Monthly Fixed Income Perspective –

Feb' 20 review & Mar' 20 outlook

US Bond market

- **US Treasuries (UST's)** ended strong again in February as the Covid-19 viral outbreak dented sentiments and was expected to impact many nations outside of China; overwhelming solid economic data out of the US. Benchmark **UST yields closed a whopping 32-40bps lower across the curve with the 2-5Y space richer than other parts.** The UST 2Y declined the most by 40bps at 0.92% whilst the much-watched 10Y also rallied pushing yields down by 36bps, at 1.15%. The yield curve ended steeper instead with the 2y10y up from +19 to +22bps whilst the 3m10y inverted sharply from -5 to -15bps instead (before reverting to positive at the time of writing). The US Dollar meanwhile ended stronger against most G10 currencies whilst the Dollar Index traded up slightly at 98.1 levels.

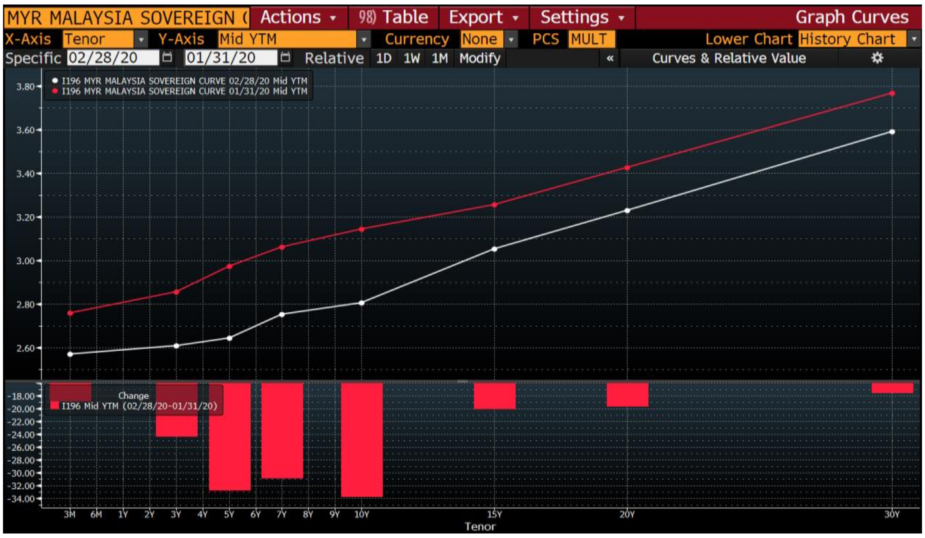
- **For March**, we expect the US economy to be somewhat impacted despite previous months of solid data as supply chains get disrupted and the severe impact of the COVID-19 virus outbreak lashes out globally. The US-China trade pact is expected to be on the back-burner for now in view of the seriousness of the Covid-19 global pandemic coupled with the plunge in oil prices which will impact trade, corporate profits and the economy as a whole. The positive correlations between UST's, oil and the greenback though rare may affect optimism among portfolio managers. **Expect UST 10Y to range higher between 0.45-0.75% levels with potential support at 0.80% levels** whilst the Corporate Bond space is expected to be stretched with $110b of HY energy-related bonds in a quandary. Nevertheless sectors involving health-care and chemicals may turn out as winners.

MYR Bond Market

- In February, MYR govvies saw the curve shift lower as both benchmark **MGS bonds and GII papers rallied with yields declining between 15-35bps.** The 5Y MGS 6/24 rallied pushing yields 32bps lower at 2.63% whilst the 10Y MGS 8/29 yields declined 31bps at 2.82% levels. Foreign holdings of MYR government bonds (MGS + GII + SPK) saw a reversal for the 1st time since Nov'19-Jan'20 period by RM7.6b to 23.1% or RM180.5b which also saw a larger net amount outstanding. The three (3) auctions involving 5Y, 10Y and 30Y MGS/GII saw decent appetite with BTC ratios above the 2.0x handle.

- **For March,** we anticipate yields to slowly see smaller intensity decline in yields due to factors ranging from additional supply concerns due to potentially larger fiscal deficit to the stable but tender political scenario which may outweigh the earlier risk off-mode which we witnessed. Expect a further potential rate cut of 25bps following prospects of slowing growth and imminent economic fallout from the COVID-19 virus outbreak**.** Nevertheless **kinks within the govvies curve reveal values in 7y, 10Y and 15Y MGS/GII bonds. MYR Corporate Bonds/Sukuk transactions are expected to be vibrant with investor preference along the Corporate Bonds/Sukuk with preference along the GG segment which have narrowed to 5-18bps** spreads that may involve a barbell **strategy within 2Y-5Y and 20-25Y.**

MYR sovereign curve (MGS)



Source : Bloomberg

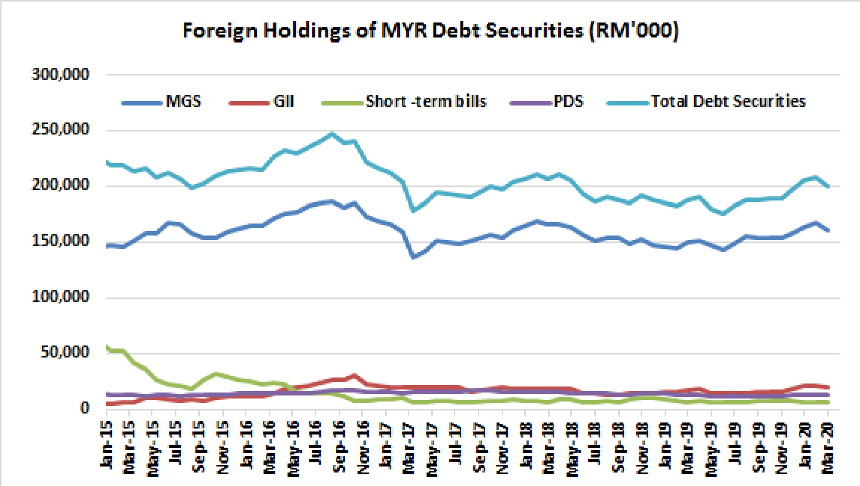
Robust NFP data for February may see the UST yield curve weighed down by COVID-19 virus outbreak……

February Non-Farm Payrolls ("NFP") of 273k was above consensus of 175k and notched the most ever since May 2018 (Jan revised up by 48k to 273k and Dec also revised up by 37k to 184k) thanks partly due to the unseasonably mild winter weather that appeared to have provide a lift to hiring. Biggest winners were health care, social services, F&B outlets, government and construction and financial services. The average job gain over the past three (3) months of 243k was higher compared to 151k during the similar period one (1) year back. We note that the unemployment rate returned to notch a tad lower at 3.5%; back to the record 50-year low; as the participation rate held steady at 63.4%. The better print on average hourly wages of +0.3% MOM (previous month: +0.2%) was equally healthy seen in the YOY gain of +3.0% (previous month: +3.1% revised), still pointing to a tight labor market; reiterating the Fed's mention of a solid job market

The Fed (which carried out three rate cuts totaling 75bps to 1.50-1.75% last year) shocked the markets with a dramatic rate cut on the 3rd of March. This was the first such cut in between FOMC meetings since 2008. The core components of the latest economic data were reasonably strong save for the less impressive private-sector reading. The Fed's preferred inflation measure for January i.e. the personal consumption expenditure (PCE) core index which the Fed officially targets for 2% was maintained at 0.2% MOM but inched higher at 1.7% YOY. (This core index strips out the volatile food and energy costs and is reputed to be a better gauge of underlying price trends). The **Fed's dot plot has NOW changed drastically and readings from the Fed Fund Futures now reflect a hypothetical total of 3.6 cuts of 25bps each; totaling a whopping 90bps at the time of writing!** We opine that the Fed is bent on the COVID-19 fallout and the strong jobs data is unable to eliminate the next cut. The COVID-19 virus outbreak is expected to wreak havoc in the services sector much more directly; adding further grievances to the manufacturing and mining industries.

Substantial drop in foreign holdings of MYR bonds in February as MYR weakens following series of market-moving events….

Foreign holdings of MYR bonds saw levels decline sharply in February by RM8.1b or 3.9% to RM200.1b. Non-resident holdings of MGS fell by RM7.1b from RM167.2b to RM160.1b (representing 39.6% of total outstanding) whereas total MYR Government bonds (i.e. MGS+GII+SPK) holdings similarly saw net outflows of RM7.6b to RM180.5b (representing 23.1% of total outstanding) amid net issuances of RM12.0b for last month (Jan: net issuances of RM10.0b). The fall in foreign holdings for February was mainly due to profit-taking activities and fears over the temporary political instability arising from the break-up of the coalition parties forming the government. Some uncertainty also remains when FTSE Russell re-evaluates Malaysia's weightage in the WGBI later this month with an announcement on the decision scheduled for 2-April. **Overall MYR bonds saw a reduction in cumulative 12-month foreign inflows of RM13.1b versus net equity outflows of RM13.5b.** On the currency side, the MYR ended weaker at 4.2150 levels as at end-February and closed mostly lower against most Asian currencies between 0.76 to 3.29% save for the Rupiah. At the time of writing, USDMYR is trading weaker at 4.2900 amid a risk-off mode for EM Asia due to fears over COVID-19 virus outbreak and the recent plunge in oil prices impacting the economic climate.



Source: BNM, HLB Research

Our house view is for a further OPR rate cut of 25bps for remainder of 2020 now as BNM's pro-active policy stance addresses the economic impact of COVID-19 virus outbreak and fall in oil prices...

BNM's monetary policy committee delivered a 2nd swift cut in the OPR from 2.75% to 2.50% at the 2nd MPC meeting of the year on 3rd of March. BNM's policy decision is seen as a pre-emptive measure to minimize the economic pullback due to impact of COVID-19 virus outbreak that may impede the nation's growth trajectory. The earlier political turmoil which added to the headwinds has turned for the better with the appointment of Tan Sri Muhyiddin Yassin as the PM and subsequent formation of a new cabinet. The central bank noted that downside risks to growth remained but expects 1Q2020 to be affected primarily in the tourism-related, manufacturing and agricultural sectors. The reduction in OPR is intended to provide a more accommodative monetary environment to support economic growth amid price stability. MOF has since downgraded its economic growth forecast for this year to between 3.2-4.2%, down from the 4.8% estimated in October last year. The stance of monetary policy is expected to remain accommodative and growth is expected to find support from the overall 50bps cuts in total this year with expansionary fiscal measures by the government that included the recently released RM20b economic stimulus. Expect BNM MPC to continue to assess the risks to growth from the COVID-19 virus outbreak which may stunt growth in 1H 2020. **Our full year estimate for 2020 GDP growth has been tweaked lower to 4.0% from 4.3% given imminent adverse impact from the Covid-19 viral outbreak** (2019: 4.3%). We foresee downside risks to this projection given the most recent decline in global crude oil prices and subsequent meltdown in global financial markets, in addition to the evolvement of COVID-19 into a global shock.

MYR government bond auctions saw decent bidding metrics for the three (3) auctions in February…..

The three (3) government bond tenders concluded for the month of Feb 2020 under the auction calendar saw decent BTC ratio at 2.38x (Jan: BTC ratio: 2.64x) with the 5Y GII 10/24 reopening seeing the largest bids totaling RM11.1b; the largest since Aug 2019 on strong bidding metrics; resulting in BTC ratio of 2.78x. Auction appetite in February was a decent continuation from January's secondary market rally.

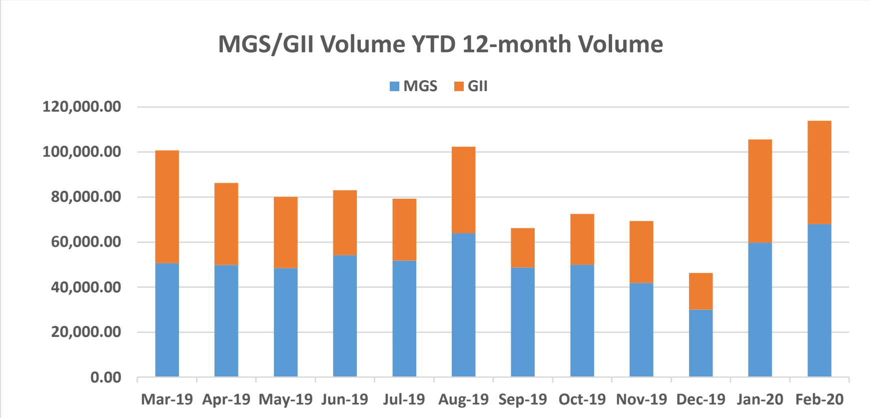
MGS/GII issuance pipeline in 2020

No	Stock	Tenure (yrs)	Tender Month	Quarter	Tender Date	Projected Issuance Size (RM mil)	Actual Auction Issuance (RM mil)	Private Placement X	Auction Amt Issued YTD	BTC (times)	Low	Average	High	Cut-off
1	7-yr reopening of MGS (Mat on 05/27)	7	Jan	Q1	8/1/2020	4,000	3,500		3,500	2.498	3.259	3.281	3.288	57.1%
2	15-yr Reopening of GII (Mat on 11/34)	15	Jan	Q1	14/1/2020	4,000	2,500	1,000	6,000	3.396	3.500	3.507	3.513	42.9%
3	3-yr Reopening of MGS (Mat on 3/23)	3	Jan	Q1	23/1/2020	3,000	3,000		9,000	2.183	2.837	2.858	2.875	80.0%
4	30-yr Reopening of GII (Mat on 11/49)	30	Feb	Q1	4/2/2020	3,000	2,500	1,500	11,500	2.328	3.747	3.780	3.792	66.7%
5	10-yr Reopening of MGS (Mat on 08/29)	10	Feb	Q1	13/2/2020	3,000	4,000		15,500	2.036	2.860	2.888	2.898	80.0%
6	5-yr Reopening of GII (Mat on 10/24)	5	Feb	Q1	20/2/2020	3,000	4,000		19,500	2.776	2.817	2.845	2.852	46.2%
7	15-yr Reopening of MGS (Mat on 07/34)	15	Mar	Q1	5/3/2020	4,000	3,500	500	23,000	2.247	3.008	3.027	3.036	80.0%
8	20-yr Reopening of GII (Mat on 09/39)	20	Mar	Q1	11/3/2020	4,000	2,800	1,500	25,800					
9	5-yr Reopening of MGS (Mat on 09/25)	5	Mar	Q1		3,000								
10	7.5-yr New Issue of GII (Mat on 09/27)	7	Mar	Q1		4,000		X						
11	20-yr Reopening of MGS (Mat on 05/40)	20	Apr	Q2		4,000		X						
12	10.5-yr New Issue of GII (Mat on 10/30)	10	Apr	Q2		4,000		X						
13	7-yr Reopening of MGS (Mat on 05/27)	7	Apr	Q2		3,500								
14	15-yr Reopening of GII (Mat on 11/34)	15	May	Q2		3,500		X						
15	10-yr Reopening of MGS (Mat on 08/29)	10	May	Q2		3,500								
16	3-yr Reopening of GII (Mat on 05/23)	3	Jun	Q2		3,000								
17	30-yr New Issue of MGS (Mat on 06/50)	30	Jun	Q2		3,500		X						
18	20-yr Reopening GII (Mat on 09/39)	20	Jun	Q2		3,500		X						
19	3-yr Reopening of MGS (Mat on 03/23)	3	Jul	Q3		3,500								
20	10-yr Reopening of GII (Mat on 10/30)	10	Jul	Q3		3,500								
21	15-yr Reopening of MGS (Mat on 07/34)	15	Jul	Q3		3,000								
22	7-yr Reopening of GII (Mat on 09/27)	7	Aug	Q3		3,500								
23	20-yr Reopening of MGS (Mat on 05/40)	20	Aug	Q3		4,000		X						
24	15-yr Reopening of GII (Mat on 11/34)	15	Aug	Q3		3,500		X						
25	7-yr Reopening of MGS (Mat on 05/27)	7	Sep	Q3		3,000								
26	30-yr Reopening of GII (Mat on 11/49)	30	Sep	Q3		3,000		X						
27	5-yr Reopening of MGS (Mat on 09/25)	5	Sep	Q3		3,000								
28	3-yr Reopening of GII (Mat on 05/23)	3	Oct	Q4		3,000								
29	10.5-yr New Issue of MGS (Mat on 04/31)	10	Oct	Q4		4,000								
30	5-yr Reopening of GII (Mat on 03/26)	5	Oct	Q4		4,000								
31	30-yr Reopening of MGS (Mat on 06/50)	30	Nov	Q4		3,000		X						
32	7-yr Reopening of GII (Mat on 09/27)	7	Nov	Q4		3,500								
33	15-yr Reopening of MGS (Mat on 07/34)	15	Nov	Q4		3,000								
34	10-yr Reopening of GII (Mat on 10/30)	10	Dec	Q4		3,400		X						
	Gross MGS/GII supply in 2020					117,400		4,500						

Source: BNM, HLB Research

Trading volume for MGS/GII spiked again in February…

Trading volume for MYR govvies i.e. MGS + GII bonds jumped by 12% to ~RM114.0b in February compared to prior month's RM101.8b. Interest was seen mainly across the short-end of the bellies with substantial and frequent trades done predominantly in MGS off-the-run 20-21's followed by GII (altogether RM32.0b for these tenures forming ~28% of overall volume; higher than the RM15.8b for the previous month). This was followed by an uptick in interest for the benchmark 10Y benchmarks which churned a massive secondary market volume of RM25.3b for the month whilst the longer-end 15Y tenures too saw strong demand as per our earlier recommendation for the 33-34's which accounted for RM9.8b (8.5%) of total volume. In short, investors were seen generally long on the ultra-short-end and also the 10-15Y duration; as demand surfaced arising from kinks on the curve. Investors consisted of both foreign, local institutional investors and also inter-bank participants. Nevertheless we opine that the recent pent-up demand for local govvies may ease following fiscal deficit concerns arising from the recent collapse in oil prices. The weaker external environment arising from the COVID-19 virus outbreak engulfing the globe is also expected to temper investor appetite along with the FTSE Russell WGBI concerns by end-March.

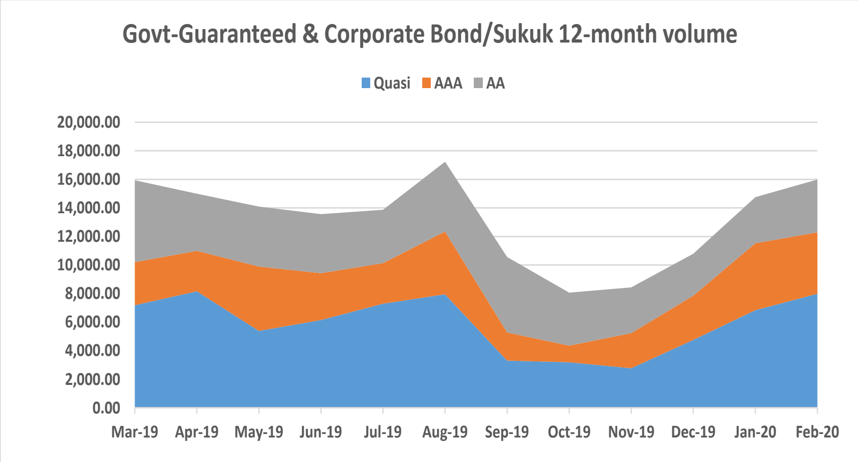


Source : BPAM, Bloomberg, HLB Research

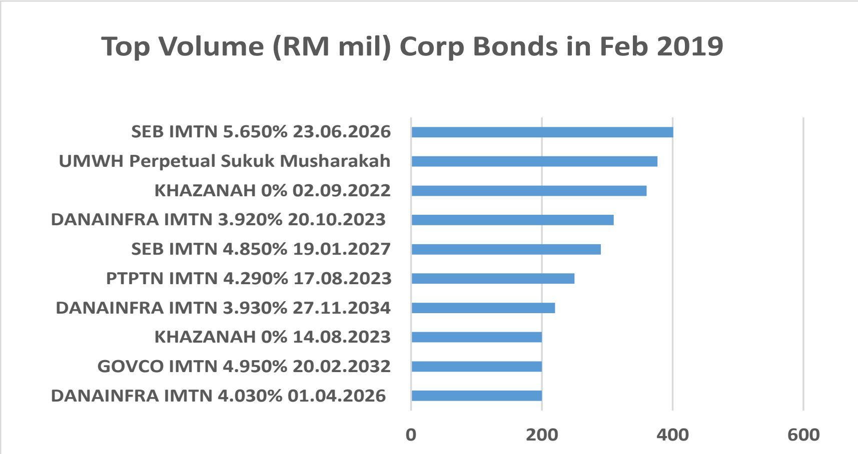
Corporate Bonds/Sukuk activity remained upbeat for 5th month running…

In the secondary market, Corporate Bonds/Sukuk (including Govt-Guaranteed bonds) continued to notch higher secondary market trading volume of ~ RM17.7b in February (a 15% rise compared to RM15.4b in Dec). Momentum was upbeat as portfolio fund managers chased yields as ample liquidity coupled with decent credit spreads relative to MGS triggered further buying with yields closing sharply lower between 20-30bps in the GG-segment, 30-37 in the AAA-space and 20-25bps in the AA-segment. The spillover of interest from sovereigns which grinded lower was evident as fears over the COVID-19 virus outbreak spread worldwide. Nevertheless, Corporate Bonds/Sukuk saw foreign holdings ease again slightly to RM12.9b; off-the high seen in the 1Q2019. Total transactions for GG bonds rose by 5% for the month compared to AAA and AA-rated papers; whilst still forming a steady yet impressive 50% of overall volume. Bulk of investor interest was mainly centered on DANAINFRA, PRASARANA followed by LPPSA bonds. The largest drop was seen in the AAA-segment with interest tapering off from 32% to 27% of overall trades. AA-rated bonds however maintained its 23% market share in February. Bonds that garnered top volume for the month were SEB 6/26, which rallied 46bps at 3.13% and unrated UMW perps 2118NC28 which declined 88bps at 4.12%. This was followed by GG-related KHAZANAH 9/22 which declined 63bps at 2.83%.

Frequency and volume of trades in the pure credit space were seen within a range of bonds namely conglomerates (i.e. DRB-HICOM 26 and 29's, MMC 20-28's, KLK 22-24's, DANUM 23-35, GENTING-related bonds 23-34's) and infrastructure-related names including sub-sectors such as construction/property (i.e. IJM-related bonds 21-perps, AMAN 22-25's, COUNTRY GARDEN 22-23's, WCT 21-perps), power/energy/water (i.e. AAA-rated TENAGA 33-38's, , AA-rated BGSM 21-26's, EDRA 29-38's, JEV 20-23's, SARAWAK HIDRO 20-29's, SEB 21-33's), toll-operators (i.e. PLUS 21-33's, DUKE 28-39's), water (PASB 24-29's) and telcos i.e. DIGI 22-29's and CTX 22-27's. The banking sector saw the Bank Pembangunan 2022-2032 again top monthly investor favorites; closing sharply lower between 21-42bps compared to previous-done levels followed by MAYBANK and Sabah Development papers. We also note the continued interest in odd-lot denominated trades involving unrated YNH PROPERTIES Berhad, ECO World, Eco Capital and CIMB Perps T1-T4's.



Source : BPAM, Bloomberg, HLB Research



Source : BPAM, Bloomberg, HLB Research

Primary issuance print in February boosted by following names:

Notable issuances in Feb-19	Rating	Amount Issued (RM mil)
AEON Credit Service (M) Berhad	AA3	500
Alam Maritim Resources Berhad	NR	3
Hong Leong Assurance Berhad	AA#	300
Lembaga Pembiayaan Perumahan Sektor Awam	GG	2,250
Sunway Treasury Sukuk Sdn Berhad	NR	200
Danum Capital Berhad	AAA	2,000
Exsim Ventures Berhad	AA3	68
KYS Assets Sdn Berhad	NR	25
Laksana Positif Sdn Berhad	NR	35
Potensi Angkasa Sdn Berhad	NR	15
Prasarana Malaysia Berhad	GG	3,500
Semarak Gigih Berhad	NR	244
Setia Fontaines Sdn Berhad (fka Setia Recreation Sdn Berhad)	NR	3
Tumpuan Azam Sdn Berhad	NR	135
TG Excellence Berhad	AA3	1,300
Toyota Capital Malaysia Sdn Berhad	AAA	100
Xinghe Holdings Berhad	NR	1
		10,680

Source : BPAM, Bloomberg, HLB Research

Total fresh issuances for all ratings of Corp Bonds/Sukuk more than doubled to RM10.7b (Jan: RM4.06b) with govt-related PRASARANA and LPPSA issuances making up the bulk. The prominent bond issuances consist of unrated PRASARANA's 7-30Y bonds totaling RM3.5b with coupons ranging between 3.02-3.08% and LPPSA's 10Y/15Y/30Y bonds totaling RM2.25b with coupons of 3.30/3.45/4.00%. This was followed by AAA-rated DANUM Capital's 5Y/15Y bonds totaling RM2.0b with coupons at 3.07/3.42%.

Outlook for March 2020

Investors to take cautious stance as bouts of profit-taking take root in lieu of additional supply concerns and tender political landscape

The MYR bond market which notched decent bidding metrics (BTC ratio: 2.38x) for February 2020 due to comparatively positive global sovereign yields and also save-haven bids saw investors turn cautious over **potential supply concerns** led by the plunge in oil prices which will hit our nation's coffers. The earlier Federal Government budget deficit of 3.2% which was to be revised to 3.4% based on the recent revealing of the RM20b economic stimulus may have to be revised when taking into account the recent plunge in oil prices. The budget deficit which was earlier based on $62 per barrel for Brent will likely be revised to reflect the plunge to about $35 arising from the fallout in agreement between OPEC-led Saudi and Russia. The ramp-up in Saudi's production will likely hit Malaysia's coffers which should see a further deficit of about RM8.0-9.0b (every reduction of USD1 translates to RM300m in loss of oil revenue). The impact of recent OPR cuts on the local govvies market may be neutralized by additional supply of MGS/GII to the tune of RM8.0-9.0b; resulting in total RM11.5-12.5b (including additional projection of RM3.5b from the abovementioned economic stimulus package). We expect another 25bps rate cut for the remainder of 2020 to cushion the impact of further economic slowdown. The USDMYR pair has weakened to 4.2900 levels at the time of writing as a result of both USD strength coupled with risk-off 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 also a concern with the March decision being made known on the 2nd of April 2020.

We anticipate yields to range sideways with upward pressure unlike the previous December-February period resulting from the abovementioned factors. Nevertheless **slight kinks within the govvies curve make the 7Y, 10Y and 15Y MGS/GII look more compelling than other maturities.** We note that there is a substantial RM11.0b of MGS maturities this month with opportunities for rollover into projected RM15.3b of new issuances. Nevertheless expect the short 20-21's continue to see tremendous investor/trader interest. The increasing supply of negative-yielding global debt may yet provide catalyst for yield-seeking investors that buy into **Ringgit Corporate Bonds/Sukuk on any sell-off with preference along the GG segment which have nevertheless narrowed to 5-18bps spreads**. **A barbell strategy involving 2Y-5Y and 20-25Y may be appropriate** as yield spreads look decent despite additional supply last month. Expect continued spillover down the credit spectrum especially **into the AA bonds followed by better interest in non-rated bonds on yield-enhancement metrics. Liquid names in conglomerates, utilities, and infrastructure sub-sectors i.e. toll may continue to attract investors.**

Markets are concerned over COVID-19 virus outbreak and are re-pricing in further Fed rate cuts this year…

The UST movements in February saw the curve turn steeper instead with the much-watched UST 10Y declining 36bps to 1.15% levels; having been through a massive volatile trading range of 97bps (January: 39bps) as the bond market continued to record huge gains across the curve. Most global bond markets from Japan, Australia China right up to Germany and UK rallied as the Fed was open to further rate cuts on fears of an economic malaise from the COVID-19 virus outbreak. Despite average 2019 monthly job gains of 174k being slightly less stellar compared to the average 223k in 2018, the monthly job creation of at least 100k to keep up with growth in the working-age population for 2020 is being met. Additional strong economic data including the low unemployment rate of 3.5% and the part-resolve of US-China trade issues may account for little as major events such as the COVID-19 virus outbreak and plunge in oil price impact the economy eventually. Both the Fed and investors will continue to monitor these two (2) over key economic indicators. With the successful conclusion of the US-China phase one (1) trade pact in January, the continued removal of further tariffs in another trade agreement in the coming months will still fall down the pecking order of events causing turbulence.

We opine the case for further rate cut of 50bps based on anticipated weaker global economic outlook despite the full impact of four (4) earlier cuts (including a recent emergency cut in early March) and most recently the vast potential for improvement in US-China trade matters. The emergence of the COVID-19 contagion and equity market meltdown arising from the repercussions from the plunge in oil prices will likely be a dampener on global growth just when a trade truce between the U.S. and China was expected to ease business uncertainty and stimulate new investments. **Noting that that the short-ends have turned rich since our last call due to rate-cut expectations; we are of the opinion that any sell-off in the medium-to-longer tenures that present the opportunity to go positive- duration in March. The 10Y is expected to range between 0.45-0.75% levels whilst finding support at 0.8% levels.**

In the Credit/Corporate space, Investment grade (IG) debt may be better insulated compared to HY with healthcare and chemicals expected to manage the vagaries of the current credit markets. Notably however, IG bonds reported its first outflow of the year amid virus concerns. Nevertheless, generic spreads have jumped from 100 to 180bps (reference is made to the Bloomberg Barclays US Aggregate Index for Investment-Grade Corporate Bonds). We continue to advocate medium duration as the virus outbreak will stunt global trade and growth. Boosting the credit quality of portfolio is recommended to minimize risk and consequently **prefer to keep credit quality high and duration at between 3-7Y tenures and avoid leveraged companies especially in energy, transportation and financials.** We continue to prefer avoiding the HY sector due to worries that the COVID-19 virus outbreak will slash economic growth and crimp corporate cash flows. **Investors may however evaluate IG issuances especially in chemicals and health-care sectors.**

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