

Global Markets Research

Fixed Income

Fixed Income Daily Market Snapshot

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	2.58	3
5-yr UST	2.92	6
10-yr UST	3.07	7
30-yr UST	3.20	7

MGS		GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.71	1	3.71	-18
5-yr	3.84	2	3.91	0
7-yr	3.97	3	4.18	3
10-yr	4.16	0	4.32	4
15-yr	4.62	4	4.74	0
20-yr	4.80	0	4.84	0
30-yr	4.89	0	4.92	0

\*Market indicative

MYR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.76	0
3-yr	3.85	0
5-yr	3.93	1
7-yr	4.02	0
10-yr	4.16	1

Source : Bloomberg

Upcoming Government Bond Tenders

US Treasuries

- US Treasuries saw yields spike across the curve at a 7-year high on signs of US economic strength along with the just-released retail sales. Overall benchmark yields were 3-7bps higher compared to previous-done levels; with the 2Y rising 3bps to 2.58% and the much-watched 10Y yields spiking 7bps to 3.07% levels. The divergence between the high US budget deficit and low unemployment may be unnerving to investors and expected to cause interest rates to rise. On the brighter side; China has increased its holdings of UST's to a 5-month high by \$11b to \$1.19trillion in March.

MGS/GII

- Trading volume in local Govvies rose to RM4.89b with trades seen across most tenures in both off-the-runs and benchmark bonds. Overall benchmark MGS yields were weaker; rising between 0-4bps with the 7Y MGS 3/25 at 3.97% and 10Y MGS 11/27 flat at 4.16% compared to previous-done levels. Expect market to be range-bound; tilting to a weakening bias as investors anxiously await further news by the new government on solid fiscal measures to be adopted amid the expected removal of GST. On the data front we have the release of GDP figures out tomorrow.

Corp Bonds/Sukuk

- Corporate Bonds saw market volume also improve to RM158m with interest mainly in the belly of the GG and AA-part of the yield curve. Govt-guaranteed PRASA 3/24 and 3/25 notched 10-16bps higher at 4.40% and 4.43% respectively compared to previous-done levels whilst DANA 7/24 also weakened to 4.52%. In the AA-sector, we note interest emerging in the infra-cum-power related sub-sector with SEB 1/22, BGSM 12/19 grinding higher at 4.62% and 4.45% respectively. Substantial nominal amounts of Southern Power 23-25 bonds also exchanged hands some 9-11bps higher between 4.74-85% levels. In the banking space, A1-rated Bank Islam 27nc22 closed at 4.98%.

## Daily Trades : Government Bonds

Securities		Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS	09/18	3.411	180	3.401	14/05/2018	1
MGS	03/19	3.569	164	3.459	14/05/2018	11
MGS	07/19	3.598	41	3.720	14/05/2018	-12
MGS	10/19	3.582	30	3.760	14/05/2018	-18
MGS	11/19	3.714	771	3.654	14/05/2018	6
MGS	03/20	3.742	134	3.657	14/05/2018	9
MGS	07/20	3.758	4	3.839	14/05/2018	-8
MGS	10/20	3.754	4	3.811	14/05/2018	-6
MGS	02/21	3.807	461	3.756	14/05/2018	5
MGS	07/21	3.803	61	3.795	07/05/2018	1
MGS	09/21	3.831	5	3.839	14/05/2018	-1
MGS	11/21	3.711	10	3.665	14/05/2018	5
MGS	03/22	3.889	220	3.975	14/05/2018	-9
MGS	09/22	3.920	252	3.970	14/05/2018	-5
MGS	04/23	3.835	73	3.813	14/05/2018	2
MGS	08/23	4.012	6	4.012	14/05/2018	0
MGS	07/24	4.115	12	4.069	14/05/2018	5
MGS	09/24	4.139	249	4.067	14/05/2018	7
MGS	03/25	3.966	182	3.940	14/05/2018	3
MGS	09/25	4.275	56	4.210	14/05/2018	7
MGS	11/26	4.238	139	4.252	14/05/2018	-1
MGS	03/27	4.303	58	4.300	08/05/2018	0
MGS	11/27	4.156	176	4.156	14/05/2018	0
MGS	04/33	4.669	348	4.610	14/05/2018	6
MGS	11/33	4.615	298	4.596	14/05/2018	2
MGS	05/35	4.950	5	4.955	14/05/2018	0
MGS	04/37	4.802	202	4.774	14/05/2018	3
MGS	09/43	4.907	20	4.969	07/05/2018	-6
GII	04/19	3.621	20	3.432	04/05/2018	19
GII	08/19	3.657	77	3.500	19/04/2018	16
GII	04/20	3.706	120	3.881	14/05/2018	-18
GII	08/20	3.774	40	3.738	07/05/2018	4
GII	07/23	4.063	30	4.171	14/05/2018	-11
GII	08/25	4.179	350	4.167	14/05/2018	1
GII	07/27	4.324	1	4.287	14/05/2018	4
GII	10/28	4.324	90	4.311	14/05/2018	1
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## 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 [fka Syarikat Prasarana Negara Berhad]	03/24	GG	4.399	5	4.241	10/04/2018	16	49
DanaInfra Nasional Berhad	07/24	GG	4.520	15	4.340	09/02/2018	18	61
Prasarana Malaysia Berhad [fka Syarikat Prasarana Negara Berhad]	03/25	GG	4.430	5	4.332	13/04/2018	10	48
Prasarana Malaysia Berhad [fka Syarikat Prasarana Negara Berhad]	09/37	GG	5.158	4	5.150	07/05/2018	1	37
Manjung Island Energy Berhad	11/19	AAA	4.284	5	4.127	18/04/2018	16	68
HSBC Amanah Malaysia Berhad	03/20	AAA	4.311	1	4.172	06/03/2018	14	71
Telekom Malaysia Berhad	03/24	AAA	4.620	10	4.412	19/04/2018	21	71
Sarawak Energy Berhad	01/22	AA1	4.615	10	4.438	07/02/2018	18	84
Northern Gateway Infrastructure Sdn Berhad	08/23	AA1	4.695	10	-	-	-	86
United Overseas Bank (Malaysia) Berhad	05/25	AA1	5.188	2	5.127	03/05/2018	6	123
Danajamin Nasional Berhad	10/27	AA1	4.817	2	4.708	28/03/2018	11	71
Sarawak Energy Berhad	12/32	AA1	5.329	4	5.339	27/04/2018	-1	72
Sarawak Energy Berhad	08/35	AA1	5.430	3	5.354	24/01/2018	8	82
Krung Thai Bank Public Company Limited	07/25	AA2	4.572	2	4.709	23/04/2018	-14	62
BGSM Management Sdn Berhad	12/19	AA3	4.448	10	4.280	19/04/2018	17	84
CIMB Thai Bank Public Company Limited	07/24	AA3	4.778	1	4.761	03/05/2018	2	87
Jimah East Power Sdn Berhad	06/21	AA-	4.652	5	4.321	02/11/2017	33	96
Southern Power Generation Sdn Berhad	10/23	AA-	4.739	30	4.631	29/03/2018	11	90
Southern Power Generation Sdn Berhad	10/25	AA-	4.849	20	4.762	29/03/2018	9	90
Bank Islam Malaysia Berhad	11/27	A1	4.977	10	4.827	30/03/2018	15	83
CIMB Group Holdings Berhad	05/16	A1	5.319	2	5.301	08/05/2018	2	53
CIMB Group Holdings Berhad	05/16	A1	5.300	1	5.481	08/05/2018	-18	51
UMW Holdings Berhad	04/18	A1	6.145	2	6.146	08/05/2018	0	135
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\*spread against nearest indicative tenured MGS (Source : BPAM)

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

**Tan Sri Zeti Akhtar Aziz (pic) said there will be no turning back on the proposed abolition of the Goods and Services Tax (GST) which came into effect on April 1, 2015.** "It (decision to abolish) is final and work is in progress towards the abolition," said the former central bank governor who is also part of the five-member Council of Eminent Persons. Two of the council members were at the Finance Ministry this morning to discuss the tax and other economic matters, including fiscal changes and subsidies. "So we know from the starting point that it has been decided, there's no question about it. "The issue is how it is going to be accomplished. Do we zeroise it? So, from 6% it becomes 0%," she told reporters after chairing a meeting with 180 fund managers here yesterday. Pakatan Harapan, which won the 14th general election and formed the new federal government, had made the abolition of the GST part of its election manifesto. Zeti said all matters concerning economic changes would be carried out in a comprehensive and orderly manner. "The ultimate objective is to put more purchasing power in the hands of the people, especially the lower and middle income groups," said the first female governor who helmed Bank Negara for 16 years until her retirement. She said once a decision is made, it would be made known to the public. "We will announce what we are going to do, including the strategy, process, technology, system and get it approved in Parliament," she said. Zeti also stressed that she would not react to political matters and would only be involved in economic issues. "That's what the people care about the most now, how they are going to be impacted and how businesses are going to be impacted. That's the reason I came back," she added. (Source: Bernama, The Star)

**Islamic finance operators are scrambling to tighten the industry's rules in order to make sure other companies cannot take the same path as Dana Gas, which this week forced a US\$700 million debt restructuring.** Global standards are likely to become more detailed and explicit and a shift to centralised regulation may accelerate after the United Arab Emirates firm reached a conditional deal with creditors on Sunday over a contested sukuk issue. Dana shook the US\$2.5 trillion global industry last June, saying it would not redeem its sukuk on maturity. It proposed swapping them for new sukuk with lower profit rates. The original sukuk used a mudaraba structure, an investment management partnership, which Dana said had fallen into disuse, making the instruments invalid under UAE law. Its creditors won some rounds in the legal battle that followed, but Dana got much of what it wanted in the settlement, which lets investors exchange their sukuk for new three-year instruments with a 4% profit rate. Investors have been worried by the prospect of other issuers avoiding redeeming their sukuk by saying conditions have changed. Market players may be more wary of Islamic bonds issued in the UAE after one of its courts declined to enforce English court rulings favouring creditors in the Dana case. "It will definitely alter international risk perception around UAE local law enforcement and sukuk in general, driving up pricing or reducing liquidity," said Khalid Howladar, managing director of Islamic finance advisory firm Acreditus. Sukuk deals have already begun changing partly in response to Dana's case, said Mohamad Akram Laldin, executive director of the Malaysia-based International Sharia Research Academy for Islamic Finance. Whereas sukuk previously relied on implied agreements that all parties were satisfied with endorsements by Islamic scholars, this is now being made explicit in contracts, and documents sometimes include clauses saying structures should not be disputed, he added. Some regulators are now asking issuers to acknowledge annually that the structure of their sukuk remains sharia-compliant, said a Dubai-based partner at an international law firm. Laldin, deputy chairman of the Malaysian central bank's Sharia Advisory Council, said the Dana saga had strengthened the case for setting up centralised bodies that could approve Islamic contracts and rule on disputes, rather than leaving vetting of sukuk to scholars engaged by issuers and investors. Meanwhile the Bahrain-based Accounting and Auditing Organisation for Islamic Financial Institutions, one of the industry's top standard-setting bodies, is working on new guidance for sukuk. Bashar Al Nator, global head of Islamic Finance at Fitch Ratings, said Dana had not done visible damage to sukuk trade, with first-quarter issuance slightly higher than a year ago. But the case underlined the dangers of competing legal jurisdictions. In February, a London High Court judge confirmed the Dana sukuk's purchase undertaking was valid, and ordered the company to withdraw its lawsuits in the UAE. But a court in the emirate of Sharjah then prohibited Dana from withdrawing its UAE suits, and directed enforcement of British court orders be suspended pending decisions by UAE

courts on whether they were eligible for enforcement. Patrick Drum, portfolio manager at US-based Saturna Capital, said investor preferences had shifted to sukuk governed solely by English law and away from dual-jurisdiction deals like Dana's. The case appears to mean the end of the old mudaraba sukuk structure, criticised as un-Islamic by some scholars due to features such as guarantees on principal and fixed returns. But a revised mudaraba structure with equity-like features, mainly used by Islamic banks to raise regulatory capital, has emerged in recent years and may persist, analysts said. Although mudaraba comprised less than 3% of sukuk issued internationally last year, it accounted for around a quarter of sukuk issued by Islamic banks, Bahrain-based International Islamic Financial Market data shows. (Source: The Edge)

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

Source: RAM Ratings; MARC

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