

Bond Market Weekly Outlook

MGS/GII yields to rise in tandem with higher UST yields

Government Debt Trend and Flows

- MGS and GII yields increased last week, moving between 0.2bps to 9.2bps overall. The 10Y MGS rose 6.7bps to 3.667%, reaching its highest level since June 2019.
- Domestic yields trended higher last week, as Omicron concerns remain subdued and driven by rising US Treasury yields. This follows the release of the US FOMC minutes, which indicated a hawkish Fed and potentially more aggressive monetary policy tightening on the horizon.
- MGS and GII yields will likely continue to rise this week, tracking an expected uptrend in US Treasury yields. Yields may also be driven higher by a stable COVID-19 situation, as domestic cases return to below the 3,000 level.
- Foreign demand for Malaysian bonds will likely remain pressured in the near term, following an increasingly hawkish US Fed and a global resurgence in COVID-19 infections. Nonetheless, local bonds may find some support from relatively high yield differentials and easing global risk-aversion as studies show that Omicron may be less severe than other variants.

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

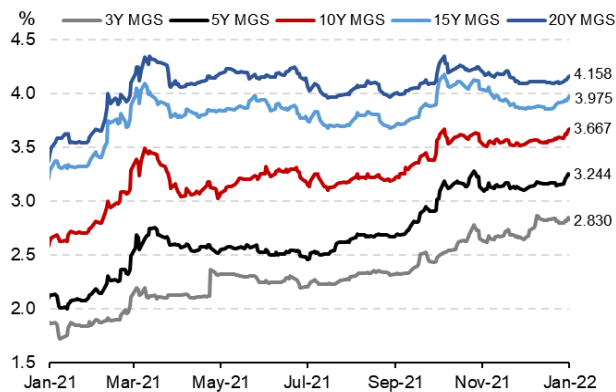
	Long Term*				
	Q4-21	Q1-22F	Q2-22F	Q3-22F	Q4-22F
MGS	3.60	3.70	3.75	3.85	3.90
UST	1.51	1.70	1.85	1.95	2.05
USDMYR	4.167	4.153	4.131	4.113	4.100
OPR	1.75	1.75	1.75	2.00	2.25

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

Auction Results (06-Jan)

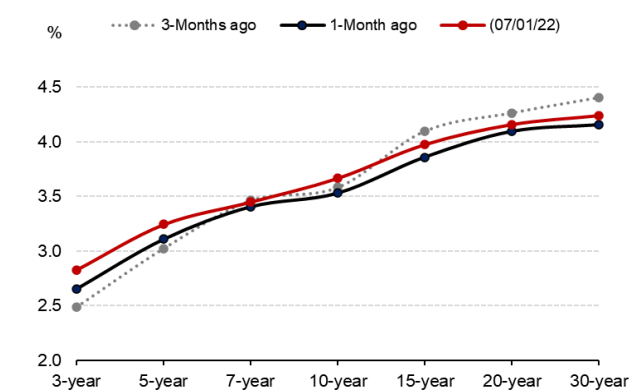
- The first auction of 2022 saw the 5Y MGS 11/26 reopen at larger-than-expected size of RM5.0b, with no private placement, and awarded at an average yield of 3.273%.
- Demand was strong, registering a bid-to-cover (BTC) ratio of 2.329x. This is markedly higher than the previous reopening of the 5Y MGS in October 2021, which saw a BTC of 2.042x on a RM4.5b auction size.
- The next auction is a new issue of the 10Y MGS 07/32, and we estimate an issuance of RM5.0b with no private placement. It will replace the 10Y MGS 04/31 as the new benchmark.

Graph 1: Benchmark MGS Yield Trend



Source: Kenanga Research, Bloomberg

Graph 2: MGS Yield Curve



Source: Kenanga Research, Bloomberg

Table 2: 2022 Auction Calendar

Month	Issues	Issue Date	Auction (RM Mil)	PP* (RM Mil)	Total (RM Mil)	BTC* (x)	Average Yield (%)	Highest Yield (%)	Lowest Yield (%)
Jan	5-yr Reopening of MGS (Mat on 11/26) 10-yr New Issue of MGS (Mat on 7/32) 15-yr Reopening of MGII (Mat on 7/36)	07/01/22	5000.0	-	5000.0	2.329	3.273	3.290	3.235
Feb	5-yr Reopening of MGII (Mat on 9/27) 30-yr Reopening of MGS (Mat on 6/50) 7-yr Reopening of MGII (Mat on 10/28)								
Mar	15-yr Reopening of MGS (Mat on 4/37) 20-yr Reopening of MGII (Mat on 9/41) 3-yr Reopening of MGS (Mat on 3/25)								

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

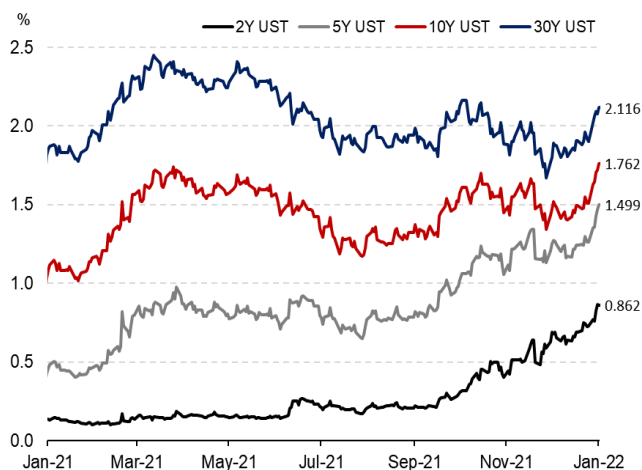
United States Treasuries (UST)

- UST yields soared last week, rising between 13.0bps to 25.4bps across the curve. The 10Y UST increase by 25.2bps to 1.762%, its highest level since January 2020.
- UST yields continued to climb last week on easing Omicron concerns but jumped considerably higher following the release of the December FOMC meeting minutes. The minutes indicated an increasingly hawkish Fed, in the face of relentless inflationary pressures, and showed that some officials were considering reducing the Fed balance-sheet sometime after raising policy rates. This would suggest that the Fed might raise interest rates as soon as in March.
- Yields will likely continue to rise this week, following the Fed's signal of aggressive monetary policy tightening. However, this uptrend may be capped by a disappointing US jobs report, as December non-farm payrolls came in lower-than-expected at only 199.0k (Nov: 249.0k).

Ringgit Outlook

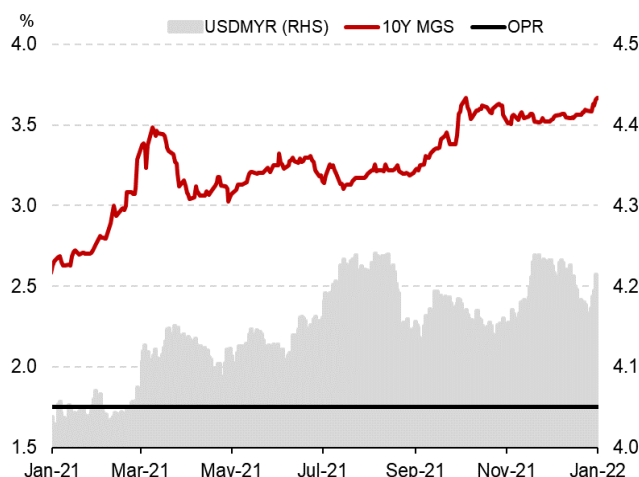
- MYR depreciated against the USD last week after the FOMC minutes indicated an increasingly hawkish Fed. This week, the ringgit is expected to trade around the 4.21 level due to lingering Omicron concerns but remains at risk of further selloff should US inflation spike once again. On the other hand, our technical model suggests the MYR may appreciate 0.21% against the USD this week. *(Please refer to our Ringgit Weekly Outlook report)*

Graph 3: UST Yield Trend



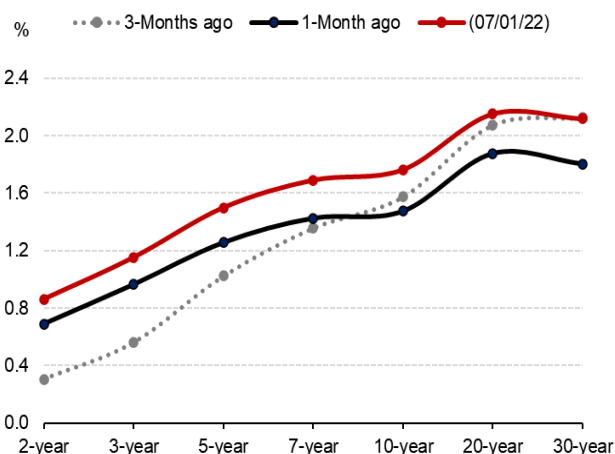
Source: Kenanga Research, Bloomberg

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



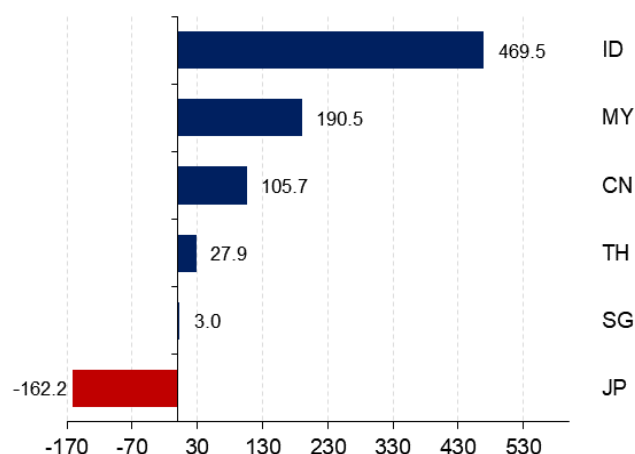
Source: Kenanga Research, Bloomberg

Graph 5: UST Yield Curve



Source: Kenanga Research, BNM

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



Source: Kenanga Research, Bloomberg
*Spread: Benchmark 10Y yield relative to the 10Y UST on 07/01/22

10 January 2022

Table 3: Bond Yield Movements

Bonds	03/01/22	07/01/21	07/12/21	31/12/21	07/01/22	ytd (bps)	yoy (bps)	mom (bps)	wow (bps)
	YTD	Last Year	Last Month	Last Fortnight	Last Week				
30Y MGS	4.197	3.847	4.153	4.189	4.240	4.30	39.30	8.70	5.10
20Y MGS	4.105	3.427	4.093	4.091	4.158	5.30	73.10	6.50	6.70
15Y MGS	3.920	3.280	3.858	3.910	3.975	5.50	69.50	11.70	6.50
10Y MGS	3.586	2.628	3.530	3.600	3.667	8.10	103.90	13.70	6.70
7Y MGS	3.403	2.455	3.405	3.399	3.450	4.70	99.50	4.50	5.10
5Y MGS	3.156	2.129	3.109	3.152	3.244	8.80	111.50	13.50	9.20
3Y MGS	2.794	1.876	2.656	2.796	2.830	3.60	95.40	17.40	3.40
GII									
20Y GII	4.160	3.535	4.193	4.172	4.178	1.80	64.30	-1.50	0.60
10Y GII	3.618	2.722	3.590	3.622	3.662	4.40	94.00	7.20	4.00
7Y GII	3.453	2.520	3.490	3.459	3.461	0.80	94.10	-2.90	0.20
3Y GII	2.903	1.919	2.781	2.914	2.926	2.30	100.70	14.50	1.20
UST									
30Y UST	2.024	1.853	1.803	1.903	2.116	9.19	26.32	31.34	21.27
20Y UST	2.051	1.641	1.875	1.933	2.150	9.86	50.89	27.49	21.61
10Y UST	1.628	1.080	1.473	1.510	1.762	13.40	68.25	28.87	25.19
7Y UST	1.548	0.775	1.425	1.436	1.690	14.20	91.50	26.53	25.35
5Y UST	1.354	0.459	1.255	1.263	1.499	14.47	103.95	24.38	23.57
3Y UST	1.016	0.213	0.964	0.957	1.152	13.61	93.91	18.87	19.54
2Y UST	0.768	0.137	0.689	0.732	0.862	9.43	72.52	17.29	12.99
ASIAN 10Y GOVERNMENT BONDS									
10Y JP	0.071	0.039	0.056	0.071	0.140	6.90	10.10	8.40	6.90
10Y CN	2.779	3.129	2.880	2.779	2.819	4.00	-31.00	-6.10	4.00
10Y SG	1.703	0.956	1.714	1.667	1.792	8.90	83.56	7.82	12.46
10Y ID	6.390	6.041	6.295	6.382	6.457	6.70	41.60	16.20	7.50
10Y TH	1.897	1.291	1.930	1.897	2.041	14.36	75.00	11.13	14.36

Source: Kenanga Research, Bloomberg

For further information, please contact:

Wan Suhaimie Wan Mohd Saidie
Head of Economic Research
wansuhaimi@kenanga.com.my

Muhammad Saifuddin Sapuan
Economist
saifuddin.sapuan@kenanga.com.my

Afiq Asyraf Syazwan Abd. Rahim
Economist
afiqasyraf@kenanga.com.my

Zalman Basree
Economist
zalman@kenanga.com.my

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may affect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

