

Global Markets Research

Fixed Income

Fixed Income Daily Market Snapshot

US Treasuries

- US Treasuries saw yields rise yet again albeit at smaller quantum across the curve with overall benchmark yields between 1-2bps higher; as attention on fixed-income was diverted to Europe with yields spiking by 16bps in Italy's 10Y bonds amid ongoing political concerns. The UST 2Y edged 1bps to 2.59% whilst the much-watched 10Y ended another 2bps higher at 3.10%. The odd occurrence of a divergence between the high US budget deficit and low unemployment has stumped investors and may cause interest rates to rise with current odds for a June hike at 72%. Whilst China has recently increased its holdings of UST's by another \$11b to \$1.19trillion in March; Japanese life insurers are envisaged to return to US bond market as yields become attractive.

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	2.59	1
5-yr UST	2.94	2
10-yr UST	3.10	2
30-yr UST	3.22	2

MGS		GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.71	0	3.76	6
5-yr	3.84	0	3.93	2
7-yr	4.01	4	4.18	0
10-yr	4.20	4	4.35	2
15-yr	4.60	-2	4.74	0
20-yr	4.84	4	4.84	0
30-yr	4.92	2	4.92	0

*Market indicative

MYR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.76	0
3-yr	3.84	0
5-yr	3.94	1
7-yr	4.03	1
10-yr	4.18	1

Source: Bloomberg

Upcoming Government Bond Tenders

MGS/GII

- Trading volume in local Govvies was higher at RM5.03b with bulk of trades seen mainly in the short-end MGS 18-19's and 15Y tenures. Overall the mid-long tenured benchmark bonds were weaker with yields rising between 2-4bps save for the 15Y MGS 11/33 which saw yields lower by 2bps at 4.60%. Both the benchmark 7Y MGS 3/25 and 10Y MGS 11/27 spiked by 4bps to 4.01% and 4.20% respectively compared to previous-done levels. Markets are expected to turn cautious temporarily as investors await solid fiscal measures with the announcement of the zero-resetting of GST and reinstatement of fuel subsidies. On the data front we have the release of GDP figures out today.

Corp Bonds/Sukuk

- Corporate Bonds saw market volume improve further to RM246m with interest returning to the AAA-part of the curve whilst AA-rated bonds also saw continuity in secondary market trades. The long-tenured Govt-guaranteed DANA 2/48 rallied 7bps at 5.29% compared to previous-done levels. In the AAA-space DANGA 9/33 edged 1bps lower at 5.02% whilst MAHB 9/18 lost 3bps ending at 4.03%. Meanwhile Southern Power 10/29 and 4/34 ended between 1-7bps higher at 5.05% and 5.37% respectively. In the banking space, the A1-rated Bank Islam 27nc22 traded yet again reversing previous day's move by rallying 2bps at 4.96%.

Daily Trades : Government Bonds

Securities		Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS	09/18	3.419	1089	3.507	15/05/2018	-9
MGS	03/19	3.569	12	3.631	15/05/2018	-6
MGS	10/19	3.703	250	3.653	15/05/2018	5
MGS	11/19	3.672	290	3.667	15/05/2018	1
MGS	03/20	3.687	23	3.742	15/05/2018	-6
MGS	07/20	3.744	48	3.758	15/05/2018	-1
MGS	10/20	3.833	121	3.754	15/05/2018	8
MGS	02/21	3.776	159	3.784	15/05/2018	-1
MGS	07/21	3.820	40	3.803	15/05/2018	2
MGS	09/21	3.855	25	3.808	15/05/2018	5
MGS	03/22	3.966	174	3.889	15/05/2018	8
MGS	08/22	3.960	7	4.037	14/05/2018	-8
MGS	09/22	3.907	89	3.907	15/05/2018	0
MGS	03/23	4.008	12	4.019	14/05/2018	-1
MGS	08/23	4.001	2	4.012	15/05/2018	-1
MGS	07/24	4.125	195	4.115	15/05/2018	1
MGS	09/24	4.120	60	4.176	15/05/2018	-6
MGS	03/25	4.008	210	3.983	15/05/2018	2
MGS	09/25	4.283	80	4.243	15/05/2018	4
MGS	04/26	4.241	22	4.219	14/05/2018	2
MGS	11/26	4.259	50	4.309	15/05/2018	-5
MGS	11/27	4.195	271	4.156	15/05/2018	4
MGS	04/30	4.549	4	4.597	14/05/2018	-5
MGS	06/31	4.558	6	4.563	14/05/2018	0
MGS	04/33	4.735	643	4.670	15/05/2018	7
MGS	11/33	4.596	210	4.592	15/05/2018	0
MGS	05/35	4.950	50	4.950	15/05/2018	0
MGS	04/37	4.843	30	4.794	15/05/2018	5
MGS	03/46	4.915	10	4.891	14/05/2018	2
GII	08/18	3.452	5	3.633	14/05/2018	-18
GII	10/18	3.477	3	3.462	02/05/2018	1
GII	04/19	3.578	70	3.432	04/05/2018	15
GII	08/19	3.823	2	3.657	15/05/2018	17
GII	04/20	3.761	3	3.706	15/05/2018	6
GII	06/20	3.828	3	3.739	03/05/2018	9
GII	04/22	3.925	321	3.906	14/05/2018	2
GII	07/23	4.106	5	4.063	15/05/2018	4
GII	08/25	4.184	420	4.179	15/05/2018	0
GII	09/26	4.357	1	4.430	14/05/2018	-7
GII	07/27	4.337	0	4.324	15/05/2018	1
GII	10/28	4.345	20	4.324	15/05/2018	2
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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*
DanaInfra Nasional Berhad	02/48	GG	5.290	10	5.360	19/02/2018	-7	47
Malaysia Airport Holdings Berhad	09/18	AAA	4.032	50	4.001	14/03/2018	3	56
GENM Capital Berhad	08/25	AAA	4.976	20	4.838	06/03/2018	14	98
Gulf Investment Corporation G.S.C	06/27	AAA	5.480	20	5.407	04/05/2018	7	135
Danga Capital Berhad	09/33	AAA	5.017	20	5.031	26/04/2018	-1	41
Sabah Development Bank Berhad	06/18	AA1	4.394	20	4.516	01/08/2017	-12	93
Sabah Credit Corporation	10/19	AA1	4.492	1	4.472	30/04/2018	2	102
Hong Leong Bank Berhad	06/24	AA1	4.514	1	5.188	03/04/2018	-67	59
Samalaju Industrial Port Sdn Berhad	12/25	AA1	4.854	10	4.736	17/04/2018	12	79
TRIpIc Medical Sdn Berhad	10/34	AA1	5.231	15	5.250	29/03/2018	-2	62
TRIpIc Medical Sdn Berhad	10/35	AA1	5.359	15	5.342	24/04/2018	2	75
AmBank (M) Berhad	12/23	AA3	4.450	1	4.762	14/03/2018	-31	53
Jimah East Power Sdn Berhad	12/28	AA-	5.028	2	4.895	14/03/2017	13	86
Southern Power Generation Sdn Berhad	10/29	AA-	5.048	10	4.981	19/04/2018	7	88
Southern Power Generation Sdn Berhad	04/34	AA-	5.369	10	5.359	07/05/2018	1	76
Lebuhraya DUKE Fasa 3 Sdn Berhad	08/35	AA-	5.369	1	5.348	26/04/2018	2	76
Bank Islam Malaysia Berhad	11/27	A1	4.957	30	4.977	15/05/2018	-2	83
AMMB Holdings Berhad	02/28	A1	4.990	2	5.048	03/05/2018	-6	82
UMW Holdings Berhad	04/18	A1	6.145	7	6.145	14/05/2018	0	133
Alliance Bank Malaysia Berhad	10/25	A2	4.901	3	4.883	30/04/2018	2	91
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*spread against nearest indicative tenured MGS (Source : BPAM)

Market/Corporate News: What's Brewing

1Malaysia Development Bhd (1MDB) needs an estimated RM42 billion to settle the principal and interest on its loans maturing between November 2015 and May 2039. This was based on assumptions that the company's rationalisation plan was implemented and no new loans was taken after October 2015, according to the declassified Auditor-General's report on 1MDB. The report's executive summary said 1MDB's outstanding loans and financing totaled RM55 billion, as at Oct 31, 2015, compared with assets of RM58.6 billion. For the loans and financing, a sum of RM20.31 billion was guaranteed by the Federal government. The report said 1MDB would need sufficient funds to service its high payment commitments which amounted to RM4.88 billion in 2016, RM14.74 billion in 2023 and RM5.14 billion in 2039. 1MDB would also require at least RM1.52 billion, annually, from November 2015 to May 2024 to repay its loans. Meanwhile, the group's borrowing cost from 2016 to 2023 would amount to RM9.08 billion. The report said the 30-year Islamic Medium-Term Notes (IMTN) issued in 2009, maturing in 2039, had a yearly coupon repayment rate of RM287.50 million. Therefore, 1MDB's commitment for the IMTN from November 2015 until May 2039 would total RM11.9 billion, comprising RM5 billion in principal value and financing cost of RM6.9 billion, the report added. (Source: Bernama, The Star)

The adoption of Malaysian Financial Reporting Standard 9 (MFRS 9), the new accounting standard for financial instruments, is largely credit neutral, but will change how the country's banks measure, reserve for, and report credit losses, Moody's Investors Service said. "The adoption of MFRS 9 does not affect our credit assessment of Malaysian banks, because the underlying economics of bank assets remain unchanged," said Moody's vice president and senior analyst Simon Chen. Some banks have already adopted the standard — which is more forward looking with a broadened application — while others plan to do so at the start of their respective new financial years, it noted. "We already incorporate forward-looking information into our assessment of a bank's creditworthiness. That said, MFRS 9 represents a strengthening in credit practices because of its more proactive stance on requiring higher provisions on underperforming assets and the incentive it gives to the banks to undertake better credit monitoring practices to pre-empt unwarranted credit migration," Chen noted. Moody's explains that MFRS 9 introduces the concept of expected credit losses (ECLs) as the basis for provisioning on all financial asset holdings. Under the reporting standard, all financial assets would count toward the computation of ECLs and therefore require provisioning from the first day of their origination, even if they are fully performing. Moreover, MFRS 9 treats assets that are performing, but with increased credit risks, as underperforming assets and subjects them to higher ECLs. The regulatory minimum level of loss allowances under MFRS 9, and regulatory reserves now covers a broader pool of assets than the previous requirement, and hence attracts higher provisions. And, MFRS 9, which took effect on January 1, is broadly similar to IFRS 9 in its introduction of the concept of ECLs as the basis for provisioning; contrasting with the model based on incurred losses under FRS 139. Moody's says that the day one adjustment to common equity tier 1 (CET1) ratios would be manageable for the banks, although it would affect capital ratios because the application of ECL on a broader coverage of financial assets would result in loss allowances that are in most cases larger than banks' reserves under FRS 139. Initial estimates from the six banks that Moody's rates in Malaysia indicate a 0-80 basis point decline in CET1 ratios on Day 1 of MFRS 9 adoption. However, some banks have indicated that the fair value treatment of non-loan financial assets under MFRS 9 could result in valuation gains and partly offset higher loss allowances. The key recurring impact of MFRS 9 is that provisioning expenses would be more sensitive to the origination of new credit assets and credit migration drivers, such as changes in macroeconomic conditions and loan surveillance practices. "Because we expect credit conditions in the Malaysian banking system to remain benign over the next 12-18 months, provisioning expenses under MFRS 9 will have only a limited effect on subsequent period earnings among Malaysian banks," added Chen. (Source: The Star)

Rating Actions			
Issuer	PDS Description	Rating/Outlook	Action
Special Coral Sdn Bhd	RM250.0 million Senior Class A Medium-Term Notes (MTN) (Class A MTN)	AAA	Affirmed
	RM50.0 million Senior Class B MTN (Class B MTN)	AA	Affirmed
	RM800.0 million Subordinated Class MTN	B-	Affirmed
Kenanga Investors Berhad (KIB)	Investment manager rating (IMR)	IMR-2	Affirmed
Kenanga Islamic Investors Berhad (KIIB)	Investment manager rating (IMR)	IMR-2	Affirmed

Source: RAM Ratings; MARC

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