14 January 2025

FIXED INCOME | December 2024 Fixed Income Review

MGS Yields Moved Higher in Dec-24 Amid Further Decline in Foreign Holdings

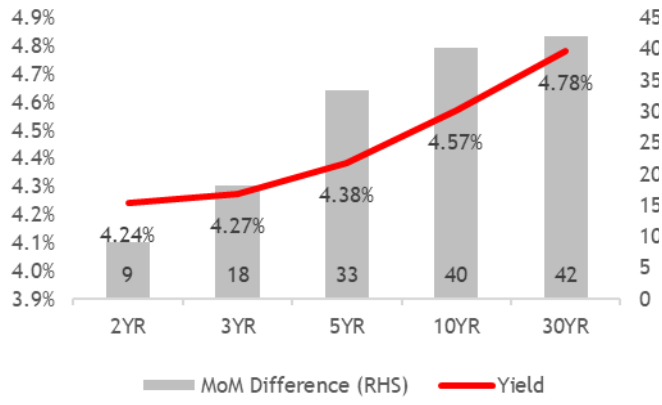
- *The UST yield curve shifted higher as the Fed's future path became less dovish. The 10-year UST jumped by +40bps last month, ending at 4.57% in Dec-24 (Nov-24: 4.17%), on the back of shifting market expectations towards a more delayed pace in fed fund rate cuts in 2025.*
- *10Y MGS yield was virtually unchanged from end-Nov-24. Although the benchmark 10-year MGS yield rose by +1bps to 3.81%, it was virtually unchanged from end-Nov-24. To a certain, the marginal increase in the yields reflected the effect of the continued outflows of foreign funds from the domestic debt market.*
- *10Y MGS target to move towards 3.60% by year-end. We reiterate our projection that the 10-year MGS yield would trend lower towards 3.60% by end-2025. As the trend in MGS yield moves more or less in tandem with the US treasury yield, we foresee the Fed's rate reduction will support foreign funds to flow back into the domestic debt market as the emerging markets could gain from the narrowing interest rate differentials.*
- *Foreign holdings of Malaysian bonds again in Dec-24. The value of foreign holdings of Malaysian bonds declined further to RM275.2b in Dec-24 (Nov-24: RM276.6b), falling for the 3rd straight month. Foreign outflows from Malaysia's debt market was slightly larger at -RM1.4b (Nov-24: -RM1.1b).*

US Treasury

UST yield curve shifted higher as the Fed's future path became less dovish. The 10-year UST jumped by +40bps last month, ending at 4.57% in Dec-24 (Nov-24: 4.17%). Meanwhile, higher yields were also recorded for other tenures, the 3-year UST yields increased the most by +42bps to +4.78%. As a result, the 3Y-10Y UST yield spreads widened by +30bps in Dec-24 (Nov-24: +8bps) last month, as yield pick-up was seen in most in the medium to longer tenure. The 10-year UST yield touched 4.69% on 27th December 2024, the highest level since end-Apr-24, on the back of shifting market expectations towards a more delayed pace in fed fund rate cuts in 2025. However, market expectations at the moment are anticipating a slower rate cut trajectory this year than previously expected with only 1 rate cut in the second half of the year. Meanwhile, the latest Dec-24 FOMC meeting minutes saw FOMC members signalling the potential upside risk to inflation outlook from uncertainty in terms of the trade and immigration policy, as part of President-elect Donald Trump's proposed policy shift. On top of that, the strength in the headline PCE inflation in recent months and continued resilience in the labour market led policymakers to adopt a less dovish stance.

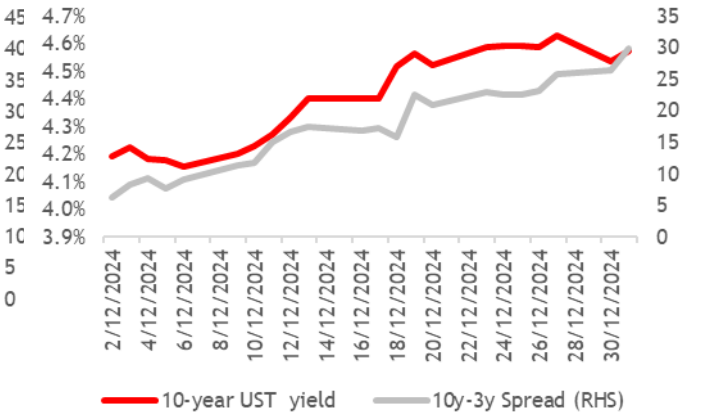
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Chart 1: UST Yields and MoM Difference (bps) at end Dec-24



Source: Bloomberg, MIDFR

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



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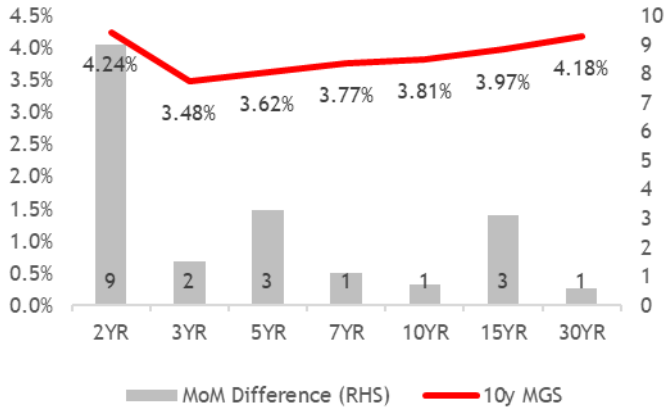
ource: Bloomberg, MIDFR

UST yield will remain elevated in the short run. We continue to foresee that the recent sell-off in the US treasuries to continue in the 1Q25 as we believe the labour market will continue to be resilient with upside risk to inflation outlook. This would lead FOMC members to be biased towards higher-for-longer interest rate trajectory. Therefore, we opine the rate cuts will likely continue in 2HCY25, hence causing UST yields to move lower in the latter part of the year. We remain cautious that the UST yields and interest rate outlook may remain elevated longer than expected pending greater clarity on planned changes in the government policies and the speed of their implementation. On the other hand, the pace of rate cuts could quicker if downside risk from the high interest rates causes the labour market and aggregate demand in the US to deteriorate.

Malaysian Government Bonds

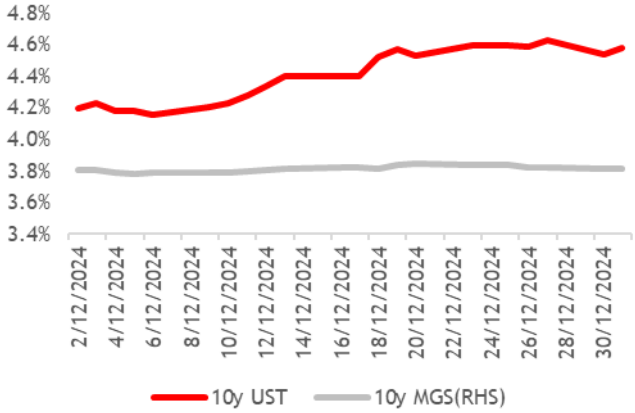
10Y MGS yield was virtually unchanged from end-Nov-24. Although the benchmark 10-year MGS yield rose by +1bps to 3.81%, it was virtually unchanged from end-Nov-24. To a certain, the marginal increase in the yields reflected the effect of the continued outflows of foreign funds from the domestic debt market. The movement of the MGS market continued to track the upward change in the US treasury yields, but the pace of increase in the MGS yields was not as much as the US treasury. Even Malaysia's 2-year MGS yields increased by +9bps to end the month at 4.24%. Although the 10-year MGS yield was rather stable in Dec-24, the average was lower at 3.81% compared to previous month (Nov-24: 3.86%). With OPR and inflation rate in Malaysia remained relatively stable, changes in the MGS yields continued to be influenced by developments in the financial markets. On the back of foreign fund outflows, negative net issuance and higher yields, the volume of government bonds traded declined further to a 6-month low of RM73.7b (Nov-24: RM83.9b). In addition, the top 10 traded government bonds accounted for a larger share at 48.0% (Nov-24: 51.3%) of total trade last month.

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



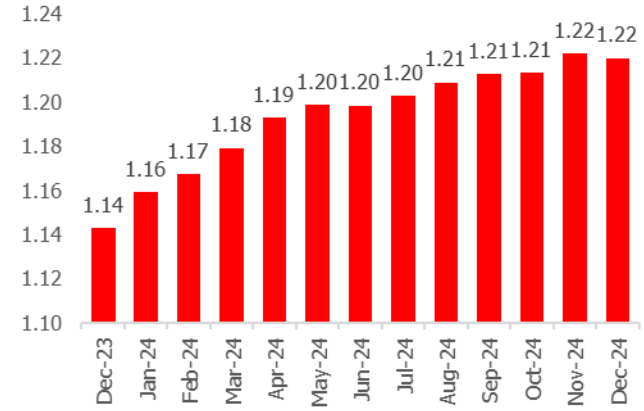
Source: Bloomberg, MIDFR

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



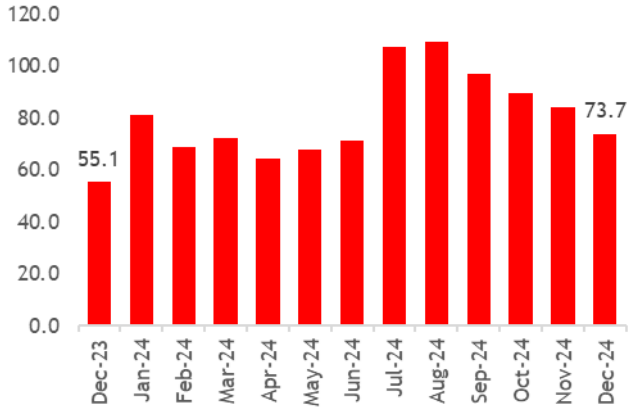
Source: Bloomberg, MIDFR

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 in Dec-24. New issuance of MGS/MGII was smaller at RM2.0b in Dec-24 (Nov-24: RM9.5b), with only 1 auction at the bid-to-cover (BTC) ratio at 2.02x (Nov-24: 2.34x) and without private placements. Net issuance turned negative at -RM2.0b in (Nov-24: +RM8.5b), as total redemption RM4.0b exceeded new issuance. Despite the negative net issuance, the value of outstanding government bonds remained around RM1.22t as at end-Dec-24.

10-year MGS target to move towards 3.60% by year-end. We reiterate our projection that the 10-year MGS yield would trend lower towards 3.60% by end-2025. As the trend in MGS yield moves more or less in tandem with the US treasury yield, we foresee the Fed's rate reduction will support foreign funds to flow back into the domestic debt market as the emerging markets could gain from the narrowing interest rate differentials. Fundamentally, continued push for structural reforms (including the government commitment to improve fiscal position) and sustained positive growth outlook will also attract more foreign funds into Malaysia. However, we noticed emerging risks to our forecast as the delayed rate cuts by the Fed, prolonged strength in the US dollar and renewed inflationary pressures would keep yields at around current level for a longer period, or at least in the short run.

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

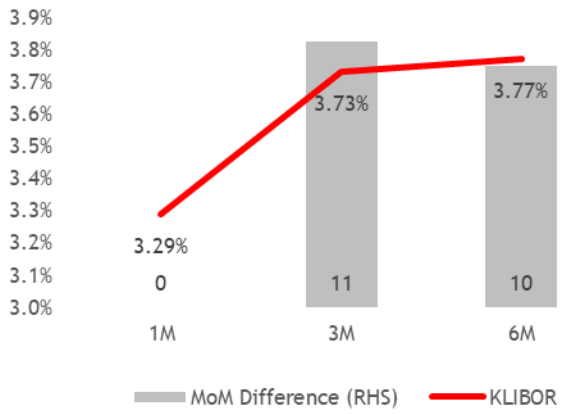
Indicator	3Q24	4Q24	1Q25f	2Q25f	3Q25f	4Q25f
Exchange Rate, vs USD (average)	4.46	4.40	4.41	4.32	4.19	4.08
Exchange Rate, vs USD (end-period)	4.12	4.47	4.40	4.31	4.22	4.03
10Y Government Bond Yield (average)	3.77	3.84	3.80	3.78	3.71	3.64
10Y Government Bond Yield (end-period)	3.72	3.84	3.78	3.74	3.69	3.60

Source: MIDFR

Interbank Money Market

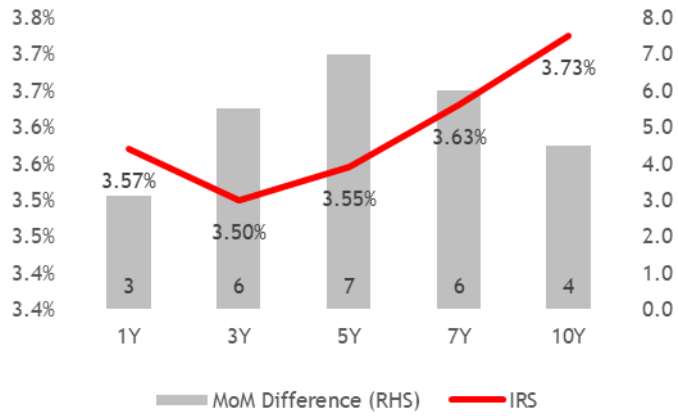
3M KLIBOR rose by 11bps. The KLIBOR interbank rate also increased, with the 3M and 6M KLIBOR rising by +11bps and 10bps to +3.73% and 3.77%, respectively. Similarly, the IRS market rates were broadly higher, where the medium and longer duration increased faster, with the 5-year and 7-year IRS rising by +7bps and +6bps, respectively. The Dec-24 increase in the IRS rates also reflected in the movement of the 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 somewhat higher at RM13.3b in Dec-24 (Nov-24: RM13.1b), but still lower than the average RM15.8b a month in 10MCY24. In with the rise in yields of public debt securities, the yields for rated securities also broadly increased between +1bps to +3bps in Dec-24, except the yields for longer-dated (i.e. AAA- and AA1-rated) corporate bonds which dropped -2bps to -5bps from end-Nov-24. The same trend was also observed for the non-rated securities, where the 1-year and 3 -year yields both increased by +8bps but longer-dated yields i.e. for 5-year to 10-year debts falling by -4bps to -9bps.

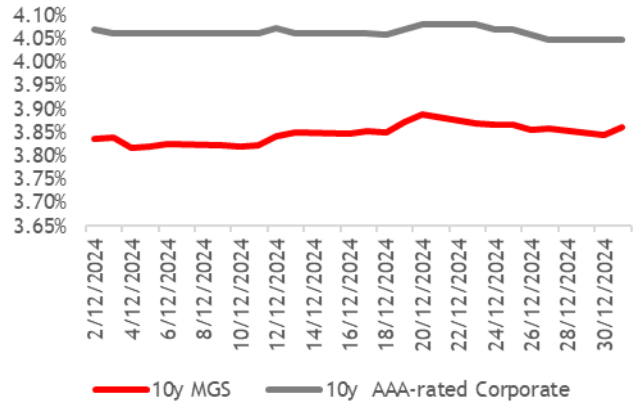
Table 2: Corporate Bond Yield and MOM Yield Change as at End-Dec-24

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	5.049	6.381	5.600	5.822	5.615	6.120

MOM Difference (bps)						
AAA	+3	+1	-1	+2	-2	-2
AA1	+3	+1	-1	+2	-2	-5
A1	+1	+2	+2	+1	-3	0
BBB1	+1	+1	+1	+2	+1	+1
Non-rated	+8	0	8	-4	-9	-4

Source: Bondstream, MIDFR

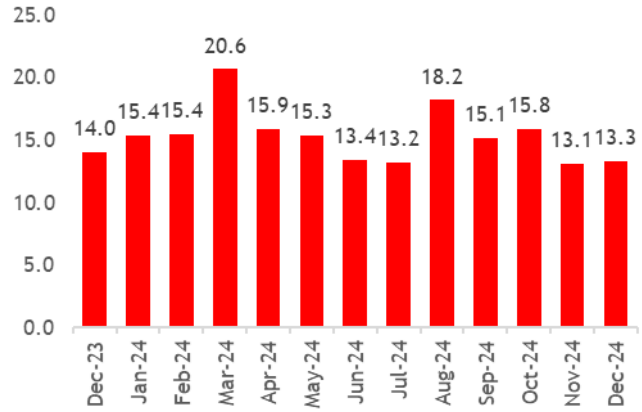
Chart 9: 10-Year AAA vs 10-Year MGS Yields (%)



urce: Bondstream, MIDFR

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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 RM8.8b in Dec-24 (Nov-24: RM13.2b). The largest issuance last month was by Sime Darby Enterprise Sdn Bhd, with the issuance of 4 sukuks worth RM1.5b with tenures between 1 to 6 years and coupon rates ranging 3.59% to 4.01%. The second largest issuer was Southkey Megamall Sdn Bhd, which issued 1 medium-term note worth RM1.0b with 3-year tenure and coupon rate at 4.39%. Corporate issuers in Dec-24 were from various sectors such as consumer discretionary, real estate, professional services, transport & storage, industrials and professional services.

Table 3: New Corporate Bonds Issuance

Issuer Name	Issued Amount (RM million)	Rating
Sime Darby Enterprise Sdn Berhad	1,500.0	NR(LT)
Southkey Megamall Sdn Berhad	1,000.0	NR(LT)
Suria KLCC Sdn Berhad	600.0	AAA
Cagamas Berhad	500.0	AAA
Public Bank Berhad	500.0	AA1
Projek Lebuhraya Usahasama Berhad	400.0	AAA
Gamuda Land (Botanic) Sdn Berhad (fka Harum Intisari Sdn Berhad)	324.0	NR(LT)
Exsim Capital Resources Berhad	310.0	AA3
SunREIT Bond Berhad (fka SunREIT Unrated Bond Berhad)	300.0	NR(LT)
Hap Seng Management Sdn Berhad	300.0	NR(LT)
Pinnacle Yields Sdn Berhad	273.8	NR(LT)
Mah Sing Group Berhad	250.0	NR(LT)
FGV Holdings Berhad (fka Felda Global Ventures Holdings Berhad)	200.0	NR(LT)
Evyap Sabun Malaysia Sdn Berhad	200.0	AA2
Keyfield International Berhad	200.0	AA3
IGB Berhad	200.0	NR(LT)
Berjaya Langkawi Beach Resort Sdn Berhad	196.0	NR(LT)
Sunway Education Capital Sdn Berhad	192.0	NR(LT)
WCT Holdings Berhad	150.0	A1
KIP REIT Capital Sdn Berhad	148.0	NR(LT)
Malayan Banking Berhad	120.0	AAA
OSK I CM Sdn Berhad	105.0	NR(LT)
Sunway Velocity Mall Sdn Berhad	100.0	NR(LT)
WM Senibong Capital Berhad	100.0	AA3
BGSM Management Sdn Berhad	100.0	AA3
Tradewinds Hotels & Resorts Sdn Berhad	76.8	NR(LT)
GENM Capital Berhad	75.0	AA1

Prudential BSN Takaful Berhad	60.0	NR(LT)
West Coast Expressway Sdn Berhad	56.0	NR(LT)
Global Vision Logistics Sdn Berhad	50.0	NR(LT)
Perdana ParkCity Sdn Berhad	38.0	NR(LT)
Jakel Holdings Sdn Berhad	36.9	NR(LT)
Konsortium KAJV Sdn Bhd	35.0	AA3
BGRB Venture Sdn Berhad	24.2	NR(LT)
Wira Pertiwi Sdn Berhad	20.0	NR(LT)
Setia Alamsari Sdn Berhad (fka KL East Sdn Berhad)	11.5	NR(LT)
SIBS Sdn Berhad	10.0	AA3
Magma Group Berhad (fka Impiana Hotels Berhad)	7.5	NR(LT)
Titijaya Land Berhad	1.0	NR(LT)
AME Capital Sdn Berhad	1.0	AA3
Total	**8,771.6**	

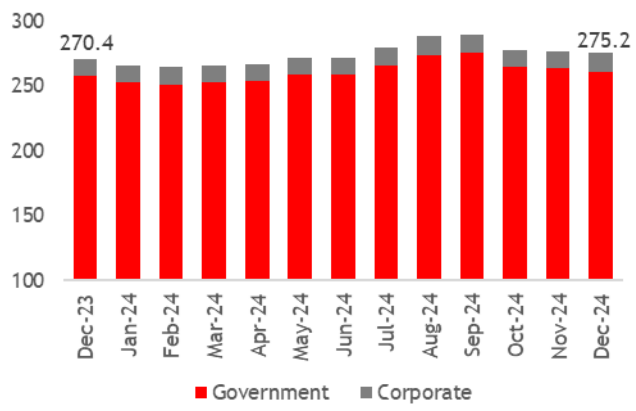
Source: Bondstream, MIDFR

Corporate bond yields to move lower, mirroring govvies. While the adjustment in market expectations caused the yields of government debt securities to move higher in Dec-24, we foresee yields for corporate bonds will continue to closely tracking the movement in the govvies. As we anticipate MGS yields to decline, we also anticipate Malaysia's corporate bond yields will also adjust lower this year. This will be supported by the resumption in foreign fund inflows and therefore improved liquidity condition in the domestic debt market. However, the recent correction suggests the possible re-acceleration in price increases (amid resilient US economy and planned policy changes by the incoming US administration) or, on the other hand, the risk of slower global growth outlook are among downside risks that will keep yields of debt securities higher than projected for an extended period.

Foreign Holdings of Malaysian Bonds

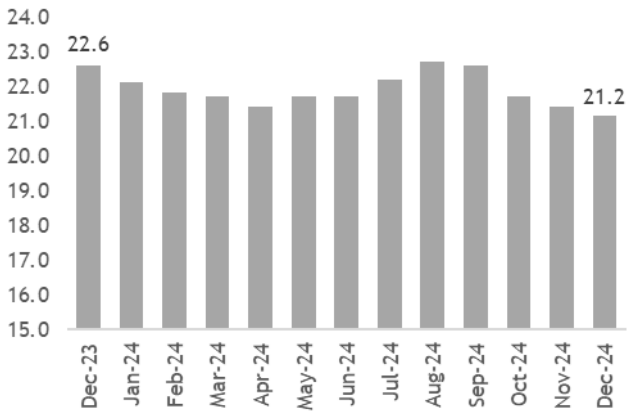
Foreign holdings of Malaysian bonds again in Dec-24. The value of foreign holdings of Malaysian bonds declined further to RM275.2b in Dec-24 (Nov-24: RM276.6b), falling for the 3rd straight month. Foreign outflows from Malaysia's debt market was slightly larger at -RM1.4b (Nov-24: -RM1.1b), still relatively smaller than -RM11.4b outflows in Oct-24. With the amount of public debt securities and sukuk held by foreigners shrinking to RM260.2b in Dec-24 (Nov-24: RM263.4b) which was the lowest in 6 months, the ratio of foreign holdings out of the total outstanding government bonds also fell further to 21.2% (Nov-24: 21.4%), still below the pre-pandemic level (2019 average: 23.1%) and lower than 22.6% a year ago. In line with that, the size of government bonds in the total foreign holdings of Malaysian debts decreased to 94.6% (Nov-24: 95.2%). The decline was mainly attributable to reduced foreign holdings of public debts (-RM3.2b) vis-à-vis increased holdings of Malaysian corporate debts (+RM1.8b).

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
18/11/2024	5-yr Reopening of MGII 07/29 4.130%	4QCY24	November	19/11/2024	4,500.00		2.00
11/11/2024	15-yr Reopening of MGS (Mat on 04/39)	4QCY24	November	12/11/2024	3,000.00	2,000.00	2.67
06/12/2024	10-yr Reopening of MGS 07/34 3.828%	4QCY24	December	9/12/2024	2,000.00		2.02
	3-yr Reopening of MGII 07/28 3.599%	1QCY25	January				
	30-yr Reopening of MGS 03/53 4.457%	1QCY25	February				
	7-yr Reopening of MGII 10/31 3.804%	1QCY25	February				
	20-yr Reopening of MGS 05/44 4.180%	1QCY25	February				
	5.5-yr New Issue of MGII (Mat on 08/30)	1QCY25	February				
	15-yr Reopening of MGS 04/39 4.054%	1QCY25	March				
	30-yr Reopening of MGII 03/54 4.280%	1QCY25	March				
	10-yr Reopening of MGS 07/34 3.828%	1QCY25	March				

Table 5: Top Traded Government Bonds

Stock Name	Traded Amount (RM million)
MGS 1/2018 3.882% 14.03.2025	8,604.69
MGS 2/2020 2.632% 15.04.2031	4,095.75
MGS 1/2015 3.955% 15.09.2025	4,000.61
MGS 4/2019 3.828% 05.07.2034	3,050.83
GII MURABAHAH 4/2015 3.990% 15.10.2025	2,824.18
GII MURABAHAH 6/2019 4.119% 30.11.2034	2,775.63
MGS 2/2019 3.885% 15.08.2029	2,696.35
GII MURABAHAH 1/2019 4.130% 09.07.2029	2,586.48
GII MURABAHAH 2/2024 3.804% 08.10.2031	2,343.85
GII MURABAHAH 2/2023 4.291% 14.08.2043	2,288.12
Total	**35,266.49**

Source: Bondstream, MIDFR

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