

## Global Markets Research

### Fixed Income

#### Fixed Income Daily Market Snapshot

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	2.03	-12
5-yr UST	2.44	-10
10-yr UST	2.71	-14
30-yr UST	3.01	-8

MGS		GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.38	1	3.56	2
5-yr	3.58	-3	3.91	3
7-yr	3.91	-1	4.08	0
10-yr	3.95	6	4.22	6
15-yr	4.40	0	4.53	0
20-yr	4.64	3	4.78	0
30-yr	4.85	0	4.96	0

\*Market indicative

M YR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.77	-1
3-yr	3.84	0
5-yr	3.92	0
7-yr	4.03	0
10-yr	4.15	1

Source: Bloomberg

#### Upcoming Government Bond Tenders

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

#### US Treasuries

- US Treasuries surged amid large volumes with yields lower by 8-14bps across the tenures with the rally sparked by a flight to safety and a spike in VIX; which topped at 39; highest since Aug 2015. The 5s30s spread steepened by 5bps. The 2Y, which is sensitive to Fed policy interest rate expectations ended 12bps lower at 2.03% whilst the much-watched 10Y rallied by a whopping 14bps to 2.71%. The crumbling equities market drove investors to the safety of Govt debt. The odds of a March and rate hike has eased slightly circa 84%. Upcoming data today are the trade balance figures which could easily be sidelined amid current market turmoil.

#### MGS/GII

- Local Govvies saw volume decrease to RM1.98b with interest seen in the 7Y, 10Y and 20Y benchmarks. Yields were mixed to slightly higher with the widely-watched benchmark 7Y MGS 9/24 and 10Y MGS 11/27 closing at 3.91% and 3.96% respectively compared to previous-done levels. Investors and market players may be cautious and possibly track developments in the US Treasuries and equities market for now. Attention for today will be on the auction of the new issuance of 7.5Y GII 8/25 followed by release of data i.e. BNM foreign reserves today and external trade figures tomorrow.

#### PDS/Sukuk

- Secondary market trades for Corporate Bonds improved marginally with total volume of RM251m as Govt-Guaranteed, AAA and AA-space were all bid. RM40m of PASB 21 and 26 exchanged hands closing unchanged at 3.95% and 4.40% respectively compared to previous-done levels whereas TNB 8/37 closed 1bps higher at 5.10%. A slew of EDRA Energy papers i.e. 2022-2024 were traded unchanged closing between 5.16-5.32%. Selective investor interest may continue on yield-carry requirements

## Daily Trades : Government Bonds

Securities	Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS 02/18	3.432	3	4.152	02/02/2018	-72
MGS 03/18	3.133	120	3.215	30/01/2018	-8
MGS 09/18	3.129	104	3.018	02/02/2018	11
MGS 03/19	3.197	35	3.197	02/02/2018	0
MGS 07/19	3.206	80	3.310	02/02/2018	-10
MGS 10/19	3.286	51	3.274	02/02/2018	1
MGS 11/19	3.335	81	3.285	02/02/2018	5
MGS 03/20	3.378	26	3.330	02/02/2018	5
MGS 07/20	3.393	35	3.359	02/02/2018	3
MGS 10/20	3.402	34	3.344	02/02/2018	6
MGS 02/21	3.378	15	3.371	02/02/2018	1
MGS 07/21	3.475	52	3.491	02/02/2018	-2
MGS 09/21	3.606	64	3.665	02/02/2018	-6
MGS 11/21	3.478	177	3.469	02/02/2018	1
MGS 03/22	3.577	13	3.616	02/02/2018	-4
MGS 09/22	3.723	15	3.742	02/02/2018	-2
MGS 03/23	3.795	13	3.801	02/02/2018	-1
MGS 07/24	3.932	26	3.897	02/02/2018	4
MGS 09/24	3.912	293	3.912	02/02/2018	0
MGS 09/25	3.981	43	3.962	02/02/2018	2
MGS 11/26	4.070	37	4.008	02/02/2018	6
MGS 11/27	3.948	103	3.917	02/02/2018	3
MGS 04/30	4.403	13	4.403	02/02/2018	0
MGS 06/31	4.477	31	4.441	02/02/2018	4
MGS 04/33	4.408	3	4.408	02/02/2018	0
MGS 05/35	4.578	5	4.561	02/02/2018	2
MGS 04/37	4.635	124	4.611	02/02/2018	2
MGS 03/46	4.850	3	4.847	02/02/2018	0
GII 05/18	3.293	60	3.203	30/01/2018	9
GII 04/19	3.387	2	3.390	26/01/2018	0
GII 09/19	3.454	10	3.467	02/02/2018	-1
GII 04/20	3.560	10	3.584	02/02/2018	-2
GII 08/20	3.678	110	3.631	19/01/2018	5
GII 03/21	3.797	8	3.886	29/01/2018	-9
GII 04/22	3.905	128	3.876	02/02/2018	3
GII 07/27	4.219	40	4.164	02/02/2018	6
GII 08/33	4.640	20	4.645	30/01/2018	0
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## Daily Trades: PDS / Sukuk

Securities	Rating	Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)	Spread Against MGS*	
Pengurusan Air SPV Berhad	02/21	GG	3.945	20	3.947	26/01/2018	0	55
Pengurusan Air SPV Berhad	02/26	GG	4.402	20	4.398	18/01/2018	0	45
TNB Western Energy Berhad	07/24	AAA	4.498	10	4.536	15/12/2017	-4	69
Al Dzhahab Assets Berhad	06/19	AAA	4.441	8	4.415	22/12/2017	3	122
Perdana Petroleum Berhad (fka Petra Perdana Berhad)	04/20	AAA	4.725	10	4.747	29/04/2016	-2	141
Tenaga Nasional Berhad	08/37	AAA	5.099	30	5.089	03/01/2018	1	49
Sabah Credit Corporation	10/19	AA1	4.424	10	4.428	26/01/2018	0	111
Sabah Credit Corporation	05/20	AA1	4.466	3	4.502	23/01/2018	-4	115
Northern Gateway Infrastructure Sdn Berhad	08/21	AA1	4.530	1	-	-	-	-
Sabah Development Bank Berhad	05/22	AA1	4.997	20	5.222	07/12/2017	-23	149
YTL Power International Berhad	05/27	AA1	4.900	10	4.898	29/01/2018	0	93
PBFIN Berhad	06/59	AA2	4.948	0	4.635	26/01/2018	31	34
Edra Energy Sdn Berhad	01/22	AA3	5.168	10	5.170	04/01/2018	0	166
BGSM Management Sdn Berhad	12/22	AA3	4.618	2	4.606	19/01/2018	1	101
Edra Energy Sdn Berhad	07/23	AA3	5.261	10	5.260	04/01/2018	0	165
Edra Energy Sdn Berhad	01/24	AA3	5.291	5	5.730	04/01/2018	-44	148
CIMB Thai Bank Public Company Limited	07/24	AA3	4.847	30	4.873	16/01/2018	-3	104
Edra Energy Sdn Berhad	07/24	AA3	5.320	10	5.320	04/01/2018	0	151
Lebuhraya DUKE Fasa 3 Sdn Berhad	08/33	AA-	5.134	5	5.208	03/01/2018	-7	72
Konsortium Lebuhraya Utara-Timur (KL) Sdn Berhad	12/26	AA-	4.784	20	4.739	09/11/2017	4	81
Southern Power Generation Sdn Berhad	04/34	AA-	5.349	10	5.470	05/01/2018	-12	94
CIMB Group Holdings Berhad	05/16	A1	4.880	1	5.250	29/01/2018	-37	27
Bahrain Mumtalakat Holding Company B.S.C	04/18	A3	5.448	5	5.324	16/01/2018	12	223
Mah Sing perpetual	-	-	6.342	1	6.674	26/01/2018	-33	-
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\*spread against nearest indicative tenured MGS (Source : BPAM)

### Market/Corporate News: What's Brewing

Sources said the **YTL group has teamed up with the SIPP group to bid for the job of PDP, while the other JV that has thrown in its hat is the one between Naza Group and China Communications Construction Co Ltd (CCCC)**. At the moment, there are two JV companies comprising established names in the construction industry that are already bidding for the PDP job of the HSR. They are Gamuda Bhd-Malaysian Resources Corp Bhd (MRCB) and a four-party consortium comprising IJM Corp Bhd-Sunway Construction Group Bhd (SunCon)-Jalanan Rejang Sdn Bhd-Maltimur Resources Sdn Bhd. "At a glance, the fight for the PDP job for the civil works portion is essentially between Gamuda-MRCB and IJM-SunCon-Jalanan-Maltimur. However, there is an outside chance of YTL pulling off an upset largely due to its partner's influential presence in Johor," said a consultant. The SIPP group, which has the backing of the Johor Palace, has bagged a few federal government-sponsored projects in the state following its partnership with the YTL group. Among them is the RM9bil Gemas-Johor Baru double-track project and a 1,440-megawatt power plant. The tender for the PDP job to oversee the civil works portion of the HSR project opened in November. It was supposed to close at the end of January. However, it has been extended by another two weeks until Feb 14 at the request of some of the bidders and changes to the scope of work. "The extension was given to allow more time for the prospective bidders to team up with international consulting firms that are specialised in HSR projects," said a source. Industry executives said that the extension of the closing date by two weeks indicates that the government wants to see that all parties have ample time to put in their best bids. The HSR is the most prestigious infrastructure project for the government. The civil works portion itself is estimated at RM35bil and the PDP gets as much as 5% in fees if it is able to ensure that the job is done within the timeframe and within cost. Among the criteria for prospective bidders is that they must have managed projects as a PDP, with railway-related work experience and HSR expertise. With regards to the HSR expertise, the companies can team up with a foreign consultant. Towards this end, it is learnt that Gamuda-MRCB is said to have roped in Systra of France as its railway specialist consultant. Systra is well-known in the field of HSR works and is also one of the civil reference design consultants for MyHSR Corp to guide it on the HSR works from Bandar Malaysia, Kuala Lumpur up to the Selangor-Negeri Sembilan border. The IJM-SunCon-Maltimur-Jalanan consortium has teamed with Italferr of Italy, which also has a strong technical record in HSR projects. Italferr is a consultant for many HSR jobs in and outside Italy, including Eastern Europe. YTL-SIPP is believed to have teamed up with AECOM, which like Systra, is one of the civil reference design consultants employed by MyHSR. AECOM's work for MyHSR is to provide advice for the civil design works for the stretch between Iskandar Puteri Station in Johor and up to the border between Malaysia and Singapore. However, the HSR specialist for the Naza-CCCC consortium is not known. The Gamuda-MRCB JV and the IJM-SunCon-Maltimur-Jalanan consortium have the necessary track record as PDP, as they have undertaken large jobs. Gamuda-MRCB has undertaken PDP jobs for the mass rapid transit and light rail transit (LRT) projects. As for IJM and SunCon, both are strong contractors and complemented by Maltimur Resources and Jalanan Rejang, which were the PDP for the Pan-Borneo Highway. YTL-SIPP and Naza-CCCC are not known to have a track record on undertaking work as PDP. However, YTL is undertaking the Gemas-Johor Baru double-track job. As for the Naza Group, it had put in a bid for the job of PDP in the LRT 3 line between Bandar Utama, Damansara and Klang. It lost out to the JV of George Kent (M) Bhd and MRCB. However, its partner CCCC is the prime mover for the RM54bil East Coast Rail Link project. ( Source: The Star )

**Long-term borrowing costs in Germany, the euro zone's biggest economy, pulled back from around two-year highs on Monday as bond investors paused for thought after a sharp sell-off prompted by fears about resurgent inflation.** Friday's US payrolls report showed wages growing at their fastest pace in more than 8-1/2 years, fuelling expectations of both higher inflation and more interest-rate rises from the US Federal Reserve than previously anticipated. US and German 10-year bond yields hit fresh multi-year highs in early European trade on Monday. But without fresh impetus the momentum fizzled, allowing bond yields to pull back. In addition, ECB President Mario Draghi warned in a speech that currency market volatility may prove an obstacle for inflation, remarks that potentially kept yields lower as well. "The market is still struggling to find an equilibrium and particularly to assess the upside for yields,"

said Commerzbank rates strategist Michael Leister. "Bund yields are fairly close to 0.80 percent ... a key factor in the market. Most of the recent moves were driven by the US, with Treasury yields trading at almost 2.90 percent, with at least probably some marginal willingness on behalf of investors to scale into the market again at those levels." German 10-year Bund yields fell 2 bps to 0.74 percent, off almost 2-1/2 year highs of 0.774 percent hit in early trade. German 30-year bond yields were flat having touched two-year highs earlier at 1.429 percent. Two-year bond yields were down slightly on the day, leaving the German curve out to 10 years at its steepest since mid-2014. US 10-year Treasury yields fell away from 4-year highs at around 2.84 percent. Still, analysts said sentiment towards bond markets was likely to remain bearish especially as investors ratchet up expectations for US rate rises this year. "The average earnings data from the US was strong enough to suggest the bearish sentiment will not dissipate soon," said Richard McGuire, head of rates strategy at Rabobank. Futures markets price in the risk of three, or even more, interest rate rises from the Fed this year. Just a few weeks ago they had anticipated around two rate hikes this year. Bond markets across the world have started 2018 on a weak footing as strong economic data and signs of a pick-up in inflationary pressures stoke a perception that major central banks could step back from ultra-easy monetary policies sooner rather than later. For now, US bond markets are setting the tone for euro zone peers, said analysts, with many expecting 10-year Treasury yields to test 3 percent soon.

**In U.S. equity markets sent the Dow Jones Industrial Average to its biggest loss in 6 1/2 years.** Treasuries rallied with gold and the yen on demand for haven assets. The S&P 500 Index sank 4.1 percent to wipe out its January gain and turn lower on the year, while the Dow lost more than 1,100 points amid rising concern that inflation will force interest rates higher. Trading volume was almost double the 30-day average. Futures in Japan signaled declines could reach 5 percent when Tokyo equity trading starts. Selling accelerated shortly after 3 p.m. in New York, with the Dow sinking more than 800 points in a matter of 15 minutes only to snap back. The blue-chip index ended lower by 4.6 percent -- its steepest drop since August 2011. The Cboe Volatility Index, known as the VIX, more than doubled to its highest level in 2 1/2 years. "The speed is reflective of some modern market structure issues that have come to dominate - it looked a little bit flash crashy there," Michael Purves, Weeden & Co.'s chief global strategist, told Bloomberg TV. "The most important thing for bulls is that the bond market isn't spiraling out of control and that's off a record on the non-manufacturing PMI that printed earlier, so the foundation of the current bull trend is not really different just because of this violence we're seeing on the screens today." Many finance professionals were left scratching their heads to explain the severity of the moves in a short space of time. Anxiety was already building about the outlook for monetary policy prior to Monday's rout with equities being tested by the surge in bond yields. Global shares had just last month risen to record highs on optimism for expanding profits and economic growth. Elsewhere oil slumped, however metals such as copper and nickel advanced after a Chinese purchasing managers index rose in January. Bitcoin tumbled for a fifth day, falling below \$7,000. (Source: The Edge)

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

Source: RAM Ratings; MARC

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