

Bond Market Weekly Outlook

MGS/GII yields may decline ahead of the MPC meeting

Government Debt Trend and Flows

- MGS and GII yields decreased across the curve last week, moving between -8.3bps to -1.4bps. The 10Y MGS declined 2.7bps to 3.188%, its lowest level in 4 weeks.
- Demand for MGS/GII was solid last week, following a fall in UST yields the previous week, in anticipation of the US jobs report, and amid a strong reopening auction for the 20Y GII. Additionally, government bonds likely remained supported by risk-off demand due to the persistently high levels of domestic COVID-19 cases.
- Domestic yields may continue to fall this week, tracking an expected decline in UST yields, following weak non-farm payrolls data, and ahead of the Monetary Policy Committee meeting, where BNM will likely stand pat on the policy rate. In the medium to long-term, we expect domestic yields to return to an uptrend as local restrictions are eased further and as the US Fed possibly commences tapering at the end of the year.
- Foreign demand for domestic bonds may remain slightly pressured in the near-term, due to the local COVID-19 condition. However, the probability of bond inflows returning in the coming months has increased, given improving domestic political stability and as yield differentials remain attractive, with the 10Y MGS-UST spread at 186.6bps.

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

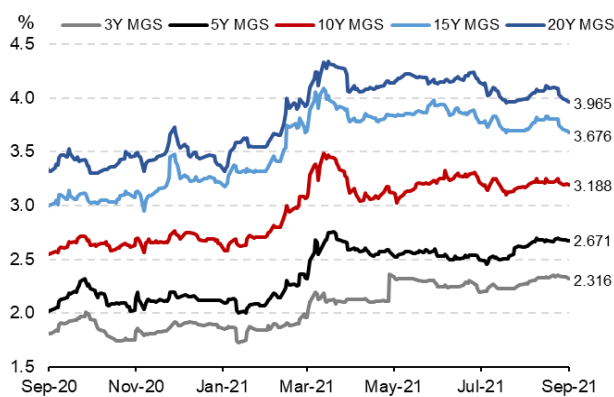
	Long Term*				
	Q2-21	Q3-21F	Q4-21F	Q1-22F	Q2-22F
MGS	3.28	3.30	3.50	3.60	3.65
UST	1.47	1.40	1.70	1.90	2.00
USDMYR	4.149	4.221	4.182	4.153	4.131
OPR	1.75	1.75	1.75	1.75	1.75

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

Auction Results (02-September)

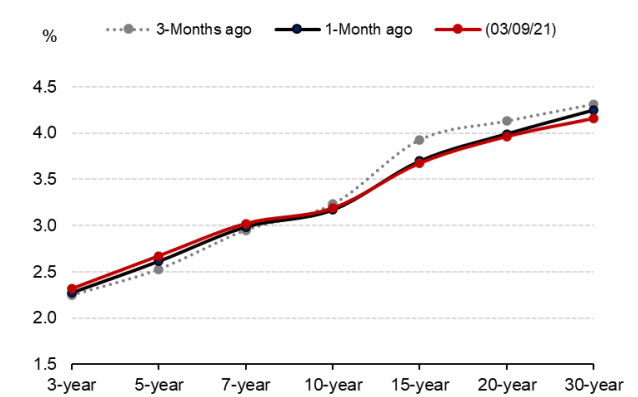
- The 20Y GII 09/41 reopened at a larger-than-expected RM4.5b, of which RM2.0b was privately placed, and was awarded at an average yield of 4.178%.
- Demand was strong, with a bid-to-cover (BTC) ratio of 2.687x, above the YTD average BTC of 2.238x.
- The next auction is a reopening of the 10Y MGS 04/31, and we estimate an issuance of RM5.0b 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 (%)
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
Aug	30-yr Reopening of MGS (Mat on 6/50)	06/08/2021	2000.0	2000.0	4000.0	2.280	4.289	4.300	4.259
	7-yr Reopening of MGII (Mat on 10/28)	18/08/2021	4500.0	-	4500.0	1.980	3.163	3.178	3.145
	3-yr Reopening of MGS (Mat on 6/24)	26/08/2021	5000.0	-	5000.0	1.950	2.355	2.363	2.338
Sep	20-yr Reopening of MGII (Mat on 9/41)	03/09/2021	2500.0	2000.0	4500.0	2.687	4.178	4.191	4.165
	10-yr Reopening of MGS (Mat on 4/31)								
	5-yr Reopening of MGII (Mat on 3/26)								

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

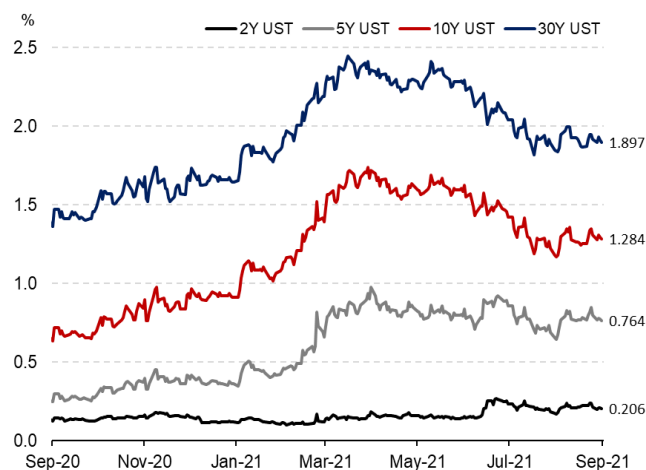
United States Treasuries (UST)

- UST yields were mixed last week, moving between -1.6bps to 2.5bps overall. The 10Y UST increased by 1.5bps to 1.322%, while the 2Y UST declined by 0.9bps to 0.206%.
- Demand for UST was pressured last week ahead of the release of August's non-farm payrolls data. Additionally, Treasury yields moved higher following hawkish comments by the European Central Bank, after eurozone inflation rose to its highest level in almost a decade (3.0%; Jul: 2.2%). Yields also continued to rise on Sep 3, despite a weaker-than-expected US jobs report.
- Yields may decline this week, amid renewed concerns regarding the US labour market. Non-farm payrolls registered 235.0k in August (Jul: 1053.0k), far below market expectations of 750.0k and the lowest level in 7 months. Fears concerning the Delta variant and resurgence in COVID-19 cases may have deterred people from searching for employment and companies from hiring.

Monetary Policy & Ringgit Outlook

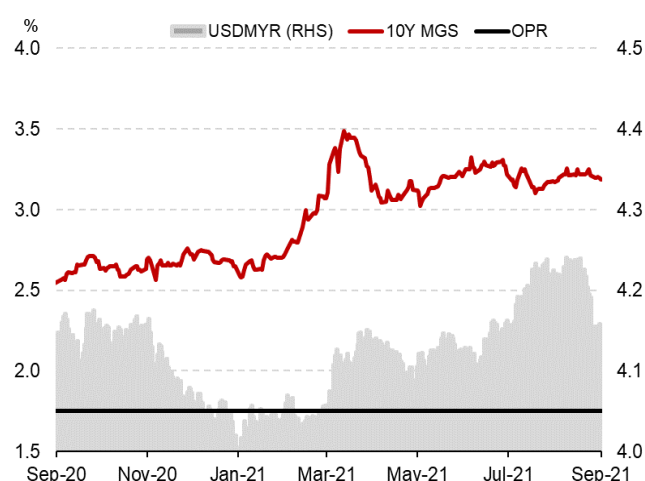
- Bank Negara Malaysia is expected to maintain the overnight policy rate at 1.75%, at the 5th Monetary Policy Committee meeting later this week (Sep 9).
- MYR continued to strengthen against the USD last week, reaching an 11-week high. The ringgit is expected to trade rangebound between 4.14 – 4.16, with an upside bias, against the dollar this week. However, our technical model suggests the MYR may slightly weaken this week, falling 0.32% against the USD. (Please refer to our Ringgit Weekly Outlook report)

Graph 3: UST Yield Trend



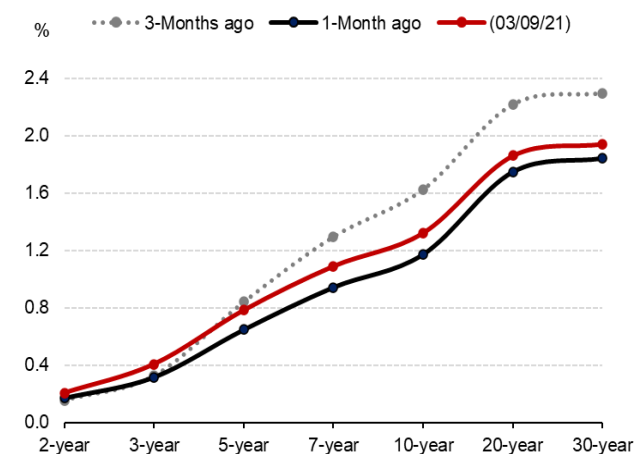
Source: Kenanga Research, Bloomberg

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



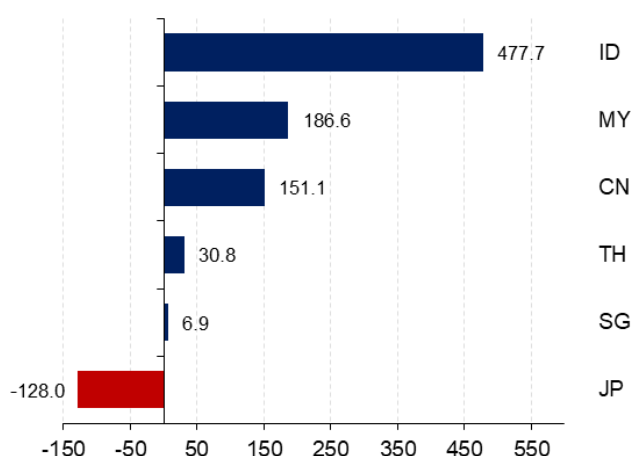
Source: Kenanga Research, Bloomberg

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 03/09/21

Table 3: Bond Yield Movements

Bonds	01/01/21 YTD	03/09/20 Last Year	03/08/21 Last Month	27/08/21 Last Fortnight	03/09/21 Last Week	ytd (bps)	yoy (bps)	mom (bps)	wow (bps)
MGS									
30Y MGS	3.839	3.663	4.249	4.192	4.161	32.20	49.80	-8.80	-3.10
20Y MGS	3.373	3.329	3.992	4.029	3.965	59.20	63.60	-2.70	-6.40
15Y MGS	3.217	3.001	3.698	3.744	3.676	45.90	67.50	-2.20	-6.80
10Y MGS	2.650	2.548	3.169	3.215	3.188	53.80	64.00	1.90	-2.70
7Y MGS	2.381	2.300	2.985	3.061	3.021	64.00	72.10	3.60	-4.00
5Y MGS	2.116	2.018	2.614	2.688	2.671	55.50	65.30	5.70	-1.70
3Y MGS	1.871	1.805	2.274	2.347	2.316	44.50	51.10	4.20	-3.10
GII									
20Y GII	3.577	3.361	4.191	4.236	4.153	57.60	79.20	-3.80	-8.30
10Y GII	2.789	2.559	3.283	3.331	3.296	50.70	73.70	1.30	-3.50
7Y GII	2.513	2.334	2.987	3.160	3.142	62.90	80.80	15.50	-1.80
3Y GII	1.933	1.819	2.304	2.375	2.361	42.80	54.20	5.70	-1.40
UST									
30Y UST	1.645	1.362	1.841	1.917	1.942	29.71	58.04	10.12	2.53
20Y UST	1.440	1.149	1.746	1.843	1.861	42.08	71.24	11.47	1.81
10Y UST	0.913	0.635	1.172	1.307	1.322	40.91	68.76	15.01	1.53
7Y UST	0.643	0.436	0.942	1.095	1.090	44.67	65.36	14.79	-0.48
5Y UST	0.361	0.248	0.647	0.800	0.784	42.28	53.52	13.63	-1.59
3Y UST	0.165	0.144	0.316	0.420	0.407	24.22	26.35	9.08	-1.31
2Y UST	0.121	0.127	0.170	0.215	0.206	8.50	7.91	3.58	-0.90
ASIAN 10Y GOVERNMENT BONDS									
10Y JP	0.021	0.040	0.011	0.027	0.042	2.10	0.20	3.10	1.50
10Y CN	3.146	3.120	2.832	2.873	2.833	-31.30	-28.70	0.10	-4.00
10Y SG	0.844	0.970	1.276	1.445	1.391	54.69	42.08	11.53	-5.33
10Y ID	5.886	6.950	6.262	6.170	6.099	21.30	-85.10	-16.30	-7.10
10Y TH	1.283	1.496	1.557	1.611	1.630	34.75	13.45	7.28	1.88

Source: Kenanga Research, Bloomberg

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