

Global Markets Research

Fixed Income

Fixed Income Daily Market Snapshot

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	2.43	2
5-yr UST	2.70	1
10-yr UST	2.86	0
30-yr UST	3.03	0

MGS		GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.79	4	3.76	3
5-yr	3.84	-7	4.03	-6
7-yr	4.02	-4	4.17	-7
10-yr	4.18	-7	4.31	-3
15-yr	4.61	-7	4.73	-4
20-yr	4.91	-2	4.84	0
30-yr	5.00	6	5.00	0

*Market indicative

M YR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.76	0
3-yr	3.82	-2
5-yr	3.88	-4
7-yr	3.97	-3
10-yr	4.14	-2

Source: Bloomberg

Upcoming Government Bond Tenders

US Treasuries

- US Treasuries held steady as both Canada and EU retaliated against US tariffs on steel and aluminum with overall benchmark yields ending 0-2bps lower across the curve. The 2Y rose 2bps at 2.43% whilst the 10Y was within 1bps at 2.86%. Following the whipsaw reaction on UST's this week against the backdrop of tense political situation in Italy earlier; focus is expected to return back to the upcoming US May labor reports tonight. This may revive the discussion on the number of rate hikes projected for the year. Meanwhile gov't money funds saw huge inflow of ~\$15b for this week as market awaits a slew of data tonight which includes NFP and ISM manufacturing.

MGS/GII

- Trading volume in local Govvies surged to a whopping RM5.68b; yesterday as the gov't announced several measures that will contain the fiscal deficit. Some of these include expenditure cuts, assistance from rising oil prices and further dividend contributions from GLC's in order to maintain the 2.8% deficit. Overall MGS yields ended 2-7bps lower across the curve (save for the odd-lot trades on the ultra-short and long-end bonds) with foreign interest seen returning in droves in both MGS and GII bonds. The benchmark 7Y GII was the star-performer as it rallied 7bps on huge volume; ending at 4.17%. Overall GII volume formed ~40% of overall trades. The benchmark 7Y MGS 3/25 closed 4bps lower at 4.02% whilst the 10Y MGS 6/28 rallied strongly by 7bps to 4.18%. Onshore IRS were also ~0.5-3.5bps lower across.

Corp Bonds/Sukuk

- Corporate Bonds saw improvement in volume of RM290m on higher frequency of trades across the yield curve. The long-end DANA 3/42 and PRASA 9/47 closed 2-4bps higher at 5.22% and 5.28% respectively compared to previous-done levels. In the AAA-space; several odd-lot trades were notched whilst AA-rated CELCOM 10/26 edged 1bps lower at 5.08%. UEM sunrise 5/23 also saw RM50m traded lower on yields at 4.96%. In the banking space MAYBANK 68nc18 also rallied 9bps; ending at 4.21% levels. Expect some appetite to be maintained as gov't announces the fate of major infrastructure projects and potential abolishment of highway tolls.

Daily Trades : Government Bonds

Securities		Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS	09/18	3.286	245	3.344	28/05/2018	-6
MGS	03/19	3.400	9	3.343	28/05/2018	6
MGS	10/19	3.468	97	3.507	25/05/2018	-4
MGS	11/19	3.506	40	3.505	28/05/2018	0
MGS	03/20	3.604	60	3.603	25/05/2018	0
MGS	07/20	3.693	3	3.671	22/05/2018	2
MGS	10/20	3.635	8	3.702	28/05/2018	-7
MGS	02/21	3.754	4	3.811	25/05/2018	-6
MGS	07/21	3.835	18	3.850	25/05/2018	-2
MGS	09/21	3.779	132	3.837	28/05/2018	-6
MGS	11/21	3.789	26	3.749	28/05/2018	4
MGS	03/22	3.892	2	3.915	25/05/2018	-2
MGS	08/22	3.912	128	3.958	28/05/2018	-5
MGS	09/22	3.934	4	3.895	28/05/2018	4
MGS	03/23	4.082	36	4.023	28/05/2018	6
MGS	04/23	3.842	120	3.881	24/05/2018	-4
MGS	08/23	4.003	99	4.067	28/05/2018	-6
MGS	07/24	4.124	66	4.171	28/05/2018	-5
MGS	09/24	4.204	252	4.176	28/05/2018	3
MGS	03/25	4.019	60	4.034	24/05/2018	-1
MGS	07/25	4.200	200	4.026	16/01/2018	17
MGS	09/25	4.342	86	4.309	25/05/2018	3
MGS	04/26	4.290	44	4.346	24/05/2018	-6
MGS	11/26	4.300	136	4.369	25/05/2018	-7
MGS	11/27	4.295	172	4.367	25/05/2018	-7
MGS	06/28	4.178	283	4.245	28/05/2018	-7
MGS	04/30	4.714	79	4.719	28/05/2018	0
MGS	06/31	4.691	291	4.758	28/05/2018	-7
MGS	04/33	4.664	66	4.731	28/05/2018	-7
MGS	11/33	4.610	91	4.656	28/05/2018	-5
MGS	05/35	4.892	237	4.909	23/05/2018	-2
MGS	04/37	4.913	4	4.930	25/05/2018	-2
GII	04/20	3.757	20	3.725	25/05/2018	3
GII	04/20	3.804	20	3.875	14/05/2018	-7
GII	05/20	3.790	50	3.661	12/04/2018	13
GII	08/20	3.703	180	3.727	25/05/2018	-2
GII	04/21	3.839	1	3.841	24/05/2018	0
GII	04/22	3.947	62	3.955	25/05/2018	-1
GII	07/22	3.967	11	3.962	28/05/2018	0
GII	11/23	4.026	610	-	-	-
GII	08/25	4.168	961	4.241	25/05/2018	-7
GII	09/26	4.395	2	4.431	28/05/2018	-4
GII	10/28	4.314	610	4.337	24/05/2018	-2
GII	06/33	4.733	6	4.771	17/05/2018	-4
GII	08/33	4.833	53	4.862	24/05/2018	-3
			<u>5683</u>			

Daily Trades: Corp Bonds / Sukuk

Securities	Rating	Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)	Spread Against MGS*	
Khazanah Nasional Berhad	02/21	GG	4.149	10	4.055	09/03/2018	9	43
Danainfra Nasional Berhad	10/31	GG	4.905	2	4.850	19/04/2018	6	28
Prasarana Malaysia Berhad [fka Syarikat Prasarana Negara Berhad]	12/32	GG	4.968	2	4.830	16/03/2018	14	34
Danainfra Nasional Berhad	03/42	GG	5.218	10	5.180	05/03/2018	4	33
Prasarana Malaysia Berhad [fka Syarikat Prasarana Negara Berhad]	09/47	GG	5.279	10	5.260	25/04/2018	2	39
TNB Northern Energy Berhad	11/23	AAA	4.603	4	4.339	07/06/2017	26	63
Telekom Malaysia Berhad	03/24	AAA	4.529	5	4.620	15/05/2018	-9	55
Bank Pembangunan Malaysia Berhad	11/26	AAA	4.794	4	4.560	17/10/2017	23	69
TNB Northern Energy Berhad	05/28	AAA	4.800	2	4.627	21/06/2017	17	60
Tenaga Nasional Berhad	08/32	AAA	4.972	2	4.949	25/05/2018	2	35
Public Bank Berhad	10/23	AA1	4.319	20	4.311	25/05/2018	1	47
Malayan Banking Berhad	05/24	AA1	4.491	2	4.484	23/05/2018	1	52
UniTapah Sdn Berhad	06/27	AA1	4.824	4	4.740	19/10/2017	8	66
Celcom Networks Sdn Berhad [fka Celcom Transmission (M) Sdn Berhad]	10/26	AA+	5.083	10	5.089	28/05/2018	-1	98
Malayan Banking Berhad	09/68	AA2	4.208	20	4.299	23/05/2018	-9	-69
Bumitama Agri Ltd	03/19	AA3	4.586	10	4.597	08/05/2018	-1	118
Besraya (M) Sdn Berhad	07/19	AA3	4.662	2	4.241	21/09/2017	42	125
AMMB Holdings Berhad	08/19	AA3	4.539	10	4.552	27/04/2018	-1	113
Tanjung Bin Energy Issuer Berhad	09/22	AA3	4.757	4	4.538	17/08/2016	22	95
Hong Leong Assurance Berhad	02/25	AA3	4.879	4	6.008	07/05/2018	-113	86
Malakoff Power Berhad	12/18	AA-	4.378	24	4.371	24/05/2018	1	97
UEM Sunrise Berhad (fka UEM Land Holdings Berhad)	05/23	AA-	4.956	50	4.993	18/05/2018	-4	111
Jimah East Power Sdn Berhad	06/26	AA-	4.949	5	4.952	28/05/2018	0	85
Southern Power Generation Sdn Berhad	04/27	AA-	4.932	10	4.841	29/03/2018	9	77
Jimah East Power Sdn Berhad	12/31	AA-	5.208	2	5.210	28/05/2018	0	58
Lebuhraya DUKE Fasa 3 Sdn Berhad	08/35	AA-	5.399	30	5.369	16/05/2018	3	77
Golden Assets International Finance Limited	08/19	A1	5.095	10	5.091	06/04/2018	0	169
CIMB Group Holdings Berhad	05/16	A1	4.994	1	5.380	24/05/2018	-39	10
UMW Holdings Berhad	04/18	A1	6.048	20	6.078	25/05/2018	-3	116
Mah Sing Perpetual	-	NR	5.619	1	5.624	30/05/2018	0	-
			<u>290</u>					

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

Market/Corporate News: What's Brewing

Canada and Mexico retaliated against the US decision on Thursday to impose tariffs on steel and aluminium imports and the European Union had its own reprisals ready to go, reigniting investor fears of a global trade war. The tariffs, announced by U.S. Commerce Secretary Wilbur Ross in a telephone briefing on Thursday, ended months of uncertainty about potential exemptions and suggested a hardening of the Trump administration's approach to trade negotiations. The measures, touted by President Donald Trump in March, drew condemnation from Republican lawmakers and the country's main business lobbying group and sent a chill through financial markets. A 25 percent tariff on steel imports and 10 percent tariff on aluminium imports will be imposed on the EU, Canada and Mexico from midnight (0400 GMT on Friday), Ross told reporters. "We look forward to continued negotiations, both with Canada and Mexico on the one hand, and with the European Commission on the other hand, because there are other issues that we also need to get resolved," he said. Canada and Mexico, embroiled in talks with the United States to modernize the North American Free Trade Agreement (NAFTA), responded swiftly. Canada, the largest supplier of steel to the United States, will impose tariffs covering C\$16.6 billion (£9.6 billion) on imports from the United States, including whiskey, orange juice, steel, aluminium and other products, Canadian Foreign Minister Chrystia Freeland said. "The American administration has made a decision today that we deplore, and obviously is going to lead to retaliatory measures, as it must," Prime Minister Justin Trudeau said at a news conference with Freeland. Mexico announced what it described as "equivalent" measures on a wide range of U.S. farm and industrial products. The measures, which target pork legs, apples, grapes and cheese as well as steel and other products, will be in place until the U.S. government eliminates its tariffs, Mexico's Economy Ministry said. The EU threatened tariffs on Harley Davidson motorcycles and bourbon, measures aimed at the political bases of U.S. Republican legislators. EU members have given broad support to a European Commission plan to set duties on 2.8 billion euros (£2.4 billion) of U.S. exports if Washington ends tariff exemptions. EU exports potentially subject to U.S. duties are worth 6.4 billion euros. "It's entirely up to U.S. authorities whether they want to enter into a trade conflict with their biggest partner, Europe," France's Finance Minister Bruno Le Maire said after meeting with Ross on Thursday. U.S. Chamber of Commerce President Tom Donohue warned in a letter seen by Reuters to the body's board that current trade policies could threaten "economic progress" and cause the loss of more than 2 million jobs, mostly in states that voted for Trump and Republican candidates. The tariffs are part of Trump's effort to protect U.S. industry and workers from what he described as unfair international competition, a key theme of his "America First" agenda. Temporary exemptions were granted to a number of nations and permanent ones to several countries including Australia, Argentina and South Korea. U.S. trading partners had demanded that the exemptions be extended or made permanent. The tariffs are aimed at allowing the U.S. steel and aluminium industries to increase their capacity utilization rates above 80 percent for the first time in years. The U.S. administration also launched a national security investigation last week into car and truck imports, using the same 1962 law it has applied to curb incoming steel and aluminium. "The Trump administration seems to regard overt threats, including tariffs and repudiation of previous agreements, as a key element for gaining leverage in trade negotiations," said Eswar Prasad, a former head of the International Monetary Fund's China division and now a professor at Cornell University. Prasad warned that the United States was doing so at the cost of alienating key allies and undercutting broad international pressure on China to change its trade and economic practices. Ross himself heads to Beijing on Friday where he will attempt to get firm deals to export more U.S. goods in a bid to cut America's \$375 billion trade deficit with China. The Trump administration has demanded that Beijing make concessions and threatened to punish it for allegedly stealing U.S. technology by imposing tariffs on \$50 billion of imports from China. While China is seen at more risk from a trade war as its exports are larger than its imports from the U.S., the operations of American companies in China make substantial sales there, which could be hit by any turn in sentiment. (Source: Reuters, The Star)

The federal government revenue is expected to fall by RM21 billion with the abolishment of the goods and services tax (GST), said Finance Minister Lim Guan Eng. It also does not help that despite the rise in global oil prices to an average of US\$70 (RM278.60) per barrel, the expected increase in oil-related revenue is estimated at only RM5.4 billion, he added. As such,

Guan Eng told a press conference here yesterday that as an immediate measure, the ministry of finance has identified expenditure savings worth RM10 billion. "The measures are focused on the review of expenditure, including the downsizing, delaying and abolition of overlapping and non-urgent programmes and projects," he added. As part of its reallocation of expenditure priorities, the government will review, defer and renegotiate the projects. This includes the revocation of projects awarded via direct negotiation or a limited tender exercise, such as a RM350 million contract that was awarded to carry out renovation and rehabilitation of the Sultan Abdul Samad Building in Kuala Lumpur. "[We will also look at] non-essential operating expenditure comprising professional and consulting services, refurbishment, events and promotional activities, and selected ICT system upgrading, certain big-ticket budget allocations for mega projects such as the Malaysia-Singapore high-speed rail and MRT (mass rapid transit) Line 3, and other expenditure items like special projects under the Internal Coordination Unit, capital injections into various funds, transfers to the authorities of various development corridors and projects paid for under facilitation funds," he added. He said in the longer term, the government will save billions when these projects are retendered or scrapped altogether. In addition, Guan Eng noted that the government's plans to optimise revenue include the collection of RM5 billion from higher dividends from government-linked companies, such as Khazanah Nasional Bhd, Bank Negara Malaysia and Petroliaam Nasional Bhd. "[We also see] an estimated RM4 billion from the implementation of the [10%] sales and services tax (SST) on Sept 1, 2018. This conservative estimate is due to [the fact] that SST revenue will only be fully realised from November onwards, taking into account the bimonthly tax collection mechanism for local manufacturers. "However, there will be some changes to the SST from what was implemented in 1972. To replace the GST, the Sales Tax Bill 2018 and the Service Tax Bill 2018 will be tabled in Parliament," he added. In the meantime, Guan Eng said the rakyat's cost of living will improve through the zero-rating of the GST, stabilisation of the RON95 petrol price at RM2.20 per litre and diesel at RM2.18, and the disbursement of Hari Raya special assistance to civil servants (Grade 41 and below) and pensioners amounting to RM700 million. "These three measures totalling RM20.7 billion will provide a significant boost to consumer spending, and lead to improved consumer optimism and business profits," he added. Overall, Guan Eng said the estimated impact and mitigation measures will maintain the deficit level at 2.8% as targeted for 2018, but there would be no revision of the gross domestic product growth forecast because the fundamentals of the economy remain strong. "The projected fiscal deficit will increase to RM40.1 billion from RM39.8 billion. In other words, these measures will bring out a net effect of raising our fiscal deficit by RM300 million. This increase will maintain the government's budget deficit at 2.8% of gross domestic product. "In addition, the government's current balance (government revenue less operating expenditure) will also remain positive," he added.. (Source: *The Edge*)

Rating Actions						
Issuer	PDS Description			Rating/Outlook	Action	
Perdana Petroleum Berhad	RM650 million	Sukuk	Murabahah Programme	AAA(FG)	Reaffirmed	
	(2016/2028)					

Source: RAM Ratings; MARC

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