

## Monthly Perspective – February 2018

### MYR Bond Market

#### Recapping the month of January

On the global front, US Treasuries (UST's) saw emergence of turbulence in January; a reversal of the calmer December market as yields spiked 18-27bps across most tenures. The front-end rates i.e. 2Y UST broke through the 2.00% barrier closing at 2.12% buoyed by recent expectations of Fed tightening whilst the commencement of inflationary pressures has also weighed on longer-maturity yields. The 10-year, which depicts as a benchmark for US mortgage rates, borrowing costs for municipalities and also inflation indication, saw the most volatility as it oscillated between a low of 2.40% and a high of 2.83% before closing unchanged at 2.70%; compared to a monthly average movement of 30bps for the past 5 years. The US Yield Curve which flattened considerably by about 10-15bps earlier last December continued to see similar pattern for the month of January with 2s10s spread anchored at 40bps whilst the 5s30s spreads narrowed further to a decade-low of 32bps.

On the local front, there was renewed interest for MYR government bonds in January following the 3rd consecutive month of net foreign inflows of RM4.6b (RM14.5b in total for the three months to January 2018 representing 28% of total outstanding MYR gov't bonds consisting of MGS+GII+SPK). Corporate Bonds saw marginal drop in foreign holdings to about RM15.6b. Overall foreign holdings of Ringgit Bonds rose by RM4.4b MOM to RM211.2b. BNM hiked the OPR by 25bps in line with consensus expectations, although yields rose moderately 3-7bps MOM as foreign inflows into MGS supported the space. MYR also gained about 4.00% against the USD MOM, supported by expectations for OPR hike, higher oil prices and improved sentiment towards Malaysian assets. Malaysian bonds yields notched higher trading volume in January following the previous year-end holiday shortened month. However both MGS and GII yields ended higher between 3-10bps across most tenures save for the 7Y and 10Y GII with yields somewhat unchanged. The much-watched 10Y benchmark MGS 11/27 closed 5bps higher at 3.96%. Interest was mainly skewed to the short-end off-the-runs 18-21's and also the 5Y GII 4/22 post-auction with the strengthening of the Ringgit.

#### MYR sovereign curve (MGS)



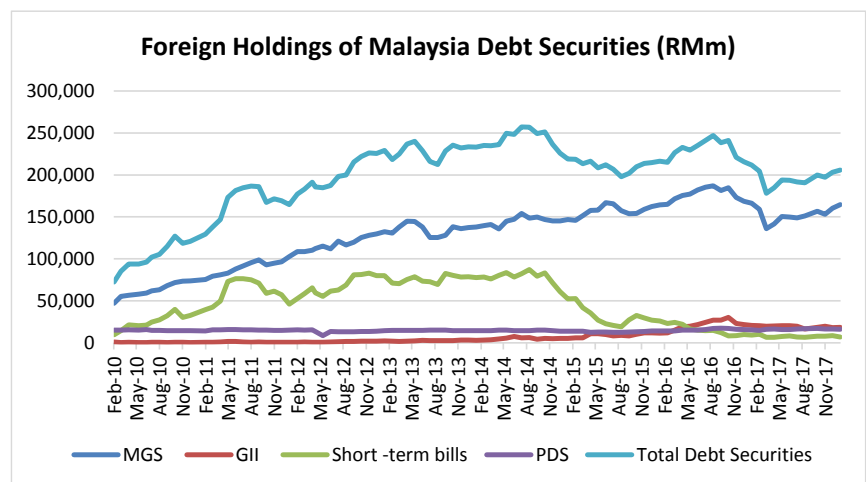
Source : Bloomberg

**Stronger headline NFP for January to amplify Fed rate hike prospects ahead**

January Non-Farm Payrolls (“NFP”) print came in way higher at 200k compared to December’s 140k print; and also higher than the estimated survey of 180K. We note that the latest print displays strong hiring and wages which picked up the fastest annual pace since the recession. With optimism over rising economic activity in the US, especially following the approval and implementation of Republican Tax Plan and ongoing Fed’s balance sheet reduction/portfolio run-offs; investors think that inflation is bound to rear its head eventually and that policymakers may announce another rate hike in March. The odds for a March rate hike is currently at a high of 96%. The downside to the above (if any) would be geo-political tensions emanating out of North Korea or Middle East, along with the occurrence of natural geographical disasters triggering flight-to-safety bids for USTs.

**Foreign Holdings of MYR bonds jumped again for the third consecutive month in January**

Foreign holdings of MYR bonds overall were higher for the month of January 2018 with total holdings edging higher yet again by RM4.4b (2.2% rise) to RM211.2b versus RM206.7b the previous month. These non-resident holdings of MGS were RM4.2b higher at RM168.6b; representing 45.7% of total outstanding) whereas total MYR Govt bonds (i.e. MGS+GII+SPK) holdings also saw a 2.5% increase of RM4.6b to RM187.6b (28% of total outstanding); the highest month of foreign holdings for MGS and GII since December 2016.



**OPR raised to 3.25% as policy tone turns slightly neutral**

To recap, BNM raised the OPR from 3.00% to 3.25% at its January MPC meeting but shifted to a neutral tone, with policy accommodative and growth expected to be strong for 2018. It also said it is necessary to prevent the build-up of risks from interest rates being too low for a prolonged period of time. However inflation pressures were muted judging by the benign CPI data for December which printed 3.5% versus 3.5% for November. Given the shift in policy tone to a slightly neutral bias, the possibility of BNM raising the OPR further in 2018 remains remote.

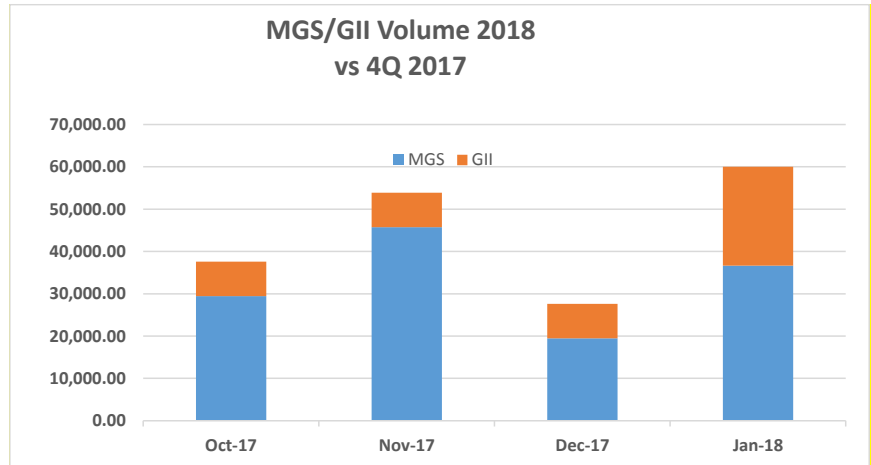
**MYR government bond tender saw strong support with for 20Y MGS and 5Y GII benchmarks  
(15Y MGS and 7Y GII have higher BTCs than 20Y MGS)**

MGS/GII issuance pipeline in 2018														
No	Stock	Tenure (yrs)	Tender Month	Quarter	Tender Date	Total Expected Size (RM mil)	Auction Issuance (RM mil)	Private Placement	Amt Issued YTD	BTC (times)	Low	Average	High	Cut-off
1	20-yr Reopening of MGS (Mat on 04/37)	20	Jan	Q1	4/1/2017	3,000	2,000	1,000	3,000	1.905	4.573	4.607	4.640	14.3%
2	5-yr Reopening of MGII (Mat on 04/22)	5	Jan	Q1	12/1/2018	3,000	4,000		7,000	2.581	3.810	3.823	3.829	78.6%
3	15-yr Reopening of MGS (Mat on 04/33)	15	Jan	Q1	26/1/2018	3,000	2,500	1,000	9,500	2.474	4.415	4.446	4.455	1.7%
4	7.5-yr New Issue of MGII (Mat on 08/25)	7	Feb	Q1	6/2/2018	4,000	3,000	1,000	12,500	2.284	4.110	4.128	4.138	55.0%
5	10-yr Reopening of MGS (Mat on 11/27)	10	Feb	Q1		3,000								
6	30-yr Reopening of MGII (Mat on 05/47)	30	Mar	Q1		2,500								
7	7-yr New Issue of MGS (Mat on 03/25)	7	Mar	Q1		4,000								
8	15-yr Reopening of MGII (Mat on 06/33)	15	Mar	Q1		3,000								
9	3-yr Reopening of MGS (Mat on 11/21)	3	Mar	Q1		3,500								
10	20-yr Reopening of MGII (Mat on 08/37)	20	Apr	Q2		2,000								
11	5-yr New Issue of MGS (Mat on 04/23)	5	Apr	Q2		4,000								
12	10.5-yr New Issue of MGII (Mat on 10/28)	10	Apr	Q2		4,000								
13	15.5-yr New Issue of MGS (Mat on 11/33)	15	May	Q2		4,000								
14	7-yr Reopening of MGII (Mat on 08/25)	7	May	Q2		3,500								
15	10-yr Reopening of MGS (Mat on 06/28)	10	May	Q2		3,500								
16	5.5-yr New Issue of MGII (Mat on 11/23)	5	May	Q2		4,000								
17	20-yr New Issue of MGS (Mat on 06/38)	20	Jun	Q2		3,000								
18	15-yr Reopening of MGII (Mat on 06/33)	15	Jun	Q2		2,500								
19	30-yr New Issue of MGS (Mat on 07/48)	30	Jul	Q3		3,000								
20	10-yr Reopening of MGII (Mat on 10/28)	10	Jul	Q3		3,000								
21	7-yr Reopening of MGS (Mat on 03/25)	7	Jul	Q3		3,500								
22	20-yr Reopening of MGII (Mat on 08/37)	20	Aug	Q3		2,000								
23	15-yr Reopening of MGS (Mat on 11/33)	15	Aug	Q3		3,500								
24	5-yr Reopening of MGII (Mat on 11/23)	5	Aug	Q3		3,000								
25	30-yr Reopening of MGII (Mat on 05/7)	30	Sep	Q3		2,000								
26	10-yr Reopening of MGS (Mat on 06/28)	10	Sep	Q3		3,500								
27	3.5-yr New Issue of MGII (Mat on 03/22)	3	Sep	Q3		3,000								
28	20-yr Reopening of MGS (Mat on 06/38)	20	Oct	Q4		3,000								
29	10-yr Reopening of MGII (Mat on 10/28)	10	Oct	Q4		3,500								
30	7-yr Reopening of MGII (Mat 08/25)	7	Nov	Q4		3,000								
31	5-yr Reopening of MGS (Mat on 04/23)	5	Nov	Q4		3,000								
32	20-yr Reopening of MGII (Mat on 08/37)	20	Dec	Q4		2,000								
33	3-yr Reopening of MGII (Mat on 03/22)	3	Dec	Q4		2,000								
Actual gross MGS/GII supply in 2018						102,500	11,500	3,000						

Of the three government bond tenders concluded for the month of January 2018, the reopening of 5Y GII 4/22 and 15Y MGS 4/33 saw strong BTC support of 2.58x and 2.47x respectively, higher than average BTC of 2.20x for the entire of 2017 consisting of 32 issuances in total. Generally the tenders for the month were well received by both local and foreign investors.

**Trading volume for MGS/GII jumped in January; amid strength in Ringgit and positive economic data**

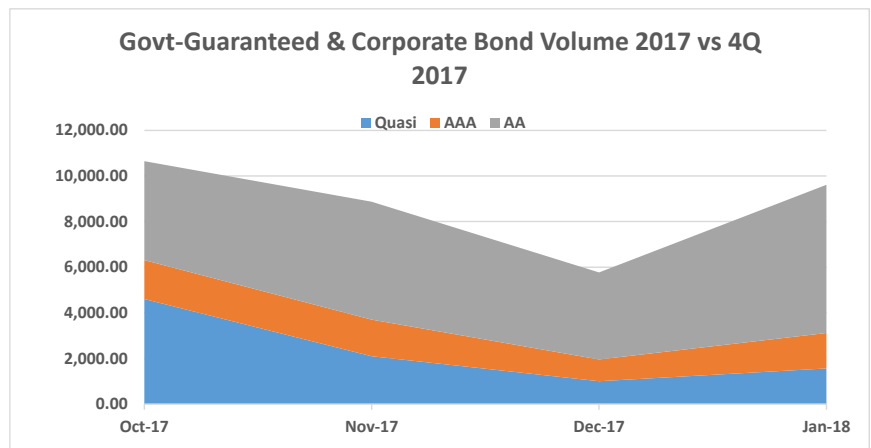
Trading volume for MYR govies spiked from about RM29b in December to RM60b for the month of January mainly due to full-fledged working month and portfolio-realignment following the strength of Ringgit and improving oil prices benefitting Malaysia. There was a surge in the shorter off-the-runs and amid concerns of a rate hike which materialised. 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 gathered interest; on higher volume mirroring govbies momentum**

In the secondary market the monthly trading volume for corporate bonds/sukuk saw a huge improvement in overall interest. The total transacted amount was RM9.6b for January versus RM5.8b the previous month. However we note steady interest in the AA-rated space as investors continued to hunt for yields. By segment, transacted amount for AA papers was higher at 68% of total trades.

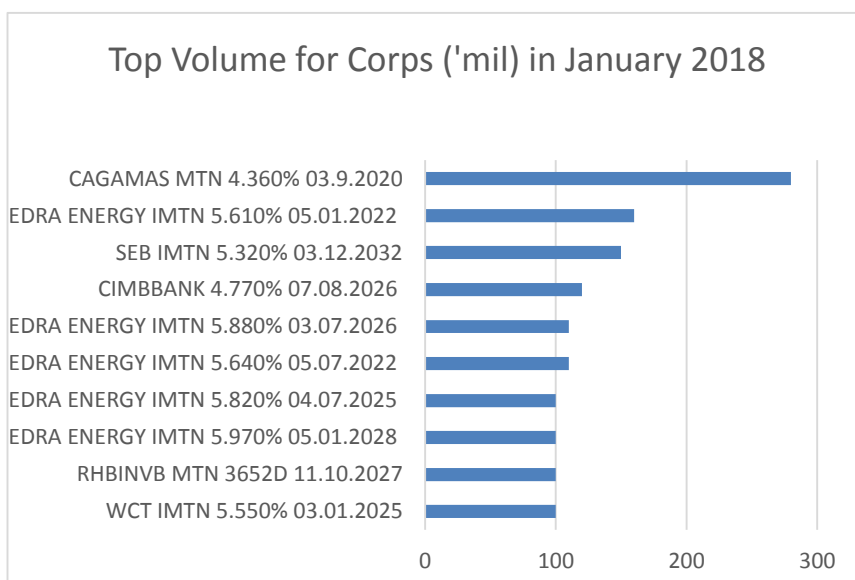


Source : BPAM, Bloomberg

**Primary issuance print in December boosted by the following names:**

Notable issuances for Jan-17	Rating	Amount Issued(RM mil)
WCT Holdings Berhad	AA3	100
EDRA Energy Sdn Bhd	AA-	5,085
Magnum Corporation Sdn Bhd	NR	125
Segi Astana Sdn Bhd	AA3	415
Cagamas Berhad	AAA	450
PTPTN	GG	500
Toyota Capital Sdn Bhd	AAA	100
Danga Capital Berhad	AAA	1,500
Liziz Standaco Sdn Berhad	NR	150
Rukun Juang Sdn Bhd	NR	207
SAJ Capital Sdn Berhad	AA3	650
Sinar Kamiri Sdn Berhad	AA3	245

Source : Bloomberg/ BPAM



Source : Bloomberg/ BPAM

### **Outlook for February**

**20-year MGS reopening and 5-year GII auction prints open with a bang in January**

The recent auction for MGS and GII's were well-received for January and the subsequent 15Y MGS 4/33 auction on 7<sup>th</sup> February also saw decent BTC of 2.284x averaging 4.128%. However the sole remaining and upcoming auction of the 10Y MGS 11/27 is not expected to garner strong support in view of its impending replacement by MGS 6/28 come May. The third monthly rise of foreign holdings of both Govt and Corporate bonds to RM211.2b resonates well with the strong MYR supported both by earlier OPR hike expectations, higher oil prices and improved sentiment towards Malaysian assets. The surplus liquidity expected by both local institutional investors and offshore players would allow for Govvies to remain well-bid with the single rate hike front-loaded and done for 2018. We also foresee decent demand for Corporate Bonds especially lower down the yield-curve on yield-carry requirements.

***March 2018 FOMC odds of rate hike looms...with the Fed's dot plot gaining importance***

The recent rapid rise of US Treasury yields which caused a rout in global equities emanated from the fear of rising wage costs. Based on strong NFP of 200k and projected CPI data of 0.3% from the US in January, the "language" the Fed displays along with the "dot plot" and potential further issuances by the Treasury to fund the deficit arising from the imposition of the Tax proposal will be seen as major indicator of interest rate movement in the US ahead. Also with the ongoing pace of balance sheet reduction by the US Fed, we continue to expect investors to react with caution in the US Treasuries market for the month of February as predictions of up to four (4) potential rate hikes are bandied about with the much-watched 10Y expected to hit 3.00%; having broken the 2.70% resistance. Expect yields to be elevated with some steepening to occur as inflationary pressures step-in.

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