Global Markets Research
Fixed Income

Fixed Income Daily Market Snapshot

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	192	4
5-yr UST	2.25	4
10-yr UST	2.46	6
30-yr UST	2.81	7

	MGS		GII*	
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.32	0	2.91	-53
5-yr	3.47	-6	3.80	1
7-yr	3.86	-1	4.07	-3
10-yr	3.90	-1	4.15	-4
15-yr	4.39	0	4.74	0
20-yr	4.55	1	4.77	0
30-yr	4.86	0	4.98	0

** Market indicative*

MYR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.65	0
3-yr	3.74	0
5-yr	3.83	0
7-yr	3.92	-1
10-yr	4.06	0

Source : Bloomberg

Upcoming Government Bond Tenders

Reopening of 20Y MGS 4/37 amounting to RM2.0b + RM1.0b (private placement) on Friday (5-Jan)

US Treasuries

- US Treasuries reversed the previous day's session as yields generally ended 4-7bps higher across most tenures on expectations that large Investor-Grade Corporate issuances may lead to a "rate-locking" exercise. The much-watched 2Y and 10Y closed higher at 1.92% 2.46% respectively. We have a slew of upcoming data this week following strong Markit US Manufacturing PMI numbers out yesterday. Up next are ISM Manufacturing data followed by minutes of the December FOMC meeting.

MGS/GII

- Local Govvies saw volume dip to RM1.11b with interest seen mainly on 5Y, 7Y and 10Y GII benchmarks. Overall yields were mostly lower by 1-6 bps with the benchmark 7Y MGS 9/24 and 10Y MGS 11/27 closing 1bps lower at 3.86% and 3.90% respectively compared to previous-done levels. End-investors were seen to be slowly snapping up GII's on attractive valuation discounts to the conventional papers. Expect interest to gradually improve amid strengthening of the Ringgit which was last seen at 4.0240/70 at the time of writing.

PDS/Sukuk

- Corporate Bonds recorded lukewarm interest on the first trading session of 2018 as total volume was a mere RM119m. The maiden trade on AA-rated WCT 1/25 of RM100m was the only highlight of the day closing 5bps lower than the coupon of 5.55%. UEM Sunrise 12/22 also moved similarly to close at 4.95% compared to previous-done levels. We expect interest in Corporate Bonds to pick-up in the coming week.

Daily Trades : Government Bonds

Securities		Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS	09/18	2.897	1	2.742	29/12/2017	16
MGS	07/19	3.110	157	3.103	27/12/2017	1
MGS	10/19	3.134	98	3.061	29/12/2017	7
MGS	07/21	3.432	1	3.418	29/12/2017	1
MGS	09/21	3.573	21	3.476	21/12/2017	10
MGS	11/21	3.454	10	3.476	29/12/2017	-2
MGS	03/22	3.467	17	3.531	29/12/2017	-6
MGS	08/22	3.696	28	3.760	29/12/2017	-6
MGS	09/22	3.736	12	3.729	29/12/2017	1
MGS	09/24	3.863	20	3.876	29/12/2017	-1
MGS	09/25	4.031	26	4.069	29/12/2017	-4
MGS	11/27	3.899	63	3.905	29/12/2017	-1
MGS	04/30	4.444	10	4.465	29/12/2017	-2
MGS	04/37	4.550	7	4.542	29/12/2017	1
GII	04/22	3.801	319	3.791	29/12/2017	1
GII	08/24	4.071	60	4.097	29/12/2017	-3
GII	07/27	4.149	100	4.187	29/12/2017	-4
GII	09/30	4.626	50	4.674	07/12/2017	-5
GII	06/33	4.651	110	4.651	29/12/2017	0
			1109			

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	04/30	GG	4.650	2	4.700	05/12/2017	-5	75
DanaInfra Nasional Berhad	04/40	GG	5.030	2	5.190	30/05/2017	-16	46
WCT Holdings Berhad	01/25	AA-	5.500	100	-	-	-	-
UEM Sunrise Berhad (fka UEM Land Holdings Berhad)	12/22	AA-	4.951	5	4.997	28/12/2017	-5	143
Southern Power Generation Sdn Berhad	10/26	AA-	4.954	2	4.958	27/11/2017	0	100
Southern Power Generation Sdn Berhad	04/27	AA-	4.977	6	4.986	13/11/2017	-1	103
AMMB Holdings Berhad	03/27	A1	5.335	1	4.847	28/12/2017	49	139
CIMB Group Holdings Berhad	05/16	A1	5.520	1	4.808	28/12/2017	71	95
				119				

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

Market/Corporate News: What's Brewing

Press Metal's US$400 mil bond ends drought of Malaysian high-yield dollar. PRESS Metal Aluminium Holdings Bhd debuted on the global debt capital market on Oct 30, with the issuance of a US$400 million, five-year, high-yield US dollar bond — the first by a Malaysian issuer in over a decade. The issuance allows for funding diversification for the aluminium producer and profiles the group globally by establishing a benchmark yield curve in the US dollar bond space, according to Maybank Investment Bank Bhd. Maybank IB was the joint lead manager and joint book runner for the issuance, with Citigroup, Deutsche Bank and JP Morgan. Maybank IB was also the sole Labuan International Financial Exchange listing agent for the bond. The US dollar bond allows Press Metal to manage its balance sheet and cash flow through the shifting of secured debt to unsecured debt via the refinancing of the group's existing debt. It reprofiles Press Metal's debt maturity and frees up cash flow to be used for working capital and/or expansionary capital expenditure. The bond was issued by Press Metal's wholly-owned subsidiary, Press Metal (Labuan) Ltd. Press Metal acted as the parent guarantor, while Press Metal Bhd, Press Metal Bintulu Sdn Bhd and Press Metal Sarawak Sdn Bhd were its subsidiary guarantors. It has a fixed interest rate of 4.8% per annum, callable after three years with the first call date being Oct 30, 2020. Standard & Poor's rated it BB- with a positive outlook and Moody's gave it a rating of Ba3 with a stable outlook. Besides Press Metal's standing as the largest integrated aluminium producer and extruder of aluminium products in Southeast Asia, the success of the US dollar high-yield bond was due to its scarcity value. The issuance took advantage of investor's appetite for high-yield credit from a Malaysian issuer in the commodity sector. There was also a quieter supply of bonds from Southeast Asia in the US dollar credit space. "The saturation of the universe of US dollar bonds from Malaysia by large-cap investment-grade issuers also contributed to the scarcity value of the US dollar notes offering by Press Metal," says Maybank IB. The bond received strong demand from investors with a total of US$3.8 billion orders from 240 accounts across Asia and Europe, resulting in an oversubscription of 9.5 times. It was allocated to a diverse group of investors, with 23% from Europe. Global investor confidence in holding Press Metal debt is due to, among other factors, Sumitomo Corp's support of the group. Sumitomo holds a 20% stake in two of Press Metal's aluminium smelting subsidiaries and is the group's largest customer. Besides support from Sumitomo, Press Metal has the advantage of being a cost-competitive producer due to a long-term power purchase agreement with Sarawak Energy Bhd for its smelting plants in the state. In the nine months ended Sept 30, Press Metal's operating profit rose 25.9% to RM755.05 million, on the back of a 30% jump in revenue to RM6 billion, compared with the corresponding period in 2016. Net profit increased 27.6% to RM566.73 million. A notable mention in the sukuk space is the issuance of RM1 billion green sustainable and responsible investment (SRI) sukuk by Quantum Solar Park (Semenanjung) Sdn Bhd on Oct 6. It was the largest green SRI Islamic bond in the world, and the largest sukuk issued to fund solar energy plants issued in Malaysia. The Centre for International Climate and Environment Research (CICERO), an independent, not-for-profit research institute based in Norway, has awarded the highest grade of "Dark Green" to QSP Semenanjung's green bond framework. This grading entails zero emission solutions and governance structures that integrate environmental concerns into all activities. CIMB Investment Bank is the principal adviser for the issuance and joint lead arranger and manager with Maybank IB. The issuance of the sukuk is to part-finance costs for the construction, operation and maintenance of three 50mw alternating current solar photovoltaic power plants in Gurun, Kedah; Jasin, Melaka; and Merchang, Terengganu. Upon completion and operation of the three solar power plants, QSP Semenanjung will become the largest solar power producer in Malaysia with a capacity of 150mwac. QSP Semenanjung is a wholly-owned subsidiary of Quantum Solar Park Malaysia Sdn Bhd, which is owned by ItraMAS Technology Sdn Bhd, MalTechPro Sdn Bhd and CamLite Sdn Bhd. ItraMAS has been in the green technology sector since 1999. The project will require investments of up to RM1.24 billion, with the proceeds from the green SRI sukuk to cover 80% of the cost, the rest being equity investment from QSP Semenanjung. On June 8, Malaysian Rating Corporation Bhd (MARC) assigned a AA-IS rating to the sukuk, reflecting the adequate projected cash flow coverage on the back of 21-year solar power purchase agreements with Tenaga Nasional Bhd. "The rating also considers the well-structured contract arrangements with respect to the engineering, procurement and construction (EPC) and operations and maintenance (O&M) of the plants. “Moderating the rating are the risks associated with project completion, uncertainty around the solar irradiance estimates and overall plant performance,” says MARC in the statement accompanying the sukuk rating. The EPC contracts for the projects have been awarded to Scatec Solar Solutions Malaysia Sdn Bhd, a wholly-owned subsidiary of Scatec Solar ASA, a Norwegian-based solar power plant developer and operator of 322mw solar power generating capacity. (Source: The Edge)

New year jitters for bond markets as ECB cuts back stimulus. Borrowing costs across the euro area shot higher on Tuesday as a cut in monthly ECB asset purchases became a reality, with hawkish comments from a top official and strong data hurting sentiment towards bonds on the first trading day of the year. Bonds from the bloc's periphery, the biggest beneficiaries of European Central Bank stimulus, bore the brunt of the selling. Yields in Italy, Spain and Portugal rose 6-10 basis points each, widening the gap over German peers. But even "core" or top-rated bond markets were left unscathed from the selling pressure, with Germany's 10-year bond yield hitting two-month highs. Benoit Coeure, the Frenchman in charge of carrying out the ECB's bond purchases, sees "a reasonable chance" the 2.55 trillion euro stimulus programme will not be extended again when it expires in September, he told a Chinese financial magazine at the weekend. The comments highlight that the days of extraordinary monetary stimulus are nearing an end given stronger economic conditions and signs of a pick-up in inflation. Data on Friday showed inflation in Germany, Europe's biggest economy, hit its highest level in five years in 2017. A survey on Tuesday showed euro zone manufacturers ended 2017 by ramping up activity at the fastest pace in more than two decades. ECB monthly bond purchases, which have long underpinned bond yields, have fallen to 30 billion euros from 60 billion euros. That cut in purchases from the start of January, unveiled in October, comes just as investors brace for a hefty month of supply — a potentially powerful headwind for bond markets. Spain said on Tuesday it will issue bonds worth between 3.5 billion euros and 5 billion euros at a scheduled auction on Thursday. "While the cut in ECB asset purchases is not a surprise, there is some uncertainty as to how the markets will adjust to this in an unusually heavy month for supply," said Rainer Guntermann, a rates strategist at Commerzbank in Frankfurt. "The more hawkish commentary from the ECB is also weighing on markets." Germany's 10-year bond yields rose 2.5 basis points to 0.46 percent, the highest since late October. German 30-year bond yields jumped almost 5 bps to 1.31%, their highest since mid-November, before dropping to 1.24 percent by late trading. In Italy, where borrowing costs rose last week after the president called a general election for March 4, 10-year bond yields extended their rise to a two-month high above 2 percent, going up nearly 10 bps by the afternoon. That pushed that gap over German equivalents to around 165 bps, its widest since Oct. 19. Spanish and Portuguese bond spreads also widened against Germany in a sign that investors were reducing their exposure to southern European bond markets. "The widening in peripheral spreads shows that the market is concluding that the recent spread tightening is inconsistent with a more hawkish ECB," said Peter Chatwell, head of rates strategy at Mizuho. Analysts said Portuguese five-year bonds were also coming under pressure from expectations of a syndicated bond deal of this maturity next week. Most other euro zone bond yields were up 2-4 basis points, with trade subdued after Monday's New Year's holiday. There was also some caution ahead of the implementation on Jan 3 of the wide-ranging EU financial markets directive known as MiFID II.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
BGSM Management Sdn Bhd	IMTN Programme of up to RM10 billion in nominal value (2013/2043)	AA3/Stable	Reaffirmed
Bumitama Agri Ltd	RM2.0 billion Islamic MTN Sukuk Musharakah (2014/2029)	AA3	Revised to positive from stable

Source: RAM Ratings; MARC

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