

Global Markets Research

Fixed Income

Fixed Income Daily Market Snapshot

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	2.56	2
5-yr UST	2.75	3
10-yr UST	2.86	3
30-yr UST	2.96	3

MGS		GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.55	-2	3.56	0
5-yr	3.77	-2	3.93	0
7-yr	3.97	-1	4.10	1
10-yr	4.09	-2	4.23	-1
15-yr	4.57	0	4.71	0
20-yr	4.81	-3	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	3.85	-1
7-yr	3.97	-1
10-yr	4.15	0

Source : Bloomberg

Upcoming Government Bond Tender

Nil

US Treasuries

US Treasuries ended weaker on lack of leads yesterday with the yield curve seen steepening. Benchmark yields were generally higher between 2-3 bps with the 2Y at 2.56% and the much-watched 10Y at 2.86% levels. Meanwhile a number of Investment-Grade (IG) issuances were announced i.e. Credit Suisse Group AG, European Investment Bank, Japan Bank for International Cooperation and Commonwealth Bank of Australia; as the tone of the credit market improved as CDS spreads came off their widest levels since 2016. Recent analysis reveals rising turnover has energized the market-depth of UST's as YTD daily volume of \$556b compared with \$502b in 2017 (at its through in 2015 this was only \$480b).

MGS/GII

Despite trading momentum in Govvies easing for the 3rd day with total volume at RM2.72b; firm interest saw bonds rally as overall benchmark yields were generally 0-3bps lower across the curve. Both MGS and GII 18-19's were snapped up along with MGS 23-24's on both local and offshore flows. Both the 10Y MGS 6/28 and GII 10/28 edged 1-2bps lower to close at 4.09% and 4.23% respectively. Lower intensity of selling is noticed of late following the lower magnitude in the reduction in June's foreign holdings for local govvies.

Corp Bonds/Sukuk

Trading activity in Corporate Bonds/Sukuk improved to RM334m with interest spanning across a mere 26 different bonds compared to a mere 16 prior day. The bulk of the trades were focused on the GG followed by the AAA-AA part of the curve. Govt-guaranteed DANAINFRA 32 and 39's ended 1-2bps lower between 4.80-82% and 5.06-07% levels respectively compared to previous-done levels whilst AAA rated GENM Capital 7/23 and 7/28 made their debut closing at 4.93% and 5.15% respectively. The AA-space was dominated by power-related bonds Sepangar Bay Power 7/19, SAMALAJU 12/26, 12/29 and also Southern Power 4/29 which moved 2-11bps lower with trades totaling RM70m 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	3.219	241	3.305	04/07/2018	-9
MGS 03/19	3.381	196	3.380	06/07/2018	0
MGS 10/19	3.390	24	3.411	06/07/2018	-2
MGS 03/20	3.448	5	3.454	06/07/2018	-1
MGS 10/20	3.463	2	3.426	06/07/2018	4
MGS 02/21	3.542	3	3.582	06/07/2018	-4
MGS 07/21	3.595	30	3.605	06/07/2018	-1
MGS 09/21	3.582	50	3.606	06/07/2018	-2
MGS 11/21	3.546	2	3.562	06/07/2018	-2
MGS 03/22	3.669	80	3.810	04/07/2018	-14
MGS 08/22	3.749	58	3.771	06/07/2018	-2
MGS 03/23	3.844	183	3.868	06/07/2018	-2
MGS 04/23	3.765	130	3.802	06/07/2018	-4
MGS 08/23	3.865	1	3.876	06/07/2018	-1
MGS 07/24	3.927	134	3.927	06/07/2018	0
MGS 09/24	3.958	120	3.969	06/07/2018	-1
MGS 03/25	3.972	30	3.984	06/07/2018	-1
MGS 09/25	4.035	8	4.174	06/07/2018	-14
MGS 05/27	4.272	10	4.279	06/07/2018	-1
MGS 11/27	4.172	10	4.172	06/07/2018	0
MGS 06/28	4.094	188	4.110	06/07/2018	-2
MGS 06/31	4.593	20	4.646	06/07/2018	-5
MGS 04/32	4.665	17	4.724	06/07/2018	-6
MGS 04/33	4.663	112	4.667	06/07/2018	0
MGS 05/35	4.839	22	4.866	05/07/2018	-3
MGS 04/37	4.843	11	4.885	06/07/2018	-4
MGS 06/38	4.807	100	4.839	06/07/2018	-3
MGS 03/46	4.931	1	4.915	04/07/2018	2
GII 04/19	3.414	375	3.427	06/07/2018	-1
GII 05/20	3.602	19	3.597	05/07/2018	0
GII 08/21	3.708	100	3.737	06/07/2018	-3
GII 04/22	3.823	63	3.860	05/07/2018	-4
GII 07/22	3.882	100	3.963	03/07/2018	-8
GII 07/23	3.975	1	3.978	06/07/2018	0
GII 08/25	4.095	80	4.087	06/07/2018	1
GII 07/27	4.312	1	4.312	05/07/2018	0
GII 10/28	4.233	190	4.244	06/07/2018	-1
GII 08/33	4.840	1	4.844	25/06/2018	0
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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*	
Prasarana Malaysia Berhad [fka Syarikat Prasarana Negara Berhad]	03/19	GG	3.753	5	3.693	03/04/2018	6	37
Danainfra Nasional Berhad	10/20	GG	4.022	20	3.925	22/01/2018	10	54
Khazanah Nasional Berhad	08/23	GG	4.321	10	4.259	04/04/2018	6	54
Danainfra Nasional Berhad	02/25	GG	4.392	5	4.239	28/06/2016	15	40
Bank Pembangunan Malaysia Berhad	09/29	GG	4.697	10	4.650	28/03/2017	5	59
Danainfra Nasional Berhad	03/32	GG	4.809	20	4.825	16/03/2018	-2	22
Danainfra Nasional Berhad	05/32	GG	4.821	30	4.828	03/07/2018	-1	23
Prasarana Malaysia Berhad [fka Syarikat Prasarana Negara Berhad]	09/37	GG	5.020	30	5.128	04/06/2018	-11	20
Danainfra Nasional Berhad	04/39	GG	5.064	35	5.074	06/07/2018	-1	24
Danainfra Nasional Berhad	07/39	GG	5.074	10	5.086	06/07/2018	-1	25
Cagamas Berhad	03/20	AAA	4.100	20	4.171	03/07/2018	-7	62
DiGi Telecommunications Sdn Berhad	04/22	AAA	4.410	5	4.482	08/06/2018	-7	69
GENM CAPITAL	07/23	AAA	4.929	9	-	-	-	115
GENM CAPITAL	07/28	AAA	5.149	26	-	-	-	105
Bank Pembangunan Malaysia Berhad	03/32	AAA	5.008	10	5.030	01/06/2018	-2	42
MBSB Bank Berhad (fka Asian Finance Bank Berhad)	05/19	AA1	4.455	10	4.551	14/05/2018	-10	108
Sepangar Bay Power Corporation Sdn Berhad	07/19	AA1	4.188	20	4.300	25/05/2015	-11	81
Samalaju Industrial Port Sdn Berhad	12/26	AA1	4.904	10	4.938	26/06/2018	-3	84
Samalaju Industrial Port Sdn Berhad	12/29	AA1	5.129	20	5.209	25/06/2018	-8	103
OCBC Bank (Malaysia) Berhad	04/39	AA2	4.604	3	4.686	18/05/2018	-8	-22
RHB Islamic Bank Berhad	04/27	AA3	4.772	2	4.817	26/06/2018	-4	66
CIMB Group Holdings Berhad	04/60	AA3	4.972	1	4.913	02/07/2018	6	15
UEM Edgenta Berhad [fka Faber Group Berhad]	04/22	AA-	4.719	2	4.727	02/05/2018	-1	100
Southern Power Generation Sdn Berhad	04/29	AA-	4.997	20	5.021	08/06/2018	-2	89
Hong Leong Financial Group Berhad	11/17	A1	5.026	1	5.026	06/07/2018	0	21
Alliance Bank Malaysia Berhad	10/25	A2	4.577	1	4.598	05/07/2018	-2	59
			<u>334</u>					

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

Market/Corporate News: What's Brewing

Singapore will seek compensation for all costs incurred if Malaysia cancels a planned multi billion-dollar high-speed railway link between the two countries.

Transport Minister Khaw Boon Wan told parliament on Monday that compensation would be sought under the terms of the 2016 high-speed rail bilateral agreement between Singapore and Malaysia. "We will deal with the question of compensation from Malaysia for costs incurred by Singapore in accordance with the bilateral agreement and international law," Khaw said, adding that Singapore expected to incur costs of around S\$300mil (US\$221.5mil) by the end of the year. Soon after achieving a stunning upset in Malaysia's May general election, Prime Minister Tun Dr Mahathir Mohamad said he would cancel the rail link to Singapore, a signature project of his predecessor Datuk Seri Najib Tun Razak, in what he called a move to cut costs. The decision is a setback to construction and rail companies in Asia, including those from China and Japan that are keen to gain a slice of the orders. The 350-kilometer (220-mile) line, with trains moving at a top speed of more than 300 kilometers an hour, was targeted to begin operating in 2026. It would've trimmed the land journey between Kuala Lumpur and Singapore to 90 minutes, from about five hours now. Mahathir has also suspended works on the East Coast Rail Link and energy pipeline projects backed by Chinese state companies, saying they were too costly. Representatives from Mahathir's office and transport minister Anthony Loke Siew Fook did not immediately respond to requests for comment. The move signals a return to rockier ties between Malaysia and Singapore that characterized Mahathir's first stint in power from 1981 to 2003. Relations had improved under Najib, who in 2013 had agreed with his Singaporean counterpart Lee Hsien Loong to build the rail link. Singapore had already acquired land for the project, passed legislation, and set up an infrastructure company with a team of more than 100 specialists to build, own, fund and maintain the high-speed-rail civil infrastructure in Singapore, Khaw said. "All these works cost money," Khaw said. "Including costs for consultancies to design the civil infrastructure, costs for dedicating manpower to oversee and deliver the project, and costs for land acquisition," he said. Based on preliminary estimates, the total cost incurred by the Singapore Government had already exceeded S\$250mil by the end of May 2018, with further costs of around S\$52mil to be incurred by the end of December. "This is actual money that has already been spent, our taxpayers money," Khaw said, adding that a significant amount of the money spent "will be completely wasted expenditure, if the project does not proceed." Khaw said that besides costs incurred by Singapore, rail consortia from China, Japan, Europe and other interested parties such as international financial institutions, have also been incurring costs preparing their bids, Khaw added. Singapore had sent a diplomatic note to Malaysia on June 1 seeking immediate clarification on Malaysia's position, but "to date, Singapore has still not received a reply from the Malaysian Government," he said. If the Malaysian Government did not soon provide an official response, "then we cannot ignore the public statements made by the Malaysian Ministers, and Prime Minister Dr Mahathir himself, on the termination of the project, and Singapore will act according to its rights," Khaw said.. (Source: *The Star/Bloomberg*)

Analysts reckon the third light rail transit (LRT3) line in the Klang Valley is not in danger of being dropped despite talk of Putrajaya reviewing the project because of massive cost overruns.

In the worst case, the LRT3 could be shelved, CIMB Equities Research said, believing "this is unlikely to materialise as the project has entered the intensive civil works phase". A local English-language daily reported yesterday the cost to build the 37km line between Bandar Utama and Klang has jumped to RM15 billion, from the initial estimate of RM9 billion in 2015. As a result, the government is reviewing the project and is expected to make a decision soon, the daily quoted a source as saying.

The report said the government, through Prasarana Malaysia Bhd, could take over the construction of the project from the project delivery partner (PDP) — a 50:50 joint venture between Malaysian Resources Corp Bhd (MRCB) and George Kent (Malaysia) Bhd. Given the financial constraints and a national debt of RM1.087 trillion as at end-2017, analysts are also not discounting the possibility that the government may defer the project. If Prasarana assumes control of the LRT3 construction, analysts said the government would do away with the PDP model and revert to the turnkey model to reduce construction cost, which may involve reducing the project's size and scale. Around RM10.27 billion worth of contracts related to the LRT3 have been farmed out to local contractors, including Mudajaya Group Bhd, WCT Holdings Bhd, TRC Synergy Bhd, IJM Corp Bhd, Sunway Construction Group Bhd, and EITA Resources Bhd. To complete the LRT3 project, analysts said Prasarana may need to raise new funds and seek an fresh approvals from the new federal cabinet. Prasarana may seek an additional budget from the government as the consortium currently has the approval to raise up to RM10 billion. To raise additional funds, the company may need the cabinet's approval. Since assuming power following the 14th general election on May 9, the Pakatan Harapan government has been reviewing mega-infrastructure projects such as the RM81 billion East Coast Rail Link, at risk of being scrapped. The new government has also dropped the RM45 billion third mass rapid transit (MRT3) project and the RM110 billion Kuala Lumpur-Singapore high-speed rail. According to analysts, the LRT3 cost has exceeded the RM10 billion budget due to design changes affecting the proposed 26 stations along the rail stretch. (Source: *The Edge*)

Rating Actions			
Issuer	PDS Description	Rating/Outlook	Action
Axis REIT Sukuk Berhad	RM110.0 million of Class A, Class B, Class C and Class D sukuk	AAA, AA1, AA2 and AA3	Reaffirmed
Bank Muamalat Malaysia Berhad	Financial Institution rating	A2/Stable/P1	Reaffirmed

Source: RAM Ratings; MARC

Hong Leong Bank Berhad

Fixed Income & 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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