

Bond Market Weekly Outlook

MGS/GII yields to trend rangebound following weak IPI data

Government Debt Trend and Flows

- MGS and GII yields mostly increased last week, moving between -0.2bps to 6.2bps overall. The 10Y MGS rose 6.2bps to 3.25%, its highest level in three weeks.
- Demand for government bonds was pressured last week, in the lead up to Bank Negara's (BNM) monetary policy meeting, as lockdown measures continued to be relaxed, and amid a rise in global bond yields. Additionally, foreign inflows returned to the domestic bond market, registering RM6.6b in August (Jul: -RM3.6b).
- Domestic yields may trend rangebound this week, following the weaker-than-expected IPI reading of -5.2% in July (Jun: 1.4%), which may renew concerns regarding Malaysia's recovery outlook. Nevertheless, in the medium-term we still expect domestic yields to return to an uptrend, given the continued progress of the National Recovery Plan (NRP) and as the US Fed potentially begins tapering by the end of the year.
- Given the improvement in domestic political stability, we expect the high yield differentials of local bonds to resume attracting foreign demand, as was the case earlier this year; the 10Y MGS-UST yield spread increased to 190.9bps last week (previous: 186.6bps). Demand will also be driven by Malaysia's strong vaccination progress and the continued easing of restriction measures, in line with the NRP.

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

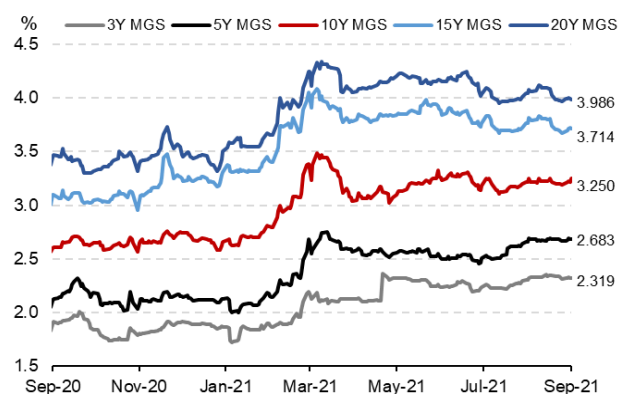
	Long Term*				
	Q2-21	Q3-21F	Q4-21F	Q1-22F	Q2-22F
MGS	3.28	3.30	3.40	3.45	3.50
UST	1.47	1.40	1.70	1.80	1.90
USDMYR	4.149	4.221	4.182	4.153	4.131
OPR	1.75	1.75	1.75	1.75	1.75

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

Upcoming Auction (14-September)

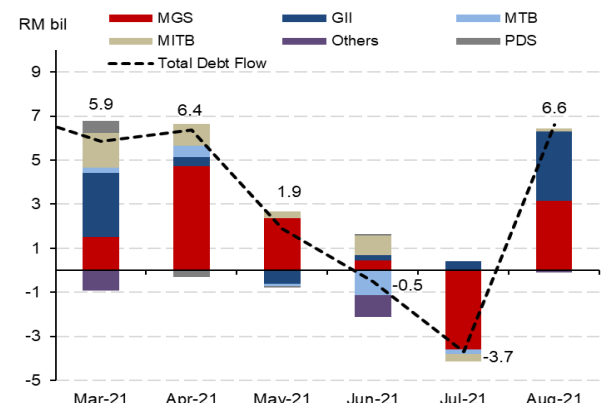
- The 10Y MGS 04/31 is scheduled to reopen at a slightly larger-than-expected issuance of RM5.5b, which includes RM1.5b worth of private placement.
- The previous reopening of the 10Y MGS registered a decent bid-to-cover (BTC) ratio of 1.966x in June 2021, and we expect a similar level of demand at this sale given the large auction size of RM4.0b.

Graph 1: Benchmark MGS Yield Trend



Source: Kenanga Research, Bloomberg

Graph 2: Malaysia Debt Foreign Flows



Source: Kenanga Research, BNM

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)	15/09/2021	4000.0	1500.0	5500.0				
	5-yr Reopening of MGII (Mat on 3/26)								

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

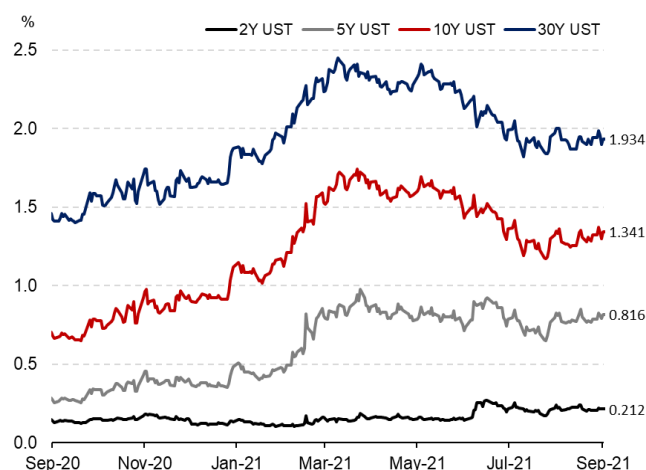
United States Treasuries (UST)

- UST yields were mixed last week, moving between -0.8bps to 3.6bps overall, with the long end of the curve slightly pressured. The 10Y UST initially rose 5.6bps to 1.373% on Sep 7, its highest level in two months, before closing the week at 1.341% (+1.8bps).
- Demand for UST remained pressured last week, in anticipation of the European Central Bank (ECB) monetary policy meeting and despite the disappointing US Non-Farm Payrolls report. The ECB announced that it would taper the asset purchases under its pandemic emergency program, amid a surge in EU inflation, which pushed US bond yields higher. Furthermore, the US labour market outlook improved slightly, with Initial Jobless Claims reaching a pandemic low of 310k for the week ending Sep 4 (previous: 345k).
- Yields may continue to rise this week, given the ECB tapering decision and the improved US jobs outlook. Additionally, the US Producer Price Index rose marginally higher than expected in August (0.7%; Jul: 1.0%), reinforcing concerns about US inflation.

Monetary Policy & Ringgit Outlook

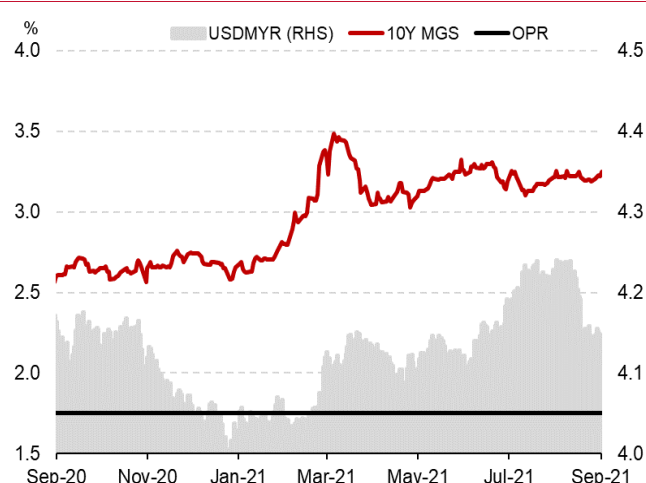
- Bank Negara Malaysia (BNM) retained the overnight policy rate at 1.75%, as expected. The central bank showed no change in tone from the previous meeting but hinted at better growth prospects for 2022. We continue to expect BNM to keep the policy rate unchanged for the rest of the year, whilst the probability of a rate cut will diminish as domestic restriction measures are further relaxed.
- MYR continued to strengthen against the USD last week, amid a rise in the CNY, stable oil prices, and further NRP progress. The ringgit may trade around the 4.14 level this week, facing selling pressure due to profit taking activities. Furthermore, our technical model suggests the MYR may depreciate 0.27% to 4.147 this week. *(Please refer to our Ringgit Weekly Outlook report)*

Graph 3: UST Yield Trend



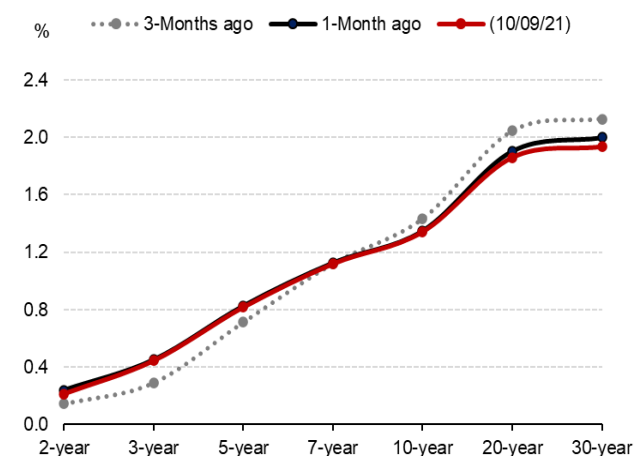
Source: Kenanga Research, Bloomberg

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



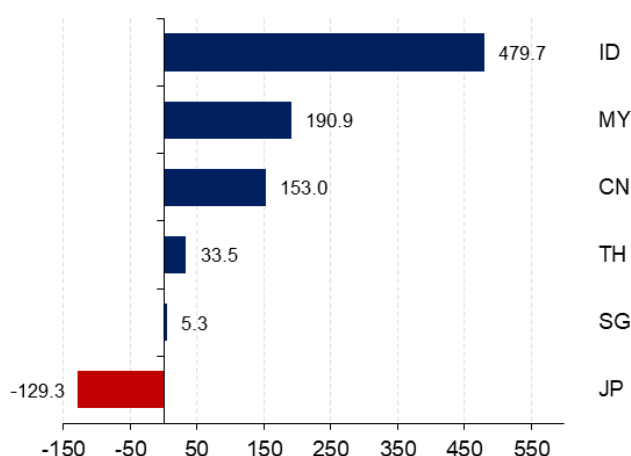
Source: Kenanga Research, Bloomberg

Graph 5: 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

13 September 2021

Table 3: Bond Yield Movements

Bonds	01/01/21 YTD	10/09/20 Last Year	10/08/21 Last Month	03/09/21 Last Fortnight	10/09/21 Last Week	ytd (bps)	yoy (bps)	mom (bps)	wow (bps)
MGS									
30Y MGS	3.839	3.747	4.308	4.161	4.171	33.20	42.40	-13.70	1.00
20Y MGS	3.373	3.442	4.047	3.965	3.986	61.30	54.40	-6.10	2.10
15Y MGS	3.217	3.096	3.769	3.676	3.714	49.70	61.80	-5.50	3.80
10Y MGS	2.650	2.600	3.218	3.188	3.250	60.00	65.00	3.20	6.20
7Y MGS	2.381	2.394	3.027	3.021	3.055	67.40	66.10	2.80	3.40
5Y MGS	2.116	2.110	2.660	2.671	2.683	56.70	57.30	2.30	1.20
3Y MGS	1.871	1.892	2.302	2.316	2.319	44.80	42.70	1.70	0.30
GII									
20Y GII	3.577	3.460	4.226	4.153	4.167	59.00	70.70	-5.90	1.40
10Y GII	2.789	2.627	3.321	3.296	3.322	53.30	69.50	0.10	2.60
7Y GII	2.513	2.403	3.053	3.142	3.155	64.20	75.20	10.20	1.30
3Y GII	1.933	1.908	2.330	2.361	2.359	42.60	45.10	2.90	-0.20
UST									
30Y UST	1.645	1.419	1.999	1.942	1.934	28.88	51.50	-6.51	-0.83
20Y UST	1.440	1.214	1.904	1.861	1.859	41.90	64.58	-4.49	-0.18
10Y UST	0.913	0.677	1.349	1.322	1.341	42.79	66.39	-0.79	1.88
7Y UST	0.643	0.464	1.126	1.090	1.118	47.47	65.45	-0.82	2.80
5Y UST	0.361	0.267	0.826	0.784	0.816	45.52	54.86	-0.99	3.24
3Y UST	0.165	0.162	0.450	0.407	0.443	27.83	28.16	-0.71	3.61
2Y UST	0.121	0.139	0.238	0.206	0.213	9.16	7.38	-2.56	0.66
ASIAN 10Y GOVERNMENT BONDS									
10Y JP	0.021	0.028	0.025	0.042	0.048	2.70	2.00	2.30	0.60
10Y CN	3.146	3.100	2.875	2.833	2.871	-27.50	-22.90	-0.40	3.80
10Y SG	0.844	0.927	1.440	1.391	1.394	54.97	46.71	-4.59	0.28
10Y ID	5.886	6.977	6.335	6.099	6.138	25.20	-83.90	-19.70	3.90
10Y TH	1.283	1.464	1.526	1.630	1.677	39.40	21.23	15.01	4.65

Source: Kenanga Research, Bloomberg

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