

FIXED INCOME | August 2024 Fixed Income Review

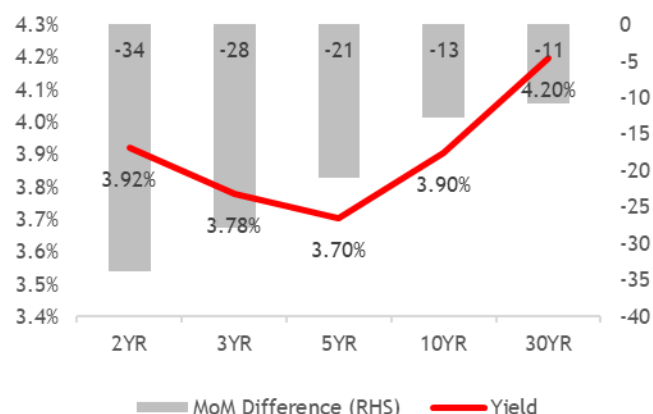
Foreign Holdings Rose at the Fastest Pace Since Jul-23

- 10-year UST yield fell in Aug-24. The 10-year UST yield dropped by -13 bps, ending at 3.90% in Aug 24, the lowest closing since early Feb-24. The 3-year UST yield fell sharper, by -28bps to 3.78%. The declines were influenced by high expectations for the Fed to begin cutting its policy interest rate later this month.
- 10-year MGS yield rose in Aug-24. The benchmark 10-year MGS yield rose by +4bps to 3.76% as at end-Aug-24 (Jul-24: 3.72%). Tracking the increase in UST yield entering into the 2nd week of Aug-24, the 10-year MGS yield stabilised and hovered around 3.78% before declining to 3.76% at the end of the month.
- Expect 10-year MGS target to end the year at 3.60%. Despite the increase in Aug-24, we continue to expect the 10-year MGS yield would trend lower towards 3.60% by year-end. We expect the foreign inflow into the domestic bond market will continue.
- Higher foreign holdings of domestic bonds. Foreign holding of Malaysian bonds increased further to RM288.1b in Aug-24 (Jul-24: RM279.1b). The total foreign inflow into Malaysia's debt market surged to RM17.6b in 8MCY24 as the total monthly increase of RM9.0b in Aug-24 alone exceeded the cumulative rise of RM8.7b in the previous 7 months.

US Treasury

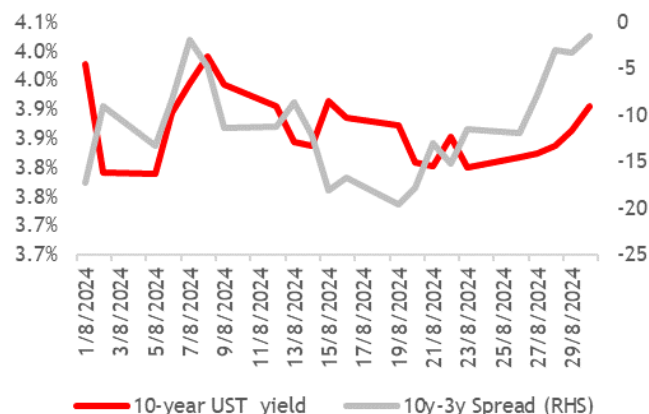
10-year UST yield fell in Aug-24... The 10-year UST yield dropped by -13 bps, ending at 3.90% in Aug 24 (Jul-24: 4.03%), the lowest closing since early Feb-24. The 3-year UST yield fell sharper, by -28bps to 3.78% (Jul-24: 4.06%). As a result, the 10Y-3Y spread narrowed to -2bps in Aug-24 (Jul-24: -3bps). The UST yield rose in the early part of Aug-24 because of the increase in Jul-24 unemployment rate led to renewed concerns over recession risk in the US. However, the decline in UST yields resumed, generally influenced by high expectations for the Fed to begin cutting its policy interest rate later this month, on the back of easing inflation and signs of cooling labour market. Once again, the UST yield increased towards the end-Aug-24 as the upward revision to the US 2QCY24 GDP growth suggests continued resilience in the economy, mainly supported by growing consumer spending. This caused market to reprice the magnitude of Fed's rate cuts, therefore pushing the UST yields somewhat higher.

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



Source: Bloomberg, MIDFR

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



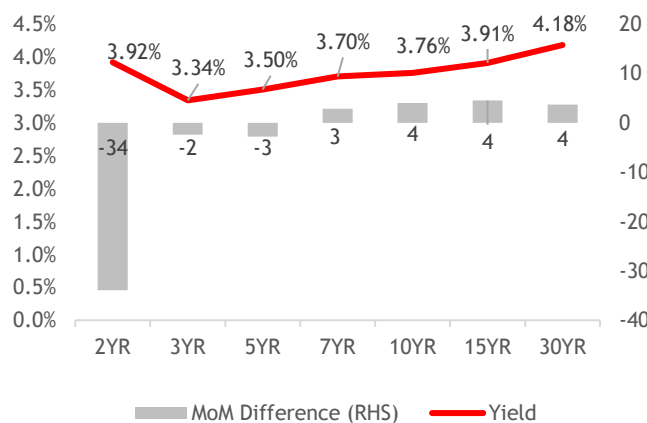
Source: Bloomberg, MIDFR

...rate cut expectations continued to push yields lower. The rate cut expectations were boosted by the dovish signal by the Fed Chair at the Jackson Hole symposium. Jerome Powell indicated that the Fed has approached the point to “dial back” the restrictiveness of its policy setting on the economy as inflation moving closer to the +2% target, with signs of cooling in the job market. Nevertheless, despite the growing talks of a larger rate cut, there is a higher probability that the Fed will begin cutting rates by -25bps at the upcoming FOMC meeting in Sep-24. We foresee downward pressures on the UST yields as recent data supports for the Fed to shift towards policy easing.

Malaysian Government Bonds

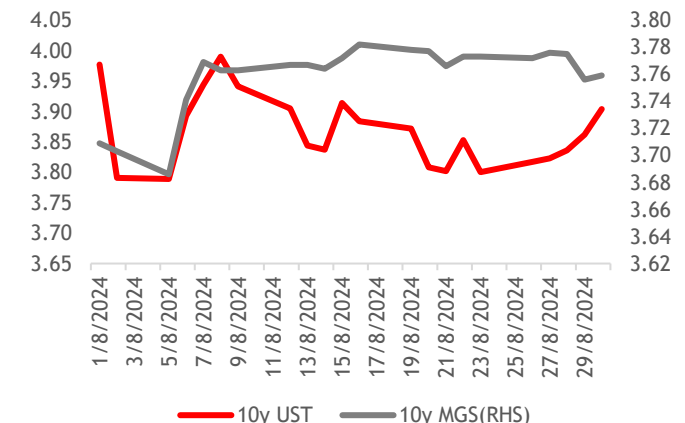
10-year MGS yield rose in Aug-24. The benchmark 10-year MGS yield rose by +4bps to 3.76% as at end-Aug-24 (Jul-24: 3.72%). Tracking the increase in UST yield entering into the 2nd week of Aug-24, the 10-year MGS yield stabilised and hovered around 3.78% before declining to 3.76% at the end of the month. The 3-year MGS yield, on the other hand, closed the month -3bps lower at 3.50% (Jul-24: 3.53%). The volume of government bonds traded increased again this month to RM109.2b (Jul-24: RM106.9b), but trading breadth narrowed from previous month as the top 10 traded government bonds made up 32.3% (Jul-24: 45.5%) of total trade. The lower trading activities were recorded amid larger net issuance during the month.

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



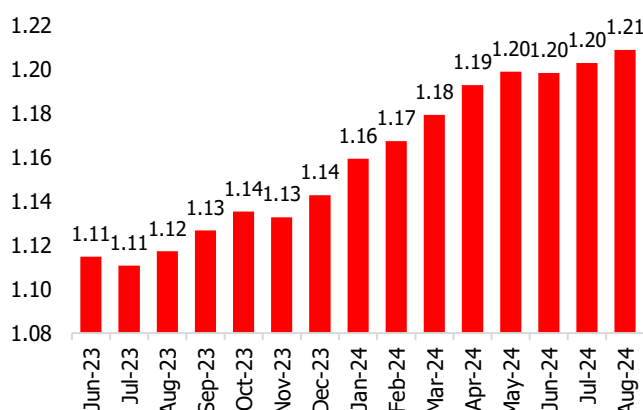
Source: Bloomberg, MIDFR

Chart 4: 10y MGS vs 10y UST Yields (%) in Aug-24



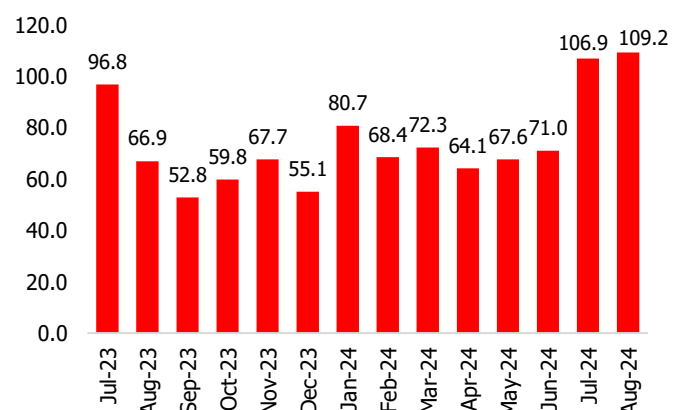
Source: Bloomberg, MIDFR

Chart 5: Outstanding Government Bonds (RM t)



Source: Bondstream, MIDFR

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



Source: Bondstream, MIDFR

Higher new issuance in Aug-24. New issuance of MGS/MGII was higher at RM21.2b in Aug-24 (Jul-24: RM15.0b), with 5 auctions totalling RM19.1b, with the average bid-to-cover (BTC) ratio at 2.34x (Jul-24: 2.49x) and private placements amounting RM2.0b. Net issuance in Aug-24 was also higher, amounting to RM7.5b (Jul-24: RM4.0b). As of Aug-24, outstanding government bonds increased to RM1.21t.

Expect 10-year MGS target to end the year at 3.60%. Despite the increase in Aug-24, we continue to expect the 10-year MGS yield would trend lower towards 3.60% by year-end. We expect the foreign inflow into the domestic bond market will continue, which will translate into further appreciation in the Malaysian ringgit. Furthermore, the more growth fundamentals and more stable price developments will attract more funds into Asian markets, including Malaysia. As the yield movement tends to move in tandem with the UST yields, we foresee the MGS yields will also decline as market price in more rate cuts by the Fed.

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

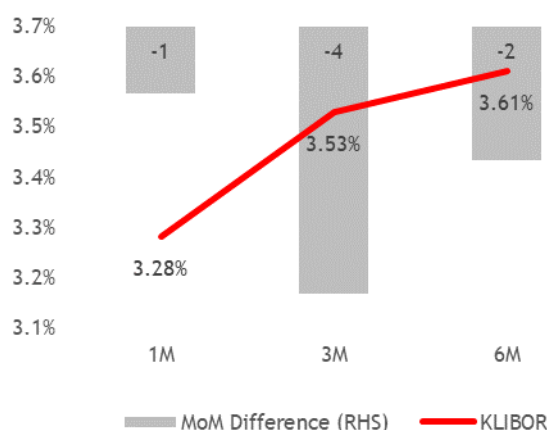
Indicator	3Q23	4Q23	1Q24	2Q24	3Q24f	4Q24f
Exchange Rate, vs USD (average)	4.63	4.70	4.72	4.73	4.57	4.53
Exchange Rate, vs USD (end-period)	4.70	4.59	4.72	4.72	4.56	4.43
10Y Government Bond Yield (average)	3.97	3.91	3.83	33.6	3.86	3.80
10Y Government Bond Yield (end-period)	3.84	3.73	3.85	3.87	3.80	3.60

Source: MIDFR

Interbank Money Market

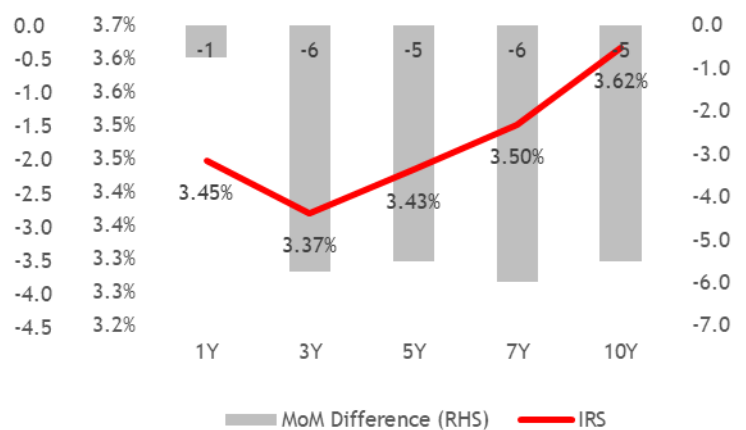
3M KLIBOR fell by -4bps in Aug-24. The KLIBOR interbank rates also fell across the board, with the 3M KLIBOR falling relatively bigger by -4bps to 3.53%. Similarly, the IRS market rates were broadly lower, led by the longer ends, with the 7-year and 10-year IRS declining by -17bps. The lower IRS rates 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 increased for the first time in 5 months. Traded volume of corporate bonds (and BNM) rose to RM18.2b in Aug-24, the first increase and the highest in 5 months. Buying interest for

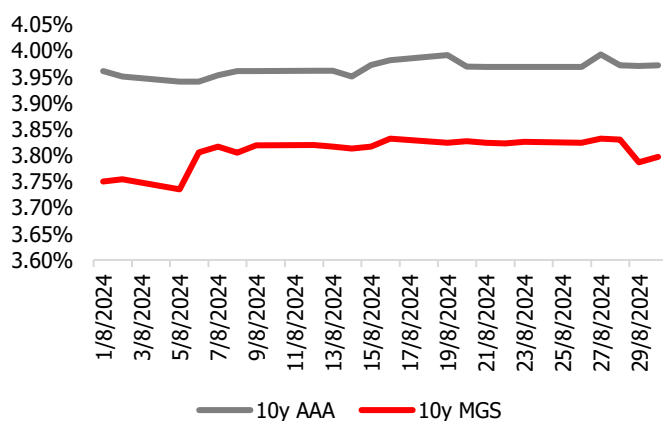
rated bonds most continued, with yields declined albeit relatively smaller between 0bps to -4bps. In contrast, the interest for non-rated securities saw some pullback in buying interest as yields increased between +3bps and +13bps for the 3-year, 7-year and 10-year debt securities.

Table 2: Corporate Bond Yield and MOM Yield Change as at End-Aug-24

Rating Class	1Y	2Y	3Y	5Y	7Y	10Y
AAA	3.591	3.688	3.742	3.815	3.886	3.972
AA1	3.661	3.748	3.791	3.864	3.947	4.067
A1	4.312	4.520	4.711	4.990	5.305	5.650
BBB1	5.726	6.290	6.839	7.498	8.262	9.188
Non-rated	5.281	6.268	5.464	5.849	5.459	5.998
MOM Difference (bps)						
AAA	-4	+1	+1	0	-2	-1
AA1	-3	+0	-1	-2	-2	-2
A1	-3	-3	-2	-1	+1	0
BBB1	-2	-2	-2	-2	-2	-2
Non-rated	-24	-8	+13	-13	+3	+3

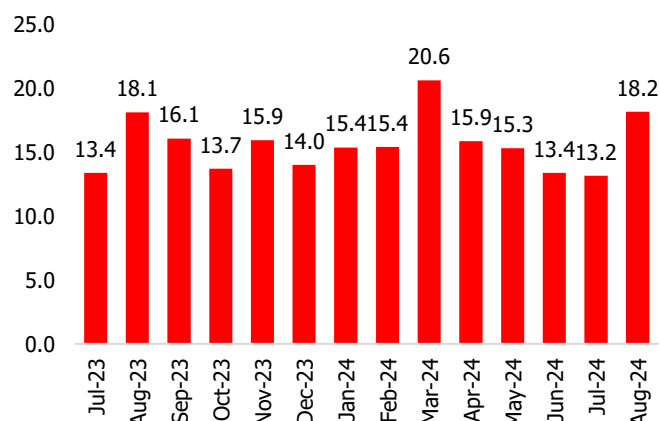
Source: Bondstream, MIDFR

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 RM5,824.1b in Aug-24 (Jul-24: RM16.6b). Danum Capital led the chart with only 1 issuance, worth RM1.0b with tenure of 6 years and coupon rate of 3.87%, and YTL Power International also leading the list at RM1.0b. Most issuers are not rated for the long-term bonds, while only Danum Capital has the highest AAA(S) rating. The issuers represent diverse sectors, including utilities, property, and retail, reflecting strong market participation.

Table 3: New Corporate Bonds Issuance

Issuer Name	Issued Amount (RM million)	Rating
Danum Capital Berhad	1,000.0	AAA(S)
YTL Power International Berhad	1,000.0	NR(LT)
Pengurusan Air Selangor Sdn Berhad	850.0	NR(LT)
Sunway Treasury Sukuk Sdn Berhad	800.0	NR(LT)
Hunza Properties (Penang) Sdn Berhad	350.0	NR(LT)
Avaland Berhad (fka MCT Berhad)	300.0	AA3
AEON Co. (M) Berhad	220.0	AA2
UEM Sunrise Berhad	200.0	NR(LT)
Perbadanan Kemajuan Negeri Selangor	130.0	AA3
MY E.G. Services Berhad	110.0	NR(LT)
Paramount Corporation Berhad	100.0	NR(LT)
Hotel Equatorial (M) Sdn Berhad	62.0	NR(LT)

Issuer Name	Issued Amount (RM million)	Rating
West Coast Expressway Sdn Berhad	64.6	NR(LT)
YTL REIT MTN Sdn Berhad	35.0	NR(LT)
Tumpuan Azam Sdn Berhad	16.0	NR(LT)
BGRB Venture Sdn Berhad	14.6	NR(LT)
ParkCity Damansara Sdn Berhad	10.7	NR(LT)
Laksana Positif Sdn Berhad	7.2	NR(LT)
BGRB Venture Sdn Berhad	3.0	NR(LT)
Global Vision Logistics Sdn Berhad	50.0	NR(LT)
QSR Stores Sdn Berhad	1.0	NR(LT)
Total	5,824.1	

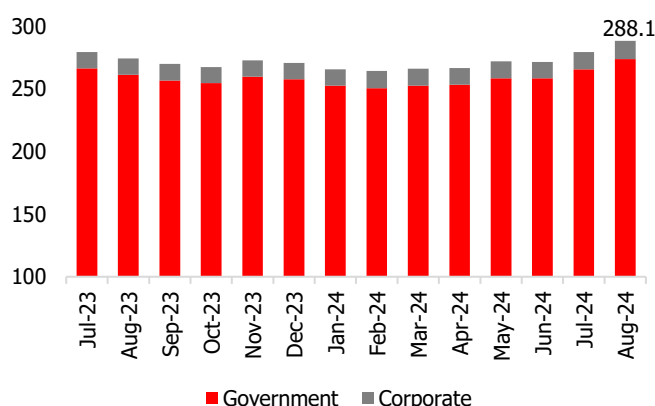
Source: Bondstream, MIDFR

Changes in corporate bond yields to mirror govvnies. With the Fed moving closer to rate cuts and appetite towards risk assets improved, we anticipate the corporate bond market will also receive more attention. We believe the growing interest will likely be driven by new fund inflows into emerging markets, including the local debt market, influenced by the expected narrowing of interest differentials when the Fed begins to ease its interest rates.

Foreign Holdings of Malaysian Bonds

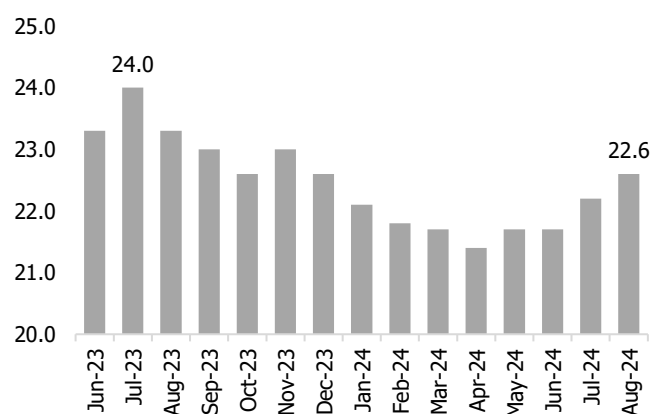
Higher foreign holdings of domestic bonds. Foreign holdings of Malaysian bonds increased further to RM288.1b in Aug-24 (Jul-24: RM279.1b). The total foreign inflow into Malaysia’s debt market surged to RM17.6b in 8MCY24 as the monthly increase of RM9.0b in Aug-24 alone exceeded the cumulative rise of RM8.7b in the previous 7 months. The monthly increment in foreign holdings in Aug-24 was also the largest since Jul-23. With foreign holdings of public debt securities and sukuk rising to RM273.7b in Aug-24: (Jul-24: RM265.4b), the ratio to the total outstanding government bonds increased to 22.6%, back to the same level in Dec-23 but remained below the pre-pandemic level (2019 average: 23.1%). On the other hand, the share of government bonds in the total foreign holdings dropped slightly to 95.0% (Jul-24: 95.1%) as foreign holdings of Malaysian corporate bonds rose further by +5.1%mom to RM14.4b (Jul-24: RM13.7b). 📈

Chart 11: Foreign Holdings of Malaysian Bonds (RM b)



Source: Bloomberg, 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	3.10
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
28/8/2024	10-yr Reopening of MGS 07/34 3.828%	3QCY24	August	29/8/2024	5,500.00		1.99
21/8/2024	5-yr Reopening of MGII 07/29 4.130%	3QCY24	August	22/8/2024	4,000.00		3.68
14/8/2024	30-yr Reopening of MGS 03/53 4.457%	3QCY24	August	15/8/2024	3,000.00		1.95
7/8/2024	7-yr Reopening of MGII (Mat on 10/31)	3QCY24	August	8/8/2024	5,000.00		2.33
	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)
GII MURABAHAH 4/2019 3.655% 15.10.2024	6547.7
MGS 2/2019 3.885% 15.08.2029	4644.7
MGS 2/2020 2.632% 15.04.2031	4093.4
MGS 3/2018 4.642% 07.11.2033	3725.1
MGS 1/2018 3.882% 14.03.2025	3307.6
GII MURABAHAH 3/2016 4.070% 30.09.2026	2995.1
MGS 3/2010 4.498% 15.04.2030	2874.9
GII MURABAHAH 1/2022 4.193% 07.10.2032	2485.6
MGS 3/2007 3.502% 31.05.2027	2478.6
MGS 1/2019 3.906% 15.07.2026	2108.0
Total	35,260.7

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.