

Bond Market Weekly Outlook

MGS/GII yields may trend rangebound as COVID-19 condition worsens

Government Debt Trend and Flows

- MGS and GII yields mostly increased last week, moving between -0.5bps to 8.7bps overall. The 10Y MGS rose 4.3bps to 3.171%, its highest level in two weeks.
- Demand for MGS was pressured last week following the sizeable auction of the 10Y GII, which drew strong demand and was awarded at a relatively high average yield. The reconvening of parliament, and confirmation of the end of the COVID-19 state of emergency, also likely contributed to the rise in yields.
- Domestic yields may move sideways this week, as cautious sentiment remains given Malaysia's worsening COVID-19 condition. In the medium-term, yields will still likely return to an uptrend as vaccination momentum continues and Movement Control Order measures are relaxed in line with the National Recovery Plan.
- The persistently high level of COVID-19 cases and ongoing lockdown measures will likely suppress foreign demand for Malaysian bonds in the near-term. However, local bonds may find some support from the recent sitting of parliament and the end of Malaysia's state of emergency. In the medium-term we expect foreign inflows to return, driven by increasingly attractive yield differentials; the 10Y MGS-UST yield spread stands at 194.9bps (previous: 185.2bps)

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

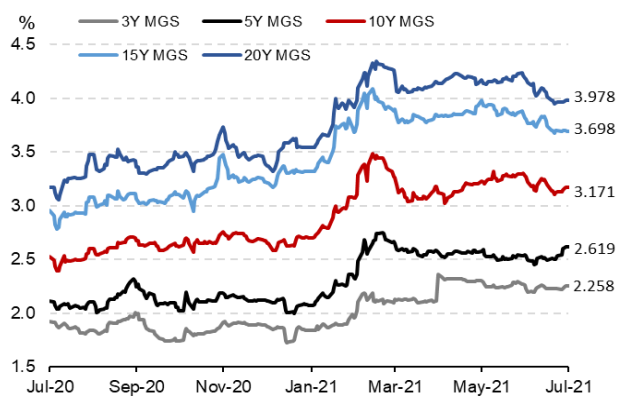
	Long Term*				
	Q2-21	Q3-21F	Q4-21F	Q1-22F	Q2-22F
MGS	3.28	3.40	3.50	3.60	3.65
UST	1.47	1.75	2.00	2.10	2.15
USDMYR	4.149	4.133	4.028	4.000	3.977
OPR	1.75	1.75	1.75	1.75	1.75

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

Auction Results (29-July)

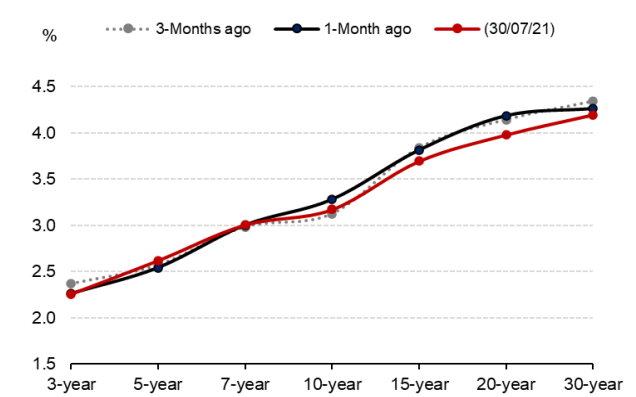
- The 10Y GII 10/30 reopened at RM5.5b, of which RM2.0b was privately placed, and was awarded at an average yield of 3.286%.
- Demand was very strong with a bid-to-cover (BTC) ratio of 3.403x, the highest this year, and significantly higher than the recent auction of the 5Y MGS with only 1.505x.
- The next auction is a reopening of the 30Y MGS 06/50, with an estimated total issuance of RM4.0b 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)	30/07/2021	3500.0	2000.0	5500.0	3.403	3.286	3.297	3.273

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

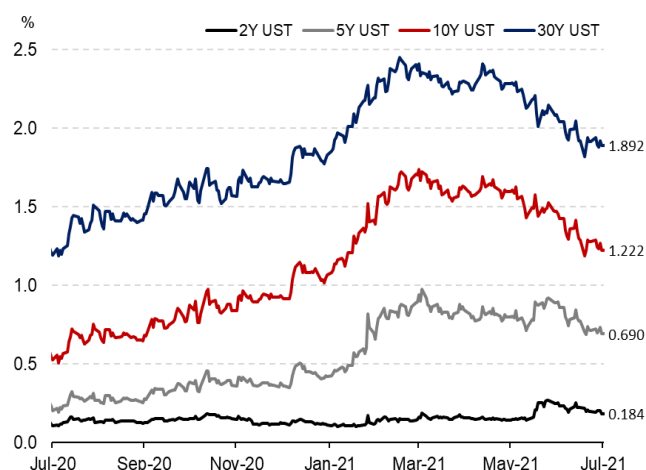
United States Treasuries (UST)

- UST yields continued to decrease across the curve last week, moving between -5.4bps to -1.4bps overall. The 10Y UST yield declined for the fifth consecutive week, falling 5.4bps to 1.222%.
- Demand for UST remained strong last week amid the US FOMC meeting and weaker-than-expected readings for GDP and jobless claims. Yields continued to fall after the Fed failed to provide a timeline for tapering its USD120.0b monthly bond purchases. Additionally, the US recorded 6.5% GDP growth in 2Q21 (1Q21: 4.3%), below market forecasts of 8.5%. Finally, US initial jobless claims improved at 400.0k for the week ending July 24 but remained above market expectations of 380.0k.
- Yields may trend rangebound-to-higher this week, following persistently high inflation readings. The personal consumption expenditures price index increased 3.5% YoY in June (May: 3.4%) but was slightly softer than market expectations of 3.6%. Nevertheless, concerns regarding the spread of the Delta variant may continue to suppress yields.

Monetary Policy & Ringgit Outlook

- The US Fed kept the federal fund rate target near zero at last week's FOMC meeting, as expected. It acknowledged that the US economy continues to recovery despite persistent pandemic concerns, but that a rate hike is nowhere being considered. Nevertheless, we believe the Fed has started its tapering clock, and may be considering scaling back its USD120.0b monthly bond purchases in 4Q21 or 1Q22.
- MYR rebounded against the USD by end of last week, following Chairman Powell's dovish comments, higher Brent crude oil price and lower UST yields. We expect the ringgit to weaken around the 4.23 – 4.25 level this week, in line with our technical model, which suggests a depreciation of 0.20% against the greenback. *(Please refer to our Ringgit Weekly Outlook report)*

Graph 3: UST Yield Trend



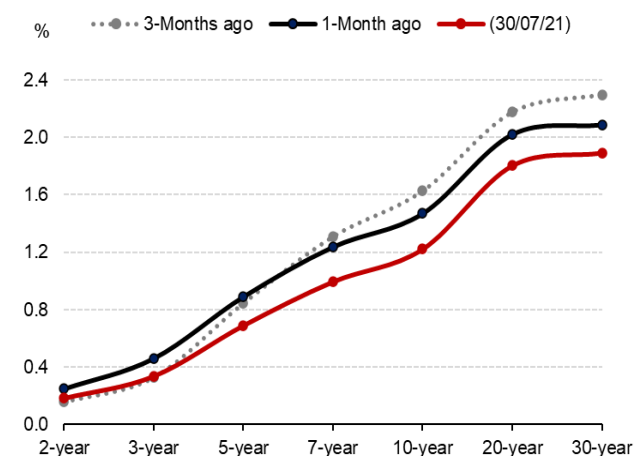
Source: Kenanga Research, Bloomberg

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



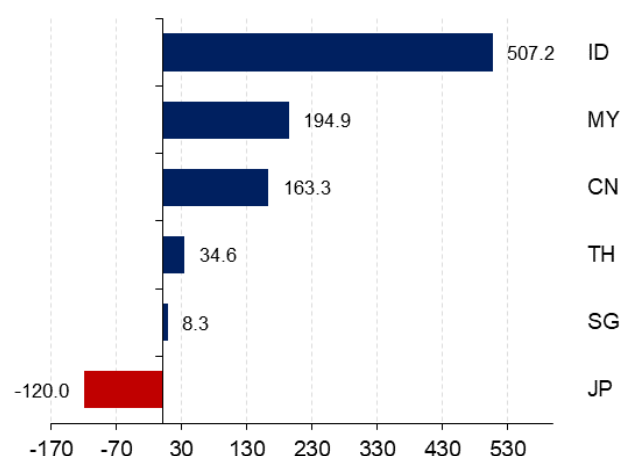
Source: Kenanga Research, Bloomberg

Graph 5: 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 30/07/21

02 August 2021

Table 3: Bond Yield Movements

Bonds	01/01/21 YTD	30/07/20 Last Year	30/06/21 Last Month	23/07/21 Last Fortnight	30/07/21 Last Week	ytd (bps)	yoy (bps)	mom (bps)	wow (bps)
MGS									
30Y MGS	3.839	3.544	4.262	4.155	4.195	35.60	65.10	-6.70	4.00
20Y MGS	3.373	3.174	4.185	3.967	3.978	60.50	80.40	-20.70	1.10
15Y MGS	3.217	2.955	3.813	3.698	3.693	47.60	73.80	-12.00	-0.50
10Y MGS	2.650	2.530	3.279	3.128	3.171	52.10	64.10	-10.80	4.30
7Y MGS	2.381	2.247	3.001	2.952	3.005	62.40	75.80	0.40	5.30
5Y MGS	2.116	2.112	2.541	2.532	2.619	50.30	50.70	7.80	8.70
3Y MGS	1.871	1.927	2.261	2.227	2.258	38.70	33.10	-0.30	3.10
GII									
20Y GII	3.577	3.304	4.282	4.188	4.182	60.50	87.80	-10.00	-0.60
10Y GII	2.789	2.574	3.361	3.235	3.289	50.00	71.50	-7.20	5.40
7Y GII	2.513	2.291	3.011	2.975	2.984	47.10	69.30	-2.70	0.90
3Y GII	1.933	1.983	2.310	2.285	2.295	36.20	31.20	-1.50	1.00
UST									
30Y UST	1.645	1.207	2.086	1.915	1.892	24.73	68.54	-19.35	-2.29
20Y UST	1.440	0.981	2.018	1.833	1.803	36.29	82.19	-21.48	-2.93
10Y UST	0.913	0.546	1.468	1.276	1.222	30.91	67.61	-24.57	-5.40
7Y UST	0.643	0.405	1.236	1.025	0.995	35.21	59.09	-24.06	-2.98
5Y UST	0.361	0.231	0.889	0.712	0.690	32.96	45.93	-19.90	-2.14
3Y UST	0.165	0.130	0.460	0.372	0.338	17.28	20.74	-12.27	-3.46
2Y UST	0.121	0.117	0.249	0.198	0.184	6.28	6.67	-6.47	-1.42
ASIAN 10Y GOVERNMENT BONDS									
10Y JP	0.021	0.021	0.058	0.018	0.022	0.10	0.10	-3.60	0.40
10Y CN	3.146	2.935	3.093	2.912	2.855	-29.10	-8.00	-23.80	-5.70
10Y SG	0.844	0.800	1.575	1.361	1.305	46.05	50.46	-27.03	-5.58
10Y ID	5.886	6.825	6.590	6.304	6.294	40.80	-53.10	-29.60	-1.00
10Y TH	1.283	1.296	1.779	1.600	1.568	28.54	27.21	-21.07	-3.17

Source: Kenanga Research, Bloomberg

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Published and printed by:

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