

Global Markets Research

Fixed Income

Fixed Income Daily Market Snapshot

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	2.48	-3
5-yr UST	2.77	-5
10-yr UST	2.93	-5
30-yr UST	3.09	-3

MGS		GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.74	0	3.73	2
5-yr	3.88	0	3.96	1
7-yr	4.03	0	4.24	1
10-yr	4.26	4	4.34	0
15-yr	4.65	4	4.77	0
20-yr	4.93	1	4.84	0
30-yr	4.94	0	5.00	0

*Market indicative

MYR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.76	0
3-yr	3.84	-1
5-yr	3.94	0
7-yr	4.03	0
10-yr	4.17	0

Source : Bloomberg

Upcoming Government Bond Tenders

Nil

US Treasuries

- US Treasuries maintained its rally across the curve; driven by political concerns in Italy and Spain with Europe experiencing a peripheral bond sell-off. Overall benchmark yields ended 3-5bps lower with the 2Y settling 3bps down at 2.48% and 10Y 5bps at 2.93%. Despite the renewed talks on Trump-Kim meeting which allowed for risk-on measures, latest data reveals investors i.e. mainly banks, primary dealers and bond managers beginning to reposition and maintain an active stance on their portfolios. Treasury plans to sell \$130b of 1-6 month bills in 3 separate auctions this week. Whilst majority of Fed officials acknowledged that a June hike is a strong possibility; FOMC signaled caution in the pace of rate hikes.

MGS/GII

- Trading volume in local Govvies maintained at about RM2.64b last Friday with minimal trades on GII bonds. Attention was sporadic across the curve with some interest seen in the off-the-run MGS 23-26's and the MGS4/33. Overall benchmark bonds were slightly weaker i.e. 0-4bps higher. The benchmark 7Y MGS 3/25 closed unchanged at 4.03% whilst the 10Y MGS 6/28 was 4bps higher at 4.26% compared to previous-done levels. Investor attention continues to hinge on the country's elevated and classification on debt levels of ~RM1 trillion and wary of potential elevated yield spreads on sovereign debt compared to its peers.

Corp Bonds/Sukuk

- Corporate Bonds saw improvement in volume at RM329m with trades centered mainly in the AA-space. Khazanah 3/19 ended weaker on yields at 3.95% compared to previous-done levels whilst AAA rated DANGA 2/26 rose 8bps higher to close at 4.72%. AA-rated power bonds i.e. YTL Power 5/27 rallied to a 5.04% close whilst Jimah East Power 6/32 moved the opposite direction closing weaker at 5.25% levels. UMW 21 and 26 saw RM60m traded closing 7-8bps higher at 4.63% and 4.90% respectively. Expect interest to be sustained on names unaffected by structural changes in operating environment.

Daily Trades : Government Bonds

Securities		Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS	09/18	3.311	613	3.325	23/05/2018	-1
MGS	03/19	3.393	44	3.343	23/05/2018	5
MGS	10/19	3.507	1	3.472	23/05/2018	4
MGS	11/19	3.491	23	3.517	23/05/2018	-3
MGS	03/20	3.603	24	3.592	22/05/2018	1
MGS	10/20	3.671	10	3.658	23/05/2018	1
MGS	02/21	3.811	10	3.789	21/05/2018	2
MGS	07/21	3.850	70	3.832	22/05/2018	2
MGS	11/21	3.743	16	3.742	23/05/2018	0
MGS	03/22	3.915	75	3.918	21/05/2018	0
MGS	08/22	3.916	52	3.922	23/05/2018	-1
MGS	09/22	3.921	66	3.920	23/05/2018	0
MGS	03/23	4.046	37	3.987	23/05/2018	6
MGS	08/23	4.057	145	4.099	21/05/2018	-4
MGS	07/24	4.162	34	4.147	23/05/2018	1
MGS	09/24	4.231	126	4.176	23/05/2018	5
MGS	09/25	4.309	214	4.211	23/05/2018	10
MGS	11/26	4.369	221	4.282	22/05/2018	9
MGS	11/27	4.367	94	4.215	23/05/2018	15
MGS	06/28	4.261	140	4.207	23/05/2018	5
MGS	04/30	4.708	74	4.619	22/05/2018	9
MGS	06/31	4.781	23	4.738	23/05/2018	4
MGS	04/33	4.749	222	4.770	22/05/2018	-2
MGS	11/33	4.646	20	4.606	23/05/2018	4
MGS	04/37	4.930	114	4.859	23/05/2018	7
GII	08/18	3.398	7	3.505	22/05/2018	-11
GII	08/18	3.517	1	3.319	25/04/2018	20
GII	08/20	3.727	70	3.723	22/05/2018	0
GII	03/21	3.820	50	3.831	23/05/2018	-1
GII	04/22	3.955	30	3.925	23/05/2018	3
GII	08/25	4.241	10	4.192	23/05/2018	5
GII	10/25	4.422	1	4.356	17/05/2018	7
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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*
Khazanah Nasional Berhad	03/19	GG	3.948	20	3.757	23/03/2018	19	54
Pengurusan Air SPV Berhad	06/21	GG	4.223	10	4.201	22/05/2018	2	49
Telekom Malaysia Berhad	12/24	AAA	4.608	10	4.439	09/03/2018	17	56
Danga Capital Berhad	02/26	AAA	4.722	40	4.647	07/05/2018	8	61
Tenaga Nasional Berhad	08/32	AAA	4.949	1	4.949	23/05/2018	0	31
Public Bank Berhad	10/23	AA1	4.311	20	4.326	23/04/2018	-1	40
YTL Power International Berhad	05/27	AA1	5.035	90	5.350	03/05/2018	-32	85
UMW Holdings Berhad	10/21	AA2	4.627	30	4.546	18/04/2018	8	89
UMW Holdings Berhad	10/26	AA2	4.899	30	4.829	20/04/2018	7	78
WCT Holdings Berhad	12/18	AA-	4.514	3	4.463	27/04/2018	5	111
Golden Assets International Finance Limited	08/18	A1	4.914	20	4.931	23/05/2018	-2	151
Affin Bank Berhad	02/27	A1	4.977	10	4.887	04/05/2018	9	79
Affin Bank Berhad	09/27	A1	5.018	10	4.928	04/05/2018	9	84
UMW Holdings Berhad	04/18	A1	6.078	10	6.099	23/05/2018	-2	117
Alliance Bank Malaysia Berhad	10/25	A2	5.451	5	4.698	23/05/2018	75	141
Jimah East Power Sdn Berhad	06/32	AA-	5.251	20	5.198	25/04/2018	5	61
				<u>329</u>				

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

Market/Corporate News: What's Brewing

THE government's liabilities are out in the open. Finance Minister Lim Guan Eng revealed details to substantiate his point of national liabilities and debt have breached not only the RM1 trillion-mark but also reached 80.3% of gross domestic product. The numbers are disputed by the former Finance Minister and Prime Minister Datuk Seri Najib Tun Razak. Apart from a higher national debt, the new government faces a loss of revenue from the abolition of the goods and services tax (GST). The GST is to be zeroised from June 1 and will see a shortfall in revenue that will be only plugged once the sales and services tax (SST) is introduced later this year. But investment circles feel that the government does have many options, some bold and creative, for it to raise finances to cover not only the revenue gap but also reduce government debt. One option that has now been floated is the listing of Petroliam Nasional Bhd (Petronas). Listing the national oil company has made its rounds for consideration before, but given the gravity of the situation now, one investor says that it is a surefire way of raising a huge sum of money quickly. Saudi Arabia during the depths of the oil crisis recently proposed to float the country's jewel – Saudi Aramco. The listing of 5% of the world's most secretive and largest oil company could raise US\$2 trillion for the kingdom. A listing of Petronas, which made a profit of RM45.5bil last year when oil prices were much lower than now, can raise between RM600bil and RM800bil, depending on the valuation the company seeks from investors in an initial public offering (IPO). "A disposal of a 25% stake in Petronas during a listing exercise will easily raise between RM150bil to RM200bil for the government," says an investment banker. A listing of Petronas, apart from generating cash to repay the country's debt, will also address the oil royalty issue that is a quagmire between the government and the states where oil is produced. "The states can have a share in Petronas and then can receive the dividends that Petronas declares. This will also solve the problem of Sarawak wanting to set up its own version of Petronas," he says. Another idea floated is establishing a national land company, much along the likes of Singapore's Urban Redevelopment Authority. Federal-owned land can be put into a trust or into a company that can be listed. Money from an IPO would raise cash for the government or a private trust can sell the land to developers to raise a steady stream of cash. "That way, we can have regulated development and land that can be put up for sale through open tender," he says. The banker says that there would not be abuses of land sales such which is quite prevalent now. "We won't have cases of politicians disposing of land or buying it for their personal gains," he said. The national land company would be easily worth billions, depending on the properties that are put into the company. Another avenue is the establishment of a government real estate investment trust (REIT). The investor says that buildings in Putrajaya can be put into a gigantic REIT that can then be floated to raise cash for the government. He estimates that the proposals, if executed, can raise between RM1.5 trillion and RM2 trillion, which can effectively pay off the government debt. There is rising anxiety that rating agencies and international investors are getting cold feet over the size of government liabilities. The government has said that it would honour its debt obligations and stressed that the economy is in good health regardless of the federal debt. There are mitigations to revenue loss from the GST zero-rating such as upsides to oil-related income, given global crude oil prices that are now higher at an average of almost US\$70 per barrel year-to-date compared with the Budget 2018 forecast of US\$52 a barrel. The SST re-introduction, depending on whether this would be the same as previously in terms of SST rates and base, will be another source of income generation. These also need to be complemented by the spending side of the budget equation as well, given that there are also costs from populist Pakatan Harapan election promises like bringing back fuel price stabilisation/subsidies; the deferment in the National Higher Education Fund Corp (PTPTN) loan repayment which affects the financing of the PTPTN for future batches of students; and the abolition of highway tolls. Adjustments in spending from a smaller Cabinet, ministerial salary cuts, the termination of political appointees, the abolition of agencies like the Land Public Transport Commission and the National Professors Council, reviewing or putting an end to direct negotiation contracts and going for open tender may be essential. It will be a combination of GST revenue offsetting measures and spending rationalisation." Socio-Economic Research Centre executive director Lee Heng Guie says that when it comes to revenue reforms, the design of the tax policy should be fair and equitable in order to be sustainable. The push for wide and investment-friendly reform to boost potential growth should be expedited, as strong investment and economic growth has a huge effect on enhancing revenue growth and reducing public debt.

On budget planning and development, he an oversight body may need to be set up to ensure better fiscal rules, budgetary processes and closer fiscal monitoring to ensure fiscal discipline..
(Source: *The Star*)

Businesses are required to pass on savings from the zero-rating of the goods and services tax (GST) that starts on June 1 to consumers in the form of lower prices, says the Customs Department. In a statement today, the department's director-general Datuk Seri Subromaniam Tholasy urged all businesses not to exploit the government's wish to lower prices and to pass the tax saving to consumers. "The government will not implement the sales and services tax (SST) on June 1, 2018, and the actual date of the SST implementation will be announced later. Hence, all businesses are required to implement the lowering of prices of goods and services in accordance to the 6% [GST] that will be zero-rated beginning June 1, 2018," he said. The government will be taking stern steps to ensure that the prices of goods and services comply with the Price Control and Anti-Profiteering Act 2011, he added. For further information, businesses can refer to the frequently asked questions in relation to the transitional period from 6% to zero-rated GST that has been uploaded to the Customs website at www.customs.gov.my and the portal gst.customs.gov.my. (Source: *The Edge*)

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

Source: RAM Ratings; MARC

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