UST Treasury Shifted Lower as Less Rate Cuts is Expected for This Year

JAN-25 FIXED INCOME REVIEW



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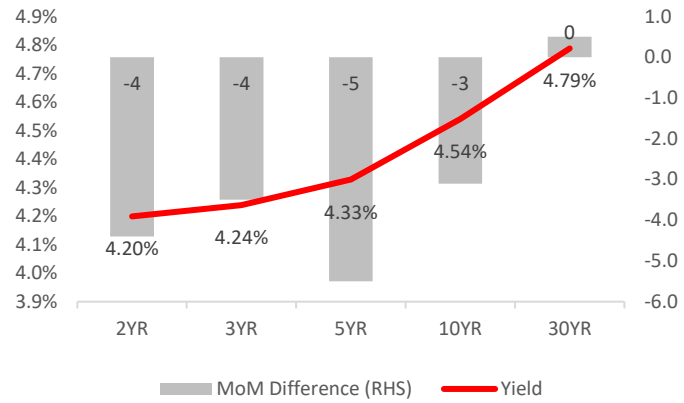
- The UST yield curve shifted lower as the Fed's future path became less dovish. The 10-year UST yield declined by -3bps last month, ending at 4.54%. As a result, the 3Y-10Y yield spreads widened by +30.2bps in Jan-25 (Dec-24: 29.8bps) last month, as the yield curve shifted lower throughout the month.
- 10Y MGS yield was shifted lower last month. The MGS yield curve shifted lower last month tracking the movement in the UST market due to the risk-off sentiment in the UST market. The movement of the MGS market continued to track the change in the US treasury yields, but the pace of decrease in the MGS yields was not as much as the US treasury.
- 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.
- Foreign holdings of Malaysian bonds increased in Jan-25. MGS foreign holdings increased month-on-month to RM276b in January 2025 from RM275b in December 2024. The latest reading in Jan-25 was higher than RM265b a year ago in Jan-24. Foreign inflows into Malaysia's debt market were slightly higher at RM1.1b (Dec: -RM1.3b).

US Treasury

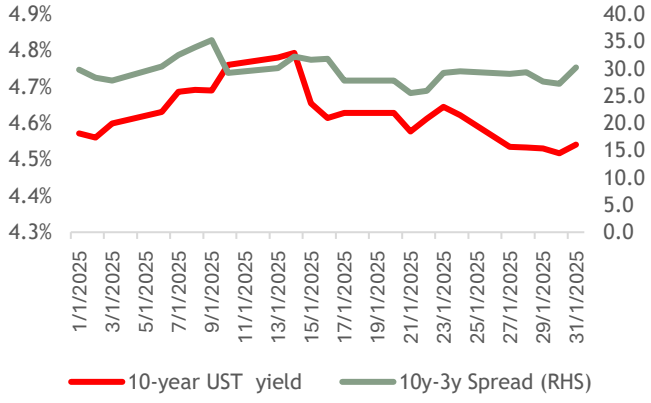
The UST yield curve shifted lower as the Fed's future path became less dovish. The 10-year UST yield declined by -3bps last month, ending at 4.54%. The 3Y-10Y yield spread, however, widened to +30.2bps in Jan-25 (Dec-24: +29.8bps) following the relatively sharp fall of -4bps in the 3-year UST yield. The 10-year yield touched 4.79% on the 6th of January 2025, the highest level since end-Apr-24, on the back of shifting market expectations towards a further delayed pace of the fed fund rate cuts in 2025. However, the market continued to expect that the rate cut will happen in 2H25. Meanwhile, the latest economic data has continued to indicate that the labour market remained resilient, and inflation continued to remain sticky. Meanwhile, the market also reacted defensively as President Donald Trump signing several executive orders and implemented protectionist trade policies against its trading partners. Meanwhile, coming out from the Jan-25 FOMC, Jerome Powell has reiterated that the Fed is not in a hurry to cut rates this year.

Chart 1: UST Yields and MoM Difference (bps) at the end of Jan-25



Source: Macrobond, MIDFR

Chart 2: 10y UST Yield vs 10y-3y Yield Spread (bps) in Jan-25



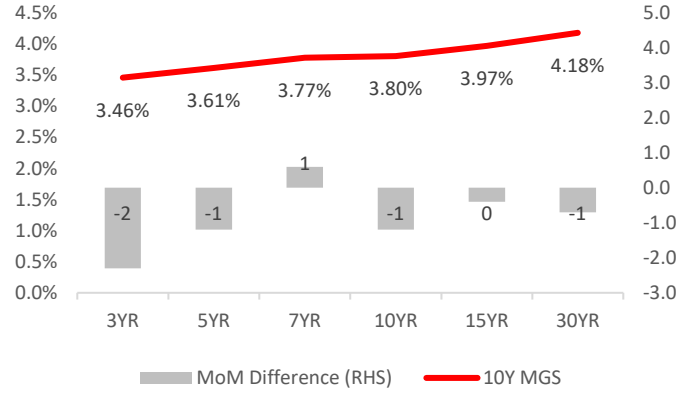
Source: Macrobond, MIDFR

UST yield to remain elevated in the short run. We continue to foresee that the recent selloffs in the US treasuries to continue in the 1Q25 as we anticipate upside risk to inflation outlook amid continued resilience in the labour market. The FOMC members are likely to favour maintaining higher interest rates for longer, suggesting continued rate cuts in the second half of 2025 and lower UST yields. However, this view will be distorted when investors turn defensive due to the rising political risk and the policy uncertainty. Our base case scenario is for rate cuts to continue in 2HCY25, leading to lower UST yields. However, significant uncertainty exists regarding planned policy changes by the US government and their implementation, which could prolong the period of elevated yields. A downside risk scenario, where high interest rates significantly impact the US labour market and aggregate demand, could lead to more rapid rate cuts.

Malaysian Government Bonds

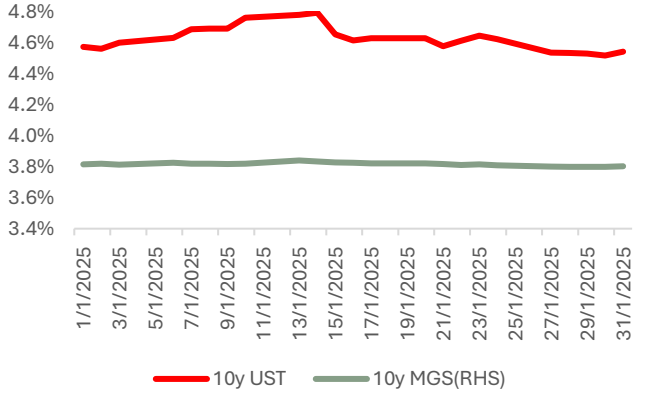
10Y MGS yield was shifted lower last month. The MGS yield curve shifted lower last month tracking the movement in the UST market due to the risk-off sentiment in the UST market. The movement of the MGS market continued to track the change in the US treasury yields, but the pace of decrease in the MGS yields was not as much as the US treasury. The 3-year MGS yield declined by -2bps and ended the month at +3.46%. Meanwhile, the 10-year MGS yield closed slightly lower by -1bps to +3.80% The 10-year yield was stable in Jan-25, averaging around 3.81%. With OPR and inflation rate in Malaysia remaining relatively stable, changes in the MGS yields continued to be more influenced by developments in the financial markets. On the back of foreign fund inflows, positive net issuance and slightly lower yields, the volume of government bonds traded increased to 4-month high of RM92.5b in Jan-25 (Dec-24: RM73.6b). In addition, the top 10 traded government bonds accounted for a larger share at 61.2% (Dec-24: 48.0%) of total government bonds traded last month.

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



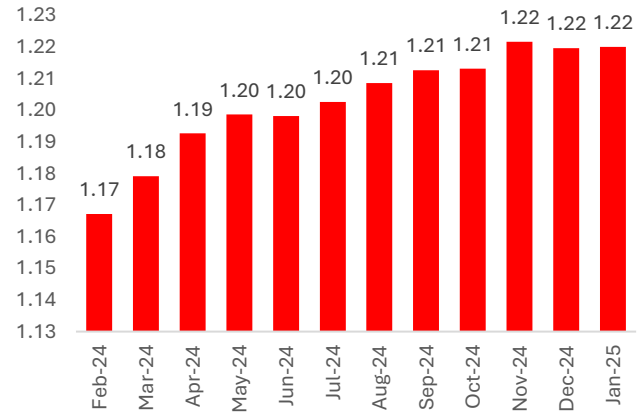
Source: Bloomberg, MIDFR

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



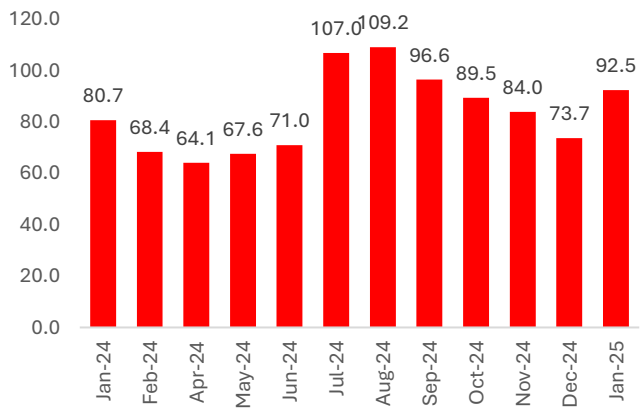
Source: Bloomberg, MIDFR

Chart 5: Outstanding Government Bonds (RM t)



Source: Bondstream, MIDFR

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



Source: Bondstream, MIDFR

Higher new issuance in Jan-25. Gross issuance of MGS/MGII was bigger at RM14.5b in Jan-25, with RM13.5b and RM1b additional issuance (Dec-24: RM2.0b), from 3 issuances. Auctions well received with the average BTC of 3.24x, supported by the strong BTC for the 15-year issuance. Total redemption of RM7.8b in Jan-25 and lower than new issuance for the month. The value of outstanding government bonds remained around RM1.22t as at end-Jan-25.

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 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 the current level for a longer period, or at least in the short run.

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

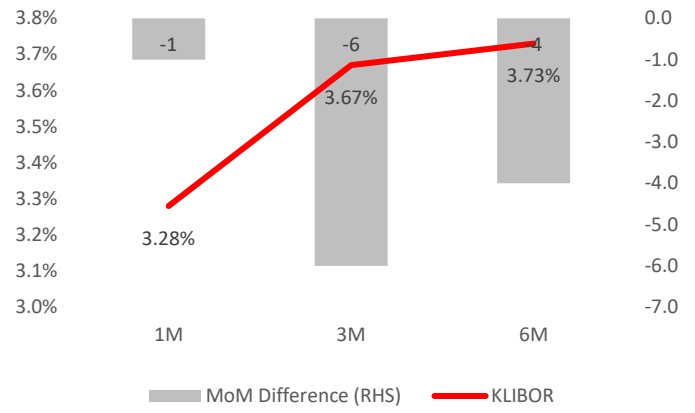
	1Q25f	2Q25f	3Q25f	4Q25f
Exchange Rate, vs USD (average)	4.41	4.32	4.19	4.08
Exchange Rate, vs USD (end-period)	4.40	4.31	4.22	4.03
10Y Government Bond Yield (average)	3.80	3.78	3.71	3.64
10Y Government Bond Yield (end-period)	3.78	3.74	3.69	3.60

Source: MIDFR

Interbank Money Market

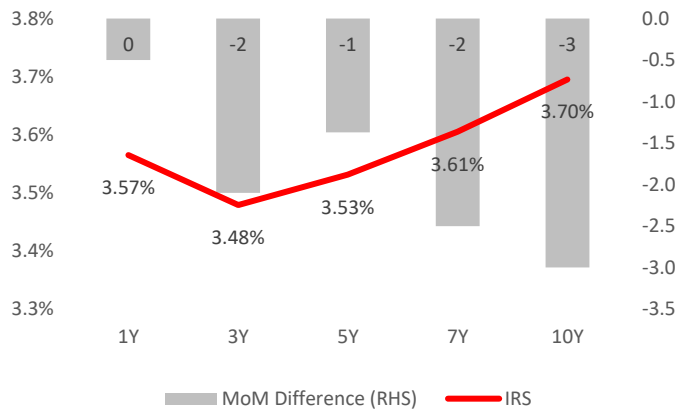
3M KLIBOR declined by -6bps. The KLIBOR interbank rate also declined, with the 3M and 6M KLIBOR declining by -6bps and -4bps, respectively. Similarly, the Jan-25 IRS market was broadly lower, where the medium and longer duration declined faster, with the 3-year, 5-year, 7-year, and 10-year decline by -2bps, -1bps, -2bps, and -3bps. The Jan-25 decline in the IRS rates is also reflected in the movement of the MGS yields.

Chart 7: KLIBOR and MOM Difference (bps)



Source: Macrobond, MIDFR

Chart 8: IRS and MOM Difference (bps)



Source: Macrobond, MIDFR

Corporate Bonds

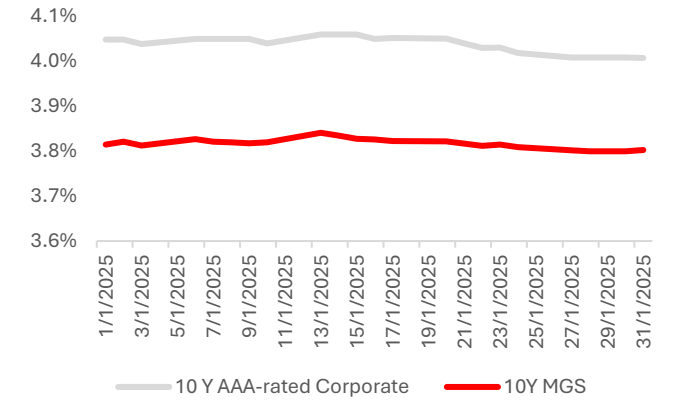
The volume of corporate bonds traded declined. The volume of traded corporate bonds (and BNM) was somewhat lower at RM10.0b in Jan-25 (Dec-24: RM13.3b), but still lower than the average RM15.3b a month in 2024. As the public debt securities rallied last month, the yields for rated securities also broadly declined especially in the AAA and AA1 for the 3-year and above tenor, between -1 to -5bps lower. Mixed movements were observed for the non-rated securities, where the 2-year, 3-year, and 10-year declined by -77bps, -24bps, and -9bps lower. Meanwhile, the 5-year and the 7-year yields increase by +1bps and +6bps.

Table 2: Corporate Bond Yield and MOM Yield Change as at End-Jan-25

	1Q24	2Q24	3Q24	4Q24	1Q24	2Q24
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	4.73	4.999	5.29	5.65
BBB1	5.746	6.31	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	-2	+0	-1	-5	-4	-4
AA1	-2	+0	-0	-4	-3	-2
A1	-0	+1	+1	+1	-0	+1
BBB1	+0	+0	+0	+0	+1	+1
Non-rated	+137	-77	-24	+1	+6	-9

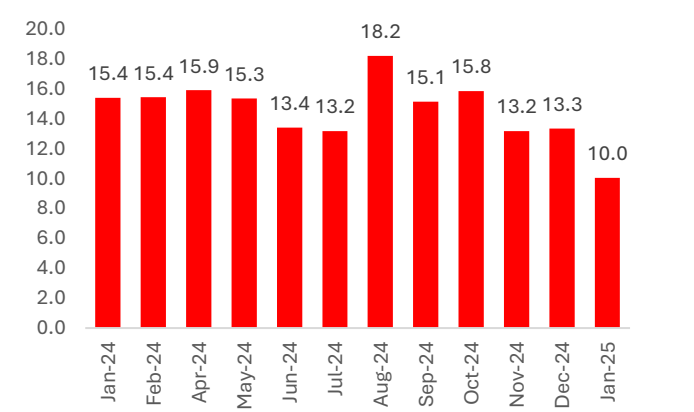
Source: Bondstream, MIDFR

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



Source: Macrobond, MIDFR

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



Source: Macrobond, MIDFR

Relatively lower new issuance of corporate bonds. Primary issuance of corporate bonds was relatively lower at RM4.1b in Jan-25 (Dec-24: RM8.8b). The largest issuance last month was by Danum Capital, with the issuance of worth 2.5b with a 10-year issuance with a coupon rate of 4.0%. The second largest issuance was Projek Leburaya Usahasama Berhad with 2 issuances of 7 year and 10 years with the total worth of RM400m, with the 7 year coupon of 4.01% and 4.03%. Corporate issuers in Jan-25 were from various sectors such a transportation, real estate, retail, financial services, industrial goods and services, and travel and leisure.

Table 3: New Corporate Bonds Issuance

	Issued Amount (RM million)	Rating
Projek Lebuhraya Usahasama Berhad	150,000,000	AAA
Projek Lebuhraya Usahasama Berhad	250,000,000	AAA
Naza TTDI Capital Berhad	75,000,000	NR(LT)
Jakel Holdings Sdn Berhad	2,090,000	NR(LT)
Jakel Holdings Sdn Berhad	3,130,000	NR(LT)
Jakel Holdings Sdn Berhad	20,890,000	NR(LT)
Jakel Holdings Sdn Berhad	5,390,000	NR(LT)
Berjaya Yokohama Sdn Berhad	1,350,000	NR(LT)
Magma Group Berhad (fka Impiana Hotels Berhad)	5,000,000	NR(LT)
MEX I Capital Berhad (formerly known as Bright Focus Berhad)	150,000,000	NR(LT)
YTL REIT MTN Sdn Berhad	10,000,000	NR(LT)
Danum Capital Berhad	2,500,000,000	AAA
Hap Seng Management Sdn Berhad	75,000,000	NR(LT)
Hap Seng Management Sdn Berhad	90,000,000	NR(LT)
Hap Seng Management Sdn Berhad	135,000,000	NR(LT)
LBS Bina Group Berhad	400,000,000	AA3
Tradewinds Hotels & Resorts Sdn Berhad	13,500,000	NR(LT)
Tradewinds Hotels & Resorts Sdn Berhad	12,720,000	NR(LT)
Tradewinds Hotels & Resorts Sdn Berhad	10,700,000	NR(LT)
Tradewinds Hotels & Resorts Sdn Berhad	18,500,000	NR(LT)
Global Vision Logistics Sdn Berhad	50,000,000	NR(LT)
OSK I CM Sdn Berhad	100,000,000	NR(LT)
Total	**4,078.2**	

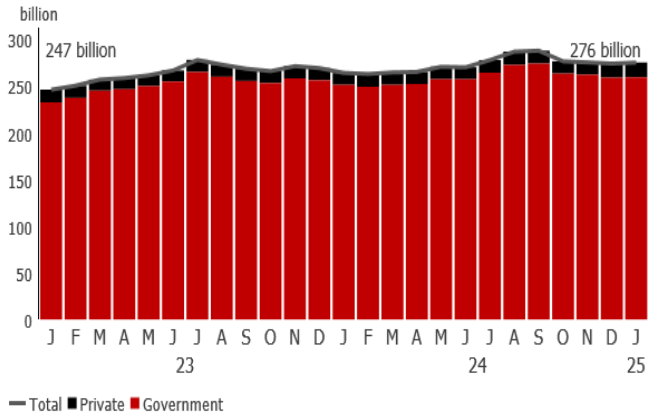
Source: Bondstream, MIDFR

Corporate bond yields to move lower, mirroring govvies. Market expectations shifted in January 2025, leading to lower government debt security yields. However, we project that corporate bond yields will continue to closely track these government bond movements. With MGS yields expected to decline, we anticipate a similar downward trend for Malaysian corporate bond yields in the coming year. This should be further supported by a resumption of foreign fund inflows, leading to improved liquidity in the domestic debt market, as the Federal Reserve is expected to cut the rate in the 2HCY25. Despite current projections, several downside risks could keep debt security yields elevated for an extended period. These include the possibility of renewed price acceleration driven by a strong US economy and planned policy changes under the new US administration. Additionally, a weaker global growth outlook also poses a downside risk to current yield projections.

Foreign Holdings of Malaysian Bonds

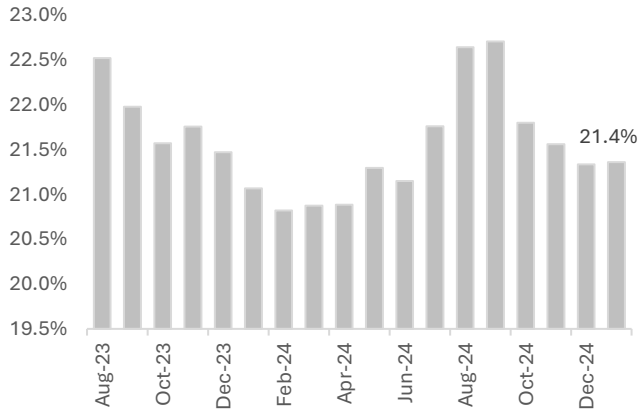
Foreign holdings of Malaysian bonds increased in Jan-25. MGS foreign holdings increased month-on-month to RM276b in January 2025 from RM275b in December 2024. The latest reading in Jan-25 was higher than RM265b a year ago in Jan-24. Foreign inflows into Malaysia's debt market were slightly higher at RM1.1b (Dec: -RM1.3b), reversing the three months of foreign outflows since Oct-24. With the amount of public debt securities and sukuk held by foreigners increasing to RM260.6 in Jan-25 (Dec-24: 260.2b), still the second lowest in the past 7 months, the ratio of foreign holdings out of the total outstanding government bonds also fell further to 21.8% (Dec-24: 21.1%), 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 94.3% (Dec-24: 94.6%). The increase was mainly attributable to reduced foreign holdings of public debts (+RM0.4b) vis-à-vis increased holdings of Malaysian corporate debts (+RM0.7b).

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



Source: Macrobond, MIDFR

Chart 12: Share of Foreign Holdings of MGS/GII (%)



Source: Macrobond, MIDFR

APPENDICES

Table 4: MGS/GII Auctions Calendar

Tender Date	Issues	Quarter	Month	Issue Date	Issuance (RM million)	Private Placement (RM million)	BTC (Times)
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
8/1/2025	7-yr Reopening of MGS 07/32 3.582%	1QCY24	January	8/1/2025	5,000.00		2.80
15/1/2025	15.5-yr New Issue of MGII (Mat on 07/40)	1QCY24	January	15/1/2025	3,000.00	1,000.00	4.28
24/1/2025	3-yr Reopening of MGII 07/28 3.599%	1QCY24	January	24/1/2025	5,500.00		2.62
6/2/2025	30-yr Reopening of MGS 03/53 4.457%	1QCY24	February	6/2/2025	2,500.00	2,000.00	2.36
13/2/2025	7-yr Reopening of MGII 10/31 3.804%	1QCY24	February	13/2/2025	5,000.00		2.86
	20-yr Reopening of MGS 05/44 4.180%	1QCY24	February				
	5.5-yr New Issue of MGII (Mat on 08/30)	1QCY24	February				
	15-yr Reopening of MGS 04/39 4.054%	1QCY24	March				
	30-yr Reopening of MGII 03/54 4.280%	1QCY24	March				
	10-yr Reopening of MGS 07/34 3.828%	1QCY24	March				

Table 5: Top Traded Government Bonds

Stock Name	Traded amount
GII MURABAHAH 1/2023 3.599% 31.07.2028	2,031.24
GII MURABAHAH 1/2023 3.599% 31.07.2028	1,129.57
MGS 3/2007 3.502% 31.05.2027	979.84
MGS 1/2022 3.582% 15.07.2032	931.75
MGS 1/2018 3.882% 14.03.2025	902.74
MGS 1/2022 3.582% 15.07.2032	882.4
MGS 1/2015 3.955% 15.09.2025	828.9
Total	10, 012.7

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