

## 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

#### Upcoming Government Bond Tender

Nil

#### 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.

## 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
		<u>3017</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*
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 Petrolia 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

**Hong Leong Bank Berhad**

Fixed Income &amp; Economic Research, Global Markets

Level 8, Hong Leong Tower

6, Jalan Damanlela

Bukit Damansara

50490 Kuala Lumpur

Tel: 603-2081 1221

Fax: 603-2081 8936

Email: HLMarkets@hlbb.com.my

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