

Global Markets Research

Fixed Income

Fixed Income Daily Market Snapshot

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	1.89	-2
5-yr UST	2.21	-3
10-yr UST	2.41	-2
30-yr UST	2.74	-2

MGS		GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.32	0	3.43	-4
5-yr	3.53	0	3.79	-5
7-yr	3.88	-3	4.10	0
10-yr	3.91	-3	4.19	-6
15-yr	4.39	-4	4.74	7
20-yr	4.54	-5	4.79	0
30-yr	4.86	1	4.77	-1

*Market indicative

M YR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.65	0
3-yr	3.74	0
5-yr	3.83	0
7-yr	3.93	0
10-yr	4.06	0

Source: Bloomberg

Upcoming Government Bond Tenders

Nil

US Treasuries

- US Treasuries closed near session highs supported by some block trades in an otherwise thin holiday trading with overall yields lower circa 2-3bps. Belly-led gains flattened the 5s30s spreads by 2bps to leave the curve at 53bps. The much-watched 10Y closed 2bps lower(reversing the early days rise) ending at 2.41%. We have a slew of upcoming data this week with Markit US Manufacturing PMI out today followed by ISM Manufacturing data tomorrow.

MGS/GII

- Local Govvies saw volume further improve from RM928m to about RM1.51b with literally half of the trades seen on three benchmarks i.e. 7Y and 10Y MGS and 5Y GII 4/22. The benchmark 7Y MGS 9/24 and 10Y MGS 11/27 closed 3bps lower at 3.88% and 3.91% respectively compared to previous-done levels whereas the 5Y benchmark GII 4/22 closed 5bps lower at 3.79% levels as portfolio managers were seen trying to realign and take positions on the last trading day of the year. Investors are expected to be continue bidding up govovies amid further strengthening of the Ringgit last seen at 4.0370/10 at the time of writing.

PDS/Sukuk

- As expected Corporate Bonds saw muted interest with a mere RM75m traded. Interestingly there were very little interests in the usually active AA-space with a FRL 10/21 closing 9bps lower at 4.60% compared to previous-done levels. Govt-guaranteed papers like DANA 11/45 and PASB 11/20 closed weaker with yields rising at 5.16% and 3.94% respectively. The AAA-rated AMAN 18-23 saw demand with yields lower by up to 19bps as RM25m crossed hands closing between 3.45-4.05% levels. We expect interest to be ignited in the commencement of the new year.

Daily Trades : Government Bonds

Securities		Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS	08/22	3.691	67	3.787	28/12/2017	-10
MGS	07/24	3.918	8	3.927	28/12/2017	-1
MGS	09/25	4.069	13	4.061	28/12/2017	1
MGS	08/23	3.799	6	3.857	26/12/2017	-6
MGS	03/22	3.531	20	3.535	26/12/2017	0
MGS	11/19	3.123	2	3.123	28/12/2017	0
MGS	03/27	4.162	10	4.176	28/12/2017	-1
MGS	09/22	3.729	1	3.766	28/12/2017	-4
MGS	03/46	4.857	3	4.850	28/12/2017	1
MGS	09/24	3.876	114	3.905	28/12/2017	-3
MGS	04/30	4.465	5	4.461	28/12/2017	0
MGS	03/23	3.746	12	3.798	21/12/2017	-5
MGS	04/37	4.542	38	4.588	28/12/2017	-5
MGS	06/31	4.356	18	4.377	26/12/2017	-2
MGS	04/33	4.391	43	4.434	28/12/2017	-4
MGS	10/19	3.061	2	3.140	28/12/2017	-8
MGS	11/21	3.476	40	3.482	28/12/2017	-1
MGS	11/27	3.905	223	3.927	28/12/2017	-2
MGS	09/18	2.742	40	2.781	28/12/2017	-4
MGS	03/19	3.070	19	2.993	27/12/2017	8
MGS	02/21	3.321	31	3.321	28/12/2017	0
MGS	03/20	3.266	24	3.190	21/12/2017	8
MGS	07/20	3.317	2	3.280	21/12/2017	4
GII	07/22	3.878	99	3.927	28/12/2017	-5
GII	07/27	4.187	80	4.245	28/12/2017	-6
GII	08/21	3.816	3	3.800	13/12/2017	2
GII	08/24	4.097	30	4.097	28/12/2017	0
GII	09/26	4.291	1	4.297	19/12/2017	-1
GII	04/22	3.794	421	3.845	28/12/2017	-5
GII	04/20	3.431	2	3.476	27/12/2017	-4
GII	08/33	4.737	20	4.667	11/12/2017	7
GII	05/18	3.251	51	3.126	27/12/2017	13
GII	08/37	4.771	40	4.786	20/10/2017	-1
GII	06/33	4.651	20	4.704	27/12/2017	-5
GII	12/28	4.469	2	4.410	11/12/2017	6
GII	09/19	3.316	2	3.392	21/12/2017	-8
GII	11/18	3.229	1	3.252	18/12/2017	-2
			<u>1512</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	11/45	GG	5.158	10	5.119	24/07/2017	4	57
GovCo Holdings Berhad	02/27	GG	4.399	10	4.400	31/05/2017	0	43
Pengurusan Air SPV Berhad	11/20	GG	3.941	10	3.884	02/06/2017	6	60
Aman Sukuk Berhad	05/19	AAA	4.054	20	4.085	02/11/2017	-3	117
Aman Sukuk Berhad	02/23	AAA	4.448	10	4.596	01/12/2016	-15	89
Aman Sukuk Berhad	03/18	AAA	3.778	5	3.969	01/08/2017	-19	89
First Resources Limited	10/21	AA2	4.600	10	4.685	19/12/2017	-9	114
			<u>75</u>					

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

Market/Corporate News: What's Brewing

MMC Corp Bhd is the latest to be slapped by the Inland Revenue Board (IRB) with RM45.91 million in additional income tax with penalties for the years of assessment of 2011 to 2013. In a filing with Bursa Malaysia today, MMC said it has received notices of assessment from the IRB pursuant to a tax audit for the years of assessment 2011 to 2013. "The additional income tax was imposed by the IRB as the IRB has taken the view that interest expenses relating to certain investments do not qualify for tax deduction under Section 33 of the Income Tax Act, 1967," it added. Upon consulting with its tax counsel, MMC said it is of the view that there are reasonable grounds to challenge the notices of assessment raised by the IRB. "(We) intend to file notices of appeal to the special commissioners of income tax and to take all steps necessary to challenge the disputed notices of assessment. "Nevertheless, MMC will be making full payment of the additional income tax on a without prejudice basis to the IRB," it said. MMC said the additional income tax is not expected to have any material impact on the group's net assets or gearing for the financial year ending Dec 31, 2017. "MMC will make further announcements if there are any material developments in respect of the foregoing," it added. On Dec 13, the IRB slapped Aeon Credit Service (M) Bhd with a RM96.82 million bill for additional income taxes with penalties for the years of assessment of 2010 to 2016. S P Setia Bhd's unit was also slapped with a back tax bill of RM75.38 million last month. In October, the IRB slapped Cocoaland Holdings Bhd with RM5.89 million in additional taxes and penalties. In September, EcoFirst Consolidated Bhd said it was sued by the IRB over some RM35.47 million in additional taxes and penalties the latter is claiming for. In May, the IRB sought RM80.77 million in additional taxes and penalties from MK Land Holdings Bhd's wholly-owned subsidiary Saujana Triangle Sdn Bhd, while Magnum Bhd and its wholly-owned subsidiary Magnum Holdings Sdn Bhd were served with notices of assessment for additional taxes and penalties totalling RM476.5 million. In that same month, Country Heights Holdings Bhd announced that its executive chairman and major shareholder Tan Sri Lee Kim Yew had his fixed deposits of some RM126 million placed in a foreign-owned bank seized by the IRB in relation to RM22.5 million worth of tax liabilities incurred by Country Heights' wholly-owned unit Country Heights Sdn Bhd. The tax liabilities were accrued from the years of assessment of 1997 and 1998. In April this year, the IRB slapped Tenaga Nasional Bhd with an extra RM2.07 billion tax bill for the 2013-2014 tax years going forward. (Source: The Edge)

The outlook for palm oil in 2018 is deemed to be challenging. Amid stiff market competition, the century-old plantation sector will continue to struggle with long-standing labour shortage, rising operating costs, dwindling demand in traditional export markets and increasing anti-palm oil campaigns in the West, say market analysts. One consolation... industry players and analysts have pegged the average price of crude palm oil (CPO) at RM2,400-RM2,800 per tonne in 2018 – which is much higher than local planters' average production cost of RM1,200-RM1,500 per tonne of CPO. The fortunes of plantation companies are dependent on a stable CPO price, say analysts. Plantation companies stand to benefit from the weaker ringgit, given the fact that palm oil is an export-oriented commodity using the US dollar or other foreign currencies, while the planters' cost of production is ringgit-denominated. Among planters, a mere RM100 increase in the CPO price per tonne could translate into additional "hefty" contributions to group profits. One analyst points out that every RM100 per tonne change in the CPO price could result in an "addition or reduction of RM250mil" to Sime Darby Plantations Bhd while for Felda Global Ventures Holdings Bhd, it would be an "addition or reduction of RM100mil". Palm oil experts generally are painting a good short-term CPO price outlook in 2018. Godrej International Ltd director Dorab Mistry is the most bullish, predicting CPO futures to hit RM3,100 per tonne this month. This is based on his assumption that Brent crude oil will trade at US\$45-US\$65 per barrel, the US Federal Reserve will raise interest rates and the US dollar will strengthen against currencies in Brazil, Argentina and India. At a recent international palm oil congress held here, planter United Plantations Bhd deputy chairman Datuk Carl Bek-Nielsen has projected CPO at RM2,400 to RM2,800 per tonne while Plantation Industries and Commodities Minister Datuk Seri Mah Siew Keong is positive that CPO will trade at RM2,600-RM2,700 in 2018. The average CPO price in 2017 saw an increase to about RM2,815 per tonne compared with RM2,653 per tonne in 2016. Despite a decent short-term outlook, the research unit expects weaker average CPO price at RM2,400 per tonne in 2018, softer by 11% from RM2,700 per tonne in 2017.

Nevertheless, positive catalysts include the wet weather La Nina earlier in the year, and potential support from better crude oil prices. Although other regions tend to face softer demand over the winter season as palm oil solidifies in cold weather, it also expects the festival boost to be supportive to palm oil prices, especially in January. With a weaker supply-side outlook in December 2017 to February 2018 due to the wet weather and a seasonal production downtrend, the overall price trend should be positive over the next few months. CPO production increased in 2017, post El Nino, a situation which resulted in a severe drought that affected the fresh fruit bunches (FFB) production. To recap, during the big El Nino phenomenon in 1997 and 1998, local palm oil production saw a huge growth the following year. Currently, local estates are already showing similar signs of growth in output, following the super El Nino seen in 2015-2016. The Malaysian Palm Oil Board (MPOB) is targeting CPO production to hit 19.5 million tonnes in 2017 compared with 17.5 million tonnes in 2016. Apart from increasing production, local palm oil stocks is also on the rise. The latest statistics from MPOB saw end-November 2017 palm oil stocks rising to its highest in almost two years at 2.56 million tonnes.

(Source: The Star)

Rating Actions			
Issuer	PDS Description	Rating/Outlook	Action
Mydin Mohamed Holdings Berhad (Mydin Holdings or the Group)	RM350 million Danajamin-Guaranteed Islamic Medium-Term Notes Programme (2011/2024).	AAA(FG)/Stable	Reaffirmed
Great Realty Sdn Bhd	RM170 million MTN programme	AAA(FG)/stable	Reaffirmed

Source: RAM Ratings; MARC

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