

Bond Market Weekly Outlook

MGS/GII yields may move sideways as markets digest Fed rate hike

Government Debt Trend and Flows

- MGS and GII yields increased last week, moving between 8.2bps to 21.9bps overall. The 10Y MGS yield initially rose by 15.4bps to 4.384% on June 14, a 4-week high, before closing the week at 4.330% (+10.0bps).
- Domestic yields sustained a strong uptrend at the beginning of the week following the recent surge in US Treasury yields and ahead of the US FOMC meeting. However, demand for MGS/GII improved slightly after the US Fed's 75bps rate hike, in line with falling global bond yields.
- We expect yields to move sideways this week, as investors digest the impact of the Fed's sizeable rate hike and as global yields pull back from recent highs.
- We expect foreign demand for local bonds to be pressured in the near-term following the US Fed's larger-than-expected rate hike. This may worsen in July, as the Fed could raise rates by another 50 - 75bps, and domestic government bonds are scheduled for RM19.0b worth of maturities.

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

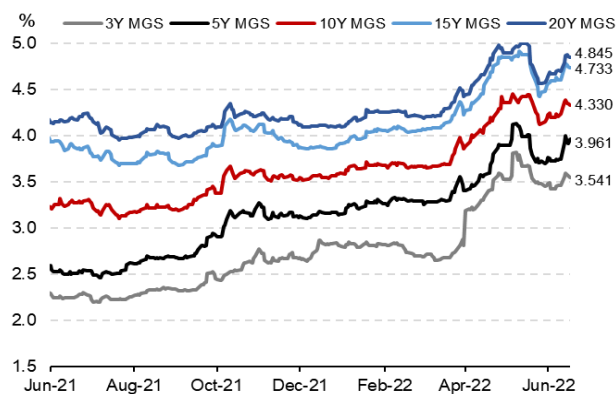
	Long Term*				
	Q1-22	Q2-22F	Q3-22F	Q4-22F	Q1-23F
MGS	3.85	4.30	4.45	4.60	4.70
UST	2.34	3.20	3.50	3.70	3.80
USDMYR	4.204	4.402	4.374	4.347	4.320
OPR	1.75	2.00	2.50	2.75	2.75

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

Upcoming Auction

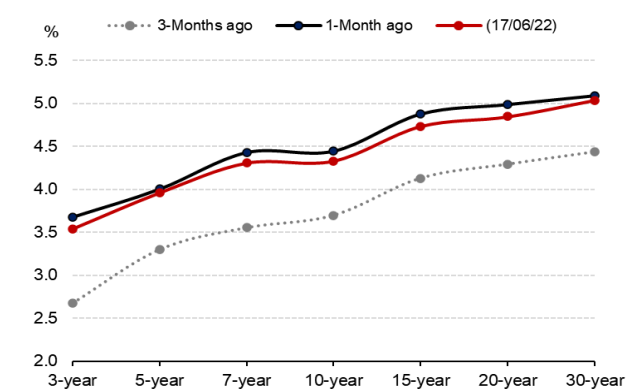
- The upcoming auction is a reopening of the 5Y GII 9/27, and we expect an issuance of RM5.0b with no private placement.
- The previous reopening of the 5Y GII in February saw decent demand, registering a bid-to-cover (BTC) ratio of 1.733x on a RM5.0b issuance. For this auction, we expect a BTC of between 1.8x – 2.0x amid the higher yield environment and the same expected issuance size.

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

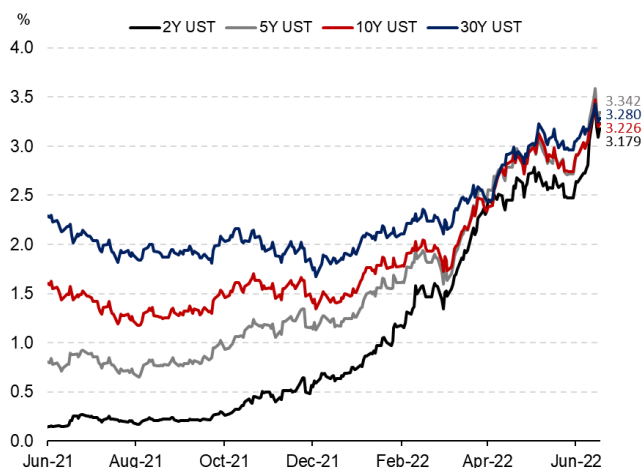
United States Treasuries (UST)

- UST yields continued to increase last week, rising between 7.0bps to 11.5bps overall. The 10Y UST initially surged by 31.8bps to 3.473% on June 14, its highest level since December 2010, before closing the week at 3.226% (+7.0bps).
- Treasury yields soared at the beginning of the week, on the back of the hotter-than-expected US inflation figure and leading up to US FOMC meeting, where market expectations rapidly shifted to price in a possible 75bps hike. Indeed, the Fed's rate hike turned out to be the biggest increase since 1994 and Chairman Powell indicated that another 50 – 75bps hike is expected for the July meeting. With that said, yields fell considerably post FOMC meeting, as some investors likely rushed into bonds on growing fears of a US recession.
- Yields may trend rangebound-to-lower this week, steadily retreating from recent highs as investors pivot away from equities. The market will also assess several upcoming speeches from Fed members.

Ringgit Outlook

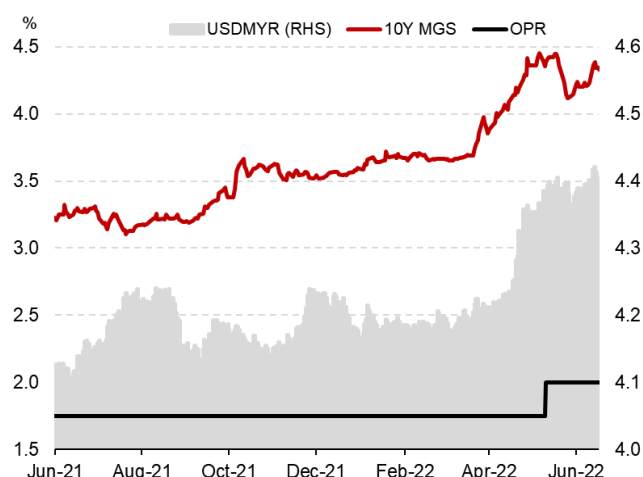
- MYR continued to weaken against the well-bid USD last week, mainly due to the FOMC's 75bps rate hike. This week, the ringgit is expected to trade with a downside bias against the dollar, as Fed Chairman Powell may solidify expectations of further tightening. Likewise, our technical model suggests the MYR may depreciate by 0.09% to 4.406 against the USD. *(Please refer to our Ringgit Weekly Outlook report)*

Graph 3: UST Yield Trend



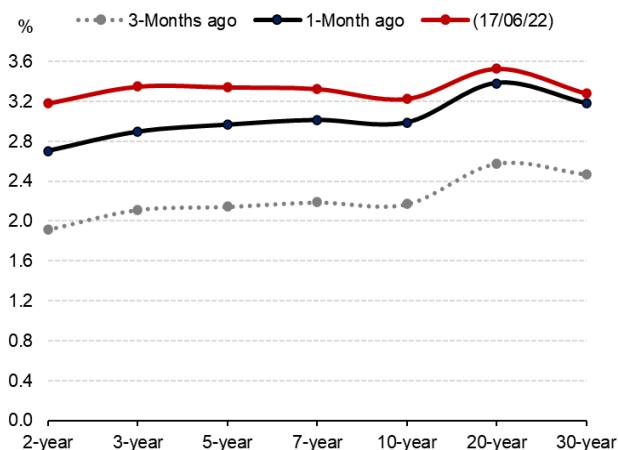
Source: Kenanga Research, Bloomberg

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



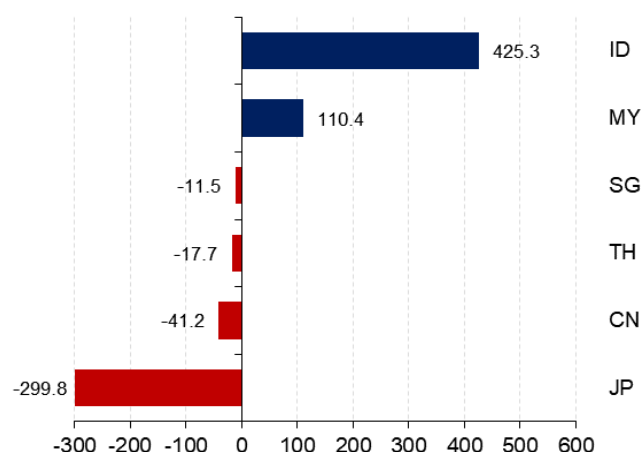
Source: Kenanga Research, Bloomberg

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 17/06/22

20 June 2022

Table 3: Bond Yield Movements

Bonds	03/01/22 YTD	17/06/21 Last Year	17/05/22 Last Month	10/06/22 Last Fortnight	17/06/22 Last Week	ytd (bps)	yoy (bps)	mom (bps)	wow (bps)
MGS									
30Y MGS	4.197	4.338	5.088	4.929	5.036	83.90	69.80	-5.20	10.70
20Y MGS	4.105	4.196	4.986	4.693	4.845	74.00	64.90	-14.10	15.20
15Y MGS	3.920	3.902	4.875	4.605	4.733	81.30	83.10	-14.20	12.80
10Y MGS	3.586	3.299	4.444	4.230	4.330	74.40	103.10	-11.40	10.00
7Y MGS	3.403	3.032	4.428	4.138	4.307	90.40	127.50	-12.10	16.90
5Y MGS	3.156	2.509	4.003	3.742	3.961	80.50	145.20	-4.20	21.90
3Y MGS	2.794	2.243	3.677	3.459	3.541	74.70	129.80	-13.60	8.20
GII									
20Y GII	4.160	4.286	5.081	4.719	4.905	74.50	61.90	-17.60	18.60
10Y GII	3.618	3.364	4.562	4.236	4.400	78.20	103.60	-16.20	16.40
7Y GII	3.453	3.028	4.465	4.126	4.328	87.50	130.00	-13.70	20.20
3Y GII	2.903	2.231	3.687	3.507	3.625	72.20	139.40	-6.20	11.80
UST									
30Y UST	2.024	2.093	3.178	3.194	3.280	125.55	118.68	10.17	8.60
20Y UST	2.051	2.038	3.382	3.441	3.529	147.82	149.10	14.71	8.85
10Y UST	1.628	1.504	2.986	3.156	3.226	159.76	172.16	23.96	7.01
7Y UST	1.548	1.250	3.010	3.237	3.326	177.84	207.62	31.59	8.92
5Y UST	1.354	0.881	2.963	3.259	3.342	198.78	246.09	37.85	8.33
3Y UST	1.016	0.432	2.893	3.236	3.349	233.29	291.76	45.64	11.34
2Y UST	0.768	0.209	2.700	3.063	3.179	241.07	296.92	47.82	11.53
ASIAN 10Y GOVERNMENT BONDS									
10Y JP	0.071	0.063	0.246	0.253	0.228	15.70	16.50	-1.80	-2.50
10Y CN	2.779	3.171	2.819	2.794	2.814	3.50	-35.70	-0.50	2.00
10Y SG	1.703	1.487	2.752	2.928	3.111	140.80	162.39	35.89	18.32
10Y ID	6.390	6.513	7.333	7.205	7.479	108.90	96.60	14.60	27.40
10Y TH	1.897	1.869	3.425	2.929	3.049	115.13	117.94	-37.64	11.96

Source: Kenanga Research, Bloomberg

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Published and printed by:

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