

Bond Market Weekly Outlook

MGS/GII yields may trend rangebound-to-lower following subdued inflation reading

Government Debt Trend and Flows

- MGS and GII yields mostly increased last week, moving between -0.3bps to 10.3bps overall. The 10Y MGS yield continued to increase, up by 10.3bps to 4.562%, remaining at its highest level since 2nd October 2008.
- Demand for domestic bonds remained relatively pressured last week, on higher global bond yields and growing domestic political uncertainty but was likely buoyed by the softer headline inflation reading of 4.5% in September (Aug: 4.7%). As such, the average daily trading volume for government bonds increased to RM2.44b (previous week: 2.16b), with a notable improvement on Friday following the inflation data.
- Domestic yields may trend slightly lower this week, following the better-than-expected inflation reading and potentially lower global yields. However, investors will likely remain cautious until the general election next month.
- Foreign demand for local bonds may remain pressured in the near-term amid ongoing global risk-off sentiment and in the lead up to Malaysia's general election (Nov 19). Demand will also likely be weighed by lower yield differentials, as the 10Y MGS-UST yield spread continued to decline last week (34.5bps; previous week: 44.1bps).

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

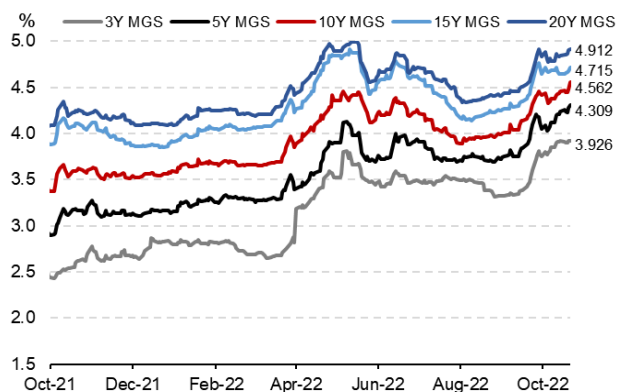
	Long Term*				
	Q3-22	Q4-22F	Q1-23F	Q2-23F	Q3-23F
MGS	4.41	4.35	4.35	4.20	4.15
UST	3.83	3.80	3.80	3.55	3.25
USDMYR	4.638	4.566	4.644	4.602	4.468
OPR	2.50	2.75	3.00	3.00	3.00

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

Upcoming Auction

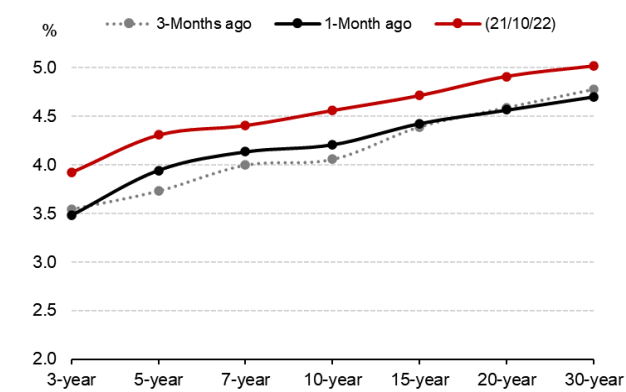
- The upcoming auction is a reopening of the 20Y MGS 10/42, and we estimate an issuance of RM5.0b including private placement.
- Expect weaker demand at this auction amid cautious domestic sentiment and strong risk-aversion among foreign investors. The previous reopening of the 20Y MGS garnered a 2.656x bid-to-cover ratio in July, whilst we reckon it may record between 1.8x – 2.0x at this auction.

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 (%)
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
Oct	3-yr Reopening of MGS (Mat on 03/25)	07/10/22	5000.0	-	5000.0	1.920	3.823	3.837	3.800
	10-yr Reopening of MGII (Mat on 10/32)	14/10/22	3500.0	2500.0	6000.0	1.739	4.506	4.533	4.480
	20-yr Reopening of MGS (Mat on 10/42)								

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

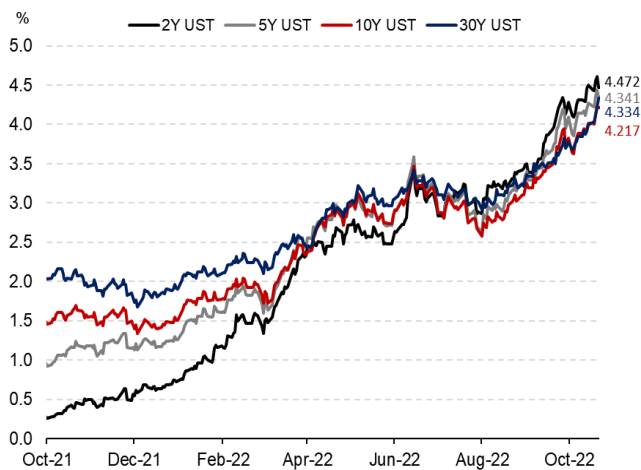
United States Treasuries (UST)

- UST yields mostly increased last week, moving between -2.4bps to 34.2bps across the curve. The 10Y UST yield rose by 21.0bps to reach a 14-year high of 4.228% on Oct 20, before closing the week at 4.217% (+19.8bps). Meanwhile, the 2Y UST initially rose by 11.4bps to 4.610%, before retreating to 4.472% at the very end of the week (-2.4bps).
- US yields remained elevated for most of last week on sustained expectations of a hawkish Fed, which fuelled bets that the Federal Funds Rate would remain higher for longer. However, demand for Treasuries improved towards the end of the week following reports that some Fed officials may be considering slowing the pace of rate hikes and could suggest a less aggressive Fed stance at the next US FOMC meeting (Nov 1 -2).
- US yields may trend rangebound-to-lower this week, partly steered by lower UK bond yields following the resignation of Prime Minister Liz Truss, and as markets cautiously await the upcoming US Fed meeting.

Ringgit Outlook

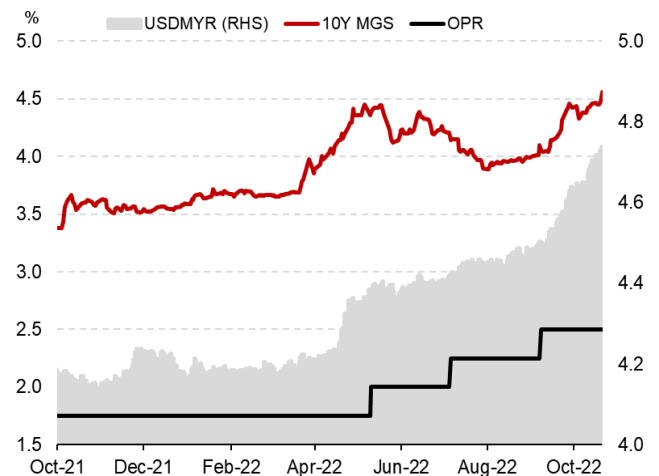
- MYR continued to depreciate against the USD last week on higher UST yields. This week, we expect the ringgit to remain pressured around the 4.73 – 4.75 zone against the dollar, amid negative sentiment surrounding the domestic political situation and persistent USD strength. On the other hand, our technical model suggests the MYR may appreciate by 0.23% to 4.728 against the USD. *(Please refer to our Ringgit Weekly Outlook report)*

Graph 3: UST Yield Trend



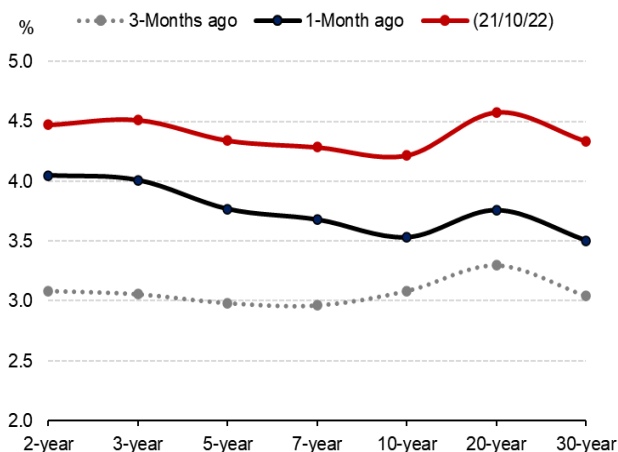
Source: Kenanga Research, Bloomberg

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



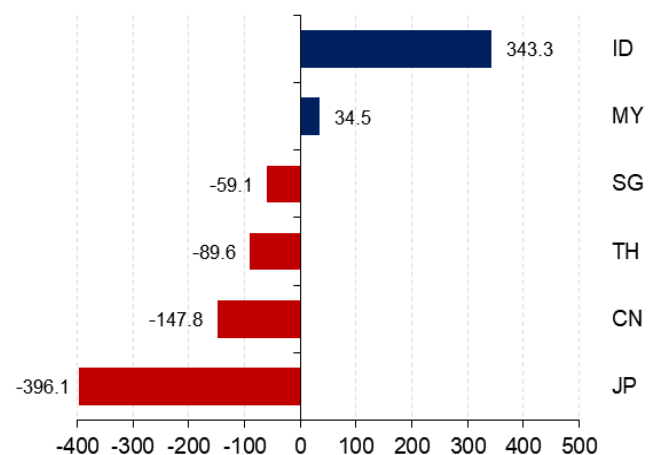
Source: Kenanga Research, Bloomberg

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 21/10/22

25 October 2022

Table 3: Bond Yield Movements

Bonds	03/01/22 YTD	21/10/21 Last Year	21/09/22 Last Month	14/10/22 Last Fortnight	21/10/22 Last Week	ytd (bps)	yoy (bps)	mom (bps)	wow (bps)
MGS									
30Y MGS	4.197	4.452	4.704	4.983	5.019	82.20	56.70	31.50	3.60
20Y MGS	4.105	4.244	4.567	4.844	4.912	80.70	66.80	34.50	6.80
15Y MGS	3.920	4.106	4.427	4.648	4.715	79.50	60.90	28.80	6.70
10Y MGS	3.586	3.602	4.208	4.459	4.562	97.60	96.00	35.40	10.30
7Y MGS	3.403	3.476	4.135	4.330	4.407	100.40	93.10	27.20	7.70
5Y MGS	3.156	3.167	3.944	4.242	4.309	115.30	114.20	36.50	6.70
3Y MGS	2.794	2.617	3.478	3.923	3.926	113.20	130.90	44.80	0.30
GII									
20Y GII	4.160	4.319	4.541	4.895	4.923	76.30	60.40	38.20	2.80
10Y GII	3.618	3.679	4.228	4.526	4.615	99.70	93.60	38.70	8.90
7Y GII	3.453	3.521	4.146	4.386	4.419	96.60	89.80	27.30	3.30
3Y GII	2.903	2.666	3.577	3.932	3.929	102.60	126.30	35.20	-0.30
UST									
30Y UST	2.024	2.147	3.502	3.992	4.334	230.95	218.61	83.12	34.19
20Y UST	2.051	2.121	3.756	4.295	4.578	252.71	245.66	82.17	28.28
10Y UST	1.628	1.701	3.530	4.018	4.217	258.87	251.56	68.68	19.83
7Y UST	1.548	1.533	3.678	4.165	4.285	273.69	275.13	60.70	12.01
5Y UST	1.354	1.240	3.766	4.268	4.341	298.71	310.14	57.49	7.34
3Y UST	1.016	0.795	4.008	4.495	4.513	349.71	371.82	50.55	1.83
2Y UST	0.768	0.455	4.048	4.496	4.472	370.45	401.78	42.39	-2.36
SELECTED 10Y GOVERNMENT BONDS									
10Y UK	0.971	1.202	3.311	4.335	4.054	308.30	285.20	74.30	-28.10
10Y JP	0.071	0.091	0.259	0.251	0.256	18.50	16.50	-0.30	0.50
10Y CN	2.779	2.973	2.644	2.702	2.739	-4.00	-23.40	9.50	3.70
10Y SG	1.703	1.748	3.203	3.503	3.626	192.27	187.80	42.22	12.29
10Y ID	6.390	6.084	7.200	7.379	7.650	126.00	156.60	45.00	27.10
10Y TH	1.897	2.029	2.980	3.198	3.320	142.31	129.16	34.03	12.18

Source: Kenanga Research, Bloomberg

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