

# Asia Bonds Monthly Outlook

Monetary policy to steer CGBs, JGBs, and IGBs, whilst TGBs will be impacted by political risk

## China Government Bonds (CGB)

- CGB yields continued to fall in May as domestic investors flocked to safety amid concerns over China's uneven economic recovery, likely exacerbating poor foreign demand having previously recorded a net foreign portfolio outflow in April (-USD1.0b; Mar: USD3.0b). China's Industrial Production came in well below expectations in April (5.6%; Consensus: 10.9%; Mar: 3.9%) and official Manufacturing PMI continued to weaken in May (48.8; Apr: 49.2), indicative of a faltering economic rebound.
- Foreign demand for China's sovereigns will likely remain weak, especially as the negative yield differentials between CGBs and US Treasuries continue to widen. Although the PBoC maintained the Loan Prime Rate at 3.65% in its recent meeting, we believe the central bank has room to cut rates, if necessary, given the uneven economic performance and low inflation levels; April CPI registered below expectations at 0.1% (Consensus: 0.3%; Mar: 0.7%). As such, we have revised down our year-end target for the 10Y CGB yield to 2.85% from 3.00% previously.

## Japan Government Bonds (JGB)

- JGBs benefitted from some safe-haven demand over early-to-mid May due to broad global risk-off sentiment, driven by the US debt ceiling impasse and an uncertain outlook regarding the Fed's policy direction. However, JGBs saw selling pressure return towards the end of the month, bringing the 10Y yield closer to the 0.5% upper band limit.
- In June, JGBs are expected to weaken as global risk aversion eases following the US debt ceiling agreement. With the yield curve control and negative interest rate policy in place, JGB yield differentials remain very unattractive, making it unlikely to draw foreign demand. However, we do anticipate that the BoJ will abandon its yield cap by 4Q23 and potentially raise rates soon after, leading to higher JGB yields.

## Indonesia Government Bonds (IGB)

- IGB yields trended lower in May amid broadly strong demand, on the back of a solid domestic growth outlook, positive yield differentials against US Treasuries, and as Bank Indonesia (BI) kept rates unchanged. Inflation cooled significantly in recent months (Apr: 4.33%; Mar: 4.97%) and the IDR is relatively stable, prompting expectations of BI rate cuts in the next 6 – 12 months.
- IGBs are expected to strengthen in June, on sustained foreign demand as Indonesian sovereigns remain more attractive than regional counterparts. We now reckon that BI may begin to cut rates in 1Q24 and have revised down our end-2023 target for the 10Y IGB yield to 6.30% from 6.50% accordingly.

## Thailand Government Bonds (TGB)

- In May, TGBs were initially pressured due to the Thai general election but began to recover towards the end of the month after the BoT raised rates and may have completed its tightening cycle.
- Despite ongoing domestic political uncertainty, due to the opposition parties winning a landslide but facing obstacles in swiftly forming a government, we still expect TGBs to strengthen going forward. Thailand's recovery momentum, especially in tourism, should attract some foreign portfolio inflows in 2H23, although this is contingent upon the resolution of political uncertainties and the smooth formation of a new government.

Table 1: 10Y Government Bond Outlook

	Long Term				
	Q1-23	Q2-23F	Q3-23F	Q4-23F	Q1-24F
MY	3.91	3.75	3.65	3.60	3.55
CN	2.86	2.75	2.80	2.85	3.00
JP	0.33	0.50	0.50	0.75	1.00
ID	6.82	6.45	6.35	6.30	6.25
TH	2.38	2.50	2.40	2.30	2.20
US	3.47	3.50	3.35	3.20	3.05

F=Forecasts for end of period

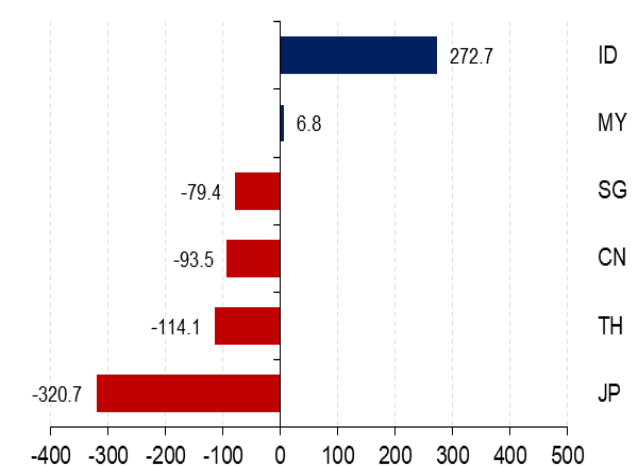
Source: Kenanga Research, Bloomberg

Graph 1: FTSE Asian Government Bond Index



Source: Kenanga Research, Bloomberg

Graph 2: Asia 10-Year Bond Yield Spreads (bps)

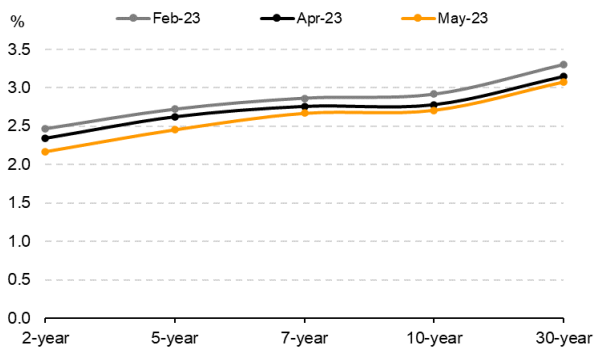


Source: Kenanga Research, Bloomberg

\*Spread: Benchmark 10Y yield relative to the 10Y US Treasury on 31/05/23

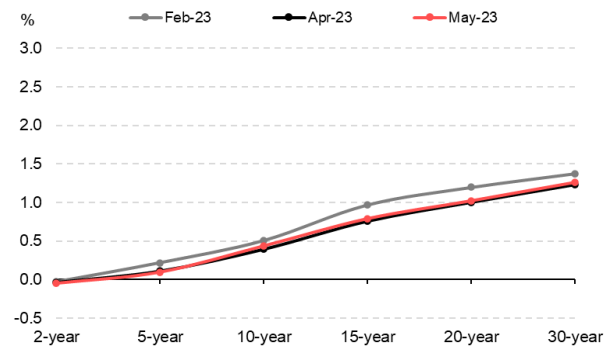
02 June 2023

Graph 3: China Yield Curves



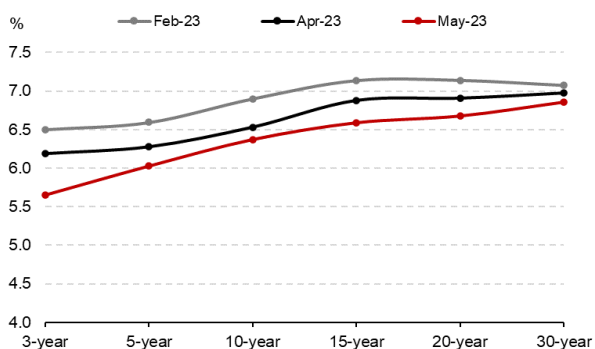
Source: Kenanga Research, Bloomberg

Graph 4: Japan Yield Curves



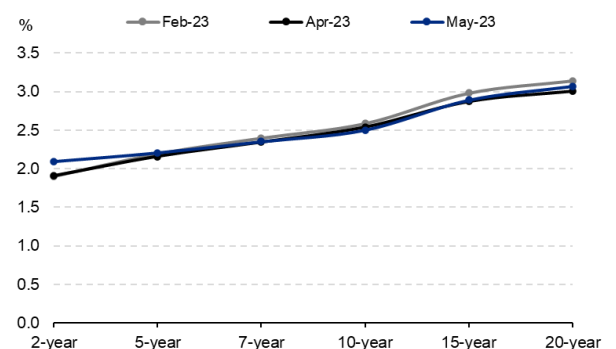
Source: Kenanga Research, Bloomberg

Graph 5: Indonesia Yield Curves



Source: Kenanga Research, Bloomberg

Graph 6: Thailand Yield Curves



Source: Kenanga Research, Bloomberg

Table 2: Bond Yield Movements

Bonds	03/01/23	31/05/22	28/04/23	24/05/23	31/05/23	ytd (bps)	yoy (bps)	mom (bps)	wow (bps)
	YTD	Last Year	April	Last Week	May				
<b>10Y GOVERNMENT BONDS</b>									
10Y MY	4.009	4.187	3.713	3.769	<b>3.711</b>	-29.8	-47.6	-0.2	-5.8
10Y CN	2.829	2.797	2.780	2.707	<b>2.708</b>	-12.1	-8.9	-7.2	0.1
10Y JP	0.422	0.243	0.394	0.414	<b>0.436</b>	1.4	19.3	4.2	2.2
10Y ID	7.051	7.041	6.532	6.424	<b>6.370</b>	-68.1	-67.1	-16.2	-5.4
10Y TH	2.633	2.955	2.536	2.566	<b>2.502</b>	-13.2	-45.4	-3.5	-6.4
10Y SG	3.121	2.712	2.764	2.976	<b>2.849</b>	-27.2	13.7	8.5	-12.7
10Y US	3.739	2.844	3.422	3.742	<b>3.643</b>	-9.6	79.9	22.1	-9.9

Source: Kenanga Research, Bloomberg

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