

Global Markets Research

Fixed Income

Fixed Income Daily Market Snapshot

US Treasuries

- US Treasuries advanced last Friday despite decent 1Q GDP data with gains led by the long-end as the curve bull-flattened. Overall benchmark yields ended 1-4bps lower save for the 2Y (most sensitive to interest rate outlook); which edged 1bps higher at 2.48% whilst the much-watched 10Y fell 2bps to 2.96%. Speculators are seen to have added huge net short positions in the week ended 24th April. The busy week ahead with Fed's policy decision on rates and quarterly refunding announcement, inflation and jobs data may reinforce bets on gradual rate hikes. This in turn may put pressure on yields going forward also taking into account the Fed's ongoing \$4.4 trillion balance sheet run-off.

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	2.48	1
5-yr UST	2.80	-1
10-yr UST	2.96	-2
30-yr UST	3.12	-4

MGS		GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.77	-2	3.79	-5
5-yr	3.78	-11	3.92	-1
7-yr	4.05	-5	4.13	-5
10-yr	4.16	-6	4.23	-5
15-yr	4.69	0	4.75	0
20-yr	4.74	0	4.86	0
30-yr	4.89	0	4.92	0

*Market indicative

M YR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.77	0
3-yr	3.83	-2
5-yr	3.90	-4
7-yr	4.01	-4
10-yr	4.16	-4

Source : Bloomberg

MGS/GII

- Trading volume in local Govvies was maintained at RM2.81b as both MGS and GII bonds rebounded following general weakness across the curve in response to the spike in UST yields. Overall benchmark yields were 0-11bps lower with the benchmark 7Y MGS 3/25 rallying pushing yields down by 5bps to 4.05% whilst the 10Y MGS 11/27 also fell 6bps to 4.16% compared to previous-done levels. The auction tender for the new issuance of 10.5Y GII 10/28 notched an impressive BTC ratio of 2.7x; averaging 4.369%. Meanwhile we expect a quiet session following the relief rally last Friday as higher net supply of Govvies coupled with the subdued interests in the ringgit may dampen demand.

Corp Bonds/Sukuk

- Corporate Bonds saw market volume improve to RM324m with interest across the curve as AA-rated bonds formed half of the trades. Govt-guaranteed MKD kenchana 4/23 and 4/25 made their debut closing at 4.328% and 4.472% whilst AAA-rated PUTRAJAYA 27-28's ("PBSB") spiked by 8-12bps to close between 4.73-76% levels compared to previous-done levels. Meanwhile AA-rated UMW 2/21 also grinded 4bps higher at 4.53% whereas other power-related bonds i.e. TADAU Energy 7/23, KEV 7/26, SEB 12/32 also moved higher yield-wise to close at 4.97%, 4.83% and 5.34% respectively. Expect selective trades to be printed as investors seek value in current volatile market conditions.

Daily Trades : Government Bonds

Securities		Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS	09/18	3.468	356	3.384	26/04/2018	8
MGS	03/19	3.496	20	3.486	26/04/2018	1
MGS	07/19	3.576	39	3.615	26/04/2018	-4
MGS	10/19	3.619	22	3.589	26/04/2018	3
MGS	11/19	3.651	10	3.667	26/04/2018	-2
MGS	07/20	3.705	5	3.701	24/04/2018	0
MGS	10/20	3.723	1	3.723	26/04/2018	0
MGS	02/21	3.744	80	3.828	26/04/2018	-8
MGS	07/21	3.841	11	3.844	26/04/2018	0
MGS	09/21	3.817	21	3.845	26/04/2018	-3
MGS	11/21	3.767	182	3.785	26/04/2018	-2
MGS	03/22	3.901	3	3.853	26/04/2018	5
MGS	08/22	3.889	70	3.966	26/04/2018	-8
MGS	09/22	3.919	57	3.974	26/04/2018	-6
MGS	03/23	4.049	65	4.022	26/04/2018	3
MGS	04/23	3.779	247	3.871	26/04/2018	-9
MGS	08/23	4.000	77	4.032	26/04/2018	-3
MGS	03/25	4.051	180	4.109	26/04/2018	-6
MGS	09/25	4.217	283	4.193	26/04/2018	2
MGS	04/26	4.168	20	4.067	18/04/2018	10
MGS	11/26	4.208	38	4.165	26/04/2018	4
MGS	11/27	4.155	226	4.200	26/04/2018	-4
MGS	04/30	4.536	2	4.553	26/04/2018	-2
MGS	06/31	4.563	57	4.588	26/04/2018	-3
MGS	04/33	4.688	22	4.698	26/04/2018	-1
MGS	05/35	4.862	6	4.695	24/04/2018	17
MGS	04/37	4.742	17	4.747	26/04/2018	0
GII	05/18	3.178	20	3.276	23/04/2018	-10
GII	10/18	3.400	8	3.246	23/04/2018	15
GII	04/19	3.444	44	3.365	03/04/2018	8
GII	04/20	3.788	11	3.760	26/04/2018	3
GII	08/20	3.843	1	3.710	04/04/2018	13
GII	04/22	3.920	20	3.926	26/04/2018	-1
GII	08/25	4.127	20	4.175	26/04/2018	-5
GII	07/27	4.231	4	4.277	25/04/2018	-5
GII	10/28	4.345	561	-	-	-
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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*
MKD Kencana Sdn Berhad	04/23	GG	4.328	30	-	-	-	53
MKD Kencana Sdn Berhad	04/25	GG	4.472	60	-	-	-	42
Cagamas Berhad	08/18	AAA	3.931	7	3.696	09/04/2018	24	53
Cagamas Berhad	12/18	AAA	4.156	10	3.826	27/03/2018	33	75
GENM Capital Berhad	03/22	AAA	4.695	30	4.680	11/04/2018	2	93
Sarawak Hidro Sdn Berhad	08/26	AAA	4.618	5	4.587	13/04/2018	3	52
Putrajaya Bina Sdn Berhad	09/27	AAA	4.730	20	4.608	16/01/2018	12	60
Putrajaya Bina Sdn Berhad	03/28	AAA	4.760	10	4.680	28/03/2018	8	62
Sabah Development Bank Berhad	08/19	AA1	4.663	10	4.799	01/08/2017	-14	126
Sarawak Energy Berhad	12/32	AA1	5.339	5	5.266	18/04/2018	7	67
Kapar Energy Ventures Sdn Berhad	07/26	AA+	4.829	10	4.738	15/04/2016	9	73
UMW Holdings Berhad	02/21	AA2	4.528	20	4.486	11/04/2018	4	85
Malaysia Airport Holdings Berhad	12/14	AA2	5.019	10	4.909	04/01/2018	11	26
Fortune Premiere Sdn Berhad	12/22	AA	4.848	6	4.757	11/04/2018	9	105
BEWG (M) Sdn Berhad	07/23	AA	5.188	2	5.182	18/01/2018	1	139
Gamuda Berhad	03/19	AA3	4.269	10	4.241	16/03/2018	3	87
AMMB Holdings Berhad	08/19	AA3	4.552	10	4.543	09/04/2018	1	115
Bumitama Agri Ltd	09/19	AA3	4.659	20	4.693	25/04/2018	-3	126
Besraya (M) Sdn Berhad	07/21	AA3	4.882	5	4.796	23/02/2018	9	120
Tadau Energy Sdn Berhad	07/23	AA3	5.069	4	4.967	19/09/2017	10	127
UEM Sunrise Berhad (fka UEM Land Holdings Berhad)	12/18	AA-	4.378	10	4.323	21/03/2018	5	98
WCT Holdings Berhad	12/18	AA-	4.463	1	4.394	27/03/2018	7	106
UEM Sunrise Berhad (fka UEM Land Holdings Berhad)	06/19	AA-	4.501	10	4.410	04/04/2018	9	110
Alpha Circle Sdn Berhad	11/19	AA-	5.222	6	4.655	13/10/2017	57	165
MMC Corporation Berhad	03/28	AA-	5.749	6	5.719	25/04/2018	3	161
Lebuhraya DUKE Fasa 3 Sdn Berhad	08/38	AA-	5.539	4	5.492	05/04/2018	5	78
Tan Chong Motor Holdings Berhad	11/19	A1	5.888	1	5.995	24/04/2018	-11	231
CIMB Group Holdings Berhad	05/16	A1	5.351	1	5.352	26/04/2018	0	60
EWIB	4/27/202	NR	6.467	2	6.296	26/04/2018	17	-
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*spread against nearest indicative tenured MGS (Source : BPAM)

Market/Corporate News: What's Brewing

WILL the month of May be more challenging than the usual "sell in May and go away"? Political uncertainty is an issue. In Malaysia, it will be general election in early May while in the US, it will be mid-term elections in six months' time. Inflation and rising US Government bond yields are major issues causing stockmarket jitters. As bond yields rise, making bond prices cheaper and more attractive, the recent pick-up in short term bond yields is also considered a warning sign. Higher borrowing costs and the potential flight out of dividend stocks into bonds could spell trouble for equities. Last week's earnings season and easing Korean tensions could not overcome inflation and rate hike jitters on Wall Street, and that had affected Asian markets. Could this be just a sentiment issue or a sign of something ominous? "Rising bond yields indicate the sustainability of the US economy. Current US consumption and retail sales do not indicate high inflationary pressure; it may be a sentiment issue unless oil price soars above US\$100 per barrel. Following the general election, Bursa Malaysia may be back to normal after the uncertainty," says Danny Wong, the CEO of Areca Capital. "In the US, funds have begun to flow out of equities in March and April, unlike in January and February which saw big inflows," according to Pong Teng Siew, the head of research at InterPacific Securities. Retail investors had aggressively bargain-hunted stocks that were sold down in January and February. Hence, the sharp rebounds. Come March and April, stocks gave up all ground reclaimed in February. "Retail investors are now leaving the market although via smaller net selling," says Pong. Rising US government bond yields may be a trend ahead. Apart from the Fed rate hike programme, large issuances of longer term bonds to fund the huge US budget deficit (for tax cuts, military and infrastructure spending), supply of which exceeds demand, is causing bond yields to climb sharply. Rising yields for US government bonds may cause investors to flee from junk bonds, which may impact other markets and companies that issue these junk bonds. The positive side is perhaps in the process of exiting, there may be some inflows into Asian markets although high yield investors usually stay in fixed income. "If yields rise enough to draw investors from, for example, junk bonds (which are risky but pay high yields), credit spreads (difference in yields of bonds with different credit quality) will begin to climb. "While spreads are indeed widening, it is not sufficient yet to cause too much pain to junk bond holders," says Pong. "Now, the spreads are so low, they pay only 50 to 60 basis points above those of US government bonds." Junk bond investors are not seen rushing out yet; it may be an alert sign for the stock market which may be considered also in the risky category. A junk bond exit may affect other markets as managers may sell other instruments to raise the cash. If junk bonds swoon, highly indebted companies will likely be forced to pay higher rates and may find themselves unable to raise the funds to keep afloat. As bond yields rise, the sustainability of the rebound in the US dollar, which hit a four-month high last Wednesday, is under watch. **"The US dollar may maintain these higher levels until the end of the third quarter; together with the reduction in Fed liquidity, the US dollar will likely continue to trade positively against other most currencies. "Due to these global moves, the ringgit, together with other currencies, is likely to weaken against the US dollar,"** says Hor Kwok Wai, the chief operating officer for global markets at Hong Leong Bank. Inflation expectations on the back of strong US economic growth as well as the yield gap between the US and Malaysia are factors that influence the direction of the ringgit. "If the yield gap between the US and Malaysia continues to narrow, rising US bond yields will attract more capital inflows into US dollar assets, and hence, weigh on the ringgit," says Lee Heng Guie, the executive director of Socio Economic Research Center. In China, big moves in potential easing of debt tightening measures are being weighed, as added pressure comes in the wake of trade tensions. Slowing March industrial and investment growth in China suggest that momentum may be tapering off; the People's Bank of China had cut reserve requirement ratios (a percentage of total deposits that banks must keep at all times). "China will run into the risk of deepening financial stability if the trade war prolongs," says Lee. "Investment growth will likely be curbed as there will be less incentives and means within China's private sector to invest elsewhere," says Pong. Columnist Yap Leng Kuen is worried about financial stability. (Source: The Star)

UMW Holdings Bhd has extended the validity of its takeover offer for control over MBM Resources Bhd (MBMR) for another six months, ahead of a crucial shareholders' vote to decide on the offer on Monday. In a filing with Bursa Malaysia today, UMW said its offer to buy a 50.07% stake in MBMR is now valid until Oct 31. This is the second extension after UMW previously extended the validity from March 28 to April 30. The latest extension is "to enable parties to deliberate

on the offers”, UMW said. UMW is offering RM2.56 per share to Med-Bumikar Mara Sdn Bhd for the latter’s 50.07% stake in MBMR. If Med-Bumikar accepts, UMW intends to undertake a mandatory general offer and take MBMR private. The price tag amounts to RM501 million, valuing MBMR at RM1 billion or 16.36% higher than its market value when the offer was announced on March 9. While Med-Bumikar’s board had rejected the offer, some of its shareholders keen to take UMW’s offer had called for an extraordinary general meeting (EGM) to vote on the deal. The EGM is scheduled for next Monday. The Edge Malaysia weekly previously reported that the EGM is set to see a 52% shareholding block vote in favour of UMW’s offer. UMW’s pursuit of control over MBMR is aimed at ultimate control over national carmaker Perusahaan Otomobil Kedua Sdn Bhd (Perodua), in which MBMR has a 22.58%. The six-month extension also applies to its RM417.5 million offer to buy a 10% stake in Perodua from PNB Equity Resource Sdn Bhd, a vehicle of UMW’s majority shareholder Permodalan Nasional Bhd. UMW is already a 38% shareholder in Perodua and gaining control over MBMR could allow it to exercise majority control over the national carmaker. However, any change of shareholding in Perodua requires the consent of other shareholders, who has the right of first refusal if any shareholder exits, according to past reports. The Edge weekly previously reported that Daihatsu Motor Co (DMC), Perodua’s 30% shareholder and longstanding technological partner, is unhappy over how the takeover is conducted. Perodua president and CEO Datuk Aminar Rashid Salleh told The Edge Financial Daily yesterday that the concerns over DMC and UMW’s proposed takeover is baseless. “There should not be any concerns on Daihatsu. I’m sure the shareholders can sort the issues out among themselves,” said Aminar Rashid. “For us at Perodua, it is still business as usual and whatever the shareholders decide, we will respect their decision,” he added. (Source: The Edge)

Rating Actions			
Issuer	PDS Description	Rating/Outlook	Action
Genting Malaysia Berhad (GenM)	RM5 billion MTN Programme (2015/2035)	AAA/Stable/P1	Reaffirmed
Hong Leong Financial Group Berhad’s (HLFG)	RM1.8 billion Medium-Term Notes and Commercial Papers Programmes	AA1/Stable and P1	Assigned

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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