

Global Markets Research

Fixed Income

Fixed Income Daily Market Snapshot

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	2.47	4
5-yr UST	2.75	5
10-yr UST	2.90	4
30-yr UST	3.05	3

MGS		GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.71	-8	3.76	0
5-yr	3.80	-4	4.01	-1
7-yr	4.03	1	4.16	-1
10-yr	4.20	2	4.32	0
15-yr	4.61	0	4.73	0
20-yr	4.87	-4	4.84	0
30-yr	4.92	-7	5.00	0

*Market indicative

MYR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.75	0
3-yr	3.81	-1
5-yr	3.89	0
7-yr	3.98	0
10-yr	4.13	-1

Source : Bloomberg

Upcoming Government Bond Tenders

US Treasuries

- US Treasuries sold-off as a much stronger US jobs data hogged the limelight in last Friday's session with overall benchmark yields ending 3-5bps higher across the curve. The 2Y rose another 4bps at 2.47% whilst the 10Y also spiked 4bps; ending at 2.90%. This followed the whipsaw reaction on UST's last week against the backdrop of tense political situation in Italy earlier and persisting uncertainties on US trade sanctions. Meanwhile rate hike likelihood continues to be seen on the front-end with OIS pricing an additional 55bps of hikes by December FOMC meeting versus 51bps prior to the jobs data. This also rekindles the discussion on the possibility of up to 4 rate hikes projected for the year.

MGS/GII

- Trading volume in local Govvies eased slightly to RM3.32b with substantial trades seen in the short off-the-run MGS 18's. The government's announced measures to maintain the fiscal deficit target at 2.8% include the shelving of major infrastructure projects including HSR, and MRT3 along with expenditure cuts, additional revenues from rising oil prices and further dividend contributions from GLC's. Overall MGS yields ended mixed by -8 to +2bps across the curve with both the front-end and long-end rallying. However the benchmark 7Y MGS 3/25 was 1bps weaker at 4.03% whilst the 10Y MGS 6/28 edged 2bps higher at 4.20%.

Corp Bonds/Sukuk

- Corporate Bonds maintained volume at ~ RM315m with bulk of interest seen on AA-rated papers. The long-end PRASA 9/47 inched 1bps higher at 5.27% compared to previous-done levels. In the AAA-space; Al-Dzahab 3/21 saw its maiden trade at 4.84% despite being issued in March 2018. The rarely traded AA-rated SAMALAJU Industrial Port 27 and 28 notched a total of RM50m closing 0-10bps higher at 5.06% and 5.15% respectively. Likewise MALAKOFF 12/19 rose 3bps at 4.57%. Expect change in appetite for certain names as the new government continues to assess and make decisions on major economic sectors and projects.

Daily Trades : Government Bonds

Securities	Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS 09/18	3.111	901	3.245	31/05/2018	-13
MGS 03/19	3.426	29	3.400	31/05/2018	3
MGS 07/19	3.452	0	3.440	24/05/2018	1
MGS 10/19	3.475	7	3.483	31/05/2018	-1
MGS 11/19	3.489	35	3.497	31/05/2018	-1
MGS 03/20	3.616	50	3.559	31/05/2018	6
MGS 07/20	3.634	15	3.655	30/05/2018	-2
MGS 10/20	3.666	133	3.689	31/05/2018	-2
MGS 07/21	3.815	3	3.815	31/05/2018	0
MGS 11/21	3.712	47	3.749	28/05/2018	-4
MGS 03/22	3.863	9	3.915	25/05/2018	-5
MGS 03/23	3.946	46	4.023	28/05/2018	-8
MGS 04/23	3.797	47	3.842	31/05/2018	-4
MGS 08/23	4.014	39	3.997	31/05/2018	2
MGS 07/24	4.190	18	4.147	31/05/2018	4
MGS 09/24	4.158	3	4.158	31/05/2018	0
MGS 03/25	4.034	45	4.019	31/05/2018	1
MGS 09/25	4.230	228	4.260	31/05/2018	-3
MGS 04/26	4.301	11	4.289	31/05/2018	1
MGS 11/26	4.319	82	4.300	31/05/2018	2
MGS 03/27	4.376	2	4.397	30/05/2018	-2
MGS 11/27	4.288	58	4.291	31/05/2018	0
MGS 06/28	4.195	160	4.202	31/05/2018	-1
MGS 04/30	4.686	59	4.664	31/05/2018	2
MGS 06/31	4.695	45	4.679	31/05/2018	2
MGS 04/32	4.726	2	4.715	23/05/2018	1
MGS 04/33	4.702	113	4.664	31/05/2018	4
MGS 05/35	4.892	151	4.865	31/05/2018	3
MGS 04/37	4.873	4	4.902	31/05/2018	-3
MGS 09/43	4.900	20	4.949	31/05/2018	-5
GII 08/18	3.281	53	3.438	30/05/2018	-16
GII 11/18	3.105	94	3.349	23/05/2018	-24
GII 11/23	4.012	260	4.026	31/05/2018	-1
GII 08/25	4.160	105	4.168	31/05/2018	-1
GII 07/27	4.378	5	4.324	22/05/2018	5
GII 08/28	4.526	1	4.521	24/05/2018	0
GII 10/28	4.316	400	4.318	31/05/2018	0
GII 08/33	4.828	40	4.833	31/05/2018	0
GII 10/35	5.042	6	4.994	25/05/2018	5
		<u>3324</u>			

Daily Trades: Corp Bonds / Sukuk

Securities	Maturity (dd/mm/yyyy)	Rating	Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)	Spread Against MGS*
Khazanah Nasional Berhad	07/18	GG	3.404	25	3.508	27/03/2018	-10	0
Prasarana Malaysia Berhad [fka Syarikat Prasarana Negara Berhad]	09/47	GG	5.269	35	5.260	25/04/2018	1	38
AI Dzahab Assets Berhad	03/21	AAA	4.843	10	-	-	-	114
Bank Pembangunan Malaysia Berhad	03/32	AAA	5.030	1	4.989	07/05/2018	4	41
Samalaju Industrial Port Sdn Berhad	12/27	AA1	5.058	20	4.954	12/03/2018	10	88
Samalaju Industrial Port Sdn Berhad	12/28	AA1	5.148	30	5.152	24/05/2018	0	97
PBFIN Berhad	06/59	AA2	4.715	1	4.987	30/05/2018	-27	-18
Malaysia Airport Holdings Berhad	12/14	AA2	5.039	60	5.100	23/05/2018	-6	15
CIMB Group Holdings Berhad	12/25	AA	4.736	10	4.921	07/05/2018	-19	63
Perbadanan Kemajuan Negeri Selangor	10/18	AA3	4.442	26	4.459	28/05/2018	-2	104
IJM Corporation Berhad	04/19	AA3	4.350	10	4.219	02/04/2018	13	95
Bumitama Agri Ltd	09/19	AA3	4.658	50	4.697	24/05/2018	-4	126
AI Dzahab Assets Berhad	03/26	AA3	5.650	2	5.830	24/11/2017	-18	154
Malakoff Power Berhad	12/19	AA-	4.568	10	4.534	21/05/2018	3	96
Jimah East Power Sdn Berhad	12/24	AA-	4.863	10	4.659	30/11/2017	20	84
Lebuhraya DUKE Fasa 3 Sdn Berhad	08/34	AA-	5.329	1	5.220	05/04/2018	11	71
Lebuhraya DUKE Fasa 3 Sdn Berhad	08/37	AA-	5.529	11	5.409	27/02/2018	12	64
CIMB Group Holdings Berhad	05/16	A1	5.380	1	4.994	31/05/2018	39	49
CIMB Group Holdings Berhad	05/16	A1	5.350	0	5.350	31/05/2018	0	46
Mah Sing Perpetual	-	-	5.617	2	-	-	-	-
				<u>315</u>				

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

Market/Corporate News: What's Brewing

All commitments made so far in talks with the US over trade will be withdrawn if President Donald Trump carries out his threat to impose tariffs, China said Sunday. While both sides reported some progress in discussions this weekend about how to reduce China's US\$375bil goods-trade surplus with the US, Trump's revival last week of a plan to slap tariffs on US\$50bil of Chinese imports has cast the talks into turmoil. "If the US rolls out trade measures including tariffs, all the agreements reached in the negotiations won't take effect," state-run Xinhua News Agency reported yesterday, citing a statement from the Chinese team that met with a US delegation led by Commerce Secretary Wilbur Ross. The Xinhua report came after Ross met Chinese Vice-Premier Liu He yesterday for talks that Ross called "friendly and frank, and covered some useful topics about specific export items". At the same time as negotiators focus on technical steps to reduce the US deficit, Trump's swerve has rattled Beijing as it raises the possibility that any agreement made could be simply torn up by the president. "China is concerned over the US's unpredictability, especially after Trump turned an about-face on tariffs," said Gai Xinzhe, an analyst at Bank of China's finance institute in Beijing. "Trump needs to give out more goodwill in exchange for really productive negotiations. Bluff, threat, and willful moves might work in business bargaining, but they could backfire in talks among nations." A commentary by state-run China Radio International said that the government's stance on cancelling any agreements reached in the talks if Trump's tariffs go into effect was a "red line". (Source: Bloomberg, The Star)

The reintroduction of the sales and services tax (SST) in September this year will see lower prices of goods in general, but there could be a potential spike in the prices of some items, including the cost or charges for services rendered. Tax Advisory and Management Services Sdn Bhd tax consultant Yong Min Jie told StarBiz that the sales tax is based on the manufacturing cost or import cost and if the sales tax was based on the earlier tax rate of up to 10%, then the prices of goods would come down. "This is good for consumers unlike the goods and services tax (GST), which will result in the hike of the prices of goods. On the other hand, if this tax regime covers a wider range of services, there could be a higher price or charges for services rendered on the whole. The services rendered could be from a company to another company or from a company to an individual like professional services, etc," Yong added. Furthermore, he noted that the cost of the implementation of the SST would not be as huge as the GST which, among other things, involved the relevant upgrading of systems. Yong said the SST is estimated to bring in RM30bil in collection for the government. Prime Minister Tun Dr Mahathir Mohamad was quoted at a recent press briefing as saying that the SST would be reintroduced in September. The GST was zero-rated from June 1 and the reintroduction of the SST would make up for the shortfall in government revenue. There would be a mixed impact from the reintroduction of the SST. Car prices may be expected to move up and be higher than the GST price by approximately 2%-3%. However, there are possibilities for auto players to probably absorb the cost, as much depends on the potential demand. For consumer items such as food and beverage and retail, prices could be slightly lower around 3% from the savings of input costs. This will bode well for the retail business. As for property prices, ie, new houses are expected to experience a slightly cheaper price since they can save from input costs. On the whole, the SST is expected to create more disposable income, which, in turn, is expected to boost consumer spending and business activities. Such a rate will create adequate disposable income to spur private consumption and in turn business activities. The amount expected to be collected from the GST was around RM44bil. Assuming there is no GST, he the estimated contribution from the SST would be around RM28bil. Given that the government has collected the GST from January to May and the SST would be collected from September onwards, he expects the collection to be somewhere around RM27bil. Products and services that would be covered by the SST would see their prices increasing by a quantum similar to the rate that would be set, Sunway University Business School professor of economics Yeah Kim Leng said. "The previous rate was 4% for products and 10% for selected services. We may see a uniform rate this time of between 4% and 10%. It could be fixed at 6% or higher to collect RM10bil to RM12bil between September till December to offset the estimated RM26bil GST forgone when the GST was zero-rated. "Depending on the rate and coverage consumers could be paying the same or more for certain items," he noted. "Overall, the tax burden will be reduced by an estimated

RM10bil-RM15bil. This amount is the overall increase in disposable income for consumers. Depending on the types of goods and services that will be subject to the SST, the price impact will vary by income groups according to what they consume," Yeah added. "On both occasions when the GST is abolished and the SST reinstated, for several months there will be opportunities for non-compliance and profiteering. The enforcement ministries, consumer groups and trade associations will have to play their respective roles to ensure the price adjustments are made correctly. "Since prices are sticky downwards, it is important that monitoring and enforcement activities are carried out effectively," he said. (Source: *The Star*)

Rating Actions			
Issuer	PDS Description	Rating/Outlook	Action
Nil	Nil	Nil	Nil

Source: RAM Ratings; MARC

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