

Global Markets Research

Fixed Income

July 2017

Monthly Perspective

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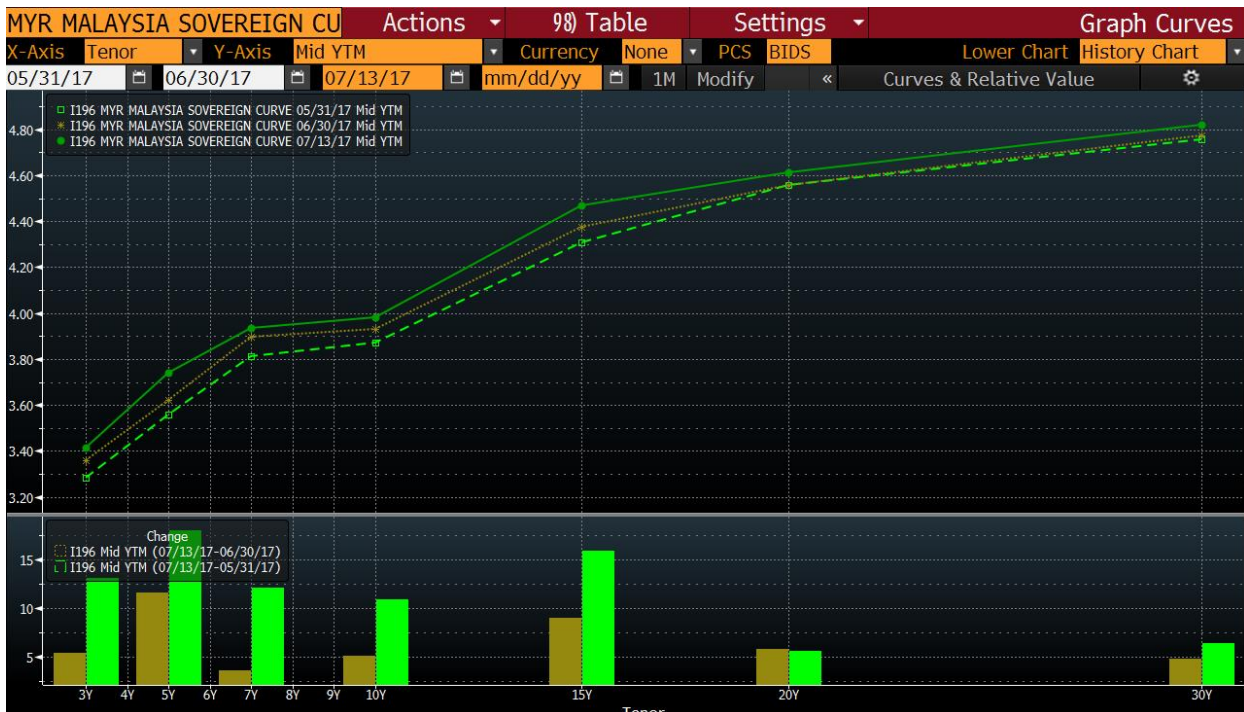
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MYR Bond Market

Recapping the month of June

We opine the key focus is shifting towards the Fed's tapering plan which is expected to be announced this year, with September emerging as a potential window. The ECB meanwhile has turned hawkish hinting prospects of tapering as well. A well telegraph rhetoric by the Fed is expected to help smoothen out market volatilities. On the local front, we expect investors to stay vigilant, with a close watch on monetary policy developments from advanced economies, whilst OPR is expected to stay unchanged at 3.00% at today's BNM MPC meeting. Assessment on growth will be closely watch as recent rebound in export data appears to be supporting growth momentum. Meanwhile the reopening of 30-year GII tomorrow will attract demand from lifers and pension funds. Fed FOMC in July will be another key event as well.

MYR sovereign curve (MGS)



Source : Bloomberg

Fed tapering...lingering concern for market players, September seen as a possible window

After details were revealed at the previous US Fed FOMC on quantum of Fed’s proposed balance sheet reduction, market players are keenly watching this space. Pace of tapering to begin with \$6b for UST and \$4b for MBS. Adjusted every 3 months with increments of \$6b and \$4b for UST and MBS respectively. Then after, balance sheet reduction to be capped when increment reaches \$30b and \$20b for UST and MBS. Monthly combined reductions of \$50b for both UST/MBS until Fed’s balance sheet gradually reduces from current size of \$4.5 trillion to expected range of \$2-\$3 trillion. We are penciling in Fed tapering completion by end October 2021.

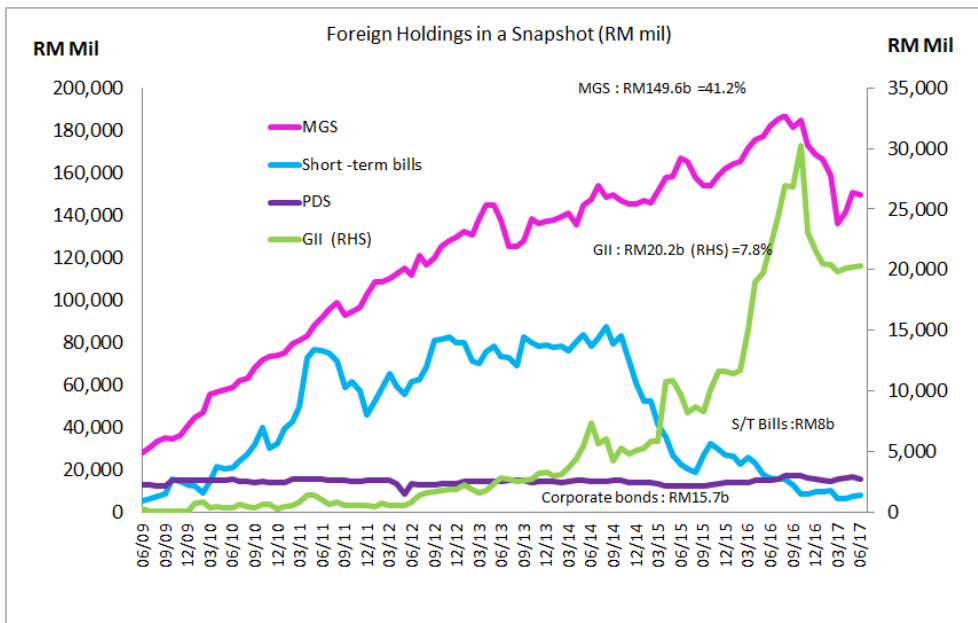
ECB's Draghi turning hawkish

Meanwhile latest comments from ECB’s Draghi appears to be tilting towards a more hawkish tone. Recent rhetoric suggest that reflation themes are replacing deflation. Renewed concerns are emerging on ECB tapering prospects after Draghi struck an optimistic tone for the Eurozone area, on broader recovery. Concerted tapering by Fed and ECB may reignite some knee-jerk reaction, potentially sending regional bond yields to creep higher from current levels, although higher yields may pave the way for tactical bargain hunting interest.

Foreign holdings of MYR government bonds holding up well in June

After 2 consecutive months of positive inflow (April & May) to MYR government bonds, upward momentum moderated for the month of June although absolute levels are still holding up well. Non-resident ownership in MGS moderated to RM149.6b versus May’s RM150.5b with latest level at 41.2%, whilst GII stayed flat with RM20.2b (7.8%). In terms of total MYR government bonds held by non-resident inclusive of MGS/GII/SPK, latest levels are at 26%. (May: 26.3%).

For further details of foreign ownership of MYR bonds by category, please refer to table and chart as follows:-



Source : BNM , Bloomberg

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

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. YTD BTC is still healthy with average of circa 2.3x. Latest demand for the reopening of 7-year MGS 9/24 printed a robust BTC cover of 2.877x. Tender results printed low, average and high of 3.913%, 3.919% and 3.924%. We opine the still significant kink on the 7-year space seen attracting value-hunters for this segment of the MYR sovereign curve. Whilst for real money mainly lifers and pension funds, the 15-year space looks compelling.

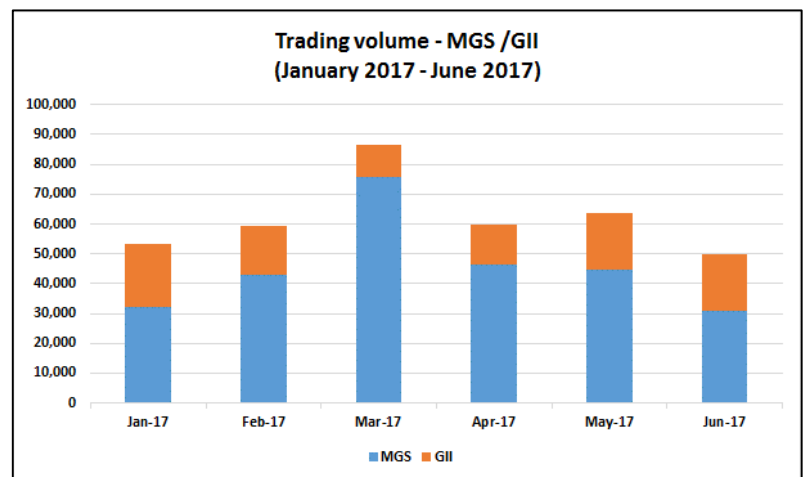
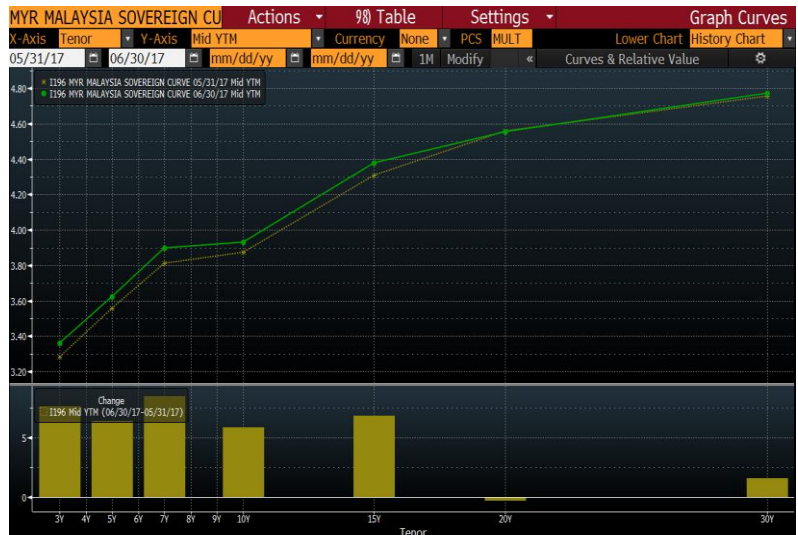
MGS/GII issuance pipeline in 2017

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		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

Thinner trading volume for MYR govies in June ahead of Fed tapering concerns

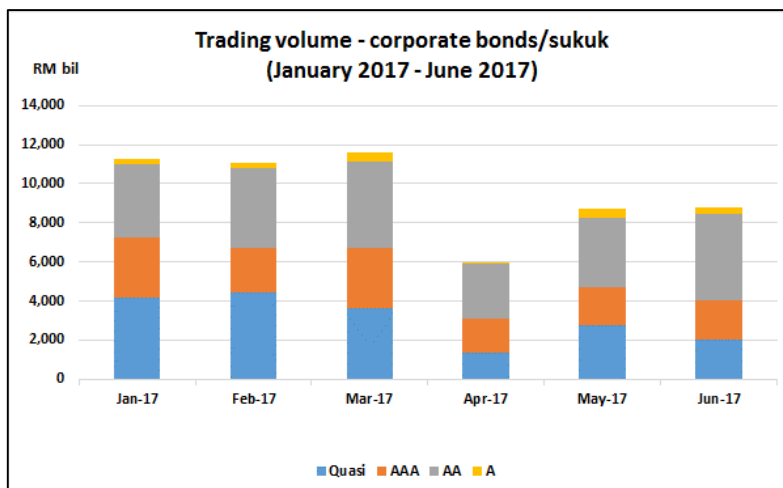
Amid looming Fed rate hike outlook and hawkish ECB comments, trading momentum for MYR govies also moderated lower in June. Total MGS/GII transacted was reportedly lower with RM50b transacted versus RM63.6b dealt in May. Overall benchmark yields ended higher versus levels seen in May taking cue from upward adjustment to MYR government bond yields tracking upward pressure to UST yields.



Source : BPAM, Bloomberg

Corporate bonds/sukuk transacted for June also moderated lower...

Investors preferring to stay on the sideline, taking a more vigilant approach ahead of upcoming Fed normalization and tapering plans, with transacted amounts rather flattish, with only RM8b dealt in June. The lower trading volume for corporate bonds is also a function of scarcity supply of primary issuances, with most prints skewed towards the GG/AAA space. Channel checks reveal most investors are still looking out for credit diversification opportunities, in search of higher yielding bonds with relative good yield pick-up.



Source : BPAM, Bloomberg

Primary issuance remained fluid in June, notable prints from PASB, UMW Holdings and Cagamas

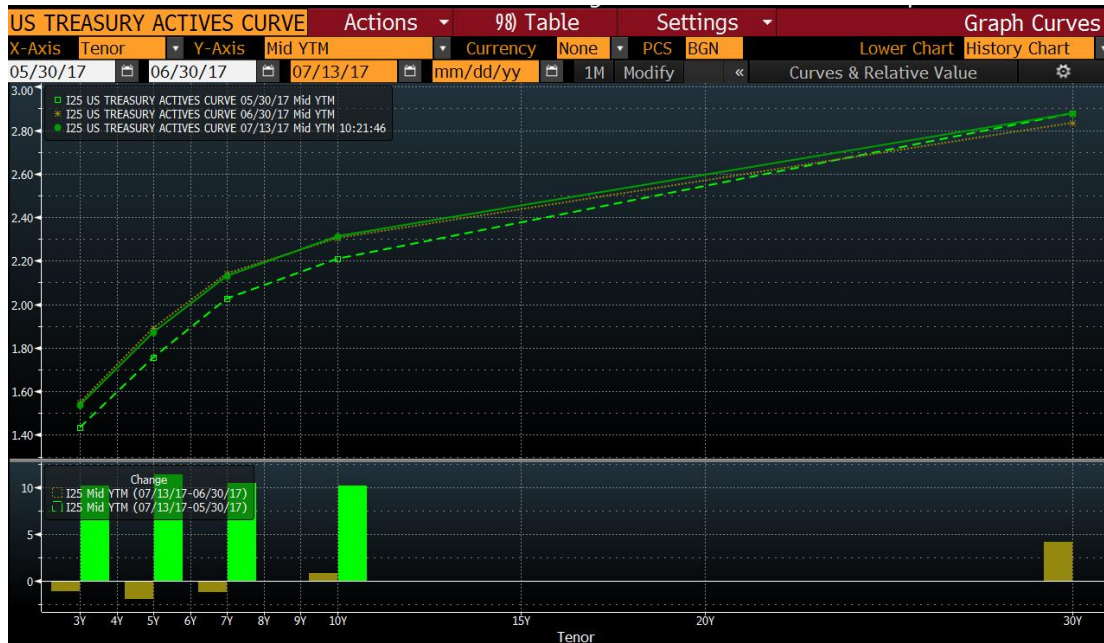
For month of June, total primary corporate bonds/sukuk issuances remain fluid with RM5.1b issued. Notable issuance completed for the mentioned period include sizeable GG prints from PASB with RM2.1b government-guaranteed print, UMW Holdings RM700m issue as well as Cagamas RM350m print.

YTD issuance stands at circa RM57b (for gross corporate bonds/sukuk issued) versus our target RM80b, which is close to 70% of completed issuance versus our projected primary gross corporate bonds supply for 2017. Summary of primary issuances completed for the month of June are as follows:-

Notable issuances in June	Issue amount	Rating
Pengurusan Air SPV Berhad	2,100	GG
SME Bank	300	GG
Cagamas Berhad	350	AAA
CIMB Group Holdings Berhad	350	AA1
UMW Holdings Berhad	700	AA2
Sports Toto Malaysia Sdn Berhad	225	AA-

Source : BPAM, corporate releases

UST Market

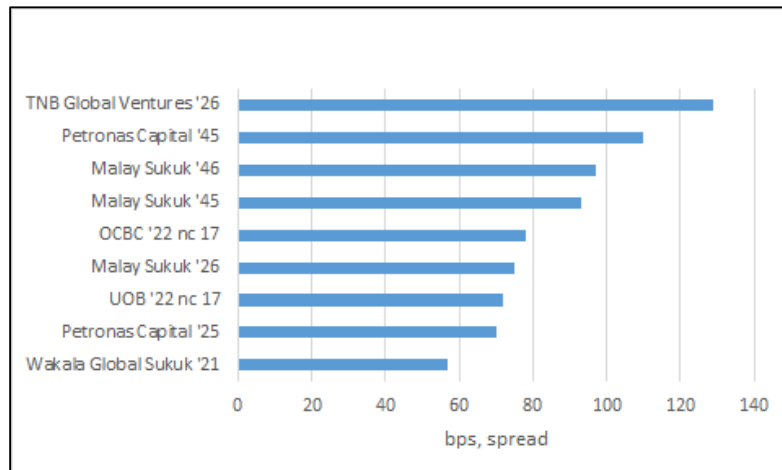


Source : Bloomberg

UST saw some level of gyrations in yields taking cue from benign inflation outlook and tapering concerns before yields started to ease lower following Yellen's testimony speech last night. Outlook on inflation remains somewhat uncertain for now anchoring yields lower. 10-year yields seen moderated back to 2.32% as per yesterday's close.

Asian Dollar Bonds

Primary issuance in the Asian USD remained fluid with strong demand seen from recent bond issuance. Sovereign USD print from Indonesia received an order book of \$4b for its \$1b 10-year print. Also in the offering was \$1b for its 30-year tranche. Other primary prints in the offering include Korea Gas 5-year and 10-year print, with initial price guidance of 115 bps above benchmark 5- and 10-year UST.



Source : Bloomberg

Outlook for July

BNM July MPC in focus, Fed to pause in July

All eyes on BNM MPC today. We expect the central bank to maintain the OPR unchanged at 3.00% as inflation is expected to moderate in the 2H2017. Rhetoric of the policy tone will be closely followed by market players on assessment on growth and inflation outlook. Meanwhile in the US, we expect the Fed to pause rate hikes in July as summer begins, with tapering potentially announced in the September.

Reopening of 30-year GII a key watch

Also, the 30-year GII print, will be a key watch for market players. Given the benign tender size of only RM2b, we expect this print to attract demand from real money long-end investors i.e. pension funds and lifers.

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