February 5, 2018

Global Markets Research

Fixed Income

Fixed Income Daily Market Snapshot

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	2.14	-2
5-yr UST	2.59	2
10-yr UST	2.84	5
30-yr UST	3.09	6

	MGS		GII*	
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.37	2	3.54	-3
5-yr	3.60	-3	3.88	-1
7-yr	3.89	-7	4.08	0
10-yr	3.96	6	4.16	-1
15-yr	4.40	0	4.53	0
20-yr	4.60	-1	4.78	0
30-yr	4.85	-1	4.96	1

*Market indicative

MYR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.78	1
3-yr	3.84	0
5-yr	3.92	2
7-yr	4.03	2
10-yr	4.14	1

Source: Bloomberg

US Treasuries

- US Treasuries ended weak across most tenures with yields higher by 2-6bps across 5s to 30s tenures save for the 2Y. Analysts have been eyeing a recent increase in US bond yields following strong jobs data last Friday. The curve steepened against the 2Y; which is sensitive to Fed policy interest rate expectations. The much-watched 10Y rose 5bps higher at 2.84%. The speed with which yields are spiking may send shudders through the market for now with March and May rate hikes on the cards. Upcoming data include Markit US PMI and Trade Balance figures.

MGS/GII

- Local Govvies saw volume traded improve to RM3.21b with interest seen in belly of the curve i.e. off-the-runs 18-21's together with 5Y benchmarks MGS and GII. Yields were mostly mixed between -7 to +6bps. Both the widely-watched benchmark 7Y MGS 9/24 and 10Y MGS 11/27 closed mixed at 3.89% and 3.96% respectively compared to previous-done levels. BNM statement quoted by the Edge says that the recent OPR hike shouldn't be construed as tightening of monetary policy with the phase of rate normalization to fall into place worldwide eventually. Investors and market players may be cautious and possibly track developments in the US Treasury market for now.

Upcoming Government Bond Tenders

7.5Y new issue of GII 8/25 totaling RM3.0b + RM1.0b (Private Placement) on Tues, 6th Feb

PDS/Sukuk

- Unlike Govvies; interest waned in the secondary market for Corporate Bonds with total volume of only RM100m and some interest seen in the AAA and AA-space. PLUS 25 rose 8bps to end at 4.50% compared to previous-done levels whereas AA-rated YTL Power 10/21 and BGSM 6/24 closed unchanged at 4.48% and 4.70% respectively. Expect only selective investor interest on the back of rising UST yields.

Daily Trades : Government Bonds

Securities		Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS	02/18	4.152	80	3.252	30/01/2018	90
MGS	09/18	3.018	148	3.226	30/01/2018	-21
MGS	03/19	3.141	206	3.362	30/01/2018	-22
MGS	07/19	3.310	4	3.249	30/01/2018	6
MGS	10/19	3.287	50	3.293	30/01/2018	-1
MGS	11/19	3.341	182	3.285	30/01/2018	6
MGS	03/20	3.349	101	3.330	30/01/2018	2
MGS	07/20	4.449	13	3.381	30/01/2018	107
MGS	10/20	3.442	92	3.383	30/01/2018	6
MGS	02/21	3.371	41	3.353	26/01/2018	2
MGS	07/21	3.481	30	3.497	29/01/2018	-2
MGS	09/21	3.591	60	3.607	30/01/2018	-2
MGS	11/21	3.492	174	3.498	30/01/2018	-1
MGS	03/22	3.603	338	3.637	30/01/2018	-3
MGS	08/22	3.745	99	3.735	30/01/2018	1
MGS	09/22	3.742	125	3.712	26/01/2018	3
MGS	03/23	3.799	22	3.777	29/01/2018	2
MGS	08/23	3.842	15	3.860	29/01/2018	-2
MGS	07/24	3.917	13	3.897	30/01/2018	2
MGS	09/24	3.919	98	3.929	30/01/2018	-1
MGS	09/25	3.970	48	3.999	30/01/2018	-3
MGS	04/26	4.116	14	4.087	29/01/2018	3
MGS	11/26	4.045	9	4.008	30/01/2018	4
MGS	03/27	4.151	2	4.158	30/01/2018	-1
MGS	05/27	4.197	1	4.154	30/01/2018	4
MGS	11/27	3.886	208	3.961	30/01/2018	-7
MGS	04/30	4.369	2	4.407	29/01/2018	-4
MGS	06/31	4.442	11	4.441	30/01/2018	0
MGS	04/32	4.457	3	4.482	30/01/2018	-3
MGS	04/33	4.403	138	4.403	30/01/2018	0
MGS	05/35	4.561	40	4.591	30/01/2018	-3
MGS	04/37	4.603	400	4.615	30/01/2018	-1
MGS	09/43	4.819	8	4.846	24/01/2018	-3
MGS	03/46	4.847	40	4.867	30/01/2018	-2
GII	04/20	3.536	26	3.569	30/01/2018	-3
GII	04/22	3.876	312	3.882	30/01/2018	-1
GII	07/23	3.996	14	4.035	30/01/2018	-4
GII	07/27	4.164	10	4.174	30/01/2018	-1
GII	05/47	4.960	40	4.947	23/01/2018	1
			3214			

Daily Trades: PDS / Sukuk

Securities		Rating	Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)	Spread Against MGS*
Impian Ekspresi Sdn Berhad	11/20	AAA	4.721	20	4.779	21/04/2017	-6	133
Projek Lebuhraya Usahasama Berhad	01/25	AAA	4.497	20	4.414	02/11/2017	8	57
YTL Power International Berhad	10/21	AA1	4.478	10	4.479	29/01/2018	0	99
CIMB Bank Berhad	10/23	AA1	4.256	30	4.229	07/12/2017	3	46
BGSM Management Sdn Berhad	06/24	AA3	4.697	20	4.701	22/01/2018	0	90
				100				

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

Market/Corporate News: What's Brewing

FINANCIAL market volatility is expected to increase significantly as US financing requirements exert further upward pressure on bond yields. There is even warning of a possible crash. "The pressure on the bond market has already caused yields of 10-year US Treasuries to surpass its resistance of 2.6%."In the last fiscal year, the US deficit had already reached US$666bil, its largest since 2013. The Trump administration is reported to be selling US$66bil worth of long-term debt in the first quarter to fill the financing gap."This will further exert upward pressure on bond yields," said Nor Zahidi Alias, chief economist, Malaysian Rating Corp. Bond yields and prices move in opposite directions; rising yields indicate negative market conditions. Stock markets plunged and bond yields soared last Friday after US data, showing the strongest annual wage growth since 2009, rattled investors who fear that rising inflation would lead to more rate hikes than expected, according to Reuters. "Trump's military spending and tax cuts, plus the Fed ending the last bits of quantitative easing (QE), all point to the fact that Treasury issuances are going to be huge. "This is particularly at a time when a big buyer, that is, the Fed, is withdrawing from the market. So interest rates just have to climb. "If wage pressures climb, like I think they will, the Fed will have its hands tied with monetary easing," said Pong. The US Fed kept interest rates unchanged last Wednesday but said inflation would likely rise this year, said Reuters. "The implications of a bigger budget deficit and debt are rising long-term rates and price inflation. US infrastructure spending, if implemented as planned, will boost economic growth via the multiplier effect. "Sustained US growth bodes well for the global economy, and Asian exports. The trillion dollar infrastructure spending will put pressure on the US budget deficit and national debt," said Lee Heng Guie, executive director, Socio Economic Research Centre. Hot on the heels of tax cuts, Trump had unveiled a US$1.5 trillion infrastructure spending. "These are intended as positive moves but the funding for the huge deficit that it implies, has not been quite thought out. Spiking Treasury yields is evidence that money does not grow on trees. "Central banks will probably be forced back into QE; they are effectively locked into a game of QE infinity. Each time they attempt to exit QE, a crisis breaks out," said Pong. "I worry about a spell of very high and spiralling inflation. With QE, there is no limit to the amount of US dollars and other reserve currencies (that can be minted) to buy up physical resources especially commodities. "By pouring more and more cheaply minted money into exploration and production of commodities, we have deferred the arrival of the day of reckoning," said Pong. Huge new commodities supplies will keep commodities prices low; this capacity to produce consumer goods will mean a hugely competitive industry producing goods at low prices so that low interest rates can be justified. "It is a truly vicious cycle," said Pong. Legendary investor Jim Rogers had predicted, in his interview with "The Bottom Line" in the middle of last year, that a market crash that is going to be "the worst in your lifetime," will likely happen this year. "In 2008, we had a problem because of debt... that debt is nothing compared to what's happening now. In 2008, the Chinese had a lot of money saved for a rainy day. "It started raining. They started spending the money. Now, even the Chinese have debt, and the debt is much higher. "The Fed... the balance sheet is up over five times since 2008," Rogers was quoted as saying. If this drop (the Dow fell 666 points last Friday) is (the crash Rogers was predicting), it is only the first instalment. That is why we should be afraid... very afraid," said Pong. There are concerns on the effects of the US tax cuts which is reminiscent of the Ronald Reagan era in the 1980s. This "supply side" policy is based on the argument that a tax cut will provide enough stimulus where revenue growth will eventually increase and make up for the initial loss. "Reagan tried this but the budget deficit swelled to 5% of gross domestic product in 1983, from 2% in 1980. "The pressure on the deficit lead to a surge in rates and yields on US Treasuries spiked by 400 basis points in the late 1980s," said Zahidi. (Source: The Edge)

As FX traders look ahead to Malaysia's upcoming general election, they might want to look back at past polls for trading cues. In four out of the last five polls going back to 1986, **the ringgit has strengthened in the six-month periods leading up to the vote** (omitting years when it was pegged to the U.S. dollar). How might the Malaysian currency trade heading into the general election this year, due by August? If the past is a guide, keep an eye on oil. The price of oil was also rising in the run-up to the polls -- suggesting the ringgit may have been reflecting that strength. Oil constitutes a declining, yet still significant, share of Malaysia's exports and government revenues. So it's reasonable to expect the ringgit to appreciate when oil is rising.

Trading in Oil, Ringgit. Six Months Before Elections- aside from higher oil prices at the moment, the ringgit has other factors in its favor heading into this year's general election:

* The previous multi-year sell-off in the ringgit increases its upside potential.

* Capital inflows are supported by Bank Negara Malaysia's January rate hike and the prospect of more tightening to come.

* Exports more broadly are supported by sustained momentum in global demand.

Hence, Oil Up, Ringgit Up, Same Government Most Times. Malaysia's economy is less dependent on oil than it has been in the past and the ringgit is more independent. Indeed, the ringgit languished in 2016 -- when oil prices rallied 200%. Even so, it might not hurt the incumbent's chances this year if oil continues to climb a bit longer. (Source: The Edge)

Rating Actions

Issuer	PDS Description	Rating/Outlook	Action
Nil	Nil	Nil	Nil

Source: RAM Ratings; MARC

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