

# Bond Market Weekly Outlook

Domestic bonds yields expected to remain steady, but could trend higher on US inflation

## Government Debt Trend and Flows

- MGS and GII yields mostly increased this week, moving between -3.0 bps to 4.3 bps overall. The 10Y MGS yield rose by 1.9 bps to 3.911%, while the 3Y MGS yield fell by 3.0 bps to 3.348%.
- Yields may have trended slightly higher after the release of BNM’s annual report, which indicated that the central bank would maintain an accommodative stance but believed domestic inflation remained a concern. We reckon that BNM has reached the end of its tightening cycle but acknowledge that there is still room for another 25 bps hike if there is a resurgence in inflationary pressures.
- Next week, domestic bonds are expected to remain relatively stable compared to the extreme volatility among developed market bonds. That said, we do expect local yields to trend slightly higher if US inflation data surprises on the upside.
- In the near term, foreign demand for local bonds is expected to sustain, supported by a nascent improvement in global risk-on sentiment. Furthermore, foreign investors are likely to continue seeking higher returns and diversification of their portfolios into Emerging Market assets.

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

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

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

## Auction Results (30-March)

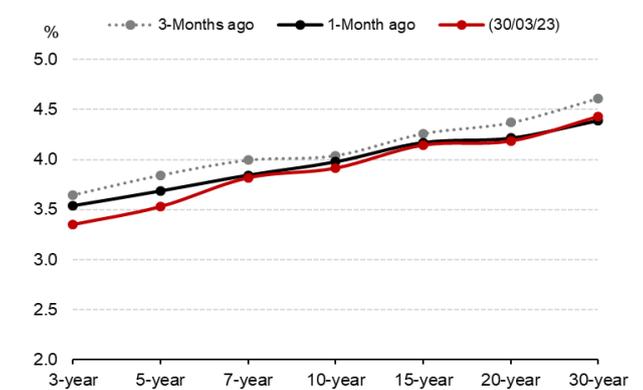
- The 30Y MGS 3/53 was newly issued at an expected RM5.0b, of which RM2.5b was privately placed, and was awarded at an average yield of 4.457.
- Demand was decent, recording a bid-to-cover (BTC) ratio of 1.970x, albeit on a relatively smaller auction size of RM2.5b. Market sentiment remained fairly cautious given the recent Fed rate hike and US regional banking crisis, with domestic investors likely wary of adding into long-duration bonds.

**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)	31/03/23	2500.0	2500.0	5000.0	1.970	4.457	4.489	4.370

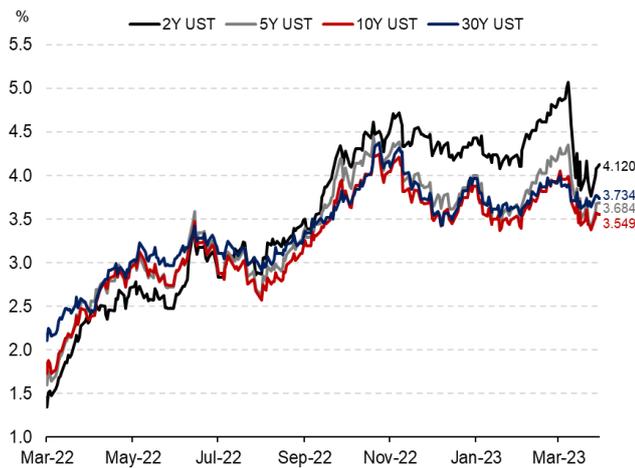
Source: Kenanga Research, BNM FAST, \*PP= Private Placement, \*BTC= Bid-to-cover ratio

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**United States Treasuries (UST)**

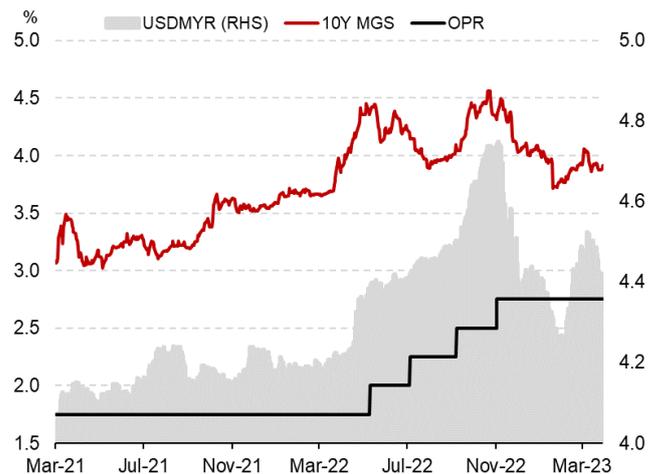
- UST yields returned to an uptrend this week, rising between 3.6 bps to 28.7 bps overall. The 10Y UST yield initially increased by 14.3 bps to 3.570% on Mar 28, before settling at 3.549% by yesterday (+12.2 bps). Meanwhile, the 2Y UST yield soared 28.7 bps to 4.120%, deepening the yield curve inversion.
- Demand for Treasuries decreased amid a month of heightened volatility for bonds, with investors becoming less risk averse as concerns regarding the regional banking crisis eased. Likewise, short and medium-term yields rose significantly as markets pulled back expectations of aggressive Fed rate cuts this year. Fed Funds Futures now indicate a year-end policy rate of 4.5%, notably higher than the 4.0% rate expected just last week.
- Yields may trend rangebound-to-higher next week, finding some stability following the recent rate hike and improving banking situation. Focus will be on today's release of the February Core PCE Price Index, with consensus estimates expecting it to ease to 0.4% MoM (Jan: 0.6%).

**Graph 3: UST Yield Trend**



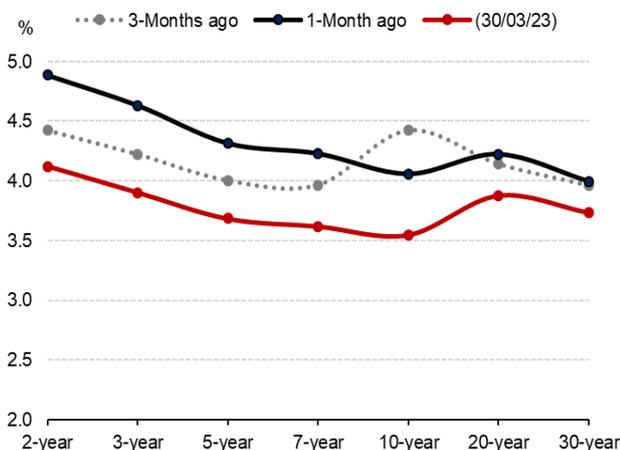
Source: Kenanga Research, Bloomberg

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



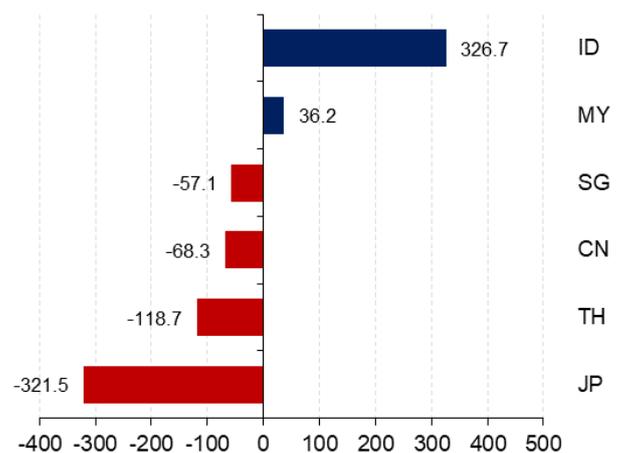
Source: Kenanga Research, Bloomberg

**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 30/03/23

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Table 3: Bond Yield Movements

Bonds	03/01/23 YTD	30/03/22 Last Year	02/03/23 Last Month	23/03/23 Last Week	30/03/23 Yesterday	ytd (bps)	yoy (bps)	mom (bps)	wow (bps)
<b>MGS</b>									
30Y MGS	4.597	4.581	4.390	4.386	<b>4.426</b>	-17.10	-15.50	3.60	4.00
20Y MGS	4.365	4.483	4.214	4.146	<b>4.182</b>	-18.30	-30.10	-3.20	3.60
15Y MGS	4.235	4.312	4.170	4.098	<b>4.141</b>	-9.40	-17.10	-2.90	4.30
10Y MGS	4.009	3.901	3.976	3.892	<b>3.911</b>	-9.80	1.00	-6.50	1.90
7Y MGS	3.955	3.828	3.842	3.789	<b>3.815</b>	-14.00	-1.30	-2.70	2.60
5Y MGS	3.773	3.472	3.683	3.502	<b>3.527</b>	-24.60	5.50	-15.60	2.50
3Y MGS	3.593	2.880	3.535	3.378	<b>3.348</b>	-24.50	46.80	-18.70	-3.00
<b>GII</b>									
20Y GII	4.456	4.532	4.275	4.217	<b>4.214</b>	-24.20	-31.80	-6.10	-0.30
10Y GII	4.123	3.987	4.039	3.944	<b>3.947</b>	-17.60	-4.00	-9.20	0.30
7Y GII	4.017	3.849	3.865	3.841	<b>3.852</b>	-16.50	0.30	-1.30	1.10
3Y GII	3.699	2.971	3.467	3.335	<b>3.313</b>	-38.60	34.20	-15.40	-2.20
<b>UST</b>									
30Y UST	3.839	2.474	3.994	3.698	<b>3.734</b>	-10.50	125.96	-25.96	3.61
20Y UST	4.012	2.624	4.221	3.836	<b>3.875</b>	-13.75	125.05	-34.65	3.84
10Y UST	3.739	2.349	4.056	3.427	<b>3.549</b>	-19.01	120.00	-50.68	12.22
7Y UST	3.834	2.426	4.227	3.441	<b>3.620</b>	-21.39	119.36	-60.66	17.91
5Y UST	3.894	2.438	4.313	3.439	<b>3.684</b>	-21.03	124.55	-62.88	24.45
3Y UST	4.150	2.483	4.631	3.625	<b>3.902</b>	-24.85	141.84	-72.95	27.70
2Y UST	4.370	2.306	4.885	3.833	<b>4.120</b>	-25.04	181.32	-76.55	28.65
<b>SELECTED 10Y GOVERNMENT BONDS</b>									
10Y UK	3.651	1.666	3.881	3.360	<b>3.518</b>	-13.30	185.20	-36.30	15.80
10Y JP	0.422	0.227	0.505	0.323	<b>0.334</b>	-8.80	10.70	-17.10	1.10
10Y CN	2.829	2.777	2.927	2.874	<b>2.866</b>	3.70	8.90	-6.10	-0.80
10Y SG	3.121	2.356	3.439	2.832	<b>2.978</b>	-14.32	62.16	-46.08	14.62
10Y ID	7.051	6.747	6.959	6.900	<b>6.816</b>	-23.50	6.90	-14.30	-8.40
10Y TH	2.633	2.410	2.608	2.332	<b>2.361</b>	-27.20	-4.85	-24.70	2.92

Source: Kenanga Research, Bloomberg

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