

# Bond Market Weekly Outlook

MGS/GII yields to return to a slight uptrend ahead of the US FOMC meeting

## Government Debt Trend and Flows

- MGS and GII yields fell this week, moving between -15.5 bps to -2.1 bps overall. The 10Y MGS yield decreased by 10.8 bps to 3.91%.
- Demand for government bonds improved in response to intense market disorder in the US, which saw a rush towards the safety of short-term govvnies globally. Likewise, the lower yields may have also been prompted by a weaker IPI print for January (1.8%; Dec: 2.8%), caused by slowing manufacturing output and poor external demand.
- Domestic yields may trend rangebound-to-higher next week, as global bond yields potentially rise ahead of the Fed meeting and some optimism over the stabilisation of the US banking sector.
- The current banking crisis in the US will further exacerbate global risk-aversion, which was already mounting due to hawkish signals from the Fed, leading to potential outflows from the domestic bond market in March. Nevertheless, foreign inflows could potentially recover from 2Q23, contingent on the Fed signalling the end of its tightening cycle and the stabilisation of the US financial sector.

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

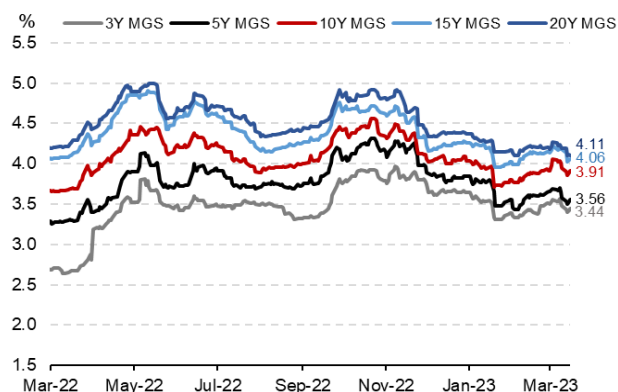
	Long Term*				
	Q4-22	Q1-23F	Q2-23F	Q3-23F	Q4-23F
<b>MGS</b>	4.07	3.75	3.70	3.60	3.45
<b>UST</b>	3.88	3.50	3.40	3.15	2.90
<b>USDMYR</b>	4.405	4.480	4.351	4.204	4.107
<b>OPR</b>	2.75	2.75	2.75	2.75	2.75

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

## Auction Results (14-Mar)

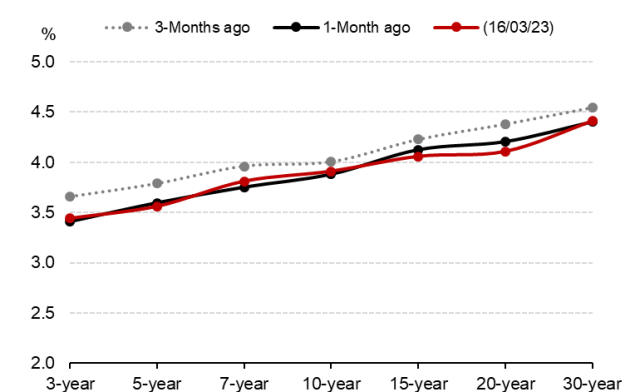
- The 7Y GII 9/30 reopened at a larger-than-expected issuance of RM5.0b, with no private placement, and was awarded at an average yield of 3.792%.
- Demand remained weak, registering a bid-to-cover (BTC) ratio of 1.586x on a relatively large issuance size; possibly due to worsening global risk sentiment amid the banking crisis in the US, although domestic investors did not rush to buy government bonds.
- The next auction is a reopening of the 30Y MGS 3/53 and we estimate an issuance of RM5.0b including 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)	15/03/23	5000.0	-	5000.0	1.586	3.792	3.814	3.760
	30-yr New Issue of MGS (Mat on 03/53)								

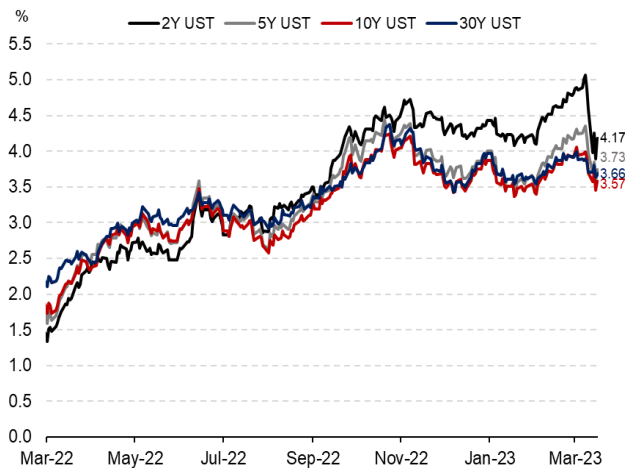
Source: Kenanga Research, BNM FAST, \*PP= Private Placement, \*BTC= Bid-to-cover ratio

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### United States Treasuries (UST)

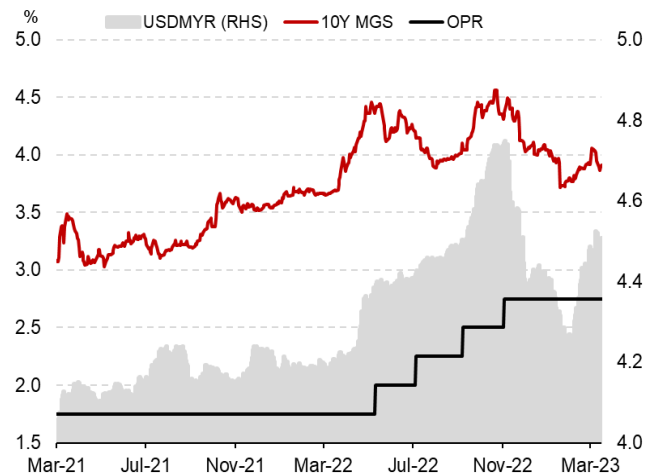
- UST yields plummeted this week, moving between -69.6 bps to -19.2 bps across the curve. The 10Y UST yield initially fell 33.4 bps to 3.57%.
- US yields plunged, particularly among short and medium-term yields, as investors sought safety in government bonds; prompted by intense market turbulence following the collapse of Silicon Valley Bank and pressure on Credit Suisse. As a result, the market abruptly adjusted its expectations for Fed policy, with the prospect of a 50 bps rate hike completely dropped, and a 25 bps hike expected to prioritize financial stability. Furthermore, Fed Funds Futures now indicate the market is pricing in a 62.1% probability of a terminal rate of just 5.25% by May, and 100 bps worth of rate cuts by year's end.
- Yields may return to an uptrend next week, spurred by optimism over First Republic Bank stabilising after capital injections and Credit Suisse receiving a liquidity backstop. That said, expect volatility ahead of the much-anticipated US FOMC meeting (Mar 21 – 22), as markets brace for the Fed's next move and the potential end of its tightening cycle.

Graph 3: UST Yield Trend



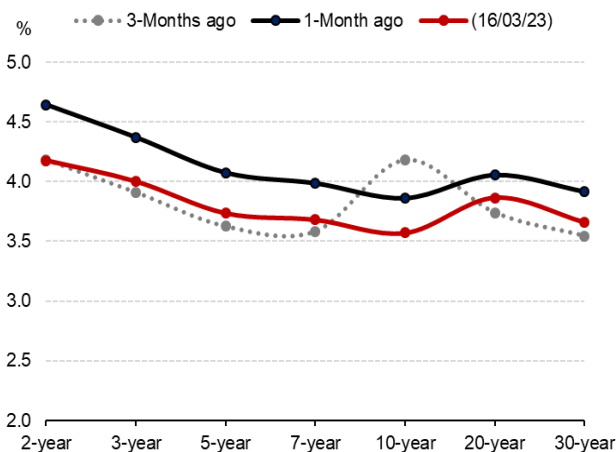
Source: Kenanga Research, Bloomberg

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



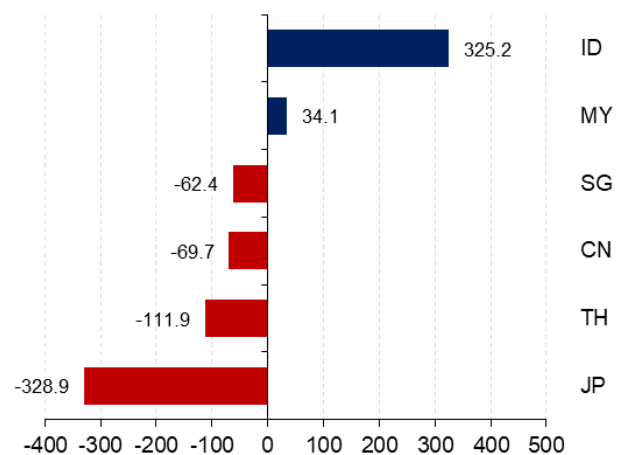
Source: Kenanga Research, Bloomberg

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 16/03/23

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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)
<b>MGS</b>									
30Y MGS	4.60	4.42	4.41	4.43	4.41	-18.60	-0.70	0.60	-2.20
20Y MGS	4.37	4.26	4.21	4.22	4.11	-25.70	-15.50	-9.90	-11.10
15Y MGS	4.24	4.11	4.13	4.18	4.06	-17.70	-4.80	-6.80	-12.20
10Y MGS	4.01	3.69	3.88	4.02	3.91	-9.90	22.40	2.80	-10.80
7Y MGS	3.96	3.55	3.75	3.89	3.81	-14.50	25.70	5.80	-8.40
5Y MGS	3.77	3.30	3.60	3.65	3.56	-21.30	25.70	-3.60	-9.40
3Y MGS	3.59	2.67	3.41	3.52	3.44	-15.30	76.60	3.20	-8.40
<b>GII</b>									
20Y GII	4.46	4.31	4.28	4.29	4.22	-23.70	-9.30	-6.30	-7.50
10Y GII	4.12	3.77	3.96	4.06	3.96	-16.30	19.30	0.00	-10.30
7Y GII	4.02	3.61	3.82	3.88	3.86	-15.70	24.80	4.20	-2.10
3Y GII	3.70	2.82	3.45	3.50	3.34	-35.90	52.40	-10.70	-15.50
<b>UST</b>									
30Y UST	3.84	2.45	3.91	3.85	3.66	-18.12	120.49	-25.65	-19.16
20Y UST	4.01	2.56	4.05	4.07	3.86	-14.88	130.34	-18.95	-20.25
10Y UST	3.74	2.18	3.86	3.90	3.57	-16.99	138.41	-29.18	-33.42
7Y UST	3.83	2.22	3.99	4.06	3.68	-15.49	146.28	-30.61	-38.32
5Y UST	3.89	2.18	4.07	4.19	3.73	-16.09	155.21	-33.96	-45.82
3Y UST	4.15	2.14	4.37	4.55	4.00	-15.11	185.92	-36.92	-55.28
2Y UST	4.37	1.94	4.64	4.87	4.17	-19.59	223.61	-46.60	-69.60
<b>SELECTED 10Y GOVERNMENT BONDS</b>									
10Y UK	3.65	1.63	3.50	3.80	3.41	-23.85	178.25	-8.65	-38.35
10Y JP	0.42	0.21	0.51	0.51	0.28	-14.20	6.90	-22.50	-22.60
10Y CN	2.83	2.80	2.89	2.88	2.87	4.30	6.80	-2.10	-1.20
10Y SG	3.12	2.12	3.18	3.40	2.95	-17.59	82.83	-23.96	-45.20
10Y ID	7.05	6.77	6.70	7.01	6.82	-23.00	5.60	12.60	-19.00
10Y TH	2.63	2.35	2.56	2.52	2.45	-18.35	10.10	-11.13	-7.27

Source: Kenanga Research, Bloomberg

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