

Bond Market Weekly Outlook

MGS/GII yields to rise on easing Omicron fears and higher UST yields

Government Debt Trend and Flows

- MGS and GII yields trended rangebound last week, moving between -2.1bps to 1.2bps overall. The 10Y MGS initially fell by 0.9bps to 3.540% on Dec 22, before closing the week slightly higher at 3.561% (1.2bps).
- Demand for MGS/GII was relatively muted last week in the lead up to the new year. Nonetheless, yields began to trend higher towards the end of the week after studies from the UK and South Africa suggested that Omicron infections were less severe than Delta. Furthermore, local yields likely tracked a spike in UST yields as US PCE inflation registered a 39-year high in November.
- Domestic yields may rise this week, on a potential return of risk-on sentiment as Omicron fears begin to subside, and as US Treasury yields sustain an uptrend amid persistently high inflation.
- We expect foreign outflows from the Malaysian bond market to deepen in December following the US Fed's decision to quicken its tapering pace and amid global uncertainty due to the spread of the Omicron variant. Nonetheless, Malaysia bonds may find some support from high yield differentials, and a potential return of risk-on sentiment following reports of milder Omicron severity.

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

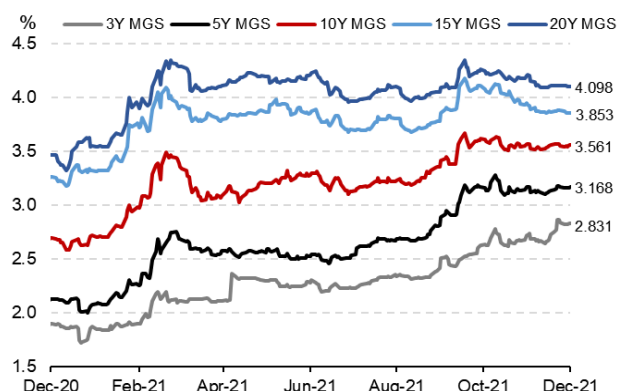
	Long Term*				
	Q3-21	Q4-21F	Q1-22F	Q2-22F	Q3-22F
MGS	3.37	3.60	3.70	3.75	3.85
UST	1.49	1.60	1.80	1.90	2.10
USDMYR	4.186	4.182	4.153	4.131	4.113
OPR	1.75	1.75	1.75	1.75	2.00

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

Upcoming Auction

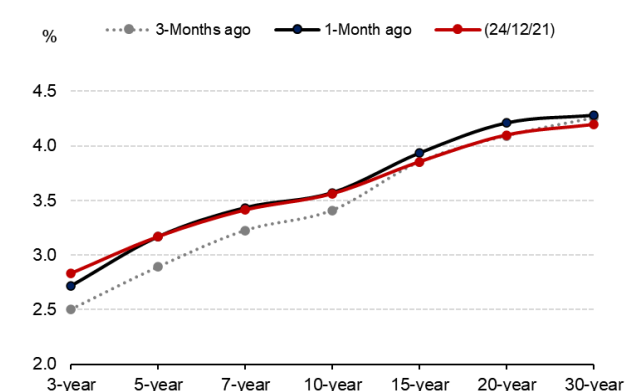
- The first auction of 2022 will be the reopening of the 5Y MGS 11/26. We estimate an issuance of RM4.0b with no private placement.
- The previous reopening of the 5Y MGS registered a decent bid-to-cover (BTC) ratio of 2.042x, on an auction size of RM4.5b, in October 2021.
- Meanwhile, BNM's release of the 2022 MGS/GII auction calendar revealed a slightly lower number of planned auctions of 36 compared to 37 in 2021.

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 (%)
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 MGS (Mat on 5/40)	30/11/2021	2000.0	1500.0	3500.0	1.888	4.145	4.160	4.125
Dec	7-yr Reopening of MGII (Mat on 8/28)	07/12/2021	3500.0	-	3500.0	2.247	3.481	3.499	3.459
	3-yr Reopening of MGS (Mat on 6/24)	16/12/2021	4500.0	-	4500.0	1.158	2.881	3.000	2.809

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

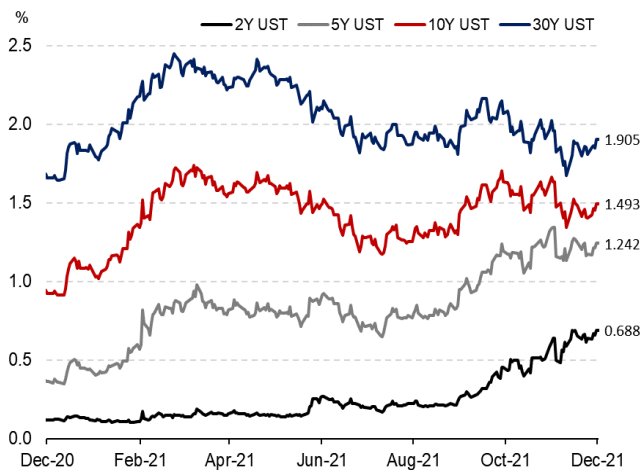
United States Treasuries (UST)

- UST yields rose last week, increasing between 5.0bps to 9.9bps across the curve. The 10Y UST increased by 9.1bps to 1.493%, its highest level in 3 weeks.
- Treasury yields trended higher on news that Omicron produces less severe symptoms than other COVID-19 variants and was less likely to lead to hospitalisations. Additionally, demand for UST was pressured following a slew of data that showed a stabilising US economic recovery and persistently high inflation levels.
- Yields will likely trend higher this week, on the back of a sustained rise in the PCE price index in November (5.7%; Oct: 5.1%), its highest level in 39 years. Furthermore, labour trends appear to be stable as US jobless claims remain at 205.0k, for the week ended Dec 18, despite rising COVID-19 cases across the country.

Ringgit Outlook

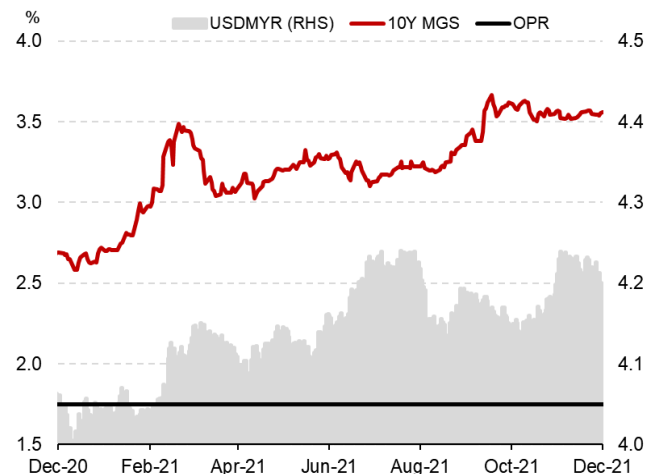
- MYR strengthened against the USD last week on news that the Omicron variant may be less severe than Delta. As such, we expect the ringgit to continue its positive momentum this week as global economic sentiment improves. On the other hand, our technical model suggests the MYR may depreciate against the USD by 0.24% to 4.206. This partly supports the investment narrative on continued MYR downside bias following Fed's decision to speed up its tapering pace (*Please refer to our Ringgit Weekly Outlook report*)

Graph 3: UST Yield Trend



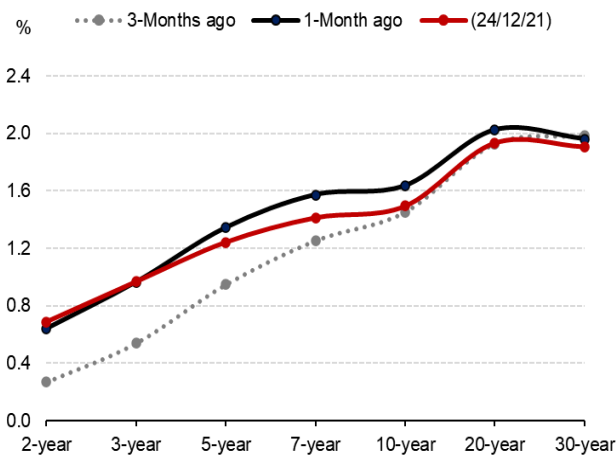
Source: Kenanga Research, Bloomberg

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



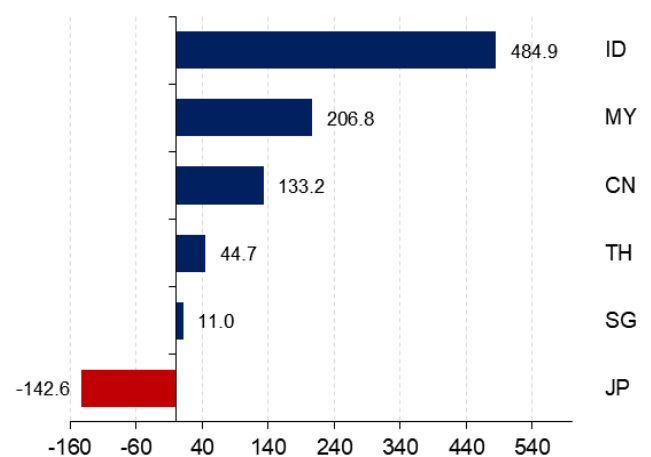
Source: Kenanga Research, Bloomberg

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 24/12/21

Table 3: Bond Yield Movements

Bonds	01/01/21 YTD	24/12/20 Last Year	24/11/21 Last Month	17/12/21 Last Fortnight	24/12/21 Last Week	ytd (bps)	yoy (bps)	mom (bps)	wow (bps)
30Y MGS	3.839	3.894	4.278	4.215	4.194	35.50	30.00	-8.40	-2.10
20Y MGS	3.373	3.466	4.208	4.110	4.098	72.50	63.20	-11.00	-1.20
15Y MGS	3.217	3.264	3.932	3.876	3.853	63.60	58.90	-7.90	-2.30
10Y MGS	2.650	2.691	3.569	3.549	3.561	91.10	87.00	-0.80	1.20
7Y MGS	2.381	2.373	3.432	3.414	3.412	103.10	103.90	-2.00	-0.20
5Y MGS	2.116	2.123	3.166	3.164	3.168	105.20	104.50	0.20	0.40
3Y MGS	1.871	1.899	2.715	2.836	2.831	96.00	93.20	11.60	-0.50
GII									
20Y GII	3.577	3.602	4.213	4.196	4.182	60.50	58.00	-3.10	-1.40
10Y GII	2.789	2.806	3.611	3.648	3.627	83.80	82.10	1.60	-2.10
7Y GII	2.513	2.512	3.499	3.491	3.470	95.70	95.80	-2.90	-2.10
3Y GII	1.933	1.944	2.826	2.897	2.892	95.90	94.80	6.60	-0.50
UST									
30Y UST	1.645	1.660	1.959	1.806	1.905	26.03	24.50	-5.42	9.88
20Y UST	1.440	1.454	2.022	1.847	1.932	49.12	47.75	-9.04	8.41
10Y UST	0.913	0.923	1.634	1.402	1.493	57.95	56.96	-14.14	9.06
7Y UST	0.643	0.644	1.571	1.332	1.412	76.87	76.85	-15.90	7.98
5Y UST	0.361	0.362	1.342	1.175	1.242	88.09	87.95	-10.07	6.68
3Y UST	0.165	0.165	0.964	0.918	0.968	80.29	80.32	0.38	5.02
2Y UST	0.121	0.119	0.640	0.638	0.688	56.70	56.92	4.83	5.05
ASIAN 10Y GOVERNMENT BONDS									
10Y JP	0.021	0.017	0.083	0.049	0.067	4.60	5.00	-1.60	1.80
10Y CN	3.146	3.229	2.907	2.895	2.825	-32.10	-40.40	-8.20	-7.00
10Y SG	0.844	0.853	1.806	1.585	1.602	75.80	74.96	-20.37	1.70
10Y ID	5.886	6.056	6.049	6.434	6.342	45.60	28.60	29.30	-9.20
10Y TH	1.283	1.293	1.959	1.891	1.940	65.70	64.67	-1.97	4.82

Source: Kenanga Research, Bloomberg

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