

Bond Weekly Outlook

Local yields to trade mixed as volatility persists

Malaysian Government Securities (MGS) and Government Investment Issues (GII)

- MGS and GII yields mostly increased this week, moving between -0.2 bps to 2.1 bps overall. The 10-year MGS experienced a marginal rise of 0.8 bps, reaching 3.771%, while the 10-year GII saw a modest increase of 0.4 bps, settling at 3.782%.
- Despite a cooling in inflationary pressures, as indicated by the moderation in July's producer and consumer price indices, the rise in local yields was primarily driven by hawkish remarks from Fed Governor Bowman, who emphasized ongoing inflationary risks and a resilient labour market. Market seems to have mostly priced in the higher 2Q24 GDP growth at 5.9% (Consensus: 5.8%; KIB: 5.1%; 1Q24: 4.2%)
- The release of strong US retail sales data and a drop in jobless claims may dampen expectations of aggressive rate cuts, potentially nudging local yields slightly higher. However, dovish signals from the Fed next week, coupled with robust Malaysian macroeconomic data, could bolster investor confidence in the domestic economy, encouraging bond purchases and exerting downward pressure on yields.

United States Treasuries (UST)

- UST yields exhibited mixed movements this week, ranging from -10.6 bps to 5.5 bps. The 10-year UST dipped by 7.5 bps to 3.913%, while the 2-year UST rose by 5.5 bps, settling at 4.093%, buoyed by positive retail sales figures.
- The 10-year UST yield briefly dipped to 3.835% on Wednesday, driven by softer US inflation data, which reinforced the case for Fed rate cuts. However, yield rebounded above 3.900% as strong retail sales, and a robust labour market eased concerns about an economic slowdown. That being said, subdued inflationary pressures point to a sustainable path toward the Fed's 2.0% inflation target. Combined with dovish comments from some Fed officials, the 10-year UST remains anchored above the 4.000% threshold.
- We anticipate a modest decline in UST yields next week, underpinned by a potential downturn in existing home sales data and dovish hints from Fed Chair Powell during the Jackson Hole Economic Symposium on Aug 22-24. The market will also be keenly attuned to the tone in the FOMC minutes.

Auction Result

- The 30-yr MGS reopened at an expected total issuance of RM5.0b, of which RM2.0b was privately placed with an average yield of 4.172%.
- Demand was relatively weak on a RM3.0b auction size, recording a bid-to-cover (BTC) ratio of 1.95x.
- The next auction is the reopening of the 5-yr MGII at an expected issuance of RM4.5b without any private placement.

Table 1: 10Y MGS, 10Y UST, Ringgit and OPR Outlook

	Long Term*				
	Q2-24	Q3-24F	Q4-24F	Q1-25F	Q2-25F
MGS	3.87	3.63	3.56	3.69	3.67
UST	4.40	3.73	3.60	4.00	3.96
USDMYR	4.718	4.553	4.416	4.324	4.232
OPR	3.00	3.00	3.00	3.00	3.00

*F=Forecasts for end of period

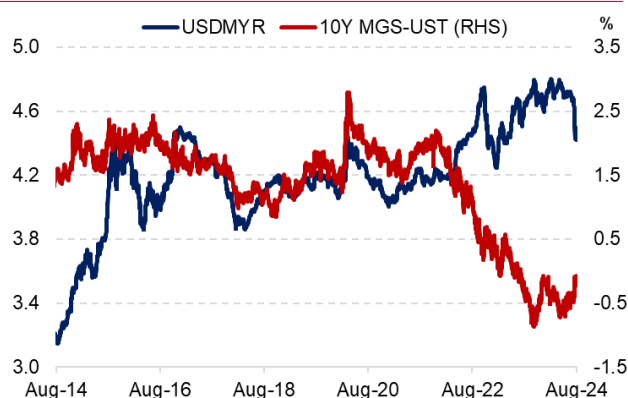
Source: Kenanga Research, Bloomberg

Table 2: Issuances of MGS and GII

	MGS (RM b)		GII (RM b)	
	2023	YTD	2023	YTD
Reopening	80.0	50.0	80.0	55.0
New Issuances	10.0	10.0	10.0	9.5

Source: Kenanga Research, BNM, Macrobond

Graph 1: USDMYR and 10Y MGS-UST Yield Differential



Source: Kenanga Research, Bloomberg

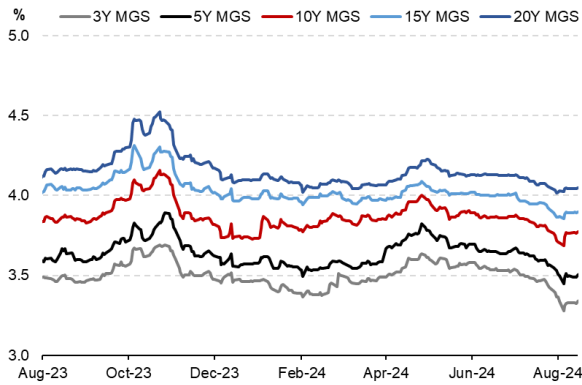
Table 3: 2024 Auction Calendar

Month	Issues	Issue Date	Auction (RM Mil)	PP* (RM Mil)	Total (RM Mil)	BTC* (x)	Average Yield (%)	Highest Yield (%)	Lowest Yield (%)
July	5-yr Reopening of MGS 08/29 3.885%	2/07/2024	5,000.00	-	5,000.00	2.19	3.672	3.679	3.663
	10-yr Reopening of MGII (Mat on 11/34)	15/07/2024	5,000.00	-	5,000.00	2.42	3.819	3.827	3.813
	15-yr Reopening of MGS (Mat on 04/39)	22/07/2024	3,000.00	2,000.00	5,000.00	3.10	3.972	3.975	3.959
Aug	7-yr Reopening of MGII (Mat on 10/31)	8/08/2024	5,000.00	-	5,000.00	2.33	3.726	3.735	3.710
	30-yr Reopening of MGS 03/53 4.457%	15/08/2024	3,000.00	2,000.00	5,000.00	1.95	4.172	4.188	4.150
	5-yr Reopening of MGII 07/29 4.130%	-	-	-	4,500.00	-	-	-	-
	10-yr Reopening of MGS 07/34 3.828%	-	-	-	-	-	-	-	-

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

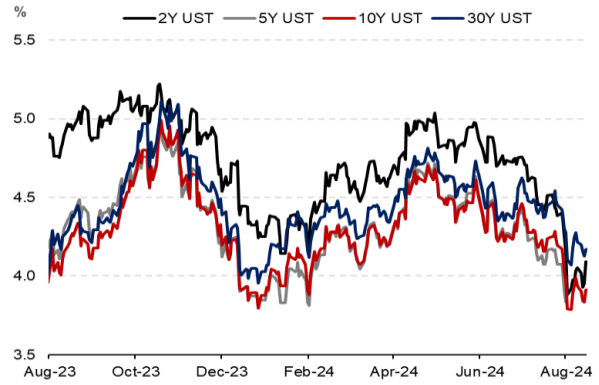
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Graph 2: MGS Yield Trend



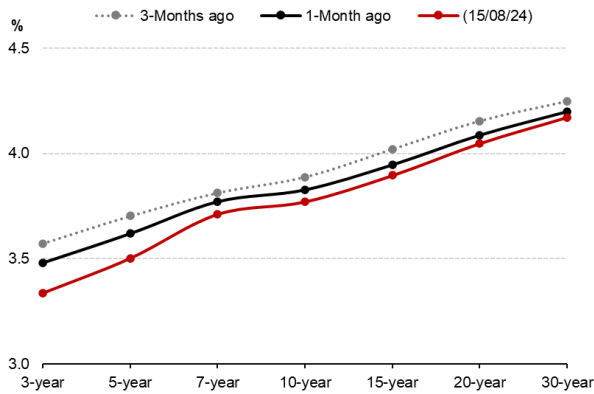
Source: Kenanga Research, Bloomberg

Graph 3: UST Yield Trend



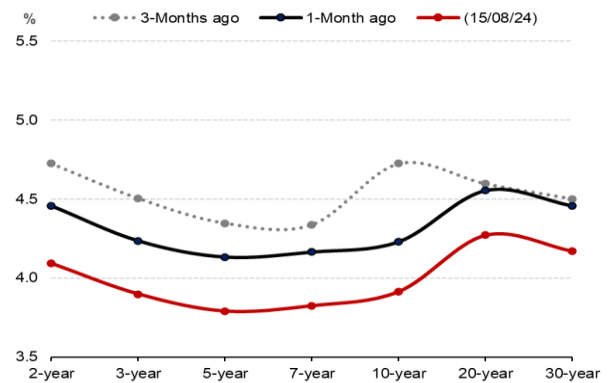
Source: Kenanga Research, Bloomberg

Graph 4: MGS Yield Curve



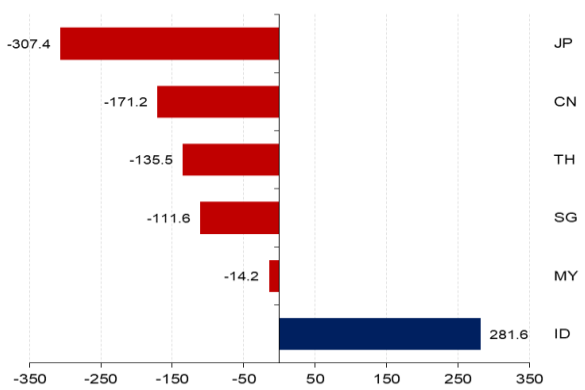
Source: Kenanga Research, Bloomberg

Graph 5: UST Yield Curve



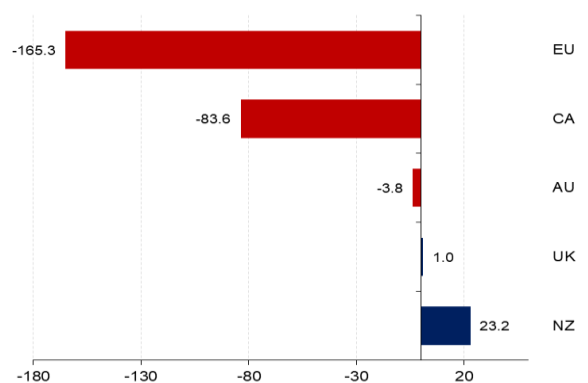
Source: Kenanga Research, Bloomberg

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



Source: Kenanga Research, Bloomberg
Note: Yield spread with 10-year UST

Graph 7: Selected Global 10-Year Bond Yield Spread (bps)



Source: Kenanga Research, Bloomberg
Note: Yield spread with 10-year UST

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Table 3: Bond Yield Movements

Bonds	02/01/24 YTD	15/08/23 Last Year	15/07/24 Last Month	08/08/24 Last Week	15/08/24 Yesterday	ytd (bps)	yoy (bps)	mom (bps)	wow (bps)
MGS									
30Y MGS	4.241	4.268	4.200	4.151	4.172	-6.90	-9.60	-2.80	2.10
20Y MGS	4.096	4.168	4.088	4.044	4.048	-4.80	-12.00	-4.00	0.40
15Y MGS	3.987	4.055	3.947	3.892	3.896	-9.10	-15.90	-5.10	0.40
10Y MGS	3.735	3.866	3.828	3.763	3.771	3.60	-9.50	-5.70	0.80
7Y MGS	3.726	3.780	3.772	3.696	3.712	-1.40	-6.80	-6.00	1.60
5Y MGS	3.584	3.668	3.620	3.494	3.503	-8.10	-16.50	-11.70	0.90
3Y MGS	3.465	3.497	3.481	3.328	3.338	-12.70	-15.90	-14.30	1.00
GII									
20Y GII	4.117	4.218	4.108	4.063	4.061	-5.60	-15.70	-4.70	-0.20
10Y GII	3.797	3.888	3.840	3.778	3.782	-1.50	-10.60	-5.80	0.40
7Y GII	3.776	3.806	3.764	3.710	3.714	-6.20	-9.20	-5.00	0.40
3Y GII	3.495	3.510	3.432	3.327	3.331	-16.40	-17.90	-10.10	0.40
UST									
30Y UST	4.071	4.316	4.457	4.277	4.170	9.94	-14.53	-28.69	-10.64
20Y UST	4.229	4.499	4.555	4.369	4.272	4.31	-22.67	-28.28	-9.71
10Y UST	3.929	4.211	4.229	3.988	3.913	-1.63	-29.79	-31.63	-7.46
7Y UST	3.936	4.309	4.164	3.880	3.823	-11.26	-48.63	-34.06	-5.69
5Y UST	3.913	4.372	4.132	3.828	3.789	-12.46	-58.37	-34.30	-3.89
3Y UST	4.087	4.646	4.235	3.875	3.898	-18.97	-74.82	-33.71	2.24
2Y UST	4.320	4.952	4.458	4.038	4.093	-22.72	-85.93	-36.46	5.49
MAJOR 10Y GOVERNMENT BONDS									
10Y EU	2.066	2.671	2.470	2.265	2.260	19.40	-41.10	-21.00	-0.50
10Y UK	3.638	4.589	4.101	3.978	3.923	28.50	-66.60	-17.80	-5.50
10Y JP	0.614	0.632	1.065	0.850	0.839	22.50	20.70	-22.60	-1.10
10Y CN	2.566	2.576	2.250	2.172	2.201	-36.50	-37.50	-4.90	2.90
10Y SG	2.790	3.175	3.047	2.861	2.797	0.72	-37.73	-24.92	-6.31
10Y ID	6.515	6.419	6.963	6.785	6.729	21.40	31.00	-23.40	-5.60
10Y TH	2.730	2.643	2.629	2.602	2.558	-17.18	-8.47	-7.10	-4.37

Source: Kenanga Research, Bloomberg

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