

# Bond Market Weekly Outlook

MGS/GII yields may trend rangebound following Fed rate hike

## Government Debt Trend and Flows

- MGS and GII yields surged last week, rising between 15.5bps to 29.5bps overall. The 10Y MGS yield rose by 17.8bps to 4.317%, its highest level since June 2022.
- Demand for domestic bonds remained pressured last week as the US Fed embarked on another 75bps rate hike and signalled similarly large hikes going forward. This exacerbated global risk-off sentiment, which led to the weakest MGS auction performance for this year.
- Domestic yields may trend rangebound this week, as markets digest the latest Fed rate hike and as Malaysia's inflation rate for August came within expectations (4.7%). In the long-term, we expect yields to remain elevated and maintain our end-2022 target for the 10Y MGS at 4.35%.
- Foreign demand for domestic bonds will likely have been weak in September, amid heightened global risk-off sentiment as the Fed raised its policy rate by another 75bps and as other major central banks followed suit. Meanwhile, domestic yield differentials continued to decline, with the 10Y MGS-UST yield spread falling to 63.2bps last week (previous week: 69.0bps).

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

	Long Term*				
	Q2-22	Q3-22F	Q4-22F	Q1-23F	Q2-23F
MGS	4.26	4.20	4.35	4.35	4.20
UST	3.01	3.45	3.80	3.80	3.55
USDMYR	4.408	4.588	4.435	4.465	4.425
OPR	2.00	2.50	2.75	3.00	3.00

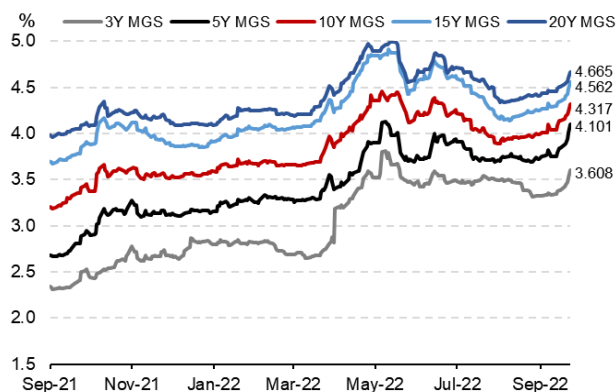
\*F=Forecasts for end of period

Source: Kenanga Research, Bloomberg

## Auction Results (22-Sep)

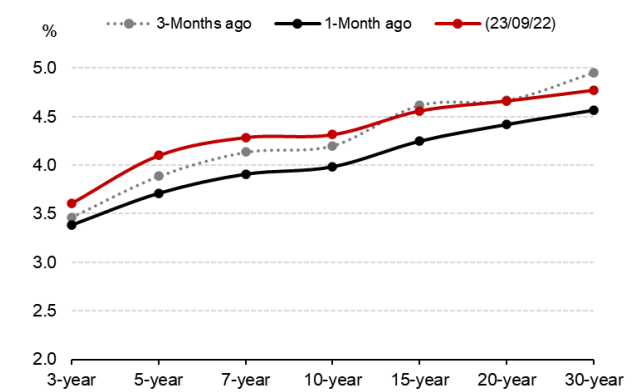
- The 7Y MGS 4/29 reopened at a slightly larger-than-expected RM5.0b, with no private placement, and was awarded at an average yield of 4.232%.
- Demand for auctions continued to weaken, recording a bid-to-cover (BTC) ratio of just 1.662x, the lowest of the year. This comes amid sustained global risk-off sentiment as the US Fed continued to aggressively raise rates.
- The next auction is of the 15Y GII 3/38, and we expect an issuance of RM4.5b 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 (%)
Jul	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
Aug	5-yr Reopening of MGS (Mat on 11/27)	05/08/22	5000.0	-	5000.0	2.044	3.798	3.808	3.770
	20-yr Reopening of MGII (Mat on 9/41)	15/08/22	3000.0	2500.0	5500.0	2.742	4.410	4.435	4.383
	15-yr Reopening of MGS (Mat on 4/37)	30/08/22	2500.0	2500.0	5000.0	2.244	4.249	4.272	4.210
Sep	3-yr Reopening of MGII (Mat on 10/25)	15/09/22	5000.0	-	5000.0	1.836	3.474	3.483	3.450
	7-yr Reopening of MGS (Mat on 4/29)	23/09/22	5000.0	-	5000.0	1.662	4.232	4.275	4.190
	15.5-yr New Issue of MGII (Mat on 3/38)								

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

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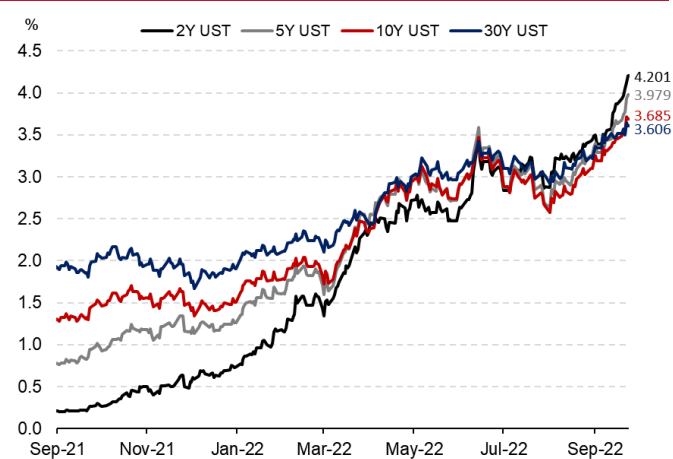
### United States Treasuries (UST)

- UST yields soared last week, particularly along the short-end and middle of the curve, moving between 9.3bps to 39.7bps overall. The 10Y UST yield initially rose by 26.4bps to 3.714% on Sep 22, before closing the week at 3.685% (+23.5bps). Meanwhile, the 2Y UST surged by 33.4bps to 4.201%, its highest level since August 2007.
- Treasuries continued to be sold-off this week after another major 75bps rate hike by the Fed, with short-term yields soaring particularly high. The Fed reiterated that its priority was to bring inflation down to 2.0% and would maintain its tightening pace to do so. The latest “dot plot” of Fed expectations signalled a higher terminal rate of 4.6% in 2023.
- Yields may trend rangebound-to-lower this week as investors continue to digest the Fed rate hike. However, given broad expectations of a higher terminal rate and similarly large rate hikes at the two remaining Fed meetings this year, we have raised our end-2022 forecast for the 10Y UST to 3.80% from 3.40% previously.

### Ringgit Outlook

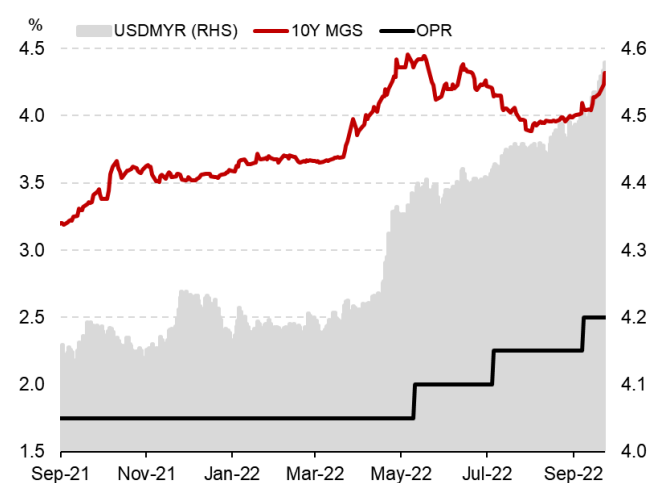
- MYR continued to depreciate against the USD last week, mainly due to the Fed's third consecutive 75bps rate hike and partly due to the rapid depreciation of the CNY. This week, the ringgit is expected to further weaken against the dollar due to potential hawkish remarks from a slew of Fed speakers scheduled throughout the week. On the other hand, our technical model suggests the MYR may appreciate slightly against the USD by 0.37% to 4.562. (Please refer to our Ringgit Weekly Outlook report)

Graph 3: UST Yield Trend



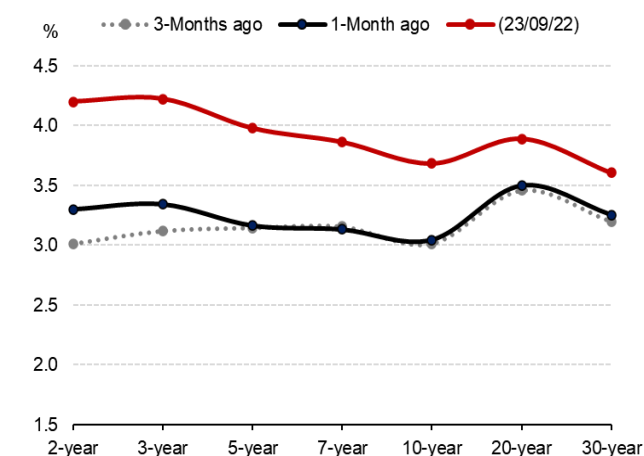
Source: Kenanga Research, Bloomberg

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



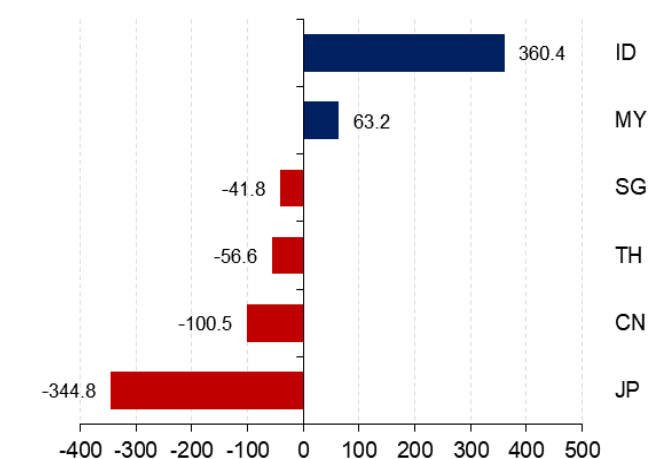
Source: Kenanga Research, Bloomberg

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 23/09/22

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Table 3: Bond Yield Movements

Bonds	03/01/22 YTD	23/09/21 Last Year	23/08/22 Last Month	16/09/22 Last Fortnight	23/09/22 Last Week	ytd (bps)	yoy (bps)	mom (bps)	wow (bps)
<b>MGS</b>									
30Y MGS	4.197	4.218	4.564	4.607	4.776	57.90	55.80	21.20	16.90
20Y MGS	4.105	4.051	4.418	4.510	4.665	56.00	61.40	24.70	15.50
15Y MGS	3.920	3.780	4.247	4.346	4.562	64.20	78.20	31.50	21.60
10Y MGS	3.586	3.358	3.985	4.139	4.317	73.10	95.90	33.20	17.80
7Y MGS	3.403	3.159	3.909	4.016	4.288	88.50	112.90	37.90	27.20
5Y MGS	3.156	2.813	3.713	3.841	4.101	94.50	128.80	38.80	26.00
3Y MGS	2.794	2.415	3.388	3.388	3.608	81.40	119.30	22.00	22.00
<b>GII</b>									
20Y GII	4.160	4.158	4.414	4.462	4.635	47.50	47.70	22.10	17.30
10Y GII	3.618	3.445	4.012	4.124	4.365	74.70	92.00	35.30	24.10
7Y GII	3.453	3.228	3.948	4.013	4.308	85.50	108.00	36.00	29.50
3Y GII	2.903	2.443	3.481	3.493	3.751	84.80	130.80	27.00	25.80
<b>UST</b>									
30Y UST	2.024	1.940	3.255	3.513	3.606	158.19	166.61	35.09	9.28
20Y UST	2.051	1.887	3.498	3.782	3.890	183.95	200.33	39.29	10.86
10Y UST	1.628	1.430	3.046	3.449	3.685	205.66	225.45	63.85	23.52
7Y UST	1.548	1.236	3.132	3.560	3.864	231.57	262.77	73.13	30.38
5Y UST	1.354	0.948	3.165	3.631	3.979	262.49	303.07	81.41	34.80
3Y UST	1.016	0.534	3.342	3.826	4.223	320.71	368.93	88.17	39.69
2Y UST	0.768	0.261	3.300	3.867	4.201	343.33	394.03	90.14	33.40
<b>ASIAN 10Y GOVERNMENT BONDS</b>									
10Y JP	0.071	0.039	0.221	0.257	0.237	16.60	19.80	1.60	-2.00
10Y CN	2.779	2.860	2.634	2.680	2.680	-9.90	-18.00	4.60	0.00
10Y SG	1.703	1.441	2.811	3.224	3.266	156.35	182.53	45.59	4.28
10Y ID	6.390	6.115	7.122	7.215	7.289	89.90	117.40	16.70	7.40
10Y TH	1.897	1.789	2.601	2.952	3.118	122.10	132.88	51.76	16.65

Source: Kenanga Research, Bloomberg

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