

Global Markets Research

Fixed Income

Fixed Income Daily Market Snapshot

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	2.32	-16
5-yr UST	2.58	-18
10-yr UST	2.78	-15
30-yr UST	2.98	-12

MGS		GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.75	1	3.73	0
5-yr	3.88	0	3.96	0
7-yr	4.03	0	4.24	0
10-yr	4.25	-2	4.34	0
15-yr	4.66	1	4.77	0
20-yr	4.93	0	4.84	0
30-yr	4.94	0	5.00	0

*Market indicative

M YR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.76	0
3-yr	3.84	0
5-yr	3.93	-1
7-yr	4.03	0
10-yr	4.17	0

Source : Bloomberg

Upcoming Government Bond Tenders

RM4.0b of 5Y GII 11/23 on 30th May 2018

US Treasuries

US Treasuries saw a major rally across the curve on safe haven bids; driven by political crisis in Italy and Spain with Europe experiencing a peripheral bond sell-off. Overall benchmark yields ended a whopping 12-18bps lower with the 2Y settling 16bps lower at 2.32% and 10Y rallying to close 15bps down at 2.78%. The shrinking bearish view is expected to impact the voluminous short-squeeze in the market especially on the 10Y. Despite global banks tightening currently and removing monetary accommodation; political flares in Italy and Spain are expected to incite more volatility in markets. The Fed mentioned that the average yield for the popular 1Y T-Bill (a popular index for making changes in adjustable rate mortgages), stood at 2.28% down from 2.32% a week ago.

MGS/GII

Trading volume in local Govvies fizzled to a mere RM518m on Monday with yields generally higher across the curve. There was some interest in the off-the-runs with MGS 3/19 forming bulk of trades. Overall benchmark bonds were mixed between -2 to +1bps with many bond levels unchanged compared to previous done levels. The benchmark 7Y MGS 3/25 closed unchanged at 4.03% whilst the 10Y MGS 6/28 edged 2bps lower at 4.25%. Investors will be awaiting on further news with regard to the improvement and measures to be undertaken with regard to the country's debt levels and fiscal position given the potential cancellation of major infrastructure.

Corp Bonds/Sukuk

Corporate Bonds saw equally lethargic volume ahead of Wesak Day celebrations at RM128m with some trades centered across Govt-guaranteed, AAA and also the AA-space. The long-tenured DANA 5/36 ended weaker on yields at 5.07% compared to previous-done levels whilst AAA rated TNB 1/25 and Sarawak Hidro 8/26 rose 5bps each at 4.70% and 4.67% levels respectively. In the AA-space; infra-cum-power related bonds i.e. BGSM 8/21 and JEP 6/26 edged 0-2bps higher at 4.65% and 4.93% respectively whilst Southern Power closed 1bps lower at 5.26%. Expect sporadic interest to be maintained on yield-enhancement requirements.

Daily Trades : Government Bonds

Securities		Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS	09/18	3.344	1	3.228	25/05/2018	12
MGS	03/19	3.343	287	3.458	25/05/2018	-12
MGS	10/20	3.702	73	3.671	25/05/2018	3
MGS	09/21	3.837	64	3.901	24/05/2018	-6
MGS	11/21	3.749	2	3.743	25/05/2018	1
MGS	08/22	3.935	1	3.942	25/05/2018	-1
MGS	09/22	3.895	10	3.921	25/05/2018	-3
MGS	08/23	4.067	10	4.057	25/05/2018	1
MGS	09/24	4.176	3	4.231	25/05/2018	-5
MGS	06/28	4.245	20	4.260	25/05/2018	-1
MGS	04/30	4.719	18	4.708	25/05/2018	1
MGS	04/33	4.750	10	4.781	25/05/2018	-3
GII	08/20	3.722	5	3.727	25/05/2018	0
GII	07/22	3.962	1	4.071	23/05/2018	-11
GII	08/24	4.192	12	4.184	23/05/2018	1
GII	09/26	4.431	1	4.357	16/05/2018	7
			<u>518</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*
DanaInfra Nasional Berhad	05/36	GG	5.071	15	4.938	18/01/2018	13	17
Perbadanan Tabung Pendidikan Tinggi Nasional	07/41	GG	5.200	2	5.170	13/03/2018	3	30
TNB Western Energy Berhad	01/25	AAA	4.698	10	4.649	08/05/2018	5	66
Sarawak Hidro Sdn Berhad	08/26	AAA	4.671	10	4.618	27/04/2018	5	55
Tenaga Nasional Berhad	08/37	AAA	5.179	6	5.179	24/05/2018	0	28
Celcom Networks Sdn Berhad [fka Celcom Transmission (M) Sdn Berh	10/26	AA+	5.089	1	5.078	17/05/2018	1	96
Media Chinese International Limited	02/19	AA2	4.790	18	4.791	14/05/2018	0	140
Perbadanan Kemajuan Negeri Selangor	10/18	AA3	4.459	10	4.436	22/05/2018	2	107
BGSM Management Sdn Berhad	08/21	AA3	4.648	30	4.648	23/05/2018	0	91
Tanjung Bin Energy Issuer Berhad	09/25	AA3	4.880	2	4.719	13/02/2018	16	84
Tanjung Bin Energy Issuer Berhad	03/27	AA3	4.940	2	4.758	24/01/2018	18	75
Jimah East Power Sdn Berhad	06/26	AA-	4.952	10	4.932	17/05/2018	2	83
Jimah East Power Sdn Berhad	12/31	AA-	5.210	1	5.096	27/02/2018	11	56
Southern Power Generation Sdn Berhad	10/32	AA-	5.258	10	5.270	18/05/2018	-1	61
CIMB Group Holdings Berhad	05/16	A1	5.348	1	5.350	16/05/2018	0	45
				<u>128</u>				

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

Market/Corporate News: What's Brewing

With the Pakatan Harapan government confirming it has dropped the Kuala Lumpur-Singapore high-speed rail (HSR) project, attention has now turned to which mega-infrastructure projects could be reviewed next. Under its manifesto, the Pakatan coalition identified a number of mega-projects initiated by the previous administration that it planned to review – to save the country billions of ringgit. “Mega-projects such as the mass rapid transit, light rail transit (LRT) extension, LRT line 3, the East Coast Rail Link (ECRL), the HSR project and the Pan Borneo Highway are a few examples of hidden expenses using the name of special-purpose vehicles,” it said. Sources said that next on the radar could possibly be the Sabah portion of the Pan Borneo Highway estimated to cost the federal government RM12.8bil. Politicians in Sabah and Sarawak aligned to Pakatan Harapan are hoping for the federal government to continue with the Pan Borneo Highway that is estimated to cost RM29bil. Towards this end, Sabah Chief Minister Datuk Seri Mohd Shafie Apdal last week said he was confident the project would go on. Meanwhile, Sarawak Pakatan chairman Chong Chieng Jen said a few days after the general election (GE) that the project would continue – but auditing would be carried out on project cost and contractors involved. The 2,325km highway that is due for completion in 2021 straddles the two largest states in Malaysia, Sabah and Sarawak. It is toll-

free. It will run some 1,089km from Telok Melano in Sarawak to Merapok, near the checkpoint with Brunei, before taking off again on a 1,236km trip in Sabah. In Sabah, the project is divided into three phases – Sindumin to Tawau, Tamparuli to Ranau, Kemanis to Keningau and ending in Tawau. In Sarawak, the work is broken into 11 packages under the first phase of the highway and all sections of the work are being implemented. In Sabah, the work is broken into 35 work packages worth RM12.8bil with seven packages implemented between April 2016 and December 2017. “The bulk of the work in Sabah has not been carried out yet, which makes it easy to defer the project. In Sarawak, work on the ground in phase two between Miri and the border of Sabah has not been carried out yet,” said a source. According to a recent report by CIMB Research, the first phase of the Sarawak portion (worth RM16bil) has been fully awarded. The Sabah portion (worth RM12.9bil) was to have proceeded with contract rollout in the months ahead had the Barisan Nasional remained in power. “The cost of the Sabah portion is 20% lower than that of Sarawak,” said CIMB. As for the Sarawak portion of the Pan Borneo Highway, sources said 50% of the work has been done and has resulted in cost savings of more than RM1bil. For Sabah, many had expected the award of the balance remaining packages to pick up post-GE. “Seven packages worth RM3.2bil have been awarded, leaving the balance packages to be awarded in the second quarter of 2018 onwards, with an estimated value of RM9.7bil,” CIMB had stated in its recent research report. According to the research house, as at end-2017, five packages under the Sabah portion of the Pan Borneo Highway were under construction. It said two more packages were approved and launched, while 10 more were submitted to the Finance Ministry for approval. Sources said the five packages are facing “huge cost overruns” and the previous federal government was already having problems justifying the cost. The Sabah portion of the highway started off on a bad footing, as there was not one single company taking the lead as the project development partner (PDP). “MMC Corp Bhd and UEM Group Bhd each had 20% as PDP, while the remaining 60% has been given to six private companies linked to the previous state government,” a source said. Speculation had been rife that the previous federal government was even contemplating giving the project to a company from China to complete it on a fixed cost basis, considering the cost overruns. Apart from the Pan Borneo project, a slew of big-ticket construction projects were announced under the previous government. Among them is the ECRL project. According to a source, the project is in the midst of being reviewed by the Pakatan government. “If a project is not done in the interest of the people, it can be renegotiated. But for this, we need Parliament to convene,” said the source. With an estimated cost of RM55bil, the ECRL will reduce travel time from Bentong to Gombak from the current 90-minute drive to 25 minutes, and from Gombak to Kota Baru to less than four hours compared to the current seven hours by road. The project was targeted to be completed by 2026. Council of Eminent Persons member Tun Daim Zainuddin, however, has said the ECRL could cost RM11bil more than the RM55bil budget. At this point, the ECRL, which has been awarded to China Communications Construction Company Ltd, is about 13% complete. On Monday, Prime Minister Tun Dr Mahathir Mohamad called off the HSR project, claiming that the project would not be beneficial and would cost the country a “huge sum of money”. The project, which was worth RM60bil, is in cooperation with Singapore and has already seen the awarding of two PDP contracts worth RM30bil to RM40bil. The contracts were secured by the joint ventures of Malaysian Resources Corp Bhd with Gamuda Bhd, and YTL Corp’s Syarikat Pembinaan Yeoh Tiong Lay Sdn Bhd with TH Properties Sdn Bhd, a subsidiary of Lembaga Tabung Haji.. (Source: *The Star*)

Rating Actions

Issuer	PDS Description	Rating/Outlook	Action
Murud Capital Sdn Bhd	RM279 million Senior Commercial Papers under the Senior Commercial Papers/Medium-Term Notes (Senior CP/MTN) programme of up to RM290 million	MARCWatch Negative despite being rated MARC-1/AA	Revised

Source: RAM Ratings; MARC

Hong Leong Bank Berhad

Fixed Income & Economic Research, Global Markets

Level 8, Hong Leong Tower

6, Jalan Damanlela

Bukit Damansara

50490 Kuala Lumpur

Tel: 603-2081 1221

Fax: 603-2081 8936

Email: HLMarkets@hlbb.com.my

DISCLAIMER

This report is for information purposes only and does not take into account the investment objectives, financial situation or particular needs of any particular recipient. The information contained herein does not constitute the provision of investment advice and is not intended as an offer or solicitation with respect to the purchase or sale of any of the financial instruments mentioned in this report and will not form the basis or a part of any contract or commitment whatsoever.

The information contained in this publication is derived from data obtained from sources believed by Hong Leong Bank Berhad ("HLBB") to be reliable and in good faith, but no warranties or guarantees, representations are made by HLBB with regard to the accuracy, completeness or suitability of the data. Any opinions expressed reflect the current judgment of the authors of the report and do not necessarily represent the opinion of HLBB or any of the companies within the Hong Leong Bank Group ("HLB Group"). The opinions reflected herein may change without notice and the opinions do not necessarily correspond to the opinions of HLBB. HLBB does not have an obligation to amend, modify or update this report or to otherwise notify a reader or recipient thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

HLB Group, their directors, employees and representatives do not have any responsibility or liability to any person or recipient (whether by reason of negligence, negligent misstatement or otherwise) arising from any statement, opinion or information, expressed or implied, arising out of, contained in or derived from or omission from the reports or matter. HLBB may, to the extent permitted by law, buy, sell or hold significantly long or short positions; act as investment and/or commercial bankers; be represented on the board of the issuers; and/or engage in 'market making' of securities mentioned herein. The past performance of financial instruments is not indicative of future results. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Any projections or forecasts mentioned in this report may not be achieved due to multiple risk factors including without limitation market volatility, sector volatility, corporate actions, the unavailability of complete and accurate information. No assurance can be given that any opinion described herein would yield favorable investment results. Recipients who are not market professional or institutional investor customer of HLBB should seek the advice of their independent financial advisor prior to taking any investment decision based on the recommendations in this report.

HLBB may provide hyperlinks to websites of entities mentioned in this report, however the inclusion of a link does not imply that HLBB endorses, recommends or approves any material on the linked page or accessible from it. Such linked websites are accessed entirely at your own risk. HLBB does not accept responsibility whatsoever for any such material, nor for consequences of its use.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. This report is for the use of the addressees only and may not be redistributed, reproduced or passed on to any other person or published, in part or in whole, for any purpose, without the prior, written consent of HLBB. The manner of distributing this report may be restricted by law or regulation in certain countries. Persons into whose possession this report may come are required to inform themselves about and to observe such restrictions. By accepting this report, a recipient hereof agrees to be bound by the foregoing limitations.