Global Markets Research

Fixed Income

Fixed Income Daily Market Snapshot

US Treasuries

- US Treasuries saw a “relief rally” post FOMC’s rate hike with the curve bull-flattening; fully unwinding initial steepening move. Overall benchmark yields were 2-5bps lower from prior day’s close with the 2Y ending at 2.82% levels whilst the much-watched 10Y moved 5bps lower at 3.05% levels. The Fed raised interest rates by 25bps to 2.00-2.25% as expected; flagging the end of its accommodative monetary policy. Dot plots remained largely unchanged with the Fed possibly on track for another hike in November followed by another three in 2019. Worries over a global trade concerns are counter-balanced by the current tight labor market, firming inflation and strong economy which is assisted by tax benefits and government spending.

MGS/GII

- Trading volume for Govvies maintained at RM2.3b yesterday with some interest seen across the shorter and belly i.e. 21-24 benchmarks and off-the-runs. Overall benchmark yields were generally mixed between -3 to +4bps. The 7Y MGS 3/25 was edged by 1bps to 3.97% whilst the 10Y MGS 6/28 was within 1bps lower at 4.10% on tepid volume. GII trades rose to 50% of total trades. Meanwhile attention will be shifted to the new benchmark issuance of 3.5Y GII 3/22 today which is expected to see support from inter-bank players.

Corp Bonds/Sukuk

- Corporate bonds/Sukuk saw tremendous investor interest as volume spiked RM1.09b last seen in mid-Aug with focus mainly on the GG-segment followed by both AA and AAA-part of the curve in 59 different bonds (highest this year)compared to prior trading day’s 38. Overall yields ended mostly lower-to-mixed on various tenures. Govt-guaranteed DANA saw several tranches hogging the limelight with the 22-32’s ending 0-6bps lower between 3.99-4.61% levels compared to previous-done levels whist DANA 11/22, and the 33’s rallied 14-28bps at 4.00% and between 4.64-69% levels. The AAA-rated TNB 33 and 38 closed mixed on yields at 4.78% and 4.93%. In the AA-space; energy bonds JEV 12/24 surprisingly closed 3bps higher at 4.67% whereas the JEV 6/25 closed 3bps lower at 4.63% levels. The banking space saw action with banks papers ie HLBB, CIMB, MBB and Bank Islam moving sharply lower on yields with MBB and HLBB 24NC19 ending at 4.24 and 4.35%

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	2.82	-2
5-yr UST	2.95	-4
10-yr UST	3.05	-5
30-yr UST	3.18	-4

	MGS		GII*	
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.61	0	3.50	-1
5-yr	3.74	-4	3.90	1
7-yr	3.97	-1	4.04	1
10-yr	4.10	0	4.17	1
15-yr	4.50	-3	4.57	-2
20-yr	4.69	1	4.76	-3
30-yr	4.90	-1	4.97	0

** Market indicative levels*

MYR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.71	0
3-yr	3.77	0
5-yr	3.87	0
7-yr	3.99	0
10-yr	4.18	0

Source : Bloomberg

Upcoming Government Bond Tender

RM3.0b New Issuance of 3.5Y GII 3/22 on Thurs, 27th Sep

HongLeong Bank

Daily Trades : Government Bonds

Securities		Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS	03/19	3.241	1	3.150	24/09/2018	9
MGS	07/19	3.310	129	3.293	25/09/2018	2
MGS	10/19	3.426	2	3.417	25/09/2018	1
MGS	11/19	3.414	20	3.424	25/09/2018	-1
MGS	03/20	3.506	26	3.478	24/09/2018	3
MGS	07/20	3.502	1	3.464	25/09/2018	4
MGS	10/20	3.516	1	3.516	25/09/2018	0
MGS	07/21	3.594	200	3.561	24/09/2018	3
MGS	09/21	3.623	15	3.624	25/09/2018	0
MGS	11/21	3.609	195	3.609	25/09/2018	0
MGS	03/22	3.664	10	3.602	24/09/2018	6
MGS	08/22	3.778	16	3.769	25/09/2018	1
MGS	03/23	3.824	8	3.805	25/09/2018	2
MGS	04/23	3.740	43	3.781	25/09/2018	-4
MGS	08/23	3.833	17	3.840	25/09/2018	-1
MGS	07/24	3.960	115	3.966	25/09/2018	-1
MGS	09/24	3.983	1	3.978	25/09/2018	0
MGS	03/25	3.970	2	3.977	24/09/2018	-1
MGS	09/25	4.020	103	4.021	25/09/2018	0
MGS	11/26	4.169	8	4.160	25/09/2018	1
MGS	03/27	4.238	1	4.189	21/09/2018	5
MGS	11/27	4.147	1	4.151	25/09/2018	0
MGS	06/28	4.101	11	4.106	25/09/2018	0
MGS	04/30	4.489	3	4.467	25/09/2018	2
MGS	06/31	4.486	3	4.502	25/09/2018	-2
MGS	04/32	4.587	8	4.589	18/09/2018	0
MGS	04/33	4.580	10	4.595	25/09/2018	-1
MGS	11/33	4.504	80	4.531	24/09/2018	-3
MGS	05/35	4.679	1	4.724	25/09/2018	-4
MGS	04/37	4.721	5	4.729	25/09/2018	-1
MGS	06/38	4.685	10	4.679	25/09/2018	1
MGS	09/43	4.862	8	4.900	19/09/2018	-4
MGS	03/46	4.916	10	4.930	25/09/2018	-1
MGS	07/48	4.900	80	4.908	25/09/2018	-1
GII	04/20	3.500	38	3.513	25/09/2018	-1
GII	08/21	3.651	30	3.633	21/09/2018	2
GII	04/22	3.774	220	3.747	25/09/2018	3
GII	07/23	3.907	1	3.960	25/09/2018	-5
GII	11/23	3.895	380	3.889	25/09/2018	1
GII	08/24	3.967	100	3.971	25/09/2018	0
GII	08/25	4.035	70	4.027	24/09/2018	1
GII	09/26	4.166	5	4.173	19/09/2018	-1
GII	07/27	4.226	4	4.189	21/09/2018	4
GII	10/28	4.167	230	4.161	25/09/2018	1
GII	06/33	4.573	80	4.592	25/09/2018	-2
			2304			

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*
Prasarana Malaysia Berhad	12/20	GG	3.898	10	3.901	07/09/2018	0	41
DanaInfra Nasional Berhad	05/22	GG	3.993	55	3.991	20/09/2018	0	28
DanaInfra Nasional Berhad	11/22	GG	4.000	30	4.245	06/07/2018	-25	29
DanaInfra Nasional Berhad	03/24	GG	4.103	25	4.161	16/08/2018	-6	33
DanaInfra Nasional Berhad	05/24	GG	4.109	10	4.119	24/09/2018	-1	21
DanaInfra Nasional Berhad	11/24	GG	4.171	80	4.180	24/09/2018	-1	27
DanaInfra Nasional Berhad	02/25	GG	4.200	70	4.170	30/08/2018	3	30
Prasarana Malaysia Berhad	03/25	GG	4.200	15	4.239	01/08/2018	-4	30
Jambatan Kedua Sdn Berhad	05/25	GG	4.211	50	4.252	21/09/2018	-4	23
Pengurusan Air SPV Berhad	02/26	GG	4.260	15	4.251	12/09/2018	1	28
DanaInfra Nasional Berhad	11/27	GG	4.360	10	4.371	25/09/2018	-1	26
DanaInfra Nasional Berhad	05/28	GG	4.381	5	4.390	06/09/2018	-1	28
DanaInfra Nasional Berhad	10/28	GG	4.391	5	4.408	06/09/2018	-2	29
DanaInfra Nasional Berhad	03/32	GG	4.610	10	4.609	19/09/2018	0	11
DanaInfra Nasional Berhad	02/33	GG	4.640	10	4.779	01/08/2018	-14	14
DanaInfra Nasional Berhad	10/33	GG	4.690	20	4.968	07/06/2018	-28	19
Prasarana Malaysia Berhad	09/42	GG	4.980	10	4.964	29/08/2018	2	29
Lembaga Pembiayaan Perumahan Sektor Awam	04/47	GG	5.091	20	5.100	14/08/2018	-1	40
Prasarana Malaysia Berhad	09/47	GG	5.079	50	5.160	05/07/2018	-8	39
Cagamas Berhad	07/19	AAA	3.837	25	3.804	28/08/2018	3	47
GB Services Berhad	11/19	AAA	4.380	10	4.395	21/09/2018	-1	101
Cagamas Berhad	11/20	AAA	3.970	10	4.059	06/09/2018	-9	49
Cagamas Berhad	04/21	AAA	4.020	10	4.020	24/09/2018	0	42
Bank Pembangunan Malaysia Berhad	03/22	AAA	4.470	15	4.454	30/08/2018	2	87
GENM Capital Berhad	07/23	AAA	4.881	1	4.829	24/09/2018	5	111
CIMB Bank Berhad	05/24	AAA	4.459	20	4.488	03/09/2018	-3	56
Danga Capital Berhad	02/26	AAA	4.449	20	4.475	18/09/2018	-3	47
GENM Capital Berhad	07/33	AAA	5.275	2	5.369	19/09/2018	-9	77
Tenaga Nasional Berhad	08/33	AAA	4.778	10	4.735	25/09/2018	4	28
Tenaga Nasional Berhad	08/38	AAA	4.930	35	4.949	25/09/2018	-2	24
Sarawak Energy Berhad	07/19	AA1	4.078	10	4.117	13/09/2018	-4	71
Sabah Development Bank Berhad	07/20	AA1	4.797	10	4.798	24/09/2018	0	131
Maybank Islamic Berhad	04/24	AA1	1.440	10	4.111	14/08/2018	-267	-246
Malayan Banking Berhad	05/24	AA1	4.235	30	4.278	30/08/2018	-4	33
Hong Leong Bank Berhad	06/24	AA1	4.345	10	4.905	24/08/2018	-56	44
TRIplc Medical Sdn Berhad	10/35	AA1	5.139	10	5.139	21/09/2018	0	64
Celcom Networks Sdn Berhad	08/22	AA+	4.540	10	4.564	15/08/2018	-2	83
CIMB Bank Berhad	12/25	AA+	4.821	1	4.531	21/02/2018	29	84
CIMB Bank Berhad	08/26	AA+	4.713	1	4.872	25/09/2018	-16	64
Celcom Networks Sdn Berhad	08/27	AA+	4.822	10	4.821	19/09/2018	0	72
Imtiaz Sukuk II Berhad	05/20	AA2	4.388	10	4.410	07/08/2018	-2	90
UMW Holdings Berhad	09/23	AA2	4.594	10	4.568	20/09/2018	3	82
Benih Restu Berhad	06/25	AA2	4.617	20	4.619	21/09/2018	0	64
Fortune Premiere Sdn Berhad	09/23	AA	4.845	10	4.848	07/09/2018	0	107
Sime Darby Plantation Sdn Bhd	03/16	AA	5.009	10	5.128	31/07/2018	-12	32
Gamuda Berhad	11/22	AA3	4.607	20	4.638	03/09/2018	-3	90
CIMB Thai Bank Public Company Limited	07/24	AA3	4.594	20	4.595	20/09/2018	0	69
CIMB Thai Bank Public Company Limited	07/26	AA3	5.070	1	4.962	14/09/2018	11	100
Malakoff Power Berhad	12/18	AA-	4.044	10	4.077	24/09/2018	-3	68
TSH Sukuk Ijarah Sdn Berhad	04/23	AA-	4.790	20	-	-	-	-
Jimah East Power Sdn Berhad	12/24	AA-	4.669	40	4.638	19/09/2018	3	77
Jimah East Power Sdn Berhad	06/25	AA-	4.632	10	4.663	28/08/2018	-3	66
Lebuhraya DUKE Fasa 3 Sdn Berhad	08/29	AA-	4.987	10	4.901	12/01/2018	9	89
Lebuhraya DUKE Fasa 3 Sdn Berhad	08/32	AA-	5.140	20	5.235	02/07/2018	-10	64
MEX II Sdn Berhad	04/34	AA-	5.423	10	5.509	09/08/2018	-9	92
Bank Islam Malaysia Berhad	12/25	A1	4.593	10	4.619	13/08/2018	-3	62
Bank Islam Malaysia Berhad	11/27	A1	4.816	40	4.838	10/08/2018	-2	72
Projek Lintasan Sungai Besi-Ulu Klang Sdn Berhad	11/27	A+	6.499	10	6.633	24/11/2017	-13	240
Lebuhraya DUKE Fasa 3 Sdn Berhad	08/30	AA-	5.019	50	5.080	25/04/2018	-6	92
				1090				

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

Market/Corporate News: What's Brewing

In the office and shopping complex segments, excess supply has persisted, with vacancy rates deteriorating further in the first quarter of 2018. Office space owners continue to offer rental holidays to attract tenants. "Conditions remain challenging for companies in the oil and gas sector amid a slow pick-up in capital spending by major oil producers," Bank Negara said. Banks are expected to strengthen their assessment of financing proposals for new property development or construction projects. This includes a more robust assessment of project viability, the financial strength of the developer and location-specific factors such as the effects of the development on properties in the surrounding areas. As a result of this, loan approval rates for office and shopping complex developments were correspondingly lower at 63.5% and 69.5%, respectively, during the January-June period. This compares with 72.5% and 75.8%, respectively, a year ago. Bank Negara said the incoming supply of office space in the Klang Valley in the next four years remained sizeable at 37.9 million square feet as at June 30, 2018, compared with 38.1 million sq ft a year ago. In the shopping complex segment, developers have either deferred or downsized their projects to secure higher occupancy amid softer market conditions. The report said in the Klang Valley, Johor and Penang, downward pressure on occupancy and rental rates continued to be exerted, although rental rates remained broadly unchanged. The number of commercial properties -- shops, shopping complexes and office space -- transacted in the first quarter of 2018 declined by about 9% compared with 8% in the last quarter of 2017, although values transacted saw an increase of 15.6%. In the residential segment, the mismatch between housing demand and supply, particularly in the affordable segment, continued to exert upward pressure on house prices. Only a quarter of newly launched units between 2016 and the first quarter of 2018 were priced below RM250,000. This compares with 35% of households who can only afford houses in the below RM250,000 price range. This has resulted in unsold units stacked at 146,196 units as at March 31, 2018, although demand for houses remain firm. An uptick in impaired residential and non-residential loans was seen, mainly for properties valued at above RM500,000, with higher incidents of impairments observed among the self-employed borrowers who are more exposed to income variability. Bank Negara said although household debt has shown a more sustainable trend, largely due to measures implemented since 2010, it is of the view that existing macroprudential measures remain relevant. Although borrowers continue to be supported by sustained income growth of households and healthy financial positions of businesses, pockets of risk remain. Impaired loans have grown a little faster among households that are more exposed to income variability and facing higher cost pressures, although impairment levels remain low. Bank Negara said as at June 30, 2018, the total exposure of financial institutions to the domestic property market grew by 6.8% (2017: 7.2%) to RM878.9bil. Banks remained the largest lender to the domestic property market, representing 97% of total financial institutions in the sector. *(Source: The StarOnline)*

Even as U.S. stocks flirt with records, investors are staring at a cross-asset landscape that hasn't been painted with this much red since the depths of the financial crisis. The dollar's upswing, brewing price pressures and cracks in the synchronized growth story have pushed asset returns into negative territory across much of the world. This year is on track to deliver the lowest share of positive returns adjusted for inflation across 17 major asset classes since 2008, according to Morgan Stanley. Real yields are on the verge of breaking into a higher post-crisis range, threatening more damage to besieged portfolios. Only the Russell 2000, S&P 500 and U.S. high-yield bonds -- some of the most expensive asset classes around -- have provided unhedged investors shelter from the storm in dollar terms. "There always seems to be a level of griping, on both the buy- and sell-side, that conditions are challenging for one reason or another," Morgan Stanley strategists led by Andrew Sheets wrote in a report on Sunday. "But this year it really seems to be the case." The Federal Reserve is poised to usher in a new era of real policy rates when it makes its forecast interest-rate increase this week -- turbo-charging the competition for capital and testing asset valuations anew. Longer-term inflation-protected Treasury yields hit their highest since 2011 on Tuesday. Real rates play a key role in discounting projected corporate earnings. The investment landscape marks a volte-face from 2017's Goldilocks regime, characterized by subdued inflation, a synchronized global upswing and a clamor for yield that pushed emerging-market assets higher. Rising short-term rates adjusted for inflation are now allowing portfolio managers to satisfy their craving for yield lower down the risk spectrum, while increases at the long-end challenge equity valuations. "We're big believers that real rates matter most for risk markets, as it's the rate over and above inflation that matters most for discounting future cash flows," the bank's strategists write. "As 'invincible' as the U.S. equity market has been, it hasn't had to confront a different rate regime." Price action in recent weeks provides solace for bulls. The S&P 500 notched a fresh record while U.S. financial conditions have loosened from June levels -- even as 10-year real rates have climbed. Resilient risk appetites, a still-low effective cost of capital and stellar earnings have powered American assets across the board. And the beaten-up emerging market complex has defied the rise in the discount rate, with bargain-chasing real money investors shifting back into debt products and bearish voices in retreat. A Bloomberg currency index that tracks developing-market returns from carry trades is up about 2 percent this month on the heels of its worst month in over six years. But higher real yields -- in tandem with the repatriation of greenbacks, the outperformance of American equities and the U.S. economy's strong momentum -- cause to question the longevity of the rebound. The carry trade may only be "temporarily" back. A cruel new world may await cross-asset money managers. GMO LLC, a value investor with $71 billion in assets, projects negative returns across most asset classes adjusted for inflation for the next seven years, with cash in dollars alongside emerging-market assets offering the only source of gains. While U.S. stock investors are taking the rate sell-off in their stride, markets are humming a decidedly late-cycle tune, according to strategists. "Rising real rates here are not an automatic negative, but do reflect that an age-old pattern is unfolding: Better growth --> Fed tightening --> higher real rates --> slower growth --> equities, challenged by a higher discount rate and the growth drag. *(Source: The Edge Markets)*

Rating Action

Issuer	PDS Description	Rating/Outlook	Action
Kapar Energy Ventures Sdn Bhd (KEV)	RM2.0 billion Sukuk Ijarah	AA+IS	Affirmed

Source: RAM, MARC

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