

## Global Markets Research

### Fixed Income

#### Fixed Income Daily Market Snapshot

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	2.43	0
5-yr UST	2.76	2
10-yr UST	2.91	4
30-yr UST	3.10	4

MGS		GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.54	1	3.62	1
5-yr	3.63	0	3.88	2
7-yr	3.93	2	4.02	0
10-yr	4.01	-1	4.21	0
15-yr	4.51	0	4.60	0
20-yr	4.61	1	4.81	0
30-yr	4.86	1	4.92	0

\*Market indicative

MYR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.76	0
3-yr	3.82	1
5-yr	3.89	1
7-yr	4.00	2
10-yr	4.15	5

Source : Bloomberg

#### US Treasuries

- US Treasuries ended weaker led by the long-end; causing the yield curve to steepen following the steps in gilt-led sell-off. Overall benchmark yields were 0-4bps higher with the 2Y (most sensitive to interest rate outlook) unchanged at 2.43% whilst the much-watched 10Y jumped 4bps to 2.91%. Despite the Fed's large \$11.4b holdings of UST 2Y, 5Y and 7Y that might help to stem the slide in yields of next week's upcoming auctions; markets are expected to be volatile. Pressure on the yield curve may continue as speculators make steepening bets; quite the opposite of real money managers. Data is light with Markit Manufacturing and Composite data out only next week.

#### MGS/GII

- Trading volume in local govies jumped to RM2.2b mainly due to the RM4.0b new issuance of 3Y MGS 4/23 benchmark which garnered a weaker BTC of 1.563x; averaging 3.757%. Overall benchmark MGS yields were generally 0-2bps higher save for the 10Y. The benchmark 7Y MGS 3/25 was 2bps higher at 4.01% whilst some demand for the 10Y MGS 11/27 saw yields ending 1bps lower at 3.91% compared to previous-done levels. Meanwhile data on Foreign Reserves is expected to be released today.

#### Corp Bonds/Sukuk

- Corporate Bonds saw market volume at RM512m with bulk of interest in the AAA and AA-part of the curve. CAGAMAS 18's saw hefty amounts traded higher on yields compared to previous-done levels between 3.79-82% levels. AAA-rated long-end RANATU 31-32's closed 1-2bps higher between 4.85-88% levels whilst DANGA 9/33 grinded 6bps higher at 5.00%. IN the AA-rated space we saw several power-related bonds exchange hands i.e. Southern Power 24-29's at about 1-10bps lower whilst BGSM 12/19 and TBEI 9/31 closed unchanged at 4.28% and 5.29% respectively

#### Upcoming Government Bond Tenders

Nil

## Daily Trades : Government Bonds

Securities		Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS	09/18	3.335	88	3.260	17/04/2018	8
MGS	03/19	3.416	37	3.394	17/04/2018	2
MGS	07/19	3.498	1	3.334	12/04/2018	16
MGS	10/19	3.449	44	3.451	16/04/2018	0
MGS	11/19	3.441	5	3.379	17/04/2018	6
MGS	03/20	3.545	5	3.481	16/04/2018	6
MGS	10/20	3.591	1	3.490	16/04/2018	10
MGS	07/21	3.645	3	3.565	17/04/2018	8
MGS	09/21	3.672	103	3.649	17/04/2018	2
MGS	11/21	3.542	64	3.515	17/04/2018	3
MGS	08/22	3.804	30	3.744	12/04/2018	6
MGS	03/23	3.813	47	3.772	16/04/2018	4
MGS	08/23	3.831	1	3.810	16/04/2018	2
MGS	09/24	3.917	43	3.908	17/04/2018	1
MGS	03/25	3.932	61	3.887	17/04/2018	4
MGS	09/25	3.977	100	3.970	16/04/2018	1
MGS	09/26	4.077	5	4.019	30/03/2018	6
MGS	11/26	4.038	2	4.003	17/04/2018	4
MGS	11/27	4.007	57	4.000	17/04/2018	1
MGS	06/28	4.048	20	3.998	17/04/2018	5
MGS	04/30	4.368	10	4.368	17/04/2018	0
MGS	06/31	4.413	30	4.367	16/04/2018	5
MGS	05/35	4.638	5	4.524	17/04/2018	11
MGS	04/37	4.614	2	4.603	16/04/2018	1
MGS	09/43	4.866	1	4.835	16/04/2018	3
MGS	04/23	3.740	1407	-	-	-
GII	05/18	3.299	10	3.284	16/04/2018	2
GII	08/19	3.500	2	3.407	26/03/2018	9
GII	04/20	3.622	20	3.614	16/04/2018	1
GII	04/22	3.877	20	3.846	16/04/2018	3
			<u>2225</u>			

## 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	10/31	GG	4.850	2	4.789	03/05/2017	6	34
Cagamas Berhad	10/18	AAA	3.800	50	3.690	17/04/2018	11	48
Cagamas Berhad	10/18	AAA	3.789	25	3.730	17/04/2018	6	47
Cagamas Berhad	11/18	AAA	3.821	35	3.819	08/03/2018	0	50
Telekom Malaysia Berhad	03/24	AAA	4.412	20	4.418	20/03/2018	-1	59
Rantau Abang Capital Berhad	05/31	AAA	4.847	10	4.826	29/03/2018	2	34
Rantau Abang Capital Berhad	01/32	AAA	4.884	20	4.874	08/03/2018	1	37
Danga Capital Berhad	09/33	AAA	5.001	75	4.940	05/04/2018	6	49
Cagamas Berhad	10/33	AAA	4.985	20	4.990	09/02/2018	0	47
Public Bank Berhad	04/27	AA1	4.678	60	4.669	27/03/2018	1	67
Sarawak Energy Berhad	07/29	AA1	4.979	10	4.960	09/01/2018	2	95
Konsortium ProHAWK Sdn Berhad	06/31	AA2	5.090	10	5.120	10/05/2016	-3	58
BGSM Management Sdn Berhad	12/19	AA3	4.280	7	4.282	21/03/2018	0	84
Tanjung Bin Energy Issuer Berhad	09/31	AA3	5.087	10	5.088	17/04/2018	0	58
AMMB Holdings Berhad	03/27	A1	5.458	1	4.903	03/04/2018	56	145
Hong Leong Financial Group Berhad	11/17	A1	5.123	10	5.251	17/04/2018	-13	52
Alliance Bank Malaysia Berhad	12/25	A2	4.919	3	4.726	09/04/2018	19	95
Sinar Kamiri Sdn Berhad	01/24	AA-	5.240	6	0.000	00/01/1900	524	142
Southern Power Generation Sdn Berhad	04/24	AA-	4.668	20	4.674	29/03/2018	-1	85
Southern Power Generation Sdn Berhad	10/27	AA-	4.864	10	4.968	11/01/2018	-10	83
MMC Corporation Berhad	03/28	AA-	5.697	30	5.700	11/04/2018	0	167
Southern Power Generation Sdn Berhad	10/29	AA-	4.981	10	5.029	18/01/2018	-5	95
Cerah Sama Sdn Berhad	01/30	AA-	5.133	20	5.054	23/10/2017	8	110
Lebuhraya DUKE Fasa 3 Sdn Berhad	08/31	AA-	5.065	6	5.099	05/12/2017	-3	55
Lebuhraya DUKE Fasa 3 Sdn Berhad	08/33	AA-	5.173	10	5.166	26/03/2018	1	66
TNB Northern Energy Berhad	05/35	AAA	5.065	10	5.120	12/04/2017	-5	55
UMW Holdings Perpetual	-	#N/A	6.350	23	6.147	18/04/2018	20	-
Mah Sing Perpetual	-	#N/A	6.531	1	6.099	13/04/2018	43	-
			<u>512</u>					

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

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

**The potential contracts for Malaysian companies under the RM55bil East Coast Rail Link (ECRL) have yet to be firmed up, with its China-based main contractor having the final say on the award of contracts.** According to the International Trade and Industry Ministry deputy secretary-general for trade Datuk Isham Ishak, it is expected that 30%-40% of ECRL jobs will be taken up by local contractors, once the tenders are dishd out. However, the portion of ECRL contract awards for the Malaysian companies is not legally-binding and will be subject to the discretion of the project's main contractor, China's state-owned China Communications Construction Company Ltd (CCCC). "The 30%-40% ECRL contracts threshold for local companies is basically an understanding between the Chinese and Malaysian parties. So, the final ECRL contracts awarded to Malaysians may not amount similarly to the threshold. It may be less or may be more. "The Malaysian government will not be forcing the main contractor to adhere to the threshold. "It is inconsistent with the provisions under the World Trade Organisation to put a downright requirement for these foreign companies to source local employees and raw materials," said Isham during a press conference after the Federation of Malaysian Manufacturers' Supply Chain Conference 2018 here yesterday. The ECRL project comprises 60% infrastructure works and 40% system works. The Star had reported earlier that CCCC would open the tender from April to the pool of local contractors who had pre-registered last October. As for other China-backed projects in Malaysia, Isham added that the Government would play its role in encouraging greater inclusion of locally sourced materials and workforce. "For a time-bound project which comes with a specific duration for completion, usually the Chinese investors would bring more of their raw materials and professionals into Malaysia. So, our local companies may not be able to become part of the supply chain. "However, if it is not time-bound, we have local companies which are readily able to participate in those projects. Even if the local players do not have necessary skills to undertake the contracts, the Government is ready to develop and help them to meet the standards required by the Chinese companies," he said. Meanwhile, the second secretary of the Chinese Embassy in Malaysia Fang Tao said that the Asian Infrastructure Investment Bank (AIIB) is interested in funding infrastructure development projects in Malaysia. He indicated that the bank's potential financing in the future may not be limited to the projects under the Belt and Road Initiative. He also said that the AIIB was open to financing the construction of the Kuala Lumpur-Singapore high-speed rail project, among other infrastructure projects in Malaysia. "The AIIB president Jin Liqun met with Prime Minister Datuk Seri Najib Tun Razak to discuss about the project and both sides have expressed interest in the cooperation or the involvement of AIIB in this project," he said. Headquartered in Beijing, AIIB is a multilateral institution founded to bring countries together to address the daunting infrastructure needs across Asia. Currently, it does not fund any project in Malaysia.. (Source: The Star)

**Various tax reliefs have been commonly accorded to mega public infrastructure developments as a government incentive since the 1980s,** the Royal Malaysian Customs Department asserted yesterday, following the brouhaha over the granting of goods and services tax (GST) relief for the procurement of materials and services related to the RM55 billion East Coast Rail Link (ECRL) project. Some of the past projects granted tax relief to reduce the cost of construction, in the period when the sales and services tax (SST) was in effect, included the construction of independent power plants, the Stormwater Management And Road Tunnel, the Bukit Jalil National Stadium, the Kuala Lumpur International Airport, the Express Rail Link and the mass rapid transit. Under the Incentives for Approved Service Projects, these projects not only benefited from a sales tax relief, import duties were waived as well, Customs director-general Datuk Seri Subromaniam Tholasy told a media conference. "As a government institution, we support [the tax relief]. Otherwise, the cost of the project will increase and the government will be forced to take more loans, which will further increase the national debt. Is this what those people want?" Subromaniam said in reference to individuals who had criticised the tax relief for its perceived favouritism. "This issue should not be twisted out of context because the government also gave tax reliefs like this during the era of the SST for several large projects in the 1980s, during Tun Dr Mahathir Mohamad's time," he said, adding the issue had been unnecessarily played up by opposition lawmakers. Subromaniam said when the SST reliefs were given, the government would have lost out on revenue it was supposed to collect. But he maintained GST relief for businesses in the supply chain will not cause the government any revenue loss as the end user in this case is the government as the owner of the project. Although Customs makes recommendations, Subromaniam said the final decision for

government-approved service projects rests with the ministry of finance (MoF) and is only granted to projects under transportation, telecommunications and utilities. He asserted the GST relief granted to the ECRL project was aimed at benefiting the project owner and the MoF's special purpose vehicle, Malaysia Rail Link Sdn Bhd (MRL), and not the overseas main contractor China Communications Construction Co Ltd. As MRL benefits from the tax relief, the company would not be allowed GST refunds and it would also not be passing on any tax costs to consumers. "By granting the tax relief to the ECRL project, the government has actually made the best decision to benefit the people. This is a strategic project that is expected to be a game changer, connecting the states in the East Coast and West Coast in Port Klang," Subromaniam added. He said the tax relief was granted after taking into account the soft loan (and lower interest rates) granted by the Chinese Exim Bank to finance the project, although he did not clarify the estimated amount clawed back by the government as a result of the tax relief. Subromaniam also indicated Customs did not rule out using the recently gazetted Anti-Fake News Act to take action against people who he claimed had been spreading false news on the issue. "These are irresponsible people that have manipulated the facts to confuse the rakyat." Notwithstanding his explanations, many contend such GST exemptions could send the wrong signals to investors as they create the impression of unfair competitive advantage. Institute for Democracy and Economic Affairs (Ideas) chief executive officer Ali Salman has said if a company or a sector is granted a tax exemption, then others would also seek a similar relief. He pointed out tax holidays could be granted instead, which has been done before. When asked for his opinion, Deloitte Malaysia GST leader Tan Eng Yew said GST can result in a significant cash flow cost to a business as there is a time difference between when the GST is paid and when the benefit of the offsetting credit is received as a refund. For large infrastructure projects, Tan said there will be a substantial outlay in the development of the project including the cost of construction services, building materials and land purchases — all of which attract GST. "If the time taken to recover the GST on these costs becomes lengthy, it would increase the cost of funding and financing these projects, which would increase the cost of the overall project. "To alleviate these cash flow costs on such projects, the government may grant special GST relief on a 'case by case' basis based on the guidelines set out by the MoF," he told The Edge Financial Daily in an email. Another accountant differed, saying, "Technically, there is no real cash flow benefit because the companies involved should be able to claim input tax regardless of the tax relief." The GST exemption for the ECRL became public this week after Parti Amanah Negara vice-president Husam Musa disclosed documents including a certificate of GST relief for the procurement of goods and services for the ECRL project. The GST relief was effective Sept 26, 2016. (Source: The Edge)

Rating Actions			
Issuer	PDS Description	Rating/Outlook	Action
<i>Nil</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>

Source: RAM Ratings; MARC

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