Bond Market Weekly Outlook

MGS/GII yields to trend rangebound, amid elevated COVID-19 cases

Government Debt Trend and Flows

- MGS and GII yields were mixed last week, moving between -2.1bps to 2.9bps overall. The 10Y MGS initially rose 6.7bps to 3.254% on 12 Jul, before declining to 3.196%, 0.9bps higher than the previous week.
- MGS/GII yields began the week higher following reports that Malaysia's daily vaccination rate breached 400.0k doses. However, by mid-week demand for bonds strengthened as COVID-19 infections rose to record highs and as UST yields declined.
- Domestic yields may move rangebound this week as risk-off sentiment remains, amid persistently high local COVID-19 cases. Nevertheless, Malaysia's rising vaccination rates may begin to lift yields in the coming weeks. In the medium to long-term, we still expect yields to return to an uptrend, as lockdown restrictions are eased in line with the National Recovery Plan.
- Despite foreign inflows for Asian bonds soaring to a two year high in June, foreign demand for Malaysian debt is expected to remain pressured in the near-term. This is due to persistently high local COVID-19 cases, ongoing MCO measures, and political uncertainties. However, in the medium-term we expect foreign inflows to return as lockdown measures are eased. Additionally, yield differentials remain attractive, with the 10Y MGS-UST spread rising to 190.6bps (previous week: 182.8bps)

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

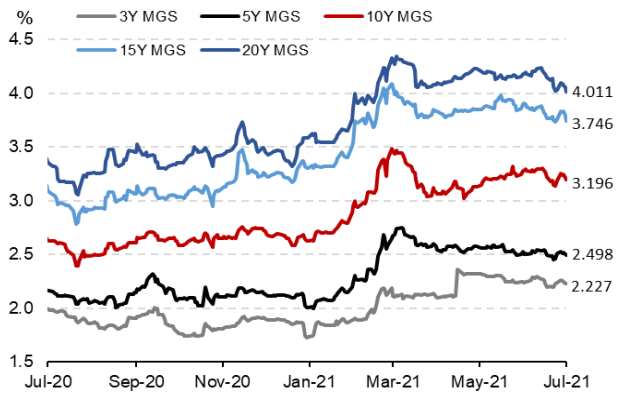
	Long Term*				
	Q2-21	Q3-21F	Q4-21F	Q1-22F	Q2-22F
MGS	3.28	3.40	3.50	3.60	3.65
UST	1.47	1.75	2.00	2.10	2.15
USDMYR	4.149	4.133	4.028	4.000	3.977
OPR	1.75	1.75	1.75	1.75	1.75

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

Auction Results (15-July)

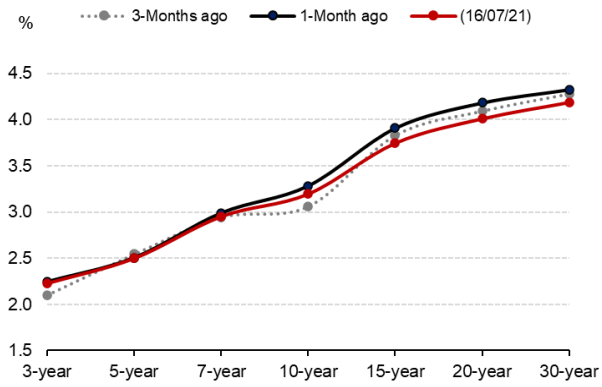
- The 15Y GII 07/36 reopened at RM4.5b, of which RM2.0b was privately placed, and was awarded at an average yield of 3.982%.
- As expected, demand was strong with a bid-to-cover (BTC) ratio of 3.056x (YTD average: 2.219x), amid elevated risk-off sentiment.
- The next auction is a reopening of the 5Y MGS 11/26, with an estimated total issuance of RM3.5b and 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 (%)
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 MGII (Mat on 10/24)	23/06/2021	4500.0	-	4500.0	2.001	2.341	2.350	2.330
	20-yr Reopening of MGS (Mat on 5/40)	30/06/2021	2000.0	2000.0	4000.0	2.651	4.254	4.268	4.223
Jul	15-yr Reopening of MGII (Mat on 7/36)	15/07/2021	2500.0	2000.0	4500.0	3.056	3.982	3.992	3.969
	5-yr Reopening of MGS (Mat on 11/26)								
	10-yr Reopening of MGII (Mat on 10/30)								

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

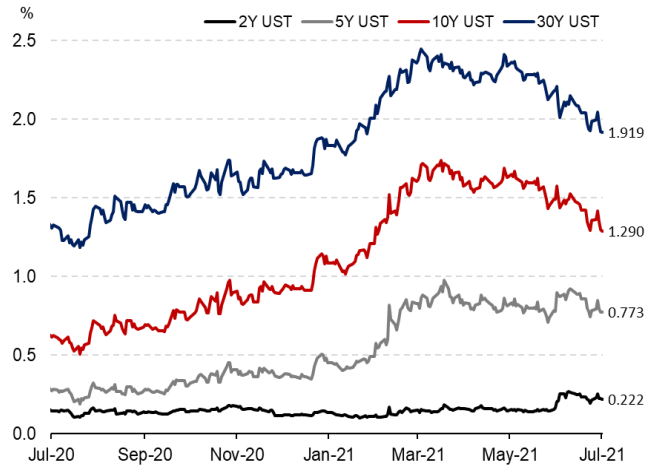
United States Treasuries (UST)

- UST yields were mixed last week, moving between -7.0bps to 3.5bps overall. The 10Y UST initially rose 5.7bps to 1.417% on 13 Jul, before plummeting and closing the week lower at 1.29%, its lowest level since February.
- Demand for UST was strong last week, despite the US inflation rate registering 5.4% in June (May: 5.0%), its highest level since 2008. Demand was driven by sustained concerns regarding the COVID-19 Delta variant and US Fed Chairman Powell's testimony on 14 Jul, where he continued to argue that high inflation would soon recede, and that the US labour market recovery remained at an unsatisfactory level.
- Yields will likely remain rangebound this week, fuelled by sustained safe-haven demand for UST. Nevertheless, we still expect yields to return to an uptrend in the medium-term, given the US's strong economic recovery, rising vaccination rates and the US Fed potentially tapering its quantitative easing programme.

Ringgit Outlook

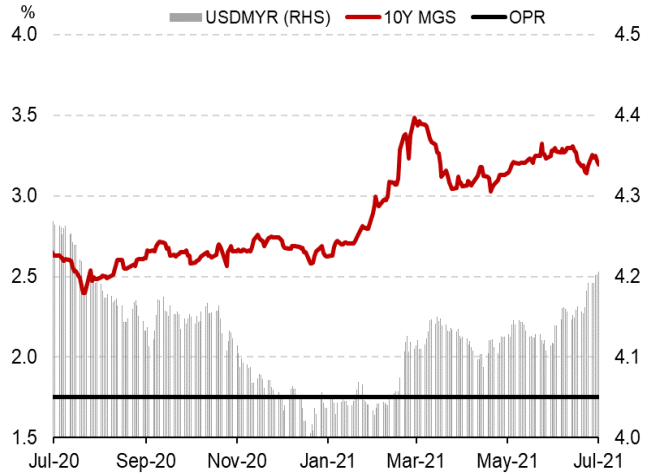
- MYR continued to weaken against the USD last week, reaching its lowest level since July 2020, and we expect it to trade in a tight range between 4.19 and 4.21 this week. On the other hand, our technical model suggests the MYR may rebound slightly to 4.198 this week. (*Please refer to our Ringgit Weekly Outlook report)*

Graph 3: UST Yield Trend



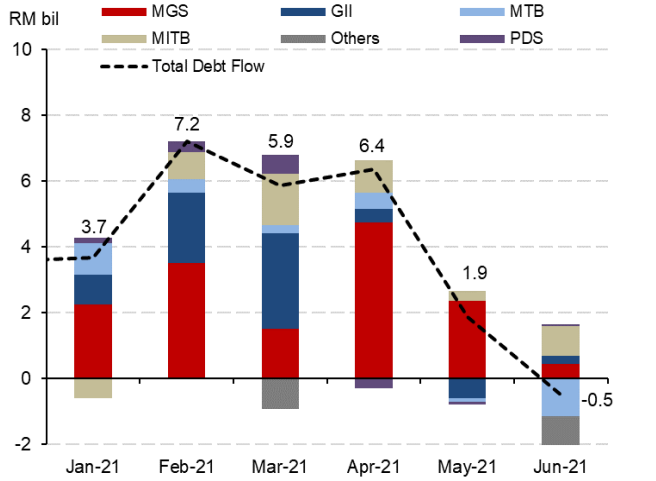
Source: Kenanga Research, Bloomberg

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



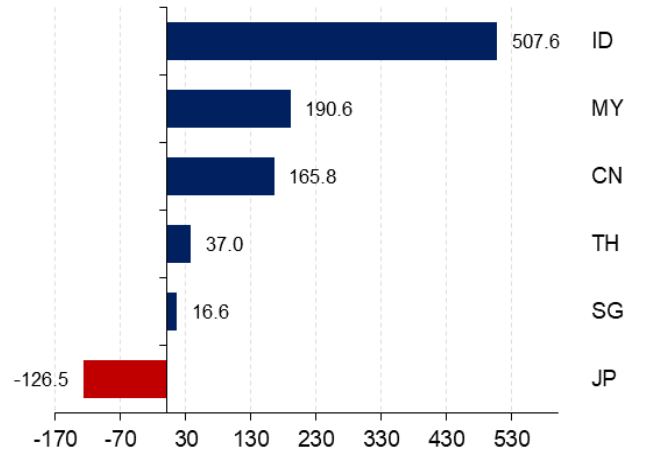
Source: Kenanga Research, Bloomberg

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 16/07/21*

Table 3: Bond Yield Movements

Bonds	01/01/21 YTD	16/07/20 Last Year	16/06/21 Last Month	09/07/21 Last Fortnight	16/07/21 Last Week	ytd (bps)	yoy (bps)	mom (bps)	wow (bps)
MGS									
30Y MGS	3.839	3.773	4.326	4.179	**4.188**	34.90	41.50	-13.80	0.90
20Y MGS	3.373	3.364	4.182	4.032	**4.011**	63.80	64.70	-17.10	-2.10
15Y MGS	3.217	3.095	3.908	3.761	**3.746**	52.90	65.10	-16.20	-1.50
10Y MGS	2.650	2.635	3.282	3.187	**3.196**	54.60	56.10	-8.60	0.90
7Y MGS	2.381	2.405	2.988	2.976	**2.952**	57.10	54.70	-3.60	-2.40
5Y MGS	2.116	2.164	2.503	2.512	**2.498**	38.20	33.40	-0.50	-1.40
3Y MGS	1.871	1.996	2.241	2.241	**2.227**	35.60	23.10	-1.40	-1.40
GII									
20Y GII	3.577	3.448	4.267	4.223	**4.226**	64.90	77.80	-4.10	0.30
10Y GII	2.789	2.652	3.334	3.260	**3.277**	48.80	62.50	-5.70	1.70
7Y GII	2.513	2.487	2.998	2.942	**2.971**	45.80	48.40	-2.70	2.90
3Y GII	1.933	2.041	2.220	2.279	**2.269**	33.60	22.80	4.90	-1.00
UST									
30Y UST	1.645	1.308	2.207	1.989	**1.919**	27.43	61.09	-28.81	-6.97
20Y UST	1.440	1.086	2.139	1.909	**1.843**	40.25	75.73	-29.58	-6.62
10Y UST	0.913	0.617	1.575	1.360	**1.290**	37.71	67.35	-28.51	-6.92
7Y UST	0.643	0.459	1.295	1.112	**1.063**	41.96	60.40	-23.19	-4.92
5Y UST	0.361	0.275	0.895	0.785	**0.773**	41.26	49.80	-12.20	-1.16
3Y UST	0.165	0.172	0.413	0.392	**0.428**	26.28	25.56	1.48	3.53
2Y UST	0.121	0.145	0.205	0.213	**0.222**	10.04	7.65	1.63	0.89
ASIAN 10Y GOVERNMENT BONDS									
10Y JP	0.021	0.026	0.051	0.033	**0.025**	0.40	-0.10	-2.60	-0.80
10Y CN	3.146	2.968	3.164	2.998	**2.948**	-19.80	-2.00	-21.60	-5.00
10Y SG	0.844	0.869	1.439	1.449	**1.456**	61.18	58.67	1.68	0.72
10Y ID	5.886	7.035	6.420	6.559	**6.366**	48.00	-66.90	-5.40	-19.30
10Y TH	1.283	1.326	1.829	1.710	**1.660**	37.75	33.38	-16.93	-5.04

Source: Kenanga Research, Bloomberg

For further information, please contact:

Wan Suhaimie 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