

# Monthly Fixed Income Market Outlook

Global Markets

May 2024

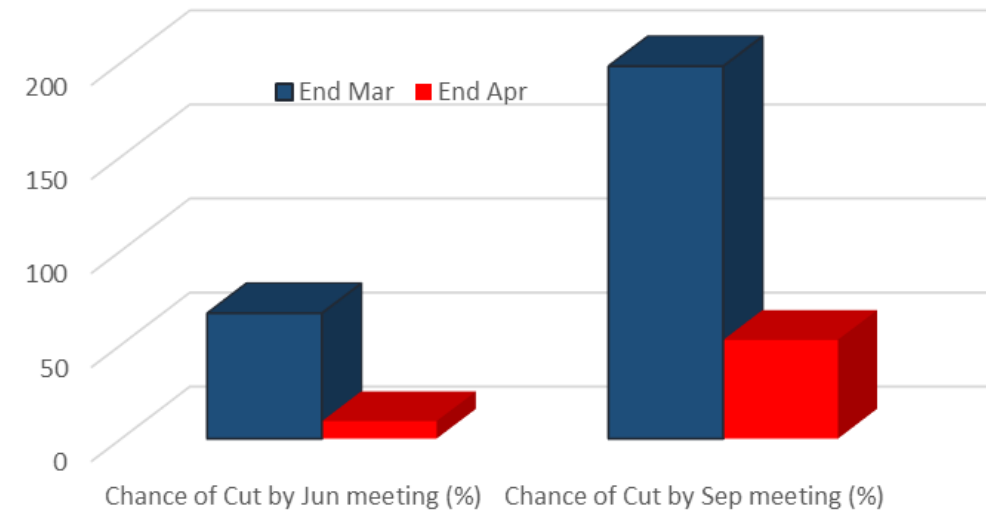
# April 2024 US Bond Market Review



Source: Bloomberg, HLBB Global Markets Research

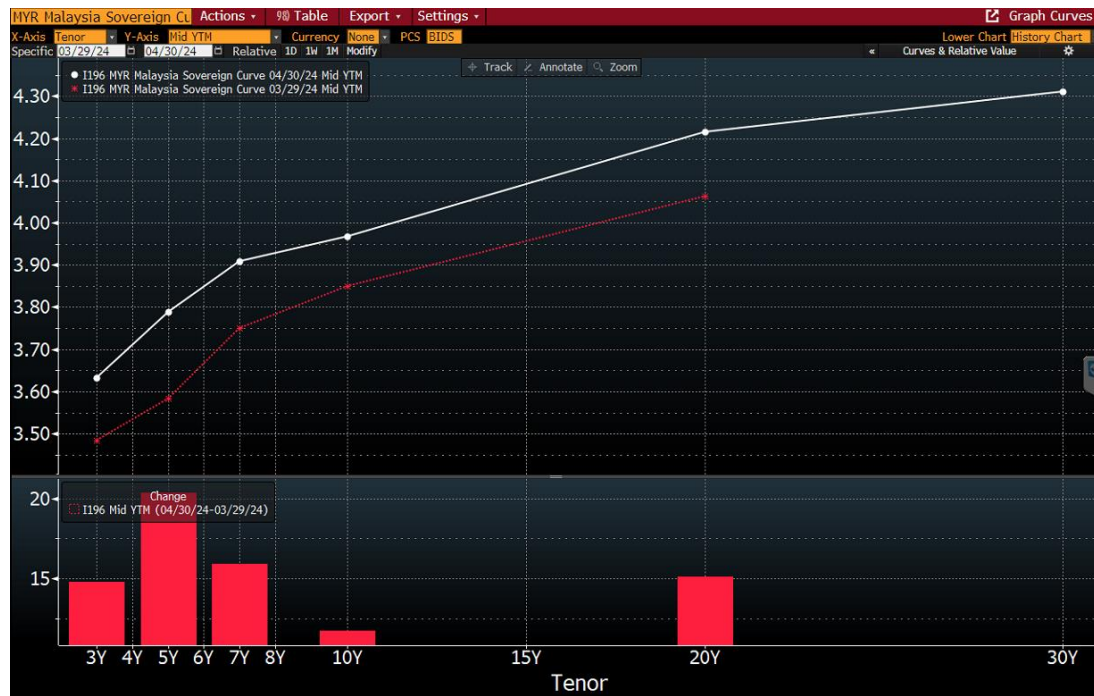
- UST yields surged in April and were higher across the curve for the month after the consolidation seen in March.
- The upshift in the curve was driven by stronger than expected economic data (jobs, ISM Manufacturing and March retail sales), and higher than expected inflation prints.
- Mild bear steepening of the UST curve
  - 2yr yield up 42bps to 5.04%
  - 10yr yield up 48bps to 4.68%

## Fed Rate Cut Odds tumble further in April



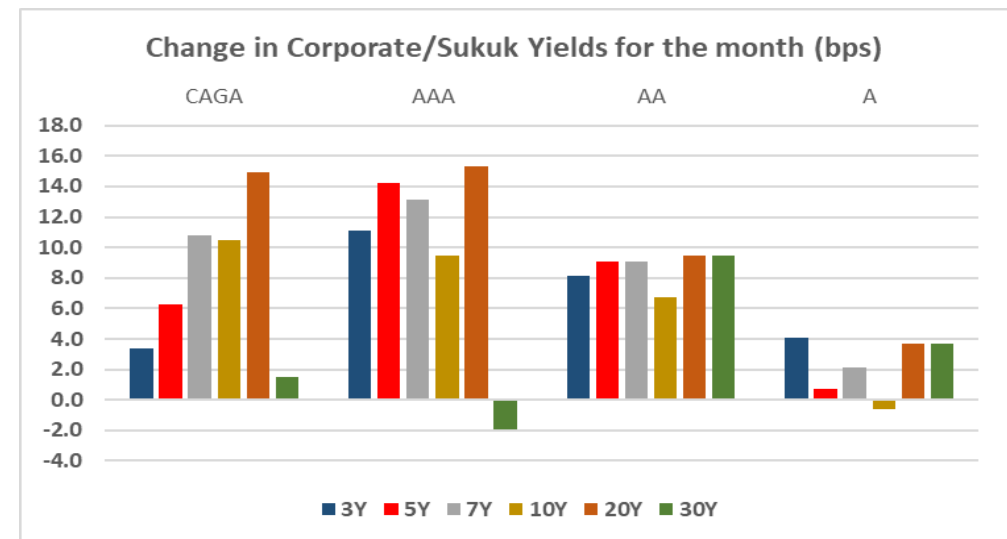
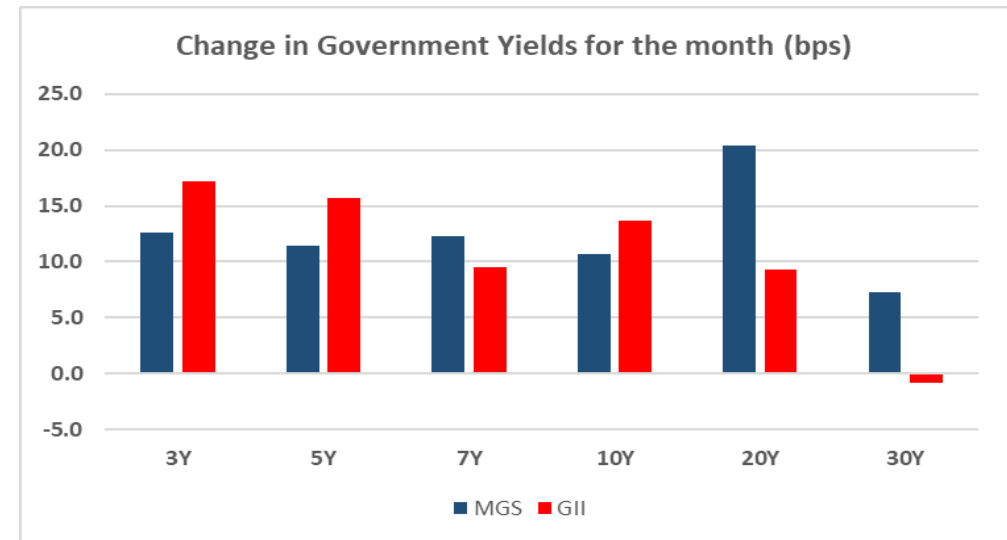
- Continued significant pricing out of Fed cuts was seen in Fed Funds futures, with market only pricing in just over 1 cut (28bps) for 2024 as a whole as at end April, from 2-3 cuts (67bps) priced at the end of March
  - Chance of a cut by June down to 9.3% (from 66.7%)
  - Chance of a cut by September down to 52.5% (from 198.0%)
- Fed-speak in April was mixed, but with a general messaging that rates would need to stay restrictive for longer than previously anticipated, with a few members even mentioning the possibility that the Fed may need to hike further if inflation persists, which was subsequently dispelled by Fed Chair Powell at the May FOMC meeting

# April 2024 MYR Bond Market Review



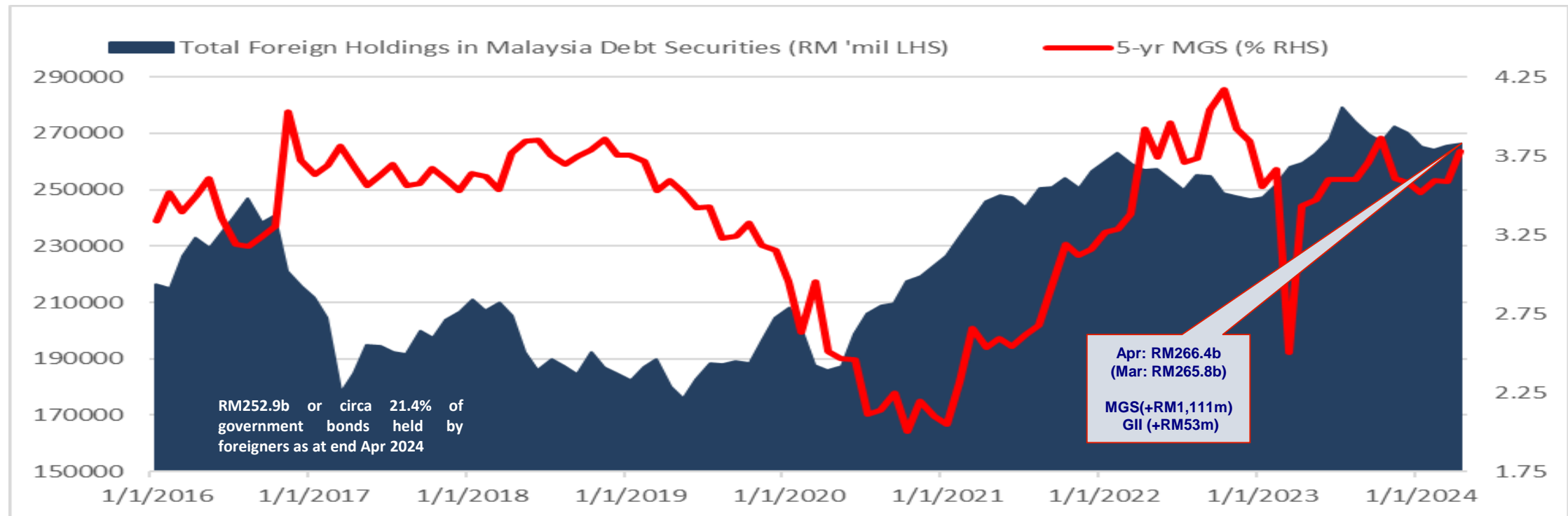
Source: Bloomberg, HLBB Global Markets Research

- MYR government bonds were not spared from the weak global bond backdrop in April, with yields mostly heading higher, with the exception of the 30yr GII, despite March CPI unexpectedly holding steady at 1.8% y/y for the month.
- Longer dated maturities (30Y) outperformed in govvy, CAGA and AAA markets.
- Corporate yields mostly higher for the month too, with AAA segment seeing notable advances across tenors, except for 30y.



Source: BPAM, HLBB Global Markets Research

## Offshore foreign holdings rose further in April, driven by an increase in MGS holdings



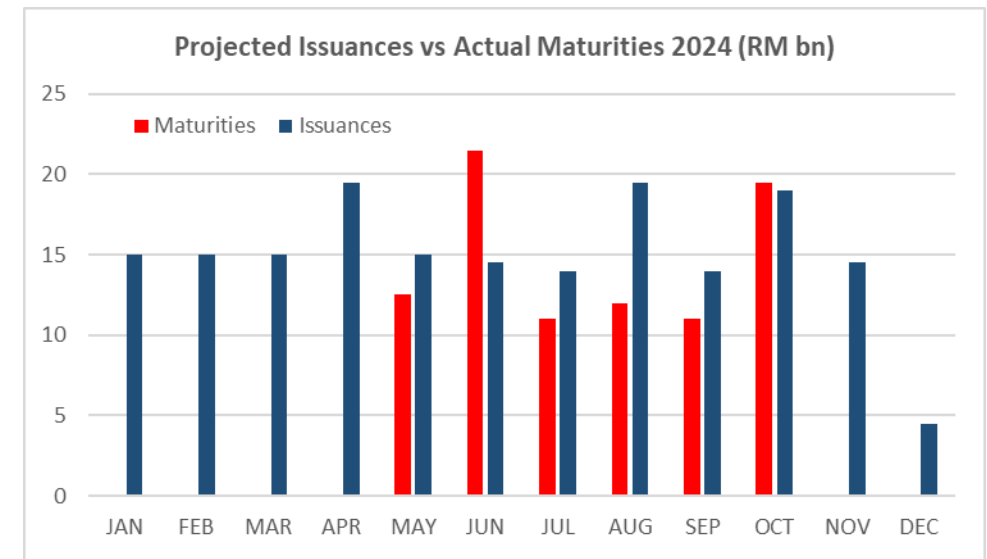
Source: BNM, Bloomberg, HLBB Global Markets Research

- Offshore foreign holdings of Malaysian debt securities rose for a second month running in April, by RM0.6b to RM266.4b, from RM265.8b in March
- Increase led by higher holdings of MGS securities, which rose by slightly over RM1.1b
- Partially offset by decrease of holdings in Islamic Bills, Corporate Bonds, and Sukuks

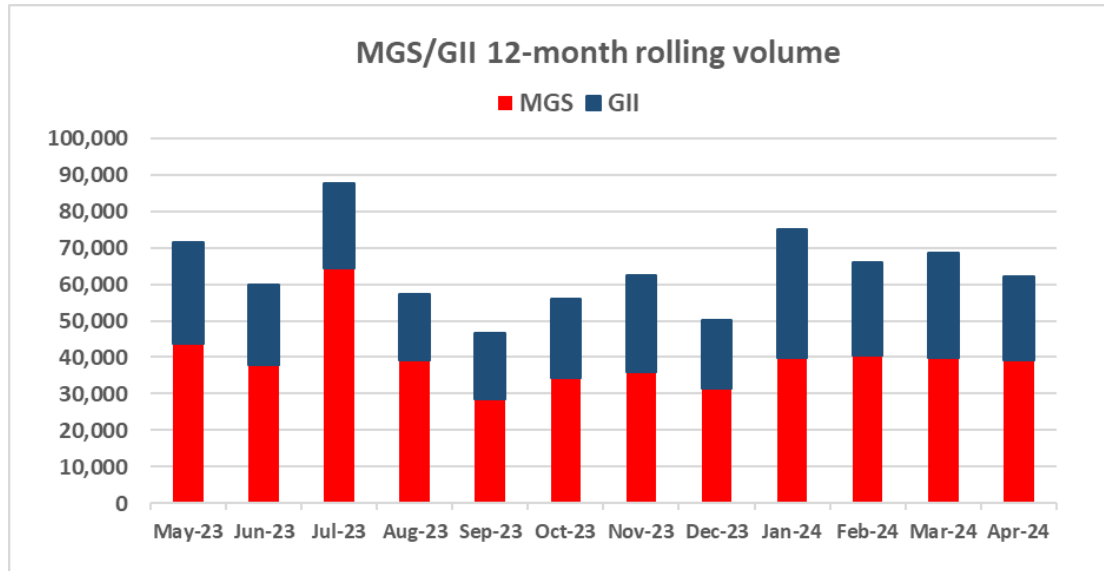
# RM19.5b of gross MGS/GII issuance in April; RM15.0b expected in May with three auctions

MGS/GII issuance pipeline in 2024														
No	Stock	Tenure (yrs)	Tender Month	Quarter	Tender Date	Projected Issuance Size (RM mil)	Actual Auction Issuance (RM mil)	Actual Private Placement	Total Issuance YTD	BTC (times)	Low	Average	High	Cut-off
1	10-yr Reopening of MGII 8/33	10	Jan	Q1	5/1/2024	5,000	5,000		5,000	2.445	3.880	3.908	3.920	83.3%
2	30-yr Reopening of MGS 3/53	30	Jan	Q1	12/1/2024	5,000	3,000	2,000	10,000	2.990	4.223	4.243	4.250	84.8%
3	5-yr Reopening of MGII 7/28	5	Jan	Q1	19/1/2024	4,500	5,000		15,000	4.402	3.610	3.620	3.624	51.3%
4	7-yr Reopening of MGS 4/31	7	Feb	Q1	5/2/2024	4,500	5,000		20,000	2.155	3.760	3.779	3.790	6.9%
5	20-yr Reopening of MGII 8/43	20	Feb	Q1	14/2/2024	5,000	3,000	2,000	25,000	3.037	4.144	4.163	4.171	60.0%
6	3-yr Reopening of MGS 5/27	3	Feb	Q1	21/2/2024	4,500	5,000		30,000	1.703	3.470	3.488	3.499	85.0%
7	15-yr Reopening of MGII 9/39	15	Mar	Q1	29/2/2024	5,000	3,000	2,000	35,000	2.973	3.972	3.990	3.998	52.3%
8	10-yr Reopening of MGS 11/33	10	Mar	Q1	14/3/2024	4,500	5,000		40,000	2.046	3.830	3.854	3.865	27.1%
9	30-yr New Issue of MGII (Mat on 3/54)	30	Mar	Q1	21/3/2024	5,000	3,000	2,000	45,000	3.187	4.254	4.280	4.286	90.0%
10	5-yr Reopening of MGS 8/29	5	Apr	Q2	29/3/2024	5,000	5,000		50,000	1.797	3.665	3.681	3.690	11.4%
11	7.5-yr New Issue of MGII (Mat on 10/31)	7	Apr	Q2	5/4/2024	5,000	4,500		54,500	3.333	3.780	3.804	3.815	41.3%
12	15-yr New Issue of MGS (Mat on 4/39)	15	Apr	Q2	16/4/2024	5,000	3,000	2,000	59,500	2.159	4.016	4.054	4.069	82.2%
13	3-yr Reopening of MGII 9/26	3	Apr	Q2	25/4/2024	5,000	5,000		64,500	1.746	3.547	3.574	3.599	40.0%
14	20-yr New Issue of MGS (Mat on 05/44)	20	May	Q2		5,000								
15	15-yr Reopening of MGII 9/39	15	May	Q2		5,000								
16	7-yr Reopening of MGS (4/31)	7	May	Q2		5,000								
17	20-yr Reopening of MGII 8/43	20	Jun	Q2		5,000								
18	3-yr Reopening of MGS 5/27	3	Jun	Q2		4,500								
19	30-yr Reopening of MGII 3/54	30	Jun	Q2		5,000								
20	5-yr Reopening of MGS 8/29	5	Jul	Q3		4,500								
21	10-yr Reopening of MGII 11/34	10	Jul	Q3		4,500								
22	15-yr Reopening of MGS 4/39	15	Jul	Q3		5,000								
23	7-yr Reopening of MGII 10/31	7	Aug	Q3		5,000								
24	30-yr Reopening of MGS 3/53	30	Aug	Q3		5,000								
25	5-yr Reopening of MGII 7/29	5	Aug	Q3		4,500								
26	10-yr Reopening of MGS 7/34	10	Aug	Q3		5,000								
27	20-yr Reopening of MGII 8/43	20	Sep	Q3		4,500								
28	7-yr Reopening of MGS 4/31	7	Sep	Q3		4,500								
29	30-yr Reopening of MGII 3/54	30	Sep	Q3		5,000								
30	3-yr Reopening of MGS 5/27	3	Oct	Q4		4,500								
31	10-yr Reopening of MGII 11/34	10	Oct	Q4		4,500								
32	20-yr Reopening of MGS 5/44	20	Oct	Q4		5,000								
33	7-yr Reopening of MGII 10/31	7	Oct	Q4		5,000								
34	15-yr Reopening of MGS 4/39	15	Nov	Q4		5,000								
35	5-yr Reopening of MGII 7/29	5	Nov	Q4		4,500								
36	10-yr Reopening of MGS 7/34	10	Nov	Q4		5,000								
37	3-yr Reopening of GII 9/27	3	Dec	Q4		4,500								
Gross MGS/GII supply in 2024						178,000	54,500	10,000	-	PROJECTED TOTAL ISSUANCE = RM180b				

- Gross issuance of RM19.5b in April – three issuances of RM5bn each, and one issuance of RM4.5b
- Weaker auctions overall in April with average BTC of 2.24x, (Mar: 2.61x), depressed by poor reception for 5yr MGS and 3yr GII re-openings.
- For May, gross issuance likely totaling RM15.0b from the three scheduled auctions.
- Net issuance will begin declining this month, as maturities scheduled are for the next 6 months through October



## MGS/ GII Trade Volumes ebbed in April; expected to pick up in May



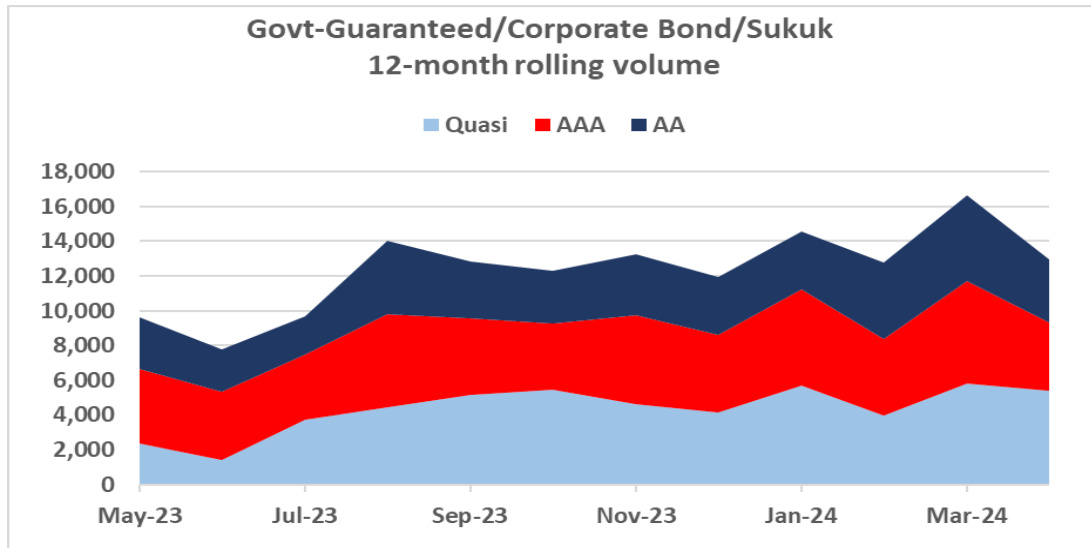
- Secondary trading in MGS/GII fell to RM62.2b in April (Mar: RM68.4b), with the fall being driven by a decline in GII trades to RM23.1b (Mar: RM28.5b)
- Off the run MGS 6/24 and newly reopened 3Y benchmark GII 9/26 led trading for the month for the respective markets
- Notable trading interest also seen in the 5Y, 7Y and 10Y benchmark MGS bonds

Top Traded MGS in Apr 24	Volume (RM 'mil)
MGS 6/24	5,022.7
MGS 8/29 (5Y)	4,577.6
MGS 11/33 (10Y)	3,812.5
MGS 4/31 (7Y)	2,664.3
MGS 3/25	2,466.2
MGS 9/25	1,578.5
MGS 4/28	1,426.6
MGS 4/30	1,402.5
MGS 7/34	1,263.1
MGS 6/28	1,208.7

Top Traded GII in Apr 24	Volume (RM 'mil)
GII 9/26 (3Y)	2,450.6
GII 10/31 (7Y)	2,267.8
GII 7/28 (5Y)	2,096.2
GII 10/24	1,756.4
GII 8/33 (10Y)	1,531.8
GII 3/54 (30Y)	1,472.2
GII 8/43 (20Y)	1,276.0
GII 7/29	1,024.8
GII 9/30	1,024.5
GII 8/24	1,012.0

Source: BPAM, HLBB Global Markets Research  
 Note: (brackets) denotes benchmark

## Corporate/Sukuk secondary trading volumes plunged in April; reduced new issuance



- Trading in Corps/Sukuk plunged to RM12.9b in April (Mar: RM16.6b), driven by substantial reductions in trading of AAA and AA rated paper in the holiday shortened month.
- New issuance fell to RM10.7b in April (Mar: RM11.9b), with LPPSA and Maybank Islamic tapping the primary market with decent sized issuances; expected to increase in May on tighter credit spreads
- Sizeable issues in the pipeline this month include a possible PASB (RM1.6bn), PetroSarawak (RM1bn), Genting Malaysia (RM1bn), RHB Islamic (RM500m) and PONSIB (RM500m)

Top Traded Corporate Bonds/Sukuk in Apr 24	Volume (RM mil)	Last Done Yield (%)
DANAINFRA IMTN 4.530% 07.04.2037 - Tranche No 119	515	4.076
DANAINFRA IMTN 4.190% 24.10.2035 - Tranche No 136	390	4.055
STJ IMTN 27.09.2029 - Series 1 Tranche 3	390	6.010
STJ IMTN 27.09.2028 - Series 1 Tranche 2	329	5.999
STJ IMTN 27.09.2027 - Series 1 Tranche 1	329	5.979
LPPSA IMTN 4.250% 06.07.2039 - Tranche No 77	290	4.112
DANAINFRA IMTN 4.310% 24.10.2039 - Tranche No 137	250	4.119
DANAINFRA IMTN 4.340% 27.10.2036 - Tranche 22	240	4.071
LPPSA IMTN 4.270% 02.09.2039 - Tranche No 58	240	4.115
PLUS BERHAD IMTN 5.000% 31.12.2038 - Series 2	220	4.094

Top Corporate/Sukuk Issuance in Apr 24	Rating	Amount Issued (RM 'm)
MAYBANKISLM 4.060% 05.04.2034	AAA	1,000
KLCC PHB IMTN 3.730% 05.04.2027	AA1	900
LPPSA IMTN 4.040% 18.04.2040 - Tranche No 82	AAA	900
LPPSA IMTN 4.110% 18.04.2044 - Tranche No 84	AAA	790
KLCC PHB IMTN 3.810% 05.04.2028	AAA	600
MRL IMTN 4.100% 01.04.2044 - Series 6	AAA	520
MRL IMTN 4.020% 01.04.2039 - Series 4	NR	500
LPPSA IMTN 4.190% 18.04.2050 - Tranche No 85	NR	490
LPPSA IMTN 4.240% 17.04.2054 - Tranche No 86	AAA	480
MIDCISUKUK IMTN 4.190% 25.04.2034	AAA	455

Source: BNM, BPAM, HLBB Global Markets Research

## US Bonds Outlook May 2024 – yields likely to be range bound

	Current @ 08 May	Q2 2024	Q3 2024	Q4 2024	Q1 2025
Fed Funds Rate (upper bound)	5.50%	5.50%	5.50%	5.25%	4.75%

UST yields (%)	Current @ 08 May	Q2 2024	Q3 2024	Q4 2024	Q1 2025
2Y	4.84%	4.80%	4.65%	4.45%	4.30%
5Y	4.50%	4.50%	4.40%	4.30%	4.25%
10Y	4.49%	4.50%	4.40%	4.30%	4.20%
30Y	4.64%	4.65%	4.55%	4.50%	4.45%

### Key Events for the Month

Date	Event
14 May	PPI
15 May	CPI
15 May	Retail Sales
22 May	FOMC Meeting Minutes
29 May	Fed Beige Book
30 May	1Q GDP Second Reading
31 May	PCE Core Deflator

Source: HLBB Global Markets Research

- A combination of a less hawkish than expected FOMC to start the month, and a relatively soft employment report that saw jobs added for April and wages come slightly south of expectations and a tick higher in the unemployment rate, gave the market a bid tone and some respite from the sharp rise in yields seen the month before, with the 10yr UST yield falling by 19bps from the 4.68% at the end of April. The ISM indices for April showed an unexpected contraction of activity compared to the month before and a surge in the prices paid components, for both the manufacturing and services sector, suggesting a tough start to 2Q.
- Fed Chair Powell continued to stress patience with regards to reducing the Fed Funds Rate, and the need for more confidence that inflation will return to target. Given the still sticky inflation, we think likely that policy easing will begin in 4Q.
- **Expect yields to remain range bound this month**, tugged between weakening economic data and stubborn inflation.
- UST curve expected to trade with a steepening bias



## MYR Bonds Outlook May 2024 – higher yields on the horizon as inflation risks grow

	Current @ 08 May	Q2 2024	Q3 2024	Q4 2024	Q1 2025
OPR	3.00%	3.00%	3.00%	3.00%	3.00%

MGS yields (%)	Current @ 08 May	Q2 2024	Q3 2024	Q4 2024	Q1 2025
3Y	3.59%	3.65%	3.70%	3.70%	3.70%
5Y	3.73%	3.80%	3.85%	3.90%	3.90%
10Y	3.91%	4.00%	4.05%	4.10%	4.10%
20Y	4.16%	4.20%	4.25%	4.25%	4.25%

Source: HLBB Global Markets Research

Key Events for the Month	
Date	Event
09 May	BNM MPC Meeting
10 May	Industrial Production
17 May	1Q Final GDP
20 May	Trade Balance & Exports
24 May	CPI

- We continue to see no change in OPR for the next BNM MPC meeting on May 9<sup>th</sup>, and for the remainder of 2024. However, inflation risks are growing with the recent government announcement on civil service wage adjustments, and expectation that further subsidy removals will continue to take place. There is also a growing likelihood that the petrol price subsidies may take place by the end of the year rather than next year given the need for further fiscal consolidation. BNM may flag this growing inflation risk through a change in tone in the statement, possibly as soon as the meeting this month.
- In terms of supply, three auctions are scheduled for this month (new 20yr MGS, 15yr GII reopening and 7yr MGS reopening) versus the four we had in April. The supply dynamics improve with government bond maturities for 6 months beginning in May, so the auctions are likely to see decent participation.
- **Expect government bonds to remain vulnerable this month, and for yields to inch higher from here.**
- Continued decent demand seen in Corporates/Sukuks expected to keep credit spreads on the tight side, but some pressure is expected from increased issuance.

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