December 21, 2018

Global Markets Research

Fixed Income

Auction calendar 2019

For 2019, there will be a total of 32 auctions (comprising of 16 MGS and 16 GII issuances) compared to the 33 auctions in 2018 (comprising 15 MGS and 18 GII issuances respectively). Gross MGS/GII supply in 2018 was RM112.8b (Net issue: RM50.0b)

As we progress to 2019, gross MGS/GII supply is expected to rise to circa RM118b-RM119b with sizeable maturities of about RM69.0b. On a net MGS/GII supply perspective, the estimated net supply of circa RM50.5b remains elevated (2018: RM50.0b). A conducive and dynamic environment for Sukuk issuances alongside the conventional bonds in Malaysia is lauded and encouraged in order to maintain itself as a renowned global Islamic financial center. The table below summarizes our projected sizes for upcoming MGS/GII auctions in 2019.

MGS/GII scheduled issuance pipeline for 2019

No	Stock	Tenure (yrs)	Tender Month	Quarter	Projected Issuance Size (RM mil)	Private Placement X
1	10.5-yr New Issue of GII (Mat on 07/29)	10	Jan	Q1	4,000	X
2	7.5-yr New Issue of MGS (Mat on 07/26)	7	Jan	Q1	4,000	
3	5-yr Reopening of GII (Mat on 11/23)	5	Jan	Q1	3,500	X
4	10.5-yr New Issue of MGS (Mat on 08/29)	10	Feb	Q1	4,000	X
5	15-yr Reopening of GII (Mat on 06/33)	15	Feb	Q1	3,000	X
6	3-yr Reopening of MGS (Mat on 03/22)	3	Mar	Q1	3,500	
7	20.5-yr New Issue of GII (Mat on 09/39)	20	Mar	Q1	4,000	X
8	30-yr Reopening of MGS (Mat on 07/48)	30	Mar	Q1	3,500	X
9	7-yr New Issue of GII (Mat on 03/26)	7	Mar	Q1	4,000	
10	15-yr Reopening of MGS (Mat on 11/33)	15	Apr	Q2	4,000	X
11	5.5-yr New Issue of GII (Mat on 10/24)	5	Apr	Q2	4,000	
12	7-yr Reopening of MGS (Mat on 07/26)	7	Apr	Q2	4,000	X
13	30.5-yr New Issue of GII (Mat on 11/49)	30	May	Q2	4,000	X
14	10-yr Reopening of MGS (Mat on 08/29)	10	May	Q2	4,000	
15	15.5-yr New Issue of GII (Mat on 11/34)	15	May	Q2	4,000	X
16	5-yr New Issue of MGS (Mat on 06/24)	5	Jun	Q2	4,000	
17	20-yr Reopening of GII (Mat on 09/39)	20	Jun	Q2	3,500	X
18	15-yr New Issue of MGS (Mat on 07/34)	15	Jul	Q3	4,000	
19	7-yr Reopening of GII (Mat on 3/26)	7	Jul	Q3	4,000	X
20	30-yr Reopening of MGS (Mat on 07/48)	30	Jul	Q3	3,000	X
21	5-yr Reopening of GII (Mat on 10/24)	5	Aug	Q3	4,000	
22	20-yr Reopening of MGS (Mat on 06/38)	20	Aug	Q3	3,500	X
23	10-yr Reopening of GII (Mat on 7/29)	10	Aug	Q3	3,500	
24	7-yr Reopening of MGS (Mat on 07/26)	7	Sep	Q3	3,500	
25	15-yr Reopening of GII (Mat on 11/34)	15	Sep	Q3	3,000	X
26	10-yr Reopening of MGS (Mat on 08/29)	10	Oct	Q4	3,500	
27	20-yr Reopening of GII (Mat on 09/39)	20	Oct	Q4	3,000	X
28	5-yr Reopening of MGS (Mat on 06/24)	5	Oct	Q4	4,000	
29	3.5-yr New Issue of GII (Mat on 05/23)	3	Nov	Q4	4,000	
30	20.5-yr New Issue of MGS (Mat on 05/40)	20	Nov	Q4	4,000	X
31	10-yr Reopening of GII (Mat on 07/29)	10	Nov	Q4	3,500	X
32	15-yr Reopening of MGS (Mat on 07/34)	15	Dec	Q4	3,500	
	Gross MGS/GII supply in 2019				119,000	

Source : BNM, HLB Global Markets Research

Expected Gross MGS/GII supply for 2019

As we progress to 2019, we expect the Federal Government's fiscal consolidation to meet the elevated targeted fiscal deficit target of 3.4% of GDP in 2019; somewhat narrowing from 2018's revised deficit of 3.7% of GDP. The Federal Government revenue is expected to improve to RMRM261.8b in 2019 primarily due to a one-off contribution of RM30.0 from PETRONAS despite the deficit in the net tax collections (i.e. replacement of GST with SST). Although development expenditure is expected to be marginally higher at RM54.7b; we note the jump in operating expenditure is due to emoluments/salaries and pension payments and also debt service charges which are premised on coupon and loan payments. (Note: Budget 2019 was calibrated based on oil price assumption of $70/barrel versus $52/barrel in 2018).

FEDERAL GOVT REVENUE & EXPECDITURE	2017	2018	2018	2019
RM (Billion)		(original)	(revised)	(estimate)
Revenue	225.0	239.9	236.5	261.8
Operating Expenditure	220.0	234.3	235.5	259.9
Current Surplus/(Deficit)	5.0	5.6	1.0	1.9
Gross Development Expenditure	45.0	46.0	54.9	54.7
Net Development Expenditure	44.9	45.7	54.3	54.0
Overall surplus/(deficit)	(39.9)	(40.1)	(53.3)	(52.1)
Fiscal Deficit as a % of GDP	3.00%	2.80%	3.70%	3.40%

Source : MOF Economic Report 2018/2019

Expect higher gross MGS/GII supply in 2019, circa RM118-119b amid MGS/GII maturities next year worth RM69.0b

RM (Billion)	2017	2018	2019f
MGS/GII Maturities	67.2	62.8	69.0
Net Govt Bond Supply (MGS/GII)	39.9	53.3	52.1
Gross Supply (MGS/GII)	107.1	112.8	121.1

Source : MOF Economic Report 2018/2019, BPAM, HLBB Global Markets Research

As we progress to 2019, **gross MGS/GII supply is expected to be ramped up to circa RM119b** instead of our original projected issuances of RM121.1b mentioned in the above table which is accompanied by sizeable maturities of about RM69.0b. The various possibilities for this further reduction include:

- The potential rollover of RM1.6b worth of SPK bond maturities into Govt-Guaranteed LPPSA bonds in view of decent demand for these papers.
- Potential switch auction activities to further extend out some of the maturities.

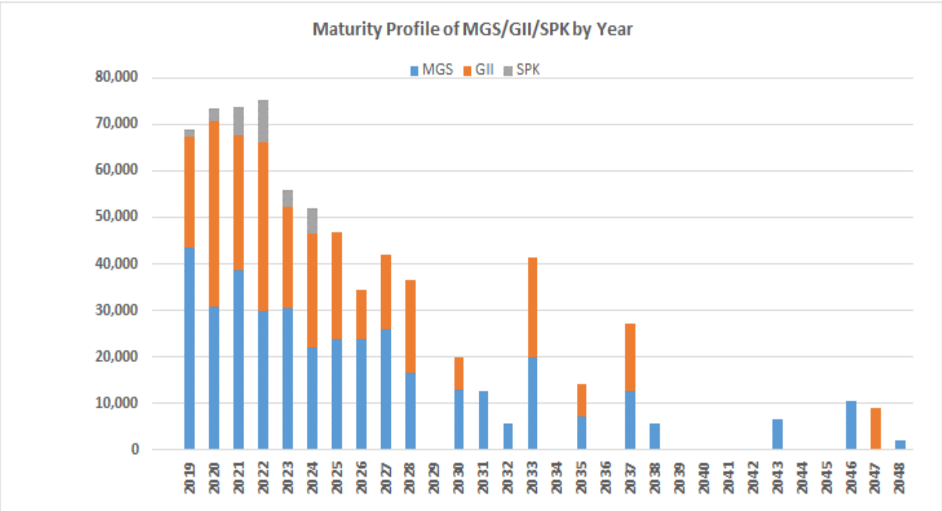
The recent announcement of JPY200 billion (~RM7.4b) “Samurai Bond” issuance at a coupon of 0.65% by March 2019 may likely be used to refinance existing foreign bonds/loans. On a net MGS/GII supply perspective, the estimated net supply of circa RM52.1b remains high. Nevertheless the Federal Government's funding requirements are projected to be primarily funded onshore via issuances of MGS/GII given that there are no scheduled foreign currency-denominated i.e. USD or JPY) debt maturities by the Malaysian Government (GOM).

MGS/GII Issuance pipeline in 2019 versus maturities: Our key takeaways…..

Based on the maturity profiles tables below; Q1 followed by Q2 2019 maturity is light compared to the final two(2) quarters. With a stable political climate post GE14, large institutional investors including pension funds, insurance companies and asset management companies are expected to play prominent role in the support of the upcoming auctions in 2019. **The issuance supply for 2019 is slightly skewed more towards the intermediate and longer maturities; with main tenures between 7-20Y instead.** There is an increase in the number of 15Y issuances from 5 the previous year to 6 for 2019. The attempt to spread and smoothen out the maturity profile to include 2029, 2034 and 2039 augurs well since the current maturity profile weighs heavy on the shorter-end of the curve i.e. 2019-2022. **Hence we project quarterly issuances in decreasing amounts ~ Q1-RM33.5b, Q2-RM31.5b, Q3-RM28.5b and Q4-RM25.5b respectively**. Re-investments from scheduled bond maturities are expected to be ploughed back in line with the GOM's commendable policies to address the nation's fiscal position amid a stable Ringgit. The 50/50 ratio between MGS/GII funding mix by GOM is constructive for sovereign yield curve purposes and may surprise on the upside given foreigners preference and substantial holdings of Malaysian Govvies.

2019	Stock	Maturity by month (RM mil)	Quarter	Maturity by quarter (RM mil)
JAN				
FEB	SPK 2/19	500	Q1	7,678
MAR	MGS 3/19	7,178		
APR	GII 4/19	10,000		
MAY			Q2	10,000
JUN				
JUL	MGS 7/19, SPK 7/19	8,416		
AUG	GII 8/19	6,000	Q3	22,416
SEP	GII 9/19	8,000		
OCT	MGS 10/19	11,800		
NOV	MGS 11/19	17,119	Q4	28,919
DEC				
Total		**69,012**		**69,012**

Source : BPAM, Bloomberg, HLBB Global Markets Research



Source : BPAM, Bloomberg, HLBB Global Markets Research

Number of Issuances			
Tenure	**2018**	**2019**	**Change**
3Y	3	2	-1
5Y	5	5	0
7Y	5	5	0
10Y	6	6	0
15Y	5	6	1
20Y	6	5	-1
30Y	3	3	0
Total	**33**	**32**	**1**

Source : BPAM, Bloomberg, HLBB Global Markets Research

MGS/GII tenders in 2018 remained strong despite key global events in 2018; with overall BTC ratios averaging 2.29x

Government bond tenders in 2018 ended the year with only better average BTC ratio of 2.29x as opposed to the 2.20x in 2017. Worthy of note was the strong interest from the maiden issuances of both 7Y MGS/GII, 10Y GII and also the 15Y MGS auction in 2018. Taking into account several major global events i.e. four (4) US interest rate hikes amid changes in the dot plot of the Fed interest rate projection, global trade issues/gridlock between superpower China and US alongside the ongoing Fed's balance sheet run-off, tax benefits; the tender interest garnered from both onshore and off-shore investors was impressive.

Nevertheless, expect increasing challenges for the coming year as volatility and headwinds persist with challenging times as sovereign yield levels move in tandem with major central bank interest rate decisions. This may however be mitigated by both large local and foreign institutional investor appetite.

We have strived to keep this short and sweet for ease of reading. Meanwhile, MERRY CHRISTMAS and HAPPY NEW YEAR in advance form all of us in Global Markets, Hong Leong Bank!

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