midf RESEARCH

10 October 2024

FIXED INCOME | September 2024 Fixed Income Review

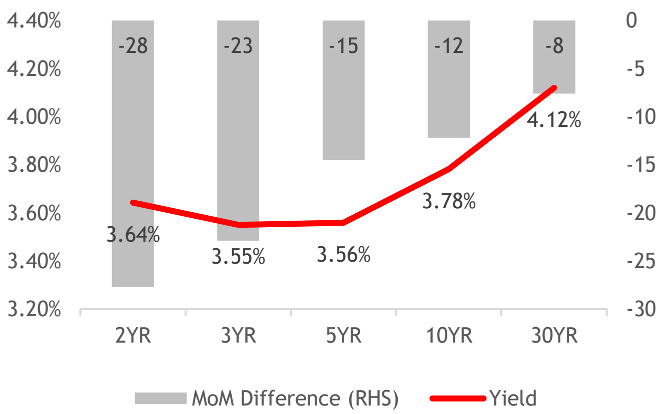
Continued Rise in Foreign Holdings in Sep-24 but at a Slower Pace

- *10y UST yield fell in Sep-24 as Fed began shifting to policy easing. The 10-year UST yield dropped by -12 bps last month, ending at 3.78% in Sep-24 (Aug-24: 3.90%), mainly ahead of the Sep-24 rate cut decision.*
- *10-year MGS yield fell in Sep-24. The benchmark 10-year MGS yield also fell by -5bps to 3.71% as at end-Sep-24 (Aug-24: 3.76%). The general trend in MGS continues to closely follow the UST yield change.*
- *Expect 10-year MGS target to end the year at 3.60%. We maintain our expectation that the 10-year MGS yield would trend lower towards 3.60% by year-end. Continued push to improve fiscal position, growth outlook and relatively low inflation will attract more foreign funds.*
- *Foreign bond holdings increased further. The value of foreign holdings of Malaysian bonds continued to increase to RM289.1b in Sep-24 (Aug-24: RM288.1b). Foreign inflow into Malaysia's debt market persisted but at smaller amount of +RM1.0b (Aug-24: +RM9.0b), marking the third month of inflows.*

US Treasury

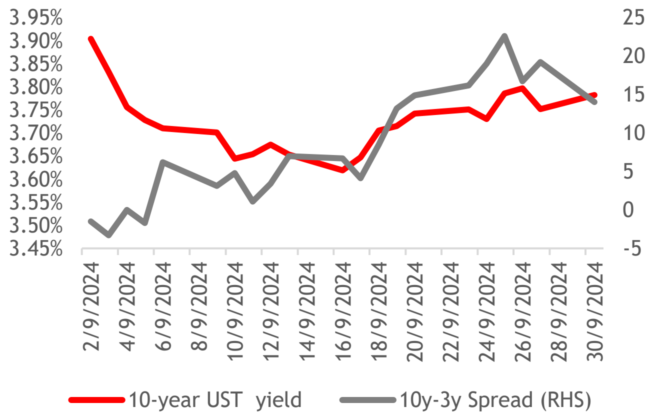
10y UST yield fell in Sep-24 as Fed began shifting to policy easing. The 10-year UST yield dropped by -12 bps last month, ending at 3.78% in Sep-24 (Aug-24: 3.90%). The decline in 3-year UST yields was steeper by -23bps to 3.55%, resulting in a widening of the 10Y-3Y yield spread to +14bps in Sep-24 (Aug-24: -2bps). The UST yield even fell to 3.62% on 16 September 2024, the lowest level last seen in early Jun-23, as easing inflation led to growing expectations for large rate cuts by the Fed ahead of the FOMC's Sep-24 decision. However, the yield rose again to above 3.75% towards month-end as the market repriced for smaller cuts (following a less dovish signal from the Fed).

Chart 1: UST Yields and MoM Difference (bps)



Source: Bloomberg, MIDFR

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



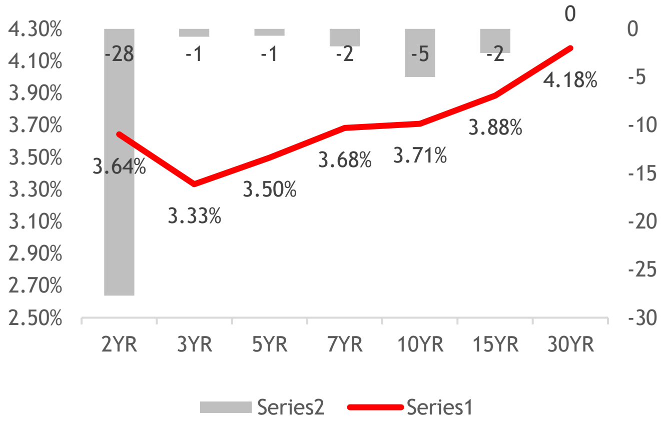
Source: Bloomberg, MIDFR

Yield to go lower as Fed will carry out more rate cuts. We foresee downward trend for the UST yields as recent inflation trends generally supports for more rate cuts by the Fed; and therefore, yields are expected to decline further as investors priced in more rate cuts going into next year. However, the decline will be constrained by more encouraging US economic data because resilience in the economy and possible re-acceleration in US inflation could cause Fed to delay its rate cuts. On the other hand, the positive economic data will also reduce the odds for aggressive rate reductions.

Malaysian Government Bonds

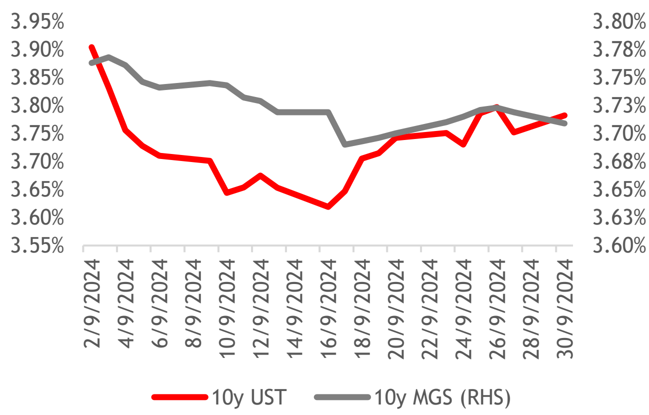
10-year MGS yield fell in Sep-24. The benchmark 10-year MGS yield also fell by -5bps to 3.71% as at end-Sep-24 (Aug-24: 3.76%). The general trend in MGS continues to closely follow the UST yield change, where the 10-year MGS yield closed at intra-month low of 3.69% on 17 September 2024 or one day after UST reached its monthly lows. The 3-year MGS yield, on the other hand, fell at a relatively smaller by -1bps to 3.33% (Jul-24: 3.34%). The volume of government bonds traded declined to RM96.5b (Aug-24: RM109.2b), with the top 10 traded government bonds accounting for 51.7% (Aug-24: 32.3%) of total trade. The lower trading activities also come with reduced net issuance during the month.

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



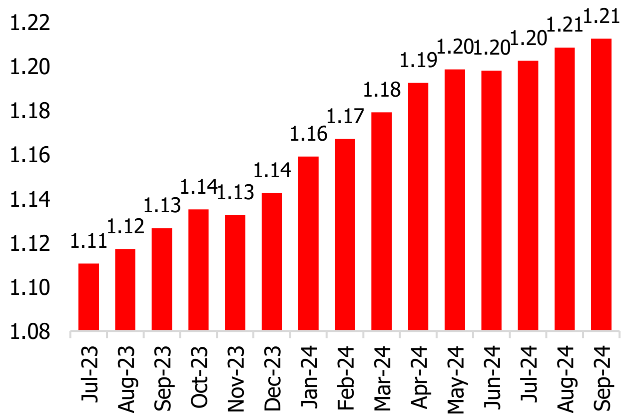
Source: Bloomberg, MIDFR

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



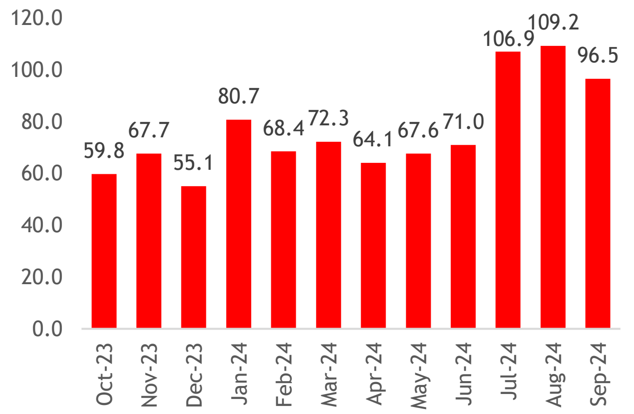
Source: Bloomberg, MIDFR

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 lower at RM15.5b in Sep-24 (Aug-24: RM19.5b), with 3 auctions totalling RM11.5b, with the average bid-to-cover (BTC) ratio at 1.84x (Aug-24: 2.49x) and private placements amounting RM4.0b. Net issuance in Sep-24 was relatively lower, amounting to RM4.5b

(Aug-24: RM7.5b). As of Sep-24, outstanding government bonds remained around RM1.21t, despite rising further by RM4m.

Expect 10-year MGS target to end the year at 3.60%. We maintain our expectation that the 10-year MGS yield would trend lower towards 3.60% by year-end. While the movement in MGS yield closely tracks trend in the US treasury yield, we foresee the lower rates will also be a result of increased foreign inflow into the domestic bond market, which will also contribute towards further appreciation in the Malaysian ringgit. Fundamentally, continued push to improve fiscal position and growth outlook with relatively low inflation will also attract more foreign funds into Malaysia and other Asian markets.

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

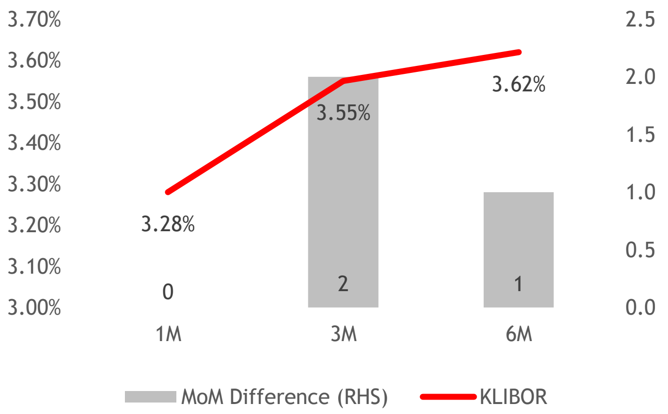
Indicator	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24f
Exchange Rate, vs USD (average)	4.63	4.70	4.72	4.73	4.46	4.20
Exchange Rate, vs USD (end-period)	4.70	4.59	4.72	4.72	4.12	4.03
10Y Government Bond Yield (average)	3.97	3.91	3.83	3.90	3.77	3.75
10Y Government Bond Yield (end-period)	3.84	3.73	3.85	3.87	3.71	3.60

Source: MIDFR

Interbank Money Market

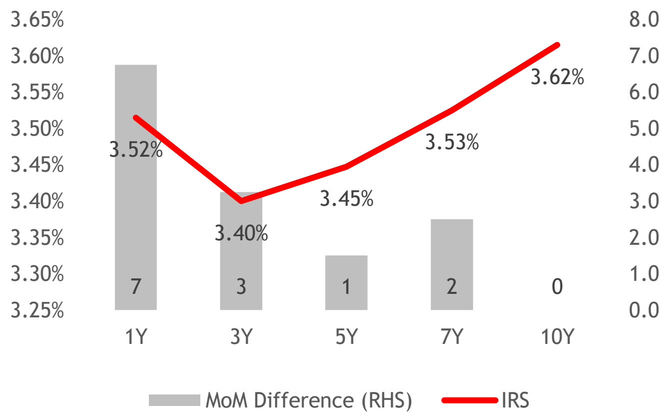
3M KLIBOR rose by +1bps. The KLIBOR interbank rates rose across the board, with the 3M KLIBOR rising +1bps to 3.62%. Similarly, the IRS market rates were broadly higher, led by the shorter ends, with the 1-year and 3-year IRS rising by +7bps and +3bps, respectively. The increases in IRS rates were not in line with the decline 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

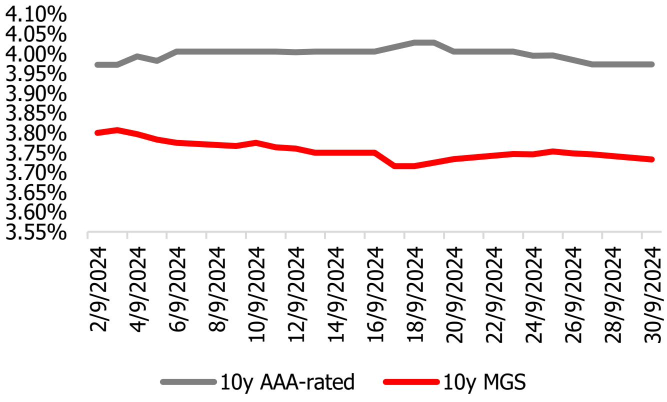
Volume of corporate bonds traded declined. Traded volume of corporate bonds (and BNM) fell to RM15.1b in Sep-24, lower than average RM15.9b a month in 8MCY24. Buying interest for rated bonds continued, with yields declining albeit relatively smaller between 0bps to -4bps. Data in Sep-24 suggests continued interest for non-rated securities, with the yields generally declining across different tenures between -3bps to -45bps, with the exception the 7-year securities which rose +20bps from the previous month.

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

Rating Class	1Y	2Y	3Y	5Y	7Y	10Y
AAA	3.571	3.668	3.732	3.794	3.888	3.973
AA1	3.671	3.748	3.791	3.854	3.947	4.044
A1	4.312	4.509	4.69	4.959	5.262	5.646
BBB1	5.726	6.29	6.839	7.498	8.262	9.167
Non-rated	4.830	6.159	5.437	5.815	5.661	5.970
MOM Difference (bps)						
AAA	-2	-2	-1	-2	0	0
AA1	1	0	0	-1	0	-2
A1	0	-1	-2	-3	-4	0
BBB1	0	0	0	0	0	-2
Non-rated	-45	-11	-3	-3	20	-3

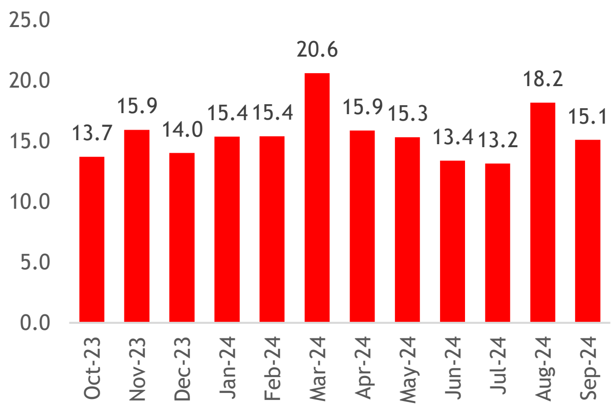
Source: Bondstream, MIDFR

Chart 9: 10-Year AAA vs 10-Year MGS (%)



Source: Bondstream, MIDFR

Chart 10: Volume of Corporate Bond Traded (RM b)



Source: Bondstream, MIDFR

Higher issuance of corporate bonds. Primary issuance was higher at RM14.1b in Sep-24 (Jul-24: RM5.8b). The largest issuance was by AA2-rated CIMB Group Holdings and AA2-rated CIMB, each issuing sukuk worth RM1.85b with tenure of 7 years and coupon rate at 4.08%. Both issuers were also the top 2 largest issuers last month with cumulative issuance of RM5.4b, followed by AAA-rated PHB with total issuance of RM1.5b, from 5 issuances with tenures between 1 to 7 years and coupon rates ranging between 3.49% to 3.91%. The corporate issuers were from various sectors, including banking, real estate, F&B, transportation and construction & material industries.

Table 3: New Corporate Bonds Issuance

Issuer Name	Issued Amount (RM million)	Rating
CIMB Group Holdings Berhad	3,400.0	AA2
CIMB Bank Berhad	2,000.0	AA2
Pelaburan Hartanah Berhad	1,500.0	AAA
Johor Plantations Group Berhad	1,300.0	AA1
CIMB Islamic Bank Berhad	1,200.0	AA1
Ara Bintang Berhad	700.0	NR(LT)
Hap Seng Management Sdn Berhad	600.0	NR(LT)
Sunway Treasury Sukuk Sdn Berhad	500.0	NR(LT)
Hong Leong Bank Berhad	500.0	AAA
Tradewinds Hotels & Resorts Sdn Berhad	330.0	NR(LT)
Perak Transit Berhad	300.0	NR(LT)
Alliance Bank Malaysia Berhad	300.0	BBB1
AmBank Islamic Berhad	200.0	AA2
SEP Resources (M) Sdn Berhad	185.0	AA1
Jakel Holdings Sdn Berhad	150.0	NR(LT)
Magnum Corporation Sdn Berhad	100.0	NR(LT)

WCT Holdings Berhad	100.0	A1
Alliance Islamic Bank Berhad	100.0	A2
SunREIT Bond Berhad (fka SunREIT Unrated Bond Berhad)	100.0	NR(LT)
Scientex Quatari Sdn Berhad	100.0	NR(LT)
Cagamas Berhad	100.0	AAA
Pac Lease Berhad	90.0	AA2
Tan Chong Motor Holdings Berhad	50.0	A1
Tumpuan Azam Sdn Berhad	44.6	NR(LT)
STM Lottery Sdn Berhad (fka Sports Toto Malaysia Sdn Berhad)	30.0	AA3
BGRB Venture Sdn Berhad	25.0	NR(LT)
Setia Alamsari Sdn Berhad (fka KL East Sdn Berhad)	20.0	NR(LT)
West Coast Expressway Sdn Berhad	16.5	NR(LT)
Gabungan AQRS Berhad	13.0	A2
Laksana Positif Sdn Berhad	8.5	NR(LT)
Berjaya Langkawi Beach Resort Sdn Berhad	4.0	NR(LT)
Total	**14,066.6**	

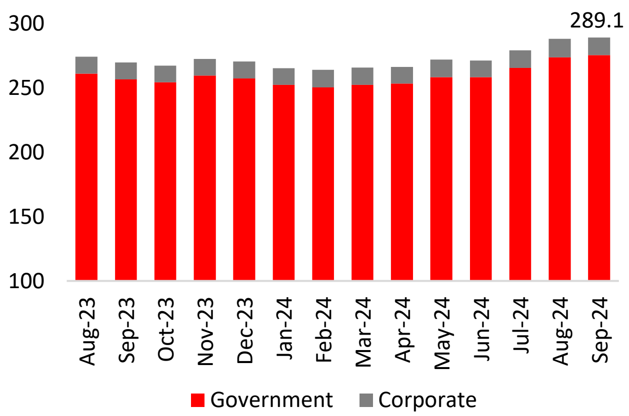
Source: Bondstream, MIDFR

Movement in corporate bond yields would mirror govvies. As govvies are expected to record relatively lower returns, as Fed is expected to cut rates further, we foresee yields for corporate bonds will also decline. In addition, the lower yields also reflect improved liquidity as a result of increased foreign inflows in the local debt markets. However, the intensification of geopolitical risks and the possibility of renewed rise in inflation or weakening of global growth outlook

Foreign Holdings of Malaysian Bonds

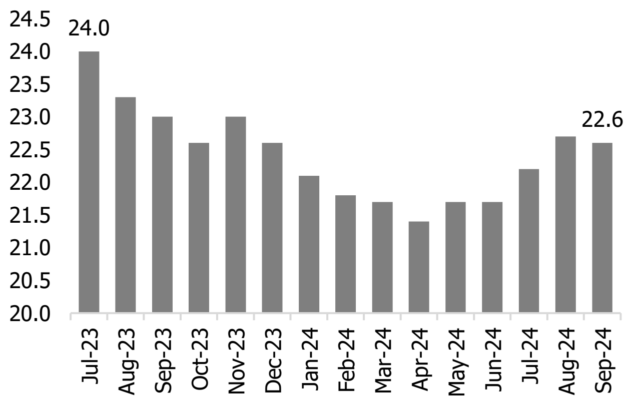
Foreign bond holdings increased further. The value of foreign holdings of Malaysian bonds continued to increase to RM289.1b in Sep-24 (Aug-24: RM288.1b). Foreign inflow into Malaysia's debt market persisted but at smaller amount of +RM1.0b (Aug-24: +RM9.0b), marking the third month of inflows. Although foreign holdings of public debt securities and sukuk rose further to RM275.4b (Aug-24: RM273.7b), but the ratio of foreign holding out of the total outstanding government bonds eased to 22.6% (Aug-24: 22.7%), still below the pre-pandemic level (2019 average: 23.1%). On the other hand, the size of government bonds in the total foreign holdings increased slightly to 95.2% (Aug-24: 95.0%) as foreign holdings of Malaysian corporate bonds fell by -4.4%mom to RM13.8b (Aug-24: RM14.4b).

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	2,000.00	1.95
7/8/2024	7-yr Reopening of MGII (Mat on 10/31)	3QCY24	August	8/8/2024	5,000.00		2.33
27/9/2024	30-yr Reopening of MGII (Mat on 03/54)	3QCY24	September	30/9/2024	3,000.00	2,000.00	1.86
20/9/2024	7-yr Reopening of MGS 04/31 2.632%	3QCY24	September	23/9/2024	5,500.00		1.73
9/9/2024	20-yr Reopening of MGII 08/43 4.291%	3QCY24	September	10/9/2024	3,000.00	2,000.00	1.92
	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 1/2018 3.882% 14.03.2025	9,685.2
MGS 2/2020 2.632% 15.04.2031	6,885.4
MGS 2/2019 3.885% 15.08.2029	5,129.5
MGS 4/2019 3.828% 05.07.2034	4,662.7
MGS 1/2015 3.955% 15.09.2025	4,579.3
MGS 3/2018 4.642% 07.11.2033	3,509.4
MGS 3/2007 3.502% 31.05.2027	3,470.3
GII MURABAHAH 3/2016 4.070% 30.09.2026	3,470.3
GII MURABAHAH 4/2019 3.655% 15.10.2024	3,441.6
MGS 3/2010 4.498% 15.04.2030	2,628.4
Total	**47,462.1**

Source: Bondstream, MIDFR

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