

Bond Market Weekly Outlook

MGS/GII yields to turn higher, in line with rising US yields ahead of the FOMC meeting

Government Debt Trend and Flows

- MGS and GII yields mostly decreased this week, moving between -15.3 bps to 3.8 bps overall. The 10Y MGS yield turned slightly higher to 3.754% (+3.8 bps) after plummeting last week, while the 5Y MGS yield fell to 3.504% (-15.3 bps) by yesterday ahead of its auction.
- Yields mostly remained on a downtrend, amid the shorter workweek, as markets continued to digest BNM's surprise rate decision. However, local yields turned higher yesterday, likely in response to higher global bond yields.
- Domestic yields may return to an uptrend over the next week, as US Treasury yields increase due to the robust US GDP reading and ahead of the US FOMC meeting (Jan 31 – Feb 1).
- Foreign demand for domestic bonds appears to be improving as global risk-aversion subsides, probably due to expectations of a smaller US rate hike and less hawkish Fed. However, we reckon that risk-off sentiment could return should the upcoming US FOMC meeting (Jan 31 – Feb 1) result in the Fed reiterating its hawkish stance and signalling several more rate hikes to come. Further along, we expect a more sustained recovery of foreign demand from 2Q23 onwards, after major central banks complete their tightening cycles.

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

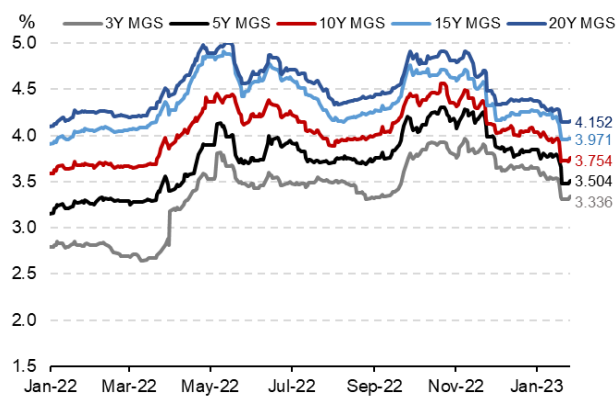
	Long Term*				
	Q4-22	Q1-23F	Q2-23F	Q3-23F	Q4-23F
MGS	4.07	3.75	3.70	3.60	3.45
UST	3.88	3.60	3.50	3.25	3.00
USDMYR	4.405	4.425	4.351	4.204	4.107
OPR	2.75	2.75	2.75	2.75	2.75

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

Upcoming Auction

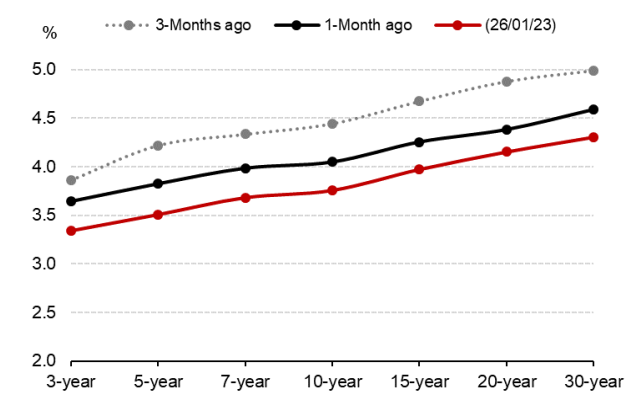
- Today's auction will be a new issue of the 5.5Y GII 7/28, replacing the 5Y GII 9/27 as the new benchmark; it will have an issuance size of RM5.0b with no private placement, as expected.
- The previous auction of the 5Y GII in June 2022 saw huge demand, recording a bid-to-cover (BTC) ratio of 3.133x amid a smaller issuance of RM4.5b. For this auction, we expect solid demand given the nascent recovery in global risk sentiment, and estimate a BTC ratio of between 2.2x – 2.4x.

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)	30/01/23	5000.0	-	5000.0				
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)								

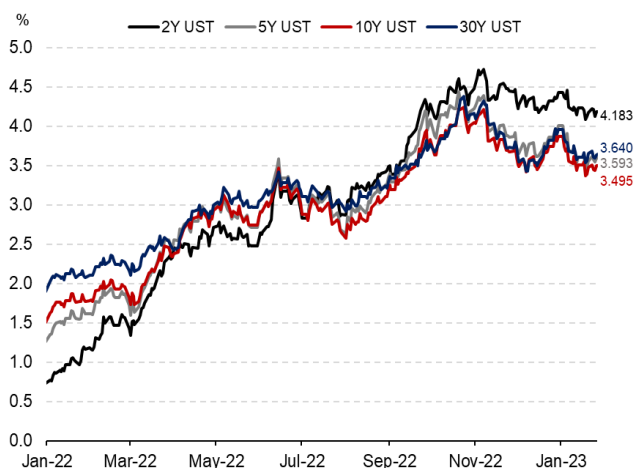
Source: Kenanga Research, BNM FAST, *PP= Private Placement, *BTC= Bid-to-cover ratio

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United States Treasuries (UST)

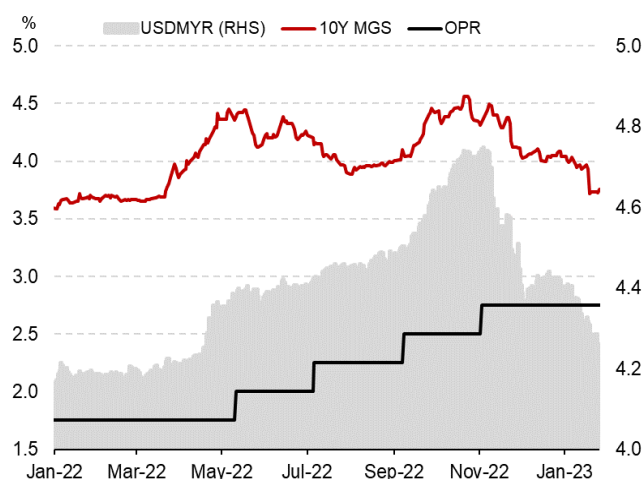
- Treasury yields rose this week, increasing between 5.6 bps to 12.3 bps overall. The 10Y UST yield rose by 10.3 bps to 3.495% whilst the 2Y UST yield increased by 5.6 bps to 4.183%.
- UST yields initially inched lower at the start of the week as traders continued to price in a smaller Fed rate hike. However, yields turned higher following a stronger-than-expected US GDP advance estimate; the 4Q22 reading expanded 2.9% YoY (Consensus: 2.6%; 3Q22: 3.2%). This signals resilience in the US economy and raises the probability that the Funds Rate (FFR) may be raised beyond the 5.0% that markets currently expect.
- US yields may continue to rise next week, due to the robust GDP data and lower-than-expected jobless claims print (186.0k, Consensus: 205.0k). Focus will be on the PCE Price Index reading for December (Consensus: 4.4%; Nov: 4.7%) and on the first US FOMC meeting of the year, where the Fed is widely expected to raise rates by a smaller 25 bps. We expect yields to maintain an uptrend should the Fed signal intentions to raise the FFR beyond 5.0%.

Graph 3: UST Yield Trend



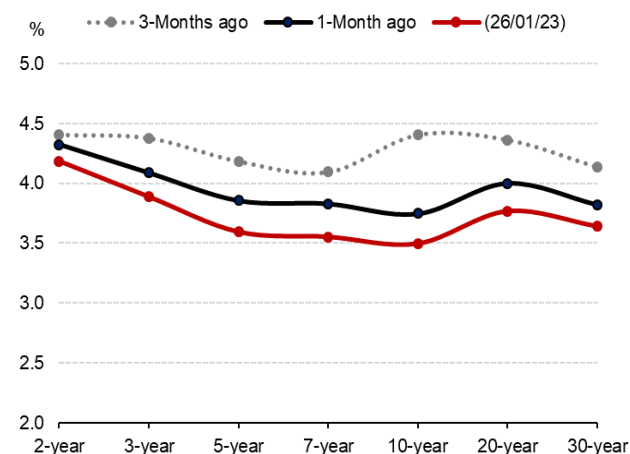
Source: Kenanga Research, Bloomberg

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



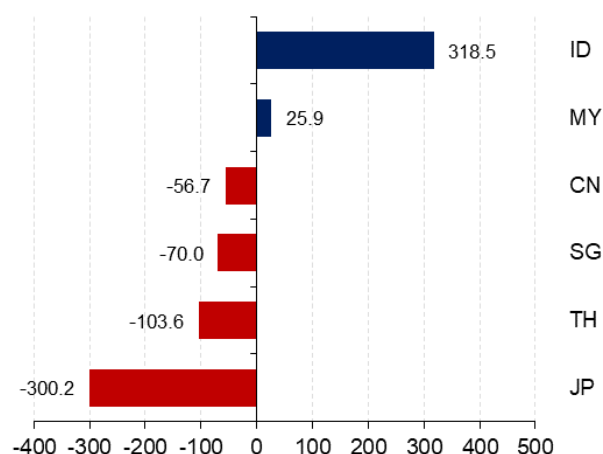
Source: Kenanga Research, Bloomberg

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 26/01/23

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Table 3: Bond Yield Movements

Bonds	03/01/23 YTD	26/01/22 Last Year	26/12/22 Last Month	19/01/23 Last Week	26/01/23 Yesterday	ytd (bps)	yoy (bps)	mom (bps)	wow (bps)
MGS									
30Y MGS	4.597	4.330	4.588	4.357	4.305	-29.20	-2.50	-28.30	-5.20
20Y MGS	4.365	4.258	4.382	4.151	4.152	-21.30	-10.60	-23.00	0.10
15Y MGS	4.235	4.047	4.254	3.989	3.971	-26.40	-7.60	-28.30	-1.80
10Y MGS	4.009	3.674	4.048	3.716	3.754	-25.50	8.00	-29.40	3.80
7Y MGS	3.955	3.490	3.984	3.700	3.679	-27.60	18.90	-30.50	-2.10
5Y MGS	3.773	3.271	3.824	3.657	3.504	-26.90	23.30	-32.00	-15.30
3Y MGS	3.593	2.798	3.643	3.332	3.336	-25.70	53.80	-30.70	0.40
GII									
20Y GII	4.456	4.303	4.474	4.268	4.223	-23.30	-8.00	-25.10	-4.50
10Y GII	4.123	3.747	4.151	3.955	3.876	-24.70	12.90	-27.50	-7.90
7Y GII	4.017	3.538	4.059	3.885	3.809	-20.80	27.10	-25.00	-7.60
3Y GII	3.699	2.887	3.741	3.432	3.379	-32.00	49.20	-36.20	-5.30
UST									
30Y UST	3.839	2.165	3.824	3.561	3.640	-19.92	147.48	-18.38	7.84
20Y UST	4.012	2.233	4.000	3.686	3.765	-24.70	153.19	-23.44	7.98
10Y UST	3.739	1.864	3.747	3.392	3.495	-24.42	163.10	-25.25	10.32
7Y UST	3.834	1.826	3.831	3.429	3.552	-28.23	172.55	-27.91	12.26
5Y UST	3.894	1.684	3.857	3.483	3.593	-30.11	190.85	-26.40	11.01
3Y UST	4.150	1.400	4.087	3.769	3.886	-26.43	248.57	-20.13	11.70
2Y UST	4.370	1.150	4.321	4.126	4.183	-18.73	303.22	-13.85	5.62
SELECTED 10Y GOVERNMENT BONDS									
10Y UK	3.651	1.198	3.637	3.275	3.317	-33.40	211.90	-32.00	4.20
10Y JP	0.422	0.141	0.447	0.441	0.493	7.10	35.20	4.60	5.20
10Y CN	2.829	2.717	2.851	2.914	2.928	9.90	21.10	7.70	1.40
10Y SG	3.121	1.771	2.931	2.815	2.795	-32.62	102.41	-13.65	-2.03
10Y ID	7.051	6.414	6.938	6.635	6.680	-37.10	26.60	-25.80	4.50
10Y TH	2.633	2.145	2.657	2.413	2.459	-17.48	31.33	-19.80	4.61

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
saufuddin.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