October 19, 2018

Global Markets Research
Fixed Income

Fixed Income Daily Market Snapshot

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	2.88	-1
5-yr UST	3.03	-3
10-yr UST	3.18	-3
30-yr UST	3.36	-1

	MGS		GII*	
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.61	0	3.71	0
5-yr	3.78	1	3.91	4
7-yr	4.01	0	4.08	0
10-yr	4.13	0	4.20	0
15-yr	4.54	-3	4.56	0
20-yr	4.78	0	4.80	2
30-yr	4.95	0	4.95	0

** Market indicative levels*

MYR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.71	0
3-yr	3.79	2
5-yr	3.88	1
7-yr	3.98	0
10-yr	4.18	0

Source : Bloomberg

Upcoming Government Bond Tender

Nil

US Treasuries

- US Treasuries gained as the curve generally bull-steepened on Thursday following rallies seen in Bunds whilst Italian bonds hit lows. The 2Y edged 1bps lower at 2.88% whilst the much-watched 10Y ended 3bps lower at 3.18%. Meanwhile US Treasury outlined concerns with China's bilateral trade surplus whist complaining that it did not reveal its Forex interventions. Separately, the strong US data, rising commodity prices, tight monetary trajectory and threatening wage pressures may be seen to push UST yields higher. On the data front we have 2nd tier economic numbers i.e. Existing Home Sales out tonight.

MGS/GII

- Trading momentum in Govvies eased with volume down at RM1.10b yesterday amid selective tenures in off-the-run 20's. Overall benchmark yields ended were mixed between -3 to +4bps from prior day's close. The 7Y MGS 3/25 was untraded at 4.01% whilst the 10Y MGS 6/28 was almost unchanged at 4.13% levels. GII bond trades formed almost 40% of overall trades. Weaker sentiments may prevail temporarily following the release of sober data pertaining to the higher budget deficit of 3.0% for 2019 based on the mid-term review of the 11th Malaysia Plan in parliament yesterday. EM debt due to China-US trade friction, Fed's balance sheet run-off and rising oil prices. However Malaysia has been able to withstand major sell-offs for now ahead of the much anticipated 2019 Budget tabling on 2-November.

Corp Bonds/Sukuk

- Corporate bonds/Sukuk however maintained decent investor interest across the GG to AA-part of the curve on volume of RM452m. There were total 23 bonds traded compared to prior day's 42. With overall yields ending mostly mixed-to-lower yesterday. Govt-Guaranteed PTPTN 3/24 edged 1bps higher compared to previous-done levels 4.17% levels. AAA-rated TELEKOM 23-24's closed unchanged between 4.28-31% levels on substantial volume of RM95m in nominal amounts. The AA-segment saw TBEI 3/30 close 9bps lower at 4.89% whereas JEP 12/25 edged 1bps higher at 4.70%. The seldom-traded A2-rated MUDAJAYA 1/19 saw action closing lower on yields at 5.46% area.

Daily Trades : Government Bonds

Securities		Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS	03/19	3.288	1	3.252	17/10/2018	4
MGS	03/20	3.491	8	3.505	17/10/2018	-1
MGS	07/20	3.482	100	3.479	12/10/2018	0
MGS	10/20	3.490	100	3.512	17/10/2018	-2
MGS	02/21	3.580	97	3.589	17/10/2018	-1
MGS	09/21	3.621	71	3.636	17/10/2018	-2
MGS	03/22	3.643	39	3.669	16/10/2018	-3
MGS	08/22	3.752	10	3.754	15/10/2018	0
MGS	09/22	3.772	1	3.766	17/10/2018	1
MGS	03/23	3.826	13	3.816	17/10/2018	1
MGS	04/23	3.779	4	3.769	17/10/2018	1
MGS	08/23	3.845	3	3.843	17/10/2018	0
MGS	09/24	3.991	8	3.978	17/10/2018	1
MGS	09/25	4.013	11	4.021	16/10/2018	-1
MGS	04/26	4.133	9	4.118	11/10/2018	1
MGS	11/26	4.104	4	4.107	17/10/2018	0
MGS	03/27	4.152	30	4.155	17/10/2018	0
MGS	11/27	4.152	62	4.137	17/10/2018	2
MGS	06/28	4.130	30	4.125	17/10/2018	0
MGS	04/33	4.607	20	4.582	17/10/2018	3
MGS	11/33	4.536	40	4.563	17/10/2018	-3
MGS	06/38	4.782	10	4.778	17/10/2018	0
MGS	09/43	4.901	1	4.856	11/10/2018	4
GII	11/18	3.298	50	3.298	10/10/2018	0
GII	04/20	3.505	100	3.524	17/10/2018	-2
GII	07/22	3.769	10	3.797	02/10/2018	-3
GII	11/22	3.833	20	3.832	15/10/2018	0
GII	07/23	3.915	40	3.913	17/10/2018	0
GII	11/23	3.913	160	3.876	12/10/2018	4
GII	08/25	4.080	1	4.082	17/10/2018	0
GII	09/26	4.150	5	4.149	17/10/2018	0
GII	10/28	4.196	20	4.192	17/10/2018	0
GII	09/30	4.456	1	4.526	24/08/2018	-7
GII	08/37	4.795	15	4.771	05/10/2018	2
			1095			

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	12/21	GG	3.979	20	3.980	03/10/2018	0	37
Lembaga Pembiayaan Perumahan Sektor Awam	09/22	GG	4.000	30	3.999	04/10/2018	0	29
Prasarana Malaysia Berhad	08/23	GG	4.072	5	4.100	09/08/2018	-3	29
Perbadanan Tabung Pendidikan Tinggi Nasional	03/24	GG	4.169	50	4.158	23/08/2018	1	39
Cagamas Berhad	09/19	AAA	3.835	20	4.182	21/06/2018	-35	45
Al Dzahab Assets Berhad	03/20	AAA	4.311	5	4.357	20/08/2018	-5	92
Telekom Malaysia Berhad	08/23	AAA	4.281	20	4.284	24/09/2018	0	50
Telekom Malaysia Berhad	03/24	AAA	4.309	75	4.312	17/10/2018	0	53
Malaysia Airports Capital Berhad	12/24	AAA	4.387	6	4.566	30/04/2018	-18	47
Projek Lebuhraya Usahasama Berhad	01/30	AAA	4.684	3	4.780	12/07/2018	-10	56
TNB Northern Energy Berhad	05/33	AAA	4.811	6	4.951	09/03/2018	-14	25
MBSB Bank Berhad (fka Asian Finance Bank Berha	12/19	AA1	4.427	5	4.437	17/10/2018	-1	104
Sabah Development Bank Berhad	07/20	AA1	4.798	5	4.798	17/10/2018	0	131
Sarawak Energy Berhad	06/21	AA1	4.275	10	4.284	11/10/2018	-1	66
Mukah Power Generation Sdn Berhad	12/19	AA2	4.361	5	4.403	17/10/2018	-4	97
CIMB Thai Bank Public Company Limited	03/28	AA3	5.533	1	5.157	28/09/2018	38	142
Tanjung Bin Energy Issuer Berhad	03/30	AA3	4.886	30	4.979	20/02/2018	-9	76
UEM Sunrise Berhad	12/22	AA-	4.703	5	4.690	08/10/2018	1	99
MMC Corporation Berhad	11/25	AA-	5.498	15	5.469	28/08/2018	3	149
Jimah East Power Sdn Berhad	12/25	AA-	4.698	10	4.689	28/08/2018	1	69
Mudajaya Corporation Berhad	01/19	A2	5.463	105	5.621	19/07/2018	-16	208
Affin Islamic Bank Berhad	10/17	A3	5.576	1	5.450	17/10/2018	13	80
UEM Sunrise Berhad	12/18	AA-	3.824	20	3.942	17/10/2018	-12	44
				452				

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

Market/Corporate News: What's Brewing

The economy is expected to grow by 4.5% to 5.5% between 2018 and 2020, with the fiscal deficit expected to rise to 3% for the remaining years of the 11th Malaysia Plan (11MP) instead of achieving a balanced budget by the end of this decade. Development expenditure ceiling would be rationalised from the original allocation of RM260bil to RM220bil for the overall Plan period, 2016-2020, to consolidate the fiscal position. The government will cut back on its investment expenditure for the remaining period of plan period and see lower growth in its expenditure. Trade balance is expected to double, with exports projected to rise by 7.5% from an earlier estimate of 4.6%. "The fiscal and governance reforms undertaken beginning mid-2018 will have an impact on economic growth but is anticipated to be short-lived and manageable. "The short-term growth trade-off is necessary to further strengthen the economy in ensuring more meaningful economic growth for the rakyat," said the mid-term review of the 11th Malaysia Plan. With growth for the remaining years of the plan to be lower than earlier estimated, private consumption is seen as a major source of growth and is projected to grow by 7% a year with the share to GDP reaching 56.9% in 2020. This target is based on the expected favourable labour market conditions and continued growth of income levels, said the report. Public consumption is expected to grow moderately by 0.3% per annum with the government emphasising on optimising public expenditure without affecting the quality of public service delivery. The report said the government would further strengthen the private investment to continue as the growth catalyst, with a targeted growth of 5.7% per annum and the contribution to GDP increase from 12.3% in 2010 to 17.8% in 2020. "The efforts will be continued to ensure quality private investment that creates more high-paying skilled jobs, particularly in the manufacturing and services sectors. "Thus, measures to encourage investment in machinery and equipment, especially in automation, will be implemented to enhance capacity and productivity of enterprises. "Furthermore, efforts will be undertaken to attract quality foreign direct investment in high value-added products and services, which utilise frontier technologies and promote technology transfer to local companies," said the report. Public investment is projected to contract at 0.8% per annum due to the revision of major infrastructure projects such as the East Coast Rail Link and High Speed Rail. The government, however, remained committed to meet the socioeconomic needs of the rakyat by undertaking high-impact projects, the report said. With the private sector in focus, the services sector is targeted to sustain growth momentum at an annual average rate of 6.3%, spurred by various initiatives through the Services Sector Blueprint as well as efforts in promoting Digital Free Trade Zone and productivity improvements. The manufacturing sector is targeted to grow at 4.5% per annum, largely driven by the shift towards high value-added, diverse and complex products. The construction sector is targeted to moderate at an annual average rate of 4.3% due to slower growth of residential and non-residential subsectors. Nevertheless, the overall growth momentum of the government civil engineering sub-sector is expected to dampen due to reprioritisation of major infrastructure projects to rationalise the fiscal position of the government, the report said. The agriculture sector is targeted to register higher growth at 2% per annum, stemming from the increased production of palm oil, rubber and food crops. In addition, the contribution of the agro-food sub-sector is targeted to increase, with emphasis on productivity improvements and modernisation as well as the introduction of new sources of wealth, such as premium-grade fruits, high-yielding coconut varieties and large-scale grain corn production. The mining sector is targeted to grow marginally at 0.1% due to the extended commitment to cut production by the Organisation of the Petroleum Exporting Countries (Opec) and non-Opec countries as well as the disruption of natural gas supply in the Sabah-Sarawak Gas Pipeline in 2018. What the government intends to do is to increase the share of compensation of employees (CE) to GDP in order to reduce income disparity between capital owners and employees. Gross operating surplus, which is made up of the income of capital owners and mixed income, is expected to drop to 58.2% of GDP in 2020. Meanwhile, CE is targeted to achieve at least 38% share of GDP, supported by continuous growth in salary of employees. Nevertheless, this CE target has yet to reach that of high-income countries, such as Australia at 47.3%, South Korea at 44.4% and Singapore at 42.4%, the report said. The report said the federal government would, over the next two years, undertake measures to strengthen its medium-term fiscal position, among others by strengthening the management of public debt and accelerating institutional reforms. “These measures will be balanced with the need to sustain growth and deliver quality public services in ensuring the wellbeing of the rakyat. “However, fiscal targets will be flexible during the transition period of the new administration to shore up growth. “The economy may react to these immediate fiscal reforms in the short term but these reforms are necessary in order to lay down a firmer foundation for a more sustainable and inclusive growth,” it said. The fiscal deficit was expected to temporarily be beyond the target set during the last Budget at 3% in 2020. The higher deficit was just a transition period before reverting to the fiscal consolidation path. “The consolidation will be achieved through a multi-pronged approach towards strengthening fiscal management,” it said. The report added that revenue would continue to be diversified by increasing the contribution of indirect taxes and non-tax revenue such as licenses, permits, fees and rentals. “The improved version of the sales and service tax has replaced the goods and services tax in September 2018. “As e-commerce and activities related to sharing economy are on the rise, the government will explore imposing tax on these online transactions. “More initiatives to improve tax compliance will also be undertaken to ensure collection is maximised from both direct and indirect taxes,” it said. *(Source: The StarOnline)*

Rating Action

Issuer	PDS Description	Rating/Outlook	Action
Mecuro Properties Sdn Bhd	RM210 million Guaranteed Class E Bonds issued under Mecuro Properties Sdn Bhd’s RM900 million Nominal Value Bonds	AAA(FG)/Stable	Reaffirmed

Source: RAM, MARC

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