

Bond Market Weekly Outlook

MGS/GII yields to trend rangebound, on extended FMCO

Government Debt Trend and Flows

- MGS and GII yields were mixed last week, moving between -10.0bps to 2.3bps overall. The 10Y MGS soared 7.4bps to 3.323% on 8 June, an 11-week high, before closing the week lower at 3.23%.
- The 10Y MGS yield initially surged amid its reopening auction last Tuesday but saw strong risk-off demand by the end of the week. The market still remained cautious due to the persistently high level of local COVID-19 cases and the ongoing Full Movement Control Order (FMCO). As expected, foreign inflows into the bond market softened in May, but charted 13-months of consecutive inflows.
- We expect domestic yields to continue trending rangebound this week, with a slight downside bias, on the back of pressured UST yields and the extension of the FMCO until 28 June. In the medium to long-term, when lockdown restrictions ease, we project yields to return to an uptrend amid a solid domestic economic recovery.
- We expect the ongoing FMCO to temper foreign demand for local bonds this month. Nevertheless, foreign flows will likely remain positive due to high yield differentials and Moody's recent affirmation of Malaysia's credit profile. However, the outlook for inflows will be contingent on the outcome of Malaysia's sovereign credit review by S&P Global Ratings. The 10Y MGS-UST yield spread remains attractive, rising to 178bps (previous week: 169bps).

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

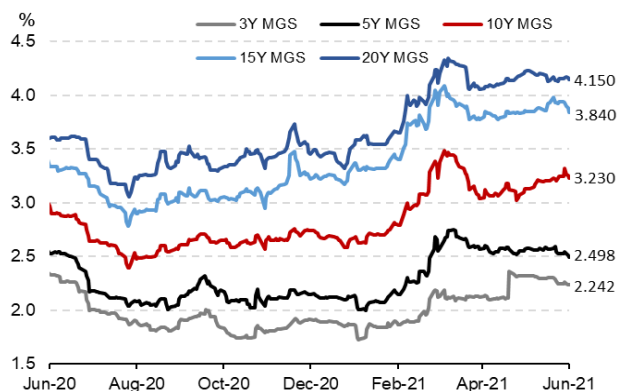
	Long Term*				
	Q1-21	Q2-21F	Q3-21F	Q4-21F	Q1-22F
MGS	3.26	3.20	3.30	3.40	3.55
UST	1.74	1.60	1.70	1.80	1.95
USDMYR	4.145	4.116	4.066	4.028	4.000
OPR	1.75	1.75	1.75	1.75	1.75

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

Auction Results (08-June)

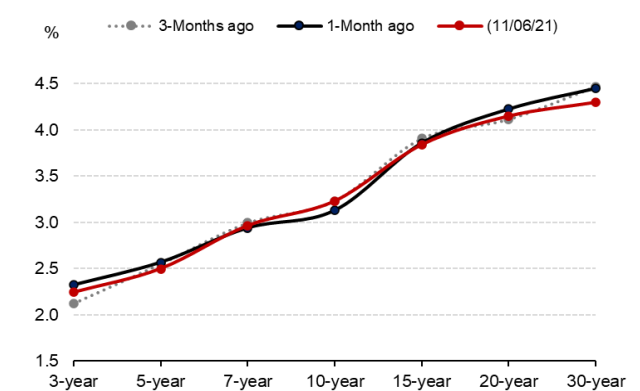
- The 10Y MGS 04/31 reopened at RM5.0b, of which RM0.5b was privately placed, and was awarded at an average yield of 3.313%.
- Demand was decent, with a bid-to-cover (BTC) ratio of 1.966x, although lower than the YTD BTC average of 2.157x.
- The next auction is a reopening of the 3Y GII 10/24. We estimate an issuance of RM4.0b without 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 (%)
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)	10/05/2021	2000.0	2000.0	4000.0	2.433	4.568	4.581	4.540
	15-yr Reopening of MGS (Mat on 5/35)	20/05/2021	2500.0	2000.0	4500.0	2.445	3.956	3.970	3.930
	5-yr Reopening of MGII (Mat on 3/26)	31/05/2021	4500.0	-	4500.0	2.003	2.728	2.739	2.700
Jun	10-yr Reopening of MGS (Mat on 4/31)	09/06/2021	4500.0	500.0	5000.0	1.966	3.313	3.333	3.287
	3-yr Reopening of MGS (Mat on 10/24)								
	20-yr Reopening of MGS (Mat on 5/40)								

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

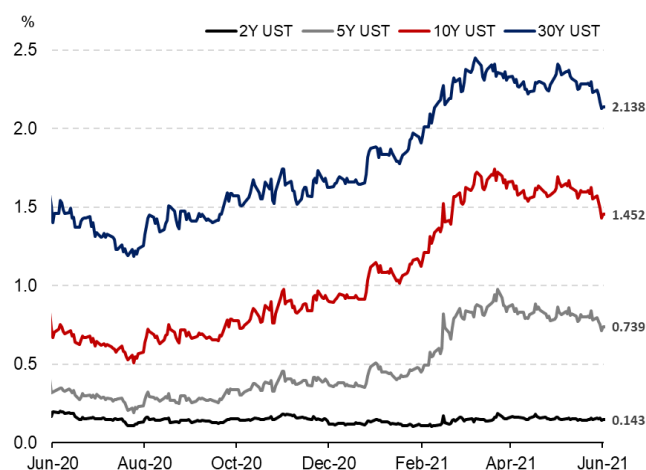
United States Treasuries (UST)

- UST yields mostly decreased last week, moving between -10.2bps to 0.7bps overall. The 10Y UST fell 10.2bps to 1.452%, its lowest level in three months.
- UST continued to find strong demand despite reports that US inflation surged 5.0% YoY in May (Apr: 4.2%), a 13-year high. This comes on the back of US Fed officials repeatedly assuring the market that higher inflation will likely be transitory. Additionally, demand was fuelled by concerns that President Biden's proposed infrastructure spending plan may struggle to find political support.
- Yields may trend rangebound this week, with a slight upside bias on the back of improving US employment. Initial jobless claims dropped to 376k for the week ending 5 June (previous week: 385k), its lowest level in nearly 15 months. However, focus will predominantly be on the US FOMC meeting this week, with any signs of asset tapering being discussed likely to push yields higher.

Ringgit Outlook

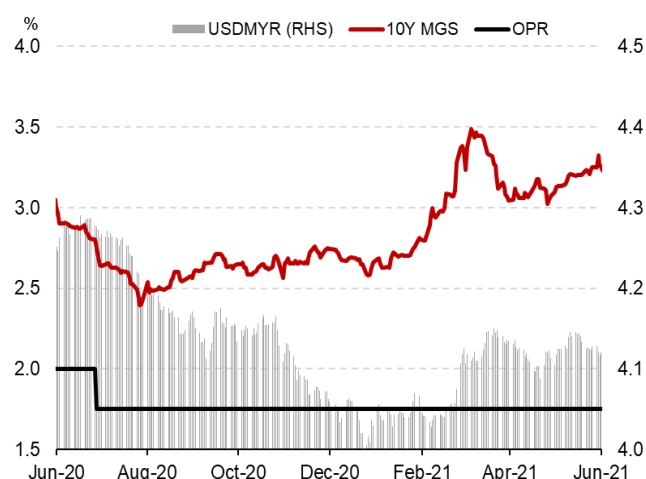
- MYR continued to strengthen against the USD last week, amid lower UST yields, as well as strong Malaysian IPI and retail sales readings. Our technical model suggests that the ringgit may depreciate against the dollar this week, to reach 4.118. (Please refer to our Ringgit Weekly Outlook report)

Graph 3: UST Yield Trend



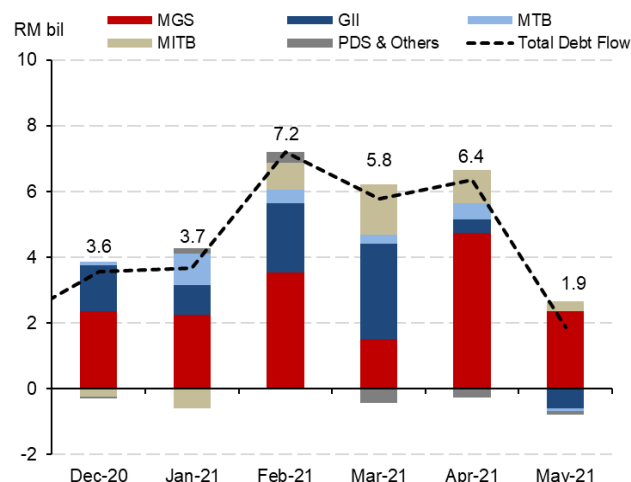
Source: Kenanga Research, Bloomberg

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



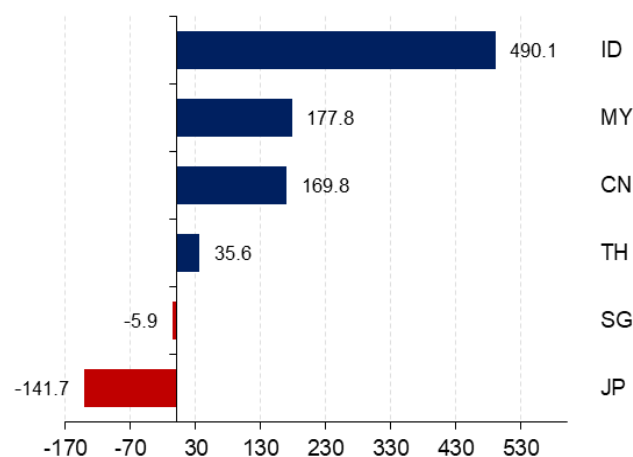
Source: Kenanga Research, Bloomberg

Graph 5: Malaysia Debt Foreign 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 11/06/21

14 June 2021

Table 3: Bond Yield Movements

Bonds	01/01/21 YTD	11/06/20 Last Year	11/05/21 Last Month	04/06/21 Last Fortnight	11/06/21 Last Week	ytd (bps)	yoy (bps)	mom (bps)	wow (bps)
MGS									
30Y MGS	3.839	4.036	4.448	4.309	4.299	46.00	26.30	-14.90	-1.00
20Y MGS	3.373	3.603	4.225	4.152	4.150	77.70	54.70	-7.50	-0.20
15Y MGS	3.217	3.334	3.857	3.940	3.840	62.30	50.60	-1.70	-10.00
10Y MGS	2.650	2.971	3.129	3.249	3.230	58.00	25.90	10.10	-1.90
7Y MGS	2.381	2.759	2.940	2.969	2.964	58.30	20.50	2.40	-0.50
5Y MGS	2.116	2.531	2.569	2.527	2.498	38.20	-3.30	-7.10	-2.90
3Y MGS	1.871	2.340	2.324	2.243	2.242	37.10	-9.80	-8.20	-0.10
GII									
10Y GII	2.789	2.945	3.237	3.301	3.305	51.60	36.00	6.80	0.40
7Y GII	2.513	2.823	3.007	2.972	2.978	46.50	15.50	-2.90	0.60
5Y GII	2.269	2.561	2.614	2.670	2.660	39.10	9.90	4.60	-1.00
3Y GII	1.933	2.398	2.165	2.128	2.151	21.80	-24.70	-1.40	2.30
UST									
10Y UST	0.913	0.669	1.622	1.553	1.452	53.86	78.28	-16.99	-10.16
7Y UST	0.643	0.516	1.271	1.224	1.142	49.90	62.63	-12.88	-8.19
5Y UST	0.361	0.323	0.800	0.779	0.739	37.79	41.57	-6.11	-4.01
3Y UST	0.165	0.229	0.303	0.301	0.308	14.27	7.85	0.51	0.68
ASIAN 10Y GOVERNMENT BONDS									
10Y JP	0.021	0.011	0.078	0.087	0.035	1.40	2.40	-4.30	-5.20
10Y CN	3.146	2.771	3.133	3.130	3.150	0.40	37.90	1.70	2.00
10Y SG	0.844	0.939	1.549	1.523	1.392	54.80	45.35	-15.67	-13.10
10Y ID	5.886	7.192	6.431	6.427	6.353	46.70	-83.90	-7.80	-7.40
10Y TH	1.283	1.280	1.773	1.868	1.808	52.51	52.72	3.43	-6.00

Source: Kenanga Research, Bloomberg

For further information, please contact:

Wan Suhaimi Wan Mohd Saidie
Head of Economic Research
wansuhaimi@kenanga.com.my

Muhammad Saifuddin Sapuan
Economist
saifuddin.sapuan@kenanga.com.my

Afiq Asyraf Syazwan Abd. Rahim
Economist
afiqasyraf@kenanga.com.my

Zalman Basree
Economist
zalman@kenanga.com.my

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may affect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia

Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my