

FIXED INCOME | Dec-23 Fixed Income Review

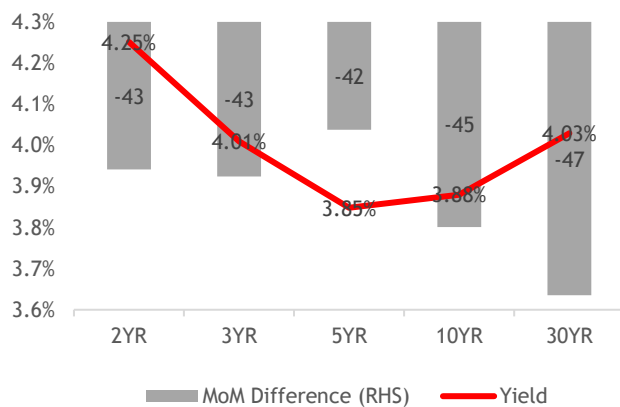
MGS 10-Year Yield Ended 2023 Around Expectation Level

- *The 10-year UST ended the year virtually unchanged from 2022. The 10-year UST yield experienced another sharp drop, declining -45bps to 3.88% in Dec-23 (Nov-23: 4.33%), around the same level at end-2022. The decline in UST yields was underpinned by heightened expectations for the Fed to start cutting the interest rate in 2024, with the Fed keeping its fed funds rate unchanged at 5.25%-5.50% after the Dec-23 FOMC meeting.*
- *The benchmark 10-year MGS yield ended 2023 lower by -31bps at 3.73% (2022: 4.04%), around our expectation of 3.77%. The 10-year yield also ended the month at its intra-month low, and -9bps lower than the previous month's closing of 3.82%. The movement of the 10-year MGS yield largely tracked the 10-year UST yield movement, but less volatile.*
- *MGS's 10-year yield to end the year lower at 3.60%. We foresee the 10-year MGS yield will continue to move in tandem with the 10-year UST yield, to decline further pricing in the expected rate cuts by the Fed this year. The narrowing FFR-OPR differential as BNM is expected to maintain OPR at 3.00% will shift investors' interest into EMs, underpinning another year of MGS rally.*
- *Foreign holding of Malaysian bonds declined to RM270.4b in Dec-23 (Nov-23: RM272.6b), albeit RM34.2b higher than RM246.8b in Dec-22. Foreign holdings of govies made up 22.5% or RM257.4b of the total outstanding government bonds in Dec-23, declining to 22.5% from 22.9% in the previous month, still below the pre-pandemic level (2019 average: 23.1%). Despite the lower foreign holdings, the overall lower UST yields and depreciation of the dollar indicated subsiding demand for the dollar. Hence, we continue to foresee foreign holdings to improve in the coming months.*

US Treasury

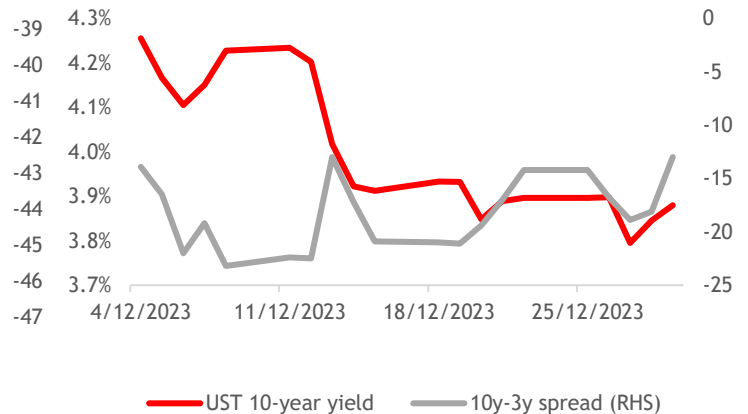
The 10-year UST ended the year virtually unchanged from 2022. The 10-year UST yield experienced another sharp drop, declining -45bps to 3.88% in Dec-23 (Nov-23: 4.33%), around the same level at end-2022. Meanwhile, the 3-year UST yield fell marginally smaller by -43bps to 4.01% (Nov-23: 4.44%). Consequently, the 10Y-3Y spread widened slightly to -13bps in Dec-23 (Nov-23: -12bps). The continued downtrend throughout the month saw the 10-year yield registering an intra-month low at 3.80% on 27 Dec-23, a level last seen in Jul-23. The decline in UST yields was underpinned by heightened expectations for the Fed to start cutting the interest rate in 2024, with the Fed keeping its fed funds rate unchanged at 5.25%-5.50% after the Dec-23 FOMC meeting. This was further supported by the steeper-than-expected moderation in core PCE inflation. Towards end-month, the 10-year UST yield increased due to the signs of continued resilience in the US labour market. While we foresee the UST yields to move lower driven by the dovish expectations, the downward trend may be constrained by several factors such as possible recession in the US, rising geopolitical tensions, and continued resilience in the US economy (and job market), as seen recently.

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



Source: Bloomberg, MIDFR

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



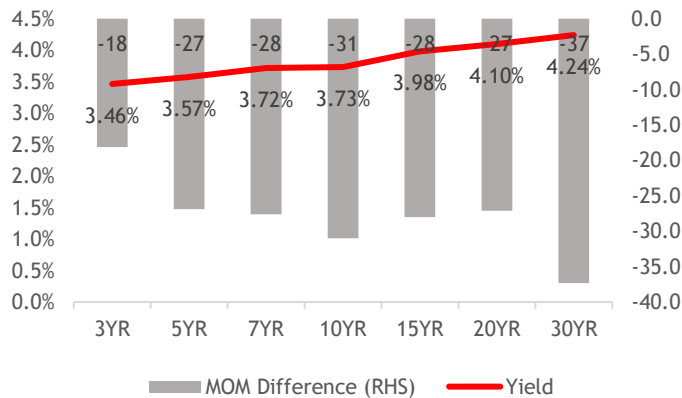
Source: Bloomberg, MIDFR

UST yields to move lower faster on confirmation of rate cuts. Expectations in the market currently priced in quicker rate cuts to be carried out by the Fed, as early as in Mar-24. We foresee the expected “soft landing” in the US economy will cause UST yields to move lower as Fed to gradually ease the level of policy restrictiveness on the economy. However, continued strength in the economy, and particularly the job market, has been supporting the higher-for-longer policy expectations, pushing the UST yields higher and thus delaying the timing of rate easing. Nevertheless, as the US inflation is expected to ease further towards the Fed’s 2% target, this will limit the yield increases as sentiment in the market will remain dovish. On that note, we foresee the 10-year UST yield to end Jan-24 lower with the Fed to keep fed funds rate unchanged at the next FOMC meeting at end-month.

Malaysian Government Bonds

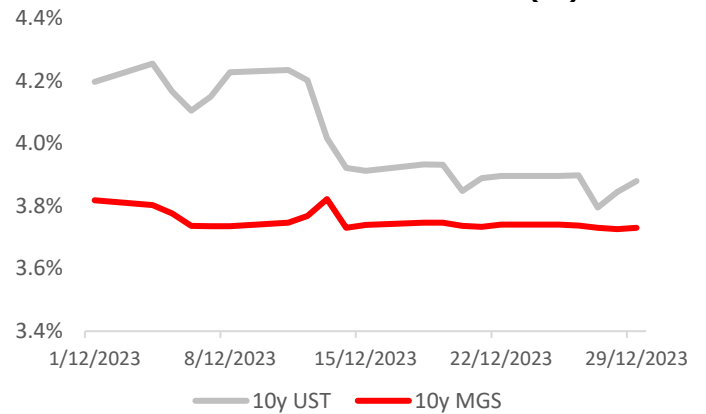
10-year MGS yield ended the year close to our expectation. The benchmark 10-year MGS yield ended 2023 lower by -31bps at 3.73% (2022: 4.04%), around our expectation of 3.77%. The 10-year yield also ended the month at its intra-month low, and -9bps lower than the previous month’s closing of 3.82%. Meanwhile, the 3-year yield marginally declined by -1bps to 3.46% (Nov-23: 3.48%). The intra-month movement saw the 10-year MGS yield relatively stable, hovering between 3.73%-3.82% during the month. The movement of the 10-year MGS yield largely tracked the 10-year UST yield movement, but less volatile. Volume traded however fell to RM55.1b (Nov-23: RM67.7b), with marginally narrower trading breadth as the top 10 traded government bonds made up the higher 50.6% of the total traded government bonds (Nov-23: 50.1%). The relatively muted secondary market activity also reflected the larger net new issuance of govies in Dec-23.

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



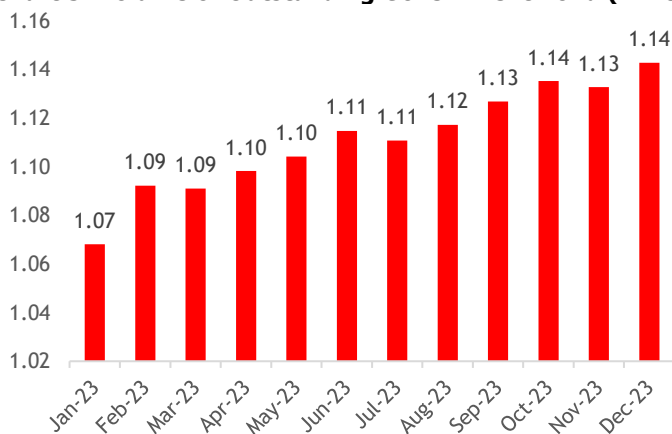
Source: Bloomberg, MIDFR

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



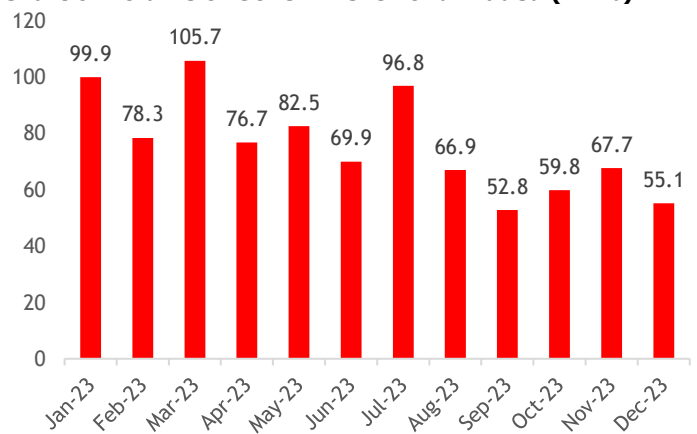
Source: Bloomberg, MIDFR

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



Source: Bondstream, MIDFR

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



Source: Bondstream, MIDFR

Significantly larger net issuance in Dec-23. New issuance of MGS/MGII was lower at RM10.0b in Dec-23 (Nov-23: RM15.0b), with 2 auctions totalling RM9.0b, where the average bit-to-cover (BTC) ratio was at a healthy 2.50x (Nov-23: 2.33x), and private issuance amounting RM1.0b. The higher BTC ratio was despite the much larger net issuance of RM10.0b (Nov-23: RM3.5b) as there was no redemption of MGS/GII during the month. As of Dec-23, the total outstanding amount of government bonds rose RM92.6b to RM1.14t (Nov-23: RM1.13t; 2022: RM1.05t), close to RM1.2t projected by the government.

MGS's 10-year yield to end the year lower at 3.60%. We foresee the 10-year MGS yield will continue to move in tandem with the 10-year UST yield, to decline further pricing in the expected rate cuts by the Fed this year. The narrowing FFR-OPR differential as BNM is expected to maintain OPR at 3.00% will shift investors' interest into EMs, underpinning another year of MGS rally. The government's commitment to fiscal consolidation is expected to instil confidence and act as catalyst for returning fund flows into the domestic bond market. However, we remain cautious of the presence of downside biases for the MGS market, including the possibility of a delay in rate cuts by the Fed and higher domestic inflation due to the implementation of targeted subsidies.

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

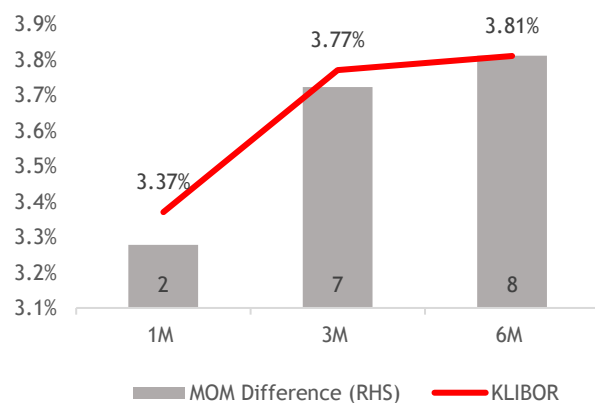
Indicator	3Q23	4Q23	1Q24f	2Q24f	3Q24f	4Q24f
Exchange Rate, vs USD (average)	4.63	4.70	4.45	4.42	4.35	4.25
Exchange Rate, vs USD (end-period)	4.70	4.59	4.44	4.38	4.32	4.20
10Y Government Bond Yield (average)	3.97	3.91	3.75	3.72	3.63	3.62
10Y Government Bond Yield (end-period)	3.84	3.73	3.75	3.65	3.63	3.60

Source: MIDFR

Interbank Money Market

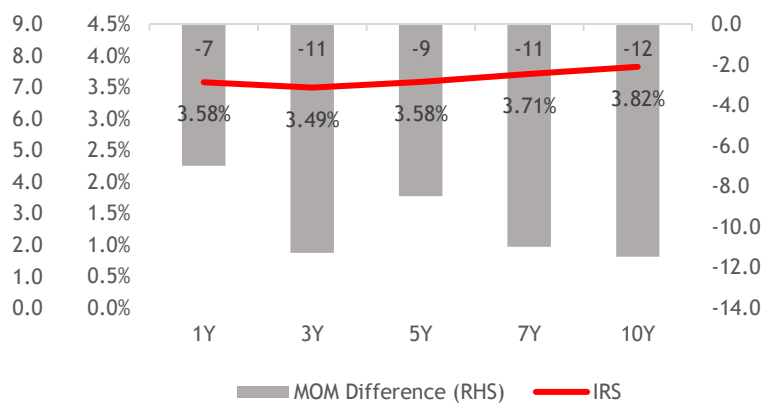
3M KLIBOR increased by +7bps. The KLIBOR interbank rates were higher across the board, led by the 6M KLIBOR, which rose higher by +8bps, while the 3M KLIBOR jumped higher by +7bps. The IRS market rates were lower all around, led by the longer ends as the 10-year IRS edged lower by -12bps. The declining IRS rates were generally in line with the movement in MGS yields.

Chart 7: KLIBOR and MOM Difference (bps)



Source: Bloomberg, MIDFR

Chart 8: IRS and MOM Difference (bps)



Source: Bloomberg, MIDFR

Corporate Bonds

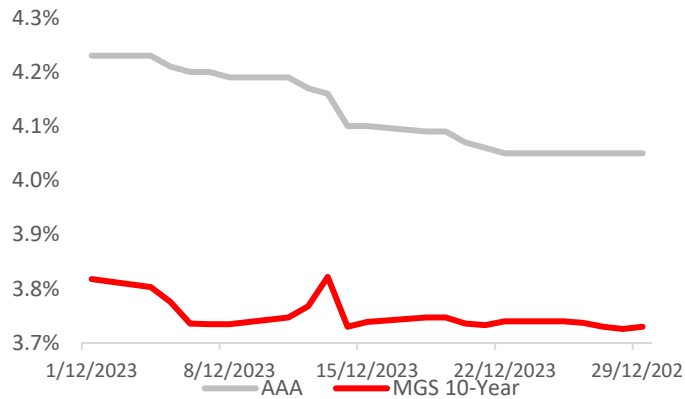
Slower activity within the corporate bonds space. Corporate bonds (including quasi-government and BNM) recorded a lower trading volume at RM14.0b (Nov-23: 15.9b). The higher-rated AAA and AA1 saw yield changes between -3bps to -18bps across all tenures. Meanwhile, the lower-rated A1 and BBB1 hovered between no change and -12bps. The 10 top traded corporate bonds (excluding BNM) totalled RM3.72b, led by DANA 4/40 and PLUS 12/38.

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

Rating Class	1Y	2Y	3Y	5Y	7Y	10Y
AAA	3.68	3.77	3.83	3.9	3.97	4.05
AA1	3.78	3.87	3.92	3.99	4.09	4.17
A1	4.39	4.63	4.83	5.19	5.43	5.67
BBB1	5.73	6.3	6.83	7.46	8.06	8.74
MOM Difference (bps)						
AAA	-4	-5	-7	-11	-18	-18
AA1	-3	-4	-7	-11	-16	-17
A1	-3	-6	-10	-10	-12	-10
BBB1	+0	-1	-3	-4	-4	-4

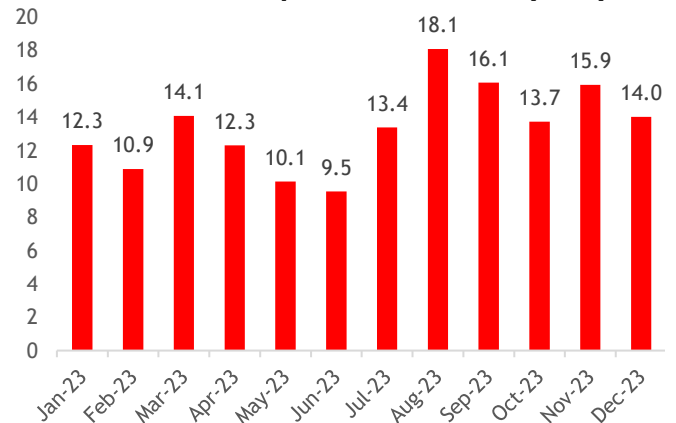
Source: Bondstream, MIDFR

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 bond issuance increase. Primary issuance was higher at RM9.4b in Dec-23 (Nov-23: RM8.2b). Issuances by Sime Darby led the chart with 2 issuances of 1-year tenure total of RM3.0b, with a coupon rate of 3.75% and 3.85%. Notably, the AAA Cagamas, with a total issuance of RM1.3b and tenure ranging from 1-5 years and coupon range of 3.67% - 4.02%, made up 13.8% of the total corporate bond issuance.

Table 3: Corporate Bond Issuance for Nov-23

Issuer Name	Issued Amount (RM million)	Rating
Sime Darby Enterprise Sdn Berhad	3,000.0	NR(LT)
Cagamas Berhad	1,300.0	AAA
Bank Pembangunan Malaysia Berhad	1,000.0	AAA
PNB Merdeka Ventures Sdn Berhad	814.0	NR(LT)
Affin Islamic Bank Berhad	600.0	AA3
FGV Holdings Berhad (fka Felda Global Ventures Holdings Berhad)	500.0	NR(LT)
Kinabalu Capital Sdn Berhad	362.0	NR(LT)
AEON Credit Service (M) Berhad	300.0	AA3
Jana Pendidikan Malaysia Sdn Berhad	250.0	NR(LT)
BGSM Management Sdn Berhad	200.0	AA3
Pavilion REIT Bond Capital Berhad	170.0	NR(LT)
Swift Haulage Berhad (fka Swift Haulage Sdn Berhad)	118.5	NR(LT)
UEM Olive Capital Berhad	100.0	AA1
Malayan Cement Berhad (fka Lafarge Malaysia Berhad)	100.0	AA3
MSA Resources Sdn Berhad	100.0	NR(LT)
Prudential BSN Takaful Berhad	100.0	NR(LT)
Indera Persada Sdn Berhad	68.0	AA1
BGRB Venture Sdn Berhad	60.0	NR(LT)
Puncak Selasih Sdn Berhad	40.0	NR(LT)
Chin Hin Group Berhad	30.0	NR(LT)
Duopharma Biotech Berhad (fka CCM Duopharma Biotech Berhad)	29.0	NR(LT)
YTL REIT MTN Sdn Berhad	25.0	NR(LT)
Sunway South Quay Sdn Berhad	21.0	NR(LT)
LBS Bina Holdings Sdn Berhad	20.0	NR(LT)
Setia Alamsari Sdn Berhad (fka KL East Sdn Berhad)	16.5	NR(LT)
Tumpuan Azam Sdn Berhad	16.0	NR(LT)
West Coast Expressway Sdn Berhad	15.6	NR(LT)
Setia Fontaines Sdn Berhad (fka Setia Recreation Sdn Berhad)	15.0	NR(LT)
Reneuco Berhad (fka Kumpulan Powernet Berhad)	8.0	NR(LT)
Liziz Standaco Sdn Berhad	6.3	NR(LT)
Laksana Positif Sdn Berhad	4.3	NR(LT)
Total	9,389.2	

Corporate bond to follow govies trend. Corporate bonds will likely continue to shadow govies and gained interest on a clearer US interest rate outlook. We foresee interest to accelerate on the confirmation of interest rate direction in the US, gaining from the return of fund flows into EMs.

Foreign Holdings of Malaysian Bonds


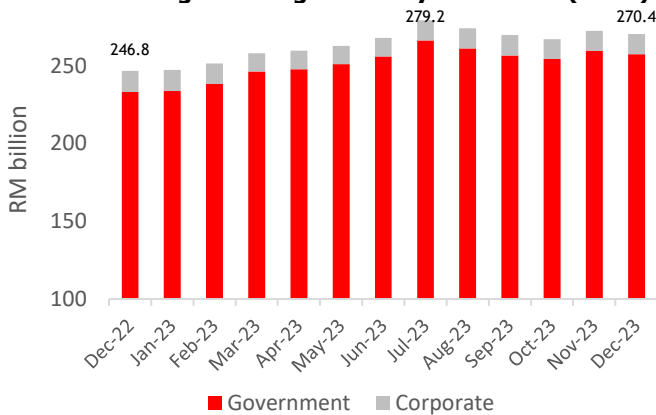
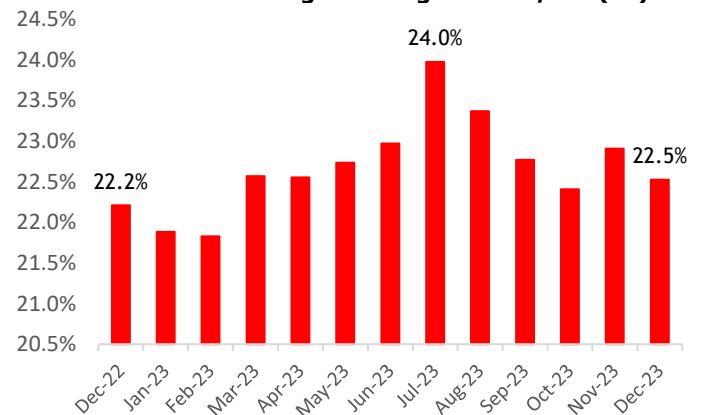
Foreign holdings of Malaysian bonds decline in Dec-23. Foreign holding of Malaysian bonds declined to RM270.4b in Dec-23 (Nov-23: RM272.6b), albeit RM34.2b higher than RM246.8b in Dec-22. Foreign holdings of govies made up 22.5% or RM257.4b of the total outstanding government bonds in Dec-23, declining to 22.5% from 22.9% in the previous month, still below the pre-pandemic level (2019 average: 23.1%). Meanwhile, the share of government bonds in the total foreign holdings was steady at 95.2% for the 3rd month as foreign holdings of Malaysian corporate bonds declined by -0.8%mom to RM13.0b. Despite the lower foreign holdings, the overall lower UST yields and depreciation of the dollar indicated subsiding demand for the dollar. Hence, we continue to foresee foreign holdings to improve in the coming months as we expect funds will also return to the domestic debt market, underpinned by the dovish sentiment on the Fed’s policy direction. 

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	3-yr Reopening of MGII 09/26 4.070%	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
6/12/2023	5-yr Reopening of MGS (Mat on 04/28)	4QCY23	December	7/12/2023	5,000.00		2.74
14/12/2023	10-yr Reopening of MGS 11/33 4.642%	4QCY23	December	15/12/2023	4,000.00	1,000.00	2.21

Source: Bondstream, BNM, MIDFR

Table 5: Top Traded Government Bonds

Stock Name	Traded Amount (RM million)
MGS 3/2019 3.478% 14.06.2024	4,428.2
MGS 3/2018 4.642% 07.11.2033	4,021.6
GII MURABAHAH 3/2016 4.070% 30.09.2026	3,622.9
GII MURABAHAH 3/2015 4.245% 30.09.2030	3,172.8
MGS 2/2023 3.519% 20.04.2028	3,010.0
MGS 3/2010 4.498% 15.04.2030	2,678.1
MGS 1/2019 3.906% 15.07.2026	2,205.3
GII MURABAHAH 1/2022 4.193% 07.10.2032	1,885.5
GII MURABAHAH 2/2022 5.357% 15.05.2052	1,441.4
GII MURABAHAH 1/2023 3.599% 31.07.2028	1,422.8
Total	27,888.5

Source: Bondstream, MIDFR

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