Auction Calendar 2021

There will be a total of 37 auctions (comprising 19 MGS and 18 GII issuances) in 2021 compared to the 34 auctions in 2020 (comprising equal issuances of 17 MGS and 17 GII Bonds). To recap, gross MGS/GII supply in 2020 was RM148.8b with net issuances of RM65.4b.

As we progress to 2021, we note that total maturities continue to be sizeable at ~RM73.7b. Gross MGS/GII supply is expected to rise to circa RM152.5b (net of projected RM6.0b SPK bond switch). *On a net MGS/GII supply perspective, the estimated net supply of circa RM72.8b is more than 2020 and remains elevated compared to previous years. A conducive and dynamic environment for 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 2021.*

MGS/GII scheduled issuance pipeline for 2021

MGS/GII issuance pipeline in 2021

No	Stock	Tenure (yrs)	Tender Month	Quarter	Projected Issuance Size (RM mil)	Private Placement X
1	7-yr reopening of MGS (Mat on 06/28)	7	Jan	Q1	3,500	
2	15.5-yr new Issuance of GII (Mat on 7/36)	15	Jan	Q1	3,000	3,000
3	10-yr Reopening of MGS (Mat on 04/31)	10	Jan	Q1	4,000	
4	5-yr Reopening of GII (Mat on 03/26)	5	Feb	Q1	4,500	
5	20-yr Reopening of MGS (Mat on 05/40)	20	Feb	Q1	2,000	2,500
6	7-yr Reopening of GII (Mat on 09/27)	7	Feb	Q1	3,500	
7	30-yr Reopening of MGS (Mat on 06/50)	30	Mar	Q1	2,000	2,000
8	10-yr Reopening of GII (Mat on 10/30)	10	Mar	Q1	4,000	
9	5-yr Reopening of MGS (Mat on 09/25)	5	Mar	Q1	4,500	
10	20.5-yr New Issue of GII (Mat on 09/41)	20	Mar	Q1	2,000	2,500
11	7-yr Reopening of MGS (Mat on 06/28)	7	Apr	Q2	4,000	
12	15-yr Reopening of GII (Mat on 7/36)	15	Apr	Q2	3,000	1,000
13	3-yr Reopening of MGS (Mat on 06/24)	3	Apr	Q2	4,000	
14	30-yr Reopening of GII (Mat on 11/49)	30	May	Q2	2,000	2,000
15	15-yr Reopening of MGS (Mat on 05/35)	15	May	Q2	3,000	1,500
16	5-yr Reopening of GII (Mat on 03/26)	5	May	Q2	4,000	
17	10-yr Reopening of MGS (Mat on 04/31)	10	Jun	Q2	3,500	500
18	3-yr Reopening of GII (Mat on 10/24)	3	Jun	Q2	4,500	
19	20-yr Reopening MGS (Mat on 05/40)	20	Jun	Q2	2,000	2,000
20	15-yr Reopening of GII (Mat on 07/36)	15	Jul	Q3	3,000	1,500
21	5-yr Reopening of MGS (Mat on 11/26)	5	Jul	Q3	4,000	
22	10-yr Reopening of GII (Mat on 10/30)	10	Jul	Q3	2,500	1,000
23	30-yr Reopening of MGS (Mat on 06/50)	30	Aug	Q3	2,000	2,500
24	7-yr Reopening of GII (Mat on 08/28)	7	Aug	Q3	4,500	
25	3-yr Reopening of MGS (Mat on 06/24)	3	Aug	Q3	4,000	
26	20-yr Reopening of GII (Mat on 09/41)	20	Sep	Q3	3,000	1,500
27	10-yr Reopening of MGS (Mat on 04/31)	10	Sep	Q3	3,500	1,000
28	5-yr Reopening of GII (Mat on 03/26)	5	Sep	Q3	4,000	
29	7-yr Reopening of MGS (Mat on 06/28)	7	Oct	Q4	4,000	
30	30-yr Reopening of GII (Mat on 11/49)	30	Oct	Q4	2,000	2,000
31	5-yr Reopening of MGS (Mat on 11/26)	5	Oct	Q4	4,000	
32	10-yr Reopening of GII (Mat on 10/30)	10	Oct	Q4	2,000	1,500
33	15-yr Reopening of MGS (Mat on 05/35)	15	Nov	Q4	3,000	1,500
34	3-yr Reopening of GII (Mat on 10/24)	3	Nov	Q4	4,000	
35	20-yr Reopening of MGS (Mat on 05/40)	20	Nov	Q4	2,000	2,000
36	7-yr Reopening of GII (Mat on 08/28)	7	Dec	Q4	3,500	
37	3-yr Reopening of MGS (Mat on 06/24)	3	Dec	Q4	3,000	
	Gross MGS/GII supply in 2021				152,500	

Source : BNM, HLB Global Markets Research

Expected Gross MGS/GII supply for 2021

As we progress to 2021, we expect the Federal Government's fiscal consolidation to face challenges in meeting the reduced targeted fiscal deficit target of 5.4% of GDP; given the optimistic growth target and revenue projection. This is however narrower from 2020's revised estimate deficit of 6.0% of GDP. The Federal Government revenue is expected to increase to RM236.9b in 2021 primarily due to better tax revenue collection via both CITA and PITA totaling RM77.6b (2020: RM67.9b). Development expenditure is expected to ramp up to a record high of RM69.0b; along with the expected rise in operating expenditure as the government realizes the importance of pump-priming the economy going forward. (Note: Budget 2021 was calibrated based on oil price assumption of $42/barrel versus the initial assumption of $62/barrel in 2020, which was later revised to $35-40/ barrel).

FEDERAL GOVT REVENUE & EXPENDITURE	2019	2020e	2021f
RM (Billion)			
Revenue	264.4	227.3	236.9
Operating Expenditure	263.3	226.7	236.5
Current balance Surplus/(Deficit)	1.1	0.6	0.4
Gross Development Expenditure	54.2	50.0	69.0
less: loan recoverables	1.6	1.0	0.8
Net Development Expenditure	52.6	49.0	68.2
Misc: COVID-19 Fund		38.0	17.0
Overall surplus/(deficit)	(51.5)	(86.5)	(84.8)
Fiscal Deficit as a % of GDP	**3.4**	**6.0**	**5.4**

Source : MOF Fiscal Outlook 2021, HLBB Global Markets Research

Expect higher gross MGS/GII supply in 2021, circa RM152.5b amid MGS/GII maturities next year worth RM73.7b

RM (Billion)	2019	2020	2021f
MGS/GII Maturities	69.0	73.4	73.7
Net Govt Bond Supply (MGS/GII)	46.7	65.4	72.8
Projected SPK switch	-	-	6.0
1MDB cash proceeds	-	11.1	-
Gross Supply (MGS+ GII only)	**115.7**	**148.8**	**152.5**

Source : MOF Fiscal Outlook 2021, BPAM, HLBB Global Markets Research

For 2021, we project our initial **gross MGS/GII supply from RM158.5b to lower amounts of RM152.5b (as per the table above);** accompanied by sizeable maturities of about RM73.7b). We take cognizance of the following in arriving at the abovementioned figures:

- The potential switch of RM6.0b of SPK maturing next August into government-guaranteed LPPSA in view of strong demand for these papers. (Likelihood: high, in view of the demand for such papers)
- The maturity and potential rollover of FCY loan consisting of USD800m in July 2021 into MYR sovereign bonds (Likelihood: slim, as the government

has the ability to comfortably raise FCY debt which is still below its "self-imposed foreign debt ceiling" of RM35b)

- The outstanding repayment of another USD1.4b by Goldman Sachs to the Malaysian government pertaining to 1MDB (Likelihood: slim, as details are sketchy at this juncture)

On a net MGS/GII supply perspective, the estimated net supply of circa RM72.8b is higher than previous year (2020: RM65.4b and 2019: RM46.7b) but should still 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 save for the above-mentioned scheduled foreign currency-denominated i.e. USD800m debt maturity by the Government of Malaysia (GOM).

MGS/GII Issuance pipeline in 2021 versus maturities: Our key takeaways….

Based on the maturity profiles tables below; the maturity profile reflects a "heart-beat blip" pattern with Q32021 being heavy compared to the other quarters. **The issuance supply for 2021 is slightly skewed evenly towards the shorter tenures i.e. belly and also some long tenures i.e. 20Y with main targeted tenures still being within 3-15Y space.**

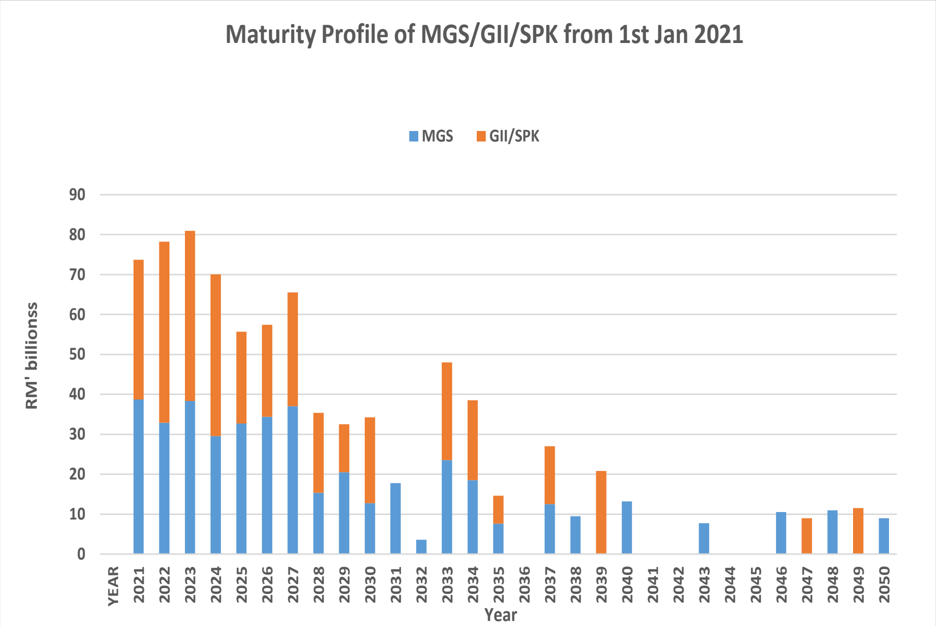
There is surprisingly an increase in the number of 3Y and 5Y issuances from 4 each the previous year to 5 and 6 respectively for 2021 potentially in view of keen offshore interest in the shorter-ends and inter-bank requirements for inventory. Nevertheless there have also been attempts to spread and smoothen out the maturity profile to include 2030, 2031, 2034, 2039, 2049 and 2050 as well since the current maturity profile weighs heavy on the shorter-end of the curve i.e. 2021-2027. **We project quarterly issuances to initially be front-loaded and subsequently maintain throughout the remaining quarters in the following manner:-**

Q1-RM43.0b
Q2-RM37.0b
Q3-RM38.0b
Q4-RM34.5b

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 51/49 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 current substantial holdings of MGS at ~RM436.4b; representing 40.1% of overall outstanding issuance.

Quarter	2021	Stock	Monthly Maturity (RM'm)	Quarterly Maturity (RM'm)
	JAN			
1	FEB	MGS2/21	3,500	
	MAR	GII 3/21	9,500	13,000
	APR	GII 4/21	12,500	
2	MAY			
	JUN			12,500
	JUL	MGS 7/21	13,500	
3	AUG	GII 8/21	7,000	
	SEP	MGS 9/21	11,700	32,200
	OCT	SPK 10/21	6,000	
4	NOV	MGS 11/21	10,000	
	DEC			16,000
	Total		73,700	73,700

Source : BPAM, Bloomberg, HLBB Global Markets Research



Source : BPAM, Bloomberg, HLBB Global Markets Research

Number of Issuances			
Tenure	**2020**	**2021**	**Change**
3Y	4	5	1
5Y	4	6	2
7Y	6	6	0
10Y	6	6	0
15Y	6	5	-1
20Y	4	5	1
30Y	4	4	0
Total	**34**	**37**	**3**

Source : BPAM, Bloomberg, HLBB Global Markets Research

MGS/GII tenders in 2020 remained decent despite paranormal global events in 2020; with overall BTC ratios lower at 2.22x

Government bond tenders in 2020 ended the year on a weaker average BTC ratio of 2.22x as opposed to the 2.54x in 2019. Worthy of note was the strong interest from the maiden issuances of both 10Y MGS/GII bond auction in 2020. Despite taking into account several major global events including the COVID-19 pandemic, US interest rate cuts totaling 150bps, BNM OPR cuts totaling 125bps, political upheaval on the local scene, expectations of changes in the country's weightage in FTSE Russell WGBI, the recent release and approval of the 2021 National Budget which entails among others a huge fiscal deficit and also the recent downgrade of Malaysia's long-term issuer default rating from A- to BBB+/Stable by Fitch Ratings; these 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 are seen quite close to the bottom of the rate cycle in tandem with major central bank interest rate decisions due to the severity of the COVID-19 pandemic on economic activity. However, the continued presence of foreign institutional investor appetite in view of the deluge of negative-yielding global debt and also the relatively liquid and diversified local institutional base will be a plus point in providing support.

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