

# Bond Market Weekly Outlook

Domestic bond yields may trend rangebound-to-higher amid soaring UST yields

## Government Debt Trend and Flows

- MGS and GII yields mostly increased this week, moving between -3.7 bps to 5.2 bps overall. The 10Y MGS yield initially fell by 4.3 bps to 3.648% on May 15, before rising to 3.734% by yesterday (+4.3 bps).
- Sovereigns saw decent demand at the very beginning of the week on the back of a better-than-expected 1Q23 GDP reading of 5.6% (Consensus: 5.1%; 4Q22: 7.0%). However, domestic yields then turned higher, steered by a surge in global bond yields amid relatively hawkish comments by Fed officials and as the Bank of England raised its policy rate by another 25 bps to 4.5%.
- Next week, we expect domestic bond yields to trend rangebound-to-higher. The main driver will be soaring UST yields, although the impact should be relatively mild.
- Foreign demand may be relatively tepid in the near-term, amid global risk aversion due to the Fed's recent rate hike and the ongoing US debt ceiling impasse. Furthermore, demand for domestic bonds may be impacted by narrower yield differentials against US Treasuries, with the 10Y MGS-UST spread down to a mere 8.8 bps (previous week: 30.7 bps). That said, we reckon the US will not default and we expect risk-sentiment to turn positive after an agreement is reached and should the Fed pause at its upcoming meeting (June 13 – 14), leading to greater foreign portfolio inflows.

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

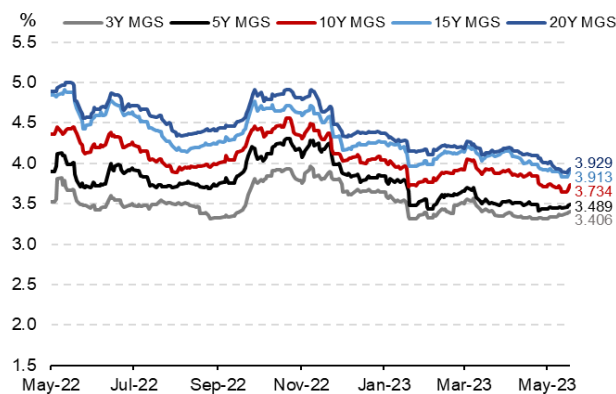
	Long Term*				
	Q1-23	Q2-23F	Q3-23F	Q4-23F	Q1-24F
MGS	3.91	3.75	3.65	3.60	3.55
UST	3.47	3.35	3.20	3.10	3.00
USDMYR	4.415	4.351	4.204	4.107	4.046
OPR	2.75	3.00	3.00	3.00	3.00

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

## Auction Results (15-May)

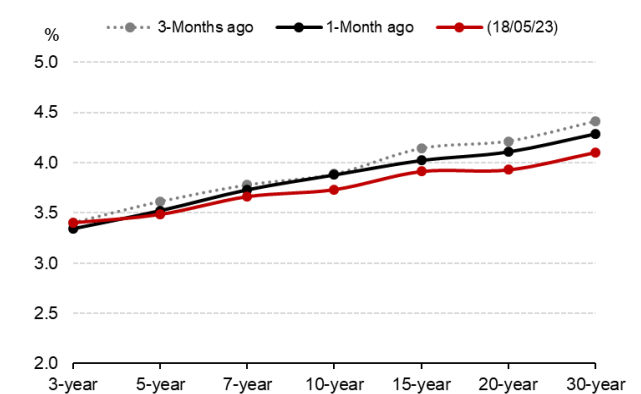
- The next 7Y MGS 4/30 reopened at an expected RM5.0b, with no private placement, and was awarded at an average yield of 3.604%.
- The 7Y MGS auction recorded a better-than-expected bid-to-cover (BTC) ratio of 2.183x, but still lower than the previous reopening in February (BTC: 2.460x). Demand for local bonds remains fairly robust, despite relatively subdued global risk sentiment due to the sluggish progress in US debt ceiling negotiations.
- The next auction is a reopening of the 20Y GII 8/43 and we estimate a total issuance of RM5.0b, including RM2.5b 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 (%)
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)	16/05/23	5000.0	-	5000.0	2.183	3.604	3.615	3.590
	20-yr Reopening of MGII (Mat on 08/43)								
	15-yr Reopening of MGS (Mat on 06/38)								

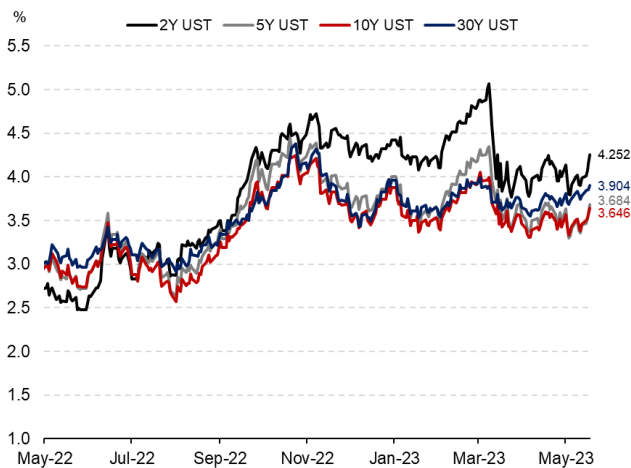
Source: Kenanga Research, BNM FAST, \*PP= Private Placement, \*BTC= Bid-to-cover ratio

19 May 2023

**United States Treasuries (UST)**

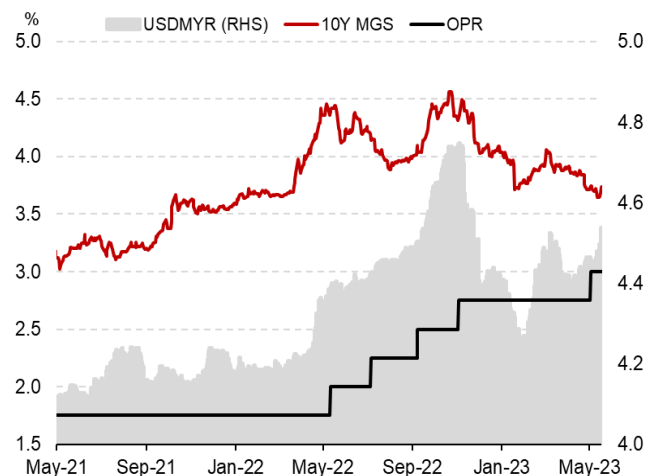
- UST yields rose significantly this week, increasing between 16.4 bps to 35.4 bps overall. The 10Y UST yield increased by 26.1 bps to 3.646%, its highest level since March.
- US bond yields remained on an uptrend primarily due to expectations that interest rates will stay high for an extended period of time, following a string of comments by Fed officials. The Atlanta Fed President Raphael Bostic stressed that interest rate cuts were unlikely this year, even if a recession were to occur. Fed Funds Futures now indicate expectations that the Funds Rate will be cut to 4.75% by the end of this year, compared to 4.50% just a week ago. Furthermore, yields turned even higher yesterday amid cautious optimism over the US debt ceiling negotiations as talks between President Biden and congressional leaders progressed.
- US yields may continue to rise next week as markets adjust to the potential scenario of the Fed keeping rates unchanged for longer, despite a likely pause at its next meeting. A breakthrough in the debt ceiling negotiations should see a further sell-off of safe-haven assets, but the risk of a disastrous default cannot be disregarded.

**Graph 3: UST Yield Trend**



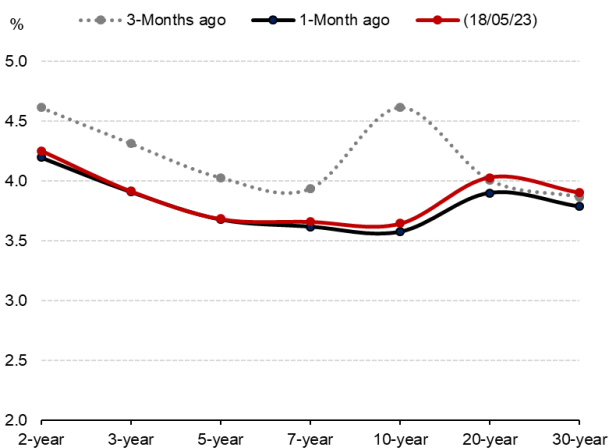
Source: Kenanga Research, Bloomberg

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



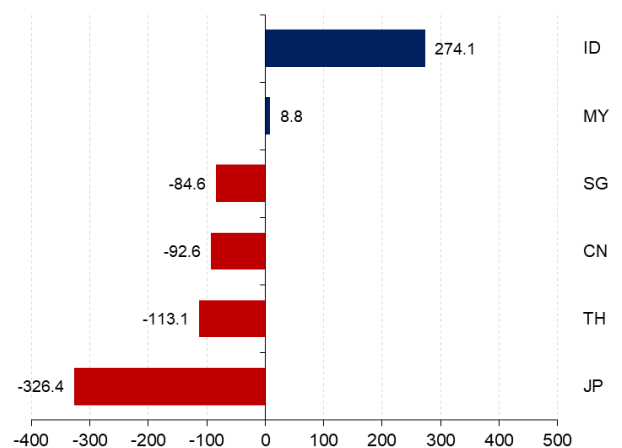
Source: Kenanga Research, Bloomberg

**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 18/05/23

19 May 2023

Table 3: Bond Yield Movements

Bonds	03/01/23 YTD	18/05/22 Last Year	18/04/23 Last Month	11/05/23 Last Week	18/05/23 Yesterday	ytd (bps)	yoy (bps)	mom (bps)	wow (bps)
<b>MGS</b>									
30Y MGS	4.597	5.078	4.291	4.138	4.101	-49.60	-97.70	-19.00	-3.70
20Y MGS	4.365	4.968	4.111	3.920	3.929	-43.60	-103.90	-18.20	0.90
15Y MGS	4.235	4.862	4.025	3.876	3.913	-32.20	-94.90	-11.20	3.70
10Y MGS	4.009	4.445	3.880	3.691	3.734	-27.50	-71.10	-14.60	4.30
7Y MGS	3.955	4.400	3.731	3.627	3.665	-29.00	-73.50	-6.60	3.80
5Y MGS	3.773	4.011	3.522	3.455	3.489	-28.40	-52.20	-3.30	3.40
3Y MGS	3.593	3.671	3.341	3.354	3.406	-18.70	-26.50	6.50	5.20
<b>GII</b>									
20Y GII	4.456	5.073	4.170	4.031	4.037	-41.90	-103.60	-13.30	0.60
10Y GII	4.123	4.561	3.907	3.805	3.813	-31.00	-74.80	-9.40	0.80
7Y GII	4.017	4.461	3.778	3.705	3.724	-29.30	-73.70	-5.40	1.90
3Y GII	3.699	3.667	3.297	3.298	3.343	-35.60	-32.40	4.60	4.50
<b>UST</b>									
30Y UST	3.839	3.065	3.787	3.740	3.904	6.51	83.93	11.66	16.38
20Y UST	4.012	3.267	3.901	3.814	4.030	1.74	76.27	12.88	21.62
10Y UST	3.739	2.884	3.576	3.384	3.646	-9.32	76.17	7.01	26.14
7Y UST	3.834	2.915	3.620	3.361	3.662	-17.23	74.66	4.19	30.10
5Y UST	3.894	2.891	3.679	3.355	3.684	-20.97	79.29	0.57	32.90
3Y UST	4.150	2.838	3.909	3.561	3.916	-23.45	107.78	0.64	35.43
2Y UST	4.370	2.669	4.197	3.899	4.252	-11.82	158.23	5.50	35.23
<b>SELECTED 10Y GOVERNMENT BONDS</b>									
10Y UK	3.651	1.865	3.747	3.707	3.957	30.60	209.20	21.00	25.00
10Y JP	0.422	0.245	0.475	0.398	0.382	-4.00	13.70	-9.30	-1.60
10Y CN	2.829	2.802	2.837	2.702	2.720	-10.90	-8.20	-11.70	1.80
10Y SG	3.121	2.764	2.854	2.741	2.800	-32.14	3.54	-5.46	5.88
10Y ID	7.051	7.327	6.674	6.400	6.387	-66.40	-94.00	-28.70	-1.30
10Y TH	2.633	3.354	2.529	2.507	2.515	-11.87	-83.88	-1.44	0.82

Source: Kenanga Research, Bloomberg

For further information, please contact:

**Wan Suhaimie Wan Mohd Saidie**  
Head of Economic Research  
[wansuhaimi@kenanga.com.my](mailto:wansuhaimi@kenanga.com.my)

**Muhammad Saifuddin Sapuan**  
Economist  
[saifuddin.sapuan@kenanga.com.my](mailto:saifuddin.sapuan@kenanga.com.my)

**Afiq Asyraf Syazwan Abd. Rahim**  
Economist  
[afiqasyraf@kenanga.com.my](mailto:afiqasyraf@kenanga.com.my)

**Zalman Basree**  
Economist  
[zalman@kenanga.com.my](mailto:zalman@kenanga.com.my)

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may affect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published by:

**KENANGA INVESTMENT BANK BERHAD (15678-H)**

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia

Telephone: (603) 2172 0880 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)