

Global Markets Research

Fixed Income

Fixed Income Daily Market Snapshot

Chang Wai Ming

Fixed Income Strategist

Hong Leong Bank Berhad, Global Markets

Fixed Income & Economic Research

WMChang@hlbb.hongleong.com.my

(603) 2773 0532

US Treasuries

- UST yields eased lower after Yellen's testimony suggested somewhat of a dovish tone. Yellen comments seem uncertain about core inflation, sending bond yields to shaved lower across the curve. 10-year yields ended 4 bps tighter to close at 2.32% level. On timing of tapering, Yellen hinted that balance sheet reduction is expected to start this year. On the data front, retail sales this week will again reaffirm if growth optimism is gradually moving into a stronger momentum.

MGS/GII

- Local govies ended mixed with short-end MGS yields eased lower. Total MGS/GII transacted worth RM1.36b with trades generally spread out albeit on thinner volume. MGS 3/22 saw RM197m dealt with levels ending at 3.76%. We expect BNM to maintain OPR unchanged. Inflation is expected to moderate lower in the 2H2017 and remains somewhat cost push for now. All eyes on June CPI. Tomorrow tender for the 30-year GII reopening will be a key watch for market players as well. Benign tender size of only RM2b.

PDS/Sukuk

- In the corporate bonds and sukuk space, trading remained thin. We saw PTP '9/20 traded at 4.05% with RM30m changing hands. Other notable trades include TBEI '9/30 and '3/31 with levels crossed at 5.04% and 5.07% level. UEM Sunrise '6/21 and '5/23 seen changing hands at 4.69% and 4.81% level respectively.

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	1.35	-2
5-yr UST	1.88	-4
10-yr UST	2.32	-4
30-yr UST	2.89	-3

MGS		GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.41	-1	3.61	0
5-yr	3.76	-3	3.84	0
7-yr	3.95	0	4.08	2
10-yr	3.97	1	4.11	0
15-yr	4.50	0	4.60	2
20-yr	4.61	0	4.70	0
30-yr	4.82	2	4.88	0

M YR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.51	0
3-yr	3.66	-1
5-yr	3.79	-1
7-yr	3.89	-1
10-yr	4.04	-2

Source: Bloomberg

Upcoming Government Bond Tenders

Reopening of 30-year GII, tender size : RM2b (Tender : Friday)

Daily Trades : Government Bonds

Securities		Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS	09/17	3.062	31	3.218	11/07/2017	-16
MGS	10/17	3.038	100	3.092	10/07/2017	-5
MGS	02/18	3.159	30	3.164	11/07/2017	-1
MGS	03/18	3.175	1	3.160	11/07/2017	1
MGS	09/18	3.322	21	3.322	11/07/2017	0
MGS	03/19	3.414	14	3.422	11/07/2017	-1
MGS	07/19	3.484	80	3.564	11/07/2017	-8
MGS	10/19	3.561	0	3.538	10/07/2017	2
MGS	11/19	3.557	1	3.539	10/07/2017	2
MGS	03/20	3.647	50	3.607	10/07/2017	4
MGS	07/21	3.807	12	3.820	11/07/2017	-1
MGS	09/21	3.847	11	3.847	11/07/2017	0
MGS	11/21	3.815	1	3.817	11/07/2017	0
MGS	03/22	3.758	197	3.787	11/07/2017	-3
MGS	08/22	3.854	2	3.887	11/07/2017	-3
MGS	09/22	3.901	1	3.858	10/07/2017	4
MGS	03/23	3.956	1	3.824	06/07/2017	13
MGS	08/23	4.061	1	4.042	11/07/2017	2
MGS	07/24	4.098	65	4.090	11/07/2017	1
MGS	09/24	3.951	100	3.946	11/07/2017	0
MGS	09/25	4.142	101	4.117	11/07/2017	3
MGS	04/26	4.151	22	4.131	10/07/2017	2
MGS	11/26	4.081	28	4.094	11/07/2017	-1
MGS	03/27	4.241	1	4.112	29/06/2017	13
MGS	11/27	3.970	2	3.958	11/07/2017	1
MGS	06/28	4.450	25	4.451	03/07/2017	0
MGS	04/30	4.513	54	4.492	11/07/2017	2
MGS	06/31	4.549	42	4.504	10/07/2017	5
MGS	05/35	4.652	0	4.609	10/07/2017	4
MGS	09/43	4.853	23	4.786	07/07/2017	7
MGS	03/46	4.820	19	4.797	10/07/2017	2
GII	08/19	3.582	30	3.558	11/07/2017	2
GII	04/20	3.609	60	3.613	11/07/2017	0
GII	06/20	3.754	40	3.859	13/04/2017	-11
GII	08/20	3.781	70	3.750	10/07/2017	3
GII	05/24	4.122	76	4.056	06/07/2017	7
GII	08/24	4.077	36	4.061	10/07/2017	2
GII	07/27	4.108	3	4.111	11/07/2017	0
GII	08/33	4.599	11	4.504	30/06/2017	10
			<u>1362</u>			

Daily Trades: PDS / Sukuk

Securities		Rating	Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)	Spread Against IRS**
Pelabuhan Tanjung Pelepas Sdn Berhad	09/20	GG	4.054	30	3.711	20/07/2016	34	40
LPPSA	04/32	GG	4.901	5	4.869	07/07/2017	3	70
Rantau Abang Capital Berhad	08/19	AAA	4.054	10	4.025	06/07/2017	3	48
Projek Lebuhraya Usahasama Berhad	01/26	AAA	4.429	5	4.439	06/06/2017	-1	51
Malayan Banking Berhad	01/19	AA1	4.722	0	4.679	06/07/2017	4	115
Sabah Credit Corporation	06/23	AA1	4.788	3	4.729	01/06/2017	6	96
Malaysia Airport Holdings Berhad	12/24	AA2	5.231	3	5.232	11/07/2017	0	136
Jimah Energy Ventures Sdn Berhad	11/17	AA3	4.050	2	4.579	30/11/2016	-53	55
BGSM Management Sdn Berhad	12/18	AA3	4.328	10	4.342	07/07/2017	-1	82
Bumitama Agri Ltd	03/19	AA3	4.532	10	4.498	16/06/2017	3	96
RHB Islamic Bank Berhad	04/22	AA3	4.841	2	-	-	-	107
Tanjung Bin Energy Issuer Berhad	09/30	AA3	5.038	10	4.774	07/11/2016	26	84
Tanjung Bin Energy Issuer Berhad	03/31	AA3	5.072	10	5.094	16/11/2016	-2	87
Malakoff Power Berhad	12/20	AA-	4.578	10	4.517	21/04/2017	6	93
UEM Sunrise Berhad	06/21	AA-	4.687	10	4.687	11/07/2017	0	98
UEM Sunrise Berhad	05/23	AA-	4.808	20	4.809	11/07/2017	0	98
Mah Sing	-	NR	6.501	4	-	-	-	-
				<u>144</u>				

*spread against nearest indicative tenured IRS (Source : BPAM)

Market/Corporate News: What's Brewing

The U.S. economy is healthy enough for the Fed to raise rates and begin winding down its massive bond portfolio, though low inflation and a low neutral rate may leave the central bank with diminished leeway, Fed Chair Janet Yellen said on Wednesday. In what may be one of her last appearances before Congress, Yellen depicted an economy that, while growing slowly, continued to add jobs, benefited from steady household consumption and a recent jump in business investment, and was now being supported by stronger economic conditions abroad. The Fed "continues to expect that the evolution of the economy will warrant gradual increases in the federal funds rate over time," Yellen said in her prepared testimony. Reductions in the Fed's portfolio of more than \$4 trillion in securities are likely to begin "this year," she said. But she also noted that given current estimates, the federal funds rate "would not have to rise all that much further" to reach a neutral level that neither encourages nor discourages economic activity. The Fed still feels the economy needs loose, or accommodative, monetary policy, so a lower neutral rate means the Fed may feel compelled to slow the pace of rate hikes down the road. But for now, Yellen told members of the House Committee on Financial Services, the economy remains strong enough for the Fed to continue to gradually tighten policy. In response to questions from lawmakers, she said she expects the gradual run down of the balance sheet will "play out smoothly" in markets. The reduction in the balance sheet, which will begin slowly as the Fed reinvests only a portion of the holdings that mature each month, will mark the final exit from crisis-related policies. Yellen's past appearances before the House panel have sometimes involved sharp exchanges with lawmakers who think the Fed's influence over the economy has grown too strong. Such lawmakers want policymakers to be guided more closely by a mathematical rule for setting interest rates. This session was a more sedate meeting, with Committee Chair Jeb Hensarling, an advocate "rules-based" monetary policy, complimenting the Fed for including comparisons of its monetary policy with some of the more common formulas. Her appearance, coming as the Trump administration mulls whether to replace her when her term ends in February, broke little new ground in terms of policy or regulatory changes. "We have a relatively light regulatory agenda at this point," Yellen said. She confirmed the Fed was reviewing some of the requirements imposed on bank boards of directors following the financial crisis, with any eye toward possibly easing some of them. She also repeated the Fed's strong opposition to proposals that policymakers worry could give elected officials influence over what are supposed to be independent Fed interest rate decisions. According to her testimony the economy is on an even keel, near or beyond full employment. U.S. stocks rose, while yields on Treasury bonds fell and the dollar was little changed against a basket of currencies. In a separate release, the Fed's latest beige book of reports from regional Fed banks showed "slight to moderate" economic growth across the country. A recent dip in inflation has been of concern among Fed officials who want to see surer progress toward the central bank's 2 percent inflation goal. Yellen, however, ascribed it to "a few unusual reductions in certain categories of prices" that would eventually drop out of the calculation. The current situation "raises the stakes" for upcoming inflation data, said Jim Vogel, interest rate strategist for FTN Financial in Memphis, Tennessee. "People are going to be very anxious if that was just a statistical glitch...or if it is going to continue." Otherwise, Yellen said, the economy appeared to be in a virtuous loop of hiring, spending and investment that "should increase resource utilization somewhat further, thereby fostering a stronger pace of wage and price increases."- (Source : The Star)

Rating Actions

Issuer	PDS Description	Rating/Outlook	Action
Nil			

Source: MARC and RAM ratings

Hong Leong Bank Berhad

Fixed Income & Economic Research, Global Markets

Level 6, Wisma Hong Leong

18, Jalan Perak

50450 Kuala Lumpur

Tel: 603-2773 0469

Fax: 603-2164 9305

Email: HLMarkets@hbb.hongleong.com.my

DISCLAIMER

This report is for information purposes only and does not take into account the investment objectives, financial situation or particular needs of any particular recipient. The information contained herein does not constitute the provision of investment advice and is not intended as an offer or solicitation with respect to the purchase or sale of any of the financial instruments mentioned in this report and will not form the basis or a part of any contract or commitment whatsoever.

The information contained in this publication is derived from data obtained from sources believed by Hong Leong Bank Berhad ("HLBB") to be reliable and in good faith, but no warranties or guarantees, representations are made by HLBB with regard to the accuracy, completeness or suitability of the data. Any opinions expressed reflect the current judgment of the authors of the report and do not necessarily represent the opinion of HLBB or any of the companies within the Hong Leong Bank Group ("HLB Group"). The opinions reflected herein may change without notice and the opinions do not necessarily correspond to the opinions of HLBB. HLBB does not have an obligation to amend, modify or update this report or to otherwise notify a reader or recipient thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

HLB Group, their directors, employees and representatives do not have any responsibility or liability to any person or recipient (whether by reason of negligence, negligent misstatement or otherwise) arising from any statement, opinion or information, expressed or implied, arising out of, contained in or derived from or omission from the reports or matter. HLBB may, to the extent permitted by law, buy, sell or hold significantly long or short positions; act as investment and/or commercial bankers; be represented on the board of the issuers; and/or engage in 'market making' of securities mentioned herein. The past performance of financial instruments is not indicative of future results. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Any projections or forecasts mentioned in this report may not be achieved due to multiple risk factors including without limitation market volatility, sector volatility, corporate actions, the unavailability of complete and accurate information. No assurance can be given that any opinion described herein would yield favorable investment results. Recipients who are not market professional or institutional investor customer of HLBB should seek the advice of their independent financial advisor prior to taking any investment decision based on the recommendations in this report.

HLBB may provide hyperlinks to websites of entities mentioned in this report, however the inclusion of a link does not imply that HLBB endorses, recommends or approves any material on the linked page or accessible from it. Such linked websites are accessed entirely at your own risk. HLBB does not accept responsibility whatsoever for any such material, nor for consequences of its use.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. This report is for the use of the addressees only and may not be redistributed, reproduced or passed on to any other person or published, in part or in whole, for any purpose, without the prior, written consent of HLBB. The manner of distributing this report may be restricted by law or regulation in certain countries. Persons into whose possession this report may come are required to inform themselves about and to observe such restrictions. By accepting this report, a recipient hereof agrees to be bound by the foregoing limitations.