Monthly Fixed Income Perspective –

Apr' 20 review & May' 20 outlook

US Bond market

- **US Treasuries (UST's)** continued to show resilience for the 4th month in a row in April as the US and global economy showed signs of weakness due to the devastating impact of the COVID-19 viral outbreak. Benchmark **UST yields eased marginally between 3-6bps in April (having sharply declined by 30-63bps across the curve the prior month) with the short-end richer.** The UST 2Y rallied the most by 6bps at 0.20% whilst the much-watched 10Y also declined by 3bps, at 0.64%. The yield curve steepened slightly with the 2y10y up from +42bps to +44bps and has since increased further to +50bps at the time of writing. The US Dollar meanwhile ended weaker against most G10 currencies save for the Euro, Danish Krone and Swiss Franc whilst the Dollar Index ended almost unchanged at 99.1 levels.

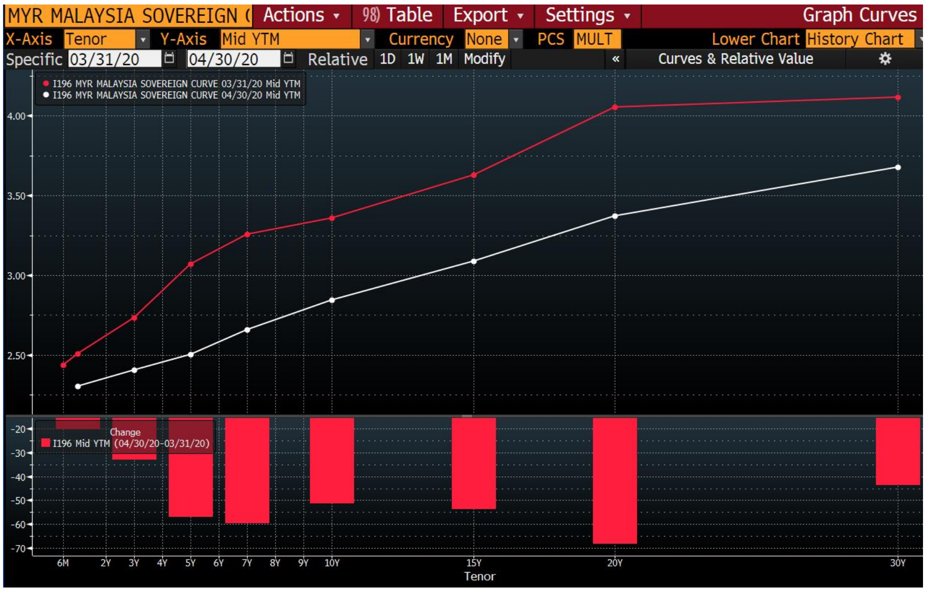
- **For May**, we expect the US economy to continue being impacted despite impending reopening of the economy. We expect slight activity to commence in allowing supply chains and the economy to start grinding upwards again towards the later part of the month thereon. The Fed is prepared to use its full range of tools to support the flow of credit to households and businesses. **Expect UST 10Y to range higher between 0.75-0.95% levels with support pegged at 0.95% levels. The belly i.e. 7-10Y part of the curve potentially offer better risk-reward posture for now.** The Corporate Bond space is expected to receive support via part of the $2.3 trillion stimulus meant for tax-payers, businesses and revenue-pinched state governments. We are mildly positive on **IG issuances in the longer 7-15Y tenures for debt papers in sectors such as logistics, healthcare, telecommunication and utilities.**

MYR Bond Market

- In April, MYR govvies reversed prior month's losses as the curve shifted lower with benchmark **MGS bonds and GII yields declining between 33-59bps.** The reopening of the 5Y MGS 9/25 saw yields decline 56bps at 2.51% whilst the 10Y MGS 8/29 yields also saw strong demand resulting in a drop of 46bps at 2.89%. Foreign holdings of MYR government bonds (MGS + GII + SPK) saw another outflow for the 3rd month running by RM2.6b to 21.0% or RM165.8b which also saw larger net issuance outstanding. All three (3) auctions involving 7Y, 20Y MGS and 10Y GII notched decent appetite with BTC ratios between 2.0 and 3.0x handle.

- **For May,** we anticipate yields to potentially decline albeit by smaller movements despite additional supply arising from larger fiscal deficit**. We expect no further OPR rate cuts going forward** following the recent 50bps cut barring escalation of growth risks from the COVID-19 virus pandemic**. Continuing kinks within the govvies curve still reveal values in the 7Y, 15Y MGS/GII space. We expect the 10Y to range between 2.80-3.00% levels** following the recent rate cut with **support pegged at 3.00% levels.** As for Ringgit Corporate Bonds/Sukuk, w**e foresee values emerging within the 7Y GG segment and 3Y, 20Y AA-rated papers.**

MYR sovereign curve (MGS)



Source : Bloomberg

Poor NFP data for April as US economy continues to be severely impacted by the fury of the COVID-19 virus outbreak; UST's supported further by safe-haven bids…

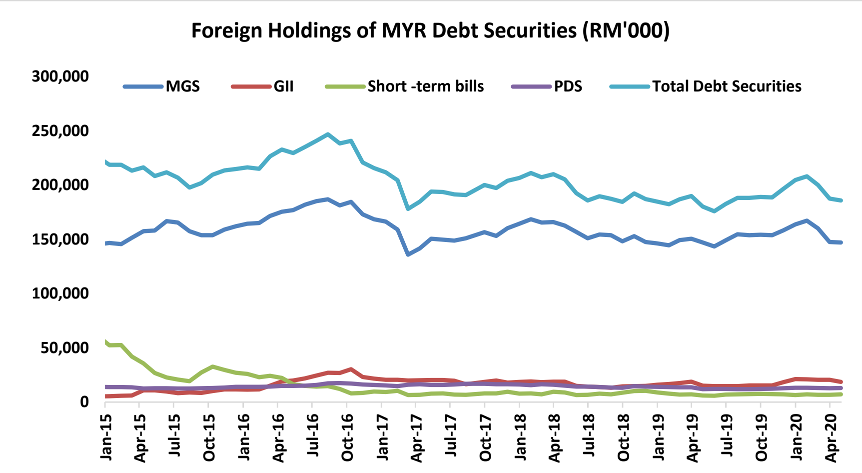
April Non-Farm Payrolls ("NFP") plunged by a massive 20.5m (consensus 22.0m) and notched the largest drop ever (March numbers were revised down by 169k). This effect unwound more than 20 years of job creation in a single month; rendering almost one out of every six Americans jobless. The carnage was mostly seen in retail including restaurants, hospitality and leisure with least affected industries involved in financial activities, information, transportation and warehousing and utilities where employees were able to work remotely and/or deemed essential overall. Unemployment rate crashed into double-digit territory of 14.7% (prior moth 4.4%) with the participation rate down at 60.2%. Nevertheless the surprise print was seen on average hourly wages of +4.7% MOM (previous month: +0.4%) and also equally strong YOY gain of +7.9% (previous month: +3.3% revised), as lower-wage workers suffered disproportionately from furloughs.

To recap, the Fed caught markets off-guard with dramatic rate cut on the 3rd of March (1st such cut in between FOMC meetings since 2008) and subsequently on 15th of March, just days ahead of its scheduled FOMC meeting; resulting in total cumulative cuts of 150bps to 0.00-0.25%. Subsequently the Fed held rates at its last FOMC meeting as Fed Chair Powell stated that monetary policy can't help expand economic activity during the current crisis- but it can only ease the pain. Another key outcome of the meeting was the refusal to adjust its forward guidance and also the plans for bond-buying going forward. (We note the earlier decision to restart QE program of which the Fed would increase its purchases of securities up to USD 700b which was then expanded to unlimited purchases subsequently). The Fed's preferred inflation measure for March was expected to be lower with personal consumption expenditure (PCE) core index which the Fed officially targets for 2.0% inching lower at 1.70% YOY (-0.1% MOM). 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 is still unavailable currently after the March meeting was called off. Nevertheless, data from the Fed Fund Futures reflect a 4.4% hypothetical probability of a hike whilst**

CME FedWatch Tool has predicted a 95% chance of a rate pause with a 5% chance of a 25bps hike.

Foreign holdings of MYR bonds ease by smaller margin in April as MYR continues to stay weak at ~4.3500 levels…

Foreign holdings of overall MYR bonds saw levels fell in April by RM2.0bn or a mere 1.1% to RM185.8b. Non-resident holdings of MGS eased by RM442m from RM147.6b to RM147.2b (representing 35.8% of total outstanding) whereas total MYR Government bonds (i.e. MGS+GII+SPK) holdings similarly saw net outflows of RM2.6b to RM165.8b (representing 21.0% of total outstanding) amid net issuances of RM3.5b for last month (March: net issuances of RM5.8b). With the temporary relief of the FTSE Russell WGBI anticipated revision (expect announcement on the final decision in September 2020); the fall in foreign holdings for March was mainly due to impact of plunging oil prices and economic impact of COVID-19 resulting in additional govvies supply concerns. **Overall MYR bonds saw cumulative 12-month rolling net foreign inflows of RM3.5b (YTD April: -RM19.2b) whilst net equity outflows was RM18.7b (YTD April: RM10.3b).** On the currency side, the MYR ended weaker against USD at 4.3022 levels as at end-April. At the time of writing, USDMYR weakens further to 4.3530 amid slight risk-off mode for EM Asia due to economic impact from COVID-19 virus outbreak and the weakness in oil prices.



Source: BNM, HLB Research

Our house view calls for an OPR pause; barring escalation of downside growth risks as BNM's pro-active policy stance YTD addresses the economic impact of COVID-19 pandemic and lower oil prices...

BNM's monetary policy committee delivered a 3rd OPR cut, by 50bps from 2.50% to 2.00% at the 3rd MPC meeting of the year on 5th of May. BNM's policy decision was based on the challenging yet gloomy economic outlook, as COVID-19 and lock-downs continue to put the brakes on demand metrics and economic activity as global economic conditions have weakened significantly. BNM said that the outlook for growth continues to be subject to a high degree of uncertainty, particularly with respect to developments surrounding the pandemic. The central bank has allowed banks to use local govvies to comply with SRR conditions effective 16th of May. This is expected to release ~RM16b worth of liquidity into the banking system. (Note: current SRR stands at 2.00%). The accommodative monetary policy from the overall 100bps cuts in total this year together with expansionary fiscal measures by the government that included the recently unveiled three (3) economic stimulus packages consisting of RM20b, RM230b and RM10b respectively is expected support the economy. **Our full year estimate for 2020 GDP growth has been revised lower to -4.3% from -1.5% earlier given the much more adverse economic impact from the Covid-19 viral outbreak** (2019A: +4.3%) and also other downside risks given disruption in supply chains and low global crude oil prices.

MYR government bond auctions however saw strong bidding metrics for the three (3) auctions in April…..

The three (3) government bond tenders concluded for the month of April 2020 under the auction calendar saw surge in BTC ratio at 3.03x (Mar: BTC ratio: 2.34x) with the 20Y MGS 5/40 reopening notching largest YTD bids totaling RM13.4b; despite the BTC ratio of 1.97x. Auction appetite in April was a strong continuation from March's decent auction demand. At the time of writing, the auction in May saw total bids amounting to RM7.6b for the reopening of the 15Y GII 11/34.

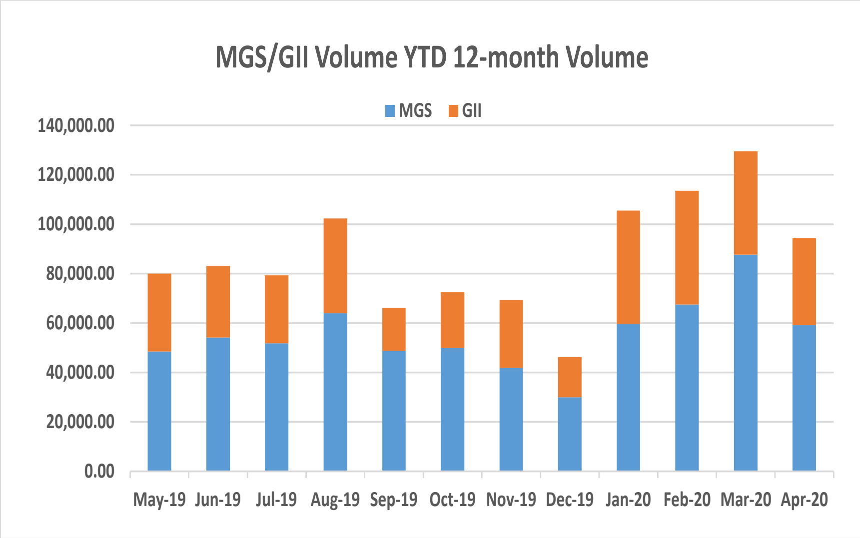
MGS/GII issuance pipeline in 2020

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	12/3/2020	4,000	2,800	1,500	25,800	2.182	3.295	3.344	3.373	91.7%
9	5-yr Reopening of MGS (Mat on 09/25)	5	Mar	Q1	20/3/2020	3,000	4,000		29,800	2.080	3.372	3.450	3.494	80.0%
10	7.5-yr New Issue of GII (Mat on 09/27)	7	Mar	Q1	30/3/2020	4,000	3,500	1,000	33,300	2.874	3.391	3.422	3.454	100.0%
11	20-yr Reopening of MGS (Mat on 05/40)	20	Apr	Q2	6/4/2020	4,000	3,500	1,500	36,800	1.973	3.828	3.855	3.888	14.3%
12	10.5-yr New Issue of GII (Mat on 10/30)	10	Apr	Q2	14/4/2020	5,000	4,000	1,000	40,800	3.118	3.439	3.465	3.479	13.9%
13	7-yr Reopening of MGS (Mat on 05/27)	7	Apr	Q2	29/4/2020	4,500	4,000		44,800	2.239	2.668	2.679	2.689	61.9%
14	15-yr Reopening of GII (Mat on 11/34)	15	May	Q2	14/5/2020	5,000	3,500	1,500	48,300	2.171	3.210	3.235	3.269	50.0%
15	10-yr Reopening of MGS (Mat on 08/29)	10	May	Q2		4,500								
16	3-yr Reopening of GII (Mat on 05/23)	3	Jun	Q2		4,500								
17	30-yr New Issue of MGS (Mat on 06/50)	30	Jun	Q2		4,500		X						
18	20-yr Reopening GII (Mat on 09/39)	20	Jun	Q2		4,500		X						
19	3-yr Reopening of MGS (Mat on 03/23)	3	Jul	Q3		4,500								
20	10-yr Reopening of GII (Mat on 10/30)	10	Jul	Q3		4,500								
21	15-yr Reopening of MGS (Mat on 07/34)	15	Jul	Q3		4,500								
22	7-yr Reopening of GII (Mat on 09/27)	7	Aug	Q3		4,500								
23	20-yr Reopening of MGS (Mat on 05/40)	20	Aug	Q3		5,000		X						
24	15-yr Reopening of GII (Mat on 11/34)	15	Aug	Q3		5,000		X						
25	7-yr Reopening of MGS (Mat on 05/27)	7	Sep	Q3		4,500								
26	30-yr Reopening of GII (Mat on 11/49)	30	Sep	Q3		4,500		X						
27	5-yr Reopening of MGS (Mat on 09/25)	5	Sep	Q3		4,500								
28	3-yr Reopening of GII (Mat on 05/23)	3	Oct	Q4		4,500								
29	10.5-yr New Issue of MGS (Mat on 04/31)	10	Oct	Q4		4,500								
30	5-yr Reopening of GII (Mat on 03/26)	5	Oct	Q4		4,500								
31	30-yr Reopening of MGS (Mat on 06/50)	30	Nov	Q4		4,600		X						
32	7-yr Reopening of GII (Mat on 09/27)	7	Nov	Q4		4,500								
33	15-yr Reopening of MGS (Mat on 07/34)	15	Nov	Q4		4,500								
34	10-yr Reopening of GII (Mat on 10/30)	10	Dec	Q4		4,500		X						
	Gross MGS/GII supply in 2020					141,400		9,500						

Source: BNM, HLB Research

Trading volume for MGS/GII pulled back in April…

Trading volume for MYR govvies i.e. MGS + GII bonds fell sharply by 30% to ~RM94.3b in April compared to prior month's RM134.5b. 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 RM16.6b for these tenures; thus maintaining ~18% of overall volume; despite lower than the RM32.0b transacted for the previous month. This was followed by interest in the 10Y benchmarks which churned a lower secondary market volume of RM9.5b (March: RM11.2b) whilst the longer-end 15Y tenures too saw strong demand as per our earlier recommendation for the 33-34's which accounted for RM9.1b (9.7%) of total volume. In short, investors were seen generally long in the short-end and also belly followed by the 5Y, 10Y and also 15Y duration; as investors digested the kinks on the curve. We opine that the secondary market volume for local govvies may maintain at current levels unlike the huge volumes seen in the 1Q2020 exceeding RM100b following cautious strategy in view of recent strong surge. This along with supply overhang arising from several economic stimulus packages (ESP's) that are deemed necessary to combat the economic fallout from the COVID-19 virus pandemic.

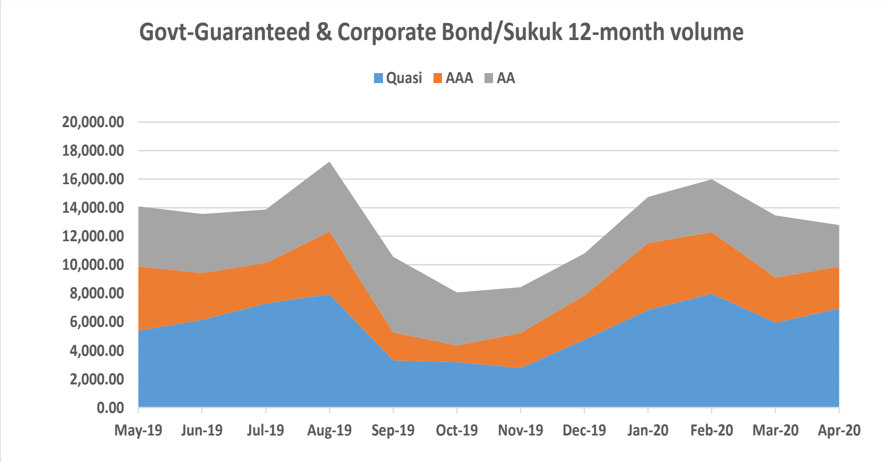


Source : BPAM, Bloomberg, HLB Research

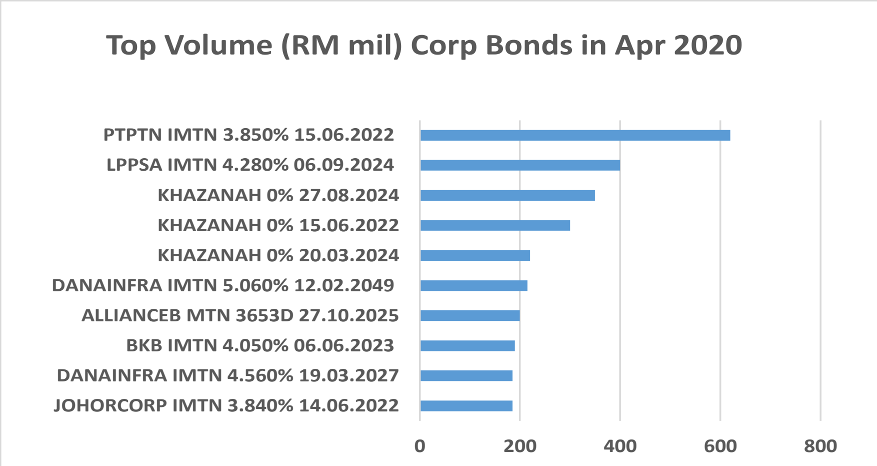
Corporate Bonds/Sukuk activity however surged decent in April…

In the secondary market, Corporate Bonds/Sukuk (including Govt-Guaranteed bonds) notched higher secondary market trading volume of ~ RM17.9b in April (a 19% drop compared to RM15.0b in March). Strong momentum was noted as fund managers bid for decent credits on liquid names. As credit spreads relative to MGS continue to trigger interest with yields closing sharply lower between 20-70bps in the GG-segment, between 10-66bps for AAA-rated bonds and also between 10-60bps in the AA-segment despite the weaker performance of sovereigns. Nevertheless, Corporate Bonds/Sukuk saw foreign holdings inch marginally by RM178m higher to RM12.9b. Total transactions for GG bonds rose by 10% to form ~54% of overall volume compared to AA-rated ones which fell by same margin to form ~23% of overall secondary market volume. Bulk of investor interest in this segment was mainly centered on DANAINFRA, PRASARANA, PASB, LPPSA, KHAZANAH and PTPTN bonds. Bonds that garnered top volume for the month were PTPTN 6/22 and LPPSA 9/24. This was followed by GG-related KHAZANAH 8/24.

Frequency and volume of trades in the pure credit space were seen within a range of bonds namely conglomerates (i.e. DRB-HICOM 24-29's, MMC 20-28's, YTL Corp 26, 34, UMW perps, DANUM 25-34 and infrastructure-related names including sub-sectors such as construction/property (i.e. PUTRAJAYA 20-26's, AMAN 22-26's, DANGA 27-34's, IJM Land perps, LBS Bina perps, Tropicana Perps, Mah Sing perps, Eco World 21-26's, utilities i.e. power/energy/water (i.e. AAA-rated TENAGA 32-38's, MANJUNG 20-22's, AA-rated YTL Power 22-27's, BGSM 23-27's, SEB 22-36's), toll-operators (i.e. PLUS 24-32's and telcos i.e. TELEKOM 21-28's and CTX 22-27's). The banking sector saw Alliance Bank, Sabah Dev, MBSB and also Affin Bank names traded under radar of investors. We note the continued interest in odd-lot denominated trades involving unrated Mah Sing, YNH PROPERTIES Berhad, ECO World International, Eco Capital and Tropicana Perps, IJM land perps and LBS Bina.



Source : BPAM, Bloomberg, HLB Research



Source : BPAM, Bloomberg, HLB Research

Primary issuance print in April tepid but dominated by following:

Notable issuances in Apr-20	Rating	Amount Issued (RM mil)
Cagamas Berhad	AAA	500
CIMB Group Holdings Berhad	AA1	600
Danum Capital Berhad	AAA	500
Liziz Standaco Sdn Berhad	NR	10
RH Consortium Sdn Berhad (fka Progressus Group Sdn Berhad)	NR	16
Small Medium Enterprise Development Bank Malaysia Berhad	GG	500
SunREIT Unrated Bond Berhad	NR	600
Sunway Velocity Mall Sdn Berhad	NR	260
UEM Sunrise Berhad	AA3	130
		3,117

Source : BPAM, Bloomberg, HLB Research

Total fresh issuances for all ratings of Corp Bonds/Sukuk however halved to RM3.2b (March: RM6.9b) with govt-guaranteed SME bank and CIMB Group Holdings being the more prominent issuances. SME (GG) issued 5-7Y bonds totaling RM500m at coupons of 3.02% and 3.07% whilst CIMB Group successfully arranged 5Y bonds (AA1) amounting to RM600 at a coupon of 3.40%.

Outlook for May 2020

Expect yields to be range-bound as investors are expected to remain cautiously optimistic despite additional supply concerns

The MYR bond market which notched decent bidding metrics (BTC ratio: 3.03x) in April 2020 and huge submission of bids amounting to between RM12-13b for April's 20Y MGS is testament to the resilience of the local govvies market. Nevertheless potential supply concerns will continue to weigh on bond price movements as the COVID-19 virus pandemic and the low crude oil prices are expected to impact the local economy. **The Federal Government's estimate of 3.2% fiscal budget deficit which was to be revised to ~4.7% is lower compared to our house view which is still maintained at between 5.2-5.7%** due to the twin effect of lower GDP output (attributed in part to the MCO) and higher deficit requiring govvies issuances to the tune of RM149.4b. We opine that the loss of oil revenue may surpass RM8.0b now based on the difference between the calibrated $62 for the Federal budget purposes versus current levels. The recent OPR cuts which denotes a low interest rate regiment for the local govvies market may prompt real-money investors to absorb the additional supply of MGS/GII mentioned above. We do not expect further rate cuts in the next July MPC meeting as BNM pauses to assess the full effects of the earlier three (3) rate cuts. The USDMYR pair has weakened to 4.3430 levels at the time of writing as a result of both USD strength coupled with moderate risk-off bids for EM Asia**.** The FTSE-Russell WGBI-related risk of outflows of up to US$4 billion by passive funds and an additional US$2-4 billion by active funds will be on the back-burner until September.

Hence, we anticipate yields to range sideways with local demand support for GII taking precedence over MGS. The positive interest-rate differentials will continue to attract real money investors like pension funds and lifers into the EM sovereign debt space. **The 7Y, 15Y MGS space still reflect decent value on the curve for this month. We expect the 10Y to range slightly lower yield levels of between 2.80-3.00%** with support pegged at 3.00% levels. We note that there is another substantial RM11.0b of GII maturities this month with opportunities for rollover into projected RM9.5b of new MGS/GII issuances. We expect the shorter-end i.e. 21-23's and benchmark 5Y, 10Y bonds to continue to see investor/trader interest and activities. **We continue to like both the GG and the AA-space due to both liquidity and yield pick-up; especially the 7Y GG sector (current spreads over MGS are ~ 26bps), along with the 3Y AA-rated papers (current spreads of 75-110bps), 20Y AA-rated papers (current spreads of 70-120bps**). Expect some continued spillover down the credit spectrum into un-rated bonds on yield-enhancement requirements. Sectors to potentially avoid include retail, tourism, leisure, oil & gas and also gaming sectors. We also foresee toll-related concessionaires beginning to feel the brunt of the current restrictive MCO period.

UST's will continue to remain beneficiaries of safe-haven bids as COVID-19 fallout fears continue to haunt; expect the Fed to not hesitate with further rate cuts and fiscal strategies…

Market volatility in April was prominent but to a lesser extent than March due to lock-downs in US and many parts of Europe as the COVID-19 virus outbreak and steep decline in oil prices earlier influenced investor judgement. As such yields declined between 30-63bps across the yield curve with the UST 2Y yields declining 6bps at 0.2%, 10-year rates fell by 3bps at 0.64%, and 30-year rates dropping 5bps to 1.29%. The Federal Reserve which decreased its policy rate to between 0.00- 0.25% had earlier announced a QE program to help support the markets. The combined fiscal and monetary packages from governments in US are set to maintain liquidity in the market and these include:

- $7.8b emergency COVID-19 spending bill
- $500m telehealth programs by Medicare also known as Families First Coronavirus Response Act
- $2.3 trillion stimulus for tax-payers, business and revenue-starved state governments.

However the duration of the COVID-19 virus outbreak remains an unknown as the economic fallout from the virus including the closure of businesses is likely have a material impact on financial market mainly in the equities; followed by the fixed income space. The job destruction with the latest NFP data plunging by 20.5m along with ISM manufacturing and non-manufacturing index crashing from 49.1 and 52.5 in March respectively to 41.5 and 41.8 respectively in April is unlikely to reverse anytime soon. Massive and long-lasting losses of production will transcend down to individuals and families.

Nevertheless we opine that rates may stay pat at the next FOMC meet in June after the two (2) recent emergency cuts in March followed by its decision to stay pat in April. However, the continued threat of the COVID-19 contagion and the repercussions from the plunge in oil prices along with the potential resurfacing of tensions between the US and China is seen to provide safe-haven bids in the fixed income space. The risks to our forecast are the finding of cures/vaccines for COVID-19 followed by the swift restoration of jobs, businesses and the global supply chain. **The 10-year UST is expected to be range-bound between 0.75-0.95%; finding good support at 0.95% levels for this quarter. The belly i.e. 7Y-10Y part of the curve potentially offer better risk-reward posture for now.**

In the Credit/Corporate space, Investment grade (IG) debt issuances may be pushed further in May if compared to March and April's combined $558b of borrowing; thus to an estimated all-time high of $1.4 trillion. However, IG bonds have seen generic spreads reverse and narrow 60bps instead from 250 to 190bps (reference is made to the Bloomberg Barclays US Aggregate Index for Investment-Grade Corporate Bonds). Note that the Fed facilities have an estimated $750b capacity to buy corporate bonds. We continue to advocate medium-to-longer duration on yield-carry potential whilst maintaining the credit quality of portfolio. Hence, we are mildly positive on **IG bond issuances in the longer 7-15Y tenures in sectors such as logistics, healthcare telecommunication and utilities** that can withstand credit whiplash due to the current weaker operating environment. We reiterate to avoid the HY sector due to debt-servicing concerns.

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