

Bond Market Weekly Outlook

MGS/GII yields may trend higher amid UST volatility and potentially weaker MY IPI

Government Debt Trend and Flows

- MGS and GII yields mostly rose this week, moving between -1.1 bps to 5.1 bps. The 10Y MGS yield rose 4.2 bps to 4.018%, whilst the 3Y MGS fell 1.1 bps to 3.524%.
- Domestic yields trended higher this week, steered by elevated global bond yields, but was restrained by BNM's MPC meeting. The central bank kept the OPR at 2.75%, highlighting the favourable progress of China's reopening and the potential for robust domestic growth. Meanwhile, the bond market saw strong foreign inflows in February (RM4.3b; Jan: RM0.5b), although it may have tempered by the hawkish Fed towards the end of the month.
- Domestic yields may trend slightly higher next week, driven by volatility among US Treasuries. Attention will also be on Malaysia's IPI for January (KIBB estimate: 1.5%; Jan: 3.0%), which may have weakened amid poor external demand.
- Persistently hawkish signals by the Fed, driven by strong US economic data and inflationary pressures, may lead to heightened risk-aversion among foreign investors and weigh on domestic bonds in the near-term. That said, foreign inflows could still chart a more stable recovery from 2Q23, but this would require a clear signal from the Fed regarding the end of its tightening cycle.

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

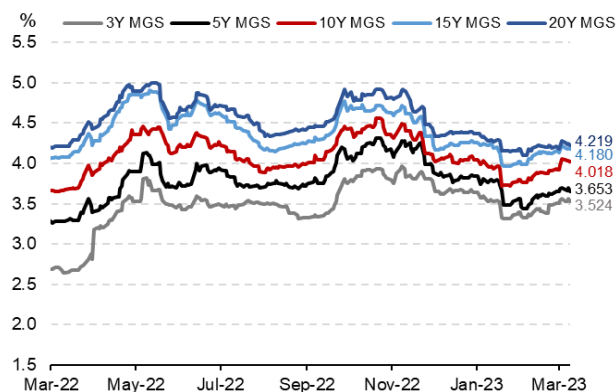
	Long Term*				
	Q4-22	Q1-23F	Q2-23F	Q3-23F	Q4-23F
MGS	4.07	3.75	3.70	3.60	3.45
UST	3.88	3.50	3.40	3.15	2.90
USDMYR	4.405	4.480	4.351	4.204	4.107
OPR	2.75	2.75	2.75	2.75	2.75

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

Auction Results (3-Mar)

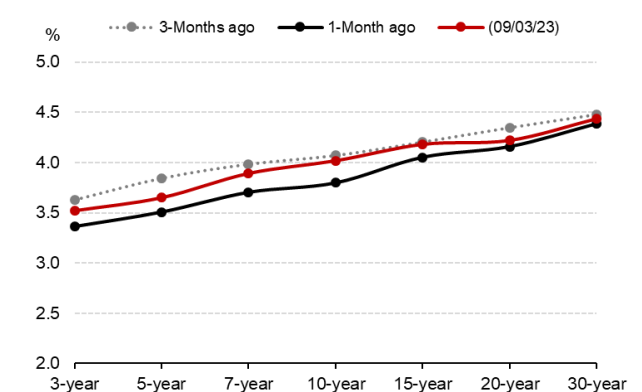
- The 10Y MGS 7/32 reopened at RM4.5b, with no private placement, and was awarded at an average yield of 4.066%.
- Demand was weak, as expected, recording a bid-to-cover (BTC) ratio of 1.670x. Global and domestic sentiment remains tepid due to expectations of further tightening by the US Fed and elevated US Treasury yields.
- The next auction is a reopening of the 7Y GII 9/30 and we estimate another 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: 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	3.395	3.599	3.610	3.580
Feb	7-yr Reopening of MGS (Mat on 04/30)	07/02/23	5000.0	-	5000.0	2.460	3.656	3.666	3.610
	20.5-yr New Issue of MGII (Mat on 08/43)	14/02/23	2500.0	2500.0	5000.0	2.662	4.291	4.308	4.257
	3-yr Reopening of MGS (Mat on 07/26)	21/02/23	5500.0	-	5500.0	1.691	3.458	3.472	3.438
	15-yr Reopening of MGII (Mat on 03/38)	28/02/23	3500.0	2000.0	5500.0	1.986	4.177	4.188	4.160
Mar	10-yr Reopening of MGS (Mat on 07/32)	06/03/23	4500.0	-	4500.0	1.670	4.066	4.089	4.035
	7-yr Reopening of MGII (Mat on 09/30)								
	30-yr New Issue of MGS (Mat on 03/53)								

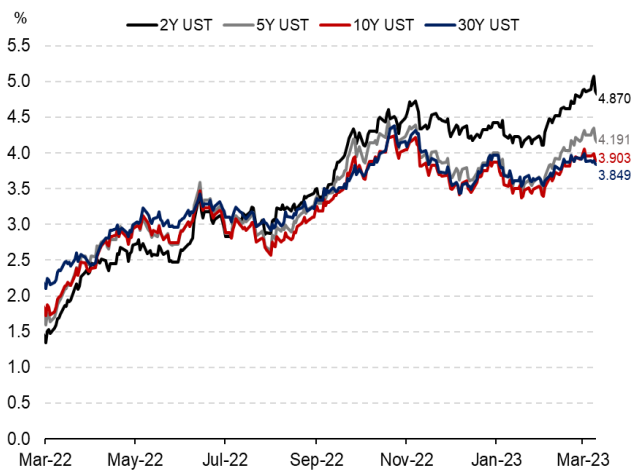
Source: Kenanga Research, BNM FAST, *PP= Private Placement, *BTC= Bid-to-cover ratio

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United States Treasuries (UST)

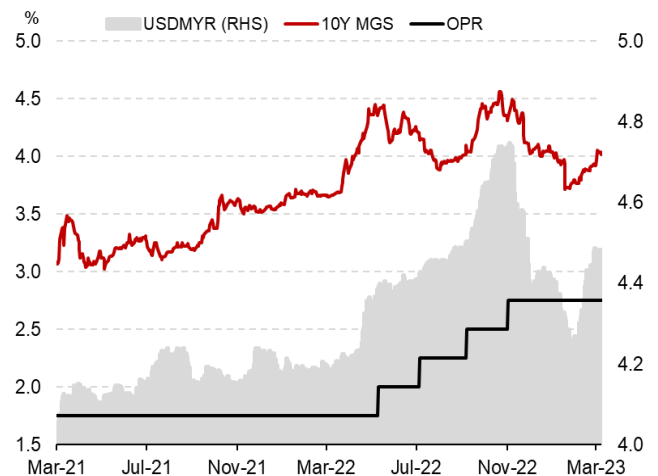
- UST yields decreased this week, moving between -16.4 bps to -1.5 bps across the curve. The 10Y UST yield plunged 15.2 bps to 3.903%, a 2-week low, whilst the 2Y UST yield fell 1.5 bps to 4.870%, deepening the yield curve inversion.
- Medium and long-term Treasury yields experienced a significant drop as markets expressed renewed concerns about a potential US recession spurred by further Fed rate hikes. This was prompted by remarks made by Fed Chair Powell, who emphasized the likelihood of faster and higher rate hikes, including the possibility of a 50 bps hike. Furthermore, ADP Private Payrolls recorded a greater-than-expected increase in February (242.0k; Consensus: 200.0k; Jan: 119.0k), indicating a robust labour market.
- Expect volatility in UST yields this coming week, triggered by today's release of the highly anticipated Non-Farm Payrolls report (Consensus: 225.0k; Jan: 517.0k) and upcoming CPI data for February (Mar 14); greater than expected results may lead to a rise in short-term yields.

Graph 3: UST Yield Trend



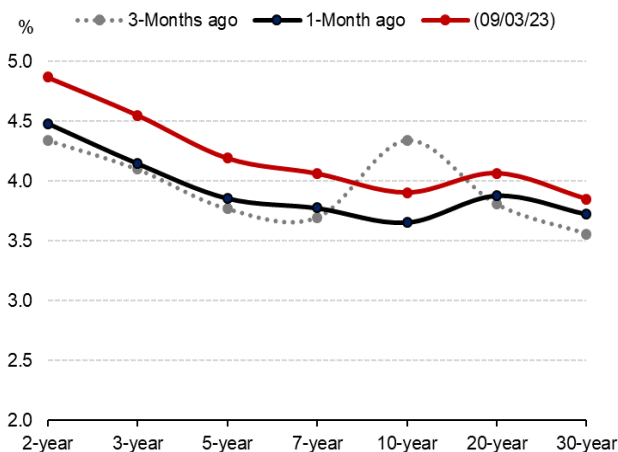
Source: Kenanga Research, Bloomberg

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



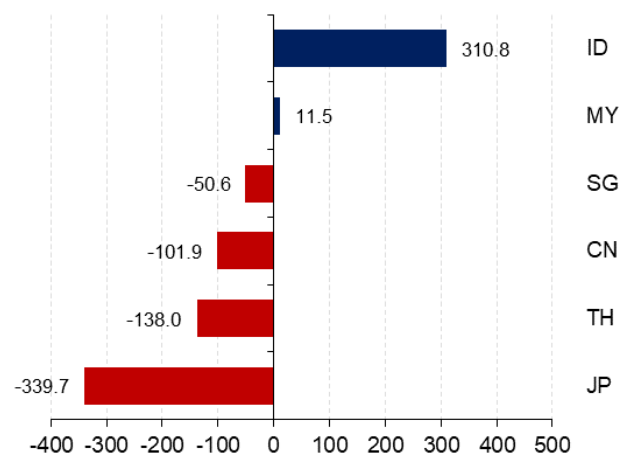
Source: Kenanga Research, Bloomberg

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 09/03/23

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Table 3: Bond Yield Movements

Bonds	03/01/23 YTD	09/03/22 Last Year	09/02/23 Last Month	02/03/23 Last Week	09/03/23 Yesterday	ytd (bps)	yoy (bps)	mom (bps)	wow (bps)
MGS									
30Y MGS	4.597	4.391	4.387	4.390	4.433	-16.40	4.20	4.60	4.30
20Y MGS	4.365	4.213	4.159	4.214	4.219	-14.60	0.60	6.00	0.50
15Y MGS	4.235	4.082	4.053	4.170	4.180	-5.50	9.80	12.70	1.00
10Y MGS	4.009	3.667	3.798	3.976	4.018	0.90	35.10	22.00	4.20
7Y MGS	3.955	3.533	3.704	3.842	3.893	-6.20	36.00	18.90	5.10
5Y MGS	3.773	3.280	3.507	3.683	3.653	-12.00	37.30	14.60	-3.00
3Y MGS	3.593	2.675	3.363	3.535	3.524	-6.90	84.90	16.10	-1.10
GII									
20Y GII	4.456	4.271	4.229	4.275	4.294	-16.20	2.30	6.50	1.90
10Y GII	4.123	3.728	3.917	4.039	4.063	-6.00	33.50	14.60	2.40
7Y GII	4.017	3.599	3.784	3.865	3.881	-13.60	28.20	9.70	1.60
3Y GII	3.699	2.809	3.413	3.467	3.495	-20.40	68.60	8.20	2.80
UST									
30Y UST	3.839	2.335	3.726	3.994	3.849	1.04	151.41	12.29	-14.42
20Y UST	4.012	2.411	3.880	4.221	4.066	5.37	165.53	18.60	-15.53
10Y UST	3.739	1.953	3.658	4.056	3.903	16.43	195.01	24.53	-15.24
7Y UST	3.834	1.930	3.777	4.227	4.062	22.83	213.18	28.47	-16.44
5Y UST	3.894	1.878	3.859	4.313	4.191	29.73	231.30	33.27	-12.12
3Y UST	4.150	1.850	4.148	4.631	4.552	40.17	270.23	40.36	-7.93
2Y UST	4.370	1.680	4.482	4.885	4.870	50.01	319.02	38.80	-1.50
SELECTED 10Y GOVERNMENT BONDS									
10Y UK	3.651	1.526	3.291	3.881	3.796	14.50	227.00	50.50	-8.50
10Y JP	0.422	0.167	0.499	0.505	0.506	8.40	33.90	0.70	0.10
10Y CN	2.829	2.859	2.895	2.927	2.884	5.50	2.50	-1.10	-4.30
10Y SG	3.121	1.861	3.083	3.439	3.397	27.61	153.61	31.40	-4.15
10Y ID	7.051	6.784	6.619	6.959	7.011	-4.00	22.70	39.20	5.20
10Y TH	2.633	2.261	2.498	2.608	2.523	-11.07	26.15	2.50	-8.57

Source: Kenanga Research, Bloomberg

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