

Bond Market Weekly Outlook

MGS/GII yields to rise ahead of BNM's MPC meeting and on higher UST yields

Government Debt Trend and Flows

- MGS and GII yields were mixed last week, moving between -4.2bps to 1.9bps overall. The 10Y MGS yield declined by 2.7bps to 3.640%.
- Demand for MGS and GII improved last week amid a downturn in global bond yields and leading to a strong auction for the new benchmark 10Y MGS. Additionally, foreign portfolio inflows made a surprise return to the Malaysian bond market, registering RM6.1b in December (Nov: -RM3.6b) amid easing Omicron concerns and high yield differentials of local bonds.
- MGS and GII yields may return to an uptrend this week, following a late spike in US Treasury yields last Friday and ahead of BNM's first monetary policy meeting this Wednesday (Jan 20). We still expect the overnight policy rate to remain at 1.75% until at least September 2022.
- Foreign demand for Malaysian bonds may yet experience pressure in the near-term due to the US Fed's aggressive monetary policy tightening, despite the return of foreign inflows in December. Nonetheless, we still expect the bond market to register an overall net inflow this year, finding support from a strong domestic economic recovery and relatively high yield differentials.

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

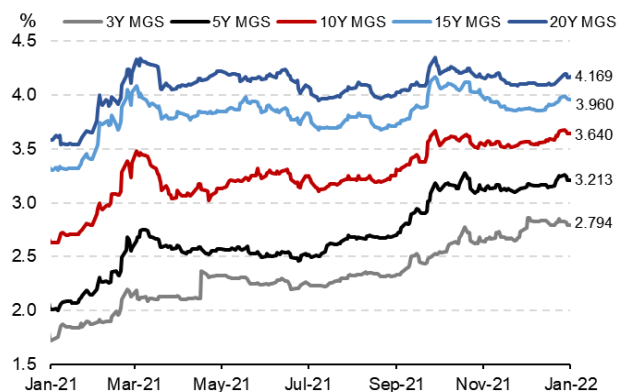
	Long Term*				
	Q4-21	Q1-22F	Q2-22F	Q3-22F	Q4-22F
MGS	3.60	3.70	3.75	3.85	3.90
UST	1.51	1.70	1.85	1.95	2.05
USDMYR	4.167	4.153	4.131	4.113	4.100
OPR	1.75	1.75	1.75	2.00	2.25

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

Auction Results (13-Jan)

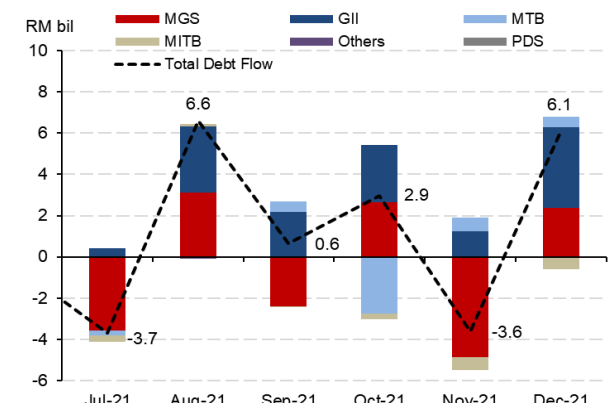
- The 10Y MGS 07/32 was newly issued at a slightly smaller-than-expected size of RM4.5b, with no private placement, and was awarded at an average yield of 3.582%.
- Demand was solid, registering a bid-to-cover (BTC) ratio of 2.044x. This is significantly higher than the previous auction of the 10Y MGS in September 2021, which saw a BTC of 1.606x on a RM4.0b auction size.
- The next auction is a reopening of the 15Y GII 07/36, and we estimate an issuance of RM3.5b with no private placement.

Graph 1: Benchmark MGS Yield Trend



Source: Kenanga Research, Bloomberg

Graph 2: Malaysia Debt Foreign Flows



Source: Kenanga Research, BNM

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)	07/01/22	5000.0	-	5000.0	2.329	3.273	3.290	3.235
	10.5-yr New Issue of MGS (Mat on 7/32)	14/01/22	4500.0	-	4500.0	2.044	3.582	3.598	2.615
	15-yr Reopening of MGII (Mat on 7/36)								
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

17 January 2022

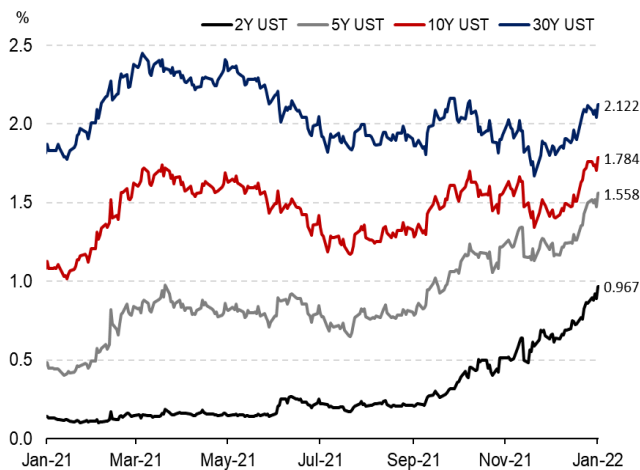
United States Treasuries (UST)

- UST yields continued to rise last week, moving between 0.6bps to 11.4bps across the curve. The 10Y UST initially fell by 5.8bps to 1.704% on Jan 13, before surging to 1.784% on Friday.
- UST yields slipped for most of last week despite US inflation accelerating to 7.0% in December (Nov: 6.8%), which suggests that the market had already priced in higher inflation. Nonetheless, Treasury yields spiked again on Friday likely due to sustained concerns around the Fed's aggressive monetary policy tightening.
- Yields may trend rangebound this week, on the back of uneven economic data and as markets may have already priced in earlier Fed Funds Rate hikes. US retail sales in December came in worse than expected, registering -1.9% (Nov :0.2%) amid the spread of the Omicron variant, and raising concerns of an economic slowdown.

Ringgit Outlook

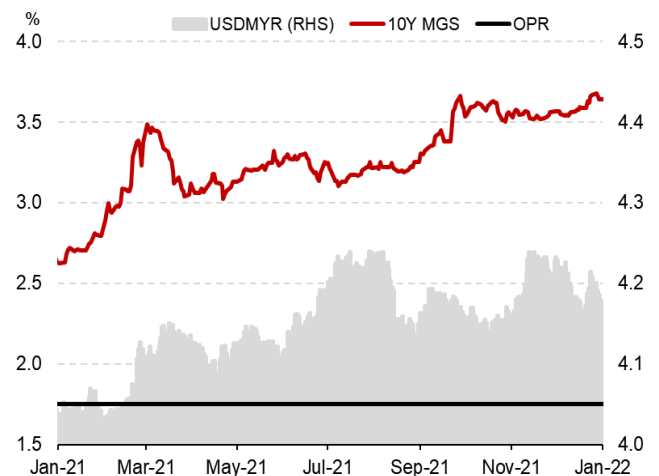
- MYR appreciated slightly against the USD last week due to dollar weakness, amid rising commodity prices and a sell-off in US technology stocks. This week we expect the ringgit may strengthen to around the 4.17 level, especially if BNM deliver's an upbeat economic assessment. On the other hand, our technical model suggests the MYR may depreciate 0.15% to 4.184 against the USD. *(Please refer to our Ringgit Weekly Outlook report)*

Graph 3: UST Yield Trend



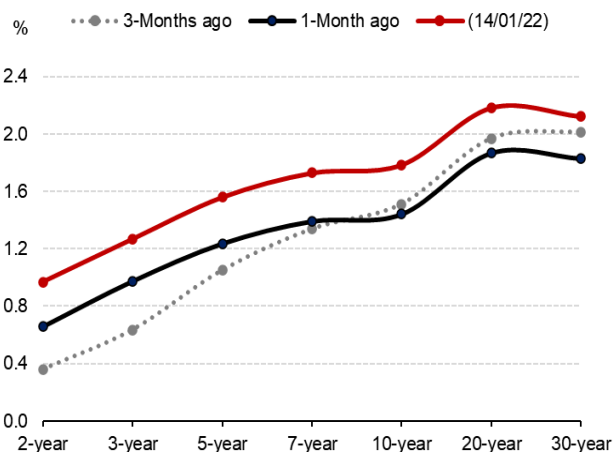
Source: Kenanga Research, Bloomberg

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



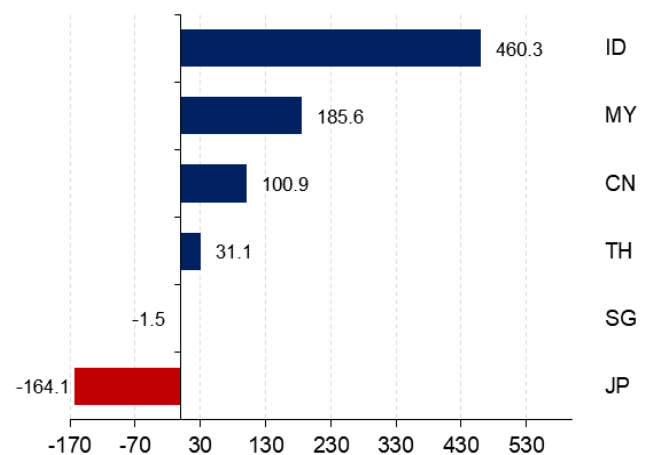
Source: Kenanga Research, Bloomberg

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 14/01/22



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Table 3: Bond Yield Movements

Bonds	03/01/22 YTD	14/01/21 Last Year	14/12/21 Last Month	07/01/22 Last Fortnight	14/01/22 Last Week	ytd (bps)	yoy (bps)	mom (bps)	wow (bps)
30Y MGS	4.197	3.955	4.210	4.240	4.251	5.40	29.60	4.10	1.10
20Y MGS	4.105	3.582	4.105	4.158	4.169	6.40	58.70	6.40	1.10
15Y MGS	3.920	3.308	3.873	3.975	3.960	4.00	65.20	8.70	-1.50
10Y MGS	3.586	2.630	3.567	3.667	3.640	5.40	101.00	7.30	-2.70
7Y MGS	3.403	2.435	3.457	3.450	3.430	2.70	99.50	-2.70	-2.00
5Y MGS	3.156	2.005	3.150	3.244	3.213	5.70	120.80	6.30	-3.10
3Y MGS	2.794	1.722	2.769	2.830	2.794	0.00	107.20	2.50	-3.60
GII									
20Y GII	4.160	3.616	4.200	4.178	4.197	3.70	58.10	-0.30	1.90
10Y GII	3.618	2.719	3.644	3.662	3.648	3.00	92.90	0.40	-1.40
7Y GII	3.453	2.495	3.505	3.461	3.478	2.50	98.30	-2.70	1.70
3Y GII	2.903	1.814	2.805	2.926	2.884	-1.90	107.00	7.90	-4.20
UST									
30Y UST	2.024	1.872	1.828	2.116	2.122	9.79	25.00	29.39	0.60
20Y UST	2.051	1.672	1.867	2.150	2.183	13.24	51.11	31.63	3.38
10Y UST	1.628	1.129	1.441	1.762	1.784	15.61	65.49	34.30	2.21
7Y UST	1.548	0.815	1.391	1.690	1.727	17.93	91.23	33.59	3.73
5Y UST	1.354	0.484	1.235	1.499	1.558	20.37	107.41	32.24	5.90
3Y UST	1.016	0.222	0.974	1.152	1.267	25.03	104.48	29.30	11.42
2Y UST	0.768	0.139	0.657	0.862	0.967	19.90	82.78	31.00	10.47
ASIAN 10Y GOVERNMENT BONDS									
10Y JP	0.071	0.041	0.052	0.140	0.143	7.20	10.20	9.10	0.30
10Y CN	2.779	3.113	2.880	2.819	2.793	1.40	-32.00	-8.70	-2.60
10Y SG	1.703	0.963	1.636	1.792	1.769	6.61	80.61	13.27	-2.29
10Y ID	6.390	6.192	6.394	6.457	6.387	-0.30	19.50	-0.70	-7.00
10Y TH	1.897	1.335	1.958	2.041	2.095	19.81	75.99	13.69	5.45

Source: Kenanga Research, Bloomberg

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