Global Markets Research

Fixed Income

Fixed Income Daily Market Snapshot

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	2.91	0
5-yr UST	3.05	0
10-yr UST	3.20	1
30-yr UST	3.39	1

	MGS		GII*	
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.65	1	3.74	0
5-yr	3.78	-2	3.94	3
7-yr	4.04	4	4.08	0
10-yr	4.16	1	4.22	3
15-yr	4.59	6	4.56	0
20-yr	4.81	0	4.80	0
30-yr	4.91	0	4.95	0

** Market indicative levels*

MYR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.71	0
3-yr	3.79	0
5-yr	3.89	0
7-yr	4.01	0
10-yr	4.21	0

Source : Bloomberg

US Treasuries

- US Treasury yields were mostly unchanged-to-higher; with the longer-end causing a reversal of an earlier flattening trend with little price action on subdued volumes. The 2Y was almost unchanged at 2.91% whilst the much-watched 10Y grinded 1bps higher at 3.20%. Meanwhile US Treasury supply is expected to flood the market this week which included well-received two 3-month and 6-month bill auctions yesterday followed by another two 4-week and 8-week bill auctions. Another $108b of 2, 5 and 7Y notes is expected to follow suit. The strong US data, rising commodity prices, tight monetary trajectory and threatening wage pressures may be seen to push UST yields higher.

MGS/GII

- Trading momentum in Govvies improved slightly with volume at RM1.49b yesterday amid interest in the off-the-run 19's, 23's and 10Y GII benchmark. Overall benchmark yields ended 1-6bps higher from prior day's close save for the odd-lot trade on the 5Y. The 7Y MGS 3/25 rose 4bps at 4.04%; having been untraded for 2 days whilst the 10Y MGS 6/28 edged 1bps to 4.16% levels. GII bond trades jumped to form 57% of overall trades. Weaker sentiments affected both sovereign bond and equities market following last week's announcement of higher budget deficit target of 3.0% for 2020 based on athe mid-term review of the 11th Malaysia Plan. However BNM expects growth and core inflation to be stable; hence rates are expected to be on hold for the remainder of the year. Up next on the data are the CPI numbers for September.

Corp Bonds/Sukuk

- Corporate bonds/Sukuk however maintained solid investor interest across the AAA to AA-part of the curve on volume of RM386m. There were total 34 bonds traded; an improvement over prior day's 28 with overall yields ending mostly mixed. There were no Govt-Guaranteed bonds traded. AAA-rated PUTRAJAYA BINA 3/21 made its maiden trade at 4.21% levels whilst GENM Capital 7/28 rose 4bps compared to previous-done levels at 4.95%. AA-rated CELCOM saw a slew of tranches exchange hands with the 8/19,8/24, 10/26 and 8/27 all closing mixed between -4 to +1bps between 4.17-4.79% levels. In the banking space several names i.e. Hong Leong Bank and PUBLIC Islamic 24NC19 along with Bank Islam and Alliance Bank 25NC20 saw active trades closing mostly lower on yields.

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	03/19	3.239	53	3.294	19/10/2018	-6
MGS	10/19	3.422	168	3.432	19/10/2018	-1
MGS	11/19	3.411	3	3.460	19/10/2018	-5
MGS	03/20	3.462	1	3.441	19/10/2018	2
MGS	07/21	3.640	20	3.604	19/10/2018	4
MGS	09/21	3.617	21	3.614	19/10/2018	0
MGS	03/22	3.675	2	3.649	19/10/2018	3
MGS	04/23	3.777	206	3.794	19/10/2018	-2
MGS	08/23	3.900	1	3.879	19/10/2018	2
MGS	09/24	4.016	1	3.958	19/10/2018	6
MGS	03/25	4.043	50	4.008	17/10/2018	4
MGS	04/26	4.172	20	4.120	19/10/2018	5
MGS	11/26	4.119	11	4.135	19/10/2018	-2
MGS	11/27	4.166	2	4.114	19/10/2018	5
MGS	06/28	4.164	10	4.149	19/10/2018	1
MGS	04/30	4.515	31	4.478	19/10/2018	4
MGS	06/31	4.530	2	4.519	11/10/2018	1
MGS	04/33	4.619	6	4.607	18/10/2018	1
MGS	11/33	4.591	10	4.536	18/10/2018	6
MGS	04/37	4.782	3	4.770	18/10/2018	1
MGS	09/43	4.935	13	4.949	19/10/2018	-1
GII	10/18	3.229	167	3.308	15/10/2018	-8
GII	04/19	3.283	360	3.300	17/10/2018	-2
GII	08/19	3.352	42	3.372	15/10/2018	-2
GII	04/20	3.520	1	3.520	19/10/2018	0
GII	11/20	3.623	3	3.503	15/10/2018	12
GII	07/22	3.829	10	3.769	18/10/2018	6
GII	07/23	3.931	10	3.915	18/10/2018	2
GII	11/23	3.941	64	3.913	18/10/2018	3
GII	10/28	4.221	200	4.196	18/10/2018	3
			1490			

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*
Al Dzahab Assets Berhad	09/19	AAA	4.385	20	4.548	09/02/2018	-16	98
Gulf Investment Corporation G.S.C	03/21	AAA	4.845	2	4.858	03/10/2018	-1	133
Putrajaya Bina Sdn Berhad	03/21	AAA	4.212	40	-	-	-	70
Al Dzahab Assets Berhad	09/23	AAA	4.671	2	4.799	05/10/2017	-13	85
TNB Western Energy Berhad	07/24	AAA	4.469	1	4.480	27/08/2018	-1	51
Telekom Malaysia Berhad	12/24	AAA	4.379	1	4.381	16/10/2018	0	42
Danga Capital Berhad	02/26	AAA	4.470	1	4.481	16/10/2018	-1	42
Telekom Malaysia Berhad	09/27	AAA	4.527	1	4.528	15/10/2018	0	38
GENM Capital Berhad	07/28	AAA	4.950	20	4.908	05/10/2018	4	80
West Coast Expressway Sdn Berhad	08/32	AAA	4.811	2	4.989	08/03/2018	-18	22
Danga Capital Berhad	09/33	AAA	4.753	5	4.794	03/09/2018	-4	16
MBSB Bank Berhad (fka Asian Finance Bank Berha	12/19	AA1	4.417	10	4.653	14/05/2018	-24	101
Public Islamic Bank Berhad	06/24	AA1	4.167	10	4.176	19/10/2018	-1	21
Hong Leong Bank Berhad	06/24	AA1	4.301	10	4.579	17/10/2018	-28	34
YTL Power International Berhad	05/27	AA1	4.879	50	4.879	17/10/2018	0	73
Samalaju Industrial Port Sdn Berhad	12/28	AA1	4.894	20	5.138	07/06/2018	-24	74
Celcom Networks Sdn Berhad	08/19	AA+	4.172	10	4.182	02/10/2018	-1	76
Celcom Networks Sdn Berhad	08/24	AA+	4.651	30	4.660	19/09/2018	-1	69
Celcom Networks Sdn Berhad	10/26	AA+	4.794	1	4.779	20/09/2018	1	69
Celcom Networks Sdn Berhad	08/27	AA+	4.789	10	4.827	12/10/2018	-4	64
BEWG (M) Sdn Berhad	07/20	AA	4.562	1	4.852	07/02/2018	-29	105
Fortune Premiere Sdn Berhad	03/23	AA	4.790	30	4.786	17/10/2018	0	105
CIMB Group Holdings Berhad	09/29	AA	4.810	2	4.797	11/10/2018	1	65
Sime Darby Plantation Sdn Bhd	03/16	AA	5.020	30	5.006	27/09/2018	1	21
Media Chinese International Limited	02/19	AA3	4.642	2	4.742	30/08/2018	-10	123
UEM Sunrise Berhad	05/23	AA-	4.729	1	4.717	12/10/2018	1	91
Konsortium Lebuhraya Utara-Timur (KL) Sdn Berha	12/23	AA-	4.598	10	4.691	03/08/2018	-9	78
Lebuhraya DUKE Fasa 3 Sdn Berhad	08/28	AA-	4.959	15	4.909	16/08/2018	5	80
Southern Power Generation Sdn Berhad	04/33	AA-	4.939	10	4.934	16/10/2018	0	35
Southern Power Generation Sdn Berhad	10/34	AA-	5.079	10	5.089	11/10/2018	-1	49
Tan Chong Motor Holdings Berhad	11/19	A1	6.026	10	6.118	24/08/2018	-9	262
Bank Islam Malaysia Berhad	12/25	A1	4.575	10	4.572	02/10/2018	0	53
CIMB Group Holdings Berhad	05/16	A1	5.083	1	5.055	19/10/2018	3	28
Alliance Bank Malaysia Berhad	10/25	A2	4.799	10	5.028	17/10/2018	-23	75
				386				

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

Market/Corporate News: What's Brewing

The cancellation of the East Coast Rail Line (ECRL), Kuala Lumpur-Singapore High-Speed Rail and Trans-Sabah Gas Pipeline projects could help reduce the Government's debt burden by more than RM300 billion, Tun Dr Mahathir Mohamad said. The Prime Minister said the projects were too costly to be funded by the Government, while their development plans did not match the expectations of returns to recover the debts incurred. "In the past, if we were to execute plans, we ensured that we had enough money. If we did not have enough money, we determined how much was the debt level (and) how much could be repaid from the return on investment, that's the best way," he said at the "Bicara Minda" with Tun Dr Mahathir talk show hosted by Sinar Harian here today. He said this principle was not practised by the previous Government which incurred huge debts to carry out mega infrastructure projects without considering the ability to repay them. The Prime Minister said the Government only scrapped projects that did not give problems to the people. For example, he said in the case of the ECRL project, money was borrowed on the condition that a foreign company would be given the contract. "Foreign workers were brought in, while equipment and tools were all made by a foreign country, So what do we get? We've got nothing. "If we were to cancel these projects, the victims are their workers are not ours. So, we cancelled them so that we do not have to pay huge debts," he said. On the third national car project, Dr Mahathir said it would be a catalyst to win people's interest on the importance of mastering engineering and manufacturing knowledge. "A car has 4,000 parts. If we want to make a car, we have to know about designing, testing, parts and quality. We have to learn all these. "When a nation controls engineering knowledge, its people will go forward," he said. *(Source: The Edge)*

The government may only have limited options in its pursuit of slashing national expenditure in its upcoming first-ever federal budget, which is likely to be neutral to mildly expansionary. Despite the ongoing measures to trim public expenditure the government's total expenditure may still increase in 2019, albeit marginally by 0.3% to RM280bil. In its Budget 2019 preview report, several research firms said that most of the government's operating expenditure (opex) was fixed by nature and would continue on an annual basis, citing examples of emoluments, pensions and debt service charges. When combined with other 'rakyat-centric' expenditures, the total 'fixed' expenditure is currently as high as 91.3% of the government's opex. This reflects that the room for further cuts in government expenditure may be limited, making it a challenging situation for the government to maintain the fiscal deficit in a range of between 2.8% and 3% of gross domestic product (GDP) in the near term; describing Budget 2019 as "a balancing act between fiscal deficit and economic growth" as reports were noted on the heels of Prime Minister Tun Dr Mahathir Mohamad's statement that Budget 2019 would see a cut in the development budget, as the government cannot afford to reduce operational expenditures. On Oct 18, The Star quoted Dr Mahathir as saying that a lot of government revenue must be used to pay off the mounting national debt, which has reached more than RM1 trillion. Some analysts believe that the government has enough room to make spending cuts without hurting growth prospects, if wastages and leakages are curbed. Operating and development expenditures can by trimmed by RM7bil in Budget 2019 due to tighter procurement procedures, zero-based budgeting, reviews or deferment of infrastructure projects, more targeted subsidies and cash transfers, and revisions in supply and services contracts, which could limit the need for aggressive revenue-raising measures and steeper cuts to productive areas of spending. The government's belt-tightening measures would likely emphasise on improving spending efficiency, with its finances focused on the reprioritisation of programmes and projects. On a positive note, the government's revenue is still projected to outpace the opex to register an operating surplus of RM700mil in 2019. In comparison, the projected operating surplus for 2018 is slightly higher at RM800mil. However, upon taking into account the development expenditure, Affin Hwang Capital Research estimates the government to record a fiscal deficit of 3.3% of GDP in 2019. As for this year, a 3.6% fiscal deficit is expected, higher than the government's target of 2.8%. Meanwhile, the country may see a short-term deviation away from its fiscal deficit target. However missing the fiscal deficit target does not mean the country's fiscal consolidation plan is aborted. By 2020, the deficit level is expected to moderate to 3%, as per the target of the mid-term review of the 11th Malaysia Plan. The temporary deviation is necessary to repair government finances and should not be mistaken as a sign of profligacy. If the tax refunds were excluded, the government may have run a marginal current surplus in 2019 and a budget deficit of 3.2% of GDP in 2018 and 2.5% of GDP in 2019. A responsible budget may aim at stimulating private consumption and domestic demand as well as incentives for businesses to support corporate profitability. In view of the uncertain external environment, Malaysia will have to rely more on internally generated growth. Despite no reduction in the corporate tax rate expected in 2019, given the budget constraint, the government will promote private investment by introducing fiscal incentives such as the extension and expansion of the reinvestment allowance, as well as measures to encourage investment in machinery and equipment, especially in automation, and enhancing capacity and productivity of enterprises. *(Source: The Star)*

Rating Action

Issuer	PDS Description	Rating/Outlook	Action
Telekom Malaysia Berhad	Proposed Islamic MTN Programme and Islamic CP Programme with a combined aggregate nominal value of up to RM4 billion	AAA/Stable/P1	Assigned
Celcom Networks Sdn Bhd's (CNSB)	RM5.0 billion Sukuk Murabahah Programme. Concurrently	AA+-IS	Revision affirmed from Negative to Stable

Source: RAM, MARC

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