

Global Markets Research

Fixed Income

Fixed Income Daily Market Snapshot

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	2.58	1
5-yr UST	2.75	0
10-yr UST	2.85	0
30-yr UST	2.95	0

MGS		GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.55	2	3.56	0
5-yr	3.74	1	3.90	0
7-yr	3.94	0	4.07	0
10-yr	4.07	0	4.21	1
15-yr	4.53	0	4.63	-1
20-yr	4.79	0	5.00	0
30-yr	4.91	0	4.98	0

* Market indicative

M YR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.70	-1
3-yr	3.74	0
5-yr	3.84	-1
7-yr	3.95	-2
10-yr	4.13	-2

Source : Bloomberg

Upcoming Government Bond Tender

Nil

US Treasuries

- US Treasuries ended mixed with the long-end of the curve supported amid the equity sell-off yesterday; resulting in continuing flattening. Benchmark yields were generally within 1bps with the 2Y edging higher at 2.58% and the much-watched 10Y at 2.85% levels. The 10Y auction notched a strong BTC ratio of 2.57x (June: 2.59x); averaging 2.859%. Meanwhile investors were seen buying into inflation-linked debt (i.e. TIPS) as a hedge against overheating growth; potentially ignoring growth risks emanating from trade tariff threats. On the data front we have June's CPI data out tonight.

MGS/GII

- Trading momentum in Govvies eased on profit-taking activities with total volume lower at RM2.92b as GII trades formed about 30% of overall trades. Firm interest was seen mainly in both the 10Y benchmark MGS and GII bonds along with the 22-23's. Overall benchmark MGS yields were largely unchanged save for the short-end which edged 1-2bps higher. Both the 7Y MGS 3/25 and 10Y MGS 6/28 ended unchanged at 3.94% and 4.07% respectively. Separately BNM expectedly stayed pat on the Overnight Policy Rate at 3.25% whilst adopting a balanced and neutral tone going forward.

Corp Bonds/Sukuk

- Trading activity in Corporate Bonds/Sukuk maintained at healthy volume of RM419m with interest mainly across the AA-part of the curve with interest seen in 26 different bonds. Govt-guaranteed GOVCO 2/21 and PRASA 9/27 ended 2-4bps lower at 4.03% and 4.46% respectively compared to previous-done levels. AAA-rated TNB 8/37 closed unchanged at 5.09%. The AA-space saw various names traded like SEB 1/27 and 12/32 which rallied 2-3bps to close lower at 4.83% and 5.22% respectively while ANIH 11/18 closed at 4.10%. In the banking space, RHB Investment Bank 27nc22 closed 4bps higher at 4.94% levels on huge RM100m nominal amounts.

Daily Trades : Government Bonds

Securities		Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS	09/18	3.248	526	3.219	09/07/2018	3
MGS	10/19	3.419	4	3.453	10/07/2018	-3
MGS	11/19	3.424	153	3.418	10/07/2018	1
MGS	10/20	3.486	10	3.448	10/07/2018	4
MGS	02/21	3.534	8	3.542	09/07/2018	-1
MGS	07/21	3.615	9	3.587	10/07/2018	3
MGS	09/21	3.625	3	3.598	10/07/2018	3
MGS	11/21	3.546	30	3.524	10/07/2018	2
MGS	03/22	3.704	212	3.704	10/07/2018	0
MGS	03/23	3.797	55	3.833	10/07/2018	-4
MGS	04/23	3.745	110	3.738	10/07/2018	1
MGS	08/23	3.856	32	3.832	10/07/2018	2
MGS	07/24	3.926	19	3.955	10/07/2018	-3
MGS	03/25	3.941	3	3.950	10/07/2018	-1
MGS	09/25	4.076	2	4.048	10/07/2018	3
MGS	04/26	4.178	30	4.163	10/07/2018	1
MGS	11/26	4.192	34	4.170	10/07/2018	2
MGS	11/27	4.175	23	4.152	10/07/2018	2
MGS	06/28	4.072	423	4.072	10/07/2018	0
MGS	06/31	4.562	24	4.583	10/07/2018	-2
MGS	04/33	4.635	63	4.651	10/07/2018	-2
MGS	11/33	4.527	191	4.533	10/07/2018	-1
MGS	05/35	4.653	1	4.730	10/07/2018	-8
MGS	04/37	4.774	10	4.819	10/07/2018	-4
MGS	06/38	4.787	50	4.783	10/07/2018	0
MGS	07/48	4.908	30	4.905	10/07/2018	0
GII	04/19	3.464	10	3.414	09/07/2018	5
GII	03/21	3.636	20	3.667	10/07/2018	-3
GII	04/21	3.654	100	3.715	10/07/2018	-6
GII	04/22	3.803	175	3.814	10/07/2018	-1
GII	07/22	3.950	9	3.952	05/07/2018	0
GII	07/22	3.862	70	3.872	10/07/2018	-1
GII	08/25	4.065	190	4.055	10/07/2018	1
GII	10/28	4.206	220	4.208	10/07/2018	0
GII	12/28	4.282	30	4.296	10/07/2018	-1
GII	06/33	4.630	40	4.640	10/07/2018	-1
			<u>2920</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	3.803	50	3.687	23/11/2017	12	43
GovCo Holdings Berhad	02/21	GG	4.030	20	4.054	17/05/2018	-2	49
Prasarana Malaysia Berhad [fka Syarikat Prasarana Negara Berhad]	09/27	GG	4.460	15	4.501	05/07/2018	-4	38
Cagamas Berhad	05/23	AAA	4.370	5	4.421	03/07/2018	-5	62
GENM Capital	07/23	AAA	4.850	1	4.929	09/07/2018	-8	-
Putrajaya Bina Sdn Berhad	09/24	AAA	4.590	10	4.472	09/01/2018	12	70
IGB REIT Capital Sdn Berhad	09/24	AAA	4.375	20	4.390	13/03/2018	-1	48
Sarawak Hidro Sdn Berhad	08/25	AAA	4.560	20	4.608	03/05/2018	-5	61
Tenaga Nasional Berhad	08/37	AAA	5.091	10	5.089	05/07/2018	0	30
Malayan Banking Berhad	05/24	AA1	4.493	10	4.491	31/05/2018	0	60
Hong Leong Bank Berhad	06/24	AA1	4.514	5	4.386	04/07/2018	13	62
Sarawak Energy Berhad	01/27	AA1	4.834	20	4.864	05/07/2018	-3	75
Danajamin Nasional Berhad	10/27	AA1	4.767	10	4.827	04/06/2018	-6	68
Sarawak Energy Berhad	12/32	AA1	5.224	10	5.249	05/07/2018	-2	68
TRIplic Medical Sdn Berhad	10/34	AA1	5.158	10	5.190	27/06/2018	-3	61
UMW Holdings Berhad	10/23	AA2	4.668	10	4.707	27/06/2018	-4	92
Tanjung Bin Power Sdn Berhad	08/27	AA2	4.799	10	4.798	16/03/2018	0	72
Anih Berhad	11/18	AA	4.102	20	4.140	29/03/2018	-4	72
Besraya (M) Sdn Berhad	07/19	AA3	4.528	20	4.662	31/05/2018	-13	115
CIMB Thai Bank Public Company Limited	07/24	AA3	4.853	1	4.772	02/07/2018	8	96
Al Dzahab Assets Berhad	03/26	AA3	5.680	5	5.650	01/06/2018	3	165
Al Dzahab Assets Berhad	09/26	AA3	5.741	5	5.946	16/03/2018	-21	171
RHB Investment Bank Berhad	10/27	AA3	4.935	100	4.890	11/04/2018	4	85
UEM Sunrise Berhad (fka UEM Land Holdings Berhad)	04/22	AA-	4.835	20	4.842	29/06/2018	-1	114
Tan Chong Motor Holdings Berhad	11/19	A1	6.115	12	6.358	10/07/2018	-24	274
DRB-Hicom Berhad	12/14	A-	7.496	1	7.602	03/05/2018	-11	271
				<u>419</u>				

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

Market/Corporate News: What's Brewing

The Cabinet has given the go-ahead for the continuation of the 37-km long light rail transit (LRT) 3 project but the final cost has been reduced by 47% to RM16.63bil. Finance Minister Lim Guan Eng said on Thursday the Cabinet gave its approval during the meeting on Wednesday and the final cost will enable Malaysians to save a total of RM15.02bil. The completion date for the LRT 3, stretching from Johan Setia (Klang) to Bandar Utama (Petaling Jaya), was extended from 2020 to 2024 to further reduce construction cost which was inflated. The construction of the LRT3 project will be restructured from a project-delivery-partner (PDP) model to a "fixed price contract" with the joint venture of MRCB and George Kent, he said. "This will ensure that the price will be fixed and will not be subject to cost overruns. The details of this contract will be disclosed at a later stage," he added. The savings of more than RM15bil would not only mean a massive reduction of RM15bil in debt to be incurred, but also result in additional savings to the tax-payers of up to RM14bil in interest cost over the period of the loan financing. "The 47% reduction in cost demonstrates that the new Federal Government is walking the talk in securing significant cost reductions for excessively-priced project caused by the poor governance of the previous government," said Lim. "This cost will include all project costs, including but not limited to work package contracts (WPC), land acquisition, project management, consultancy fees, operational and overhead costs, as well as interest during construction," he said. To recap, on March 30, 2018, Prasarana submitted the latest projected cost of the LRT3 project which amounted to RM31.65bil. At the same time, Prasarana sought an additional financing of RM22bil in the form of government guarantees, on top of the initial RM10bil granted in 2015 to finance the project. Lim said the LRT3 project is a critical project meant to alleviate the issue of traffic congestion along one of the most important and densely populated economic development corridors in the Klang Valley, from Klang to Petaling Jaya. The new LRT line is expected to serve a two-million population with the capacity to transport 36,700 passenger per hour each way. A thorough renegotiation and rationalization exercise of the LRT3 project was undertaken with all key stakeholders including Prasarana, MRCB-GK JV and the Land Public Transportation Commission (SPAD). One critical criteria for the review was that the integrity of the 37km LRT3 line must be maintained. In addition, the safety, frequency and quality of service must meet the requirements of the regulators. Key steps taken to reduce and rationalise project costs include:

- (i) Reducing the order of 42 sets of six-car trains to 22 sets of three-car trains. Based on the feasibility study of the LRT3 project, the 22 sets of three-car trains is more than sufficient to cope with the anticipated passenger demand until the year 2035 before additional three-car trains need to be ordered.
- (ii) Reducing the construction size of the LRT train depot due to the significantly reduced number of LRT trains to be acquired.
- (iii) Streamlining the size and design of the LRT stations based on Kelana Jaya LRT line standards instead of being benchmarked against the much larger MRT stations.
- (iv) Shelving the construction of 5 stations with very low projected passenger ridership until such a time the demand is deemed necessary for these stations to be built. These provisional stations are Lien Hoe, Temasya, SIRIM, Bukit Raja and Bandar Botanic.
- (v) Cancelling an unnecessary 2km tunnel for the LRT together with an underground station at Persiaran Hishamuddin, Shah Alam.
- (vi) Extending the timeline to complete the LRT3 project from 2020 to 2024 in order to further reduce construction cost which was inflated due to "acceleration costs" i.e. to speed up the project incurs additional costs. (Source: *The Star*)

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

Source: RAM Ratings; MARC

Hong Leong Bank Berhad

Fixed Income & Economic Research, Global Markets

Level 8, Hong Leong Tower

6, Jalan Damansara

Bukit Damansara

50490 Kuala Lumpur

Tel: 603-2081 1221

Fax: 603-2081 8936

Email: HLMarkets@hlbb.com.my

DISCLAIMER

This report is for information purposes only and does not take into account the investment objectives, financial situation or particular needs of any particular recipient. The information contained herein does not constitute the provision of investment advice and is not intended as an offer or solicitation with respect to the purchase or sale of any of the financial instruments mentioned in this report and will not form the basis or a part of any contract or commitment whatsoever.

The information contained in this publication is derived from data obtained from sources believed by Hong Leong Bank Berhad ("HLBB") to be reliable and in good faith, but no warranties or guarantees, representations are made by HLBB with regard to the accuracy, completeness or suitability of the data. Any opinions expressed reflect the current judgment of the authors of the report and do not necessarily represent the opinion of HLBB or any of the companies within the Hong Leong Bank Group ("HLB Group"). The opinions reflected herein may change without notice and the opinions do not necessarily correspond to the opinions of HLBB. HLBB does not have an obligation to amend, modify or update this report or to otherwise notify a reader or recipient thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

HLB Group, their directors, employees and representatives do not have any responsibility or liability to any person or recipient (whether by reason of negligence, negligent misstatement or otherwise) arising from any statement, opinion or information, expressed or implied, arising out of, contained in or derived from or omission from the reports or matter. HLBB may, to the extent permitted by law, buy, sell or hold significantly long or short positions; act as investment and/or commercial bankers; be represented on the board of the issuers; and/or engage in 'market making' of securities mentioned herein. The past performance of financial instruments is not indicative of future results. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Any projections or forecasts mentioned in this report may not be achieved due to multiple risk factors including without limitation market volatility, sector volatility, corporate actions, the unavailability of complete and accurate information. No assurance can be given that any opinion described herein would yield favorable investment results. Recipients who are not market professional or institutional investor customer of HLBB should seek the advice of their independent financial advisor prior to taking any investment decision based on the recommendations in this report.

HLBB may provide hyperlinks to websites of entities mentioned in this report, however the inclusion of a link does not imply that HLBB endorses, recommends or approves any material on the linked page or accessible from it. Such linked websites are accessed entirely at your own risk. HLBB does not accept responsibility whatsoever for any such material, nor for consequences of its use.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. This report is for the use of the addressees only and may not be redistributed, reproduced or passed on to any other person or published, in part or in whole, for any purpose, without the prior, written consent of HLBB. The manner of distributing this report may be restricted by law or regulation in certain countries. Persons into whose possession this report may come are required to inform themselves about and to observe such restrictions. By accepting this report, a recipient hereof agrees to be bound by the foregoing limitations.