

Monthly Perspective – March 2018

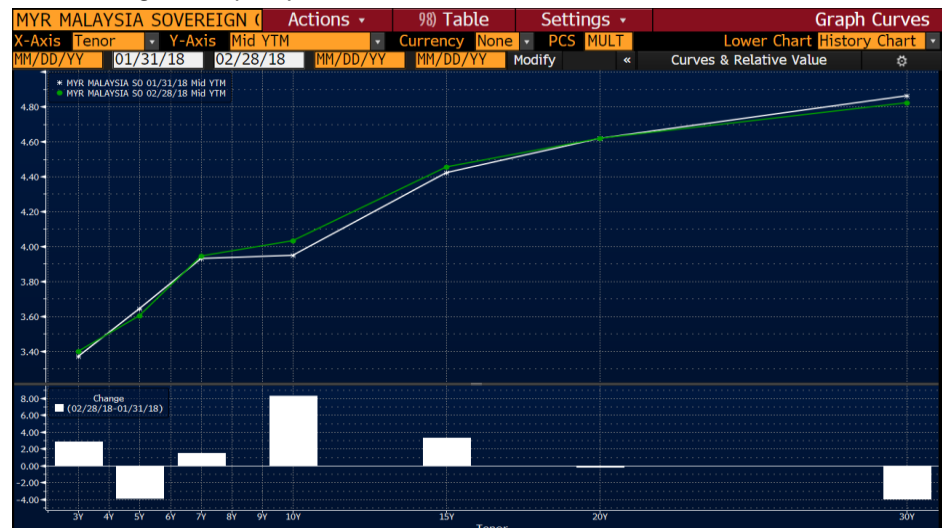
MYR Bond Market

Recapping the month of February

On the global front, US Treasuries (UST's) yields spiked between 11-19bps across most tenures; spurred by bigger than expected increases in wages and consumer prices. The front-end rates i.e. 2Y UST rose 11bps closing at 2.25% buoyed by expectations of Fed tightening in the upcoming March FOMC whilst fears 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 2.70% and a high of 2.95% before closing higher by 16bps at 2.88%; comparable to a monthly average movement of 30bps for the past 5 years. The US yield curve which flattened considerably by about 10-15bps earlier in January continued to see similar pattern for the month February with 2s10s spread anchored at about 40bps whilst the 5s30s spreads narrowed further to a low of 52bps.

On the local front, there was commendable interest for MYR government bonds in February although foreign holdings of total Malaysian debt securities dropped for the first time in four months. Overall foreign holdings of Ringgit Bonds eclipsed January's rise with outflows of RM3.9b MOM at RM207.2b. The foreign holdings of RM183.9b in MGS and GII represents 27.5% of total outstanding MYR government bonds consisting of MGS+GII+SPK. (Jan: RM187.5b or 28.0% of total outstanding). Corporate Bonds however saw marginal increase of RM688m in foreign holdings to about RM16.3b. We note that Malaysian bonds notched lower trading volume in February following the shortened trading days amid lunar new year celebrations. Overall benchmark yields rose moderately by 2-7bps MOM as foreign inflows into MGS paused the earlier months buying spree (save for the 5Y MGS). The 7Y and much-watched 10Y MGS 11/27 closed higher on yields at 3.95% and 4.03% respectively. Interest was mainly skewed to the short-end off-the-runs 18-21's and also the 5Y benchmark GII 4/22.

MYR sovereign curve (MGS)



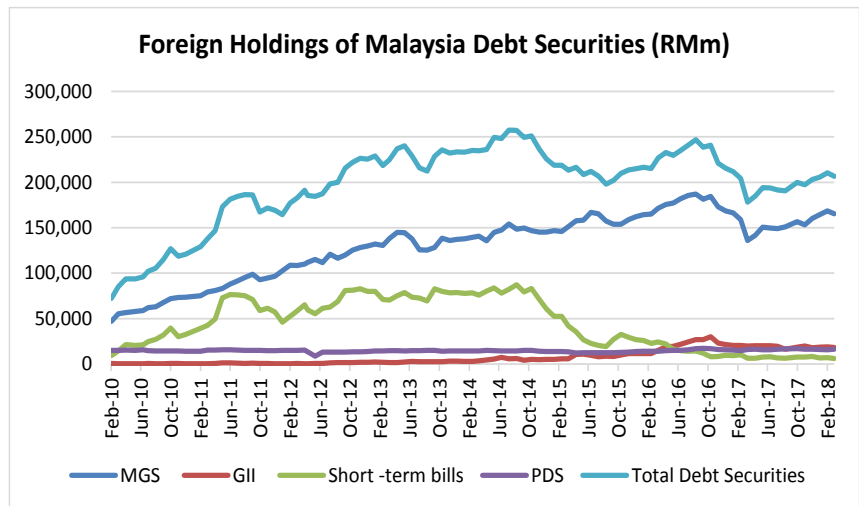
Source : Bloomberg

Stronger headline NFP for February; softer wage gains did little to sway Fed rate hike expectations

February Non-Farm Payrolls (“NFP”) print surpassed expectations and came in way higher at 313k compared to January’s 239k print; its biggest gain since July 2016. Slightly softer wage gains meanwhile were well-received, and did little to dampen prospects of interest rate increases in the US. With optimism over rising economic activity in the US, especially following the Republican Tax Plan and ongoing Fed’s balance sheet reduction/portfolio run-offs; investors may be led to think that inflation is not negligible and that it may slowly surface eventually and that policymakers are bound to announce a rate hike in March and beyond. The downside to the above (if any) would be global trade barriers 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 dropped in February, snapping three consecutive months of advances

Foreign holdings of MYR bonds were lower for the month of February 2018 with total holdings eased by RM3.9b or 1.8% to RM207.2b versus RM211.2b the previous month. The non-resident holdings of MGS were RM3.1b lower at RM165.5b; representing 45.4% of total outstanding) whereas total MYR Govt bonds (i.e. MGS+GII+SPK) holdings also saw a 2.0% decrease or RM3.7b to RM183.9b (27.5% of total outstanding); the 2nd highest month of foreign holdings for MGS and GII since January 2017.



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 currencies the past 12 months with a 12% gain 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.

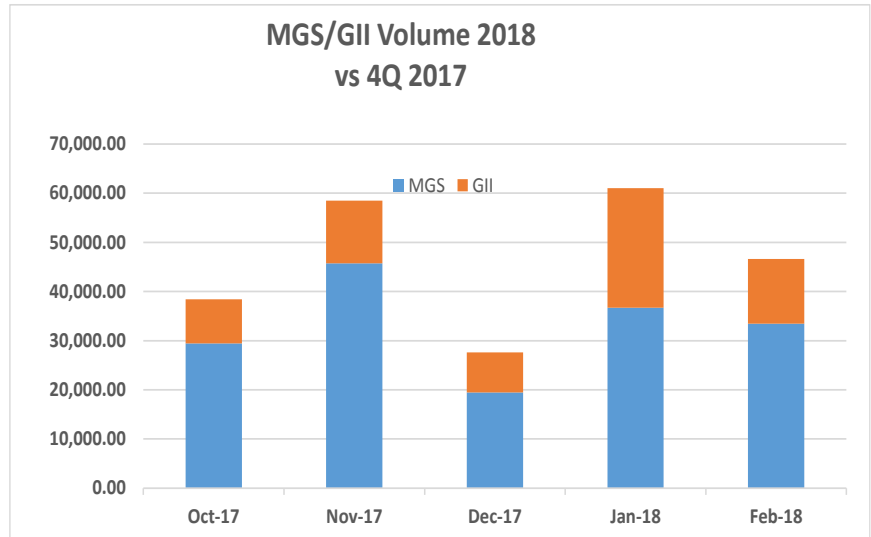
MYR government bond tenders saw strong support for new benchmark 7.5Y GII issue and 10Y MGS reopening ending with higher BTC's than previous similar auctions

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		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	16,500	4,500						

The only two government bond tenders concluded for the month of February 2018 under the auction calendar i.e. the new issue of 7.5Y GII 8/25 and the reopening of 10Y MGS 11/27 saw strong BTC support of 2.284x and 2.066x respectively. This was 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 dipped in February

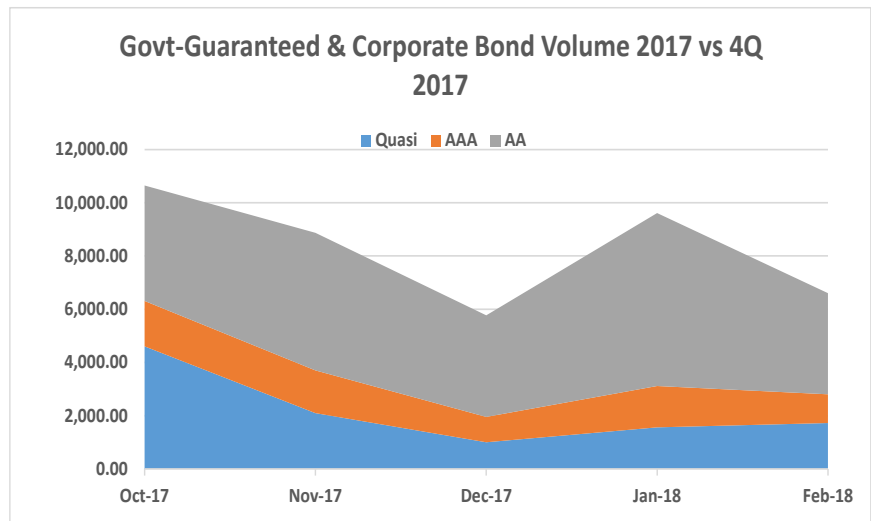
Trading volume for MYR govies dipped from about RM60b in January to RM46b during the short month of February that witnessed the Chinese New Year holidays and saw only two government auctions as mentioned earlier. There was a surge in shorter off-the-runs trades. All four bonds i.e. 10Y and 30Y MGS together with the 5Y and 7Y GII topped the frequency of trades denoting decent liquidity as investors continued to show interest in ringgit government bonds on dissipating concerns of further local rate hikes. The market was seen reacting positively on stability of the Ringgit and certain key indicators that included continuous expansions in exports and IPI.



Source : BPAM, Bloomberg

Corporate bonds/sukuk interest maintained albeit on lower volume mirroring govies

In the secondary market, the monthly trading volume for corporate bonds/sukuk (including Govt-Guaranteed bonds) also declined by approximately 20% from RM7.9b in January to RM6.4b in February. We note continued interest in the AA-rated space as investors continued to hunt for yields although transacted amount for AA papers was seen reduce to 58% of total trades (Jan: 68%).

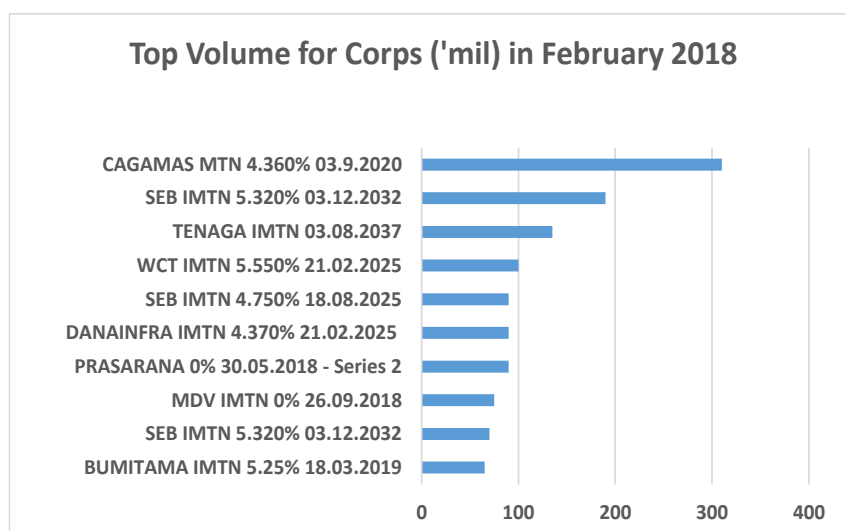


Source : BPAM, Bloomberg

Primary issuance print in February boosted by the following names:

Notable issuances for Feb-17	Rating	Amount Issued(RM mil)
AmBank Islamic Berhad	AA3	150
AmBank (M) Berhad	AA3	175
AMMB Holdings Berhad	A1	325
CAGAMAS Berhad	AAA	300
Country Garden Real Estate Sdn Bhd	AA3	200
DanaInfra Nasional Berhad	GG	4,000
Fenghuang Development Sdn Berhad	NR	18
Inverfin Sdn Berhad	AAA	160
LBS Bina Holdings Sdn Berhad	NR	29
MKD Kencana Sdn Berhad	NR	1,200
ORIX Leasing Malaysia Berhad	AA2	50
Sunway Treasury Sukuk Sdn Berhad	NR	200
West Coast Expressway Sdn Berhad	NR	27
WCT Holdings Berhad	AA3	100
		6,933

Source : Bloomberg/ BPAM



Source : Bloomberg/ BPAM

Outlook for March

30-year GII reopening and new 7-year MGS auction open with a bang in March

At the time of writing; the auction for both GII 5/47 and MGS 3/25 were well-received in March and saw strong BTC of 2.071x averaging 4.93% and 2.347x averaging 3.882% respectively. The upcoming auction for the reopening of the 15Y GII 6/33 and 3Y MGS 11/21 is also expected to garner decent support from both inter-bank players and end-investors. The drop in foreign holdings of both Govt and Corporate bonds (i.e. MYR bonds in total) to RM207.2b is only expected to be a mild mitigating factor as yields are expected to move marginally south for the current month. Demand is expected to resonate well with the MYR supported both by earlier OPR hike in January, higher oil prices and improved sentiment towards Malaysian assets on the back of decent economic data. The recent tapering of CPI and steady GDP data is expected to contribute to the liquidity in the govies space. We also foresee renewed demand for Corporate Bonds especially for both the Govt-Guaranteed and AAA space.

Odds of a Fed rate hike in March seen as a done deal; Fed dot plot will be scrutinized for clues on the pace of further hikes

The recent rapid rise of US Treasury yields emanated from the fear of rising wage costs and inflation caused a rout in global equities. 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 expect investors to react neutral in the US Treasuries market for the month of March as earlier predictions of up to four (4) potential rate hikes dissipate. The much-watched 10Y failed to breach 3.00%; and large pension funds, central banks and lifers are seen having the flex to mop up at higher attractive levels. Expect yields to move sideways with mild flattening to occur as inflation remains muted.

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