Global Markets Research

Fixed Income

2019 Fixed Income Outlook

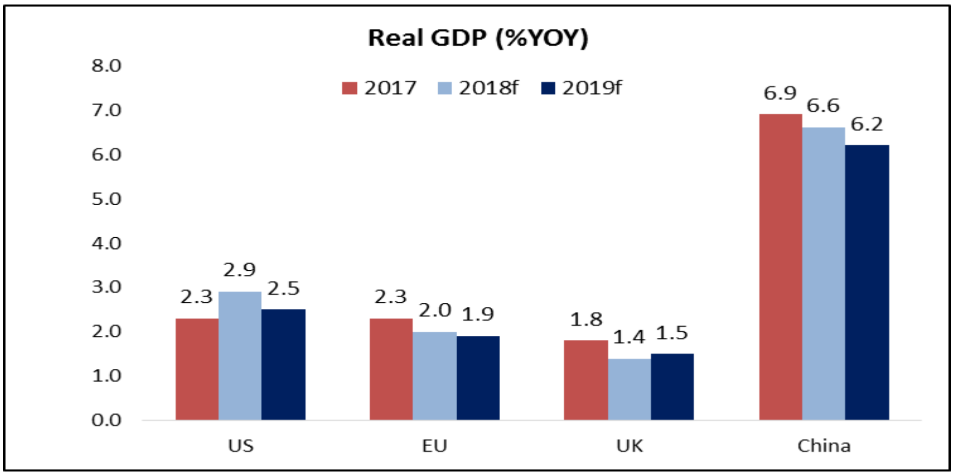
To recap, 2018 was an eventful and unforgettable year; taking cue from a series of prominent global and events in the US. These include four (4) quarter-point interest rate hikes by the US FOMC; US-China trade war, heavy UST issuances of $1.1 trillion amid continued reduction in Fed's balance sheet (i.e. Balance Sheet run-off), Jerome Powell as Federal Reserve Chair succeeding Janet Yellen, the infamous hurricane Florence hitting the US Atlantic coast and another recent US government shutdown affecting almost 25 of overall agencies and staffing due to debt ceiling issues.

*2019 which was likely to see a higher interest rate regime may now be at crossroads following generally weaker US data for December despite strong jobs data at the time of writing. The current "quantitative tightening" is ongoing as the US economy continues to find a firm footing. The flood of UST supplies by the Treasury to fund the Federal deficit arising out of the new tax incentives and additional spending is expected to dampen demand on UST's. Add to that potential conservative global central bank purchases; hence our **mildly bearish call on UST's**.*

*On the local front we expect **decent support for primary tenders** despite higher supply and also brisk secondary market trades on liquid tenors with both offshore/local institutional interest anchored mainly in currency-play as Malaysia continues to maintain decent set of economic data. Expect the local govvies market to see more local interest as foreign outflows abate in 2019. As for **corporate bond issuances, we expect RM85-95b of gross issuances** with investors seeking alpha amid tough credit environment. Due to potentially lower issuances coupled with existing maturities of about RM69b expect spillover into secondary market with investors **favoring AAA and also AA-part of the yield curve** in view of dearth of GG issuances.*

Growth to taper off mildly in 2019

Global growth is expected to stay flattish at 3.7% in 2018 and 2019 based on IMF revised growth outlook published in October 2018. This is marginally lower by 0.2% from an earlier forecast back in April 2018 and is mainly due to "further disruptions in trade policies". On a related note, ADB in its latest growth outlook released in December 2018, maintained its 2018 growth projection outlook for developing Asia at 6.0% and 5.8% for 2019, despite trade conflict with the macro backdrop expected to result in slight upward bias in bond yields going forward.



Source: IMF

US monetary policy normalization and US-China trade issues, oil price performance are key themes in 2019

Yield spread between 2Y and 10Y UST bonds

Source: Bloomberg

We expect the earlier potential tightening monetary policy regime in the US to abate with recent fears emerging on the sustainability of both world growth and the US in doubt even as the job market churns out strong numbers in the US. From policy perspectives, investors will be eagerly watching developments and policies arising from both US and Europe as the ECB has portrayed a more hawkish tilt with one (1) rate hike in the 2H 2018 whist BOE is expected to stay pat. The UK is grappling with Brexit decision as the UK parliament has just rejected Theresa May's deal with 432-202 votes against.

The front-end US rates which were buoyed by expectations for further Fed tightening is now being relieved of pressure temporarily causing the curve to steepen despite the absence of meaningful inflationary pressures. Nevertheless, the **resumption of flattening of the yield curve** as depicted in the graph above is expected to re-emerge.

With the conclusion of the 4rd rate hike at the December 2018 FOMC meeting and the continuation of Trump's Tax-overhaul bill, the US Treasury is expected to fund the deficit via further issuances beyond the $1.1trillion raised.

Recovering oil prices may be temporary in 2019 as levels retrace from its 2018 levels of ~USD65/barrel for WTI and USD72/barrel for Brent. The US Energy Information Administration in its recent Energy Outlook Catalysts projects crude oil prices to average USD55/barrel for WTI and USD61/barrel for Brent in 2019. The recent weakness in global economic indicators could indicate a slowdown in economic growth and oil demand. China's manufacturing Purchasing Managers' Index for December fell to 49.7, where any reading below 50 indicates a contraction in manufacturing activity. OPEC members have begun reducing oil production ahead of the scheduled reductions in 2019. OPEC's output is to be cut by about 1.0 million bpd. This is expected to mitigate slower demand and has reinforced our view on its impact on USD and subsequent effect on both US and Malaysia Fixed Income space.

US WTI and Brent Crude Oil Prices

Source: Bloomberg

Growth for Malaysian economy is expected to stay steady at 4.7% in 2019; putting less pressure on Govt Bonds

The Malaysian economy is expected to continue expand at a similar pace of 4.7% this year (estimated growth for 2018: 4.6%). While growth outlook remains decent, there is little room for monetary policy tightening barring further upside growth risks. Odds of any OPR hike in 2019 is slim; with the last 25bps hike to 3.25% on 25th January 2018. Our base case is for OPR to remain at the current level for the year, unless growth significantly surprises on the downside. The table below shows the six (6) BNM MPC meeting dates in 2019.

Schedule of BNM Monetary Policy Meeting (MPC) 2019	
MPC Meeting No.	**Dates (2019)**
1st	23 and 24 January (Wed and Thurs)
2nd	4 and 5 March (Mon and Tues)
3rd	6 and 7 May (Mon and Tues)
4th	8 and 9 July (Mon and Tues)
5th	11 and 12 September (Wed and Thurs)
6th	4 and 5 November (Mon and Tues)

Source: BNM

Tepid 1.0% inflation range for 2018; prospects of continued low inflation in 2019 shall relieve pressure on Govt bond yields

Inflation is expected to peg at a mere 1.0% YOY for the entire 2018 (2017: +3.7% YOY). We anticipate a flat inflation of 1.0% YOY for 2019 amid softer crude oil prices that is expected to translate into declines/ weaker transport prices following the reintroduction of weekly managed float of retail pump prices effective Jan-2019.

Fiscal consolidation to improve in 2019, narrowing towards deficit target of 3.4% from 3.7% in 2018; gross supply of Govt Bonds to increase…

Fiscal consolidation is expected to improve for 2019, towards a targeted fiscal deficit level of 3.4% of GDP. Going forward, the Federal Government's (GOM) revenue is expected to improve to RM261.8b this year largely due to a one-off dividend from PETRONAS with tax revenue expected to be maintained largely from income tax and SST collection. Bearing in mind that the 2019 Budget is calibrated based on an oil price assumption of $72 per barrel, dampening oil prices could possibly put a strain in government coffers. Brent crude and WTI oil prices is trading at USD$61 and USD52 per barrel respectively at the time of writing. On the expenditure side, RM37b of taxes to be settled one-off this year and another RM54.7bn will continue to be allocated for development expenditure in 2019 for education/training, security, trade/industry, upgrading of infrastructure, improvement of roads and public transport systems.

FEDERAL GOVT REVENUE & EXPENDITURE RM (Billion)	2017	2018 (original)	2018 (revised)	2019 (estimate)
Revenue	225.0	239.9	236.5	261.8
Operating Expenditure	220.0	234.3	235.5	259.9
Current Surplus/(Deficit)	5.0	5.6	1.0	1.9
Gross Development Expenditure	45.0	46.0	54.9	54.7
Net Development Expenditure	44.9	45.7	54.3	54.0
Overall surplus/(deficit)	(39.9)	(40.1)	(53.3)	(52.1)
Fiscal Deficit as a % of GDP	3.00%	2.80%	3.70%	3.40%

Source: Economic Report 2018/2019

Higher gross MGS/GII supply in 2019, circa RM119b; net supply lower at RM52.1b

RM (Billion)	2017	2018	2019f
MGS/GII Maturities	67.2	62.8	69.0
Net Govt Bond Supply (MGS/GII)	39.9	53.3	52.1
Gross Supply (MGS/GII)	107.1	112.8	121.1

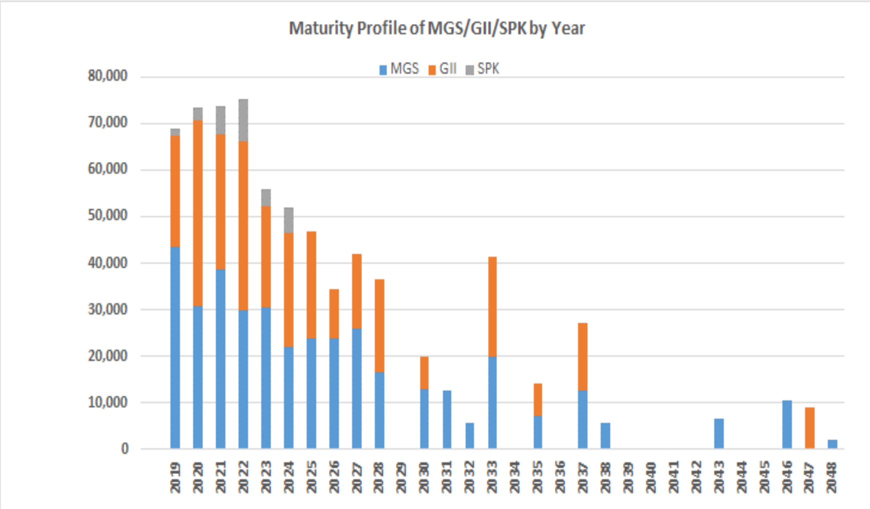
Source: Economic Report 2018/2019,, BPAM, HLB Global Markets Research

As we progress into 2019, gross MGS/GII supply is projected to be larger from 2018 at circa RM119b amid higher maturities. This was however lower than the RM121.1b mentioned in the table above as a result of the potential rollover of RM1.6b worth of SPK bond maturities into Govt-Guaranteed LPPSA bonds in view of decent demand for these papers and also potential switch auction activities to further extend out some of the maturities. However on a net issuance basis, supply is seen constant with anticipated buffer against potential outflows from upcoming maturities in 2019. The recent announcement of JPY200 billion (~RM7.4b) "Samurai Bond" issuance at a coupon of 0.65% by March 2019 may likely be used to refinance existing foreign bonds/loans. Otherwise, the Federal Government's funding needs are expected to be funded primarily onshore via issuances of MGS/GII given that there are no scheduled USD GOM (Government of Malaysia) sovereign bond/sukuk maturities in 2019.

2019	Stock	Maturity by month (RM mil)	Quarter	Maturity by quarter (RM mil)
JAN				
FEB	SPK 2/19	500	Q1	7,678
MAR	MGS 3/19	7,178		
APR	GII 4/19	10,000		
MAY			Q2	10,000
JUN				
JUL	MGS 7/19, SPK 7/19	8,416		
AUG	GII 8/19	6,000	Q3	22,416
SEP	GII 9/19	8,000		
OCT	MGS 10/19	11,800		
NOV	MGS 11/19	17,119	Q4	28,919
DEC				
Total		69,012		69,012

Source: BPAM, HLB Global Markets Research

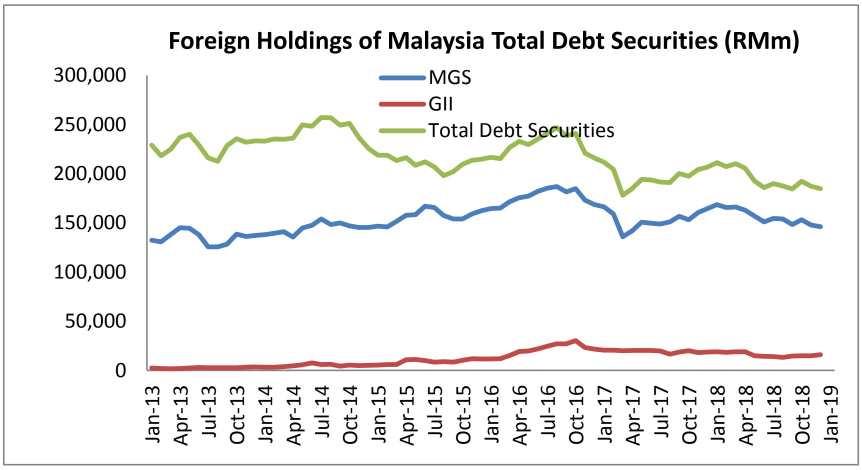
Going into 2019, investors should look out for **sizeable maturity windows in Q3 and Q4** respectively from scheduled MGS/GII maturities. Funds from maturing MGS/GII is expected to return as reinvestments into the MYR bond space. Total combined MGS/GII maturities for 2019 amounted to circa RM69b. Hence, we expect reinvestment flows to remain supportive of MYR bond dynamics.



Source: BPAM, HLB Global Markets Research

Foreign holdings of MYR Govvies maintained in 2018 while overall MYR bonds dipped

The average monthly foreign holdings of MYR government bonds in 2018 was unchanged at RM172b overall compared to 2017 despite the bear-flattening moves due to higher interest rate regime in the US and purported outflow of funds from EM markets. This was admirable considering the change in political leadership following the conclusion of GE14 in May last year. However the last quarter of 2018 saw foreign holdings “zig-zag” between RM162-167b before ending at RM162.0b as at December 2018; off the highs seen in 1Q 2018 amid liberalization initiatives on currency and interest rate hedging. (Dec 2017: RM182.9b). Total foreign holdings of overall MYR debt securities however saw dip to RM194b as at end December 2018 from RM213b the previous year-end.



Source: Bloomberg, BNM, HLB Global Markets Research

MGS/GII tenders remained healthy despite key global events, with BTC cover averaging 2.29x in 2018

Government bond tenders in 2018 ended the year with a strong average BTC of 2.29x (2017:2.20x) taking cue from decent foreign holdings and the active transactions by local onshore institutional investors. A series of key global events influenced trading/investment sentiments in 2018, i.e. US Fed Chair succession, Fed's balance sheet run-off, the Republican Tax expenditure incurring additional $1.5trilion resulting in additional UST issuances, four (4) Fed rate hikes and also local events such as the outcome of GE14. Nevertheless, the BTC for government bond tenders (MGS/GII) concluded 2018 in a healthy mode.

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	4/1/2018	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		27,500	2.118	4.790	4.804	4.827	100.0%
11	5-yr New Issue of MGS (Mat on 04/23)	5	Apr	Q2	19/4/2018	4,000	4,000		31,500	1.563	3.728	3.757	3.780	8.8%
12	10.5-yr New Issue of MGII (Mat on 10/28)	10	Apr	Q2	27/4/2018	4,000	4,000		35,500	2.696	4.340	4.369	4.388	4.3%
13	15.5-yr New Issue of MGS (Mat on 11/33)	15	May	Q2	4/5/2018	4,000	3,000		38,500	2.722	4.620	4.642	4.653	66.0%
14	7-yr Reopening of MGII (Mat on 08/25)	7	May	Q2	14/5/2018	3,500	3,000		41,500	3.397	4.180	4.202	4.218	72.5%
15	10-yr Reopening of MGS (Mat on 06/28)	10	May	Q2	23/5/2018	3,500	3,500		45,000	1.851	4.178	4.202	4.215	45.5%
16	5.5-yr New Issue of MGII (Mat on 11/23)	5	May	Q2	30/5/2018	4,000	4,000		49,000	1.989	4.070	4.094	4.110	42.6%
17	20-yr New Issue of MGS (Mat on 06/38)	20	Jun	Q2	7/6/2018	3,000	2,500		51,500	1.942	4.866	4.893	4.906	23.3%
18	15-yr Reopening of MGII (Mat on 06/33)	15	Jun	Q2	28/6/2018	2,500	3,500		55,000	2.783	4.768	4.778	4.794	84.6%
19	30-yr New Issue of MGS (Mat on 07/48)	30	Jul	Q3	5/7/2018	3,000	2,000		57,000	1.871	4.890	4.921	4.949	33.9%
20	10-yr Reopening of MGII (Mat on 10/28)	10	Jul	Q3	13/7/2018	3,000	4,000		61,000	2.439	4.216	4.240	4.248	18.5%
21	7-yr Reopening of MGS (Mat on 03/25)	7	Jul	Q3	27/7/2018	3,500	3,000		64,000	3.302	3.970	3.984	3.990	22.5%
22	20-yr Reopening of MGII (Mat on 08/37)	20	Aug	Q3	6/8/2018	2,000	2,500		66,500	2.108	4.746	4.768	4.784	100.0%
23	15-yr Reopening of MGS (Mat on 11/33)	15	Aug	Q3	14/8/2018	3,500	3,000		69,500	2.612	4.480	4.498	4.506	85.3%
24	5-yr Reopening of MGII (Mat on 11/23)	5	Aug	Q3	29/8/2018	3,000	3,500		73,000	1.817	3.800	3.816	3.825	50.0%
25	30-yr Reopening of MGII (Mat on 05/47)	30	Sep	Q3	13/9/2018	2,000	2,000		75,000	1.935	4.932	4.973	4.992	90.0%
26	10-yr Reopening of MGS (Mat on 06/28)	10	Sep	Q3	20/9/2018	3,500	3,000		78,000	2.670	4.080	4.097	4.100	54.8%
27	3.5-yr New Issue of MGII (Mat on 03/22)	3	Sep	Q3	27/9/2018	3,000	3,000		81,000	2.217	3.717	3.729	3.745	43.6%
28	20-yr Reopening of MGS (Mat on 06/38)	20	Oct	Q4	12/10/2018	3,000	3,000		84,000	1.657	4.730	4.759	4.785	27.5%
29	10-yr Reopening of MGII (Mat on 10/28)	10	Oct	Q4	30/10/2018	3,500	4,000		88,000	2.235	4.290	4.313	4.320	90.9%
30	7-yr Reopening of MGII (Mat 08/25)	7	Nov	Q4	14/11/2018	3,000	3,000	2,500	91,000	2.814	4.203	4.212	4.218	63.6%
31	5-yr Reopening of MGS (Mat on 04/23)	5	Nov	Q4	29/11/2018	4,500	3,500	1,000	94,500	2.316	3.855	3.874	3.880	45.5%
32	20-yr Reopening of MGII (Mat on 08/37)	20	Dec	Q4	6/12/2018	4,000	2,000	2,500	96,500	2.307	4.765	4.787	4.798	78.9%
33	3-yr Reopening of MGII (Mat on 03/22)	3	Dec	Q4	13/12/2018	3,500	3,300	500	99,800	2.426	3.765	3.775	3.782	88.6%
	Gross MGS/GII supply in 2018					107,500	99,800	13,000						

Source: Bloomberg, BNM, HLB Global Markets Research

Of the two government bond tenders for the month of January 2019 as stated below the BTC ratios were solid; especially the new issuance of the 10Y GII 7/29 which averaged

4.13% on BTC of 2.216x. This was in spite of earlier concerns by some analysts over the nation's fiscal deficit. However the stable Ringgit and non-possibility of interest rate hike are factors that mooted confidence in the MYR Bond market. For the full list of projected issuances, kindly refer our report on Auction Calendar 2019 issued on 21 December 2018.

MGS/GII issuance pipeline in 2019

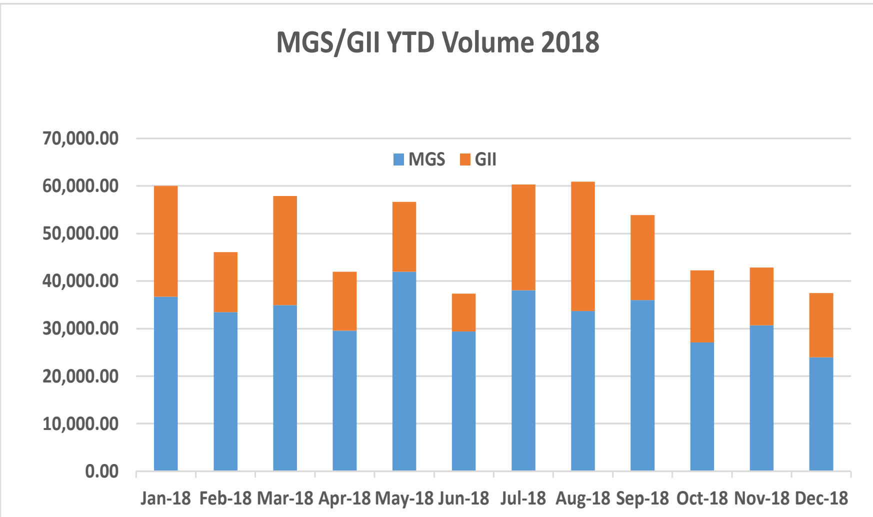
No	Stock	Tenure (yrs)	Tender Month	Quarter	Tender Date	Projected Issuance Size (RM mil)	Actual Auction Issuance (RM mil)	Private Placement	Amt Issued YTD	BTC (times)	Low	Average	High	Cut-off
1	10.5-yr New Issue of GII (Mat on 07/29)	10	Jan	Q1	8/1/2019	4,000	3,500	1,500	3,500	4.067	4.110	4.130	4.135	86.1%
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%

Source: Bloomberg, BNM, HLB Global Markets Research

Trading volume for MGS/GII remained strong in 2018; amid EM outflows, paradigm shift in GE14 and fluctuations in Ringgit….

Trading volume for MYR Govvies shed from about RM177b in 3Q 2018 to RM119b in 4Q 2018 with monthly volume shrinking from a high of RM54.1b in September 2018 to a monthly low of RM38-43b for the remainder of the year thereon partly due to vanishing liquidity during the low holiday-month staffing levels i.e. year-end festivities. There was however demand seen in the shorter-to-mid off-the-runs i.e.19-24's on OPR pause expectations as markets seemed to react more on the strength and rally of the Ringgit and promising policies of the new Pakatan Harapan-led government instead of being overly data-dependent with local institutional investors leading the way forward followed by offshore parties.

For the last quarter of 2018 there was steady interest for MYR government bonds literally compared to third quarter despite the "swings" seen month-to-month with positive net foreign inflows of about RM400m QOQ. The Corporate Bonds/Sukuk sub-class however saw pleasant increase in foreign holdings of about RM800m in 4Q 2018 despite a significant drop in monthly turnover to RM9.7b from RM11.3b the previous quarter. The mild fear emanating out of stronger economic data from US followed by the December rate hike did not dampen demand. MGS generally ended the year with yields higher between 11-30bps across most tenures with the much-watched 10Y benchmark MGS 6/28, closing 16bps higher at 4.07% (4.06% at the point of writing).



Source : BPAM, Bloomberg

Corporate bonds issuances trend for 2019 projected at gross supply of circa RM85-95b

In terms of Corporate Bonds/Sukuk supply for 2019, we are projecting a gross supply of RM85-RM95b with net issuance at about RM20-30b due to sizeable maturities of about RM66b (including Commercial Papers etc). Total corporate bond issuance fell by 16% from RM123b in 2017 to about RM103b in 2018 due to reduction in unrated issues. The substantial issuances were seen from the Finance sector followed by Govt-Guaranteed bonds which dwindled post-GE14 due to the new government's strict measures to cap commitments and contingencies by the Federal government. (Corporate Bonds/Sukuk issuances in 2018 circa RM103b mentioned above was seen tracing only slightly higher than our earlier RM90-100b gross supply projections).

Primary issuance print in 2018 boosted by the following names:

To recap, last year was a bumper tyear for primary corporate bond issuances; boosted by notable prints from the finance sector which contributed close to 50% of total issuance size followed by the utilities and infrastructure sector. Overall top five(5) corporate bond issuances were:

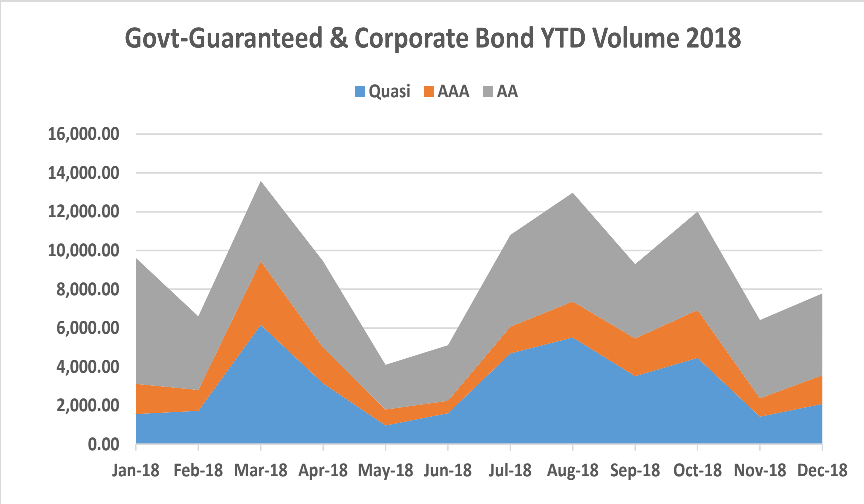
- DANAINFRA (circa RM11b)
- CAGAMAS (circa RM9b)
- LPPSA (circa RM6b)
- PRASARANA (circa RM6b)
- EDRA Energy (circa RM5b)

Also worth noting were the substantial issuances of non-GG bonds i.e. Danga Capital Berhad, CIMB Bank and Group Bhd, MBSB Bank Berhad, UMW Berhad, Sarawak Energy berhad, Tenaga Nasional Bhd, GENM Capital Bhd (part of the Genting Group).

With 2018 being a year for a pull-back on new issuances; we continue to expect a less than sturdy pipeline of issuances within the GG sector related to the major infrastructure projects which have either been deferred or downsized; namely MRT2, LRT3, PNB118 Tower, ECRL, HSR, Gas pipeline project; among others. Hence expect issuances to normalize with the corporate sector taking the lead as potential savings associated with issuance costs may continue to result in issuance of unrated bonds.

In the secondary market, Corporate Bonds/Sukuk maintained interest; albeit on steady volume and momentum as there was no let-up on primary issuances…

The average monthly trading volume for corporate bonds/sukuk was consistent with overall secondary market interest intact. The total transacted amount for 2018 of RM114b was roughly at the previous year's levels. We note steady interest in both the AA (~48%) followed by the GG (~34%) space as investors continued to hunt for liquidity and yields. Credit spreads were lower in 2018 with the blended 5Y spread tightening to 160bps from 180bps in 2017.



Source : BPAM, Bloomberg

The actives i.e. top volume generating Corporate Bonds for 2018 which are noted for both volume and frequency of secondary market trades comprised of both Govt-Guaranteed and and also the AAA/AA space as follows:

- Prasarana 3/19, 3/24, 8/26, 9/27 and 9/47
- PASB 2/23, 6/23 and 2/26
- Jambatan Kedua 5/25
- Danainfra 5/23, 8/23, 2/25, 10/28, 5/32 and 7/39
- Govco 6/23
- PTPTN 3/24 and 3/32
- Malaysian Debt Ventures 9/28
- LPPSA 4/24
- MKD Kenchana 10/32
- Khazanah 8/23
- Maybank 24NC19
- Bank Islam 27NC22
- Public 27nC22
- CIMB Thai 24NC19
- Telekom 3/24
- Tenaga 8/37, 8/38
- Sarawak Energy 12/32 and 4/36
- Genting Malaysia Capital 7/28
- Danga Capital 1/30, 1/33 and 9/33
- GB Services 11/19
- Gamuda 11/22
- Jimah Energy power 12/29 and 12/31
- Rantau 12/20
- Bumitama 3/19
- BGSM 12/19
- YTL Power 5/27

Credit rating upgrades for 4 issuers (2017: 4 issuers) whereas downgrades were decreased to 4 issuers (2017: 5 issuers)

CREDIT RATING UPGRADE/DOWNGRADE 2018					
Issuer	Agency	Date of rating	Current	Previous	Action
Premium Commerce Berhad	RAM	26-Dec-18	AA2	AA1	↑
Bumitama Agri Ltd	RAM	2-Jan-18	AA3/Stable	AA3/Positive	↑
AMMB Holdings Berhad	RAM	19-Dec-18	AA3/Stable/P1	AA2/Stable/P1	↑
Bank Of China (M) Berhad	RAM	17-Dec-18	AA2/Stable	AA1/Stable	↑
Jati Cakerawala Sdn Bhd	RAM	14-Dec-18	AA3	A1	↓
Lafarge Cement Sdn Bhd	RAM	29-Jan-18	AA2	A1	↓
MRCB Southern Link Berhad	RAM	26-Sep-18	BB3	C1	↓
Bright Focus Berhad	RAM	16-Nov-18	AA2/Negative	A1/Negative	↓

Source: RAM; MARC

Majority of credit rating upgrades in 2018 were from the banking sector. Premium Commerce Bhd consists of securitization of automobile hire-purchase receivables originated under the arm of Tan Chong Motor Holdings Bhd (refer to table above). Meanwhile about four (4) issuers were downgraded in the same period; especially the construction and toll-road concession industry. Overall, the credit quality/metrics of the rated portfolios maintained YOY but downward rating pressure by RAM/MARC may emerge for oil and gas, construction and plantation/commodity sectors.

Conclusion

Despite the Fed's recent vibes of slower monetary policy normalization via lesser interest rate hikes of between 1-2 at most, the ongoing balance sheet reduction, potential additional issuances beyond the USD$1.1 trillion by the US Treasury to fund the ongoing fiscal deficit and continued resilience of both US and global growth will be seen as major influences on the performance of UST's ahead. We expect investors to react with caution in the US Treasuries market in the months to come as predictions on the number of potential rate hikes continued to be bandied about with the reliable predictor of economic conditions i.e. the 2Y10Y spread uppermost on traders and investors minds. **Hence we are mildly bearish on UST's.**

With the geopolitical tensions involving North Korea and the US out of the way, our risks to the above assumptions are: US-China global trade issues, downside to tepid-like inflationary conditions (especially if oil prices refuse to budge higher than US$60 per barrel level) and also a pause in expected rate hikes by the Fed. The capacity of pension funds, sovereign wealth funds, lifers and global central banks as a whole to absorb future primary issuances and shore up the secondary market availability of US Treasuries in the event of attractive rising yields cannot be discounted. Nevertheless cyclical pressures associated with a tightening labor market may filter down to higher inflation over the medium-term despite a current softer inflation outlook of 2.1% for 2019 (2018: 2.4%)

On the local front, we expect govvies to trade range-bound with OPR staying pat this year; beginning with the 1st meeting on 24th Jan; confirming the non-hawkish stance of BNM along with moderating net foreign outflows in 2019. However gross supply is estimated at **circa RM119b** compared to the RM107.5bn in 2017. There is a higher amount of maturing MGS/GII papers in 2019 at RM69b. However the stability and strength of Ringgit and economic conditions are expected to provide support to local govvies despite slightly lower global oil prices which will still benefit the net-oil exporting nation. Opportunities are expected to emerge along the way with investors vigilantly looking for bargain levels from a relative higher yield perspective. We also expect portfolio managers to find a delicate balance between yield and liquidity as market re-prices the existing secondary market especially for Corporate Bonds which may face challenging credit conditions amid global trade currents. Expect the demand for yields to continue to transcend lower down the yield curve from **GG to the AA-space**.

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