

Bond Market Weekly Outlook

MGS/GII yields to rise amid soaring UST yields and upcoming Fed meeting

Government Debt Trend and Flows

- MGS and GII yields mostly increased last week, moving between -0.9bps to 5.3bps overall. The 10Y MGS yield rose by 3.0bps to 4.230%, whilst the 3Y MGS increased by 3.4bps to 3.459%.
- Demand for MGS and GII remained pressured last week but did not experience the same strong sell-off seen with other government bonds, such as US Treasuries. This comes amid the release of mixed Malaysian economic indicators and cautious market sentiment ahead of the US FOMC meeting.
- Domestic yields to continue an uptrend this week, following the surge in US Treasury yields last Friday and amid the upcoming US FOMC meeting (June 14 – 15), which will likely see the US Fed raise the funds rate by another 50bps.
- Although foreign fund inflows returned to the domestic bond market in May (RM0.5b; Apr: -RM2.2b), we expect foreign demand for local bonds to be pressured in June as the US Fed is widely expected to raise rates. This outflow may worsen in July, as the Fed likely hikes rates again and domestic government bonds are scheduled for RM19.0b worth of maturities.

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

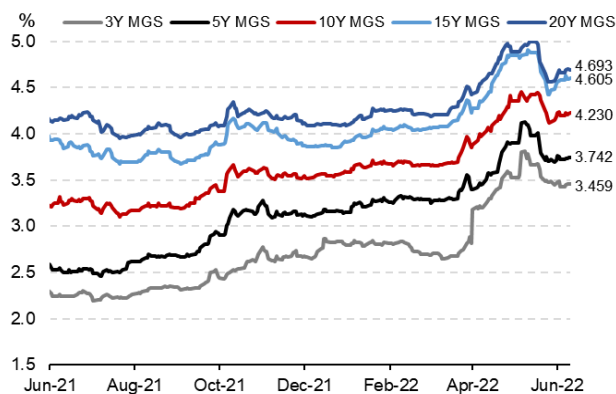
	Long Term*				
	Q1-22	Q2-22F	Q3-22F	Q4-22F	Q1-23F
MGS	3.85	4.20	4.30	4.35	4.40
UST	2.34	3.10	3.15	3.20	3.25
USDMYR	4.204	4.337	4.310	4.283	4.256
OPR	1.75	2.00	2.50	2.50	2.50

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

Auction Results (June-8)

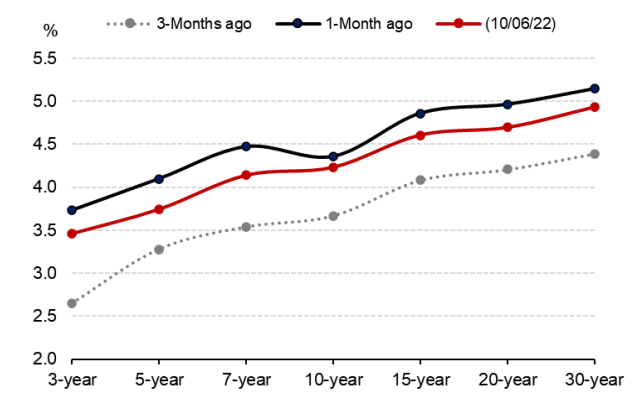
- The 15Y MGS 4/37 reopened at RM5.5b, of which RM2.5b was privately placed, and was awarded at an average yield of 4.599%.
- Demand was solid, recording a bid-to-cover (BTC) ratio of 2.211x, but markedly lower than the 2.933x average recorded in May as demand for bonds begin to subside.
- The next auction is a reopening of the 5Y GII 9/27, and we expect an issuance of RM5.0b with no 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 (%)
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 7/36)	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 4/29)	29/04/22	5000.0	-	5000.0	2.196	4.504	4.520	4.470
May	30-yr New Issue of MGII (Mat on 5/52)	13/05/22	2500.0	500.0	3000.0	2.570	5.357	5.400	5.255
	10-yr Reopening of MGS (Mat on 7/32)	24/05/22	4500.0	-	4500.0	2.598	4.294	4.310	4.243
	3-yr Reopening of MGII (Mat on 10/25)	31/05/22	5000.0	-	5000.0	3.632	3.539	3.550	3.511
June	15-yr Reopening of MGS (Mat on 4/37)	09/06/22	3000.0	2500.0	5500.0	2.211	4.599	4.618	4.565
	5-yr Reopening of MGII (Mat on 9/27)								
	30-yr Reopening of MGS (Mat on 6/50)								

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

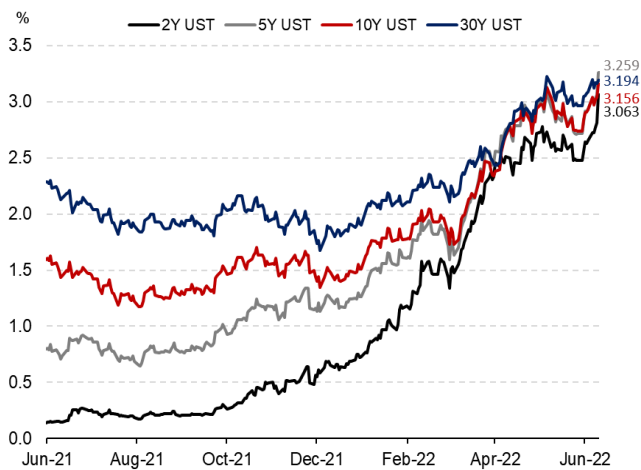
United States Treasuries (UST)

- UST yields continued to increase last week, rising between 10.7bps to 41.1bps overall. The 10Y UST increased by 22.2bps to 3.156%, whilst the 3Y UST soared by 38.9bps to 3.236%, inverting some segments of the yield curve.
- Treasury yields maintained a strong uptrend last week in anticipation of US inflation data, as well as after the ECB's statement that rate hikes would begin in July and followed by a potentially larger move in September. Furthermore, yields spiked on Friday when US inflation for May registered hotter-than-expected at 8.6% (Apr: 8.3%; consensus: 8.3%). This dented beliefs that inflation had peaked and reinforced expectations of a more hawkish Fed going forward.
- Yields are expected to continue rising this week, particularly for the 10Y UST, with parts of the curve currently inverted. Given the strong inflationary pressures, the US Fed will likely raise rates by another 50bps at its upcoming meeting and could signal even larger rate hikes down the line.

Ringgit Outlook

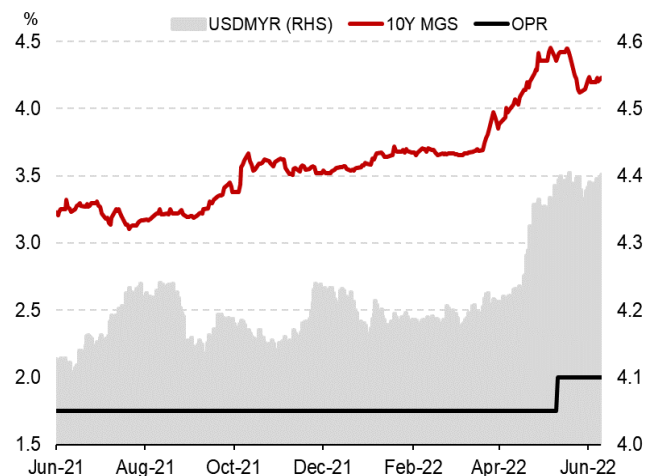
- MYR continued to depreciate against the USD last week, as the dollar strengthened ahead of the upcoming US FOMC meeting and following the hot inflation reading for May. This week, the MYR may trade above the 4.40 level against a well-positioned USD, especially if the Fed provides more hawkish guidance. On the other hand, our technical model suggests the MYR may strengthen by 0.15% to 4.395 against the USD. *(Please refer to our Ringgit Weekly Outlook report)*

Graph 3: UST Yield Trend



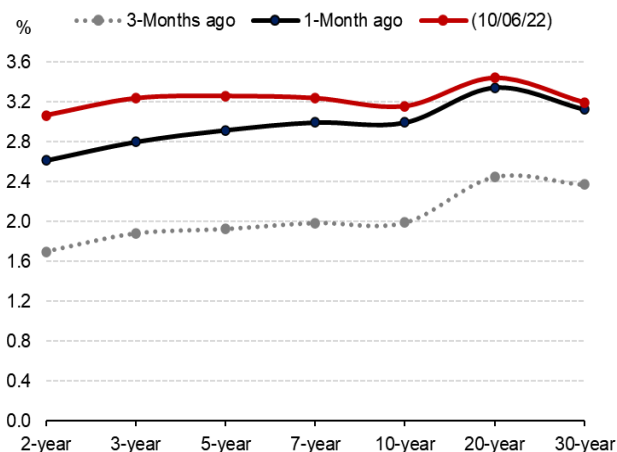
Source: Kenanga Research, Bloomberg

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



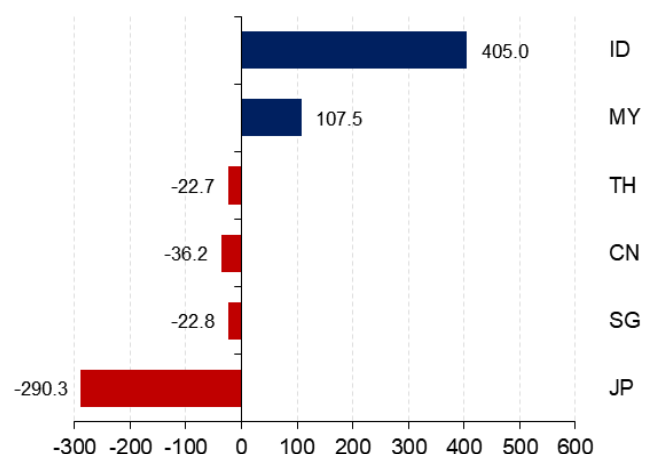
Source: Kenanga Research, Bloomberg

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 10/06/22

13 June 2022

Table 3: Bond Yield Movements

Bonds	03/01/22 YTD	10/06/21 Last Year	10/05/22 Last Month	03/06/22 Last Fortnight	10/06/22 Last Week	ytd (bps)	yoy (bps)	mom (bps)	wow (bps)
MGS									
30Y MGS	4.197	4.306	5.143	4.919	4.929	73.20	62.30	-21.40	1.00
20Y MGS	4.105	4.162	4.962	4.664	4.693	58.80	53.10	-26.90	2.90
15Y MGS	3.920	3.885	4.858	4.587	4.605	68.50	72.00	-25.30	1.80
10Y MGS	3.586	3.257	4.357	4.200	4.230	64.40	97.30	-12.70	3.00
7Y MGS	3.403	2.979	4.470	4.108	4.138	73.50	115.90	-33.20	3.00
5Y MGS	3.156	2.511	4.097	3.723	3.742	58.60	123.10	-35.50	1.90
3Y MGS	2.794	2.239	3.730	3.425	3.459	66.50	122.00	-27.10	3.40
GII									
20Y GII	4.160	4.269	5.047	4.666	4.719	55.90	45.00	-32.80	5.30
10Y GII	3.618	3.318	4.572	4.235	4.236	61.80	91.80	-33.60	0.10
7Y GII	3.453	2.994	4.477	4.135	4.126	67.30	113.20	-35.10	-0.90
3Y GII	2.903	2.128	3.718	3.501	3.507	60.40	137.90	-21.10	0.60
UST									
30Y UST	2.024	2.127	3.123	3.086	3.194	116.95	106.65	7.04	10.73
20Y UST	2.051	2.043	3.339	3.307	3.441	138.97	139.77	10.12	13.36
10Y UST	1.628	1.432	2.991	2.933	3.156	152.75	172.37	16.47	22.23
7Y UST	1.548	1.119	2.992	2.967	3.237	168.92	211.79	24.46	27.01
5Y UST	1.354	0.712	2.915	2.934	3.259	190.45	254.70	34.37	32.48
3Y UST	1.016	0.289	2.798	2.847	3.236	221.95	294.64	43.77	38.85
2Y UST	0.768	0.143	2.612	2.653	3.063	229.54	292.03	45.08	41.07
ASIAN 10Y GOVERNMENT BONDS									
10Y JP	0.071	0.055	0.247	0.234	0.253	18.20	19.80	0.60	1.90
10Y CN	2.779	3.130	2.808	2.807	2.794	1.50	-33.60	-1.40	-1.30
10Y SG	1.703	1.432	2.869	2.826	2.928	122.48	149.59	5.92	10.14
10Y ID	6.390	6.371	7.414	6.941	7.205	81.50	83.40	-20.90	26.40
10Y TH	1.897	1.813	3.403	2.978	2.929	103.18	111.57	-47.43	-4.88

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
saufuddin.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

