

Bond Market Weekly Outlook

MGS/GII yields to decline amid concerns over the Omicron variant

Government Debt Trend and Flows

- MGS and GII yields mostly decreased last week, moving between -5.3bps to 8.6bps overall. The 10Y MGS yield initially rose by 2.5bps to 3.569% on Nov 24, before closing the week lower at 3.523% (-2.1bps). The 3Y GII rose by 8.6bps to 2.81% following its reopening auction.
- Demand for MGS/GII was initially pressured last week in the lead up to the release of domestic inflation data and on higher UST yields following Jerome Powell's renomination. However, by the end of week investors piled into government bonds due to fears about a concerning new variant of COVID-19, dubbed Omicron.
- Domestic yields will likely continue to fall this week, in reaction to the sharp downturn in global yields and on an increase in safe-haven demand for bonds, as markets digest the emergence of the Omicron variant.
- With that said, concerns surrounding the Omicron variant will likely impact foreign demand for local bonds, on top of ongoing pressures from the Fed taper decision and elevated global inflation. We expect bond flows to soften in the near term. However, Malaysian bonds should find some support from high yield differentials and expectations of a solid domestic economic recovery.

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

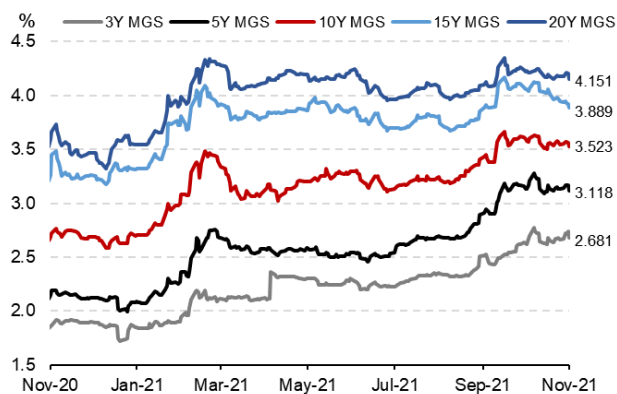
	Long Term*				
	Q3-21	Q4-21F	Q1-22F	Q2-22F	Q3-22F
MGS	3.37	3.70	3.75	3.80	3.85
UST	1.49	1.80	1.90	2.00	2.10
USDMYR	4.186	4.182	4.153	4.131	4.113
OPR	1.75	1.75	1.75	1.75	2.00

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

Auction Results (22-Nov)

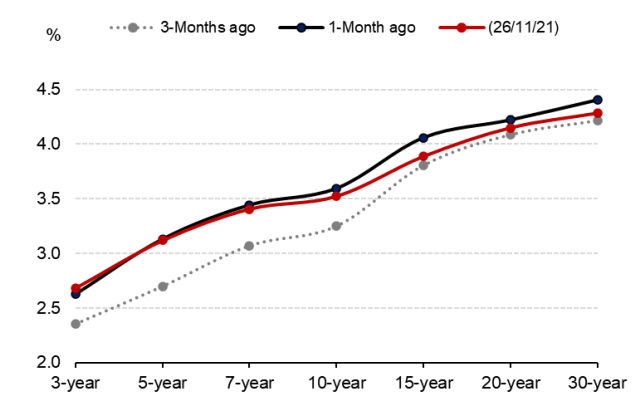
- The 3Y GII 10/24 reopened at RM4.5b, with no private placement, and registered an average yield of 2.787%.
- Demand was weak, registering a bid-to-cover (BTC) ratio of 1.412x, the lowest this year and well below the YTD average BTC of 2.194x.
- The next auction is a reopening of the 20Y MGS 05/40 scheduled for Nov 29 and amounting to RM3.5b, including private placement of RM1.5b.

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 (%)
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	1.606	3.292	3.310	3.270
	5-yr Reopening of MGII (Mat on 3/26)	30/09/2021	4000.0	-	4000.0	2.133	3.025	3.040	3.000
Oct	7-yr Reopening of MGS (Mat on 6/28)	07/10/2021	4500.0	-	4500.0	1.598	3.409	3.439	3.380
	30-yr Reopening of MGII (Mat on 11/49)	15/10/2021	2000.0	2000.0	4000.0	2.521	4.557	4.584	4.530
	5-yr Reopening of MGS (Mat on 11/26)	22/10/2021	4500.0	-	4500.0	2.042	3.209	3.218	3.199
	10-yr Reopening of MGII (Mat on 10/30)	29/10/2021	3500.0	500.0	4000.0	2.018	3.682	3.698	3.659
Nov	15-yr Reopening of MGS (Mat on 5/35)	16/11/2021	2000.0	2000.0	4000.0	3.063	3.990	4.000	3.976
	3-yr Reopening of MGII (Mat on 10/24)	23/11/2021	4500.0	-	4500.0	1.412	2.787	2.808	2.763
	20-yr Reopening of MGII (Mat on 5/40)	30/11/2021	2000.0	1500.0	3500.0	-	-	-	-

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

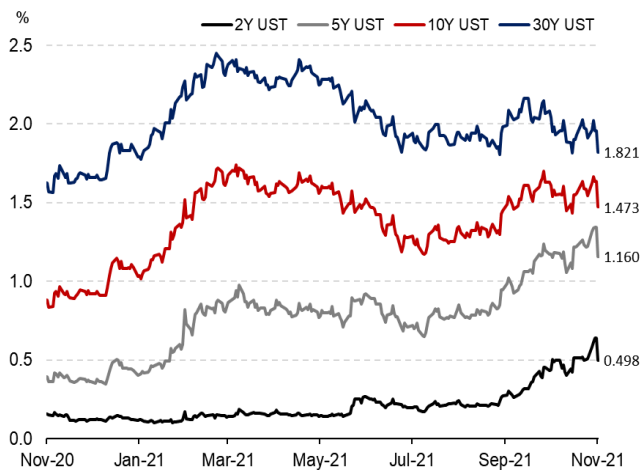
United States Treasuries (UST)

- UST yields decreased at the end of last week, moving between -8.9bps to -0.9bps across the curve. The 10Y UST initially surged 11.9bps to 1.665% on Nov 23, its highest level in a month, before closing the week considerably lower at 1.473% (-2.1bps).
- Demand for Treasuries began the week pressured, with yields rising on the back of Jerome Powell’s renomination as Federal Reserve Chairman and a noticeably hawkish tilt from the US FOMC minutes. However, by the end of the week UST yields plummeted, as investors fled to the safety of Treasuries amid fears of a new COVID-19 variant from South Africa.
- Yields will likely continue to decline this week on growing risk-off sentiment, due to the threat of the new Omicron variant and a resurgence of COVID-19 cases in parts of Europe, which has led to renewed lockdown restrictions in some countries.

Ringgit Outlook

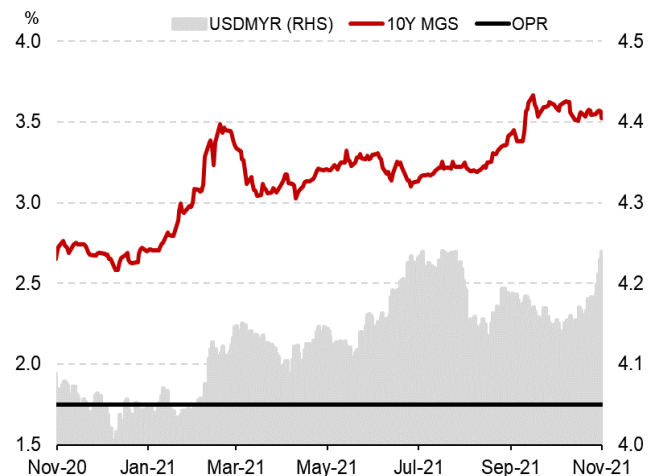
- MYR registered its worst weekly decline since September 2020 as global markets were rattled by the emergence of the new Omicron variant. As such, we expect the ringgit to weaken to around the 4.25 level this week on renewed COVID-19 concerns. On the other hand, our technical model suggests the MYR may reverse this trend and reach 4.217 against the USD. *(Please refer to our Ringgit Weekly Outlook report)*

Graph 3: UST Yield Trend



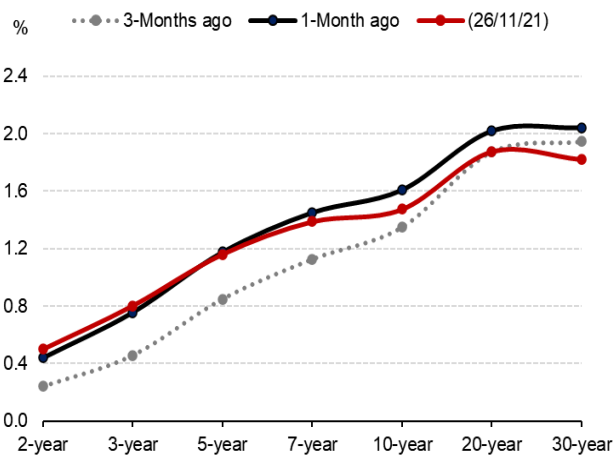
Source: Kenanga Research, Bloomberg

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



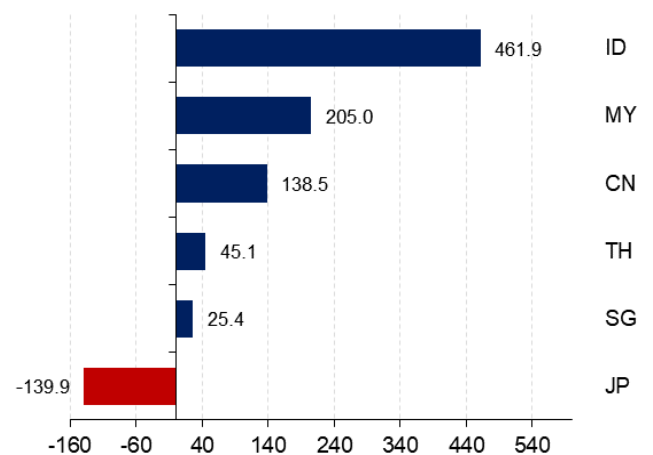
Source: Kenanga Research, Bloomberg

Graph 5: UST Yield Curve



Source: Kenanga Research, BNM

Graph 6: Asia 10-Year Bond Yield Spread (bps)



Source: Kenanga Research, Bloomberg
*Spread: Benchmark 10Y yield relative to the 10Y UST on 26/11/21

Table 3: Bond Yield Movements

Bonds	01/01/21 YTD	26/11/20 Last Year	26/10/21 Last Month	19/11/21 Last Fortnight	26/11/21 Last Week	ytd (bps)	yoy (bps)	mom (bps)	wow (bps)
MGS									
30Y MGS	3.839	4.069	4.403	4.259	4.285	44.60	21.60	-11.80	2.60
20Y MGS	3.373	3.598	4.220	4.173	4.151	77.80	55.30	-6.90	-2.20
15Y MGS	3.217	3.258	4.058	3.942	3.889	67.20	63.10	-16.90	-5.30
10Y MGS	2.650	2.685	3.594	3.544	3.523	87.30	83.80	-7.10	-2.10
7Y MGS	2.381	2.491	3.442	3.409	3.406	102.50	91.50	-3.60	-0.30
5Y MGS	2.116	2.146	3.130	3.133	3.118	100.20	97.20	-1.20	-1.50
3Y MGS	1.871	1.861	2.626	2.666	2.681	81.00	82.00	5.50	1.50
GII									
20Y GII	3.577	3.606	4.318	4.203	4.210	63.30	60.40	-10.80	0.70
10Y GII	2.789	2.736	3.713	3.597	3.592	80.30	85.60	-12.10	-0.50
7Y GII	2.513	2.620	3.524	3.504	3.497	98.40	87.70	-2.70	-0.70
3Y GII	1.933	1.955	2.680	2.724	2.810	87.70	85.50	13.00	8.60
UST									
30Y UST	1.645	1.624	2.041	1.910	1.821	17.64	19.76	-21.94	-8.87
20Y UST	1.440	1.410	2.018	1.938	1.875	43.44	46.46	-14.34	-6.37
10Y UST	0.913	0.882	1.608	1.546	1.473	55.99	59.15	-13.48	-7.31
7Y UST	0.643	0.646	1.450	1.451	1.387	74.39	74.16	-6.26	-6.38
5Y UST	0.361	0.394	1.175	1.221	1.160	79.89	76.57	-1.48	-6.17
3Y UST	0.165	0.205	0.756	0.859	0.801	63.59	59.57	4.51	-5.83
2Y UST	0.121	0.158	0.440	0.507	0.498	37.69	33.97	5.84	-0.87
ASIAN 10Y GOVERNMENT BONDS									
10Y JP	0.021	0.026	0.108	0.080	0.074	5.30	4.80	-3.40	-0.60
10Y CN	3.146	3.304	2.976	2.928	2.858	-28.80	-44.60	-11.80	-7.00
10Y SG	0.844	0.917	1.755	1.784	1.727	88.28	80.98	-2.75	-5.69
10Y ID	5.886	6.174	6.013	6.036	6.092	20.60	-8.20	7.90	5.60
10Y TH	1.283	1.415	1.968	1.954	1.924	64.18	50.95	-4.38	-2.98

Source: Kenanga Research, Bloomberg

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