

Global Markets Research

Fixed Income

Fixed Income Daily Market Snapshot

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	2.10	-2
5-yr UST	2.54	-2
10-yr UST	2.83	0
30-yr UST	3.14	1

MGS		GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.42	5	3.59	1
5-yr	3.58	-2	3.88	3
7-yr	3.91	-1	4.12	1
10-yr	3.95	0	4.21	0
15-yr	4.43	1	4.60	0
20-yr	4.60	-3	4.78	0
30-yr	4.85	0	4.96	0

*Market indicative

M YR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.76	-1
3-yr	3.82	-1
5-yr	3.90	0
7-yr	4.01	0
10-yr	4.13	0

Source : Bloomberg

Upcoming Government Bond Tenders

Nil

US Treasuries

- US Treasuries were slightly mixed with the curve steeper as the short-tenured 2-5Y papers ended lower by ~2bps whereas the long bond edged up by 1bps. The 2Y (which is sensitive to Fed policy interest rate expectations) ended at 2.10% whilst the much-watched 10Y was unchanged at 2.83%. The \$16b UST 30Y auction was a tad softer with BTC ratio of 2.26x versus the previous auction of 2.74x. The recent rapid rise in yields raises concern as it reverberates into the global equity markets. The Senate has agreed on a bipartisan 2Y budget deal that would avert a US government shutdown debt limit until March 2019.

MGS/GII

- Local Govvies saw volume spike to RM3.46b with interest mainly seen continuing in the off-the-run MGS and GII 18-19's. The off-the-run MGS 21's also saw decent interest; closing mixed on levels with almost a yard traded. Generally yields were unchanged to slightly lower i.e. 0-3 bps with the widely-watched benchmark 7Y MGS 9/24 and 10Y MGS 11/27 closing at 3.91% and 3.95% respectively compared to previous-done levels. Foreign holdings of Malaysian govvies increased by 2.5% from RM182.9b in December 2017. Upcoming data include Industrial Production Index today and GDP figures next Wednesday.

PDS/Sukuk

- Secondary market trades for Corporate Bonds were muted with total volume at RM159m as interest was skewed towards the AA-space. PTPTN 12/24 was unchanged at 4.35% whilst AAA-rated Bank Pembangunan 3/22 and Impian Ekspresi 11/19 bonds closed 2-9bps higher at 4.49% and 4.36% respectively compared to previous-done levels. The power-related BGSM 12/19 and MALAKOFF 12/25 saw mild movements in yields ending at 4.35% and 4.77% respectively. Investor interest for yields may be restrained until the global bond and equities market stabilize.

Daily Trades : Government Bonds

Securities		Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS	03/18	3.214	50	3.196	07/02/2018	1.8
MGS	09/18	3.215	129	3.172	07/02/2018	4
MGS	03/19	3.064	50	3.149	07/02/2018	-9
MGS	11/19	3.344	592	3.355	07/02/2018	-1
MGS	03/20	3.358	15	3.376	07/02/2018	-2
MGS	07/20	3.358	45	3.393	05/02/2018	-3
MGS	10/20	3.416	9	3.410	07/02/2018	1
MGS	02/21	3.423	315	3.374	07/02/2018	5
MGS	07/21	3.503	507	3.520	07/02/2018	-2
MGS	11/21	3.486	162	3.492	06/02/2018	-1
MGS	03/22	3.583	137	3.616	07/02/2018	-3
MGS	08/22	3.758	130	3.746	07/02/2018	1
MGS	09/22	3.782	24	3.794	06/02/2018	-1
MGS	03/23	3.818	1	3.801	07/02/2018	2
MGS	08/23	3.824	30	3.810	07/02/2018	1
MGS	07/24	3.932	5	3.914	07/02/2018	2
MGS	09/24	3.912	113	3.920	07/02/2018	-1
MGS	09/25	3.985	178	3.993	06/02/2018	-1
MGS	11/27	3.955	43	3.955	07/02/2018	0
MGS	04/30	4.433	4	4.412	06/02/2018	2
MGS	06/31	4.482	2	4.487	07/02/2018	0
MGS	04/33	4.432	71	4.427	07/02/2018	1
MGS	04/37	4.599	33	4.619	07/02/2018	-2
MGS	09/43	4.812	11	4.806	06/02/2018	1
GII	08/18	3.260	120	3.118	07/02/2018	14
GII	10/18	3.280	50	3.219	23/01/2018	6
GII	04/20	3.587	8	3.581	07/02/2018	1
GII	08/20	3.641	418	3.674	07/02/2018	-3
GII	04/22	3.881	153	3.887	07/02/2018	-1
GII	07/23	3.995	12	4.001	06/02/2018	-1
GII	07/27	4.210	20	4.206	07/02/2018	0
GII	05/47	4.960	20	4.960	02/02/2018	0
			<u>3456</u>			

Daily Trades: PDS / Sukuk

Securities	Rating	Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)	Spread Against MGS*	
Bank Pembangunan Malaysia Berhad	03/22	AAA	4.490	10	4.400	09/01/2018	9	98
Sepangar Bay Power Corporation Sdn Berhad	07/18	AA1	3.943	10	3.898	27/10/2017	4	72
United Overseas Bank (Malaysia) Berhad	05/25	AA1	4.950	1	5.200	06/02/2018	-25	103
Kesas Sdn Berhad	10/18	AA2	4.092	10	4.149	28/07/2017	-6	87
Konsortium ProHAWK Sdn Berhad	12/18	AA2	4.188	5	4.109	19/10/2017	8	96
UMW Holdings Berhad	10/19	AA2	4.391	6	4.366	18/01/2018	3	108
Kesas Sdn Berhad	10/19	AA2	4.252	10	4.243	25/08/2017	1	94
BGSM Management Sdn Berhad	12/19	AA3	4.345	30	4.335	12/01/2018	1	103
CIMB Group Holdings Berhad	05/16	A1	5.251	1	4.880	05/02/2018	37	63
Alliance Bank Malaysia Berhad	10/25	A2	4.869	1	4.850	26/01/2018	2	92
Sinar Kamiri Sdn Berhad	01/20	AA-	4.937	5	-	-	-	-
Sinar Kamiri Sdn Berhad	01/23	AA-	5.172	5	5.170	29/01/2018	0	156
UEM Sunrise Berhad (fka UEM Land Holdings Berhad)	05/23	AA-	4.909	10	4.938	29/01/2018	-3	130
Malakoff Power Berhad	12/25	AA-	4.771	20	4.777	05/10/2017	-1	83
Sinar Kamiri Sdn Berhad	01/28	AA-	5.560	5	-	-	-	-
Impian Ekspresi Sdn Berhad	11/19	AAA	4.358	10	4.334	07/09/2017	2	105
Perbadanan Tabung Pendidikan Tinggi Nasional	12/24	GG	4.350	20	4.351	11/01/2017	0	43
			<u>159</u>					

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

Market/Corporate News: What's Brewing

If this week's selloff in global equity markets is any guide, then **Asia's frothy debt and stock markets have reason to be on edge over the steady rise in long-term U.S. bond yields** that could push up global funding costs and drive capital out of the region. A whiff of inflation in the United States sent global stock markets tumbling in the past week, wiping 7 percent off Asian equities, despite a still supportive backdrop of robust global growth, a weak dollar and rising company earnings. Bond and currency markets were relatively unaffected, as they have been through the Federal Reserve's slow pace of policy rate rises since 2015 and more recent reminders from central banks in Europe and Japan about dialling down on stimulus. So far, long-term dollar yields have also stayed low, keeping a lid on funding costs for investors who have pumped billions of dollars into high-yielding emerging market assets. But U.S. 10-year Treasury yields are creeping closer to 3 percent, where analysts say the current "Goldilocks" scenario of a strong economy and muted inflation would give way to fears of peaking growth, rising inflation and more rapid policy tightening. "Our concept of Goldilocks is around a pretty modest rise in U.S. yields," said Daniel Morris, a senior investment strategist at BNP Paribas Asset Management. "A rise to 3 percent or so wouldn't be quite so benign. That would upset this Goldilocks view." Ten-year Treasury yields were falling through most of 2017 even as short-term dollar rates climbed. They spiked above 2.8 percent for the first time in 3 years last week, and have risen 50 basis points since November. Investors would read a 3 percent mark on 10-year Treasuries as a situation in which U.S. inflation is accelerating, the Fed would have to raise rates faster and markets globally would be jolted, Morris said. Complicating matters is the U.S. dollar, which has steadied this month after 13 months of a slow grind lower. The weaker dollar had provided foreign investors an added reason to stay invested in the appreciating Asian currencies. "Emerging markets have become much more sensitive to the long end than the short end of the U.S. yield curve," said Frederic Neumann, co-head of Asian economic research at HSBC. That was primarily because much of the money that has flowed into Asia since the global financial crisis a decade ago is real money whose funding costs are based on long-term yields, rather than investors loaded up on short-term leverage, he said. "So if you have the U.S. 10-year at 2.3 percent, it still makes sense to invest your money in Indonesia. If the 10-year trades at 3.3 percent, the investment in emerging markets will probably need to be repriced." The five markets of Indonesia, Malaysia, South Korea, Thailand and India received net bond inflows of around \$49 billion in 2017, while the flows to seven of the biggest emerging Asian stock markets were less than half that amount. So far these bond markets aren't pricing in any major monetary tightening by local authorities, hence most of them are not too correlated to U.S. yields. Even yields on dollar-denominated bonds issued in Asia have been capped by narrowing spreads over Treasury yields. Investors in some markets will have more cushion as U.S. yields rise, such as those in Indonesia's 10-year bonds that fetch 6.4 percent and India's at 7.5 percent. The more vulnerable are those in markets where 10-year yields are about the same as U.S. Treasuries, such as South Korea and Thailand. As Treasury yields rise, emerging market investors will be forced to assess whether they are simply being compensated for the higher inflation or being paid to take on additional risk, said Maurice Meijers, CEO for Singapore at Robeco Institutional Asset Management. "A lot of market participants are not pricing in risk in their search for yield. Once Treasury yields rise dramatically, that would hurt things from a sentiment perspective," Meijers said. Most fund managers think a slow grind higher in U.S. yields may cause less pain for emerging markets, at least far less than the turmoil during the 2013 taper tantrum, when the Fed first dropped hints of reducing its crisis-era stimulus. Still, they worry that investors are complacent. Alain Bokobza, head of asset allocation at Societe Generale, said investors should "prepare for the end of Goldilocks." "At 2.9-3.0 percent on the 10-year Treasury, global markets and emerging markets would start to be really worried," he said, describing that level as a threshold at which there would be worries about destabilisation in the United States possibly causing an attack on the U.S. bond markets, and raising big questions about the sustainability of U.S. growth without inflation.

(Source: Reuters, The Edge)

Rating Actions			
Issuer	PDS Description	Rating/Outlook	Action
Putrajaya Holdings Sdn Bhd's (PJH)	RM370.0 million Sukuk Musharakah Programme (due 2030)	AAA-IS / stable	Affirmed
	RM3.0 billion Sukuk Musharakah Programme (due 2032) at AAAIS/stable	AAA-IS / stable	
	•RM1.5 billion Sukuk Musharakah Medium-Term Notes (MTN) Programme (due 2033)	AAA-IS / stable	
	•RM2.2 billion Murabahah Medium-Term Notes (MMTN) Programme (due 2021)	AAA-IS / stable	

Source: RAM Ratings; MARC

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