

Global Markets Research
Fixed Income

Auction calendar 2020

There will be a total of 34 auctions (comprising equal number issuances (i.e. 17 MGS and 17 GII issuances) in 2020 compared to the 32 auctions in 2019 (also comprising equal issuances of 16 MGS and 16 GII Bonds). Gross MGS/GII supply in 2019 was RM115.7b with net issuances of RM46.7b.

As we progress to 2020, we note that total maturities are sizeable at ~ RM73.4b. Gross MGS/GII supply is expected to rise to circa RM117.4b (RM125.1b net of RM2.7b SPK and RM5.0b Samurai bonds). On a net MGS/GII supply perspective, the estimated net supply of circa RM51.7b is less than elevated levels in the past (2019: RM51.8b). A conducive and dynamic environment for both Sukuk issuances alongside conventional bonds in Malaysia is lauded as regulatory authorities engage with foreign investors to make the bond environment more dynamic. The table below summarizes our projected sizes for upcoming MGS/GII auctions in 2020.

MGS/GII scheduled issuance pipeline for 2020

MGS/GII issuance pipeline in 2020						
No	Stock	Tenure (yrs)	Tender Month	Quarter	Projected Issuance Size (RM mil)	Private Placement X
1	7-yr reopening of MGS (Mat on 05/27)	7	Jan	Q1	4,000	
2	15-yr Reopening of GII (Mat on 11/34)	15	Jan	Q1	4,000	X
3	3-yr Reopening of MGS (Mat on 3/23)	3	Jan	Q1	3,000	
4	30-yr Reopening of GII (Mat on 11/49)	30	Feb	Q1	3,000	X
5	10-yr Reopening of MGS (Mat on 08/29)	10	Feb	Q1	3,000	
6	5-yr Reopening of GII (Mat on 10/24)	5	Feb	Q1	3,000	
7	15-yr Reopening of MGS (Mat on 07/34)	15	Mar	Q1	4,000	X
8	20-yr Reopening of GII (Mat on 09/39)	20	Mar	Q1	4,000	X
9	5-yr Reopening of MGS (Mat on 09/25)	5	Mar	Q1	3,000	
10	7.5-yr New Issue of GII (Mat on 09/27)	7	Mar	Q1	4,000	X
11	20-yr Reopening of MGS (Mat on 05/40)	20	Apr	Q2	4,000	X
12	10.5-yr New Issue of GII (Mat on 10/30)	10	Apr	Q2	4,000	X
13	7-yr Reopening of MGS (Mat on 05/27)	7	Apr	Q2	3,500	
14	15-yr Reopening of GII (Mat on 11/34)	15	May	Q2	3,500	X
15	10-yr Reopening of MGS (Mat on 08/29)	10	May	Q2	3,500	
16	3-yr Reopening of GII (Mat on 05/23)	3	Jun	Q2	3,000	
17	30-yr New Issue of MGS (Mat on 06/50)	30	Jun	Q2	3,500	X
18	20-yr Reopening GII (Mat on 09/39)	20	Jun	Q2	3,500	X
19	3-yr Reopening of MGS (Mat on 03/23)	3	Jul	Q3	3,500	
20	10-yr Reopening of GII (Mat on 10/30)	10	Jul	Q3	3,500	
21	15-yr Reopening of MGS (Mat on 07/34)	15	Jul	Q3	3,000	
22	7-yr Reopening of GII (Mat on 09/27)	7	Aug	Q3	3,500	
23	20-yr Reopening of MGS (Mat on 05/40)	20	Aug	Q3	4,000	X
24	15-yr Reopening of GII (Mat on 11/34)	15	Aug	Q3	3,500	X
25	7-yr Reopening of MGS (Mat on 05/27)	7	Sep	Q3	3,000	
26	30-yr Reopening of GII (Mat on 11/49)	30	Sep	Q3	3,000	X
27	5-yr Reopening of MGS (Mat on 09/25)	5	Sep	Q3	3,000	
28	3-yr Reopening of GII (Mat on 05/23)	3	Oct	Q4	3,000	
29	10.5-yr New Issue of MGS (Mat on 04/31)	10	Oct	Q4	4,000	
30	5-yr Reopening of GII (Mat on 03/26)	5	Oct	Q4	4,000	
31	30-yr Reopening of MGS (Mat on 06/50)	30	Nov	Q4	3,000	X
32	7-yr Reopening of GII (Mat on 09/27)	7	Nov	Q4	3,500	
33	15-yr Reopening of MGS (Mat on 07/34)	15	Nov	Q4	3,000	
34	10-yr Reopening of GII (Mat on 10/30)	10	Dec	Q4	3,400	X
Gross MGS/GII supply in 2020					117,400	-

Source : BNM, HLB Global Markets Research

Expected Gross MGS/GII supply for 2020

As we progress to 2020, we expect the Federal Government's fiscal consolidation to meet the reduced targeted fiscal deficit target of 3.2% of GDP; somewhat narrowing from 2019's revised estimate deficit of 3.4% of GDP. The Federal Government revenue is expected to reduce to RMRM244.5b in 2020 primarily due to the absence of "special dividend" from PETRONAS (2019: RM30.0b). Although development expenditure is expected to revert back to almost 2018's figure of RM56.0b; we note the corresponding fall in operating expenditure as the government is no longer required to refund substantial funds in the form of GST and income tax payments as was the case in 2019. (Note: Budget 2020 was calibrated based on oil price assumption of \$62/barrel versus the assumption of \$70/barrel in 2019).

FEDERAL GOVT REVENUE & EXPENDITURE	2018	2019e	2020e
RM (Billion)			
Revenue	232.9	263.3	244.5
Operating Expenditure	231.0	262.3	241.0
Current Surplus/(Deficit)	1.9	1.0	3.5
Gross Development Expenditure	56.1	53.7	56.0
Net Development Expenditure	55.3	52.8	55.2
Overall surplus/(deficit)	(53.4)	(51.8)	(51.7)
Fiscal Deficit as a % of GDP	3.7	3.4	3.2

Source : MOF Economic Report 2018/2019

Expect higher gross MGS/GII supply in 2020, circa RM125.1b amid MGS/GII maturities next year worth RM73.4b

RM (Billion)	2018	2019e	2020f
MGS/GII Maturities	62.8	69.0	73.4
Net Govt Bond Supply (MGS/GII)	53.3	51.8	51.7
Gross Supply (MGS+GII+Samurai)	116.1	120.8	125.1
Gross Supply (MGS+GII only)	116.1	115.1	125.1

Source : MOF Economic Report 2019/2020, BPAM, HLBB Global Markets Research

For 2020, we have revised our initial ramped up **gross MGS/GII supply from RM125.1b as per table above to substantially lower amounts to RM117.4b** which is accompanied by sizeable maturities of about RM73.4b. These are due to the following projections:

- The potential switch of RM2.7b of SPK maturing next August into govt-guaranteed LPPSA in view of strong demand for these papers.
- Proposed Samurai Bonds of RM5.0b (i.e. JPY-denominated bonds).

We opine that the recent announcement of the government's interest to issue a 2nd tranche of Samurai Bond will be capped at ~RM5.0b due to the "self-imposed foreign debt ceiling" of RM35.0b. As it stands the current outstanding is circa RM29.0b. To recap the first "Samurai Bond" issuance of ~JPY200b was issued earlier in March this year at a coupon of 0.53% to refinance existing debt/loans. On a net MGS/GII supply perspective, the estimated net supply of circa RM51.7b is lower than previous years (2019:RM51.8b and 2018:RM53.3b) and should augur well in terms of supply/demand metrics. 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 2020 versus maturities: Our key takeaways.....

Based on the maturity profiles tables below; Q2 and Q3 2020 maturities are heavy. The maturity profile is seen to reflect a “bell-curve” like pattern compared to the other quarters. **The issuance supply for 2020 is slightly skewed evenly towards the short, belly and also ultra-long tenures with main targeted tenures still being within 7-15Y space.**

There is surprisingly an increase in the number of 3Y issuances from 2 the previous year to 4 for 2020 potentially in view of current offshore interest in the shorter-ends. The attempt to spread and smoothen out the maturity profile to include 2030, 2031, 2034, 2049 and 2050 augurs well since the current maturity profile weighs heavy on the shorter-end of the curve i.e. 2020-2024. **Hence we project quarterly issuances to initially be front-loaded and subsequently decrease in the final quarter in the following manner :-**

Q1-RM35.0b

Q2-RM28.5b

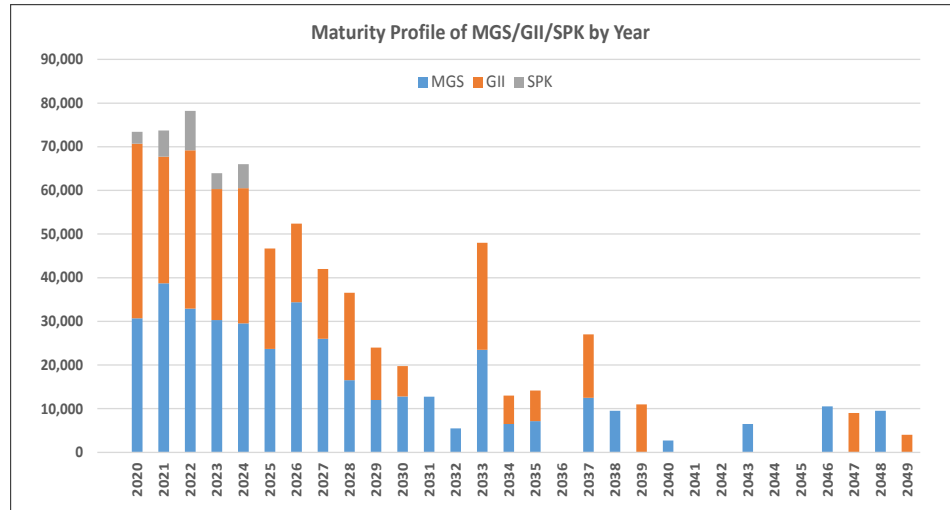
Q3-RM30.0b

Q4-RM23.9b

Re-investments from scheduled bond maturities are expected to be ploughed back in line with the GOM's commendable ongoing policies in addressing 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 MGS. With a stable political climate and risk-on mode returning due to optimism on US-China trade matters, expect large institutional investors including pension funds, insurance companies and asset management companies to play a prominent role in the support of upcoming auctions in 2020.

Quarter	2020	Stock	Monthly Maturity (RM'm)	Quarterly Maturity (RM'm)
1	JAN			
	FEB			
	MAR	MGS 3/20	11,000	11,000
2	APR	GII 4/20	10,500	
	MAY	GII 5/20	11,000	
	JUN	GII 6/20	5,500	27,000
3	JUL	MGS 7/20	7,973	
	AUG	SPK 8/20, GII 8/20	12,700	20,673
	SEP			
4	OCT	MGS 10/20	11,742	
	NOV	MGS 11/20	3,000	14,742
	DEC			
Total	Total		73,415	73,415

Source : BPAM, Bloomberg, HLBB Global Markets Research



Source : BPAM, Bloomberg, HLBB Global Markets Research

Number of Issuances			
Tenure	2019	2020	Change
3Y	2	4	2
5Y	5	4	-1
7Y	5	6	1
10Y	6	6	0
15Y	6	6	0
20Y	5	4	-1
30Y	3	4	1
Total	32	34	2

Source : BPAM, Bloomberg, HLBB Global Markets Research

MGS/GII tenders in 2019 remained solid despite influential global events in 2019; with overall BTC ratios higher YOY at 2.54x

Government bond tenders in 2019 ended the year with solid average BTC ratio of 2.54x as opposed to the 2.29x in 2018. Worthy of note was the strong interest from the maiden issuances of both 10-15Y MGS/GII bond auction in 2019. Taking into account several major global events including three (3) US interest rate cuts, global trade and tariff issues between US and other countries like China, Euro region, Canada and Mexico~ the MYR bond auction/tender exercises garnered commendable interest from both onshore and off-shore investors.

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 in view of the huge supply of negative-yielding global debt.

We have strived to keep this report short and sweet for ease of reading and hope that the above pertinent points will suffice for your action plan next year.

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