

Global Markets Research

Fixed Income

Fixed Income Daily Market Snapshot

US Treasuries

- The US bond market was closed yesterday due to Columbus Day; ahead of heavy UST supply slated for this week with 3Y, 10Y followed by the 30Y auction on Thursday. The deluge of supply amounts to \$230b overall ranging from 1-month to 30-years. Of this amount, Treasury will begin auctioning \$156b of short-term securities today. Strong US data, rising commodity prices, tight monetary trajectory and brewing wage pressures are expected to push yields higher. Also, the seasonality for bearish UST's in the final 3 months of the calendar year may hamper any rallies. The upcoming CPI data on the 11th of Oct will give a fresh read on whether the Fed is accurate on its view of the tepid inflation as the jobless rate reveals a new low since almost five decades back.

MGS/GII

- Trading momentum in Govvies fizzled out with volume at RM1.16b yesterday amid softer tone and lack of fresh leads. However investors were seen nibbling in the 19's and 23's. Overall yields ended mixed-to-higher save for the 5Y benchmark MGS. The 7Y MGS 3/25 was untraded at 4.00% whilst the 10Y MGS 6/28 ended unchanged at 4.10% levels. GII bond trades dropped to a mere 10% of overall trades. Global bonds have been hit with latest data revealing of IG and HY securities slumped by some \$916b. On the data front we have the IPI and manufacturing sales numbers out on the 11th of Oct.

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	2.89	0
5-yr UST	3.07	0
10-yr UST	3.23	0
30-yr UST	3.40	0

MGS		GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.62	1	3.72	0
5-yr	3.75	-3	3.88	0
7-yr	4.00	0	4.08	3
10-yr	4.10	0	4.19	0
15-yr	4.52	0	4.56	0
20-yr	4.69	0	4.77	0
30-yr	4.93	0	4.99	0

* Market indicative levels

MYR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.71	0
3-yr	3.78	0
5-yr	3.88	1
7-yr	4.00	0
10-yr	4.19	1

Source : Bloomberg

Upcoming Government Bond Tender

Nil

Corp Bonds/Sukuk

- Corporate bonds/Sukuk saw volume maintain at RM333m with interest across the GG to AA-part of the curve on 20 different bonds compared to prior day's 24. Overall yields ended mostly mixed-to-lower last Friday. Govt-guaranteed DANA 32's and 2/43 saw RM90m nominal amounts traded; closing 2-19bps lower at 4.59% and 4.99% compared to previous-done levels. The AAA-rated TELEKOM 24's equally saw yields move lower at 4.34-40% levels. Power-cum energy related bonds within the AA-segment saw interest with JEV 5/23 and SEB 4/36 close 4-7bps lower at 4.58% and 5.00% respectively. In the banking space SABAH DEV bank 7/20 edged 3bps higher at 4.83% levels.

Daily Trades : Government Bonds

Securities	Closing	Vol	Previous	Previous	Chg
	YTM	(RM mil)	YTM	Trade Date (dd/mm/yyyy)	(bp)
MGS 03/19	5.407	18	3.333	04/10/2018	207
MGS 10/19	3.468	285	3.401	05/10/2018	7
MGS 03/20	3.506	7	3.436	04/10/2018	7
MGS 10/20	3.534	4	3.493	05/10/2018	4
MGS 07/21	3.648	10	3.643	05/10/2018	1
MGS 09/21	3.675	5	3.662	04/10/2018	1
MGS 11/21	3.616	9	3.605	05/10/2018	1
MGS 08/22	3.746	12	3.738	04/10/2018	1
MGS 09/22	3.770	4	3.768	04/10/2018	0
MGS 04/23	3.752	332	3.781	05/10/2018	-3
MGS 08/23	3.856	36	3.856	05/10/2018	0
MGS 07/24	3.965	21	3.994	05/10/2018	-3
MGS 09/24	4.021	3	4.015	05/10/2018	1
MGS 09/25	3.921	17	4.051	05/10/2018	-13
MGS 03/27	4.204	3	4.147	04/10/2018	6
MGS 11/27	4.145	80	4.185	05/10/2018	-4
MGS 06/28	4.098	19	4.102	05/10/2018	0
MGS 04/30	4.453	35	4.474	05/10/2018	-2
MGS 04/33	4.551	111	4.556	05/10/2018	0
MGS 05/35	4.739	3	4.725	05/10/2018	1
MGS 04/37	4.762	20	4.762	05/10/2018	0
MGS 09/43	4.872	10	4.890	05/10/2018	-2
GII 04/22	3.773	1	3.770	05/10/2018	0
GII 08/25	4.077	110	4.043	02/10/2018	3
		<u>1155</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*	
Perbadanan Tabung Pendidikan Tinggi Nasional	03/32	GG	4.629	60	4.628	05/10/2018	0	10
DanaInfra Nasional Berhad	03/32	GG	4.589	30	4.610	26/09/2018	-2	6
DanaInfra Nasional Berhad	05/32	GG	4.589	30	4.710	16/08/2018	-12	6
DanaInfra Nasional Berhad	02/43	GG	4.994	30	5.183	05/06/2018	-19	30
Lembaga Pembiayaan Perumahan Sektor Awam	04/47	GG	5.080	30	5.091	26/09/2018	-1	38
GENM Capital Berhad	07/23	AAA	4.729	2	4.881	05/10/2018	-15	94
Aman Sukuk Berhad	10/23	AAA	4.409	3	4.458	11/01/2018	-5	62
Telekom Malaysia Berhad	06/24	AAA	4.338	10	4.488	18/07/2018	-15	40
Telekom Malaysia Berhad	12/24	AAA	4.398	10	4.590	26/06/2018	-19	46
Aman Sukuk Berhad	05/25	AAA	4.533	1	4.699	11/06/2018	-17	53
Sabah Development Bank Berhad	07/20	AA1	4.828	30	4.797	26/09/2018	3	133
Sarawak Energy Berhad	04/36	AA1	5.000	10	5.065	04/09/2018	-7	30
Jimah Energy Ventures Sdn Berhad	05/23	AA3	4.578	10	4.619	27/09/2016	-4	79
WCT Holdings Berhad	10/23	AA-	5.160	10	5.160	05/10/2018	0	137
UEM Sunrise Berhad	12/22	AA-	4.690	5	4.674	06/09/2018	2	97
Southern Power Generation Sdn Berhad	04/24	AA-	4.549	40	4.550	04/10/2018	0	61
RHB Bank Berhad	03/39	A1	4.312	10	4.438	03/09/2018	-13	-39
RHB Bank Berhad	12/39	A1	4.588	10	4.794	14/08/2018	-21	-11
CIMB Group Holdings Berhad	05/16	A1	4.615	1	5.069	05/10/2018	-45	-8
Eco World International Berhad	04/23	-	6.418	1	6.600	05/10/2018	-18	-
				<u>333</u>				

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

Market/Corporate News: What's Brewing

Some 48 public private partnership (PPP) projects under the Public Private Partnership Unit (Ukas) that are under review have been approved. Finance Minister Lim Guan Eng said that the ministry had no intention of cancelling any of the PPP projects. "At the moment, 48 projects under review have been given the green light to proceed, on the condition that they go through an open tender process," Lim said during his speech at Khazanah Nasional Bhd's Megatrend Forum 2018 here yesterday. Lim said the projects approved after the review would not only generate additional economic growth, but also raise the quality of growth and leave no space for financial abuse, moving forward. Additionally, Lim pointed out that Malaysia was not undergoing "austerity" measures, but "smarter spending". He said the government was adopting a wider application of the open tender process, selective public investments and renegotiating mega-infrastructure projects. "If there are areas of priority that require spending, we would be more than happy to spend, especially for long-term sustainable growth," Lim said. He said the government had managed to shave RM5.22bil off the MRT2's total cost of RM56.93bil by rationalising the above-ground portion of the project. "More savings will be gained when we re-tender the underground segment soon," he added. Earlier, Economic Affairs Minister Datuk Seri Mohamed Azmin Ali said that the government remained committed to growing and breaking out of the middle-income trap to become an advanced high-income economy. "Malaysia remains stuck in the middle-income trap, as we have not yet been able to transition towards becoming a high-income nation," Azmin said in his speech at the forum. As of 2017, gross domestic product (GDP) per capita as measured in terms of nominal US dollars had fallen to 9,944 from a peak of 11,183 in 2014. In order to break out of the middle-income trap, Azmin said this would require a different economic logic for Malaysia. "The second idea is economic complexity or diversification of the economy, via exports in agriculture, manufacturing or services because exporting to the world requires that whatever goods or services we produce be globally competitive. "Hence, our economy must be as far along the technology and efficiency frontiers as possible," he said. He noted that Toyota, Honda and Nissan had emerged from a decision by the Japanese government to diversify its economy and build on its rapidly developing electronics industry. "Firms also need to move away from being too narrowly focused on chasing short-term profits. "Short-term thinking necessarily means that companies will hold off on reinvesting for the future, therefore reducing their long-term sustainability and profitability," Azmin said. "In summary, we must pursue a balanced development path, with policies that enhance inclusion, integrity and sustainability, as well as delivering economic growth for the continued prosperity of Malaysians," he added. Meanwhile, Azmin said that growth in terms of gross domestic product alone could not be considered successful, unless translated into real benefits for the people. On foreign investment, he said there's a need to emphasise that while short-term capital inflows may do wonders for the stock market, that would not translate into value creation. "That is why we encourage long-term foreign direct investment in greenfield investments that would create jobs, boost purchasing power and help create a better economic eco-system. "Going forward, economic growth will also be driven by the high-tech sectors, underlining the potential of the digital economy in ensuring Malaysia's transition to a high-income and developed economy," he said. On Khazanah's investment, he said that there would be changes in the investment mandate that would address the current challenges. (Source: *The StarOnline*)

The MMC-Gamuda joint venture (JV) is holding out for an amicable settlement with the government in regard to the mass rapid transit phase two (MRT2) project. It said in a statement that the underground portion of the project was 40% completed and it had already offered a RM2.3bil reduction in the price of the underground works that was awarded to the JV at a cost of RM15.47bil in 2016. "The balance of the uncompleted

underground work is valued at RM9.6bil. MMC-Gamuda has offered a reduction of RM2.3bil, which represents 24% of this value. "Even though the Finance Ministry (MoF) has made known that the offered reduction of RM2.3bil is still not adequate, to date, it has not been conveyed to MMC-Gamuda an acceptable target figure that the MoF has in mind. If the target figure is made known together with the components of the savings as individual items, both parties would be placed in a better position to re-examine these components from where savings could be derived and narrow the differences," MMC-Gamuda said in the statement. MMC-Gamuda was given the mandate to see the completion of the MRT2 as the project delivery partner (PDP) in February 2014 at an initial cost of RM28bil. After the change in government in May this year, the project came under review. However, the MoF disclosed on Sunday that the cost had almost doubled to RM56.93bil due to various factors such as changes in the rail alignment and the depreciation of the ringgit to the US dollar. The ministry also said that the contract for the underground works in MRT2 awarded to MMC-Gamuda had been terminated. However, it (the ministry) has accepted the JV's offer to undertake the above-ground works for RM17.42bil and as a turnkey contractor instead. The MoF said it had been guided by a consulting firm in arriving at a decision to terminate the underground contract and call for an international tender to reduce the cost. MMC-Gamuda said that it had not been notified of the termination and changes in the terms of the contract. The JV also said that it had been engaged in discussions and negotiations with the MoF over the past two months to review the scope of works and specifications of the project with the aim of reaching a compromise on cost reduction. "In respect of the underground works, MMC-Gamuda has so far offered a 24% reduction for the balance of the underground works," it said. In order to bridge the gap on the pricing, MMC-Gamuda had on three occasions in the last two months urged the MoF to appoint an international engineering consulting firm with the relevant experience to carry out an objective review looking into all reasonable engineering and technical requirements. "The appointment of an international engineering consulting firm as proposed by MMC-Gamuda would greatly facilitate this exercise," it added. The companies said that the underground works was awarded to them in 2016 after an international competitive tender that, due to the challenging ground conditions, had stringent pre-qualification requirements with only five contractors being pre-qualified by MRT Corp Sdn Bhd to tender. Of the five, MMC-Gamuda was the only local contractor, it said. The bids were evaluated by the reference design consultant, Arup Singapore Pte Ltd, which was appointed by MRT Corp. MMC-Gamuda said its bid scored the highest technical score and offered the lowest price. The JV Co also listed several other reasons why the termination may not be the best solution. Among them are: During the initial tender process, MMC-Gamuda had submitted a proposal with a lower cost without compromising the safety, performance and functionality of the operational railway. It said that however, MRT Corp opted not to accept the alternative offered by MMC-Gamuda. The reductions currently on offer to the MoF include some of these alternatives, but only those applicable to the balance of the underground works. There is a high risk of sinkholes due to tunneling through the city centre. MMC-Gamuda's continued in-house developments and customisation of the tunnel boring machines is an integral part of managing this risk against sinkholes that proved successful in MRT Line 1. All 19 sites are active with 40% of the works completed. Two of the tunnel boring machines are already in operations with the balance being assembled and ready to mine from next month onwards. Job losses, of which MMC-Gamuda claimed some 20,000 personnel are involved in the underground works portion. (Source: *The Edge Markets*)

Rating Action			
Issuer	PDS Description	Rating/Outlook	Action
HSBC Amanah Malaysia Berhad	World's first United Nations (UN) Sustainable Development Goals (SDG) Sukuk under RM3 billion Multi-Currency Sukuk Programme (2012/2032)	AAA/stable	Assigned
Deutsche Bank (Malaysia) Berhad	Financial Institution Rating	AA1/Stable/P1	Reaffirmed

Source: RAM, MARC

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