

ABF MALAYSIA BOND INDEX FUND

MONTHLY REVIEW

**For the month of
December 2020**

By



AmInvest

AmFunds Management Berhad (154432-A)
(A member of AMMB Holdings Berhad)

- Investment Banking
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A. BOND MARKET OVERVIEW

Market Review & Outlook

In the last month of 2020, Malaysian bond markets recovered from previous month's selloff with thinner trading volume, against the backdrop of year-end festive season and investors picking up value from steepened yield curves.

Early in the month, Fitch's downgrade of Malaysia sovereign rating, by 1 notch to BBB+/Stable from A-/Negative, caused knee-jerk selling across domestic fixed income and equity markets in the early trading session of the first trading day post-downgrade. However, the markets swiftly recovered in the trading days that followed. While there continued to be intermittent profit-taking activity during the month, overall the government bond markets ended the month on positive note.

Month-on-month, the MGS/GII curves flattened with yields drifting down 6-36 bps across the curves, largely regaining the lost ground from the November sell-off. On average, the 15-year to 30-year segment of the curves saw yields lower by about 30 basis points, as traders and investors were picking up value from the very steep yield curves. The month of December recorded trading volume of RM40b, compared to RM49b for November and the average monthly volume of RM84b for 2020. The only government bond auction in the month, the re-opening of 10-year GII benchmark with RM4.5b issuance size, garnered bid-to-cover (BTC) ratio of 2.619x, a marked improvement from previous 5 auctions where BTC all recorded at below 2.0x.

The strength in MGS/GII market was partially attributable to BNM's announcement of the 2021 auction calendar as well. While the number of auctions in 2021 will be higher at 37 (compared to 34 in 2020), the increase will be in 3-year and 5-year issuances, thus easing supply concern on the longer end of the MGS/GII curves. Out of the 37 auctions, 35 will be re-opening of existing MGS/GII bonds, reflecting BNM's on-going effort to improve liquidity in local government bonds market.

Along with quieter market activity in the MGS/GII market, primary corporate bond issuances also slowed to RM8.5b in December, from RM16.5b in November. Following the slew issuances taking advantage of low interest rates during 2020, existing pipeline has also turned quieter towards end of the year. Nevertheless, we expect the pipeline to get busy again as the new year unfolds, as policy rate is expected to remain accommodative to support economic recovery; and potentially improved investment appetite for corporate bonds for yield pickup and recovery plays. During the month, credit spreads in the AAA and AA rating segments widened 5-30 basis points, mainly as a result of relative stability in corporate bond yields while the MGS/GII market saw declining government bond yields.

Foreign fund flows data released during the month showed net inflows of RM1.8b into the MGS market in November, marking the 7th consecutive month of net foreign buying. As at end-November, foreign holdings of total outstanding MGS and GII stood at 24.6% (end-October: 24.5%). As the USD continued its weakening trend against Emerging Market currencies, USDMYR ended the month at 4.02 (end November: 4.07). The latest CPI data release showed that deflation worsened in November with CPI reading of -1.7% YoY (Consensus: -1.5%; October: -1.5%), justifying BNM's current loose policy stance and even room for further monetary easing.

2021 will be another year of accommodative Central Bank monetary policy as the economic fallout of the COVID-19 pandemic continues. The availability and rollout of COVID-19 vaccine to the general population will take time and any meaningful recovery is likely to be only in the later part of the year.

We expect BNM to maintain the OPR at its present level of 1.75% unless there is a significant deterioration in economic outlook. Bond yields would therefore trade range bound in the near term until the Central Bank signals a change in its assessment of the economy.

There will be continued concerns on the larger supply of government bonds in 2021 but this will be largely mitigated by the steepness in yield curve. Long-term investors such as pension funds and insurance companies will be attracted by the higher yields offered by the longer end of the yield curve which would keep yields supported.

B. PORTFOLIO ACTIVITY REVIEW

For the end of December 2020, there are no inclusions and one exclusions in the ABF Malaysia Index.

The portfolio had 96.51% of sovereign bonds, 4.48% of quasi-sovereign bonds and -0.99% in cash (The -ve number is due to dividend distribution payable). As of 30 December 2020, the portfolio held 69 bonds versus the benchmark universe of 125 bonds.

The details of the exclusions:

Maturity Date	Issuer	ISIN Code	Outstanding Amount
30/11/2021	Malaysia Government Bond	MYBMJ1600042	10,000,000,000

C. PERFORMANCE EVALUATION REVIEW

As of 31 December 2020	Modified Duration (years)	Weighted Market Yield (%)	Total Return (Net) for the Month of December 2020
Benchmark	7.01	2.68	1.46%
Actual Portfolio	6.87	2.66	1.41%

The top 10 holdings of the portfolio as of 31 December 2020 are as shown below:

Maturity Date	Issuer	ISIN Code	Nominal Value	Market Value
15/08/2029	Malaysia Government Bond	MYBMO1900020	40,000,000	44,406,556.83
27/05/2039	1MDB	MYBVZ0902446	35,000,000	43,974,759.94
15/06/2028	Malaysia Government Bond	MYBMS1300057	40,000,000	43,412,473.36
30/11/2034	Malaysia Government Investment Issue	MYBGT1900062	35,000,000	38,089,393.96
30/08/2033	Malaysia Government Investment Issue	MYBGX1300687	30,000,000	34,636,935.33
30/09/2022	Malaysia Government Bond	MYBML1500024	32,500,000	33,878,361.29
30/06/2031	Malaysia Government Bond	MYBMX1100044	30,000,000	33,802,773.18
30/09/2030	Malaysia Government Investment Issue	MYBGT1500037	30,000,000	33,719,104.25
31/10/2028	Malaysia Government Investment Issue	MYBGO1800024	30,000,000	33,654,279.53
16/11/2027	Malaysia Government Bond	MYBMO1700040	30,000,000	32,942,898.91

The tracking error based on gross return for the last 3 years (31 December 2017 – 31 December 2020) of the Fund was 13.77 basis points while the tracking error based on net return was 13.92 basis points.

Net asset value of the portfolio stood at RM 1,627,415,555.30 as at end of December 2020.