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Global Economics & Market Strategy

Malaysia Government Bond Market: Positive Sentiment in Near-Term

- **Malaysia will remain in the FTSE Russell World Government Bond Index as indicated by the firm on March 29, 2021. In the short-term, this is positive for the domestic bond market and presents some tactical trading ideas.**
- **We recommend to look for opportunities to engage in interest rate spread play between MGS 10YR – 3YR. The risk of this interest rate spread easing towards 100 bps from the current 121 bps is high in our view.**
- **In the MGS 10YR sector, from a tactical trading perspective, start looking for opportunities to go long as risks are building for the MGS 10YR yield to close below its 90 day moving average yield of 3.34%.**

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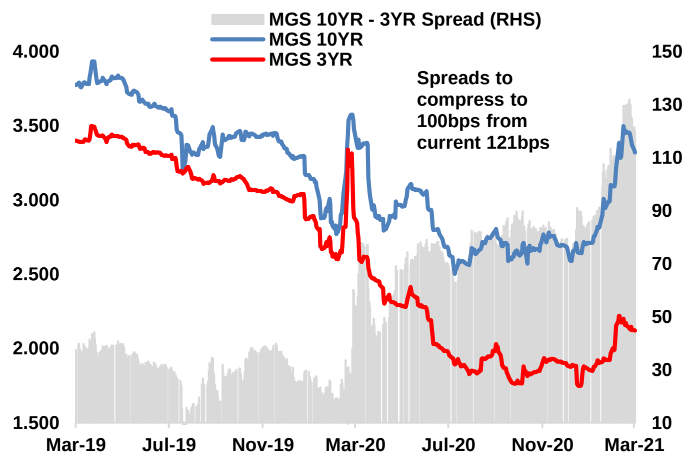
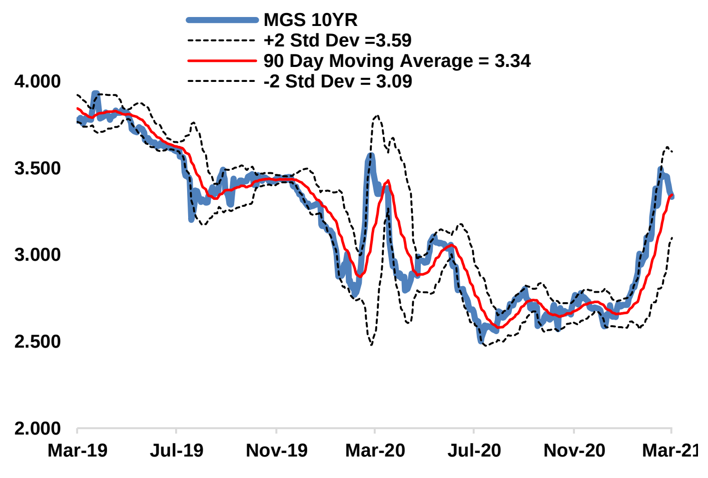
Figure 1: MGS 10YR - 3YR interest rate spread could compress



Source: Reuters, RHB Economics & Market Strategy

Figure 2: MGS 10YR yield to close below 3.34%



Source: Reuters, RHB Economics & Market Strategy

Spread play between MGS 10YR – 3YR in the spotlight

Malaysia has been removed from the watch list and will be retained in the FTSE Russell World Government Bond Index (WGBI) per the firm's press release on March 29, 2021. The recent market accessibility measures introduced by Bank Negara Malaysia (BNM) has been a catalyst for the decision, in particular the measures to improve secondary market bond liquidity and enhancing the foreign exchange market structure and liquidity.

On back of this announcement by FTSE Russell, from a tactical trading perspective, we believe the domestic bond markets will react positively. The main implications for markets are:

- **The recent selling pressure, notably in the back end of the Malaysian Government Securities (MGS) market, could ease temporarily in our view. In the short-term, the back end could de-link temporarily from the movements in the UST10YR market.**
- **The interest rate spread between the MGS 3YR and MGS 10YR could ease towards 100 bps from current levels of 121 bps (Figure 1).**
- **The technical picture on the MGS 10YR indicates that it is susceptible to close below its 90-day moving average yield of 3.34%. A breach below that yield would make the interest rate spread play between the MGS 10YR and MGS 3YR an attractive trading opportunity (Figure 2).**

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