

Asia Bonds Monthly Outlook

Rally to sustain as the Fed slows rate hikes and China's recovery gains pace

China Government Bonds (CGB)

- China's debt market has shown signs of recovery lately, with foreign portfolio inflows returning following the easing of zero-COVID restrictions and as infections dissipate. According to the Institute of International Finance, foreign investors increased holdings of Chinese debt by USD5.1b in December 2022, a first net inflow since February 2022, and preliminary data from the State Administration of Foreign Exchange indicate that inflows have sustained into the New Year, with a reported net inflow of USD12.6b into both the bond and equity markets in the first half of January 2023.
- Chinese bonds will likely maintain this robust demand, buoyed by optimism over China's full reopening and as global sentiment remains risk-on following the US Fed's slightly less hawkish stance. China's Manufacturing PMI returned to growth in January (50.1; Dec: 47.0), notably above expectations (Consensus: 48.0) and boding well for the country's 2023 growth outlook.

Japan Government Bonds (JGB)

- The 10Y JGB yield rose by 7.4 bps to 0.496% in January as markets continued to test Yield Curve Controls (YCC) following the Bank of Japan's (BoJ) decision to keep the 50 bps target band unchanged. Nonetheless, the BoJ now offers loans of up to 10 years to banks at variable rates in order to ease recent pressure on the bond market. As an immediate consequence, there was strong demand in the first auction of the 5Y JGB this year.
- The BoJ already owns roughly half of all outstanding JGBs and we reckon going forward it will be more difficult to ramp up holdings, maintain the YCC, and keep the bond market stable. As such, we think that the BoJ may widen the target band by at least a further 25 bps in 3Q23, and coupled with selling pressure amid Japan's tepid economic outlook, we project the 10Y JGB yield to reach 0.75% by end-2023.

Indonesia Government Bonds (IGB)

- The 10Y IGB yield initially fell 31.7 bps to 6.623% by Jan 24, its lowest level since March 2022, before closing the month at 6.707% (-23.3 bps). IGBs tracked a downtrend in global bond yields and demand was driven by market expectations that Bank Indonesia may complete its tightening cycle as soon as February.
- We expect the 10Y IGB yield to continue trending lower as global risk-on sentiment, and optimism over China's reopening, continues to drive foreign inflows into Emerging Asia bonds. Furthermore, Indonesian sovereigns remain the most attractive in Asia with significantly higher yields than its regional peers.

Thailand Government Bonds (TGB)

- The 10Y TGB yield decreased by 12.1 bps to 2.523% as Thai sovereigns benefitted from positive risk sentiment and Thailand's improving growth outlook, with tourist arrivals expected to surge due to China's earlier-than-expected reopening.
- TGB yields are expected to maintain a steady downtrend this year, with the Bank of Thailand likely to finish rate hikes by March as headline inflation quickly subsides. As such, we project the 10Y TGB yield to settle at 2.20% by end-2023.

Table 1: 10Y Government Bond Outlook

	Long Term*				
	Q4-22	Q1-23F	Q2-23F	Q3-23F	Q4-23F
MY	4.07	3.75	3.70	3.60	3.45
CN	2.88	2.85	2.90	2.95	3.00
JP	0.42	0.45	0.45	0.70	0.75
ID	6.93	6.70	6.65	6.50	6.40
TH	2.52	2.60	2.55	2.40	2.20
US	3.88	3.50	3.40	3.15	2.90

F=Forecasts for end of period

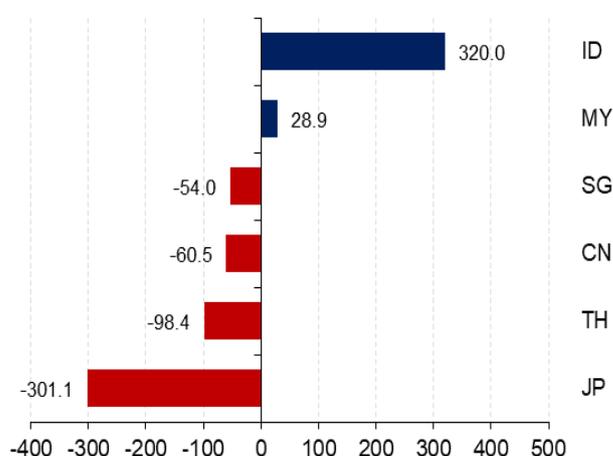
Source: Kenanga Research, Bloomberg

Graph 1: FTSE Asian Government Bond Index



Source: Kenanga Research, Bloomberg

Graph 2: Asia 10-Year Bond Yield Spreads (bps)

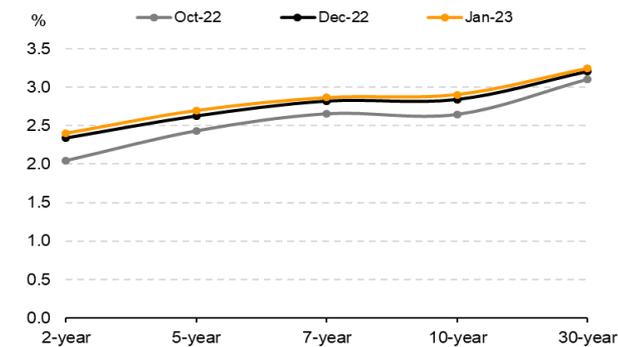


Source: Kenanga Research, Bloomberg

*Spread: Benchmark 10Y yield relative to the 10Y US Treasury on 31/01/23

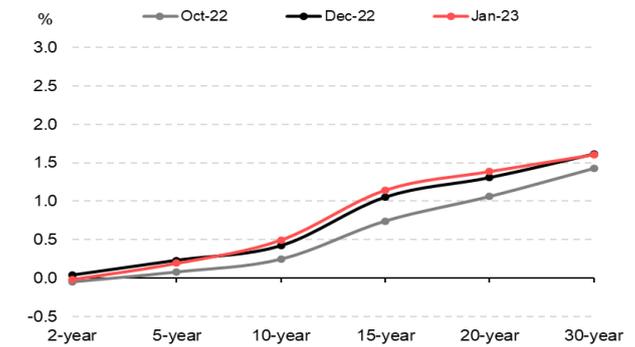
03 February 2023

Graph 3: China Yield Curves



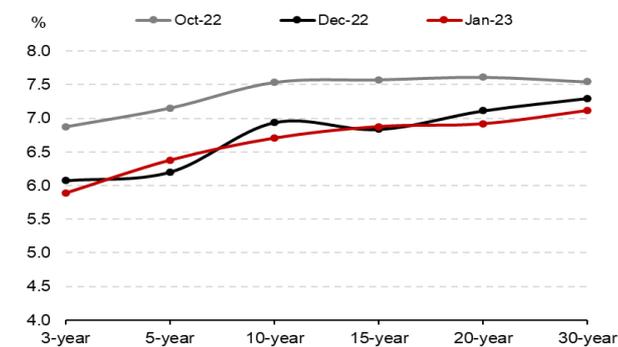
Source: Kenanga Research, Bloomberg

Graph 4: Japan Yield Curves



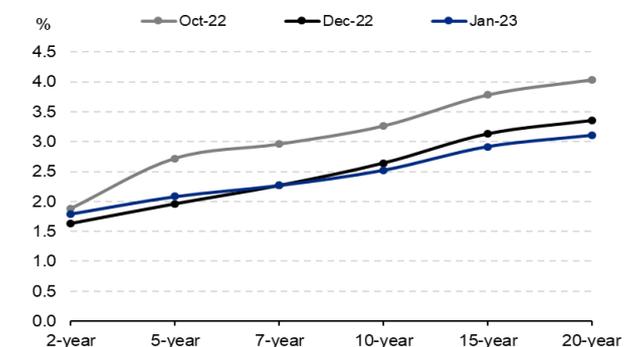
Source: Kenanga Research, Bloomberg

Graph 5: Indonesia Yield Curves



Source: Kenanga Research, Bloomberg

Graph 6: Thailand Yield Curves



Source: Kenanga Research, Bloomberg

Table 2: Bond Yield Movements

Bonds	03/01/23	31/01/22	30/12/22	24/01/23	31/01/23	ytd (bps)	yoy (bps)	mom (bps)	wow (bps)
	YTD	Last Year	December	Last Week	January				
10Y GOVERNMENT BONDS									
10Y MY	4.009	3.673	4.040	3.730	3.796	-21.3	12.3	-24.4	6.6
10Y CN	2.829	2.711	2.839	2.928	2.902	7.3	19.1	6.3	-2.6
10Y JP	0.422	0.178	0.422	0.419	0.496	7.4	31.8	7.4	7.7
10Y ID	7.051	6.439	6.940	6.623	6.707	-34.4	26.8	-23.3	8.4
10Y TH	2.633	2.134	2.644	2.456	2.523	-11.1	38.8	-12.1	6.7
10Y SG	3.121	1.773	3.088	2.841	2.967	-15.4	119.3	-12.2	12.6
10Y US	3.739	1.777	3.875	3.453	3.507	-23.2	173.0	-36.8	5.4

Source: Kenanga Research, Bloomberg

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