

Global Markets Research

Fixed Income

Fixed Income Daily Market Snapshot

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	2.60	2
5-yr UST	2.75	3
10-yr UST	2.86	3
30-yr UST	2.96	3

MGS		GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.57	4	3.56	0
5-yr	3.77	-1	3.91	-1
7-yr	3.96	0	4.06	0
10-yr	4.11	0	4.22	0
15-yr	4.56	0	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	3.71	0
3-yr	3.75	0
5-yr	3.86	0
7-yr	3.98	0
10-yr	4.15	0

Source : Bloomberg

Upcoming Government Bond Tender

Nil

US Treasuries

- US Treasuries was sold-off as the yield curve bear-steepened with overall benchmark yields ending 2-3bps higher. The 2Y (reflective of interest rate predictions) edged higher to 2.60% whilst the much-watched 10Y similarly saw yields up at 2.86% levels. The US Treasury is expected to auction total of \$135b in securities the coming week. Domestic banks tapped the high-grade primary market on Monday, kicking off a week likely to be dominated by bank supply as the major U.S. money centers report earnings. JPMorgan, Citigroup and Wells Fargo reported on Friday and announced deals today while BofA hasn't yet come forward. Based on recent data and comments from FOMC members, the Fed is content with its plan to gradually increase rates, which likely means 2 more hikes before year-end.

MGS/GII

- Trading momentum in Govvies lagged in the absence of meaningful leads and investors physical presence due to the World Cup Finals last Sunday night. Total volume was tepid at RM1.37b with some interests seen in the off-the-run 23-24's. Overall benchmark MGS and GII yields were generally unchanged to within 1bps of prior day close save for odd-lot trades on the 3Y. Both the 7Y MGS 3/25 and the 10Y MGS 6/28 were untraded. Despite EM local govt debt having underperformed the Bloomberg Barclays EM Local Govt Liquid Bond Index over 1H2018, Colombia is up 4.4% YTD, joining Mexico and Malaysia as the only other benchmark-eligible local EM issuers with a positive dollar return in 2018.

Corp Bonds/Sukuk

- Trading activity in Corporate Bonds/Sukuk was weak on volume of RM199m with many investors sidelined following the World Cup Finals and lack of leads from the Govvies trades. Interest spawned across 14 various bonds compared to 32 the previous day. The Govt-guaranteed PRASA 8/26 say yields lower by 8bps; closing at 4.40% compared to previous-done levels. AAA-rated PLUS 19 and GAS Msia 11/19 however ended 2-3bps higher at 4.12% and 4.18% respectively. Southern Power 26-37 saw several tranches traded 2-5bps lower between 4.83-5.14% levels.

Daily Trades : Government Bonds

Securities		Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS	09/18	3.287	80	3.250	12/07/2018	4
MGS	03/19	3.352	35	3.385	13/07/2018	-3
MGS	07/19	3.385	1	3.447	12/07/2018	-6
MGS	10/20	3.480	3	3.475	12/07/2018	0
MGS	02/21	3.625	10	3.569	12/07/2018	6
MGS	03/22	3.689	93	3.707	13/07/2018	-2
MGS	04/23	3.768	102	3.775	13/07/2018	-1
MGS	08/23	3.896	1	3.880	13/07/2018	2
MGS	07/24	4.010	198	3.990	13/07/2018	2
MGS	09/24	4.018	438	3.989	13/07/2018	3
MGS	09/25	4.092	10	4.063	12/07/2018	3
MGS	04/26	4.175	4	4.178	13/07/2018	0
MGS	11/27	4.179	70	4.179	13/07/2018	0
MGS	06/28	4.111	10	4.085	13/07/2018	3
MGS	04/33	4.641	3	4.636	13/07/2018	0
MGS	05/35	4.762	17	4.775	12/07/2018	-1
MGS	04/37	4.843	3	4.815	12/07/2018	3
MGS	07/48	4.911	40	4.908	11/07/2018	0
GII	11/23	3.912	70	3.896	10/07/2018	2
GII	10/28	4.217	180	4.226	13/07/2018	-1
			<u>1369</u>			

Daily Trades: Corp Bonds / Sukuk

Securities	Maturity (dd/mm/yyyy)	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]	08/26	GG	4.402	45	4.481	03/07/2018	-8	36
Projek Lebuhraya Usahasama Berhad	01/19	AAA	4.119	20	4.092	07/06/2018	3	74
Gas Malaysia Berhad	11/19	AAA	4.178	20	4.157	10/08/2017	2	79
Sabah Development Bank Berhad	09/20	AA1	5.072	1	5.172	13/07/2018	-10	159
Celcom Networks Sdn Berhad [fka Celcom Transmission (M) Sdn Berhad]	08/24	AA+	4.818	10	4.862	19/02/2018	-4	91
RHB Bank Berhad	07/24	AA3	4.649	1	4.624	13/06/2018	3	74
UEM Sunrise Berhad (fka UEM Land Holdings Berhad)	05/23	AA-	4.874	15	4.912	04/07/2018	-4	109
Southern Power Generation Sdn Berhad	04/26	AA-	4.828	10	4.858	05/06/2018	-3	78
Southern Power Generation Sdn Berhad	04/27	AA-	4.879	10	4.932	31/05/2018	-5	78
Southern Power Generation Sdn Berhad	10/32	AA-	5.139	10	5.159	10/07/2018	-2	57
Affin Bank Berhad	09/27	A1	4.948	20	4.871	11/06/2018	8	85
Hong Leong Financial Group Berhad	11/17	A1	4.994	1	4.994	13/07/2018	0	19
Bank Muamalat Malaysia Berhad	11/21	A	4.780	1	5.104	13/07/2018	-32	123
GENM Capital Berhad	07/23	AAA	4.879	37	4.923	12/07/2018	-4	110
				<u>199</u>				

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

Market/Corporate News: What's Brewing

The provision of services will be taxed at 6% under the reintroduced sales and services tax (SST), while the sale of goods will incur a 10% tax, said Finance Minister Lim Guan Eng. He said that the SST would be implemented on Sept 1 after the necessary laws are passed in the current Parliament session. "Following the zero-rating of the goods and services tax (GST), the federal government is expecting to lose RM21bil in revenue per year. "In contrast, the reintroduction of the SST, rising crude oil prices and the dividends from the government-linked companies would bring in an extra RM15bil in revenue for the federal government in 2018," Lim said in his speech at the National Tax Conference yesterday. "Under the proposed SST bill, goods will be taxed at 10%, while the provision of services will be taxed at 6%. "And this is the same rate that had been imposed previously. To fill up the gap left by the GST, the Ministry of Finance has identified RM10bil worth of expenditure savings," he added. He said that with the reintroduction of the SST, the government would be able to claw back RM21bil a year, but there would still be a shortfall of another RM21bil. "This is where we need to do a little bit of belt-tightening by cutting down on expenditures, inefficiencies and of course through savings," he said. He said that the projected tax collection in direct taxes previously by the Inland Revenue Board (LHDN) of RM134bil, which is almost an additional 10% from the RM123bil in 2017, could be challenging and that the growth in collection was possible because of the removal of the high-handed and rough methods that had been employed by the previous government. "Whether we can achieve this target or not would depend on whether we can instil confidence among the public that the LHDN is implementing a fair tax regime," he said. Lim said that he hoped the people and companies operating here would, in turn, give due support to this process by duly paying their taxes. "While taxes fund the development and administration of the country, they also serve to reduce inequality that exists in our society. "And while we impose taxes, we also do not want to tax you to death, but we hope that you are able to pay these taxes to help us save the country. "If we can resolve this problem of tax evasion and tax avoidance, this would go a long way," he said. Lim said that the Finance Ministry had instructed the LHDN to immediately cease high-handed rough tactics to recover taxes that were unpaid. "They were employed by the previous government and this cannot continue. We know that the previous government needed money to cover up its financial scandals. So, it used very strong methods, especially office raids accompanied by security people armed with guns and weapons. "I do not think this is necessary because we are not dealing with people like Jho Low," Lim said. He said the government would rely on the courts to decide on such matters instead. "If businesses are accused of not paying taxes, I am sure our existing laws are sufficient and adequate enough to cover them. This also does not mean that the government won't go after those who do not pay their taxes; we will still do this, but in accordance with the law. I hope that in turn, Malaysians can comply," Lim said. "If, for example, say there are some companies that cannot pay up this year but would like to (defer) payment to the following year, the taxman can be flexible. Ia boleh dibincang, tetapi dengan bersih bukan di bawah kaunter. (It can be discussed in a clean manner in the absence of any corrupt elements). "I must emphasise the word bersih (clean) here and this is very important. Discussions must happen in the LHDN office during office hours and not at some place outside during strange hours," he added. Lim said he hoped that with the installation of the new government that has pledged transparency in the way tax money is used, people, in turn, would willingly pay their taxes without any qualms or doubts. "Tax money will be used for public purposes for the benefit of the people. "Generally, it has been proven that if people believe that the government is using the obtained tax money for the right purposes, they are willing to pay more and we hope that we can instil this confidence among the taxpayers," he said. (Source: *The Star*)

Rating Actions			
Issuer	PDS Description	Rating/Outlook	Action
Sabah Credit Corporation (SCC)	outstanding sukuk instruments	AA1/Stable/P1	Reaffirmed

Source: RAM Ratings; MARC

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