

Global Markets Research

Fixed Income

September 2017

Monthly Perspective

Recapping the month of August

Renewed bargain hunting interest for MYR government bonds have re-emerged taking cue from recent rebound in MYR strength. Bond yields have since grinded lower with investors extending out the curve. We expect bond yields to remain supported for now as odds for Fed hike remains low although pace of Fed tapering or balance sheet reduction remains intact. Meanwhile rhetoric from BNM policy statement suggest a more neutral tone, suggesting that OPR to likely stay unchanged in 2017. Resilient domestic growth prospects, contained inflation outlook and steady financial markets again reinforces our view. On the global front, investors will be watching closely developments from upcoming FOMC meeting after minimal clues on timing of future monetary policy plans from Yellen's Jackson Hole speech. We expect announcement on timing of Fed's balance sheet reduction at the upcoming September FOMC meeting. Let's watchout for this space!

August US non-farm payroll lower than consensus, but pace on Fed tapering remains on track

Despite August non-farm payroll coming in below estimates, with readings of 156K versus survey's 180K and July's (revised) 189K print, we opine the lower print may not derail the Fed's balance sheet reduction plan which is expected to start relatively soon. Market players expect US policymakers to announce tapering plans as soon as the upcoming FOMC meeting scheduled on 21 September. However, recent US macro prints with unemployment levels reversing back to 4.4% in August may potentially pare back odds for a Fed December hike. On a related note, lingering concerns over geopolitical tensions from North Korean have recently provided renewed support for UST, with bond yields shaved lower across the curve, amid flight to safety bids.

OPR unchanged at 3.00% as widely expected

As widely expected BNM held the OPR unchanged at 3.00% at this week's MPC meeting. A closer look at the monetary policy statement suggest that the language has turned to a more neutral stance suggesting OPR to stay accommodative at 3.00% in the near term. Outlook on the global front meanwhile has turned somewhat more positive amid improving external environment. Resilient domestic growth, contained inflation outlook as well as steady financial markets are expected to reinforce views for OPR to stay unchanged for the remaining months of 2017.

MYR government bond tenders well supported amid renewed support from onshore real money

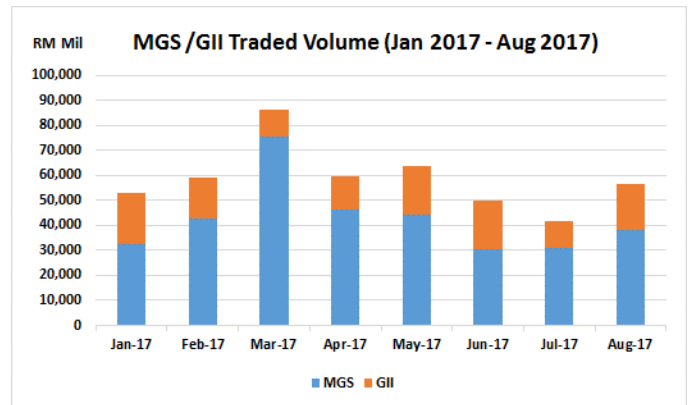
MGS/GII Issuance pipeline in 2017

No	Stock	Tenure-yrs	Tender Month	by quarter	Tender Date	Expected size (RM mil)	Issuance (RM mil)	Private Placement	Amt Issued YTD	BTC (times)	Low	Average	High	Cut-off
1	3-yr Reopening of MGII 04/20 3.226%	3	Jan	Q1	5/1/2017	3,000	3,500		3,500	1.789	3.657	3.690	3.700	75.0%
2	15-yr Reopening of MGS 06/31 4.232%	15	Jan	Q1	12/1/2017	3,500	4,000		7,500	2.503	4.773	4.786	4.786	25.0%
3	10.5-yr New Issue of MGII (Mat on 07/27)	10	Jan	Q1	25/1/2017	4,000	4,000		11,500	3.413	4.245	4.258	4.265	10.6%
4	7.5-yr New Issue of MGII (Mat on 08/24)	7	Feb	Q1	14/2/2017	4,000	4,000		15,500	3.123	4.030	4.045	4.050	100.0%
5	30-yr Reopening of MGS 03/46 4.736%	30	Feb	Q1	27/2/2017	2,500	2,000	1,000	18,500	2.562	4.660	4.676	4.686	5.0%
6	5-yr New Issue of MGS (Mat on 03/22)	5	Mar	Q1	9/3/2017	4,000	4,000		22,500	1.538	3.859	3.882	3.903	3.0%
7	15-yr Reopening of MGII 08/33 4.582%	15	Mar	Q1	23/3/2017	3,000	3,000	1,000	26,500	1.897	4.660	4.696	4.730	27.0%
8	7.5-yr New Issue of MGS (Mat on 09/24)	7	Mar	Q1	30/3/2017	4,000	3,000	1,000	30,500	2.064	4.030	4.059	4.072	64.0%
9	20-yr New Issue of MGS (Mat on 04/37)	20	Apr	Q2	6/4/2017	3,000	2,000	1,000	33,500	1.585	4.725	4.762	4.799	90.0%
10	5-yr New Issue of MGII (Mat on 04/22)	5	Apr	Q2	13/4/2017	4,000	4,000		37,500	2.773	3.925	3.948	3.957	29.0%
11	15-yr Reopening of MGS 04/33 3.844%	15	Apr	Q2	27/4/2017	3,000	2,500	500	40,500	2.057	4.469	4.503	4.515	64.0%
12	30-yr New Issue of MGII (Mat on 05/47)	30	May	Q2	5/5/2017	3,000	2,000	500	43,000	2.393	4.850	4.895	4.913	19.0%
13	10.5-yr New Issue of MGS (Mat on 11/27)	10	May	Q2	15/5/2017	4,000	3,000	1,000	47,000	3.340	3.880	3.899	3.910	95.0%
14	7-yr Reopening of MGII (Mat on 08/24)	7	May	Q2	30/5/2017	3,500	3,000	1,000	51,000	2.480	3.909	3.926	3.933	82.0%
15	20-yr Reopening of MGS (Mat on 04/37)	20	Jun	Q2	6/6/2017	2,500	2,500		53,500	1.704	4.540	4.558	4.576	3.0%
16	10-yr Reopening of MGII (Mat on 07/27)	10	Jun	Q2	14/6/2017	3,500	3,000	1,000	57,500	2.541	3.991	4.013	4.021	6.9%
17	7-yr Reopening of MGS (Mat on 09/24)	7	Jul	Q3	6/7/2017	3,500	3,000	1,000	61,500	2.877	3.913	3.919	3.924	63.0%
18	30-yr Reopening of MGII (Mat on 05/47)	30	Jul	Q3	13/7/2017	2,500	2,000		63,500	1.915	4.900	4.926	4.946	66.7%
19	10-yr Reopening of MGS (Mat on 11/27)	10	Jul	Q3	27/7/2017	3,500	3,000	1,000	67,500	1.683	3.957	3.978	3.989	5.6%
20	20-yr New Issue of MGII (Mat on 08/37)	20	Aug	Q3	3/8/2017	3,000	2,500		70,000	1.784	4.723	4.755	4.783	50.0%
21	3.5-yr New Issue of MGS (Mat on 02/21)	3	Aug	Q3	14/8/2017	4,000	3,500		73,500	1.706	3.422	3.441	3.455	72.0%
22	7-yr Reopening of MGII (Mat on 08/24)	7	Aug	Q3		3,500	3,500	500	77,500	2.104	3.963	3.975	3.98	62.5%
23	5-yr Reopening of MGS (Mat on 03/22)	5	Sep	Q3		3,500								
24	15-yr Reopening of MGII 08/33 4.582%	15	Sep	Q3		3,000								
25	7-yr Reopening of MGS (Mat on 09/24)	7	Oct	Q4		3,500								
26	20-yr Reopening of MGII (Mat on 08/37)	20	Oct	Q4		2,500								
27	30-yr Reopening of MGS 03/46 4.736%	30	Oct	Q4		2,000								
28	10-yr Reopening of MGII (Mat on 07/27)	10	Nov	Q4		3,500								
29	15-yr Reopening of MGS 04/33 3.844%	15	Nov	Q4		3,000								
30	5-yr Reopening of MGII (Mat on 04/22)	5	Nov	Q4		3,500								
31	10-yr Reopening of MGS (Mat on 11/27)	10	Dec	Q4		3,000								
32	15.5-yr New Issue of MGII (Mat on 05/33)	15	Dec	Q4		3,000								
Estimated gross MGS/GII supply in 2017						105,000								

Overall government bond tenders concluded for the month of August saw relatively healthy BTC trends, with latest 7-year GII 8/24 garnering a strong BTC cover of 2.10x. We expect support from onshore real money investors to persist.

Trading volume for MGS/GII boosted higher in August due to upbeat 2Q GDP, infusing positive catalysts for the local currency and hence bargain hunting interest

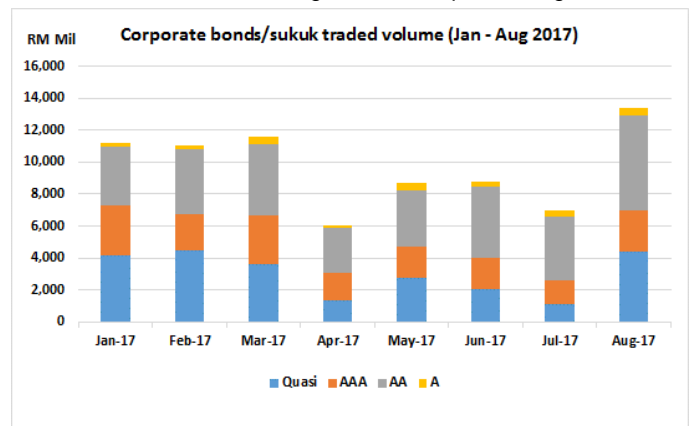
Trading volume for MYR govies improved further for the month of August from renewed support emerging from strong rebound in local currency performance following upbeat 2Q Malaysia GDP release. Growth improved to 5.8% YoY in 2Q versus market expected level of 5.4% and prior level of 5.6% seen in 1Q. Trading volume surged more than 30% on a MoM, with total MGS/GII transacted coming in at RM56b for the month of August.



Source : BPAM, Bloomberg

Trading volume for corporate bonds/sukuk saw similar momentum, thanks to increased transacted amount for GG papers

On a similar tone, trading volume for corporate bonds/sukuk saw rebound in transacted amounts with a combined amount of RM13b for the month of August versus July's RM7b. By segment, transacted amount for quasi, AAA, AA and single A space contributed circa 33%, 19%, 44% and remaining 4% from respective segments.



Source : BPAM, Bloomberg

Primary issuance print in August boosted by notable issuance

Notable issuances for month of August	Issued amount (RM mil)	Rating
Perbadanan Tabung Pendidikan Tinggi Nasional	1800	GG
Tenaga Nasional Berhad	2000	AAA
Cagamas Berhad	410	AAA
Public Islamic Bank Berhad	500	AA1
Northern Gateway Infrastructure Sdn Berhad	340	AA1
Celcom Networks Sdn Berhad [fka Celcom Transmission (M) Sdn Berhad]	1000	AA+
BGSM Management Sdn Berhad	700	AA3

Source : Bloomberg

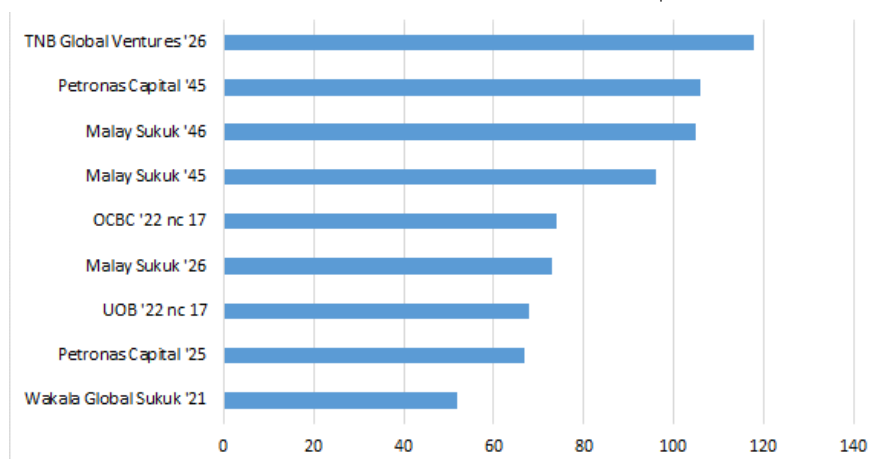
During the period in review, corporate bonds/sukuk pipeline in the primary space saw improved issuance pipeline for the month of August. Primary prints concluded for the period in review include RM1.8b from PTPTN (GG), Public Islamic sub-debt RM500m AA1 print and Celcom Networks RM1b issuance. For the month of August, new primary prints saw a collective amount of RM8.6b issued.

UST Market

UST yields have started to ease lower on the back renewed support due to flight to safety flows amid lingering concerns over geopolitical tensions from North Korea as well as Hurricane Irma which may delay the Fed's rate hiking cycle plans. UST 10-year yields have grinded lower, with levels touching a low of 2.02% at time of writing. However, we expect prospects of Fed tapering is still on the cards, with possible announcement at the upcoming FOMC meeting.

Asian Dollar Bonds

During the period in review, Santos Finance has set a final guidance of 10-year US print with CT+210 bps versus initial price guidance of CT+230 bps. Meanwhile Sinopec priced its \$700m 3-year print at CT+87 bps, \$1.4b 5-year issue at CT+98 bps, \$750m 10-year print at CT+120bps and \$400m 30-year issue at 4.00%. Also in the offing was AYV Finance, a unit of Ayala Corp which sold its \$400m perpetual NC5 at 5.125%, with demand for this print coming in with an order book of close to \$2.5b



Outlook for September

5-year MGS and 15-year GII reopening for the month of September

Up next is the 5-year and 15-year GII reopening scheduled for the month of September. With the recent rebound in MYR strength, we expect upcoming bond tenders to be well supported, with the 15-year GII print appealing to long-term real money accounts, i.e. lifers and pension funds.

September FOMC to emerge as window for announcement of Fed tapering

Despite mixed data releases from the US, we expect the Fed to remain on course to announce timing of tapering plans as soon as upcoming September FOMC meeting. We opine the pace of balance sheet reduction to remain gradual.

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