

2Q2019 – Bonds Rallied on Safe-Haven Bid

Endless trade war between the United States and China, as well as global uncertainties continuously push bond yields downwards. The yields across the curve slumped QoQ. US Treasuries declined by 41 bps – 50 bps, while MGS and GII declined by 6 bps – 16 bps. In other parts of the world, UK bonds or Gilt declined by 2 bps – 17 bps. The demand for a safe-haven asset like bonds was supported with slow economic growth and dovish tone by major central banks. China's Purchasing Manager Index (PMI) in June 2019 went down to the lowest reading since January at 49.4. On the local front, Malaysia's Purchasing Manager Index declined for two consecutive months in May and June.

GLOBAL MARKET

Overview

UST yields went down between 41 bps – 50 bps QoQ beginning the second half of 2Q19 as the trade war escalated. The Fed still maintain its benchmark rate between 2.25 – 2.50% as of 19 June 2019, but it is expected to cut rate in 3Q19.

MY Government Bond

Overview

MGS and GII yields continue to decline across the curve as more central banks took a dovish stance. On 7 May 2019, the Overnight Policy Rate (OPR) was cut from 3.25% to 3.00%. The benchmark yield curve shifted lower from m-o-m led by the sharpest decline in the long end of MGS and GII.

MY Corporate Bond & Sukuk

Overview

Corporate bond and sukuk yields in the AAA spectrum also experience a decline QoQ between 27 – 29 bp. The issuance of Corporate Bond and Sukuk for 2Q19 spiked to RM52.04 billion from RM29.04 billion in 1Q19 amid low interest rate environment.

Dec-18	Mar-19	UST	Apr-19	MTM	May-19	MTM	Jun-19	MTM	QTQ	YTD
Close (%)	Close (%)		Close (%)	(BP)	Close (%)	(BP)	Close (%)	(BP)	(BP)	(BP)
2.46	2.21	3 YEAR	2.24	0.03	1.90	-0.34	1.71	-0.19	-0.50	-0.75
2.51	2.23	5 YEAR	2.28	0.05	1.93	-0.35	1.76	-0.17	-0.47	-0.75
2.59	2.31	7 YEAR	2.39	0.08	2.03	-0.36	1.87	-0.16	-0.44	-0.72
2.69	2.41	10 YEAR	2.51	0.10	2.14	-0.37	2.00	-0.14	-0.41	-0.69

Dec-18	Mar-19	MGS	Apr-19	MTM	May-19	MTM	Jun-19	MTM	QTQ	YTD
Close (%)	Close (%)		Close (%)	(BP)	Close (%)	(BP)	Close (%)	(BP)	(BP)	(BP)
3.62	3.38	3 YEAR	3.41	0.03	3.40	-0.01	3.32	-0.08	-0.06	-0.3
3.76	3.53	5 YEAR	3.59	0.06	3.53	-0.06	3.45	-0.08	-0.08	-0.31
3.99	3.72	7 YEAR	3.77	0.05	3.67	-0.10	3.57	-0.10	-0.15	-0.42
4.07	3.77	10 YEAR	3.79	0.02	3.78	-0.01	3.65	-0.13	-0.12	-0.42

Dec-18	Mar-19	GII	Apr-19	MTM	May-19	MTM	Jun-19	MTM	QTQ	YTD
Close (%)	Close (%)		Close (%)	(BP)	Close (%)	(BP)	Close (%)	(BP)	(BP)	(BP)
3.68	3.49	3 YEAR	3.47	-0.02	3.44	-0.03	3.37	-0.07	-0.12	-0.31
3.83	3.60	5 YEAR	3.64	0.04	3.60	-0.04	3.47	-0.13	-0.13	-0.36
4.07	3.77	7 YEAR	3.76	-0.01	3.73	-0.03	3.61	-0.12	-0.16	-0.46
4.24	3.81	10 YEAR	3.87	0.06	3.82	-0.05	3.67	-0.15	-0.14	-0.57

Dec-18	Mar-19	BOND AAA	Apr-19	MTM	May-19	MTM	Jun-19	MTM	QTQ	YTD
Close (%)	Close (%)		Close (%)	(BP)	Close (%)	(BP)	Close (%)	(BP)	(BP)	(BP)
4.27	4.13	3 YEAR	4.04	-0.09	3.95	-0.09	3.86	-0.09	-0.27	-0.41
4.40	4.22	5 YEAR	4.13	-0.09	4.03	-0.1	3.93	-0.1	-0.29	-0.47
4.52	4.29	7 YEAR	4.20	-0.09	4.12	-0.08	4.00	-0.12	-0.29	-0.52
4.64	4.39	10 YEAR	4.28	-0.11	4.23	-0.05	4.12	-0.11	-0.27	-0.52

Sources: US Treasury, BNM, BPAM & BIX Malaysia

BOND & SUKUK RESEARCH

Any feedback please email:
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GOVERNMENT BOND AUCTION

Overview

MGS/GII auction registered an average 2.737x BTC for 2Q19 which is on par with the last quarter, 1Q19. The highest BTC came from 20Y GII 9/39 at 4.275x – the highest level in recent years for any govvnies, while the lowest BTC recorded by 7Y MGS 7/26 at 1.510x. Overall, the amount of government bonds issuance YTD 2019 is RM52.5 billion. The demands for government bonds for 2Q19 were supported by the high probability of Federal Reserve to cut interest rates.

2Q19 AUCTION

No	Stock	Tenure	Type	Tender	Issuance (RM mil)	Amt Issued YTD	Bid/Cover	Yield		
		Year		Date				Low	Average	High
1	MGS 11/33	15-year	Re-opening	April	2,500	31,000	2.792	4.06%	4.07%	4.07%
2	GII 10/24	5.5-year	New Issue	April	3,500	34,500	2.313	3.63%	3.66%	3.67%
3	MGS 7/26	7-year	Re-opening	April	3,500	38,000	1.510	3.74%	3.76%	3.78%
4	GII 11/49	30.5-year	New Issue	May	2,000	40,000	3.298	4.63%	4.64%	4.66%
5	MGS 08/29	10-year	Re-opening	May	4,000	44,000	1.840	3.81%	3.84%	3.85%
6	GII 11/34	15.5-year	New Issue	May	2,500	46,500	3.380	4.11%	4.12%	4.13%
7	MGS 6/24	5-year	New Issue	June	4,000	50,500	2.489	3.47%	3.48%	3.48%
8	GII 9/39	20-year	Re-opening	June	2,000	52,500	4.275	4.07%	4.07%	4.08%

Source BNM, BIX Malaysia

There will be four MGS auctions and four GII auctions for 3Q19 of which a majority of the auctions are reopening bonds except for 15Y MGS 07/34. 1 MGS and 7 GII will be maturing in 3Q19.

UPCOMING ISSUANCE 3Q19

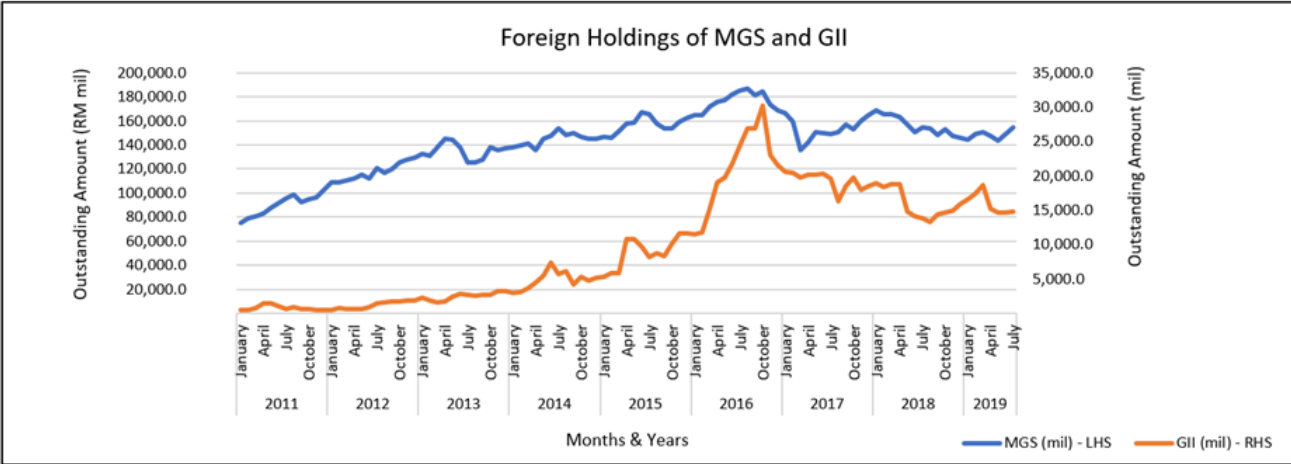
No	Stock	Tenure	Type	Tender	Issuance (RM mil)	Amt Issued YTD	Bid/Cover	Yield		
		Year		Date				Low	Average	High
1	MGS 07/34	15	New Issue	July						
2	GII 03/26	7	Re-opening	July						
3	MGS 07/48	30	Re-opening	July						
4	GII 10/24	5	Re-opening	August						
5	MGS 06/38	20	Re-opening	August						
6	GII 07/29	10	Re-opening	August						
7	MGS 07/26	7	Re-opening	September						
8	GII 11/34	15	Re-opening	September						

Source BNM, BIX Malaysia

FOREIGN HOLDINGS OF MGS AND GII

Overview

Foreign holdings of MGS and GII fell by RM1.5 billion and RM4.0 billion respectively QoQ. The amount of foreign holdings of MGS by the end of June was RM149.1 billion compared to in March which the amount was at RM150.7 billion. The amount of foreign holdings of GII by the end of June was at RM14.7 billion compared to in March, which the amount was at RM18.7 billion. Throughout the 2Q19, May recorded the highest outflow by RM4.0 billion down from RM162.0 billion in April. Factors that partly affect the decline in foreign holdings are the probability of Malaysian government bond to be excluded from the Norwegian Sovereign Fund and FTSE Rusell WGBI, which is yet to be announced.



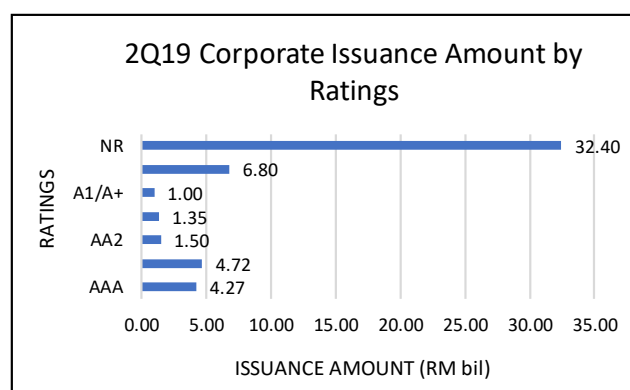
CORPORATE BOND & SUKUK

Overview

Malaysia Corporate bond and Sukuk issuance in 2Q19 amounted to RM52.04 billion, RM23.0 billion higher than in 1Q19. By ratings (not including NR), GG-rated corporate bonds had the most issuance amounted to RM6.8 billion, followed by AA1-rated corporate bonds at RM4.7 billion. The largest corporate bond issuance was by Urusharta Jamaah Sdn Bhd ([VN190098](#)) for RM14.3 billion issued in May.

Issuance 2Q2019

Month/Rating	Apr (RM bill)	May (RM bill)	June (RM bill)
GG	6.80		
AAA	0.50	2.63	1.14
AA1/AA+	2.15		2.57
AA2			1.50
AA3/AA-	0.30	0.67	0.38
A1/A+			1.00
NR	1.37	28.95	2.08
Total	11.12	32.25	8.67
Total Issuance	52.04		



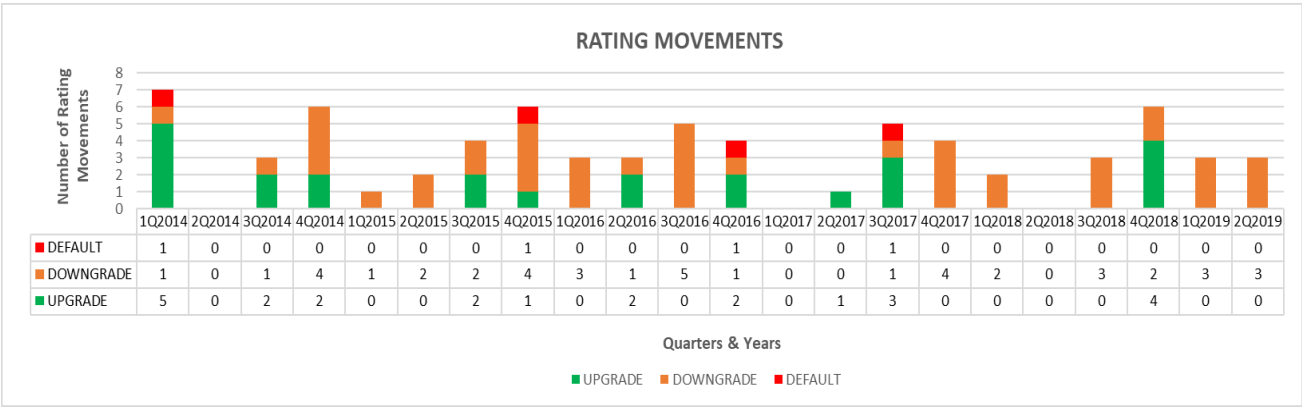
Source BNM, BIX Malaysia

Rating Outlook

There are 0 upgraded and 3 downgraded issuers during 2Q19.

Downgrade

1. Bright Focus Berhad
2. TSH Sukuk Ijarah Sdn Bhd
3. TSH Sukuk Murabahah Sdn Bhd



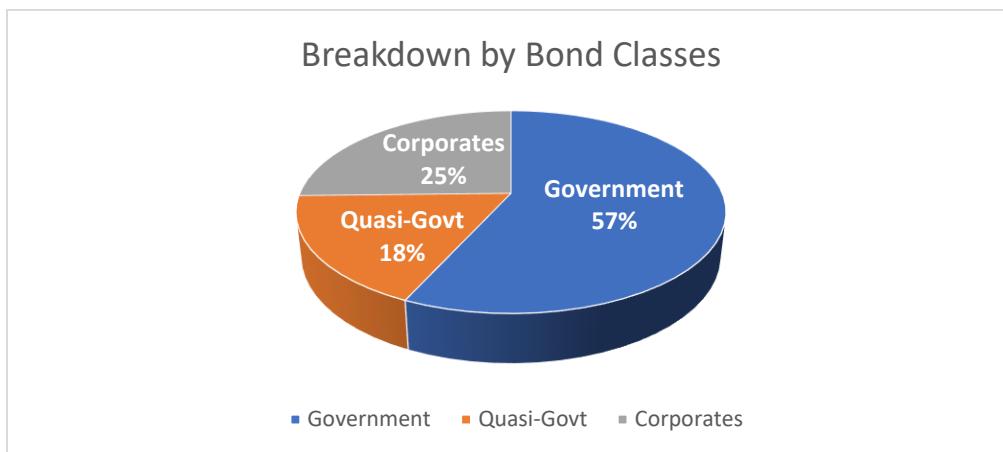
Sources: MARC, RAM and BIX Malaysia

BOND STATISTICS

Overview

Outstanding Amount by Bond Classes

As of June 2019, the outstanding amount of Malaysian bond is at RM1.3 trillion with government bond made up the majority by 57% of outstanding amount. Corporate bond made up 25%, while Quasi-government made up 18% of the total of outstanding amount.

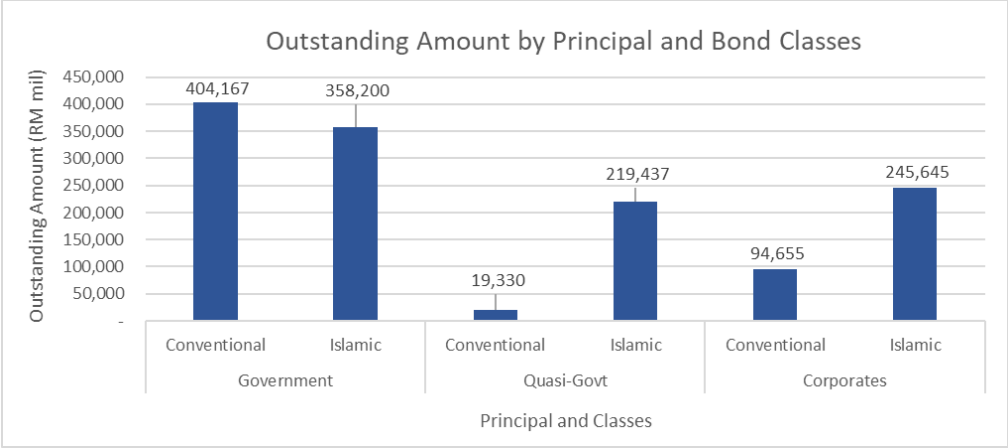


Outstanding Amount by Principal and Bond Classes

As of June 2019, the government has issued more conventional bonds than Islamic bond. The outstanding amount of conventional bonds issued by the government is at RM404.0 billion and Islamic bonds at RM358.0 billion. For corporates and quasi-government bonds, Islamic bonds have more issuance than conventional bonds.

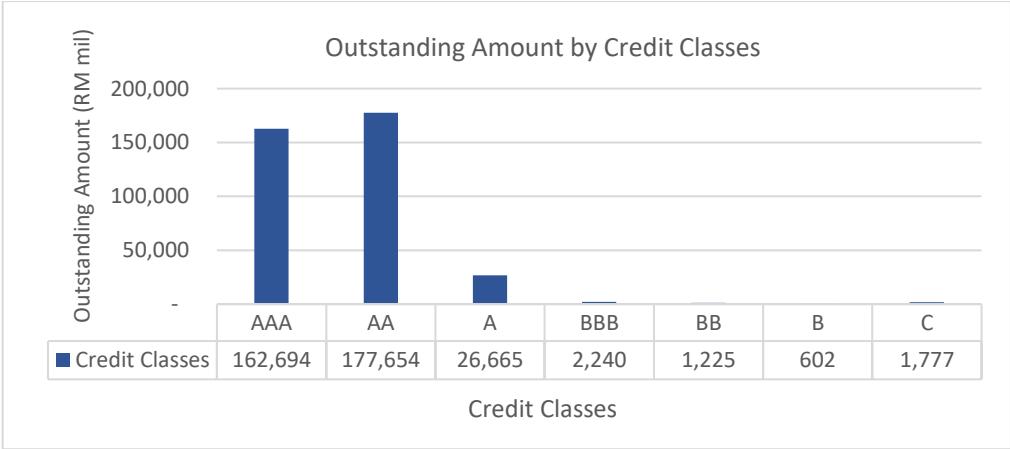
BOND STATISTICS

Overview



Outstanding Amount by Credit Classes

As of June 2019, investment-grade bond has more issuance with AA rating top the list at RM177.0 billion, followed by AAA rating at RM162.0 billion.



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