

FIXED INCOME | Jun-24 Fixed Income Review

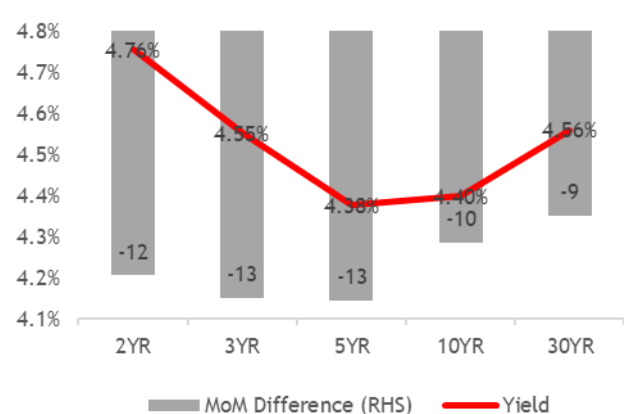
10-Year MGS Yield Stabled Despite Volatile UST Yields

- The 10-year UST yield dropped by -10bps, ending at 4.40% in Jun-24 (May-24: 4.50%). The intra-month movement saw the 10-year yield bottomed out at 4.22% on 14th June 2024 before increasing again following more encouraging US economic data releases.
- The benchmark 10-year MGS yield also closed marginally lower by -2bps at 3.87% in Jun-24 (May-24: 3.89%). Unlike the 10-year UST, the 10-year MGS remained relatively stable throughout the month hovering between 3.86% and 3.89%.
- We project the 10-year MGS yield to close at 3.68% in 2024 (end-2023: 3.73%). We expect the 10-year yield to average 3.84%, slightly lower than the average of 3.86% in 2023.
- Foreign holding of Malaysian bonds fell for the first time in 4 months to RM271.3b in May-24 (Apr-24: RM271.9b). Foreign holdings of govies remained at 21.6% or RM258.4b of the total outstanding government bonds.

US Treasury

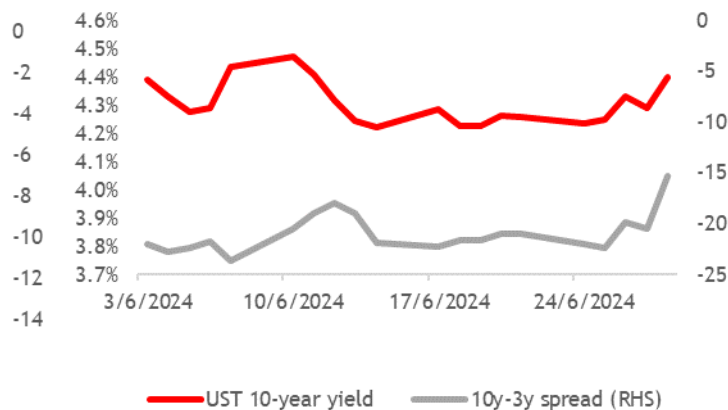
10y UST yield declined in Jun-24... The 10-year UST yield dropped by -10bps, ending at 4.40% in Jun-24 (May-24: 4.50%). The intra-month movement saw the 10-year yield bottomed out at 4.22% on 14th June 2024 before increasing again following more encouraging US economic data releases. The 3-year UST yield decreased more by -13bps to 4.55% (May-24: 4.68%). As a result, the 10Y-3Y spread narrowed to -15bps in Jun-24 (May-24: -18bps). In general, the softer economic outlook underpinned the overall declining trend in the treasury yields.

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

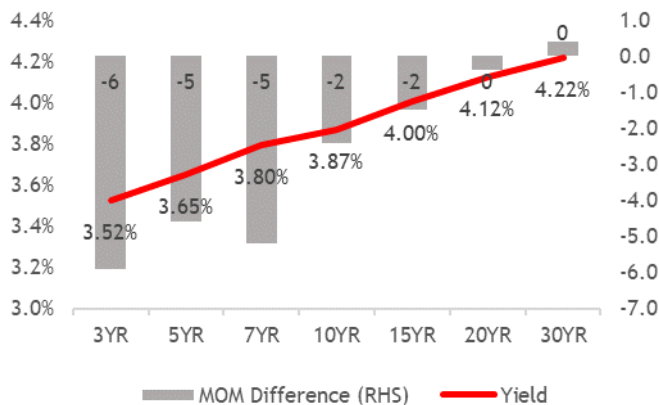
...as rate cut expectations drove yields lower. The broad easing in inflationary pressure continues to support for the Fed to begin easing interest rates in 2024. Thus far, the resilience in the US labor market, despite recent signs of cooling, and the overall economy have shifted rate cut expectations to the latter part of 2HCY24. Being

data-dependent, the Fed reiterated the need to have 'greater confidence' that the US inflation is moving sustainably lower towards its 2% target. We expect the same signal will be stressed by the Fed Chairman at his testimony to the Congress tonight. Apart from the inflation data updates, we foresee the Fed's tone in the upcoming FOMC meeting at the end of Jul-24 will be a major determinant of UST yields' direction, at least in the short- to medium-term. For now, we continue to anticipate the 10-year UST 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 and the labour market may restrict the yields from declining, in tandem with the diminishing expectations for a possible rate cut this year.

Malaysian Government Bonds

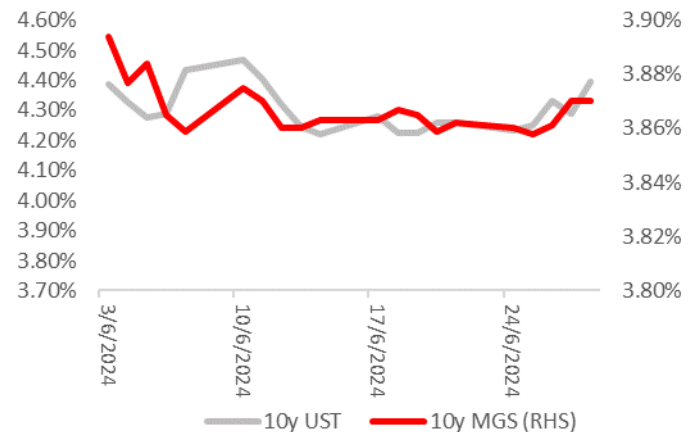
10-year MGS yield trended lower, in line with UST yields. The benchmark 10-year MGS yield also closed marginally lower by -2bps at 3.87% in Jun-24 (May-24: 3.89%). Unlike the 10-year UST, the 10-year MGS remained relatively stable throughout the month hovering between 3.86% and 3.89%. The 3-year MGS closed the month -6bps lower at 3.52% (May-24: 3.58%). The volume of trade increased to RM70.9b (May-24: RM67.6b), while trading breadth narrowed from last month as the top 10 traded government bonds made up 47.4% (May-24: 46.7%) of total trade. The higher trading activities were partly explained by the negative net issuance.

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



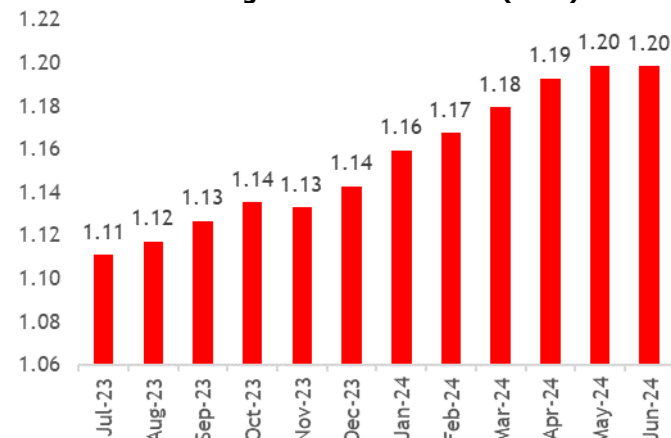
Source: Bloomberg, MIDFR

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



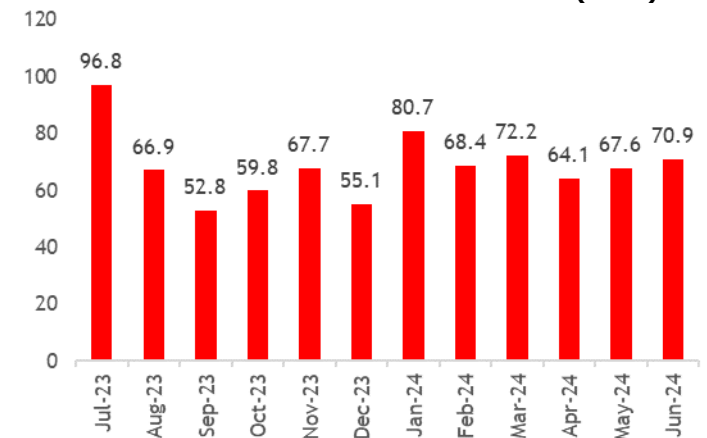
Source: Bloomberg, MIDFR

Chart 5: Outstanding Government Bonds (RM t)



Source: Bondstream, MIDFR

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



Source: Bondstream, MIDFR

Negative net issuance in Jun-24. New issuance of MGS/MGII steadied at RM15.0b in Jun-24, with 3 auctions totalling RM11.0b, where the average bid-to-cover (BTC) ratio was at a healthy level of 2.40x (May-24: 2.56x), and private issuance amounting RM4.0b. The healthy BTC ratio was due to the negative net issuance of -RM6.5b (May-24: RM2.5b). As of Jun-24, outstanding government bonds remained at RM1.20t.

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

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

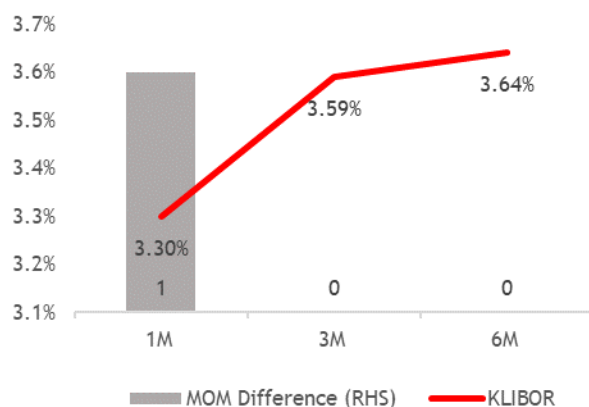
Indicator	3Q23	4Q23	1Q24	2Q24	3Q24f	4Q24f
Exchange Rate, vs USD (average)	4.63	4.70	4.72	4.73	4.57	4.53
Exchange Rate, vs USD (end-period)	4.70	4.59	4.72	4.72	4.56	4.43
10Y Government Bond Yield (average)	3.97	3.91	3.83	33.6	3.86	3.74
10Y Government Bond Yield (end-period)	3.84	3.73	3.85	3.87	3.80	3.68

Source: MIDFR

Interbank Money Market

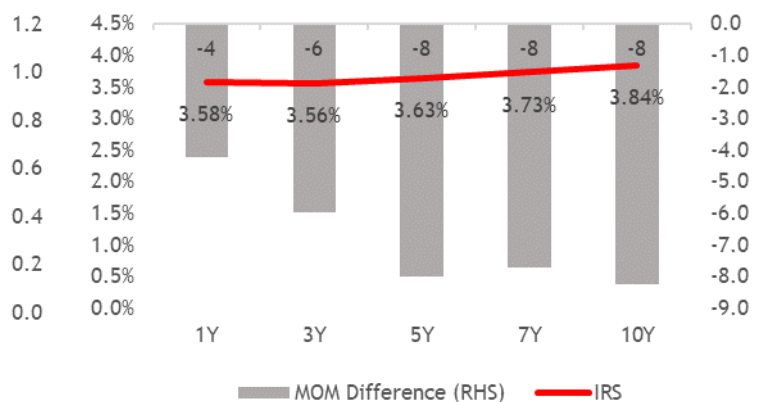
3M KLIBOR steadied in Jun-24. The KLIBOR interbank rates mostly unchanged across the board except for 1M KLIBOR which rose +1bps to 3.30%. Meanwhile, the IRS market rates were broadly lower, led by the longer ends as the 10-year IRS fell by -8bps. The lower IRS rates were generally in line with the movement 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

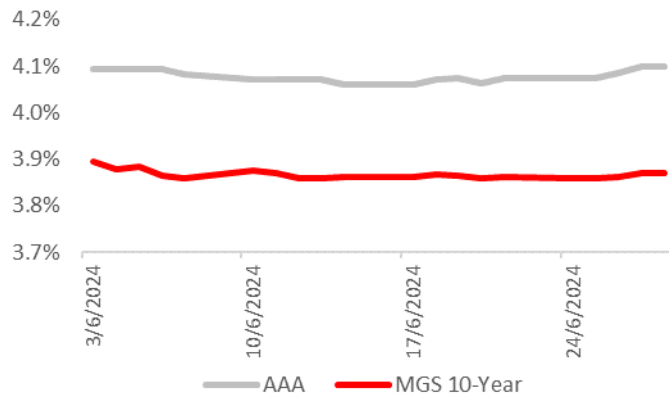
Volume of corporate bonds traded fell for the 3rd consecutive month. Traded volume of corporate bonds declined to RM14.3b in Jun-24 from RM15.3b in the previous month. Buying interest continued as rated bonds saw yields changed between 0bps to -7bps. Similarly, the non-rated securities saw rising interest as yields mostly declined, between +3bps to -8bps.

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

Rating Class	1Y	2Y	3Y	5Y	7Y	10Y
AAA	3.661	3.748	3.802	3.874	3.968	4.100
AA1	3.741	3.807	3.862	3.934	4.028	4.172
A1	4.352	4.590	4.782	5.039	5.342	5.689
BBB1	5.746	6.320	6.880	7.539	8.304	9.209
Non-rated	5.819	6.412	5.472	6.089	5.457	6.228
MOM Difference (bps)						
AAA	-1	+0	-1	-4	-6	+1
AA1	+0	+0	-1	-5	-7	-1
A1	-1	-2	-2	-1	-1	+0
BBB1	+0	+0	+0	+0	+0	+0
Non-rated	+3	-4	-3	-6	-6	-8

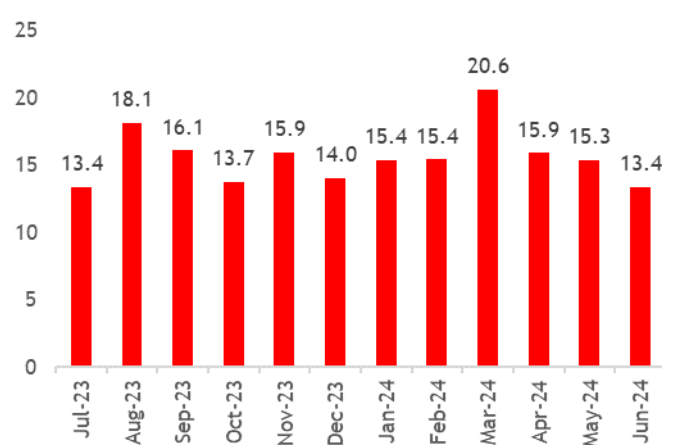
Source: Bondstream, MIDFR

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 surged. Primary issuance was higher at RM11.7b in Jun-24 (May-24: RM7.8b). Issuances by AAA-rated PASB and AA2 AMBANK led the chart with a total of RM3.2b. There were 2 issuances from PASB totalling RM1.6b with tenures of 7 and 15 years and coupon rates of 3.994% and 4.070%, respectively. Meanwhile, AMBANK issued RM1.6b in 3 new issuances with tenures between 5 to 10 years and coupon rates between 4.000% and 4.150%.

Issuer Name	Issued Amount (RM million)	Rating
Pengurusan Air SPV Berhad	1,600.0	AAA
AmBank (M) Berhad	1,600.0	AA2
Cagamas Berhad	1,560.0	AAA
CIMB Group Holdings Berhad	1,350.0	NR(LT)
Hong Leong Bank Berhad	1,000.0	AA1
DiGi Telecommunications Sdn Berhad	1,000.0	AAA
Prasarana Malaysia Berhad	1,000.0	NR(LT)
Jakel Holdings Sdn Berhad	454.6	NR(LT)
GENM Capital Berhad	400.0	AA1
Hong Leong Islamic Bank Berhad	400.0	AA2
Cenviro Sdn Berhad	350.0	NR(LT)
FGV Holdings Berhad (fka Felda Global Ventures Holdings Berhad)	300.0	NR(LT)
BGSM Management Sdn Berhad	280.0	AA3
Hong Leong Investment Bank Berhad	100.0	AA1
Sunway Velocity Three Sdn Berhad	65.0	NR(LT)
STM Lottery Sdn Berhad (fka Sports Toto Malaysia Sdn Berhad)	65.0	AA3

BGRB Venture Sdn Berhad	53.0	NR(LT)
West Coast Expressway Sdn Berhad	47.9	NR(LT)
KIP REIT Capital Sdn Berhad	32.0	NR(LT)
NCT Alliance Berhad (fka Grand-Flo Berhad)	25.9	NR(LT)
Damansara Uptown Retail Centre Sdn Berhad	21.5	NR(LT)
Potensi Angkasa Sdn Berhad	20.0	NR(LT)
Liziz Standaco Sdn Berhad	3.6	NR(LT)
Total	11,728.4	

Corporate bonds to align with government securities. As the outlook on the US interest rates becomes more defined, we opine corporate bonds would also draw increased interest. In particular, the growing interest could be driven by the new fund inflows into emerging markets, including the local debt market, in anticipation of the narrowing interest differentials when the Fed begins to cut its interest rates.

Foreign Holdings of Malaysian Bonds


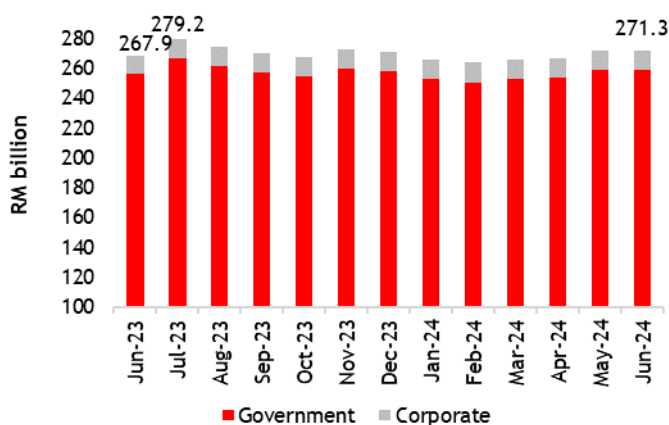
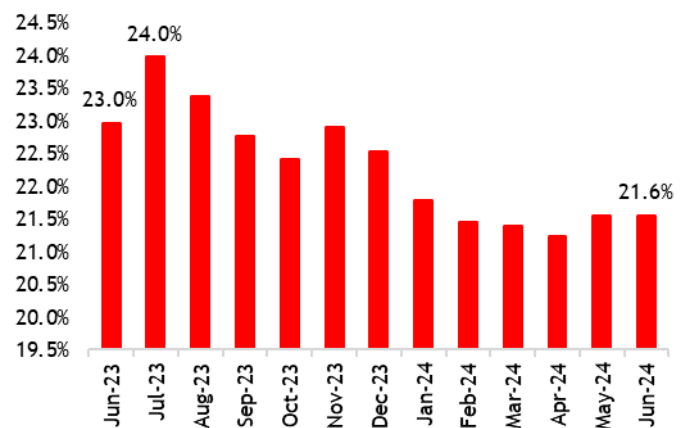
Foreign holdings of domestic demand registered a slight decline. Foreign holding of Malaysian bonds fell for the first time in 4 months to RM271.3b in May-24 (Apr-24: RM271.9b). Foreign holdings of govvies remained at 21.6% or RM258.4b of the total outstanding government bonds in Jun-24, well under the pre-pandemic level (2019 average: 23.1%). Notably, there was a shift in interest towards the shorter-term securities, as holdings of MGS and MGII registered a slight decline but were substituted with MTB and MITB. This suggests potentially rising concerns about the possibility of higher inflation outlook in Malaysia following the recent rationalisation of diesel subsidy that was implemented during the month. Meanwhile, the share of government bonds in the total foreign holdings rose to 95.2% (May-24: 95.0%) as foreign holdings of Malaysian corporate bonds declined - 4.3%mom to RM12.9b. 

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
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
21/6/2024	30-yr Reopening of MGII (Mat on 03/54)	2QCY24	June	24/6/2024	3,000.00	2,000.00	2.50
13/6/2024	3-yr Reopening of MGS 05/27 3.502%	2QCY24	June	14/6/2024	5,000.00		1.68
6/6/2024	20-yr Reopening of MGII 08/43 4.291%	2QCY24	June	7/6/2024	3,000.00	2,000.00	3.48
	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 3/2007 3.502% 31.05.2027	4,248.6
MGS 2/2020 2.632% 15.04.2031	3,803.9
MGS 2/2017 4.059% 30.09.2024	3,773.4
GII MURABAHAH 3/2016 4.070% 30.09.2026	3,607.1
MGS 2/2019 3.885% 15.08.2029	3,348.6
MGS 3/2018 4.642% 07.11.2033	3,318.8
GII MURABAHAH 5/2013 4.582% 30.08.2033	2,540.0
MGS 1/2018 3.882% 14.03.2025	2,376.2
MGS 1/2015 3.955% 15.09.2025	2,299.1
GII MURABAHAH 2/2023 4.291% 14.08.2043	2,274.6
Total	31,590.4

Source: Bondstream, MIDFR

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