

FIXED INCOME | October 2024 Fixed Income Review

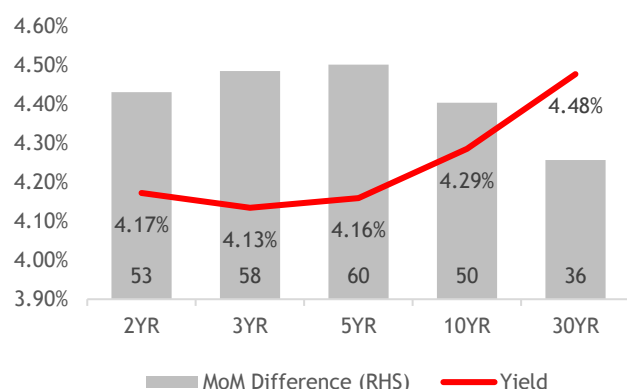
Yields Moved Higher as Foreign Holdings Reduced in Oct-24

- 10y UST yield fell in Sep-24 as Fed began shifting to policy easing. The 10-year UST yield jumped by +50 bps last month, ending at 4.28% in Oct-24 (Sep-24: 3.78%). Better-than-expected economic updates and concerns over elevated inflation caused market to reduce expectations for aggressive rate cuts by the Fed ahead of the FOMC's Nov-24 decision.
- MGS yields also increased in Oct-24. The benchmark 10-year MGS yield also rose by +21bps to 3.92% as at end-Oct-24 (Sep-24: 3.71%), to a certain extent explained by the outflows of foreign funds from the domestic debt market. Tracking the upward change in the US treasury yields, the MGS also trended higher throughout the month and returned back to the level last seen in mid-May-24.
- Expect 10-year MGS target to end the year at 3.68%. We expect the 10-year MGS yield would trend lower towards 3.68% by year-end, moving in tandem with the US treasury yield and supported by the foreign fund inflows into the domestic bond market.
- Lower foreign holdings of Malaysian bonds. The value of foreign holdings of Malaysian bonds declined to RM277.7b in Oct-24 (Sep-24: RM289.1b), registering the first fall in 4 months. Foreign inflow into Malaysia's debt market dropped by -RM11.4b from the previous month (Sep-24: +RM1.0b).

US Treasury

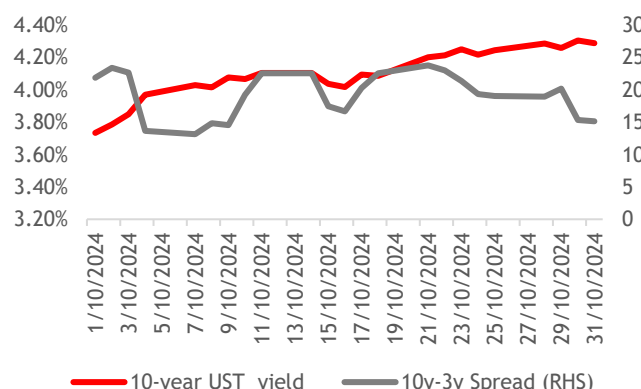
10y UST yield fell in Sep-24 as Fed began shifting to policy easing. The 10-year UST yield jumped by +50 bps last month, ending at 4.28% in Oct-24 (Sep-24: 3.78%). The higher yields were also recorded for other tenures, with even a larger increase in the 3-year UST yields by +58bps to 4.13%. As a result, the 10Y-3Y UST yield spread narrowed to +15bps in Oct-24 (Sep-24: +23bps). The UST yield even touched 4.30% on 30 October 2024, the highest level since early Jul-24 because the stronger economic releases and concerns over elevated inflation led to the shift in market expectations, no longer anticipating for aggressive rate cuts by the Fed ahead of the FOMC's Nov-24 decision. However, the yield dropped and ended the month below 4.30% as the headline PCE inflation moderated further to +2.1%yoy in Sep-24, supporting for further policy easing by the Fed.

Chart 1: UST Yields and MoM Difference (bps) at end-Oct-24



Source: Bloomberg, MIDFR

Chart 2: 10y UST Yield vs 10y-3y Yield Spread (bps) in Oct-24



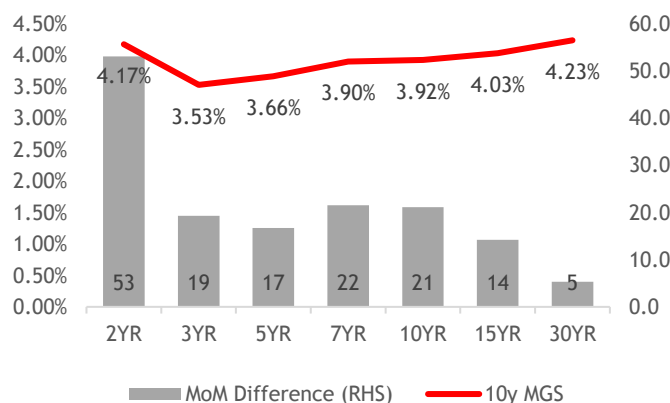
Source: Bloomberg, MIDFR

Still expect UST yields to go lower with Fed cutting interest rates. Despite the recent correction, we continue to foresee the UST yields will go lower. The broad moderation in the US inflation supports for more rate cuts by the Fed; and therefore, we believe yields fall again as investors priced in future rate cuts going into next year. Nevertheless, we remain cautious that rates may not go lower as fast as expected because the Fed may take time not to ease too fast in view of the still resilient US economic growth and possible re-acceleration in US inflation (taking into account the planned hike in import tariffs by the US next year).

Malaysian Government Bonds

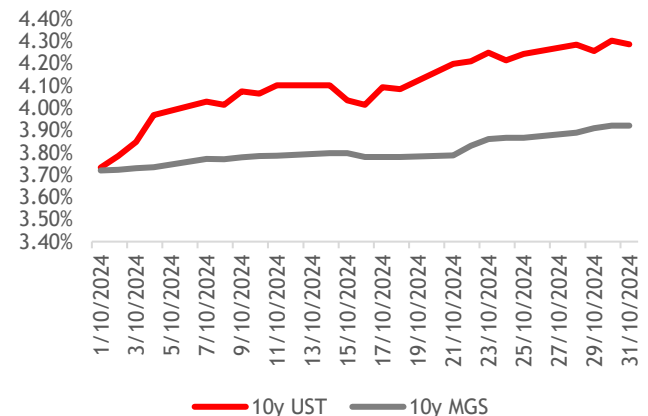
MGS yields also increased in Oct-24. The benchmark 10-year MGS yield also rose by +21bps to 3.92% as at end-Oct-24 (Sep-24: 3.71%), to a certain extent as a result of the outflows of foreign funds from the domestic debt market. Tracking the upward change in the US treasury yields, the MGS also trended higher throughout the month and returned to the level last seen in mid-May-24. With inflation in Malaysia remaining stable and under control and BNM keeping OPR unchanged, we believe the movement in yields was more influenced by the changing sentiment in the local and global financial markets. The 2-year MGS yield even surged by +53bps to 4.17% (Sep-24: 3.64%). On the back of fund outflows, negative net issuance and higher yields, the volume of government bonds traded declined further to a 4-month low of RM89.4b (Sep-24: RM96.5b). In addition, the top 10 traded government bonds accounted for a larger share at 57.8% (Sep-24: 51.7%) of total trade.

Chart 3: MGS Yield Curve and MoM Difference (bps) as at end-Oct-24



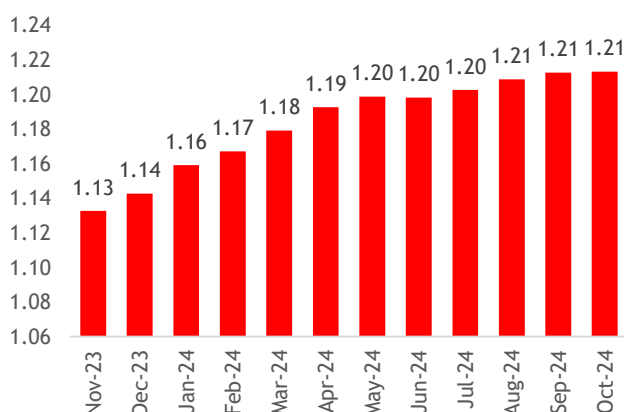
Source: Bloomberg, MIDFR

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



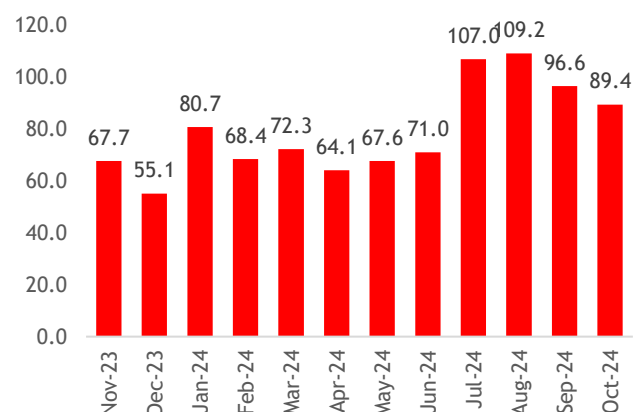
Source: Bloomberg, MIDFR

Chart 5: Outstanding Government Bonds (RM t)



Source: Bondstream, MIDFR

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



Source: Bondstream, MIDFR

Smaller new issuance. New issuance of MGS/MGII was higher at RM19.0b in Oct-24 (Sep-24: RM15.5b), with 4 auctions totalling RM17.0b, with the average bid-to-cover (BTC) ratio at 1.81x (Sep-24: 1.84x) and private placements amounting RM2.0b. Net issuance turned negative at -RM0.5b in Oct-24 (Sep-24: +RM4.5b), as total redemption RM19.5b exceeded new issuance. Despite the negative net issuance, the amount of outstanding government bonds remained at RM1.21t in Oct-24.

Expect 10-year MGS target to end the year at 3.68%. We expect the 10-year MGS yield would trend lower towards 3.68% by year-end. As the trend in MGS yield moves more or less in tandem with the US treasury yield, we foresee the lower rates will be supported by the increased foreign inflow into the domestic bond market. We still anticipate more funds will return to the emerging markets with the narrowing interest rate differentials. Fundamentally, continued push for structural reforms (including the government commitment to improve fiscal position) and encouraging growth outlook will also attract more foreign funds into Malaysia.

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

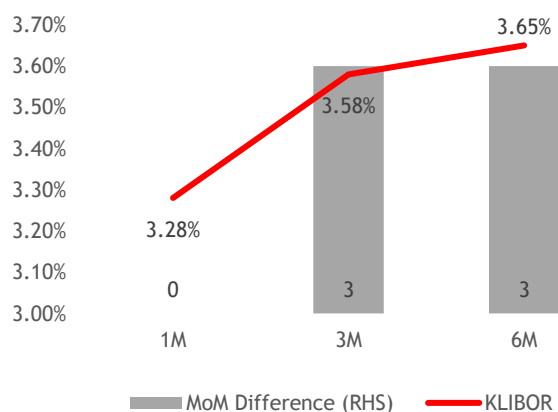
Indicator	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24f
Exchange Rate, vs USD (average)	4.63	4.70	4.72	4.73	4.46	4.20
Exchange Rate, vs USD (end-period)	4.70	4.59	4.72	4.72	4.12	4.03
10Y Government Bond Yield (average)	3.97	3.91	3.83	3.90	3.77	3.75
10Y Government Bond Yield (end-period)	3.84	3.73	3.85	3.87	3.71	3.68

Source: MIDFR

Interbank Money Market

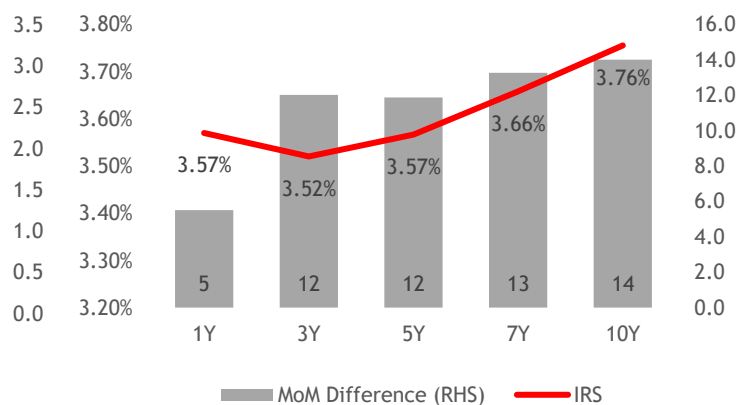
3M KLIBOR rose by +1bps. The KLIBOR interbank rates also increased, with the 3M and 6M KLIBOR both rising by +3bps to 3.58% and 3.65%, respectively. Similarly, the IRS market rates were broadly higher, led by the longer ends, with the 7-year and 10-year IRS rising by +13bps and +14bps, respectively. Unlike Sep-24, the increases in IRS rates in Oct-24 were in line with the higher 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. The volume of traded corporate bonds (and BNM) was higher at RM15.8b in Oct-24 (Sep-24: RM15.1b), similar to the average RM15.8b a month in 9M CY24. In with the rise in yields of public debt securities, the yields for rated securities also increased between +1bps to +19bps in Oct-24.

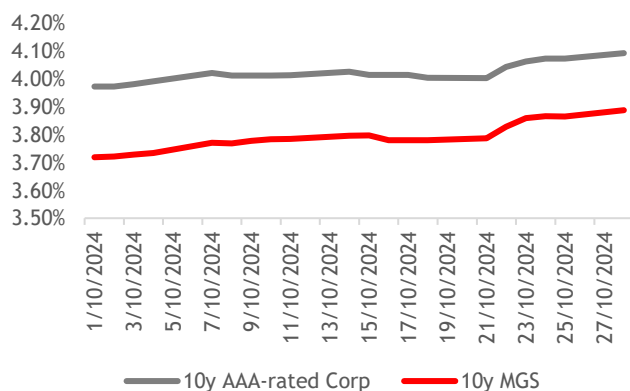
The same trend is also observed for the non-rated securities, with the yields rising between +12bps to +19bps across all tenures.

Table 2: Corporate Bond Yield and MOM Yield Change as at End-Oct-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	5.026	6.333	5.626	5.990	5.843	6.167
MOM Difference (bps)						
AAA	+2	+5	+7	+13	+17	+13
AA1	0	+4	+7	13	+19	+15
A1	+1	+2	+6	+7	+10	+4
BBB1	+1	+1	+3	+4	+7	+4
Non-rated	+12	+17	+19	+17	+18	+18

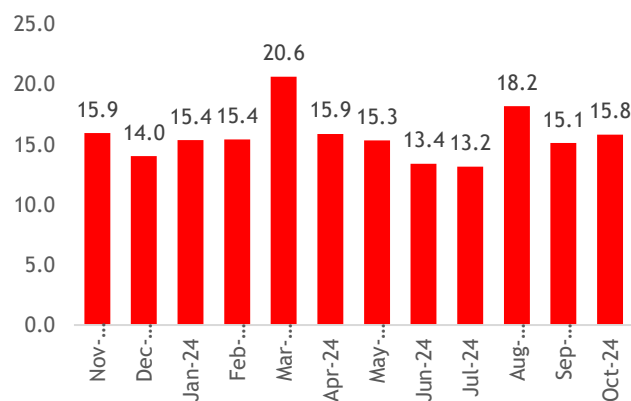
Source: Bondstream, MIDFR

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



Source: Bondstream, MIDFR

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



Source: Bondstream, MIDFR

Relatively lower new issuance of corporate bonds. Primary issuance of corporate bonds was relatively lower at RM12.5b in Sep-24 (Sep-24: RM14.1b). The largest issuance last month was by Prasarana Malaysia Berhad, with the issuance of 4 sukuks worth RM2.2b with tenures between 18 to 22 years and coupon rates ranging 4.04% to 4.12%. The second largest issuer was DanaInfra Nasional Berhad, issuing 5 sukuks worth RM2.0b with tenures between 13 to 20 years and coupon rates from 3.95% to 4.31%. Corporate issuers in Oct-24 were from various sectors such as financial & banking, transport & storage, real estate, industrial and energy & utilities.

Table 3: New Corporate Bonds Issuance

Issuer Name	Issued Amount (RM million)	Rating
Prasarana Malaysia Berhad	2,200.0	NR(LT)
DanaInfra Nasional Berhad	2,000.0	NR(LT)
PRIMA Corporation Malaysia	1,000.0	NR(LT)
RHB Bank Berhad	800.0	AA1
YTL Power International Berhad	700.0	AA1
UEM Olive Capital Berhad	600.0	AA1
Poseidon ABS Berhad	536.0	NR(LT)
Imtiaz Sukuk II Berhad	500.0	AA2
Public Islamic Bank Berhad	500.0	AA1
SunREIT Bond Berhad (fka SunREIT Unrated Bond Berhad)	500.0	NR(LT)
SUNREIT Perpetual Bond Berhad	500.0	A1
Caqamas Berhad	400.0	AAA
Jakel Holdings Sdn Berhad	386.0	NR(LT)

Scientex Quatari Sdn Berhad	330.0	NR(LT)
Hap Seng Management Sdn Berhad	300.0	NR(LT)
Mercedes-Benz Services Malaysia Sdn Berhad	300.0	AAA
Bank Islam Malaysia Berhad	250.0	A3
Gas Malaysia Distribution Sdn Berhad	200.0	AAA
Pac Lease Berhad	100.0	AA2
Sunway Treasury Sukuk Sdn Berhad	100.0	AA3
ParkCity Damansara Sdn Berhad	80.0	NR(LT)
Paramount Corporation Berhad	50.0	NR(LT)
Tomei Gold & Jewellery Holdings (M) Sdn Berhad	40.0	NR(LT)
Radimax Group Sdn Berhad	35.0	NR(LT)
Sharp Ventures Solar Sdn Berhad	30.0	NR(LT)
Magma Group Berhad (fka Impiana Hotels Berhad)	15.0	NR(LT)
LBS Bina Holdings Sdn Berhad	11.4	NR(LT)
BGRB Venture Sdn Berhad	10.0	NR(LT)
Laksana Positif Sdn Berhad	6.2	NR(LT)
MQ Technology Berhad	4.5	NR(LT)
Berjaya Yokohama Sdn Berhad	2.3	NR(LT)
Total	12,486.4	

Source: Bondstream, MIDFR

Movement in corporate bond yields would mirror govies. While the adjustment in market expectations caused the yields of government debt securities rising higher in Oct-24, we foresee yields for corporate bonds will continue to closely track the broad trend in the govies. We foresee the US Treasury yields will decline again as Fed continues to reduce the fed funds rate, and as a result we anticipate Malaysia's corporate bond yields will also adjust lower. This will be supported by the resumption in foreign fund inflows and therefore improving the liquidity condition in the domestic debt market. However, the recent correction suggests the intensification of geopolitical risks, the possibility of re-acceleration in inflation (amid still solid US economy and its aggregate demand) or in contrast the possibility of slower global growth outlook are among the downside risks that will keep yields higher than projected for a longer period.

Foreign Holdings of Malaysian Bonds


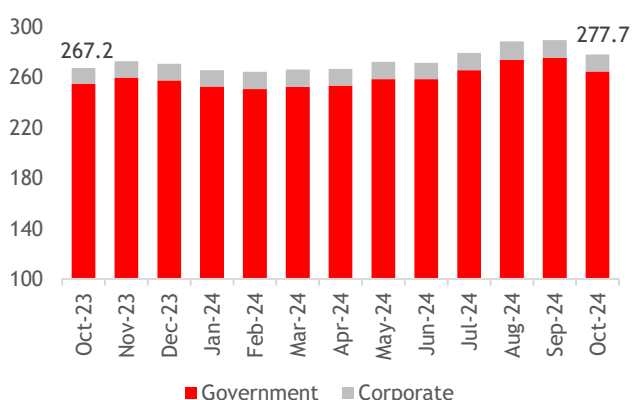
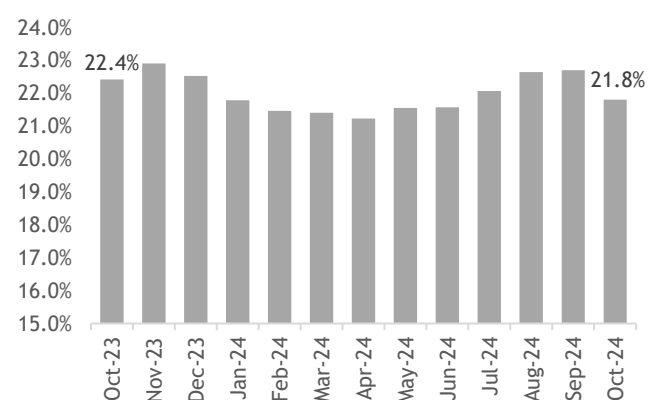
Lower foreign holdings of Malaysian bonds. The value of foreign holdings of Malaysian bonds declined to RM277.7b in Oct-24 (Sep-24: RM289.1b), registering the first fall in 4 months. Foreign inflow into Malaysia's debt market dropped by -RM11.4b from the previous month (Sep-24: +RM1.0b), more than reversing the number of inflows in the previous 2 months. With the amount of public debt securities and sukuk held by foreigners fell to RM264,5b (Sep-24: RM275.4b), the ratio of foreign holdings out of the total outstanding government bonds eased to 21.8% (Sep-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 of Malaysian debts remained at 95.2%. The decline was attributable to reduced holdings of both public debts (-RM10.9b) and Malaysian corporate bonds (-RM0.5b). 

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
29/10/2024	7-yr Reopening of MGII (Mat on 10/31)	4QCY24	October	30/10/2024	5,000.00		2.00
21/10/2024	20-yr Reopening of MGS (Mat on 05/44)	4QCY24	October	22/10/2024	3,000.00	2,000.00	2.04
14/10/2024	10-yr Reopening of MGII 11/34 4.119%	4QCY24	October	15/10/2024	4,500.00		1.60
7/10/2024	3-yr Reopening of MGS 05/27 3.502%	4QCY24	October	8/10/2024	4,500.00		1.61
	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	8,820.4
GII MURABAHAH 4/2015 3.990% 15.10.2025	6,421.8
MGS 2/2020 2.632% 15.04.2031	5,905.0
MGS 1/2015 3.955% 15.09.2025	5,238.2
GII MURABAHAH 6/2019 4.119% 30.11.2034	5,137.4
MGS 4/2019 3.828% 05.07.2034	4,525.0
GII MURABAHAH 2/2024 3.804% 08.10.2031	4,048.1
MGS 3/2007 3.502% 31.05.2027	3,947.0
MGS 2/2019 3.885% 15.08.2029	3,817.3
GII MURABAHAH 1/2022 4.193% 07.10.2032	1,998.5
Total	49,858.6

Source: Bondstream, MIDFR

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