

Global Markets Research

Fixed Income

Fixed Income Daily Market Snapshot

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	2.64	0
5-yr UST	2.82	0
10-yr UST	2.95	-1
30-yr UST	3.08	-1

MGS		GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.58	2	3.56	-6
5-yr	3.78	2	3.90	0
7-yr	3.99	0	4.10	3
10-yr	4.07	1	4.21	0
15-yr	4.55	0	4.60	0
20-yr	4.81	2	5.00	0
30-yr	4.91	0	4.98	0

*Market indicative

M YR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.71	0
3-yr	3.75	0
5-yr	3.85	0
7-yr	3.98	1
10-yr	4.19	1

Source : Bloomberg

Upcoming Government Bond Tender

Nil

US Treasuries

- US Treasuries were mixed with a flatter curve as market lacked direction and leads with overall benchmark yields within 1bps move compared to prior day's session. The 2Y ended at 2.64% whilst the much-watched 10Y yield fell short of the 3.0% level; reaching 2.975% levels before backing off to 2.95%. Markit PMI data was mixed with manufacturing slightly higher than expected at 55.5 but the Services ended marginally lower at 56.2. Meanwhile the 2Y auction involving \$35b saw an improved BTC of 2.92x vs 2.73x in the previous auction; averaging 2.657%; the highest in a decade.

MGS/GII

- Trading momentum in Govvies picked-up as volume spiked to RM2.29b with interest centered on both benchmark 10Y bonds. GII bonds formed a higher portion @ 65% of overall trades. Overall benchmark MGS yields were 0-2bps higher from prior day's close whilst the short 3Y and 7Y GII bonds saw a substantial 3-6bps movement. The 7Y MGS 3/25 was untraded whilst the 10Y MGS 6/28 edged 1bps higher at 4.07%. Moody's positive statement on the Malaysia's efforts to create a local market for Islamic Finance instruments (vide the increasing use of Sukuk to fund its budget deficit) enticed both inter-bank players and end-investors.

Corp Bonds/Sukuk

- Trading activity in Corporate Bonds/Sukuk rebounded yesterday on volume of RM633m with interest seen mainly in the GG, followed by the AA-part of the curve on 37 different bonds compared to 30 the previous day. The GG-segment was dominated by DANAINFRA 24, 29's and 45 bonds which rallied 0-18bps closing at 4.21%, 4.53-55% and 5.11% levels compared to previous-done levels. PASB 6/23 and 2/26 closed unchanged at 4.24% and 4.32%. AAA-rated PLUS 32 edged 1bps lower at 4.90% whilst the AA-rated space was active on infra-cum-power related names like SEB, JEV, MALAKOFF and Southern Power bonds, which moved 0-2bps lower save for JEV 5/19 which traded at 4.21% (the last being in Jan 2016). Expect investors to continue seeking value-trades in the Corporate Bonds sector.

Daily Trades : Government Bonds

Securities		Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS	03/19	3.355	170	3.341	23/07/2018	1
MGS	10/19	3.448	1	3.439	23/07/2018	1
MGS	11/19	3.445	4	3.407	19/07/2018	4
MGS	03/20	3.453	1	3.456	23/07/2018	0
MGS	11/21	3.577	56	3.555	23/07/2018	2
MGS	09/22	3.781	7	3.768	23/07/2018	1
MGS	03/23	3.838	20	3.849	19/07/2018	-1
MGS	04/23	3.784	20	3.768	16/07/2018	2
MGS	08/23	3.894	7	3.898	23/07/2018	0
MGS	09/24	4.031	20	4.016	23/07/2018	1
MGS	04/26	4.200	1	4.223	18/07/2018	-2
MGS	11/27	4.178	2	4.156	23/07/2018	2
MGS	06/28	4.067	343	4.061	23/07/2018	1
MGS	06/31	4.573	10	4.546	23/07/2018	3
MGS	04/32	4.587	10	4.617	12/07/2018	-3
MGS	04/33	4.622	10	4.617	23/07/2018	0
MGS	11/33	4.550	80	4.545	23/07/2018	0
MGS	05/35	4.713	20	4.731	20/07/2018	-2
MGS	06/38	4.812	20	4.798	19/07/2018	1
GII	04/19	3.406	180	3.446	23/07/2018	-4
GII	08/19	3.478	185	3.498	12/07/2018	-2
GII	09/19	3.483	30	3.617	03/07/2018	-13
GII	04/20	3.556	1	3.613	18/07/2018	-6
GII	08/21	3.725	10	3.715	18/07/2018	1
GII	04/22	3.830	21	3.816	20/07/2018	1
GII	07/22	3.878	10	3.862	11/07/2018	2
GII	07/23	3.963	40	3.974	23/07/2018	-1
GII	11/23	3.901	30	3.905	23/07/2018	0
GII	08/25	4.095	40	4.067	20/07/2018	3
GII	09/26	4.222	1	4.200	23/07/2018	2
GII	07/27	4.226	40	4.226	23/07/2018	0
GII	10/28	4.210	900	4.205	23/07/2018	0
			<u>2289</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	11/20	GG	4.000	20	3.941	29/12/2017	6	51
GovCo Holdings Berhad	02/21	GG	4.029	20	4.035	17/07/2018	-1	45
Pengurusan Air SPV Berhad	06/23	GG	4.239	35	4.239	19/07/2018	0	46
DanaInfra Nasional Berhad	03/24	GG	4.211	15	4.245	19/01/2018	-3	29
Jambatan Kedua Sdn Berhad	05/25	GG	4.330	20	4.347	18/07/2018	-2	34
Pengurusan Air SPV Berhad	02/26	GG	4.321	25	4.321	20/07/2018	0	26
Jambatan Kedua Sdn Berhad	07/26	GG	4.388	10	4.420	08/12/2017	-3	33
DanaInfra Nasional Berhad	04/29	GG	4.554	40	4.551	18/01/2018	0	47
DanaInfra Nasional Berhad	07/29	GG	4.525	40	4.700	25/06/2018	-18	44
Perbadanan Tabung Pendidikan Tinggi Nasional	03/32	GG	4.789	20	4.850	14/03/2018	-6	24
Prasarana Malaysia Berhad	02/36	GG	4.889	90	4.972	18/01/2018	-8	9
Prasarana Malaysia Berhad	09/37	GG	4.945	30	4.951	23/07/2018	-1	15
DanaInfra Nasional Berhad	04/45	GG	5.110	7	5.210	12/04/2018	-10	31
Danga Capital Berhad	04/20	AAA	4.171	5	4.135	20/03/2018	4	69
Putrajaya Bina Sdn Berhad	09/22	AAA	4.447	5	4.475	13/07/2018	-3	75
GENM Capital Berhad	07/23	AAA	4.879	1	4.879	19/07/2018	0	110
Projek Lebuhraya Usahasama Berhad	01/32	AAA	4.897	30	4.910	03/07/2018	-1	34
Danga Capital Berhad	01/33	AAA	4.909	20	5.000	29/06/2018	-9	36
Sabah Development Bank Berhad	08/19	AA1	4.650	5	4.749	17/05/2018	-10	126
Sarawak Energy Berhad	06/21	AA1	4.452	20	4.454	18/07/2018	0	88
Public Bank Berhad	09/23	AA1	4.298	1	4.019	20/07/2018	28	52
Malayan Banking Berhad	05/24	AA1	4.766	0	4.471	13/07/2018	30	84
Sarawak Energy Berhad	12/32	AA1	5.179	10	5.189	19/07/2018	-1	63
TRIpIc Medical Sdn Berhad	10/33	AA1	4.999	10	5.019	17/07/2018	-2	45
Celcom Networks Sdn Berhad	08/27	AA+	4.948	30	5.099	04/06/2018	-15	84
UMW Holdings Berhad	06/22	AA2	4.586	10	4.646	27/06/2018	-6	89
Jimah Energy Ventures Sdn Berhad	05/19	AA3	4.213	10	4.743	28/01/2016	-53	82
Bumitama Agri Ltd	09/19	AA3	4.562	10	4.568	18/07/2018	-1	117
Gamuda Berhad	11/22	AA3	4.717	20	4.731	19/07/2018	-1	102
SPR Energy (M) Sdn Berhad	07/34	AA3	5.529	15	5.629	10/01/2018	-10	98
Malakoff Power Berhad	12/18	AA-	4.285	3	4.332	29/06/2018	-5	89
Malakoff Power Berhad	12/19	AA-	4.508	10	4.543	20/06/2018	-4	112
Kimanis Power Sdn Berhad	08/22	AA-	4.596	10	4.497	28/12/2017	10	90
Southern Power Generation Sdn Berhad	10/34	AA-	5.258	10	5.258	17/07/2018	0	71
Southern Power Generation Sdn Berhad	04/35	AA-	5.259	15	5.279	17/07/2018	-2	71
Southern Power Generation Sdn Berhad	10/35	AA-	5.338	10	5.339	17/07/2018	0	79
Bank Muamalat Malaysia Berhad	11/21	A	4.776	1	4.776	23/07/2018	0	120
			<u>633</u>					

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

Market/Corporate News: What's Brewing

Malaysia Airlines Bhd is tapping banks to fund about nine Boeing 737 MAX planes in what will be the carrier's first jet financing with lenders since it was restructured more than three years ago, sources familiar with the situation said. The financing represents a key test for the airline, which was taken over by Malaysian sovereign wealth fund Khazanah Nasional in December 2014, months after MH370 disappeared and MH17 was shot down over Ukraine. Finance industry sources, speaking on condition of anonymity, said Malaysian, European and Chinese banks are expected to compete for financing of the planes, for which Malaysia Airlines sent out a request for proposal a few weeks ago. The jets have a list price of around \$1 billion, but airlines typically receive large discounts from manufacturers. Malaysia Airlines said on Tuesday it was considering "various funding and leasing options" for its 737 MAX order, which is meant to replace older 737s coming off lease, but declined to provide more specific details. Khazanah had no immediate response to a request for comment. Though the aviation financing environment remains strong, the sources said Malaysia Airlines' poor operating performance and a forced haircut taken by banks and lessors on finance and operating leases during the airline's restructuring could make some banks wary of a financing deal with the carrier. They could also be discouraged by the airline's struggle to show a meaningful recovery after job cuts, fleet changes and route adjustments undertaken as part of a five-year turnaround plan. "The way they managed their restructuring and put pressure on banks, that's something banks haven't forgotten. There are also no concrete signs of a turnaround," said one source. Sources said the request for proposal is for planes that Malaysia Airlines will take delivery over the next few years under finance leases. Airlines routinely tap banks to fund their aircraft in sale and leaseback arrangements. The airline has taken out operating leases for widebodies since the restructuring but this is the first time it is seeking a financing arrangement with lenders, sources said. Malaysia Airlines has 25 737 MAX jets on order with Boeing. Sources said Japanese financial institutions, once strong backers of the airline, were not likely to participate due to curbs related to the carrier having been loss-making for years. Malaysia Airlines last month said it had underperformed against its 2017 budget and was preparing for a "tough year ahead" due to competition, exchange rate volatility and rising fuel prices. It expects an improved performance later in the year and is targeting sustained profitability in 2019. The airline has also been struggling on the management front, with CEO Peter Bellew quitting in 2017 after a little more than a year in the job. His predecessor, Christoph Mueller, also quit before the end of his contract. Veteran company executive Izham Ismail is now the CEO. Overcapacity in its key markets and aggressive competition from the likes of AirAsia Bhd and Singapore Airlines Ltd along with high oil prices has hampered Malaysia Airlines' turnaround plans, the sources said. "Things are clearly not working out the way they should," said a second source. "There's lack of continuity at senior management positions, they have formidable low-cost competitors on short- and medium-haul routes and the long-haul market has still not recovered." But others said government backing combined with a liquid market for narrowbody jets would provide support to financiers. "Your insolvency risk on Malaysia Airlines is pretty much zero. Malaysia would never let it happen," a third source said. "I don't think having been through such a recent restructuring that anyone would imagine something like that happening again in the near future. (Source: *The Star/Reuters*)

The highest civil appeal court in Dubai has ruled in favour of WCT Holdings Bhd in a civil suit brought against it by Dubai-based Meydan Group LLC. Meydan had filed the suit against WCT Bhd (Dubai Branch), as well as Arabtec Construction LLC, for a sum of 3.5 billion UAE dirham (RM3.89 billion). WCT said the Dubai Court of Cassation (COC) has dismissed the appeal filed by Meydan in respect of the earlier Court of First

Instance and Court of Appeal's rejections of the civil suit. Following the decision by COC, the long standing suit has now concluded, WCT said in a filing with Bursa Malaysia today. WCT added however, that efforts to ratify and thereafter enforce an arbitral award, remains ongoing. WCT (Dubai) had initiated the arbitration proceedings against Meydan in 2009, with regards to the cancellation of the Nad Al Sheba race course project in Dubai. In July 2015, WCT (Dubai) received an award of 1.15 billion dirham (RM1.2 billion), after the tribunal passed judgment in favour of the company. The award comprised claims for work done, repayment of performance bond, loss of profit, damages and interests; arbitration costs; and legal costs. The arbitration proceeding was initiated by WCT (Dubai) over the cancellation of a RM4.6 billion contract to build the race course. The project was awarded to a 50:50 joint venture between WCT (Dubai) and Arabtec Construction. Meydan had cancelled the contract on the basis of alleged breach in the form of non-adherence to the agreed construction schedule. Meydan had also called on the performance and advance payment bonds. The tribunal found Meydan's cancellation and purported termination of the contract to be unlawful and of no effect. It also found that Meydan was not entitled to call on the joint-venture's performance bond. Following that, Mayden counter claimed against the joint venture with the civil suit, claiming that the tribunal brought forward by the joint venture against it, had expired due to "effluxion of time". (Source: *The Edge*)

Rating Actions			
Issuer	PDS Description	Rating/Outlook	Action
Notable Vision Sdn Bhd (property securitisation involving The Westin Kuala Lumpur)	RM750 million MTN Programme		
	Class A Senior MTN	AAA/Negative	Reaffirmed
	Class B Junior MTN	B2/Negative	Reaffirmed
	Class C Junior MTN	C3/Stable	Reaffirmed

Source: RAM Ratings; MARC

Hong Leong Bank Berhad

Fixed Income & Economic Research, Global Markets

Level 8, Hong Leong Tower

6, Jalan Damanlela

Bukit Damansara

50490 Kuala Lumpur

Tel: 603-2081 1221

Fax: 603-2081 8936

Email: HLMarkets@hlbb.com.my

DISCLAIMER

This report is for information purposes only and does not take into account the investment objectives, financial situation or particular needs of any particular recipient. The information contained herein does not constitute the provision of investment advice and is not intended as an offer or solicitation with respect to the purchase or sale of any of the financial instruments mentioned in this report and will not form the basis or a part of any contract or commitment whatsoever.

The information contained in this publication is derived from data obtained from sources believed by Hong Leong Bank Berhad ("HLBB") to be reliable and in good faith, but no warranties or guarantees, representations are made by HLBB with regard to the accuracy, completeness or suitability of the data. Any opinions expressed reflect the current judgment of the authors of the report and do not necessarily represent the opinion of HLBB or any of the companies within the Hong Leong Bank Group ("HLB Group"). The opinions reflected herein may change without notice and the opinions do not necessarily correspond to the opinions of HLBB. HLBB does not have an obligation to amend, modify or update this report or to otherwise notify a reader or recipient thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

HLB Group, their directors, employees and representatives do not have any responsibility or liability to any person or recipient (whether by reason of negligence, negligent misstatement or otherwise) arising from any statement, opinion or information, expressed or implied, arising out of, contained in or derived from or omission from the reports or matter. HLBB may, to the extent permitted by law, buy, sell or hold significantly long or short positions; act as investment and/or commercial bankers; be represented on the board of the issuers; and/or engage in 'market making' of securities mentioned herein. The past performance of financial instruments is not indicative of future results. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Any projections or forecasts mentioned in this report may not be achieved due to multiple risk factors including without limitation market volatility, sector volatility, corporate actions, the unavailability of complete and accurate information. No assurance can be given that any opinion described herein would yield favorable investment results. Recipients who are not market professional or institutional investor customer of HLBB should seek the advice of their independent financial advisor prior to taking any investment decision based on the recommendations in this report.

*~

HLBB may provide hyperlinks to websites of entities mentioned in this report, however the inclusion of a link does not imply that HLBB endorses, recommends or approves any material on the linked page or accessible from it. Such linked websites are accessed entirely at your own risk. HLBB does not accept responsibility whatsoever for any such material, nor for consequences of its use.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. This report is for the use of the addressees only and may not be redistributed, reproduced or passed on to any other person or published, in part or in whole, for any purpose, without the prior, written consent of HLBB. The manner of distributing this report may be restricted by law or regulation in certain countries. Persons into whose possession this report may come are required to inform themselves about and to observe such restrictions. By accepting this report, a recipient hereof agrees to be bound by the foregoing limitations.