MGS Moved Lower as More Rate Cuts Expected this Year in the US

FEB-25 FIXED INCOME REVIEW



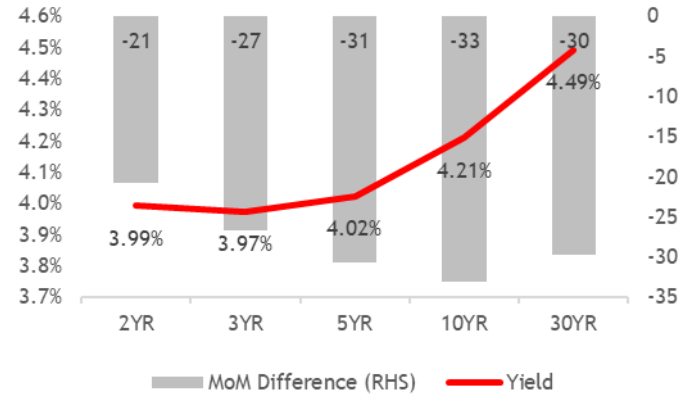
Author
MIDF Research
research@midf.com.my

- *UST yield curve shifted lower as market priced more rate cuts. The 10-year UST declined by -33bps lower last month, ending at 4.21%. As a result, the 3Y-10Y yield spreads tightened to +23.8bps in Feb-25 (Jan-25: +30.2bps) last month, as the yield curve shifted lower throughout the month.*
- *10Y MGS yield also declined last month. The MGS yield curve also declined last month, tracking the movement in the UST yields. However, the magnitude of decrease in the MGS yields was not as big as the US treasury, which came down more than the MGS market.*
- *We think that the 10-year target to move towards 3.60% by the year-end. Our projection remains that the 10-year MGS yield will decrease to 3.60% by the end of 2025. Given the close alignment between MGS and US Treasury yield movements, we anticipate that the Federal Reserve's rate reductions will encourage foreign capital inflows into the Malaysian debt market.*
- *Foreign holdings of Malaysian bonds were lower in Feb-25. MGS foreign holding increased month-on-month to RM275.3b in Feb-25 from RM276.4b in Jan-24. The latest reading in Feb-25 was higher than RM265.8b recorded a year ago in Mar-24.*

US Treasury

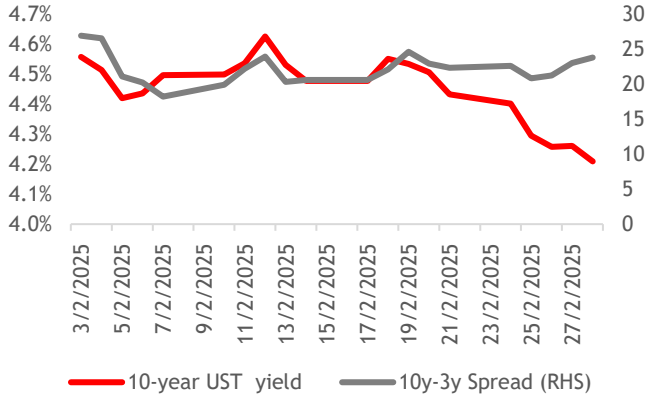
UST yield curve shifted lower as market priced more rate cuts. The 10-year UST declined by -33bps lower last month, ending at 4.21%. As a result, the 3Y-10Y yield spreads tightened to +23.8bps in Feb-25 (Jan-25: +30.2bps) last month, as the yield curve shifted lower throughout the month. The 10-year yield touched +4.62% on the 10th of February 2025, the highest level since mid-Jan-25, on the back of shifting market expectations for an additional rate for this year, with the potential of a third rate cut. However, the market continues to expect that the rate cut will start in the 2H25. Meanwhile, the latest economic data indicates that inflation remained sticky, and the labour market remains resilient. On top of the expectation for further cuts to continue, market players also reacted defensively on the back of the developments of the protectionist trade measures by the US and the retaliations by other countries.

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



Source: Macrobond, MIDFR

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



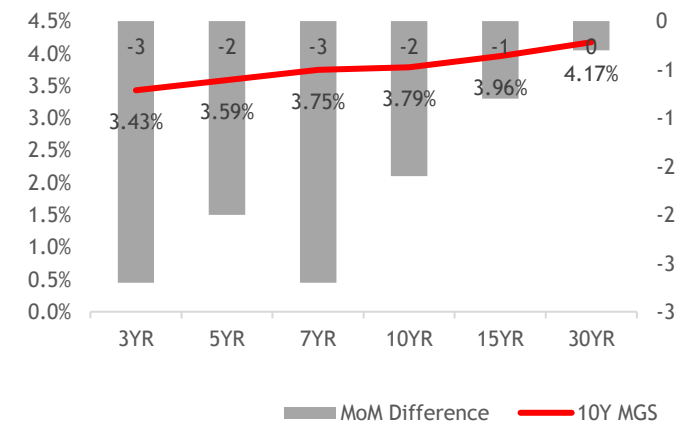
Source: Macrobond, MIDFR

UST yield to slightly ease in the short run. This expectation is largely influenced by the ongoing trade disputes involving Canada, Mexico, and China, which are fuelling concerns about a weakening US economy. Additionally, market sentiment has shifted towards predicting a lower Federal Funds Rate trajectory, with analysts now anticipating three rate cuts in 2025, beginning in the latter half of the year. However, we are wary of the persistent inflationary pressures in the US. New government policies could exacerbate these pressures, and a resilient labor market may further complicate further rate cuts by the Federal Reserve. Our primary outlook assumes rate reductions will commence in the second half of 2025, resulting in reduced UST yields. Nevertheless, the lack of clarity surrounding upcoming US government policy changes introduces significant risk, potentially leading to sustained higher yields if inflation remains an ongoing concern and rate cuts are postponed.

Malaysian Government Bonds

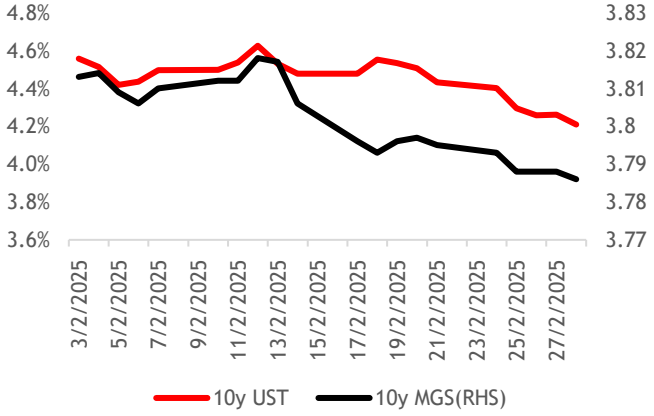
10Y MGS yield also declined last month. The MGS yield curve also declined last month, tracking the movement in the UST yields. However, the magnitude of decrease in the MGS yields was not as big as the US treasury, which came down more than the MGS market. The 3-year yield declined by -3bps to 3.43%, while the 10-year MGS yield closed by -2bps to 3.79%. The 10-year yield generally was stable in Feb-25, averaging around 3.80%. While Malaysia's OPR and inflation rate are expected to remain stable, we continue to expect that the MGS market will be influenced by the developments in the global financial markets, especially in the US. On the back of foreign fund inflows, positive net issuance and slightly lower yields, the volume of government bonds traded declined to RM91.9b in Feb-25 (Jan-25: RM 92.5b). In addition, the top 10 traded government bonds accounted for a smaller share of 17.6% (Jan-25: 61.2%) of total government bonds traded last month.

Chart 3: MGS Yield Curve and MoM Difference (bps) as at end-Feb-25



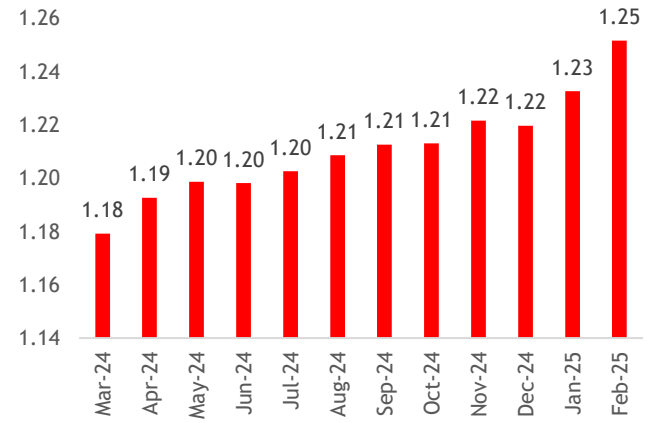
Source: Bloomberg, MIDFR

Chart 4: 10y MGS vs 10y UST Yields (%) in Feb-25



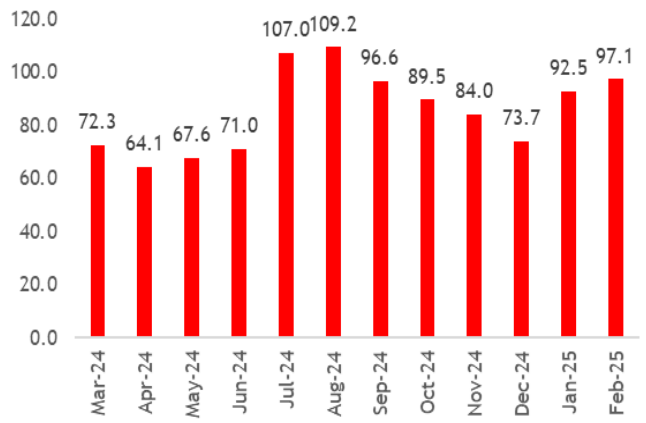
Source: Bloomberg, MIDFR

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 Feb-25. Gross issuance of MGS/MGII was bigger at RM19.5b in Feb-24 (Jan-25: 1RM4.5b), with RM15.5b and RM4.0b additional issuance (Jan-25: RM1.0b), from 4 issuances. Auctions demand was slightly moderate, with an average BTC of 2.84x (Jan-25: average 3.24x), which was supported by the strong BTC for the 5.5-year issuance. Total redemption of RM7.8b in Jan-25 and lower than new issuance for the month. here were no redemptions in Feb-2, while the value of outstanding government bonds remained around 1.25t as at the end-Feb-25.

We think that the 10-year target to move towards 3.60% by the year-end. Our projection remains that the 10-year MGS yield will decrease to 3.60% by the end of 2025. Given the close alignment between MGS and US Treasury yield movements, we anticipate that the Federal Reserve's rate reductions will encourage foreign capital inflows into the Malaysian debt market. This is driven by the reduced interest rate gap between emerging markets and developed economies. In addition, Malaysia's commitment to structural reforms, fiscal consolidation, and a robust economic outlook will further incentivize foreign investment. 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. However, recent development based on the futures market indicates that the global investors are pricing three rate cuts by the Federal Reserve for the rest of the year. This may lead to the UST to trend lower ending in 2025.

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

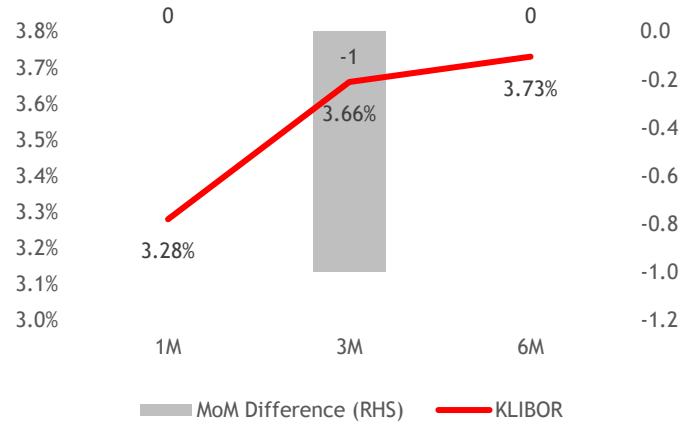
	1Q25f	2Q25f	3Q25f	4Q25f
Exchange Rate, vs USD (average)	4.41	4.32	4.19	4.08
Exchange Rate, vs USD (end-period)	4.40	4.31	4.22	4.03
10Y Government Bond Yield (average)	3.80	3.78	3.71	3.64
10Y Government Bond Yield (end-period)	3.78	3.74	3.69	3.60

Source: MIDFR

Interbank Money Market

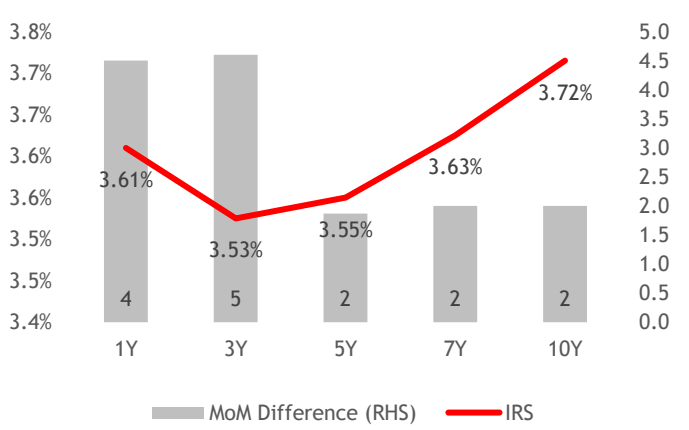
3M KLIBOR declined by -1bps. The KLIBOR interbank rate also declined, with the 3M KLIBOR declining by -21bps, while the 1M and the 6M remained unchanged. Similarly, the Jan-25 IRS market was broadly higher, where the shorter duration increased faster than the longer end, with the 1-year, 3-year, 5-year, 7-year, and 10-year increased by -4bps, -5bps, -2bps, -2bps, and -2bps. The Jan-25 increased in the IRS rates did not reflect 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

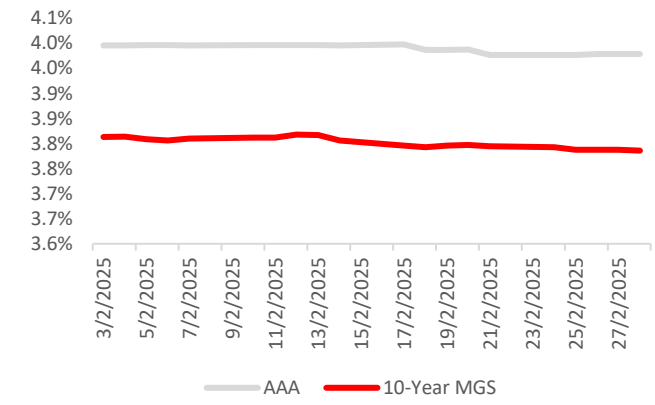
The volume of corporate bonds traded increased. The volume of traded corporate bonds (and BNM) was higher at RM16.5b in Feb-25 (Jan-25: RM10.0b), slightly higher than the average of RM15.4b a month in 2024. As the public debt securities rallied last month, the yields for rated securities broadly declined, especially in the AAA and AA1 for the 5-year and above tenor, between -3bps to -6bps lower. Within the non-rated securities, the yields move higher across all tenors, however, the 3-year yield increased the most by +22.0bps closing at 5.58%.

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

	1Y	2Y	3Y	5Y	7Y	10Y
AAA	3.621	3.738	3.792	3.833	3.905	3.979
AA1	3.701	3.808	3.873	3.934	4.006	4.091
A1	4.342	4.56	4.793	5.049	5.318	5.666
BBB1	5.756	6.33	6.88	7.573	8.312	9.204
Non-rated	6.458	5.671	5.574	5.861	5.669	6.051
MOM Difference (bps)						
AAA	-2	-2	-3	-6	-5	-3
AA1	-1	-3	-3	-6	-5	-4
A1	-1	-1	-1	-2	-1	-2
BBB1	+0	+0	-1	-1	+0	+0
Non-rated	+1	+6	+22	+2	-1	+2

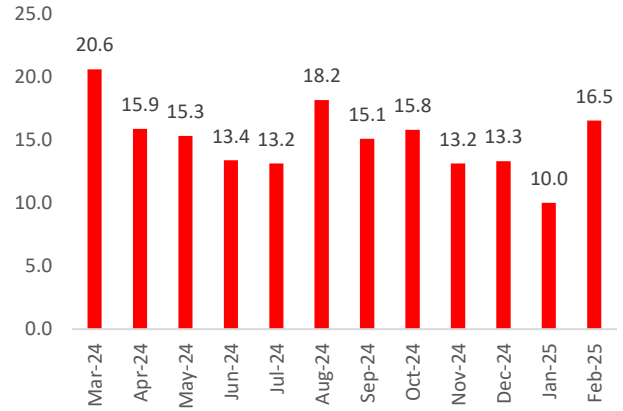
Source: Bondstream, MIDFR

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. Issuance of the corporate bonds was lower at RM1.4b in Feb-24 (Jan-25: RM4.1b). The largest issuance last month was by Cagamas Berhad, with the issuance worth RM1.0b with a 3-year issuance and the coupon rate of 3.81%. The second largest issuance was by Lembaga Pembiayaan Perumahan Sektor Awam with 2 issuances of 7-year and 10-year with the total worth of RM200mm and the coupon rate of 3.84% and 3.88%. Corporate issuers in Feb-25 were from various sectors such as financial, consumer staples, and public administration.

Table 3: New Corporate Bonds Issuance

	Issued Amount (RM million)	Rating
Cagamas Berhad	1,000,000,000	AAA
Puncak Selasih Sdn Berhad	2,100,000	NR(LT)
Puncak Selasih Sdn Berhad	2,100,000	NR(LT)
Puncak Selasih Sdn Berhad	2,100,000	NR(LT)
Puncak Selasih Sdn Berhad	2,100,000	NR(LT)
Puncak Selasih Sdn Berhad	2,100,000	NR(LT)
Puncak Selasih Sdn Berhad	2,100,000	NR(LT)
Puncak Selasih Sdn Berhad	2,100,000	NR(LT)
Puncak Selasih Sdn Berhad	2,100,000	NR(LT)
Puncak Selasih Sdn Berhad	2,100,000	NR(LT)
Puncak Selasih Sdn Berhad	8,325,000	NR(LT)
Puncak Selasih Sdn Berhad	8,325,000	NR(LT)
Puncak Selasih Sdn Berhad	8,175,000	NR(LT)
Puncak Selasih Sdn Berhad	2,100,000	NR(LT)
Puncak Selasih Sdn Berhad	2,100,000	NR(LT)
Puncak Selasih Sdn Berhad	8,325,000	NR(LT)
Puncak Selasih Sdn Berhad	8,325,000	NR(LT)
Puncak Selasih Sdn Berhad	8,325,000	NR(LT)
Lembaga Pembiayaan Perumahan Sektor Awam	200,000,000	NR(LT)
Lembaga Pembiayaan Perumahan Sektor Awam	200,000,000	NR(LT)
Total	**1, 472.9**	

Source: Bondstream, MIDFR

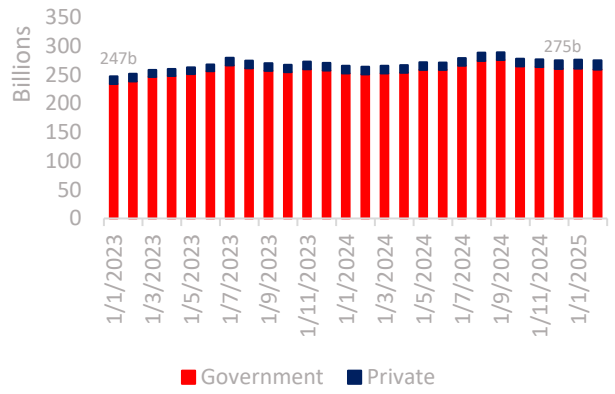
Corporate bond yields to move lower, mirroring govvies. Market expectation shifted in Feb-25, which led to the lower government debt security yields. Our projection indicates that corporate bond yields will maintain a strong correlation with MGS yield movements. As MGS yields are expected to decrease, we foresee a corresponding downward trajectory for Malaysian corporate bond yields throughout the next year. This trend will be reinforced by the expected return of foreign capital, enhancing

liquidity within the domestic debt market, particularly as the Federal Reserve is projected to implement rate reductions in the latter half of 2025. 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 the resilient US economy and the recent developments in policy changes under the US President Donald Trump administration. Additionally, a weaker global growth outlook also poses a downside risk to current yield projections.

Foreign Holdings of Malaysian Bonds

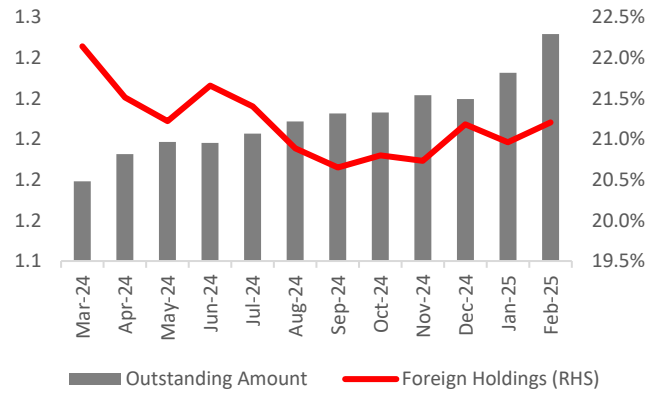
Foreign holdings of Malaysian bonds were lower in Feb-25. MGS foreign holding increased month-on-month to RM275.3b in Feb-25 from RM276.4b in Jan-24. The latest reading in Feb-25 was higher than RM265.8b recorded a year ago in Mar-24. Foreign inflows into Malaysia's debt market were slightly higher at RM 1.25b (Jan-24: 1.23b), the second month of increase after three months of foreign outflows. The amount of public debt securities and sukuk held by foreigners declined to RM258.8b in Feb-25 (Jan-25: 260.6b), still the lowest since Jul-24, the ratio of foreign holding out of the total outstanding government bonds slightly increased to 21.2% (Jan-25: 21.0), still below the pre-pandemic level (2019 average: 23.1%) and lower than 22.1% a year ago.

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
21/2/2025	20-yr Reopening of MGS 05/44 4.180%	1QCY24	February	21/02/2025	2,500.00	2,000.00	2.99
28/02/2025	5.5-yr New Issue of MGII (Mat on 08/30)	1QCY24	February	28/02/2025	5,500.00		3.16
10/03/2025	15-yr Reopening of MGS 04/39 4.054%	1QCY24	March	10/03/2025	3,000.00	1,000.00	3.02
14/03/2025	30-yr Reopening of MGII 03/54 4.280%	1QCY24	March	14/03/2025	3,000.00	2,000.00	3.08
	10-yr Reopening of MGS 07/34 3.828%	1QCY24	March				

Table 5: Top Traded Government Bonds

Stock Name	Traded amount (RM m)
MGS 1/2015 3.955% 15.09.2025	1,214.47
GII MURABAHAH 2/2024 3.804% 08.10.2031	1,013.38
MGS 1/2022 3.582% 15.07.2032	1,011.57
GII MURABAHAH 1/2023 3.599% 31.07.2028	995.05
MGS 1/2015 3.955% 15.09.2025	886.61
MGS 1/2015 3.955% 15.09.2025	864.92
MGS 3/2018 4.642% 07.11.2033	856.03
MGS 1/2015 3.955% 15.09.2025	825.8
MGS 1/2022 3.582% 15.07.2032	802.31
GII MURABAHAH 1/2023 3.599% 31.07.2028	800
Total	9, 270.14

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