Global Markets Research
Fixed Income

Monthly Perspective – November 2019

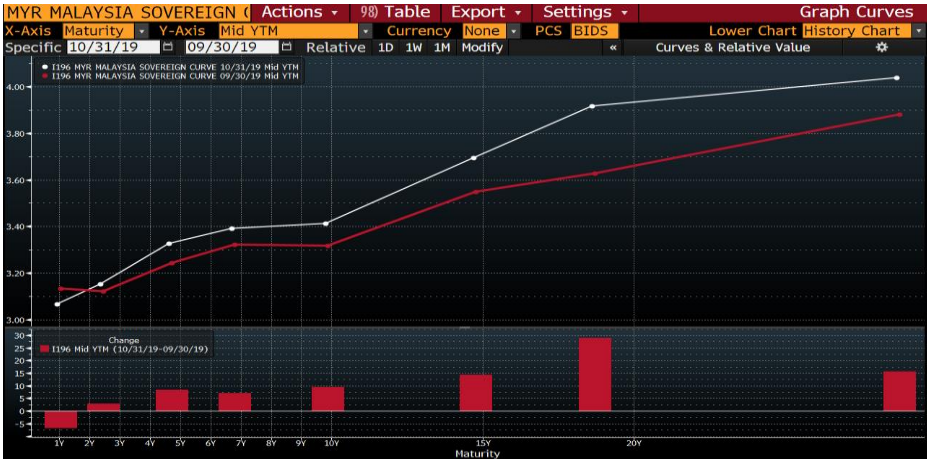
MYR Bond Market

Recapping the month of October

US Treasury (UST's) curve steepened as the front-end closed richer in yields prior to the Fed's 3rd successive rate cut of 25bps for the year to 1.50-1.75% levels on the 30th of October. However, Treasuries rallied across the curve into the month-end as early risk-off bid was extended following weak Chicago PMI print for October. The strong US job numbers (NFP) of 128k for October plus 3QGDP which held up well at a 1.9% annualized rate; provided a mixed outlook on bonds for the month. Other significant news included positive vibes on US-China trade tariff Phase 1 agreement in the making and deferment of Brexit from end-October to January 2020. Benchmark **UST yields closed mixed between -9 to +7bps with losses seen extending out from the 10Y tenures; a reversal from prior month's overall rally.** The UST 2Y yield declined 9bps MOM at 1.53% levels whilst the 10Y which depicts as a benchmark for US mortgage rates and inflation, saw lesser volatility in October; ranging between 1.53%-1.84% and edged up 2bps instead at 1.69%. The yield curve remained intact and moved further into positive territory with both the 2y10y and 3m10y spreads ending @ +16bps. The US Dollar meanwhile ended weaker against all G10 currencies (save for the Krone), with the Dollar Index pulling back to 97.35 levels; off the 99 handle last seen in late-September early-October period.

On the local front, **MYR govvies** saw foreign holdings inch downwards in October following a "zigzag-like-movement" in recent months. The percentage of foreign holdings of MYR government bonds (MGS + GII + SPK) rose marginally to 23.0% or RM169.1b of total outstanding issuance due to larger net maturities. (Sep: RM169.5b or 22.8%). Foreign purchases of overall MYR bonds was down RM541m at RM188.6b; as opposed to prior month's rise of RM908m. Secondary market volume improved 9% to RM71.2b (Sep: RM65.6b) on attractive values seen on certain parts of the curve. Nevertheless, **overall benchmark MGS/GII bonds were mostly weaker with yields higher between 0-25bps save for the short-end GII papers.** The 5Y MGS 4/23 jumped 12bps higher at 3.36% whilst the much-watched 10Y MGS 8/29 also closed higher by 14bps at 3.46% levels. Corporate Bonds/Sukuk saw levels of foreign holdings inch up to RM12.2b; the highest since March. Institutional investors comprising mainly pension funds, insurance companies and asset management companies were less active; resulting in a drop in secondary market volume of RM8.54b for October.

MYR sovereign curve (MGS)



Source : Bloomberg

NFP data in October provides relief; but not compelling enough to warrant further dovish interest rate outlook….

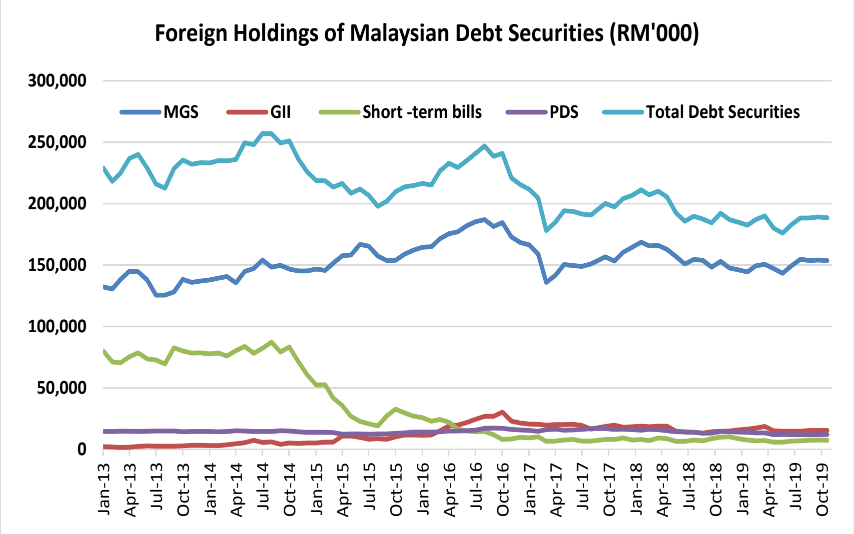
October Non-Farm Payrolls ("NFP") of 128k beat expectations of 75k despite the 40-day strike at General Motors and increasing economic anxiety that weighed on business sentiment; brought about mainly by the US-China trade deadlock. (Previous months of August and September saw revision of +51k and +44k respectively). The average job gain over the past three (3) months was still decent at 176k; compared to 223k in 2018. We note that the unemployment rate has ticked back up marginally to 3.6% from the recent record 50-year low of 3.5% and believed to be largely attributable to the higher participation rate of 63.3% for the month. The decent print on average hourly wages of 0.2% MOM (previous month: +0.0%) and +3.0% YOY (previous month: +2.9%) also pointed to a tight labor market overall; causing the Fed to re-re-assess its interest rate outlook going forward.

The Fed cut rates again by another 25bps to 1.50-1.75% as expected in its FOMC meeting on 30th October; in what remains to be seen whether this is a tipping point for a "crawling" or a "stalling" economy. The manufacturing sector continues to be a drag on the economy with the long ongoing trade drama and war stalling business decisions and possibly hiring and capital investment. The **Fed's dot plot currently reflects a pause** on interest rate for the remainder of 2019. Meanwhile, the **market odds (via readings from the Fed Fund Futures)** took a dip post-NFP and recent FOMC rate cut last month to a mere 5% **for a 25bps rate cut in December and 16% by end-January** according to a Bloomberg survey, literally suggesting no cuts. Another reliable source i.e. CME Fed Watch Tool reflects a 3% chance of a 25bps rate cut instead for December and 13% by end-January. The Fed's **preferred inflation measure** for September i.e. the personal consumption expenditure (PCE) core index which the Fed officially targets for 2% was unchanged MOM**; but slipped to 1.7%** YOY (from 1.8% prior month). The core index strips out the volatile food and energy costs is reputed to be a better gauge of underlying price trends. The Fed has started expanding its balance sheet again, but it won't be classified as full-blown quantitative easing as they are likely to be focused on T-bills and serves to steady the funding/money markets which saw a strain few months back.

Slight decrease in foreign holdings of MYR bonds in October despite in the absence of major catalysts…..

Foreign holdings of MYR bonds saw marginal decrease of RM541m or 0.3% in October to RM188.6b. The non-resident holdings of MGS fell by RM446m from RM154.2b to RM153.7b (representing 37.9% of total outstanding) whereas total MYR Government bonds (i.e. MGS+GII+SPK) holdings similarly saw a mere marginal outflow of RM392m to RM169.1b (representing 23.0% of total outstanding) amid net maturities of RM2.8b for the month (Sep: net issuances of -RM2.5b). This had resulted in the marginal increase in percentage holdings.

Local govvies will get a reprieve at least until March 2020 when FTSE Russell decides to re-evaluate Malaysia's weightage in the WGBI then. However this lingering concern coupled with the cautious outlook following the Malaysia's continued monitoring and inclusion in the US Treasury Department's Semi-Annual Currency report/list earlier in May this year may still be a hurdle for a continued rise in foreign holdings and performance of the MYR bond asset class. **YTD, overall MYR bonds saw a positive YTD foreign holdings of RM3.7b but a bigger slide in net equity outflows of RM8.4b** in the first ten (10) months of 2019. On the currency side, the MYR ended stronger by 0.23% at 4.1782 levels as at end-October but closed mostly weaker against most Asian currencies save for the Japanese Yen and Indian Rupee. However at the time of writing, USDMYR is trading at 4.1500 amid risk-on mode for EM Asia.



Source: BNM, HLB Research

OPR stays pat as per our house view and maintained a neutral policy tone….

BNM's monetary policy committee maintained the OPR at 3.00% at the 6th and final MPC meeting of the year on the 5th of November, whilst keeping its economic resilient growth forecast for this year between 4.3%- 4.8%. It stated that the stance of monetary policy remains accommodative and with support from the earlier preemptive 25bps cut in May and expansionary fiscal measures by the government would be supportive of the economy. However it remains a tad more cautious of the global economic outlook, being mindful of potential downside risks due to ongoing external uncertainties. The MPC will continue to assess the balance of risks to domestic growth and inflation. (Re-cap: The last policy move was a 25bps cut back in May 2019). **Our full year estimate for 2019 GDP growth remains unchanged at 4.7% for now pending the release of 3Q GDP which we foresee downside risks at 4.5%** (1Q2019: 4.5%; 2Q2019: 4.9%). The risks to our projections would include the worsening external environment that may pose a risk to an OPR pause. Hence, protracted downside risks to growth imply the door for further policy easing is not completely closed as much depends on the evolvement of risks and financial conditions.

MYR government bond auctions saw weak bidding metrics for both 5Y MGS and 10Y MGS bonds in Oct….

The three (3) government bond tenders concluded for the month of Oct 2019 under the auction calendar included re-openings for the 10Y MGS 8/29 that saw one of the lowest YTD bids totaling a mere RM3.70b which resulted in a poor BTC ratio of 1.23x; followed by the upbeat reopening of the 20Y GII 9/39 (BTC ratio: 3.32x). Overall weighted average BTC for the month tanked to ~1.81x mainly due to investors staying sidelined for both the 10Y and 5Y MGS auction. Another poor month indeed compared to both the YTD BTC ratio of 2.61x and also the entire 33 auctions for 2018 which notched an average BTC ratio of 2.29x.

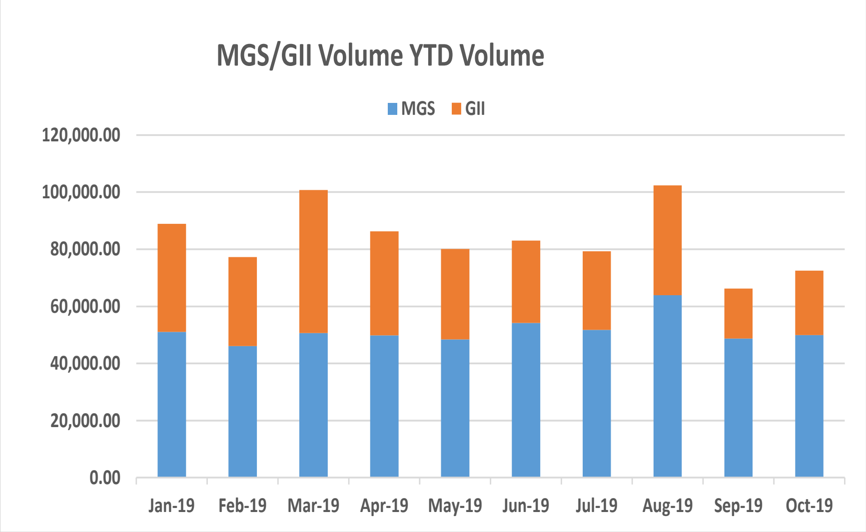
MGS/GII issuance pipeline in 2019

No	Stock	Tenure (yrs)	Tender Month	Quarter	Tender Date	Projected Issuance Size (RM mil)	Actual Auction Issuance (RM mil)	Private Placement	Auction Amt Issued YTD	BTC (times)	Low	Average	High	Cut-off
1	10.5-yr New Issue of GII (Mat on 07/29)	10	Jan	Q1	8/1/2019	4,000	3,500	1,500	3,500	4.067	4.110	4.130	4.135	86.1%
2	7.5-yr New Issue of MGS (Mat on 07/26)	7	Jan	Q1	14/1/2019	4,000	3,500	500	7,000	2.216	3.890	3.906	3.914	8.2%
3	5-yr Reopening of GII (Mat on 11/23)	5	Jan	Q1	30/1/2019	3,500	4,000		11,000	1.974	3.845	3.862	3.873	19.0%
4	10.5-yr New Issue of MGS (Mat on 08/29)	10	Feb	Q1	14/2/2019	4,000	4,000	1,000	15,000	2.536	3.867	3.885	3.893	31.6%
5	15-yr Reopening of GII (Mat on 06/33)	15	Feb	Q1	27/2/2019	3,000	2,000	1,000	17,000	3.906	4.360	4.370	4.375	33.9%
6	3-yr Reopening of MGS (Mat on 03/22)	3	Mar	Q1	7/3/2019	3,500	3,000		20,000	3.132	3.470	3.483	3.487	70.0%
7	20.5-yr New Issue of GII (Mat on 09/39)	20	Mar	Q1	14/3/2019	4,000	2,500	2,000	22,500	2.758	4.445	4.467	4.480	14.5%
8	30-yr Reopening of MGS (Mat on 07/48)	30	Mar	Q1	21/3/2019	3,500	2,000	2,000	24,500	1.718	4.550	4.591	4.629	25.0%
9	7-yr New Issue of GII (Mat on 03/26)	7	Mar	Q1	28/3/2019	4,000	4,000		28,500	2.330	3.699	3.726	3.745	21.2%
10	15-yr Reopening of MGS (Mat on 11/33)	15	Apr	Q2	5/4/2019	4,000	2,500	1,000	31,000	2.792	4.058	4.065	4.071	40.0%
11	5.5-yr New Issue of GII (Mat on 10/24)	5	Apr	Q2	12/4/2019	4,000	3,500		34,500	2.313	3.627	3.655	3.669	64.7%
12	7-yr Reopening of MGS (Mat on 07/26)	7	Apr	Q2	29/4/2019	3,000	3,000	500	37,500	1.510	3.735	3.757	3.777	75.0%
13	30.5-yr New Issue of GII (Mat on 11/49)	30	May	Q2	14/5/2019	3,000	2,000	2,000	39,500	3.298	4.625	4.638	4.663	100.0%
14	10-yr Reopening of MGS (Mat on 08/29)	10	May	Q2	23/5/2019	3,500	4,000		43,500	1.840	3.810	3.836	3.852	22.0%
15	15.5-yr New Issue of GII (Mat on 11/34)	15	May	Q2	30/5/2019	4,000	2,500	1,500	46,000	3.380	4.105	4.119	4.126	44.4%
16	5-yr New Issue of MGS (Mat on 06/24)	5	Jun	Q2	13/6/2019	4,000	4,000		50,000	2.489	3.466	3.478	3.484	8.3%
17	20-yr Reopening of GII (Mat on 09/39)	20	Jun	Q2	27/6/2019	3,000	2,000	2,000	52,000	4.275	4.070	4.074	4.079	59.1%
18	15-yr New Issue of MGS (Mat on 07/34)	15	Jul	Q3	4/7/2019	4,000	3,500		55,500	3.437	3.805	3.828	3.835	73.5%
19	7-yr Reopening of GII (Mat on 3/26)	7	Jul	Q3	12/7/2019	3,000	3,000	500	58,500	2.874	3.568	3.582	3.586	70.0%
20	30-yr Reopening of MGS (Mat on 07/48)	30	Jul	Q3	26/7/2019	2,500	2,000	1,500	60,500	2.490	4.170	4.181	4.208	100.0%
21	5-yr Reopening of GII (Mat on 10/24)	5	Aug	Q3	8/8/2019	3,500	3,000		63,500	4.137	3.329	3.345	3.349	10.7%
22	20-yr Reopening of MGS (Mat on 06/38)	20	Aug	Q3	14/8/2019	3,000	3,000	1,000	66,500	3.150	3.745	3.753	3.758	81.1%
23	10-yr Reopening of GII (Mat on 7/29)	10	Aug	Q3	29/8/2019	3,500	3,000		69,500	2.000	3.290	3.318	3.330	80.0%
24	7-yr Reopening of MGS (Mat on 07/26)	7	Sep	Q3	19/9/2019	3,500	3,000		72,500	1.210	3.350	3.392	3.433	81.3%
25	15-yr Reopening of GII (Mat on 11/34)	15	Sep	Q3	27/9/2019	3,000	2,000	500	74,500	3.195	3.603	3.632	3.643	20.0%
26	10-yr Reopening of MGS (Mat on 08/29)	10	Oct	Q4	7/10/2019	4,000	3,000		77,500	1.233	3.330	3.407	3.480	35.0%
27	20-yr Reopening of GII (Mat on 09/39)	20	Oct	Q4	14/10/2019	3,000	2,000	500	79,500	3.320	3.805	3.838	3.849	40.0%
28	5-yr Reopening of MGS (Mat on 06/24)	5	Oct	Q4	30/10/2019	3,000	3,500		83,000	1.433	3.330	3.364	3.407	60.0%
29	3.5-yr New Issue of GII (Mat on 05/23)	3	Nov	Q4		4,000								
30	20.5-yr New Issue of MGS (Mat on 05/40)	20	Nov	Q4		4,000								
31	10-yr Reopening of GII (Mat on 07/29)	10	Nov	Q4		3,000								
32	15-yr Reopening of MGS (Mat on 07/34)	15	Dec	Q4		2,500								
	Gross MGS/GII supply in 2019					94,500		19,000						

Source: BNM, HLB Research

Trading volume for MGS/GII rose in October…

Trading volume for MYR govvies i.e. MGS + GII bonds recovered to notch a healthy ~RM71.2b in October compared to prior month's RM65.6b. Interest was seen mainly across the short-end of the bellies with substantial and frequent trades done in the off-the-run 19-21's (RM16.0b for these tenures forming ~22% of overall volume). This was followed by both the 7Y benchmarks (RM7.5b or 8% of total trades) and 10Y benchmarks (RM7.5b or ~10% of total trades). The month under review saw investors pay lower for the long-ends on attractive yields for both the 20Y MGS 6/38, 20Y GII 9/39, 30Y MGS 7/48 and GII11/49 benchmarks which emerged following September's dip. Overall volume for these bonds notched ~RM3.0b (Aug: RM2.4b). Hence investors were not compelled to short duration alone notably with local institutional participation seen in GII bonds. The FTSE Russell WGBI concerns have dissipated for now (at least until March 2020) and clarity of National Budget 2020 which was unveiled in October injected optimism and confidence despite yields taking a breather for the month across the curve.



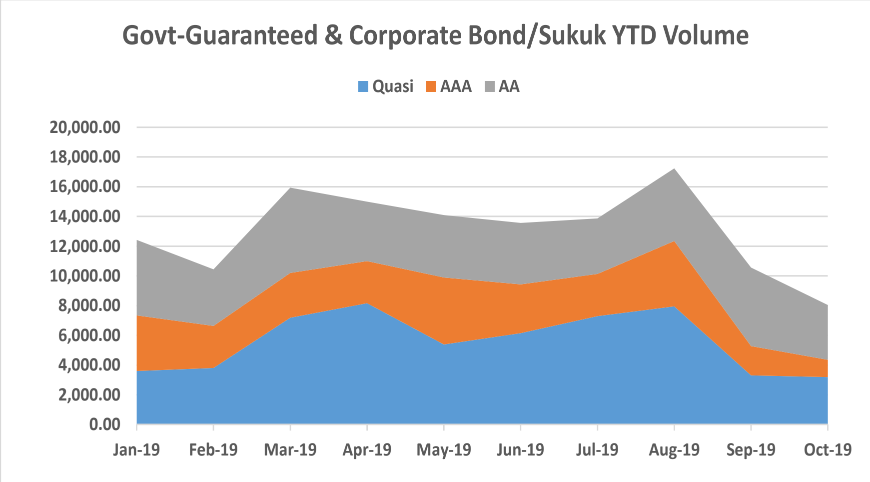
Source : BPAM, Bloomberg, HLB Research

Corporate bonds/Sukuk saw lower traction for 2nd month running…

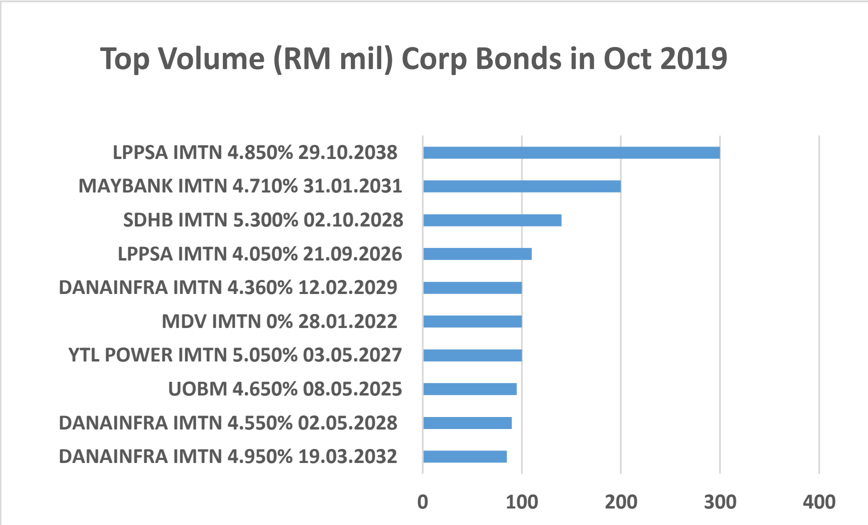
In the secondary market, Corporate Bonds/Sukuk (including Govt-Guaranteed bonds for our ease of classification) saw lower secondary market trading volume on weaker momentum as volume notched ~ RM8.54b in October (a 20% drop) compared to RM10.9b the prior month. Many portfolio fund managers were seen sidelined; patiently waiting for spreads relative to MGS to "re-adjust" from tighter levels seen prior month. Yields closed mostly mixed-to-higher for the month as the ongoing and unresolved global trade tensions together with the anticipated slowdown in global growth impacted overall volume in both sovereigns and quasi-government bonds. Nevertheless the month saw investors move back up the credit curve.

Investor appetite for GG bonds outstripped those in AAA and AA-space; forming a decent traction outperforming other bond categories with almost 10% rise; thus contributing 40% of overall volume in October (September: AA-rated bonds lead with 50% market share). The largest drop in interest was seen in both the AAA and AA-segment which tapered between 40-50%. The banking sector saw MAYBANK 31NC26 top the monthly volume; spiking 17bps at 3.95% compared to previous-done levels followed by Govt-guaranteed LPPSA 10/38 which rose 3bps at 4.05%. This was followed by another tranche of the same GG bond i.e. LPPSA 4/26 which also rose sharply by 14bps to 3.54% levels.

Appetite in the pure credit space was seen in a wide range of bonds namely conglomerates (i.e. MMC Corp 20-28, DANGA 20-33) and infrastructure-related names including sub-sectors such as telecommunication (i.e. DIGI 22-29, TELEKOM 24-28) , energy (i.e. AA-rated BGSM 19-26, EDRA 22-38, MALAKOFF 19-29, SEB 22-36, SOUTHERN Power 26-35, YTL Power 23-27 and AAA-rated TENAGA 33-38). Other bonds which continued to be actively traded included those from construction and property-related sectors (i.e. UEM SUNRISE 23-25, SERBA DINAMIK 23-28, IJM Land 22-23 and Perps). Worthy of note were the decent frequency of transactions of unrated bonds in smaller denominations by High Net-Worth Individuals in various names like Eco World International, ECO Capital 24, MAH SING Perps and also YNH Property Perps. In the banking space, decent frequency of trades were noticed for both SABAH Development and Sabah Credit papers along with MAYBANK papers. (Note: we have excluded single-A rated and non-rated papers in the illustration below).



Source : BPAM, Bloomberg, HLB Research



Source : BPAM, Bloomberg, HLB Research

Primary issuance print in October boosted by following names:

Notable issuances in Oct-19	Rating	Amount Issued (RM mil)
Alam Maritim Resources Berhad	NR	1
Atrium Real Estate Investment Trust	NR	87
Cagamas Berhad	AAA	600
Cypark Ref Sdn Berhad	AA3	550
Damansara Uptown Retail Centre Sdn Berhad	NR	20
Edra Solar Sdn Berhad	AA2	245
Fenghuang Development Sdn Berhad	NR	5
Hektar Green Sdn Berhad	NR	5
Malayan Banking Berhad	AAA	50
Paramount Corporation Berhad	NR	50
Pengurusan Air SPV Berhad	AAA	1,600
Public Islamic Bank Berhad	AA1	500
Potensi Angkasa Sdn Berhad	NR	17
Press Metal Aluminium Holdings Berhad	AA3	1,000
Perak Transit Berhad	NR	300
Sabah Development Bank Berhad	AA1	210
Sabah Credit Corporation	AA1	50
Sunway Treasury Sukuk Sdn Berhad	NR	160
SunREIT Unrated Bond Berhad	NR	270
Tanco Holdings Berhad	NR	1
TRIplc Medical Sdn Berhad	NR	84
True Ascend Sdn Berhad	NR	50
Xinghe Holdings Berhad	NR	1
Public Islamic Bank Berhad	AA1	500
Xinghe Holdings Berhad	NR	5
		6,360

Source : BPAM, Bloomberg, HLB Research

Total fresh issuances for all ratings of Corp Bonds/Sukuk fell by more than half to ~RM6.4b (Sep: RM14.9b) due to plunge in quasi-government issuances by GLC's, and banks. The three (3) prominent bond issuances consist of PASB (GG) 21-29Y tenures totaling RM3.0b with coupons ranging from 3.69-86%.This was followed by Press Metal Aluminum (AA3) 7-30Y tenures amounting to RM1.0b with coupons between 3.34-90% levels and CAGAMAS Berhad's RM600m of AAA-rated perpetual bonds with coupon of 4.08-13%.

Outlook for Nov

Investors will be wary whilst seeking for values under the current environment as interest rate outlook remains flat….

The MYR bond market saw weaker auction bidding metrics; and is expected to continue to do so despite the appeal of safe-haven assets as portfolio managers began to slowly wind-down the year-end activities. The weighted average BTC for the three (3) auctions in October slipped to a mere 1.81x (September: 2.0x). BNM's continued decision to stay pat on the OPR at its November MPC meeting and is not expected to cut at the next meeting scheduled for end-January 2020 due to the resilience of private spending alongside stable labor market and wage growth which are expected to remain supportive of the economy activity. The nation's diversified exports are also expected to mitigate the impact of softening global demand. Although the USDMYR pair has edged marginally to 4.1425 levels at the time of writing from recent 4.1782 levels end of last month; this is a result of both USD weakness coupled with risk-on bids for EM Asia**.** The FTSE-Russell-related risk of outflows of up to US$4 billion by passive funds and an additional US$2-4 billion by active funds is sidelined until March 2020 following FTSE Russell's decision to keep Malaysia status quo in its recent September review. The Malaysian regulators continue to engage with officials of the Index provider and international investors to provide a deeper and more liquid bond market. The latest measure taken at the time of writing is the extension of Repo and Reverse Repo transactions from 365 days to five (5) years. This is in addition to the encouragement of Principal Dealers to provide quotes for off-the-run-bonds, enhancing hedging opportunities including the ease of FX Forward transactions and the establishment of Appointed Overseas Offices (AOO) to improve MYR accessibility.

We anticipate yields to generally drift sideways-to-higher in November due to the year-end tapering and good YTD performance by Fixed-Income portfolio managers. However kinks within the curve reveal both the 7Y and the previously mentioned 15Y space for MGS along with the 4-5Y and 15Y GII bonds seeing decent values. We note that the highest amount of maturities for the year i.e. RM17.1b worth of maturities in November for MYR govvies (October: RM11.8b). Interest may still trickle into the MYR govvies space due to the rather ever-increasing supply of negative-yielding global debt. Demand for Ringgit Corporate Bonds/Sukuk along the GG segment are looking better at 15-20bps spreads compared to September with the 5Y and 10Y looking particularly attractive as yields re-adjusted higher following earlier weaknesses in underlying MGS and also deluge of supply and slowing momentum of year-end purchases. Expect continued spillover down the credit spectrum especially with the AA-part of the curve attracting attention with interest spanning into more liquid names in conglomerates, utilities, and infrastructure especially the sub-sectors of energy and toll-related names.

Markets not pricing in additional Fed rate cut this year…

The UST movements in October saw the curve pivoted at the 7Y and steepen there onwards with the UST 10Y seeing a more tepid trading range of 31bps (September: 68bps) as the bond market gave up prior month's solid gains extending out from 7Y tenures. This bond trend was also seen across several global bond markets as the Fed displayed a non-committal stance on further interest rate cuts. While average YTD monthly job gains of 162k this year are down from 223k in 2018, the sufficient pace along with the low unemployment rate of 3.6% and decent wage growth may neutralize the impact arising from recent weak ISM manufacturing and non-manufacturing numbers. Both the Fed and investors will be watching for clues on economic growth, job creation, wages and inflation whilst keeping an eye on US-China trade pact phase 1. Elsewhere, the upcoming UK December elections and BREXIT are events to be watched closely. UST's may lose steam but still find support under the current scenario for November 2019 amid stable inflation and softer global growth. The US yield curve; a reliable recession predictor, which briefly flirted with inversion at end-August has reverted back to normal and does not seem to threaten going forward.

We opine that the case for a rate cut versus no cut is tilted to the later based on the full impact of three (3) earlier cuts as ongoing progress filters through the financial system eventually. Dovish-Fed dissenters in recent updated Dot Plot projections and dialing back of additional policy easing are seen to dominate current scenario. **We view the shorter-end to be particularly favorable and foresee the mid-to-longer term maturities as an effective tool against a risk asset sell-off. The 10Y is expected to range between 1.85-2.05% whilst finding support at 2.00% levels.**

In the Credit/Corporate space, Investment grade (IG) debt remains the safer option with cyclical consumer services, gaming, restaurants and retailers seen to outperform. In addition to adopting negative duration**, we opine that boosting the credit quality of his portfolio will minimize risk and consequently prefer to keep credit quality high and duration at between 3-7Y tenures. We continue to prefer avoiding the HY sector due to potential stretched balance sheets under current business conditions. Investors may still find IG issuances that offer slightly decreased spreads of ~105bps (September: 120bps) as YTD returns eased to 12**% (reference is made to the Bloomberg Barclays US Aggregate Index for Investment-Grade Corporate Bonds).

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