

Global Markets Research

Fixed Income

Fixed Income Daily Market Snapshot

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	2.77	3
5-yr UST	2.74	3
10-yr UST	2.88	2
30-yr UST	3.13	0

MGS		GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.66	0	3.75	0
5-yr	3.84	1	3.88	0
7-yr	3.99	0	4.06	0
10-yr	4.09	1	4.20	1
15-yr	4.50	1	4.59	0
20-yr	4.72	0	4.78	0
30-yr	4.91	-2	4.94	0

* Market indicative levels

MYR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.71	0
3-yr	3.76	0
5-yr	3.85	0
7-yr	3.95	0
10-yr	4.15	0

Source : Bloomberg

Upcoming Government Bond Tender

RM3.8b (RM3.3b auction + RM0.5b PP) of 3Y GII 3/22 on 13th December 2018

US Treasuries

- US Treasuries ended lower led by the front-end with the curve flattening denting an otherwise decent 3Y note auction. Investors continue to watch for further signs in the inversion of the yield curve following the current pattern in both the 2s5s and 3s5s spread. Overall benchmark yields ended 2-3bps higher with the 2Y spiking to 2.77% and the 10Y up 2bps at 2.88% levels. The auction of \$38b of 3Y notes (the biggest since 2010) saw decent BTC ratio of 2.59x (previous auction: 2.54x); despite averaging 2.748% (lowest since July). Despite December's rate hike being largely priced in; traders are slashing the number of quarter-point hikes for 2019 as doubts are raised over the sustainability of the economic cycle as global growth is seen slowing.

MGS/GII

- Trading sentiment in local govies eased with volume grinding to RM852m yesterday as interest mainly in the belly of the curve with the off-the-run 20's and 26-27's being the main beneficiaries. Overall benchmark MGS and GII yields ended 0-1bps higher save for the long-bond. Both the 5Y benchmark MGS 4/23 and 10Y MGS 6/28 edged 1bps higher at 3.84% and 4.09% respectively. GII trades formed a tepid 11% of overall bond trades. Despite lower foreign holdings in November as compared to prior month; Moody's affirmation of Malaysia's A3 rating takes cognizance of its robust growth potential and deep domestic capital markets which should withstand severe outflows amid weak fiscal strength. Investors are expected to monitor appetite for what is the last auction for the year i.e. the 3Y GII 3/22 bond auction tomorrow. On the local data front we have IPI figures out today.

Corp Bonds/Sukuk

- Corporate Bonds/Sukuk saw volume notch a respectable RM450m with interest mainly across the AA part of the curve. AAA-rated West Coast Expressway (WCE) rallied 25bps compared to previous-done levels at 4.76%. In the AA-space; a slew of energy-related bonds especially SEB, JEP, JEV, Tadau, Mukah and Malakoff dominated trades. SEB 12/32 saw huge nominal amounts traded unchanged at 4.88% whilst JEP 6/25 and 12/30 edged 3-6bps lower at 4.66% and 4.84% respectively. In the banking space, RHB Islamic 24NC19 was the sole paper traded that traded unchanged at 4.03% levels.

Daily Trades : Government Bonds

Securities		Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS	03/19	3.287	2	3.297	10/12/2018	-1
MGS	10/19	3.453	53	3.465	10/12/2018	-1
MGS	11/19	3.459	38	3.451	10/12/2018	1
MGS	03/20	3.505	2	3.509	10/12/2018	0
MGS	07/20	3.511	5	3.516	07/12/2018	0
MGS	10/20	3.510	167	3.504	10/12/2018	1
MGS	07/21	3.645	1	3.629	10/12/2018	2
MGS	11/21	3.656	19	3.652	10/12/2018	0
MGS	03/22	3.748	1	3.760	10/12/2018	-1
MGS	03/23	3.826	70	3.839	10/12/2018	-1
MGS	04/23	3.839	50	3.827	10/12/2018	1
MGS	08/23	3.865	41	3.863	10/12/2018	0
MGS	09/24	3.990	2	3.988	07/12/2018	0
MGS	03/25	3.991	5	3.989	10/12/2018	0
MGS	09/25	4.065	23	4.051	10/12/2018	1
MGS	04/26	4.136	20	4.136	10/12/2018	0
MGS	09/26	4.160	20	4.189	31/10/2018	-3
MGS	11/26	4.145	4	4.165	10/12/2018	-2
MGS	11/27	4.197	100	4.190	10/12/2018	1
MGS	06/28	4.092	60	4.079	10/12/2018	1
MGS	06/31	4.477	50	4.480	10/12/2018	0
MGS	04/33	4.514	1	4.502	07/12/2018	1
MGS	11/33	4.502	2	4.495	10/12/2018	1
MGS	05/35	4.693	1	4.675	07/12/2018	2
MGS	04/37	4.720	1	4.725	10/12/2018	0
MGS	07/48	4.905	20	4.921	07/12/2018	-2
GII	05/20	3.560	40	3.575	03/12/2018	-2
GII	10/28	4.199	45	4.192	10/12/2018	1
GII	08/37	4.779	10	4.775	07/12/2018	0
			<u>852</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*
West Coast Expressway Sdn Berhad	08/31	AAA	4.759	10	5.011	02/07/2018	-25	26
Tenaga Nasional Berhad	08/37	AAA	4.925	4	4.938	22/11/2018	-1	20
Sepangar Bay Power Corporation Sdn Berhad	07/19	AA1	3.919	10	4.188	09/07/2018	-27	48
YTL Power International Berhad	05/27	AA1	4.882	20	4.878	07/12/2018	0	80
Sarawak Energy Berhad	07/29	AA1	4.709	5	4.711	28/09/2018	0	62
Sarawak Energy Berhad	12/32	AA1	4.882	115	4.885	10/12/2018	0	38
Celcom Networks Sdn Berhad	08/27	AA+	4.739	20	4.759	06/12/2018	-2	63
Mukah Power Generation Sdn Berhad	12/19	AA2	4.181	5	4.370	23/10/2018	-19	74
Kesas Sdn Berhad	10/22	AA2	4.387	10	4.516	12/12/2017	-13	62
Fortune Premiere Sdn Berhad	12/22	AA	4.680	3	4.764	29/10/2018	-8	92
Fortune Premiere Sdn Berhad	03/23	AA	4.704	2	4.707	05/12/2018	0	94
BEWG (M) Sdn Berhad	07/23	AA	4.866	4	4.959	27/08/2018	-9	104
BEWG (M) Sdn Berhad	07/24	AA	4.951	4	-	-	-	100
Jimah Energy Ventures Sdn Berhad	11/20	AA3	4.296	10	4.909	07/04/2015	-61	77
RHB Islamic Bank Berhad	05/24	AA3	4.028	5	4.025	03/12/2018	0	20
Tanjung Bin Energy Issuer Berhad	03/28	AA3	4.724	10	4.733	06/12/2018	-1	62
Tadau Energy Sdn Berhad	07/28	AA3	5.235	20	5.235	10/12/2018	0	115
IJM Corporation Berhad	08/28	AA3	4.909	10	4.909	07/12/2018	0	82
Tanjung Bin Energy Issuer Berhad	09/29	AA3	4.769	10	4.769	04/12/2018	0	68
UEM Sunrise Berhad	06/19	AA-	4.377	5	4.386	04/12/2018	-1	93
SAJ Capital Sdn Berhad	01/20	AA-	4.823	5	4.816	04/12/2018	1	138
Malakoff Power Berhad	12/20	AA-	4.326	20	4.505	17/08/2018	-18	79
Jimah East Power Sdn Berhad	06/25	AA-	4.663	10	4.692	31/10/2018	-3	71
Southern Power Generation Sdn Berhad	10/28	AA-	4.686	10	4.737	12/11/2018	-5	60
Jimah East Power Sdn Berhad	12/30	AA-	4.839	10	4.898	27/08/2018	-6	75
Southern Power Generation Sdn Berhad	04/33	AA-	4.908	30	4.914	07/12/2018	-1	41
UiTM Solar Power Sdn Berhad	04/34	AA-	5.984	10	6.013	09/11/2018	-3	148
UiTM Solar Power Sdn Berhad	04/36	AA-	6.220	10	6.248	09/11/2018	-3	172
Southern Power Generation Sdn Berhad	10/33	AA-	4.960	60	4.970	05/12/2018	-1	46
Tan Chong Motor Holdings Berhad	11/21	A1	5.989	3	6.000	30/11/2018	-1	233
				<u>450</u>				

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

Market/Corporate News: What's Brewing

Petroleum Nasional Bhd (Petronas) has raised its assumed oil price on a planning basis to between US\$60 (RM250.80) and US\$70 per barrel (bbl) for 2019, according to the latest edition of the Petronas Activity Outlook (PAO) for the 2019-2021 period published yesterday. This is higher than its 2018's assumption of US\$50-US\$60/bbl used in the PAO 2018-2020 published last year. While the assumption is "prudent", according to the company — dated Brent averaged US\$72/bbl between Jan 1 and Dec 7, 2018 — it still underlined the national oil company's upward revision of its 2019 activity outlook for key segments in the oil and gas sector, compared with projections in last year's report. Among the sectors it seems more optimistic about are drilling and marine vessels in the upstream segment as well as downstream plant turnaround activities. An analyst told The Edge Financial Daily the upward revision of work activities is "expected", based on Petronas' higher oil price assumption. "Companies like Velesto Bhd, which is in the drilling segment, has previously guided there would be improved tenders in the market. On the whole, the upward revision of work activities [from 2018 assumptions] is not a big surprise," he added. However, Petronas noted that the outlook report may "include activities which may have been contracted out, based on specific activity requirements". More notable in this report is the fact that Petronas has shared, for the first time, a list of major contracts in key categories and its associated services that it expects to be rolled out in the three-year period. More activities seen in drilling, marine vessels, decommissioning. For example, the overall contracts it expects to be issued in 2019 include distributed control systems, control valves, and transmitters for offshore fabrications; flexible pipes; coating and painting services, as well as insulation services. Also highlighted is its expectation of more decommissioning activities in the offshore upstream segment in Malaysia, which it said presents an "interesting" growth opportunity. Compared with its previous projection, Petronas has generally revised upward the activity outlook for the drilling segment, going by the expected number of jack-up rigs required for the three-year period — which is at high-teens and almost double its PAO 2018-2020's projection. Petronas also has a better outlook for marine vessels on the back of an expected pickup in drilling activities in the period. It raised the expected number of vessels required by the Malaysian upstream sector by around 20 across the categories of vessels — comprising anchor handling tug supply, platform- and straight-supply vessels, as well as fast crew boats — for the three-year period. The outlook for carbon steel line pipes and pipeline installations has been tweaked upwards for 2019, with more jobs spread out into 2020 and 2021, compared with uncertainties projected previously. Based on the report, flexible pipes will also see a higher take-up of 24-26 kilometres (km) in 2019, as will corrosion-resistant alloy line pipes, which will increase to 25-30km in 2020. Industry players may also want to look out for what Petronas has termed the "near future" expiration of the frame agreements for both line pipes and flexible pipes. Compared with the previous report, Petronas has increased, albeit slightly, the expected man-hours for both hook-up and commissioning activities, as well as maintenance, construction and modification works, for the whole three-year period. The players can also expect more decommissioning activities in the offshore upstream segment. Decommissioning is an activity to restore a previously producing site to a safe and environmentally stable condition, and comprises well abandonment to prepare a well to be closed permanently, and upstream facilities decommissioning once they reach the end of their production life cycle or when there is insufficient hydrocarbon to make production activities commercially viable. Particularly on well abandonment activities, Petronas projected those to involve around 50 wells in 2019, followed by around 40 wells in 2020 and around 60 in 2021. "Decommissioning in Malaysia presents an interesting growth opportunity. The activities are expected to intensify as considerable assets have been operating beyond 40 years," the report said. Among these aged assets are some

11% of 353 offshore platforms; 8% of 10,235km worth of pipelines; and 11% of 3,935 well strings. In the downstream sector, Petronas has increased the number of expected plant turnaround activities in 2019, with projected man-hours more than doubled to 8.1 million from the previous projection of 3.5 million. Turnaround activities, however, are expected to slow in 2020, before recovering the year after. Global oil market 'on path to recovery', but risks remain. On the global oil market, Petronas said that while it is "on the path to recovery", certain risks remain in place. Citing data from the International Energy Agency, Petronas pointed to how monthly crude and petroleum product stocks for Organisation for Economic Co-operation and Development countries had risen to just under 2.9 billion barrels — nearing its five-year average level, which indicated an oversupplied market. It also pointed to four main factors that could affect the oil market. The first two are the reinstated US sanctions on Iran — which could remove between one million to 1.5 million barrels per day (bpd) of oil from the market — and geopolitical instability in key oil-producing countries, such as the economic crisis in Venezuela, where production has fallen by one million bpd presently from January 2016 levels; the series of attacks at Libya's and Nigeria's oil facilities; and natural declines in Angola. The remaining two factors are Opec and non-Opec production coordination and spare capacity, and the risk of a slowdown in oil demand amid stronger oil prices and escalating trade tensions between the US and China. (Source: *The Edge*)

Rating Action			
Issuer	PDS Description	Rating/Outlook	Action
Tanjung Bin O&M Berhad	RM470.0 million Islamic Securities (Sukuk Wakalah	AA-IS rating	Affirmed
Bank Pembangunan Malaysia Berhad	Financial Institution ratings	AAA/Stable/P1	Affirmed

Source: RAM, MARC

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