

**Global Markets Research**

**Fixed Income**

**Fixed Income Daily Market Snapshot**

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	2.58	-1
5-yr UST	2.73	-2
10-yr UST	2.83	-2
30-yr UST	2.93	-1

MGS		GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.52	-1	3.56	-5
5-yr	3.78	3	3.92	2
7-yr	3.96	0	4.06	0
10-yr	4.11	4	4.22	0
15-yr	4.56	2	4.63	0
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	0
3-yr	3.75	0
5-yr	3.85	1
7-yr	3.97	1
10-yr	4.15	2

Source : Bloomberg

**Upcoming Government Bond Tender**

Nil

**US Treasuries**

US Treasuries were better bid with overall benchmark yields ending 1-2bps lower; supported by WTI futures. The 2Y (reflective of interest rate predictions) yields edged lower at 2.58% and the much-watched 10Y rallied, pushing yields down to 2.83% levels. Meanwhile the Fed's semi-annual monetary policy report revealed its under-estimation of its commitment to hiking rates gradually. The US Treasury is expected to auction total of \$135b in securities the coming week. Amid months of simmering global trade tensions, geopolitics could hang over markets as investors look ahead to the meeting between US and Russian leaders. Up next on the data front are tonight's release of Retail Sales figures for June.

**MGS/GII**

Trading momentum in Govvies continued tapering-off on continued profit-taking activities, on volume of RM1.99b with both Inter-bank and offshore investors showing some interests in the off-the-run 18-19's and the 23's. Overall benchmark MGS and GII yields were mixed between -5 to +4bps with very little interest on the longer-ends. The 7Y MGS 3/25 ended unchanged at 3.96% whereas the 10Y MGS 6/28 spiked to 4.11%. The auction for 10Y GII 10/28 last Friday saw decent demand with BTC of 2.439X; averaging 4.24%.

**Corp Bonds/Sukuk**

Trading activity in Corporate Bonds/Sukuk eased slightly on volume of RM425m with interest mainly across the yield curve on 32 various bonds. The GG-space was dominated by DANA 32-33's and also DANA 11/47 which rallied 1-7 bps at 4.79-82% and 5.17% respectively compared to previous-done levels. AAA-rated CAGA 18's and 20's equally closed lower on yields at 3.88% and 4.11% levels. In the banking space, MAYBANK saw several tranches traded mixed on yields with the 23nc18 and 24nc19 closing 2bps lower at 4.29% and 4.47% respectively whilst the 68nc18 ended 14bps higher at 4.35%.

## Daily Trades : Government Bonds

Securities		Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
GII	10/18	3.291	44	3.269	10/07/2018	2
GII	11/18	3.291	25	3.299	05/07/2018	-1
MGS	03/19	3.385	180	3.340	12/07/2018	4
MGS	10/19	3.459	3	3.453	12/07/2018	1
MGS	11/19	3.409	24	3.424	11/07/2018	-2
GII	04/21	3.696	40	3.694	12/07/2018	0
MGS	07/21	3.609	37	3.615	11/07/2018	-1
MGS	09/21	3.623	1	3.625	11/07/2018	0
MGS	03/22	3.707	2	3.689	12/07/2018	2
MGS	03/23	3.881	53	3.797	11/07/2018	8
MGS	04/23	3.775	160	3.745	11/07/2018	3
MGS	08/23	3.880	70	3.887	12/07/2018	-1
GII	11/23	3.921	20	3.896	10/07/2018	2
MGS	07/24	3.990	6	3.977	12/07/2018	1
MGS	09/24	3.989	41	3.994	12/07/2018	-1
MGS	04/26	4.178	14	4.178	12/07/2018	0
MGS	11/26	4.181	1	4.181	12/07/2018	0
MGS	05/27	4.260	1	4.252	12/07/2018	1
MGS	11/27	4.133	11	4.146	12/07/2018	-1
MGS	06/28	4.110	120	4.072	11/07/2018	4
GII	10/28	4.215	1000	4.220	12/07/2018	0
MGS	04/33	4.636	1	4.635	11/07/2018	0
MGS	11/33	4.558	130	4.541	12/07/2018	2
MGS	09/43	4.865	11	4.843	12/07/2018	2
MGS	03/46	4.936	1	4.929	12/07/2018	1
			1994			

## 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]	03/20	GG	3.955	30	4.098	23/05/2018	-14	47
Prasarana Malaysia Berhad [fka Syarikat Prasarana Negara Berhad]	03/25	GG	4.332	15	4.430	15/05/2018	-10	38
GovCo Holdings Berhad	02/27	GG	4.508	2	4.399	29/12/2017	11	42
Prasarana Malaysia Berhad [fka Syarikat Prasarana Negara Berhad]	08/28	GG	4.521	5	4.565	06/04/2018	-4	43
DanaInfra Nasional Berhad	03/32	GG	4.789	10	4.800	12/07/2018	-1	24
DanaInfra Nasional Berhad	02/33	GG	4.821	20	4.830	12/07/2018	-1	27
DanaInfra Nasional Berhad	11/47	GG	5.169	40	5.238	04/06/2018	-7	38
Cagamas Berhad	03/19	AAA	3.884	20	4.068	12/06/2018	-18	50
Cagamas Berhad	09/20	AAA	4.110	20	4.156	06/07/2018	-5	63
Putrajaya Bina Sdn Berhad	09/22	AAA	4.475	5	4.545	02/07/2018	-7	78
TNB Western Energy Berhad	07/30	AAA	4.866	10	4.831	26/03/2018	3	77
Projek Lebuhraya Usahasama Berhad	01/31	AAA	4.851	5	4.840	12/07/2018	1	30
Bank Pembangunan Malaysia Berhad	03/32	AAA	5.008	2	5.008	09/07/2018	0	46
Tenaga Nasional Berhad	08/32	AAA	4.880	20	4.944	04/06/2018	-6	33
Sarawak Energy Berhad	06/21	AA1	4.487	2	4.535	29/06/2018	-5	94
Public Bank Berhad	11/23	AA1	4.308	5	4.384	21/06/2018	-8	55
Malayan Banking Berhad	12/23	AA1	4.293	5	4.317	17/05/2018	-2	53
Malayan Banking Berhad	05/24	AA1	4.471	10	4.493	11/07/2018	-2	57
Encorp Systembilt Sdn Berhad	11/25	AA1	4.658	10	4.506	04/11/2016	15	70
TRIplic Medical Sdn Berhad	10/33	AA1	5.040	10	5.099	27/06/2018	-6	49
UMW Holdings Berhad	10/26	AA2	4.817	20	4.838	04/07/2018	-2	78
Malayan Banking Berhad	09/68	AA2	4.352	50	4.208	31/05/2018	14	-44
Gamuda Berhad	11/22	AA3	4.759	35	4.776	13/06/2018	-2	107
Gamuda Berhad	03/23	AA3	4.798	14	4.827	05/06/2018	-3	104
Tanjung Bin Energy Issuer Berhad	09/29	AA3	4.998	20	4.949	11/10/2017	5	90
Tan Chong Motor Holdings Berhad	11/19	A1	6.127	6	6.124	12/07/2018	0	274
CIMB Group Holdings Berhad	05/16	A1	5.172	12	5.350	10/07/2018	-18	38
Hong Leong Financial Group Berhad	11/17	A1	4.994	1	4.994	12/07/2018	0	20
Alliance Bank Malaysia Berhad	10/25	A2	4.869	5	4.577	09/07/2018	29	91
Bank Muamalat Malaysia Berhad	11/21	A	5.104	4	5.275	10/07/2018	-17	156
Jimah East Power Sdn Berhad	12/29	AA-	5.052	2	5.078	21/05/2018	-3	96
Jimah East Power Sdn Berhad	06/30	AA-	5.030	10	4.958	08/12/2017	7	94
				425				

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

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

**Non-interest income and net interest margins (NIMs) of banks could take a further hit, resulting in lower earnings for banks in the second half (H2) of the year.** This is expected to happen amid a softer capital market and stronger competition for deposits, resulting in a margin squeeze. Analysts contacted by StarBiz said growth in non-interest income is expected to be impacted with the softer capital market fuelled by a rising trend in Malaysian government securities (MGS) yields, which could dampen bank investment and trading income. Slower capital raising from the equity market is anticipated, which could dent non-interest income earnings. AmlInvestment Bank analyst Kelvin Ong noted that non-interest income of banks is now expected to be more challenging than expected earlier. He attributed this to softer capital market activities based on the rising MGS yield trend in line with other Asian countries. This is due to the tightening in the United States with rising yields in the latter's treasury securities. He said the issuance of initial public offerings and capital raising under the equity market are likely to remain slow. He added that he expected higher yields to affect banks' investment and trading income with a marked-to-market impact on securities, coupled with lower trading gains. Analysts foresee stiffer competition for deposits resulting in compression in NIMs, as fixed deposits are expected to be repriced upwards in the second and third quarters. NIM is a measure of the difference between interest income generated by banks and interest paid out to depositors. The average lending rate and the three-month fixed-deposit spread serves as a proxy for the banking sector's NIM. With Bank Negara maintaining its overnight policy rate (OPR) and stronger competition in fixed deposits in the subsequent quarters, NIM is expected to remain compressed, hence putting pressure on banks' margins. Ong said that in the second half, he anticipated the NIM of banks to taper from the first quarter that was boosted by an OPR hike of 25 basis points (bps) in January 2018. He said the tapering of margins is also expected to be partly attributed to pressures on the asset yield of banks' subsidiaries in Indonesia (Maybank Indonesia and PT Bank CIMB Niaga Tbk). Ong, who is maintaining his "overweight" stance on the sector, said he expected banks' NIM to expand by two bps for 2018 against a projection of a three-bps increase previously. Apart from the repricing of banks' deposit rates from the increase in OPR since January, analysts noted that they expected competition for fixed deposits to flare up moving closer towards the implementation of the net stable funding ratio (NSFR). The upcoming Basel III NSFR is to be implemented no earlier than Jan 1, 2019. The NSFR measures a bank's funding stability over a one-year period and complements the liquidity coverage ratio requirement, which measures liquidity over a 30-day horizon. AmlInvestment Bank expects the sector's core earnings to grow by 7.6% in 2018 (previously: 9.2%) after lowering its expectation for banks' non-interest income. Meanwhile, UOB Kay Hian banking analyst Keith Wee expects the banking sector's performance in the second half of the year likely to be more muted. He said post-14th general election (GE14), policy uncertainties may pose downside risk to gross domestic product growth and consequently overall sector growth in the second half. "The surprise election results, escalating trade tensions between China and the US, and the global monetary tightening will be the key factors prompting foreign funds to adopt a more cautious approach post-GE14. "Consequently, the sector's outperformance in the first half is unlikely to repeat itself in the second half, until investors are able to gain greater clarity of the unfolding policy changes of the new government on near-term growth. "In fact, the sector had underperformed the FBM KLCI after the GE14, declining 9.5% versus the FBM KLCI's 8.4%," he said. On loan growth, Wee said due to the deferment and scaling down of a number of mega-infrastructure projects, the research house is expecting a sharp slowdown in construction-related loan growth. He added that this would offset the potential positive effect from stronger consumer spending during the three-month "tax holiday period". (Source: *The Star*)

The Pakatan Harapan government will proceed with the implementation of the Special Border Economic Zone (SBEZ) in Bukit Kayu Hitam as planned by the previous government in Budget 2018, said Deputy Finance Minister Datuk Amiruddin Hamzah. He said the project would be implemented because of the positive returns it could provide for the people and the economic spill-over effect for local residents. He added that the project would be carried out on a 4,400-acre site by Northern Gateway Sdn Bhd. "The project will be carried out in seven phases," he told reporters after a briefing on the project by Northern Gateway Sdn Bhd chief operating officer Razwin Sulairee Hasnan Termizi at the Bukit Kayu Hitam Immigration, Customs and Quarantine Complex here today. Amiruddin said the land for the purpose had been acquired and expressed confidence that the project would be a catalyst for the setting up of Kota Perdana as envisioned by Prime Minister Tun Dr Mahathir Mohamad in 2001. On the sales and service tax, he said, a bill on the matter would be tabled in Parliament for it to be implemented, scheduled this September. (Source: *The Edge/Bernama*)

Rating Actions			
Issuer	PDS Description	Rating/Outlook	Action
Pacific & Orient Insurance Co. Berhad	Insurer Financial strength	A2/Stable/P1	Reaffirmed

Source: RAM Ratings; MARC

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