

# Bond Market Weekly Outlook

Domestic yields to rise following rate hikes by BNM and the Fed

## Government Debt Trend and Flows

- MGS and Gil yield movements were mixed this week, moving between -4.6 bps to 2.7 bps overall. The 10Y MGS yield increased slightly by 1.0 bps to 3.741%.
- Local bond yields initially trended lower at the end of last week, likely steered by a sharp downtrend in global bond yields. However, domestic sovereigns then saw some pressure leading up to BNM's latest monetary policy meeting and yields spiked following its surprise 25 bps rate hike. The central bank highlighted a positive economic outlook, supported by resilient domestic demand and China's stronger-than-expected recovery, whilst the risks to inflation remained tilted to the upside.
- We expect domestic yields to trend slightly higher next week, driven by the rate hikes by BNM and the Fed. That said, we reckon both central banks have completed their policy normalisation and envisage no further rate hikes.
- Foreign demand for domestic bonds may weaken slightly in the near-term as global risk sentiment wanes due to the renewed banking crisis in the US. The banking sector has come under strain once again after US regulators seized First Republic Bank and sold its assets to JP Morgan, with other banks also showing signs of stress. Markets are concerned over a heightened risk of a US recession exacerbated by the regional banking crisis.

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

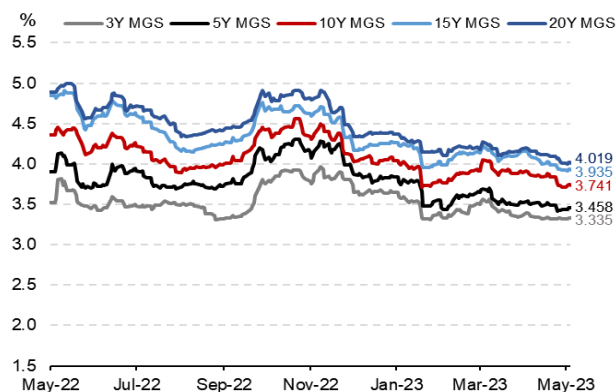
	Long Term*				
	Q1-23	Q2-23F	Q3-23F	Q4-23F	Q1-24F
MGS	3.91	3.80	3.70	3.65	3.60
UST	3.47	3.35	3.20	3.10	3.00
USDMYR	4.415	4.351	4.204	4.107	4.046
OPR	2.75	3.00	3.00	3.00	3.00

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

## Upcoming Auction

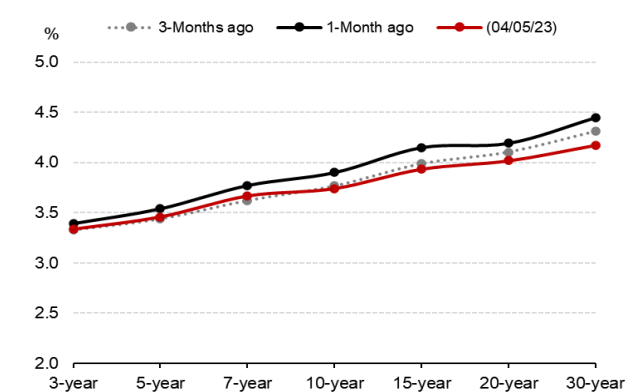
- The next auction is a reopening of the 7Y MGS 4/30, and we anticipate an issuance of RM5.0b with no private placement.
- The previous reopening of the 7Y MGS, earlier in February, saw strong demand and a bid-to-cover (BTC) ratio of 2.460x on a RM5.0b issuance. We expect demand for this auction to be tempered by BNM's surprise rate hike and weaker global risk sentiment, potentially recording a BTC of between 1.8x – 2.0x.

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 (%)
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)	27/04/23	2500.0	2500.0	5000.0	2.153	4.294	4.308	4.270
May	7-yr Reopening of MGS (Mat on 04/30)								
	20-yr Reopening of MGII (Mat on 08/43)								
	15-yr Reopening of MGS (Mat on 06/38)								

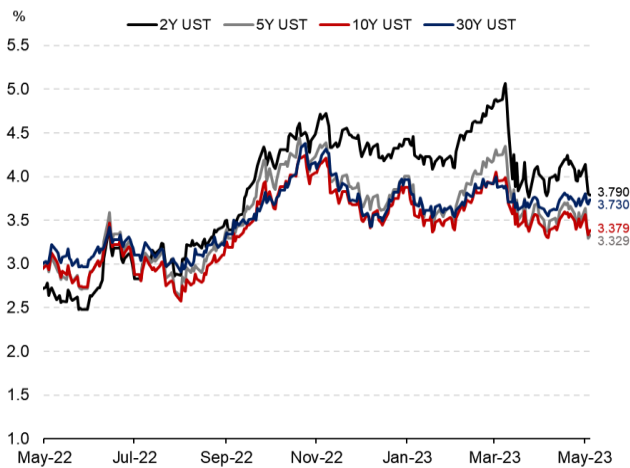
Source: Kenanga Research, BNM FAST, \*PP= Private Placement, \*BTC= Bid-to-cover ratio

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### United States Treasuries (UST)

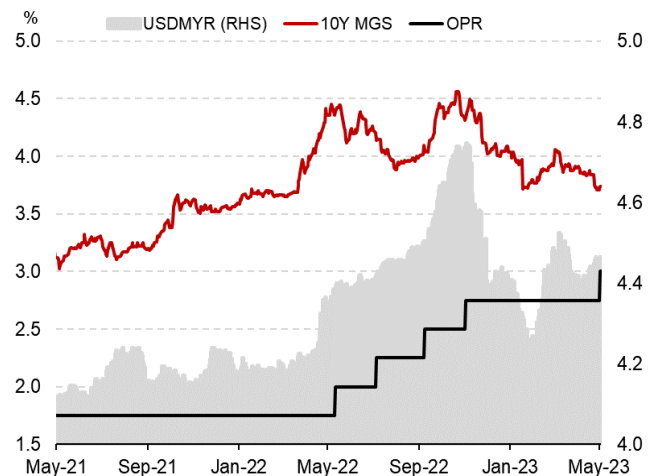
- UST yields fell this week, moving between -29.0 bps to -2.0 bps overall. The 10Y UST yield initially decreased by 18.5 bps to 3.336% on May 3, before turning slightly higher to 3.379% (-14.2 bps) by yesterday.
- US bonds continued to rally early this week, in the lead up to the US FOMC Meeting. That said, yields rose after the Fed raised rates by 25 bps to 5.25%, as widely expected, and indicated that it was nearing a situation that was sufficiently restrictive. Although the Fed signalled a potential end to its tightening cycle, Chairman Powell continued to hint that rate cuts were unlikely to happen this year, in contrast to market expectations of up to 75 bps worth of cuts by year's end, based on Fed Funds Futures. Likewise, the Fed assured that the US banking system remained "sound and resilient", although the regional banking crisis appeared to worsen this week after First Republic Bank failed.
- US yields may return to an uptrend next week, with greater volatility on the back of today's release of Non-Farm Payrolls for April. Attention will then shift to next week's inflation print.

Graph 3: UST Yield Trend



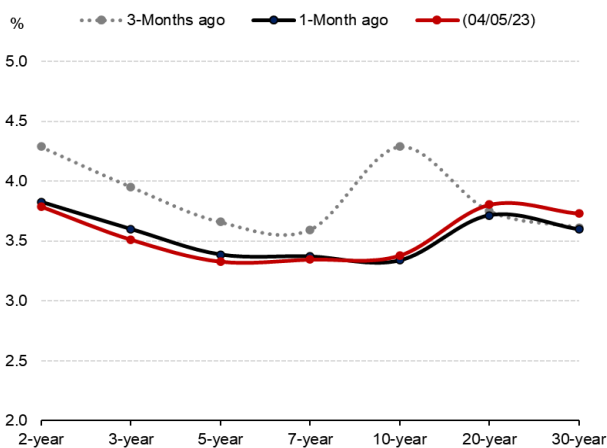
Source: Kenanga Research, Bloomberg

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



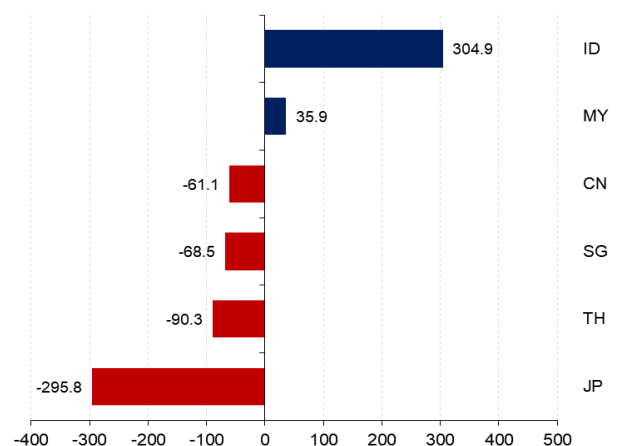
Source: Kenanga Research, Bloomberg

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 04/05/23

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Table 3: Bond Yield Movements

Bonds	03/01/23 YTD	04/05/22 Last Year	04/04/23 Last Month	27/04/23 Last Week	04/05/23 Yesterday	ytd (bps)	yoy (bps)	mom (bps)	wow (bps)
<b>MGS</b>									
30Y MGS	4.597	5.021	4.447	4.220	4.174	-42.30	-84.70	-27.30	-4.60
20Y MGS	4.365	4.893	4.192	4.032	4.019	-34.60	-87.40	-17.30	-1.30
15Y MGS	4.235	4.848	4.149	3.933	3.935	-30.00	-91.30	-21.40	0.20
10Y MGS	4.009	4.360	3.900	3.731	3.741	-26.80	-61.90	-15.90	1.00
7Y MGS	3.955	4.282	3.771	3.648	3.667	-28.80	-61.50	-10.40	1.90
5Y MGS	3.773	3.898	3.540	3.431	3.458	-31.50	-44.00	-8.20	2.70
3Y MGS	3.593	3.525	3.392	3.329	3.335	-25.80	-19.00	-5.70	0.60
<b>GII</b>									
20Y GII	4.456	5.014	4.230	4.105	4.069	-38.70	-94.50	-16.10	-3.60
10Y GII	4.123	4.432	3.971	3.847	3.842	-28.10	-59.00	-12.90	-0.50
7Y GII	4.017	4.388	3.856	3.733	3.743	-27.40	-64.50	-11.30	1.00
3Y GII	3.699	3.516	3.337	3.260	3.282	-41.70	-23.40	-5.50	2.20
<b>UST</b>									
30Y UST	3.839	3.035	3.597	3.750	3.730	-10.93	69.51	13.31	-2.03
20Y UST	4.012	3.235	3.714	3.878	3.803	-20.89	56.81	8.98	-7.47
10Y UST	3.739	2.934	3.339	3.520	3.379	-36.02	44.43	4.00	-14.17
7Y UST	3.834	2.962	3.372	3.568	3.346	-48.80	38.36	-2.62	-22.24
5Y UST	3.894	2.913	3.388	3.591	3.329	-56.54	41.60	-5.95	-26.26
3Y UST	4.150	2.822	3.600	3.803	3.513	-63.72	69.06	-8.71	-29.01
2Y UST	4.370	2.642	3.825	4.068	3.790	-57.96	114.82	-3.50	-27.79
<b>SELECTED 10Y GOVERNMENT BONDS</b>									
10Y UK	3.651	1.966	3.434	3.794	3.653	0.20	168.70	21.90	-14.10
10Y JP	0.422	0.231	0.425	0.466	0.421	-0.10	19.00	-0.40	-4.50
10Y CN	2.829	2.839	2.865	2.788	2.763	-6.60	-7.60	-10.20	-2.50
10Y SG	3.121	2.629	2.871	2.744	2.694	-42.73	6.42	-17.70	-5.04
10Y ID	7.051	6.986	6.730	6.540	6.432	-61.90	-55.40	-29.80	-10.80
10Y TH	2.633	2.973	2.467	2.518	2.476	-15.74	-49.67	0.95	-4.22

Source: Kenanga Research, Bloomberg

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