

FIXED INCOME | May-24 Fixed Income Review

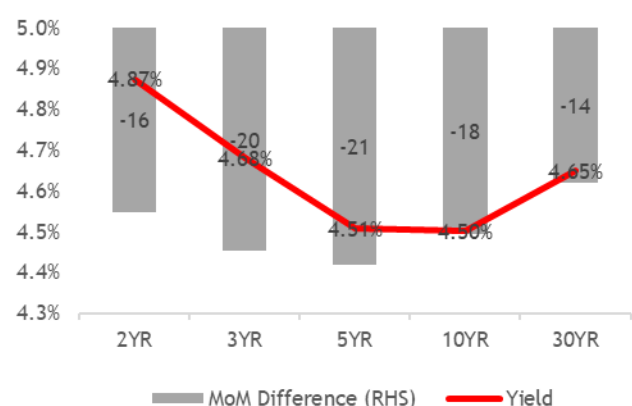
MGS Rally in May-24 as Economic Releases Pointed towards Softer US Economic Outlook

- The 10-year UST yield dropped by -18bps, ending at 4.50% in May-24 (Apr-24: 4.68%). The 10-year UST yield was broadly on a declining trend throughout the month, with the highest closing during the month at 4.63% on 1st May 2024.
- The benchmark 10-year MGS yield also closed lower by -8bps at 3.89% in May-24 (Apr-24: 3.98%). Like the 10-year UST yield movement, the 10-year MGS yield started the month at its highest during the month before declining.
- We project 10-year MGS yield to close lower at 3.68% in 2024 (end-2023: 3.73%). We expect the 10-year yield to average 3.84%, slightly lower than average 3.86% in 2023.
- Foreign holdings of Malaysian at 6-month high. Foreign holding of Malaysian bonds registered the 3rd straight month of increase to RM271.9b in May-24 (Apr-24: RM266.4b). Foreign holdings of govvnies made up 21.6% or RM258.4b of the total outstanding government bonds in May-24, rising from 21.2% in the previous month, the highest in 4 months but remained well under the pre-pandemic level (2019 average: 23.1%).

US Treasury

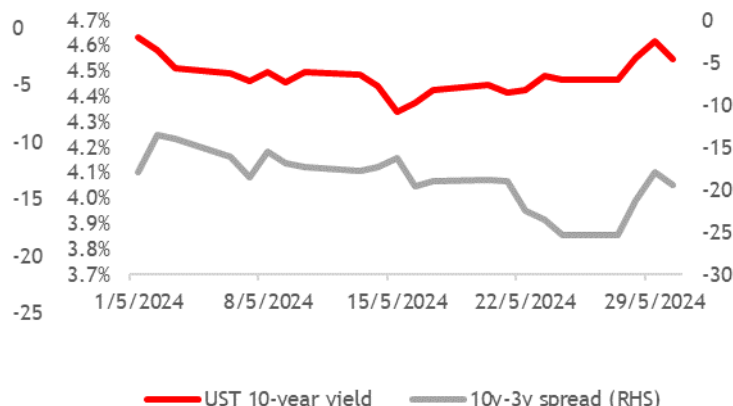
10y UST yield declined in May-24. The 10-year UST yield dropped by -18bps, ending at 4.50% in May-24 (Apr-24: 4.68%). The 10-year UST yield was broadly on a declining trend throughout the month, with the highest closing during the month at 4.63% on 1st May 2024. Similarly, the 3-year UST yield decreased by -20bps to 4.68% (Apr-24: 4.88%). As a result, the 10Y-3Y spread narrowed slightly to -18bps in May-24 (Apr-24: -20bps). The downward trend of UST yields was underpinned by a series of economic data that signalled a softer economic outlook for the US, rising expectations that the Fed will eventually begin cutting interest rates later this year.

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



Source: Bloomberg, MIDFR

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



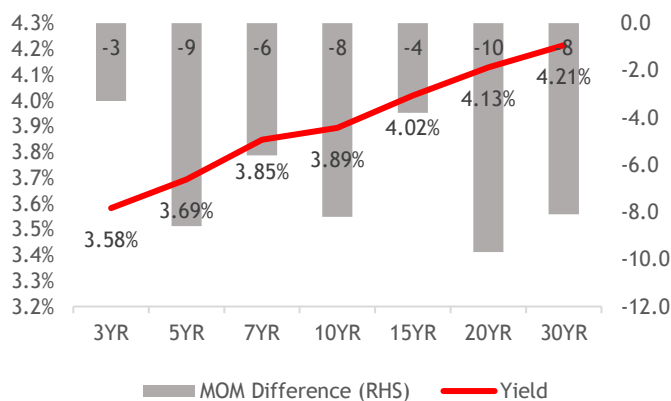
Source: Bloomberg, MIDFR

Rate cut expectations to drive yields lower. The broad easing in inflationary pressure continued to point towards rate cuts by the Fed in 2024. However, the resilience in the US labour market, albeit recent signs of cooling, has shifted rate cut expectations to the latter part of 2HCY24. The Fed's tone in the upcoming FOMC meeting this week will also be a major determinant in UST yields direction at least in the short- to medium-term. We anticipate the 10-year treasury yield to trend lower as the Fed moves closer to rate cuts in the latter part of the year. Nevertheless, persistently elevated inflation and continued strength in the US economy may restrict the yields from declining, in tandem with the diminishing expectations for a possible rate cut this year.

Malaysian Government Bonds

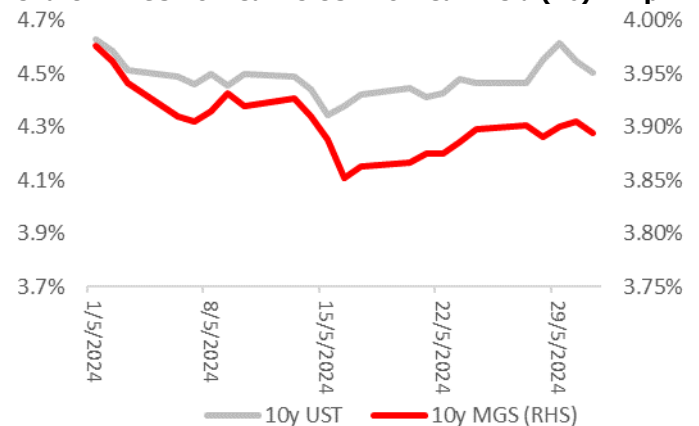
10-year MGS yield trended lower, in line with UST yields. The benchmark 10-year MGS yield also closed lower by -8bps at 3.89% in May-24 (Apr-24: 3.98%). Like the 10-year UST yield movement, the 10-year MGS yield started the month at its highest during the month before declining. Concurrently, the 3-year MGS yield also declined by -3bps to 3.58% (Apr-24: 3.62%). The volume of trade increased to RM67.6b (Apr-24: RM64.1b), while trading breadth narrowed from last month as the top 10 traded government bonds made up 46.7% (Apr-24: 45.0%) of total trade. The higher trading activities were partly explained by the lower net issuance.

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



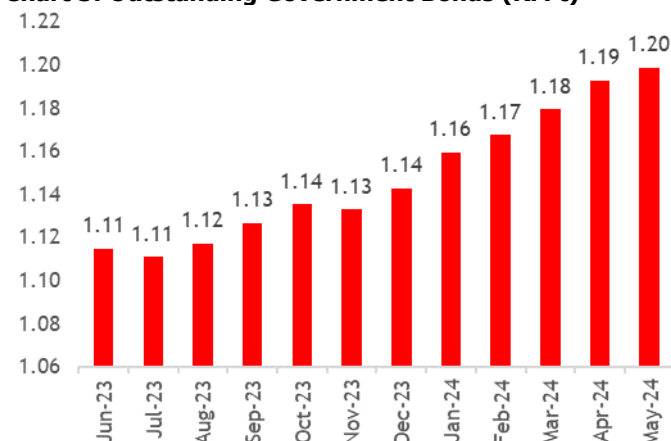
Source: Bloomberg, MIDFR

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



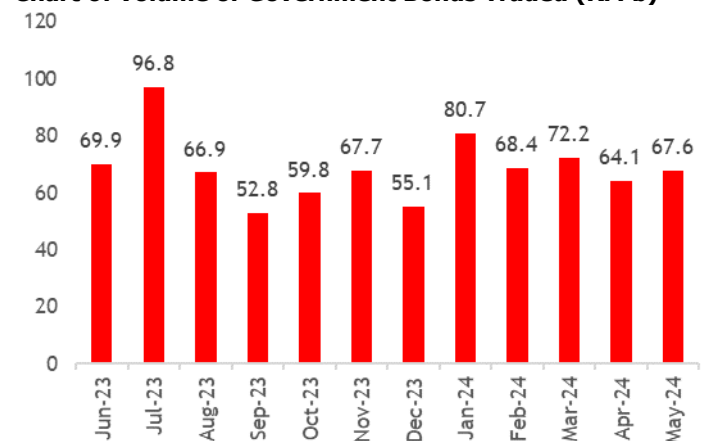
Source: Bloomberg, MIDFR

Chart 5: Outstanding Government Bonds (RM t)



Source: Bondstream, MIDFR

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



Source: Bondstream, MIDFR

Net issuance declined. New issuance of MGS/MGII was lower at RM15.0b in May-24 (Apr-24: RM19.5b), with 4 auctions totalling RM11.0b, where the average bit-to-cover (BTC) ratio was at a healthy level of 2.56x (Apr-24: 2.24x), and private issuance amounting RM4.0b. The higher BTC ratio was due to the much smaller net issuance of RM2.5b (Apr-24: RM19.5b). As of May-24, outstanding government bonds increased further to RM1.20t (Apr-24: RM1.19t).

We continue to anticipate 10-year MGS yield will end the year lower. We project 10-year MGS yield to close lower at 3.68% in 2024 (end-2023: 3.73%). We expect the 10-year yield to average 3.84%, slightly lower than average 3.86% in 2023. In the near term, we foresee the 10-year MGS yield remaining high until there are clear signs of decreasing U.S. inflation. When this occurs, we anticipate MGS yields will also follow the downward trend in the UST yields.

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

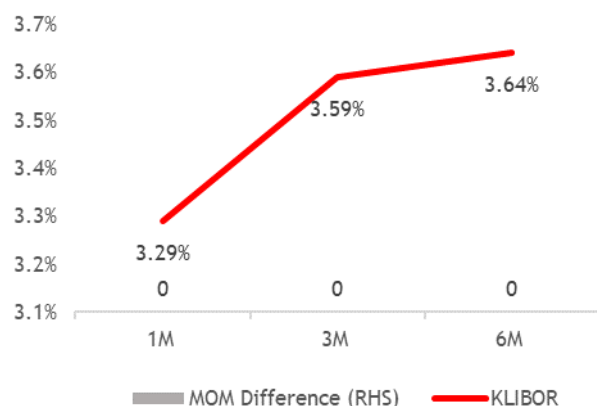
Indicator	3Q23	4Q23	1Q24	2Q24f	3Q24f	4Q24f
Exchange Rate, vs USD (average)	4.63	4.70	4.72	4.70	4.57	4.53
Exchange Rate, vs USD (end-period)	4.70	4.59	4.73	4.69	4.56	4.43
10Y Government Bond Yield (average)	3.97	3.91	3.83	3.95	3.86	3.74
10Y Government Bond Yield (end-period)	3.84	3.73	3.85	3.92	3.80	3.68

Source: MIDFR

Interbank Money Market

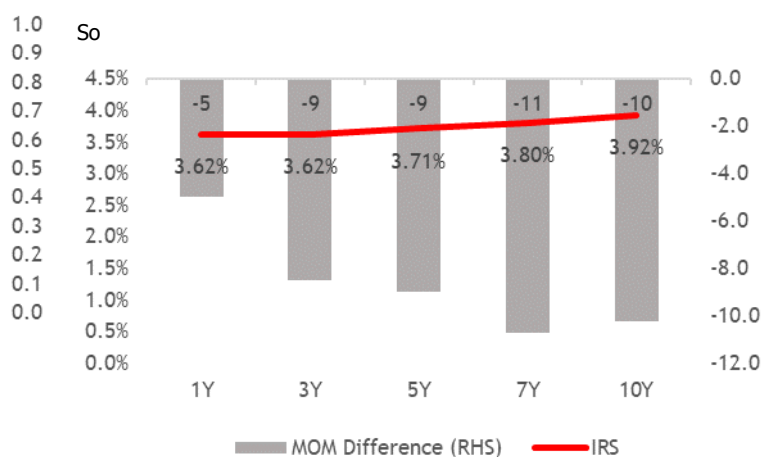
3M KLIBOR steadied in May-24. The KLIBOR interbank rates were unchanged across the board. Meanwhile, the IRS market rates were broadly lower, led by the longer ends as the 10-year IRS fell by -10bps. The lower IRS rates were generally in line with the movement in MGS yields.

Chart 7: KLIBOR and MOM Difference (bps)



Source: Bloomberg, MIDFR

Chart 8: IRS and MOM Difference (bps)



Source: Bloomberg, MIDFR

Corporate Bonds

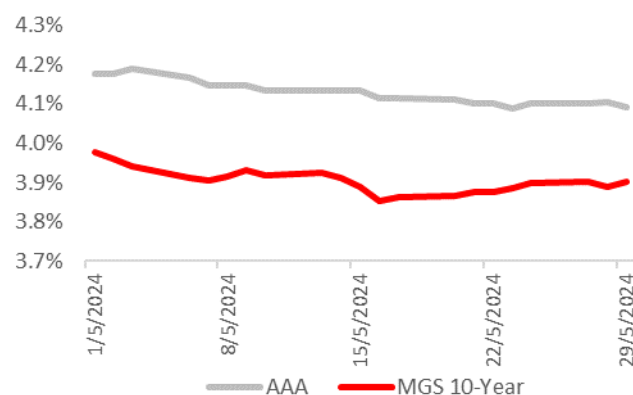
Volume of corporate bonds traded fell slightly in May-24. Traded volume of corporate bonds declined to RM15.3b in May-24 from RM15.9b in the previous month. Buying interest, however, returned as rated bonds saw yields declining between -1bps to -9bps across all tenures. Similarly, the non-rated securities saw rising interest as yields declined between -1 to -12bps across all tenures.

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

Rating Class	1Y	2Y	3Y	5Y	7Y	10Y
AAA	3.671	3.748	3.812	3.916	4.032	4.092
AA1	3.741	3.807	3.872	3.987	4.102	4.186
A1	4.362	4.61	4.802	5.048	5.352	5.686
BBB1	5.746	6.32	6.88	7.539	8.304	9.209
Non-rated	5.793	6.454	5.501	6.152	5.519	6.312
MOM Difference (bps)						
AAA	-2	-1	-2	-5	-7	-8
AA1	-3	-3	-4	-5	-5	-9
A1	-2	-1	-3	-5	-9	-7
BBB1	-1	-1	-1	-1	-1	-1
Non-rated	-12	-1	-2	-8	-4	-9

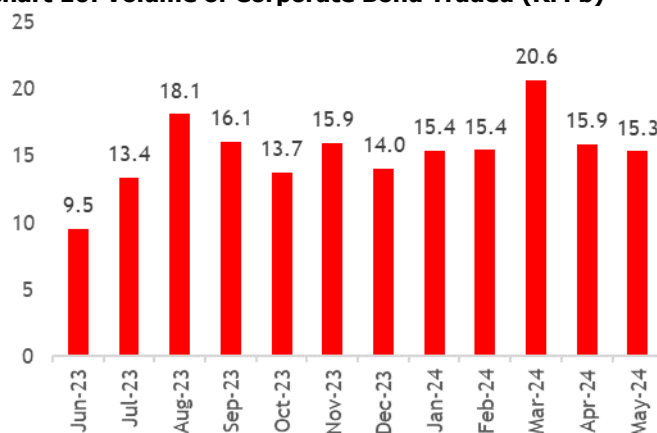
Source: Bondstream, MIDFR

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 fell. Primary issuance was lower at RM7.8b in May-24 (Apr-24: RM10.4b). Issuances by AAA rated PETROS led the chart with 3 issuances totalling RM1.5b with tenures ranging from 3 to 7 years and coupon rates between 3.90% and 4.01%.

Table 3: Corporate Bond Issuance for Mar-24

Issuer Name	Issued Amount (RM million)	Rating
Petroleum Sarawak Exploration & Production Sdn Berhad	1,500.0	AAA
GENM Capital Berhad	1,300.0	AA1
AmBank Islamic Berhad	800.0	AA2
Cagamas Berhad	670.0	AAA
Semangkuk Berhad	568.5	NR(LT)
Affin Bank Berhad	500.0	AA3
RHB Islamic Bank Berhad	500.0	AA2
PONSB Capital Berhad	500.0	AA2
Westports Malaysia Sdn Berhad	355.0	AAA
UDA Holdings Berhad	300.0	AA3
Sabah Credit Corporation	200.0	AA1
Kuantan Port Consortium Sdn Berhad	100.0	NR(LT)
Toyota Capital Malaysia Sdn Berhad	100.0	AAA
Exio Logistics Sdn Berhad	96.0	NR(LT)
OCK Group Berhad	50.0	NR(LT)
BTS Car Park Sdn Berhad	40.0	NR(LT)
Wira Pertiwi Sdn Berhad	40.0	NR(LT)

Warisan TC Holdings Berhad	40.0	NR(LT)
West Coast Expressway Sdn Berhad	39.3	NR(LT)
Atrium REIT Capital Sdn Berhad	32.8	NR(LT)
Radimax Group Sdn Berhad	23.0	NR(LT)
BGRB Venture Sdn Berhad	15.6	NR(LT)
LBS Bina Holdings Sdn Berhad	12.8	NR(LT)
Liziz Standaco Sdn Berhad	6.8	NR(LT)
Total	7,789.8	

Corporate bonds are expected to move in sync with government securities. As the outlook on U.S. interest rates becomes clearer, corporate bonds are likely to attract more interest. The interest can be spurred by fresh fund inflows into emerging markets, including the local debt market.

Foreign Holdings of Malaysian Bonds


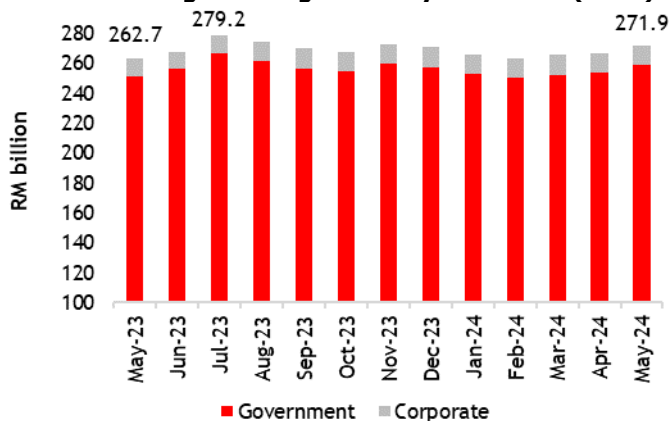
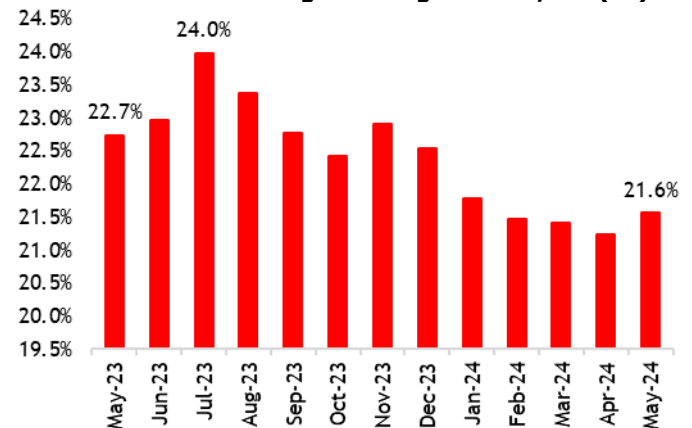
Foreign holdings of Malaysian at 6-month high. Foreign holding of Malaysian bonds registered the 3rd straight month of increase to RM271.9b in May-24 (Apr-24: RM266.4b). Foreign holdings of govbies made up 21.6% or RM258.4b of the total outstanding government bonds in May-24, rising from 21.2% in the previous month, the highest in 4 months but remained well under the pre-pandemic level (2019 average: 23.1%). Meanwhile, the share of government bonds in the total foreign holdings declined marginally to 95.0% (Apr-24: 95.1%) as foreign holdings of Malaysian corporate bonds rose +3.0%mom to RM13.5b. 

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
25/4/2024	3-yr Reopening of MGII 09/26 4.070%	1QCY24	April	26/4/2024	5,000.00		1.75
16/4/2024	15-yr New Issue of MGS (Mat on 04/39)	2QCY24	April	17/4/2024	3,000.00	2,000.00	2.16
5/4/2024	7.5-yr New Issue of MGII (Mat on 10/31)	2QCY24	April	8/4/2024	4,500.00		3.33
29/3/2024	5-yr Reopening of MGS 08/29 3.885%	2QCY24	April	1/4/2024	5,000.00		1.80
29/5/2024	7-yr Reopening of MGS 04/31 2.632%	2QCY24	May	30/5/2024	5,000.00		1.96
21/5/2024	15-yr Reopening of MGII 09/39 4.467%	2QCY24	May	15/9/2024	3,000.00	2,000.00	3.02
14/5/2024	20-yr New Issue of MGS (Mat on 05/44)	2QCY24	May	15/5/2024	3,000.00	2,000.00	3.09
	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	5,009.6
GII MURABAHAH 3/2016 4.070% 30.09.2026	4,855.8
MGS 3/2018 4.642% 07.11.2033	3,151.3
MGS 2/2019 3.885% 15.08.2029	3,006.3
MGS 2/2020 2.632% 15.04.2031	2,989.3
MGS 1/2014 4.181% 15.07.2024	2,820.3
GII MURABAHAH 5/2013 4.582% 30.08.2033	2,668.7
MGS 3/2007 3.502% 31.05.2027	2,552.8
MGS 1/2018 3.882% 14.03.2025	2,530.1
MGS 2/2017 4.059% 30.09.2024	1,966.1
Total	31,550.2

Source: Bondstream, MIDFR

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