

# Bond Market Weekly Outlook

MGS/GII yields to move sideways, with a slight downside bias

## Government Debt Trend and Flows

- MGS and GII yield movements were mixed last week, moving between -7.7bps to 4.5bps. The 10Y MGS fell for the third consecutive week, decreasing by 7.7bps to 3.042%, a 6-week low.
- Demand for MGS/GII continued to be relatively elevated compared to recent weeks, supported by FTSE Russell's decision to remove Malaysia from its Watch List. Furthermore, demand was bolstered by reports that foreign holdings of Malaysian bonds increased for the eleventh straight month in March (RM239.6; Feb: 233.8b).
- Yields may move sideways this week, with a slight bias towards the downside, amid sustained foreign demand for local bonds. Nevertheless, in the medium to long-term MGS/GII yields may move higher following an expected domestic economic recovery; in line with our revised 2021 GDP forecast of 6.5% from a previous 4.5% (2020: -5.6%).
- We expect foreign inflows into the debt market to sustain in the near-term, amid attractive yield differentials and supported by FTSE Russell's positive review of Malaysian bonds. However, downside risks remain following elevated COVID-19 infections and mutated strains in Europe. Additionally, the 10Y MGS-UST yield spread continued to narrow slightly (138bps; previous week: 140bps).

**Table 1: 10Y Bond Yield, Ringgit and OPR Outlook**

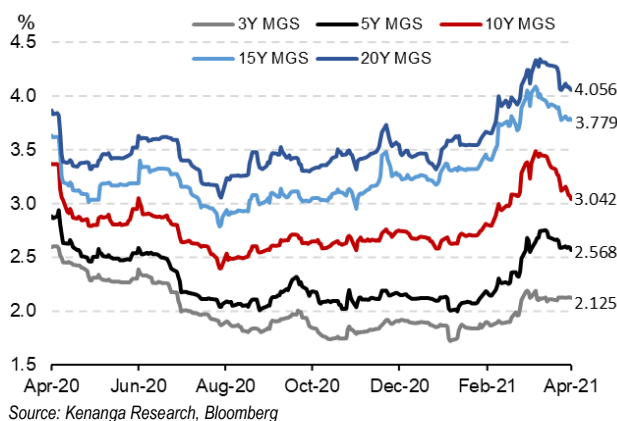
|               | Long Term* |        |        |        |        |
|---------------|------------|--------|--------|--------|--------|
|               | Q1-21      | Q2-21F | Q3-21F | Q4-21F | Q1-22F |
| <b>MGS</b>    | 3.26       | 3.30   | 3.40   | 3.45   | 3.50   |
| <b>UST</b>    | 1.74       | 1.80   | 1.90   | 2.00   | 2.05   |
| <b>USDMYR</b> | 4.145      | 4.088  | 3.979  | 3.953  | 3.931  |
| <b>OPR</b>    | 1.75       | 1.75   | 1.75   | 1.75   | 1.75   |

\*F=Forecasts for end of period  
Source: Kenanga Research, Bloomberg

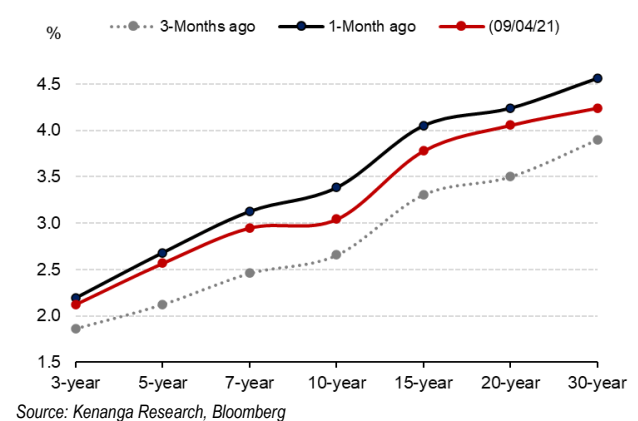
## Auction Results (07-Apr)

- The 7Y MGS 06/28 reopened at RM4.5b, with no private placement, and was awarded at an average yield of 2.963%.
- Demand was below average, with a bid-to-cover (BTC) ratio of 1.59x, the lowest in nearly five months and below the YTD average BTC of 2.109x.
- The next auction is a reopening of the 15Y MGS 07/36, with an expected issuance of RM5.0b.

**Graph 1: Benchmark MGS Yield Trend**



**Graph 2: MGS Yield Curve**



**Table 2: 2021 Auction Calendar**

| Month | Issues                                  | Issue Date | Auction (RM Mil) | PP* (RM Mil) | Total (RM Mil) | BTC* (x) | Average Yield (%) | Highest Yield (%) | Lowest Yield (%) |
|-------|-----------------------------------------|------------|------------------|--------------|----------------|----------|-------------------|-------------------|------------------|
| Feb   | 5-yr Reopening of MGII (Mat on 3/26)    | 04/02/2021 | 4500.0           | -            | 4500.0         | 2.067    | 2.252             | 2.260             | 2.230            |
|       | 20-yr Reopening of MGS (Mat on 5/40)    | 18/02/2021 | 2000.0           | 2000.0       | 4000.0         | 2.224    | 3.969             | 4.010             | 3.901            |
|       | 7-yr Reopening of MGII (Mat on 9/27)    | 25/02/2021 | 3500.0           | -            | 3500.0         | 2.196    | 2.806             | 2.824             | 2.792            |
| Mar   | 30-yr Reopening of MGS (Mat on 6/50)    | 08/03/2021 | 2000.0           | 2000.0       | 4000.0         | 2.023    | 4.486             | 4.549             | 4.443            |
|       | 10-yr Reopening of MGII (Mat on 10/30)  | 15/03/2021 | 4000.0           | -            | 4000.0         | 1.799    | 3.561             | 3.589             | 3.500            |
|       | 5-yr Reopening of MGS (Mat on 9/25)     | 23/03/2021 | 4500.0           | -            | 4500.0         | 1.789    | 2.764             | 2.783             | 2.751            |
|       | 20.5-yr New Issue of MGII (Mat on 9/41) | 31/03/2021 | 2000.0           | 2000.0       | 4000.0         | 2.575    | 4.417             | 4.435             | 4.390            |
| Apr   | 7-yr Reopening of MGS (Mat on 6/28)     | 08/04/2021 | 4500.0           | -            | 4500.0         | 1.590    | 2.963             | 2.981             | 2.933            |
|       | 15-yr Reopening of MGII (Mat on 7/36)   |            |                  |              |                |          |                   |                   |                  |
|       | 3-yr Reopening of MGS (Mat on 6/24)     |            |                  |              |                |          |                   |                   |                  |

Source: Kenanga Research, BNM FAST, \*PP= Private Placement, \*BTC= Bid-to-cover ratio

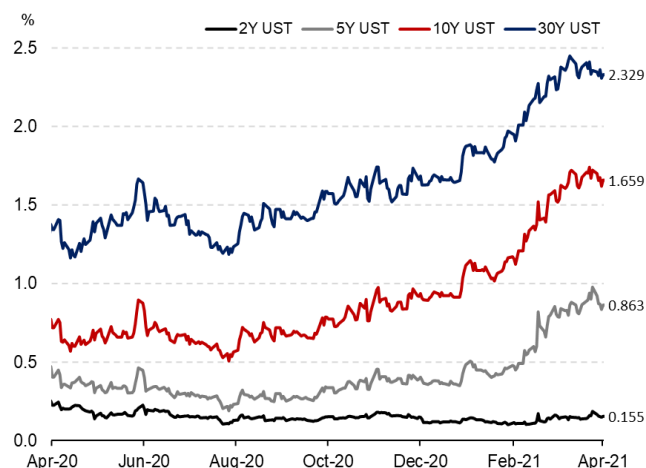
### United States Treasuries (UST)

- UST yields decreased across the curve last week, moving between -11.4bps to -3.1bps. The 10Y UST fell 10.3bps to reach 1.619% on Thursday, before closing the week slightly higher at 1.659%.
- Demand for UST may have been partly driven by weaker initial jobless claims data, which increased for the 2<sup>nd</sup> straight week to 744k for the week ended 3<sup>rd</sup> April (previous: 728k). Nevertheless, by the end of the week demand for UST was pressured by a greater-than-expected increase in March producer prices of 1.0% (Feb: 0.5%). This was compared to consensus estimates of 0.5%, which raised inflation concerns.
- Yields may move sideways this week, with a slight bias towards the upside, potentially driven by the higher PPI data. Nevertheless, in the medium to long-term, an improving US recovery outlook, additional fiscal stimulus and consistent rollout of COVID-19 vaccines will likely cause UST yields to return to its upward trend.

### Ringgit Outlook

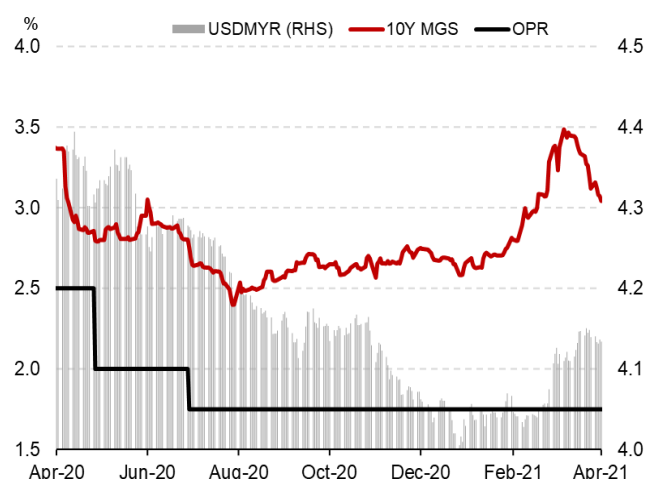
- While the MYR continued to appreciate against the USD last week, we expect it to trade range-bound between 4.13-4.14 before closing this week slightly lower. This is in line with our technical model, which suggests the MYR may depreciate to 4.136 this week. Fundamentally, we believe the ringgit is well supported by higher crude oil price, FTSE Russell's positive review of Malaysian bonds, improving exports monthly data as well as private domestic demand. (Please refer to our *Ringgit Weekly Outlook report*)

Graph 3: UST Yield Trend



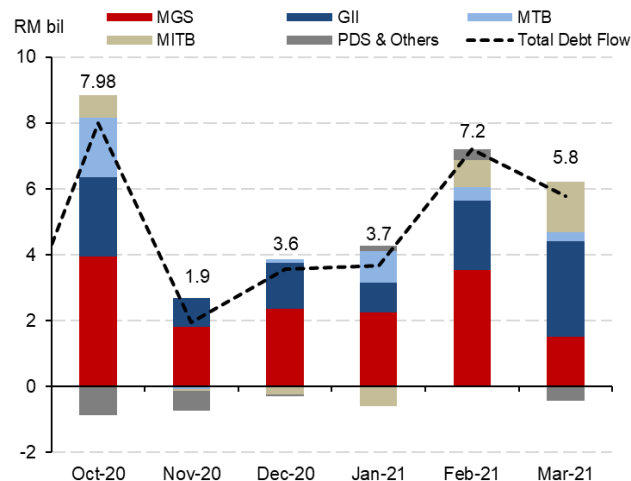
Source: Kenanga Research, Bloomberg

Graph 4: USDMYR, 10Y MGS Yield, Overnight Policy Rate



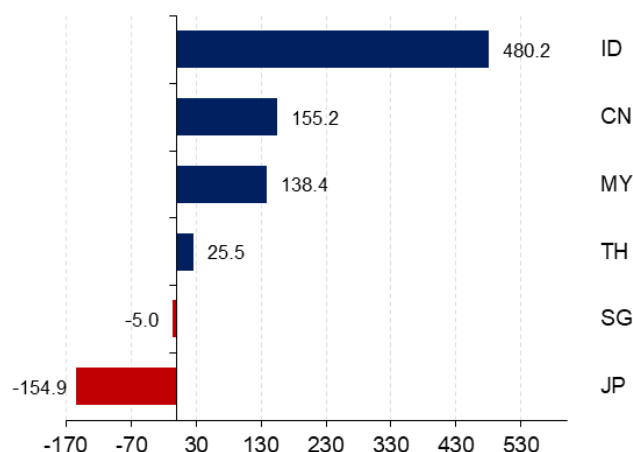
Source: Kenanga Research, Bloomberg

Graph 5: Malaysia Foreign Debt Flows



Source: Kenanga Research, BNM

Graph 6: Asia 10-Year Bond Yield Spread (bps)



Source: Kenanga Research, Bloomberg  
\*Spread: Benchmark 10Y yield relative to the 10Y UST on 09/04/21

12 April 2021

Table 3: Bond Yield Movements

| Bonds                             | 01/01/21<br>YTD | 09/04/20<br>Last Year | 09/03/21<br>Last Month | 02/04/21<br>Last Week | 09/04/21     | ytd (bps) | yoy (bps) | mom (bps) | wow (bps) |
|-----------------------------------|-----------------|-----------------------|------------------------|-----------------------|--------------|-----------|-----------|-----------|-----------|
| <b>MGS</b>                        |                 |                       |                        |                       |              |           |           |           |           |
| 30Y MGS                           | 3.839           | 4.154                 | 4.564                  | 4.228                 | <b>4.241</b> | 40.20     | 8.70      | -32.30    | 1.30      |
| 20Y MGS                           | 3.373           | 3.866                 | 4.242                  | 4.055                 | <b>4.056</b> | 68.30     | 19.00     | -18.60    | 0.10      |
| 15Y MGS                           | 3.217           | 3.631                 | 4.052                  | 3.776                 | <b>3.779</b> | 56.20     | 14.80     | -27.30    | 0.30      |
| 10Y MGS                           | 2.650           | 3.367                 | 3.384                  | 3.119                 | <b>3.042</b> | 39.20     | -32.50    | -34.20    | -7.70     |
| 7Y MGS                            | 2.381           | 3.263                 | 3.126                  | 2.913                 | <b>2.949</b> | 56.80     | -31.40    | -17.70    | 3.60      |
| 5Y MGS                            | 2.116           | 2.882                 | 2.681                  | 2.588                 | <b>2.568</b> | 45.20     | -31.40    | -11.30    | -2.00     |
| 3Y MGS                            | 1.871           | 2.595                 | 2.192                  | 2.128                 | <b>2.125</b> | 25.40     | -47.00    | -6.70     | -0.30     |
| <b>GII</b>                        |                 |                       |                        |                       |              |           |           |           |           |
| 10Y GII                           | 2.789           | 3.441                 | 3.610                  | 3.214                 | <b>3.160</b> | 37.10     | -28.10    | -45.00    | -5.40     |
| 7Y GII                            | 2.513           | 3.296                 | 3.098                  | 2.873                 | <b>2.912</b> | 39.90     | -38.40    | -18.60    | 3.90      |
| 5Y GII                            | 2.269           | 2.961                 | 2.882                  | 2.596                 | <b>2.566</b> | 29.70     | -39.50    | -31.60    | -3.00     |
| 3Y GII                            | 1.933           | 2.706                 | 2.239                  | 2.145                 | <b>2.190</b> | 25.70     | -51.60    | -4.90     | 4.50      |
| <b>UST</b>                        |                 |                       |                        |                       |              |           |           |           |           |
| 10Y UST                           | 0.913           | 0.719                 | 1.526                  | 1.722                 | <b>1.659</b> | 74.53     | 93.94     | 13.22     | -6.31     |
| 7Y UST                            | 0.643           | 0.595                 | 1.216                  | 1.420                 | <b>1.321</b> | 67.73     | 72.54     | 10.42     | -9.92     |
| 5Y UST                            | 0.361           | 0.405                 | 0.805                  | 0.977                 | <b>0.863</b> | 50.19     | 45.82     | 5.76      | -11.43    |
| 3Y UST                            | 0.165           | 0.295                 | 0.318                  | 0.384                 | <b>0.333</b> | 16.84     | 3.88      | 1.57      | -5.04     |
| <b>ASIAN 10Y GOVERNMENT BONDS</b> |                 |                       |                        |                       |              |           |           |           |           |
| 10Y JP                            | 0.021           | 0.017                 | 0.127                  | 0.126                 | <b>0.110</b> | 8.90      | 9.30      | -1.70     | -1.60     |
| 10Y CN                            | 3.146           | 2.525                 | 3.247                  | 3.199                 | <b>3.210</b> | 6.40      | 68.50     | -3.70     | 1.10      |
| 10Y SG                            | 0.844           | 1.094                 | 1.554                  | 1.716                 | <b>1.609</b> | 76.42     | 51.44     | 5.45      | -10.71    |
| 10Y ID                            | 5.886           | 8.035                 | 6.797                  | 6.692                 | <b>6.460</b> | 57.40     | -157.50   | -33.70    | -23.20    |
| 10Y TH                            | 1.283           | 1.483                 | 2.039                  | 1.941                 | <b>1.913</b> | 63.09     | 43.00     | -12.53    | -2.72     |

Source: Kenanga Research, Bloomberg

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