

Global Markets Research

Fixed Income

May 2017

Monthly Perspective

Chang Wai Ming

Fixed Income Strategist

Hong Leong Bank Berhad, Global Markets

Fixed Income & Economic Research

WMChang@hlbb.hongleong.com.my

(603) 2773 0532

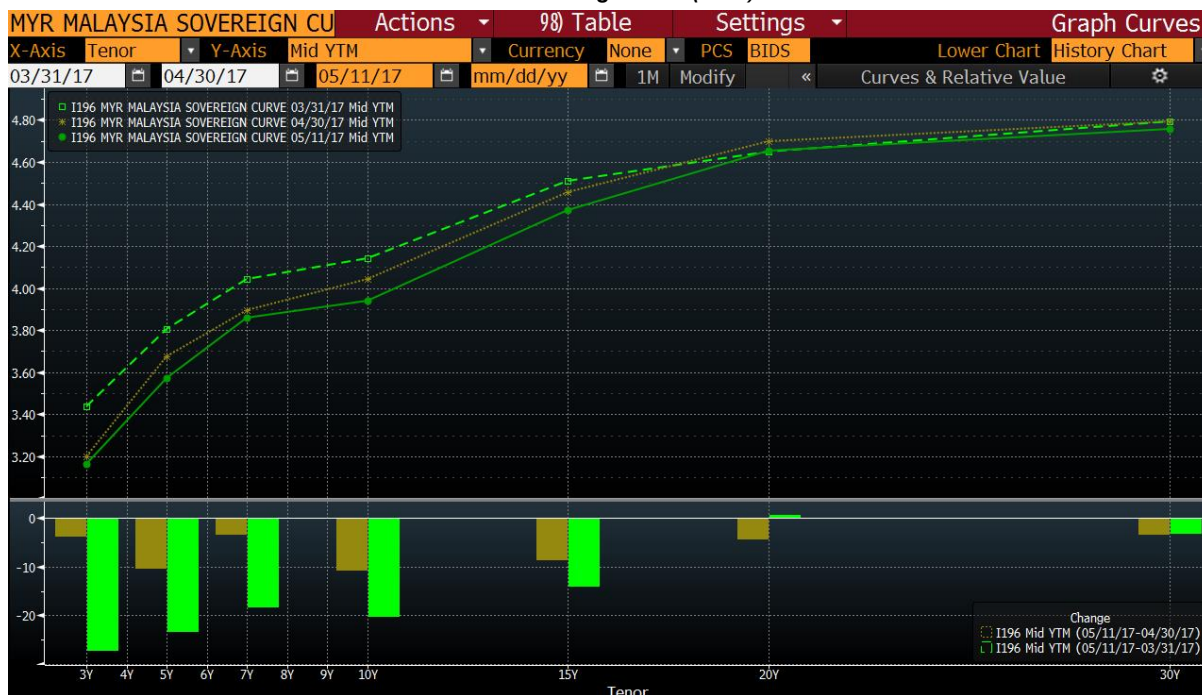
MYR Bond Market

Recapping the month of April

Positive vibes seen returning to the MYR bond space, with non-resident holdings of MYR bonds reversing back to a more positive tone with net inflows of +RM6.7b. Further measures introduced by the Financial Market Committee have helped infused positive sentiments, prompting renewed interest for MYR government bonds. Percentage of foreign ownership in MYR government bonds climbed to 25.3% versus 24.7% seen in March (in combined amounts: MGS, GII and SPK). Percentage of non-resident holdings stands at 39.7% for MGS (March: 38.5%) and 7.9% for GII (March: 7.9%) respectively. Additionally, the recent rebound in MYR performance is expected to provide further catalysts for bargain hunting interests. On another positive note, the inaugural 30-year GII issue printed a robust BTC cover of 2.39x. The extension of maturity profiles up to 30-years for both conventional and Islamic MYR sovereign curve bodes well for the MYR bond market, increasing further depth as well as pricing benchmarks for corporate issuances especially project-financing and infrastructure related funding initiatives, which are generally longer-term in nature.

Prospects of Fed normalization is still on the cards, with market players pricing in prospects of 2 more rate hikes for the remaining months of 2017. The slower growth seen in 1Q US GDP appears somewhat transitory for now according to most Fed officials. Let's watch out for this space with June increasingly emerging as a live month for a potential Fed hike. We opine a well telegraphed Fed rhetoric will help prepare the market better, smoothening out volatilities across global financial markets.

MYR sovereign curve (MGS)



Source : Bloomberg

Fed remains on course to normalize interest rates, slower US growth in Q1 is likely to be transitory

As widely expected US policymakers held its key benchmark interest rate unchanged at the May FOMC meeting. The committee opined that the slower US growth in Q1 is likely to be transitory, whilst addressing that near-term risks to economic outlook appears roughly balanced. The Fed commented that inflation outlook has been running close to its 2.00% long run objective. Although household spending rose modestly, fundamentals underpinning consumption growth is still solid. Gradual path to US interest rate normalization remains on the card, with upcoming June FOMC meeting emerging as a possible live month for interest rate adjustment.

IMF : Malaysian economy remains resilient

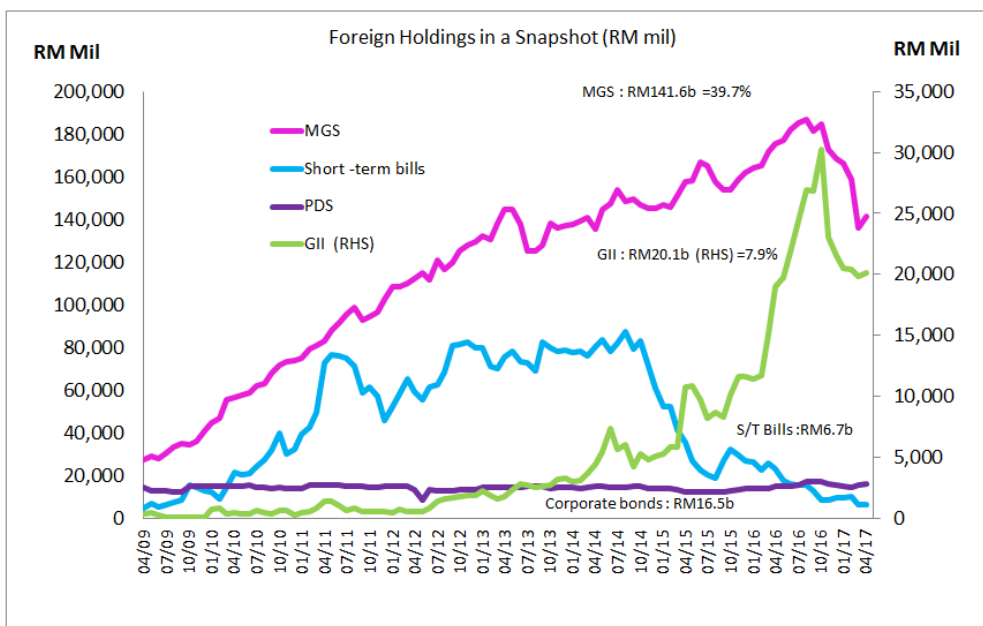
IMF reiterated that the Malaysian economy remains resilient despite the challenging global economic environment during its recent World Economic Outlook (WEO) presentation update held in Malaysia. Malaysia’s GDP is expected to increase moderately to 4.5% in 2017 versus 4.2% in 2016. Domestic demand, led by private consumption will remain as the key driver of growth for the Malaysian economy. IMF also added that although the Malaysian economy has adjusted well to lower global oil prices, sustained lower commodity prices would add to challenges of achieving medium term fiscal targets, adding that heightened global financial stress and associated capital flows may affect the economy. IMF opine that Malaysia’s growth is expected to continue in 2017, but risks of weaker than expected growth in key advanced and emerging economies coupled with global retreat from cross-border integration may potentially weigh on domestic growth prospects. Going forward, IMF urges continued efforts to strengthen policy buffers and measures to boost long-term economic growth.

Foreign holdings of MYR government bonds reverses back to a positive tone with net inflow for the month of April, renewed positive vibes emerging...

Foreign holdings of MYR bonds saw net positive inflow of +RM6.7b for the month of April, reversing flows back to a positive tone after 5 consecutive months of net outflow. Further measures introduced by the Financial Market Committee have infused positive vibes, prompting renewed interest for MYR government bonds. Positive traction in non-resident holdings for the month of April was primarily driven by increased levels of RM5.7b for MGS from previous RM135.9b (March) to latest RM141.6b for the month of April.

In terms of GII non-resident holdings, levels are still holding up well at RM20.1b versus March’s RM19.8b. Percentage of foreign ownership in MYR government bonds climbed to 25.3% versus 24.7% seen in March (in combined amounts : MGS, GII and SPK). In terms of MGS and GII, percentage of non-resident holdings stands at 39.7% (March: 38.5%) and 7.9% (March: 7.9%) respectively. Additionally, the recent rebound in MYR performance is expected to provide further catalysts for bargain hunting interests.

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						Total (in combined)	net +inflow/(outflow) (MoM comparable)	MGS net buy / (net sell) MoM
	MGS	GII	BNM Short-term Bills & Notes	Corporate bonds	SPK				
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	

Source : BNM , Bloomberg

MYR government bond tenders continue to be well supported, with recent BTC > 2.0x

Government bond tenders continue to be well supported, anchored by real money onshore support as well as renewed interest from non-resident investors. Stronger BTC cover with ratios exceeding 2x reinforces our view that the MYR bonds space remains resilient.

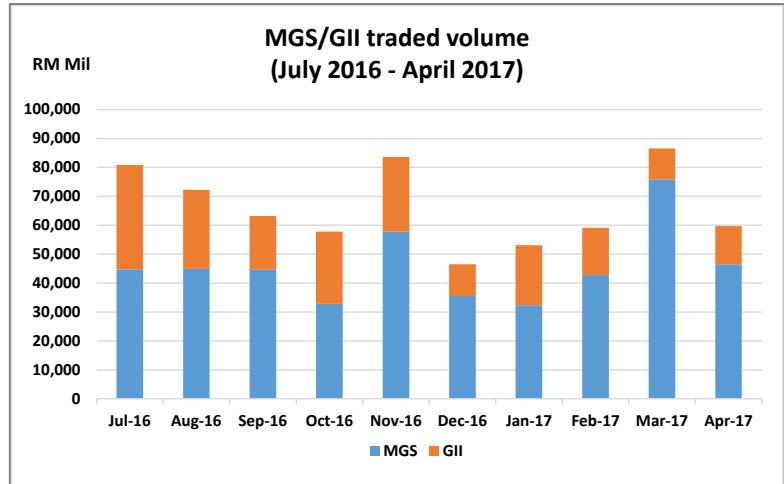
MGS/GII issuance pipeline in 2017

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%
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%
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	11%
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%
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%
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%
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%
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%
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%
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%
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%
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%
13	10.5-yr New Issue of MGS (Mat on 11/27)	10	May	Q2		4,000								
14	7-yr Reopening of MGII (Mat on 08/24)	7	May	Q2		3,500								
15	20-yr Reopening of MGS (Mat on 04/37)	20	Jun	Q2		2,500								
16	10-yr Reopening of MGII (Mat on 07/27)	10	Jun	Q2		3,500								
17	7-yr Reopening of MGS (Mat on 09/24)	7	Jul	Q3		3,500								
18	30-yr Reopening of MGII (Mat on 05/47)	30	Jul	Q3		2,500								
19	10-yr Reopening of MGS (Mat on 11/27)	10	Jul	Q3		3,500								
20	20-yr New Issue of MGII (Mat on 08/37)	20	Aug	Q3		3,000								
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

Trading volume for MYR govies moderated lower for the month of April, RM59b versus March's RM86b

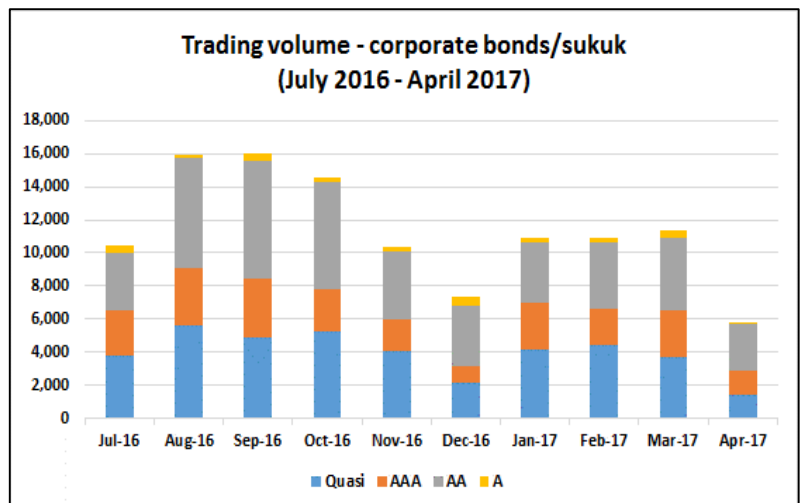
Trading volume for MYR govies moderated lower during the earlier trading weeks of April before momentum picked up towards mid of the month. Traded volume for MYR govies in April saw a collective amount of RM59b changing hands versus March's RM86b. Rebound in MYR performance have prompted renewed interest for MYR govies in recent weeks, potentially beefing up trading volume for the month of May.



Source : BPAM, Bloomberg

Corporate bonds/sukuk transacted for March skewed towards quasi and AA segment

Likewise trading volume for corporate bonds/sukuk saw thinner transacted amounts for the month of April with RM5.8b changing hands versus March's RM11.3b. By rating segment, most of the trading activities were skewed towards the AA and AAA space, contributing 48% and 26% of total monthly traded amounts, with remaining 24% and balance 2% from the quasi and single A space.



Source : BPAM, Bloomberg

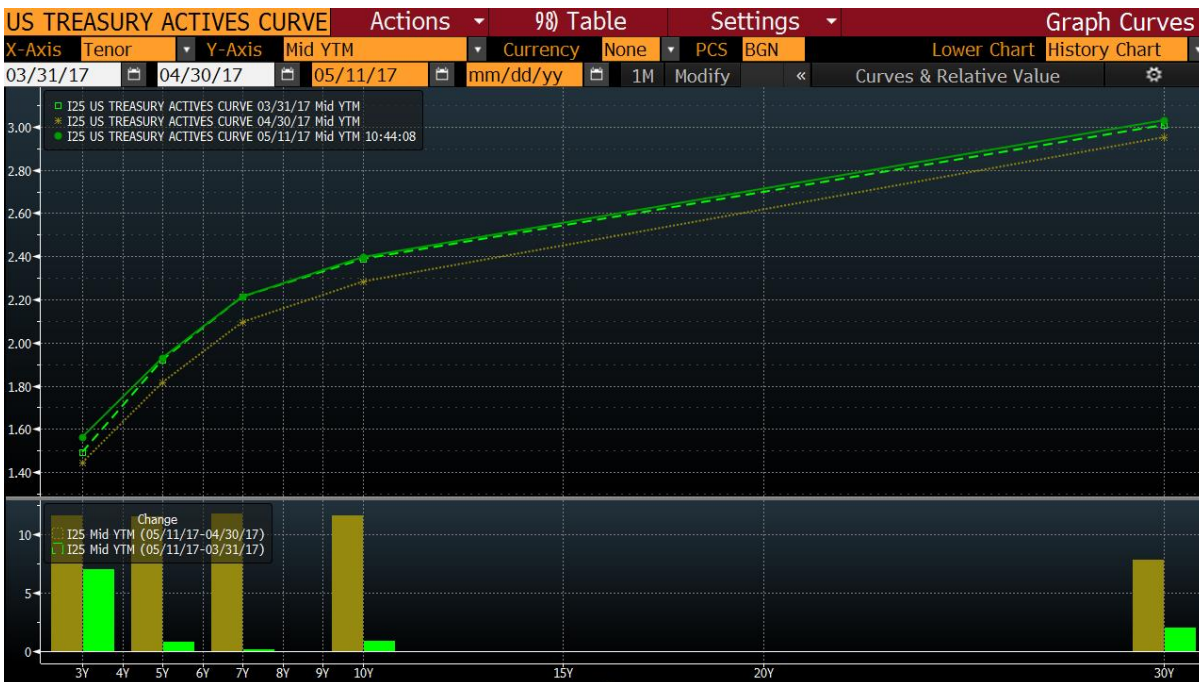
Primary issuance momentum continued in April with combined issued amount worth RM8.6b

During the period in review, primary issuance momentum continued for the month of April with combined issued amount worth RM8.6b, bringing YTD completed prints up to end-April to RM36.2b. Notable issuances completed for the month of April include LPPSA's RM3.25b print, Public Bank RM2b sub-debt issuance as well as Digi's sukuk worth RM900m. Summary of primary issuances completed for the month of April are as follows:-

Issuer	Print size (RM Mil)	Rating
Lembaga Pembiayaan Perumahan Sektor Awam	3,250	GG
Cagamas Berhad	825	AAA
DiGi Telecommunications Sdn Berhad	900	AAA
Public Bank Berhad	2,000	AA1
RHB Islamic Bank Berhad	250	AA3
UEM Edgenta Berhad	250	AA-
Mah Sing Group Berhad (perpetual)	650	NR

Source : BPAM, corporate releases

UST Market

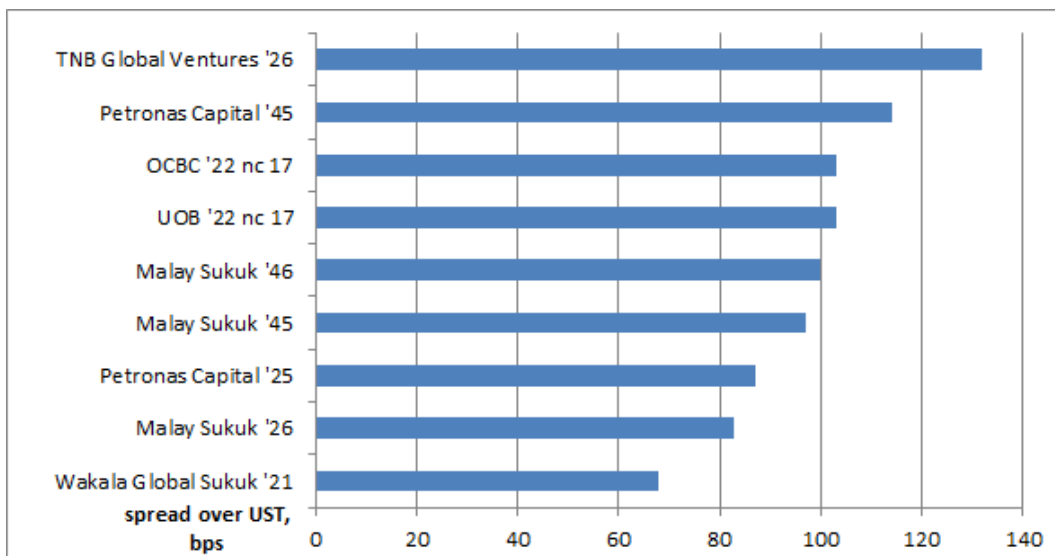


Source : Bloomberg

UST yields saw some level of gyrations with levels settling higher at time of writing. 10-year yields seen hovering at 2.39%-2.40% level at time of writing. We opine the path of US interest rate normalization is still on the cards. (Market players are pricing in prospects of live month in June, with odds of 2 more hikes possible for the remaining months of 2017). Rhetoric of the Fed policy statement suggest that the US economy and recent economic indicators are progressing in line with the Fed's target.

Asian Dollar Bonds

Primary issuance in the Asian USD credit space continue to see active prints with favorable orders. During the period in review, we saw BOCOM garnered demand of more than USD1.1b for its USD700m 3Y FRN and USD1.2b for its USD300m 5-year FRN. Woori Bank meanwhile priced its USD500m perpetual NC5 at 5.25% versus its initial price guidance of 5.50% level. The mentioned print from Woori Bank managed to garner an order book of circa 3x i.e. demand > USD1.5b for its mentioned USD500m print, comprising of investors from Asia : 49%, US : 33% and Europe : 18%. On the sovereign space, Sri Lanka tapped the USD space with USD1.5b 10-year print which was priced at 6.20% versus initial price guidance of 6.625%, suggesting demand remains robust.



Source : Bloomberg

Outlook for May

BNM May MPC in focus

We opine the upcoming BNM MPC tomorrow will be a key focus for market players. The central will likely maintain the OPR unchanged at 3.00% as inflation although higher now remains cost push in nature. Rhetoric and assessment on growth and inflation outlook will be a key focus for investors when BNM releases the upcoming monetary policy statement.

Upcoming bond tenders : new 10-year MGS 11/27 and reopening of 7-year GII 8/24

All eyes on upcoming new 10-year MGS 11/27 issuance, which we are penciling in a tender size of RM4b, paving the way for its potential inclusion into WGBI index. Given the benchmark status of this upcoming print, we expect this tender to be well supported. Also in the offing, is the reopening of 7-year GII which we expect a print size to range between RM3.0b-RM3.5b. Let's watch out for this space!

Hong Leong Bank Berhad

Fixed Income & 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@hlbb.hongleong.com.my

DISCLAIMER

This report is for information purposes only and does not take into account the investment objectives, financial situation or particular needs of any particular recipient. The information contained herein does not constitute the provision of investment advice and is not intended as an offer or solicitation with respect to the purchase or sale of any of the financial instruments mentioned in this report and will not form the basis or a part of any contract or commitment whatsoever.

The information contained in this publication is derived from data obtained from sources believed by Hong Leong Bank Berhad ("HLBB") to be reliable and in good faith, but no warranties or guarantees, representations are made by HLBB with regard to the accuracy, completeness or suitability of the data. Any opinions expressed reflect the current judgment of the authors of the report and do not necessarily represent the opinion of HLBB or any of the companies within the Hong Leong Bank Group ("HLB Group"). The opinions reflected herein may change without notice and the opinions do not necessarily correspond to the opinions of HLBB. HLBB does not have an obligation to amend, modify or update this report or to otherwise notify a reader or recipient thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

HLB Group, their directors, employees and representatives do not have any responsibility or liability to any person or recipient (whether by reason of negligence, negligent misstatement or otherwise) arising from any statement, opinion or information, expressed or implied, arising out of, contained in or derived from or omission from the reports or matter. HLBB may, to the extent permitted by law, buy, sell or hold significantly long or short positions; act as investment and/or commercial bankers; be represented on the board of the issuers; and/or engage in 'market making' of securities mentioned herein. The past performance of financial instruments is not indicative of future results. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Any projections or forecasts mentioned in this report may not be achieved due to multiple risk factors including without limitation market volatility, sector volatility, corporate actions, the unavailability of complete and accurate information. No assurance can be given that any opinion described herein would yield favorable investment results. Recipients who are not market professional or institutional investor customer of HLBB should seek the advice of their independent financial advisor prior to taking any investment decision based on the recommendations in this report.

HLBB may provide hyperlinks to websites of entities mentioned in this report, however the inclusion of a link does not imply that HLBB endorses, recommends or approves any material on the linked page or accessible from it. Such linked websites are accessed entirely at your own risk. HLBB does not accept responsibility whatsoever for any such material, nor for consequences of its use.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. This report is for the use of the addressees only and may not be redistributed, reproduced or passed on to any other person or published, in part or in whole, for any purpose, without the prior, written consent of HLBB. The manner of distributing this report may be restricted by law or regulation in certain countries. Persons into whose possession this report may come are required to inform themselves about and to observe such restrictions. By accepting this report, a recipient hereof agrees to be bound by the foregoing limitations.