

## FIXED INCOME | Mar-24 Fixed Income Review

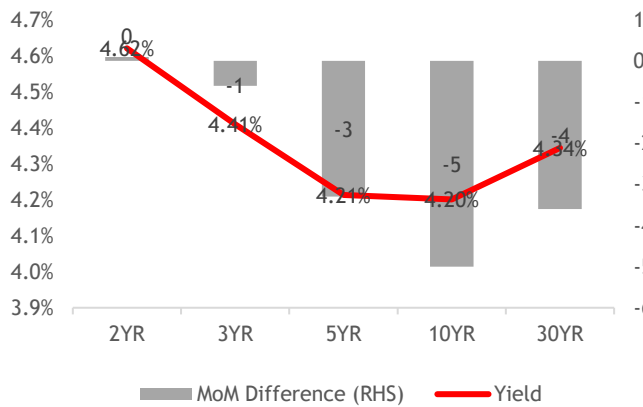
### 10-Year MGS Yield Ended Lower in Mar-24

- *The 10-year UST yield ended -5bps lower at 4.20% as at end-Mar-24 (Feb-24: 4.25%). Similarly, the 3-year UST yield closed the month marginally -1bps lower at 4.41% (Feb-24: 4.42%). Consequently, the 10Y-3Y spread widened to -21bps in Mar-24 (Feb-24: -17bps).*
- *The benchmark 10-year MGS yield closed Mar-24 marginally lower by -1bps at 3.85% (Feb-24: 3.87%). Concurrently, the 3-year MGS yield also edged lower by -1bps to 3.49% (Feb-24: 3.50%). Overall, the movement in the 10-year MGS yield was less volatile than the 10-year UST yield, with intra-month yield movement hovering between 3.81% and 3.88%.*
- *Maintain projection of MGS 10-year yield ending the year lower at 3.60%. We anticipate the yield on 10-year MGS to continue reflecting and tracking the changes in the 10-year UST yield, with a possible downward trend due to expectations for interest rate cuts by the Fed.*
- *Foreign holding of Malaysian bonds rebounded to increase to RM265.8b in Mar-24 (Feb-24: RM264.1b). Foreign holdings of govies made up 21.4% or RM252.3b of the total outstanding government bonds in Mar-24, declining from 21.5% in the previous month and under the pre-pandemic level (2019 average: 23.1%).*

#### US Treasury

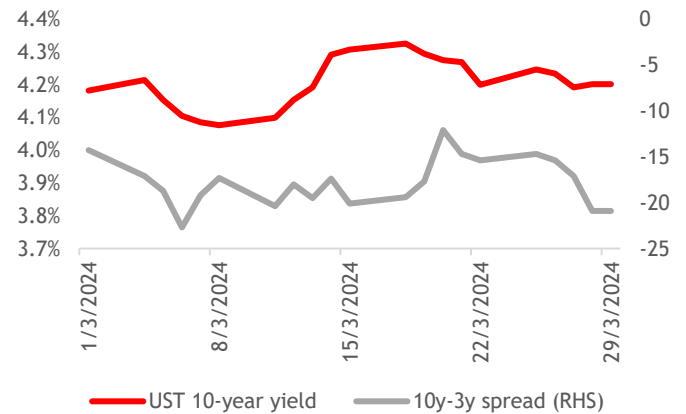
**10y UST yield ended Mar-24 lower.** The 10-year UST yield ended -5bps lower at 4.20% as at end-Mar-24 (Feb-24: 4.25%). Similarly, the 3-year UST yield closed the month marginally -1bps lower at 4.41% (Feb-24: 4.42%). Consequently, the 10Y-3Y spread widened to -21bps in Mar-24 (Feb-24: -17bps). The 10-year UST yield was broadly on an upward trend in the earlier half of the month peaking at 4.33% on 18th Mar 2024, which was the highest since end-Nov-23. The surge of the 10-year yield was supported by a shift in expectations that the Federal Reserve would maintain the current high interest rate for an extended period. This shift came after a series of data releases suggested persistent inflation. Moreover, Fed officials have consistently emphasized their cautious approach towards reducing interest rates and their determination to ensure inflation steadily moves lower and closer to its 2% target. The 10-year UST yield, however, closed below its peak for the month, following the latest core PCE inflation data which indicated a further easing of inflation in the US. Additionally, lower treasury yields were also underpinned by the relatively dovish tone of the Fed after its Mar-24 FOMC meeting. The Fed also indicated plans to decelerate the reduction of its balance sheet soon, further bolstering the UST rally. While we anticipate a downward trend in UST yields based on expectations for the Fed to relax its monetary policy, we remain cautious of potential challenges, including the possibility of inflation reaccelerating due to supply constraints and sustained strength in the US labor 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)**



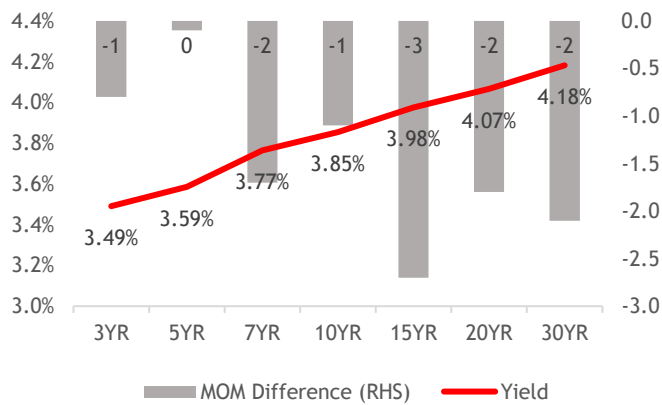
Source: Bloomberg, MIDFR

**UST yields are expected to decline due to rate-cuts expectations.** The prevailing "higher for longer" outlook has prevented a steep decline in UST yields. We expect a "soft landing" for the US economy will prompt a reduction in UST yields, as the market begins to anticipate a gradual easing of the Fed's policy tightness on the US economy. In the absence of a rate decision in Apr-24, UST market dynamics will be heavily swayed by macroeconomic indicators, particularly inflation and the labor market updates, to determine the possible US Fed's future policy trajectory. We expect yields to drop in Apr-24 as market sentiment shifts toward a less hawkish perspective on the Fed's future policy direction, especially if inflation shows further signs of easing. On the flip side, any upside surprises to inflation and continued resilience in the economy may limit yield declines as market would reprice the timing for Fed rate cuts to a latter period.

## Malaysian Government Bonds

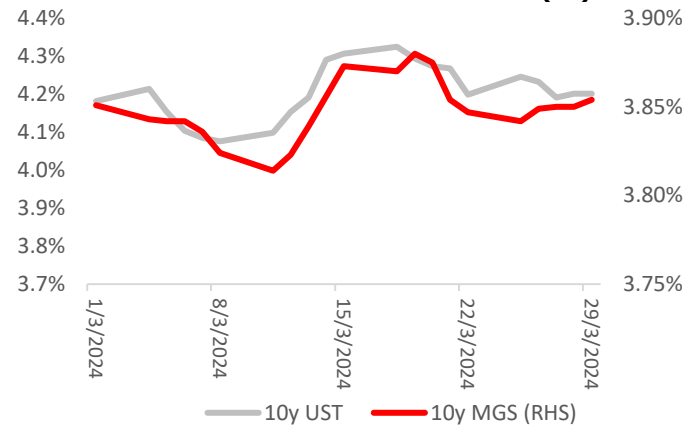
**10-year MGS was less volatile.** The benchmark 10-year MGS yield closed Mar-24 marginally lower by -1bps at 3.85% (Feb-24: 3.87%). Concurrently, the 3-year MGS yield also edged lower by -1bps to 3.49% (Feb-24: 3.50%). Overall, the movement in the 10-year MGS yield was less volatile than the 10-year UST yield, with intra-month yield movement hovering between 3.81% and 3.88%. The volume of trade surged to RM72.2b (Feb-24: RM68.4b), but trading breadth remained unchanged from last month as the top 10 traded government bonds made up 44.5% of total trade. Trading activities remained high despite the higher amount of net issuance.

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



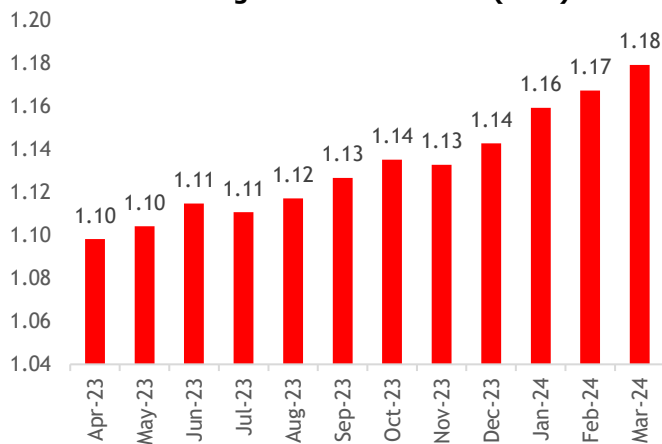
Source: Bloomberg, MIDFR

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



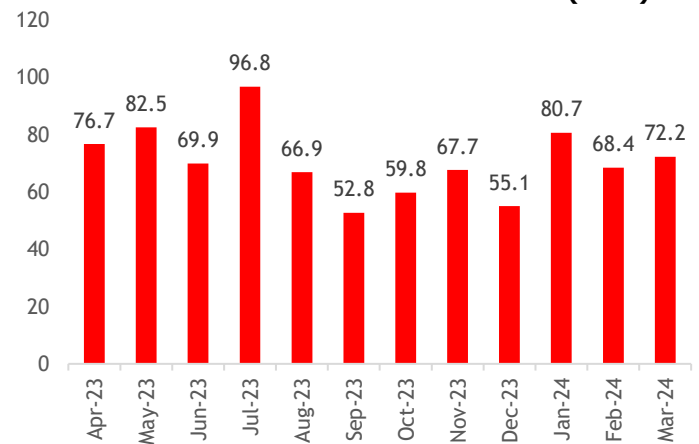
Source: Bloomberg, MIDFR

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



Source: Bondstream, MIDFR

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



Source: Bondstream, MIDFR

**Larger net issuance due to absence of any redemption.** New issuance of MGS/MGII was unchanged at RM15.0b in Mar-24, with 3 auctions totalling RM13.0b, where the average bit-to-cover (BTC) ratio was at a healthy 2.21x (Feb-24: 2.18x), and private issuance amounting RM2.0b. The higher BTC ratio was despite the larger net issuance of RM15b due to no redemption in Mar-24. As of Mar-24, outstanding government bonds increased further to RM1.18t (Feb-23: RM1.17t).

**Maintain projection of MGS 10-year yield ending the year lower at 3.60%.** We anticipate the yield on 10-year MGS to continue reflecting and tracking the changes in the 10-year UST yield, with a possible downward trend due to expectations for interest rate cuts by the Fed. The narrowing gap between the FFR-OPR differential, as we expect BNM will keep the OPR steady at 3.00% throughout the year, is expected to attract buying interest towards the domestic debt market. Additionally, the government's commitment to fiscal discipline is predicted to strengthen confidence and stimulate interest in the local bond market. However, our outlook on the potential rally of the MGS remains constrained, considering the possibility of delays in the Fed's adjustment of monetary policy and increasing conflicts in the Middle East.

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

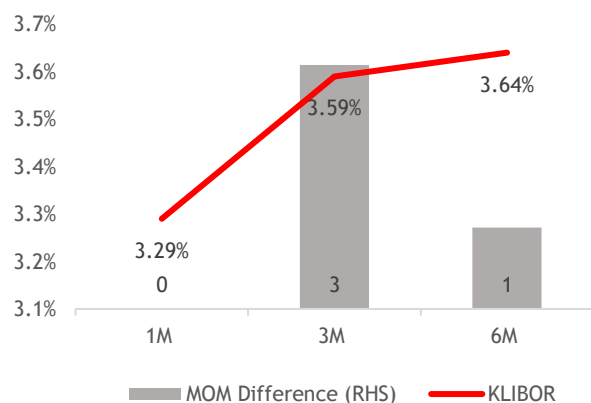
Indicator	3Q23	4Q23	1Q24	2Q24f	3Q24f	4Q24f
Exchange Rate, vs USD (average)	4.63	4.70	4.72	4.42	4.35	4.25
Exchange Rate, vs USD (end-period)	4.70	4.59	4.73	4.38	4.32	4.20
10Y Government Bond Yield (average)	3.97	3.91	3.83	3.72	3.63	3.62
10Y Government Bond Yield (end-period)	3.84	3.73	3.85	3.65	3.63	3.60

Source: MIDFR

## Interbank Money Market

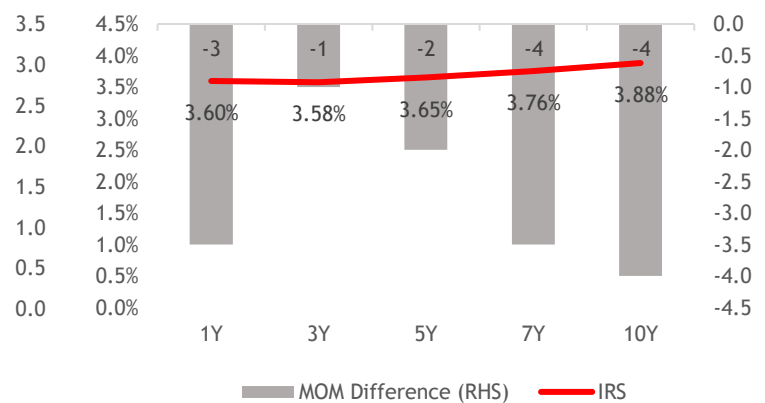
**3M KLIBOR edged higher by +1bps.** The KLIBOR interbank rates were mostly higher across the board except for the 1M, which remained unchanged, with the 3M KLIBOR registering an increase by +3bps. Meanwhile, the IRS market rates were broadly lower, led by the longer ends as the 10-year IRS fell by -4bps. The lower 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

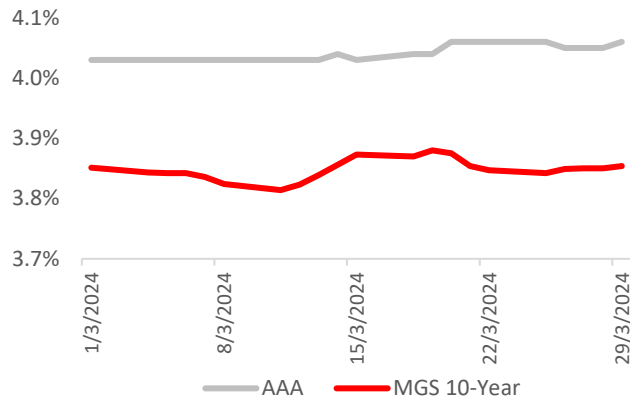
**The volume of corporate bonds traded surged in Mar-24.** Traded volume of corporate bonds rose to RM20.6b in Mar-24. The higher-rated AAA and AA1 showed increased buying interest, with yield change ranging between -6bps and +1bps across all tenures. Meanwhile, the lower-rated A1 and BBB1 hovered between -5bps change and +1bps. The 10 top traded corporate bonds (excluding BNM) totalled RM2.92b, led by CAGA 5/28.

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

Rating Class	1Y	2Y	3Y	5Y	7Y	10Y
AAA	3.64	3.68	3.72	3.83	3.96	4.06
AA1	3.73	3.78	3.83	3.94	4.04	4.16
A1	4.36	4.6	4.79	5.11	5.38	5.66
BBB1	5.73	6.3	6.82	7.46	8.07	8.76
MOM Difference (bps)						
AAA	-1	-3	-6	-6	-2	1
AA1	-1	-2	-3	-2	-2	-1
A1	-3	-2	-2	-5	-3	1
BBB1	0	0	0	1	1	1

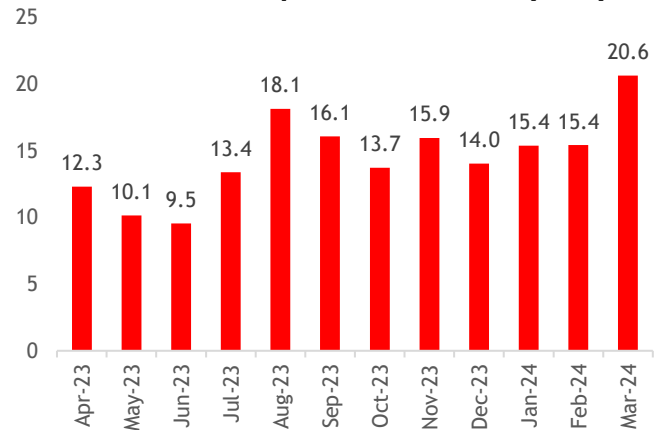
Source: Bondstream, MIDFR

**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 RM11.9b in Mar-24 (Feb-24: RM5.5b). Issuances by AAA-rated CIMBI led the chart with 4 issuances totalling RM3.5b with tenures ranging from 3 to 10 years and coupon rates between 3.75% and 4.13%.

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

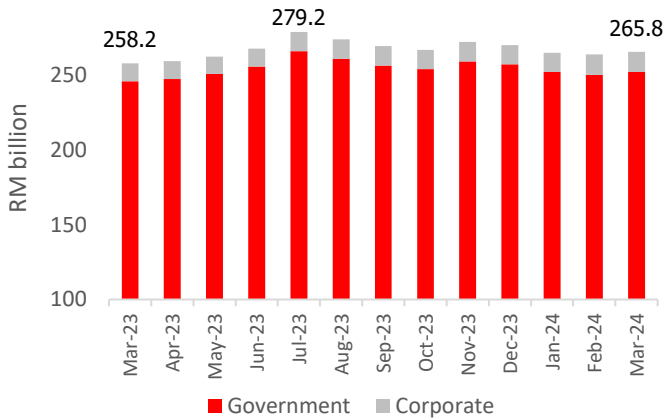
Issuer Name	Issued Amount (RM million)	Rating
CIMB Islamic Bank Berhad	3,500.0	AAA
Perbadanan Tabung Pendidikan Tinggi Nasional	1,800.0	GG
YTL Power International Berhad	1,000.0	AA1
Yinson Holdings Berhad	640.0	A3
DanaInfra Nasional Berhad	600.0	GG
Gamuda Berhad	500.0	AA3
MNRB Holdings Berhad	420.0	A1
Hong Leong Bank Berhad	400.0	A1
Mercedes-Benz Services Malaysia Sdn Berhad	350.0	AAA
SunREIT Bond Berhad (fka SunREIT Unrated Bond Berhad)	330.0	NR(LT)
IJM Treasury Management Sdn Berhad	300.0	AA3
OSK Rated Bond Sdn Berhad	265.0	AA2
Hap Seng Management Sdn Berhad	250.0	NR(LT)
Cagamas Berhad	230.0	AAA
MY E.G. Services Berhad	215.0	AA3
WCT Holdings Berhad	150.0	A1
Perbadanan Kemajuan Negeri Selangor	145.0	AA3
Alliance Bank Malaysia Berhad	100.0	BBB1
Sunway Treasury Sukuk Sdn Berhad	100.0	AA3
JB Cocoa Sdn Berhad	100.0	A1
ORIX Credit Malaysia Sdn Berhad	100.0	AA2
Sunway South Quay Sdn Berhad	100.0	NR(LT)
Alliance Islamic Bank Berhad	100.0	BBB1
Pavilion REIT Bond Capital Berhad	80.0	NR(LT)
West Coast Expressway Sdn Berhad	40.3	NR(LT)
LBS Bina Holdings Sdn Berhad	23.4	NR(LT)
Tanjung Pinang Development Sdn Berhad	17.0	NR(LT)
Potensi Angkasa Sdn Berhad	14.4	NR(LT)
Chin Hin Group Berhad	10.0	NR(LT)
Liziz Standaco Sdn Berhad	6.7	NR(LT)
BGRB Venture Sdn Berhad	5.4	NR(LT)
<b>Total</b>	<b>11,892.2</b>	

**Corporate bond to move in tandem with govies.** Corporate bonds will likely continue to shadow govies and gain interest on a clearer US interest rate outlook. The clarification of the direction of US interest rates is anticipated to boost interest further, benefiting from the resurgence of fund inflows into EMs.

## Foreign Holdings of Malaysian Bonds

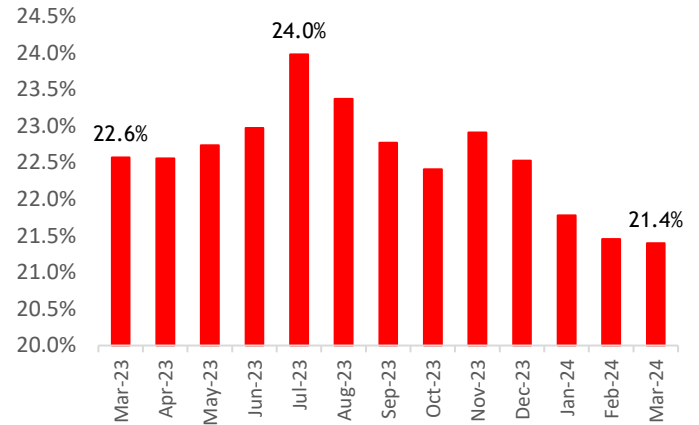
**Foreign holdings of Malaysian bonds ended 2 months decline.** Foreign holding of Malaysian bonds rebounded to increase to RM265.8b in Mar-24 (Feb-24: RM264.1b). Foreign holdings of govies made up 21.4% or RM252.3b of the total outstanding government bonds in Mar-24, declining from 21.5% in the previous month and under the pre-pandemic level (2019 average: 23.1%). Meanwhile, the share of government bonds in the total foreign holdings edged higher to 94.9% (Feb-24: 94.8%) as foreign holdings of Malaysian corporate bonds declined by -1.7%mom to RM13.5b. Overall, the return of foreign interest in domestic bonds in Mar-24 supported the strengthening of ringgit during the month. 

**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, MIDFRhh

## 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
21/03/2024	30-yr New Issue of MGII (Mat on 03/54)	1QCY24	March	22/03/2024	3,000.00	2,000.00	3.19
29/03/2024	10-yr Reopening of MGS 11/33 4.642%	1QCY24	March	1/04/2024	5,000.00		1.80
14/3/2024	15-yr Reopening of MGII 09/39 4.467%	1QCY24	March	15/3/2024	5,000.00		2.05
	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 3/2018 4.642% 07.11.2033	5,478.8
MGS 3/2019 3.478% 14.06.2024	4,080.9
MGS 2/2019 3.885% 15.08.2029	3,370.3
GII MURABAHAH 1/2023 3.599% 31.07.2028	3,210.4
GII MURABAHAH 3/2016 4.070% 30.09.2026	3,168.8
GII MURABAHAH 3/2015 4.245% 30.09.2030	2,905.7
MGS 1/2018 3.882% 14.03.2025	2,838.2
GII MURABAHAH 2/2023 4.291% 14.08.2043	2,456.0
GII MURABAHAH 1/2019 4.130% 09.07.2029	2,305.8
MGS 3/2010 4.498% 15.04.2030	2,280.9
<b>Total</b>	<b>32,095.8</b>

Source: Bondstream, MIDFR

**MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad  
197501002077 (24878-X).  
(Bank Pelaburan)  
(A Participating Organisation of Bursa Malaysia Securities Berhad)**

## **DISCLOSURES AND DISCLAIMER**

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD 197501002077 (24878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.