

## Global Markets Research

### Fixed Income

#### Fixed Income Daily Market Snapshot

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	2.87	2
5-yr UST	2.98	2
10-yr UST	3.14	2
30-yr UST	3.39	3

MGS		GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.66	-2	3.74	-4
5-yr	3.79	-4	3.90	-3
7-yr	4.01	-4	4.11	0
10-yr	4.08	-8	4.25	-7
15-yr	4.56	-5	4.59	1
20-yr	4.78	-7	4.78	-4
30-yr	4.95	0	4.96	1

\* Market indicative levels

MYR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.71	0
3-yr	3.78	-1
5-yr	3.89	0
7-yr	3.99	-1
10-yr	4.20	0

Source : Bloomberg

#### Upcoming Government Bond Tender

Nil

#### US Treasuries

- US Treasuries weakened despite lower month-end settlement flows yesterday amid selling of long-end futures seen following strong October ADP employment. Overall benchmark yields ended higher between 2-3bps on steepening-bias of the curve with the benchmark 2Y up again at 2.87% whilst 10Y similarly rose to close at 3.14%. Despite the Treasury's lower expected issuance from \$440b to \$425b in this 4<sup>th</sup> Quarter; total borrowings for 2018 will literally double to \$1.34 trillion from 2017 in order to finance the rising budget deficit due to tax cuts and government spending hikes. The overall rise in auction sizes is also driven by the Fed's decision to allow its Balance Sheet run-off as it winds down stimulus measures adopted years ago. Up next are tonight's release of initial jobless claims, ISM Manufacturing, and Markit Manufacturing PMI numbers.

#### MGS/GII

- Trading momentum in Govvies maintained for the 2<sup>nd</sup> day with volume at RM4.86b yesterday largely due to month-end rebalancing flows and expectations of the inclusion of the new 10Y bond into JPMorgan global indexes. Some interest was seen in the 10Y MGS and GII bonds along with the off-the-run 19's. Overall benchmark yields generally ended lower between 0-7bps with the 5Y MGS 4/23 edging 4bps lower at 3.79% while the 10Y MGS 6/28 closed a whopping 8bps lower at 4.08% levels. GII bond trades dropped to 32% of overall trades compared to 42% prior day. BNM may be expected to leave policy rate unchanged through 2019. Following the lower PMI numbers released this morning; investors will be focused on the tabling of the 2019 Budget tomorrow.

#### Corp Bonds/Sukuk

- Corporate bonds/Sukuk also saw solid yesterday ahead of the 2019 Budget as volume rose to RM514m with investor interest mainly seen in the AAA-AA-part of the curve. A total of 33 different bonds were traded compared to 16 the prior day with overall yields ending generally unchanged-to-lower. In the GG-space, Pelabuhan Tanjung Pelepas (PTP) saw several tranches i.e. 2028-31 tenures make debut trades. The AAA-rated TENAGA 8/33 edged 1bps higher compared to previous-done levels at 4.75%. In the AA-segment; both SEB 7/19 and 8/35 closed 0-1bps higher at 4.06% and 4.95% levels whilst PROHAWK 6/33 and BESRAYA 7/19 closed between -1 and +1bps at 5.00% and 4.41%. The banking sector saw HLF 28NC23 close unchanged at 4.82%.

## Daily Trades : Government Bonds

Securities	Closing	Vol	Previous	Previous	Chg	
	YTM	(RM mil)	YTM	Trade Date (dd/mm/yyyy)	(bp)	
MGS	03/19	3.302	36	3.312	29/10/2018	-1
MGS	07/19	3.372	39	3.384	26/10/2018	-1
MGS	10/19	3.448	708	3.459	29/10/2018	-1
MGS	11/19	3.452	444	3.461	26/10/2018	-1
MGS	03/20	3.476	36	3.483	24/10/2018	-1
MGS	07/20	3.509	1	3.530	26/10/2018	-2
MGS	10/20	3.524	107	3.500	24/10/2018	2
MGS	07/21	3.652	9	3.658	26/10/2018	-1
MGS	09/21	3.677	1	3.668	29/10/2018	1
MGS	11/21	3.665	276	3.695	29/10/2018	-3
MGS	03/22	3.747	10	3.728	29/10/2018	2
MGS	08/22	3.789	38	3.788	26/10/2018	0
MGS	09/22	3.786	35	3.794	29/10/2018	-1
MGS	03/23	3.848	55	3.860	29/10/2018	-1
MGS	04/23	3.786	221	3.843	26/10/2018	-6
MGS	08/23	3.903	34	3.880	26/10/2018	2
MGS	07/24	3.992	13	3.992	26/10/2018	0
MGS	09/24	4.020	42	4.030	26/10/2018	-1
MGS	03/25	4.007	100	4.056	29/10/2018	-5
MGS	09/25	4.089	47	4.072	26/10/2018	2
MGS	04/26	4.156	21	4.164	25/10/2018	-1
MGS	09/26	4.189	10	4.148	12/10/2018	4
MGS	11/26	4.178	2	4.164	29/10/2018	1
MGS	05/27	4.188	70	4.203	23/10/2018	-2
MGS	11/27	4.208	25	4.241	26/10/2018	-3
MGS	06/28	4.076	710	4.165	29/10/2018	-9
MGS	04/30	4.498	117	4.532	29/10/2018	-3
MGS	04/33	4.633	9	4.610	26/10/2018	2
MGS	11/33	4.563	9	4.596	25/10/2018	-3
MGS	05/35	4.776	6	4.800	26/10/2018	-2
MGS	04/37	4.811	4	4.840	25/10/2018	-3
MGS	06/38	4.782	54	4.853	29/10/2018	-7
MGS	09/43	4.928	3	4.963	29/10/2018	-4
MGS	03/46	4.944	1	4.969	29/10/2018	-3
GII	04/19	3.321	135	3.356	25/10/2018	-3
GII	04/20	3.546	24	3.509	29/10/2018	4
GII	05/20	3.576	1	3.446	01/10/2018	13
GII	03/22	3.738	147	3.766	26/10/2018	-3
GII	07/23	3.917	20	3.960	26/10/2018	-4
GII	11/23	3.899	345	3.918	29/10/2018	-2
GII	05/24	3.998	10	4.041	26/10/2018	-4
GII	09/26	4.212	10	4.182	25/10/2018	3
GII	10/28	4.248	784	4.280	29/10/2018	-3
GII	12/28	4.338	10	4.211	02/10/2018	13
GII	06/33	4.593	32	4.582	26/10/2018	1
GII	08/37	4.779	20	4.824	26/10/2018	-4
GII	05/47	4.961	30	4.948	26/10/2018	1
		<u>4862</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*
Pelabuhan Tanjung Pelepas Berhad	01/28	GG	4.450	60	-	-	-	28
Pelabuhan Tanjung Pelepas Berhad	01/30	GG	4.660	60	-	-	-	48
GovCo Holdings Berhad	02/32	GG	4.725	1	4.830	28/08/2018	-11	12
Perbadanan Tabung Pendidikan Tinggi Nasional	08/32	GG	4.668	1	4.648	05/10/2018	2	6
Pelabuhan Tanjung Pelepas Berhad	01/33	GG	4.890	60	-	-	-	28
Pelabuhan Tanjung Pelepas Berhad	10/31	GG	4.750	60	-	-	-	-
Gas Malaysia Berhad	11/19	AAA	4.016	35	4.178	16/07/2018	-16	59
TNB Western Energy Berhad	01/25	AAA	4.492	1	4.644	05/07/2018	-15	51
GENM Capital Berhad	03/27	AAA	4.868	10	4.916	10/04/2018	-5	74
Aman Sukuk Berhad	05/30	AAA	4.681	5	4.822	14/03/2018	-14	50
Tenaga Nasional Berhad	08/33	AAA	4.749	30	4.736	24/10/2018	1	14
Sarawak Energy Berhad	07/19	AA1	4.063	10	4.069	01/10/2018	-1	63
YTL Power International Berhad	03/23	AA1	4.588	1	4.583	25/10/2018	0	82
Public Bank Berhad	04/27	AA1	4.595	10	4.595	29/10/2018	0	47
YTL Power International Berhad	05/27	AA1	4.879	40	4.876	24/10/2018	0	71
Sarawak Energy Berhad	08/35	AA1	4.949	20	4.952	29/10/2018	0	34
Westports Malaysia Sdn Berhad	04/23	AA+	4.466	10	4.558	20/03/2018	-9	69
Westports Malaysia Sdn Berhad	04/25	AA+	4.608	1	4.606	06/09/2018	0	63
United Growth Berhad	06/22	AA2	4.381	2	4.369	04/10/2018	1	61
Benih Restu Berhad	06/25	AA2	4.659	10	4.617	26/09/2018	4	60
Hong Leong Financial Group Berhad	06/28	AA2	4.819	10	4.817	19/09/2018	0	64
Konsortium ProHAWK Sdn Berhad	06/33	AA2	4.999	20	4.991	29/10/2018	1	39
BEWG (M) Sdn Berhad	07/20	AA	4.565	1	4.562	22/10/2018	0	103
Anih Berhad	11/22	AA	4.478	1	4.456	05/10/2018	2	71
Fortune Premiere Sdn Berhad	09/25	AA	4.988	1	4.991	26/10/2018	0	93
Besraya (M) Sdn Berhad	07/19	AA3	4.413	10	4.427	24/10/2018	-1	98
RHB Islamic Bank Berhad	04/27	AA3	4.584	2	4.633	03/10/2018	-5	46
UEM Sunrise Berhad	12/22	AA-	4.701	2	4.703	18/10/2018	0	93
Jimah East Power Sdn Berhad	06/25	AA-	4.692	1	4.632	26/09/2018	6	64
AMMB Holdings Berhad	03/27	A1	5.231	1	5.244	18/10/2018	-1	111
Alliance Bank Malaysia Berhad	10/25	A2	4.787	1	4.799	22/10/2018	-1	73
Southern Power Generation Sdn Berhad	04/23	AA-	4.501	20	4.488	23/10/2018	1	73
Celcom Networks Sdn Berhad	10/26	AA+	4.767	20	4.794	22/10/2018	-3	64
				514				

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

## Market/Corporate News: What's Brewing

**Regulators have proposed a softer oversight regime that dials back rules for U.S. banks considered unlikely to pose a threat to the financial system — a step meant to limit the toughest demands only to the largest lenders.** Responding to legislation that called on federal agencies to ease compliance burdens for non-Wall Street banks, Federal Reserve governors voted Wednesday on a plan that would separate megabanks from smaller, regional lenders. Under the proposals, banks such as U.S. Bancorp, Capital One Financial Corp and PNC Financial Services Group Inc would escape the most stringent capital rules reserved for systemically important institutions. “The proposals before us would prescribe materially less stringent requirements on firms with less risk, while maintaining the most stringent requirements for firms that pose the greatest risks to the financial system and our economy,” Fed Chairman Jerome Powell said in a statement. The revamp from the Fed — portions of which will be issued jointly with the Office of the Comptroller of the Currency and Federal Deposit Insurance Corp — would “significantly reduce regulatory compliance requirements” on mid-sized institutions. That will mean an estimated \$8 billion less in overall capital for the industry, a liquidity demand lowered by several billion dollars and reduced compliance costs, according to a Fed memo. In the new system of tiers, banks will be evaluated on not only total assets but also their dependence on riskier short-term funding, their scale of off-balance sheet exposures and how much business they do outside the U.S. What's Included.. For banks between US\$100 billion and US\$250 billion in assets, including SunTrust Banks Inc., KeyCorp and Fifth Third Bancorp, the regulators plan to significantly reduce demands for how much easy-to-sell assets they keep on hand for a funding emergency. They'd also be put on a two-year cycle for stress tests. Banks above US\$250 billion or smaller firms with higher risk factors would have some tougher demands tailored to how complex they are. But those that aren't systemically important would have a much-reduced liquidity

requirement — as little as 70% of the current level. The threshold for “advanced approaches” banks — the global giants — would be raised significantly. Current rules say the category includes lenders with at least US\$250 billion in assets or US\$10 billion in foreign exposure, but the proposal would instead raise those levels to US\$700 billion or US\$75 billion in international activity, and that threshold would also bring “other prudential standards appropriate to very large or internationally active banking organizations.” The same eight banks known as global systemically important financial institutions occupy the top of five new tiers, retaining the same compliance expectations, and Northern Trust Corp would be the sole occupant of the second tier, which still includes stringent regulations. Foreign banks aren’t included in the proposals, though regulators said they intend to follow up “in the near future” with a new system for those firms. The possibility of relaxing rules for non-U.S. lenders — including some of the largest banks in the world — is “quite concerning,” said Marcus Stanley, policy director at Americans for Financial Reform in Washington. Fed Governor Lael Brainard, an appointee of former President Barack Obama who was at the agency when some post-crisis bank regulations were approved, opposed the proposals. She said the overhaul goes far beyond what was called for in the recent law and would “weaken the buffers that are core to the resilience of our system.” She argued that weakening rules to this degree “raises the risk that American taxpayers again will be on the hook” to bail out banks should there be another meltdown. Randal Quarles, the Fed’s vice chairman for supervision, defended the proposals, saying banks with less than US\$250 billion “for the most part do not exhibit meaningful levels of interconnectedness and complexity,” so they don’t pose significant risks to the system. “The character of regulation should match the character of a firm,” Quarles said. Financial regulators appointed by President Donald Trump are gaining momentum in addressing some of the long-standing complaints bankers have had with the government’s response to the 2008 financial crisis. On Tuesday, the agencies proposed new derivative standards that are meant to respond to industry concerns that banks have been forced to maintain excessive capital levels against such assets. That change could have a significant benefit for Wall Street firms. The agencies have also been working on a plan to revise the Volcker Rule, which restricted banks from investing with their own money. Other changes the Fed is pursuing include overhauling its capital rules, leverage demands, stress-test expectations and requirements for so-called living wills — in which lenders must formulate plans for how they would go bankrupt without hurting the broader financial system. The proposal released Wednesday to relax rules for mid-sized banks will be open for public comment. The Fed also said it and the FDIC will soon propose a way to further tailor the submission of living wills. (Source: *The EdgeMarkets*)

**The two deals that would have seen UMW Holdings Bhd increase its ownership of Perusahaan Otomobil Kedua Sdn Bhd (Perodua) to 70.6% have collapsed.** The offer period for the deals, involving the potential takeover of MBM Resources Bhd and the acquisition of a 10% stake in Perodua owned by Permodalan Nasional Bhd (PNB), ended yesterday. In a statement, UMW said it had decided to allow the offers to lapse, and that it would not further extend the offers. “Given the current business environment, we have recalibrated our corporate strategy in line with our ongoing transformation efforts and will focus on improving our financial performance,” it said. The group also reaffirmed its commitment to enhancing the performance of its automotive segment, expanding further into high-value manufacturing as well as increasing its product range and market presence for its equipment segment. “We believe this will further strengthen our overall financial position, which will enable us to remain resilient in the increasingly challenging business environment,” said its president and group CEO Badrul Feisal Abdul Rahim. UMW’s bid to strengthen its position in the domestic automotive market began on March 9 this year, when it made an offer to Med-Bumikar Mara Sdn Bhd to acquire its controlling 50.07% stake in MBM for RM501mil, or RM2.56 per share. MBM owns a direct 20% stake

in Perodua and an indirect interest of 2.5% through a joint venture with Japan's Daihatsu. Apart from its substantial interest in Perodua, MBM also holds dealerships for Mitsubishi, Volkswagen, Volvo and Daihatsu vehicles. It also assembles and distributes Hino trucks used for commercial purposes. At the same time, UMW made an offer to buy PNB's 10% interest in Perodua at a price tag of RM417.5mil. At the moment, UMW, which has been the single-largest shareholder in the carmaker since 1993, owns 38% of Perodua. Later, on March 26, UMW announced that MBM had rejected its offer. The deadline was then extended by another six months to Oct 31, 2018 for the MBM as well as PNB deal. Since the extension was announced, major changes have taken place in the country's political landscape, which led to changes in the top leadership of many government-linked companies (GLCs), including PNB and Mara. A source told StarBiz that these changes also meant the priorities and direction of these institutions had shifted. "There is also the possibility of a third national car, which could result in significant changes in the automotive sector," he said. Another industry source said PNB chairman Tan Sri Zeti Akhtar Aziz, who replaced Tan Sri Abdul Wahid Omar who retired from the post on June 30, had different priorities for the group. Talks on the deal had been initiated when PNB was under Abdul Wahid's leadership. "The government is also looking at the role of GLCs and concerns that they are crowding out the private sector," he said. He added that there were also issues with Perodua's technical partners, which were said to be not in favour of the deal. Previously, there had been reports that Daihatsu, which has a 30% stake in Perodua, had opposed UMW's plans to raise its stake in the carmaker, and had threatened to review its technological sharing with the company. (Source: *The StarOnline*)

Rating Action			
Issuer	PDS Description	Rating/Outlook	Action
Gas District Cooling (Putrajaya) Sdn Bhd	RM300 million Al-Bai' Bithaman Ajil Islamic Debt Securities (BaIDS)	AAA-IS	Affirmed

Source: RAM, MARC

**Hong Leong Bank Berhad**

Fixed Income &amp; Economic Research, Global Markets

Level 8, Hong Leong Tower

6, Jalan Damansara

Bukit Damansara

50490 Kuala Lumpur

Tel: 603-2081 1221

Fax: 603-2081 8936

Email: HLMarkets@hlbb.com.my

**DISCLAIMER**

This report is for information purposes only and does not take into account the investment objectives, financial situation or particular needs of any particular recipient. The information contained herein does not constitute the provision of investment advice and is not intended as an offer or solicitation with respect to the purchase or sale of any of the financial instruments mentioned in this report and will not form the basis or a part of any contract or commitment whatsoever.

The information contained in this publication is derived from data obtained from sources believed by Hong Leong Bank Berhad ("HLBB") to be reliable and in good faith, but no warranties or guarantees, representations are made by HLBB with regard to the accuracy, completeness or suitability of the data. Any opinions expressed reflect the current judgment of the authors of the report and do not necessarily represent the opinion of HLBB or any of the companies within the Hong Leong Bank Group ("HLB Group"). The opinions reflected herein may change without notice and the opinions do not necessarily correspond to the opinions of HLBB. HLBB does not have an obligation to amend, modify or update this report or to otherwise notify a reader or recipient thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

HLB Group, their directors, employees and representatives do not have any responsibility or liability to any person or recipient (whether by reason of negligence, negligent misstatement or otherwise) arising from any statement, opinion or information, expressed or implied, arising out of, contained in or derived from or omission from the reports or matter. HLBB may, to the extent permitted by law, buy, sell or hold significantly long or short positions; act as investment and/or commercial bankers; be represented on the board of the issuers; and/or engage in 'market making' of securities mentioned herein. The past performance of financial instruments is not indicative of future results. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Any projections or forecasts mentioned in this report may not be achieved due to multiple risk factors including without limitation market volatility, sector volatility, corporate actions, the unavailability of complete and accurate information. No assurance can be given that any opinion described herein would yield favorable investment results. Recipients who are not market professional or institutional investor customer of HLBB should seek the advice of their independent financial advisor prior to taking any investment decision based on the recommendations in this report.

\*^

HLBB may provide hyperlinks to websites of entities mentioned in this report, however the inclusion of a link does not imply that HLBB endorses, recommends or approves any material on the linked page or accessible from it. Such linked websites are accessed entirely at your own risk. HLBB does not accept responsibility whatsoever for any such material, nor for consequences of its use.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. This report is for the use of the addressees only and may not be redistributed, reproduced or passed on to any other person or published, in part or in whole, for any purpose, without the prior, written consent of HLBB. The manner of distributing this report may be restricted by law or regulation in certain countries. Persons into whose possession this report may come are required to inform themselves about and to observe such restrictions. By accepting this report, a recipient hereof agrees to be bound by the foregoing limitations.