

## FIXED INCOME | Feb-24 Fixed Income Review

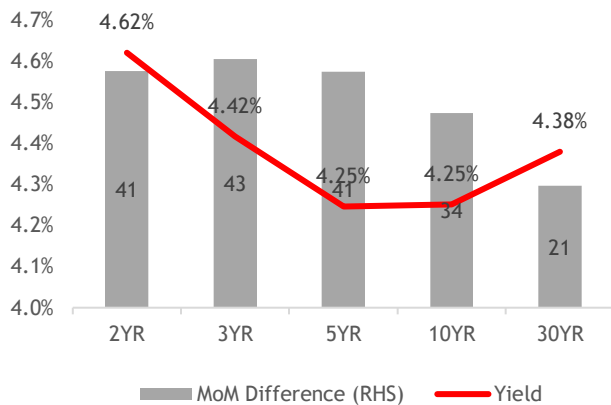
### 10-Year MGS Yield Continued on Climbing Higher in Feb-24

- The 10-year UST yield ended +34bps higher at 4.25% as at end-Feb-24 (Jan-24: 3.91%). Meanwhile, the 3-year UST yield rose even higher by +43bps to 4.42% (Feb-24: 3.98%). Consequently, the 10Y-3Y spread widened to -17bps in Feb-24 (Jan-24: -7bps).
- The benchmark 10-year MGS yield ended Feb-24 higher by +8bps at 3.87% (Jan-24: 3.79%). Meanwhile, the 3-year MGS yield jumped higher by +11bps to 3.50% (Jan-24: 3.39%). Overall, the movement in the 10-year MGS yield was less volatile than the UST 10-year yield, with intra-month yield movement hovering between 3.77% and 3.89%.
- 10y MGS yield to end the year at 3.60%. We expect the 10-year MGS yield to mirror movements in the 10-year UST yield, potentially trending downwards due to increasing expectations of interest rate reductions by the US Fed.
- Foreign holding of Malaysian bonds declined further to RM264.1b in Feb-24 (Jan-24: RM265.3b). Foreign holdings of govies made up 21.5% or RM250.4b of the total outstanding government bonds in Jan-24, declining from 21.8% in the previous month and well under the pre-pandemic level (2019 average: 23.1%).

#### US Treasury

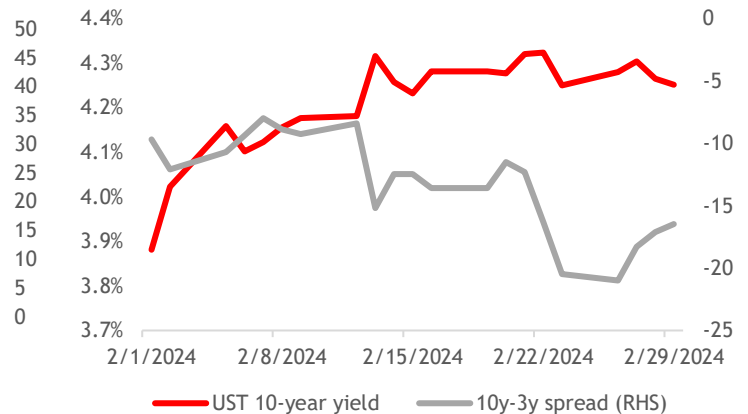
**10y UST jumped higher.** The 10-year UST yield ended +34bps higher at 4.25% as at end-Feb-24 (Jan-24: 3.91%). Meanwhile, the 3-year UST yield rose even higher by +43bps to 4.42% (Feb-24: 3.98%). Consequently, the 10Y-3Y spread widened to -17bps in Feb-24 (Jan-24: -7bps). The 10-year UST yield broadly escalated throughout the month, peaking at 4.323% on 22nd February 2024. The rising yield followed the release of Jan-24 FOMC meeting minutes, which revealed Fed officials were still hesitant about cutting the FFR too early. The US Fed also reiterated its belief in the need to ascertain that inflation is sustainably heading lower towards its 2% target before starting to ease the policy rate. The 10-year UST yield, however, closed lower than its month's peak as the latest core PCE inflation showed further moderation in the US inflation. The return of buying interest at month's end was also due to signs of easing tightness within the US labour market. We continue to foresee further moderation in the US treasury yields going forward on the assumptions of further moderation in the US inflation and cooling labour market condition which will support policy easing by the Fed later this year. Nevertheless, we remain aware of possible downside risks for UST to rally, including re-acceleration in inflationary pressure due to a tight supply and continued robustness in the US labour market.

**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)**



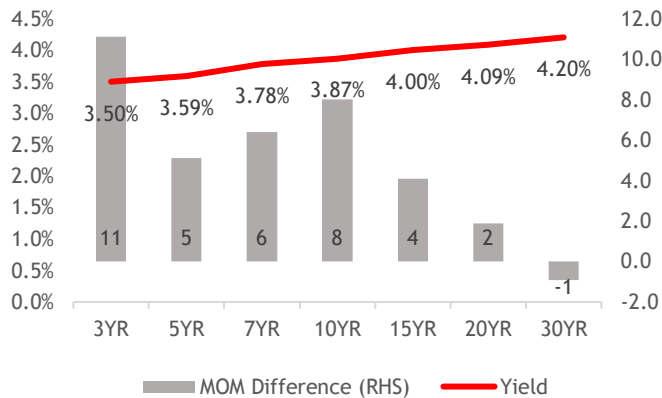
Source: Bloomberg, MIDFR

**UST yields movement to move lower in view of rate cut expectations.** The continued "higher for longer sentiment" by the US Fed continued to push the yields higher in Feb-24. We anticipate that the "soft landing" of the US economy will lead to a decrease in UST yields as market will price in expectations that the Fed will progressively reduce the degree of its policy restrictiveness on the US economy. The sentiment that follows the Mar-24 FFR decision will greatly influence yield movement, given that the market sentiment already shifted and now largely expecting the Fed to keep the FFR steady until mid-2024. On that note, we foresee the UST market will also react to economic data releases, especially on the labour market and inflation to gauge the future policy direction of US Fed. We anticipate yields to go lower in Mar-24 as the sentiment in the market moves towards less hawkish view on the Fed, especially if inflation continues to moderate further.

### Malaysian Government Bonds

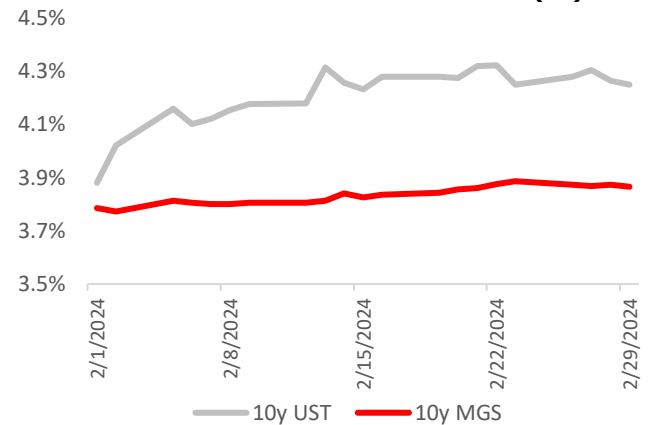
**10-year MGS rose in tandem with UST yields.** The benchmark 10-year MGS yield ended Feb-24 higher by +8bps at 3.87% (Jan-24: 3.79%). Meanwhile, the 3-year MGS yield jumped higher by +11bps to 3.50% (Jan-24: 3.39%). Overall, the movement in the 10-year MGS yield was less volatile than the UST 10-year yield, with intra-month yield movement hovering between 3.77% and 3.89%. The volume of trade declined to RM68.4b (Jan-24: RM80.7b), but with a broader trading breadth as the top 10 traded government bonds made up 44.5% of the total traded government bonds (Jan-24: 48.6%). The lower trading activities were partly due to shorter trading days and the lower amount of net issuance in Feb-24.

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



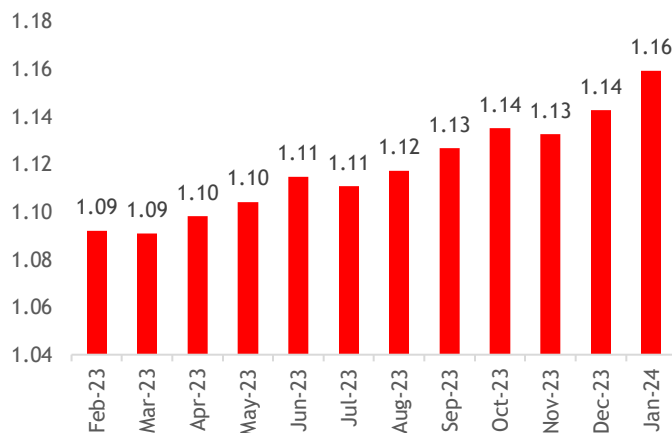
Source: Bloomberg, MIDFR

**Chart 4: MGS 10-Year vs UST 10-Year Yield (%) in Feb-24**



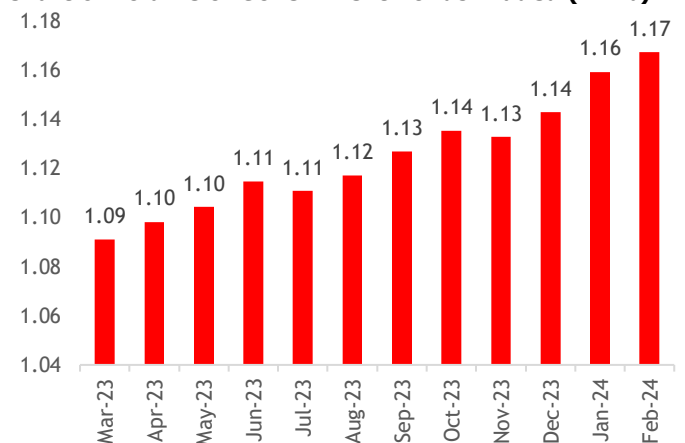
Source: Bloomberg, MIDFR

**Chart 5: Outstanding Government Bonds (RM t)**



Source: Bondstream, MIDFR

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



Source: Bondstream, MIDFR

**Smaller net issuance in Feb-24.** New issuance of MGS/MGII was unchanged at RM15.0b in Feb-24, with 3 auctions totalling RM13.0b, where the average bit-to-cover (BTC) ratio was at a healthy 2.18x (Jan-24: 3.32x), and private issuance amounting RM2.0b. The higher BTC ratio was due to the smaller net issuance of RM9.5b (Jan-24: RM15.0b). As of Jan-24, outstanding government bond stood at RM1.17t (Jan-23: RM1.16t).

**10y MGS yield to end the year at 3.60%.** We expect the 10-year MGS yield to mirror movements in the 10-year UST yield, potentially trending downwards due to increasing expectations of interest rate reductions by the US Fed. The decreasing differential between the FFR and OPR, with the expectation that BNM will maintain the OPR at 3.00%, is likely to redirect investor interest towards EMs. Furthermore, the government's commitment to fiscal prudence is anticipated to boost confidence and spark interest in the domestic bond market. Nevertheless, we maintain a cautious outlook on the potential MGS rally, taking into account factors such as delays in the Fed's monetary policy easing and escalating tensions in the Middle East.

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

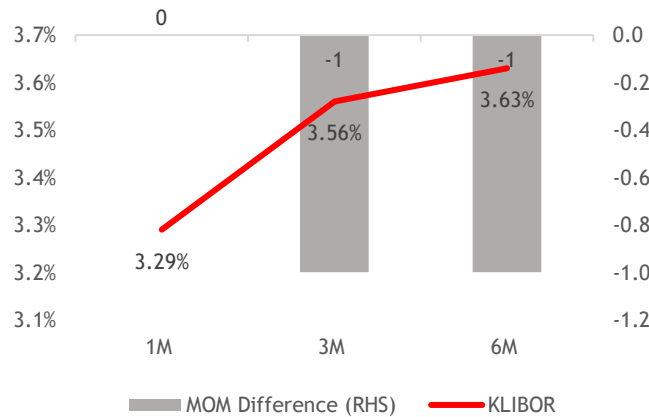
Indicator	3Q23	4Q23	1Q24f	2Q24f	3Q24f	4Q24f
Exchange Rate, vs USD (average)	4.63	4.70	4.45	4.42	4.35	4.25
Exchange Rate, vs USD (end-period)	4.70	4.59	4.44	4.38	4.32	4.20
10Y Government Bond Yield (average)	3.97	3.91	3.75	3.72	3.63	3.62
10Y Government Bond Yield (end-period)	3.84	3.73	3.75	3.65	3.63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

Source: MIDFR

## Interbank Money Market

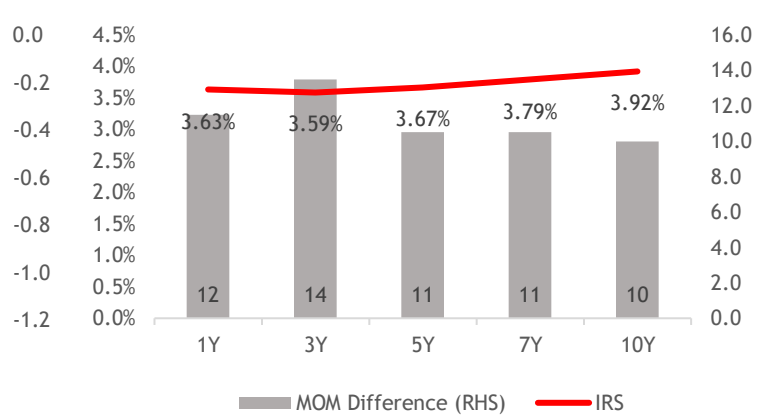
**3M KLIBOR declined by -1bps.** The KLIBOR interbank rates were lower across the board except for the 1M, which remained unchanged, while the 3M KLIBOR declined by -1bps. Meanwhile, the IRS market rates were broadly higher, led by the shorter ends as the 3-year IRS jumped higher by +14bps. The higher 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

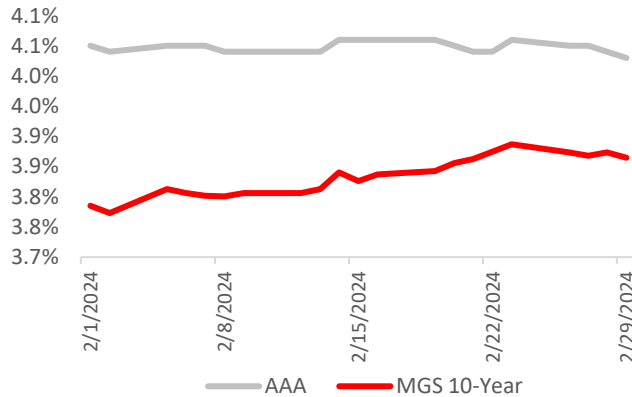
**Volume traded was unchanged within the corporate space.** Traded volume remained at around RM15.4b in Feb-24. The higher-rated AAA and AA1 saw slight buying interest, with yields ranging between -2bps and +1bps across all tenures. Meanwhile, the lower-rated A1 and BBB1 hovered between -2bps change and +1bps. The 10 top traded corporate bonds (excluding BNM) totalled RM0.65b, led by CAGA 8/28.

**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	0	-1	-1	-1	-2	-2
AA1	-1	-2	-1	1	-1	-1
A1	-2	0	0	0	0	2
BBB1	0	0	0	1	1	1

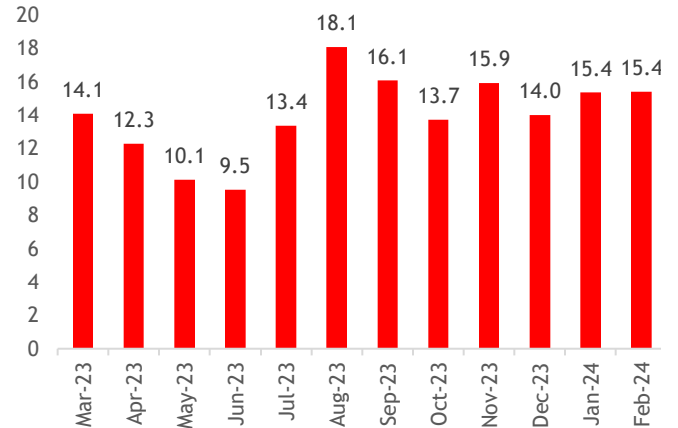
Source: Bondstream, MIDFR

**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 increased.** Primary issuance was higher at RM5.5b in Feb-24 (Jan-24: RM4.5b). Issuances by AAA-rated PASB led the chart with 2 issuances totalling RM1.1b with a 7-year tenure with a 4.07% coupon and a 10-year tenure offering a coupon of 4.14%, respectively.


**Table 3: Corporate Bond Issuance for Feb-24**

Issuer Name	Issued Amount (RM million)	Rating
Pengurusan Air SPV Berhad	1,100.0	AAA
Bank Simpanan Nasional Berhad	1,000.0	AAA
Cagamas Berhad	960.0	AAA
United Overseas Bank (Malaysia) Berhad	500.0	AA1
UEM Sunrise Berhad	500.0	AA3
BBT Mall Sdn Berhad	310.0	NR(LT)
SunREIT Unrated Bond Berhad	300.0	NR(LT)
Toyota Capital Malaysia Sdn Berhad	250.0	AAA
Hektar MTN Satu Sdn Berhad	215.0	AAA
MY E.G. Services Berhad	100.0	AA3
ORIX Credit Malaysia Sdn Berhad	50.0	AA2
KIP REIT Capital Sdn Berhad	48.0	NR(LT)
Tumpuan Azam Sdn Berhad	30.4	NR(LT)
West Coast Expressway Sdn Berhad	17.7	NR(LT)
Potensi Angkasa Sdn Berhad	16.2	NR(LT)
Tanjung Pinang Development Sdn Berhad	12.0	NR(LT)
Laksana Positif Sdn Berhad	10.6	NR(LT)
Setia Alamsari Sdn Berhad (fka KL East Sdn Berhad)	10.5	NR(LT)
Chin Hin Group Berhad	10.0	NR(LT)
Gabungan AQRS Berhad	10.0	A2
Liziz Standaco Sdn Berhad	8.4	NR(LT)
<b>Total</b>	<b>5,458.8</b>	

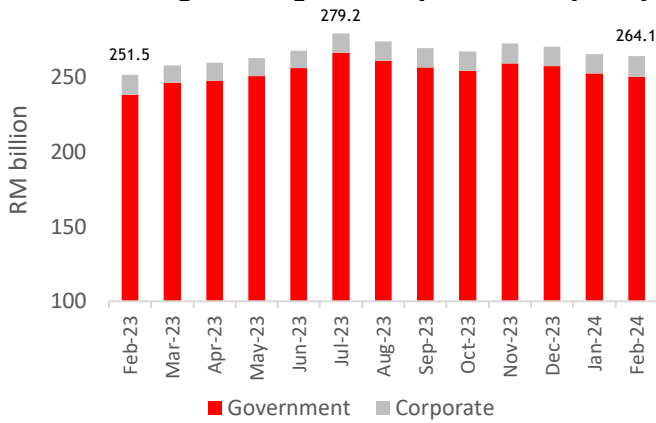
**Corporate bond to follow govies trend.** Corporate bonds will likely continue to shadow governments and gain interest on a clearer US interest rate outlook. We foresee interest to accelerate on the confirmation of interest rate direction in the US, gaining from the return of fund flows into EMs.

### Foreign Holdings of Malaysian Bonds

**Foreign holdings of Malaysian bonds continued to decline in Feb-24.** Foreign holding of Malaysian bonds declined further to RM264.1b in Feb-24 (Jan-24: RM265.3b). Foreign holdings of govies made up 21.5% or RM250.4b of the total outstanding government bonds in Jan-24, declining from 21.8% in the previous month and

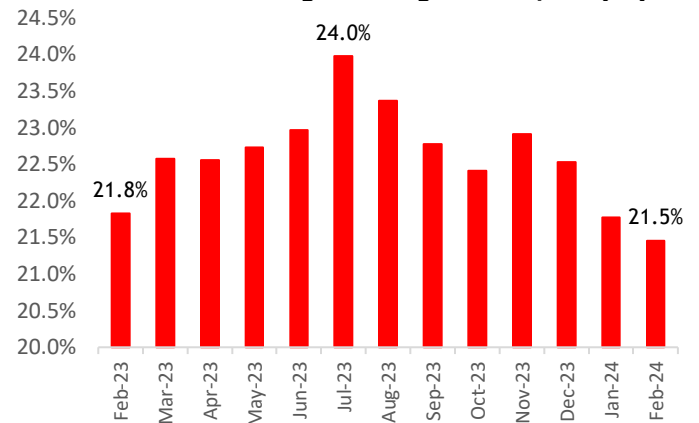
well under the pre-pandemic level (2019 average: 23.1%). Meanwhile, the share of government bonds in the total foreign holdings dipped to 94.8% (Jan-24: 95.1%) as foreign holdings of Malaysian corporate bonds rose by +6.5%mom to RM13.7b. Overall, the softer pace of decline foreign holdings of Malaysian bonds than the previous month was in line with the slight weakening of ringgit in Feb-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%	1QCY24	January	22/1/2024	5,000.00		4.40
12/1/2024	30-yr Reopening of MGS 03/53 4.457%	1QCY24	January	15/1/2024	3,000.00	2,000.00	2.99
5/1/2024	10-yr Reopening of MGII 08/33 4.582%	1QCY24	January	8/1/2024	5,000.00		2.44
5/2/2024	7-yr Reopening of MGS 04/31 2.632%	1QCY24	February	6/2/2024	5,000.00		1.70
21/2/2024	3-yr Reopening of MGS 05/27 3.502%	1QCY24	February	22/2/2024	5,000.00		2.16
14/2/2024	20-yr Reopening of MGII 08/43 4.291%	1QCY24	February	15/2/2024	3,000.00	2,000.00	3.04
	30-yr New Issue of MGII (Mat on 03/54)	1QCY24	March				
	10-yr Reopening of MGS 11/33 4.642%	1QCY24	March				
	15-yr Reopening of MGII 09/39 4.467%	1QCY24	March				
	3-yr Reopening of MGII 09/26 4.070%	1QCY24	April				
	15-yr New Issue of MGS (Mat on 04/39)	2QCY24	April				
	7.5-yr New Issue of MGII (Mat on 10/31)	2QCY24	April				
	5-yr Reopening of MGS 08/29 3.885%	2QCY24	April				
	7-yr Reopening of MGS 04/31 2.632%	2QCY24	May				
	15-yr Reopening of MGII 09/39 4.467%	2QCY24	May				
	20-yr New Issue of MGS (Mat on 05/44)	2QCY24	May				
	30-yr Reopening of MGII (Mat on 03/54)	2QCY24	June				
	3-yr Reopening of MGS 05/27 3.502%	2QCY24	June				
	20-yr Reopening of MGII 08/43 4.291%	2QCY24	June				
	15-yr Reopening of MGS (Mat on 04/39)	3QCY24	July				
	10-yr Reopening of MGII 11/34 4.119%	3QCY24	July				
	5-yr Reopening of MGS 08/29 3.885%	3QCY24	July				
	10-yr Reopening of MGS 07/34 3.828%	3QCY24	August				
	5-yr Reopening of MGII 07/29 4.130%	3QCY24	August				
	30-yr Reopening of MGS 03/53 4.457%	3QCY24	August				
	7-yr Reopening of MGII (Mat on 10/31)	3QCY24	August				
	30-yr Reopening of MGII (Mat on 03/54)	3QCY24	September				
	7-yr Reopening of MGS 04/31 2.632%	3QCY24	September				
	20-yr Reopening of MGII 08/43 4.291%	3QCY24	September				
	7-yr Reopening of MGII (Mat on 10/31)	4QCY24	October				
	20-yr Reopening of MGS (Mat on 05/44)	4QCY24	October				
	10-yr Reopening of MGII 11/34 4.119%	4QCY24	October				
	3-yr Reopening of MGS 05/27 3.502%	4QCY24	October				
	10-yr Reopening of MGS 07/34 3.828%	4QCY24	November				
	5-yr Reopening of MGII 07/29 4.130%	4QCY24	November				
	15-yr Reopening of MGS (Mat on 04/39)	4QCY24	November				
	3-yr Reopening of MGII 09/27 3.422%	4QCY24	January				

**Table 5: Top Traded Government Bonds**

Stock Name	Traded Amount (RM million)
MGS 3/2019 3.478% 14.06.2024	5302.48
GII MURABAHAH 5/2013 4.582% 30.08.2033	4063.69
MGS 2/2020 2.632% 15.04.2031	3813.52
MGS 3/2018 4.642% 07.11.2033	3582.7
GII MURABAHAH 3/2016 4.070% 30.09.2026	3012.53
GII MURABAHAH 2/2023 4.291% 14.08.2043	2553.23
GII MURABAHAH 1/2023 3.599% 31.07.2028	2224.24
GII MURABAHAH 3/2015 4.245% 30.09.2030	2012.16
MGS 3/2010 4.498% 15.04.2030	1960.65
MGS 2/2023 3.519% 20.04.2028	1937.9
<b>Total</b>	<b>30,463.1</b>

Source: Bondstream, MIDFR

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