

Global Markets Research
Fixed Income

Auction calendar 2018

For 2018, there will be a total of 33 auctions (comprising of 15 MGS and 18 GII issuances) compared to 32 auctions in 2017 (comprising 16 MGS and 16 GII issuances respectively). Gross MGS/GII supply in 2017 was RM107.5b (Net issue: RM40.0b)

As we progress to 2018, gross MGS/GII supply is expected to reduce to circa RM102b- RM103b with sizeable maturities of about RM62.8b; which was revised from RM66.8b following the recent switch auction. On a net MGS/GII supply perspective, the estimated net supply of circa RM39.8b remains benign (2017: RM39.9b). Efforts to deepen and create a dynamic environment for Sukuk issuances in Malaysia is lauded and encouraged in order to elevate itself into a global Islamic financial center. Please refer to table below summarizing our projected sizes for upcoming MGS/GII auctions in 2018.

MGS/GII scheduled issuance pipeline for 2018

No	Stock	Tenure- yrs	Tender Month	by quarter	Expected size (RM mil)	Issuance (RM mil)	Private Placement
1	20-yr Reopening of MGS (Mat on 04/37)	20	Jan	Q1	3,000	2,000	1,000
2	5-yr Reopening of MGII (Mat on 04/22)	5	Jan	Q1	3,000	3,000	
3	15-yr Reopening of MGS (Mat on 04/33)	15	Jan	Q1	3,000	2,500	500
4	7.5-yr New Issue of MGII (Mat on 08/25)	7	Feb	Q1	4,000	3,000	1,000
5	10-yr Reopening of MGS (Mat on 11/27)	10	Feb	Q1	3,000	2,500	500
6	30-yr Reopening of MGII (Mat on 05/47)	30	Mar	Q1	2,500	2,000	500
7	7-yr New Issue of MGS (Mat on 03/25)	7	Mar	Q1	4,000	3,000	1,000
8	15-yr Reopening of MGII (Mat on 06/33)	15	Mar	Q1	3,000	2,500	500
9	3-yr Reopening of MGS (Mat on 11/21)	3	Mar	Q1	3,500	3,500	
10	20-yr Reopening of MGII (Mat on 08/37)	20	Apr	Q2	2,000	2,000	
11	5-yr New Issue of MGS (Mat on 04/23)	5	Apr	Q2	4,000	4,000	
12	10.5-yr New Issue of MGII (Mat on 10/28)	10	Apr	Q2	4,000	4,000	
13	15.5-yr New Issue of MGS (Mat on 11/33)	15	May	Q2	4,000	4,000	
14	7-yr Reopening of MGII (Mat on 08/25)	7	May	Q2	3,500	3,500	
15	10-yr Reopening of MGS (Mat on 06/28)	10	May	Q2	3,500	3,500	
16	5.5-yr New Issue of MGII (Mat on 11/23)	5	May	Q2	4,000	4,000	
17	20-yr New Issue of MGS (Mat on 06/38)	20	Jun	Q2	3,000	3,000	
18	15-yr Reopening of MGII (Mat on 06/33)	15	Jun	Q2	2,500	2,500	
19	30-yr New Issue of MGS (Mat on 07/48)	30	Jul	Q3	3,000	3,000	
20	10-yr Reopening of MGII (Mat on 10/28)	10	Jul	Q3	3,000	3,000	
21	7-yr Reopening of MGS (Mat on 03/25)	7	Jul	Q3	3,500	3,500	
22	20-yr Reopening of MGII (Mat on 08/37)	20	Aug	Q3	2,000	2,000	
23	15-yr Reopening of MGS (Mat on 11/33)	15	Aug	Q3	3,500	3,500	
24	5-yr Reopening of MGII (Mat on 11/23)	5	Aug	Q3	3,000	3,000	
25	30-yr Reopening of MGII (Mat on 05/7)	30	Sep	Q3	2,000	2,000	
26	10-yr Reopening of MGS (Mat on 06/28)	10	Sep	Q3	3,500	3,500	
27	3.5-yr New Issue of MGII (Mat on 03/22)	3	Sep	Q3	3,000	3,000	
28	20-yr Reopening of MGS (Mat on 06/38)	20	Oct	Q4	3,000	3,000	
29	10-yr Reopening of MGII (Mat on 10/28)	10	Oct	Q4	3,500	3,500	
30	7-yr Reopening of MGII (Mat 08/25)	7	Nov	Q4	3,000	3,000	
31	5-yr Reopening of MGS (Mat on 04/23)	5	Nov	Q4	3,000	3,000	
32	20-yr Reopening of MGII (Mat on 08/37)	20	Dec	Q4	2,000	2,000	
33	3-yr Reopening of MGII (Mat on 03/22)	3	Dec	Q4	2,000	2,000	
Actual gross MGS/GII supply in 2017					102,500	97,500	5,000

Source : BNM, HLB Global Markets Research

Expected Gross MGS/GII supply for 2018

As we progress to 2018, we expect the Federal Government's fiscal consolidation to remain on track in meeting the targeted fiscal deficit target of 2.8% of GDP in 2018; further narrowing from 2017's deficit of 3.0% of GDP. The Federal Government revenue is expected to improve to RMRM239.9b in 2018 due to higher revenue primarily from improving GST collection and also higher income taxes. Although development expenditure is expected to be somewhat unchanged at RM45.4b; we note higher operating expenditure due to emoluments and salaries which may be important to ensure implementation and enforcement of nation-wide policies and regulations by both the Executive, Legislature and Judiciary. (Note: Budget 2018 was calibrated based on oil price assumption of \$52/barrel).

RM 'Bil	2015	2016	2017	2018
Revenue	219.1	212.4	225.3	239.9
Operating Expenditure	217.0	210.2	219.9	234.3
Current Surplus/(Deficit)	2.1	2.2	5.4	5.6
Gross Development Expenditure	40.8	42.0	46.0	46.0
Net Development Expenditure	39.3	40.6	45.3	45.4
Overall surplus/(deficit)	37.2	38.4	39.9	39.8
Fiscal Deficit as a % of GDP	3.2%	3.1%	3.0%	2.8%

Source : MOF Economic Report 2017/2018

Expect lower gross MGS/GII supply in 2018, circa RM102-103b amid MGS/GII maturities next year worth RM62.8b

RM (Billion)	2017	2018
MGS/GII Maturities	67.2	62.8
Net Govt Bond Supply (MGS/GII)	39.9	39.8
Gross Supply (MGS/GII)	107.1	102.6

Source : MOF Economic Report 2017/2018, BPAM, HLBB Global Markets Research

As we progress to 2018, gross MGS/GII supply is expected to reduce to circa RM102b-RM103b with sizeable maturities of about RM62.8b; which was revised from RM66.8b following the recent switch auction. **This entailed the switch of RM4.0b of MGS 2/18 into MGS 4/37.** On a net MGS/GII supply perspective, the estimated net supply of circa RM39.8b remains benign. The Federal Government's funding requirements are projected to be primarily funded onshore via issuances of MGS/GII given that there are no scheduled foreign currency (eg USD denomination) sovereign debt maturities by the Malaysian Government (GOM).

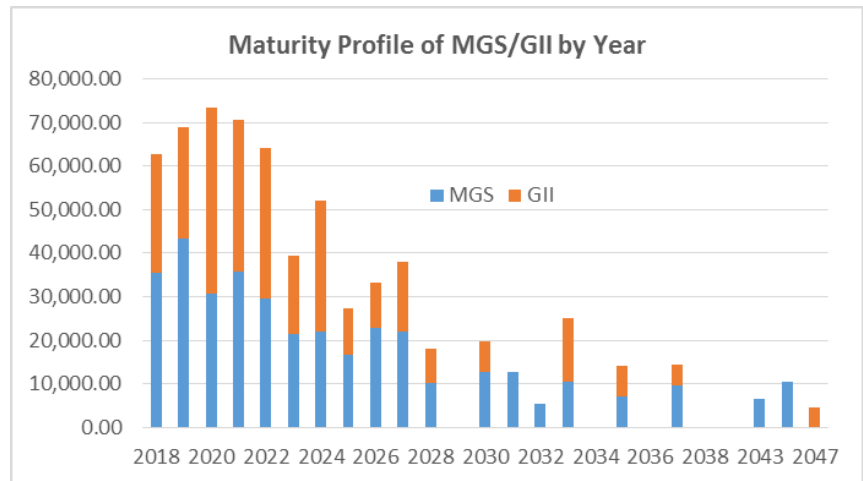
MGS/GII Issuance pipeline in 2018 versus maturities: Our key takeaways.....

Based on the maturity profiles tables below; Q2 2018 maturity is light compared to other quarters with the looming dominant GE14 theme foremost on most minds during this period. The switch auction in December 2017 saw up to RM6.4b supply for 2Q18 moved subsequently to September 2018 and April 2037. The more substantial maturities (quantum-wise) seen spread out appropriately in Q1 and Q3 respectively.

The issuance supply for 2018 is slightly different as it is skewed more towards intermediate maturities i.e. belly of the curve; with main tenures of 3Y and 5Y instead. There is also an increase in the number of 20Y issuances from 4 the previous year to 6 for 2018. We note the interest to spread out the maturity profile going forward with maturities targeted for 2021, 2037 and 2038. Re-investments from scheduled bond maturities are expected to continue in line with improving fundamentals and strengthening of the Ringgit. We anticipate an almost similar ratio (i.e. 50/50) between MGS:GII funding mix for GOM; which in turn augurs well for the further development of an Islamic sovereign curve.

2018	Stock	Maturity by month	Quarter	Maturity by quarter
JAN	MGS 1/18	2,000		
FEB	MGS 2/18	8,380	Q1	18,471
MAR	MGS 3/18	8,091		
APR	-	-		
MAY	GII 5/18	7,500	Q2	7,500
JUN	-	-		
JUL	-	-		
AUG	GII 8/18	8,500	Q3	22,355
SEP	MGS 9/18	13,855		
OCT	MGS 10/18, GII 10/18	10,500		
NOV	GII 11/18	4,000	Q4	14,500
DEC	-	-		
Total		62,826		62,826

Source : BPAM, Bloomberg, HLBB Global Markets Research



Source : BPAM, Bloomberg, HLBB Global Markets Research

Number of Issuances			
Tenure	2017	2018	Change
3Y	2	3	1
5Y	4	5	1
7Y	6	5	-1
10Y	6	6	0
15Y	6	5	-1
20Y	4	6	2
30Y	4	3	-1
Total	32	33	1

Source : BPAM, Bloomberg, HLBB Global Markets Research

MGS/GII tenders in 2017 remained stable despite key global events in 2017; with overall BTC ratios averaging 2.20x

Government bond tenders in 2017 ended the year with only a marginally lower average BTC ratio of 2.20x as opposed to the 2.30x in 2016. However worthy of note was the strong interest from the maiden issue of 10Y MGS and also the 20Y MGS auction in 2017. Taking into account several major global events i.e. US interest rate hikes/ changes in the dot plot of the Fed interest rate projection, the Fed's balance sheet run-off, Republican tax plan and the emergence of potential geopolitical tension emanating out of North Korea; the tender interest garnered from both onshore and off-shore investors was commendable.

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