

Global Markets Research

Fixed Income

Fixed Income Daily Market Snapshot

US Treasuries

- US Treasuries yields generally ended lower with a steeper curve whilst being supported within a narrow range as equities slid last Friday. The 2Y, the most sensitive to interest rate outlook, rallied to close 2bps lower at 2.26% while the 10Y moved 1bps lower to 2.81%. Both the UST 5s30s and 2s10s spreads were wider as the front-end out-performed over the trading session. Oddly though the 3-month LIBOR which was set at 2.29% is above the 2Y UST; a signal that structural forces continue to disrupt the USD funding markets. The US Treasury is expected to see a deluge of \$294b of bills and notes issuances this week which may impact the digestion going forward. Markets will also be alert to Trump's possible announcement of further \$50b of tariffs against China over recent IP violations.

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	2.26	-2
5-yr UST	2.60	-2
10-yr UST	2.81	-1
30-yr UST	3.06	0

MGS		GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.40	-1	3.61	0
5-yr	3.55	0	3.83	0
7-yr	3.82	-1	4.01	0
10-yr	3.92	-3	4.14	0
15-yr	4.42	0	4.58	2
20-yr	4.54	0	4.75	0
30-yr	4.79	0	4.93	0

*Market indicative

M YR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.75	0
3-yr	3.79	-2
5-yr	3.85	-1
7-yr	3.96	-2
10-yr	4.09	-1

Source: Bloomberg

MGS/GII

- Trading volume in local govies was maintained at about RM1.81b yesterday with the bulk of trades done in the GII space; mainly in 5-30Y benchmarks. Overall yields were 0-3bps lower with the benchmark 7Y MGS 3/25 at 3.82% whilst the much-watched 10Y MGS 11/27 rallied 3bps to close at 3.92%. The 15Y GII 6/33 saw RM510m traded post-auction with levels weaker by 3bps at 4.58%. With Malaysian CPI reaffirming a softening inflationary stance and the Fed maintaining a projection of up to three rate hikes; we expect govies to see decent support.

Corp Bonds/Sukuk

- Corporate Bonds saw secondary market volume spike to RM1.53b last Friday. This was largely due to Govt-Guaranteed bonds forming bulk of volume; interestingly replacing AA-rated bonds. The short-tenured PRASA 3/19 closed 8bps higher at 3.74% compared to previous-done levels whilst a slew of PASB 19-20 bonds traded mixed between 3.74-90% levels. AAA-rated papers were also sought after with RANTAU 5/31 and DANGA 9/33 closing 2bps lower at 4.83% and 4.96% respectively. Other issuances that garnered interests included AA-rated DUKE 8/34 and 8/38 with RM50m total traded 2-3 bps higher.

Upcoming Government Bond Tenders

Nil

Daily Trades : Government Bonds

Securities		Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS	9/18	3.075	2	3.078	22/03/2018	0
MGS	3/19	3.092	0	3.092	22/03/2018	0
MGS	7/19	3.180	17	3.192	15/03/2018	-1
MGS	10/19	3.283	79	3.304	21/03/2018	-2
MGS	11/19	3.293	1	3.299	21/03/2018	-1
MGS	3/20	3.380	67	3.383	22/03/2018	0
MGS	10/20	3.390	0	3.395	22/03/2018	0
MGS	2/21	3.402	3	3.400	22/03/2018	0
MGS	9/21	3.547	1	3.542	21/03/2018	1
MGS	11/21	3.429	56	3.436	21/03/2018	-1
MGS	3/22	3.546	7	3.540	22/03/2018	1
MGS	8/22	3.691	2	3.710	20/03/2018	-2
MGS	9/22	3.698	11	3.715	22/03/2018	-2
MGS	8/23	3.768	1	3.779	22/03/2018	-1
MGS	7/24	3.874	30	3.865	22/03/2018	1
MGS	9/24	3.875	12	3.884	22/03/2018	-1
MGS	3/25	3.823	80	3.834	22/03/2018	-1
MGS	9/25	3.955	11	3.955	22/03/2018	0
MGS	4/26	4.032	43	4.062	21/03/2018	-3
MGS	11/26	3.996	1	3.996	22/03/2018	0
MGS	11/27	3.917	39	3.936	22/03/2018	-2
MGS	4/30	4.337	1	4.347	22/03/2018	-1
MGS	6/31	4.367	0	4.367	22/03/2018	0
MGS	3/46	4.788	120	4.821	21/03/2018	-3
GII	5/18	3.171	10	3.249	22/03/2018	-8
GII	8/18	3.249	8	3.160	13/03/2018	9
GII	11/18	3.298	5	3.193	02/03/2018	11
GII	4/19	3.364	100	3.369	22/03/2018	-1
GII	3/21	3.752	5	3.766	21/03/2018	-1
GII	4/21	3.737	0	3.768	01/03/2018	-3
GII	4/22	3.832	234	3.835	22/03/2018	0
GII	7/23	3.976	1	3.985	20/03/2018	-1
GII	5/24	4.091	70	4.069	15/03/2018	2
GII	7/27	4.144	112	4.147	22/03/2018	0
GII	6/33	4.576	510	4.545	22/03/2018	3
GII	5/47	4.927	170	4.927	21/03/2018	0
			<u>1808</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	02/19	GG	3.736	175	3.752	19/01/2018	-2	57
Prasarana Malaysia Berhad [fka Syarikat Prasarana Negara Berhad]	03/19	GG	3.736	240	3.655	21/03/2018	8	57
Khazanah Nasional Berhad	03/19	GG	3.757	120	3.730	16/01/2018	3	59
Pengurusan Air SPV Berhad	06/19	GG	3.793	125	3.845	13/11/2017	-5	63
Pengurusan Air SPV Berhad	06/19	GG	3.796	90	3.726	07/11/2017	7	63
Pengurusan Air SPV Berhad	09/20	GG	3.902	50	3.926	09/02/2018	-2	50
Danainfra Nasional Berhad	05/41	GG	5.131	70	4.795	14/11/2016	34	58
Danainfra Nasional Berhad	05/47	GG	5.301	10	5.321	14/03/2018	-2	75
Al Dhab Assets Berhad	09/20	AAA	4.655	5	-	-	-	-
Rantau Abang Capital Berhad	08/19	AAA	4.029	10	4.029	22/03/2018	0	87
Projek Lebuhraya Usahasama Berhad	01/22	AAA	4.260	10	4.260	09/11/2017	0	78
AA-rated papers were also sought after	01/30	AAA	4.889	10	4.744	10/10/2017	15	94
West Coast Expressway Sdn Berhad	08/30	AAA	4.959	10	4.950	27/10/2017	1	101
EKVE Sdn Berhad	01/31	AAA	4.930	10	4.817	26/09/2017	11	52
Rantau Abang Capital Berhad	05/31	AAA	4.834	10	4.849	22/02/2018	-2	42
EKVE Sdn Berhad	01/32	AAA	4.970	10	5.050	16/11/2017	-8	56
Danga Capital Berhad	09/33	AAA	4.959	20	4.982	22/03/2018	-2	55
First Abu Dhabi Bank PJSC (fka National Bank of Abu Dhabi PJSC)	12/20	AAA	4.273	10	4.273	22/03/2018	0	87
Cagamas Berhad	03/21	AAA	4.170	145	-	-	-	-
Bank Pembangunan Malaysia Berhad	04/21	AAA	4.368	50	4.334	19/01/2018	3	97
Al Dhab Assets Berhad	09/22	AAA	4.777	10	4.820	06/03/2018	-4	130
Tenaga Nasional Berhad	08/37	AAA	5.070	140	5.079	16/03/2018	-1	52
Malaysia Building Society Berhad	12/19	AA1	4.466	10	4.600	20/02/2014	-13	114
TRJplc Medical Sdn Berhad	10/31	AA1	5.053	10	5.158	07/12/2017	-11	64
TRJplc Medical Sdn Berhad	10/32	AA1	5.101	5	5.139	01/03/2018	-4	69
Bumitama Agri Ltd	03/19	AA3	4.444	20	4.457	22/03/2018	-1	128
Mah Sing perpetual	-	-	6.740	36	-	-	-	-
WCT Holdings Berhad	10/23	AA-	5.251	5	5.308	05/03/2018	-6	150
Lebuhraya DUKE Fasa 3 Sdn Berhad	08/34	AA-	5.218	30	5.184	27/02/2018	3	81
Lebuhraya DUKE Fasa 3 Sdn Berhad	08/38	AA-	5.491	20	5.468	18/01/2018	2	94
MMC Corp	03/28	AA-	5.700	10	-	-	-	-
Eco Botanic	03/21	NR	6.400	50	-	-	-	-
			<u>1526</u>					

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

Market/Corporate News: What's Brewing

Sarawak Energy Bhd (SEB) expects to invest between RM3bil and RM4bil in a 2x400MW gas-fired power plant project in Tanjung Kidurong, Bintulu to further boost its power generation capacity. Group chief executive officer Sharbini Suhaili (pic) said about 30% of construction works had been completed for the first 400MW combined cycle gas turbine block project. "The first block project is expected to commence testing for commissioning in mid-2020," he said in his maiden media briefing at Wisma SEB last Friday. Sharbini who took over from Datuk Torstein Dale Sjøtveit as CEO 16 months ago said construction works for the second 400MW block project is expected to commence testing in 2021. A consortium led by General Electric is the contractor for the project. The proposed new blocks are located within the existing SEB Tanjung Kidurong power plant, which has a current generating capacity of 500MW. On completion, the two new blocks will be integrated with the existing power plant. Sharbini pointed out that the project cost would also include improvement and upgrading works to the existing facilities. SEB also owns and operates a gas-fired power plant with capacity of 100MW in Miri. Gas made up about 13% of SEB's current generating capacity of about 4,700MW. Renewable hydropower made up some 75% of the generation mix while the remaining electricity is generated by coal-fired and diesel plants. According to Sharbini, the 2x300MW Balingian coal-fired plant project in Mukah Division which is estimated to cost RM3bil, is expected to come onstream by the end of the year. On the Baleh hydroelectric dam project, he said construction works for the proposed diversion tunnel undertaken by China's Sinohydro Corp had started and was scheduled to be completed by late-2019 or early 2020. SEB had earlier awarded the dam project's main civil works package to China's Gezhouba Group Co Ltd and Untang Jaya Sdn Bhd's joint venture with a 70:30 equity ratio. The design work for the main dam structure is currently under way. Sharbini said SEB had shortlisted three consortiums bidding for the project's mechanical and engineering package, which is expected to be awarded by this June. Also yet to be awarded is the contract for the project's power transmission line. The 1,285MW Baleh dam project, which will cost about RM8bil is slated for completion in 2025. The 188m high concrete faced rockfilled dam will be located on the Baleh River in the upper Rejang Basin where the 2,400MW Bakun dam and 944MW Murum dam are located. He said SEB's mini hydro dam project Kota 2 (10.5MW) in northern Sarawak was due for completion in four months' time. Sharbini said SEB had an average annual capital expenditure (capex) of RM3bil from three years ago up to 2025. Besides the dam, coal-fired and gas-fired power plant projects, SEB's other key projects include a new 500kV backbone transmission line with its critical parts completed last August and numerous new substations. The backbone transmission line provides an alternative double-circuit line from the major generation sources in the north to Sibu and Kuching. The annual capex is funded by SEB's RM15bil sukuk musyarakah programme (2011/2036), of which RM10.5bil has been drawn down and its internally-generated fund. For financial year ended Dec 31, 2016, SEB recorded net profit of RM545.8mil on revenue of RM4.15bil. "SEB's generation capacity will be increased to 5,449MW in 2020 and 7,115MW in 2025 compared to 896MW in 2000. "In the next few years, our strategy is to grow on a sustainable basis. "We (SEB) want to benchmark ourselves with regional utility bodies such as Singapore and Hong Kong," he added. Sharbini said SEB's unsubsidised tariffs at an average of 28.5 sen per kWh was the lowest in Malaysia. (Source: The Star Online).

President Donald Trump's long-threatened package of trade sanctions on China has landed, but a trade war is not yet inevitable, according to S & P Global Ratings. In a report titled "Global Trade At A Crossroads: If U.S. Tariffs Trigger A Trade War With China, Corporate Credit Will Suffer" released last Friday, the rating agency said that in general, the threatened tariffs and investment restrictions on China will not likely cause deep pain to the Chinese economy, nor will they have a material impact on corporate borrowers in either country. However, S&P Global Ratings believes China's response will be the key determinant on what happens next. It said that so far China's response has been relatively measured, indicating potential tariffs on about \$3 billion of U.S. imports. S & P managing director Terry Chan said more aggressive moves could escalate into a full-blown trade war between the world's two largest economies--with spillover effects on global business confidence, investment, and growth. "We asked our analysts to assume significant tariffs on specific Chinese import items to determine the impact associated with a potential downside scenario. "Preliminary analysis shows that the overall impact on Chinese corporates and banks will be contained because the U.S. represents only about 15% of China's exports, and China's domestic

activity now drives its economic growth rather than exports,” said Chan. S& P said the US\$50 billion-US\$60 billion targeted by potential tariffs could affect up to 10%-12% of Chinese imports to the U.S. It explained that the trade dispute appears to be about technology and intellectual property, so products subject to the tariffs could include computers and cell phones. However, it’s unclear whether the tariffs will focus on just one or two product categories or be more widespread, it added. S&P managing director of corporate ratings David Tesher said the near-term effects on corporate credit will likely be muted--barring an immediate escalation of retaliatory measures--but there will still be some impact for certain sectors, depending on their reliance on the Chinese market. “However, our base case for limited ratings impact doesn't factor in a Sino-U.S. trade war. “China has so far flagged that it may impose tariffs on 128 U.S. product imports, including pork, recyclable aluminum, fruit/nuts, wine, and steel pipes. However, these products represent a relatively modest portion of trade from the U.S. If China’s response is more retaliatory, we would re-analyze the impact on industry sectors in both countries,” said Tesher. (Source: The Edge)

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

Source: RAM Ratings; MARC

Hong Leong Bank Berhad

Fixed Income & Economic Research, Global Markets

Level 8, Menara Hong Leong

6, Jalan Damanlela

Bukit Damansara

50490 Kuala Lumpur

Tel: 603-2081 1221

Fax: 603-2081 8936

Email: HLMarkets@hlbb.com.my

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