

## Global Markets Research

### Fixed Income

#### Fixed Income Daily Market Snapshot

##### US Treasuries

- US Treasury benchmarks were little changed across the curve; ending within 1 bps from prior day's closing overall. Both the 2Y and 10Y closed at 2.54% and 2.90% respectively. The 2s10s and 5s30s spreads were marginally flatter ~ 1.0bps. Meanwhile the spat arising from US-global trade tariffs is allowing the capping of the UST10Y at 3.00% for now. The widening rifts between major economies are threatening global growth outlook. Investors are also wary of the Fed's indication of up to another two (2) rate hikes this year. The coming week also will witness the auction of \$50b of 2Y, \$36b of 5Y and \$30 of 7Y bonds.

##### MGS/GII

- Trading momentum in Govvies improved with volume at RM1.38b as investors and inter-bank players were seen nibbling some off-the-run 19's and 23-24's. GII bond trades formed almost 40% of overall trades. Benchmark yields ended mixed between -3 to +5bps with both the 7Y MGS 3/25 and 10Y MGS 6/28 unchanged at 4.04% and 4.22% respectively. Meanwhile the escalating global trade tensions and diverging theme between US and other countries with regard to monetary policy may impact equities, currencies and foreign bond holdings in south-east Asian economies for now.

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	2.54	0
5-yr UST	2.77	0
10-yr UST	2.90	0
30-yr UST	3.04	0

MGS		GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.60	-3	3.63	-8
5-yr	3.87	5	4.01	0
7-yr	4.04	0	4.18	0
10-yr	4.22	0	4.33	0
15-yr	4.61	-2	4.72	0
20-yr	4.89	0	4.84	0
30-yr	4.93	3	5.00	16

\* Market indicative

M YR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.73	-1
3-yr	3.80	0
5-yr	3.89	0
7-yr	4.00	1
10-yr	4.16	0

Source: Bloomberg

#### Upcoming Government Bond Tender Nil

##### Corp Bonds/Sukuk

- Interest in Corporate Bonds/Sukuk picked-up with volume at RM262m; with bulk of trades seen across GG-AA part of the yield curve. Both the long-end DANA 5/32 and LPPSA 9/46 had mixed fortunes; closing at 4.93% and 5.25%. AA-rated YTL Power 5/27 continued to be actively traded; closing 2bps lower at 5.01% whilst a slew of TRIpIc Medical 23-26 papers closed unchanged between 4.69-5.10% levels. In the banking space, AMBANK Senior notes 6/20 made its debut; closed at 4.50%. Expect activity to pick-up with the end of the mid-year school holidays.

**Daily Trades : Government Bonds**

Securities		Closing	Vol	Previous	Previous	Chg
		YTM	(RM mil)	YTM	Trade Date	(bp)
					(dd/mm/yyyy)	
MGS	03/19	3.427	130	3.404	20/06/2018	2
MGS	10/19	3.490	2	3.424	19/06/2018	7
MGS	03/20	3.513	10	3.531	19/06/2018	-2
MGS	07/20	3.513	21	3.530	19/06/2018	-2
MGS	11/21	3.598	15	3.613	20/06/2018	-2
MGS	03/22	3.779	11	3.793	20/06/2018	-1
MGS	09/22	3.876	21	3.896	20/06/2018	-2
MGS	03/23	3.929	55	3.963	19/06/2018	-3
MGS	04/23	3.871	76	3.825	19/06/2018	5
MGS	08/23	3.984	60	4.016	20/06/2018	-3
MGS	07/24	4.124	19	4.152	20/06/2018	-3
MGS	09/24	4.140	60	4.134	20/06/2018	1
MGS	03/25	4.042	3	4.044	20/06/2018	0
MGS	09/25	4.250	10	4.238	20/06/2018	1
MGS	04/26	4.300	30	4.308	20/06/2018	-1
MGS	11/26	4.328	2	4.321	20/06/2018	1
MGS	03/27	4.378	1	4.384	20/06/2018	-1
MGS	05/27	4.378	20	4.417	20/06/2018	-4
MGS	11/27	4.317	51	4.300	20/06/2018	2
MGS	06/31	4.656	161	4.709	20/06/2018	-5
MGS	04/33	4.756	10	4.768	20/06/2018	-1
MGS	11/33	4.610	1	4.642	13/06/2018	-3
MGS	05/35	4.946	30	4.934	20/06/2018	1
MGS	04/37	4.943	1	4.936	20/06/2018	1
GII	04/20	3.629	30	3.706	19/06/2018	-8
GII	04/20	3.669	20	3.804	31/05/2018	-14
GII	05/20	3.630	70	3.790	31/05/2018	-16
GII	05/20	3.643	70	3.695	13/06/2018	-5
GII	03/21	3.734	20	3.888	20/06/2018	-15
GII	04/21	3.740	20	3.778	19/06/2018	-4
GII	04/22	3.975	12	3.947	20/06/2018	3
GII	07/22	3.951	10	3.968	19/06/2018	-2
GII	07/23	4.101	260	4.101	20/06/2018	0
GII	09/26	4.419	5	4.384	06/06/2018	3
GII	10/28	4.332	50	4.333	13/06/2018	0
GII	08/37	5.000	7	4.835	30/04/2018	17
			<u>1375</u>			

**Daily Trades: Corp Bonds / Sukuk**

Securities	Maturity	Rating	Closing	Vol	Previous	Chg	Spread
	(dd/mm/yyyy)		YTM	(RM mil)	YTM	(bp)	Against MGS*
					Previous Trade Date (dd/mm/yyyy)		
Pengurusan Air SPV Berhad	06/23	GG	4.335	1	4.408	05/06/2018	51
Danainfra Nasional Berhad	05/32	GG	4.929	20	4.825	16/03/2018	29
Lembaga Pembiayaan Perumahan Sektor Awam	09/46	GG	5.254	20	5.250	07/06/2018	36
Pengurusan Air SPV Berhad	11/19	AAA	4.204	10	4.141	05/04/2018	80
Cagamas Berhad	05/23	AAA	4.458	1	4.500	23/05/2018	63
Projek Lebuhraya Usahasama Berhad	01/25	AAA	4.624	2	4.478	13/04/2018	58
Putrajaya Holdings Sdn Berhad	05/26	AAA	4.686	4	4.635	30/04/2018	56
TRIpIc Medical Sdn Berhad	10/22	AA1	4.501	10	4.600	27/02/2018	73
Al Dzahab Assets Berhad	12/24	AA1	4.707	5	5.926	31/07/2017	66
TRIpIc Medical Sdn Berhad	10/26	AA1	4.690	10	4.687	05/06/2018	57
YTL Power International Berhad	05/27	AA1	5.007	40	5.029	20/06/2018	82
TRIpIc Medical Sdn Berhad	10/27	AA1	4.740	5	4.741	05/06/2018	56
TRIpIc Medical Sdn Berhad	10/32	AA1	5.010	5	5.009	06/06/2018	37
TRIpIc Medical Sdn Berhad	10/33	AA1	5.099	5	5.099	06/06/2018	46
Kesas Sdn Berhad	08/23	AA2	4.670	4	4.589	29/11/2017	84
Bright Focus Berhad	01/31	AA2	5.411	5	5.396	05/06/2018	77
AMBANK SENIOR NOTES 731D 26.6.2020	06/20	AA2	4.500	45	-	-	-
Tanjung Bin Energy Issuer Berhad	03/28	AA3	4.950	5	4.818	24/01/2018	74
WCT Holdings Berhad	10/21	AA-	5.080	3	5.048	30/04/2018	145
WCT Holdings Berhad	10/23	AA-	5.361	5	5.239	12/04/2018	153
MEX II Sdn Berhad	04/29	AA-	5.250	7	5.221	26/04/2018	104
MEX II Sdn Berhad	04/31	AA-	5.427	1	5.389	04/05/2018	79
MEX II Sdn Berhad	04/33	AA-	5.597	1	5.539	26/04/2018	96
Lafarge Cement Sdn Berhad	01/20	A1	5.336	1	5.374	07/05/2018	179
MAH SING 6.800% UNRATED PERPETUAL SUKUK MUSHARAKAH	-	-	6.384	1	5.588	20/06/2018	-
				<u>215</u>			

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

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

U.S. President Donald Trump threatened to impose a 20% tariff on all European Union-assembled cars coming into the United States, a month after the administration launched an investigation into whether auto imports pose a national security threat. "If these Tariffs and Barriers are not soon broken down and removed, we will be placing a 20% Tariff on all of their cars coming into the U.S. Build them here!" Trump wrote on Twitter Friday. Autos stocks fell on the news. The European Autos Stocks Index fell sharply after Trump's 20% tariff tweet and was last down 1.25%. Ford Motor Co shares went into the red and were down 0.5%, while General Motors Co shares were off 0.3%. The U.S. Commerce Department is investigating whether imports of automobiles and auto parts pose a risk to national security. The deadline for completing the investigation is February, 2019, but Commerce Secretary Wilbur Ross said Thursday said the department aims to wrap up the probe much earlier, by late July or August. The Commerce Department plans to hold two days of public comments in July on its probe of auto imports. Trump has repeatedly singled out German auto imports to the United States for criticism. At a meeting with automakers at the White House on May 11, Trump told automakers he was planning to impose tariffs of 20% or 25% on some imported vehicles and sharply criticized Germany's automotive trade surplus with the United States. The United States currently imposes a 2.5% tariff on imported passenger cars from the European Union and a 25% tariff on imported pickup trucks. The EU imposes a 10% tariff on imported U.S. cars. The tariff proposal has drawn sharp condemnation from Republican lawmakers and business groups. A group representing major U.S. and foreign automakers has said it was "confident that vehicle imports do not pose a national security risk." The U.S. Chamber of Commerce noted that American auto production has doubled over the past decade, and said tariffs "would deal a staggering blow to the very industry it purports to protect and would threaten to ignite a global trade war." German automakers Volkswagen AG, Daimler AG and BMW AG build vehicles at plants in the United States. BMW is one of South Carolina's largest employers, with more than 9,000 workers in the state. The United States in 2017 accounted for about 15% of worldwide Mercedes-Benz and BMW brand sales. It accounts for 5% of VW brand sales and 12% of Audi sales. (Source: *The Edge*)

ABOUT two weeks ago, Telekom Malaysia Bhd (TM), the main Internet access provider, published a pricing structure for access on its website that seemed different from what the regulator had suggested earlier this year. That made it obvious TM did not agree with the Malaysian Communications Multimedia Commission's (MCMC) proposal on mandatory standard on access pricing (MSAP), leaving some industry players baffled as without the access pricing being reduced, it would be tough to push Internet access prices down. That may be history now since Gobind Singh Deo, the new Communications & Multimedia minister said this week that the MSAP by the MCMC will come into force. He has promised a 25% cut in retail broadband prices by year end with the reduction in the access pricing. "But he has to stand firm to make sure the players really bring down prices and don't drag their feet," says an industry observer. Gobind on his first day in office said he wanted broadband "pricing to be halved and speed doubled" but has only managed to get 25% reduction for now with implementation by year end. For the full 50% cut in prices, users may have to wait another year, said the observer. "If access pricing is kept at a certain range, how can players bring down prices... there is little room to manoeuvre," says another industry observer. Having said that, he also cautioned that players may have only agreed to a 25% reduction to safeguard their income and may have given reasons "that it was tough to reduce further." In reality the MSAP allows for a 30%-60% reduction in pricing from current levels so there should be no reasons why the retail price of fast broadband cannot be reduced by 50%," says a source. To be fair,

some drop in broadband pricing has been seen over the years but the pricing is still steep. Broadband is still not seen as a necessity or a utility like water and electricity. Given the rise in digitalisation across the globe, every household should have access to the Internet and Gobind wants to make that happen. TM is the biggest access provider of fast broadband and companies like Celcom Axiata Bhd, Digi.Com Bhd, Maxis Bhd, U Mobile and others the access seekers. All have access to the high speed broadband (HSBB) network. TM is also in the retail game with its "unifi" broadband services, competing with the likes of Time dotCom, Maxis, Celcom and Digi. TM in a statement yesterday said it "has had several engagements in an ongoing dialogue with the Ministry and MCMC, to reiterate its support of the government's aspiration regarding affordable broadband services at higher speed for the nation to increase its competitiveness; and on TM's proposed initiatives to implement the same." Further details on the initiatives will be announced by TM within the next quarter. Bringing down prices is only one part of the total equation to provide access to the rakyat. Equally important is the need to ensure users have decent Internet experience. In trying to bring prices down, Gobind has to make sure that "there are no compromises to quality of broadband services and he needs a vigilant team to do constant checks." Perhaps the dishing out of the 700MHz bandwidth will help Internet services reach the wider population but it should be done in a transparent manner and only to the deserving ones, leaving the element of favouritism and political patronage out. Another solution that can help for wider reach is to use Tenaga Nasional Bhd's (TNB) network to penetrate more households across the nation. "By allowing another player to offer broadband services will end the monopoly of having one player to be access provider and it opens room for competition which is seriously needed in the fast broadband space," says an observer. New packages should make their way into the market later this year with lower pricing. But analysts believe that some players will retain prices but offer more speed. In doing so, they can cushion any impact on loss of earnings from the 25% reduction. A 25% reduction will have an impact on TM's earnings in the future, says analysts. But JF Apex Securities points out that "the announcement could be viewed positively as the reduction of 25% is lower than the expected 50% stated earlier... TM could roll out more affordable packages to attract new subscribers as well as up-selling to current Streamyx subscribers. "Higher subscribers could help cushion the drop in average revenue per user (ARPU). TM's total broadband subscribers stands at 2.3 million with unifi subscribers at 1.18 million and Streamyx at 1.13 million." MIDF Research says it is "negative" on the 25% reduction as that would mean TM's ARPU will reduce toward the end of 2018. "This will negatively impact the group's revenue. "While TM may expedite on its cost savings initiative, we doubt the group may reduce its operating costs to make up for the reduction in broadband prices," it says. It is not that TM cannot offer speed and capacity at better prices, what could help is network optimisation to sweat its assets to fight the competition. Since the access pricing will be backdated to beginning of the year,, can users expect rebates for payments made since the beginning of the year?. (Source: The Star)

Rating Actions			
Issuer	PDS Description	Rating/Outlook	Action
AmMortgage One Berhad)	RM339.38 million MTN (First Notes Series)	AAA/Stable	Reaffirmed

Source: RAM Ratings; MARC

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