

## Global Markets Research

### Fixed Income

#### Fixed Income Daily Market Snapshot

##### US Treasuries

- US Treasury benchmarks ended broadly within 1-2bps lower as US-China trade barrier tensions resurfaced. The curve which is expected to flatten saw the 2Y fall 2bps lower at 2.55% whilst the much-watched 10Y edged a mere basis point lower at 2.92% in Friday's session. The median dot plot projections saw an additional one rate hike possibility for both 2018 and 2019 thus prompting as much as four rate hikes in total for this year. Meanwhile Japanese and Chinese foreign holdings in US Treasury's fell by \$5.8b and \$12.3b respectively in April to \$1.03 trillion and \$1.18 trillion respectively with overall net selling by foreigners amounting to \$4.8b.

##### MGS/GII

- Trading momentum in govies tapered off with volume at RM1.22b with continued interest in the shorter-end 19's. Overall benchmark yields for both MGS and GII bonds were largely unchanged save for the 3Y which closed 2bps lower at 3.64%. Both the 7Y MGS 3/25 and the 10Y MGS 6/28 ended unchanged at 4.03% and 4.19% respectively compared to previous-done levels. Ongoing concerns of the government's review of large infrastructure projects and outstanding debt from 1MDB may affect contingent liability risk on the country's credit profile. Meanwhile Moody's says that the country's robust macro-economic conditions will make for a favorable operating environment for local banks. Expect market to remain quiet due to the Hari Raya Aidil Fitri celebrations, school holidays and also the World Cup distractions.

##### Corp Bonds/Sukuk

- Corporate Bonds however saw little interest with volume at a mere RM13m with the only meaningful trade seen on GENTING Capital 6/22 which closed unchanged at 4.79% compared to previous-done levels. Expect a quiet session in similar to the abovementioned reasons above.

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	2.55	-2
5-yr UST	2.80	-1
10-yr UST	2.92	-1
30-yr UST	3.05	-1

MGS		GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.64	-2	3.67	0
5-yr	3.81	0	4.01	0
7-yr	4.03	0	4.18	0
10-yr	4.19	0	4.33	0
15-yr	4.64	0	4.72	0
20-yr	4.87	0	4.84	0
30-yr	4.95	0	4.98	0

\*Market indicative

M YR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.74	0
3-yr	3.80	0
5-yr	3.89	0
7-yr	3.98	0
10-yr	4.16	0

Source: Bloomberg

#### Upcoming Government Bond Tender

Nil

## Daily Trades : Government Bonds

Securities		Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS	09/18	3.263	4	3.299	13/06/2018	-4
MGS	03/19	3.271	85	3.444	13/06/2018	-17
MGS	10/19	3.349	576	3.448	13/06/2018	-10
MGS	11/19	3.445	30	3.476	13/06/2018	-3
MGS	10/20	3.535	84	3.567	13/06/2018	-3
MGS	02/21	3.643	60	3.679	13/06/2018	-4
MGS	09/21	3.752	21	3.743	13/06/2018	1
MGS	11/21	3.635	40	3.657	13/06/2018	-2
MGS	03/22	3.869	2	3.910	12/06/2018	-4
MGS	03/23	3.946	8	4.004	12/06/2018	-6
MGS	04/23	3.813	13	3.847	08/06/2018	-3
MGS	08/23	3.994	3	4.015	13/06/2018	-2
MGS	07/24	4.149	1	4.113	13/06/2018	4
MGS	09/24	4.085	11	4.146	13/06/2018	-6
MGS	09/25	4.254	7	4.254	13/06/2018	0
MGS	04/26	4.293	0	4.333	12/06/2018	-4
MGS	11/26	4.328	95	4.370	13/06/2018	-4
MGS	03/27	4.378	2	4.365	12/06/2018	1
MGS	11/27	4.296	14	4.316	13/06/2018	-2
MGS	06/28	4.191	22	4.222	13/06/2018	-3
MGS	04/30	4.653	5	4.621	13/06/2018	3
MGS	04/32	4.714	1	4.732	05/06/2018	-2
MGS	04/33	4.758	0	4.763	13/06/2018	0
MGS	04/37	4.893	4	4.918	13/06/2018	-3
MGS	06/38	4.873	50	4.893	12/06/2018	-2
GII	04/20	3.664	1	3.715	07/06/2018	-5
GII	04/22	3.904	1	3.933	13/06/2018	-3
GII	07/23	4.069	6	4.055	05/06/2018	1
GII	11/23	4.011	70	4.028	13/06/2018	-2
GII	07/27	4.426	4	4.386	12/06/2018	4
GII	05/47	4.977	1	5.013	05/06/2018	-4
			1221			

## 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*
Genting Capital Berhad	06/22	AAA	4.789	10	4.793	08/06/2018	0	99
Al Dzahab Assets Berhad	09/25	AA3	5.052	1	5.001	24/05/2018	5	101
SAJ Capital Sdn Berhad	01/20	AA-	5.119	1	-	-	-	-
CIMB Group Holdings Berhad	05/16	A1	5.351	1	5.349	12/06/2018	0	46
Mah Sing Perpetual	-	-	5.593	2	5.595	13/06/2018	0	-
				13				

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

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

**Higher U.S. rates are rattling many emerging markets in much the same way past tightening cycles did, but the Federal Reserve's hawkishness could also bring cheer for a small group of Asian economies that wouldn't mind seeing their currencies weaken.** Fed rate hikes this year and the prospect of more to come have lifted Treasury yields, prompting investors to switch out of riskier emerging market debt and triggering sharp falls in their currencies. Markets in Argentina, Brazil and Turkey took the biggest hits and in Asia, the central banks of India, Indonesia and the Philippines have raised rates and intervened to defend their currencies. However, unlike those countries, which run current account deficits, central banks in external surplus countries such as Thailand, South Korea, Taiwan and, to a lesser extent, Malaysia won't feel compelled to keep up with the Fed's rate hikes, analysts say. "I don't see those countries just being forced by the Fed into action because some of them have such enormous surpluses that they would probably be happy to see weaker currencies and capital outflows, at the margin," said Frederic Neumann, co-head of Asian economic research at HSBC. Weaker currencies from portfolio outflows could help lift below-target inflation and give exporters a shot in the arm at a time of heightened uncertainty over global trade and signs that the Chinese economy may be losing steam. This week's central bank meetings in Thailand and Taiwan are likely to reinforce that outlook, with most economists seeing at most one rate hike in Thailand, Taiwan and South Korea over the next 18 months, compared with the Fed's five or six. The Philippine peso <PHP=> lost almost 7 percent from January highs and is now trading at its lowest in 12 years. The Indian rupee <INR=> is near record lows having lost a similar amount, while the Indonesian rupiah <IDR=> is down about 5 percent after two rate hikes and heavy central bank buying. By contrast, the Korean won <KRW=>, the Thai baht <THB=> and the Taiwan dollar <TWD=> are all down 3 percent from January levels close to multi-year highs while their central banks kept rates steady near record lows. One of the reasons why the surplus economies are under less pressure is foreign investor positioning. In deficit countries, investors tend to own shorter-term bonds, which are more liquid and less risky than longer-term debt. In countries with surpluses, investors are more comfortable holding longer-term securities. Since the Fed started raising rates some three years ago, the premium that Indian and Indonesian short-term bonds offers over their U.S. equivalent <US2YT=RR> has dropped by roughly 200 basis points. In the Philippines, the premium has fallen by almost the same amount over the past 12 months. That differential has narrowed some 200 bps in South Korea, Thailand and Taiwan as well and has even turned negative. However, investors' greater preference for longer-term debt has helped limit downward currency pressure. Differentials with U.S. 10-year yields shrank 100 bps or less. With the U.S. curve flattening as the economic cycle approaches its peak, that is likely to continue. Another reason why those central banks don't have to track the Fed is that China's rise as a major economic power means that Asia is less synchronized with the U.S. cycle than it was before the global financial crisis. The collapse of the Lehman Brothers in 2008 coincided with the moment when developing Asia's trade with China surpassed the sums traded with the United States. Slowing economic momentum in China therefore may have more impact on the rate outlook in Asia than a peaking U.S. economic cycle. "Asian economies -- their synchronization with the U.S. economy has weakened because of China," said Tan Hui, chief market strategist for Asia at J.P.Morgan Asset Management. "It's not easy to see many Asian central banks following the Fed." (Source: *The Star/Reuters*)

**The escalating scandal around troubled state-investment-fund 1MDB is turning bond funds against Malaysia.** The disclosure that the nation's debt is almost 60 percent higher than previous estimates at 1 trillion ringgit (\$250 billion), largely because of hidden liabilities tied to the troubled state investment fund, is convincing even fans of the country's bonds to cut their holdings. Throw in the removal of a goods and services tax

last month, and Prime Minister Mahathir Mohamad's new government faces an increasing fiscal squeeze. "Uncertainty over how the fiscal deficit will pan out will overhang," said Wilfred Wee, a fund manager in Singapore at Investec Asset Management Ltd., which oversees \$146 billion. "Until the dust settles, we have reduced our still overweight exposure to Malaysia, recognizing that Malaysia's current account and overall fundamentals remain by and large still attractive versus peers." A one-off crystallizing of 1MDB's debt and writing off its assets may cost almost 3 percent of gross domestic product, Wee said. Rating agencies are likely to downgrade Malaysia sooner rather than later if its fiscal health deteriorates significantly due to liabilities arising from 1MDB, Brown Brothers Harriman said in a report this month. 1Malaysia Development Bhd. took shape in 2009 under former Prime Minister Najib Razak as a vehicle to drive investment into Malaysia and boost its assets abroad. Plagued by heavy debt and questions about its management and investment decisions, the fund became a scandal that culminated in global probes into alleged embezzlement and money laundering. After the opposition's shock election victory last month, new Finance Minister Lim Guan Eng revealed that government debt and liabilities had jumped to 1.087 trillion ringgit, inflated by state guarantees for borrowing at 1MDB. That compares with the federal debt of 685 billion ringgit estimated by the Ministry of Finance in 2017. Markets were spooked by the disclosure, with the ringgit sliding to a five-month low and overseas ownership of the nation's bonds dropping to the lowest since August. Global funds sold almost 10 billion ringgit of Malaysia's sovereign debt in May, the most since March 2017. "We hold a cautious view on Malaysia due to fiscal and political uncertainty, potential negative ratings action and uninspiring valuations," said Roland Mieth, emerging markets portfolio manager in Singapore at Pacific Investment Management Co., which oversees \$1.77 trillion. "The replacement of GST with service and sales taxes adds uncertainty to Malaysia's fiscal trajectory." Concerns about the country's worsening debt levels are overdone, according to GAM (UK) Ltd. The government remains on track to meet its 2018 budget deficit target of 2.8 percent of GDP and the economy is growing fast enough to ensure the debt-to-GDP ratio will gradually decline, said Michael Biggs, emerging-market fixed-income investment manager in London at GAM, which oversees the equivalent of \$165 billion. "We have a modest overweight on Malaysian government bonds," he said. "Inflation has remained contained, Malaysia's balance of payments appear solid, foreign reserves are rising, and both real and nominal yields are at attractive levels." BNY Mellon Investment Management believes bond supply may need to increase to compensate for a decline in revenue caused by the removal of the goods and services tax. "We would prefer to not be heavily exposed to Malaysian bonds until the fiscal uncertainty abates," said Aninda Mitra, senior sovereign analyst at the company in Singapore. "On many metrics the ringgit remains a relatively cheap currency to own. But, we are likely to see a prolonged tussle between policy uncertainty and a broader loss of confidence, which could overwhelm any lingering perception of value. (Source: *The Edge/Bloomberg*)

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

Source: RAM Ratings; MARC

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