

Bond Market Weekly Outlook

MGS/GII yields to increase, on recovery optimism and rising UST yields

Government Debt Trend and Flows

- MGS and GII yields mostly increased last week, except for the 5Y MGS. The 10Y MGS rose 9.6bps to 3.177% on 28 April, before closing the week at 3.123%. The 3Y MGS surged 25.4bps to 2.366% as the new benchmark takes its place.
- Demand for MGS/GII was generally pressured last week, on the back of strong March exports data (31.0% YoY; Feb: 17.6%) and amid rising UST yields. Nevertheless, demand found some support by the end of the week as elevated local COVID-19 cases raised concerns about the potential return of stringent lockdown measures.
- Yields may rise this week, tracking UST movements and boosted by potentially strong economic data. We maintain that in the medium to long-term MGS/GII yields will likely move higher following an expected domestic economic recovery. However, downside risks remain amid elevated domestic COVID-19 cases.
- We still expect foreign inflows into the debt market to persist in the near-term, supported by high yield differentials. However, April inflows may have moderated as a result of concerns regarding high local and global COVID-19 infections. The 10Y MGS-UST yield spread decreased to 150bps (previous week: 152bps).

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

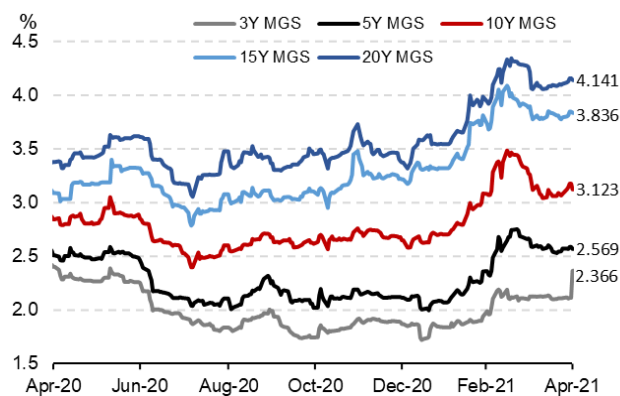
	Long Term*				
	Q1-21	Q2-21F	Q3-21F	Q4-21F	Q1-22F
MGS	3.26	3.20	3.30	3.40	3.50
UST	1.74	1.75	1.85	1.95	2.05
USDMYR	4.145	4.088	3.979	3.953	3.931
OPR	1.75	1.75	1.75	1.75	1.75

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

Upcoming Auction

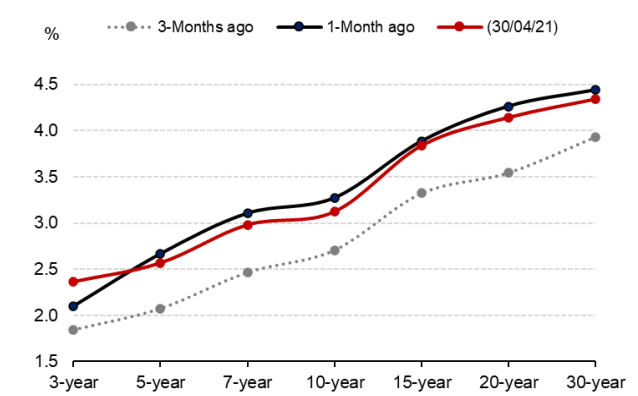
- The next auction is the reopening of the 30Y GII 11/49, estimated at RM4.0b, of which RM1.0b is projected to be privately placed.
- The previous reopening of this security saw a weak bid-to-cover (BTC) ratio of 1.358x in September 2020, however we expect stronger demand for this auction, in line with the current YTD average BTC of 2.14x.

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 (%)
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)	22/04/2021	4500.0	-	4500.0	2.086	2.363	2.373	2.346
May	30-yr Reopening of MGII (Mat on 11/49)								
	15-yr Reopening of MGS (Mat on 5/35)								
	5-yr Reopening of MGII (Mat on 3/26)								

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

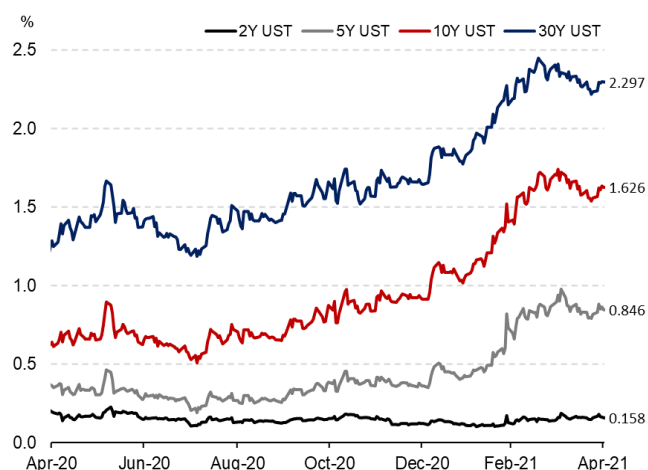
United States Treasuries (UST)

- UST yields mostly increased last week, except for the 3Y and 2Y UST. The 10Y UST rose 6.8bps to 1.626%, its highest level in nearly two weeks. The 2Y UST remained at 0.158%, causing the yield curve to steepen.
- Demand for UST was pressured ahead of the US FOMC meeting, with the market expecting the Fed to announce an improved growth outlook. Furthermore, UST demand was affected by strong economic data, as 1Q21 GDP growth registered 6.4% (4Q20: 4.3%) and initial jobless claims decreased further to 553k (previous: 566k) for the week ended 24 April.
- Yields will likely increase this week, on the back of the Fed's comments of an improving recovery outlook and higher inflation to be expected going forward. Additionally, yields may be pushed higher as a result of President Biden's recent announcement of another USD1.8t stimulus package, dubbed the "American Families Plan".

Ringgit & Monetary Policy Outlook

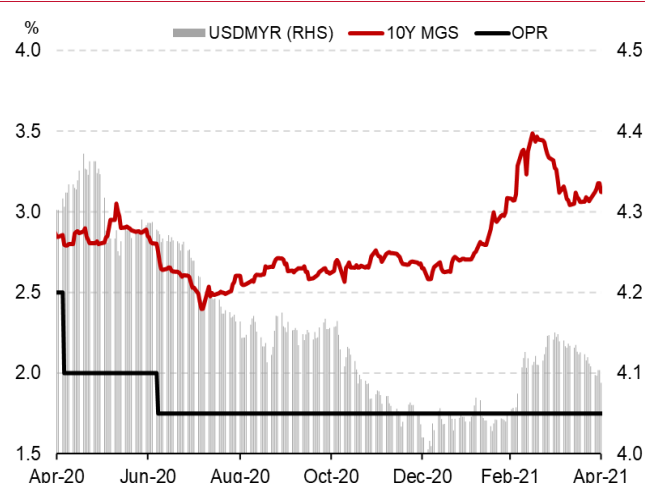
- MYR continued to appreciate against the USD for the fifth consecutive week. This week, we expect the ringgit to seesaw between the range of 4.08 – 4.10. However, our technical model suggests a potential reversal, with the MYR projected to depreciate to 4.099 this week. *(Please refer to our Ringgit Weekly Outlook report)*
- At last week's FOMC meeting, the US Fed maintained the funds target range between 0.0% – 0.25% and stayed committed to USD120.0b in monthly bond purchases. The Fed also acknowledged that US growth recovery has strengthened, and inflation has risen, with higher inflation set to arrive as a result of low YoY base effects. This is in-line with our expectation, and we foresee Bank Negara Malaysia unlikely to cut its overnight policy rate of 1.75% further in 2021.

Graph 3: UST Yield Trend



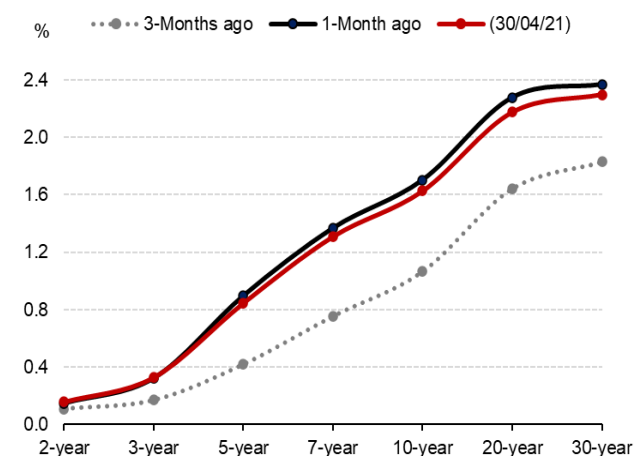
Source: Kenanga Research, Bloomberg

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



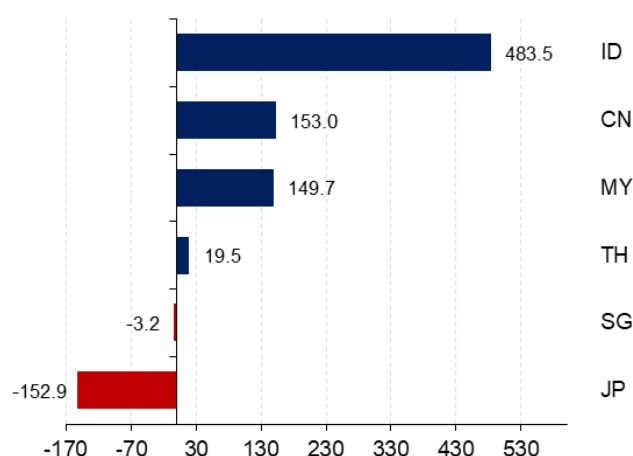
Source: Kenanga Research, Bloomberg

Graph 5: UST Yield Curve



Source: Kenanga Research, Bloomberg

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



Source: Kenanga Research, Bloomberg
*Spread: Benchmark 10Y yield relative to the 10Y UST on 30/04/21

03 May 2021

Table 3: Bond Yield Movements

Bonds	01/01/21 YTD	30/04/20 Last Year	30/03/21 Last Month	23/04/21 Last Week	30/04/21	ytd (bps)	yoy (bps)	mom (bps)	wow (bps)
MGS									
30Y MGS	3.839	3.679	4.438	4.268	4.340	50.10	66.10	-9.80	7.20
20Y MGS	3.373	3.378	4.262	4.105	4.141	76.80	76.30	-12.10	3.60
15Y MGS	3.217	3.090	3.884	3.794	3.836	61.90	74.60	-4.80	4.20
10Y MGS	2.650	2.845	3.272	3.081	3.123	47.30	27.80	-14.90	4.20
7Y MGS	2.381	2.669	3.105	2.972	2.981	60.00	31.20	-12.40	0.90
5Y MGS	2.116	2.510	2.667	2.573	2.569	45.30	5.90	-9.80	-0.40
3Y MGS	1.871	2.403	2.100	2.112	2.366	49.50	-3.70	26.60	25.40
GII									
10Y GII	2.789	2.882	3.417	3.217	3.273	48.40	39.10	-14.40	5.60
7Y GII	2.513	2.679	3.076	3.025	3.066	55.30	38.70	-1.00	4.10
5Y GII	2.269	2.582	2.764	2.634	2.652	38.30	7.00	-11.20	1.80
3Y GII	1.933	2.473	2.125	2.191	2.197	26.40	-27.60	7.20	0.60
UST									
10Y UST	0.913	0.639	1.703	1.558	1.626	71.27	98.66	-7.70	6.82
7Y UST	0.643	0.534	1.367	1.248	1.309	66.53	77.44	-5.88	6.10
5Y UST	0.361	0.362	0.896	0.816	0.846	48.53	48.37	-4.96	2.97
3Y UST	0.165	0.245	0.322	0.333	0.330	16.48	8.50	0.80	-0.30
ASIAN 10Y GOVERNMENT BONDS									
10Y JP	0.021	-0.030	0.091	0.071	0.097	7.60	12.70	0.60	2.60
10Y CN	3.146	2.516	3.211	3.175	3.156	1.00	64.00	-5.50	-1.90
10Y SG	0.844	0.903	1.750	1.579	1.594	74.98	69.14	-15.60	1.51
10Y ID	5.886	7.878	6.790	6.435	6.461	57.50	-141.70	-32.90	2.60
10Y TH	1.283	1.211	1.938	1.852	1.820	53.80	60.95	-11.76	-3.18

Source: Kenanga Research, Bloomberg

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