

Bond Market Weekly Outlook

Heightened volatility with a downside bias expected for MGS yields amid GE15

Government Debt Trend and Flows

- MGS and GII yields decreased this week, moving between -30.2 bps to -11.9 bps overall. The 10Y MGS yield fell by 17.6 bps to 4.304%, its lowest level in two months, whilst the 3Y MGS fell to a two-week low of 3.802% (-15.2 bps).
- Domestic yields trended lower this week, tracking a decline in global bond yields, even as market sentiment remained cautious ahead of the 15th General Election (GE15).
- Demand for bonds will likely be muted today as investors brace for GE15 (Nov 19) and as markets close tomorrow. Next week, expect heightened volatility with a downside bias for domestic yields, highly dependent on the smooth outcome of the election and partly steered by lower global yields.
- In the immediate-term, foreign demand for Malaysian bonds will likely remain weak as investors await the outcome of GE15. However, should a hung parliament be avoided and a government coalition swiftly formed, domestic bonds may benefit from the recent improvement in global risk sentiment as markets continue to price in a potential Fed pivot.

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

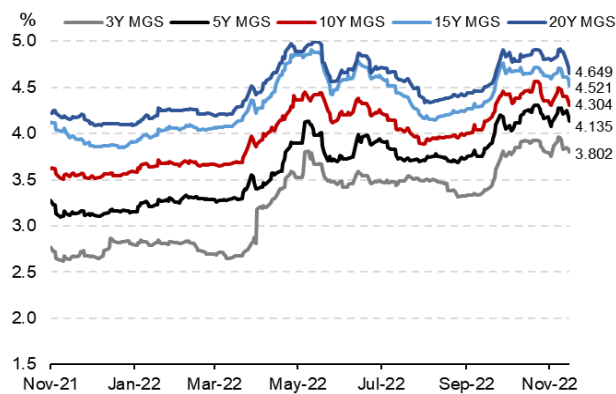
	Long Term*					
	Q3-22	Q4-22F	Q1-23F	Q2-23F	Q3-23F	Q4-23F
MGS	4.41	4.40	4.45	4.30	4.20	4.05
UST	3.83	4.10	4.20	3.75	3.40	3.10
USDMYR	4.638	4.566	4.644	4.602	4.468	4.388
OPR	2.50	2.75	3.00	3.00	3.00	3.00

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

Auction Results (14-Nov)

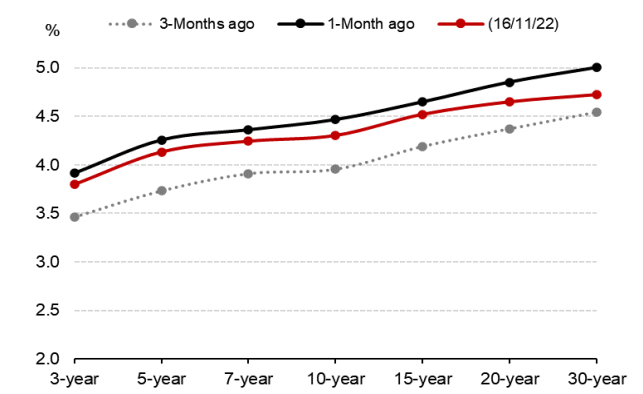
- The 5Y MGS 11/27 reopened at RM5.0b with no private placement, and was awarded at an average yield of 4.281%.
- Demand was weak, registering a bid-to-cover (BTC) ratio of 1.593x, amid cautious domestic market sentiment ahead of GE15 and despite improving global risk sentiment.
- The next auction is a reopening of the 30Y GII 5/52 and we expect an issuance of RM5.0b including 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 (%)
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 04/29)	23/09/22	5000.0	-	5000.0	1.662	4.232	4.275	4.190
	15.5-yr New Issue of MGII (Mat on 03/38)	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)	31/10/22	2500.0	1500.0	4000.0	1.913	4.795	4.810	4.750
Nov	7-yr Reopening of MGII (Mat on 07/29)	08/11/22	5000.0	-	5000.0	1.457	4.486	4.530	4.430
	5-yr Reopening of MGS (Mat on 11/27)	15/11/22	5000.0	-	5000.0	1.593	4.281	4.300	4.250
	30-yr Reopening of MGII (Mat on 05/52)								

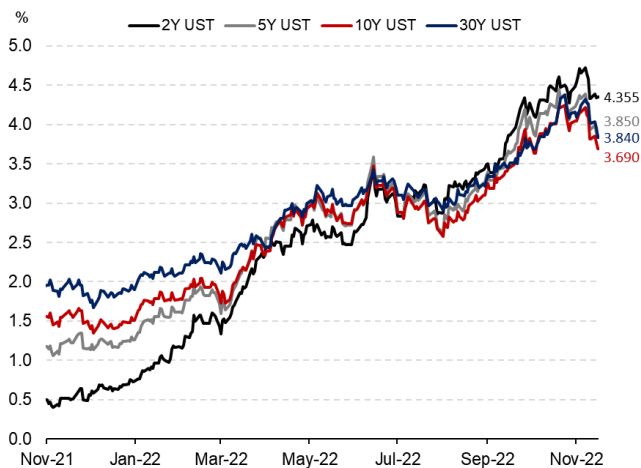
Source: Kenanga Research, BNM FAST, *PP= Private Placement, *BTC= Bid-to-cover ratio

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United States Treasuries (UST)

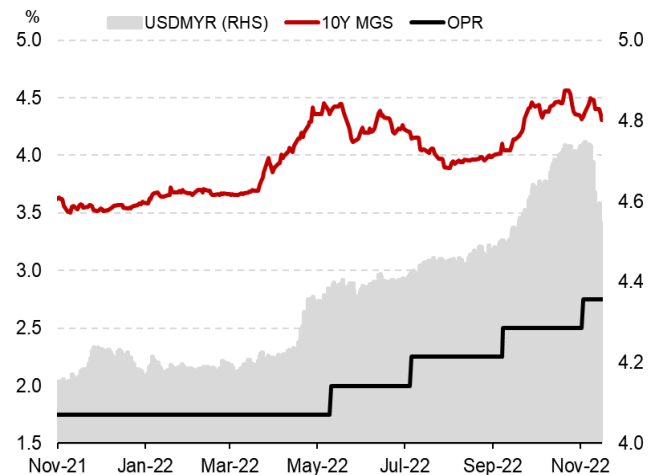
- UST yields continued to decrease this week, particularly for medium and long tenures, moving between -42.9 bps and -22.5 bps overall. The 10Y UST yield plunged by 40.2 bps to 3.690%, its lowest level in over a month.
- Treasuries extended their rally this week after the US PPI print for October came in softer-than-expected, with wholesale prices up by only 0.2% MoM (consensus: 0.5%; Sep: 0.4%). Taken together with last week's lower CPI figure, investors may be increasingly confident that inflationary pressures are cooling. This comes despite some officials recommending caution, with the Fed's Governor Chris Waller suggesting the market may have overreacted to the latest CPI print and stressing that rates would still need to be kept higher for longer.
- US yields may trend lower over the next week, especially for long-dated bonds, with a few Fed officials scheduled to speak and as markets digest the better-than-expected retail sales data for October. US retail sales recorded its strongest expansion in eight months at 1.3% MoM (consensus: 1.0%; Sep: 0.0%).

Graph 3: UST Yield Trend



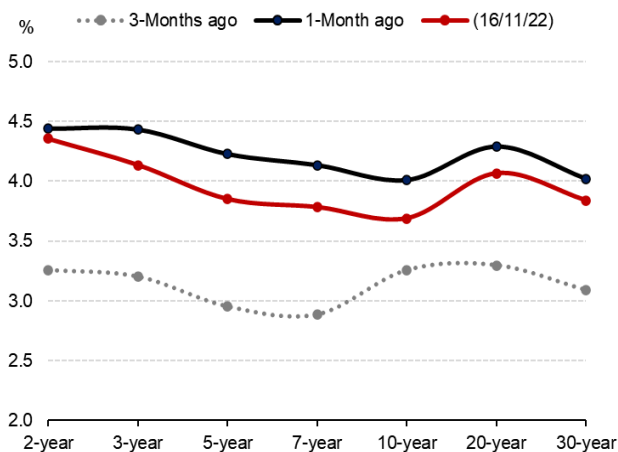
Source: Kenanga Research, Bloomberg

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



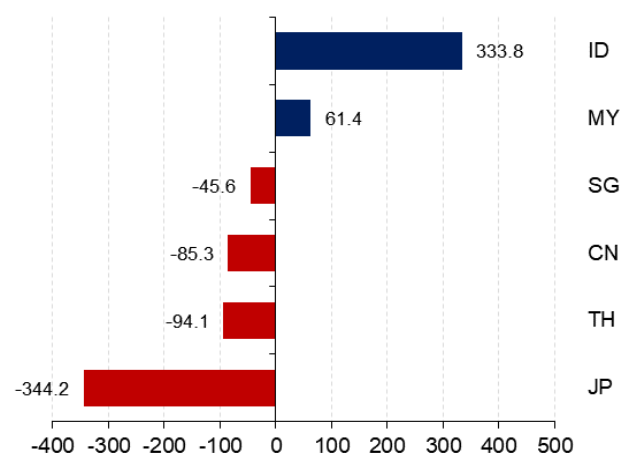
Source: Kenanga Research, Bloomberg

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 16/11/22

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Table 3: Bond Yield Movements

Bonds	03/01/22 YTD	16/11/21 Last Year	17/10/22 Last Month	09/11/22 Last Week	16/11/22 Yesterday	ytd (bps)	yoy (bps)	mom (bps)	wow (bps)
MGS									
30Y MGS	4.197	4.268	5.002	5.025	4.723	52.60	45.50	-27.90	-30.20
20Y MGS	4.105	4.167	4.852	4.914	4.649	54.40	48.20	-20.30	-26.50
15Y MGS	3.920	3.973	4.648	4.708	4.521	60.10	54.80	-12.70	-18.70
10Y MGS	3.586	3.562	4.466	4.480	4.304	71.80	74.20	-16.20	-17.60
7Y MGS	3.403	3.425	4.361	4.411	4.245	84.20	82.00	-11.60	-16.60
5Y MGS	3.156	3.141	4.256	4.272	4.135	97.90	99.40	-12.10	-13.70
3Y MGS	2.794	2.667	3.915	3.954	3.802	100.80	113.50	-11.30	-15.20
GII									
20Y GII	4.160	4.205	4.898	4.911	4.735	57.50	53.00	-16.30	-17.60
10Y GII	3.618	3.596	4.538	4.629	4.411	79.30	81.50	-12.70	-21.80
7Y GII	3.453	3.499	4.389	4.542	4.362	90.90	86.30	-2.70	-18.00
3Y GII	2.903	2.714	3.944	3.982	3.863	96.00	114.90	-8.10	-11.90
UST									
30Y UST	2.024	2.029	4.020	4.268	3.840	181.55	181.10	-18.09	-42.89
20Y UST	2.051	2.066	4.293	4.469	4.068	201.68	200.13	-22.50	-40.14
10Y UST	1.628	1.634	4.010	4.092	3.690	206.19	205.64	-32.05	-40.24
7Y UST	1.548	1.520	4.136	4.167	3.783	223.55	226.34	-35.24	-38.33
5Y UST	1.354	1.265	4.229	4.241	3.850	249.63	258.50	-37.84	-39.06
3Y UST	1.016	0.869	4.436	4.489	4.136	311.96	326.66	-30.00	-35.29
2Y UST	0.768	0.518	4.443	4.580	4.355	358.71	383.70	-8.84	-22.46
SELECTED 10Y GOVERNMENT BONDS									
10Y UK	0.971	0.991	3.977	3.457	3.149	217.80	215.80	-82.80	-30.80
10Y JP	0.071	0.076	0.255	0.253	0.248	17.70	17.20	-0.70	-0.50
10Y CN	2.779	2.918	2.704	2.693	2.837	5.80	-8.10	13.30	14.40
10Y SG	1.703	1.800	3.508	3.506	3.234	153.08	143.38	-27.47	-27.21
10Y ID	6.390	6.029	7.442	7.352	7.028	63.80	99.90	-41.40	-32.40
10Y TH	1.897	1.952	3.244	3.074	2.749	85.21	79.73	-49.46	-32.49

Source: Kenanga Research, Bloomberg

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