

Bond Market Weekly Outlook

MGS/GII yields to maintain downtrend in line with falling UST yields

Government Debt Trend and Flows

- MGS and GII yields fell this week, moving between -28.5 bps to -4.4 bps overall. The 10Y MGS yield decreased by 11.9 bps to 4.056%, its lowest level in three months.
- Domestic yields continued to trend lower this week on the back of improved political stability, with foreign demand likely returning. Likewise, local govvnies largely tracked falling US Treasury yields as markets reinforced expectations of a less hawkish Fed and a smaller rate hike at the upcoming US FOMC meeting (Dec 13 – 14).
- Yields may continue to fall next week, steered by plummeting US Treasury yields and the easing of global risk-aversion. Focus will also be on the expected announcement of the unity government’s Cabinet line-up.
- Foreign demand for Malaysian bonds will likely improve in the near-term, buoyed by the appointment of the new Prime Minister, and driven by global risk-on sentiment following relatively dovish Fed speak and signs that US inflation is cooling. However, some downside risks remain from the upcoming US FOMC meeting and with PM Anwar Ibrahim to hold a confidence vote on Dec 19.

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

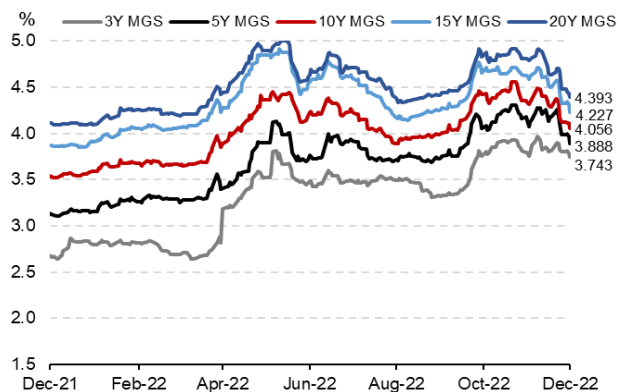
	Long Term*					
	Q3-22	Q4-22F	Q1-23F	Q2-23F	Q3-23F	Q4-23F
MGS	4.41	4.25	4.30	4.15	4.05	3.90
UST	3.83	3.85	3.95	3.55	3.20	3.00
USDMYR	4.638	4.542	4.643	4.510	4.357	4.257
OPR	2.50	2.75	3.25	3.25	3.25	3.25

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

Auction Results (Nov-29)

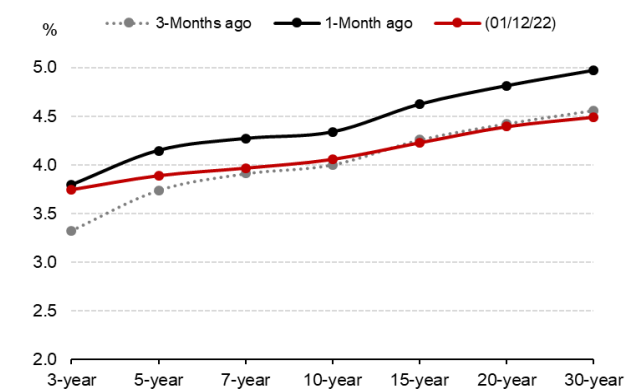
- The 30Y GII 5/52 reopened at an expected RM5.0b, of which RM2.5b was privately placed, and was awarded at an average yield of 4.768%.
- Demand was solid, registering the highest bid-to-cover ratio in two months (2.243x). This comes amid a relatively smaller auction size and renewed optimism following the easing of political uncertainty, with foreign investors likely returning.
- The next auction is a reopening of the 10Y MGS 7/32 and we estimate 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

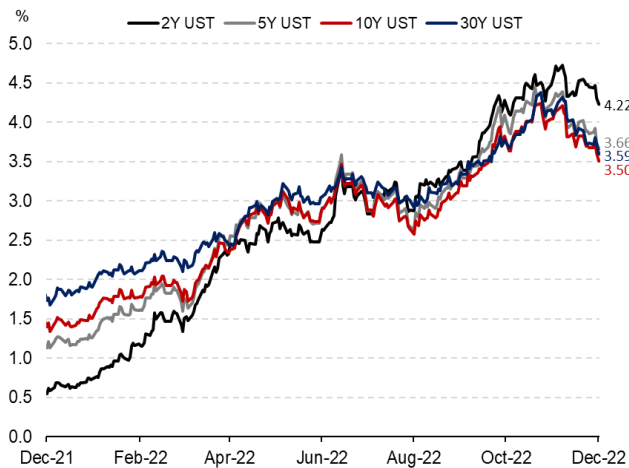
Month	Issues	Issue Date	Auction (RM Mil)	PP* (RM Mil)	Total (RM Mil)	BTC* (x)	Average Yield (%)	Highest Yield (%)	Lowest Yield (%)
Sep	3-yr Reopening of MGII (Mat on 10/25)	15/09/22	5000.0	-	5000.0	1.836	3.474	3.483	3.450
	7-yr Reopening of MGS (Mat on 04/29)	23/09/22	5000.0	-	5000.0	1.662	4.232	4.275	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)	30/11/22	2500.0	2500.0	5000.0	2.243	4.768	4.810	4.726

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

United States Treasuries (UST)

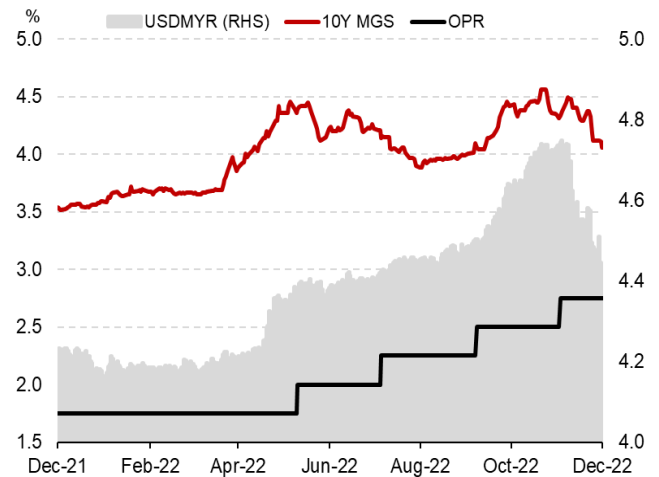
- UST yields fell considerably this week, moving between -26.7 bps to -12.9 bps across the curve. The 10Y UST yield initially rose 5.1 bps to 3.744% on Nov 29, before plunging to 3.505% (-11.9 bps) yesterday.
- Treasuries rallied as the week progressed, following a relatively dovish speech by Fed Chair Jerome Powell on Wednesday, as well as a slew of data suggesting the slowing of inflation and cooling of the labour market in the US. ADP private payrolls came in significantly below expectations in November at 127.0k jobs added (Consensus: 200.0k; Oct: 239.0k). Meanwhile, the Fed's preferred inflation measure, the Core PCE price index, eased to 5.0% in October (Sep: 5.2%) meeting market expectations.
- US yields may continue to trend lower over the next week following the cooler inflation and labour data. However, attention will be squared firmly on November's Non-Farm Payrolls (NFP) print due later today, with markets expecting fewer jobs added (Consensus: 200.0k; Oct: 261.0k). Expect yields to return to an uptrend if NFP surprises on the upside.

Graph 3: UST Yield Trend



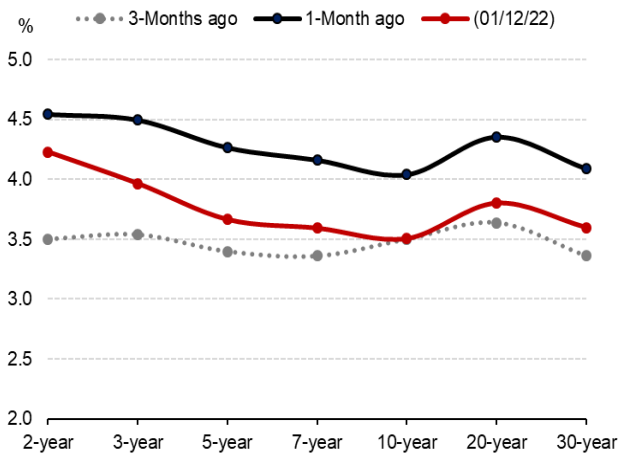
Source: Kenanga Research, Bloomberg

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



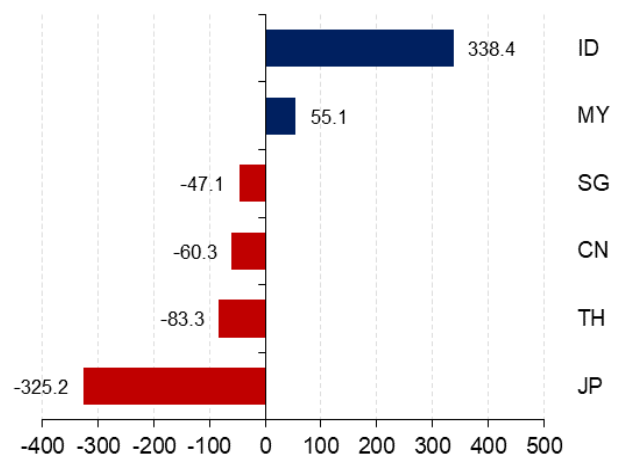
Source: Kenanga Research, Bloomberg

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 01/12/22

Table 3: Bond Yield Movements

Bonds	03/01/22 YTD	01/12/21 Last Year	01/11/22 Last Month	24/11/22 Last Week	01/12/22 Yesterday	ytd (bps)	yoy (bps)	mom (bps)	wow (bps)
MGS									
30Y MGS	4.197	4.196	4.970	4.692	4.491	29.40	29.50	-47.90	-20.10
20Y MGS	4.105	4.116	4.812	4.678	4.393	28.80	27.70	-41.90	-28.50
15Y MGS	3.920	3.873	4.621	4.445	4.227	30.70	35.40	-39.40	-21.80
10Y MGS	3.586	3.542	4.336	4.175	4.056	47.00	51.40	-28.00	-11.90
7Y MGS	3.403	3.415	4.269	4.105	3.966	56.30	55.10	-30.30	-13.90
5Y MGS	3.156	3.132	4.146	4.102	3.888	73.20	75.60	-25.80	-21.40
3Y MGS	2.794	2.676	3.791	3.825	3.743	94.90	106.70	-4.80	-8.20
GII									
20Y GII	4.160	4.195	4.883	4.717	4.540	38.00	34.50	-34.30	-17.70
10Y GII	3.618	3.579	4.463	4.303	4.154	53.60	57.50	-30.90	-14.90
7Y GII	3.453	3.490	4.338	4.277	4.079	62.60	58.90	-25.90	-19.80
3Y GII	2.903	2.776	3.841	3.901	3.857	95.40	108.10	1.60	-4.40
UST									
30Y UST	2.024	1.739	4.092	3.728	3.598	157.42	185.89	-49.37	-12.94
20Y UST	2.051	1.818	4.356	3.969	3.801	175.00	198.27	-55.49	-16.82
10Y UST	1.628	1.404	4.042	3.693	3.505	187.68	210.11	-53.71	-18.79
7Y UST	1.548	1.329	4.164	3.803	3.592	204.45	226.36	-57.13	-21.09
5Y UST	1.354	1.135	4.267	3.884	3.664	231.04	252.90	-60.26	-21.93
3Y UST	1.016	0.817	4.498	4.231	3.965	294.83	314.74	-53.33	-26.67
2Y UST	0.768	0.551	4.545	4.477	4.228	345.98	367.63	-31.71	-24.97
SELECTED 10Y GOVERNMENT BONDS									
10Y UK	0.971	0.820	3.470	3.038	3.100	212.90	228.00	-37.00	6.20
10Y JP	0.071	0.065	0.257	0.248	0.253	18.20	18.80	-0.40	0.50
10Y CN	2.779	2.876	2.665	2.812	2.902	12.30	2.60	23.70	9.00
10Y SG	1.703	1.735	3.417	3.037	3.034	133.14	129.91	-38.23	-0.30
10Y ID	6.390	6.150	7.485	6.978	6.889	49.90	73.90	-59.60	-8.90
10Y TH	1.897	1.894	3.246	2.697	2.672	77.45	77.74	-57.44	-2.55

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

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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