

18 October 2024

Global Economics & Market Strategy

Liquidity Could Tighten Towards Year End

- ◆ **Banking system loan-to-fund (LTF) ratio jumped to 88.2% in August.** The LTF ratio was mainly driven by the decline in fund growth (Figure 2) while loan growth remains healthy given the robust economic outlook. As such, interbank rates are set to rise as we approach year-end as current interbank rates (1 month and 3 months KLIBOR versus OPR) remains relatively elevated versus historical levels.
- ◆ **US Treasuries (UST):** Treasuries sold off after strong consumer and jobs data curtails Fed cut outlook. September retail sales grew by 0.4% MoM, ahead of Bloomberg consensus of 0.3% and higher previous month of 0.1%. Meanwhile jobless claims fell to 241k from 260k previously while continuing claims rose slightly to 1.867mn from 1.858mn previously. Interest rate swaps pared back the November fed funds rate cut probability from 0.946% to 0.92% Yields for the 2YR/10YR/20YR moved by +3.3bps/+7.8bps/+9.4bps, respectively.
- ◆ **Malaysia Bonds: Government Bond Index return** was 0.01% as yields traded lower on better volume. Total government securities traded was MYR4,146mn, with the top traded stock **MGS 3.882% 3/25** with MYR552mn traded. **Corporate Bonds** volume traded was at MYR3,262mn, with the top traded stock **Prasarana 0% 9/29** with a volume of MYR200mn.
- ◆ **Key Events – Friday:** China 3Q GDP, Japan Sep national CPI, Malaysia trade and 3Q A GDP

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Fixed Income Return Snapshot

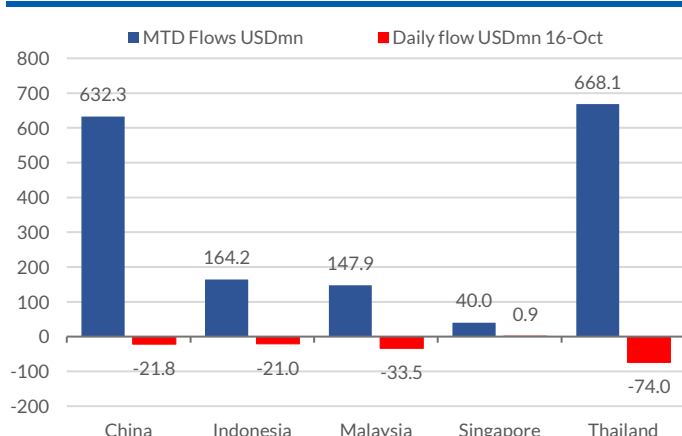
	1D Δ (%)	7D Δ (%)	1M Δ (%)
MGS 10YR	-0.08	0.00	-0.56
MYR Govt Bond	0.01	0.08	-0.03
US Treasuries	-0.44	0.00	-2.26
Global Bond	-0.40	-0.15	-2.47
AxJ IG Bond	-0.27	0.13	-0.98

10-Year Yields (%)

	17-Oct	1D bps Δ	7D bps Δ
China	2.108	-2.5	-3.6
Indonesia	6.651	-0.9	-2.2
Japan	0.959	1.1	0.8
Malaysia	3.781	-0.5	0.0
Singapore	2.750	3.6	-14.6
Thailand	2.465	-6.1	-8.8
US	4.092	7.8	2.9
MYR AAA	4.001	0.0	2.0
MYR AA	4.186	0.0	2.9
MYR A	5.791	0.0	16.8

Source: Bloomberg, RHB Economics & Market Strategy.

Figure 1: Regional MTD/Daily Bond Fund Flows (USDmn)



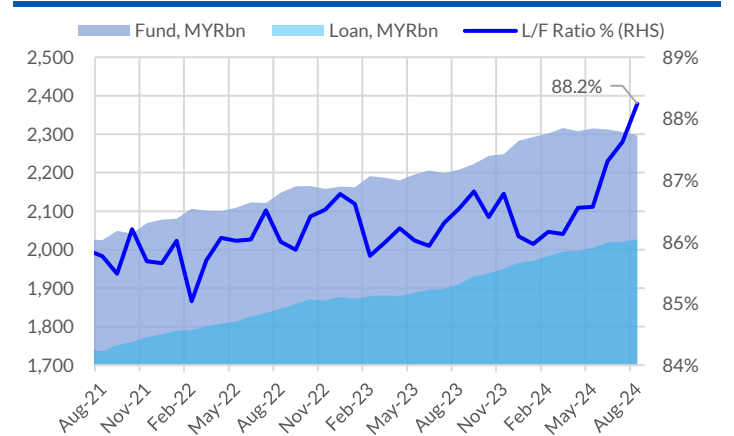
Source: EPFR, RHB Economics & Market Strategy.

Data aggregated from a universe of local and foreign fund managers.

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

Figure 2: Curtailed deposit growth drove loan-to-fund ratio higher to 88.2%



Source: BNM, RHB Economics & Market Strategy.

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Trading Ideas

- ◆ **MYR Bond: (3/10/24) We are Outperform on MEX I Capital Bhd (MEX Capital) (A1) given its strong traffic dynamics, potential upgrade and attractive yields.** MEX Capital captures cash flow from the Maju Expressway concessionaire, Maju Expressway Sdn Bhd (MESB). The expressway offers the fastest connection between Kuala Lumpur city and Kuala Lumpur International Airport. As reported by its rating agency RAM, both MESB and the expressway achieved record high revenue and traffic volume in 2023. The post-pandemic recovery led to traffic volume growing 17% YoY in 2023 and 6% YoY in 1H24. The issuer was upgraded to A1 from A2 last week, as the rating agency cited sustained improvements in its operating performance and credit metrics. Its stronger corporate governance in place under its restructuring in 2022 has helped to safeguard its finance service coverage ratios (FSCR). Although uncertainty remains over potential concession agreement (CA) revisions, we note that recent CA revisions has resulted in concession extensions, which may lead to a situation where a restructuring of the sukuk is warranted to neutralize any credit stress ([Read here](#)).
- ◆ **MYR Bond: (26/9/24) Outperform on STM Lottery Sdn Bhd (STM, AA-) given its attractive pickup and entrenched domestic gaming position.** The company is the largest number forecast operator (NFO) in the country in terms of outlets and a key subsidiary of the main market listed Sports Toto Bhd. The bonds are secured against a third-party charge over the issued and paid up capital of the company and a corporate guarantee by Sports Toto Bhd. NFOs operations require minimal assets and generates strong cash flow due to its cash business. As of Jun-23, the debt-equity ratio stands at 3.7x given its asset-light operations while CFO coverage stood at 5.7x. Unaudited FY Jun-24 revenue was MYR2.95bn (+4.3% YoY) while operating income was MYR382.5mn (+30% YoY). We think STM is attractive given its 70bps pickup over its AA3 benchmark. Key risks facing the company include licensing and regulatory risks, and competition from online gaming and illegal NFOs ([Read here](#)).
- ◆ **MYR Bond: (23/9/24) We expect limited impact on corporate bonds and sukuk from a potential RON95 price float.** With a potential RON95 price float on the horizon, our study finds that: (1) Corporate earnings are driven by stronger factors like interest rates, and inflation, (2) The consumer discretionary sector, which will likely see direct impact from lower disposal income constitute only 3.7% of the total MYR rated bond universe. **Meanwhile, the 10YR MGS/OPR spread could rise above 100bps as the potential inflation shock raises interest rate outlook.** Government bonds yields could rise temporarily as the subsidy removal will raise inflation and interest rate outlook. Expectations for BNM to raise the OPR will rise as our economist estimate the complete removal of the RON95 subsidy could lift CPI by 3.05% percentage points ([Read here](#)).
- ◆ The complete list of our bond coverage is [here](#).

MGS/GII

- ◆ Our expectations of an unchanged OPR of 3.00% in 2024 with the Fed Funds Rate normalisation as soon as Sep-24 means the 10YR MGS should trade at a slightly lower bound above the OPR versus recent averages at around 3.70% to 3.80% this year.
- ◆ Read our 2024 4Q Outlook here: [Three Key Trends to End the Year](#).

MYR Yields vs RHB Year-end Forecast

	Last Yield %	Forecast		Yield Changes (bps)				
		2024F	Pickup (bps)	1D	1W	1M	3M	YTD
MGS 3YR	3.415	3.30	12	-0.2	-0.8	9.7	-5.3	-5.5
MGS 5YR	3.536	3.50	4	0.0	-2.6	6.1	-6.1	-3.5
MGS 7YR	3.745	3.60	15	-0.1	-1.4	8.3	-0.9	2.3
MGS 10YR	3.781	3.70	8	-0.5	0.0	7.2	-3.2	5.0
MGS 15YR	3.938	3.90	4	0.3	0.8	6.1	-3.1	-5.3
MGS 20YR	4.080	4.05	3	0.7	0.5	4.9	0.2	-2.2
MGS 30YR	4.203	4.15	5	0.2	0.6	3.1	1.4	-4.4
AAA 3YR	3.773	3.60	17	0.0	0.8	2.0	-2.3	-7.8
AAA 10YR	4.001	4.07	-7	0.0	2.0	1.1	-5.6	-18.0
AAA 15YR	4.108	4.20	-9	0.0	1.2	0.0	-6.2	-22.7
AA 3YR	3.916	3.90	2	0.0	2.1	2.2	-2.3	-12.4
AA 10YR	4.186	4.40	-21	0.0	2.9	2.1	-4.7	-22.7
AA 15YR	4.310	4.60	-29	0.0	2.2	1.1	-5.8	-30.3
A 3YR	4.922	4.90	2	0.0	16.1	5.7	1.9	-31.6
A 10YR	5.791	5.60	19	0.0	16.8	16.9	13.8	-26.9
A 15YR	6.140	6.00	14	0.0	20.7	17.1	13.7	-36.3

Source: Bloomberg. RHB Economic & Market Research. Constant maturity benchmark yields.

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Daily Top 10 Trade

Government

Name	Traded Amount (MYRmn)	Last Traded Yield	Previous Traded Yield	Δ Bps
MGS 1/2018 3.882% 14.03.2025	552	3.106	3.121	-2
GII MURABAH 6/2019 4.119% 30.11.2034	415	3.832	3.821	1
MGS 1/2015 3.955% 15.09.2025	314	3.225	3.266	-4
GII MURABAH 1/2019 4.130% 09.07.2029	280	3.517	3.531	-1
MGS 3/2022 4.504% 30.04.2029	236	3.504	3.518	-1
MGS 2/2019 3.885% 15.08.2029	192	3.540	3.523	2
MGS 3/2010 4.498% 15.04.2030	188	3.628	3.627	0
MGS 4/2017 3.899% 16.11.2027	141	3.433	3.436	0
MGS 2/2020 2.632% 15.04.2031	134	3.735	3.736	0
GII MURABAH 1/2022 4.193% 07.10.2032	110	3.788	3.788	0

Quasi-Govt

Name	Traded Amount (MYRmn)	Last Traded Yield	Previous Traded Yield	Δ Bps
PRASARANA IMTN 0% 28.09.2029 - MTN 2	200	3.646	3.653	-1
LPPSA IMTN 4.160% 23.08.2030 - Tranche No 66	160	3.727	3.738	-1
CAGAMAS IMTN 3.980% 28.06.2028	20	3.774	3.781	-1
DANAINFRA IMTN 3.990% 06.04.2029 - Tranche No 117	20	3.637	3.605	3
DANAINFRA IMTN 4.180% 15.07.2044 - Tranche No 144	20	4.125	4.105	2
BPMB IMTN 4.98% 02.03.2032 - Issue No 12	10	3.900	3.929	-3
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-

Corporate

Name	Traded Amount (MYRmn)	Last Traded Yield	Previous Traded Yield	Δ Bps
DRB-HICOM IMTN 5.100% 12.12.2029	50	4.047	4.048	0
AIR SELANGOR IMTN T4 S3 SRI SUKUK KAS 19.09.2042	40	4.096	4.089	1
DRB-HICOM IMTN 5.080% 30.08.2030	40	4.097	4.075	2
ISLAM IMTN 3.600% 21.10.2030	40	3.785	3.768	2
AIR SELANGOR IMTN T7S3 SRI 4.20% 19.08.2044	30	4.125	4.139	-1
DRB-HICOM IMTN 5.570% 26.04.2030	30	4.078	4.076	0
JOHORCORP IMTN 4.450% 05.07.2030	30	3.879	3.869	1
UEMS IMTN 5.030% 19.09.2025	30	3.777	4.084	-31
JOHOR PLANT IMTN 4.190% 26.09.2039	25	4.168	4.149	2
ISLAM PERP SUKUK WAKALAH T2S1 4.580% 01.10.2123	20	4.265	4.295	-3

Source: BPAM, RHB Economic & Market Strategy. Previous trading day.

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RHB Credit Strategy Rating Definitions

Recommendation	Time Horizon	Definition
Outperform	6 to 12 months	A corporate bond's expected relative performance versus a defined reference (i.e. AA3 peers or a corporate bond index)
Market perform	6 to 12 months	
Underperform	6 to 12 months	
Speculative	Indefinitely	The bond's repayment ability is highly uncertain
Not Rated (NR)	Indefinitely	Not under coverage

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