

## Global Markets Research

### Fixed Income

#### Fixed Income Daily Market Snapshot

##### US Treasuries

- US Treasuries was little changed amid parallel rise as overall benchmark yields were higher by almost 2bps across. Earlier UST bids were withdrawn as the Turkish financial crisis eased as sentiment across global markets stabilized. Both the 2Y and much-watched 10Y UST ending about 2bps higher at 2.64% and 2.90% levels respectively. Meanwhile investors continue to weigh pressures that could mount on emerging markets due to turmoil in Turkey's financial markets, potential slowdown in China's economic growth on credit clampdown and also ongoing global trade mud-slinging. Any further negative news is expected to cap the rise in UST yields. On the data front we have the upcoming Retail Sales data for July.

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	2.64	2
5-yr UST	2.77	2
10-yr UST	2.90	2
30-yr UST	3.07	2

MGS		GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.54	0	3.59	2
5-yr	3.75	1	3.87	1
7-yr	3.97	0	4.05	1
10-yr	4.06	0	4.15	0
15-yr	4.50	2	4.56	0
20-yr	4.67	0	4.76	-1
30-yr	4.89	0	4.94	0

\* Market indicative

M YR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.70	0
3-yr	3.73	0
5-yr	3.85	1
7-yr	3.97	2
10-yr	4.16	0

Source : Bloomberg

#### Upcoming Government Bond Tender

Nil

##### MGS/GII

- Trading momentum in Govvies improved on volume of RM2.86b with interest seen sporadically across the curve with overall yields generally weaker. Interestingly, trades were seen on a wider range of bonds compared to previous sessions. The benchmark 7Y MGS 3/25 edged less than a 1bps lower at 3.97% levels whilst the 10Y MGS 6/28 closed unchanged at 4.06%. Meanwhile yesterday's auction of RM3.0b 15Y MGS 4/33 bonds auction saw solid institutional demand on the back of BTC ratio of 2.61x; averaging 4.498%.

##### Corp Bonds/Sukuk

- Trading activity in Corporate Bonds/Sukuk improved with volume at RM827m yesterday with interest across the GG to AA-part of the curve on 32 different bonds. Several tranches of DANA bonds dominated the Govt-guaranteed space; rallying some 3-14bps. DANA 7/22, 7/24, 2/38 and 3/42 saw solid interest closing between 4.07-5.02% levels compared to previous done levels. PASB 23's closed unchanged at 4.09% levels. AAA-rated DANGA 2/26 moved 20bps lower at 4.52% whilst a host of power-related names hogged the limelight in the AA-segment. JEP 6/27 closed unchanged at 4.77% whereas other tenures i.e. 29-31's closed 1-14bps lower between 4.87-96% levels. Among the bank names, Krung Thai 25nc20 traded 2bps lower at 4.78% on RM50m nominal amount.

## Daily Trades : Government Bonds

Securities		Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS	09/18	3.252	11	3.305	13/08/2018	-5
MGS	03/19	3.335	81	3.322	13/08/2018	1
MGS	07/19	3.358	20	3.365	13/08/2018	-1
MGS	10/19	3.411	4	3.443	13/08/2018	-3
MGS	11/19	3.452	274	3.440	10/08/2018	1
MGS	03/20	3.471	9	3.458	13/08/2018	1
MGS	07/20	3.496	5	3.496	07/08/2018	0
MGS	02/21	3.555	36	3.558	07/08/2018	0
MGS	07/21	3.594	17	3.576	10/08/2018	2
MGS	09/21	3.626	46	3.597	13/08/2018	3
MGS	11/21	3.537	78	3.541	13/08/2018	0
MGS	03/22	3.655	15	3.670	13/08/2018	-2
MGS	08/22	3.730	21	3.730	13/08/2018	0
MGS	09/22	3.755	15	3.741	13/08/2018	1
MGS	03/23	3.816	5	3.803	10/08/2018	1
MGS	04/23	3.754	93	3.747	10/08/2018	1
MGS	08/23	3.851	21	3.789	13/08/2018	6
MGS	07/24	3.961	9	3.941	13/08/2018	2
MGS	09/24	4.006	7	3.980	13/08/2018	3
MGS	03/25	3.969	133	3.977	13/08/2018	-1
MGS	09/25	4.078	16	4.046	13/08/2018	3
MGS	04/26	4.153	9	4.130	10/08/2018	2
MGS	09/26	4.183	1	4.212	10/07/2018	-3
MGS	11/26	4.166	8	4.144	10/08/2018	2
MGS	03/27	4.230	1	4.241	13/08/2018	-1
MGS	11/27	4.155	14	4.147	13/08/2018	1
MGS	06/28	4.056	120	4.056	13/08/2018	0
MGS	04/30	4.453	12	4.450	13/08/2018	0
MGS	06/31	4.542	79	4.521	13/08/2018	2
MGS	04/33	4.540	90	4.520	13/08/2018	2
MGS	11/33	4.500	801	4.477	10/08/2018	2
MGS	05/35	4.678	4	4.691	03/08/2018	-1
MGS	04/37	4.737	5	4.709	10/08/2018	3
MGS	09/43	4.860	3	4.850	09/08/2018	1
MGS	03/46	4.880	3	4.868	10/08/2018	1
MGS	07/48	4.892	10	4.892	10/08/2018	0
GII	10/18	3.260	20	3.279	09/08/2018	-2
GII	11/18	3.341	8	3.269	26/07/2018	7
GII	04/19	3.377	3	3.410	09/08/2018	-3
GII	04/20	3.586	1	3.566	10/08/2018	2
GII	08/20	3.587	40	3.572	10/08/2018	2
GII	04/22	3.770	108	3.770	13/08/2018	0
GII	07/23	3.902	2	3.901	09/08/2018	0
GII	11/23	3.861	90	3.851	13/08/2018	1
GII	05/24	4.021	3	3.994	08/08/2018	3
GII	08/25	4.045	10	4.037	13/08/2018	1
GII	10/25	4.123	5	4.131	10/08/2018	-1
GII	09/26	4.168	6	4.143	13/08/2018	3
GII	10/28	4.150	280	4.154	13/08/2018	0
GII	12/28	4.224	10	4.195	10/08/2018	3
GII	06/33	4.560	50	4.562	10/08/2018	0
GII	08/37	4.759	150	4.765	13/08/2018	-1
			<u>2859</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*	
Prasarana Malaysia Berhad	12/21	GG	4.060	25	4.199	21/06/2018	-14	52
Danalinfra Nasional Berhad	07/22	GG	4.070	55	4.165	09/03/2018	-9	38
Pengurusan Air SPV Berhad	06/23	GG	4.092	55	4.090	09/08/2018	0	34
Pengurusan Air SPV Berhad	06/23	GG	4.091	20	4.093	10/08/2018	0	34
Danalinfra Nasional Berhad	07/24	GG	4.187	10	4.219	25/07/2018	-3	30
Danalinfra Nasional Berhad	02/38	GG	4.918	20	5.010	30/03/2018	-9	25
Danalinfra Nasional Berhad	03/42	GG	5.015	20	5.119	05/07/2018	-10	34
Lembaga Pembiayaan Perumahan Sektor Awam	04/47	GG	5.100	10	5.281	29/03/2018	-18	43
DiGi Telecommunications Sdn Berhad	04/24	AAA	4.439	10	4.461	17/07/2018	-2	55
Danga Capital Berhad	02/26	AAA	4.521	20	4.722	25/05/2018	-20	48
Sarawak Energy Berhad	01/22	AA1	4.416	10	4.445	08/08/2018	-3	88
Maybank Islamic Berhad	04/24	AA1	4.111	10	4.090	09/08/2018	2	23
Malayan Banking Berhad	05/24	AA1	4.270	10	4.323	01/08/2018	-5	39
YTL Power International Berhad	05/27	AA1	4.890	60	4.908	31/07/2018	-2	82
Sarawak Energy Berhad	12/32	AA1	5.049	65	5.101	07/08/2018	-5	56
Tanjung Bin Power Sdn Berhad	08/19	AA2	4.280	20	4.286	13/08/2018	-1	89
Krung Thai Bank Public Company Limited	07/25	AA2	4.778	50	4.795	13/08/2018	-2	81
Konsortium ProHAWK Sdn Berhad	12/27	AA2	4.758	20	4.858	09/04/2018	-10	69
Konsortium ProHAWK Sdn Berhad	06/28	AA2	4.802	20	4.898	09/04/2018	-10	75
Perbadanan Kemajuan Negeri Selangor	12/18	AA3	4.468	5	4.379	20/06/2018	9	108
Mumtaz Rakyat Sukuk Berhad	06/26	AA3	4.716	2	4.717	02/04/2018	0	68
Malakoff Power Berhad	12/18	AA-	4.231	20	4.237	13/08/2018	-1	84
TSH Sukuk Ijarah Sdn Berhad	07/19	AA-	4.450	20	4.887	16/04/2015	-44	106
Konsortium Lebuhraya Utara-Timur (KL) Sdn Berhad	12/25	AA-	4.774	5	4.778	03/08/2018	0	81
Jimah East Power Sdn Berhad	12/25	AA-	4.718	10	4.708	21/06/2017	1	75
Jimah East Power Sdn Berhad	06/27	AA-	4.769	15	4.769	13/08/2018	0	70
Jimah East Power Sdn Berhad	12/29	AA-	4.868	60	4.875	01/08/2018	-1	82
Jimah East Power Sdn Berhad	06/30	AA-	4.889	90	5.030	13/07/2018	-14	84
Jimah East Power Sdn Berhad	06/31	AA-	4.959	80	5.043	18/01/2018	-8	47
RHB Bank Berhad	12/39	A1	4.794	6	4.791	20/06/2018	0	12
Bank Muamalat Malaysia Berhad	06/26	A3	5.659	2	5.680	18/07/2018	-2	162
Bank Muamalat Malaysia Berhad	11/21	A IS	4.764	2	4.764	13/08/2018	0	123
				<u>2</u>				
				<u>827</u>				

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

## Market/Corporate News: What's Brewing

**Fitch Ratings has affirmed Malaysia's long-term foreign-currency issuer default rating (IDR) at 'A-' with a stable outlook supported by solid economic growth and a net external creditor position built up from a record of current account surpluses.**

It said the affirmation not only takes into consideration measures such as the rollback of the Goods and Services Tax (GST), but also the stated intention to reduce fiscal deficits and improve governance. "The agency has raised its estimate of central government debt at end-2017 to around 65% of gross domestic product (GDP), from 50.8%, following the government's recognition that it will need to service a large share of explicitly guaranteed debt," it said in a statement here, today. This estimate, however, may be further revised as more details become available, it added. The Pakatan Harapan coalition, which won the May 2018 election, has moved ahead on many of its key election promises, notably repealing the GST. It also plans to continue fuel subsidies in place since early 2018, although they will be made more targeted. "Fitch views these measures as negative for the credit profile. However, the government aims to implement offsetting fiscal measures and has indicated its intention to contain the central government deficit." The rating agency acknowledged that there are risks to achieving this target, such as the lower-than-Fitch-expected growth - which could limit room for expenditure cutbacks - as well as delays in implementing planned revenue measures. "The authorities expect to meet the original budget deficit target of 2.8% of GDP for 2018 through offsetting measures, including a review of large infrastructure projects and the reintroduction of the Sales and Services Tax with full-year revenue of 1.6% of GDP that had been replaced by the GST (full-year revenue of 3% of GDP) under the previous government." The authorities also expect additional oil revenue of 0.4% of GDP due to higher global oil prices and dividends from government-linked enterprises providing an additional 0.3% of GDP in revenue. On the expenditure side, the government plans to cut operational and development spending by RM10bil (0.7% of GDP) in 2018. "We expect the deficit to continue falling to around

2.5% of GDP by 2020 under our baseline assumptions through a combination of subsidy rationalization, further capital spending cuts, new revenue measures and better tax compliance.” It said the central government debt is likely to decline to around 59% of GDP by 2020, although the decline could be more rapid if it chooses to sell off public assets and use the proceeds for debt reduction. As for GDP, Fitch said it expects GDP growth to slow to 5.2% in 2018, 4.8% in 2019 and 4.6% in 2020, from 5.9% in 2017, as the government seeks to constrain recurrent spending in line with its narrower revenue base. In addition, public capital spending is being held back by a review of large infrastructure projects and exports are likely to moderate from slowing external demand. “However, Malaysia’s average GDP growth for the five years to 2018 will remain above peer medians. Downside risks to our growth projections could materialize from accelerated spending cuts, disruption to capital projects or slowing investment in the event of prolonged policy and political uncertainty,” it said. On other developments, it said intervention by the country’s central bank, Bank Negara Malaysia (BNM), to smooth currency volatility in the midst of large capital outflows between April and June 2018, contributed to a decline in foreign exchange reserves of about US\$5bil to US\$105bil as of end-June-2018. “We expect BNM to limit its intervention and allow sufficient currency flexibility to preserve foreign exchange reserves at a reasonably healthy level of around five months of current external payments. Although short-term external debt is high, foreign exchange reserves continue to cover over 100% of this debt.” Fitch expects Malaysia’s current account surplus to remain between 3% and 4% of GDP between 2018 and 2020, supported by higher oil-related exports and slightly slower import growth, which should counter its forecast moderation in exports of electronics. Imports are likely to slow from the new government’s review of major infrastructure projects. However, given Malaysia’s high degree of trade openness, it remains vulnerable to negative external developments, such as rising trade protectionism, it said. Banking soundness indicators remain steady, with a system-wide common equity Tier 1 ratio of 12.7% and liquidity coverage ratio of 140% continuing to indicate adequate capital and liquidity buffers. “Pockets of risk remain within certain over-supplied property sub-segments, highly leveraged lower-income households and high corporate debt. However, household credit growth has eased over the last few years, and we expect the banking sector to be resilient in case of a moderate correction in the property market,” it added. (Source: *The Star*)

**Abu Dhabi sovereign fund Mubadala Investment Company has offered to sell around US\$150 million worth of shares in Malaysia’s RHB Bank Bhd in a block trade on Tuesday, sources familiar with the deal said.** Mubadala, which is the second largest shareholder in RHB through the 17.8% stake held by its unit Aabar Investments, has put the shares up for sale in the 5.07 ringgit to 5.18 ringgit (US\$1.24-US\$1.26) range, two sources said. The offer represents a 3%-5% discount to RHB’s closing share price of 5.34 ringgit on Tuesday, and a steeper discount to the 10.80 ringgit Aabar paid per share, when it bought a 25% stake from government-owned Abu Dhabi Commercial Bank in 2011. Aabar has been seeking opportunities to sell off the shares since 2015. “They want to sell the whole block, but it takes time,” a source said. A term sheet seen by Reuters showed the block trade of 120 million shares was expected to raise between US\$148.9 million and US\$152.2 million. The shares represents approximately 3% of RHB’s enlarged share capital, “with upsize option subject to demand”. Bankers CIMB and JP Morgan are joint bookrunners on the deal, according to the term sheet. RHB and JP Morgan were not immediately available for comment. Mubadala and CIMB declined to comment. Aabar completed its merger into Mudabala in 2017. A year ago, RHB’s discussions to acquire AMMB Holdings Bhd (Ambank) in an all-stock deal, fell through. The deal would have cemented its position as the nation’s no. 4 lender behind

Maybank, CIMB Group Holdings and Public Bank. RHB's largest shareholder, pension fund Employees Provident Fund, has a 40.7% stake in the bank. (Source: *The Edge*)

Rating Actions			
Issuer	PDS Description	Rating/Outlook	Action
SPR Energy (M) Sdn Bhd	Senior Sukuk Ijarah of RM580 million	AA3/Stable	Reaffirmed
Sarawak Energy Berhad	RM15 billion Sukuk Musyarakah Programme (2011/2036)	AA1 rating	From stable to positive
Krung Thai Bank Public Company Limited	Proposed Senior MTN Programme	AA1/Stable rating	Reaffirmed
	Tier-2 Subordinated Notes Programme (2015/2045).	AA2/Stable	Reaffirmed

Source: RAM Ratings; MARC

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