

# Bond Market Weekly Outlook

MGS/GII yields to decline amid impact of record high COVID-19 cases

## Government Debt Trend and Flows

- MGS and GII yields remained mixed last week, moving between -6.8bps to 3.4bps overall. The 10Y MGS initially fell 9.3bps to 3.103%, a 2-month low, before closing the week at 3.128% (previous: 3.196%).
- Demand for MGS/GII remained relatively strong last week, driven by risk-off sentiment amid persistently high domestic COVID-19 cases, and tracking a sustained decline in UST yields. Bonds were also supported by Fitch Ratings' reaffirmation of Malaysia's long-term foreign-currency rating at "BBB+" with a stable outlook.
- Domestic yields will likely fall this week, driven by sustained risk-off sentiment as Malaysia registered a record 17k new COVID-19 cases on Sunday (25 July). Nevertheless, in the medium to long-term, we expect yields to return to an uptrend given Malaysia's rising vaccination rate and as lockdown measures are eased.
- Amid the worsening domestic COVID-19 condition, ongoing lockdown restrictions, and lingering political uncertainty, we expect foreign demand for Malaysian debt to remain pressured in the near-term. However, local bonds will likely be supported by Fitch's reaffirmation of Malaysia's sovereign rating, and we expect foreign inflows to return in the medium-term as MCO measures are relaxed.

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

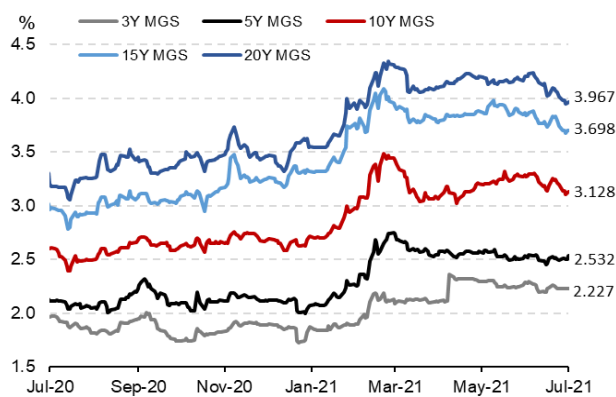
	Long Term*				
	Q2-21	Q3-21F	Q4-21F	Q1-22F	Q2-22F
<b>MGS</b>	3.28	3.40	3.50	3.60	3.65
<b>UST</b>	1.47	1.75	2.00	2.10	2.15
<b>USDMYR</b>	4.149	4.133	4.028	4.000	3.977
<b>OPR</b>	1.75	1.75	1.75	1.75	1.75

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

## Auction Results (22-July)

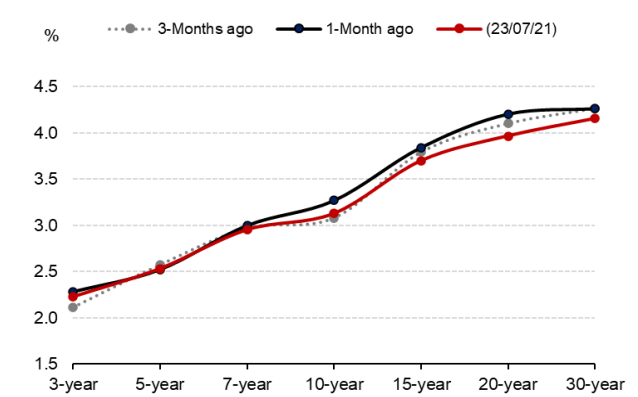
- The 5Y MGS 11/26 reopened at RM5.0b, with no private placement, and was awarded at an average yield of 2.616%.
- Demand was weak amid a larger than expected issuance, with a bid-to-cover (BTC) ratio of just 1.505x (YTD average: 2.185x), the lowest this year.
- The next auction is a reopening of the 10Y GII 10/30, with an estimated total issuance of RM4.5b including 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)	23/07/2021	5000.0	-	5000.0	1.505	2.616	2.644	2.585
	10-yr Reopening of MGII (Mat on 10/30)								

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

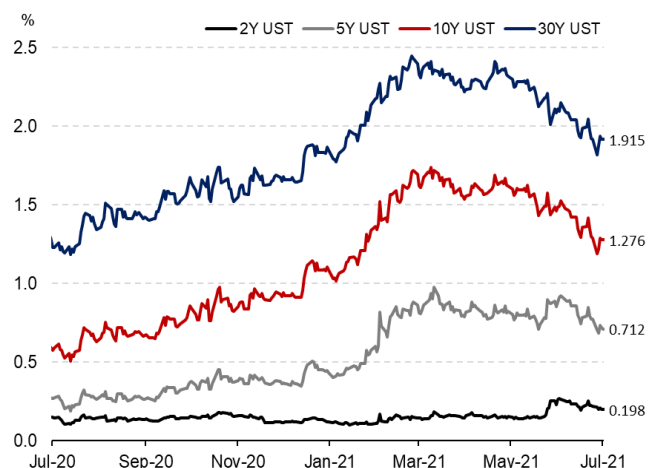
### United States Treasuries (UST)

- UST yields decreased across the curve last week, moving between -6.2bps to -0.4bps overall. The 10Y UST initially plunged 10.2bps to 1.189% on 19 July, a 5-month low, before closing the week at 1.276% (previous: 1.29%).
- Demand for UST remained strong last week amid concerns about the rapid spread of the Delta COVID-19 variant, which has clouded the US's economic outlook. However, this position partly reversed by mid-week with the 10Y UST yield rebounding to nearly 1.3%.
- Yields may trend rangebound-to-lower this week, ahead of the US FOMC meeting on Wednesday, and will likely remain pressured in the near-term given the sustained rise of the Delta variant. Additionally, initial jobless claims registered higher-than-expected for the week ended 17 July at 419k (previous: 368k). This suggests that the US labour market recovery remains unstable, which may drive the US Fed to maintain its dovish policy stance.

### Ringgit Outlook

- MYR continued to depreciate last week, largely due to rising domestic COVID-19 cases. We expected the ringgit to continue declining against the USD this week, however, our technical model suggests it may reverse its downtrend and appreciate slightly by 0.09% to 4.223. (Please refer to our Ringgit Weekly Outlook report)

Graph 3: UST Yield Trend



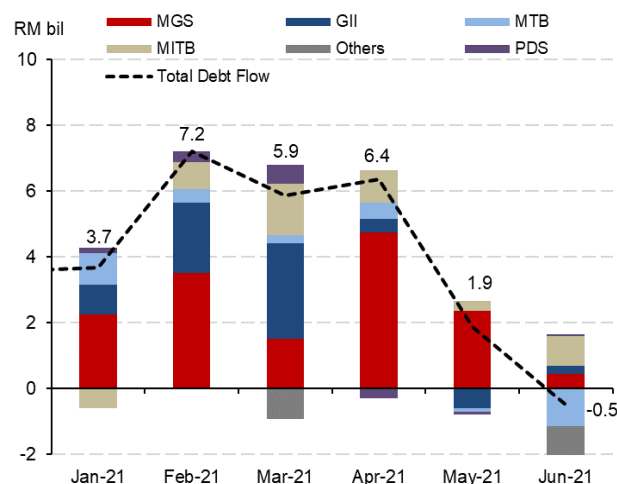
Source: Kenanga Research, Bloomberg

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



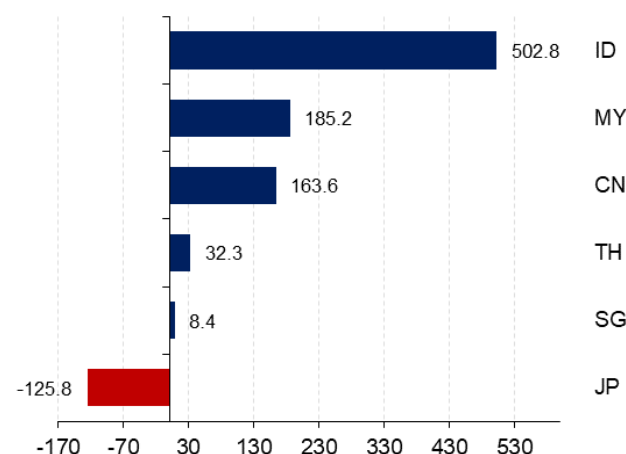
Source: Kenanga Research, Bloomberg

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 23/07/21

Table 3: Bond Yield Movements

Bonds	01/01/21 YTD	23/07/20 Last Year	23/06/21 Last Month	16/07/21 Last Fortnight	23/07/21 Last Week	ytd (bps)	yoy (bps)	mom (bps)	wow (bps)
<b>MGS</b>									
30Y MGS	3.839	3.612	4.263	4.188	4.155	31.60	54.30	-10.80	-3.30
20Y MGS	3.373	3.208	4.203	4.011	3.967	59.40	75.90	-23.60	-4.40
15Y MGS	3.217	2.963	3.842	3.746	3.698	48.10	73.50	-14.40	-4.80
10Y MGS	2.650	2.598	3.269	3.196	3.128	47.80	53.00	-14.10	-6.80
7Y MGS	2.381	2.321	2.999	2.952	2.952	57.10	63.10	-4.70	0.00
5Y MGS	2.116	2.114	2.524	2.498	2.532	41.60	41.80	0.80	3.40
3Y MGS	1.871	1.965	2.284	2.227	2.227	35.60	26.20	-5.70	0.00
<b>GII</b>									
20Y GII	3.577	3.336	4.280	4.226	4.188	61.10	85.20	-9.20	-3.80
10Y GII	2.789	2.613	3.330	3.277	3.235	44.60	62.20	-9.50	-4.20
7Y GII	2.513	2.371	3.002	2.971	2.975	46.20	60.40	-2.70	0.40
3Y GII	1.933	2.009	2.344	2.269	2.285	35.20	27.60	-5.90	1.60
<b>UST</b>									
30Y UST	1.645	1.231	2.108	1.919	1.915	27.02	68.40	-19.32	-0.41
20Y UST	1.440	1.012	2.035	1.843	1.833	39.22	82.01	-20.26	-1.03
10Y UST	0.913	0.577	1.485	1.290	1.276	36.31	69.89	-20.89	-1.40
7Y UST	0.643	0.438	1.238	1.063	1.025	38.19	58.70	-21.30	-3.77
5Y UST	0.361	0.271	0.881	0.773	0.712	35.10	44.11	-16.95	-6.16
3Y UST	0.165	0.172	0.462	0.428	0.372	20.74	19.99	-8.94	-5.54
2Y UST	0.121	0.151	0.262	0.222	0.198	7.70	4.68	-6.41	-2.34
<b>ASIAN 10Y GOVERNMENT BONDS</b>									
10Y JP	0.021	0.019	0.056	0.025	0.018	-0.30	-0.10	-3.80	-0.70
10Y CN	3.146	2.915	3.092	2.948	2.912	-23.40	-0.30	-18.00	-3.60
10Y SG	0.844	0.857	1.529	1.456	1.361	51.63	50.34	-16.82	-9.55
10Y ID	5.886	6.884	6.592	6.366	6.304	41.80	-58.00	-28.80	-6.20
10Y TH	1.283	1.285	1.850	1.660	1.600	31.71	31.41	-25.09	-6.04

Source: Kenanga Research, Bloomberg

## For further information, please contact:

Wan Suhaimie Wan Mohd Saidie  
Head of Economic Research  
[wansuhaimi@kenanga.com.my](mailto:wansuhaimi@kenanga.com.my)

Muhammad Saifuddin Sapuan  
Economist  
[saifuddin.sapuan@kenanga.com.my](mailto:saifuddin.sapuan@kenanga.com.my)

Afiq Asyraf Syazwan Abd. Rahim  
Economist  
[afiqasyraf@kenanga.com.my](mailto:afiqasyraf@kenanga.com.my)

Zalman Basree  
Economist  
[zalman@kenanga.com.my](mailto:zalman@kenanga.com.my)

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**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](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)