

Global Markets Research

Fixed Income

Fixed Income Daily Market Snapshot

US Treasuries

- US Treasuries were relatively stable with little price action following the 2-day selloff as real money demand emerged amid weaker equities. The curve steepened slightly as overall benchmark yields ended within 1bps from prior day's close. Both the 2Y and 10Y were etched at 2.87% and 3.19% levels; literally at the highest since 2011. The latest series of moves followed a bullish assessment of the US economy from Fed chairman Powell; and were evidenced by the strongest reading for the ISM non-manufacturing index in 21 years. Investors may be tempted to re-price inflation expectations based on wage growth that will be confirmed by tonight. The seasonality for bearish UST's in the final 3 months of the calendar year may yet be another factor.

MGS/GII

- Trading volume for Govvies improved to RM2.31b yesterday amid weaker govies overall as investors were net sellers. Overall benchmark yields rose between 1-6bps across the curve. Nevertheless some investors were seen nibbling on the shorter off-the-run 21's, 23's and also the benchmark 10Y MGS and GII. The 7Y MGS 3/25 closed 2bps higher at 4.00% whilst the 10Y MGS 6/28 weakened to yield 6bps higher at 4.13%. GII bond trades rose to 46% of overall trades. Meanwhile emerging Asia's sovereign bonds may be set to reverse the 2-year surge in interest which was fueled by cheap money with the stronger dollar, US-China trade war and soaring oil prices being other factors in the entire equation. Meanwhile up next on the local data front are the trade balance, import and export numbers today.

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	2.87	0
5-yr UST	3.04	0
10-yr UST	3.19	0
30-yr UST	3.35	1

MGS		GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.63	2	3.72	2
5-yr	3.82	6	3.88	0
7-yr	4.00	2	4.04	0
10-yr	4.13	6	4.19	3
15-yr	4.54	1	4.56	0
20-yr	4.69	2	4.78	4
30-yr	4.93	3	4.99	5

* Market indicative levels

MYR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.71	0
3-yr	3.78	2
5-yr	3.88	2
7-yr	3.99	2
10-yr	4.18	2

Source : Bloomberg

Upcoming Government Bond Tender

Nil

Corp Bonds/Sukuk

- Corporate bonds/Sukuk saw volume spike to RM709m with focus in the GG-part of the curve followed by AA in 32 different bonds compared to prior day's 30. Overall yields ended mostly lower-to-mixed yesterday with trades across most tenures up to 25Y. Both DANA and PRASA 24's closed unchanged between 4.11-18% levels compared to previous-done levels. LPPSA 9/22 and 4/25 made their debut trades at 4.00% and 4.21% respectively; 8-11bps lower than issued coupon levels. The long DANA 11/44 however saw RM100m nominal amounts traded 19bps higher at 5.02%. The seldom-traded AA-rated Quantum Solar 19, 27 and 32's traded lower on yields at 4.64%, 5.23% and 5.48% respectively. The AA-space continued to see power-related bonds i.e. MALAKOFF, BGSM, Southern Power end lower on yields.

Daily Trades : Government Bonds

Securities	Closing	Vol	Previous	Previous	Chg
	YTM	(RM mil)	YTM	Trade Date (dd/mm/yyyy)	(bp)
MGS 03/19	3.333	3	3.273	03/10/2018	6
MGS 07/19	3.328	10	3.316	03/10/2018	1
MGS 11/19	3.435	2	3.417	03/10/2018	2
MGS 03/20	3.436	4	3.492	02/10/2018	-6
MGS 07/20	3.531	3	3.460	28/09/2018	7
MGS 10/20	3.555	5	3.524	03/10/2018	3
MGS 02/21	3.574	3	3.582	02/10/2018	-1
MGS 07/21	3.594	96	3.631	03/10/2018	-4
MGS 09/21	3.662	240	3.649	03/10/2018	1
MGS 11/21	3.632	30	3.616	02/10/2018	2
MGS 08/22	3.738	4	3.748	03/10/2018	-1
MGS 09/22	3.768	16	3.746	03/10/2018	2
MGS 03/23	3.828	2	3.838	03/10/2018	-1
MGS 04/23	3.817	211	3.762	02/10/2018	6
MGS 08/23	3.868	3	3.856	03/10/2018	1
MGS 07/24	3.940	71	3.961	03/10/2018	-2
MGS 09/24	3.983	2	3.964	03/10/2018	2
MGS 03/25	3.997	10	3.979	03/10/2018	2
MGS 09/25	4.072	11	4.013	03/10/2018	6
MGS 04/26	4.088	2	4.096	03/10/2018	-1
MGS 11/26	4.089	2	4.081	03/10/2018	1
MGS 03/27	4.147	15	4.233	03/10/2018	-9
MGS 11/27	4.165	1	4.158	03/10/2018	1
MGS 06/28	4.129	266	4.066	02/10/2018	6
MGS 06/31	4.492	10	4.450	02/10/2018	4
MGS 04/33	4.585	40	4.556	03/10/2018	3
MGS 11/33	4.536	140	4.522	03/10/2018	1
MGS 04/37	4.681	10	4.742	03/10/2018	-6
MGS 06/38	4.689	2	4.666	02/10/2018	2
MGS 07/48	4.926	21	4.901	28/09/2018	3
GII 08/21	3.668	70	3.676	28/09/2018	-1
GII 03/22	3.723	180	3.706	02/10/2018	2
GII 04/22	3.779	165	3.771	03/10/2018	1
GII 07/23	3.914	200	3.908	01/10/2018	1
GII 05/24	4.002	180	3.993	03/10/2018	1
GII 10/28	4.187	250	4.153	03/10/2018	3
GII 08/37	4.783	20	4.746	01/10/2018	4
GII 05/47	4.987	10	4.934	28/09/2018	5
		<u>2308</u>			

Daily Trades: Corp Bonds / Sukuk

Securities	Rating	Closing	Vol	Previous	Previous	Chg	Spread	
		YTM	(RM mil)	YTM	Trade Date (dd/mm/yyyy)	(bp)	Against MGS*	
Prasarana Malaysia Berhad	03/20	GG	3.884	90	3.832	25/09/2018	5	51
Lembaga Pembiayaan Perumahan Sektor Awam	09/22	GG	3.999	50	-	-	-	27
Prasarana Malaysia Berhad	02/23	GG	4.045	40	4.100	07/08/2018	-5	32
DanaInfra Nasional Berhad	05/24	GG	4.112	90	4.109	26/09/2018	0	17
Prasarana Malaysia Berhad	09/24	GG	4.182	50	4.179	25/09/2018	0	24
DanaInfra Nasional Berhad	11/24	GG	4.163	80	4.171	26/09/2018	-1	22
Lembaga Pembiayaan Perumahan Sektor Awam	04/25	GG	4.213	50	-	-	-	21
Jambatan Kedua Sdn Berhad	05/25	GG	4.210	40	4.220	03/10/2018	-1	21
Pengurusan Air SPV Berhad	09/25	GG	4.210	10	4.212	28/08/2018	0	21
Prasarana Malaysia Berhad	09/27	GG	4.342	40	4.316	03/10/2018	3	23
DanaInfra Nasional Berhad	04/40	GG	4.912	10	5.109	06/03/2018	-20	21
DanaInfra Nasional Berhad	11/44	GG	5.024	100	4.830	07/10/2016	19	33
GENM Capital Berhad	07/23	AAA	4.881	1	4.881	26/09/2018	0	107
Celcom Networks Sdn Berhad	10/21	AA+	4.548	10	4.476	03/09/2018	7	91
United Growth Berhad	06/22	AA2	4.369	2	4.420	06/09/2018	-5	64
UMW Holdings Berhad	09/23	AA2	4.576	20	4.594	26/09/2018	-2	77
BGSM Management Sdn Berhad	08/21	AA3	4.430	5	4.483	12/09/2018	-5	80
Gamuda Berhad	11/22	AA3	4.600	30	4.607	26/09/2018	-1	87
AmBank Islamic Berhad	03/24	AA3	4.328	5	4.294	01/10/2018	3	52
RHB Islamic Bank Berhad	05/24	AA3	4.286	5	4.448	10/08/2018	-16	34
Malakoff Power Berhad	12/18	AA-	4.029	3	4.044	26/09/2018	-1	65
UEM Sunrise Berhad	06/19	AA-	4.345	5	4.382	13/08/2018	-4	97
Quantum Solar Park (Semenanjung) Sdn Berhad	10/19	AA-	4.642	5	4.688	27/10/2017	-5	127
Malakoff Power Berhad	12/19	AA-	4.249	5	4.466	13/08/2018	-22	87
Southern Power Generation Sdn Berhad	04/22	AA-	4.460	5	4.601	29/06/2018	-14	73
Anih Berhad	11/22	AA-	4.461	3	4.650	07/06/2018	-19	73
Southern Power Generation Sdn Berhad	04/24	AA-	4.550	5	4.600	19/09/2018	-5	61
Quantum Solar Park (Semenanjung) Sdn Berhad	10/27	AA-	5.231	5	5.400	05/10/2017	-17	112
Quantum Solar Park (Semenanjung) Sdn Berhad	04/32	AA-	5.480	5	-	-	-	95
UMW Holdings Berhad	04/18	A1	5.861	1	5.748	28/08/2018	11	116
Mah Sing Perpetual	-	-	5.964	1	6.455	03/10/2018	-49	-
Southern Power Generation Sdn Berhad	04/34	AA-	5.049	10	5.049	28/09/2018	0	52
				<u>779</u>				

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

Market/Corporate News: What's Brewing

WCT Holdings construction division's order book remains healthy amidst the tough property sales outlook at a seven-year high of RM7.2bil, according to its management. The order book was boosted after it secured the RM1.8bil mammoth building project for phase 1 of Pavilion Damansara Height (PDH). Its order book composition is predominantly domestic (94% of total order book; 6% overseas), external (98% of total order book; 2% internal) and civil infrastructure based (64% of total order book; 36% building works). A research house said that "WCT aims to be able to sustain a 9%-10% pretax margin for construction, as there are still selected ongoing projects with relatively higher margins. Also, any potential margin downside from LRT 3 cost cuts can be mitigated by lower machinery cost spread over a longer project duration that was extended by four years due to the cost rationalisation exercise," it said. Key topics were 1) implications of the recent RM1.8bn PDH building job, 2) guidance on the pending outcome of LRT 3 and MRT 2 cost rationalisation, 3) earnings drivers in 2H18F, 4) contract risks in 2019F, 5) revised plans for a REIT, and 6) job and property sales targets. The pending outcome of LRT 3 cost rationalisation would affect WCT's overall job scope value and profits, e.g. cancelling and/or redesigning stations. One of the four stations in WCT's RM1.5bil package has been scrapped (c.RM100mil to RM150mil), and another is being scaled down. "It said project gross margins of 8%-10% can be preserved given reallocation of logistics and machinery over the four-year project extension but profit per annum will be reduced. WCT's three LRT 3 packages form 20% of its RM7bil outstanding order book," it said. The cost of MRT 2 could be reduced by 20%-25% or up to RM8bil, based on its industry checks. WCT's RM971mil MRT 2 package (15% completed as at June 2018) makes up 13% of its outstanding order book. "Details of how MRT 2 will be scaled down have yet to be announced but we believe it could mirror the outcome of LRT 3. We think it could have a negative impact on WCT's scope (near Bandar Malaysia site)," it said. The research house said in 2019, WCT will focus more on new tenders for building jobs as it targets RM1bil to RM1.5bil new wins (PBH Sabah, though could be delayed), PDH Phase 2, TRX high-rise) which is 30-50% lower than its YTD win of RM2.3bil. Also, WCT aims to revive its REIT plans in mid-2019; to list four property investment assets (RM2.5bil total asset value) which would deconsolidate RM600mil worth of debts. "LRT 3 and MRT 2 cost reduction, and challenging inventory-driven property sales could pose downside risks to forecasts. About RM20mil to RM30mil land sale gains should support 2H18F overall earnings. (Source: *The StarOnline*)

A two-day unloading of U.S. Treasuries pushed their yields to multiyear peaks on Thursday as robust economic data and hawkish speeches by Federal Reserve officials stoked concerns about inflation, hitting Wall Street and stock markets globally. The yield on the benchmark 10-year note hit a seven-year high of 3.232 percent following data released the previous day that was seen as increasing the odds a Friday payrolls report would also be stronger than expected. Fed Chairman Jerome Powell said the economy can expand for "quite some time," which also helped the yield curve steepen to its highest in two months. Stocks, in turn, have fallen broadly, with the Dow suffering its first decline in six sessions and both the S&P 500 and Nasdaq seeing their worst day since June 25. "The follow-through on the Treasury rates today, actually the follow-through worldwide on Treasuries, has a big part to do with this," said JJ Kinahan, chief market strategist at TD Ameritrade in Chicago. The Dow Jones Industrial Average fell 200.91 points, or 0.75 percent, to 26,627.48, the S&P 500 lost 23.9 points, or 0.82 percent, to 2,901.61 and the Nasdaq Composite dropped 145.58 points, or 1.81 percent, to 7,879.51. The CBOE Global Markets volatility index .VIX, known as Wall Street's "fear gauge", rose 4.12 points, its highest surge since Aug. 15. The pan-European FTSEurofirst 300 index lost 1.02 percent and MSCI's gauge of stocks across the globe

shed 1.00 percent. The surge in Treasury yields has also prompted a rise in government bond yields across the globe.

"We saw very large overnight volumes during both the Tokyo and London trading hours, which was a catchup in foreign sovereign markets to the very large sell-off in U.S. Treasuries yesterday," said Jon Hill, U.S. rates strategist at BMO Capital Markets. Euro zone bond yields rose sharply, tracking their U.S. counterparts, while the "trans-Atlantic spread" between United States and German 10-year bond yields hit a three-decade high of around 275 bps. The U.S. dollar weakened against the euro and yen but lingered near recent highs as investors digested U.S. economic data and Powell's remarks. The dollar index was flat, with the euro up 0.31 percent to \$1.1512. The Japanese yen strengthened 0.55 percent versus the greenback at 113.92 per dollar. Investors are expected to scour the U.S. government's September payroll report scheduled for release on Friday and look closely for signs of wage growth, especially in light of anecdotal indications of rising wages. "That sense of the market's rising discomfort about inflation risks leads me to expect the wage inflation reading within the U.S. nonfarm payrolls on Friday will be critical to the current sell-off," wrote Brian Daingerfield, macro strategist at NatWest Markets. The exception of the day was Italy, where borrowing costs dropped for a second day after the government said it would cut budget deficit targets from 2020 and reduce its debt over the next three years. Prime Minister Giuseppe Conte on Wednesday confirmed a deficit target of 2.4 percent of gross domestic product in 2019 and said it would fall to 2.1 percent in 2020 and 1.8 percent in 2021. The estimates for 2020 and 2021 were lower than those initially reported, bringing further relief to bond markets rattled by the new government's plans to ramp up spending. Oil prices fell as the prospect of increased crude production from Saudi Arabia and Russia prompted profit-taking the day after futures hit four-year highs on a boost from imminent U.S. sanctions on OPEC's No. 3 producer Iran. (Source: *The Edge Markets/Reuters*)

Rating Action			
Issuer	PDS Description	Rating/Outlook	Action
AFFIN Islamic Bank Berhad	Financial Institution Rating	AA3/Stable/P1	Assigned
	Senior Sukuk Murabahah	AA3	Assigned
	Tier 2 Sukuk Murabahah	A1	Assigned
	Additional Tier 1 Capital Sukuk Wakalah	A3	Assigned

Source: RAM, MARC

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