

Global Markets Research

Fixed Income

Fixed Income Daily Market Snapshot

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	2.55	1
5-yr UST	2.86	2
10-yr UST	3.00	3
30-yr UST	3.14	3

MGS		GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.70	4	3.88	11
5-yr	3.81	2	3.91	2
7-yr	3.94	2	4.15	2
10-yr	4.16	0	4.32	-2
15-yr	4.57	-2	4.74	1
20-yr	4.80	2	4.84	-2
30-yr	4.89	-8	4.92	1

\*Market indicative

MYR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.76	0
3-yr	3.84	1
5-yr	3.92	0
7-yr	4.02	0
10-yr	4.15	-3

Source : Bloomberg

Upcoming Government Bond Tenders

US Treasuries

- US Treasuries ended lower led by bunds with overall yields higher between 1-3bps across the curve. The benchmark 2Y UST yields settled within a bps, albeit higher at 2.55% while the much-watched 10Y rose 3bps to the resistance-level of 3.00%. The Treasury Department which auctioned \$48b in 3-month bills saw levels reach a decade high at 1.89% whilst another \$42b in 6-month bills was auctioned also at a higher rate at 2.035%. Separately, the Fed said that the average yield for 1-year T-bills, a popular index for making changes in adjustable rate mortgages reached 2.28%. Up next on the data front we have first tier US data releases on retail sales, industrial production and housing starts.

MGS/GII

- Trading volume in local Govvies saw huge improvement at RM5.31bn yesterday amid strong recovery, erasing the initial knee-jerk selling reaction by investors in the morning session. The front-end 18-20's saw heavy volume with yields ending higher whilst the benchmark 7Y MGS 3/25 rose 2bps at 3.94%. However the 10Y MGS 11/27 ended flat at 4.16%, recovering from a low of 4.27%. Meanwhile, the auction of RM3.0b of 7Y GII 8/25 drew strong BTC of 3.4x, the highest ever for the past one year on trading. Expect some volatility to continue post-election as markets look forward to further unveiling of measures by the new govt which are expected to strengthen the economy following the recent closure of markets for almost a week.

Corp Bonds/Sukuk

- Corporate bonds however continued to see muted volume at a mere RM93m with interest mainly in odd-lots. MBSB 9-21's saw RM40 traded in total moving some 2-11bps higher between 4.55-91% levels. Expect movement in corporate bonds to be subdued with investors expected to reassess portfolio requirements upon digesting news on further corporate developments which may impact certain sectors of the economy and listed bond issuers.

## Daily Trades : Government Bonds

Securities		Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS	09/18	3.508	343	3.430	08/05/2018	8
MGS	03/19	3.459	109	3.431	04/05/2018	3
MGS	07/19	3.720	43	3.581	07/05/2018	14
MGS	10/19	3.760	88	3.604	08/05/2018	16
MGS	11/19	3.715	535	3.608	07/05/2018	11
MGS	03/20	3.741	109	3.712	08/05/2018	3
MGS	07/20	3.839	1	3.735	08/05/2018	10
MGS	10/20	3.662	140	3.758	08/05/2018	-10
MGS	02/21	3.845	53	3.785	08/05/2018	6
MGS	09/21	3.738	76	3.809	08/05/2018	-7
MGS	11/21	3.695	443	3.656	08/05/2018	4
MGS	03/22	3.975	144	3.782	07/05/2018	19
MGS	08/22	4.037	8	3.860	04/05/2018	18
MGS	09/22	3.970	67	3.917	07/05/2018	5
MGS	03/23	4.019	51	4.001	08/05/2018	2
MGS	04/23	3.813	320	3.790	04/05/2018	2
MGS	08/23	4.012	36	4.011	07/05/2018	0
MGS	07/24	4.069	32	4.079	08/05/2018	-1
MGS	09/24	4.049	28	4.041	07/05/2018	1
MGS	03/25	3.940	65	3.915	04/05/2018	2
MGS	09/25	4.259	83	4.210	08/05/2018	5
MGS	04/26	4.219	10	4.190	04/05/2018	3
MGS	11/26	4.245	3	4.180	08/05/2018	7
MGS	11/27	4.156	493	4.156	08/05/2018	0
MGS	04/30	4.597	19	4.542	08/05/2018	6
MGS	04/33	4.610	29	4.609	08/05/2018	0
MGS	11/33	4.570	411	4.587	08/05/2018	-2
MGS	05/35	4.955	10	4.831	08/05/2018	12
MGS	04/37	4.802	41	4.778	08/05/2018	2
MGS	03/46	4.891	1	4.966	08/05/2018	-8
GII	05/18	3.448	7	3.450	07/05/2018	0
GII	08/18	3.633	8	3.522	04/05/2018	11
GII	11/18	3.659	5	3.340	23/04/2018	32
GII	04/20	3.881	60	3.765	07/05/2018	12
GII	04/20	3.875	1	3.661	28/03/2018	21
GII	04/22	3.906	573	3.884	08/05/2018	2
GII	07/22	4.114	40	3.972	24/04/2018	14
GII	07/23	4.171	52	4.021	04/05/2018	15
GII	05/24	4.231	6	4.079	16/04/2018	15
GII	08/25	4.151	714	4.127	08/05/2018	2
GII	09/26	4.430	8	4.284	03/05/2018	15
GII	10/28	4.315	40	4.332	08/05/2018	-2
GII	06/33	4.738	2	4.728	30/04/2018	1
			<u>5308</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*
Pengurusan Air SPV Berhad	06/18	GG	3.655	3	3.562	14/03/2018	9	21
GENM Capital Berhad	03/22	AAA	4.805	5	4.695	27/04/2018	11	103
YTL Power International Berhad	08/18	AA1	4.308	7	4.198	24/04/2018	11	86
MBSB Bank Berhad (fka Asian Finance Bank	05/19	AA1	4.551	5	4.533	04/05/2018	2	111
MBSB Bank Berhad (fka Asian Finance Bank	12/19	AA1	4.653	30	0.000	00/01/1900	465	107
MBSB Bank Berhad (fka Asian Finance Bank	12/21	AA1	4.901	5	0.000	00/01/1900	490	112
Hong Leong Bank Berhad	06/24	AA1	4.946	2	5.180	04/04/2018	-23	104
Media Chinese International Limited	02/19	AA2	4.791	30	4.607	13/02/2018	18	135
RHB Bank Berhad	07/24	AA3	4.604	1	4.902	29/03/2018	-30	70
Tan Chong Motor Holdings Berhad	11/19	A1	5.981	1	6.013	04/05/2018	-3	240
UMW Holdings Berhad	04/18	A1	6.145	5	6.146	08/05/2018	0	138
				<u>93</u>				

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

### Market/Corporate News: What's Brewing

The Team of Eminent Persons has given an assurance that Malaysia will honour its debt obligations under the new government and highlighted that the current political changes in the country are happening at “a very positive time”. **Tan Sri Zeti Akhtar Aziz, who is part of the five-member team, said the country was experiencing a period of adjustment but it was also bolstered by a favourable economic environment such as higher global oil prices.** “Oil is currently trading at above US\$70 per barrel so there is some breathing space. Therefore, we need to take this opportunity to implement certain policies so that we will have an orderly adjustment. “This is also taking into account the capability of institutions such as Bank Negara Malaysia and the Ministry of Finance,” the former Bank Negara Governor told Bernama after attending briefing sessions with three international rating agencies today. Zeti separately met the rating agencies Moody's Investors Service, S and P Global Ratings and Fitch Ratings – to discuss the current environment in Malaysia and provide clarity on the broad direction of policies going forward under the newly-formed government. Among the issues discussed were those related to the Goods and Services Tax (GST) and subsidies and how Malaysia could meet its revenue requirements following the removal of this tax. Zeti said the new policies were vital, such as increasing the disposable income of the lower and middle income groups. “We need to support the overall growth of the economy; therefore, there is the importance of understanding what is the objective to be achieved with this kind of policies, which will generate further increases in (government) revenue,” she explained. The first lady central bank governor said the Team of Eminent Persons would look at the overall management of the fiscal position, including the governance process, how decisions were made, and the level of transparency and disclosure. Apart from Zeti, other members of the team are former Finance Minister Tun Daim Zainuddin, ex-Petronas President and Chief Executive Officer Tan Sri Mohd Hassan Marican, economist Prof Jomo Kwame Sundaram and billionaire tycoon Robert Kuok. When asked whether the favourable performance by both the benchmark FTSE Bursa Malaysia KLCI (FBM KLCI) and the ringgit today were due to restored confidence in the economy, Zeti noted that “in times of uncertainty, there will be some volatility”. As market players see the commitment and capability of organisations like Bank Negara, the Finance Ministry and other agencies in executing necessary reforms, the former central bank governor said: “I believe that there is every potential for us to generate that confidence and we are going into “bigger, better and brighter future,” she said. Citing examples of how Malaysia managed to come out from similar situations before, Zeti said prioritising main projects will be the key. “We have done this before during the Prime Minister Tun Dr Mahathir’s reign in the mid-1990s. “As the result of the many mega projects, our current account deficit of the balance of payments exceeded 10 per cent of the Gross Domestic Product and increased the country’s vulnerability. “During that time we advised him to reprioritise the mega projects and stagger their implementation into the future. “Within two years, the current account deficit of the balance of payments improved to 4.6% of GDP against more than 10% previously. We have done it before and we will do it again,” she declared. (Source: The Star Online/ Bernama)

**Malaysia’s intention to scrap a 6 percent goods-and-services tax within 100 days of Prime Minister Mahathir Mohamad taking office has economists and budget analysts on edge about the ripple effects.** Critics of the tax, including Mahathir, say it has raised living costs and that a more modest sales-and-services

levy would provide enough government revenue alongside efforts to cut wasteful spending and root out costly corruption. Supporters of the goods-and-services tax point to how much more income it gave the government than the previous system, helping to underpin Malaysia's credit rating and its reputation with foreign investors. A goods-and-services tax differs to a sales tax because it's levied at all stages of the supply chain -- meaning manufacturers and their suppliers also pay tax on the goods produced, not just the consumer. It's also charged at a flat rate compared to variable rates for a sales tax, so is simpler to manage and considered more efficient. Here's a look, in charts, at what the removal of the tax would mean for Malaysia's economy and its fiscal position. As a net oil producer, Malaysia is set to benefit from the upswing in global crude prices, which should partly offset any loss in revenue from scrapping the tax. But it also means the economy's sizable reliance on petroleum-related revenue will rise again, making the budget more vulnerable to swings in oil prices. Since the implementation of the tax in 2015, revenue has proven much more balanced. The biggest challenge for the new government would be plugging the hole that scrapping the goods-and-services tax would leave. The finance ministry's pre-election estimate of the tax's share of overall revenue this year was 18.3 percent, the biggest proportion after corporate income tax. Mohamed Faiz Nagutha, an economist at Bank of America Merrill Lynch, estimates that bringing back the old sales-and-services tax would yield just about half the revenue coming from GST. The intake from the latter amounts to about 3 percent of Malaysia's gross domestic product, versus an average of 1.6 percent from 2004 through 2014 from the sales-and-services tax, he said. Malaysia's debt-to-GDP ratio of 50.8 percent is higher than that of its peers also carrying an A credit rating, according to Moody's Investors Service, and that ratio is set to remain elevated without a steady stream of cash from the goods-and-services tax. "Given the government's limited ability to trim spending further, we expect the deficit and the debt burden to hover around current levels," Anushka Shah, a senior analyst at Moody's, said in a research note. "However, a reversal of some past reforms without other adjustments risks widening the deficit," including the "credit-negative" risks of scrapping the tax and re-introducing fuel subsidies. The former administration had a debt limit of 55 percent of GDP and had forecast a budget deficit of 2.8 percent of GDP for this year. Removing the tax could limit any upside risks to inflation, which has been fairly benign this year, and allow the central bank to remain on hold after an early interest-rate hike in January. Scrapping it could also give a boost to consumer spending, supporting an economy that the central bank forecasts will grow 5.5 percent to 6 percent this year. The introduction of the goods-and-services tax in April 2015 caused a spike in inflation to 4.2 percent early the next year, even though the government provided some handouts for low- and middle-income residents to help offset the bigger tax bills. (Source: The Edge/Bloomberg)

Rating Actions			
Issuer	PDS Description	Rating/Outlook	Action
Bank Kerjasama Rakyat Malaysia Berhad	Financial Institution Rating	AA2/Stable/P1	Maintained
Projek Lebuhraya Usahasama Berhad (PLUS)	RM23.35 billion Sukuk Musharakah Programme (sukuk)	AAA-IS	Affirmed

Source: RAM Ratings; 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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