

Bond Market Weekly Outlook

MGS/GII yields to increase ahead of Budget 2023 and rising global bond yields

Government Debt Trend and Flows

- MGS and GII mostly rose last week, moving between -4.9bps to 26.2bps overall. The 10Y MGS yield initially rose by 14.0bps to 4.457%, before closing the week at 4.420% (+10.3bps).
- Demand for domestic bonds remained generally pressured last week, in tandem with weak market sentiment for bonds globally. However, there was some demand recovery towards the end of the week, coinciding with the UK's bond market intervention and the issuance of the new 15Y GII,
- Domestic yields may continue to rise this week, as investors await the tabling of Budget 2023 (Oct 7). Local yields may also be partly steered by rising global bond yields, amid heightened volatility in UK markets and ongoing expectations of a hawkish US Fed.
- Foreign demand for domestic bonds will likely remain pressured in October on weak global sentiment, which has been exacerbated by the UK's recent bond market turmoil. The Fed is also widely expected to stay hawkish as it commits to reigning in inflation, which may continue to weigh on yield differentials; the 10Y MGS-UST yield spread fell to 59.1bps last week (previous week: 63.2bps).

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

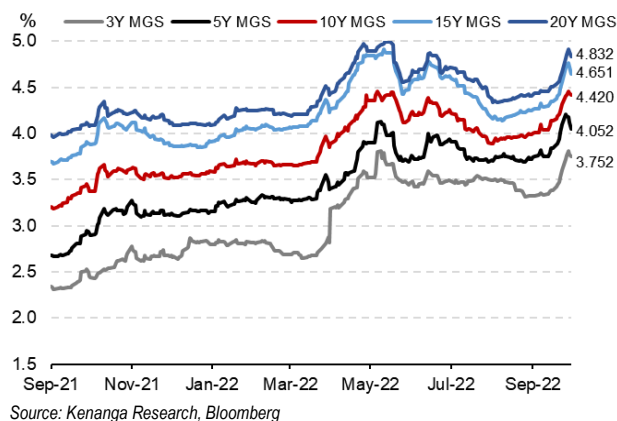
	Long Term*				
	Q3-22	Q4-22F	Q1-23F	Q2-23F	Q3-23F
MGS	4.41	4.35	4.35	4.20	4.15
UST	3.83	3.80	3.80	3.55	3.25
USDMYR	4.638	4.435	4.465	4.425	4.338
OPR	2.50	2.75	3.00	3.00	3.00

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

Auction Results (29-Sep)

- The 15Y GII 3/38 was newly issued at an expected RM4.5b, with no private placement, and was awarded at an average yield of 4.662%.
- Demand for the first government MYR Sustainability Sukuk was strong, registering a bid-to-cover (BTC) ratio of 2.383x (YTD average: 2.306x), despite faltering global market sentiment for bonds.
- The next auction is a reopening of the 3Y MGS 3/25, and we expect an issuance of RM5.0b with no private placement.

Graph 1: Benchmark MGS Yield Trend



Graph 2: MGS Yield Curve

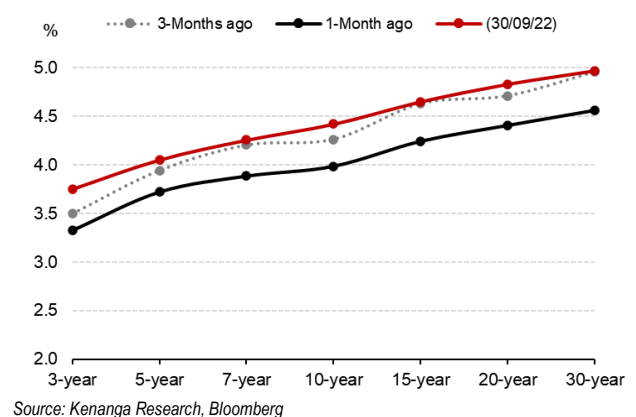


Table 2: 2022 Auction Calendar

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)	30/09/22	4500.0	-	4500.0	2.383	4.662	4.690	4.600

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

03 October 2022

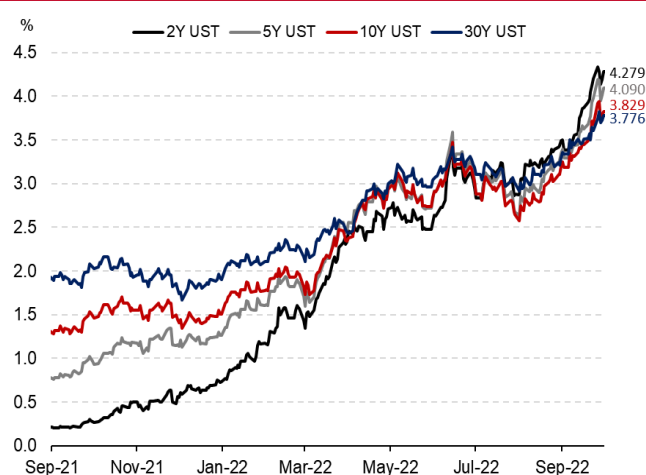
United States Treasuries (UST)

- UST yields continued to rise last week, increasing between 6.5bps to 19.8bps overall. The 10Y UST yield initially rose by 26.1bps to 3.945% on Sep 27, its highest level since April 2010, before closing the week at 3.829% (+14.4bps).
- Yields soared early last week, following the Fed's recent rate hike and as investors digested hawkish remarks from several Fed officials. This was also exacerbated by surging UK bond yields, amid broad market turmoil following the announcement of the UK mini budget and planned tax cuts. However, global yields retreated slightly from midweek as the Bank of England (BoE) intervened to prevent the potential collapse of UK pension funds, by reembarc on emergency quantitative easing.
- US yields may trend higher this week as the Fed's preferred inflation gauge, the PCE price index, rose more than expected in August (0.3% MoM; Jul: 0.1% MoM). Likewise, UK market turbulence will likely continue despite the BoE's intervention, as the government commits to its fiscal plans.

Ringgit Outlook

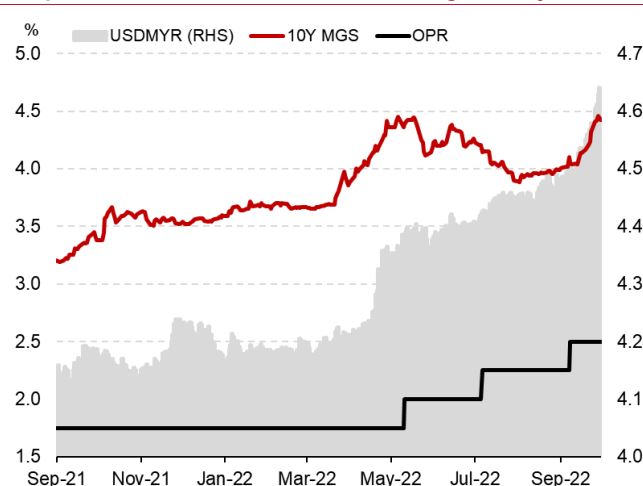
- MYR continued to depreciate against the USD last week, at its fastest pace in 23 weeks, on the back of strong safe-haven demand for the dollar. This week, the continued hawkishness of Fed officials coupled with another potentially strong US labour market report, may see the dollar continue to strengthen at the expense of the ringgit. On the other hand, our technical model suggests the MYR may appreciate slightly against the USD by 0.33% to 4.622. (Please refer to our Ringgit Weekly Outlook report)

Graph 3: UST Yield Trend



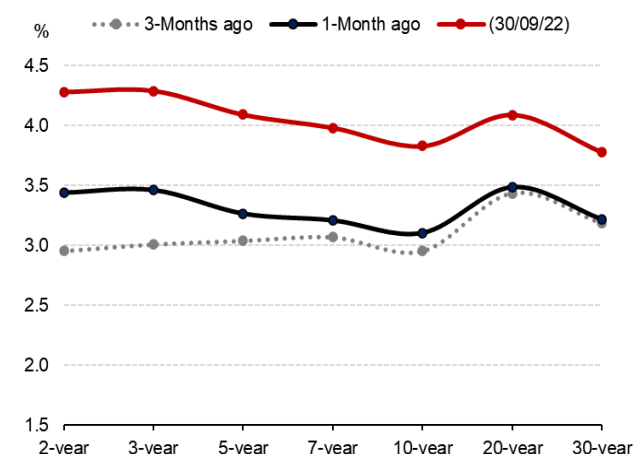
Source: Kenanga Research, Bloomberg

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



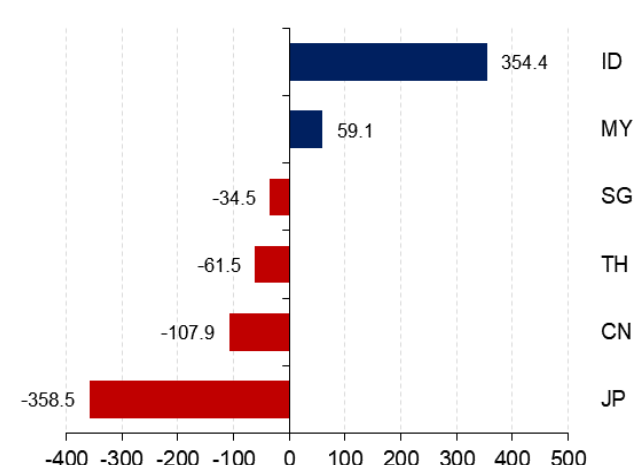
Source: Kenanga Research, Bloomberg

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 30/09/22

03 October 2022

Table 3: Bond Yield Movements

Bonds	03/01/22 YTD	30/09/21 Last Year	30/08/22 Last Month	23/09/22 Last Fortnight	30/09/22 Last Week	ytd (bps)	yoy (bps)	mom (bps)	wow (bps)
MGS									
30Y MGS	4.197	4.261	4.564	4.776	4.970	77.30	70.90	40.60	19.40
20Y MGS	4.105	4.084	4.409	4.665	4.832	72.70	74.80	42.30	16.70
15Y MGS	3.920	3.887	4.245	4.562	4.651	73.10	76.40	40.60	8.90
10Y MGS	3.586	3.379	3.987	4.317	4.420	83.40	104.10	43.30	10.30
7Y MGS	3.403	3.296	3.885	4.288	4.256	85.30	96.00	37.10	-3.20
5Y MGS	3.156	2.920	3.721	4.101	4.052	89.60	113.20	33.10	-4.90
3Y MGS	2.794	2.451	3.325	3.608	3.752	95.80	130.10	42.70	14.40
GII									
20Y GII	4.160	4.186	4.420	4.635	4.897	73.70	71.10	47.70	26.20
10Y GII	3.618	3.490	4.025	4.365	4.498	88.00	100.80	47.30	13.30
7Y GII	3.453	3.345	3.943	4.308	4.402	94.90	105.70	45.90	9.40
3Y GII	2.903	2.570	3.479	3.751	3.791	88.80	122.10	31.20	4.00
UST									
30Y UST	2.024	2.045	3.216	3.606	3.776	175.19	173.10	56.04	17.00
20Y UST	2.051	1.988	3.489	3.890	4.088	203.72	210.02	59.95	19.77
10Y UST	1.628	1.487	3.103	3.685	3.829	220.06	234.13	72.61	14.40
7Y UST	1.548	1.285	3.208	3.864	3.981	243.30	269.57	77.30	11.73
5Y UST	1.354	0.965	3.265	3.979	4.090	273.60	312.51	82.51	11.11
3Y UST	1.016	0.508	3.464	4.223	4.288	327.19	377.98	82.43	6.48
2Y UST	0.768	0.276	3.442	4.201	4.279	351.09	400.32	83.71	7.76
SELECTED 10Y GOVERNMENT BONDS									
10Y UK	0.971	1.022	2.704	3.828	4.093	312.20	307.10	138.90	26.50
10Y JP	0.071	0.072	0.228	0.237	0.244	17.30	17.20	1.60	0.70
10Y CN	2.779	2.877	2.636	2.680	2.750	-2.90	-12.70	11.40	7.00
10Y SG	1.703	1.595	2.992	3.266	3.483	178.05	188.85	49.16	21.70
10Y ID	6.390	6.261	7.127	7.289	7.373	98.30	111.20	24.60	8.40
10Y TH	1.897	1.891	2.563	3.118	3.214	131.67	132.32	65.09	9.58

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
saifuddin.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 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