Global Markets Research

Fixed Income

Fixed Income Daily Market Snapshot

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	2.50	2
5-yr UST	2.78	0
10-yr UST	2.95	0
30-yr UST	3.12	0

MGS			GII*	
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.66	-1	3.68	0
5-yr	3.79	-1	3.85	-4
7-yr	3.92	-2	4.13	0
10-yr	4.11	-2	4.33	0
15-yr	4.64	-2	4.73	0
20-yr	4.76	0	4.84	0
30-yr	4.97	4	4.92	0

*Market indicative

MYR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.76	0
3-yr	3.82	0
5-yr	3.91	0
7-yr	4.02	0
10-yr	4.17	0

Source : Bloomberg

US Treasuries

- US Treasuries drifted lower despite the initial strength following the softer April NFP job reports; with the front-end lagging. Overall benchmark yields were within 0-2bps higher compared to previous-done levels; with the 2Y (most sensitive to interest rate outlook) up 2bps at 2.50% whilst the much-watched 10Y yields rose within 1bps at 2.95%. At this juncture market participants will be focusing on this week's deluge of 10Y and 30Y bond auction supplies which may impact UST yields coupled with the US CPI data; which should give clearer signs on the pace of inflation and fresh hints on the frequency of rate hikes through the end of the year.

MGS/GII

- Trading volume in local Govvies improved marginally to RM3.83b boosted by the new issuance of 15Y MGS 11/33 (which was well-received with an impressive BTC of 2.722x; averaging 4.642%) and also with interest mainly in the shorter off-the-runs 18-19's. Overall benchmark yields were 0-2bps lower save for the long bond which closed at 4.97% on odd-lot trades. Both the benchmarks 7Y MGS 3/25 and 10Y MGS 11/27 rallied by 2bps to close at 3.92% and 4.11% respectively compared to previous-done levels. Expect a quiet session ahead of the GE14.

Corp Bonds/Sukuk

- Corporate Bonds saw market volume improve further to RM458m with interest mainly in the AA-part of the yield curve. There were no Govt-guaranteed bonds traded whilst AAA-rated DANGA 1/30 saw trades amounting to RM130m; closing 4bps higher at 4.84% compared to previous-done levels. The AA-rated bonds which dominated much of last Friday's session saw a slew of MEX II bonds ranging from 26-34 close mostly higher on yields between 5.00-5.62% levels. Whilst Southern Power 10/31 and 4/35 bonds closed 2-3bps higher at 5.14% and 5.38% respectively. The banking space saw decent activity with AFFIN 27nc22's and PUBLIC 23nc18 close 0-3bps higher at 4.89-4.93% levels and 4.36% respectively.

Upcoming Government Bond Tenders

Daily Trades : Government Bonds

Securities		Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS	09/18	3.306	412	3.386	03/05/2018	-8
MGS	03/19	3.431	207	3.480	03/05/2018	-5
MGS	10/19	3.527	143	3.654	03/05/2018	-13
MGS	11/19	4.209	108	3.632	03/05/2018	58
MGS	03/20	3.667	3	3.683	03/05/2018	-2
MGS	02/21	3.716	255	3.764	03/05/2018	-5
MGS	07/21	3.782	73	3.788	03/05/2018	-1
MGS	09/21	3.809	162	3.841	03/05/2018	-3
MGS	11/21	3.659	371	3.674	03/05/2018	-2
MGS	03/22	3.853	227	3.824	03/05/2018	3
MGS	08/22	3.860	41	3.943	03/05/2018	-8
MGS	09/22	3.869	14	3.919	03/05/2018	-5
MGS	03/23	3.983	64	3.994	03/05/2018	-1
MGS	04/23	3.790	10	3.801	03/05/2018	-1
MGS	07/24	4.051	55	4.088	03/05/2018	-4
MGS	09/24	4.080	5	4.067	03/05/2018	1
MGS	03/25	3.915	89	3.949	03/05/2018	-3
MGS	09/25	4.150	54	4.186	03/05/2018	-4
MGS	04/26	4.190	70	4.224	03/05/2018	-3
MGS	11/26	4.138	109	4.180	03/05/2018	-4
MGS	11/27	4.108	54	4.110	03/05/2018	0
MGS	06/28	4.148	8	4.104	02/05/2018	4
MGS	04/30	4.503	9	4.477	03/05/2018	3
MGS	06/31	4.537	18	4.599	30/04/2018	-6
MGS	04/33	4.614	199	4.664	03/05/2018	-5
MGS	05/35	4.754	2	4.857	02/05/2018	-10
MGS	04/37	4.762	4	4.762	03/05/2018	0
MGS	09/43	4.907	1	4.949	03/05/2018	-4
MGS	03/46	4.969	4	4.932	03/05/2018	4
MGS	07/33	4.644	580	-	-	-
GII	05/18	3.450	155	3.386	02/05/2018	6
GII	08/18	3.522	5	3.455	26/04/2018	7
GII	04/19	3.432	155	3.454	30/04/2018	-2
GII	04/21	3.829	2	3.868	23/04/2018	-4
GII	04/22	3.854	90	3.892	02/05/2018	-4
GII	07/23	4.021	10	4.001	03/05/2018	2
GII	10/28	4.326	60	4.327	03/05/2018	0
GII	12/28	4.390	2	4.305	10/04/2018	9
			3829			

Daily Trades: Corp Bonds / Sukuk

Securities		Rating	Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)	Spread Against MGS*
Mecuro Properties Sdn Berhad	07/19	AAA	4.413	20	4.448	13/02/2015	-4	100
Gulf Investment Corporation G.S.C	06/22	AAA	5.167	6	5.092	09/04/2018	8	140
Bank Pembangunan Malaysia Berhad	03/27	AAA	4.772	20	4.649	30/03/2018	12	67
Gulf Investment Corporation G.S.C	06/27	AAA	5.407	1	5.320	02/04/2018	9	131
Danga Capital Berhad	01/30	AAA	4.839	130	4.799	06/03/2018	4	71
MBSB Bank Berhad (fka Asian Finance Bank Berhad)	05/19	AA1	4.533	2	4.535	30/04/2018	0	112
Public Bank Berhad	11/23	AA1	4.358	25	4.354	04/04/2018	0	46
Northern Gateway Infrastructure Sdn Berhad	08/25	AA1	4.823	5	4.757	17/04/2018	7	88
TRIplc Medical Sdn Berhad	10/31	AA1	5.011	3	5.053	23/03/2018	-4	38
CIMB Islamic Bank Berhad	09/24	AA+	4.794	1	5.081	02/05/2018	-29	90
Kapar Energy Ventures Sdn Berhad	07/25	AA+	4.769	10	4.858	17/01/2017	-9	82
Tanjung Bin Power Sdn Berhad	08/20	AA2	4.452	6	4.326	17/10/2017	13	89
Bright Focus Berhad	01/30	AA2	5.218	4	5.136	18/01/2018	8	109
Anih Berhad	11/26	AA	4.842	10	4.698	28/02/2018	14	74
KT Kira Sertifikalari Varlik Kiralama A.S.	07/20	AA3	5.573	20	5.487	06/02/2018	9	201
IJM Corporation Berhad	10/24	AA3	4.782	1	4.661	11/10/2017	12	89
Tanjung Bin Energy Issuer Berhad	09/28	AA3	4.962	10	4.878	28/02/2018	8	84
MMC Corporation Berhad	11/20	AA-	5.016	10	4.875	22/03/2018	14	135
MEX II Sdn Berhad	04/26	AA-	5.001	10	4.971	14/12/2017	3	97
MEX II Sdn Berhad	04/31	AA-	5.391	10	5.401	16/11/2017	-1	76
Southern Power Generation Sdn Berhad	10/31	AA-	5.138	20	5.120	24/04/2018	2	50
MEX II Sdn Berhad	04/32	AA-	5.499	26	5.406	05/03/2018	9	86
MEX II Sdn Berhad	04/34	AA-	5.619	12	5.534	18/01/2018	9	98
Southern Power Generation Sdn Berhad	04/35	AA-	5.379	20	5.349	27/03/2018	3	74
Lafarge Cement Sdn Berhad	01/20	A1	5.373	5	5.292	04/04/2018	8	181
Affin Bank Berhad	02/27	A1	4.887	30	4.858	23/04/2018	3	79
Affin Bank Berhad	09/27	A1	4.928	30	4.904	23/04/2018	2	83
RHB Bank Berhad	12/39	A1	4.699	1	4.698	16/03/2018	0	-6
CIMB Group Holdings Berhad	05/16	A1	5.146	10	5.301	02/05/2018	-16	39
				458				

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

Market/Corporate News: What's Brewing

The upcoming first quarter (1Q18) financial results for the banking sector may see some challenges in the form of the new accounting standard, MFRS 9, which may limit loan growth and earnings upside for the sector. Analysts contacted by StarBiz said bigger banks with foreign operations in the likes of Malayan Banking Bhd (Maybank) and CIMB Group Holdings Bhd could see some dents in their loan growth in 1Q18, adding that this would partly be offset by relatively stronger loan growth for their domestic operations. Moving forward, analysts expect both these banking groups to record a healthy set of earnings for 2018. “For banks with overseas operations, 1Q18 loan growth will be modest as their domestic loans which are still growing above the industry average, but are expected to be dampened by weaker overseas loans. International loan growth will also be impacted by foreign exchange translation with the strengthening of the domestic currency,” a banking analyst said. Analysts concurred that earnings for the first quarter would depend on how the provisions pan out for the sector under the MFRS 9, adding that asset quality was also key in determining banks' earnings. The banking sector's loan growth for the first three months of this year stood at 1.2%. Public Bank Bhd , the analyst said recorded higher first quarter earnings partly due to its strong asset quality base and lower corporate loans exposure which acted as an absorber for the new accounting standard. Public Bank, the country's third-largest bank by assets, saw its net profit rising by nearly 12.6% year-on-year (y-o-y) to RM1.41bil in the first quarter ended March 31. He also expects Hong Leong Bank to register some improvement in earnings in the first quarter due to its healthy asset quality base. MFRS 9, which comes into effect this year, will involve banks having to make additional provisioning for their existing loan portfolios, leading to higher credit costs and ultimately, impacting earnings. The new accounting standard is based on an expected loss model unlike the existing standard, which is based on the incurred loss model. As for net interest income and net interest margins (NIM) of banks, these are generally expected to be higher in 1Q18, thanks to the January overnight policy rate (OPR) hike. With the interest rate increase, analysts agree that loan rates would be repriced higher ahead of the adjustments in deposit rates. UOB Kay Hian banking analyst Keith Wee said the upcoming first quarter results would likely see a modest earnings upside surprise from the uptick in NIMs from the recent OPR. This was because deposits repricing typically lags asset repricing by an average of three to four months, he noted. However, he said this would be partly offset by MFRS 9 which would also result in an uptick of credit costs. “Given a modest loan growth environment of 5%-5.5%, uptick in the net credit cost on the back of the implementation of MFRS 9 and increased volatility in the capital market, we are expecting sector earnings growth to moderate downwards from 2017's 12.8% growth,” Wee said. Maybank, which is expecting a strong set of results this year, posted a record net profit of RM7.5bil in the financial year ended Dec 31, 2017 (FY17). Moving forward, group president and CEO Datuk Abdul Farid Alias was quoted as saying the bank's performance would depend on the overall market conditions and consumer sentiment. In FY17, CIMB's net profit jumped 25.5% to RM4.47bil, just shy of its record of RM4.54bil achieved in FY13. Its revenue improved almost 10% to RM17.62bil against RM16.06bil in FY16. CIMB Group recently said it remained “cautiously optimistic” on prospects this year, amid the group's expectation to record a stronger performance in FY18. UOB Kay Hian noted that CIMB Group is expected to incur a RM150mil one-off gains to be recognised in the first quarter from a 50% stake disposal of CIMB Securities International to China Galaxy Securities. The banking sector's loan growth decelerated to 4.4% y-o-y in March (2018) from 4.5% y-o-y in February. The industry's gross impaired loans (GIL) ratio remained stable at 1.6% despite upticks in impairments for the first three months. On the outlook of the banking sector for the second half of the year, RAM Ratings co-head of financial institution ratings Wong Yin Ching said she expects the sector to remain stable and loan expansion for 2018 is projected to pick up slightly to 5% from 4.1% in 2017, underscored by the country's sustained economic momentum. “Any slippage in asset quality is unlikely to nudge the GIL ratio beyond 1.7%. Based on our analysis of Bursa Malaysia-listed non-financial corporates, their overall debt-servicing ability has remained healthy, with a median EBITDA debt coverage of above 0.3 times and a median current ratio of almost 2 times in 2017,” Wong told StarBiz. She said although the 25 basis points hike in OPR in January would boost NIM in the short term, particularly benefitting banks with higher proportions of floating-rate loans or current and savings account deposits, there could be some pressure on NIM closer to the implementation of the Basel III net stable funding ratio requirement no earlier than Jan 1, 2019. (Source: The Star)

The United States has demanded that China cut its US trade surplus by US$200 billion, end subsidies for advanced technology industries and sharply cut import tariffs to US levels, two people familiar with US-China trade talks said on Friday. The lengthy list of demands was presented to Beijing prior to the start of talks Thursday and Friday between top-level Trump administration officials and their Chinese counterparts to try to sort out disputes that have threatened a damaging trade war between the world's two largest economies. The talks ended with China's Xinhua news agency describing them as "constructive, candid and efficient" but with disagreements that remain "relatively big." The US side has yet to give its account of the talks, and there was no sign that President Donald Trump would back off on his threat to impose tariffs on up to US$150 billion in Chinese goods over allegations of intellectual property theft. Speaking with reporters in Washington on Friday, Trump said he was determined to bring fairness to the US-China trading relationship. "We're going to have some incredible trade deals announced," Trump said, adding he had "great respect" for China's President Xi Jinping. "That's why we're being so nice, because we have a great relationship." The US delegation, led by Treasury Secretary Steven Mnuchin, has left China. China during the meetings asked that the United States ease crushing sanctions on Chinese telecom equipment maker ZTE Corp, people with knowledge of the matter said. Washington's demand for a US$200 billion cut from China's US goods trade surplus doubles Trump's previous request for a US$100 billion cut. China had a record goods trade surplus of US$375 billion in 2017. Trump has also demanded "reciprocity" between US and Chinese tariffs, frequently complaining about China's 25% passenger vehicle tariff while the equivalent US tariff is 2.5%. The US team demanded that China lower tariffs to levels no higher than those imposed by the United States, the people familiar with the demands said. The delegation also asked China to halt subsidies for advanced technology linked to its "Made in China 2025," the sources said. The 2025 industrial plan seeks to upgrade China's manufacturing sector to more advanced products, including information technology, semiconductors and aircraft — sectors where the United States is highly competitive. Chinese officials believed the US proposal was "unfair," the Wall Street Journal reported, quoting people with knowledge of the negotiations. "I think the US is asking for the impossible. Reducing the deficit by US$200 billion by 2020 is quite an unrealistic demand, but it may also be a negotiation tactic to start high first," said Tommy Xie, economist at OCBC Bank in Singapore. In a proposal submitted by the Chinese side, Beijing offered to increase US imports and lower tariffs on some goods, including cars, according to the sources. But China requested that the United States treat Chinese investment equally under national security reviews, stop issuing any new restrictions on investments, and halt a proposal to implement 25% tariffs under its "Section 301" probe. China also offered to reconsider anti-dumping duties on US sorghum, according to the proposal. Xinhua's statement said there had been exchanges of opinion on intellectual property protections, expanding US exports and bilateral services trade. It gave no indication of what actions might be taken but said the two sides committed to resolve their trade disputes through dialogue. The state news agency said US negotiators agreed to bring up the ZTE sanctions with Trump after new representations from the Chinese side. ZTE was hit last month with a seven-year ban on American companies selling components and software to it after the US Commerce Department found ZTE failed to comply with an agreement to settle breached US sanctions on Iran. "My impression was that (the talks) didn't go well given the rhetoric," said Kevin Lai, senior economist at Daiwa Capital markets in Hong Kong. "I think the divide is still very big." In an editorial on its website, widely read Chinese state-run tabloid the Global Times cited people close to the talks as saying the Chinese "hit back hard" at US criticism, letting them know that China won't give in. The United States has proposed tariffs on US$50 billion of Chinese goods under its "Section 301" intellectual property probe. Those could go into effect in June following the completion of a 60-day consultation period, but activation plans have been kept vague. China has said its own retaliatory tariffs on US goods, including soybeans and aircraft, will go into effect if the US duties are imposed. Trump on Thursday praised his relationship with Chinese President Xi as the US delegation began their talks, which were held at a state guest house in the western part of the Chinese capital. US complaints about Chinese intellectual property abuses are at the core of the current dispute. The Trump administration says US companies lose hundreds of billions of dollars annually to China's theft of trade secrets. Some economists noted that the deficit with China was the natural result of the large amount of manufacturing assembly of US products, such as iPhones that takes place in China. "As long as China remains the assembly hub of the world, it's always going to have a large trade surplus with developed consumer countries like the US and the EU and that's not necessarily a problem," said Julian Evans-Pritchard, senior China economist at Capital Economics. (Source: Reuters, The Edge)

Rating Actions

Issuer	PDS Description	Rating/Outlook	Action
Nil	Nil	Nil	Nil

Source: RAM Ratings; MARC

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