

Bond Market Weekly Outlook

Domestic bond yields to trend lower amid a sharp decline in UST yields

Government Debt Trend and Flows

- MGS and GII yields fell this week, moving between -9.8 bps to -2.7 bps overall. The 10Y MGS yield decreased by 9.5 bps to 3.703%, its lowest level in two weeks, whilst the 3Y MGS yield decreased by 3.1 bps to 3.398%.
- Domestic yields were steered by a sharp decline in global bond yields following the resolution of the US debt ceiling impasse. Sovereigns may have also benefitted from domestic safe-haven demand after May's Manufacturing PMI fell to 47.8 (Apr: 48.8), raising some concerns over declining demand and Malaysia's growth outlook.
- We expect domestic yields to trend slightly lower next week, as US Treasury yields continue to fall and on a potential return of foreign interest in local bonds.
- Foreign demand for domestic bonds may remain relatively tepid in the near-term, amid some risk aversion ahead of the US FOMC meeting but should show signs of improvement following progress on the US debt ceiling. Govvies will also find support from improving yield differentials against developed market bonds, with the 10Y MGS-UST spread returning to positive territory this week (10.8 bps; previous week: -1.9 bps).

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

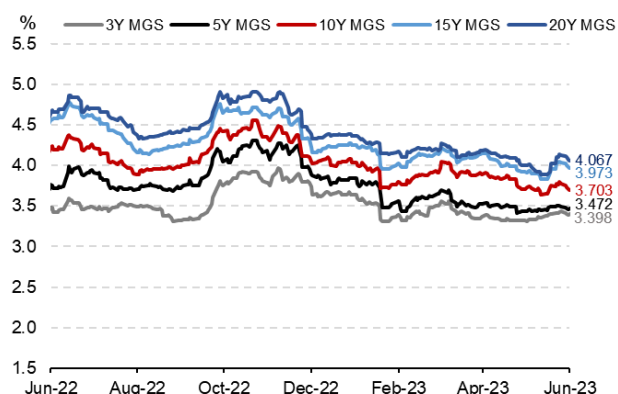
	Long Term*				
	Q1-23	Q2-23F	Q3-23F	Q4-23F	Q1-24F
MGS	3.91	3.75	3.65	3.60	3.55
UST	3.47	3.50	3.35	3.20	3.05
USDMYR	4.415	4.416	4.246	4.107	4.046
OPR	2.75	3.00	3.00	3.00	3.00

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

Auction Results (30-May)

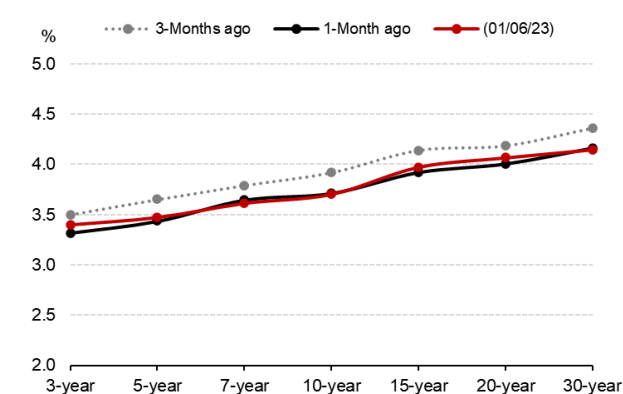
- The 15Y MGS 6/38 reopened at a slightly smaller-than-expected RM4.5b, of which RM1.5b was privately placed, and was awarded at an average yield of 4.023%.
- The RM3.0b auction recorded a bid-to-cover (BTC) ratio of 2.201x on solid bargain-hunting demand amid higher yields and recent selling pressure for government bonds broadly.
- The next auction is a reopening of the 3Y GII 9/26 and we estimate an 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)	31/05/23	3000.0	1500.0	4500.0	2.201	4.023	4.033	3.990

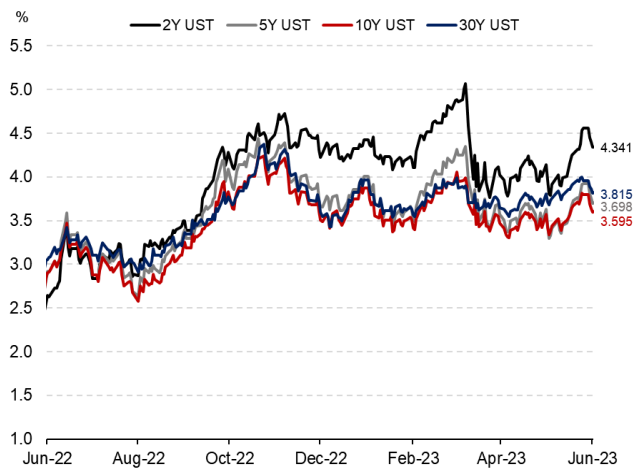
Source: Kenanga Research, BNM FAST, *PP= Private Placement, *BTC= Bid-to-cover ratio

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United States Treasuries (UST)

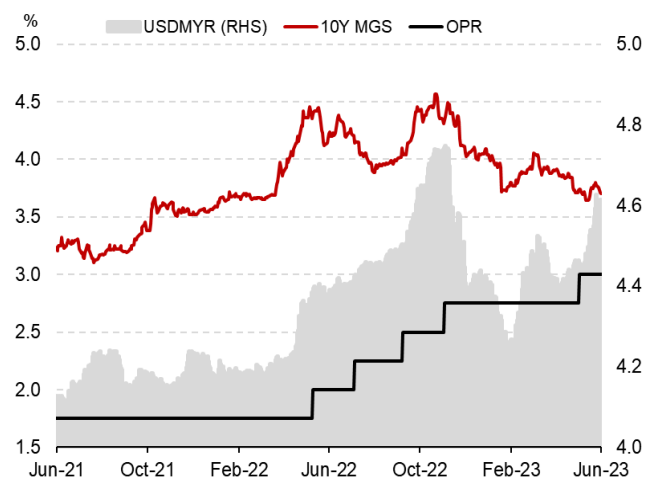
- UST yields fell sharply this week, moving between -23.1 bps to -18.0 bps overall. The 10Y UST yield decreased by 22.2 bps to 3.595%, reaching its lowest level in two weeks.
- Treasuries experienced renewed demand throughout the week as debt ceiling negotiations progressed. The bipartisan deal, which will see the debt ceiling suspended until January 2025, sailed through the US House with overwhelming support and will likely be passed by the Senate today. Moreover, UST yields fell after a few Fed officials hinted at a rate hike “skip” at the upcoming meeting, promptly reversing market expectations of another 25 bps on June 14.
- US yields may continue to trend lower next week, should today’s Non-Farm Payrolls print for May meet expectations (Consensus: 190.0k; Apr: 253.0k). Given relatively hawkish comments from several Fed officials and signs that the US labour market remains resilient, we now expect the Fed to only begin cutting rates in 1Q24. Nonetheless, our outlook remains contingent on the Fed pausing rate hikes at the upcoming meeting. We have adjusted our end-2023 target for the 10Y UST yield to 3.20% from 3.10% previously.

Graph 3: UST Yield Trend



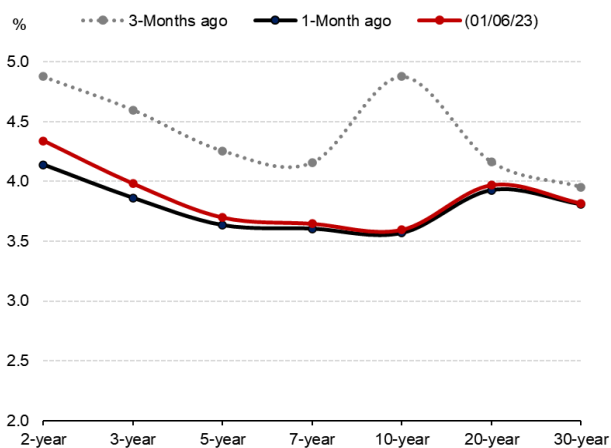
Source: Kenanga Research, Bloomberg

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



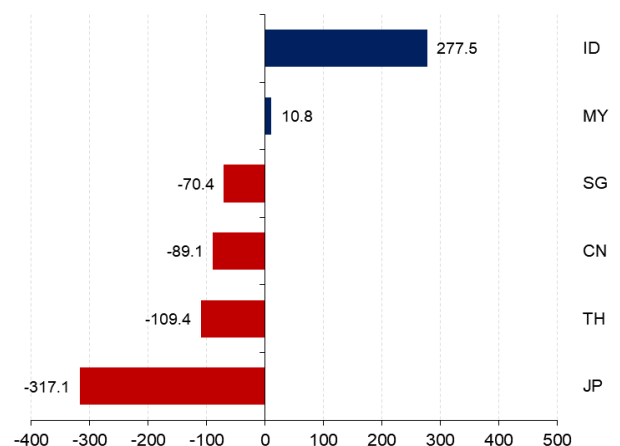
Source: Kenanga Research, Bloomberg

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 01/06/23

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Table 3: Bond Yield Movements

Bonds	03/01/23 YTD	01/06/22 Last Year	01/05/23 Last Month	25/05/23 Last Week	01/06/23 Yesterday	ytd (bps)	yoy (bps)	mom (bps)	wow (bps)
MGS									
30Y MGS	4.597	4.906	4.163	4.234	4.148	-44.90	-75.80	-1.50	-8.60
20Y MGS	4.365	4.638	4.006	4.141	4.067	-29.80	-57.10	6.10	-7.40
15Y MGS	4.235	4.562	3.921	4.050	3.973	-26.20	-58.90	5.20	-7.70
10Y MGS	4.009	4.225	3.713	3.798	3.703	-30.60	-52.20	-1.00	-9.50
7Y MGS	3.955	4.088	3.646	3.711	3.613	-34.20	-47.50	-3.30	-9.80
5Y MGS	3.773	3.761	3.436	3.510	3.472	-30.10	-28.90	3.60	-3.80
3Y MGS	3.593	3.479	3.319	3.429	3.398	-19.50	-8.10	7.90	-3.10
GII									
20Y GII	4.456	4.665	4.093	4.193	4.138	-31.80	-52.70	4.50	-5.50
10Y GII	4.123	4.226	3.849	3.876	3.803	-32.00	-42.30	-4.60	-7.30
7Y GII	4.017	4.063	3.742	3.787	3.690	-32.70	-37.30	-5.20	-9.70
3Y GII	3.699	3.508	3.254	3.368	3.341	-35.80	-16.70	8.70	-2.70
UST									
30Y UST	3.839	3.057	3.808	3.995	3.815	-2.40	75.83	0.68	-18.04
20Y UST	4.012	3.279	3.927	4.164	3.968	-4.39	68.95	4.12	-19.54
10Y UST	3.739	2.906	3.568	3.817	3.595	-14.39	68.92	2.69	-22.24
7Y UST	3.834	2.949	3.604	3.873	3.645	-18.84	69.63	4.10	-22.76
5Y UST	3.894	2.916	3.635	3.913	3.698	-19.65	78.15	6.30	-21.56
3Y UST	4.150	2.822	3.862	4.212	3.981	-16.88	115.94	11.89	-23.11
2Y UST	4.370	2.642	4.141	4.533	4.341	-2.91	169.92	20.01	-19.21
SELECTED 10Y GOVERNMENT BONDS									
10Y UK	3.651	2.155	3.719	4.374	4.116	46.50	196.10	39.70	-25.80
10Y JP	0.422	0.238	0.407	0.427	0.424	0.20	18.60	1.70	-0.30
10Y CN	2.829	2.800	2.780	2.708	2.704	-12.50	-9.60	-7.60	-0.40
10Y SG	3.121	2.758	2.764	3.035	2.891	-23.00	13.28	12.71	-14.43
10Y ID	7.051	7.041	6.532	6.431	6.370	-68.10	-67.10	-16.20	-6.10
10Y TH	2.633	2.956	2.536	2.608	2.501	-13.21	-45.42	-3.48	-10.68

Source: Kenanga Research, Bloomberg

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