

Bond Market Weekly Outlook

MGS/GII to trend rangebound ahead of US FOMC meeting

Government Debt Trend and Flows

- MGS and GII yield movements were mixed this week, ranging between -12.7 bps to 2.3 bps overall. The 10Y MGS yield rose marginally by 0.3 bps to 4.059%, while the 3Y MGS yield plunged by 12.7 bps to 3.616%.
- Local bonds remained mostly well bid this week despite a lack of domestic catalysts, likely steered by falling global bond yields. Meanwhile, foreign selling of domestic bonds eased in November (-RM1.0b; Oct: -RM6.3b) on the back of improved political stability and expectations of a less hawkish Fed.
- Yields may trend rangebound next week, driven by potential volatility in US Treasuries amid the final US FOMC meeting (Dec 13 – 14) of the year.
- Foreign demand for Malaysian bonds may continue to improve in the near-term, buoyed by the new government and easing of political uncertainty. However, the local debt market may still record mild foreign outflows in 1Q23 as the US Fed continues to raise interest rates and global risk sentiment remains tepid.

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

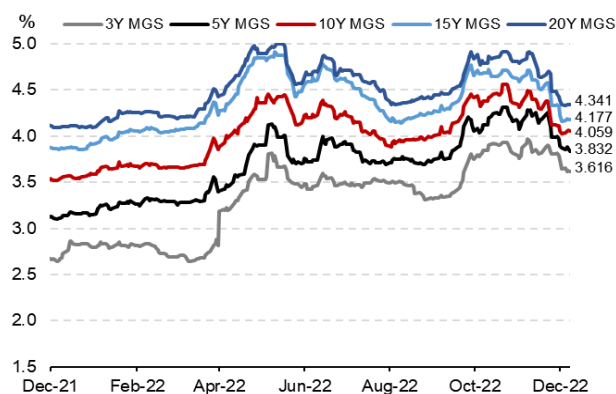
	Long Term*					
	Q3-22	Q4-22F	Q1-23F	Q2-23F	Q3-23F	Q4-23F
MGS	4.41	4.25	4.30	4.15	4.05	3.90
UST	3.83	3.85	3.95	3.55	3.20	3.00
USDMYR	4.638	4.542	4.643	4.510	4.357	4.257
OPR	2.50	2.75	3.25	3.25	3.25	3.25

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

Auction Results (Dec-7)

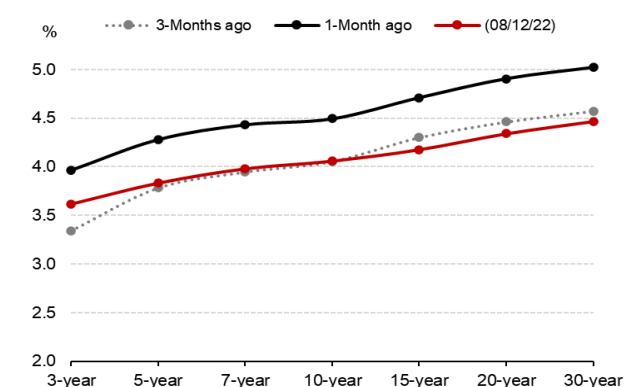
- The 10Y MGS 7/32 reopened at an expected RM4.5b, with no private placement, and was awarded at an average yield off 4.063%.
- Demand was relatively weak, registering a bid-to-cover ratio of 1.707x amid volatile global yield movements and cautious market sentiment ahead of the upcoming US FOMC meeting.
- The final auction of the year is a reopening of the 3Y GII 10/25 and we estimate an issuance of RM5.0b 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

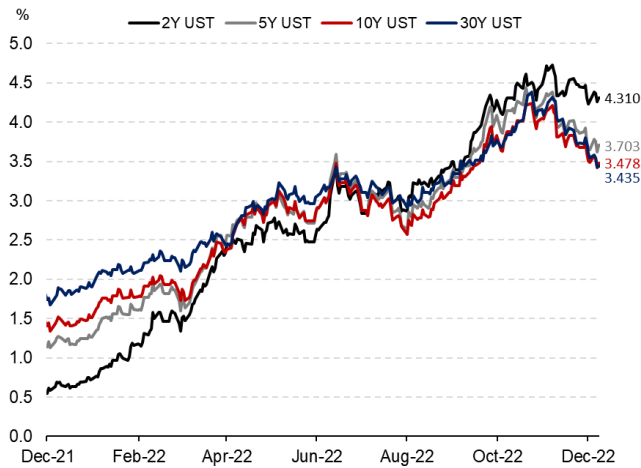
Month	Issues	Issue Date	Auction (RM Mil)	PP* (RM Mil)	Total (RM Mil)	BTC* (x)	Average Yield (%)	Highest Yield (%)	Lowest Yield (%)
Oct	3-yr Reopening of MGS (Mat on 03/25)	07/10/22	5000.0	-	5000.0	1.920	3.823	3.837	3.800
	10-yr Reopening of MGII (Mat on 10/32)	14/10/22	3500.0	2500.0	6000.0	1.739	4.506	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
Dec	10-yr Reopening of MGS (Mat on 07/32)	08/12/22	4500.0	-	4500.0	1.707	4.063	4.090	4.009
	3-yr Reopening of MGII (Mat on 10/25)								

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

United States Treasuries (UST)

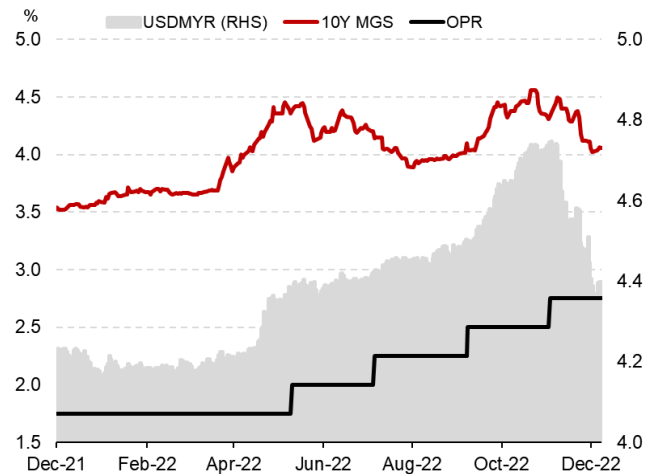
- UST yield movements were mixed this week, ranging between -16.3 bps to 8.4 bps overall. The 10Y UST yield fell by 2.7 bps to 3.478%, whilst the 2Y UST yield rose by 8.2 bps to 4.310%.
- Long-term bonds mostly rallied this week as investors flocked to safety amid concerns that the Fed would keep rates higher for longer, thereby raising the risk of a recession in the US. This follows last week's stronger-than-expected Non-Farm Payrolls print, which saw 263.0k jobs added in November (consensus: 200.0k; Oct: 284.0k).
- US yields may trend rangebound with heightened volatility next week as investors await the final US FOMC meeting of the year, where the Fed is widely expected to raise rates by another 50 bps, bringing the year-end rate to 4.5% (2021: 0.25%).

Graph 3: UST Yield Trend



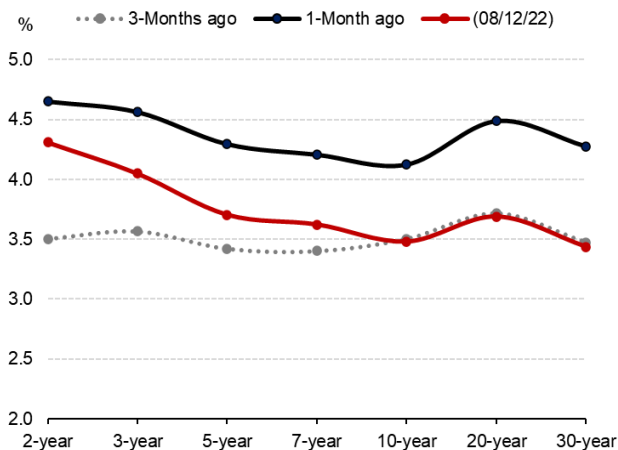
Source: Kenanga Research, Bloomberg

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



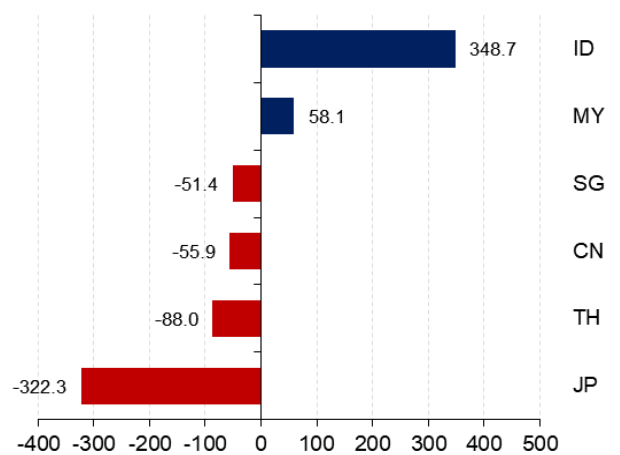
Source: Kenanga Research, Bloomberg

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 08/12/22

Table 3: Bond Yield Movements

Bonds	03/01/22 YTD	08/12/21 Last Year	08/11/22 Last Month	01/12/22 Last Week	08/12/22 Yesterday	ytd (bps)	yoy (bps)	mom (bps)	wow (bps)
MGS									
30Y MGS	4.197	4.153	5.022	4.491	4.467	27.00	31.40	-55.50	-2.40
20Y MGS	4.105	4.090	4.906	4.393	4.341	23.60	25.10	-56.50	-5.20
15Y MGS	3.920	3.863	4.711	4.228	4.177	25.70	31.40	-53.40	-5.10
10Y MGS	3.586	3.537	4.494	4.056	4.059	47.30	52.20	-43.50	0.30
7Y MGS	3.403	3.427	4.433	3.966	3.980	57.70	55.30	-45.30	1.40
5Y MGS	3.156	3.113	4.281	3.888	3.832	67.60	71.90	-44.90	-5.60
3Y MGS	2.794	2.670	3.967	3.743	3.616	82.20	94.60	-35.10	-12.70
GII									
20Y GII	4.160	4.189	4.913	4.540	4.435	27.50	24.60	-47.80	-10.50
10Y GII	3.618	3.599	4.630	4.154	4.157	53.90	55.80	-47.30	0.30
7Y GII	3.453	3.487	4.541	4.079	4.102	64.90	61.50	-43.90	2.30
3Y GII	2.903	2.782	3.927	3.857	3.772	86.90	99.00	-15.50	-8.50
UST									
30Y UST	2.024	1.893	4.275	3.598	3.435	141.08	154.20	-84.01	-16.34
20Y UST	2.051	1.949	4.488	3.801	3.689	163.82	174.04	-79.84	-11.18
10Y UST	1.628	1.521	4.123	3.505	3.478	185.03	195.71	-64.51	-2.65
7Y UST	1.548	1.453	4.206	3.592	3.622	207.41	216.92	-58.40	2.96
5Y UST	1.354	1.274	4.294	3.664	3.703	234.92	242.88	-59.06	3.88
3Y UST	1.016	1.003	4.563	3.965	4.049	303.24	304.59	-51.40	8.41
2Y UST	0.768	0.682	4.651	4.228	4.310	354.19	362.82	-34.09	8.21
SELECTED 10Y GOVERNMENT BONDS									
10Y UK	0.971	0.775	3.552	3.100	3.089	211.80	231.40	-46.30	-1.10
10Y JP	0.071	0.050	0.252	0.253	0.255	18.40	20.50	0.30	0.20
10Y CN	2.779	2.889	2.688	2.902	2.919	14.00	3.00	23.10	1.70
10Y SG	1.703	1.715	3.531	3.034	2.995	129.17	127.97	-53.65	-3.97
10Y ID	6.390	6.254	7.439	6.889	6.965	57.50	71.10	-47.40	7.60
10Y TH	1.897	1.959	3.134	2.672	2.598	70.13	63.96	-53.54	-7.32

Source: Kenanga Research, Bloomberg

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