

Global Markets Research

Fixed Income

Fixed Income Daily Market Snapshot

US Treasuries

- US Treasuries pared losses as real money was seen stepping in as the 5s30s curve steepened gradually from multi-year lows of about 84bps. Yields were up between 1-2bps across most tenures with the UST 10Y benchmark closing at 2.43%. The 5Y auction which raised \$34b was somewhat soft as yields ended at 2.058% with BTC 2.44x; within expectations and levels seen during the past five auctions. We have a slew of data out tonight eg Initial Jobless Claims (survey expectations at 225k versus prior 222k) and Pending Home Sales.

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	1.60	0
5-yr UST	2.05	0
10-yr UST	2.43	1
30-yr UST	2.94	1

MGS		GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.50	2	3.54	1
5-yr	3.72	2	3.89	2
7-yr	3.99	2	4.10	9
10-yr	3.95	-1	4.19	8
15-yr	4.45	4	4.66	3
20-yr	4.51	0	4.79	0
30-yr	4.81	0	4.85	0

* Market indicative levels

MYR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.53	0
3-yr	3.66	1
5-yr	3.81	1
7-yr	3.93	1
10-yr	4.05	1

Source: Bloomberg

MGS/GII

- Local govies however were generally weaker as yields edged 2-4bps higher across most tenures with decent volume of RM2.66b. The much-watched 7Y and 10Y benchmark saw a rare occurrence of an inversion; settling 3.99% and 3.95% respectively. The shorter-end off-the-run govies saw interest whilst chalking higher gains price-wise. The 7Y and 10Y GII benchmarks however did not reflect true market levels as trades notched were odd-lots. We expect a quiet trading session today ahead of the re-opening tender for the 30Y benchmark MGS 3/46 this morning. Attention will also be focused on the annual Malaysian Budget 2018 to be unveiled tomorrow.

Upcoming Government Bond Tenders

Re-opening of 30Y MGS 3/46 today (26th October)

PDS/Sukuk

- Corporate Bonds (GG papers included) volume was at RM420m with almost half of trades done on GG papers. Prasa 3/19, PTPTN 8/23 and JKSB 5/25 closed mixed at 3.68%, 4.28% and 4.38% respectively. Cagamas 5Y IMTN was issued at 4.23% with a total of RM840 million issued as opposed to secondary Cagamas 4/22 and 7/24 trades notching 0-3bps higher at 4.12% and 4.53% respectively. Most of the papers traded were 2-10Y tenures with investors possibly reducing duration at this juncture. UMW 6/22 closed 2bps higher at 4.69%. Attention as mentioned will be on sectors of the economy most likely to benefit from the unveiling of the Budget tomorrow.

Daily Trades : Government Bonds

Securities		Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS	10/17	2.990	76	3.055	20/10/2017	-6
MGS	02/18	3.019	661	3.063	23/10/2017	-4
MGS	03/18	3.069	91	3.072	23/10/2017	0
MGS	09/18	3.036	108	3.081	23/10/2017	-4
MGS	03/19	3.188	5	3.201	23/10/2017	-1
MGS	07/19	3.311	27	3.296	19/10/2017	2
MGS	10/19	3.328	1	3.338	23/10/2017	-1
MGS	11/19	3.364	1	3.355	23/10/2017	1
MGS	10/20	3.501	80	3.402	20/10/2017	10
MGS	02/21	3.498	139	3.472	23/10/2017	3
MGS	09/21	3.675	5	3.635	23/10/2017	4
MGS	03/22	3.721	328	3.682	23/10/2017	4
MGS	08/22	3.820	14	3.703	23/10/2017	12
MGS	09/22	3.828	122	3.768	23/10/2017	6
MGS	03/23	3.926	60	3.842	23/10/2017	8
MGS	08/23	3.965	39	3.857	23/10/2017	11
MGS	09/24	3.992	361	3.959	23/10/2017	3
MGS	07/25	4.054	20	3.997	07/09/2017	6
MGS	09/25	4.074	60	4.014	19/10/2017	6
MGS	04/26	4.127	2	4.093	23/10/2017	3
MGS	11/26	4.082	6	4.059	23/10/2017	2
MGS	11/27	3.950	1	3.960	23/10/2017	-1
MGS	04/30	4.435	3	4.388	20/10/2017	5
MGS	06/31	4.479	60	4.379	17/10/2017	10
MGS	04/33	4.452	8	4.387	23/10/2017	7
GII	04/19	3.318	200	3.350	19/10/2017	-3
GII	04/22	3.886	12	3.850	23/10/2017	4
GII	07/22	3.900	1	3.859	26/09/2017	4
GII	05/24	4.128	10	4.085	17/10/2017	4
GII	08/24	4.095	140	4.010	20/10/2017	9
GII	09/26	4.327	10	4.260	23/10/2017	7
GII	07/27	4.194	5	4.119	20/10/2017	8
GII	08/33	4.660	1	4.635	17/10/2017	3
			<u>2657</u>			

Daily Trades: PDS / Sukuk

Securities		Rating	Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)	Spread Against MGS*
Prasarana Malaysia Berhad [fka Syarikat Prasarana	03/19	GG	3.683	35	3.717	20/09/2017	-3	60
Perbadanan Tabung Pendidikan Tinggi Nasional	08/23	GG	4.275	60	4.280	16/08/2017	0	42
PR1MA Corporation Malaysia	10/24	GG	4.360	10	4.320	19/10/2017	4	37
Jambatan Kedua Sdn Berhad	05/25	GG	4.379	70	4.208	24/02/2017	17	37
Pengurusan Air SPV Berhad	09/25	GG	4.379	30	4.340	20/09/2017	4	37
Perbadanan Tabung Pendidikan Tinggi Nasional	03/32	GG	4.852	25	4.840	23/10/2017	1	43
Cagamas Berhad	10/18	AAA	3.689	10	3.643	20/10/2017	5	61
Cagamas Berhad	04/22	AAA	4.120	10	4.115	19/10/2017	0	40
Purple Boulevard Berhad	05/24	AAA	4.511	20	4.520	09/10/2017	-1	52
Cagamas Berhad	07/24	AAA	4.351	20	4.319	29/09/2017	3	36
Tenaga Nasional Berhad	08/32	AAA	4.675	11	4.675	23/10/2017	0	26
Danga Capital Berhad	04/20	AAA	4.091	10	4.089	19/10/2017	0	80
Danga Capital Berhad	09/27	AAA	4.698	15	4.598	17/10/2017	10	69
Encorp Systembilt Sdn Berhad	05/24	AA1	4.535	10	4.569	06/04/2016	-3	55
UMW Holdings Berhad	06/22	AA2	4.688	30	4.663	09/10/2017	2	97
BGSM Management Sdn Berhad	03/26	AA3	4.906	20	4.898	10/10/2017	1	90
RHB Islamic Bank Berhad	04/27	AA3	4.838	10	4.835	13/10/2017	0	83
Malakoff Power Berhad	12/19	AA-	4.399	10	4.365	19/10/2017	3	111
MMC Corporation Berhad	04/27	AA-	5.369	10	5.364	10/10/2017	0	136
Tan Chong Motor Holdings Berhad	11/19	A1	5.910	3	5.904	20/10/2017	1	-
CIMB Group Holdings Berhad	05/16	A1	4.817	1	4.818	17/10/2017	0	21
				<u>420</u>				

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

Market/Corporate News: What's Brewing

The Government is expected to exercise financial discipline even though **the coming budget, which will be unveiled tomorrow**, is the last one before the next general election. Economists said Prime Minister Datuk Seri Najib Tun Razak was expected to target a lower federal government budget deficit compared with 3% this year. "The overall debt levels are also expected to be lower, considering that there is a cautious outlook on the global economy and oil prices are still soft," said an economist. Towards this end, the International Monetary Fund (IMF) recently said in its report that while the global economy was expected to see marginal growth in 2018, the recovery was not complete. It said that growth remains weak in many countries and inflation is below target in most advanced countries. Commodity exporters, especially fuel, continue to be hard hit by the adjustments to the low oil prices. The economist said that Malaysia, however, was able to count on higher collections from oil and the Goods and Services Tax (GST) to help it fund its development and operating expenditure. "The higher collections should enable the Prime Minister to continue development spending at the current pace and yet maintain fiscal discipline," said another economist. The Government is looking at achieving a near balanced budget by 2020 compared to the negative 3% this year. However, of late economists have said that achieving anywhere near the balanced budget figure will not likely be achieved in the next five years. "Nevertheless if the deficit is lower than previous years, it is something that will earn Najib points for exercising restraint in unveiling a responsible budget," said a tax consultant. The tax consultant said foreigners could be encouraged if the general debt levels were lower. Meanwhile, Bloomberg reported that the Malaysian bond market will see improved sentiments if the intention to reduce the budget deficit is put into action. "The case for ringgit assets is fairly constructive," said Wilfred Wee, a fund manager in Singapore at Investec Asset Management Ltd, which oversaw US\$132bil 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." Optimism over an improving economic outlook saw global funds flow almost RM8bil into Malaysian bonds in September. Even with those purchases, holdings have still fallen RM14.8bil this year. Aberdeen, which oversees the equivalent of US\$770bil 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," he said. "Hence it is likely to be more redistributive rather than aggressively expansionary." Aberdeen will be "more comfortable adding risk" should valuations get more attractive before the election, he said. Aviva Investors favours 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 towards 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\$437bil. "Foreigners are beginning to come back to the market." (Source: The Star Online)

Foreign investors piling into Malaysia are counting on PM Datuk Seri Najib Razak being able to shrink the fiscal deficit to help keep bond yields down. While the country's local debt is still vulnerable to rising Treasury yields, investors can at least hope that fiscal discipline and a trade surplus will help MYR 10-year notes outperform. In the second half of 2016, when 10-year US yields rose by 121 bps, MYR's climbed by 97. With absolute yields around 4% and the ringgit showing low volatility, the total return for MYR investors could be decent enough to justify a place within an Asian bond portfolio. (Source: The EdgeMarkets)

Rating Actions			
Issuer	PDS Description	Rating/Outlook	Action
Sarawak Power Generation Sdn Bhd	RM215 million Serial Sukuk Musharakah (2006/2021)	AA2(s)/Stable	Reaffirmed
Mukah Power Generation Sdn Bhd	RM665 million Senior Sukuk Mudharabah Programme (2006/2021)	AA2(s)/Stable	Reaffirmed

Source: RAM Ratings; MARC

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