

Global Markets Research
Fixed Income

Monthly Perspective

MYR Bond Market

Recapping the month of October

On the global front, US Treasuries (USTs) whipsawed as several names were bandied about to head the Federal Reserve. Investors continued to closely monitor developments from the stronger US economic data in October such as GDP, nonfarm payrolls, ISM Manufacturing which continued to highlight the “green-shoots”. FOMC decision to stay pat on rates did not whet the appetite for USTs as yields were generally higher by 2-10bps as at end-Oct across most tenures. The 10Y closed 5bps higher at 2.38%. The high market implied odds (>90%) of a rate hike in the upcoming FOMC meeting in December along with Trump’s proposed Tax Bill were detrimental to the decades long bull-run in USTs!

On the local front, the initial renewed interest for MYR government bonds in September following the first net foreign inflows in four months did not spillover to the month of October. Inflows were short-lived as they reversed by RM2.2b whereas Corporate Bonds saw a slight decline of about RM573m mainly from maturities arising in the month. The mild fear emanating out of stronger economic data from US continues to affect emerging markets. Lower volume and higher yields were very much the order of the month. MGS yields generally rose between 8-18bps across most tenures save for the much-watched 10Y benchmark MGS 11/27 which closed 1bps lower at 3.95%. Interest was mainly skewed on the short-end off-the-runs 18-20’s with possible currency play in focus. We expect bond yields for Govvies to remain elevated somewhat judging from lukewarm interests from both end-clients and inter-bank players. Meanwhile, the BNM Monetary Policy Committee maintained OPR at 3.00% at its November MPC meeting but shifted to a slightly hawkish tone, raising odds of an interest rate hike in 2018.

MYR sovereign curve (MGS)



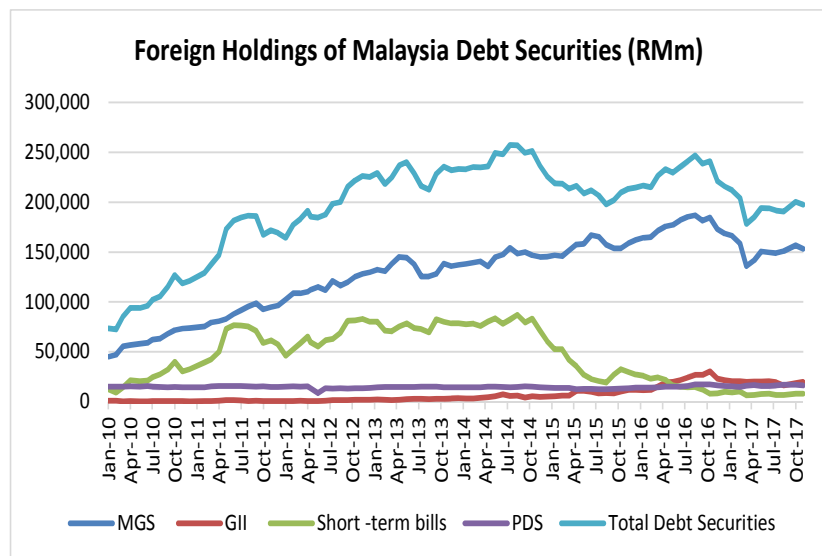
Source : Bloomberg

October US non-farm payroll lower than consensus, but strong as Fed tapering and rate hike remains on track

Despite October non-farm payrolls ("NFP") coming in below estimates with readings of 261K versus survey's 313K; this was way higher than September's revised 18K print, we note the latest print continues to portray relatively strong jobs data amid rising economic activity in the US. Together with the Fed's balance sheet reduction plan underway and portfolio run-offs; market players can expect US policymakers to announce a rate hike soon in the upcoming FOMC meeting scheduled on 14th December. The downside to our projection (if any) would be due to potential political-spats, geo-political tensions emanating out of North Korea or Middle East, along with any natural geographical disasters triggering flight-to-safety bids for USTs.

Foreign Holdings of MYR bonds moderated in October again after rising in September

Foreign holdings of MYR bonds were lower for the month of October with total holdings easing by 1.4% MOM i.e. RM2.8b to RM197.3b (Sept: RM200.1b). Non-resident holdings of MGS were RM3.5b lower at RM153.2b whereas GII holdings improved by RM1.3b to RM19.8b. The overall decrease comes on the back of a rebound in September after three consecutive decreases from June-August.



OPR unchanged at 3.00% as widely expected but policy tone turned slightly hawkish

As expected BNM held the OPR unchanged at 3.00% at its November MPC meeting but shifted to a slightly hawkish tone, potentially paving the way for an OPR hike in 2018. "Given the strength of the global and domestic macroeconomic conditions, the Monetary Policy Committee may consider reviewing the current degree of monetary accommodation". This followed its more bullish assessment that growth has become more entrenched in Malaysia and comment that growth prospects are expected to remain "strong" in 2018. Given the shift in policy tone to a slightly hawkish bias today, we now expect BNM to raise OPR in 2018, with 1H2018 as a possible window barring any downside surprises in growth.

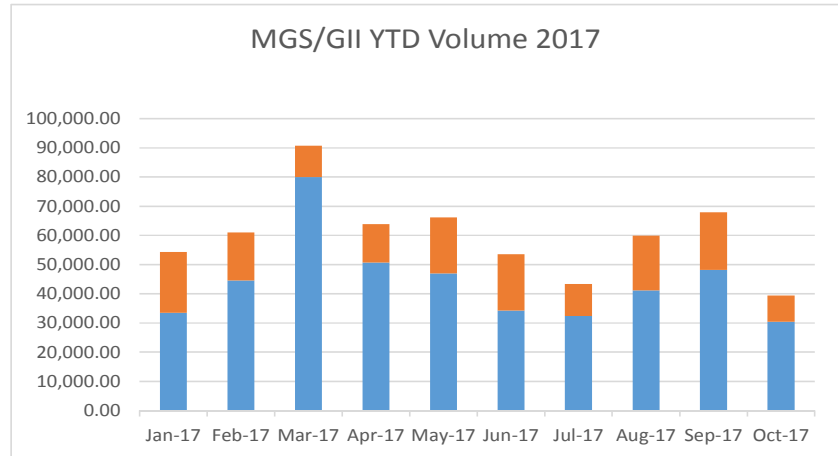
MYR government bond tenders were cautiously supported ahead of the 2018 Budget

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 (Mat on 04/20)	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 (Mat on 06/31)	15	Jan	Q1	12/1/2017	3,500	4,000		7,500	2.503	4.773	4.786	4.796	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 (Mat on 03/46)	30	Feb	Q1	27/2/2017	3,000	3,000	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 (Mat on 08/33)	15	Mar	Q1	23/3/2017	3,000	3,000	1,000	25,500	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	3,500	3,500	1,000	29,000	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	31,000	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		35,000	2.773	3.925	3.948	3.957	29.0%
11	15-yr Reopening of MGS (Mat on 04/33)	15	Apr	Q2	27/4/2017	3,000	2,500	500	37,500	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	39,500	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	3,000	3,000	1,000	42,500	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	45,500	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		48,000	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	51,000	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	54,000	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		56,000	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	3,000	3,500	1,000	59,500	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		62,000	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		65,500	1.706	3.422	3.441	3.455	72.0%
22	7-yr Reopening of MGII (Mat on 08/24)	7	Aug	Q3	29/8/2017	3,500	3,500	500	69,000	2.104	3.963	3.975	3.980	62.5%
23	5-yr Reopening of MGS (Mat on 03/22)	5	Sep	Q3	14/9/2017	3,500	4,000		73,000	1.899	3.481	3.501	3.520	72.9%
24	15-yr Reopening of MGII (Mat on 08/33)	15	Sep	Q3	28/9/2017	3,000	3,000	1,000	76,000	1.727	4.520	4.579	4.640	53.3%
25	7-yr Reopening of MGS (Mat on 09/24)	7	Oct	Q4	5/10/2017	3,500	3,000		79,000	1.604	3.850	3.879	3.898	20.0%
26	20-yr Reopening of MGII (Mat on 08/37)	20	Oct	Q4	12/10/2017	2,500	1,500	1,000	80,500	2.147	4.755	4.785	4.803	36.4%
27	30-yr Reopening of MGS (Mat on 03/46)	30	Oct	Q4	26/10/2017	2,000	2,500	500	83,000	1.603	4.850	4.957	5.000	2.5%
28	10-yr Reopening of MGII (Mat on 07/27)	10	Nov	Q4		2,500								
29	15-yr Reopening of MGS (Mat 04/33)	15	Nov	Q4		2,500								
30	5-yr Reopening of MGII (Mat on 04/22)	5	Nov	Q4		3,000								
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 06/33)	15	Dec	Q4		2,500								
Estimated gross MGS/GII supply in 2017						101,000								

Overall government bond tenders concluded for the month of October saw relatively subdued BTC trends, with latest two out of three auctions i.e. 7-year MGS 9/24 and 30-year MGS 3/46 garnering BTC covers of a mere 1.6x; well below their respective previous BTC covers which were well above 2.0x. However we note support emanating from onshore real money end-investors.

Trading volume for MGS/GII was subdued in October; amid absence of market-moving news against the backdrop of a more stable Ringgit....

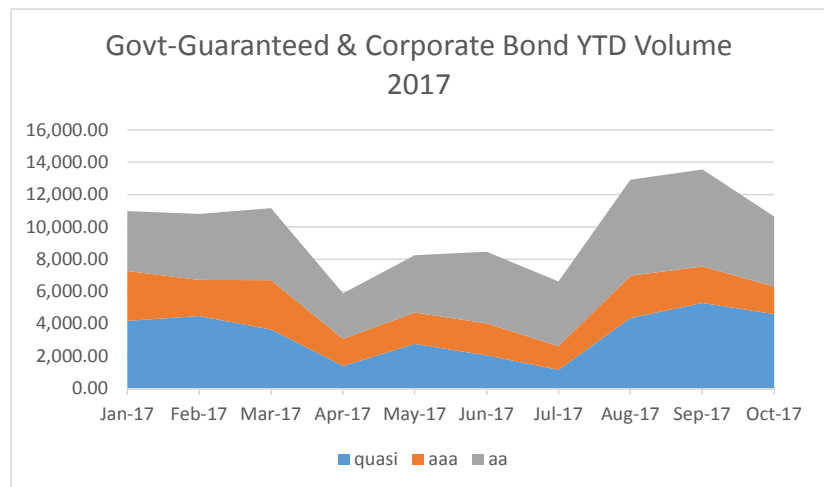
Trading volume for MYR govies dipped from about RM64b in September to about RM39b for the month of October mainly due to fears arising from the increasing odds of a potential rate hike by the US Fed in the coming months and the formal announcement of its balance sheet reduction i.e. QE tapering. Market seemed to react readily towards foreign-related indicators despite the favourable local data i.e. lower 2018 budget deficit target of 2.8% of GDP and more upbeat macro forecasts by MOF.



Source : BPAM, Bloomberg

Corporate bonds/sukuk saw interest; albeit on lower volume mirroring govies momentum...as there was no let-up on primary issuances...

On a similar note, monthly trading volume for corporate bonds/sukuk saw a drop in overall interest. However we note a pick-up in the AA-rated space as investors continued to display interest for yield-carry purposes. The total transacted amount was RM11.2b for October versus RM13.9b the previous month. By segment, transacted amount for AA papers was almost 60%.



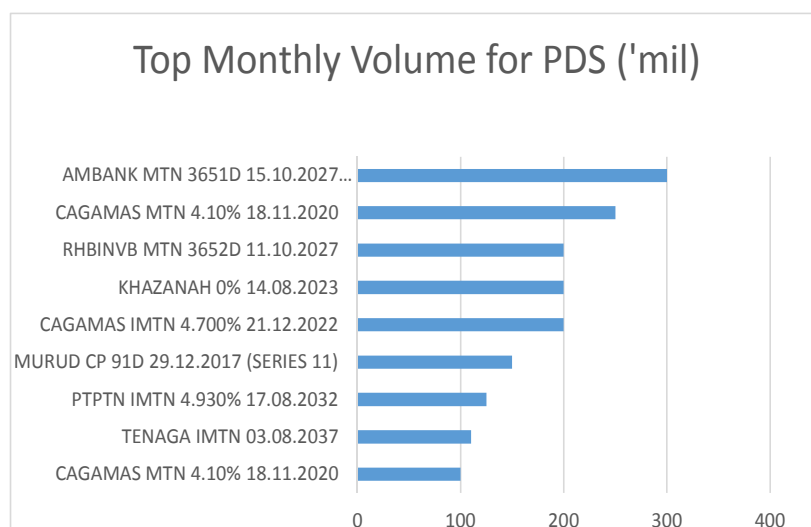
Source : BPAM, Bloomberg

Primary issuance print in October boosted by the following names:

Notable issuances for Oct-17	Rating	Amount Issued(RM mil)
Johor Port Bhd	GG	700
MKD Kenchana Sdn Berhad	GG	1,000
PR1MA Corporation Malaysia	GG	2,500
MKD Kenchana Sdn Bhd	GG	1,000
Cagamas Berhad	AAA	2,280
Danajamin Nasional Bhd	AA1	500
TRIpIc Medical Sdn Bhd	AA1	666
Imtiaz Sukuk	AA2	700
Southern Power Generation Sdn Bhd	AA3	3,665
Perbadanan Kemajuan Negeri Selangor	AA3	100
Quantum Solar Park Sdn Bhd	AA3	305

Source : Bloomberg/ BPAM

During the period under review, corporate bonds/sukuk pipeline in the primary space saw improved issuance pipeline for the month of October; totaling some RM13.4b. Primary issuances concluded for the period under review include RM2.5b from PR1MA Corp (GG), Cagamas Berhad's RM2.28b (AAA-rated) and Southern Power Generation's RM3.665b which is rated AA3; maturing 2022-2031.



Outlook for November

5 ,10-year GII and 15-year MGS reopening slated for the month of November

Up next is the 5-year and 10-year GII reopening scheduled for the month of November. We also have the 15Y MGS 4/33 auction towards the end of the month. We forecast sufficient tender support taking into account the potential value for both 10Y issuances in terms of yields and liquidity. We expect the upcoming bond tenders to be supported by both onshore and off-shore real money investors along with inter-bank players. However the 15-year GII issuances may only appeal to pension funds and to a lesser extent; life insurance companies.

December FOMC outcome to reinforce gradual tightening stance....

Riding on the relatively strong trade, consumption and jobs data releases from the US lately, the extremely high (i.e. 90%) odds of a rate hike in December will be seen as a potential dampener. With the ongoing pace of balance sheet reduction by the US Fed and the uncertainties on Trump's Tax proposal to cut corporate taxes; we expect some form of "whipsaw" reaction in the US Treasuries market for the month of November. In a nutshell, despite the stable MYR and lower foreign shareholdings translating to limited outflows; we foresee an unlikely divergence with USTs as investors continue to look ahead for further concrete data and indicators on global trade and economic conditions.

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