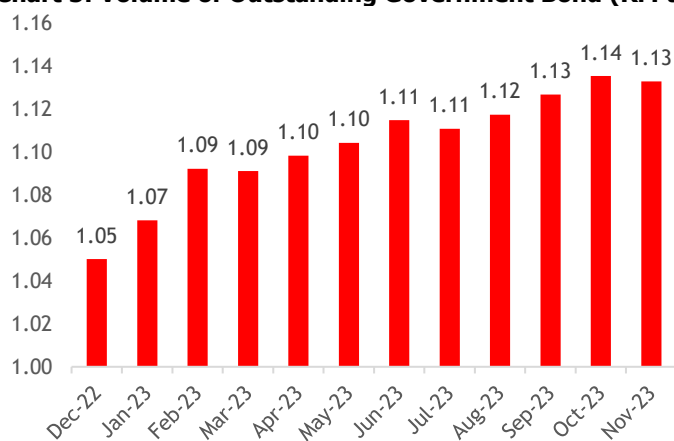
Source: Bloomberg, MIDFR

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



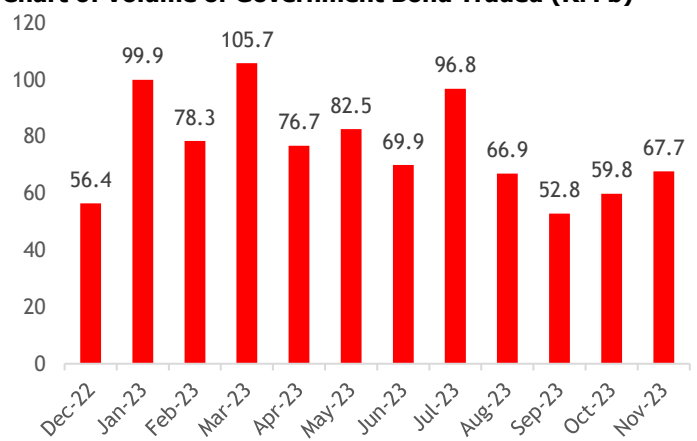
Source: Bloomberg, MIDFR

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



Source: Bondstream, MIDFR

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



Source: Bondstream, MIDFR

**Net issuance was significantly smaller in Nov-23.** New issuance of MGS/MGII was smaller at RM15.0b in Nov-23 (Oct-23: RM16.0b), with 3 auctions totalling RM13.0b, where the average bit-to-cover (BTC) ratio was at a healthy 2.33x (Oct-23: 2.02x), and private issuance amounting RM2.0b. The higher BTC ratio also reflects the smaller size of net issuance at RM3.5b (Oct-23: RM12.0b). As of Oct-23, the total outstanding amount of government bonds declined to RM1.13t (Oct-23: RM1.14t), due to the negative net issuance of MTB/MITB.

**MGS's 10-year yield is on track to end the year at 3.77%.** We remain optimistic that the 10-year MGS yield will move lower after the Dec-23 FOMC meeting, in a way tracking the trend in US treasury yields with Fed no longer needs to raise rates further. Hence, we maintain our forecast for the 10-year MGS yield to end the year at around 3.77%. Aside from easing inflation (locally and globally) and BNM keeping the OPR steady while Fed is expected to end its tightening cycle, our optimism is also derived from the government's commitment to fiscal consolidation and expected increase in foreign flows into EMs including Malaysia's debt market.

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

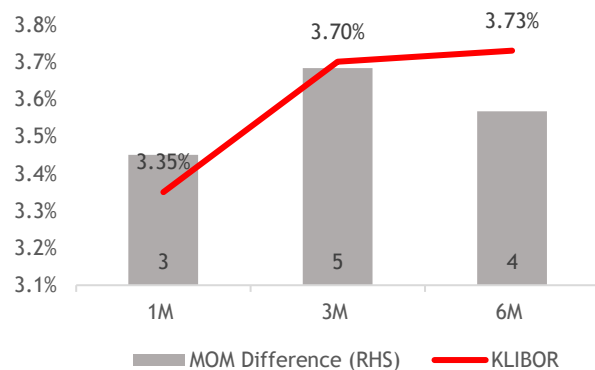
Indicator	3Q23	4Q23f	1Q24f	2Q24f	3Q24f	4Q24f
Exchange Rate, vs USD (average)	4.63	4.58	4.45	4.42	4.35	4.25
Exchange Rate, vs USD (end-period)	4.70	4.45	4.44	4.38	4.32	4.20
10Y Government Bond Yield (average)	3.97	3.97	3.75	3.72	3.63	3.62
10Y Government Bond Yield (end-period)	3.84	3.77	3.75	3.65	3.63	3.60

Source: MIDFR

## Interbank Money Market

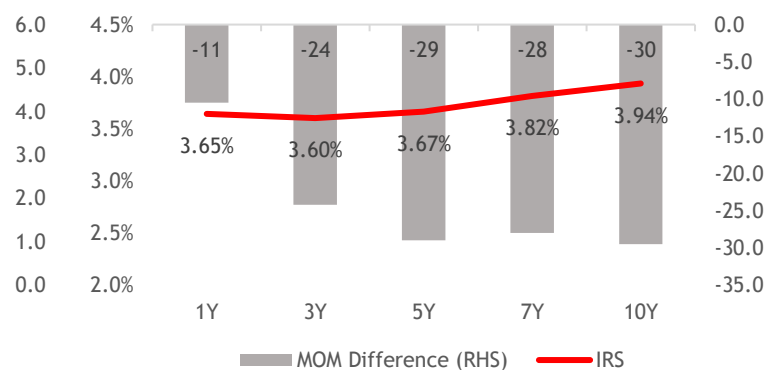
**3M KLIBOR higher by +5bps.** KLIBOR was higher across the board, led by the 3M KLIBOR, which rose higher by +5bps. IRS market rates were lower all around, led by the longer ends as the 10-year IRS edged lower by -30bps. The declining IRS rates were generally in line with the movement of MGS yields.

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



Source: Bloomberg, MIDFR

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



Source: Bloomberg, MIDFR

## Corporate Bonds

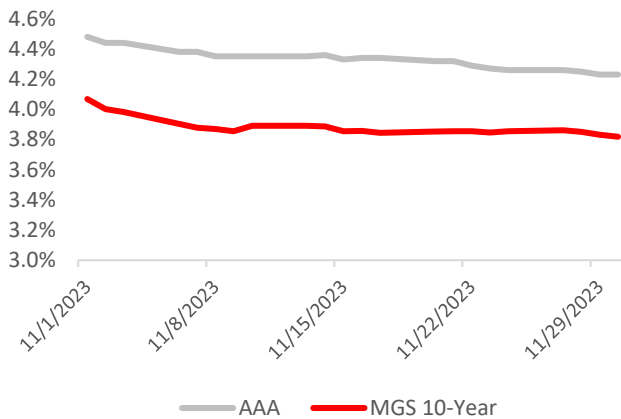
**Increased activity within the corporate space.** Corporate bonds (including quasi-government and BNM) saw a rise in trading volume at RM15.9b (Sep-23: 13.7b). The higher-rated AAA and AA1 saw yield changes between -5bps to -26bps across all tenures. Meanwhile, the lower-rated A1 and BBB1 hovered between +3bps and -14bps. The 10 top-traded corporate bonds (excluding BNM) totalled RM3.12b, led by CAGA 11/28 and DANA 5/31.

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

Rating Class	1Y	2Y	3Y	5Y	7Y	10Y
AAA	3.72	3.82	3.9	4.01	4.15	4.23
AA1	3.81	3.91	3.99	4.1	4.25	4.34
A1	4.42	4.69	4.93	5.29	5.55	5.77
BBB1	5.73	6.31	6.86	7.5	8.1	8.78
MOM Difference (bps)						
AAA	-7	-15	-20	-25	-25	-26
AA1	-5	-13	-19	-23	-22	-23
A1	+3	-3	-11	-13	-13	-14
BBB1	+1	-1	-5	-4	-4	-6

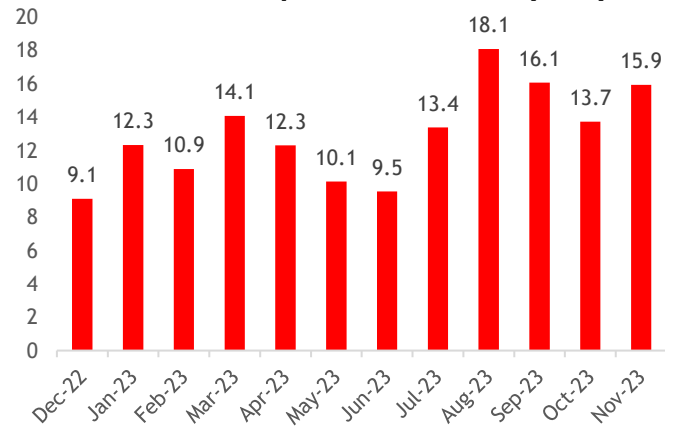
Source: Bondstream, MIDFR

**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 declined.** Primary issuance was lower at RM8.2b in Nov-23 (Oct-23: RM19.8b). Issuance of RM1.5b 5-year bond by RHB was the largest with a coupon of 4.38%. Notably, the AAA Cagamas, with a total issuance of RM1.2b and tenure ranging from 1-5 years and coupon range of 3.71% - 4.27%, made up 14.8% of the total corporate bond issuance.

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

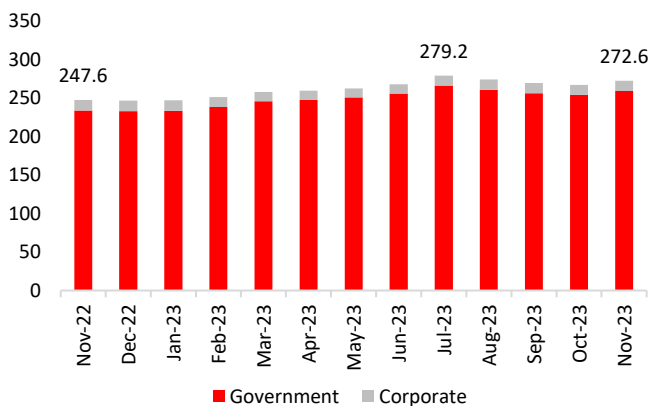
Issuer Name	Issued Amount (RM million)	Rating
RHB Bank Berhad	1500	AA1
Cagamas Berhad	1210	AAA
AmBank (M) Berhad	1000	AA3
CIMB Islamic Bank Berhad	1000	AAA
Impian Ekspresi Sdn Berhad	450	AAA
OCK Group Berhad	400	AA3
Exsim Capital Resources Berhad	365	AA3
Sungei Way Corporation Sdn Berhad	300	NR(LT)
Sunway Treasury Sukuk Sdn Berhad	300	AA3
Pengurusan Air SPV Berhad	300	NR(LT)
Hong Leong Islamic Bank Berhad	200	AAA
SunREIT Unrated Bond Berhad	200	NR(LT)
Inti Universal Holdings Berhad	165	AAA
Toyota Capital Malaysia Sdn Berhad	150	AAA
Konsortium KAJV Sdn Bhd	110	AA3
Hong Leong Bank Berhad	100	AAA
Crescendo Corporation Berhad	100	NR(LT)
Perdana ParkCity Sdn Berhad	90	NR(LT)
JB Cocoa Sdn Berhad	50	A1
ORIX Credit Malaysia Sdn Berhad	50	AA2
Gabungan AQRS Berhad	30	A2
YTL REIT MTN Sdn Berhad	25	NR(LT)
MY E.G. Services Berhad	25	AA3
Cenviro Sdn Berhad	15	NR(LT)
Setia Alamsari Sdn Berhad (fka KL East Sdn Berhad)	12.5	NR(LT)
Liziz Standaco Sdn Berhad	8.8	NR(LT)
Laksana Positif Sdn Berhad	6.16	NR(LT)
BGRB Venture Sdn Berhad	5.22	NR(LT)
Reneuco Berhad (fka Kumpulan Powernet Berhad)	5	NR(LT)
Impiana Hotels Berhad (fka Bio Osmo Berhad)	2.5	NR(LT)
<b>Total</b>	<b>8,175.2</b>	

**Interest in corporate bonds to increase in tandem with govies.** We opine corporate bonds to follow govies and continue the buying interest after Dec-23 FOMC meeting. We foresee the return interest to arrive once the end of Fed's policy tightening is definitive, hence seeing the return of appetite for riskier assets.

## Foreign Holdings of Malaysian Bonds

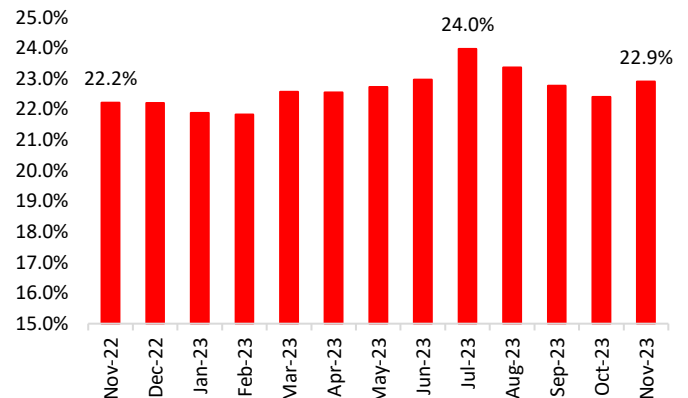
**Foreign holdings of Malaysian bonds rose in Nov-23.** Foreign holding of Malaysian bonds recovered and increased to RM272.6b in Nov-23 (Oct-23: RM267.2b). Foreign holdings of govvies made up 22.9% or RM259.5b of the total outstanding government bonds, the highest in 3 months but remained below the pre-pandemic average (2019 average: 23.1%). Meanwhile, the share of government bonds in the total foreign holdings was unchanged at 95.2% as foreign holdings of Malaysian corporate bonds also rose by +2.1%mom to RM13.1b. From the +2%mom rise in foreign holdings of government debt securities, this shows returning foreign fund flows amounting RM5.4b into the local debt market, reversing some of the cumulative RM12b outflows recorded in the previous 3 months. We believe the flows of foreign funds back to EMs is an indication of fund reallocation following the Fed’s decision to keep fed funds rate unchanged after the Nov-23 FOMC meeting and heightened expectations throughout the month that the Fed already reached the end of its tightening cycle, which led to a steep moderation in UST yields. We foresee the momentum to continue in the coming months; and along with government’s commitment to improve fiscal discipline, we expect this will drive the MGS yields lower (for 2024 forecast, please refer to our 2024 Outlook). 📈

**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
7/11/2023	30-yr Reopening of MGII 05/52 5.357%	4QCY23	November	8/11/2023	3,000.00	2,000.00	2.08
14/11/2023	5-yr Reopening of MGS (Mat on 04/28)	4QCY23	November	15/11/2023	5,000.00		1.51
29/11/2023	7-yr Reopening of MGII 09/30 4.245%	4QCY23	November	30/11/2023	5,000.00		3.30
	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	MI190003
GII MURABAHAH 3/2016 4.070% 30.09.2026	GO160003
MGS 3/2010 4.498% 15.04.2030	MX100003
MGS 1/2019 3.906% 15.07.2026	ML190001
MGS 3/2018 4.642% 07.11.2033	MT180003
GII MURABAHAH 1/2022 4.193% 07.10.2032	GO220001
GII MURABAHAH 2/2022 5.357% 15.05.2052	GZ220002
GII MURABAHAH 3/2015 4.245% 30.09.2030	GT150003
MGS 2/2022 4.696% 15.10.2042	MY220002
GII MURABAHAH 5/2013 4.582% 30.08.2033	GX130068
<b>Total</b>	<b>34,273.77</b>

Source: Bondstream, MIDFR

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