

Bond Market Weekly Outlook

Local bond yields to trend rangebound and remain stable despite global volatility

Government Debt Trend and Flows

- MGS and Gil mostly decreased this week, moving between -4.6 bps to 3.8 bps overall. The 10Y MGS yield fell by 1.8 bps to 3.891%.
- Demand for short-term government bonds remained healthy, probably driven by renewed foreign interest amid uncertainty in US and European markets. That said, local yields did not track the sharp downturn in US bond yields.
- Next week, domestic bond yields are expected to remain relatively stable, as they are less affected by the heightened volatility observed in global bond yields. Likewise, we have raised our end-2023 forecast for the 10Y MGS yield to 3.65% (2022: 4.07%) from 3.45% previously, primarily due to the declining correlation with US Treasury yield movements as the Fed and BNM's policy direction continues to diverge and markets price in potential Fed rate cuts for this year and next.
- The domestic bond market may have received decent foreign demand in March, as investors seek portfolio diversification beyond the US and Europe amid the banking crises. Foreign investors may also be looking to secure higher yields, given that most Southeast Asian central banks have concluded their tightening cycles.

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

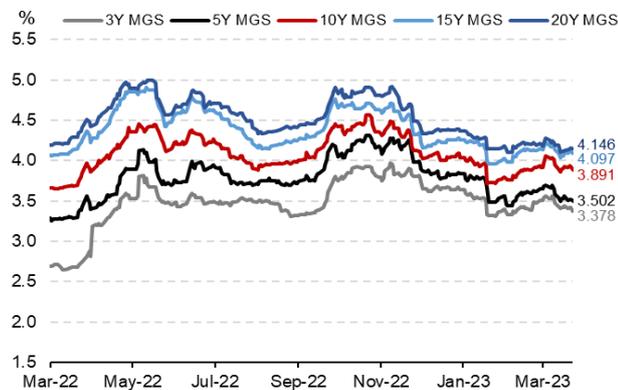
	Long Term*				
	Q4-22	Q1-23F	Q2-23F	Q3-23F	Q4-23F
MGS	4.07	3.90	3.80	3.70	3.65
UST	3.88	3.50	3.35	3.20	3.10
USDMYR	4.405	4.480	4.351	4.204	4.107
OPR	2.75	2.75	2.75	2.75	2.75

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

Upcoming Auction

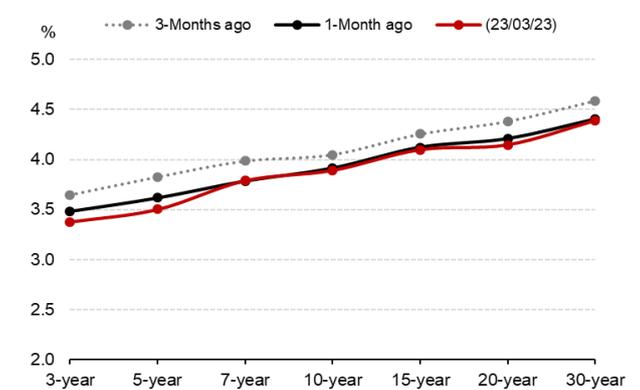
- The next auction is a reopening of the 30Y MGS 3/53, expected to take place next week, and we estimate an issuance of RM5.0b including private placement.
- After a few weak auctions, demand for the upcoming auction may pick up, as risk sentiment stabilises following the latest Fed meeting, and as investors find relatively higher yields attractive. Additionally, foreign investors may show renewed interest in Malaysian bonds as they look to diversify their portfolios with Asian assets.

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 (%)
Jan	10-yr Reopening of MGII (Mat on 10/32)	09/01/23	4500.0	-	4500.0	2.093	4.135	4.147	4.109
	15-yr Reopening of MGS (Mat on 06/38)	16/01/23	3000.0	2500.0	5500.0	2.825	4.151	4.160	4.110
	5.5-yr New Issue of MGII (Mat on 07/28)	30/01/23	5000.0	-	5000.0	3.395	3.599	3.610	3.580
Feb	7-yr Reopening of MGS (Mat on 04/30)	07/02/23	5000.0	-	5000.0	2.460	3.656	3.666	3.610
	20.5-yr New Issue of MGII (Mat on 08/43)	14/02/23	2500.0	2500.0	5000.0	2.662	4.291	4.308	4.257
	3-yr Reopening of MGS (Mat on 07/26)	21/02/23	5500.0	-	5500.0	1.691	3.458	3.472	3.438
	15-yr Reopening of MGII (Mat on 03/38)	28/02/23	3500.0	2000.0	5500.0	1.986	4.177	4.188	4.160
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)								

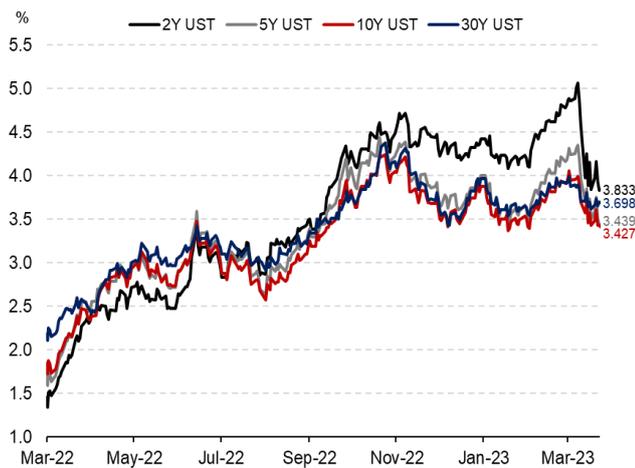
Source: Kenanga Research, BNM FAST, *PP= Private Placement, *BTC= Bid-to-cover ratio

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United States Treasuries (UST)

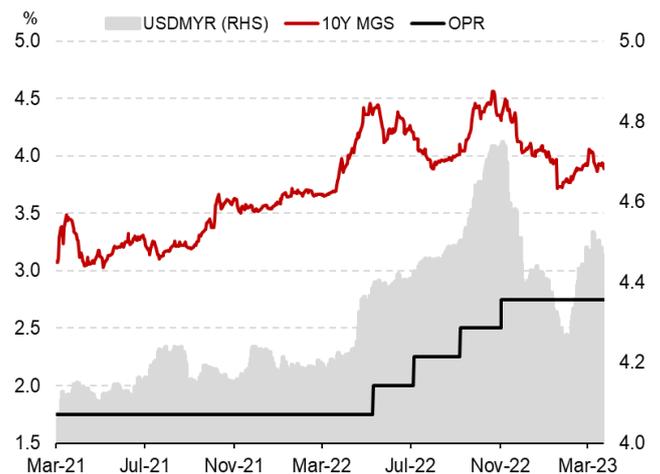
- Short and medium-term UST yields showed a significant downward trend this week, whilst long-term USTs remained relatively unchanged. As such, overall yield movements were between -37.7 bps and -0.1 bps across the curve. The 10Y UST yield initially rose by 3.2 bps to 3.609% on Mar 21, before falling to 3.427% by yesterday (-15.0 bps).
- Demand for Treasuries remained strong this week, particularly along the front-end and middle of the curve, as markets continued to adjust their Fed expectations amid the FOMC meeting. Despite the 25 bps rate hike by the Fed, the market interpreted the meeting and Powell's speech as dovish-leaning, suggesting that the central bank is nearing the end of its tightening cycle.
- Yields may continue to trend lower next week as markets price in expectations of a dovish Fed. However, we reckon that yields will see an upward correction next month, as we think that current market expectations of 100 bps worth of cuts this year is too aggressive and may readjust in the coming weeks, especially given improving initial jobless claims data.

Graph 3: UST Yield Trend



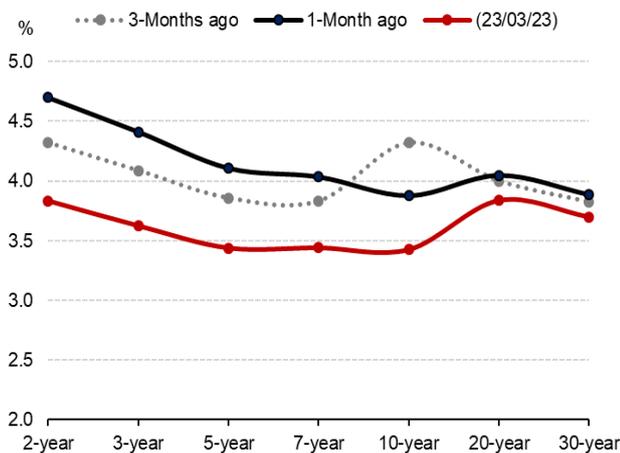
Source: Kenanga Research, Bloomberg

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



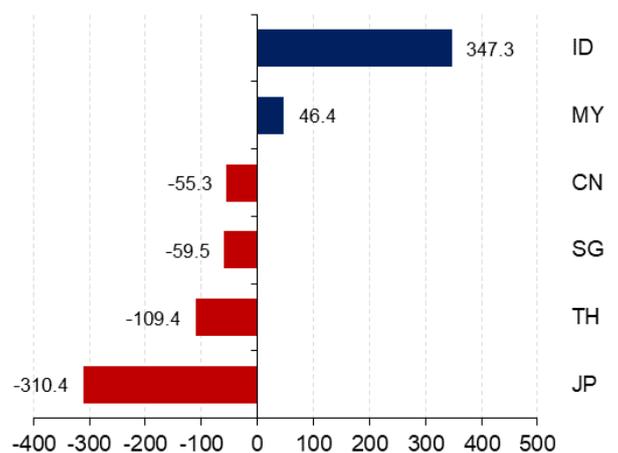
Source: Kenanga Research, Bloomberg

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 23/03/23

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Table 3: Bond Yield Movements

Bonds	03/01/23 YTD	23/03/22 Last Year	23/02/23 Last Month	16/03/23 Last Week	23/03/23 Yesterday	ytd (bps)	yoy (bps)	mom (bps)	wow (bps)
MGS									
30Y MGS	4.597	4.504	4.402	4.389	4.386	-21.10	-11.80	-1.60	-0.30
20Y MGS	4.365	4.360	4.208	4.109	4.146	-21.90	-21.40	-6.20	3.70
15Y MGS	4.235	4.215	4.122	4.059	4.097	-13.80	-11.80	-2.50	3.80
10Y MGS	4.009	3.780	3.914	3.909	3.891	-11.80	11.10	-2.30	-1.80
7Y MGS	3.955	3.648	3.785	3.802	3.788	-16.70	14.00	0.30	-1.40
5Y MGS	3.773	3.397	3.617	3.530	3.502	-27.10	10.50	-11.50	-2.80
3Y MGS	3.593	2.726	3.483	3.424	3.378	-21.50	65.20	-10.50	-4.60
GII									
20Y GII	4.456	4.454	4.272	4.219	4.217	-23.90	-23.70	-5.50	-0.20
10Y GII	4.123	3.826	3.976	3.950	3.944	-17.90	11.80	-3.20	-0.60
7Y GII	4.017	3.671	3.823	3.830	3.841	-17.60	17.00	1.80	1.10
3Y GII	3.699	2.840	3.446	3.380	3.335	-36.40	49.50	-11.10	-4.50
UST									
30Y UST	3.839	2.484	3.885	3.699	3.698	-14.11	121.36	-18.70	-0.08
20Y UST	4.012	2.610	4.047	3.860	3.836	-17.59	122.68	-21.08	-2.37
10Y UST	3.739	2.292	3.877	3.577	3.427	-31.23	113.49	-45.02	-15.04
7Y UST	3.834	2.341	4.034	3.687	3.441	-39.30	109.96	-59.31	-24.57
5Y UST	3.894	2.318	4.106	3.737	3.439	-45.48	112.13	-66.72	-29.74
3Y UST	4.150	2.307	4.410	4.002	3.625	-52.55	131.74	-78.55	-37.72
2Y UST	4.370	2.096	4.697	4.157	3.833	-53.69	173.69	-86.44	-32.42
SELECTED 10Y GOVERNMENT BONDS									
10Y UK	3.651	1.627	3.587	3.425	3.360	-29.10	173.30	-22.70	-6.50
10Y JP	0.422	0.226	0.506	0.315	0.323	-9.90	9.70	-18.30	0.80
10Y CN	2.829	2.831	2.925	2.870	2.874	4.50	4.30	-5.10	0.40
10Y SG	3.121	2.319	3.285	2.935	2.832	-28.94	51.30	-45.34	-10.38
10Y ID	7.051	6.723	6.791	6.956	6.900	-15.10	17.70	10.90	-5.60
10Y TH	2.633	2.404	2.569	2.440	2.332	-30.12	-7.19	-23.63	-10.82

Source: Kenanga Research, Bloomberg

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