

Bond Market Weekly Outlook

MGS/GII yields to trend rangebound ahead of BNM MPC meeting

Government Debt Trend and Flows

- MGS and GII yields continued to rise last week, moving between 0.1bps to 29.8bps overall. The 10Y MGS yield rose by 9.4bps to 4.454%, its highest level since October 2008, whilst the 7Y MGS surged 29.8bps to 4.580%, keeping the 10Y-7Y segment of the curve inverted.
- Yields on the short-end of the curve moved especially higher following the US FOMC meeting and the subsequent rise in US Treasury yields, however there was some support for the middle to long-end of the curve with the 15Y MGS yield in particular only up by 0.1bps for the week.
- Domestic yields may trend rangebound this week, with all eyes on Bank Negara's MPC meeting (May 10 – 11), although MGS/GII will likely remain sensitive to the volatility of US Treasuries. We expect BNM to keep the policy rate unchanged at 1.75%, especially given downside risks to global growth amid the Russia-Ukraine conflict and China's COVID-19 condition.
- Foreign demand for local bonds will likely remain pressured in the near-term, given the weak global sentiment for bonds and the US Fed's 50bps rate hike. We expect a net outflow of foreign funds in April, but a smaller outflow in May due to a lack of major bond maturities scheduled for this month.

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

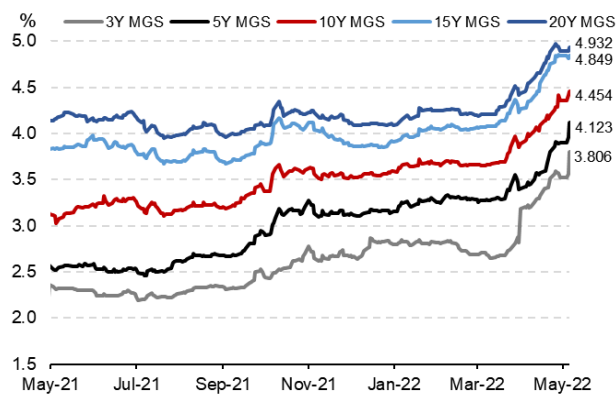
	Long Term*				
	Q1-22	Q2-22F	Q3-22F	Q4-22F	Q1-23F
MGS	3.85	4.20	4.30	4.35	4.40
UST	2.34	3.10	3.15	3.20	3.25
USDMYR	4.204	4.337	4.310	4.283	4.256
OPR	1.75	1.75	2.00	2.25	2.25

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

Auction Results (28-April)

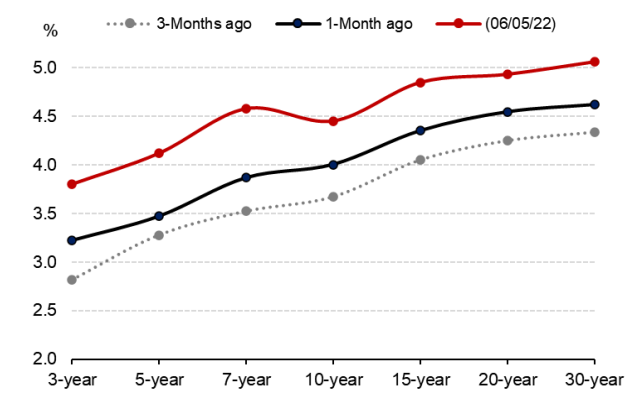
- The 7Y MGS 04/29 was newly issued at a larger-than-expected size of RM5.0b, with no private placement, and was awarded at an average yield of 4.504%.
- Demand was stronger-than-expected, recording a bid-to-cover (BTC) ratio of 2.196x, despite the intense global bond sell-off over the last three weeks.
- The next auction is a new issue of the 30Y GII 05/52, and we expect an issuance of RM5.0b including private placement.

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 (%)
Feb	5-yr Reopening of MGII (Mat on 9/27)	08/02/22	5000.0	-	5000.0	1.733	3.495	3.512	3.470
	30-yr Reopening of MGS (Mat on 6/50)	15/02/22	2500.0	2500.0	5000.0	2.423	4.505	4.520	4.488
	7-yr Reopening of MGII (Mat on 10/28)	22/02/22	4500.0	-	4500.0	1.750	3.612	3.629	3.587
Mar	15-yr Reopening of MGII (Mat on 4/37)	07/03/22	3000.0	-	3000.0	1.986	4.064	4.078	4.048
	20-yr Reopening of MGII (Mat on 9/41)	18/03/22	2500.0	2500.0	5000.0	1.884	4.401	4.427	4.375
	3-yr Reopening of MGS (Mat on 3/25)	31/03/22	5500.0	-	5500.0	1.666	3.239	3.255	3.210
Apr	10.5-yr New Issue of MGII (Mat on 10/32)	07/04/22	4500.0	-	4500.0	2.503	4.193	4.203	4.165
	20.5-yr New Issue of MGS (Mat on 10/42)	14/04/22	2500.0	2500.0	5000.0	1.918	4.696	4.730	4.653
	15-yr Reopening of MGII (Mat on 07/36)	21/04/22	2500.0	2500.0	5000.0	1.879	4.826	4.869	4.750
	7-yr New Issue of MGS (Mat on 04/29)	29/04/22	5000.0	-	5000.0	2.196	4.504	4.520	4.470

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

09 May 2022

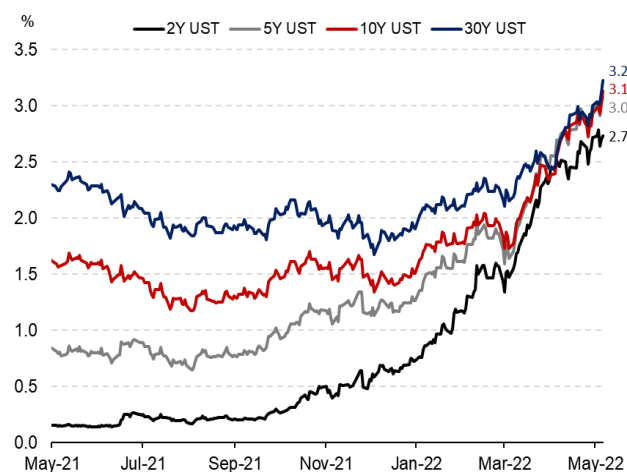
United States Treasuries (UST)

- UST yields continued to increase last week, particularly along the middle and long-end of the curve; moving between 1.6bps to 23.5bps overall. The 10Y UST surged by 19.3bps to 3.127%, its highest level since November 2018.
- Yields continued to trend higher last week in the lead up to the US FOMC meeting (May 3 – 4). The Fed raised rates for the second consecutive time, by a widely expected 50bps and announced that it will begin reducing the nearly USD9.0t balance sheet from June onwards. Bonds rallied momentarily following the meeting, perhaps due to Chairman Powell’s dismissal of a more aggressive 75bps hike in the future, but yields spiked again towards the end of the week on persistent fears regarding inflation.
- We expect yields to remain volatile in the near-term, with potential for further upside bias given the stronger-than-expected US non-farm payrolls for April (428.0k) and the recent policy rate hikes of other major central banks.

Ringgit Outlook

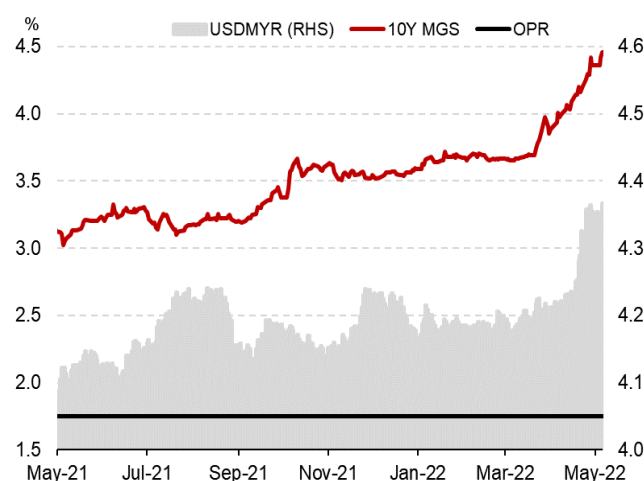
- MYR continued to weaken against the USD last week as demand for the dollar remained solid amid concerns over slowing global economic growth and the Fed’s tightening cycle. This week, the ringgit may continue to trade under pressure within the 4.36 – 4.38 range as BNM is expected to keep its policy rate unchanged at 1.75%. However, our technical model continues to suggest the MYR may recover and appreciate by 0.25% to 4.355 against the USD. (Please refer to our Ringgit Weekly Outlook report)

Graph 3: UST Yield Trend



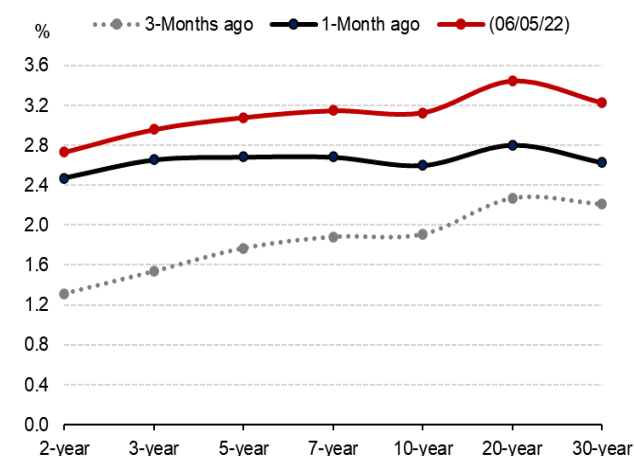
Source: Kenanga Research, Bloomberg

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



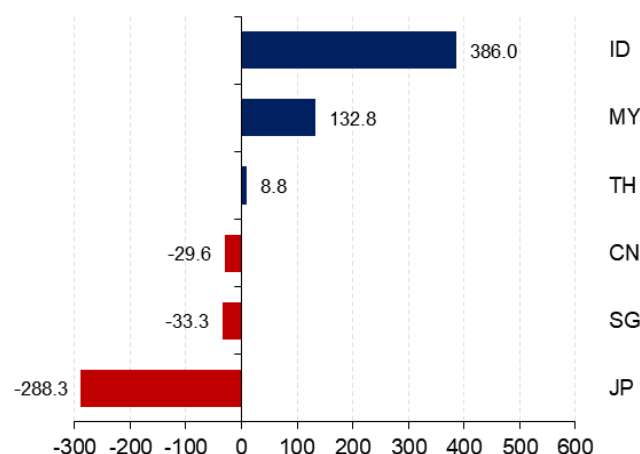
Source: Kenanga Research, Bloomberg

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 06/05/22

Table 3: Bond Yield Movements

Bonds	03/01/22 YTD	06/05/21 Last Year	06/04/22 Last Month	29/04/22 Last Fortnight	06/05/22 Last Week	ytd (bps)	yoy (bps)	mom (bps)	wow (bps)
MGS									
30Y MGS	4.197	4.374	4.619	5.021	5.060	86.30	68.60	44.10	3.90
20Y MGS	4.105	4.183	4.545	4.893	4.932	82.70	74.90	38.70	3.90
15Y MGS	3.920	3.845	4.352	4.848	4.849	92.90	100.40	49.70	0.10
10Y MGS	3.586	3.052	4.004	4.360	4.454	86.80	140.20	45.00	9.40
7Y MGS	3.403	2.926	3.867	4.282	4.580	117.70	165.40	71.30	29.80
5Y MGS	3.156	2.536	3.471	3.898	4.123	96.70	158.70	65.20	22.50
3Y MGS	2.794	2.317	3.221	3.525	3.806	101.20	148.90	58.50	28.10
GII									
20Y GII	4.160	4.210	4.539	5.014	5.015	85.50	80.50	47.60	0.10
10Y GII	3.618	3.214	4.151	4.432	4.526	90.80	131.20	37.50	9.40
7Y GII	3.453	3.005	3.859	4.388	4.457	100.40	145.20	59.80	6.90
3Y GII	2.903	2.156	3.041	3.516	3.663	76.00	150.70	62.20	14.70
UST									
30Y UST	2.024	2.242	2.626	2.997	3.225	120.14	98.37	59.94	22.82
20Y UST	2.051	2.131	2.804	3.207	3.442	139.15	131.18	63.84	23.53
10Y UST	1.628	1.570	2.598	2.934	3.127	149.85	155.69	52.90	19.29
7Y UST	1.548	1.250	2.681	2.977	3.146	159.84	189.62	46.51	16.91
5Y UST	1.354	0.805	2.682	2.955	3.077	172.33	227.28	39.53	12.24
3Y UST	1.016	0.311	2.654	2.886	2.958	194.15	264.68	30.37	7.18
2Y UST	0.768	0.153	2.471	2.715	2.731	196.30	257.81	25.94	1.62
ASIAN 10Y GOVERNMENT BONDS									
10Y JP	0.071	0.090	0.245	0.230	0.244	17.30	15.40	-0.10	1.40
10Y CN	2.779	3.143	2.759	2.839	2.831	5.20	-31.20	7.20	-0.80
10Y SG	1.703	1.516	2.514	2.528	2.793	109.02	127.71	27.90	26.56
10Y ID	6.390	6.424	6.792	6.986	6.986	59.60	56.20	19.40	0.00
10Y TH	1.897	1.749	2.408	2.846	3.214	131.71	146.50	80.60	36.84

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

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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