

# Bond Market Weekly Outlook

MGS/GII yields to continue downtrend in line with lower global bond yields

## Government Debt Trend and Flows

- MGS and GII yields fell last week, moving between -14.7bps to -1.5bps overall. The 10Y MGS fell by 8.9bps to 3.926%, reaching its lowest level since March, whilst the 30Y MGS yield decreased by 14.7bps to 4.578%.
- Demand for domestic bonds remained strong last week, steered by lower global bond yields as recession remained a major concern and despite the US Fed raising rates by another 75bps. As such, weekly trading volume for government bonds increased by 16.1% to RM16.65b (previous week: RM14.34b).
- Domestic yields will likely maintain a downtrend this week, as demand for local bonds remain robust and as global bond yields decline following the recent US GDP report. For the long-term outlook, we have revised down our end-2022 10Y MGS yield target to 4.35% from 4.60% previously (2021: 3.60%), as we reckon global bond yields may register lower than initially expected amid growing recessionary risk.
- Foreign demand for domestic bonds may improve in August following expected weakness in July after the ECB's larger-than-expected 50bps rate hike, another 75bps hike by the Fed, and RM19.0b worth domestic bonds having matured. Nonetheless, foreign portfolio flows will still be generally pressured by global risk-aversion as recession fears remain paramount.

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

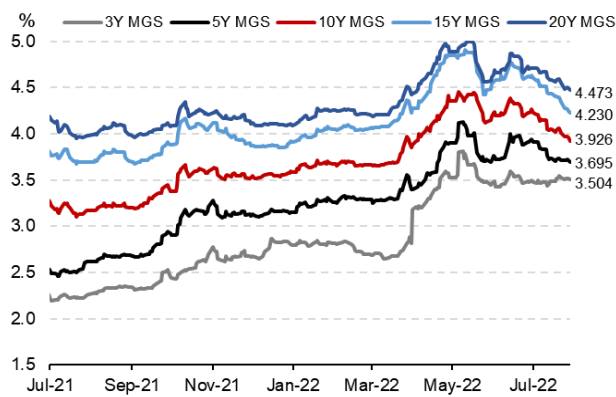
	Long Term*				
	Q2-22	Q3-22F	Q4-22F	Q1-23F	Q2-23F
MGS	4.26	4.15	4.35	4.40	4.30
UST	3.01	3.10	3.40	3.40	3.20
USDMYR	4.408	4.374	4.347	4.320	4.293
OPR	2.00	2.50	2.75	3.00	3.00

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

## Auction Result (28-July)

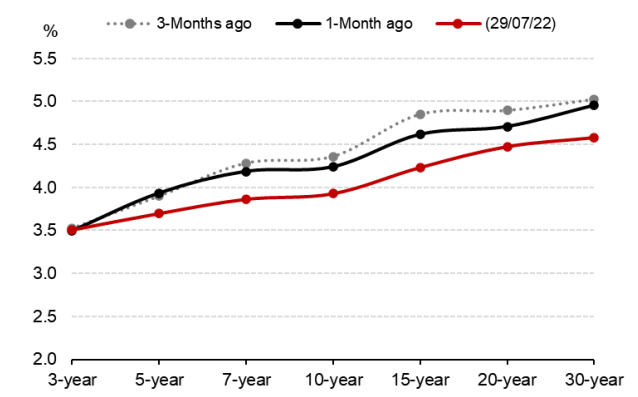
- The 7Y GII 7/29 reopened at an expected RM4.5b, with no private placement, and was awarded at an average yield of 3.917%.
- Demand was solid, registering a bid-to-cover (BTC) ratio of 2.403x (YTD average: 2.349x), as global yields had trended lower despite the US Fed's 75bps rate hike.
- The next auction is a reopening of the 5Y MGS 11/27, and we estimate an issuance of RM5.0b without 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 (%)
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)	30/06/22	2500.0	2500.0	5000.0	2.459	4.959	4.974	4.930
July	10-yr Reopening of MGII (Mat on 10/32)	15/07/22	3500.0	2500.0	6000.0	3.105	4.117	4.129	4.090
	20-yr Reopening of MGS (Mat on 10/42)	22/07/22	2500.0	2500.0	5000.0	2.656	4.598	4.607	4.585
	7-yr Reopening of MGII (Mat on 7/29)	29/07/22	4500.0	-	4500.0	2.403	3.917	3.927	3.900

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

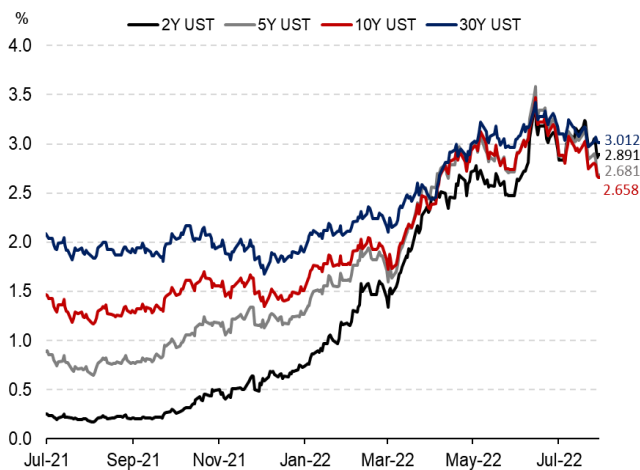
**United States Treasuries (UST)**

- UST yields mostly decreased this week, especially the short-end and middle of the curve, moving between -16.2bps to 4.0bps overall. The 10Y UST yield fell by 9.2bps to 2.658%, its lowest level since April, whilst the 30Y UST rose by 4.0bps to 3.012%.
- Demand for short and middle-term UST soared after the Fed raised the Funds Rate (FFR) by another 75bps to 2.50%, fuelling market concerns that the US economy would be driven into recession. This sentiment was intensified following the advance estimate of 2Q22 US GDP growth registering -0.9% (1Q22: -1.6%), indicating that the economy had fallen into a technical recession; although the NBER refrained from declaring one officially.
- Yields may continue to trend lower this week as recession remains a strong concern and investors await the release of US jobs data (August 5) for further guidance on the health of the economy. For the long-term outlook, we have revised down our end-2022 10Y UST yield target to 3.40% from 3.70% previously (2021: 1.51%), due to expectations of a lower terminal FFR and rising recession risk in the US.

**Ringgit Outlook**

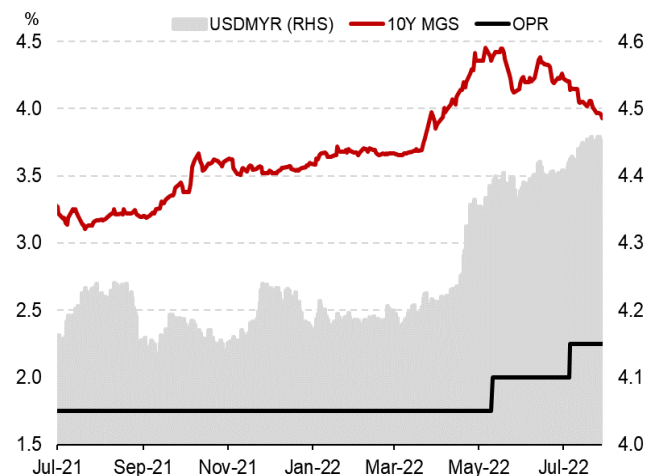
- The MYR strengthened slightly against the USD last week, following reports that the US economy fell into a technical recession. With that said, the ringgit failed to trade below the 4.45-level due to a lack of domestic catalysts. As such, this week we expect the MYR to trade rangebound against the USD amid ongoing instability in global markets. Meanwhile, our technical model suggests the ringgit will depreciate marginally against the dollar by 0.06% to 4.453. *(Please refer to our Ringgit Weekly Outlook report)*

**Graph 3: UST Yield Trend**



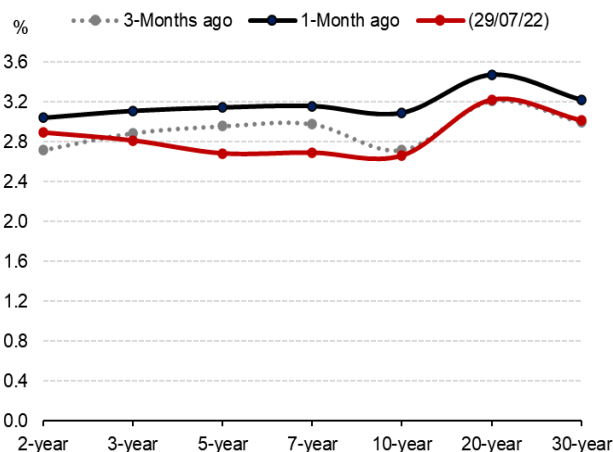
Source: Kenanga Research, Bloomberg

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



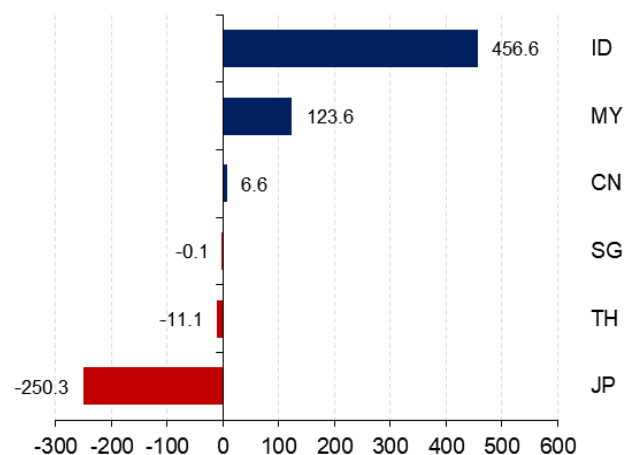
Source: Kenanga Research, Bloomberg

**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 29/07/22

01 August 2022

Table 3: Bond Yield Movements

Bonds	03/01/22 YTD	29/07/21 Last Year	29/06/22 Last Month	22/07/22 Last Fortnight	29/07/22 Last Week	ytd (bps)	yoy (bps)	mom (bps)	wow (bps)
<b>MGS</b>									
30Y MGS	4.197	4.179	4.955	4.725	<b>4.578</b>	38.10	39.90	-37.70	-14.70
20Y MGS	4.105	3.979	4.708	4.552	<b>4.473</b>	36.80	49.40	-23.50	-7.90
15Y MGS	3.920	3.698	4.617	4.343	<b>4.230</b>	31.00	53.20	-38.70	-11.30
10Y MGS	3.586	3.171	4.238	4.015	<b>3.926</b>	34.00	75.50	-31.20	-8.90
7Y MGS	3.403	2.998	4.185	3.979	<b>3.861</b>	45.80	86.30	-32.40	-11.80
5Y MGS	3.156	2.621	3.932	3.711	<b>3.695</b>	53.90	107.40	-23.70	-1.60
3Y MGS	2.794	2.254	3.490	3.531	<b>3.504</b>	71.00	125.00	1.40	-2.70
<b>GII</b>									
20Y GII	4.160	4.177	4.848	4.619	<b>4.540</b>	38.00	36.30	-30.80	-7.90
10Y GII	3.618	3.283	4.251	4.107	<b>4.015</b>	39.70	73.20	-23.60	-9.20
7Y GII	3.453	2.982	4.207	4.039	<b>3.940</b>	48.70	95.80	-26.70	-9.90
3Y GII	2.903	2.292	3.550	3.531	<b>3.516</b>	61.30	122.40	-3.40	-1.50
<b>UST</b>									
30Y UST	2.024	1.920	3.219	2.972	<b>3.012</b>	98.80	109.25	-20.65	4.03
20Y UST	2.051	1.836	3.470	3.210	<b>3.218</b>	116.67	138.16	-25.23	0.75
10Y UST	1.628	1.269	3.089	2.750	<b>2.658</b>	103.00	138.87	-43.11	-9.24
7Y UST	1.548	1.023	3.157	2.828	<b>2.689</b>	114.13	166.66	-46.82	-13.85
5Y UST	1.354	0.735	3.143	2.843	<b>2.681</b>	132.71	194.60	-46.18	-16.19
3Y UST	1.016	0.372	3.109	2.914	<b>2.811</b>	179.48	243.87	-29.76	-10.32
2Y UST	0.768	0.204	3.039	2.970	<b>2.891</b>	212.27	268.70	-14.80	-7.95
<b>ASIAN 10Y GOVERNMENT BONDS</b>									
10Y JP	0.071	0.021	0.236	0.215	<b>0.187</b>	11.60	16.60	-4.90	-2.80
10Y CN	2.779	2.896	2.833	2.786	<b>2.756</b>	-2.30	-14.00	-7.70	-3.00
10Y SG	1.703	1.318	3.008	2.783	<b>2.689</b>	98.63	137.16	-31.89	-9.34
10Y ID	6.390	6.301	7.275	7.485	<b>7.256</b>	86.60	95.50	-1.90	-22.90
10Y TH	1.897	1.579	2.938	2.687	<b>2.579</b>	68.20	99.98	-35.84	-10.75

Source: Kenanga Research, Bloomberg

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Published and printed by:

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