

Bond Market Weekly Outlook

MGS/GII yields may fall, amid elevated local COVID-19 cases

Government Debt Trend and Flows

- MGS and GII yields were mixed last week, with the middle to long-end of the curve rising. The 10Y MGS yield increased by 1.9bps to 3.061%, whilst the 3Y MGS fell 2.4bps to 2.101%, marginally steepening the yield curve.
- Demand for MGS/GII was initially pressured last week in anticipation of the release of key US economic data. However, demand improved by midweek following the strong auction of the 15Y MGII 07/36 and tracking falling UST yields.
- Yields may decrease this week as a result of a worsening local COVID-19 situation, with new infections rising above the 2,000 level for the first time since early March. Nonetheless, in the medium to long-term MGS/GII yields will likely move higher following an expected domestic economic recovery.
- We expect foreign inflows into the debt market to continue in the near-term, supported by high yield differentials and FTSE Russell's positive review. However, inflows may lessen this month due to concerns regarding rising domestic COVID-19 cases, as well as growing global risk-off sentiment. Then again, the 10Y MGS-UST yield spread increased to 148bps (previous week: 138bps), which will help keep local bonds attractive.

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

	Long Term*				
	Q1-21	Q2-21F	Q3-21F	Q4-21F	Q1-22F
MGS	3.26	3.20	3.30	3.40	3.50
UST	1.74	1.75	1.85	1.95	2.05
USDMYR	4.145	4.088	3.979	3.953	3.931
OPR	1.75	1.75	1.75	1.75	1.75

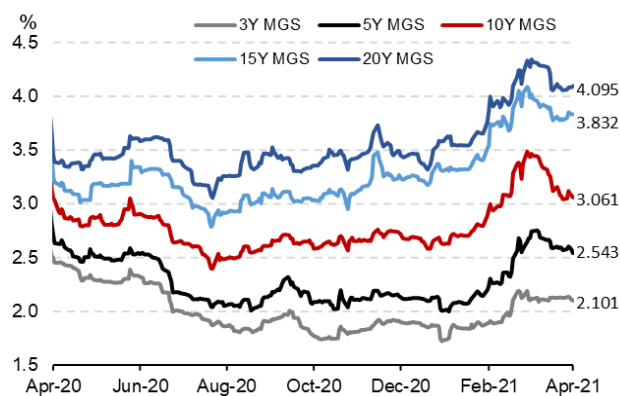
*F=Forecasts for end of period

Source: Kenanga Research, Bloomberg

Auction Results (14-Apr)

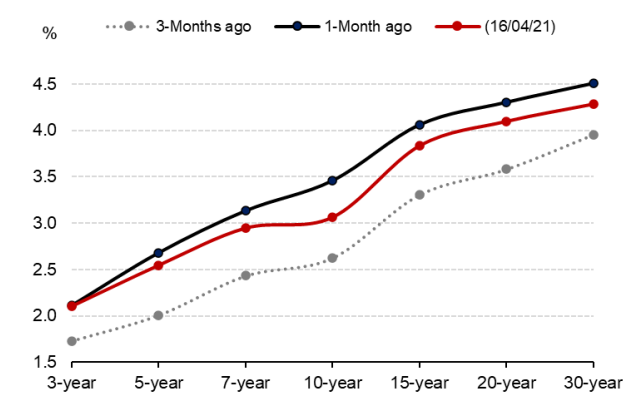
- The 15Y MGII 07/36 reopened at RM4.5b, of which RM2.0b was privately placed, and was awarded at an average yield of 4.01%
- Demand was strong, with a bid-to-cover (BTC) ratio of 2.545x, which is greater than the YTD average BTC of 2.145x
- The next auction is a reopening of the 3Y MGS 06/24, with an expected issuance of RM3.5b with no private placement.

Graph 1: Benchmark MGS Yield Trend



Source: Kenanga Research, Bloomberg

Graph 2: MGS Yield Curve



Source: Kenanga Research, Bloomberg

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)	15/04/2021	2500.0	2000.0	4500.0	2.545	4.010	4.034	3.975
	3-yr Reopening of MGS (Mat on 6/24)								

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

19 April 2021

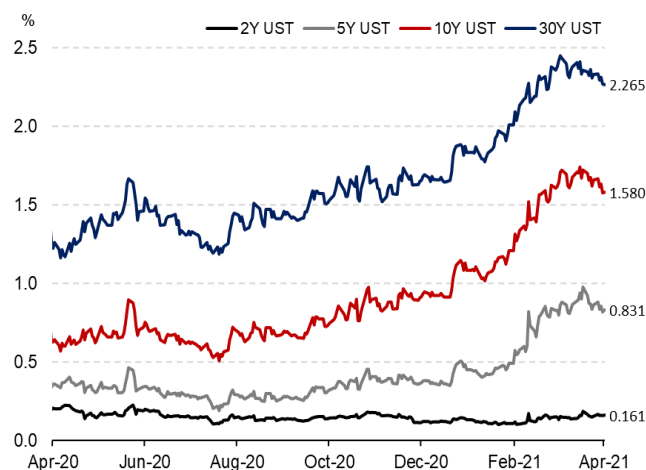
United States Treasuries (UST)

- UST yields mostly decreased last week, except for the 3Y and 2Y UST. The 10Y UST fell 7.9bps to 1.58%, almost reaching a 5-week low.
- Demand for UST was solid last week, despite higher-than-expected US CPI at 2.6% YoY in March (Feb: 1.7%), its highest level since August 2018. This could have been due to the unwinding of bearish bets against Treasuries, along with a global risk-off sentiment, amid a rise in worldwide COVID-19 cases and heightened geopolitical tensions after the US imposed sanctions on Russia.
- Yields may return to their upward trend this week, driven by the higher inflation rate and strong economic data released end of last week. US jobless claims decreased to 576k for the week ended 10 April (previous week: 769k), its lowest level in a year. Additionally, US retail sales rebounded sharply by 9.8% in March (Feb: -2.7%), a 10-month high. However, prevailing global risk-off sentiment may cap any rise in UST yields.

Ringgit Outlook

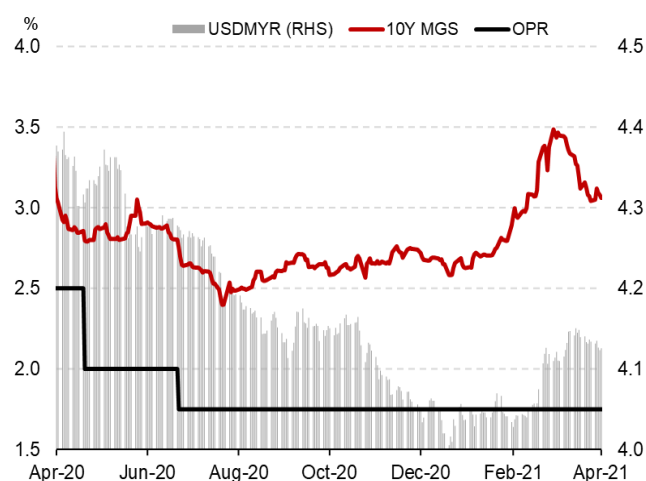
- MYR continued to appreciate against the USD last week amid falling UST yields. This week, we expect it to trade in a tight range and the local note could face pressure due to rising domestic COVID-19 cases. Our technical model suggests that the MYR may depreciate marginally, to reach 4.128 vis-a-vis the USD this week. (Please refer to our Ringgit Weekly Outlook report)

Graph 3: UST Yield Trend



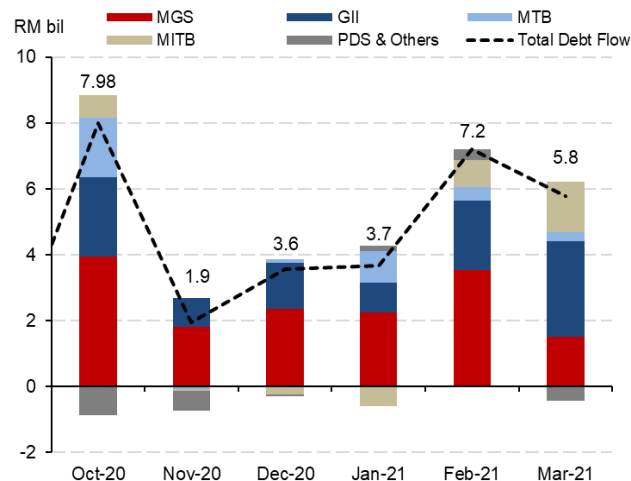
Source: Kenanga Research, Bloomberg

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



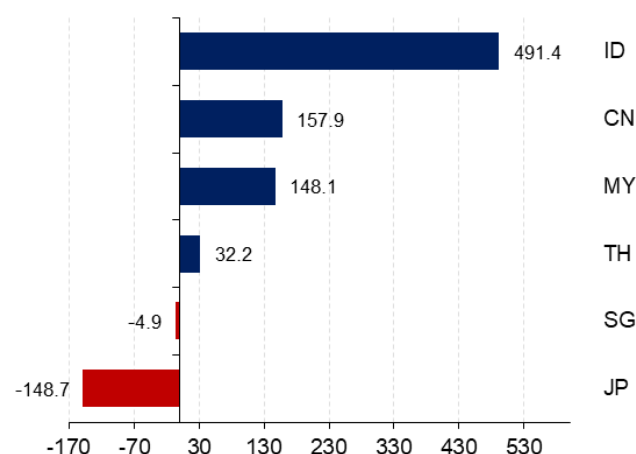
Source: Kenanga Research, Bloomberg

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 16/04/21

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Table 3: Bond Yield Movements

Bonds	01/01/21 YTD	16/04/20 Last Year	16/03/21 Last Month	09/04/21 Last Week	16/04/21	ytd (bps)	yoy (bps)	mom (bps)	wow (bps)
MGS									
30Y MGS	3.839	3.787	4.510	4.241	4.281	44.20	49.40	-22.90	4.00
20Y MGS	3.373	3.457	4.306	4.056	4.095	72.20	63.80	-21.10	3.90
15Y MGS	3.217	3.257	4.063	3.779	3.832	61.50	57.50	-23.10	5.30
10Y MGS	2.650	3.060	3.460	3.042	3.061	41.10	0.10	-39.90	1.90
7Y MGS	2.381	3.050	3.134	2.949	2.944	56.30	-10.60	-19.00	-0.50
5Y MGS	2.116	2.718	2.680	2.568	2.543	42.70	-17.50	-13.70	-2.50
3Y MGS	1.871	2.496	2.111	2.125	2.101	23.00	-39.50	-1.00	-2.40
GII									
10Y GII	2.789	3.145	3.611	3.160	3.232	44.30	8.70	-37.90	7.20
7Y GII	2.513	3.019	3.145	2.912	3.014	50.10	-0.50	-13.10	10.20
5Y GII	2.269	2.707	2.830	2.566	2.628	35.90	-7.90	-20.20	6.20
3Y GII	1.933	2.597	2.193	2.190	2.175	24.20	-42.20	-1.80	-1.50
UST									
10Y UST	0.913	0.627	1.618	1.659	1.580	66.66	95.31	-3.81	-7.87
7Y UST	0.643	0.513	1.276	1.321	1.259	61.61	74.66	-1.63	-6.12
5Y UST	0.361	0.357	0.829	0.863	0.831	46.99	47.40	0.17	-3.20
3Y UST	0.165	0.255	0.334	0.333	0.341	17.59	8.56	0.68	0.75
ASIAN 10Y GOVERNMENT BONDS									
10Y JP	0.021	0.017	0.105	0.110	0.093	7.20	7.60	-1.20	-1.70
10Y CN	3.146	2.511	3.262	3.210	3.159	1.30	64.80	-10.30	-5.10
10Y SG	0.844	1.028	1.552	1.609	1.530	68.61	50.26	-2.13	-7.81
10Y ID	5.886	8.010	6.772	6.460	6.494	60.80	-151.60	-27.80	3.40
10Y TH	1.283	1.399	1.953	1.913	1.902	61.97	50.30	-5.10	-1.13

Source: Kenanga Research, Bloomberg

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