

Global Markets Research

Fixed Income

Fixed Income Daily Market Snapshot

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	2.54	-1
5-yr UST	2.72	-1
10-yr UST	2.82	-1
30-yr UST	2.93	-2

MGS		GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.56	0	3.56	-5
5-yr	3.79	-3	3.93	-2
7-yr	3.98	-4	4.09	-4
10-yr	4.11	-5	4.24	-3
15-yr	4.57	-5	4.71	0
20-yr	4.84	0	5.00	0
30-yr	4.94	0	4.98	0

*Market indicative

M YR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.71	0
3-yr	3.76	0
5-yr	3.86	0
7-yr	3.97	-1
10-yr	4.15	-1

Source: Bloomberg

Upcoming Government Bond Tender

Nil

US Treasuries

- US Treasuries ended off-highs last Friday following the release of steady June jobs data. Benchmark yields were generally lower between 1-2 bps with the 2Y at 2.54% and the much-watched 10Y at 2.82% levels. The yield curve continued to flatten further with both the 2s10s and 5s30s spread almost touching 26bps and 20bps respectively. Meanwhile investors digest the initial implementation of \$34b of trade tariffs by US on about 800 Chinese goods and subsequent tit-for-tat response by China on US goods. China may be provoked to invest less in UST's and capable of massive movements in their Treasury holdings.

MGS/GII

- Trading momentum in Govvies continued to ease for the 2nd session with total volume at RM3.36b despite the continued rally; as interest continued to be seen mainly in benchmark 10Y MGS and GII bonds together with off-the-run MGS 24-25's. Overall benchmarks yields ended 0-5 bps lower. Both the 10Y MGS 6/28 and GII 10/28 rallied to close at 4.11% and 4.24%. The latest reduction in June's foreign holdings for local govvies by 3.9% to ~RM165b did not dampen the rally in as selling seems to have abated.

Corp Bonds/Sukuk

- Trading activity in Corporate Bonds/Sukuk also eased again to RM271m with interest spanning across a mere 16 different bonds compared to 31 prior day. The bulk of the trades were focused on the AAA and AA-part of the curve. Govt-guaranteed DANAINFRA 39's notched 2-3bps lower between 5.07-09% levels compared to previous-done levels whilst AAA rated AMNA 5/24 and Bank Pembangunan 11/26 saw mixed fortunes; ending at 4.65% and 4.74% respectively. The AA-space was dominated by JEP 6/21, 6/26 and 12/31 which moved 3-6bps lower with trades totaling RM50m nominal value.

Daily Trades : Government Bonds

Securities	Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS 09/18	3.315	22	3.305	04/07/2018	1
MGS 03/19	3.380	39	3.372	04/07/2018	1
MGS 10/19	3.439	6	3.415	05/07/2018	2
MGS 11/19	3.429	5	3.466	03/07/2018	-4
MGS 03/20	3.454	3	3.460	04/07/2018	-1
MGS 07/20	3.472	57	3.560	03/07/2018	-9
MGS 10/20	3.426	225	3.463	05/07/2018	-4
MGS 02/21	3.582	10	3.616	03/07/2018	-3
MGS 07/21	3.605	2	3.674	05/07/2018	-7
MGS 09/21	3.606	80	3.658	05/07/2018	-5
MGS 11/21	3.562	71	3.572	05/07/2018	-1
MGS 08/22	3.771	170	3.802	05/07/2018	-3
MGS 09/22	3.781	50	3.794	05/07/2018	-1
MGS 03/23	3.868	110	3.879	05/07/2018	-1
MGS 04/23	3.788	130	3.814	04/07/2018	-3
MGS 08/23	3.876	2	3.876	05/07/2018	0
MGS 07/24	3.899	58	4.077	05/07/2018	-18
MGS 09/24	3.903	370	4.086	05/07/2018	-18
MGS 03/25	3.984	68	4.027	04/07/2018	-4
MGS 09/25	4.174	146	4.174	05/07/2018	0
MGS 04/26	4.239	20	4.257	05/07/2018	-2
MGS 11/26	4.185	55	4.250	05/07/2018	-7
MGS 03/27	4.309	5	4.380	03/07/2018	-7
MGS 05/27	4.293	28	4.378	22/06/2018	-9
MGS 11/27	4.179	195	4.198	05/07/2018	-2
MGS 06/28	4.110	260	4.154	05/07/2018	-4
MGS 06/31	4.646	63	4.646	05/07/2018	0
MGS 04/32	4.724	17	4.725	03/07/2018	0
MGS 04/33	4.680	47	4.686	05/07/2018	-1
MGS 11/33	4.573	2	4.622	04/07/2018	-5
MGS 05/35	4.848	11	4.871	05/07/2018	-2
MGS 04/37	4.843	16	4.893	05/07/2018	-5
MGS 06/38	4.839	10	4.838	05/07/2018	0
MGS 07/48	4.937	42	-	-	-
GII 04/19	3.490	30	3.429	04/07/2018	6
GII 04/20	3.560	40	3.611	04/07/2018	-5
GII 04/20	3.567	10	3.669	22/06/2018	-10
GII 08/21	3.737	150	3.810	05/07/2018	-7
GII 04/22	3.837	12	3.860	05/07/2018	-2
GII 11/22	3.953	5	3.950	04/07/2018	0
GII 07/23	3.978	1	4.000	05/07/2018	-2
GII 11/23	3.931	80	3.948	05/07/2018	-2
GII 08/24	4.101	10	4.175	28/06/2018	-7
GII 08/25	4.087	120	4.127	05/07/2018	-4
GII 10/25	4.215	20	4.231	05/07/2018	-2
GII 10/28	4.242	480	4.284	05/07/2018	-4
GII 06/33	4.710	10	4.710	05/07/2018	0
		<u>3360</u>			

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*	
Danainfra Nasional Berhad	11/22	GG	4.245	35	4.119	06/04/2018	13	50
Danainfra Nasional Berhad	04/39	GG	5.074	5	5.090	05/07/2018	-2	25
Danainfra Nasional Berhad	07/39	GG	5.086	10	5.114	27/06/2018	-3	26
Cagamas Berhad	09/20	AAA	4.156	10	4.121	13/02/2018	3	67
Aman Sukuk Berhad	05/24	AAA	4.648	10	4.606	07/06/2018	4	72
Bank Pembangunan Malaysia Berhad	11/26	AAA	4.739	30	4.794	31/05/2018	-5	65
Cagamas Berhad	08/28	AAA	4.750	60	4.730	24/02/2016	2	62
Imtiaz Sukuk II Berhad	05/22	AA2	4.587	20	4.570	13/03/2018	2	84
Bumitama Agri Ltd	03/19	AA3	4.481	10	4.549	05/06/2018	-7	109
Tanjung Bin Energy Issuer Berhad	09/20	AA3	4.496	20	4.398	06/02/2018	10	101
WCT Holdings Berhad	12/18	AA-	4.441	1	4.440	28/06/2018	0	105
Jimah East Power Sdn Berhad	06/21	AA-	4.595	5	4.652	15/05/2018	-6	103
Jimah East Power Sdn Berhad	06/26	AA-	4.919	35	4.952	28/05/2018	-3	83
Jimah East Power Sdn Berhad	12/31	AA-	5.149	10	5.189	27/06/2018	-4	54
Lebuhraya DUKE Fasa 3 Sdn Berhad	08/38	AA-	5.570	10	5.539	27/04/2018	3	74
Hong Leong Financial Group Berhad	11/17	A1	5.026	1	5.026	05/07/2018	0	20
			<u>271</u>					

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

Market/Corporate News: What's Brewing

Prasarana Malaysia Bhd is considering taking over the construction of the Light Rapid Transit line 3 (LRT 3) from its project delivery partner (PDP) to curb its spiraling cost. According to sources, the government is reviewing the project as cost has ballooned from the initial estimate of RM9bil in 2015 to more than RM15bil. "The government is expected to make a decision on the project soon," a source said. Construction at the site had already reached 10%, with most of the work contracts awarded. It is estimated that more than RM15bil worth of construction jobs had been farmed out to contractors, including a RM1.1bil underground package awarded to IJM Corp Bhd in March. The 37km extension line from Bandar Utama to Klang through Shah Alam, when it was launched in 2015, was projected to cost RM10bil, including RM1bil set aside for land acquisitions. Reducing the size of the project would help to cut down cost. Other options being considered, sources said, included reverting to the turnkey model to complete the project. In 2015, Prasarana appointed Malaysian Resources Corp Bhd (MRCB) and George Kent (M) Bhd as the PDP for the LRT 3 project at an approved construction budget of RM9bil. The PDP fee for the LRT 3 project, at its construction cost of RM15bil, would amount to RM900mil. Kenanga Research, in a report last Friday, said with most of the work packages for the LRT 3 having been awarded, it was likely that the construction cost has blown past its original target. With the ongoing project cost review, Kenanga said there is uncertainty about the continuity of the LRT 3 project despite most of the contracts having been awarded. As the PDP partner, MRCB and George Kent are responsible for the design and construction of the LRT 3 project. The PDP partner will also assume the risk of cost overruns or delays. However, despite the award of the PDP back in 2015, the total construction cost of the project has yet to be finalized. Prasarana, which is a government-owned company, has the approval to raise up to RM10bil in debts to pay for the project. Bursting the budget would require the company to seek fresh Cabinet approval for additional funds. "There is also a possibility that the project might be shelved given the current financial constraints," one source said. It is believed that that design changes to the original LRT 3 plan has contributed to the project's rising cost. For example, some of the 26 stations along the line were upgraded to accommodate new features and a bigger passenger capacity at a substantial increase in construction cost. The cost of some stations have increased from an initial RM80mil to almost RM200mil. The LRT 3 is the first project by Prasarana to be undertaken based on the PDP model that had been successful in delivering the Klang Valley Mass Rapid Transit (KVMRT) project. The PDP model was introduced in 2012 for the construction of the KVMRT project, which was awarded to a joint venture (JV) between MMC Corp Bhd and Gamuda Bhd. The JV was also awarded the PDP for the MRT 2 project in 2014 for RM28bil. It is estimated that the construction cost of the project had shot past this budget cap at RM32bil currently. It was reported that work progress on the project had reached 21% and is on track to be completed in mid-2022. (Source: *The Star*)

Global markets, including Malaysia's, are keeping a close eye on how quickly the tit-for-tat slapping of tariffs could escalate now that the US-China "trade war" has been launched. "China knows that it can initially respond by matching the US in kind. However, given the difference in the size of trade with US, Beijing would quickly run out of room and would be forced towards an asymmetric approach," said Huang Juin Hao, a senior portfolio manager at Affin Hwang Asset Management. China could resort to domestic policy tools to try to cushion the blow to affected industries, and it could also seek to band with the European Union, Japan, Canada and other countries similarly affected by US tariffs on the external front, he told *The Edge Financial Daily*. "This would buy time for China to raise the dispute with the WTO (World Trade Organisation) for a

resolution,” he said, adding that buying opportunities would arise should China move towards this approach. Last Friday, the long-dreaded “trade war” got off the ground as the US imposed tariffs on US\$34 billion (RM137.36 billion) worth of Chinese goods, prompting the Chinese to respond with retaliatory duties on US products. At a press conference in Beijing, China’s foreign ministry spokesman Lu Kang defended the retaliatory tariffs on US goods owing to the US’ “unfair” trade actions. Chinese state media agency Xinhua said the list of products hit by China’s 25% tariffs would not change from what was announced in June. Huang believed the pace of escalation will be key. As China opted to respond in the first round of tariffs, the ball is now back in US President Donald Trump’s court, said Huang, who observed that the US had initiated Section 301 trade action against China several times in the past, in 1991, 1994, 1996 and 2010. On each occasion, both parties managed to reach a resolution. But will Trump prove to be a different kettle of fish? He had announced that tariffs would be imposed on US\$50 billion of Chinese goods initially. As the tariffs on the first US\$34 billion took effect last week, another US\$16 billion worth are expected to be imposed over the next two weeks. Trump had also raised the ante, threatening to impose additional duties on another whopping US\$500 billion of Chinese goods should Beijing retaliate against the US. Notwithstanding the loud threats, some are of the view that the trade war will not significantly impact the stock market as most of the latest developments have already been priced in. (Source: *The Edge/Reuters*)

Rating Actions						
Issuer	PDS Description			Rating/Outlook	Action	
SunREIT Capital Berhad's	RM1.6billion Programme	Commercial	Papers	(CP)	P1	Reaffirmed

Source: RAM Ratings; MARC

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