

# Bond Market Weekly Outlook

Domestic yields to trend rangebound due to the shorter workweek

## Government Debt Trend and Flows

- MGS and GII yields have mostly decreased over the past week, moving between -5.7 bps to 1.1 bps overall. The 10Y MGS yield increased by 0.9 bps to 3.871% by yesterday.
- Domestic bonds drew decent demand in contrast to the heavy sell-off among developed market government bonds, such as Treasuries and Gilts. The comparative stability can be attributed to Malaysia's relatively less volatile monetary policy condition, as well as its better inflation and growth outlook; exports rebounded strongly in March (15.5% MoM; Feb: -0.3%).
- We expect domestic yields to trend rangebound over the next week amid the Hari Raya holidays. Today's release of March's CPI (KIBB: 3.6% YoY; Feb: 3.7%) will be of interest.
- Malaysian bonds may continue to receive foreign demand in the near-term due to a resilient domestic growth outlook and relatively higher yields. However, broader global risk sentiment will depend on the US Fed's next move and the upcoming FOMC meeting (May 2 – 3). If the Fed convincingly indicates no rate cuts this year and markets adjust accordingly, foreign portfolio inflows may falter. Nevertheless, we think it is more likely that the Fed will start cutting rates by at least the end of the year, which should bolster global risk sentiment in 2H23.

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

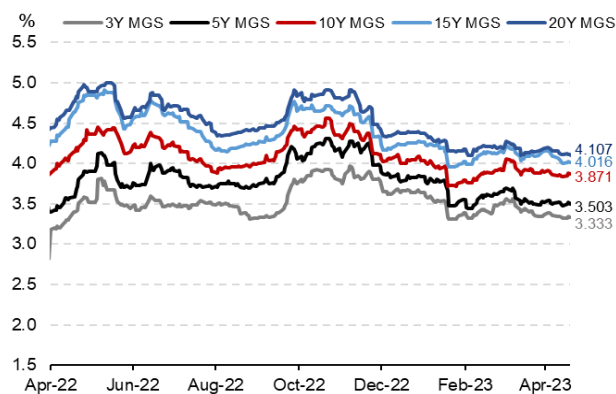
|        | Long Term* |        |        |        |        |
|--------|------------|--------|--------|--------|--------|
|        | Q1-23      | Q2-23F | Q3-23F | Q4-23F | Q1-24F |
| MGS    | 3.91       | 3.80   | 3.70   | 3.65   | 3.60   |
| UST    | 3.47       | 3.35   | 3.20   | 3.10   | 3.00   |
| USDMYR | 4.415      | 4.351  | 4.204  | 4.107  | 4.046  |
| OPR    | 2.75       | 2.75   | 2.75   | 2.75   | 2.75   |

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

## Auction Results (19-Apr)

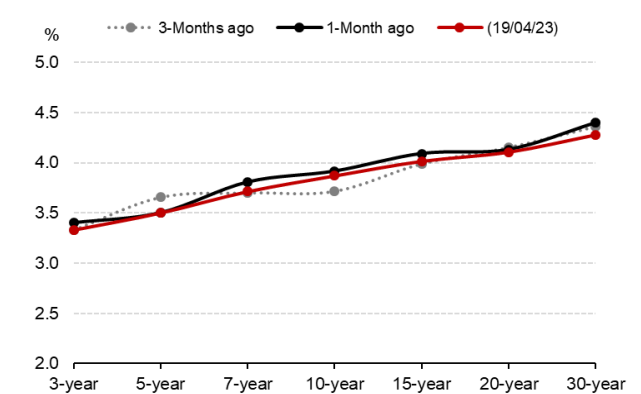
- The 5Y MGS 4/28 was newly issued at RM5.0b with no private placement, as expected, and was awarded at an average yield of 3.519%
- Auction demand remained strong, especially given the fairly large RM5.0b issuance, recording a bid-to-cover ratio 2.434x. Local govies remain attractive due to higher yields and a relatively robust economic outlook, despite some weakness in the global bond market.
- The next auction is a reopening of the 30Y GII 5/52 and we estimate an issuance of RM5.0b including RM2.5b worth of 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 (%) |
|-------|--|------------|------------------|--------------|----------------|----------|-------------------|-------------------|------------------|
| 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)    | 31/03/23   | 2500.0           | 2500.0       | 5000.0         | 1.970    | 4.457             | 4.489             | 4.370            |
| Apr   | 10-yr Reopening of MGII (Mat on 10/32)   | 10/04/23   | 4500.0           | -            | 4500.0         | 2.367    | 3.936             | 3.948             | 3.922            |
|       | 5-yr New Issue of MGS (Mat on 04/28)     | 20/04/23   | 5000.0           | -            | 5000.0         | 2.434    | 3.519             | 3.528             | 3.500            |
|       | 30-yr Reopening of MGII (Mat on 05/52)   |            |                  |              |                |          |                   |                   |                  |

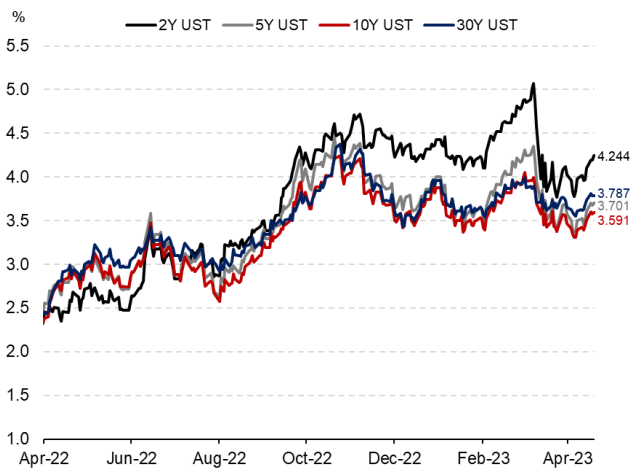
Source: Kenanga Research, BNM FAST, \*PP= Private Placement, \*BTC= Bid-to-cover ratio

20 April 2023

### United States Treasuries (UST)

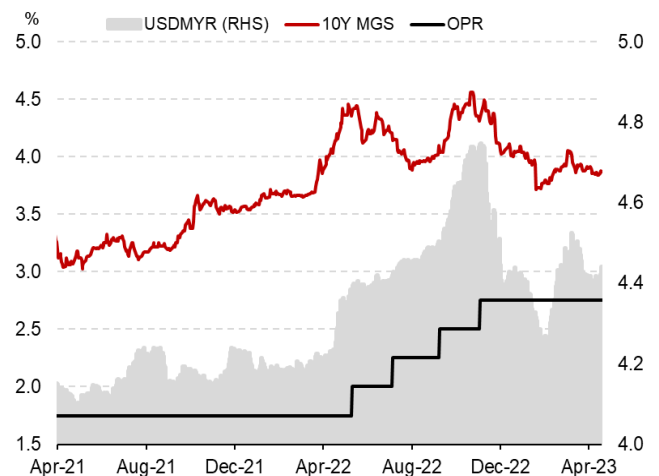
- US bond yields rose sharply this past week, particularly along the short-end and middle of the curve, increasing between 16.2 bps to 28.6 bps overall. The 10Y UST yield rose by 20.0 bps to 3.591%, while the 2Y UST soared 28.6 bps to 4.244%.
- US Treasury yields turned even higher this week due to resurgent concerns over global inflationary pressures, fuelled by the UK's CPI reading for March, which unexpectedly remained in double-digits (10.1%; Consensus: 9.8%; Feb: 10.4%). This has driven expectations that the BoE will continue raising rates, while the market's indicated probability of significant Fed rate cuts this year has decreased.
- UST yields may remain highly volatile in the near-term as markets rapidly shift Fed expectations, at least until the next FOMC meeting. Today's reading of Initial Jobless Claims for the week ending Apr 15 will be closely watched, with consensus estimates at a relatively stable 240.0k (previous week: 239.0k). A significant downside surprise could renew concerns about a tight labour market and lead to UST yields trending higher.

Graph 3: UST Yield Trend



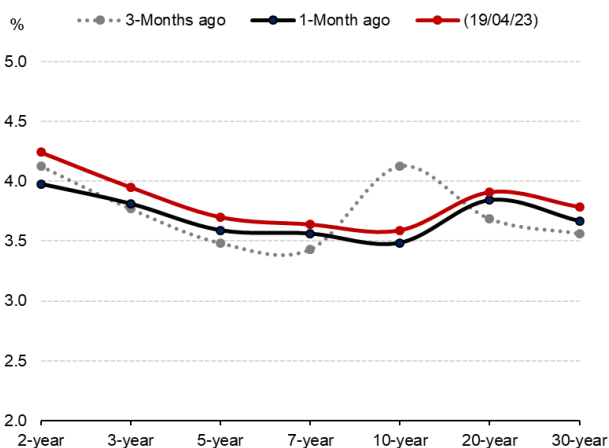
Source: Kenanga Research, Bloomberg

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



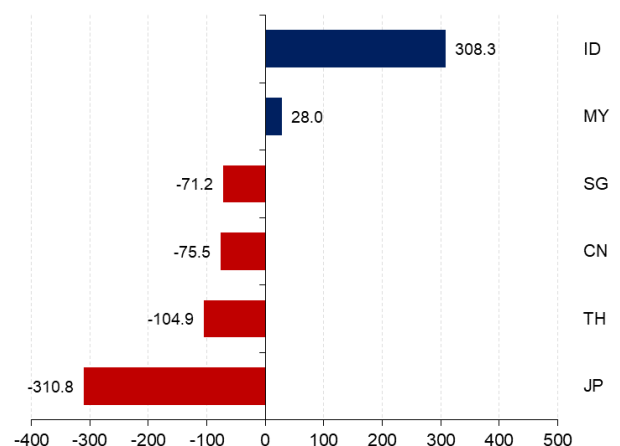
Source: Kenanga Research, Bloomberg

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 19/04/23

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Table 3: Bond Yield Movements

| Bonds                                | 03/01/23<br>YTD | 19/04/22<br>Last Year | 20/03/23<br>Last Month | 12/04/23<br>Last Week | 19/04/23<br>Yesterday | ytd (bps) | yoy (bps) | mom (bps) | wow (bps) |
|--------------------------------------|-----------------|-----------------------|------------------------|-----------------------|-----------------------|-----------|-----------|-----------|-----------|
| <b>MGS</b>                           |                 |                       |                        |                       |                       |           |           |           |           |
| 30Y MGS                              | 4.597           | 4.845                 | 4.398                  | 4.335                 | <b>4.278</b>          | -31.90    | -56.70    | -12.00    | -5.70     |
| 20Y MGS                              | 4.365           | 4.765                 | 4.132                  | 4.127                 | <b>4.107</b>          | -25.80    | -65.80    | -2.50     | -2.00     |
| 15Y MGS                              | 4.235           | 4.632                 | 4.092                  | 4.049                 | <b>4.016</b>          | -21.90    | -61.60    | -7.60     | -3.30     |
| 10Y MGS                              | 4.009           | 4.142                 | 3.917                  | 3.862                 | <b>3.871</b>          | -13.80    | -27.10    | -4.60     | 0.90      |
| 7Y MGS                               | 3.955           | 4.045                 | 3.809                  | 3.722                 | <b>3.715</b>          | -24.00    | -33.00    | -9.40     | -0.70     |
| 5Y MGS                               | 3.773           | 3.589                 | 3.504                  | 3.517                 | <b>3.503</b>          | -27.00    | -8.60     | -0.10     | -1.40     |
| 3Y MGS                               | 3.593           | 3.401                 | 3.403                  | 3.344                 | <b>3.333</b>          | -26.00    | -6.80     | -7.00     | -1.10     |
| <b>GII</b>                           |                 |                       |                        |                       |                       |           |           |           |           |
| 20Y GII                              | 4.456           | 4.763                 | 4.234                  | 4.176                 | <b>4.167</b>          | -28.90    | -59.60    | -6.70     | -0.90     |
| 10Y GII                              | 4.123           | 4.209                 | 3.965                  | 3.920                 | <b>3.908</b>          | -21.50    | -30.10    | -5.70     | -1.20     |
| 7Y GII                               | 4.017           | 4.044                 | 3.844                  | 3.794                 | <b>3.789</b>          | -22.80    | -25.50    | -5.50     | -0.50     |
| 3Y GII                               | 3.699           | 3.188                 | 3.364                  | 3.286                 | <b>3.297</b>          | -40.20    | 10.90     | -6.70     | 1.10      |
| <b>UST</b>                           |                 |                       |                        |                       |                       |           |           |           |           |
| 30Y UST                              | 3.839           | 2.995                 | 3.666                  | 3.625                 | <b>3.787</b>          | -5.24     | 79.16     | 12.10     | 16.17     |
| 20Y UST                              | 4.012           | 3.189                 | 3.841                  | 3.736                 | <b>3.910</b>          | -10.23    | 72.13     | 6.91      | 17.44     |
| 10Y UST                              | 3.739           | 2.936                 | 3.485                  | 3.391                 | <b>3.591</b>          | -14.81    | 65.47     | 10.61     | 20.02     |
| 7Y UST                               | 3.834           | 2.959                 | 3.562                  | 3.419                 | <b>3.640</b>          | -19.37    | 68.15     | 7.82      | 22.10     |
| 5Y UST                               | 3.894           | 2.917                 | 3.589                  | 3.463                 | <b>3.701</b>          | -19.27    | 78.48     | 11.21     | 23.88     |
| 3Y UST                               | 4.150           | 2.820                 | 3.811                  | 3.689                 | <b>3.951</b>          | -19.87    | 113.15    | 14.00     | 26.26     |
| 2Y UST                               | 4.370           | 2.592                 | 3.976                  | 3.958                 | <b>4.244</b>          | -12.62    | 165.22    | 26.74     | 28.59     |
| <b>SELECTED 10Y GOVERNMENT BONDS</b> |                 |                       |                        |                       |                       |           |           |           |           |
| 10Y UK                               | 3.651           | 1.967                 | 3.310                  | 3.570                 | <b>3.856</b>          | 20.50     | 188.90    | 54.60     | 28.60     |
| 10Y JP                               | 0.422           | 0.248                 | 0.250                  | 0.469                 | <b>0.483</b>          | 6.10      | 23.50     | 23.30     | 1.40      |
| 10Y CN                               | 2.829           | 2.823                 | 2.856                  | 2.819                 | <b>2.836</b>          | 0.70      | 1.30      | -2.00     | 1.70      |
| 10Y SG                               | 3.121           | 2.570                 | 2.834                  | 2.781                 | <b>2.879</b>          | -24.18    | 30.93     | 4.52      | 9.85      |
| 10Y ID                               | 7.051           | 6.979                 | 6.906                  | 6.648                 | <b>6.674</b>          | -37.70    | -30.50    | -23.20    | 2.60      |
| 10Y TH                               | 2.633           | 2.692                 | 2.383                  | 2.486                 | <b>2.542</b>          | -9.14     | -15.03    | 15.91     | 5.59      |

Source: Kenanga Research, Bloomberg

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