

# Bond Weekly Outlook

MGS/GII Yields to remain mixed amid geopolitical tensions and potential UST upside

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

- MGS and GII yields exhibited mixed movements this week, ranging from by -0.1 bps to 1.3 bps overall. The 10-year MGS rose modestly by 0.6 bps to 3.729%, while the 10-year GII edged by just 0.1 bps to 3.755%.
- The recent rise in 10-year MGS yields was largely driven by a rally in UST, spurred by escalating conflict in the Middle East, which led to a significant RM4.2b outflow from Malaysian bonds this week—the first outflow since early June (-RM2.0b). Additionally, robust US economic data, including better-than-expected JOLTS and ADP figures, alongside an uptick in services PMI and Fed Chair Powell's more cautious tone on rate cuts, have diminished the urgency for aggressive rate cuts. Weak Malaysian PMI data has further pressured local bonds, pushing yields higher.
- While US inflation is expected to ease next week, we foresee continued mixed movements in local yields, influenced by the geopolitical situation. Domestically, Oracle's investment in Malaysia and Prime Minister Anwar's visits to Pakistan and Bangladesh to strengthen bilateral ties may act as catalysts for increased foreign inflows. Upcoming stable labour market data could further enhance Malaysia's investment appeal.

## United States Treasuries (UST)

- UST yields continued their upward trend this week, moving from 4.7 bps to 7.7 bps overall. The 10-year UST increased by of 5.0 bps to 3.846% while the 2-year UST climbed more sharply by 7.7 bps, settling at 3.705%.
- After dipping last Friday following lower-than-expected PCE data, the 10-year UST rebounded this week, driven by Powell's less dovish stance on market expectations for rate cuts. Tuesday's rally was fuelled by stronger JOLTS data and heightened demand for safe-haven assets amid the Middle East crisis. Subsequent days saw yields climb further, supported by a solid ADP report and robust new orders in the services sector.
- We expect UST yields to edge slightly higher next week, as non-farm payrolls and inflation data are anticipated to align with market expectations, prompting a recalibration in the Fed's policy outlook. Additionally, the FOMC minutes and speeches by Fed officials will provide further clarity on the timing of potential rate cuts. Any escalation in Middle East tensions may increase demand for safe-haven assets, potentially boosting Treasury yields.

## Auction Result

- The 30-yr MGII 03/34 reopened at an expected issuance of RM5.0b, with an average yield of 4.198%.
- Demand was muted, with a bid-to-cover (BTC) ratio of 1.86x.
- The next auction will be the reopening of 3-yr MGS 05/27 at an expected issuance of RM4.5b, with no private placement.

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

	Long Term*				
	Q3-24	Q4-24F	Q1-24F	Q2-25F	Q3-25F
MGS	3.71	3.56	3.53	3.52	3.49
UST	3.78	3.61	3.52	3.48	3.39
USDMYR	4.718	4.234	4.248	4.210	4.172
OPR	3.00	3.00	3.00	3.00	3.00

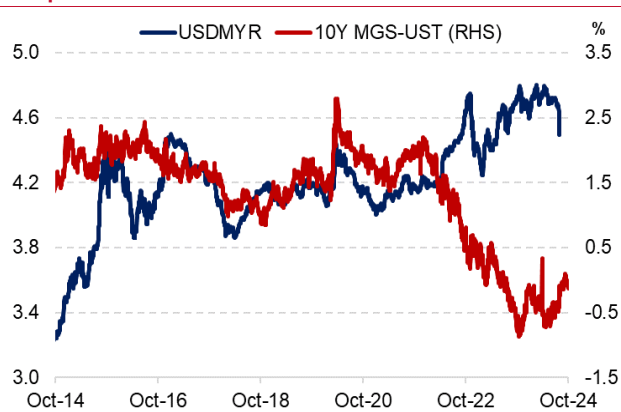
\*F=Forecasts for end of period  
Source: Kenanga Research, Bloomberg

Table 2: Issuances of MGS and GII

	MGS (RM b)		GII (RM b)	
	2023	YTD	2023	YTD
Reopening	80.0	66.0	80.0	64.0
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

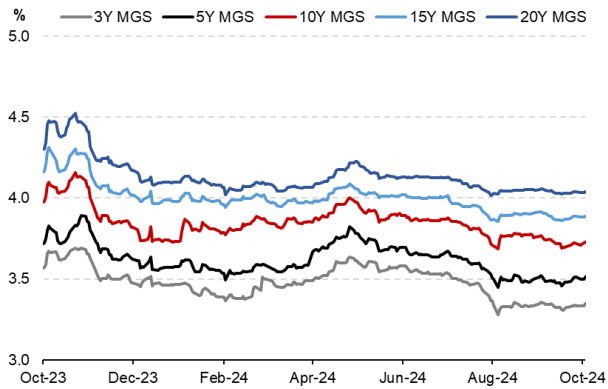
Table 3: 2024 Auction Calendar

Month	Issues	Issue Date	Auction (RM Mil)	PP* (RM Mil)	Total (RM Mil)	BTC* (x)	Average Yield (%)	Highest Yield (%)	Lowest Yield (%)
Sep	20-yr Reopening of MGII 08/43 4.291%	10/09/2024	3,000.00	2,000.00	5,000.00	1.92	4.084	4.091	4.071
	7-yr Reopening of MGS 04/31 2.632%	23/09/2024	-	-	5,500.00	1.73	3.687	3.695	3.674
	30-yr Reopening of MGII (Mat on 03/54)	30/09/2024	3,000.00	2,000.00	5,000.00	1.86	4.198	4.208	4.185
Oct	3-yr Reopening of MGS 05/27 3.502%	08/10/2024	4,500.00		4,500.00				
	7-yr Reopening of MGII (Mat on 10/31)								
	20-yr Reopening of MGS (Mat on 05/44)								
	10-yr Reopening of MGII 11/34 4.119%								

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

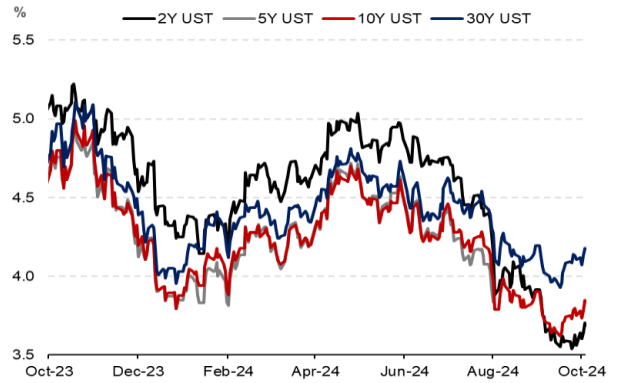
4 October 2024

Graph 2: MGS Yield Trend



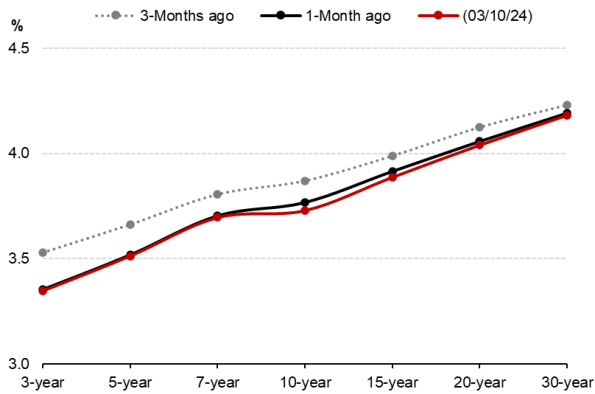
Source: Kenanga Research, Bloomberg

Graph 3: UST Yield Trend



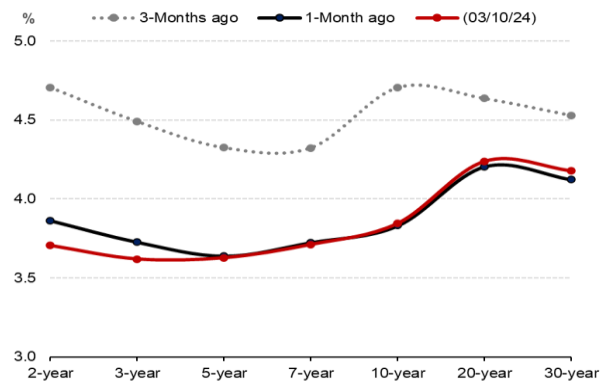
Source: Kenanga Research, Bloomberg

Graph 4: MGS Yield Curve



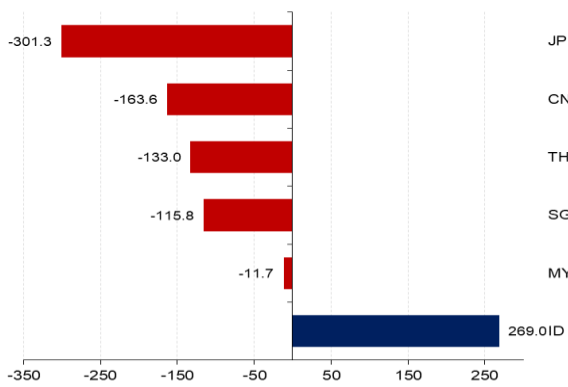
Source: Kenanga Research, Bloomberg

Graph 5: UST Yield Curve



Source: Kenanga Research, Bloomberg

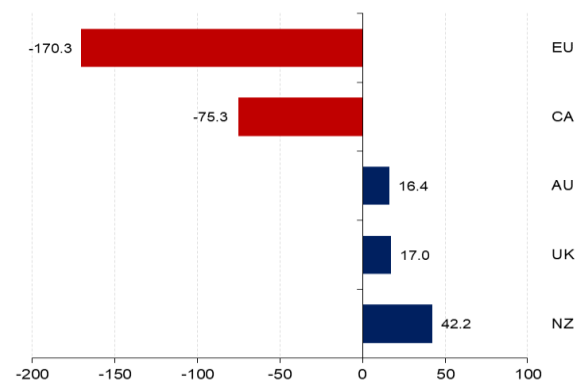
Graph 6: Selected Asian 10-Year Bond Yield Spread (bps)



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

4 October 2024

Table 3: Bond Yield Movements

Bonds	02/01/24 YTD	03/10/23 Last Year	03/09/24 Last Month	26/09/24 Last Week	03/10/24 Yesterday	ytd (bps)	yoy (bps)	mom (bps)	wow (bps)
<b>MGS</b>									
30Y MGS	4.241	4.465	4.191	4.180	4.182	-5.90	-28.30	-0.90	0.20
20Y MGS	4.096	4.344	4.057	4.039	4.040	-5.60	-30.40	-1.70	0.10
15Y MGS	3.987	4.206	3.915	3.888	3.887	-10.00	-31.90	-2.80	-0.10
10Y MGS	3.735	4.012	3.768	3.723	3.729	-0.60	-28.30	-3.90	0.60
7Y MGS	3.726	3.937	3.705	3.685	3.696	-3.00	-24.10	-0.90	1.10
5Y MGS	3.584	3.748	3.520	3.510	3.513	-7.10	-23.50	-0.70	0.30
3Y MGS	3.465	3.588	3.356	3.338	3.347	-11.80	-24.10	-0.90	0.90
<b>GII</b>									
20Y GII	4.117	4.341	4.082	4.045	4.053	-6.40	-28.80	-2.90	0.80
10Y GII	3.797	4.029	3.798	3.754	3.755	-4.20	-27.40	-4.30	0.10
7Y GII	3.776	3.918	3.708	3.687	3.700	-7.60	-21.80	-0.80	1.30
3Y GII	3.495	3.611	3.336	3.320	3.328	-16.70	-28.30	-0.80	0.80
<b>UST</b>									
30Y UST	4.071	4.923	4.123	4.131	4.178	10.71	-74.51	5.50	4.71
20Y UST	4.229	5.119	4.205	4.183	4.238	0.95	-88.11	3.31	5.53
10Y UST	3.929	4.796	3.831	3.796	3.846	-8.36	-94.97	1.48	4.95
7Y UST	3.936	4.824	3.724	3.665	3.712	-22.37	-111.25	-1.24	4.72
5Y UST	3.913	4.799	3.639	3.567	3.628	-28.56	-117.16	-1.10	6.06
3Y UST	4.087	4.953	3.727	3.548	3.620	-46.77	-133.28	-10.71	7.16
2Y UST	4.320	5.150	3.863	3.629	3.705	-61.48	-144.49	-15.78	7.66
<b>MAJOR 10Y GOVERNMENT BONDS</b>									
10Y EU	2.066	2.966	2.275	2.181	2.143	7.70	-82.30	-13.20	-3.80
10Y UK	3.638	4.597	3.990	4.010	4.016	37.80	-58.10	2.60	0.60
10Y JP	0.614	0.767	0.926	0.832	0.833	21.90	6.60	-9.30	0.10
10Y CN	2.566	2.681	2.149	2.081	2.210	-35.60	-47.10	6.10	12.90
10Y SG	2.790	3.399	2.744	2.613	2.688	-10.26	-71.11	-5.64	7.46
10Y ID	6.515	7.022	6.668	6.464	6.536	2.10	-48.60	-13.20	7.20
10Y TH	2.730	3.240	2.575	2.479	2.516	-21.46	-72.44	-5.95	3.69

Source: Kenanga Research, Bloomberg

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