

Global Markets Research

Fixed Income

Fixed Income Daily Market Snapshot

| UST | | |
|-----------|-------------|-----------|
| Tenure | Closing (%) | Chg (bps) |
| 2-yr UST | 2.59 | 2 |
| 5-yr UST | 2.90 | 0 |
| 10-yr UST | 3.06 | 0 |
| 30-yr UST | 3.21 | 0 |

| MGS | | GII* | | |
|--------|-------------|-----------|-------------|-----------|
| Tenure | Closing (%) | Chg (bps) | Closing (%) | Chg (bps) |
| 3-yr | 3.76 | -2 | 3.71 | -1 |
| 5-yr | 3.81 | -8 | 3.91 | -2 |
| 7-yr | 4.03 | 1 | 4.19 | -4 |
| 10-yr | 4.22 | 1 | 4.33 | -1 |
| 15-yr | 4.57 | -4 | 4.77 | 0 |
| 20-yr | 4.91 | 1 | 4.84 | 0 |
| 30-yr | 4.91 | 0 | 5.03 | 0 |

*Market indicative

| M YR IRS Levels | | |
|-----------------|-------------|-----------|
| IRS | Closing (%) | Chg (bps) |
| 1-yr | 3.76 | 0 |
| 3-yr | 3.84 | -1 |
| 5-yr | 3.93 | -2 |
| 7-yr | 4.02 | -1 |
| 10-yr | 4.16 | -1 |

Source: Bloomberg

Upcoming Government Bond Tenders

RM3.5b of 10Y MGS 6/28 reopening on 23rd May 2018 (today)

US Treasuries

- US Treasuries saw yields generally unchanged with the long-end of the curve slightly weaker as the 5s30s spread drifted wide at ~31bps. Overall benchmark yields ended generally within 1bps of the prior day's closing save for the new 2Y issuance which moved 2bps higher at 2.59% levels whilst the much-watched 10Y closed at 3.06%. This week saw successful auctions for new 2Y, 5Y and 7Y notes which saw relatively stable to better demand; evidenced by decent BTC ratios between 2.5-2.6x. Whilst the trade barrier issues between US and China, remains unresolved for now, recent T-bill auctions in US suggest that market is pricing in a rate hike at the FOMC meeting on June 12-13. The odds of a hike stand at 70%. All eyes will be on the release of FOMC minutes early tomorrow morning for more clues on the next Fed move.

MGS/GII

- Trading volume in local Govvies improved marginally to RM2.66b yesterday with almost 40% GII trades notched. The shorter end i.e. MGS and GII18-20's continue to attract attention by both buyers and sellers followed by MGS 31-33's. However overall benchmark bonds were mixed between -1 to +4bps save for the odd-lot trade on the 5Y bond. Both the benchmark 7Y MGS 3/25 and 10Y MGS 11/27 edged 1bps higher at 4.03% and 4.22% respectively compared to previous-done levels. Expect attention to be focused on the auction reopening of the 10Y MGS 6/28 slated to replace the existing benchmark MGS 11/27 today.

Corp Bonds/Sukuk

- Corporate Bonds saw volume rise to RM280m with interest confined to the GG-AA part of the curve. The short Govt-guaranteed PASB 8/18 closed unchanged at 3.47% compared to previous-done levels whilst AAA-rated CAGAMAS saw brisk trades amounting to nominal RM70m. The CAGA 18-19's saw yields mixed wide closing between 3.68-93% levels whilst CAGA 11/20 rallied 11bps to close at 4.27%. Both RANTAU 8/19 and TNB 8/37 rose 8bps each to close at 4.18% and 5.18% respectively. Likewise AA-rated KLK 9/22 lost 8bps as well at 4.62%. Meanwhile in the banking space PBFIN 59nc19 closed weaker at 4.56% levels.

Daily Trades : Government Bonds

| Securities | | Closing YTM | Vol (RM mil) | Previous YTM | Previous Trade Date (dd/mm/yyyy) | Chg (bp) |
|------------|-------|----------------|-----------------|-----------------|--|-------------|
| MGS | 09/18 | 3.356 | 57 | 3.327 | 21/05/2018 | 3 |
| MGS | 03/19 | 3.400 | 346 | 3.502 | 21/05/2018 | -10 |
| MGS | 10/19 | 3.494 | 112 | 3.646 | 21/05/2018 | -15 |
| MGS | 11/19 | 3.523 | 240 | 3.626 | 21/05/2018 | -10 |
| MGS | 03/20 | 3.592 | 11 | 3.727 | 21/05/2018 | -14 |
| MGS | 07/20 | 3.671 | 41 | 3.724 | 21/05/2018 | -5 |
| MGS | 10/20 | 3.724 | 72 | 3.746 | 21/05/2018 | -2 |
| MGS | 07/21 | 3.832 | 20 | 3.791 | 21/05/2018 | 4 |
| MGS | 11/21 | 3.758 | 25 | 3.779 | 21/05/2018 | -2 |
| MGS | 08/22 | 3.974 | 1 | 3.948 | 21/05/2018 | 3 |
| MGS | 04/23 | 3.813 | 1 | 3.892 | 17/05/2018 | -8 |
| MGS | 07/24 | 4.152 | 30 | 4.180 | 21/05/2018 | -3 |
| MGS | 09/24 | 4.158 | 2 | 4.185 | 17/05/2018 | -3 |
| MGS | 09/25 | 4.260 | 6 | 4.308 | 21/05/2018 | -5 |
| MGS | 11/26 | 4.282 | 2 | 4.301 | 18/05/2018 | -2 |
| MGS | 03/27 | 4.325 | 3 | 4.303 | 15/05/2018 | 2 |
| MGS | 11/27 | 4.215 | 189 | 4.205 | 21/05/2018 | 1 |
| MGS | 04/30 | 4.619 | 16 | 4.691 | 18/05/2018 | -7 |
| MGS | 06/31 | 4.643 | 125 | 4.695 | 17/05/2018 | -5 |
| MGS | 04/32 | 4.720 | 33 | 4.607 | 30/04/2018 | 11 |
| MGS | 04/33 | 4.770 | 44 | 4.780 | 21/05/2018 | -1 |
| MGS | 11/33 | 4.569 | 237 | 4.615 | 17/05/2018 | -5 |
| MGS | 05/35 | 4.914 | 3 | 4.950 | 18/05/2018 | -4 |
| MGS | 04/37 | 4.909 | 3 | 4.901 | 21/05/2018 | 1 |
| GII | 08/18 | 3.505 | 4 | 3.452 | 16/05/2018 | 5 |
| GII | 10/18 | 3.380 | 100 | 3.477 | 16/05/2018 | -10 |
| GII | 04/19 | 3.556 | 50 | 3.556 | 18/05/2018 | 0 |
| GII | 08/19 | 3.738 | 9 | 3.823 | 16/05/2018 | -9 |
| GII | 09/19 | 3.579 | 61 | 3.486 | 05/04/2018 | 9 |
| GII | 09/19 | 3.587 | 61 | 3.548 | 30/04/2018 | 4 |
| GII | 04/20 | 3.710 | 10 | 3.719 | 17/05/2018 | -1 |
| GII | 08/20 | 3.723 | 310 | 3.741 | 17/05/2018 | -2 |
| GII | 11/20 | 3.918 | 8 | 3.715 | 20/03/2018 | 20 |
| GII | 04/22 | 3.914 | 130 | 3.939 | 18/05/2018 | -2 |
| GII | 07/23 | 4.073 | 175 | 4.105 | 21/05/2018 | -3 |
| GII | 08/25 | 4.187 | 30 | 4.224 | 21/05/2018 | -4 |
| GII | 07/27 | 4.324 | 40 | 4.337 | 16/05/2018 | -1 |
| GII | 10/28 | 4.333 | 20 | 4.345 | 21/05/2018 | -1 |
| GII | 09/30 | 4.607 | 30 | 4.684 | 30/04/2018 | -8 |
| | | | <u>2657</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* | |
|--|--------|----------------|-----------------|-----------------|--|-------------|---------------------------|-----|
| Pengurusan Air SPV Berhad | 06/18 | GG | 3.468 | 45 | 3.471 | 11/04/2018 | 0 | 3 |
| Pengurusan Air SPV Berhad | 06/21 | GG | 4.201 | 5 | 3.960 | 22/01/2018 | 24 | 48 |
| Perbadanan Tabung Pendidikan Tinggi Nasional | 08/21 | GG | 4.244 | 5 | 4.079 | 24/04/2018 | 17 | 52 |
| Prasarana Malaysia Berhad [fka Syarikat Prasarana Negara Berhad] | 12/21 | GG | 4.248 | 5 | 4.140 | 24/04/2018 | 11 | 43 |
| Senari Synergy Sdn Berhad | 08/18 | AAA | 4.391 | 14 | 4.291 | 12/12/2017 | 10 | 95 |
| Cagamas Berhad | 08/18 | AAA | 3.683 | 40 | 3.769 | 07/03/2018 | -9 | 24 |
| Cagamas Berhad | 02/19 | AAA | 3.930 | 10 | 3.826 | 02/04/2018 | 10 | 49 |
| Rantau Abang Capital Berhad | 08/19 | AAA | 4.177 | 30 | 4.100 | 25/04/2018 | 8 | 74 |
| CJ Capital Sdn Berhad | 07/20 | AAA | 4.567 | 10 | 4.463 | 20/05/2011 | 10 | 94 |
| Cagamas Berhad | 11/20 | AAA | 4.271 | 20 | 4.407 | 03/05/2018 | -14 | 55 |
| Al Dzahab Assets Berhad | 09/24 | AAA | 4.811 | 5 | 4.921 | 06/03/2018 | -11 | 83 |
| Tenaga Nasional Berhad | 08/37 | AAA | 5.182 | 15 | 5.100 | 26/04/2018 | 8 | 29 |
| Sabah Development Bank Berhad | 05/22 | AA1 | 5.498 | 1 | 4.923 | 30/04/2018 | 58 | 168 |
| Kuala Lumpur Kepong Berhad | 09/22 | AA1 | 4.616 | 10 | 4.537 | 06/04/2018 | 8 | 80 |
| Malayan Banking Berhad | 01/24 | AA1 | 4.725 | 1 | 4.398 | 21/05/2018 | 33 | 75 |
| Hong Leong Bank Berhad | 06/24 | AA1 | 5.071 | 1 | 4.946 | 14/05/2018 | 13 | 109 |
| CIMB Islamic Bank Berhad | 09/24 | AA+ | 4.969 | 1 | 4.794 | 04/05/2018 | 18 | 99 |
| Bright Focus Berhad | 01/28 | AA2 | 5.020 | 5 | 4.891 | 05/04/2018 | 13 | 82 |
| Bright Focus Berhad | 01/29 | AA2 | 5.080 | 5 | 4.958 | 05/04/2018 | 12 | 88 |
| PBFIN Berhad | 06/59 | AA2 | 4.555 | 20 | 4.200 | 18/05/2018 | 36 | -34 |
| Fortune Premiere Sdn Berhad | 12/22 | AA | 4.918 | 3 | 4.848 | 27/04/2018 | 7 | 104 |
| Perbadanan Kemajuan Negeri Selangor | 10/18 | AA3 | 4.436 | 14 | 4.272 | 09/04/2018 | 16 | 100 |
| AmBank (M) Berhad | 12/23 | AA3 | 5.190 | 1 | 4.457 | 17/05/2018 | 73 | 121 |
| MEX II Sdn Berhad | 04/22 | AA- | 4.869 | 5 | 4.559 | 07/10/2016 | 31 | 105 |
| MEX II Sdn Berhad | 04/23 | AA- | 4.932 | 5 | 4.739 | 21/06/2017 | 19 | 105 |
| Sinar Kamiri Sdn Berhad | 01/22 | AA- | 5.299 | 5 | - | - | - | 148 |
| | | | <u>280</u> | | | | | |

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

Market/Corporate News: What's Brewing

The audacious move by the Pakatan Harapan government to abolish the goods and services tax (GST) may not necessarily derail Malaysia from its fiscal deficit target, as feared by many economic pundits. While credit rating agency Moody's described the removal of the consumption tax regime as "credit negative", several economists expect Malaysia to remain largely on track of its fiscal deficit target, provided the government fulfils its election promises for reforms in national expenditure. Lower expenditure, coupled with higher crude oil prices and the re-introduction of the sales and services tax (SST), will be key in buttressing the national finances, moving forward. The federal government may see a revenue shortfall of about RM5bil to RM10bil this year – even if the loss of revenue from the removal of the GST is substituted by the higher crude oil price and the re-introduction of the SST. The previous government had projected a collection of RM43.8bil in revenue from the GST this year. "If the new government can plug the holes in the country's fiscal management, particularly in the procurement process, then the revenue shortfall can be met eventually. One of the areas which may lead to cost savings is the reduction in allocation to the Prime Minister's Office (PMO), as the Pakatan government has pledged to reduce the function of the PMO and include fewer ministers there. A total of RM17.4bil was allocated to the PMO in Budget 2018, which was considerably high compared to the budget allocated to other departments. Pakatan had said previously that cost savings of about RM20bil or 1.4% of the gross domestic product (GDP) could be achieved, given the reduction in wastage. The RM20bil target could be achieved if unnecessary expenses can be identified and eliminated. Since taking office after winning the 14th General Election, the new government has terminated the services of about 17,000 political appointees in the ministries as it tries to slash spending and introduce a leaner administration. Fiscal consolidation measures are not new in Malaysia, as the previous Barisan Nasional government had sought to trim the country's fiscal deficit, a measure of how much the national expenditure has exceeded revenue. Among the key measures were the GST and subsidy rationalisation, which were criticised for the rising cost of living for Malaysians. With the fiscal consolidation move, Malaysia's fiscal deficit has been brought down significantly from 6.7% in 2009 to 3% in 2017. Under Budget 2018, the Barisan government had projected a fiscal deficit of 2.8% this year. On the other hand, in its 2018 alternative budget, Pakatan estimated a fiscal deficit target of 2.04% in 2018. Pakatan plans to re-introduce fuel subsidies and remove the GST, while remaining steadfast to maintaining an effective fiscal management. It is possible and that up to 5% of the government's operating expenditure or RM11bil can be saved on the back of fiscal expenditure reforms. The savings, coupled with higher crude oil prices and the SST revenue, are expected to help offset the RM16bil shortfall after the abolition of the GST. The lack of focus on transparency, financial prudence, reduction in wastage, reducing corruption and better public service may cause the deficit to swell up to RM51bil, which translates into a fiscal deficit of 3.5% of the GDP. Meanwhile, Moody's continues to see the removal of the GST as having a negative effect on overall revenue, amid the country's fiscal strength, which is already a drag on its credit profile. With the government's revenue as a share of GDP falling gradually over the past five years to 16.7% at end-2017, Moody's said in a statement yesterday that the abolition of the GST would further strain the ratio. To put it in context, the revenue as a share of the GDP median among Moody's A-rated countries – which include Malaysia – stands at 33.8%. The rating agency pointed out that reforms on the expenditure side would play an important role in determining ultimate fiscal outcomes. "These reforms include the reintroduction of fuel subsidies removed in 2014, but potentially reinstated to benefit lower-income groups. Another key expenditure priority in the Pakatan Harapan's alternative budget released during its campaign and reiterated since its election victory is savings from a so-called reduction in wastage and corruption of RM20bil, or 1.4% of GDP. "Higher oil prices are not a permanent substitute for the GST, and are not a reliable offset to lost revenue, given the volatility of prices," it said. (Source: The Star)

Two major backers of London's Battersea Power Station project are sounding out banks for a loan of about £1.5 billion (US\$2 billion), people with knowledge of the matter said. Malaysia's Employees Provident Fund and state-owned asset manager Permodalan Nasional Bhd are expected to hire banks shortly, according to the people, who asked not to be identified as the process is private. Proceeds will be used to refinance existing borrowings and complete the purchase of commercial assets being developed as part of the Battersea Power Station

project's second phase, the people said. EPF and PNB said in January they plan to spend about £1.6 billion on the acquisition, which will give them ownership in a residential and office development where Apple Inc plans to have its UK headquarters. A representative for EPF declined to comment. PNB said in a statement that due diligence is ongoing, and it would be premature to comment on the loan. The Battersea Power Station building is about halfway through a comprehensive reconstruction that will be completed in late 2020, according to the January statement. The work, which is the largest historic building development undertaken in the UK, is part of a wider 42-acre (17-hectare) mixed-use project. The power station gained worldwide recognition after being used as the iconic cover illustration for rock band Pink Floyd's platinum 1977 album *Animals*. It was depicted on the cover with a pig floating between two of its four chimneys. (Source: The Edge)

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

Source: RAM Ratings; MARC

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