

Global Markets Research

Fixed Income

Fixed Income Daily Market Snapshot

US Treasuries

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	1.59	-3
5-yr UST	2.03	-5
10-yr UST	2.41	-6
30-yr UST	2.92	-5

MGS		GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.50	0	3.51	-2
5-yr	3.78	0	3.89	0
7-yr	4.03	3	4.12	2
10-yr	4.05	5	4.19	0
15-yr	4.41	0	4.67	1
20-yr	4.70	13	4.79	0
30-yr	4.98	2	4.85	0

*Market indicative levels

MYR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.53	0
3-yr	3.67	2
5-yr	3.80	0
7-yr	3.95	3
10-yr	4.08	3

Source: Bloomberg

- US Treasuries rallied by 3-6bps across most tenures as Trump’s pick for the Fed chair saw higher odds of a Powell “win”. The 10Y benchmark closed 6bps lower at 2.41%; having reached a session high of 2.47%. The Fed is expected to boost the upcoming auctions in Nov by \$2b for the 2Y and another \$1b each for the 10Y and 30Y issuances against its portfolio run-off. We foresee further volatility on the back of a torrent of market moving data prints this week ranging from Fed Chair nominee, FOMC interest rate decision, Tax Bill and the latest readings on the job-market.

MGS/GII

- Volume remained healthy at RM3.1b for both MGS & GII despite the potential impact of the Malaysian 2018 Budget with yields generally seen higher by 2-5 bps across most tenures save for the 15Y MGS 4/37 where yields adjusted upwards by 13bps at 4.70% to reflect the realistic discount to the 30Y benchmark. Investors were seen digesting the “Rakyat-friendly” Budget which also unveiled emphasis on fiscal discipline. Interests continued to be skewed towards the short-end off-the-run govies i.e. both the MGS and GII 17-18’s as they settled generally 3-5bps lower compared to previously-done levels at between 3.00-3.14% levels. Both the 7Y and 10Y benchmark MGS 9/27 and 11/27 closed higher at above 4.00% levels. Upcoming data to watch are trade numbers due on 3rd Nov.

Upcoming Government Bond Tenders

Nil

PDS/Sukuk

- Corporate Bonds (GG papers included) volume was maintained at RM256m with yields of GG papers i.e. 10Y DANA and LPPSA 27 done higher at 4.50% levels. Interest remained in the AA-space with UMW 21-26 and BGSM seeing combined trades of RM80m, closing mixed at 4.63-4.98% levels. East Power 12/24 closed 2-3 bps higher at 4.31% and 4.70% respectively. We anticipate a quieter week as investors evaluate credits and yield-offerings following the announcement of the Budget last Friday.

Daily Trades : Government Bonds

Securities		Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS	10/17	3.260	286	2.898	26/10/2017	36
MGS	02/18	2.982	1035	3.024	26/10/2017	-4
MGS	03/18	2.999	275	3.001	26/10/2017	0
MGS	09/18	3.061	7	3.100	26/10/2017	-4
MGS	03/19	3.187	9	3.243	26/10/2017	-6
MGS	07/19	3.343	18	3.311	25/10/2017	3
MGS	10/19	3.362	2	3.260	26/10/2017	10
MGS	03/20	3.461	50	3.439	26/10/2017	2
MGS	03/22	3.756	18	3.719	26/10/2017	4
MGS	09/22	3.907	2	3.815	26/10/2017	9
MGS	03/23	3.969	1	3.916	26/10/2017	5
MGS	07/24	4.043	34	4.000	26/10/2017	4
MGS	09/24	4.025	258	4.000	26/10/2017	3
MGS	09/25	4.120	83	4.074	26/10/2017	5
MGS	11/26	4.139	77	4.082	25/10/2017	6
MGS	11/27	4.045	28	3.996	26/10/2017	5
MGS	04/30	4.493	10	4.471	26/10/2017	2
MGS	06/31	4.449	30	4.501	26/10/2017	-5
MGS	04/37	4.695	42	4.566	26/10/2017	13
MGS	09/43	4.977	91	4.954	25/10/2017	2
MGS	03/46	4.984	54	4.989	26/10/2017	0
GII	11/17	3.000	70	3.046	10/10/2017	-5
GII	08/18	3.142	200	3.169	26/10/2017	-3
GII	04/19	3.248	313	3.318	25/10/2017	-7
GII	04/20	3.508	72	3.533	24/10/2017	-2
GII	08/20	3.636	20	3.574	23/10/2017	6
GII	08/24	4.116	5	4.095	25/10/2017	2
GII	09/26	4.340	6	4.315	26/10/2017	2
GII	08/33	4.672	3	4.660	25/10/2017	1
GII	10/35	4.828	3	4.732	24/10/2017	10
			<u>3100</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*
DanaInfra Nasional Berhad	03/27	GG	4.498	40	4.370	22/06/2017	13	43
Lembaga Pembiayaan Perumahan Sektor Awam	04/27	GG	4.500	30	4.439	07/09/2017	6	44
Ara Bintang Berhad	03/21	AAA	4.518	10	4.153	24/08/2017	37	101
Tenaga Nasional Berhad	08/32	AAA	4.675	1	4.675	26/10/2017	0	20
Sepangar Bay Power Corporation Sdn Berhad	07/18	AA1	3.898	5	3.918	26/10/2017	-2	82
Malaysia Building Society Berhad	12/20	AA1	4.631	10	4.691	24/08/2017	-6	112
Malayan Banking Berhad	01/24	AA1	4.802	1	4.670	24/10/2017	13	91
Lafarge Cement Sdn Berhad	01/18	AA2	3.815	10	3.883	26/10/2017	-7	74
Konsortium ProHAWK Sdn Berhad	06/18	AA2	3.980	5	4.006	26/10/2017	-3	91
UMW Holdings Berhad	10/21	AA2	4.628	20	4.607	24/10/2017	2	99
UMW Holdings Berhad	10/23	AA2	4.769	10	4.753	17/10/2017	2	88
UMW Holdings Berhad	10/26	AA2	4.976	30	4.947	24/10/2017	3	91
Perbadanan Kemajuan Negeri Selangor	05/20	AA3	4.686	3	4.686	28/09/2017	0	118
BGSM Management Sdn Berhad	08/25	AA3	4.817	20	4.843	20/10/2017	-3	77
Southern Power Generation	10/35	AA3	5.610	5	-	-	-	-
Quantum Solar Park (Semenanjung) Sdn Berhad	10/19	AA-	4.688	5	4.695	26/10/2017	-1	139
Jimah East Power Sdn Berhad	06/21	AA-	4.404	1	4.413	17/08/2017	-1	77
Northport (Malaysia) Berhad	12/24	AA-	5.024	15	4.978	26/09/2017	5	100
MMC Corporation Berhad	11/25	AA-	5.288	5	5.282	10/10/2017	1	124
Konsortium Lebuhraya Utara-Timur (KL) Sdn Bert	12/25	AA-	4.692	5	4.691	16/10/2017	0	64
CIMB Islamic Bank Berhad	09/24	AA+	4.352	1	5.151	17/10/2017	-80	32
Westports Malaysia Sdn Berhad	10/25	AA+	4.615	5	4.598	31/05/2017	2	57
Country Garden Real Estate Sdn Berhad	12/17	AA3	5.093	15	5.191	26/10/2017	-10	202
West Coast Expressway Sdn Berhad	08/30	AAA	4.950	5	4.952	26/10/2017	0	48
				<u>256</u>				

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

Market/Corporate News: What's Brewing

Several measures from **Budget 2018 are expected to boost the property sector**, which has seen slow sales in the last few years. Besides adding more numbers to the list of affordable housing under the different agencies, for the first time in 60 years, the Government has proposed a 50% tax exemption on rental income not exceeding RM2,000 per month from the 2018 to 2020 assessment. The Government has proposed the Residential Rental Act. The proposed legislation and the rental tax exemption are significant. They underscore the division of the residential property sector into three areas, namely home ownership, residential investment and the speculative market. Home ownership is highly-valued in Asia, said property consultancy group Khong & Jaafar group managing director Elvin Fernandez. "Home ownership takes precedence over many economic and social issues unlike Western democracies," said Fernandez. "It is not a case of because you cannot afford to buy a house therefore, you rent it," he said. Singapore has forwarded this concept of home ownership during the tenure of its Prime Minister the late Lee Kuan Yew and today the city-state has a home ownership rate of about 90%, according to the Singapore statistics department. The HDB housing makes up the bulk of the market, at 80%, the remaining 20% are private housing. The association of valuers, property managers, estate agents and property consultants in the private sector, Malaysia budget committee chairman James Wong said there is the concept of house-owning democracy and Malaysia is one of them. "The proposed Act will promote the growth of the rental market compared with home ownership," said Wong. The second significant measure is the proposed extension of the financing scheme introduced by PR1MA to private sector developers, subject to certain criteria. The extension of this scheme underscores the Government's encouragement of having more affordable homes being constructed. The objective of this PR1MA scheme was to help buyers who have financing issues by using some of their contribution under the Employers Provident Fund. When this scheme was introduced in October 2016, private developers wanted to be included. Their rationale was they too were mandated by the Government to build affordable homes. Mah Sing group, who prides itself as Malaysia's leading developer for affordable housing, was euphoric. The private developer held three simultaneous previews of three projects located in the Klang Valley, Penang island and Johor. Mah Sing's group managing director Tan Sri Leong Hoy Kum said buyers have showed interest on an average of 95% on all the projects by placing an earnest deposit. Leong said judging from the response, the budget has "revived sentiments and confidence in the market." Prices begin from less than RM350,000 for M Centura in the Klang Valley and M Vista@ Southbay, Penang. Both are high-rise residential projects while Fern in Meridin East, Johor are landed units with prices starting from slightly more than RM400,000. "We also would like to applaud the Government's commitment in enhancing education by providing higher allocation in Budget 2018 for the education sector as well as approving the construction of 10 more schools in Johor and Selangor. In fact, one of the schools, SJK (C) Sim Mow Yu will be built in our Meridin East township," Leong said. The third measure aimed to open up property ownership among the civil service. Under this proposal, the Public Sector Home Financing Board (Lembaga Pembiayaan Perumahan Sektor Awam) which is under the Finance Ministry, is allowed to finance properties constructed on waqf or land donated for Islamic religious or charitable, benevolent purposes. The budget also allowed the Public Sector Home Financing Board to "have joint-loan for husband and wife or child with a condition that all applicants must be public servants." The board also "allows joint-home financing between husband and wife or child, with a condition at least one of the applicants is a public servant." "The non-public servant needs to secure loans from the financial institutions or agencies that provide financing facilities who agree to be the second mortgage holder," according to the budget. CBRE|WTW director Heng Kiang Hai said the measures proposed under the Public Sector Housing Board would help to boost home ownership among the civil service extensively. "This will effectively lower the barrier and/or increase the loan amount eligibility of civil servants, thereby making affordable a higher range of houses for this group," Heng said. CBRE|WTW managing director Foo Gee Jen said the move would help the young people in the civil service because they can now depend on their father or mother to have a joint loan. As for the party who is not in the civil service, the question is which commercial bank will agree to be the second mortgage holder. The commercial bank may

impose a higher rate of interest to commensurate the risk, according to Foo. (Source: The Star Online)

Perusahaan Otomobil Kedua Sdn Bhd (Perodua) is maintaining its 2017 sales target of 202,000 vehicles that was set earlier this year despite an increasingly challenging market, hopeful that the possible launch of a new model in the final quarter (4Q17) will boost sales. The country's largest carmaker by volume sold 151,000 units in the first nine months of this year, up 0.5% from 150,600 in the same period last year. Sales in 3Q17, however, were down 3% year-on-year (y-o-y) to 51,900. Perodua president and chief executive officer Datuk Aminar Rashid Salleh said the fall in 3Q17 sales volume was because 3Q16 benefited from a surge in sales of the newly introduced Perodua model Bezza on July 21, 2016. Sales of the model have since normalised. "4Q17 is expected to be challenging but we believe that we can sustain our sales momentum and are cautiously optimistic about meeting our sales target for the year due to new initiatives planned for the final quarter, including the possible launch of a new car," Aminar told reporters here ahead of the 45th Tokyo Motor Show that kicked off last weekend. He was tight-lipped on the details of Perodua's upcoming model, saying that an announcement would be made in due course. Nevertheless, the expectation within the industry is that the new model will be an improved version of its popular Myvi. MIDF Research, in a report on the automotive industry on Oct 19, made reference to Perodua's upcoming model as the new Myvi. "We think Perodua is being impacted by customers' wait-and-see in anticipation of the new Myvi within the next two months," it said, pointing to how the industry reported a 15% y-o-y drop in sales in September to 40,981 units, with Perodua as the largest carmaker accounting for 39% of the decline. Aminar said booking and registration for Perodua vehicles this month had been a little slow as potential buyers adopted a wait-and-see attitude ahead of the tabling of the national 2018 budget last Friday. Perodua's sales target of 202,000 for this year is lower than the 207,100 vehicles it sold last year and the record 213,307 vehicles it sold in 2015. The carmaker said the industry continues to face challenges in the form of more stringent hire-purchase loan approvals by financial institutions and intense competition from rival brands. "Approvals for hire-purchase loans continue to be a big challenge for us because the majority of our customers — about 85% to 90% — rely on loans to buy cars. While bookings for our vehicles are still relatively good, the conversion rate from booking to registration is less than 50%. The conversion rate used to be in the 60% to 70% [range] before, and now it's only 48% on average," Aminar said. He went on to say that it would help if banks showed flexibility in approving loans that carmakers think have merits for the lenders' consideration. "We understand and respect the policies and guidelines of lending institutions ... they have to look at household debt and so on. Our request is that perhaps there should be some flexibility on their part ... perhaps relook at the conditions and so on," he remarked. For the first nine months of 2017, all of Perodua's models were the bestsellers in their respective categories. The Axia took the lead with 48,700 units sold, followed by the Myvi with 42,000 units, and the Bezza and Alza with 39,800 and 21,400 units respectively. On Perodua's aftersales performance, Aminar said the number of vehicles patronising Perodua service centres increased by 4.6% to 1.58 million. As for production, Perodua manufactured 147,900 vehicles, 3.8% less than a year ago. He said the reduction was planned as some of the vehicle stock was produced in 4Q16 in response to the expected higher exchange rate in 1Q17. (Source: The EdgeMarkets)

Rating Actions

Issuer	PDS Description	Rating/Outlook	Action
Nil	Nil	Nil	Nil

Source: RAM Ratings; MARC

Hong Leong Bank Berhad

Fixed Income & Economic Research, Global Markets

Level 8, Menara Hong Leong

6, Jalan Damanlela

Bukit Damansara

50490 Kuala Lumpur

Tel: 603-2081 1221

Fax: 603-2081 8936

Email: HLMarkets@hlbb.hongleong.com.my**DISCLAIMER**

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