

Global Markets Research

Fixed Income

Monthly Perspective

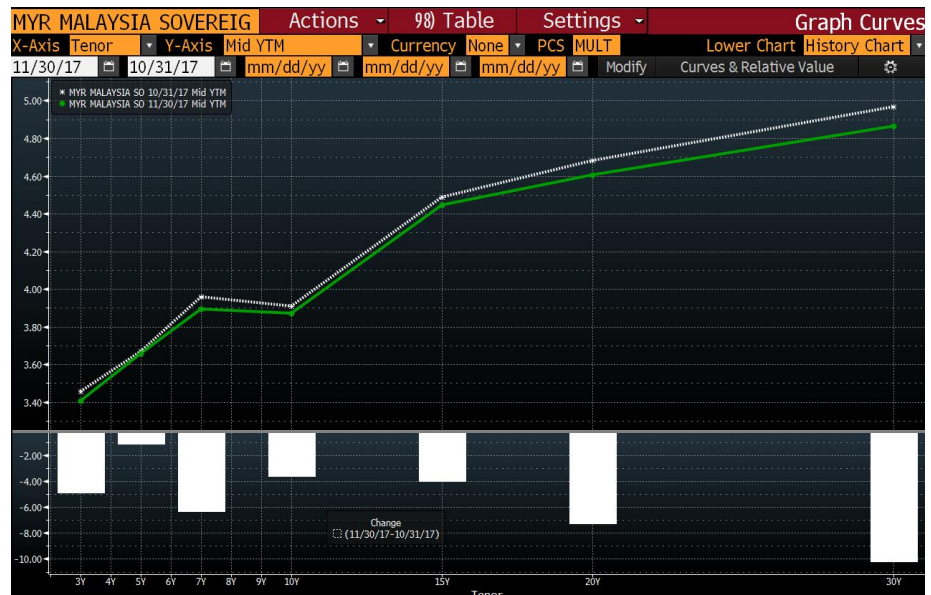
MYR Bond Market

Recapping the month of November

On the global front, US Treasuries (UST's) saw a much calmer month with less turbulence despite yields moving higher by 3-18 bps save for the long bond i.e. 30-year which dipped 5bps to end at 2.83%. The 10-year; which depicts as a benchmark for US mortgage rates, borrowing costs for municipalities and also inflation indication, saw the least volatility as it oscillated between a high of 2.41% and a low of 2.30% before closing at the high; compared to a monthly average movement of 32bps for the past 5 years! The US Yield Curve flattened considerably with spreads on 2s10s and 5s10s at a low of 62bps and 69bps respectively. With the conclusion of the nomination of Powell as the next Fed Chair and the potential approval of the Senate Republican Tax Bill, interest shifted to the pace of potential rate hikes for 2018 amid the reduced noise from geo-political issues emanating from North Korea.

On the local front, there was renewed interest for MYR government bonds in November following the net foreign inflows of RM5.2b. This was strong in contrast with the earlier month in October which saw a reversal of inflows by RM2.2b. Corporate Bonds saw consistent holdings of about RM16.3b with a drop in monthly turnover to RM7.8b. The mild fear emanating out of stronger economic data from US and high odds of a December rate hike did not dampen emerging markets as markets saw higher volume with lower yields very much the order of the month. MGS generally rallied with yields lower between 1-7bps across most tenures with the much-watched 10Y benchmark MGS 11/27 closing 1bps lower at 3.89%. Interest was mainly skewed to the short-end off-the-runs 18-20's with possible currency play in focus. We expect bond yields for Govvies to remain range-bound. 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)



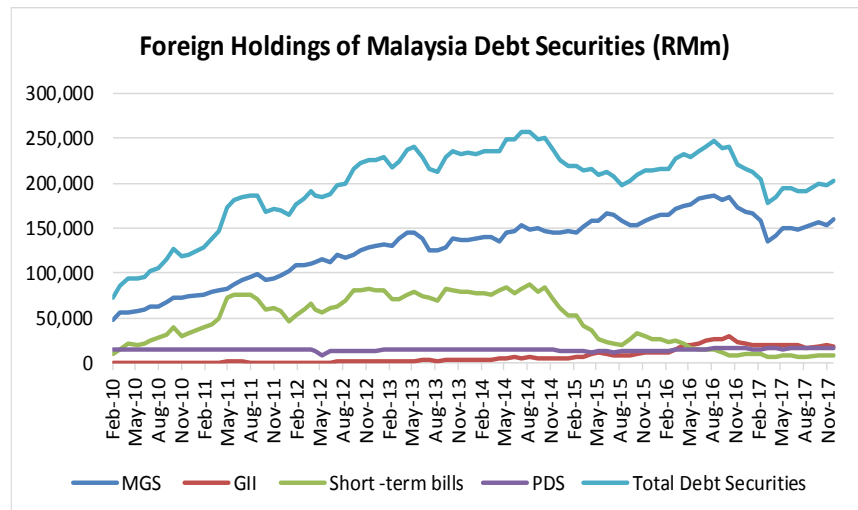
Source : Bloomberg

November US non-farm payroll higher than consensus and rate hike almost a “done-deal”

Despite November non-farm payrolls (“NFP”) print coming in lower than October’s 261k print; it was way higher than estimates with readings of 261K versus survey’s 195K. We note the latest print continues to portray relatively strong jobs data amid rising economic activity in the US. Together with the approval of the Republican Senate’s Tax Plan, ongoing Fed’s balance sheet reduction plan and Treasury’s portfolio run-offs, market players and investors 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 spiked in November again after a slight dip in October

Foreign holdings of MYR bonds were higher for the month of November 2017 with total holdings spiking by 3.4% MOM i.e. RM6.7b to RM240.0b (Oct: RM197.3b). Non-resident holdings of MGS were RM7.1b higher at RM160.3b whereas GII holdings deteriorated by RM1.9b to RM17.9b. The overall increase comes on the back of a “zig-zag” movement from July-October.



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

To recap, BNM expectedly 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 early OPR hike in 2018 premised on the statement “Given the strength of the global and domestic macroeconomic conditions, the Monetary Policy Committee may consider reviewing the current degree of monetary accommodation”. In addition, we saw 3Q GDP print 6.2% YOY versus 5.8% previously; followed by the relatively strong CPI of 3.7% YOY in October, a tad lower than 4.3% reported the earlier month. Given the shift in policy tone to a slightly hawkish bias today, we expect BNM to raise OPR in 2018.

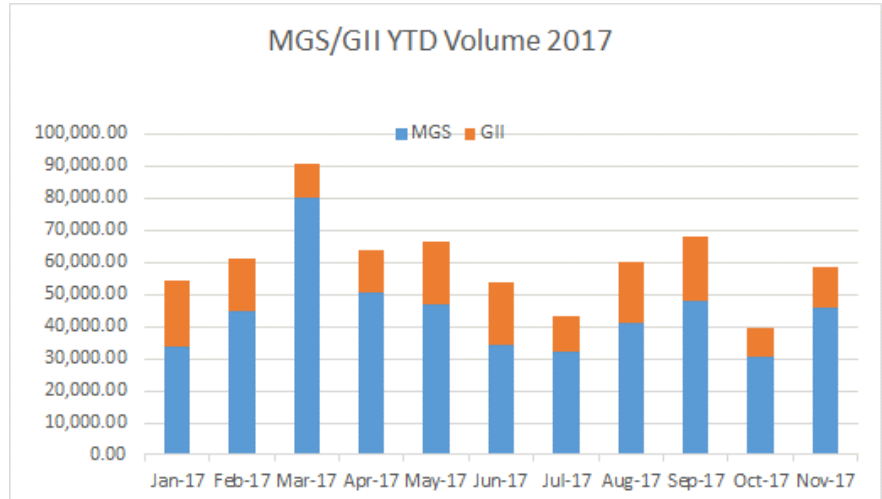
MYR government bond tenders found decent support with strong demand for the 15Y MGS

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	14/11/2017	2,500	3,000		86,000	1.832	4.300	4.347	4.37	95.0%
29	15-yr Reopening of MGS (Mat 04/33)	15	Nov	Q4	22/11/2017	2,500	2,000	1,000	88,000	3.811	4.532	4.55	4.563	93.8%
30	5-yr Reopening of MGII (Mat on 04/22)	5	Nov	Q4	28/11/2017	3,000	3,000		91,000	1.715	3.84	3.872	3.9	5.6%
31	10-yr Reopening of MGS (Mat on 11/27)	10	Dec	Q4	6/12/2017	3,000	2,000	500	93,000	1.53	3.89	3.946	3.988	100.0%
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 November saw relatively subdued BTC trends, with latest two out of three auctions i.e. 10Y GII 7/27 and 5Y GII 4/22 garnering BTC covers ranging at a mere 1.7-1.8x; well below their respective previous BTC covers which were well above 2.5x. However the 15Y MGS saw strong appetite by both onshore and offshore real money investors averaging 4.55% on a whopping BTC of 3.81x.

Trading volume for MGS/GII improved in October; following strength in Ringgit and positive economic data....

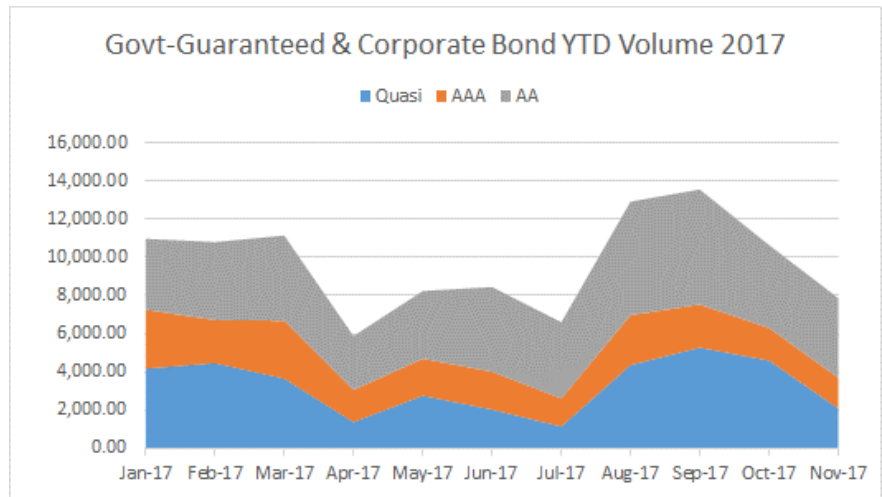
Trading volume for MYR govies spiked from about RM39b in October to RM58b for the month of November mainly due to strengthening of the Ringgit and improving fundamentals including strong GDP data of 6.2% for 3Q2017 and stable-to-lower CPI data of 3.7% for October. There was a surge in the shorter off-the-runs and amid concerns of a December rate hike by the US Fed and approval of Republican Senate's Tax Plan. Market seemed to react more on the strength and rally of the Ringgit instead of relying heavily towards foreign-related indicators with both onshore and offshore investors showing interest.



Source : BPAM, Bloomberg

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

However the monthly trading volume for corporate bonds/sukuk saw a drop in overall interest. The total transacted amount was RM7.9b for November versus RM10.6b the previous month. However we note steady interest in the AA-rated space as investors continued to display interest on yield-carry requirements. By segment, transacted amount for AA papers was almost 60%.



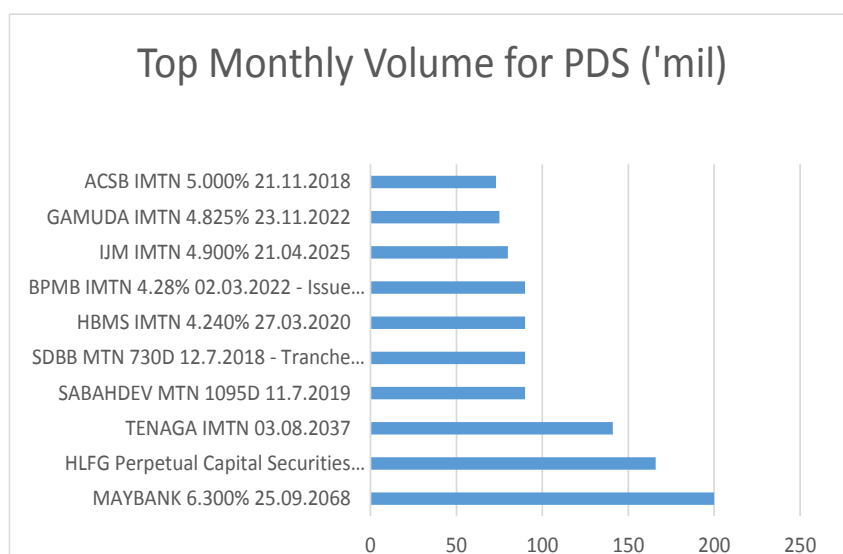
Source : BPAM, Bloomberg

Primary issuance print in October boosted by the following names:

Notable issuances for Nov-17	Rating	Amount Issued(RM mil)
Cagamas Berhad	AAA	955
YTL Reit Sdn Bhd	NR	650
FengHuang	NR	20
Alpha Circle Sdn Bhd	AA3	100
Gamuda Berhad	AA3	500
Radimax Group Sdn Bhd	NR	40
CIMB Group Holdings Berhad	AA	1,500
Perbadanan Kemajuan Negeri Selangor	AA3	100
Southkey Megamall Sdn Bhd	NR	100
*Danainfra	GG	3,000
Puncak Wangi Sdn Bhd	AAA	155
Radimax Group Sdn Bhd	NR	40
Projek Lintasan Sungai Besi-Ulu Kelang Sdn Bhd	A1/AAA	510
Maybank Islamic Bank Berhad	NR	250
Bank Islam Berhad	A1	300
Hong Leong Financial Group	A1	400
Hong Leong Bank Bhd	A1	400
Hong Leong Islamic Bank Bhd	A1	400
Alliance Bank Berhad	BBB1	150

Source : Bloomberg/ BPAM

During the period under review, corporate bonds/sukuk pipeline in the primary space saw substantial pipeline issuance of RM9.57b for the month of November. Among the primary issuances concluded for the period under review include RM3.0b from DANAINFRA (GG), Projek Lintasan Sungai-Besi-Ulu Kelang Sdn Berhad's (SUKE) RM380m (A1-rated + AAA-rated) and Hong Leong Financial Group's RM400m perpetual capital securities which is also rated A1.



Source : Bloomberg/ BPAM

Outlook for December

10-year MGS reopening and new 15.5-year MGS auction slated for the month of December

The 10-year MGS reopening and 15.5-year GII maiden auction are scheduled for the month of December. At the point of writing the 10-year MGS 11/27 reopening saw muted demand averaging 3.946% on BTC ratio of a mere 1.53x; way lower than its debut in May and subsequent reopening in July. However we forecast decent tender support from real money onshore investors especially life insurance companies and pension funds taking into account the potential discount to the conventional cousin equivalent in terms of yield. The potential lack of liquidity expected by offshore players for the issuance may be offset on the back of a strong and sustained performance of the Ringgit.

December FOMC outcome is deemed a foregone conclusion but the “dot plot” thereon will gain importance....

Riding on the relatively strong trade, consumption and jobs data releases from the US lately, the rate hike in December will be seen as a foregone conclusion with the “language” the Fed displays along with the “dot plot” will be seen as major indicator of interest rate movement in the US ahead. With the ongoing pace of balance sheet reduction by the US Fed and the approval of the Senate Republican’s Tax proposal to cut corporate taxes out of the way; we continue to expect investors to react with caution in the US Treasuries market for the month of December as predictions on the number of potential rate hikes are bandied about.

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