

FIXED INCOME | Jan-24 Fixed Income Review

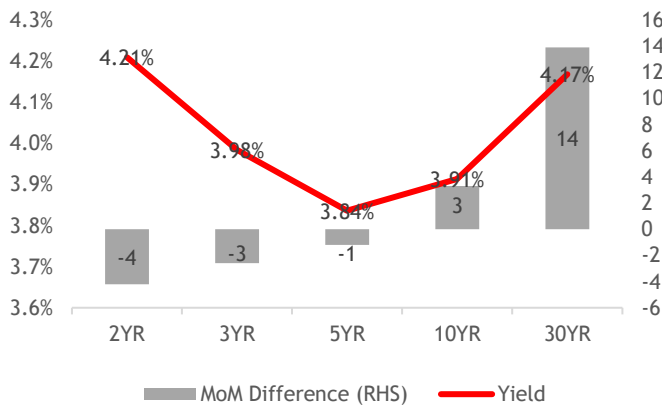
10-Year MGS Yield Rose, Mirroring 10-Year UST Yield

- *The 10-year UST yield climbed marginally higher. The 10-year UST yield ended +3bps higher at 3.91% as at end-Jan-24 (Dec-23: 3.88%). Meanwhile, the 3-year UST yield fell by -3bps to 3.98% (Dec-23: 4.01%). Consequently, the 10Y-3Y spread narrowed to -7bps in Jan-24 (Dec-23: -13bps). The rising yield was mainly underpinned by rising expectations for Fed to keep the FFR at the current high level.*
- *The benchmark 10-year MGS yield ended Jan-24 higher by +6bps at 3.79% (Dec-23: 3.73%). Meanwhile, the 3-year MGS yield declined by -8bps to 3.39% (Dec-23: 3.46%). The movement of the 10-year MGS yield largely tracked the 10-year UST yield movement but was less volatile.*
- *10-year MGS yield to end the year lower at 3.60%. We anticipate the 10-year MGS yield will continue to move in tandem with the 10-year UST yield, therefore would be heading downward on rising expectations for interest rate cuts by the Fed.*
- *Foreign holdings of Malaysian bonds declined steeply in Jan-24. Foreign holding of Malaysian bonds declined to RM265.3b in Jan-24 (Dec-23: RM270.4b). Foreign holdings of govies made up 21.8% or RM252.4b of the total outstanding government bonds in Jan-24, declining from 22.5% in the previous month and well under the pre-pandemic level (2019 average: 23.1%). Overall, the decline in foreign holdings of Malaysian bonds is in line with our expectations given the depreciating ringgit on the back of net inflows of foreign funds into the equity market in Jan-24.*

US Treasury

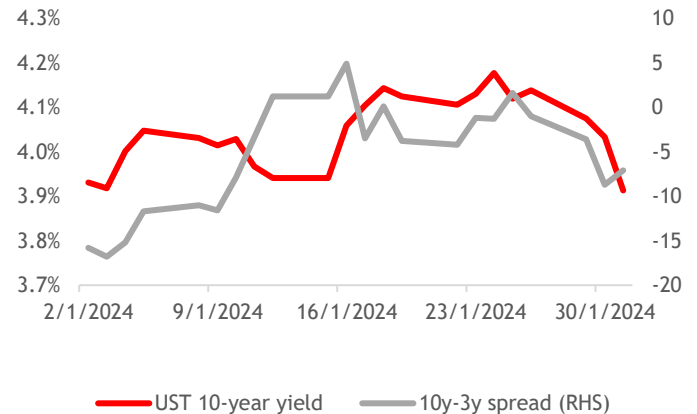
The 10-year UST yield climbed marginally higher. The 10-year UST yield ended +3bps higher at 3.91% as at end-Jan-24 (Dec-23: 3.88%). Meanwhile, the 3-year UST yield fell by -3bps to 3.98% (Dec-23: 4.01%). Consequently, the 10Y-3Y spread narrowed to -7bps in Jan-24 (Dec-23: -13bps). The 10-year UST yield broadly trended higher throughout the month reaching the month's high of 4.18% on 24th January 2024 after starting the month at its intra-month low. The rising yield was mainly underpinned by rising expectations for Fed to keep the FFR at the current high level for an extended time given the still elevated inflation (with the core PCE inflation remaining above +2% target), and continued resilience in the US labour market and the overall economy. Additionally, rising geopolitical crisis in the Middle East also pushed yield higher due to concerns of its impact to growth. The 10-year UST yield however fell in the final week of Jan-24 given the sustained moderation in core PCE inflation which was lower than market expectations. There was also no surprise in the Jan-24 FOMC decision where the Fed opted to keep the policy rate status quo at 5.25%-5.50%. We continue to foresee UST yields moving lower as expectations for the Fed to turn dovish increases going forward but remain cautious of factors that might dampen the UST rally such as further escalation in the Middle East geopolitical crisis, continued strength in the US economy and possibility of inflation persistently remains above the Fed's longer-run target, as this may caused the US Fed to keep its FFR at current level for longer.

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)



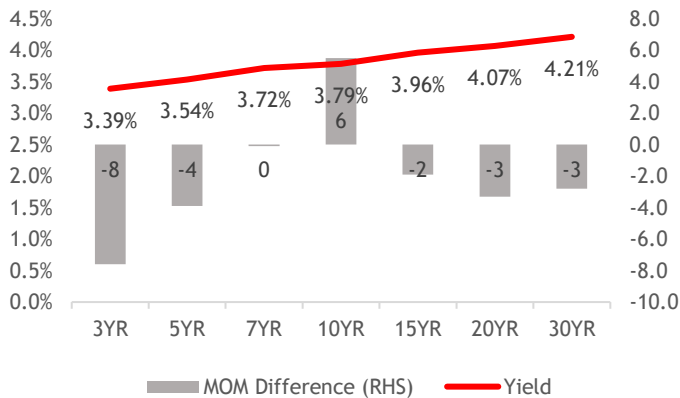
Source: Bloomberg, MIDFR

UST yields to move lower on rising expectations for a rate cut. The shift in expectations for the Fed to keep the high interest rate longer had driven the UST yields higher in Jan-24. We foresee the expected “soft landing” in the US economy will drive UST yields lower as the Fed gradually eases the level of policy restrictiveness on the economy. However, the strength in the US economy, particularly the job market continued to provide support for the “higher for longer” sentiment. Nevertheless, sustained moderation in core PCE inflation is expected to continue to signal the start of policy easing, likely in the latter half of the year. Yields could go lower in Feb-23; although there will be no FOMC meeting within this month, economic releases that lead to heightened expectations for rate cuts will reduce demand for treasury securities.

Malaysian Government Bonds

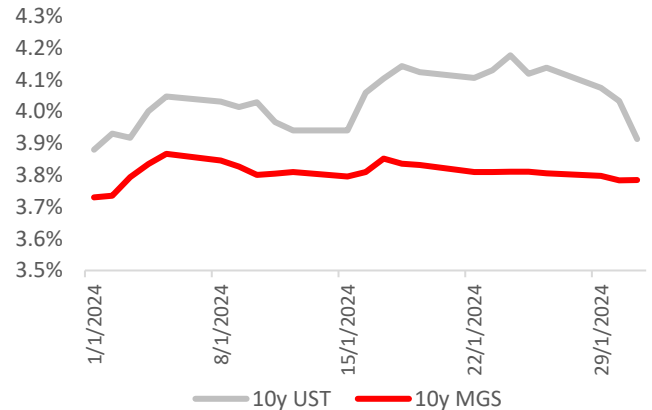
10-year MGS yield moves in tandem with 10-year UST. The benchmark 10-year MGS yield ended Jan-24 higher by +6bps at 3.79% (Dec-23: 3.73%). Meanwhile, the 3-year MGS yield declined by -8bps to 3.39% (Dec-23: 3.46%). The intra-month movement saw the 10-year MGS remained relatively stable hovering between 3.73%-3.87% during the month. The movement of the 10-year MGS yield largely tracked the 10-year UST yield movement but was less volatile. Additionally, BNM also maintained the OPR at the 3.00% rate, keeping the OPR-FFR differential status quo. Volume of trade rose to RM80.7b (Dec-23: RM55.1b), with marginally wider trading breadth as the top 10 traded government bonds made up 48.6% of the total traded government bonds (Nov-23: 50.6%). The relatively muted secondary market activity also reflected the larger net new issuance of govies in Jan-24.

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



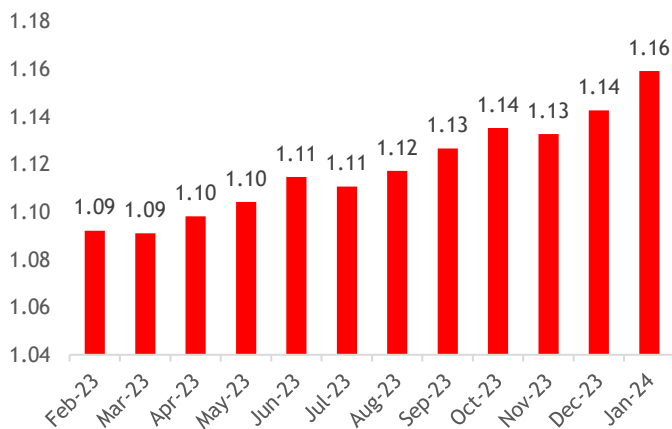
Source: Bloomberg, MIDFR

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



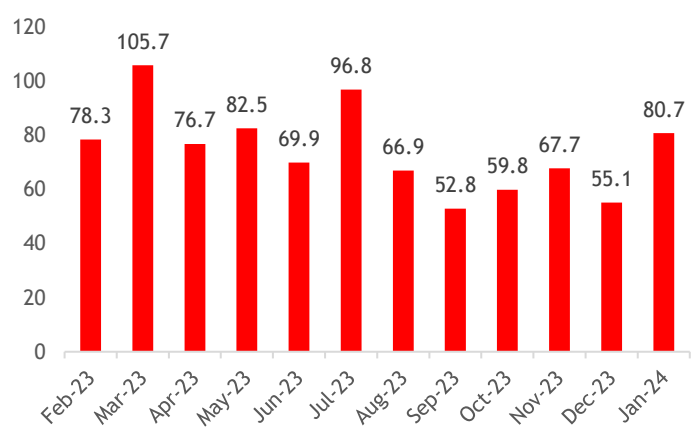
Source: Bloomberg, MIDFR

Chart 5: Outstanding Government Bonds (RM t)



Source: Bondstream, MIDFR

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



Source: Bondstream, MIDFR

Larger net issuance in Jan-24. New issuance of MGS/MGII was higher at RM15.0b in Jan-24 (Dec-23: RM10.0b), with 3 auctions totalling RM13.0b, where the average bit-to-cover (BTC) ratio was at a healthy 3.32x (Nov-23: 2.50x), and private issuance amounting RM2.0b. The higher BTC ratio was despite the much larger net issuance of RM13.0b (Dec-23: RM10.0b) as again, there was no redemption of MGS/GII during the month. As of Jan-24 outstanding government bond stood at, RM1.16t (Dec-23: RM1.14t).

10-year MGS yield to end the year lower at 3.60%. We anticipate the 10-year MGS yield will continue to move in tandem with the 10-year UST yield, therefore would be heading downward on rising expectations for interest rate cuts by the Fed. The narrowing FFR-OPR differential, as BNM is expected to keep OPR unchanged at 3.00%, is expected to drive investors' interest back into EMs. Additionally, the government's commitment to fiscal consolidation is expected to instil confidence catalysing interest in the domestic bond market. However, we remain cautious of possible downside bias on the MGS rally including the delay in the Fed's monetary easing and rising tension in the Middle East.

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 declined by -20bps. The KLIBOR interbank rates were lower across the board, led by the 3M KLIBOR, which declined by -20bps. Meanwhile, the IRS market rates were lower all around, led by the shorter ends as the 1-year IRS edged lower by -6bps. The declining IRS rates were generally in line with the movement in MGS yields except for the 10-year IRS which remained unchanged.

Chart 7: KLIBOR and MOM Difference (bps)

Source:

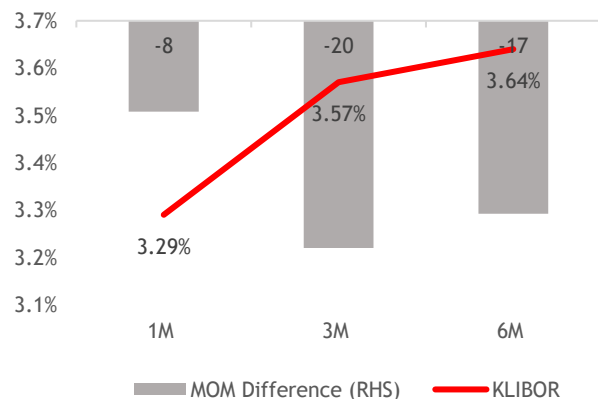
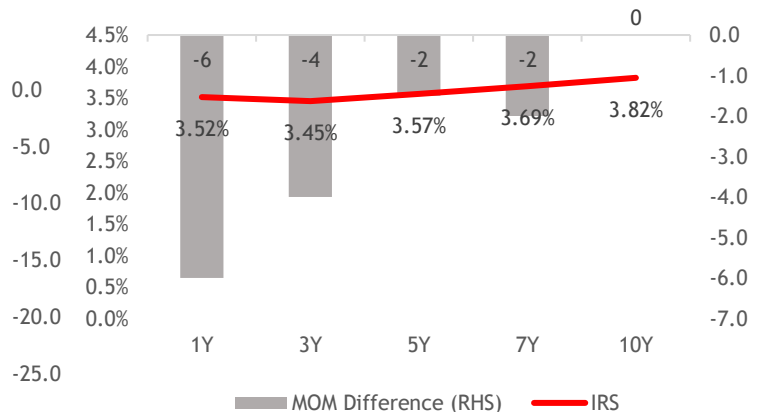


Chart 8: IRS and MOM Difference (bps)



Source: Bloomberg, MIDFR

Bloomberg, MIDFR

Corporate Bonds

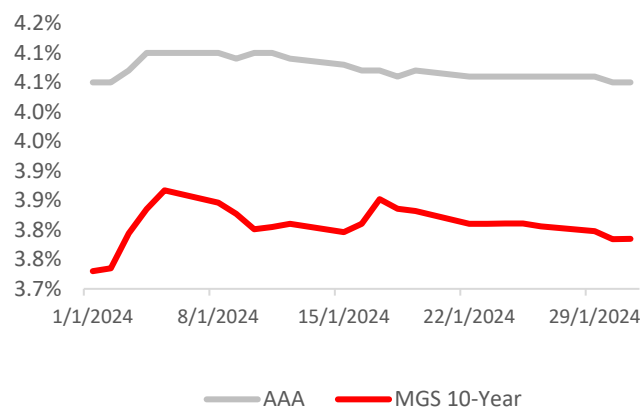
Faster activity within the corporate bond space. Corporate bonds (including quasi-government and BNM) recorded a higher trading volume at RM15.4b (Dec-23: 14.0b). The higher-rated AAA and AA1 saw yield changes between -7bps to +1bps across all tenures. Meanwhile, the lower-rated A1 and BBB1 hovered between +1bps change and -2bps. The 10 top traded corporate bonds (excluding BNM) totalled RM3.7b, led by KNBZ 3/24 and CIMB 5/24.

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

Rating Class	1Y	2Y	3Y	5Y	7Y	10Y
AAA	3.65	3.71	3.78	3.89	3.98	4.05
AA1	3.74	3.8	3.86	3.96	4.06	4.17
A1	4.39	4.62	4.81	5.16	5.41	5.65
BBB1	5.73	6.3	6.82	7.45	8.06	8.75
MOM Difference (bps)						
AAA	-3	-6	-5	-1	+1	+0
AA1	-4	-7	-6	-3	-3	+0
A1	+0	-1	-2	-3	-2	-2
BBB1	+0	+0	-1	-1	+0	+1

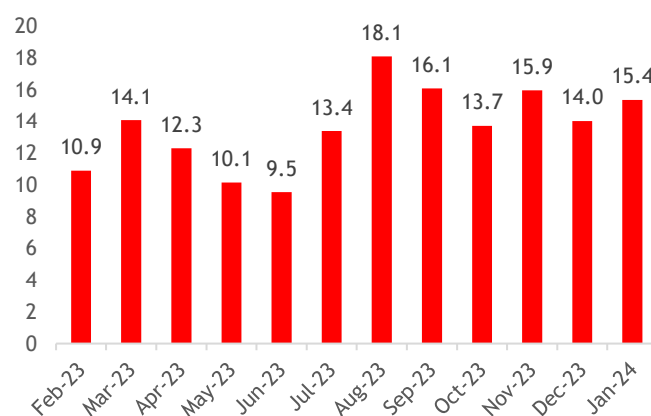
Source: Bondstream, MIDFR

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 bond issuance decreased. Primary issuance was lower at RM4.5b in Jan-24 (Dec-23: RM9.4b). Issuances by Maybank led the chart with a single issuance of RM3.0b with a 5-year tenure offering a coupon of 4.03%.

Table 3: Corporate Bond Issuance for Nov-23

Issuer Name	Issued Amount (RM million)	Rating
Malayan Banking Berhad	3,000	AA1
Projek Lebuhraya Usahasama Berhad	750	AAA
Toyota Capital Malaysia Sdn Berhad	250	AAA
LBS Bina Group Berhad	200	AA3
Perbadanan Kemajuan Negeri Selangor	130	AA3
West Coast Expressway Sdn Berhad	35.1	NR(LT)
Konsortium KAJV Sdn Bhd	35	AA3
Tumpuan Azam Sdn Berhad	33.28	NR(LT)
KIP REIT Capital Sdn Berhad	30	NR(LT)
STM Lottery Sdn Berhad (fka Sports Toto Malaysia Sdn Berhad)	25	AA3
Tanjung Pinang Development Sdn Berhad	18	NR(LT)
Liziz Standaco Sdn Berhad	8.1	NR(LT)
LBS Bina Holdings Sdn Berhad	7.7	NR(LT)
Reneuco Berhad (fka Kumpulan Powernet Berhad)	5	NR(LT)
Laksana Positif Sdn Berhad	4.08	NR(LT)
Total	4,531.3	

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 declined steeply in Jan-24. Foreign holding of Malaysian bonds declined to RM265.3b in Jan-24 (Dec-23: RM270.4b). Foreign holdings of govies made up 21.8% or RM252.4b of the total outstanding government bonds in Jan-24, declining from 22.5% in the previous month and well under the pre-pandemic level (2019 average: 23.1%). Meanwhile, the share of government bonds in the total foreign holdings declined slightly to 95.1% (Dec-23: 95.2%) despite foreign holdings of Malaysian corporate bonds declining by -1.2% mom to RM12.9b. Overall, the decline in foreign holdings of Malaysian bonds is in line with our


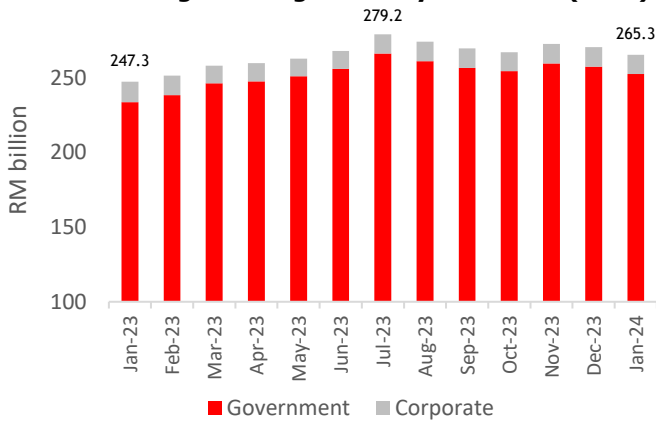
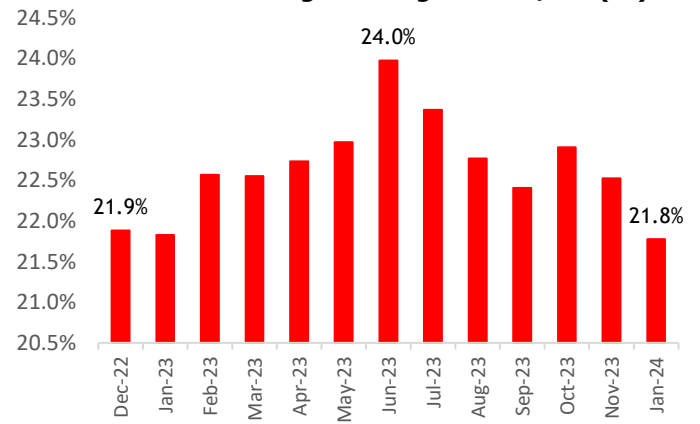
expectations given the depreciating ringgit on the back of net inflows of foreign funds into the equity market in Jan-24. 

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)
19/1/2024	5-yr Reopening of MGII 07/28 3.599%	1QCY23	January	22/1/2024	5,000.00		4.40
12/1/2024	30-yr Reopening of MGS 03/53 4.457%	1QCY23	January	15/1/2024	3,000.00	2,000.00	2.99
5/1/2024	10-yr Reopening of MGII 08/33 4.582%	1QCY23	January	8/1/2024	5,000.00		2.44
	7-yr Reopening of MGS 04/31 2.632%	1QCY23	February				
	3-yr Reopening of MGS 05/27 3.502%	1QCY23	February				
	20-yr Reopening of MGII 08/43 4.291%	1QCY23	February				
	30-yr New Issue of MGII (Mat on 03/54)	1QCY23	March				
	10-yr Reopening of MGS 11/33 4.642%	1QCY23	March				
	15-yr Reopening of MGII 09/39 4.467%	1QCY23	March				
	3-yr Reopening of MGII 09/26 4.070%	1QCY23	April				
	15-yr New Issue of MGS (Mat on 04/39)	2QCY23	April				
	7.5-yr New Issue of MGII (Mat on 10/31)	2QCY23	April				
	5-yr Reopening of MGS 08/29 3.885%	2QCY23	April				
	7-yr Reopening of MGS 04/31 2.632%	2QCY23	May				
	15-yr Reopening of MGII 09/39 4.467%	2QCY23	May				
	20-yr New Issue of MGS (Mat on 05/44)	2QCY23	May				
	30-yr Reopening of MGII (Mat on 03/54)	2QCY23	June				
	3-yr Reopening of MGS 05/27 3.502%	2QCY23	June				
	20-yr Reopening of MGII 08/43 4.291%	2QCY23	June				
	15-yr Reopening of MGS (Mat on 04/39)	3QCY23	July				
	10-yr Reopening of MGII 11/34 4.119%	3QCY23	July				
	5-yr Reopening of MGS 08/29 3.885%	3QCY23	July				
	10-yr Reopening of MGS 07/34 3.828%	3QCY23	August				
	5-yr Reopening of MGII 07/29 4.130%	3QCY23	August				
	30-yr Reopening of MGS 03/53 4.457%	3QCY23	August				
	7-yr Reopening of MGII (Mat on 10/31)	3QCY23	August				
	30-yr Reopening of MGII (Mat on 03/54)	3QCY23	September				
	7-yr Reopening of MGS 04/31 2.632%	3QCY23	September				
	20-yr Reopening of MGII 08/43 4.291%	3QCY23	September				
	7-yr Reopening of MGII (Mat on 10/31)	4QCY23	October				
	20-yr Reopening of MGS (Mat on 05/44)	4QCY23	October				
	10-yr Reopening of MGII 11/34 4.119%	4QCY23	October				
	3-yr Reopening of MGS 05/27 3.502%	4QCY23	October				
	10-yr Reopening of MGS 07/34 3.828%	4QCY23	November				
	5-yr Reopening of MGII 07/29 4.130%	4QCY23	November				
	15-yr Reopening of MGS (Mat on 04/39)	4QCY23	November				
	3-yr Reopening of MGII 09/27 3.422%	4QCY23	January				

Table 5: Top Traded Government Bonds

Stock Name	Traded Amount (RM million)
MGS 3/2018 4.642% 07.11.2033	5,440.5
GII MURABAHAH 5/2013 4.582% 30.08.2033	5,293.8
GII MURABAHAH 1/2023 3.599% 31.07.2028	4,929.7
MGS 3/2019 3.478% 14.06.2024	4,189.6
MGS 2/2023 3.519% 20.04.2028	3,475.3
GII MURABAHAH 3/2016 4.070% 30.09.2026	3,399.0
GII MURABAHAH 3/2015 4.245% 30.09.2030	3,349.8
MGS 1/2023 4.457% 31.03.2053	3,045.9
MGS 4/2018 4.893% 08.06.2038	2,952.6
GII MURABAHAH 1/2019 4.130% 09.07.2029	2,939.7
Total	39,015.7

Source: Bondstream, MIDFR

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