

Bond Weekly Outlook

MGS/GII yields to exhibit a modest rise amid US economic resilience

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

- MGS and GII yields displayed mixed movements this week, ranging from by -0.8 bps to 3.1 bps overall. The 10-year MGS rose by 2.7 bps to 3.723%, while the 10-year GII increased at lower pace of 1.4bps to 3.754%.
- Domestically, August's lower-than-expected CPI of 1.9% triggered RM1.0b inflows into Malaysia's debt market on September 24th. This influx coupled with the Fed's 50bps rate cut last week lowered local yields and contributed significantly to the ringgit's appreciation. Meanwhile, China's surprise monetary stimulus added downward pressure on yields, although we are now observing a gradual increase in the yields of 10-year MGS. This increase is driven by strong US economic data, especially from a stronger labour market with declining jobless claims and improving business activity.
- We expect a moderate rise in local yields, driven by expectations of continued strong US economic performance, indicated by upcoming JOLTS data and job openings. Domestically, we foresee positive momentum in the manufacturing sector, supported by stable PMI data due next week.

United States Treasuries (UST)

- UST yields displayed an upward trend this week, moving from 4.7bps to 8.5bps overall. The 10-year UST saw a sizable rise of 8.3bps to 3.796% while the 2-year UST edged up by 4.7bps to 3.629%.
- The rise in 10-year UST yields is driven by strong US economic performance. New unemployment claims hit a four-month low, signalling a resilient labour market. Additionally, upward pressure on Treasury yields has been amplified by rising prices for goods and services, now at a six-month high, suggesting potential inflationary pressures. Fed Bowman's recent hawkish remarks, citing a strong labour market and persistent inflation risks, alongside hints of interest rate cuts at a "measured" pace, have further pushed UST yields higher.
- We expect UST yields to climb next week, supported by continued economic growth. Upcoming jobless claims and JOLTS data are likely to reflect the labour market strength. Powell's upcoming speech will be key, particularly for insights on rate cuts. Today's release of PCE data, expected to hold steady at 0.2% MoM, will also be closely watched.

Auction Result

- The 7-yr MGS reopened at an expected total issuance of RM5.5b, with an average yield of 3.687%.
- Demand was lukewarm, recording a bid-to-cover (BTC) ratio of 1.73x.
- The next auction will be the reopening of 30-yr MGII 03/34 at an expected issuance of RM3.0b, with an additional RM2.0b to be privately placed.

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	4.234	4.248	4.210	4.172
OPR	3.00	3.00	3.00	3.00	3.00

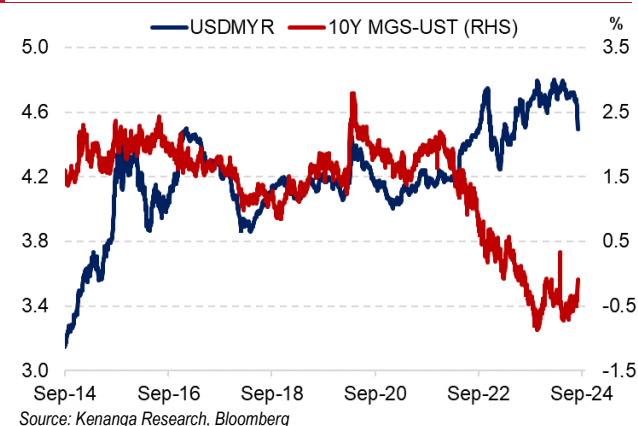
*F=Forecasts for end of period
Source: Kenanga Research, Bloomberg

Table 2: Issuances of MGS and GII

	MGS (RM b)		GII (RM b)	
	2023	YTD	2023	YTD
Reopening	80.0	66.0	80.0	59.0
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

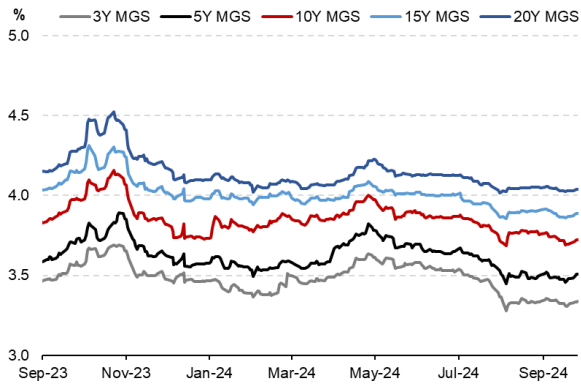
Table 3: 2024 Auction Calendar

Month	Issues	Issue Date	Auction (RM Mil)	PP* (RM Mil)	Total (RM Mil)	BTC* (x)	Average Yield (%)	Highest Yield (%)	Lowest Yield (%)
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%	22/08/2024	4,000.00	-	4,000.00	3.68	3.488	3.494	3.476
	10-yr Reopening of MGS 07/34 3.828%	28/08/2024	-	-	5,500.00	1.99	3.760	3.769	3.750
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	-	-	-	-

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

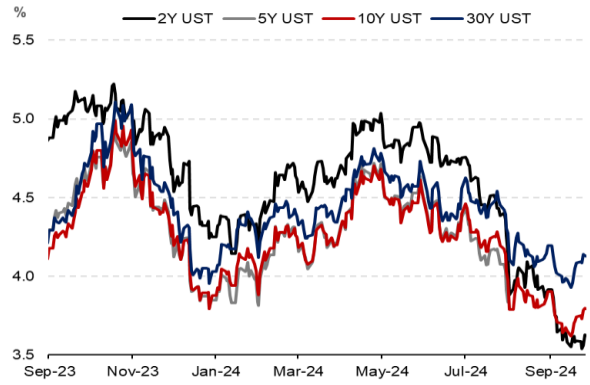
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Graph 2: MGS Yield Trend



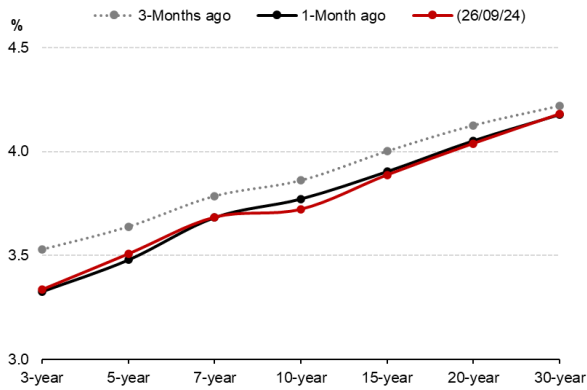
Source: Kenanga Research, Bloomberg

Graph 3: UST Yield Trend



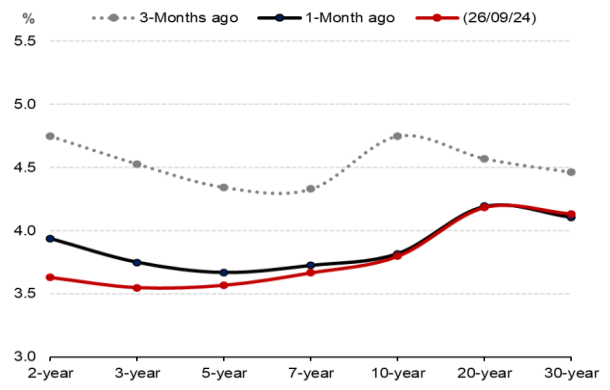
Source: Kenanga Research, Bloomberg

Graph 4: MGS Yield Curve



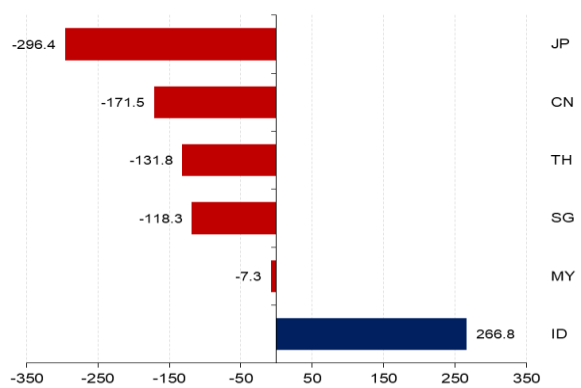
Source: Kenanga Research, Bloomberg

Graph 5: UST Yield Curve



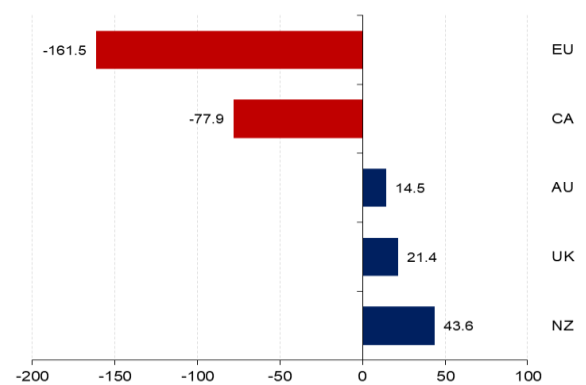
Source: Kenanga Research, Bloomberg

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	26/09/23 Last Year	26/08/24 Last Month	19/09/24 Last Week	26/09/24 Yesterday	ytd (bps)	yoy (bps)	mom (bps)	wow (bps)
MGS									
30Y MGS	4.241	4.456	4.176	4.170	4.180	-6.10	-27.60	0.40	1.00
20Y MGS	4.096	4.277	4.051	4.031	4.039	-5.70	-23.80	-1.20	0.80
15Y MGS	3.987	4.156	3.903	3.868	3.888	-9.90	-26.80	-1.50	2.00
10Y MGS	3.735	3.982	3.772	3.696	3.723	-1.20	-25.90	-4.90	2.70
7Y MGS	3.726	3.885	3.683	3.674	3.685	-4.10	-20.00	0.20	1.10
5Y MGS	3.584	3.727	3.480	3.478	3.509	-7.50	-21.80	2.90	3.10
3Y MGS	3.465	3.585	3.328	3.316	3.338	-12.70	-24.70	1.00	2.20
GII									
20Y GII	4.117	4.323	4.061	4.053	4.045	-7.20	-27.80	-1.60	-0.80
10Y GII	3.797	4.009	3.780	3.740	3.754	-4.30	-25.50	-2.60	1.40
7Y GII	3.776	3.912	3.692	3.675	3.687	-8.90	-22.50	-0.50	1.20
3Y GII	3.495	3.597	3.318	3.311	3.320	-17.50	-27.70	0.20	0.90
UST									
30Y UST	4.071	4.675	4.105	4.051	4.131	6.00	-54.42	2.57	8.03
20Y UST	4.229	4.859	4.191	4.099	4.183	-4.58	-67.55	-0.82	8.37
10Y UST	3.929	4.536	3.816	3.713	3.796	-13.31	-73.93	-1.97	8.32
7Y UST	3.936	4.598	3.722	3.591	3.665	-27.09	-93.33	-5.74	7.38
5Y UST	3.913	4.605	3.666	3.483	3.567	-34.62	-103.82	-9.86	8.46
3Y UST	4.087	4.822	3.747	3.469	3.548	-53.93	-127.34	-19.87	7.88
2Y UST	4.320	5.121	3.936	3.581	3.629	-69.14	-149.20	-30.71	4.74
MAJOR 10Y GOVERNMENT BONDS									
10Y EU	2.066	2.805	2.245	2.196	2.181	11.50	-62.40	-6.40	-1.50
10Y UK	3.638	4.326	3.912	3.891	4.010	37.20	-31.60	9.80	11.90
10Y JP	0.614	0.741	0.891	0.851	0.832	21.80	9.10	-5.90	-1.90
10Y CN	2.566	2.705	2.164	2.045	2.081	-48.50	-62.40	-8.30	3.60
10Y SG	2.790	3.453	2.707	2.459	2.613	-17.72	-83.97	-9.44	15.39
10Y ID	6.515	6.865	6.621	6.554	6.464	-5.10	-40.10	-15.70	-9.00
10Y TH	2.730	3.243	2.547	2.507	2.479	-25.15	-76.44	-6.82	-2.80

Source: Kenanga Research, Bloomberg

For further information, please contact:

Wan Suhaimie Wan Mohd Saidie
Head of Economic Research
wansuhaimi@kenanga.com.my

Muhammad Saifuddin Sapuan
Economist
saifuddin.sapuan@kenanga.com.my

Afiq Asyraf Syazwan Abd. Rahim
Economist
afiqasyraf@kenanga.com.my

Nurul Hanees Hairulkama
Economist
nurulhanees@kenanga.com.my

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KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia

Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my