Global Markets Research

Fixed Income

Monthly Perspective – April 2018

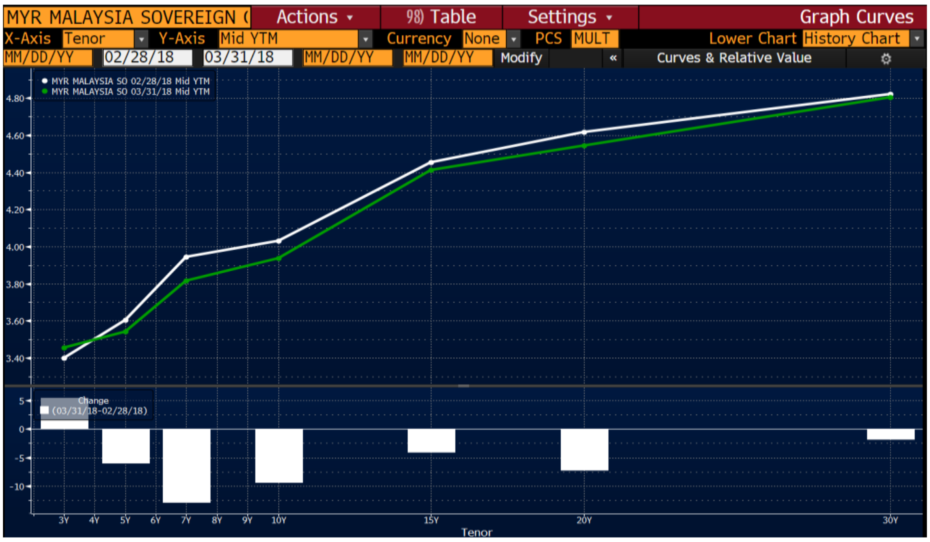
MYR Bond Market

Recapping the month of March

On the global front, March saw the first of three potential rate hikes amid strong US payrolls. Nevertheless US Treasuries (UST's) held ground and even managed to produce positive returns as trade wars affected sentiment for risk assets. The front-end rates i.e. 2Y UST rose 2bps closing at 2.27% reflecting the 25bps increase in the overnight Fed Funds Rate and buoyed by expectations of further Fed tightening in the coming months by the FOMC. Fears of inflationary pressures did not pose any threats with the longer-maturities benefitting. The 10-year, which depicts as a benchmark for US mortgage rates, borrowing costs for municipalities and also inflation indication, saw less volatility as it oscillated between a low of 2.74% and a high of 2.89% before closing lower by 12bps at 2.74%; due more to risk-off environment; evidenced by the 2.7% fall in the S&P 500 in March. *The US yield curve which flattened considerably by about 10-15bps earlier in February continued to see similar pattern for the month March with 2s10s spread at about 47bps whilst the 5s30s spread also narrowed further to a low of 41bps.*

On the local front, there was commendable interest for MYR bonds in March with overall foreign holdings reversing the earlier month's outflows. The net inflows of RM2.88b MOM saw foreign holdings rise to RM210.1b. The rise in foreign holdings of RM184.8b in both MGS and GII represents 27.4% f total outstanding MYR government bonds consisting of MGS+GII+SPK. (Feb: RM183.9b or 27.5% of total outstanding). Corporate Bonds however saw marginal decrease of RM360m in foreign holdings to about RM15.9b. We note that MYR bonds notched higher trading volume in March following the shorter trading days amid lunar new year celebrations in February. Overall benchmark MGS yields were lower by 8-12bps MOM (save for the 3Y MGS which rose 5bps to 3.45% levels) as foreign inflows took the lead followed by local inter-bank and institutional investors. Both the 7Y MGS 3/25 and much-watched 10Y MGS 11/27 closed lower on yields at 3.83% and 3.94% respectively. Interest continued in the short to mid tenured off-the-runs 21-24's and also 5Y benchmark.

MYR sovereign curve (MGS)



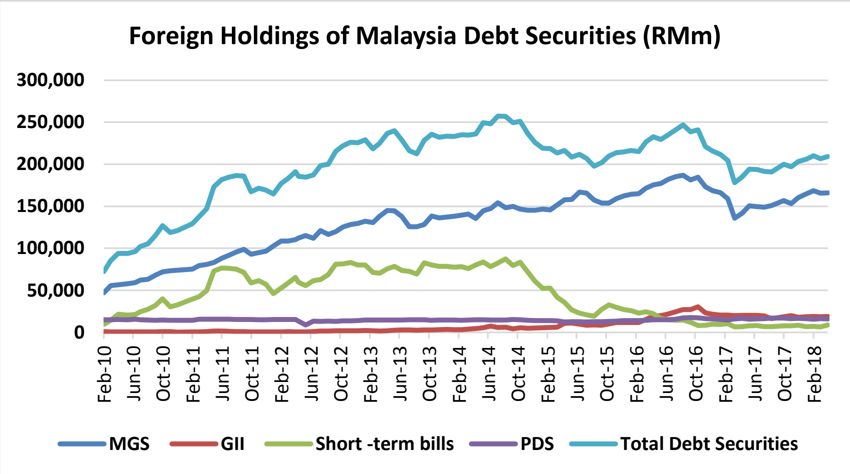
Source : Bloomberg

Weaker headline NFP for March; softer wage gains doing little to sway Fed rate hike expectations

March Non-Farm Payrolls ("NFP") print disappointed and came in way lower at 103k compared to February's 326k gain; its lowest reading since September 2017 and below market expectations of 185k. Slightly quicker wage gains meanwhile reinforce prospects of interest rate increases in the US. With optimism over rising economic activity in the US, especially following the ongoing Tax Plan and Fed's balance sheet reduction/portfolio run-offs, investors may be tempted to think that inflation may slowly surface eventually and that policymakers are bound to announce further rate hikes in June and beyond. The downside to the above would be rising trade barrier tensions emanating from US-China relations or to a smaller degree any geo-political tensions along with the occurrence of natural geographical disasters which may trigger flight-to-safety bids for USTs.

Foreign Holdings of MYR bonds rose in March, snapping three consecutive months of advances

Foreign holdings of MYR bonds were higher for the month of March 2018 with total holdings up by RM2.88b or 1.4% to RM210.1b versus RM207.2b the previous month. The non-resident holdings of MGS edged RM442m higher at RM165.9b; representing 45.6% of total outstanding) whereas total MYR Govt bonds (i.e. MGS+GII+SPK) holdings saw a slight uptick of RM900m or 0.5% to RM184.8b (27.4% of total outstanding); the second highest month of foreign holdings for the past twelve months.



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OPR maintained at 3.25% as emphasis was on policy normalization

BNM expectedly maintained the OPR at 3.25% at its recent March MPC meeting (following a 25bps hike in January). The central bank also continued to strike a neutral tone signaling another rate hike is not on the cards in the foreseeable future. BNM was confidently ahead of the curve; being one of the first central banks to raise rate early in the year and now faces little pressure to tighten further for now. The MYR is now seen as one of Asia's best Asian currencies YTD with a 4.2% gain (along with the Baht) against USD. The early move was a preemptive one as the central bank was seen embarking on normalization of policy rather than a tightening trend; and as such the possibility of BNM raising the OPR further in 2018 remains remote.

MYR government bond tenders saw strong support for new benchmark 7.5Y MGS issue and 30Y MGS reopening ending with higher BTC's then previous similar auctions

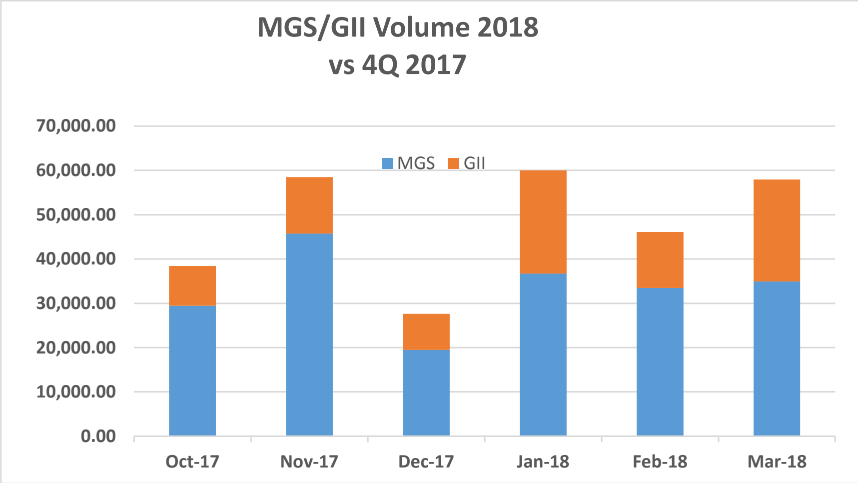
MGS/GII issuance pipeline in 2018

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	2,000	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		6,000	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	8,500	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	11,500	2.284	4.110	4.128	4.138	55.0%
5	10-yr Reopening of MGS (Mat on 11/27)	10	Feb	Q1	27/2/2018	3,000	3,500	500	15,000	2.066	4.036	4.055	4.064	90.0%
6	30-yr Reopening of MGII (Mat on 05/47)	30	Mar	Q1	8/3/2018	2,500	1,500	1,000	16,500	2.071	4.890	4.930	4.955	10.0%
7	7-yr New Issue of MGS (Mat on 03/25)	7	Mar	Q1	13/3/2018	4,000	3,000	1,000	19,500	2.347	3.870	3.882	3.889	67.7%
8	15-yr Reopening of MGII (Mat on 06/33)	15	Mar	Q1	22/3/2018	3,000	2,500	1,000	22,000	1.996	4.540	4.550	4.564	42.9%
9	3-yr Reopening of MGS (Mat on 11/21)	3	Mar	Q1	29/3/2018	3,500	3,000		25,000	1.722	3.439	3.451	3.464	80.0%
10	20-yr Reopening of MGII (Mat on 08/37)	20	Apr	Q2	12/4/2018	2,000	2,500							
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	27,500	6,500						

The four government bond tenders concluded for the month of March 2018 under the auction calendar included the new issue of 7.5Y MGS 3/25 and the reopening of 3Y MGS 11/21, 15Y GII 6/33 and 30Y GII 5/47 which altogether saw decent BTC support averaging 2.03x. This was slightly lower than the average BTC of 2.20x for the entire of 2017 consisting of 32 issuances in total and YTD BTC of 2.19x for 2018. Tenders for the month were well received by both local and foreign investors with the MGS 3/25 benchmark seeing a whopping 2.347x BTC; averaging 3.882%.

Trading volume for MGS/GII rebounded in March

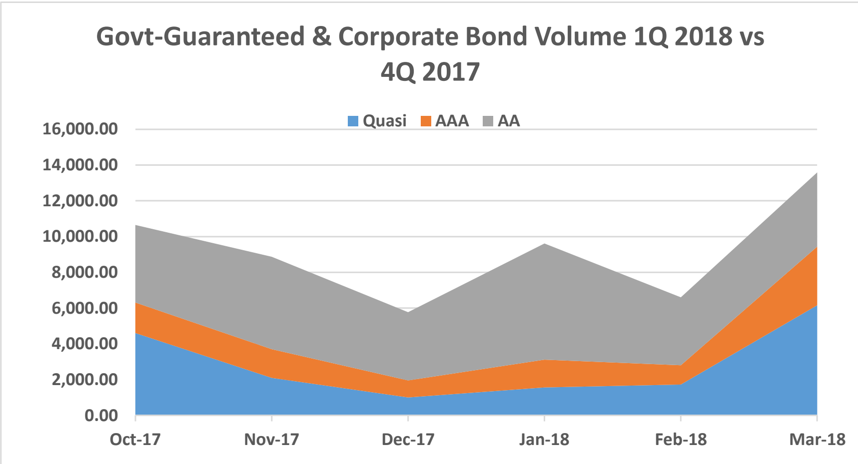
Trading volume for MYR govvies spiked from about RM46b in the shorter February month to RM67b during March. The surge was seen in benchmarks 5Y GII 4/22, 10Y MGS 11/27 and also short-mid tenured off-the-runs trades i.e. MGS 18-21's which topped frequency of trades for the month as investors continued to show interest in ringgit government bonds on dissipating concerns of further local rate hikes amid softer inflation data reflected in lower consumer prices of 1.4% in February (Jan: 2.7%). The market was also seen reacting positively on stability of the Ringgit and steady key indicators. BNM has revised this year real GDP growth forecast higher to 5.5-6.0%, from 5.0-5.5% projected by MOF last October.



Source : BPAM, Bloomberg

Corporate bonds/sukuk interest improved on higher volume mirroring govvies

In the secondary market, the monthly trading volume for corporate bonds/sukuk (including Govt-Guaranteed bonds) also ballooned between 2-3 times from RM6.4b in February to RM16.9b in March. We note investors flocking to the Govt-Guaranteed space with almost 50% market share of total trades (Feb: 25%) as investors looked for liquidity and comfort of credits whilst others were content with the hunt for yields as transacted amount for AA papers was still commendable albeit a drop to about 1/3rd of total trades (Feb: 57%).



Source : BPAM, Bloomberg

Primary issuance print in February boosted by the following names:

Notable issuances for Mar-17	Rating	Amount Issued(RM mil)
Al Dzahab Assets Berhad	AAA	207
AmBank (M) Berhad	AA3	350
AMMB Holdings Berhad	A1	350
CAGAMAS Berhad	AAA	2,275
CIMB Bank Berhad	AA2	700
CIMB Group Holdings Berhad	AA2	700
CIMB Thai Bank Public Company Limited	AA3	390
Danga Capital Berhad	AAA	2,000
Damansara Uptown Retail Centre Sdn Berhad	NR	25
Eco Botanic Sdn Berhad	NR	150
Fenghuang Development Sdn Berhad	NR	19
Fortune Premiere Sdn Berhad	AA2	250
Gamuda Berhad	AA3	400
Gas Malaysia Berhad	AAA	30
Liziz Standaco Sdn Berhad	NR	97
MMC Corporation Berhad	AA3	1,000
Putrajaya Bina Sdn Berhad	AAA	600
Point Zone (M) Sdn Berhad	NR	100
Prasarana Malaysia Berhad	GG	3,000
Radimax Group Sdn Berhad	NR	50
SunREIT Unrated Bond Berhad	NR	200
Sunway Berhad	NR	200
True Ascend Sdn Berhad	NR	50
		13,142

Source : Bloomberg/ BPAM

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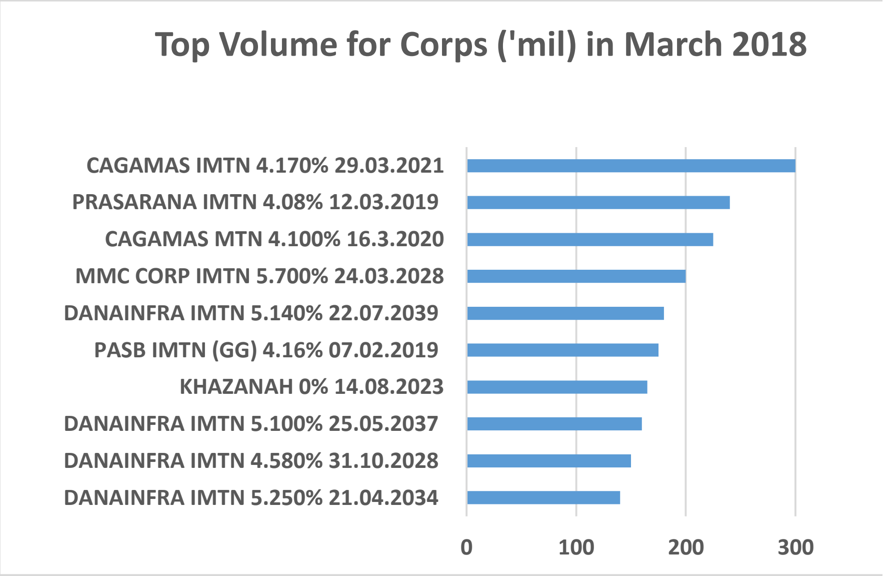

Source : Bloomberg/ BPAM

Outlook for April

Decent 20-year GII reopening in April but ~total three govvies auctions estimated at RM10.0b to weigh on supply

At the time of writing; the auction for both 20Y GII 8/37 was well-received in April and saw strong BTC of 2.118x; averaging 4.79% following the impressive average BTC's of 2.03x for the earlier four (4) auctions in month of March. However the upcoming auctions for new issuances of 5Y MGS 4/23 and 10Y GII 10/28 may see some investors sidelined following the dissolution of parliament early this month; paving the way for GE14 on the 9th of May. The downside may be mitigated by large local inter-bank players and selective institutional investor appetite. The Ringgit is seen to be resilient although some weakness is anticipated for April despite the continued strength in oil prices. Expect liquidity in govvies to improve in the coming months post-election. Meantime some demand is expected to shift to Corporate Bonds especially for both the Govt-Guaranteed and AAA space based on attractive yield spreads to local govvies.

Odds of two additional Fed rate hikes for 2018 with one as early as June is on the cards; Fed dot plot not expected to change for the month

The recent rise of US Treasury yields which resulted from the fear of rising wage costs and inflation has caused more volatilities in global equities compared to Fixed income. 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. Along with the ongoing pace of balance sheet reduction by the US Fed, we expect investors to react neutral in the US Treasuries market for the month of April even as earlier predictions of another two (2) potential Fed rate hikes go full throttle. The much-watched 10Y failed to breach 3.00%; and is expected so as current global monetary policy (i.e. Japan and Euro region) should encourage foreign capital to flow into US Treasuries. Expect yields to oscillate with more volatility due to geopolitical tensions arising between US-Russia-Syria. Also the gyrations are expected as investors switch asset classes on risk on-off mode. Mild flattening of the yield curve is expected to continue as over-estimation of inflation remains evident. In the Corporate space, investors may be seen to focus on companies with strong balance sheets and lower level of debts used to finance their operations in order to be able to counter the impact of potential rising rates. Hence Investment Grade credits are to be preferred over High Yield; or junk.

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