

Global Markets Research

Fixed Income

Fixed Income Daily Market Snapshot

US Treasuries

- US Treasuries ended range-bound within 0-2bps higher as market was able to digest the double-auction of UST\$32b of UST3Y; averaging 2.664% and also \$22b of UST10Y which averaged at 2.962%. The front-end was weaker ahead of the all-important FOMC meeting schedule for this Wednesday. Focus will also be on Trump-Kim meeting in Singapore today. Meanwhile UST Futures is reputed to spike on rumors of the sudden illness of Trump's top economic adviser; Larry Kudlow. Even though another 25bps rate hike in the upcoming FOMC meeting this week is a done deal in our view, markets are looking for more clues if the Fed will deliver a 4th rate hike for the year.

MGS/GII

- Trading momentum in local govies maintained as total volume of RM1.66b was largely due to some interest on the short-end 18-19's mainly by offshore flows. The longer-end faced some pressure with the 24-33's causing the curve steepened slightly. Meantime the foreign holdings of Ringgit Bonds saw more outflows with total holding levels standing at RM192.5b as at end-May; the lowest since August 2017 due to earlier political concerns over policy clarity domestically. Expect market to remain quiet ahead of tomorrow's FOMC policy meetings.

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	2.52	2
5-yr UST	2.80	1
10-yr UST	2.95	1
30-yr UST	3.09	0

MGS		GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.70	-3	3.72	0
5-yr	3.85	0	4.04	2
7-yr	4.03	0	4.18	0
10-yr	4.23	0	4.35	0
15-yr	4.62	0	4.72	0
20-yr	4.90	1	4.84	0
30-yr	4.95	7	5.01	0

*Market indicative

M YR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.74	-1
3-yr	3.82	0
5-yr	3.90	1
7-yr	4.00	1
10-yr	4.16	1

Source: Bloomberg

Upcoming Government Bond Tender Nil

Corp Bonds/Sukuk

- Trading activities in local corporate Bonds continued to be muted with volume at RM164m with some interest in the AAA-rated space. AMAN 5/22 and 5/25 ended weaker at 4.53% and 4.70% respectively compared to previous-done levels whilst GB Services edged 1bps at 4.50%. Meanwhile AA-rated KLK rallied 7bps at 4.55% whilst the short-end YTL Power 8/18 closed 11bps higher at 4.39%. We expect trading in corporate bonds/ sukuk to stay soft momentarily.

Daily Trades : Government Bonds

Securities		Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS	09/18	3.216	73	3.250	08/06/2018	-3
MGS	10/19	3.480	344	3.495	08/06/2018	-2
MGS	11/19	3.484	192	3.528	08/06/2018	-4
MGS	07/20	3.617	40	3.624	05/06/2018	-1
MGS	10/20	3.653	15	3.653	08/06/2018	0
MGS	09/21	3.760	121	3.787	07/06/2018	-3
MGS	11/21	3.700	44	3.728	08/06/2018	-3
MGS	03/22	3.852	15	3.840	08/06/2018	1
MGS	08/22	3.941	13	3.915	08/06/2018	3
MGS	03/23	4.015	22	3.934	07/06/2018	8
MGS	08/23	4.004	5	3.997	08/06/2018	1
MGS	07/24	4.171	43	4.150	07/06/2018	2
MGS	09/25	4.294	144	4.242	08/06/2018	5
MGS	04/26	4.331	35	4.301	05/06/2018	3
MGS	11/26	4.385	130	4.334	08/06/2018	5
MGS	04/30	4.703	48	4.625	07/06/2018	8
MGS	06/31	4.713	1	4.692	08/06/2018	2
MGS	04/33	4.803	215	4.763	08/06/2018	4
MGS	05/35	4.883	4	4.897	07/06/2018	-1
MGS	06/38	4.896	30	4.888	08/06/2018	1
GII	08/18	3.414	98	3.304	06/06/2018	11
GII	11/18	3.308	18	3.375	08/06/2018	-7
GII	11/23	4.038	12	4.020	08/06/2018	2
			1662			

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	02/23	GG	4.322	15	4.170	03/11/2017	15	49
Prasarana Malaysia Berhad [fka Syarikat Prasarana Negara Berhad]	03/33	GG	4.920	5	4.839	03/04/2018	8	30
GB Services Berhad	11/19	AAA	4.500	20	4.488	07/06/2018	1	110
Aman Sukuk Berhad	05/22	AAA	4.530	20	4.060	21/09/2016	47	73
Aman Sukuk Berhad	05/25	AAA	4.699	20	4.553	14/03/2018	15	67
Cagamas Berhad	11/25	AAA	4.700	10	4.370	09/06/2016	33	67
YTL Power International Berhad	08/18	AA1	4.393	15	4.284	23/05/2018	11	99
Kuala Lumpur Kepong Berhad	09/22	AA1	4.550	20	4.616	22/05/2018	-7	75
CIMB Bank Berhad	08/26	AA+	5.349	1	5.001	23/05/2018	35	125
Imtiaz Sukuk II Berhad	05/20	AA2	4.516	20	4.401	22/02/2018	12	91
PBFIN Berhad	06/59	AA2	4.653	1	4.544	04/06/2018	11	-25
UEM Sunrise Berhad (fka UEM Land Holdings Berhad)	05/23	AA-	4.937	15	4.956	31/05/2018	-2	111
Tan Chong Motor Holdings Berhad	11/19	A1	5.824	1	5.720	08/06/2018	10	242
Mah Sing Perpetual	-	-	5.604	2	5.605	08/06/2018	0	-
			164					

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

Market/Corporate News: What's Brewing

Malaysia Airports Holdings Bhd saw its 5M18 passenger growth record 4.3% on year with growth to come in stronger in the months ahead due to May's traffic being slightly subdued due to seasonality. For the month, KLIA Main registered negative growth of 2.8% on year with international and domestic traffic contracting 0.7% and 6.5% respectively due to the fasting period and reduction in capacity in local airlines. However, KLIA2' traffic growth continued at 2.3% on year due to growth from AirAsia as it increased its capacities through higher plane utilisation as well as the number of planes. Meanwhile, Turkey's ISG Airport registered a mild 1.4% growth in traffic due to the Ramadan month. However the anticipated Quality of Service framework to be implemented by MAVCOM from 3Q18 for airports could pose as downside risks. MAVCOM has proposed a financial penalty of up to 5% of aeronautical revenue, which could dent our FY18E CNP by 7% for every 1% penalty. In order to mitigate penalties, AIRPORT has increased their planned CAPEX to RM600-700m (from typically RM300m) in FY18-19 to upgrade their infrastructure, i.e. trains, baggage systems and toilets. (Source: *The Star/ Bloomberg*)

Sales of the riskiest subprime auto bonds are on pace for a record year, according to Barclays Plc. Companies have sold more than \$150 million of B rated subprime auto ABS bonds this year, compared with nothing last year, and an annual average of about \$20 million since the financial crisis, Barclays analyst Alin Florea wrote in a recent note. Meanwhile, BB rated debt in the sector has already exceeded \$500 million and looks set to pass last year's total of \$950 million. "Despite the volatility earlier in the year, 2018 is shaping up to be a banner year for subprime, auto ABS high yield issuance," Florea wrote. Subprime auto ABS issuers have started to sell more BB- and B rated bonds to meet investor demand for riskier slices of the debt. The dive deeper into the lower tiers of subprime auto ABS highlights how investors are reaching further down the chain of risk as they search for a better rate of return on their investments. The bulk of the \$150 million of B rated subprime auto ABS bonds sold this year has come from Westlake Financial Services, but four others firms have also issued the lower-rated debt. For issuers, all of this implies if they bring it, investors will buy it. (Source: *The Star/ Bernama*)

Petroliam Nasional Bhd (Petronas) is seeking a court order to stop Sarawak from flexing its professed oil and gas (O&G) regulatory powers until its legal tussle is resolved. The national oil company's application to preserve the status quo runs parallel with its application for leave to commence proceedings against the Sarawak government. The proceedings will be to seek a clarification from the Federal Court on who is the rightful regulator for upstream activities in Sarawak. The application for leave will be heard by the apex court on June 21. In further documents submitted to the court last Friday, Petronas expressed concern that Sarawak may go ahead with a proposed regulatory framework from July 1 regardless of any court proceedings. That scenario, said Petronas, may disrupt its activities in Sarawak as the company is not licensed under the state's proposed legal framework. Petronas noted that such a disruption would have commercial impact and "serious financial implications", not only in loss of revenue but also cost of preserving facilities, as well as cost of resuming operations. It added that on June 6, it proposed terms for the preservation of the status quo pending the court proceedings. The proposal was extended on the basis that any agreement would not be construed as a concession from either party on the matter. But the proposal was rejected by the state on June 7 via telephone. Petronas added that it believes the Sarawak government will not be prejudiced by a status quo preservation order. To recap, on June 4, Petronas filed an application to the Federal Court to seek clarity on the rightful regulatory authority over upstream O&G activities in Sarawak. The application named

the Sarawak state government as a respondent. It is seeking a declaration that the Petroleum Development Act 1974 (PDA), which created the national oil company, was validly enacted. Thus, Petronas is also seeking a declaration that the PDA confers upon it the exclusive ownership and sole regulator status for all upstream O&G activities nationwide, including in Sarawak. The June 4 application was filed amid Sarawak's repeated assertion that all players undertaking upstream O&G activities in the state must have requisite licences, permits and approvals from the state beginning July 1. The assertion had caused confusion and uncertainty among production-sharing contractors who are unsure of whom to deal with for regulatory clearances, Petronas said. In a letter dated April 13, the Sarawak attorney-general officially written to Petronas expressing the state's intention to enforce the licensing requirements and advised Petronas to contact Petroleum Sarawak Bhd (Petros). Petros is a wholly state-owned entity that would be issued exploration and mining leases under Sarawak's proposed O&G regulatory framework. Sarawak's legal reasoning is primarily based on the Oil Mining Ordinance 1958. In a handbook on the proposed framework circulated last month, the state claims that while the PDA has vested ownership over all petroleum resources throughout Malaysia in Petronas, the act itself does not constitute a mining lease. Therefore, the state argues that powers to issue licences and permits for petroleum exploration and prospecting remains with the state government. However, in a May 22 letter, Petronas rejected the state's legal reasoning underlying the claim to regulatory authority, and says it is not required to obtain such licenses or leases from the state. In its June 4 submission, Petronas argues that the enactment of the PDA had impliedly repealed the Oil Mining Ordinance. Furthermore, it also argues that in any case, the formation of Malaysia on Sept 16, 1963 caused the Oil Mining Ordinance to become a federal law — meaning the state no longer enjoys the regulatory powers under that law. In its June 8 submission, Petronas states that Petros had not applied for an upstream activity licence from Petronas and that if Petros engages in any such activity, it would amount to a "criminal offence". Despite the narrow question of regulator status that Petronas seeks to clarify, the legal action has become a hot-button issue in Sarawak where state nationalism has been on the rise in recent years. The rising state-based nationalism has seen a push to regain allegedly eroded rights provided under the Malaysian Agreement 1963, including the pursuit of more income from O&G resources found within the state. Last Sunday, a local English daily, The Borneo Post, framed the legal tussle as "in reality, it is a fight between the federal government and Sarawak, and states with O&G resources". "It is not unreasonable to conclude the suit was initiated with a tacit approval of the Pakatan Harapan federal government as under the PDA, Petronas is answerable to the prime minister," the newspaper wrote. Last week, Prime Minister Tun Dr Mahathir Mohamad told reporters that he would leave the matter to Petronas when asked for his opinion. In 2015, Dr Mahathir — at the time an adviser to Petronas as a former prime minister — opined that while the oil royalty quantum for some poor states should be increased, 20% is "too much". Notably, both Sarawak's Barisan Nasional and Pakatan politicians are working together to oppose the Petronas legal action. In May 2014, the state assembly unanimously passed a resolution to request an increase of the state's oil royalty from 5% to 20%. The 5% royalty is provided under the existing PDA whereby both the federal and state governments receive 5% each. The motion on the increase was originally tabled by state opposition leader Chong Chieng Jen. The Pakatan manifesto had also promised to increase O&G royalty to oil-producing states to 20%. However, Pakatan did not capture Sarawak in the recent general election as its state assembly seats were not contested. It is due to have state elections in 2021.

Rating Actions			
Issuer	PDS Description	Rating/Outlook	Action
Nil	Nil	Nil	Nil

Source: RAM Ratings; MARC

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