

Global Markets Research

Fixed Income

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Monthly Perspective

Chang Wai Ming

Fixed Income Strategist

Hong Leong Bank Berhad, Global Markets

Fixed Income & Economic Research

[WMChang@hlbb.hongleong.com.my](mailto:WMChang@hlbb.hongleong.com.my)

(603) 2773 0532

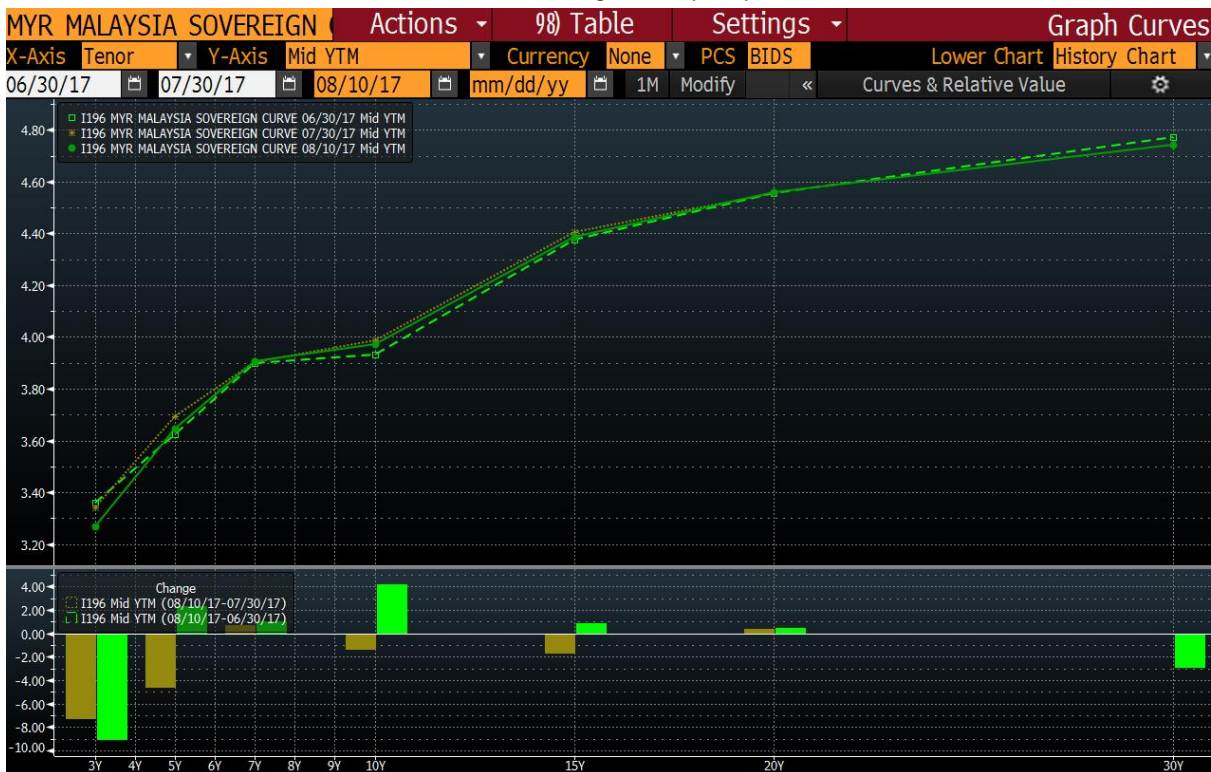
MYR Bond Market

Recapping the month of July

Market chatters on potential Fed tapering appears to be gaining interest from market players, as recent signs of stronger economic data releases from the US appears to be reinforcing the view. Prospects of September FOCM emerging as a possible window on announcement of Fed tapering details are backed by stronger bets. We expect the pace of Fed tapering to kick in on a gradual and moderate pace, whilst well telegraphed communications by the Fed will help smoothen out market volatilities.

On the local front, liquidity is still ample taking cue from demand at concluded government bond tenders for the month of July. The robust demand for the newly printed TNB sukuk (issuance size of RM2b, comprising of 15-year and 20-year tranche) continues to mirror demand for investment grade credits are still strong. In the near term, focus to shift towards the external front, as investors continue to anticipate more hints on timing of Fed tapering, as well as ECB balance sheet reduction chatters. Additionally, Malaysia's 2Q GDP scheduled for release on 18<sup>th</sup> August and upcoming new 3-year MGS 2/21 will be another key watch for market players. The new MGS 2/21 which we are penciling in a tender size of RM4b, will be replacing the current MGS 3/19 as the new 3-year benchmark MGS.

MYR sovereign curve (MGS)



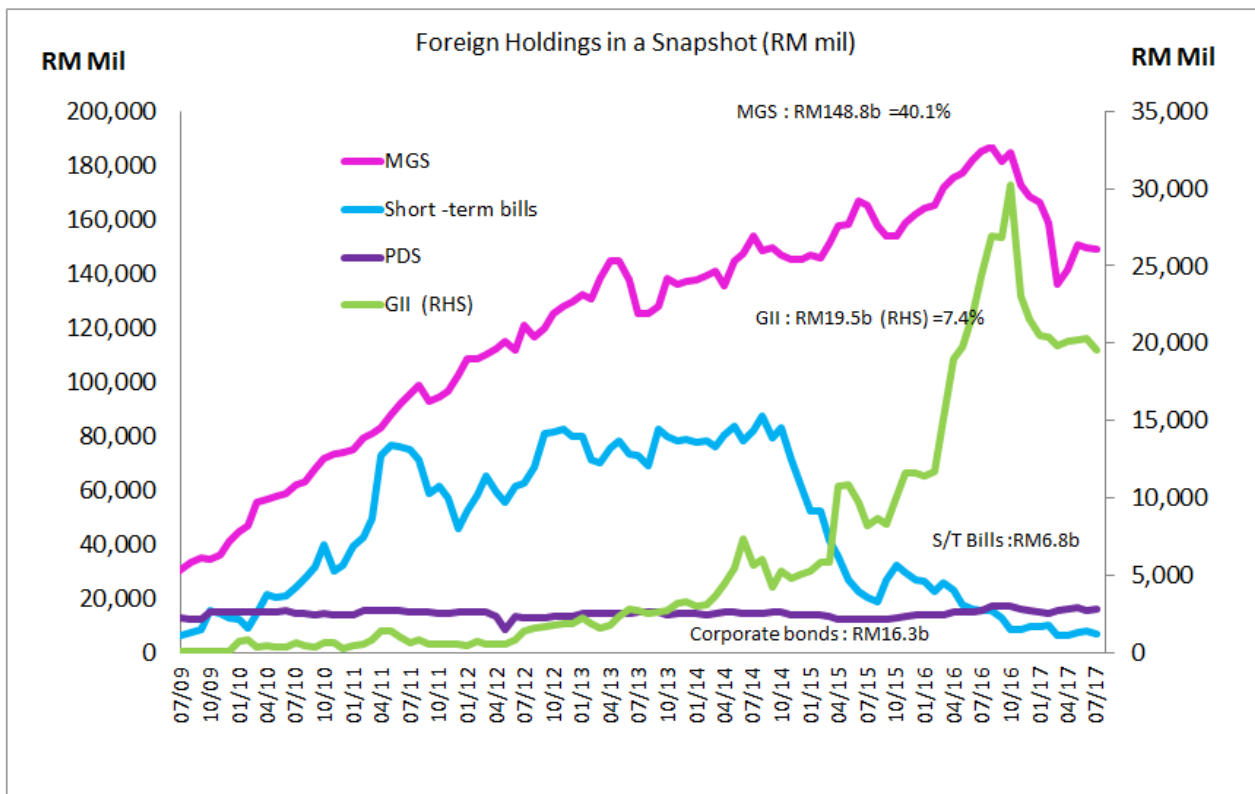
Source : Bloomberg

**Fed tapering plan appears to be drawing nearer taking cue from latest Fed policy statement**

Focus is now on the Fed’s tapering plan, with ECB potentially following suit. Latest US data prints are suggesting the path to recovery is gaining traction, supported by better job data and easing unemployment levels (latest at 4.3%, July). However, subdued inflation outlook is one key reason that is delaying the Fed from withdrawing back monetary stimulus. Any withdrawal of monetary stimulus if any is expected to be gradual. We expect the Fed to announce details on timing of its balance sheet reduction as early as September. As for the ECB, prospects for tapering is still opaque as recent macro prints have yet to warrant a strong case for paring back on monthly bond purchase which stands at EUR60b per month. ECB previously hinted that it may proceed with plans as early as autumn this year (post September).

**Foreign holdings of MYR government bonds moderated in July but levels are still holding up well**

Foreign holdings of MYR government bonds moderated a tad lower for the month of July but is still holding up well. Non-resident holdings of MGS eased to RM148.8b (from 41.2% to 40.1%) whilst GII holdings moderated to RM19.5b (from 7.8% to 7.4%). On a combined basis, non-resident holdings of MYR government bonds, eased from previous 26% to 25.4%. On a positive note, non-resident holdings of corporate bonds/sukuk saw renewed traction, with holding levels increased from RM15.8b in June to RM16.3b (+RM0.5b). In the near term, investors will be watching developments on the external front amid looming Fed balance sheet reduction plans ahead. For further details of foreign ownership of MYR bonds by category, please refer to table and chart as follows:-



Source : BNM , Bloomberg

Month	RM Million						net +inflow/(outflow) (MoM comparable)	MGS net buy / (net sell) MoM
	MGS	GII	BNM Short-term Bills & Notes	Corporate bonds	SPK	Total (in combined)		
Jan-15	146,694	5,283	52,408	13,828	610	218,823	(7,051)	1,382
Feb-15	145,695	5,858	52,637	13,858	610	218,658	(165)	(999)
Mar-15	151,426	5,903	41,864	13,636	585	213,414	(5,244)	5,731
Apr-15	157,563	10,748	35,635	12,393	15	216,353	2,939	6,137
May-15	158,160	10,853	26,774	12,646	15	208,449	(7,905)	597
Jun-15	166,803	9,769	22,711	12,628	15	211,927	3,478	8,643
Jul-15	165,440	8,202	20,693	12,422	15	206,772	(5,155)	(1,364)
Aug-15	157,430	8,718	19,127	12,545	15	197,835	(8,937)	(8,009)
Sep-15	153,781	8,304	27,227	12,646	15	201,974	4,139	(3,649)
Oct-15	153,914	10,155	32,600	12,985	15	209,669	7,695	133
Nov-15	158,952	11,652	29,640	13,322	5	213,571	3,902	5,038
Dec-15	162,146	11,628	27,046	13,982	5	214,807	1,236	3,194
Jan-16	164,399	11,484	26,503	14,071	5	216,463	1,656	2,253
Feb-16	164,977	11,708	22,921	14,064	5	215,110	(1,353)	578
Mar-16	171,533	15,155	25,700	14,239	5	226,632	11,522	6,556
Apr-16	175,438	19,031	23,465	14,920	5	232,859	6,227	3,905
May-16	177,061	19,745	17,692	14,970	5	229,474	(3,385)	1,623
Jun-16	182,066	21,806	16,225	15,061	0	235,158	5,685	5,005
Jul-16	185,307	24,372	15,545	15,644	0	240,867	5,709	3,240
Aug-16	186,940	26,914	15,846	17,182	0	246,882	6,015	1,633
Sep-16	181,413	26,867	12,842	17,370	0	238,490	(8,392)	(5,528)
Oct-16	184,569	30,272	8,912	17,128	0	240,881	2,391	3,157
Nov-16	173,023	23,027	8,777	16,161	0	220,988	(19,893)	(11,546)
Dec-16	168,480	21,528	9,851	15,774	0	215,633	(5,355)	(4,543)
Jan-17	166,385	20,533	9,520	15,300	0	211,737	(3,896)	(2,095)
Feb-17	158,939	20,421	10,450	14,640	0	204,449	(7,287)	(7,446)
Mar-17	135,896	19,814	6,585	15,930	0	178,224	(26,225)	(23,043)
Apr-17	141,616	20,124	6,784	16,466	0	184,989	6,765	5,720
May-17	150,527	20,189	7,728	16,613	0	194,121	9,132	8,911
Jun-17	149,624	20,281	8,095	15,791	0	193,791	(330)	(903)
Jul-17	148,878	19,567	6,815	16,268	0	191,528	(2,263)	(745)

Source : BNM , Bloomberg

### **MYR government bond tenders continue to be well supported, with YTD BTC > 2.0x**

Government bond tenders continue to be well supported, despite looming Fed tapering plans ahead. YTD average BTC trends stands at 2.3x which is above the psychological 2.0x. The recent new 20-year GII 8/37 issue manage to secure 1.78x BTC. Despite demand moderating lower for this tender, we opine the mentioned level is still relatively healthy, as the long-dated nature of these papers generally appeal more to lifers and pension funds for asset-liability matching initiatives. Focus to shift towards upcoming new 3-year MGS 2/21 print, which we are penciling in a tender size of RM4b. YTD MGS/GII issuances currently stands at RM70b which is close to 67% versus our expected gross MGS/GII supply for 2017. Up next is the new 3-year MGS 2/21 tender which replaces as the new 3-year benchmark MGS, a key focus for market players. We are penciling in a tender size of RM4b for this upcoming print.

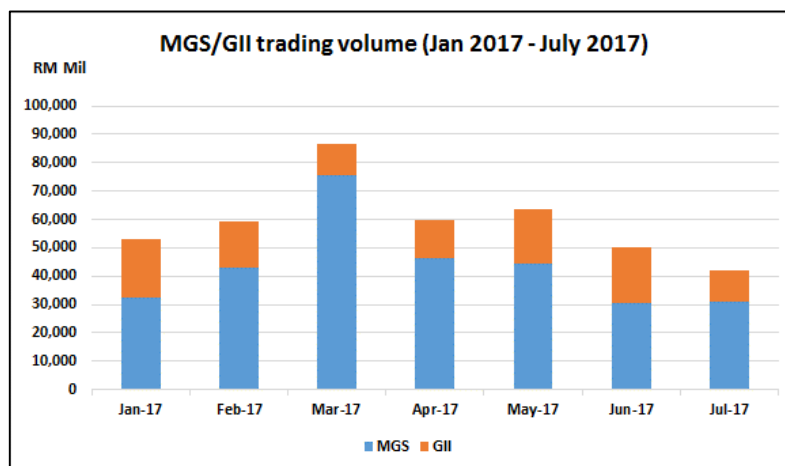
MGS/GII issuance pipeline in 2017

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	4.796	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 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	5.56%
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%
21	3.5-yr New Issue of MGS (Mat on 02/21)	3	Aug	Q3		4,000								
22	7-yr Reopening of MGII (Mat on 08/24)	7	Aug	Q3		3,500								
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 06/33)	15	Dec	Q4		3,000								
Estimated gross MGS/GII supply in 2017						105,000								

Source : BNM, BPAM, Bloomberg, HLB Global Markets Research

**Thinner trading volume for MYR govies in July, Fed and ECB tapering plans continue to influence trading activities**

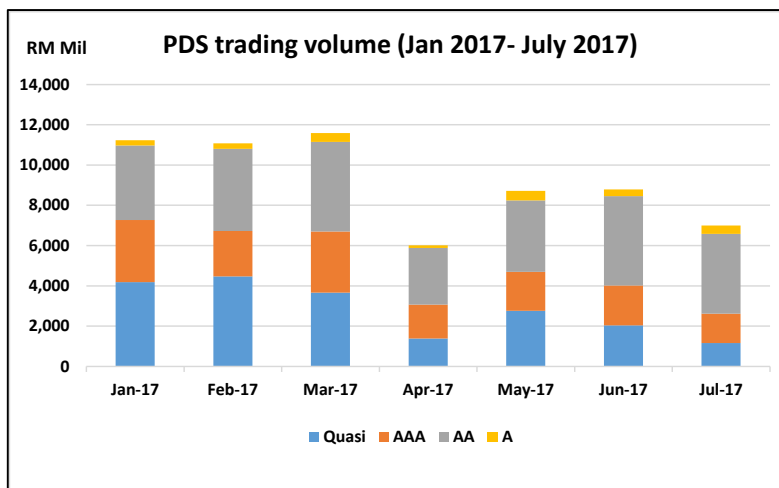
Trading volume from MYR govies continue to moderate lower for the month of July, with investors watching closely rhetoric from the Fed and ECB. Trading volume stayed thin for the month of July, with transacted amounts for MYR govies eased lower to RM41.7b versus June's RM50b. Vis-à-vis other benchmarks, the 7-year and 15-year space continue to remain as sweet spots for tactical investment entry given the kinks on these buckets.



Source : BPAM, Bloomberg

**On a similar tone, trading volume for corporate bonds/sukuk saw lower traded volume**

Similarly, traded volume in the corporate bonds/sukuk space saw transacted volume eased lower as well. By rating bands, most of the trading activities continue to be dominated by AA segment, making up more than 50% of monthly traded volume transacted for corporate bonds/sukuk. Combined traded volume for was over RM7b, with quasi, AAA, AA and A making up 16%, 21%, 57% and 6% of trading composition.



Source : BPAM, Bloomberg

**Tenaga’s RM2b sukuk attracted robust demand from investors**

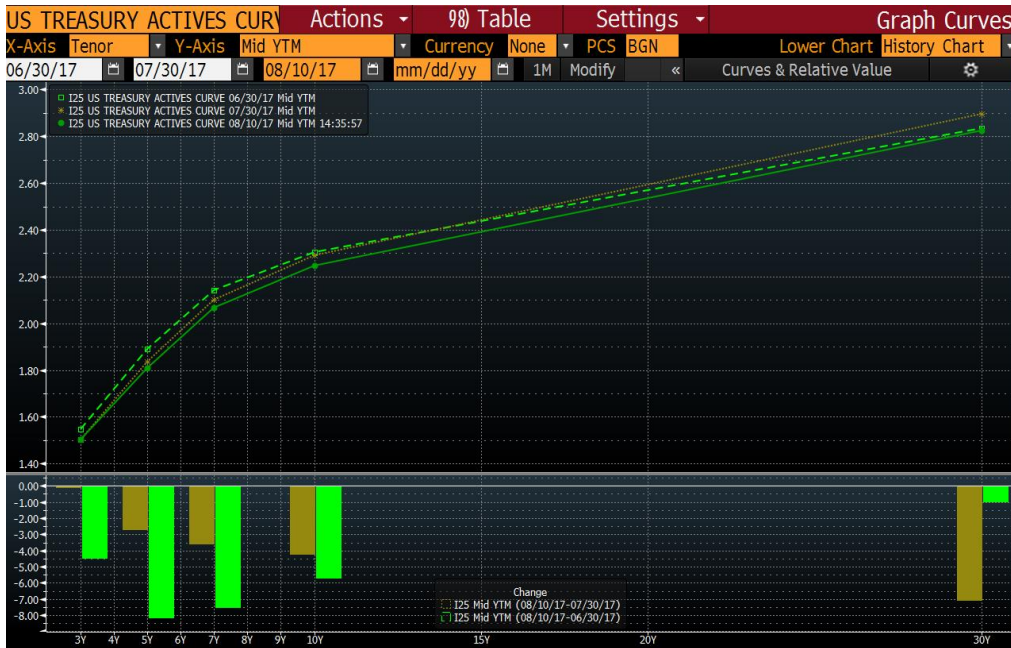
For the month of July, we saw incoming supply of primary issuance with notable prints from Cagamas with combined print size of RM1.41b and RM2b from TNB’s sukuk. TNB priced its 15-year (RM500m) and 20-year (RM1.5b) tranche at the tighter end of its initial price guidance, with levels at 4.95% and 5.18% respectively. TNB’s sukuk attracted demand of close to 5x versus RM2b print size. Summary of notable primary issuances completed for the month of July are as follows:-

Issuance	Rating	Issued Amount (RM Mil)
BEWG (M) Sdn Berhad	AA2	400
Cagamas Berhad	AAA	1410
Public Islamic Bank Berhad	AA1	500
SPR Energy (M) Sdn Berhad	AA3	615
Tadau Energy Sdn Berhad	AA3	250
Tenaga Nasional Berhad	AAA	2000
Westports Malaysia Sdn Berhad	AA1	200

Source : BPAM, corporate releases



## UST Market

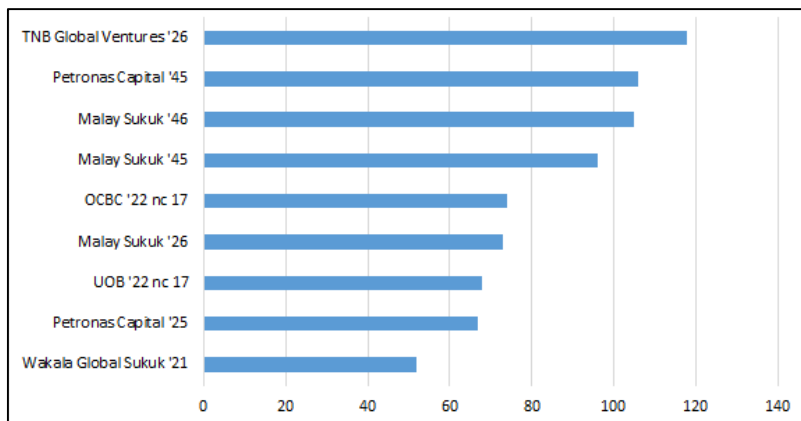


Source : Bloomberg

UST yields have been trading on range-bound mode tracking Fed speeches as well as increased expectations on Fed tapering plans. 10-year yields seen traded at 2.25% level at time of writing. US data releases have turned more optimistic reinforcing views for tapering to start kicking in. However, we opine any withdrawal of stimulus by the Fed should be executed on a gradual pace. Although the macro fundamentals appears slightly more upbeat, the broader recovery trend is still quite fragile.

## Asian Dollar Bonds

During the period in review, Agile priced its \$200m 5-year non-call 3-year 5NC3) bond at 5.125% which was tighter than the initial priced guidance of 5.25% level. The mentioned bonds are rated B1/B+, whilst India EXIM priced its \$400m 5-year FRN at 3 month Libor +100 bps versus initial price guidance of 3 month Libor + 115 bps. Rating for this mentioned print at Baa3/BBB-. In the primary space, Lotte Shopping according to Bloomberg reports is planning a USD bond issuance.



Source : Bloomberg

## ***Outlook for August***

### ***All eyes on new 3-year MGS 2/21 (Expected size : RM4b)***

We expect investors focus to shift towards upcoming new 3-year MGS 2/21 which we are penciling in a tender size of RM4b. Given the benchmark nature of this upcoming tender, demand is expected to be healthy. This print replaces the current MGS 3/19 as the new benchmark, which currently has a short modified duration of circa 1.5 years.

### ***Focus on upcoming Malaysia 2Q GDP***

On the local front, we opine the upcoming Malaysia's 2Q GDP release scheduled on 18th August (according to Bloomberg) to be a key focus for market players. Growth is expected to remain well anchored from improving external demand due to recovery seen on the external environment, which have translated to better export trends. Consensus from a Bloomberg survey expect the Malaysian economy to grow by 5.6% in 2Q.

**Hong Leong Bank Berhad**

Fixed Income &amp; Economic Research, Global Markets

Level 6, Wisma Hong Leong

18, Jalan Perak

50450 Kuala Lumpur

Tel: 603-2773 0469

Fax: 603-2164 9305

Email: HLMarkets@hbb.hongleong.com.my

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