HongLeong Bank

# Global Markets Research

# Fixed Income

## Fixed Income Daily Market Snapshot

| UST | | |
|---|---|---|
| Tenure | Closing (%) | Chg (bps) |
| 2-yr UST | 1.75 | 0 |
| 5-yr UST | 2.06 | -2 |
| 10-yr UST | 2.33 | -1 |
| 30-yr UST | 2.77 | 0 |

| | MGS | | GII* | |
|---|---|---|---|---|
| Tenure | Closing (%) | Chg (bps) | Closing (%) | Chg (bps) |
| 3-yr | 3.39 | 2 | 3.45 | 0 |
| 5-yr | 3.64 | 3 | 3.83 | -1 |
| 7-yr | 3.89 | 2 | 4.09 | 0 |
| 10-yr | 3.94 | 3 | 4.26 | 3 |
| 15-yr | 4.49 | 2 | 4.71 | 0 |
| 20-yr | 4.64 | 4 | 4.79 | 0 |
| 30-yr | 4.87 | 0 | 4.97 | -2 |

** Market indicative levels*

| MYR IRS Levels | | |
|---|---|---|
| IRS | Closing (%) | Chg (bps) |
| 1-yr | 3.64 | 0 |
| 3-yr | 3.73 | 0 |
| 5-yr | 3.82 | 1 |
| 7-yr | 3.93 | 0 |
| 10-yr | 4.05 | 0 |

*Source : Bloomberg*

### *Upcoming Government Bond Tenders*

*5Y reopening of RM3.0bn MGII 4/22 on 28-Nov (today)*

### US Treasuries

- US Treasuries traded mixed with the 5Y and the much-watched 10Y 1-2 bps lower closing at 2.06% and 2.33% respectively whereas the front-end and 30Y closed unchanged. The 5Y notes auction saw better demand averaging 2.066% amid slight improvement in BTC of 2.96x. A potential increase in supply of T-Bills going forward is expected to be well-received due to the growth of money-market funds. Powell's statements on rising interest rate as the balance sheet gradually shrinks were being digested along with his solemn promise of nurturing maximum employment and price stability. On the data front we have slew of economic data out this week including the quarterly GDP figures out tomorrow.

### MGS/GII

- Trading in local govvies skidded to a mere RM1.28b as investors and inter-bank players were sidelined on Monday in the absence of directional clues. Yields were largely unchanged across most tenures with the benchmark 7Y MGS closing at 3.89% and MGS 11/27 closing at 3.94%; ending the anomaly of similar or inversion of rates seen of late. The front-end 18's continued to see interest with yields closing 2.40-2.428% levels. Attention for today will be focused on the reopening of 5Y GII 4/22, where its tender size of RM3.0bn is within our expectations.

### PDS/Sukuk

- Contrary to local govvies, volume picked up for corporate bonds. Out of a total RM546m trades; the AAA-space saw interest reignited with TENAGA 8/37 and PLUS 1/31 closing higher at 5.18% and 4.92% respectively compared to previous-done levels. In the AA sector we saw SEB 7/24 and GAMUDA 11/22 closed 0-6 bps higher at 4.56% and 4.80%.We expect to see interest in both AAA and AA-space as investors look for both yield and liquidity.

### Daily Trades : Government Bonds

| Securities | | Closing YTM | Vol (RM mil) | Previous YTM | Previous Trade Date (dd/mm/yyyy) | Chg (bp) |
|---|---|---|---|---|---|---|
| MGS | 02/18 | 2.428 | 70 | 2.412 | 43063 | 2 |
| MGS | 09/18 | 2.400 | 203 | 2.444 | 43063 | -4 |
| MGS | 10/19 | 3.274 | 5 | 3.168 | 43063 | 11 |
| MGS | 11/19 | 3.182 | 40 | 3.211 | 43063 | -3 |
| MGS | 07/20 | 3.335 | 1 | 3.358 | 43061 | -2 |
| MGS | 02/21 | 3.390 | 40 | 3.374 | 43063 | 2 |
| MGS | 09/21 | 3.640 | 161 | 3.661 | 43063 | -2 |
| MGS | 11/21 | 3.647 | 20 | 3.674 | 43063 | -3 |
| MGS | 03/22 | 3.639 | 1 | 3.607 | 43063 | 3 |
| MGS | 09/22 | 3.806 | 33 | 3.794 | 43063 | 1 |
| MGS | 09/24 | 3.890 | 21 | 3.874 | 43062 | 2 |
| MGS | 09/25 | 4.113 | 170 | 4.144 | 43063 | -3 |
| MGS | 04/26 | 4.184 | 3 | 4.199 | 43063 | -1 |
| MGS | 04/30 | 4.529 | 57 | 4.503 | 43063 | 3 |
| MGS | 06/31 | 4.521 | 50 | 4.504 | 43061 | 2 |
| MGS | 04/33 | 4.488 | 30 | 4.574 | 43063 | -9 |
| MGS | 04/37 | 4.643 | 30 | 4.608 | 43063 | 4 |
| GII | 05/18 | 3.002 | 57 | 3.029 | 43061 | -3 |
| GII | 11/18 | 2.992 | 112 | 3.168 | 43056 | -18 |
| GII | 04/19 | 3.107 | 83 | 3.248 | 43035 | -14 |
| GII | 05/20 | 3.490 | 1 | 3.648 | 43060 | -16 |
| GII | 04/22 | 3.832 | 20 | 3.835 | 43063 | 0 |
| GII | 11/22 | 3.923 | 1 | 3.989 | 43059 | -7 |
| GII | 09/26 | 4.289 | 0 | 4.357 | 43052 | -7 |
| GII | 07/27 | 4.264 | 71 | 4.238 | 43062 | 3 |
| | | | 1279 | | | |

### Daily Trades: PDS / Sukuk

| Securities | | Rating | Closing YTM | Vol (RM mil) | Previous YTM | Previous Trade Date (dd/mm/yyyy) | Chg (bp) | Spread Against MGS* |
|---|---|---|---|---|---|---|---|---|
| Cagamas Berhad | 08/18 | AAA | 3.650 | 20 | 3.824 | 28/06/2017 | -17 | 100 |
| Cagamas Berhad | 12/18 | AAA | 3.699 | 10 | 3.732 | 21/11/2017 | -3 | 105 |
| Tenaga Nasional Berhad | 08/37 | AAA | 5.179 | 141 | 5.170 | 22/11/2017 | 1 | 54 |
| Projek Lebuhraya Usahasama Berhad | 01/31 | AAA | 4.919 | 10 | 4.788 | 28/09/2017 | 13 | 43 |
| Public Bank Berhad | 09/23 | AA1 | 4.330 | 25 | 4.704 | 24/11/2017 | -37 | 52 |
| Malayan Banking Berhad | 01/24 | AA1 | 4.653 | 1 | 4.618 | 22/11/2017 | 3 | 84 |
| Hong Leong Bank Berhad | 06/24 | AA1 | 4.968 | 1 | 4.484 | 19/10/2017 | 48 | 106 |
| Sarawak Energy Berhad | 07/24 | AA1 | 4.556 | 20 | 4.499 | 05/09/2017 | 6 | 65 |
| CIMB Bank Berhad | 08/26 | AA+ | 4.716 | 10 | 5.501 | 10/11/2017 | -79 | 76 |
| CIMB Bank Berhad | 11/27 | AA | 4.900 | 30 | - | - | - | - |
| Jimah Energy Ventures Sdn Berhad | 11/19 | AA3 | 4.267 | 3 | 4.245 | 20/10/2017 | 2 | 107 |
| Gamuda Berhad | 11/22 | AA3 | 4.800 | 75 | 0.000 | - | - | - |
| BGSM Management Sdn Berhad | 12/23 | AA3 | 4.707 | 1 | 4.709 | 23/11/2017 | 0 | 89 |
| RHB Bank Berhad | 07/24 | AA3 | 4.563 | 10 | 4.496 | 03/11/2017 | 7 | 66 |
| RHB Bank Berhad | 04/25 | AA3 | 4.591 | 30 | 4.596 | 13/11/2017 | 0 | 69 |
| Malakoff Power Berhad | 12/18 | AA- | 4.185 | 1 | 4.204 | 10/11/2017 | -2 | 154 |
| WCT Holdings Berhad | 05/22 | AA- | 5.119 | 20 | 5.152 | 21/11/2017 | -3 | 157 |
| Jimah East Power Sdn Berhad | 06/26 | AA- | 4.746 | 1 | 4.753 | 23/11/2017 | -1 | 79 |
| Southern Power Generation Sdn Berhad | 10/26 | AA- | 4.958 | 20 | - | - | - | - |
| Malakoff Power Berhad | 12/29 | AA- | 4.990 | 1 | 4.962 | 13/10/2017 | 3 | 104 |
| Tan Chong Motor Holdings Berhad | 11/19 | A1 | 5.838 | 1 | 5.910 | 25/10/2017 | -7 | 264 |
| Affin Bank Berhad | 09/27 | A1 | 4.782 | 1 | 4.876 | 23/11/2017 | -9 | 83 |
| Projek Lintasan Sungai Besi-Ulu Klang Sdn Bhd | 11/27 | A+ | 6.633 | 115 | - | - | - | - |
| | | | | 546 | | | | |

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

### Market/Corporate News: What's Brewing

**Moody's Investors Service expects a material decline in property prices in Malaysia** in the event of a protracted period of supply overhang as market valuation adjusts. In its credit outlook issued on Monday, it pointed out that in such a scenario, the quality of housing loans with high loan-to-value (LTV) ratios are most at risk. "We understand from our rated banks in Malaysia that 20%-30% of mortgages booked each year have LTV ratios of 90% or higher at the time of origination. "Furthermore, we believe that suspending new property development will not correct the oversupply situation over the next five years, when property projects now in development enter the market," it said. To recap, on Nov 20, Second Finance Minister Johari Abdul Ghani was quoted saying the government had since Nov 1, frozen approvals of luxury property developments indefinitely and temporarily halted the development of shopping malls, commercial complexes and condominiums priced above RM1mil to address oversupply in the property market. The following day, Works Minister Datuk Fadillah Yusof said the freeze would be applied on a case-by-case basis. The freeze followed Bank Negara Malaysia's report earlier this month that suggests the oversupply in Malaysia's property market is worsening. Moody's noted the volume of Malaysia's unsold and vacant properties has risen substantially over the past three years and is likely to increase, raising the risk of a material decline in property prices that would diminish bank asset quality. "These developments are credit negative for Malaysian banks," it said. BNM had pointed out earlier the banking system's total loan exposures to property segments with acute oversupply (that is, commercial property and high-end high-rise residential) account for 8% of total bank lending, and the impaired loan ratios for the segments are low at 1.1%-1.2%. Moody's pointed out that suspending new property development would not correct the oversupply situation over the next five years, when property projects now in development enter the market. Much of the new supply is in Malaysia's key states, where supply-demand imbalances in various segments of the property market, including residential housing, commercial office and retail shopping complex, have occurred since 2015. These states include Kuala Lumpur, Penang and Johor, which the central bank has warned will likely have the largest property market imbalances in the country. Johor has the largest share of unsold residential units in Malaysia (27%), followed by Selangor (21%), Kuala Lumpur (14%) and Penang (8%). According to BNM, the large volume of unsold properties reflects that the majority of newly completed properties were priced above RM250,000 (the barometer for affordable housing in Malaysia) and do not cater to households' demand for affordable new housing. In the commercial office segment, vacancy rates have risen steadily since 2015. BNM estimates that office vacancy rates could rise to 32% by 2021, from 24% in first-quarter 2017, considering the large development projects such as Tun Razak Exchange and Bukit Bintang City Centre in Kuala Lumpur that are underway. In the retail shopping complex segment, total retail space per capita has increased sharply in key Malaysian states over the years, and now surpasses regional markets such as Hong Kong and Shanghai. The large incoming supply of retail space will exacerbate the oversupply situation and raise the vacancy rates across Kuala Lumpur, Penang and Johor from current levels of 13%-30%. "Other than the recent government measure targeted to limit new property developments, it remains unclear what additional measures the Malaysian authorities would take to ensure the existing excess supply in various property segments and new supply entering the market can be effectively deployed and utilised. "In our view, the increasing oversupply and the prospects of a material property price correction will continue to build as new supply enters the market and poses a risk to Malaysian banks' asset quality," it said. (Source: The Edge)

The Johore state assembly today debated that water supply services company, **SAJ Ranhill Sdn Bhd, might supply water to the developer of the Forest City project** in Gelang Patah. Forest City is a 1,386 hectare mixed development project, which includes a smart city on man-made islands along the Johor Straits. Datuk Tengku Putra Haron Aminurrashid Tengku Haamid Jumat (BN-Kempas) said such a move would be against the state's government's decision that the developer source its own water supply for the project. "I understand that the state government has conveyed this decision to the developer. Forest City has to draw water from a desalination process or through other mechanisms deemed fit. "This will allow the state government to accord priority to domestic households," he said, adding that rumours were rife that Forest City would obtain water supply from SAJ Ranhill. “If there is truth in the rumour, then this just goes to show the developer's irresponsible attitude and total disregard for the state's government's clear directive to source its own water supply,” he said in the Johore state assembly here today. He also said Johoreans should not suffer at the expense of the developer's profit-oriented motive which could spark a water crisis in the state. Tengku Putra Haron revealed that the Forest City project, when completed, required more than 600 million cubic meters of water, daily, which was almost equal to Johor Bahru and Pasir Gudang's daily water supply. Based on the high demand for water supply, he was concerned that SAJ Ranhill Sdn Bhd may compromise on domestic household supply. "I am worried that this can create a very serious water crisis if the issue is not delved into deeply,” he added. Tengku Putra Haron Aminurrashid also urged the state government to take control of SAJ Ranhill Sdn Bhd via a mandatory takeover for fear that it may fall into the hands of a foreign party. He suggested that the state government, which had cash reserves close to RM4 billion, acquire SAJ Ranhill Sdn Bhd from its majority shareholder, Ranhill Holdings Bhd. "It's possible that the major shareholder may sell SAJ Ranhill Sdn Bhd to a foreign party. If that happens, we will lose control of not only our water industry but our national sovereign asset,” he pointed out. Tengku Putra suggested that the state government make a bid for the water supply company and if it is rejected, it should then make a mandatory takeover of SAJ Ranhill Sdn Bhd under the Water Services Industry Act 2006.- Bernama. (Source: The Star Online)

**Rating Actions**

| Issuer | PDS Description | Rating/Outlook | Action |
|---|---|---|---|
| Hong Leong Assurance Berhad (HLA) | RM500 million Subordinated Notes Programme (2013/2025) | AA2/Stable/P1 | Reaffirmed |

*Source: RAM Ratings; MARC*

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