

# Bond Market Weekly Outlook

Domestic bond yields to continue rising on weak foreign demand and higher UST yields

## Government Debt Trend and Flows

- MGS and GII yields continued to increase this week, moving between 1.9 bps to 21.1 bps across the curve. The 10Y MGS yield rose by 6.4 bps to 3.798%, its highest level in a month, whilst the 20Y MGS yield increased by 21.1 bps to 4.141%.
- Local sovereigns were pressured by a weaker ringgit, broader global risk-off sentiment, and ongoing developments in the US, namely the increasingly concerning debt ceiling impasse and the growing possibility of a further rate hike by the Fed.
- We expect domestic yields to remain on an uptrend next week, mostly steered by a continued rise in US Treasury yields and amid weak foreign demand for local bonds. Focus will also be on today's CPI release for April (KIBB: 3.3%; Mar: 3.4%).
- Foreign inflows into the domestic bond market will likely remain weak in the near-term, underpinned by strong global risk aversion as the US debt ceiling remains a widespread concern, which may worsen should the June 1 deadline pass without an agreement. Govvies will also be weighed by their relatively low yields following a surge in developed market bond yields; the 10Y MGS-UST spread has turned negative (-1.9 bps; previous week: 8.8 bps) for the first time in three months.

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

	Long Term*				
	Q1-23	Q2-23F	Q3-23F	Q4-23F	Q1-24F
<b>MGS</b>	3.91	3.75	3.65	3.60	3.55
<b>UST</b>	3.47	3.35	3.20	3.10	3.00
<b>USDMYR</b>	4.415	4.416	4.246	4.107	4.046
<b>OPR</b>	2.75	3.00	3.00	3.00	3.00

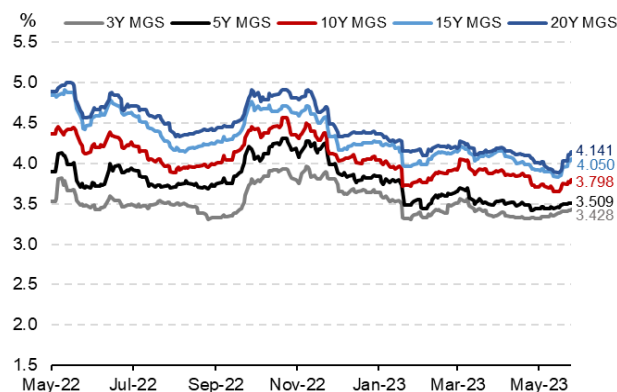
\*F=Forecasts for end of period

Source: Kenanga Research, Bloomberg

## Auction Results (23-May)

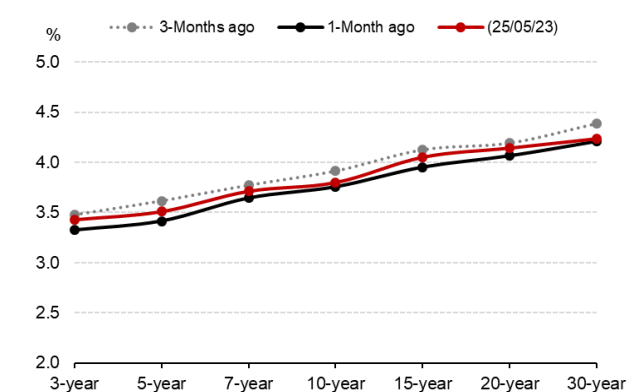
- The 20Y GII 8/43 reopened at a slightly larger-than-expected RM5.5b, of which RM2.5b was privately placed, and was awarded at an average yield of 4.182%.
- Demand was weak, recording a bid-to-cover (BTC) ratio of 1.747x on a relatively modest RM3.0b auction size. Domestic bonds have been pressured by poor global risk sentiment and significantly higher US Treasury yields as debt ceiling negotiations drag on.
- The next auction is a reopening of the 15Y MGS 6/38 and we estimate a total issuance of RM5.0b, 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 (%)
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)	24/05/23	3000.0	2500.0	5500.0	1.747	4.182	4.207	4.155
	15-yr Reopening of MGS (Mat on 06/38)								

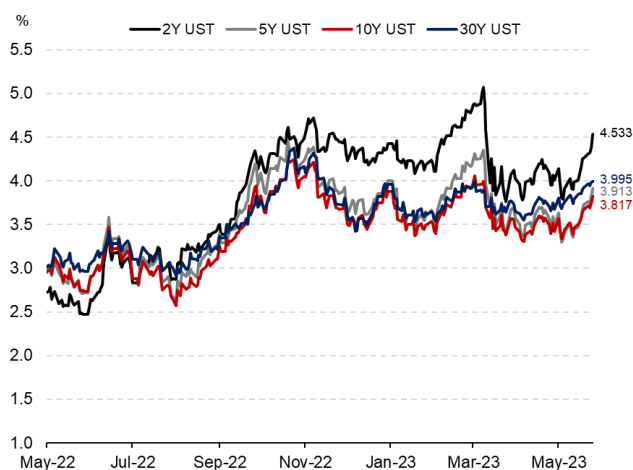
Source: Kenanga Research, BNM FAST, \*PP= Private Placement, \*BTC= Bid-to-cover ratio

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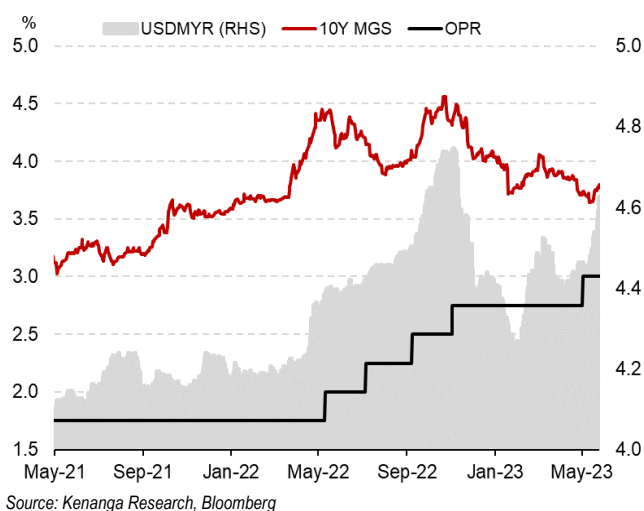
### United States Treasuries (UST)

- UST yields continued to rise this week, particularly along the short-end and middle of the curve, increasing between 9.1 bps to 29.7 bps overall. The 10Y UST yield rose by 17.2 bps to 3.817%, a two-month high, whilst the 2Y UST yield jumped by 28.1 bps to 4.533%.
- The sell-off of Treasuries persisted as investors remained worried over the looming debt ceiling deadline amid sluggish negotiations. Sentiment worsened after Fitch Ratings placed the US's AAA sovereign rating on watch for a possible downgrade, citing "increased political partisanship that is hindering reaching a resolution" on the debt ceiling. Meanwhile, Fed officials remained relatively hawkish in a series of comments that hinted at the possibility of another rate hike at the upcoming FOMC meeting (June 13 – 14).
- We expect US yields to continue rising next week, as markets adjust expectations following hawkish Fed comments and after US jobless claims registered below expectations for the week ended May 20 (229.0k; Consensus: 245.0k), suggesting a doggedly robust labour market. All eyes will be on the debt ceiling as negotiations progress ahead of the June 1 deadline.

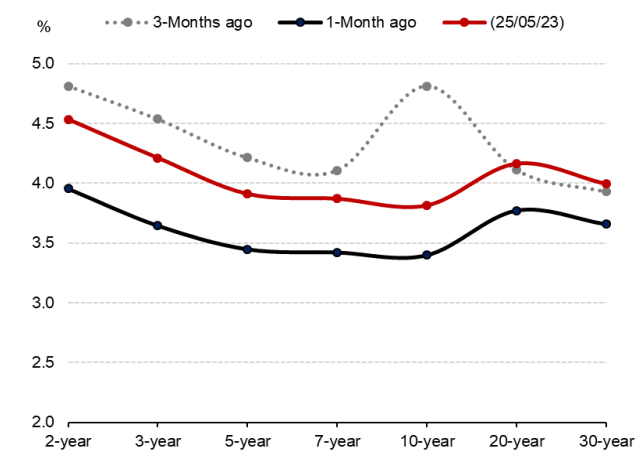
Graph 3: UST Yield Trend



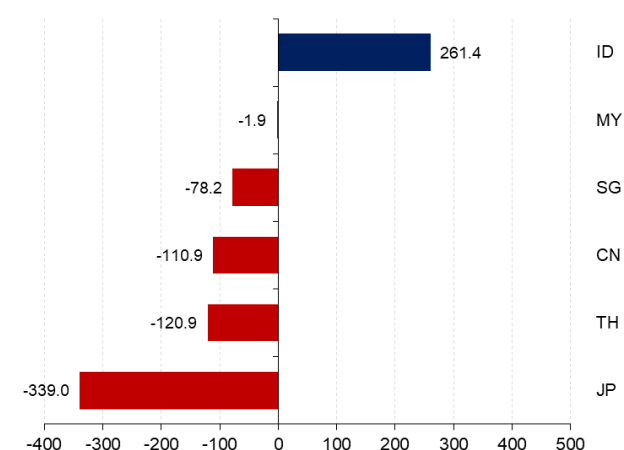
Graph 4: USDMYR, 10Y MGS Yield, Overnight Policy Rate



Graph 5: UST Yield Curve



Graph 6: Asia 10-Year Bond Yield Spread (bps)



\*Spread: Benchmark 10Y yield relative to the 10Y UST on 25/05/23

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Table 3: Bond Yield Movements

Bonds	03/01/23 YTD	25/05/22 Last Year	25/04/23 Last Month	18/05/23 Last Week	25/05/23 Yesterday	ytd (bps)	yoy (bps)	mom (bps)	wow (bps)
<b>MGS</b>									
30Y MGS	4.597	4.813	4.208	4.101	4.234	-36.30	-57.90	2.60	13.30
20Y MGS	4.365	4.562	4.064	3.930	4.141	-22.40	-42.10	7.70	21.10
15Y MGS	4.235	4.428	3.951	3.913	4.050	-18.50	-37.80	9.90	13.70
10Y MGS	4.009	4.147	3.755	3.734	3.798	-21.10	-34.90	4.30	6.40
7Y MGS	3.955	3.986	3.643	3.665	3.711	-24.40	-27.50	6.80	4.60
5Y MGS	3.773	3.707	3.414	3.490	3.509	-26.40	-19.80	9.50	1.90
3Y MGS	3.593	3.478	3.324	3.406	3.428	-16.50	-5.00	10.40	2.20
<b>GII</b>									
20Y GII	4.456	4.643	4.134	4.037	4.193	-26.30	-45.00	5.90	15.60
10Y GII	4.123	4.200	3.863	3.813	3.876	-24.70	-32.40	1.30	6.30
7Y GII	4.017	4.029	3.751	3.724	3.787	-23.00	-24.20	3.60	6.30
3Y GII	3.699	3.503	3.280	3.343	3.368	-33.10	-13.50	8.80	2.50
<b>UST</b>									
30Y UST	3.839	2.969	3.659	3.904	3.995	15.64	102.62	33.68	9.13
20Y UST	4.012	3.157	3.772	4.030	4.164	15.15	100.73	39.17	13.41
10Y UST	3.739	2.745	3.400	3.646	3.817	7.85	107.22	41.78	17.17
7Y UST	3.834	2.758	3.423	3.662	3.873	3.92	111.53	44.99	21.15
5Y UST	3.894	2.719	3.449	3.684	3.913	1.91	119.40	46.40	22.88
3Y UST	4.150	2.632	3.646	3.916	4.212	6.23	158.09	56.63	29.68
2Y UST	4.370	2.492	3.954	4.252	4.533	16.30	204.10	57.85	28.12
<b>SELECTED 10Y GOVERNMENT BONDS</b>									
10Y UK	3.651	1.910	3.695	3.957	4.374	72.30	246.40	67.90	41.70
10Y JP	0.422	0.213	0.479	0.382	0.427	0.50	21.40	-5.20	4.50
10Y CN	2.829	2.770	2.817	2.720	2.708	-12.10	-6.20	-10.90	-1.20
10Y SG	3.121	2.556	2.820	2.800	3.035	-8.57	47.91	21.56	23.57
10Y ID	7.051	7.173	6.674	6.387	6.431	-62.00	-74.20	-24.30	4.40
10Y TH	2.633	2.931	2.478	2.515	2.608	-2.53	-32.31	13.02	9.34

Source: Kenanga Research, Bloomberg

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