Bond Market Weekly Outlook

MGS/GII yields to trend lower following BNM's surprise decision

Government Debt Trend and Flows

- MGS and GII yields fell this week, moving between -27.2 bps to -12.7 bps overall. The 10Y MGS yield decreased by 25.2 bps to 3.716%, reaching its lowest level since March 2022.
- Domestic yields were already on a downtrend early this week, in line with falling global bond yields, but plunged significantly following BNM's unexpected decision to maintain the OPR at 2.75% yesterday. The central bank stated that the decision was made to assess the cumulative impact of prior rate hikes.
- Yields may continue to fall next week as markets digest BNM's surprise decision, led by a decline among short and medium-term govvies. As a result, we have revised down our 10Y MGS yield target for 2023 to 3.45% from 3.70% previously, on the expectation that BNM will now maintain the OPR at 2.75% for the rest of the year.
- The local debt market may still record mild outflows in 1Q23 as major central banks continue to raise rates, the OPR-FFR differential widens further, and with the 10Y MGS-UST spread narrowing to 32.5 bps (previous week: 52.8 bps). However, we still expect foreign demand to recover from 2Q23 onwards, after major central banks finish hiking, and for more substantial inflows to return over 2H23 as markets anticipate Fed rate cuts for the end of the year.

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

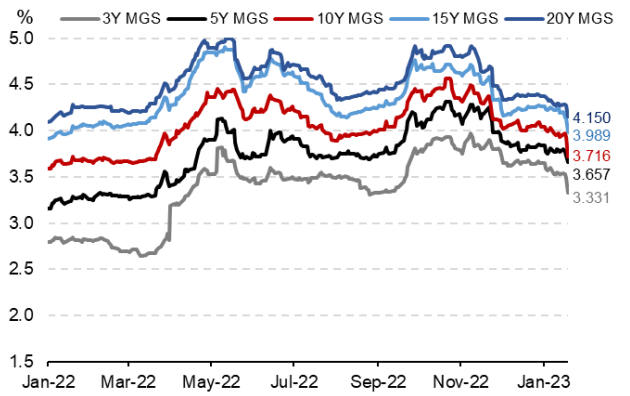
	Long Term*				
	Q4-22	Q1-23F	Q2-23F	Q3-23F	Q4-23F
MGS	4.07	3.75	3.70	3.60	3.45
UST	3.88	3.60	3.50	3.25	3.00
USDMYR	4.405	4.425	4.351	4.204	4.107
OPR	2.75	2.75	2.75	2.75	2.75

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

Auction Results (13-Jan)

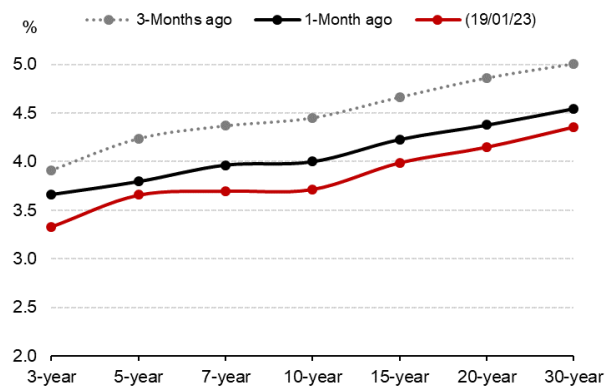
- The 15Y MGS 6/38 reopened at RM5.5b, of which RM2.5b was privately placed, and was awarded at an average yield of 4.151%.
- Demand was very strong, recording a bid-to-cover (BTC) ratio of 2.825x on a RM3.0b issuance, and in line with a global recovery for bonds as the US Fed approaches the end of its tightening cycle.
- The next auction is a new issue 5.5Y GII 7/28, which will replace the 5Y GII 9/27 as the new benchmark, and we estimate an auction size 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: 2023 Auction Calendar

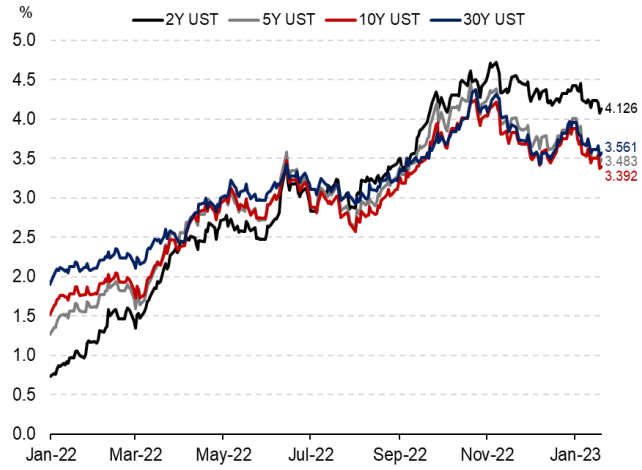
Month	Issues	Issue Date	Auction (RM Mil)	PP* (RM Mil)	Total (RM Mil)	BTC* (x)	Average Yield (%)	Highest Yield (%)	Lowest Yield (%)
Jan	10-yr Reopening of MGII (Mat on 10/32)	09/01/23	4500.0	-	4500.0	2.093	4.135	4.147	4.109
	15-yr Reopening of MGS (Mat on 06/38)	16/01/23	3000.0	2500.0	5500.0	2.825	4.151	4.160	4.110
	5.5-yr New Issue of MGII (Mat on 07/28)								
Feb	7-yr Reopening of MGS (Mat on 04/30)								
	20.5-yr New Issue of MGII (Mat on 08/43)								
	3-yr Reopening of MGS (Mat on 07/26)								
	15-yr Reopening of MGII (Mat on 03/38)								
Mar	10-yr Reopening of MGS (Mat on 07/32)								
	7-yr Reopening of MGII (Mat on 09/30)								
	30-yr New Issue of MGS (Mat on 03/53)								

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

United States Treasuries (UST)

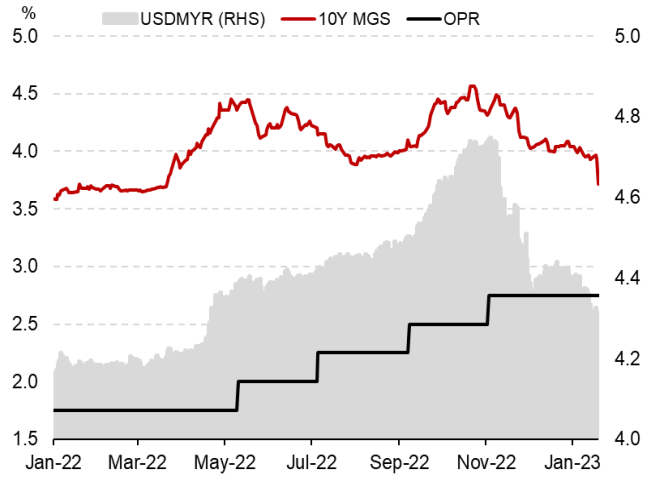
- Treasury yields fell at a slower pace this week, moving between -6.2 bps to -1.6 bps overall. The 10Y UST yield initially rose by 10.8 bps to 3.548% on Jan 17, before trending lower and reaching 3.392% by yesterday (-4.9 bps).
- UST yields initially rose as investors digested last week's cooler US inflation readings. However, yields returned to a downtrend after both industrial production (-0.7% MoM; Consensus: -0.1%) and retail sales (-1.1% MoM; Consensus: 0.8%) for December fell by more than expected, raising expectations that the Fed could slow its tightening pace further.
- Yields may trend rangebound-to-higher next week, on the back of hawkish comments by some Fed officials; James Bullard stated that the Fed should raise the policy rate to above 5.0% in order to beat inflation. Meanwhile, markets will be looking ahead to the 4Q22 GDP growth estimate next week (Jan 26) and the first FOMC meeting of the year (Jan 31 – Feb 1).

Graph 3: UST Yield Trend



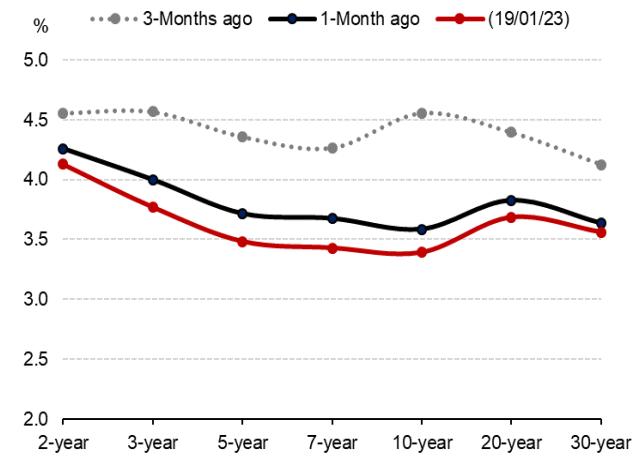
Source: Kenanga Research, Bloomberg

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



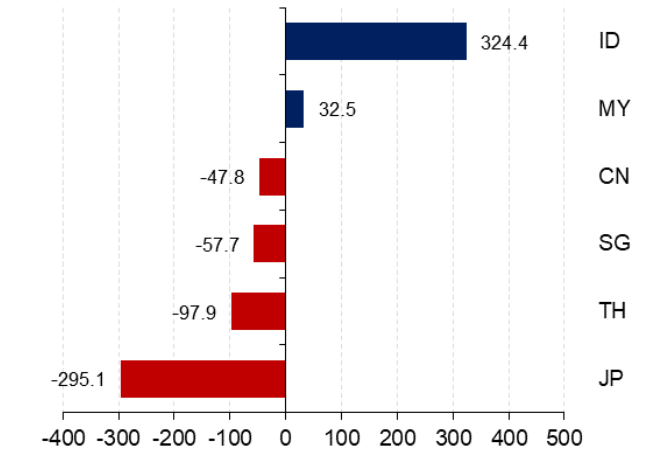
Source: Kenanga Research, Bloomberg

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 19/01/23*

Table 3: Bond Yield Movements

Bonds	03/01/23 YTD	19/01/22 Last Year	19/12/22 Last Month	12/01/23 Last Week	19/01/23 Yesterday	ytd (bps)	yoy (bps)	mom (bps)	wow (bps)
MGS									
30Y MGS	4.597	4.331	4.545	4.501	**4.356**	-24.10	2.50	-18.90	-14.50
20Y MGS	4.365	4.278	4.376	4.293	**4.150**	-21.50	-12.80	-22.60	-14.30
15Y MGS	4.235	4.048	4.228	4.248	**3.989**	-24.60	-5.90	-23.90	-25.90
10Y MGS	4.009	3.718	3.999	3.968	**3.716**	-29.30	-0.20	-28.30	-25.20
7Y MGS	3.955	3.500	3.964	3.971	**3.699**	-25.60	19.90	-26.50	-27.20
5Y MGS	3.773	3.286	3.794	3.793	**3.657**	-11.60	37.10	-13.70	-13.60
3Y MGS	3.593	2.848	3.660	3.538	**3.331**	-26.20	48.30	-32.90	-20.70
GII									
20Y GII	4.456	4.257	4.477	4.405	**4.268**	-18.80	1.10	-20.90	-13.70
10Y GII	4.123	3.728	4.135	4.082	**3.955**	-16.80	22.70	-18.00	-12.70
7Y GII	4.017	3.529	4.047	4.042	**3.885**	-13.20	35.60	-16.20	-15.70
3Y GII	3.699	2.936	3.748	3.615	**3.432**	-26.70	49.60	-31.60	-18.30
UST									
30Y UST	3.839	2.176	3.635	3.577	**3.561**	-27.76	138.53	-7.34	-1.55
20Y UST	4.012	2.238	3.825	3.747	**3.686**	-32.68	144.73	-13.94	-6.15
10Y UST	3.739	1.865	3.585	3.440	**3.392**	-34.74	152.69	-19.31	-4.85
7Y UST	3.834	1.818	3.674	3.490	**3.429**	-40.49	161.14	-24.54	-6.14
5Y UST	3.894	1.648	3.714	3.536	**3.483**	-41.12	183.48	-23.14	-5.29
3Y UST	4.150	1.363	3.997	3.814	**3.769**	-38.13	240.54	-22.82	-4.48
2Y UST	4.370	1.057	4.256	4.145	**4.126**	-24.35	306.92	-12.93	-1.83
SELECTED 10Y GOVERNMENT BONDS									
10Y UK	3.651	1.256	3.502	3.334	**3.275**	-37.60	201.90	-22.70	-5.90
10Y JP	0.422	0.144	0.255	0.510	**0.441**	1.90	29.70	18.60	-6.90
10Y CN	2.829	2.733	2.887	2.876	**2.914**	8.50	18.10	2.70	3.80
10Y SG	3.121	1.867	2.870	2.840	**2.815**	-30.59	94.78	-5.52	-2.51
10Y ID	7.051	6.421	6.884	6.753	**6.635**	-41.60	21.40	-24.90	-11.80
10Y TH	2.633	2.223	2.604	2.426	**2.413**	-22.09	19.00	-19.11	-1.30

Source: Kenanga Research, Bloomberg

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