Global Markets Research

Fixed Income

Fixed Income Daily Market Snapshot

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	2.12	3
5-yr UST	2.47	5
10-yr UST	2.66	4
30-yr UST	2.91	3

	MGS		GII*	
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.35	0	3.46	-7
5-yr	3.59	-3	3.85	-3
7-yr	3.91	2	4.08	0
10-yr	3.89	-4	4.14	-2
15-yr	4.44	0	4.54	-2
20-yr	4.61	-1	4.78	0
30-yr	4.86	0	4.95	0

*Market indicative

MYR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.73	3
3-yr	3.82	2
5-yr	3.91	1
7-yr	4.01	1
10-yr	4.12	1

Source: Bloomberg

US Treasuries

- US Treasuries sold-off; with flattening very much the order of the day led by the belly of the curve. Yields were higher across most tenures by 3-5bps. The 2Y; sensitive to Fed policy interest rate expectations nudged 3bps higher at 2.12% whilst the much-watched 10Y moved to multi-year highs, closing 4bps higher at 2.66%. The long-ends spread aggressively tightened but pared losses following 4Q GDP miss. Upcoming data today and tomorrow is light with some secondary data which are not expected to influence UST's much.

MGS/GII

- Local Govvies saw volume traded improve to RM5.54b with investor interest across most tenures; with bulk of trades in the short 18-19's off-the-runs on possible currency-play. Yields were generally lower by 1-4bps save for the 7Y MGS. Both the widely-watched benchmark 7Y MGS 9/24 and 10Y MGS 11/27 closed mixed at 3.91% and 3.89% respectively on odd-lot trades causing an inversion in yields compared to previous-done levels. The reopening of the 15Y MGS 4/33 was well received with BTC of 2.474x; averaging 4.446%. With investors possibly not expecting further hikes in this election year; interest may shift to the longer-ends given lighter supply and available liquidity. Data on the local front is light for today and tomorrow.

Upcoming Government Bond Tenders

Nil

PDS/Sukuk

- Decent interest seen in the secondary market for Corporate Bonds with total volume of RM314m as interest returned on some Govt-Guaranteed and AAA-rated papers. PASB 2/21 and LPPSA 9/46 rallied 3bps to close at 3.95% and 5.22% respectively compared to previous-done levels. Meanwhile the longer AAA-rated RANTAU 5/31 and PLUS 26 closed 0-2bps higher at 4.86% and 4.55% respectively. Banking stocks like Alliance 25NC20, Public 23NC18 and MAYBANK 24NC19 also saw interest in the secondary market. Expect interest to sustain on higher yield-requirements by end-investors.

Daily Trades : Government Bonds

Securities		Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS	02/18	3.033	215	3.033	25/01/2018	0
MGS	03/18	3.097	339	3.007	24/01/2018	9
MGS	09/18	3.111	59	3.270	25/01/2018	-16
MGS	03/19	3.208	9	3.204	25/01/2018	0
MGS	07/19	3.190	600	3.269	25/01/2018	-8
MGS	10/19	3.210	732	3.255	25/01/2018	-4
MGS	11/19	3.236	266	3.349	25/01/2018	-11
MGS	10/20	3.345	19	3.350	25/01/2018	0
MGS	02/21	3.353	13	3.354	25/01/2018	0
MGS	07/21	3.479	50	3.479	25/01/2018	0
MGS	09/21	3.614	22	3.629	25/01/2018	-2
MGS	11/21	3.465	55	3.465	25/01/2018	0
MGS	03/22	3.590	34	3.565	25/01/2018	2
MGS	08/22	3.768	2	3.743	25/01/2018	2
MGS	09/22	3.712	36	3.705	25/01/2018	1
MGS	03/23	3.826	10	3.798	24/01/2018	3
MGS	07/24	3.881	31	3.942	25/01/2018	-6
MGS	09/24	3.905	215	3.907	25/01/2018	0
MGS	09/25	3.978	31	3.970	24/01/2018	1
MGS	04/26	4.059	4	4.109	24/01/2018	-5
MGS	09/26	4.152	10	4.906	06/12/2017	-75
MGS	11/26	4.018	15	4.030	25/01/2018	-1
MGS	05/27	4.173	20	4.151	11/01/2018	2
MGS	11/27	3.887	13	3.886	25/01/2018	0
MGS	06/28	4.060	20	4.066	25/01/2018	-1
MGS	04/30	4.391	3	4.401	24/01/2018	-1
MGS	06/31	4.411	26	4.436	25/01/2018	-3
MGS	04/33	4.440	1455	4.441	25/01/2018	0
MGS	04/37	4.607	85	4.619	25/01/2018	-1
GII	05/18	3.201	9	3.231	24/01/2018	-3
GII	08/18	3.222	30	3.265	24/01/2018	-4
GII	04/19	3.390	0	3.225	05/01/2018	17
GII	04/20	3.557	31	3.536	24/01/2018	2
GII	04/22	3.848	661	3.877	25/01/2018	-3
GII	08/24	4.080	64	4.080	25/01/2018	0
GII	09/26	4.236	3	4.250	23/01/2018	-1
GII	07/27	4.138	243	4.162	25/01/2018	-2
GII	06/33	4.535	110	4.552	24/01/2018	-2
			5540			

Daily Trades: PDS / 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	02/21	GG	3.947	50	3.973	05/12/2017	-3	56
Prasarana Malaysia Berhad [fka Syarikat Prasarana	09/24	GG	4.331	25	4.332	18/01/2018	0	42
Lembaga Pembiayaan Perumahan Sektor Awam	09/46	GG	5.220	10	5.250	20/10/2017	-3	61
Berjaya Land Berhad	12/21	AAA	4.944	2	4.861	23/10/2017	8	146
Rantau Abang Capital Berhad	05/31	AAA	4.856	10	4.845	24/01/2018	1	45
Projek Lebuhraya Usahasama Berhad	01/26	AAA	4.549	25	4.548	23/01/2018	0	61
Gulf Investment Corporation G.S.C	03/21	AAA	4.993	10	5.041	28/11/2017	-5	161
Gulf Investment Corporation G.S.C	06/22	AAA	5.091	1	5.107	16/01/2018	-2	160
Telekom Malaysia Berhad	04/23	AAA	4.347	10	4.323	16/01/2018	2	75
Sabah Credit Corporation	10/19	AA1	4.428	5	4.436	24/01/2018	-1	113
Public Bank Berhad	10/23	AA1	4.361	20	4.327	24/01/2018	3	58
Malayan Banking Berhad	01/24	AA1	4.537	10	4.704	24/01/2018	-17	76
Celcom Networks Sdn Berhad [fka Celcom Transmiss	08/19	AA+	4.466	10	4.468	24/01/2018	0	117
Al-'Aqar Capital Sdn Berhad	05/20	AA2	4.750	1	4.843	18/12/2017	-9	145
Perbadanan Kemajuan Negeri Selangor	05/20	AA3	4.700	20	4.705	25/01/2018	0	140
SPR Energy (M) Sdn Berhad	07/20	AA3	4.598	5	4.549	30/11/2017	5	130
Gamuda Berhad	04/21	AA3	4.571	10	4.365	17/10/2017	21	119
Edra Energy Sdn Berhad	01/32	AA3	5.790	13	6.230	04/01/2018	-44	139
UEM Sunrise Berhad (fka UEM Land Holdings Berhac	12/18	AA-	4.381	12	4.350	22/01/2018	3	118
Grand Sepadu (NK) Sdn Berhad	06/23	AA-	4.659	3	4.726	06/03/2017	-7	106
SAJ Capital Sdn Berhad	01/29	AA-	5.610	20	-	-	-	-
Lebuhraya DUKE Fasa 3 Sdn Berhad	08/36	AA-	5.320	2	5.314	22/01/2018	1	71
Tan Chong Motor Holdings Berhad	11/19	A1	5.895	1	5.838	27/11/2017	6	260
Affin Bank Berhad	02/27	A1	4.827	10	5.015	18/01/2018	-19	87
CIMB Group Holdings Berhad	05/16	A1	5.477	9	5.100	24/01/2018	38	86
Alliance Bank Malaysia Berhad	10/25	A2	4.850	20	5.089	24/01/2018	-24	92
Mah Sing Perpetual	-	-	6.674	1	6.334	17/01/2018	34	-
				314				

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

Market/Corporate News: What's Brewing

Palm oil output in the world's top two producing countries is forecast to climb to new highs this year as output fully recovers from its El Nino-stunted 2017 level, pushing 2018 average prices down by 7 percent from last year, a Reuters poll showed. Benchmark prices are forecast to average 2,620 ringgit ($676.30) a tonne this year, versus 2,807 ringgit in 2017, according to the median estimate from a poll of 14 traders, planters and analysts. Output in top producer Indonesia is forecast to rise to 37.8 million tonnes, while Malaysian output is expected to increase to 20.5 million tonnes, according to the poll. Palm oil is a commonly used vegetable oil found in everything from soap and chocolate to cooking oil. Nearly 90 percent of global supply is from Indonesia and Malaysia. Apart from yield recoveries after the 2015 El Nino, a dry weather event which can impact crops for up to two years, production will also rise as more young trees come to maturity, increasing harvested areas. "We've gotten over the effects of the El Nino... 2018 will be a more normalized year for yields, which should increase from last year, as (earlier) replanting will take out some of the lower yielding areas," said an Indonesian planter. Another Indonesian planter added that ample rainfall since last year should aid production in the second half of 2018. Production is likely to slow from the start of the year until March, before peaking in the third quarter, in line with seasonal trends. "Year-on-year, growth will be strong in Q1, in the range of double digit growth, but will normalize to single digit growth in Q2 and the second half of the year," said Alan Lim, plantations analyst at MIDF Research. The Malaysian Palm Oil Board reported 2017 output at 19.9 million tonnes, while the Indonesia Palm Oil Association estimated production last year at 36.5 million tonnes. While rising output could pressure prices, palm may face competition from large crops of other edible oils this year. "Global soft oil supplies are expected to be record high, on the back of large soybean, rapeseed and sunflower seed crops across major producing regions... (which) will provide competition for palm oil demand and curb potential price rallies," said a Rabobank report, adding demand growth in palm's two biggest importers, China and India, could be limited. India's palm oil import growth potential will be capped by the availability of competing rival oils, while China is expected to import a record amount of soybeans to crush for feed to sustain its meat production, boosting the supply of soyoil for the domestic market. Recent gains in crude oil prices, however, could spur demand for palm oil from biodiesel producers, which would contribute to the 4 to 5 percent increase in global palm oil demand predicted by the poll respondents. Oil prices have risen over 40 percent since mid-2017, making biodiesel more competitive as a fuel replacement. Palm oil is used as a feedstock to make biodiesel. Indonesia is aiming to expand biodiesel subsidies to cover consumption of palm oil-blended fuels by the mining sector this year. The subsidy for its programme with a minimum 20 percent bio content was previously only available to the power sector. Malaysia's biodiesel mandate requires a minimum biofuel content of 7 percent for its transportation sector. (Source: The Star)

Logistics players are hoping the new year will bring a reversal of fortunes, supported by stable economic growth as their prospects are much related to the performance of the economy. For most, 2017 was challenging mainly due to increase in operating costs amid intense competition in the industry. According to Century Logistics Holdings Bhd executive director Edwin Yeap, a stable ringgit and fuel price will make it easier for logistics companies to plan ahead. “We have seen volumes rising in the first half of January,” he told The Edge Financial Daily. The group recorded an operating profit of RM17.11 million in the nine months ended Sept 30, 2017, a decrease of 15% compared with RM20.175 million a year ago, mainly due to lower activity in its total logistics services and procurement logistics services operations. This year, Century Logistics is banking on its parcel delivery operation to prop up earnings numbers. This is on the back of an increase in broadband penetration, which is expected to facilitate growth in e-commerce volume. “Based on the numbers we have seen, Malaysia has an e-commerce user penetration rate of about 4% to 5% [of the population] versus 20% to 25% in countries such as Japan and South Korea. So, there’s still a lot of room to grow,” Yeap said. Export growth is also expected to give logistics players a boost this year. Export growth in November rose by 14.4% year-on-year, above market expectations. That was the 11th consecutive month of double-digit growth in exports for 2017. Logistics companies will continue to be the beneficiaries of growing external trade and a rising Manufacturing Purchasing Managers’ Index (PMI). The Nikkei Malaysia PMI has been on the climb, hitting a 43-month high in November 2017 at 52 points.

This indicated a pickup in manufacturing orders and was the third time the figure registered an expansion, he noted. Companies such as Tiong Nam Logistics Holdings Bhd are facing margin pressure, while GD Express Carrier Bhd (GDex) has been incurring higher operating costs due to manpower cost, fuel cost and warehouse space expansion. Both companies saw their net profit for the most recent quarter ended Sept 30, 2017 falling below analyst estimates. It also helps that the Malaysian government has always recognised the logistics sector as a vital component of the economic performance of the country, promising to introduce measures to resolve bottlenecks and increase efficiency, such as the creation of the National Logistics Task Force (NLTF) chaired by the transport minister."We are now engaging with the World Bank to improve our logistics and trade facilitation sector," NLTF chief executive officer Gan Thye Heng told The Edge Financial Daily. Shares in logistics companies surged in March last year after Alibaba Group Holding Ltd announced that it was setting up warehousing facilities in Malaysia."Unless earnings growth picks up soon to meet current valuations, this could be the end of the recent rally in logistics stocks," he said. "As the sector's low barrier to entry continues to fuel competition, the courier segment is likely to see more consolidation in the near to medium term, said GDex managing director Teong Teck Lean. With growth of the e-commerce market continuing to attract new players, the group expects more intense competition in the express delivery industry, with some impact on its business margin. Teong pointed out that the backing of large venture capital funds behind on-demand logistics start-ups such as GoGoVan, Lalamove, Deliveree, Ninja Van and TheLorry has been one of the factors driving competition in the sector. However, Teong maintained that GDex is more interested in growing organically in Malaysia instead of looking for merger or acquisition opportunities over the next few years. Century Logistics' Yeap echoes the sentiment. Although the company continues to keep its eyes peeled for possible acquisition targets, he said many small logistics players are holding out for "astronomical valuations". Meanwhile, an anonymous industry player questions the sustainability of on-demand logistics start-ups which not only continue to make losses but are, in some cases, cash flow-negative. "How long are investors going to continue pumping money into them?" he asked, noting that although these companies are modelled after ride-sharing services Uber and Grab, they seem not to have perfected the synchronisation of their fleet with their parcels. "When it comes to freight, size matters," the industry player said, adding that these start-ups have not fully synchronised the size of their parcels with the vehicles used to transport them. (Source: The Edge)

Rating Actions

Issuer	PDS Description	Rating/Outlook	Action
Sinar Kamiri Sdn Bhd (SKSB)	Green SRI Sukuk Wakalah of up to RM245.0 million	AA-IS	Assigned

Source: RAM Ratings; MARC

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