

Bond Market Weekly Outlook

MGS/GII yields may trend rangebound-to-lower on growing safe-haven demand

Government Debt Trend and Flows

- MGS and GII yields declined last week, moving between -18.8bps to -5.3bps across the curve. The 10Y MGS yield fell by 13.9bps to 4.191%, its lowest level in three weeks.
- Domestic bonds saw improved demand this week, as investors digested the Fed's recent rate hike and shifted to concerns of a possible global recession amid very strong monetary policy tightening worldwide. MGS/GII yields were also steered by a sizeable decline in US Treasury yields and surprisingly strong demand for the 15Y MGS auction.
- We expect yields to trend rangebound-to-lower this week, with bonds remaining well bid from renewed safe-haven demand. However, yields may return to an uptrend should the US PCE Price Index surprise on the high side.
- Foreign demand for local bonds may be pressured in June due to the US Fed's larger-than-expected rate hike. However, this may be somewhat alleviated following the recent return of safe-haven demand for bonds amid global recession fears. Nonetheless, we still expect demand to worsen in July, as the Fed continues to raise rates and with RM19.0b worth of domestic government bonds maturing.

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

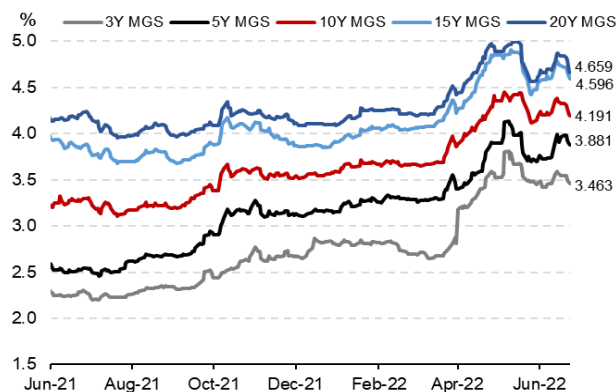
	Long Term*				
	Q1-22	Q2-22F	Q3-22F	Q4-22F	Q1-23F
MGS	3.85	4.30	4.45	4.60	4.70
UST	2.34	3.20	3.50	3.70	3.80
USDMYR	4.204	4.402	4.374	4.347	4.320
OPR	1.75	2.00	2.50	2.75	2.75

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

Auction Results (June-22)

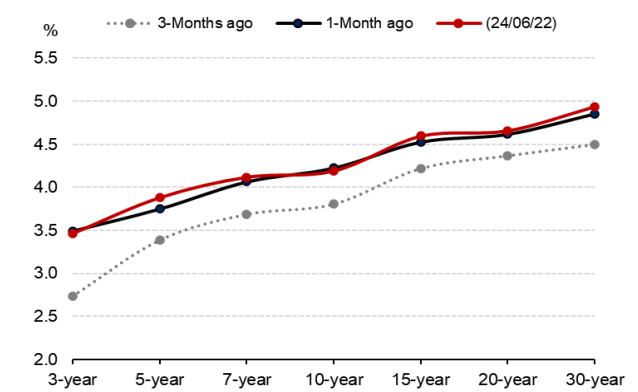
- The 15Y MGS 4/37 reopened at a smaller-than-anticipated RM4.5b, with no private placement, and was at an average yield of 4.155%.
- Demand was significantly stronger-than-expected, recording a bid-to-cover (BTC) ratio of 3.133x, above our estimate of 1.8x – 2.0x. This may be due to market concerns over a potential global recession and the higher yield environment following weeks of uptrend.
- The next auction is a reopening of the 30Y MGS 6/50, and we expect an issuance of RM4.0b with 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)	23/06/22	4500.0	-	4500.0	3.133	4.155	4.167	4.135
	30-yr Reopening of MGS (Mat on 6/50)								

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

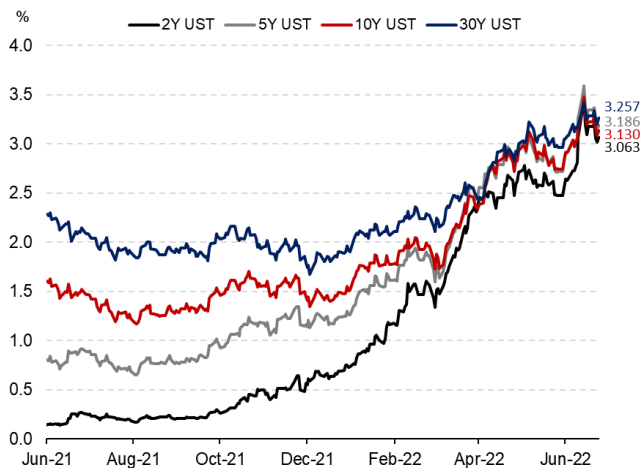
United States Treasuries (UST)

- UST yields declined this week, particularly along the short-end and middle of the curve, moving between -20.2bps to -1.3bps overall. The 10Y UST initially fell by 13.9bps to 3.087%, its lowest level in two weeks, before closing the week at 3.130% (-9.5bps).
- Treasury yields fell across the curve, breaking from weeks of sustained uptrend, as the market began to grow concerned about a potential US and global recession. This follows from Chairman Jerome Powell's statements that the Fed is strongly committed to bringing down inflation, and that the US economy remains strong, but acknowledging that a recession is possible.
- Yields may trend rangebound this week as investors await the US Core PCE Price Index for May (June 30). Expect yields to return to an uptrend if the Fed's preferred inflation measure registers a surprise increase.

Ringgit Outlook

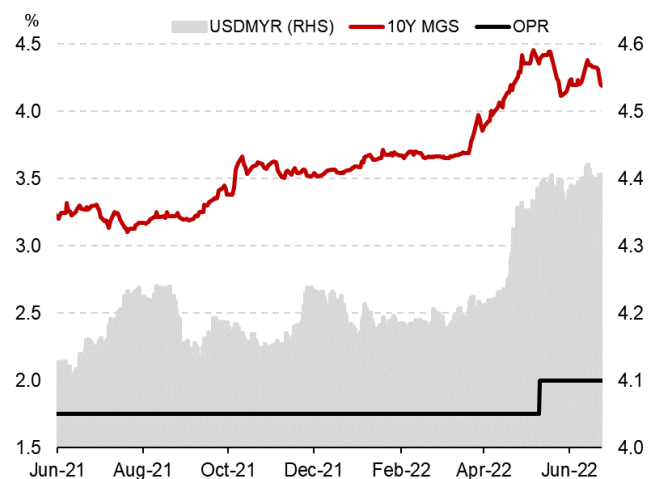
- MYR weakened marginally against the USD last week, due to growing global recession fears amid aggressive central bank rate hikes. This week, the ringgit is expected to trade around the 4.40 level as the market awaits statements from Fed speakers. However, a further decline in the US Core PCE Price Index may strengthen the ringgit. Meanwhile, our technical model suggests the MYR may depreciate by 0.02% to 4.404 this week. *(Please refer to our Ringgit Weekly Outlook report)*

Graph 3: UST Yield Trend



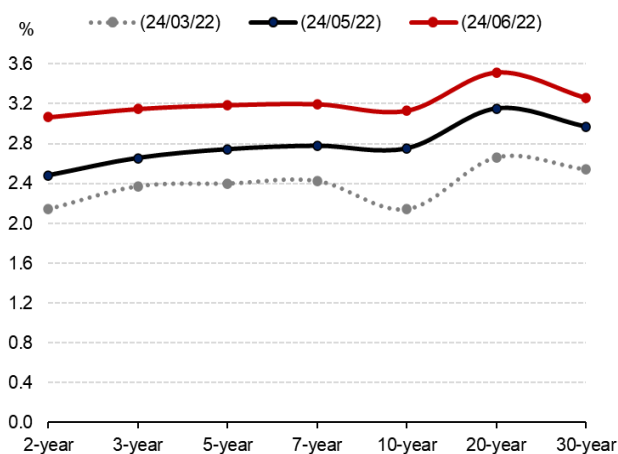
Source: Kenanga Research, Bloomberg

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



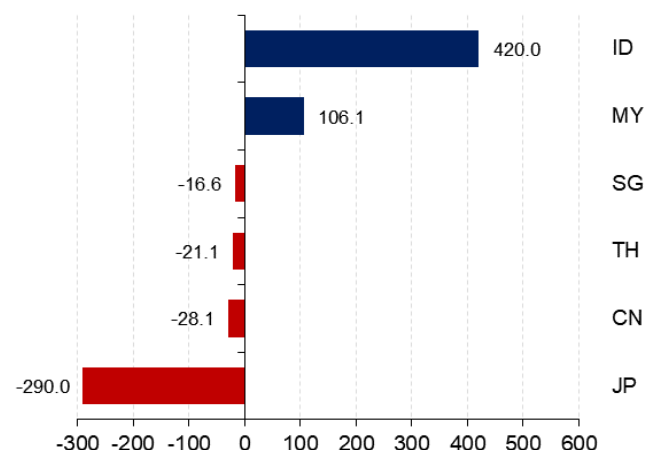
Source: Kenanga Research, Bloomberg

Graph 5: UST Yield Curve



Source: Kenanga Research, Bloomberg

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



Source: Kenanga Research, Bloomberg
*Spread: Benchmark 10Y yield relative to the 10Y UST on 24/06/22

27 June 2022

Table 3: Bond Yield Movements

Bonds	03/01/22 YTD	24/06/21 Last Year	24/05/22 Last Month	17/06/22 Last Fortnight	24/06/22 Last Week	ytd (bps)	yoy (bps)	mom (bps)	wow (bps)
MGS									
30Y MGS	4.197	4.261	4.855	5.036	4.939	74.20	67.80	8.40	-9.70
20Y MGS	4.105	4.208	4.619	4.845	4.659	55.40	45.10	4.00	-18.60
15Y MGS	3.920	3.851	4.528	4.733	4.596	67.60	74.50	6.80	-13.70
10Y MGS	3.586	3.276	4.226	4.330	4.191	60.50	91.50	-3.50	-13.90
7Y MGS	3.403	3.006	4.066	4.307	4.119	71.60	111.30	5.30	-18.80
5Y MGS	3.156	2.522	3.751	3.961	3.881	72.50	135.90	13.00	-8.00
3Y MGS	2.794	2.281	3.494	3.541	3.463	66.90	118.20	-3.10	-7.80
GII									
20Y GII	4.160	4.285	4.846	4.905	4.852	69.20	56.70	0.60	-5.30
10Y GII	3.618	3.335	4.268	4.400	4.277	65.90	94.20	0.90	-12.30
7Y GII	3.453	3.001	4.122	4.328	4.182	72.90	118.10	6.00	-14.60
3Y GII	2.903	2.346	3.530	3.625	3.546	64.30	120.00	1.60	-7.90
UST									
30Y UST	2.024	2.098	2.967	3.280	3.257	123.31	115.90	29.04	-2.24
20Y UST	2.051	2.029	3.151	3.529	3.516	146.48	148.72	36.44	-1.34
10Y UST	1.628	1.492	2.751	3.226	3.130	150.21	163.82	37.95	-9.55
7Y UST	1.548	1.248	2.775	3.326	3.196	164.77	194.79	42.04	-13.07
5Y UST	1.354	0.913	2.741	3.342	3.186	183.17	227.23	44.45	-15.61
3Y UST	1.016	0.470	2.654	3.349	3.147	213.08	267.71	49.34	-20.21
2Y UST	0.768	0.268	2.479	3.179	3.063	229.54	279.51	58.45	-11.53
ASIAN 10Y GOVERNMENT BONDS									
10Y JP	0.071	0.056	0.237	0.228	0.230	15.90	17.40	-0.70	0.20
10Y CN	2.779	3.093	2.797	2.814	2.849	7.00	-24.40	5.20	3.50
10Y SG	1.703	1.573	2.601	3.111	2.964	126.11	139.14	36.28	-14.69
10Y ID	6.390	6.558	7.234	7.479	7.330	94.00	77.20	9.60	-14.90
10Y TH	1.897	1.829	3.046	3.049	2.919	102.19	109.06	-12.65	-12.94

Source: Kenanga Research, Bloomberg

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