HongLeong Bank

# Global Markets Research
# Fixed Income

## Fixed Income Daily Market Snapshot

| UST | | |
|---|---|---|
| **Tenure** | **Closing (%)** | **Chg (bps)** |
| 2-yr UST | 2.97 | 1 |
| 5-yr UST | 3.09 | 1 |
| 10-yr UST | 3.24 | 0 |
| 30-yr UST | 3.44 | -1 |

| | MGS | | GII* | |
|---|---|---|---|---|
| **Tenure** | **Closing (%)** | **Chg (bps)** | **Closing (%)** | **Chg (bps)** |
| 3-yr | 3.67 | 2 | 3.75 | -2 |
| 5-yr | 3.78 | -3 | 3.92 | 1 |
| 7-yr | 4.04 | -1 | 4.14 | 0 |
| 10-yr | 4.08 | -5 | 4.25 | -2 |
| 15-yr | 4.57 | -5 | 4.58 | 0 |
| 20-yr | 4.79 | 0 | 4.79 | 0 |
| 30-yr | 4.95 | 0 | 4.95 | 0 |

** Market indicative levels*

| MYR IRS Levels | | |
|---|---|---|
| **IRS** | **Closing (%)** | **Chg (bps)** |
| 1-yr | 3.72 | 0 |
| 3-yr | 3.77 | -2 |
| 5-yr | 3.87 | -2 |
| 7-yr | 3.98 | -2 |
| 10-yr | 4.19 | -2 |

*Source : Bloomberg*

### US Treasuries

- US Treasuries remained under pressure with yields up to 10Y inching slightly higher following the Fed's assessment that growth in the US economy remains intact, placing a December rate hike, a fourth for the year, and further gradual normalization on track. 2Y UST yields ended at 2.97%, its highest since 2008 while the 10Y note yields closed flat at 3.24%. 30Y long bond shed 1bps to 3.44%, flattening the curve. With major event risks out of the way, we expect UST to take cue from US economic releases (PPI and University Michigan consumer confidence tonight) and probably US-China trade headlines.

### MGS/GII

- Trading momentum in Govvies picked up commendably yesterday with volume tripling to RM3.02b. Investor interest was seen well spread across the curve especially in the front end MGS 10/19, 11/19 and 3/20 which collectively made up RM750m. Overall benchmark yields ended mixed between -5 to +2bps. The 5Y MGS 4/23 fell 3bps to 3.78% whilst the 10Y MGS 6/28 fell by 5bps to 4.08%. GII bond trades further improved to 34% of overall trades, dominated by GII 4/19 which traded 2bps inner at 3.27%. Yesterday's release of foreign holdings of Malaysia debt securities sprang some positive vibes, as overall holdings saw an increase of RM7.8bn to RM192.3bn in October, of which RM4.7bn increase was on MGS while GII saw a modest increase of RM0.28bn.

### Corp Bonds/Sukuk

- Trading interests in the Corporate bonds/Sukuk space also saw considerable pick up, line with traction in local govvies. Trading volume more than doubled to RM549m yesterday, from RM249m a day ago. A total of 32 papers were traded yesterday, 4x higher from 8 the day before and sporadic interests were seen in power, financial, telco, gaming and infra names. AA-rated issuances took center stage while SME 3/19 was the only GG dealt, with RM100m changed hands at 3.696% (+6bps). In the AA space, PBB 4/27 topped the list with RM100m changed hands at 4.59%. In the AAA-rate segment, GB Services 11/19 and Manjung 11/19 and 11/22 saw modest trade, with yield changes of between -2 to -21bps.

### *Upcoming Government Bond Tender*

*Nil*

### Daily Trades : Government Bonds

| Securities | | Closing YTM | Vol (RM mil) | Previous YTM | Previous Trade Date (dd/mm/yyyy) | Chg (bp) |
|---|---|---|---|---|---|---|
| MGS | 03/19 | 3.140 | 49 | 3.275 | 11/05/2018 | -14 |
| MGS | 07/19 | 3.398 | 5 | 3.415 | 11/02/2018 | -2 |
| MGS | 10/19 | 3.430 | 206 | 3.457 | 11/07/2018 | -3 |
| MGS | 11/19 | 3.473 | 293 | 3.501 | 11/07/2018 | -3 |
| MGS | 03/20 | 3.535 | 251 | 3.512 | 11/07/2018 | 2 |
| MGS | 10/20 | 3.523 | 21 | 3.522 | 11/07/2018 | 0 |
| MGS | 02/21 | 3.643 | 7 | 3.629 | 11/01/2018 | 1 |
| MGS | 07/21 | 3.690 | 4 | 3.633 | 11/07/2018 | 6 |
| MGS | 09/21 | 3.682 | 8 | 3.702 | 11/05/2018 | -2 |
| MGS | 11/21 | 3.672 | 89 | 3.672 | 11/07/2018 | 0 |
| MGS | 03/22 | 3.736 | 52 | 3.742 | 11/07/2018 | -1 |
| MGS | 08/22 | 3.837 | 47 | 3.820 | 11/07/2018 | 2 |
| MGS | 09/22 | 3.794 | 17 | 3.858 | 11/07/2018 | -6 |
| MGS | 03/23 | 3.856 | 1 | 3.885 | 11/07/2018 | -3 |
| MGS | 04/23 | 3.781 | 113 | 3.816 | 11/07/2018 | -3 |
| MGS | 08/23 | 3.910 | 5 | 3.868 | 11/07/2018 | 4 |
| MGS | 07/24 | 4.036 | 23 | 4.024 | 11/07/2018 | 1 |
| MGS | 09/24 | 4.020 | 113 | 4.068 | 11/07/2018 | -5 |
| MGS | 03/25 | 4.044 | 83 | 4.053 | 11/07/2018 | -1 |
| MGS | 09/25 | 4.107 | 4 | 4.081 | 11/07/2018 | 3 |
| MGS | 11/26 | 4.168 | 6 | 4.180 | 11/07/2018 | -1 |
| MGS | 06/28 | 4.082 | 239 | 3.758 | 11/07/2018 | 32 |
| MGS | 04/30 | 4.498 | 32 | 4.530 | 11/07/2018 | -3 |
| MGS | 04/33 | 4.634 | 51 | 4.650 | 11/05/2018 | -2 |
| MGS | 11/33 | 4.572 | 20 | 4.619 | 11/05/2018 | -5 |
| MGS | 04/37 | 4.811 | 1 | 4.844 | 11/07/2018 | -3 |
| MGS | 06/38 | 4.790 | 250 | 4.790 | 11/07/2018 | 0 |
| MGS | 09/43 | 5.013 | 1 | 4.970 | 11/05/2018 | 4 |
| MGS | 03/46 | 4.964 | 2 | 5.003 | 11/07/2018 | -4 |
| GII | 11/18 | 3.287 | 50 | 3.281 | 10/29/2018 | 1 |
| GII | 04/19 | 3.273 | 440 | 3.293 | 11/02/2018 | -2 |
| GII | 04/20 | 3.523 | 1 | 3.562 | 11/02/2018 | -4 |
| GII | 08/20 | 3.564 | 1 | 3.585 | 11/01/2018 | -2 |
| GII | 03/21 | 3.603 | 50 | 3.671 | 10/29/2018 | -7 |
| GII | 04/21 | 3.622 | 130 | 3.705 | 10/29/2018 | -8 |
| GII | 03/22 | 3.753 | 10 | 3.769 | 11/07/2018 | -2 |
| GII | 07/22 | 3.798 | 22 | 3.826 | 11/07/2018 | -3 |
| GII | 11/22 | 3.881 | 20 | 3.881 | 11/07/2018 | 0 |
| GII | 11/23 | 4.116 | 120 | 3.907 | 11/02/2018 | 21 |
| GII | 05/24 | 4.006 | 0 | 4.047 | 11/05/2018 | -4 |
| GII | 10/28 | 4.246 | 180 | 4.27 | 11/07/2018 | -2 |
| | | | 3017 | | | |

## 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* |
|---|---|---|---|---|---|---|---|---|
| Small Medium Enterprise Development Bank Malaysia Berhad | 03/19 | GG | 3.696 | 100 | 3.641 | 10/24/2018 | 6 | 26 |
| GB Services Berhad | 11/19 | AAA | 4.329 | 5 | 4.344 | 10/19/2018 | -2 | 89 |
| GB Services Berhad | 11/19 | AAA | 4.329 | 4 | 4.360 | 10/01/2018 | -3 | 89 |
| Manjung Island Energy Berhad | 11/19 | AAA | 4.079 | 10 | 4.096 | 09/20/2018 | -2 | 64 |
| Manjung Island Energy Berhad | 11/22 | AAA | 4.296 | 10 | 4.502 | 06/04/2018 | -21 | 53 |
| Putrajaya Bina Sdn Berhad | 03/28 | AAA | 4.579 | 10 | 4.757 | 06/28/2018 | -18 | 44 |
| Hong Leong Financial Group Berhad | 11/18 | AA1 | 4.051 | 10 | 3.852 | 10/23/2018 | 20 | 61 |
| Encorp Systembilt Sdn Berhad | 11/19 | AA1 | 4.146 | 10 | 4.253 | 09/26/2013 | -11 | 71 |
| Sabah Development Bank Berhad | 07/20 | AA1 | 4.790 | 10 | 4.798 | 10/18/2018 | -1 | 125 |
| Malayan Banking Berhad | 05/24 | AA1 | 4.208 | 30 | 4.552 | 10/24/2018 | -34 | 23 |
| Public Islamic Bank Berhad | 06/24 | AA1 | 4.135 | 30 | 4.167 | 10/22/2018 | -3 | 16 |
| Public Bank Berhad | 04/27 | AA1 | 4.590 | 100 | 4.595 | 10/30/2018 | 0 | 48 |
| Celcom Networks Sdn Berhad | 08/19 | AA+ | 4.146 | 10 | 4.181 | 11/07/2018 | -4 | 71 |
| Celcom Networks Sdn Berhad | 08/24 | AA+ | 4.657 | 10 | 4.651 | 10/22/2018 | 1 | 68 |
| BGSM Management Sdn Berhad | 12/18 | AA3 | 3.921 | 20 | 3.903 | 11/07/2018 | 2 | 48 |
| Media Chinese International Limited | 02/19 | AA3 | 4.645 | 10 | 4.642 | 10/22/2018 | 0 | 120 |
| Bumitama Agri Ltd | 03/19 | AA3 | 4.229 | 20 | 4.274 | 10/26/2018 | -4 | 79 |
| Perbadanan Kemajuan Negeri Selangor | 05/19 | AA3 | 4.391 | 4 | 4.405 | 10/23/2018 | -1 | 95 |
| Bumitama Agri Ltd | 09/19 | AA3 | 4.417 | 10 | 4.466 | 09/13/2018 | -5 | 98 |
| Segi Astana Sdn Berhad | 01/19 | AA- | 4.656 | 2 | 4.767 | 07/23/2018 | -11 | 122 |
| Sports Toto Malaysia Sdn Berhad | 06/19 | AA- | 4.574 | 20 | 4.595 | 06/19/2018 | -2 | 113 |
| Sports Toto Malaysia Sdn Berhad | 06/19 | AA- | 4.565 | 3 | 4.500 | 08/10/2018 | 7 | 112 |
| Sports Toto Malaysia Sdn Berhad | 07/19 | AA- | 4.581 | 20 | 0.000 | 01/00/1900 | 458 | 114 |
| Segi Astana Sdn Berhad | 01/20 | AA- | 4.949 | 10 | 4.698 | 01/09/2018 | 25 | 151 |
| Cerah Sama Sdn Berhad | 01/20 | AA- | 4.330 | 25 | 4.280 | 09/26/2016 | 5 | 89 |
| UiTM Solar Power Sdn Berhad | 04/20 | AA- | 4.809 | 4 | 0.000 | 01/00/1900 | 481 | 137 |
| WCT Holdings Berhad | 10/22 | AA- | 5.026 | 10 | 5.177 | 01/15/2018 | -15 | 126 |
| MMC Corporation Berhad | 04/27 | AA- | 5.557 | 2 | 5.327 | 12/28/2017 | 23 | 145 |
| Jimah East Power Sdn Berhad | 12/28 | AA- | 4.791 | 15 | 4.836 | 08/20/2018 | -4 | 67 |
| Jimah East Power Sdn Berhad | 06/32 | AA- | 4.959 | 15 | 4.964 | 08/30/2018 | -1 | 36 |
| Tan Chong Motor Holdings Berhad | 11/21 | A1 | 6.341 | 10 | 6.335 | 10/29/2018 | 1 | 265 |
| CIMB Group Holdings Berhad | 05/16 | A1 | 4.996 | 0 | 5.399 | 11/07/2018 | -40 | 19 |
| | | | | 549 | | | | |

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

## Market/Corporate News: What's Brewing

Moody's Investors Service has affirmed the A1 domestic issuer and foreign currency senior unsecured ratings of Petroliam Nasional Bhd (Petronas), but changed the outlook to Negative, from Stable. In a statement today, the global rating agency's senior vice-president Vikas Halan said the decision to change the outlook to negative, reflects its view that the financial profile of Petronas may deteriorate if the government continues to ask the national oil company to keep dividend payments high, especially should oil prices decline. This follows the announcement by the government that Petronas will pay dividends of RM26 billion in 2018 and RM54 billion (inclusive of a one-off special dividend of RM30 billion) in 2019. "Such a situation would no longer support a ratings level for the company that is currently two notches above that of the sovereign. In such a scenario, Petronas' ratings could be constrained to no more than one notch above that of the sovereign," Halan said. As announced in Budget 2019 on Nov 2, Petronas will pay RM30 billion as a one-off special dividend to the government in 2019, in addition to the regular annual dividend, which in 2019 will total RM24 billion. The company will also pay RM26 billion in dividends in 2018, versus annual dividend payments of RM16 billion in 2016 and 2017. "Although Petronas can support the dividend payments announced in the budget and still maintain a net cash position, a further increase in regular dividend payments cannot be ruled out, especially if there is an increase in government's funding needs," Moody's said. "High shareholder returns will reduce the company's ability to absorb the volatility in crude oil prices and constrain its financial flexibility," the statement added. Nonetheless, Moody's expects Petronas to continue investing in the growth of its production and reserves. "Furthermore, changes to government's policies for the oil and gas (O&G) sector could affect Petronas' position as the sole owner of the country's petroleum resources, and increase the royalties paid on its upstream O&G production," Halan, who is also Moody's lead analyst for Petronas, said. "These changes could put pressure on the company's ratings, especially if Petronas is required to continue paying high dividend payments," he added. Based on Moody's adjusted numbers, the company's net cash position — which increased to RM97 billion at June 30, 2018 compared with RM42.8 billion on Dec 31, 2016 — will likely stay at RM75 billion to RM80 billion over the next two to three years, based on Moody's current oil price assumption of US$50-US$70 per barrel through 2019. "Given the Negative outlook, an upgrade of the A1 ratings is unlikely," Moody's said. "The Negative outlook on the ratings could be revised to Stable, if there is reduced uncertainty around the company's dividend policy and further clarity of the government's policy for the O&G sector, both of which lead us to conclude that the company will retain its existing financial flexibility and credit profile," it added. *(Source: The EdgeMarkets)*

Fitch Ratings cautions about negative rating implications if Malaysia's already high public debt increases over the medium term. The rating agency said on Thursday the Budget 2019 revises up the estimated central government deficit for 2018 to 3.7% of GDP, from a previous target of 2.8%. “We had expected the 2018 target to be met when we affirmed the sovereign rating at 'A-' with a Stable Outlook in August,” it said. To recap, Fitch said it raised its estimate of end-2017 central government debt to 65.5% of GDP, from 50.8%, at the last review. That was to reflect the government's recognition that it will need to service a large share of explicitly guaranteed debt. The median public debt ratio for 'A' rated sovereigns is 50.6%. Fitch said the Budget 2019 confirmed an overrun of the 2018 deficit target. The Budget 2019 also set less ambitious targets for medium-term consolidation, “and increases dependence on oil-related revenue, which raises risks to the fiscal outlook”, says Fitch Ratings. On a more positive note, Fitch pointed out the budget also contained measures to improve transparency and public debt management, underscored by the inclusion of previously off-budget spending in the revised 2018 deficit target. It pointed out the budget sticks to a path of fiscal consolidation over the medium term through measures to raise revenue, cut subsidies, and reduce expenditure. “However, headline consolidation goals are now more modest, as the deficit target for 2020 is now 3.0% of GDP, which is about one percentage point wider than previously targeted. “Our expectation is still that debt ratios will fall in the next few years, provided that GDP growth remains broadly in line with the authorities' revised outlook for growth of 4.9% for 2019 and 5% in 2020,” it said. However, Fitch said the larger deficit targets suggest the pace of decline in the debt ratios could be slower and we believe risks to the fiscal outlook have risen. In particular, the government's revenue forecasts build in a sharp rise in the 2019 revenue/GDP ratio to reflect a special dividend from Petronas. Substantial measures to raise non-oil revenue will be required for the government to meet its medium-term targets if oil prices do not remain elevated. “Our own assumption is that oil prices will fall from US$70 barrel in 2018 to US$65 barrel, which is below the authorities' projections. “Additional revenue measures have been announced that could yield gains - such as higher property taxes and an increase in stamp duty - but there could be implementation challenges. “Expenditure overruns are also a risk, given the government's emphasis on populist measures to sustain growth and ensure socio-economic well-being,” it said. The budget includes plans for sales of non-strategic public assets, which could help to bring down its debt ratio. Fitch said however, there are also risks to debt containment from contingent liabilities related to public-private partnerships estimated at more than 10% of GDP, which may migrate to the sovereign balance sheet as the government continues to increase the transparency of public finances. “Improvements in governance could eventually support structural indicators in Malaysia's sovereign credit profile, which are currently below the 'A' category median, but the benefits will take time to materialise,” it said. *(Source: The Star Online)*

**Rating Action**

| Issuer | PDS Description | Rating/Outlook | Action |
|---|---|---|---|
| Nil | | | |

*Source: RAM, MARC*

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