

Global Markets Research

Fixed Income

Fixed Income Daily Market Snapshot

US Treasuries

- US Treasuries tanked on Tuesday by 2-5bps across most tenures premised on a hawkish Fed going forward. The 10Y notched to 2.42%; a new high since March whilst the Treasury 2Y auction reported a weaker BTC of 2.74x closing at 1.596%. The 5s30s edged back to 89bps. The Fed Funds Futures is currently implying a probability of a December Fed rate hike sat 84%. Advanced PMI data showed that growth in manufacturing and services accelerated dampening sentiment in UST's as well.

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	1.60	2
5-yr UST	2.05	5
10-yr UST	2.42	5
30-yr UST	2.93	5

MGS		GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.48	1	3.53	1
5-yr	3.70	2	3.86	1
7-yr	3.96	0	4.01	0
10-yr	3.96	0	4.12	0
15-yr	4.41	2	4.64	0
20-yr	4.51	0	4.79	0
30-yr	4.81	0	4.85	0

*Market indicative levels

M YR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.52	0
3-yr	3.65	-1
5-yr	3.80	0
7-yr	3.93	0
10-yr	4.05	1

Source: Bloomberg

MGS/GII

- Local govies also took the cue from UST's and were seen settling 0-2 bps higher across most tenures despite news on inflows into Malaysian bonds from the Korean peninsula. Volume was lower at RM1.9b versus RM2.79b the previous day. Interest was seen on the short-end i.e. 17-19's namely by both inter-bank and foreign investors. Worthy of note are the benchmarks i.e. the 7Y MGS 9/24 and 10Y benchmark MGS 11/27 which were unchanged at 3.96% respectively. The 5Y MYR Interest Rate Swaps continue to notch another 2bps higher from yesterday's close to 3.82% at the time of writing. Attention will be focused on tomorrow's auction (re-opening) of the 30Y benchmark MGS 3/46.

Upcoming Government Bond Tenders

Re-opening of 30Y MGS 3/46 on Thursday, 26th

October

PDS/Sukuk

- Corporate Bonds (GG papers included) volume almost halved to RM312m. However GG papers PTPTN 8/32; GOVCO 2/18, and 2/32 were traded closing mixed i.e. -2 to +2 bps from last done levels at 4.84%, 3.33% and 4.85% respectively. Only a handful of investors were seen nibbling into 7-10Y Infrastructure-related papers such as AAA-rated Telekom, TNB, PLUS and also AA-rated papers like TBEI and JEP. All eyes will be focused on the upcoming Malaysian 2018 Budget to be unveiled this Friday.

Daily Trades : Government Bonds

Securities	Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS 10/17	2.989	193	3.055	20/10/2017	-7
MGS 02/18	3.048	300	3.063	23/10/2017	-2
MGS 03/18	3.013	300	3.072	23/10/2017	-6
MGS 09/18	3.069	151	3.081	23/10/2017	-1
MGS 03/19	3.163	35	3.201	23/10/2017	-4
MGS 07/19	3.314	10	3.296	19/10/2017	2
MGS 11/19	3.834	1	3.355	23/10/2017	48
MGS 02/21	3.479	35	3.472	23/10/2017	1
MGS 07/21	3.608	0	3.609	23/10/2017	0
MGS 09/21	3.634	5	3.635	23/10/2017	0
MGS 11/21	3.699	49	3.659	23/10/2017	4
MGS 03/22	3.701	160	3.682	23/10/2017	2
MGS 08/22	3.808	40	3.703	23/10/2017	11
MGS 09/22	3.750	3	3.768	23/10/2017	-2
MGS 03/23	3.834	0	3.842	23/10/2017	-1
MGS 07/24	3.936	3	3.916	23/10/2017	2
MGS 09/24	3.967	72	3.959	23/10/2017	1
MGS 09/25	4.014	3	4.014	19/10/2017	0
MGS 11/26	4.045	9	4.059	23/10/2017	-1
MGS 03/27	4.131	2	4.099	23/10/2017	3
MGS 04/30	4.435	5	4.388	20/10/2017	5
MGS 04/33	4.410	1	4.387	23/10/2017	2
GII 04/19	3.353	100	3.350	19/10/2017	0
GII 08/19	3.417	9	3.373	19/10/2017	4
GII 04/20	3.533	40	3.520	23/10/2017	1
GII 04/20	3.539	120	3.490	13/10/2017	5
GII 08/21	3.798	2	3.793	23/10/2017	0
GII 04/22	3.862	70	3.850	23/10/2017	1
GII 09/26	4.260	157	4.260	23/10/2017	0
GII 10/35	4.732	24	4.677	10/10/2017	6
		<u>1900</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*	
GovCo Holdings Berhad	02/18	GG	3.330	15	3.321	23/10/2017	1	-20
Prasarana Malaysia Berhad [fka Syarikat Prasarana]	02/31	GG	4.740	5	4.750	16/06/2017	-1	49
GovCo Holdings Berhad	02/32	GG	4.852	10	4.871	23/10/2017	-2	60
Perbadanan Tabung Pendidikan Tinggi Nasional	08/32	GG	4.842	125	4.826	27/09/2017	2	59
Al Dzahab Assets Berhad	09/19	AAA	4.550	2	4.513	16/02/2017	4	95
Al-Aqar Capital Sdn Berhad	05/20	AAA	3.841	12	4.431	07/06/2017	-59	19
Al Dzahab Assets Berhad	09/21	AAA	4.650	5	4.720	09/01/2017	-7	91
Telekom Malaysia Berhad	10/24	AAA	4.319	10	4.323	23/10/2017	0	38
Telekom Malaysia Berhad	12/24	AAA	4.324	5	4.329	23/10/2017	0	38
Tenaga Nasional Berhad	08/32	AAA	4.675	1	4.675	23/10/2017	0	43
TNB Western Energy Berhad	07/26	AAA	4.578	10	4.550	20/10/2017	3	60
Danga Capital Berhad	09/27	AAA	4.621	6	4.598	17/10/2017	2	55
Projek Lebuhraya Usahasama Berhad	01/36	AAA	5.059	10	5.040	17/10/2017	2	81
Malayan Banking Berhad	01/24	AA1	4.670	1	4.377	19/10/2017	29	80
YTL Power International Berhad	05/27	AA1	4.878	10	5.774	20/10/2017	-90	81
UniTapah Sdn Berhad	12/30	AA1	4.949	4	4.949	08/09/2017	0	70
CIMB Bank Berhad	09/23	AA+	4.595	1	4.200	28/09/2017	40	73
UMW Holdings Berhad	10/21	AA2	4.607	10	4.611	29/09/2017	0	86
UMW Holdings Berhad	10/26	AA2	4.947	10	4.948	11/10/2017	0	97
Al Dzahab Assets Berhad	09/25	AA3	5.839	30	5.996	11/09/2017	-16	186
Tanjung Bin Energy Issuer Berhad	03/28	AA3	4.856	5	4.848	27/09/2017	1	79
Jimah East Power Sdn Berhad	12/24	AA-	4.668	10	4.678	23/08/2017	-1	73
Affin Bank Berhad	02/27	A1	4.891	10	4.885	17/10/2017	1	82
CIMB Group Holdings Berhad	05/16	A1	4.817	2	4.818	17/10/2017	0	57
Golden Assets International Finance Limited	11/17	A1	4.758	4	4.794	16/10/2017	-4	123
				<u>312</u>				

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

Market/Corporate News: What's Brewing

Sunway Berhad is also buying out the Employees Provident Fund Board's (EPF) 20% stake in the Sunway South Quay project in Bandar Sunway, Selangor, after signing a similar agreement to buy Kuwait Finance House (M) Bhd's (KFH) 20% stake earlier this month. Sunway South Quay Sdn Bhd (SSQ), the project developer owned by Sunway Bhd's indirect unit Sunway Lagoon Sdn Bhd (SLSB), will end up as SLSB's wholly-owned subsidiary after the two purchases are completed. In a filing with Bursa Malaysia, Sunway said SLSB had entered into an agreement with the EPF to acquire the fund's entire 50,000 shares in SSQ on Tuesday. Like the agreement with KFH, SLSB is buying the EPF's 20% stake for RM136.65mil and repay, on SSQ's behalf, RM73.35mil to settle the fund's musyarakah capital investment in SSQ. Sunway said SLSB's acquisitions of KFH's and EPF's stakes in SSQ were both expected to be completed by Dec 15 or other dates agreed on by the parties involved. "With SSQ as a wholly-owned subsidiary, SLSB will have full ownership of the development and its developable landbank, and will have control over the timing of future launches and product mix to maximise the benefits to Sunway from the future development of Sunway South Quay," it said. "The proposed acquisitions will also contribute to the profitability of the group as SSQ is already a profitable ongoing concern. (Source: The Star Online)

Malaysian bond inflows is set to depend on whether Prime Minister Datuk Seri Najib Razak will be able to shrink the fiscal deficit while appealing to voters in an expected election budget. Najib will be able to count on higher revenue from a consumption tax and a recovery in crude prices, giving him room to commit to a balanced budget that would spur Malaysia's bonds to outperform, according to Investec Asset Management Ltd. Aberdeen Standard Investments said it remains cautious. The first net foreign inflows into local bonds in four months comes amid speculation Najib will call an election as soon as this year to take advantage of an improving economy, although polls aren't due until August 2018. The turnaround in inflows comes as money managers are starting to become more cautious about emerging markets due to signs of policy tightening in the US and Europe. "The case for ringgit assets is fairly constructive," said Wilfred Wee, a fund manager in Singapore at Investec Asset Management Ltd, which oversaw US\$132 billion at the end of September. "The hope or expectation is that the commitment to a balanced budget plan remains intact. If we see this translated into action, as in a significantly narrower 2018 deficit target than this year's, there is room for Malaysian government bonds to outperform." Najib presents the 2018 federal budget on Friday with state coffers being boosted by crude oil prices, which climbed to a two-year high of US\$59.49 per barrel last month. National oil company Petroliam Nasional Bhd, the single largest contributor to state income, increased its dividend payout by more than a fifth in August to RM16 billion (US\$3.8 billion). Collections from the goods and services tax increased 17% in the first half to RM19.3 billion, helped by rising private consumption, HSBC Holdings Plc economists Joseph Incalcaterra and Noelan Arbis wrote in a report last week. With the tax accounting for about 22% of revenue, higher earnings will enable Najib to announce a budget deficit of 2.8% of gross domestic product for 2018, versus an expected 3% for this year, they said. Optimism over an improving economic outlook saw global funds plow almost RM8 billion into Malaysian bonds in September. Even with those purchases, holdings have still fallen RM14.8 billion this year. Aberdeen, which oversees the equivalent of US\$770 billion worldwide, is cautious on Malaysian debt and the ringgit, citing the impact of rising US interest rates and the Federal Reserve's decision to unwind its balance sheet. There's limited room for the government to unveil an expansionary budget as it seeks to further narrow the deficit, said Lee Jin Yang, a macro research analyst at the money manager in Singapore. "Prime Minister Najib will try his best to balance out these conflicting needs in an attempt to cement his position," he said. "Hence it is likely to be more redistributive rather than aggressively expansionary — an attempt largely centered around allaying cost-of-living concerns." Aberdeen will be "more comfortable adding risk" should valuations get more attractive before the election, he said. Aviva Investors favors Malaysian assets, saying the ringgit "screams as being the cheapest" among 26 currencies it tracks. The central bank's measures constraining the amount of foreign currency proceeds exporters can hold have also boosted

sentiment toward the ringgit, the money manager said. “The incumbent government will win the election,” said Stuart Ritson, Singapore-based head of Asian rates and foreign exchange at Aviva Investors, which oversees more than US\$437 billion. “Foreigners are beginning to come back to the market.” (Source: The EdgeMarkets)

Rating Actions			
Issuer	PDS Description	Rating/Outlook	Action
Bank Pembangunan	Financial Institution (FI) rating	AAA	Affirmed
	Islamic/Conventional Commercial Papers (CP) Programme of up to RM2.0 billion	MARC-1-IS/MARC-1	Affirmed

Source: RAM Ratings; MARC

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