

FIXED INCOME | July-24 Fixed Income Review

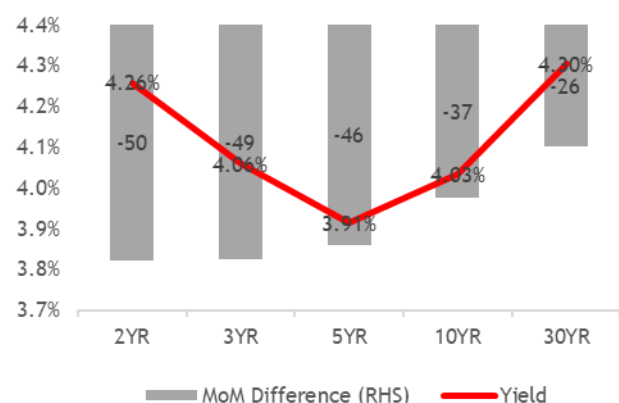
Foreign Holdings Rose the Fastest in 1 Year in Jul-24

- The 10-year UST yield dropped by -37bps, ending at 4.03% in Jul-24 (Jun-24: 4.40%), the lowest closing since early Feb-24. The 3-year UST yield fell sharper, by -49bps to 4.06% (Jun-24: 4.55%).
- The benchmark 10-year MGS yield fell by -15bps to 3.72% in Jul-24 (Jun-24: 3.87%). The 10-year MGS has been on a broadly declining trend throughout the month, with its intra-month high of 3.88% registered early in the month.
- Keeping our 10-year MGS target of 3.68%, for now. We acknowledge the possibility for the 10-year yield closing the year lower than our year-end target, on faster foreign inflow into the domestic bond market. Hence, we might revise our year-end target soon if macroeconomic indicators signalled for a further bond market rally.
- Foreign holding of Malaysian bonds rose RM279.1b in Jul-24 (Jun-24: RM271.3b), the highest since Nov-23. The RM7.8b increase was the also steepest monthly rise in a year, bringing the 7MCY24 total foreign inflow into Malaysian bond market to RM8.7b.

US Treasury

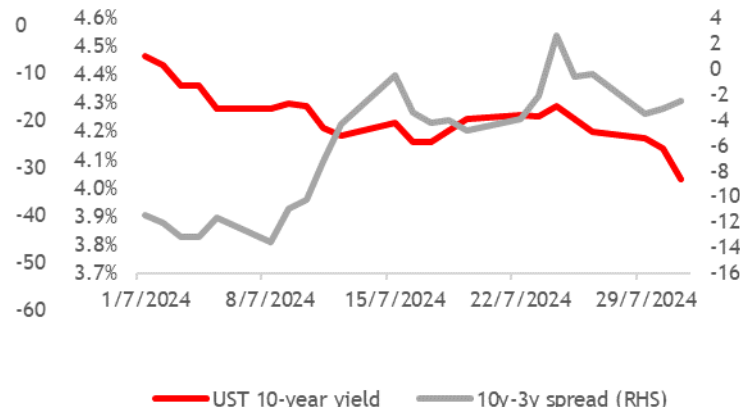
10-year UST yield declined in Jul-24... The 10-year UST yield dropped by -37bps, ending at 4.03% in Jul-24 (Jun-24: 4.40%), the lowest closing since early Feb-24. The 3-year UST yield fell sharper, by -49bps to 4.06% (Jun-24: 4.55%). As a result, the 10Y-3Y spread narrowed to -3bps in Jul-24 (Jun-24: -15bps). The broadly declining UST yields reflects the heightened expectations for a Fed rate cut following the more dovish tone by the Fed in its Jul-24 FOMC decision.

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



Source: Bloomberg, MIDFR

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



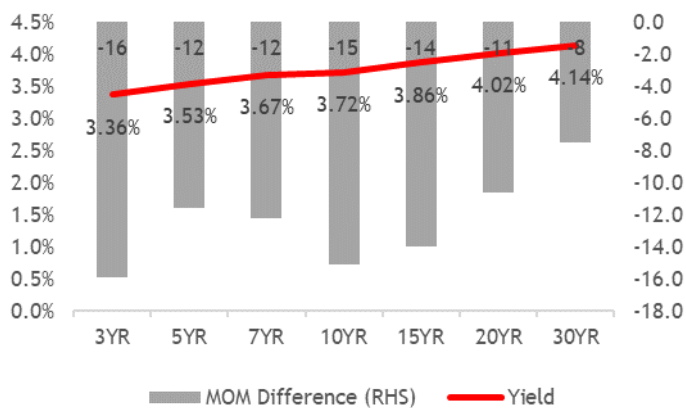
Source: Bloomberg, MIDFR

...as rate cut expectations drove yields lower. The more dovish tone by the Fed, despite keeping the interest rate steady in Jul-24 FOMC meeting has shifted market expectations towards a more aggressive rate cut by the Fed in 2024. Currently, the market is expecting a -50bps cut by the Fed in Sep-24 interest rate decision, driving the bond rally. We foresee the UST yields moving lower on continued moderation of US underlying inflation and cooling labour market, further strengthening the case for policy easing.

Malaysian Government Bonds

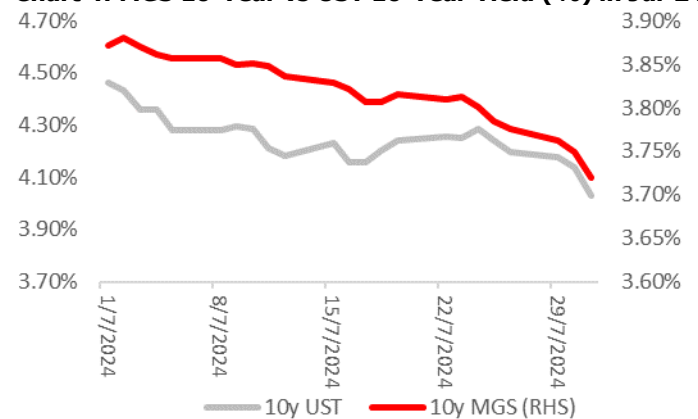
10-year MGS yield trend is low, in line with UST yields. The benchmark 10-year MGS yield fell by -15bps to 3.72% in Jul-24 (Jun-24: 3.87%). The 10-year MGS has been on a broadly declining trend throughout the month, with its intra-month high of 3.88% registered early in the month. Similarly, the 3-year MGS closed the month -16bps lower at 3.36% (Jun-24: 3.52%). The volume of trade increased again this month to RM106.9b (Jun-24: RM70.9b), while trading breadth widened from last month as the top 10 traded government bonds made up 45.5% (May-24: 47.4%) of total trade. The higher trading activities were despite the rebound in net issuance.

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



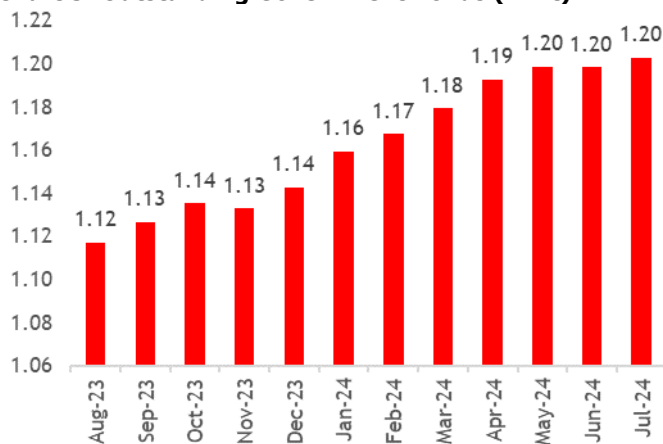
Source: Bloomberg, MIDFR

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



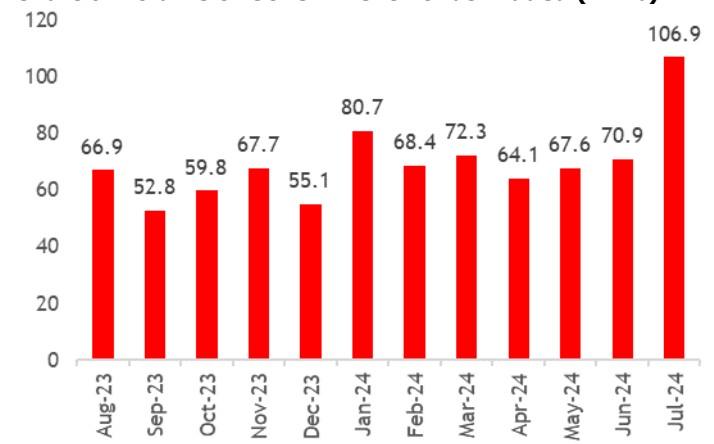
Source: Bloomberg, MIDFR

Chart 5: Outstanding Government Bonds (RM t)



Source: Bondstream, MIDFR

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



Source: Bondstream, MIDFR

Net issuance rebounded in Jul-24. New issuance of MGS/MGII steadied at RM15.0b in Jul-24, with 3 auctions totalling RM13.0b, where the average bid-to-cover (BTC) ratio was at a healthy level of 2.49x (Jun-24: 2.40x), and private issuance amounting RM2.0b. Net issuance rebounded to RM4.0b after contracting by -RM6.5b in Jun-24. As of Jul-24, outstanding government bonds remained at around RM1.20t.

Keeping our 10-year MGS target of 3.68%, for now. The recent rally has seen 10-year MGS yield closing at 3.69% on 5th August 2024, just +1bps higher than our year-end target. However, the yield has since climbed higher but still close to 2023 closing. We acknowledge the possibility for the 10-year yield closing the year lower than our year-end target, on faster foreign inflow into the domestic bond market. Hence, we might revise our year-end target soon if macroeconomic indicators signalled for a further bond market rally.

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

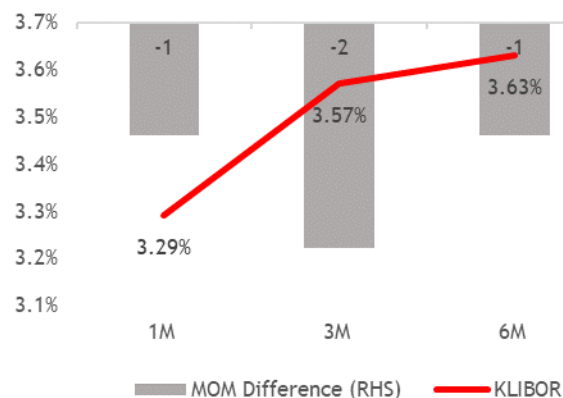
Indicator	3Q23	4Q23	1Q24	2Q24	3Q24f	4Q24f
Exchange Rate, vs USD (average)	4.63	4.70	4.72	4.73	4.57	4.53
Exchange Rate, vs USD (end-period)	4.70	4.59	4.72	4.72	4.56	4.43
10Y Government Bond Yield (average)	3.97	3.91	3.83	33.6	3.86	3.74
10Y Government Bond Yield (end-period)	3.84	3.73	3.85	3.87	3.80	3.68

Source: MIDFR

Interbank Money Market

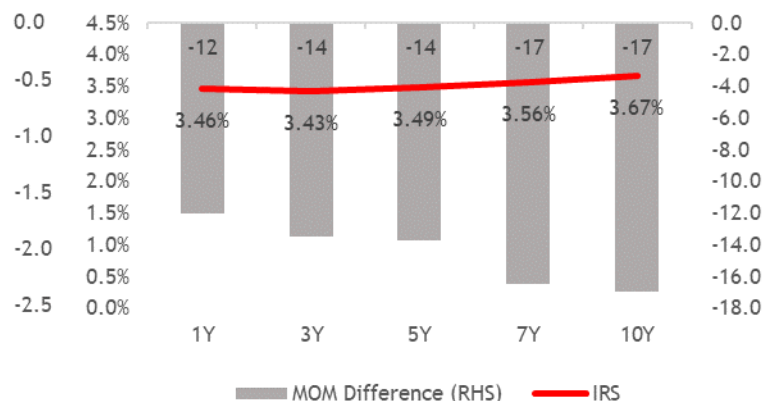
3M KLIBOR fell slightly in Jul-24. The KLIBOR interbank rates fell across the board, with the 3M KLIBOR falling marginally by -1bps to 3.29%. Meanwhile, the IRS market rates were broadly lower, led by the longer ends as the 10-year IRS fell by -17bps. The lower IRS rates were generally in line with the 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 4th consecutive month. Traded volume of corporate bonds (and BNM) declined to RM13.1b in Jul-24 marginally lower than RM13.4b in the previous month. Buying interest continued as rated bonds saw yields changed between 0bps to -12bps. Similarly, the non-rated securities saw rising buying interest as yields declined, between -2bps to -34bps.

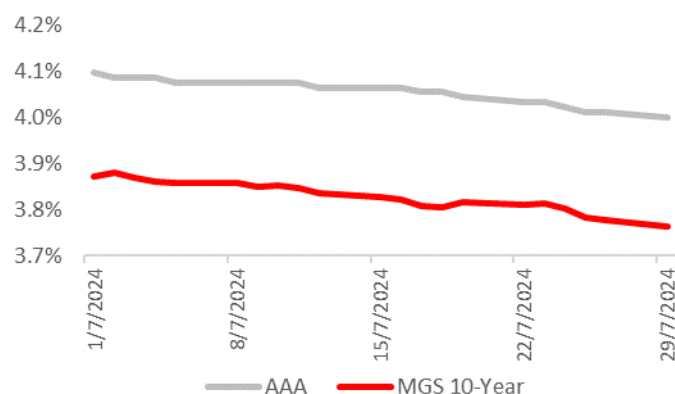
Table 2: Corporate Bond End Period Yield and MOM Yield Change

Rating Class	1Y	2Y	3Y	5Y	7Y	10Y
AAA	3.631	3.677	3.731	3.815	3.908	3.981
AA1	3.691	3.747	3.801	3.885	3.967	4.088
A1	4.342	4.549	4.730	4.999	5.290	5.650
BBB1	5.746	6.310	6.859	7.518	8.283	9.188

Non-rated	5.475	6.343	5.338	5.975	5.432	5.972
MOM Difference (bps)						
AAA	-3	-7	-7	-6	-6	-12
AA1	-5	-6	-6	-5	-6	-8
A1	-1	-4	-5	-4	-5	-4
BBB1	+0	-1	-2	-2	-2	-2
Non-rated	-34	-7	-13	-11	-2	-26

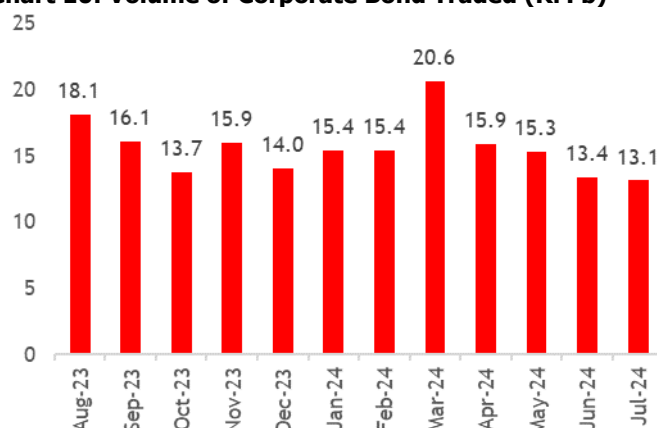
Source: Bondstream, MIDFR

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 issuance bond rose further. Primary issuance was higher at RM16.1b in Jul-24 (Jun-24: RM11.7b). Issuances by AAA-rated PASB and AA2 AMBANK led the chart with a total of RM3.2b. CIMBI led the chart with 3 issuances totalling RM3.0b with tenures between 5 to 11 years and coupon rates between 3.850% and 4.069%. Meanwhile, government guaranteed DANAINFRA issued RM2.5b in 7 new issuances with tenures between 7 to 30 years and coupon rates between 3.830% and 4.280%.

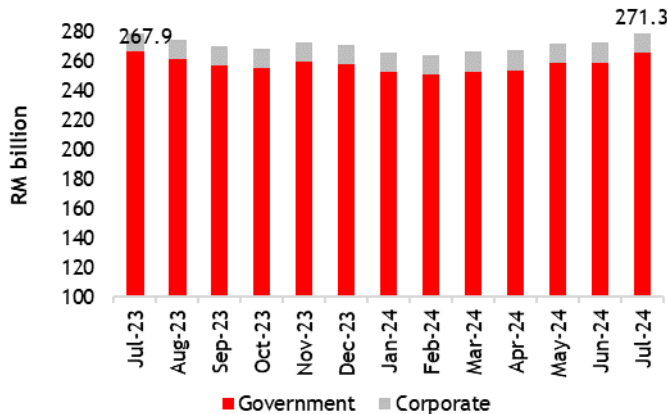
Issuer Name	Issued Amount (RM million)	Rating
CIMB Islamic Bank Berhad	3,000.0	AAA
DanaInfra Nasional Berhad	2,500.0	GG
Saracap Ventures Sdn Berhad	1,850.0	NR(LT)
SunREIT Bond Berhad (fka SunREIT Unrated Bond Berhad)	1,600.0	AA2
Public Bank Berhad	1,500.0	AA1
Benih Restu Berhad	1,200.0	AA2
Malayan Cement Berhad (fka Lafarge Malaysia Berhad)	1,000.0	AA3
Bank Islam Malaysia Berhad	1,000.0	AA3
Notable Vision Sdn Berhad	502.5	AAA
Cagamas Berhad	450.0	AAA
KIP REIT Capital Sdn Berhad	340.0	NR(LT)
Perbadanan Kemajuan Negeri Selangor	275.0	AA3
Sunway Treasury Sukuk Sdn Berhad	250.0	AA3
Sabah Credit Corporation	200.0	AA1
Tumpuan Azam Sdn Berhad	59.7	NR(LT)
Cenviro Sdn Berhad	53.3	NR(LT)
Sunway South Quay Sdn Berhad	51.5	NR(LT)
Singer (Malaysia) Sdn Berhad	50.0	A2
BGRB Venture Sdn Berhad	44.1	NR(LT)
Jakel Holdings Sdn Berhad	41.1	NR(LT)
MEX I Capital Berhad (formerly known as Bright Focus Berhad)	32.0	NR(LT)
Laksana Positif Sdn Berhad	27.4	NR(LT)
LBS Bina Holdings Sdn Berhad	11.9	NR(LT)
Setia Alamsari Sdn Berhad (fka KL East Sdn Berhad)	11.0	NR(LT)
Tan Chong Motor Holdings Berhad	10.0	NR(LT)
Malakoff Power Berhad	5.0	AA3
Liziz Standaco Sdn Berhad	1.5	NR(LT)
Total	16,066.0	

Corporate bond yields to align with government securities. As the US interest rate outlook becomes clearer, we believe corporate bonds will attract increased attention. This growing interest is likely to be driven by new fund inflows into emerging markets, including the local debt market, in anticipation of narrowing interest differentials once the Federal Reserve begins to lower its rates.

Foreign Holdings of Malaysian Bonds

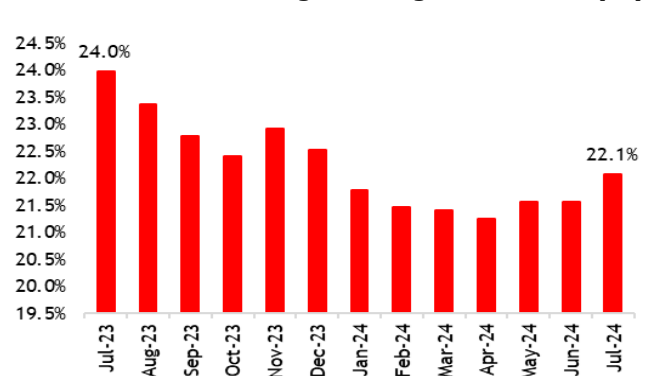
Foreign holdings of domestic bond at the highest since Nov-23. Foreign holding of Malaysian bonds rose RM279.1b in Jul-24 (Jun-24: RM271.3b), the highest since Nov-23. The RM7.8b increase was the also steepest monthly rise in a year, bringing the 7MCMY24 total foreign inflow into Malaysian bond market to RM8.7b. Foreign holdings of soared to 22.1% or RM265.4b of the total outstanding government bonds in Jul-24, the highest in 7 months but remained under the pre-pandemic level (2019 average: 23.1%). Meanwhile, the share of government bonds in the total foreign remain at 95.2% as foreign holdings of Malaysian corporate bonds rose -5.9%mom to RM13.7b.

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
19/7/2024	15-yr Reopening of MGS (Mat on 04/39)	3QCY24	July	22/7/2024	3,000.00	2,000.00	3.1
12/7/2024	10-yr Reopening of MGII 11/34 4.119%	3QCY24	July	15/7/2024	5,000.00		2.42
1/7/2024	5-yr Reopening of MGS 08/29 3.885%	3QCY24	July	2/7/2024	5,000.00		2.19
	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	7,939.3
MGS 2/2019 3.885% 15.08.2029	7,328.5
MGS 3/2007 3.502% 31.05.2027	5,311.5
MGS 2/2017 4.059% 30.09.2024	5,078.8
GII MURABAHAH 3/2016 4.070% 30.09.2026	4,550.2
MGS 2/2020 2.632% 15.04.2031	4,089.8
GII MURABAHAH 5/2013 4.582% 30.08.2033	4,081.6
GII MURABAHAH 6/2019 4.119% 30.11.2034	3,410.6
MGS 1/2015 3.955% 15.09.2025	3,284.8
GII MURABAHAH 4/2015 3.990% 15.10.2025	3,124.1
Total	48,199.1

Source: Bondstream, MIDFR

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