

Global Markets Research

Fixed Income

Fixed Income Daily Market Snapshot

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	2.59	0
5-yr UST	2.77	3
10-yr UST	2.89	6
30-yr UST	3.03	7

MGS		GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.14	-43	3.61	0
5-yr	3.77	0	3.91	0
7-yr	3.99	3	4.07	-1
10-yr	4.07	-2	4.22	0
15-yr	4.54	-1	4.60	-1
20-yr	4.80	0	5.00	0
30-yr	4.91	0	4.98	0

\*Market indicative

M YR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.70	0
3-yr	3.75	-2
5-yr	3.84	-2
7-yr	3.96	-3
10-yr	4.16	0

Source: Bloomberg

Upcoming Government Bond Tender

Nil

US Treasuries

- US Treasuries ended weaker with price-action lead by Trump's statement on his dislike for higher interest rates and suggesting that the EU and China may have manipulated their currencies and interest rates lower. The curve steepened as overall benchmark yields ended 0-7bps higher with the 2Y still at 2.59% levels whilst the much-watched 10Y ended 6bps up at 2.89% levels. Meanwhile the US Treasury plans to sell \$119b in debt auctions this week with maturities seven (7) years and below. Before Trump's remarks, 2s10s spread (also known as the yield curve) was tightening with concerns on its potential inversion. Meanwhile the risks of a "currency war" is being avoided as the US assuaged concerns of shift in dollar policy.

MGS/GII

- Trading momentum in Govvies was maintained with volume slightly higher at RM1.81b. Interest was centered on both benchmark 10Y bonds and also on the off-the-run 24's with GII bonds still forming substantial portion of total trades i.e. ~44%. Overall benchmark MGS yields were generally mixed between -1 to +3 bps from prior day's close save for odd-lot trades on the short 3Y papers. The 7Y MGS 3/25 was 3bps higher at 3.99% whilst the 10Y MGS 6/28 rallied 2bps at 4.07%. Meanwhile the country's reserves were almost unchanged at \$104.6b; sufficient to finance 7.5 months of retained imports and 1.1x short-term external debt. The Finance minister expects GDP growth of between 5.5-6.0% for 2018 (in line with BNM's projections) despite a potential knock-on effects from simmering trade war.

Corp Bonds/Sukuk

- Trading activity in Corporate Bonds/Sukuk eased last Friday but remained decent on volume of RM420m with interest seen across GG-AA-part of the curve on 21 different bonds compared to 36 the previous day. In the GG-segment, most bonds rallied with yields 0-15bps lower on names like LPPSA and BPMB 24's, PRASA 3/25, PASB 2/26 except for long-end GOVCO 9/32 which ended 9bps higher at 4.95% compared to previous-done levels. DANGA 1/30 and 9/33 dominated the AAA-space closing 1-8bps lower at 4.76% and 4.95% respectively. The AA-rated YTL Power 5/27 and SPR Energy 7/35 saw yields move 7-8bps lower at 4.94% and 5.61%. The banking space was active with MAYBANK 24nc19, PUBLIC 23nc18 and AFFIN 27nc22 closing mixed on yields.

## Daily Trades : Government Bonds

Securities		Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS	09/18	3.370	141	3.268	18/07/2018	10
MGS	03/19	3.373	119	3.411	19/07/2018	-4
MGS	07/19	3.396	12	3.416	18/07/2018	-2
MGS	03/20	3.499	1	3.478	18/07/2018	2
MGS	10/20	3.511	1	3.511	19/07/2018	0
MGS	07/21	3.588	4	3.589	19/07/2018	0
MGS	09/21	3.627	4	3.628	19/07/2018	0
MGS	11/21	3.141	37	3.571	18/07/2018	-43
MGS	08/22	3.769	3	3.778	17/07/2018	-1
MGS	09/24	4.016	110	4.012	19/07/2018	0
MGS	03/25	3.985	9	3.957	12/07/2018	3
MGS	09/25	4.134	31	4.166	19/07/2018	-3
MGS	11/26	4.186	21	4.229	19/07/2018	-4
MGS	03/27	4.198	23	4.205	19/07/2018	-1
MGS	11/27	4.180	20	4.189	19/07/2018	-1
MGS	06/28	4.073	320	4.098	18/07/2018	-2
MGS	09/28	4.338	1	4.173	11/07/2018	17
MGS	04/30	4.487	23	4.484	19/07/2018	0
MGS	06/31	4.583	2	4.578	19/07/2018	0
MGS	04/33	4.612	2	4.661	18/07/2018	-5
MGS	11/33	4.542	71	4.550	19/07/2018	-1
MGS	05/35	4.731	40	4.801	17/07/2018	-7
MGS	04/37	4.852	0	4.839	18/07/2018	1
MGS	03/46	4.929	0	4.936	18/07/2018	-1
MGS	07/48	4.908	25	4.912	18/07/2018	0
GII	04/22	3.816	1	3.816	19/07/2018	0
GII	05/24	4.054	110	4.055	19/07/2018	0
GII	08/25	4.067	100	4.082	19/07/2018	-1
GII	09/26	4.243	21	4.269	05/07/2018	-3
GII	07/27	4.224	90	4.281	19/07/2018	-6
GII	10/28	4.217	400	4.220	19/07/2018	0
GII	12/28	4.257	30	4.272	18/07/2018	-2
GII	06/33	4.602	40	4.611	19/07/2018	-1
			<u>1813</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*
Lembaga Pembiayaan Perumahan Sektor Awam	04/24	GG	4.238	30	4.268	18/07/2018	-3	32
Bank Pembangunan Malaysia Berhad	09/24	GG	4.306	10	4.329	18/07/2018	-2	39
Prasarana Malaysia Berhad [fka Syarikat Prasarana Negara Berhad]	03/25	GG	4.260	30	4.260	19/07/2018	0	29
Pengurusan Air SPV Berhad	02/26	GG	4.321	30	4.351	18/07/2018	-3	27
DanaInfra Nasional Berhad	07/27	GG	4.410	15	4.560	08/03/2018	-15	31
GovCo Holdings Berhad	09/32	GG	4.950	10	4.859	05/01/2018	9	40
DanaInfra Nasional Berhad	02/33	GG	4.789	10	4.821	13/07/2018	-3	24
GENM Capital Berhad	07/28	AAA	5.144	2	5.162	19/07/2018	-2	106
Danga Capital Berhad	01/30	AAA	4.759	50	4.839	04/05/2018	-8	67
Manjung Island Energy Berhad	11/31	AAA	4.859	10	4.865	04/04/2018	-1	31
Danga Capital Berhad	09/33	AAA	4.949	20	4.959	19/07/2018	-1	40
Public Bank Berhad	09/23	AA1	4.019	40	4.118	19/07/2018	-10	24
Malayan Banking Berhad	01/24	AA1	4.365	85	4.302	02/07/2018	6	45
Celcom Networks Sdn Berhad [fka Celcom Transmission (M) Sdn Berhad]	08/24	AA+	4.791	5	4.801	18/07/2018	-1	88
Celcom Networks Sdn Berhad [fka Celcom Transmission (M) Sdn Berhad]	10/26	AA+	4.908	10	4.937	10/07/2018	-3	86
YTL Power International Berhad	05/27	AA1	4.940	20	5.008	26/06/2018	-7	84
SPR Energy (M) Sdn Berhad	07/35	AA3	5.609	10	5.685	05/07/2018	-8	106
Affin Bank Berhad	09/27	A1	4.926	30	5.251	18/07/2018	-33	83
CIMB Group Holdings Berhad	05/16	A1	5.029	1	5.172	13/07/2018	-14	23
Alliance Bank Malaysia Berhad	10/25	A2	4.669	1	4.869	13/07/2018	-20	69
Bank Muamalat Malaysia Berhad	11/21	A	4.777	1	4.777	19/07/2018	0	121
				<u>420</u>				

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

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

MARKETS seem bolder these days, but investors are alert to a potential currency war. With President Donald Trump lamenting the strength of the dollar and the yuan plunging to 6.80 per dollar for the first time in a year, market players are watching for any potential impact on financial markets. Risk assets and oil prices may be hit, taking down currencies of commodity producing countries, especially the Russian ruble, Colombian peso and ringgit, according to Bloomberg. The rest of Asia could come under pressure although central banks may initially try to intervene to stem currency weakness. Two key events will be closely watched: whether China will attempt to stabilise the yuan at current levels, and whether the Fed will heed Trump's complaint on its rate hike path. US Treasury Secretary Steven Mnuchin said Trump's comments on the dollar and the Fed's rate hikes were not aimed "in any way, to put pressure on the Fed" to keep low rates. The dollar had dipped after Trump's comments; it is still 5% higher than the time when steel and aluminium tariffs were imposed. "It is more of how a country defends outflows. China is within its rights to defend its currency less aggressively, which may not sit well with Trump, in the short term. "In the medium term, US rate hikes will likely stop, leading to improved sentiment in emerging markets (EMs) and stronger Asian currencies," said Hor Kwok Wai, chief operating officer, Hong Leong Bank. The Fed is regarded to be independent; any slowdown in its raising of rates, at this juncture, may be too late. "The damage is already done. The raging dollar will likely come to a halt late in the year when inflationary pressures are being felt and higher rates needed. "A steep slowdown may then occur," said Pong Teng Siew, head of research, Inter-Pacific Securities. US tax cuts that boost spending and imposition of tariffs are, among factors, causing inflation that needs to be curbed via higher rates, which leads to a strong (and less competitive) dollar and higher borrowing costs (affecting high US debt levels). Tariff impact that is seen to be denting growth may stall the Fed's rate hike path. Trump believes he has ammunition, with stockmarket gains since his election (the S&P500 is up 31%), to wage a trade war. "That the US economic expansion remains intact will provide the leeway for the Fed to continue with its rate hikes. "It may have to slow down the pace of rate hikes if the trade war worsens, but inflation watch remains a priority," said Lee Heng Guie, executive director, Socio Economic Research Centre. Minimal impact, so far, from the trade war may have emboldened US markets but Asian markets may still have to be mindful. "Asian markets should not be under the illusion that it can be business as usual. Outflows from EMs related to the Fed rate hikes is temporary; outflows that may occur from a supply chain pivot away from China, and by implication, South East Asia, may be far more serious, eventually," said Pong. In view of US tariffs affecting imports from China, supply chains from Asia that are currently involved in the export of parts and components to China, may need to be overhauled for a re-routing to other destinations. "Not many countries can take up where China has left off. It does not look like India will be able to take up this challenge in the foreseeable future. "There will be a lot of upheaval; most of the affected companies are in the technology sector," said Pong. "If the trade war worsens, there could be supply chain adjustments in our electrical components sector. Bursa Malaysia looks more optimistic now; we are starting to see some support from local funds," said Ching Weng Jin, head of research, Public Investment Bank. Last year, net inflows amounted to RM10.8bil; year-to-date, outflows have hit RM8bil. Internally, investors are awaiting concrete growth initiatives, which may be announced in the October mid-term review of the 11th Malaysia Plan. On the trade war front, the tone may have improved as "China's response to US trade threats is not as abrasive as before," said Ching. Second quarter earnings will be the key driver for Bursa Malaysia in the short term. "Decent US economic data still suggests healthy growth where Asia may ultimately benefit. Investors are still assessing the impact of the trade war on earnings," said Danny Wong, CEO, Areca Capital. Economic slowdown and withdrawal of global liquidity are also of concern, said Vincent Khoo, head of research, UOB Kay Hian. Columnist Yap

Leng Kuen cautions against policymakers with insufficient knowledge of economics. (Source: *The Star*)

The re-structuring and takeover of Syarikat Pengeluaran Air Selangor Sdn Bhd (SPLASH) are expected to be finalised by early August. Water, Land and Natural Resources Minister Dr A. Xavier Jayakumar said the restructuring process had shown positive development from both the Selangor government and the water concessionaires. "I have called representatives of the relevant agencies, including of Selangor Menteri Besar (Amirudin Shari) to discuss the takeover. "Arising from that, I see the process of finalising the takeover has reached 80% and we expect to finalise it before Aug 10," he told reporters after attending the launch of the Sungai Kandis state seat by-election operations room here today. (Source: *The Edge/Reuters*)

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

Source: RAM Ratings; MARC

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