Global Markets Research
Fixed Income

Monthly Perspective – April 2019

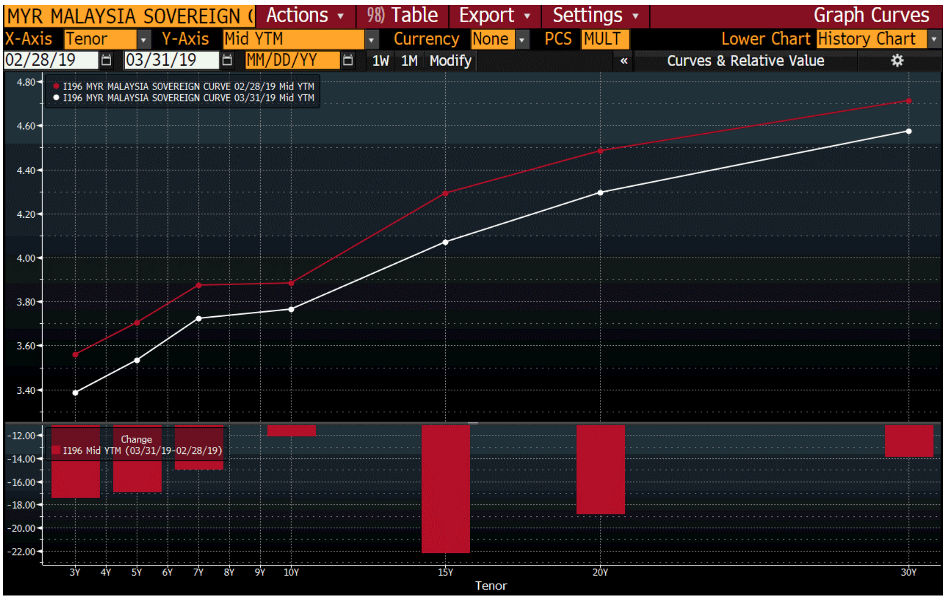
MYR Bond Market

Recapping the month of March

US Treasuries (UST's) *along with most Government bonds in developed countries rallied on global growth concerns exacerbating safe-haven bids. UST's saw yields end sharply lower between 26-30bps as the curve shifted lower with the important occurrence of an inversion in the 3-month 10-year part of the curve during the later part of the month. The improvement in US payrolls for March was partly offset by weaker average hourly earnings whilst ISM Manufacturing remained steadfast. The front-end UST 2Y yield ended 26bps MOM lower at 2.28% levels whilst the 10Y, which depicts as a benchmark for US mortgage rates and also inflation indicator, saw more volatility in March; ranging between a low of 2.38% and a high of 2.74% levels and closed 29bps sharply lower MOM at 2.42%. The dollar meanwhile had ended stronger against most G10 currencies (save for JPY and AUD) pushing the Dollar Index higher to 97.2 levels. The UST yield curve saw a slight steepening bias with inversion on the front-end whilst 2s10s spread tightened 6bps to about 14bps.*

On the local front, ***MYR bonds*** *saw 2nd month of continuous rise in foreign holdings in March amid robust and enormous secondary trade volume of RM101.4b (Feb:RM77.7b) due to strong demand from both onshore and offshore following dovish-like comments from BNM. The foreign holdings jumped by RM2.9b MOM to RM190.0b, the 2nd month in a row; reversing outflows in the 4Q2018. The percentage of foreign holdings of MYR government bonds (MGS + GII +SPK) rose to 22.8% or RM169.4b of total outstanding issuance. (Feb: RM166.7b or 22.7%). Overall benchmark MGS/GII bonds yields ended lower as bonds rallied between 12-22bps. The 5Y MGS 4/23 moved 19bps lower at 3.53% whilst the much-watched 10Y MGS 8/29 saw a 12bps rally from 3.89% to 3.77% levels. (The 10Y has breached the previous 2Y low of 3.95% threshold since Feb 2019). Corporate Bonds/Sukuk saw a marginal drop of RM366m in the levels of foreign holdings at RM13.5b. Local institutional investors were still net buyers causing yields to grind lower on solid demand on improved volume of RM16.6b versus RM10.9b prior month.*

MYR sovereign curve (MGS)



Source : Bloomberg

Strong March NFP data; but overall mixed economic figures gives no impetus for rate hike…

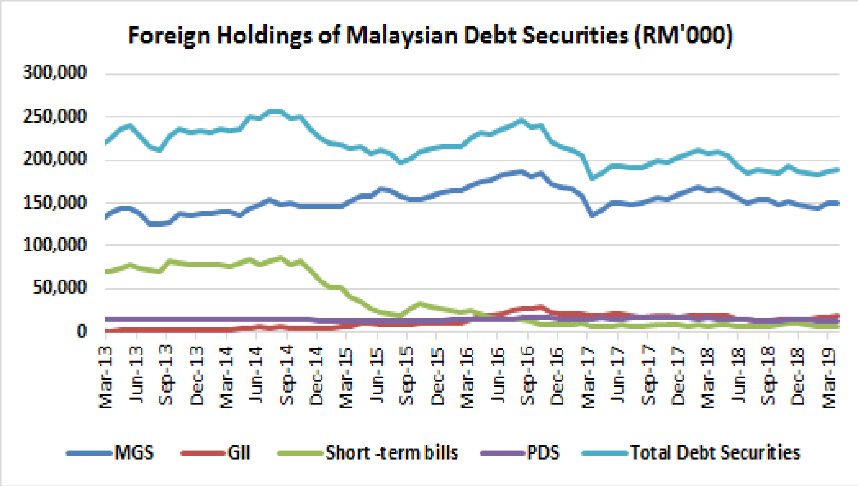
March Non-Farm Payrolls ("NFP") surprised on the upside with the printing of 196k compared to market consensus of 180k (Feb: revised upwards slightly from 20k to 33k) pointing to a strong labor market on the surface whilst brushing aside the prior month's hiring stall. The added jobs are more than enough to keep the unemployment rate near its 50-year low of 3.8% if the momentum in the labor market is sustained over the coming months. Participation rate maintained at a high of 63% which denotes confidence in job prospects. However the soft print on hourly wages MOM i.e. 0.3% (previously: +0.4%) was of slight concern and was in line with the Fed's stance that job growth is just "solid" instead of "strong.

The US central bank left rates unchanged at 2.25-2.50% as widely expected in its **March FOMC** statement stating that economic growth has slowed from its solid rate whilst signaling that rates may stay this year with a potential increase of one (1) rate in 2020. Hence the current Fed's dot plot has been revised to reflect the case for a change from previous two (2) interest rate increases to none for 2019 with the next policy-meet on 2nd May. The Fed was willing to be patient and may even take a dovish stance as global risks weigh on the economic outlook and inflation remains muted. Balance sheet tapering roll-off is scheduled to be halted end-September. Its preferred inflation measure for February i.e. the core PCE was little changed i.e. slightly lower at 1.8% YOY. The tax reform-specific cuts, government additional spending which has helped accelerate economic growth in the past, combined with the Fed's balance sheet run-offs (from RM4.5 trillion to RM3.8 trillion currently) has yet to ignite inflationary pressures, hence holding back the Fed policy normalization path in one way or another.

Foreign holdings of overall MYR bonds spiked in March on stronger momentum and demand for MYR assets…

Foreign holdings of MYR bonds continued to rise for the 2nd month in a row by RM2.9b or 2.5% to RM190.0b. The non-resident holdings of MGS was substantially inched higher by RM1.4b to RM 150.7b (representing 38.7% of total outstanding) whereas total MYR Government bonds (i.e. MGS+GII+SPK) holdings similarly saw bigger increase of RM2.7b to RM169.4b (representing 22.8% of total outstanding) despite higher issuances for the month; registering a 10-month high.

The ongoing demand for EM assets has enabled Malaysia to benefit from foreign portfolio inflows in March with strong foreign and local institutional demand. YTD overall, MYR bonds saw a net increase in foreign holdings from RM2.2b in the first two months of 2019 to RM5.1b for March YTD while equities saw a net outflow of RM1.3b, from inflow of RM0.2b for the same period. On the currency side, the MYR weakened by 0.4% at 4.0820 levels as at end-March, in tandem with the weakness of other Asian currencies as well. Nevertheless MYR was seen stronger against Baht, Won, Rupiah and Peso. At the time of writing, USDMYR is trading at 4.1155.



Source: BNM, HLB Research

Upcoming MPC for the year may see OPR cut from 3.25% to 3.00% on growth concerns…

BNM maintained the OPR at 3.25% at the second MPC meeting of the year on 5th of March but struck a dovish tone citing materialization of downside risks. The last policy move was a 25bps hike in January 2018 and the last rate cut was in July 2016. Despite another back-to-back month of deflation in February, the central bank had acknowledged in March that broad-based slowing in growth is seen emerging across the global economy and sounded more cautious, thus increasing the likelihood of a rate cut should the external climate fail to stabilize. Lower rates would allow existing investors to potentially reap gains but also diminish the yield appeal of MYR bonds by fresh investors. Nevertheless the government is expected to announce another issuance of Samurai Bonds pursuant to the first successful completion of JPY20b at a coupon of 0.55%, compared to the earlier projection of 0.65%.

MYR government bond auctions saw strong demand in March for 7Y and 20Y GII

The four (4) government bond tenders concluded for the month of March 2019 under the auction calendar included the reopening of the 3Y MGS 3/22 which we briefly mentioned in our previous monthly report (solid BTC ratio of 3.132x; averaging 3.483%). Overall weighted average BTC for the month improved to an impressive 2.53x. (Compare this with both the entire 33 auctions for 2018 which notched a BTC ratio of 2.29x). Tenders for the month received a surge in interest due to strong support by both local and institutional investors. Subsequent auctions in early-April at the time of writing include both the 15Y MGS 11/33 reopening and the new issuance of 5Y GII 10/24 that saw investors and inter-bank players bid up for the papers at decent BTC ratios of 2.79x and 2.31x.

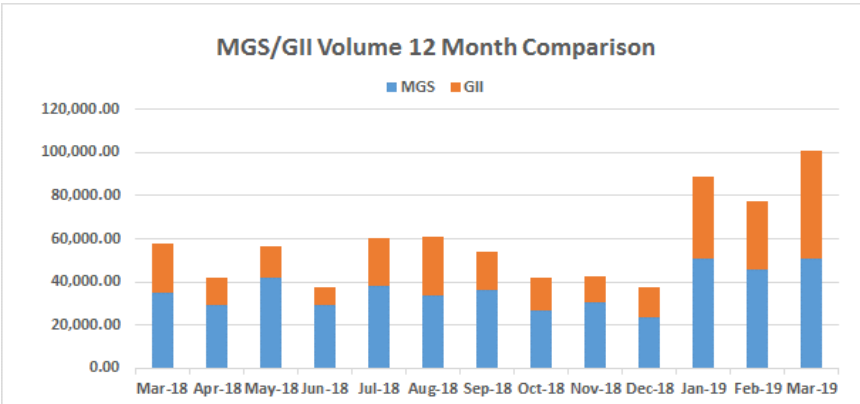
MGS/GII issuance pipeline in 2019

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%
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		3,000								
13	30.5-yr New Issue of GII (Mat on 11/49)	30	May	Q2		3,000								
14	10-yr Reopening of MGS (Mat on 08/29)	10	May	Q2		3,500								
15	15.5-yr New Issue of GII (Mat on 11/34)	15	May	Q2		4,000								
16	5-yr New Issue of MGS (Mat on 06/34)	5	Jun	Q2		4,000								
17	20-yr Reopening of GII (Mat on 09/39)	20	Jun	Q2		3,000								
18	15-yr New Issue of MGS (Mat on 07/34)	15	Jul	Q3		4,000								
19	7-yr Reopening of GII (Mat on 3/26)	7	Jul	Q3		3,000								
20	30-yr Reopening of MGS (Mat on 07/48)	30	Jul	Q3		2,500								
21	5-yr Reopening of GII (Mat on 10/24)	5	Aug	Q3		3,500								
22	20-yr Reopening of MGS (Mat on 06/38)	20	Aug	Q3		3,000								
23	10-yr Reopening of GII (Mat on 7/29)	10	Aug	Q3		3,500								
24	7-yr Reopening of MGS (Mat on 07/26)	7	Sep	Q3		3,500								
25	15-yr Reopening of GII (Mat on 11/34)	15	Sep	Q3		3,000								
26	10-yr Reopening of MGS (Mat on 08/29)	10	Oct	Q4		3,000								
27	20-yr Reopening of GII (Mat on 09/39)	20	Oct	Q4		2,500								
28	5-yr Reopening of MGS (Mat on 06/24)	5	Oct	Q4		3,500								
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		3,000								
	Gross MGS/GII supply in 2019					104,000		9,000						

Source: BNM, HLB Research

Trading volume for MGS/GII surged to a 2Y high in March…

Trading volume for MYR govvies rose to RM101.4b in March compared to previous month's RM77.7b. Traction was maintained across the curve with substantial frequency of trades and nominal amounts done in the short off-the-run 19-20's (ended largely lower between 6-12bps), 25-26's (ended largely lower between 2-28bps) and also both MGS and GII 5Y and 10Y benchmarks (ended about 20bps lower) also saw active trades. The 19's alone formed almost 10% of total volume for the month under review. Off-shore investors continued to be net buyers instead for MYR govvies in March due to risk-on sentiments and a result of demand for EM assets. The month under review saw Malaysian bonds generally maintain its December-January rally on the back of both foreign and local investors.



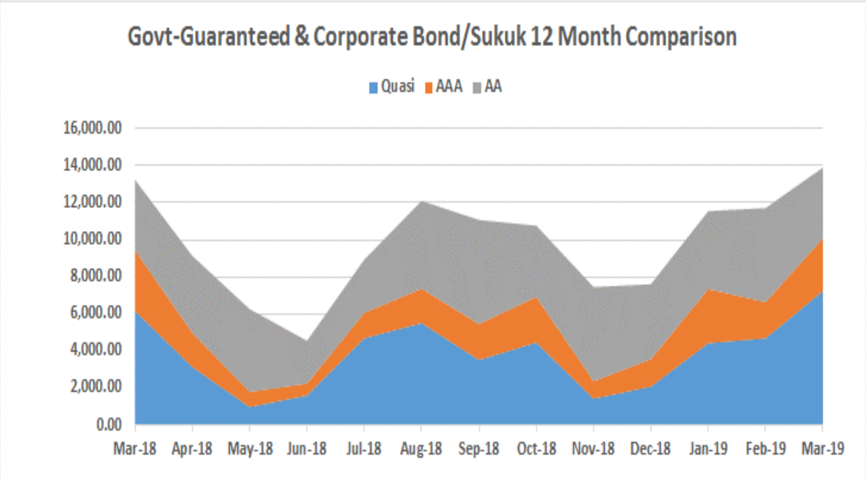
Source : BPAM, Bloomberg, HLB Research

Corporate bonds/Sukuk secondary trades also see solid demand…

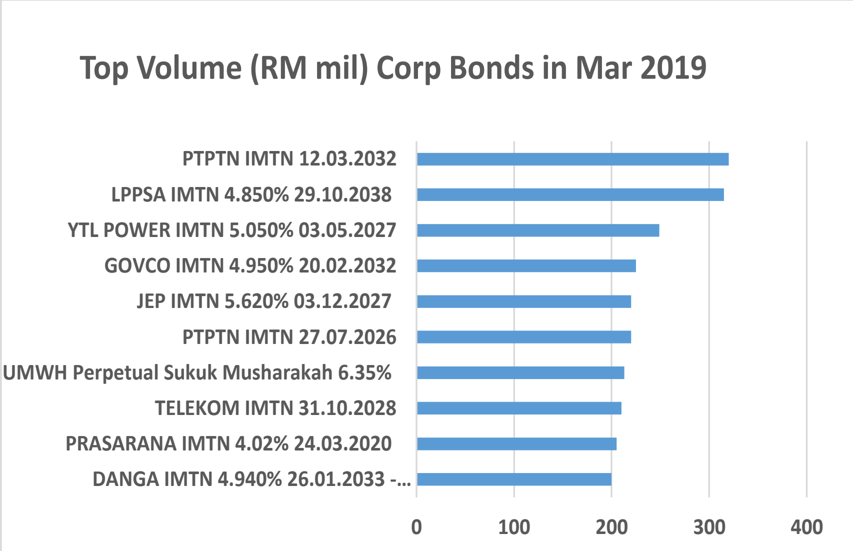
In the secondary market, Corporate bonds/Sukuk (including Govt-Guaranteed bonds) saw secondary market trading volume surge further from RM11.0b in the holiday-shortened February to RM16.6b in March. Fund managers/portfolio investors continued to actively bid in the secondary market in the hunt for yield-enhancement requirements coupled with improved liquidity conditions for credits (we include Govt-guaranteed bonds i.e. GG papers together for ease of reference). The rate pause outlook in the US by the Fed and "dovish-like" inclination by BNM generally spurred a risk-on demand for EM assets.

Investor appetite for GG and AA-rated bonds maintained traction MOM; forming 46% and 36% respectively of March's transactions. Further fresh supply of GG bond issuances was fully-taken up by investors with another RM5.1b of PRASARANA, PTPTN and SME bonds issued for the month. The longer-tenured Govt-guaranteed PTPTN 3/32 and LPPSA 10/28 topped the monthly volume; closing 13bps and 19bps lower respectively at 4.36% and 4.52% for the month respectively compared to previous-done levels. This was followed by AA1-rated YTL Corp 5/27 and another Govt-guaranteed bond i.e. GOVCO 2/32 which also rallied by 10-15bps to close at 4.68% and 4.36% respectively.

Appetite in the credit space was mainly seen in a wide range of bonds namely infrastructure-related bonds including energy, toll and telecommunication sub-sectors of the economy. AA-rated, JEP 25-31, SEB 19-26, EDRA Energy 22-38, ANIH 22-29, CTX 19-26 and also AAA-rated TENAGA 32-38 and TELEKOM 22-28, AMAN 22-24, MANJUNG 19-31, PLUS 26-36's were actives for the month. Genting-related bonds and Khazanah's funding conduit i.e. DANGA 2020-2034 bonds also saw tremendous interest. In the banking space frequency of trades were noticed for both Affin Islamic Bank and Sabah Developent Bank/Sabah Credit papers. (We have excluded single-A rated and non-rated papers in the illustration below).



Source : BPAM, Bloomberg, HLB Research



Source : Bloomberg, BPAM, HLB Research

Primary issuance print in March boosted by the following names:

Notable issuances in Mar-19	Rating	Amount Issued (RM mil)
Alliance Bank Malaysia Berhad	BBB1	100
Alliance Islamic Bank Berhad	BBB1	100
Cagamas Berhad	AAA	150
Country Garden Real Estate Sdn Berhad	AA3	130
DRB-Hicom Berhad	A1	105
Hap Seng Management Sdn Berhad	NR	135
Hong Leong Bank Berhad	A1	400
Hong Leong Financial Group Berhad	A1	400
IJM Land Berhad	A2	650
Jelas Puri Sdn Berhad	NR	372
Liziz Standaco Sdn Berhad	NR	33
MNRB Holdings Berhad	A1	320
Pavilion REIT Bond Capital Berhad	NR	300
Prasarana Malaysia Berhad	GG	1,500
Perbadanan Tabung Pendidikan Tinggi Nasional	GG	3,000
Sabah Development Bank Berhad	AA1	540
Sabah Credit Corporation	AA1	100
SME Bank Berhad	GG	600
Sunway Treasury Sukuk Sdn Berhad	NR	300
SunREIT Unrated Bond Berhad	NR	200
Sunway Berhad	NR	600
Tradewinds Hotels & Resorts Sdn Berhad	NR	600
True Ascend Sdn Berhad	NR	50
UEM Sunrise Berhad	AA3	300
West Coast Expressway Sdn Berhad	NR	44
Zamarad Assets Berhad	AAA	135
Zamarad Assets Berhad	AA2	45
Zamarad Assets Berhad	NR	25
		11,234

Source : BPAM, Bloomberg, HLB Research

Total fresh issuances of all ratings of Corp Bonds/Sukuk also increased to ~RM11.2b (February: RM9.1b) with GG issuances again forming 40% of total issuances. The largest issuance involved the National Higher Education Fund (i.e. PTPTN) with a massive RM3.0b issuance consisting of 10-20Y bonds.

Outlook for April

Investors may re-look and seek values during profit-taking following the recent run-up in March…..

The weighted average BTC for the four (4) auctions in March plus the latest two(2) at the time of writing in April averaging 2.53x; is strong testimony to the depth of the local govvies market compared to the average BTC of 2.29x for 2018. We believe values may begin to be less compelling in many parts of the curve as the bond market has rallied confidently following BNM's dovish-like comments due to purported global headwinds and "materialization of downside risks. Hence an **OPR cut** under its available "policy options" cannot be discounted. The Ringgit is seen to stabilize at current 4.0800-1200 levels; having weakened slightly in March and April.

Nevertheless the successful issuance of RM7.4billion yen-denominated bonds in March at a revised lower coupon of ~0.55% is expected to allow BNM to reduce further Govvies issuances in its 2019 auction calendar in order to cement the nation's fiscal deficit of 3.4% of GDP (Note: this is a positive reduction from 3.7% in 2018). This coupled with the sustained foreign inflows into the Fixed Income space for two (2) successive months are expected to neutralize the temporary negative news surrounding the few Govt-linked companies on funding matters. The risk-on mode has also allowed inflows into EM's and subsequently into Malaysia; resulting from the shift in US rate hike outlook to neutral and is a good indicator going forward. Investors are also looking forward to the improvement and timely resolve of US-China trade deadlock which will improve the risk appetite for EM financial assets.

We expect a quiet recovery in April following a solid positive month in March with intermittent profit-taking well-absorbed as participation is expected to be led mainly by large local GLIC's and financial institutions, decent comparative yields to regional sovereigns and decent liquidity conditions. Net maturities for MYR govvies in April is manageable at RM10.0b versus RM7.2b in March. **Although overall values are not compelling at this juncture; investors can expect to find reprieve in both the 7Y, 15Y MGS bonds together with the 5Y, 20Y GII bonds whilst taking note of the rich valuations for 10Y sector. Demand for Ringgit Corporate Bonds/Sukuk along the GG segment will continue to be strong despite the easing supply concerns and recent tightening of spreads against MGS/GII and semi-quasi government papers i.e. Cagamas and Khazanah. Likewise the AAA and AA-rated space encompassing infrastructure, toll and energy-related related bonds may continue to provide yield-enhancement and liquidity due to slight inelasticity compared to GG bonds in the event of a sell-off.**

Fed dot plot indicates a pause in Fed rate hike for 2019 but economic indicators have not deteriorated…

The strong UST rally in March saw the curve markedly lower as the UST 10Y saw a wide range of ~36bps not seen in recent months helped by the Fed's dovish outlook and muted core inflation. Latest revisions for interest rate outlook in 2019 reveal a pause instead of the previous expectations of up to two (2) rate hikes whilst the Fed Fund Futures is pricing in a rate cut instead. This has allowed UST's to find strong support at the moment. The Federal Reserve's decision to allow interest rates to stay on hold for now is due to muted inflation while the Fed Chair Powell said he and his colleagues will be looking at growth, job creation, wages and inflation as it thinks about its next steps, and will keep an eye on China, Europe and events including Britain's delayed exit from the EU. The likelihood of resolving the long-standing global trade issues surrounding US and China is good and risk assets may be back in demand during March-April period.

The US yield curve has maintained its inverted stance on the front-end due to central bank policy that has kept interest rates exceptionally low since the financial crisis in 2008. In late March, the "3-month 10-year spread" inverted only to unwind itself within a few days. This was deemed to be a recessionary signal. However, expect data to hold up despite the ongoing flat stance as the long-end 5s30s spread slowly widened to its steepest level in more than one year. **The dovish-like situation may not persist in April-May period on the back of continuous albeit softer expansion in economic activity and strong labor market conditions** despite muted inflation over short-to-medium term. The successful balance of the economy and inflation make us more wary on further rallies in UST's. **The medium term maturities potentially offer better risk-reward stance with "tactical flatteners" a decent option due more to expected term premium flattening. The 2-5Y sectors may still be favorable as shorter UST's now offer much yield comparable to the 10Y but on lesser duration risk**. The 10Y is expected to fins strong support at 2.70% levels. However, risks to the above assumptions remain if US-China global trade tariff barriers become unresolved as safe-haven bids will emerge strongly.

In the Credit/Corporate space, investors are still expected to favor Investment Grade issuances which are deemed to be undergoing less stress at ~180-200bps spreads instead of High Yield names, as these corporates are better-equipped to weather funding constrains amid the test of global trade uncertainties. However, duration-risk may cause investors to be vulnerable to any price drop due to the sheer sizeable amount of ultra-low-yielding debt which will cause liquidity to evaporate.

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