

Global Markets Research

Fixed Income

Fixed Income Daily Market Snapshot

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	2.67	-1
5-yr UST	2.84	-2
10-yr UST	2.96	-2
30-yr UST	3.08	-2

MGS		GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.56	-2	3.55	-1
5-yr	3.75	0	3.88	0
7-yr	3.97	-2	4.06	0
10-yr	4.07	0	4.20	0
15-yr	4.54	0	4.62	0
20-yr	4.78	0	5.00	0
30-yr	4.91	0	4.98	0

*Market indicative

M YR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.71	0
3-yr	3.76	0
5-yr	3.85	0
7-yr	3.97	1
10-yr	4.17	0

Source: Bloomberg

Upcoming Government Bond Tender

Nil

US Treasuries

- US Treasuries rallied sparked mainly by the solid US 2Q GDP of 4.1% as tech-related stocks sold-off in the equities market. Overall benchmark yields were 1-2bps lower compared to prior day's session. The 2Y edged 1bps lower at 2.67% whilst the much-watched 10Y yield stayed short of the 3.00% level; at 2.96%. Meanwhile The US GDP report is likely to allow the case for a September (and even a December) rate hike in focus despite the existing trade spats including retaliatory tariffs imposed by China. This week sees various important data releases including ISM Manufacturing tomorrow, FOMC rate decision on Thursday and jobs data i.e. NFP on Friday.

MGS/GII

- Trading momentum in Govvies saw steady volume of RM2.7b as interest was mainly focused on the auction reopening of the 7Y MGS 3/25 which notched an impressive BTC of 3.302x; averaging 3.984%. Some sporadic interest was seen on the off-the-run 19's, 22's, 24's and 26's as well. Overall benchmark MGS yields were stronger i.e. between 0-2bps lower from prior day's close. The much-watched 10Y MGS 6/28 however was unchanged at 4.07% levels.

Corp Bonds/Sukuk

- Trading activity in Corporate Bonds/Sukuk continued to maintain strong volume of RM508m yesterday with interest across the curve, involving 37 different bonds compared to 30 the previous day. Both DANA 4/25 and PRASA 2/31 notched total nominal amounts of RM60m each, closing unchanged at 4.25% and 4.68% compared to previous-done levels. AAA-rated DANGA 33's closed 1-2bps lower between 4.90-93% levels. Meanwhile the AA-rated space saw several tranches of Konsortium Lebuhraya Utara-Timur 2022-2029 trade higher on yields on both standard and odd-lots. ORIX Leasing 2/23 made its debut at 4.85% levels whilst the banking space was dominated by both AFFIN Perps and BANK Islam 25's which closed mixed at 5.45% and 4.59-64% levels respectively. Expect secondary market to be active.

Daily Trades : Government Bonds

Securities		Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS	09/18	3.252	41	3.287	26/07/2018	-4
MGS	03/19	3.347	8	3.340	26/07/2018	1
MGS	07/19	3.430	4	3.409	25/07/2018	2
MGS	10/19	3.428	55	3.422	26/07/2018	1
MGS	11/19	3.434	167	3.432	25/07/2018	0
MGS	07/20	3.492	2	3.496	19/07/2018	0
MGS	09/21	3.625	7	3.610	25/07/2018	2
MGS	11/21	3.558	88	3.539	26/07/2018	2
MGS	03/22	3.673	5	3.649	26/07/2018	2
MGS	09/22	3.781	1	3.786	26/07/2018	0
MGS	03/23	3.844	4	3.836	26/07/2018	1
MGS	04/23	3.754	70	3.756	26/07/2018	0
MGS	03/25	3.966	828	3.985	26/07/2018	-2
MGS	09/25	4.070	140	4.121	26/07/2018	-5
MGS	04/26	4.184	15	4.177	26/07/2018	1
MGS	11/27	4.131	3	4.160	26/07/2018	-3
MGS	06/28	4.074	61	4.072	26/07/2018	0
MGS	04/30	4.470	3	4.481	26/07/2018	-1
MGS	06/31	4.570	1	4.573	24/07/2018	0
MGS	04/32	4.582	2	4.587	25/07/2018	0
MGS	04/33	4.596	167	4.603	26/07/2018	-1
MGS	05/35	4.713	5	4.686	26/07/2018	3
MGS	06/38	4.783	20	4.787	26/07/2018	0
GII	04/20	3.546	4	3.556	24/07/2018	-1
GII	04/21	3.694	50	3.690	25/07/2018	0
GII	08/21	3.725	2	3.725	24/07/2018	0
GII	07/22	3.855	150	3.856	26/07/2018	0
GII	07/23	3.917	1	3.940	26/07/2018	-2
GII	11/23	3.877	10	3.874	26/07/2018	0
GII	08/24	4.026	100	4.045	25/07/2018	-2
GII	08/25	4.062	50	4.062	26/07/2018	0
GII	09/26	4.199	212	4.209	26/07/2018	-1
GII	07/27	4.197	42	4.205	26/07/2018	-1
GII	10/28	4.201	310	4.200	26/07/2018	0
GII	08/33	4.647	30	4.661	24/07/2018	-1
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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*
Lembaga Pembiayaan Perumahan Sektor Awam	04/22	GG	4.069	5	4.027	18/04/2018	4	39
Prasarana Malaysia Berhad	08/23	GG	4.167	40	4.205	12/04/2018	-4	41
DanaInfra Nasional Berhad	07/24	GG	4.200	5	4.269	12/07/2018	-7	30
DanaInfra Nasional Berhad	04/25	GG	4.254	60	4.249	26/07/2018	0	28
GovCo Holdings Berhad	02/27	GG	4.484	15	4.510	17/07/2018	-3	40
DanaInfra Nasional Berhad	11/27	GG	4.410	15	4.420	23/07/2018	-1	32
Prasarana Malaysia Berhad	02/31	GG	4.681	60	4.679	19/07/2018	0	14
Perbadanan Tabung Pendidikan Tinggi Nasional	07/31	GG	4.738	1	4.420	24/08/2016	32	20
AI Dzahab Assets Berhad	03/22	AAA	4.500	5	4.569	06/03/2018	-7	82
DiGi Telecommunications Sdn Berhad	04/22	AAA	4.411	5	4.387	10/07/2018	2	73
Suria KLCC Sdn Berhad	12/24	AAA	4.431	40	4.568	21/05/2018	-14	53
Danga Capital Berhad	01/33	AAA	4.899	30	4.909	24/07/2018	-1	36
Danga Capital Berhad	09/33	AAA	4.929	15	4.949	20/07/2018	-2	39
YTL Power International Berhad	08/18	AA1	4.327	10	4.393	11/06/2018	-7	94
Samalaju Industrial Port Sdn Berhad	12/27	AA1	4.949	10	5.047	12/06/2018	-10	86
Celcom Networks Sdn Berhad	08/22	AA+	4.618	5	4.684	17/07/2018	-7	94
Bright Focus Berhad	01/23	AA2	4.576	5	4.579	26/07/2018	0	90
ORIX Leasing Malaysia Berhad	02/23	AA2	4.849	20	-	-	-	109
Krung Thai Bank Public Company Limited	07/25	AA2	4.819	2	4.836	12/07/2018	-2	85
Bumitama Agri Ltd	09/19	AA3	4.558	10	4.562	24/07/2018	0	117
AmBank Islamic Berhad	03/24	AA3	4.521	2	4.527	02/05/2018	-1	62
RHB Islamic Bank Berhad	05/24	AA3	4.487	3	4.954	23/07/2018	-47	59
Edra Energy Sdn Berhad	01/29	AA3	5.555	5	5.630	24/04/2018	-8	148
Konsortium Lebuhraya Utara-Timur (KL) Sdn Berhad	12/22	AA-	4.655	7	4.631	20/02/2018	2	98
Konsortium Lebuhraya Utara-Timur (KL) Sdn Berhad	12/26	AA-	4.834	20	4.784	05/02/2018	5	77
MMC Corporation Berhad	11/27	AA-	5.645	5	5.659	18/04/2018	-1	156
Konsortium Lebuhraya Utara-Timur (KL) Sdn Berhad	12/27	AA-	4.889	5	4.891	26/07/2018	0	80
Konsortium Lebuhraya Utara-Timur (KL) Sdn Berhad	11/29	AA-	5.006	2	4.946	24/01/2018	6	93
Jimah East Power Sdn Berhad	12/30	AA-	5.037	2	5.028	13/04/2018	1	96
Jimah East Power Sdn Berhad	06/32	AA-	5.127	8	5.229	04/06/2018	-10	59
Lebuhraya DUKE Fasa 3 Sdn Berhad	08/33	AA-	5.271	3	5.305	27/06/2018	-3	73
Special Power Vehicle Berhad	11/18	A1	4.588	6	4.224	25/01/2018	36	120
TF Varlik Kiralama A. S	06/19	A1	5.821	1	5.847	04/07/2018	-3	244
Bank Islam Malaysia Berhad	04/25	A1	4.595	20	4.525	12/12/2017	7	62
Bank Islam Malaysia Berhad	12/25	A1	4.643	10	4.690	04/06/2018	-5	67
RHB Bank Berhad	03/39	A1	4.534	1	4.606	18/07/2018	-7	-26
Affinbank Perpetual AT1CS (T1)	07/18	A3	5.453	50	5.330	26/07/2018	12	-
				<u>508</u>				

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

Market/Corporate News: What's Brewing

The government is likely to miss its fiscal deficit target of 2.8% this year due to a shortfall in revenue from changes in the tax system and fuel subsidies, economists said. Malaysian Rating Corp Bhd (MARC) economist Nor Zahidi Alias reckoned the overall deficit to remain at last year's level of 3% of gross domestic product (GDP) due to a reduction in revenue due to the zeroisation of the Goods and Services Tax (GST). "Going forward, in order to continue its fiscal consolidation effort, MARC expects the government to introduce medium-term revenue-generating measures and continue to rationalise operating and development expenditures," he said in a recent report. Meanwhile, JF Apex said other populist measures likely to be implemented including the reduction of tolls in stages, abolishment of Felda settlers' debts and deferment of repayment for higher education loans are expected to strain government coffers. On a positive note, it said the government is striving to contain its rising operating expenditure by reducing the Cabinet size, reviewing remunerations for government-linked companies' (GLCs) top-ranked officials, cutting unnecessary political appointees in the civil workforce, and reviewing ongoing and future mega projects and their related financing terms. The research house expected GDP growth for this year to slow down to 5.0%-5.3% following a surprisingly strong 5.9% growth recorded in 2017. Nonetheless, UBS Investment Bank economist Alice Fulwood said she was confident the government could reduce the country's fiscal deficit to 2.8% next year as it makes greater headway in cutting wasteful spending. The government had targeted to reduce its fiscal deficit to 2.8% in 2018, from 3% in 2017. Nor Zahidi expects the government to issue RM100bil to RM105bil worth of securities, of which RM62.8bil will be to service maturing debt papers and RM37.2bil to RM42.2bil to finance the budget deficit. "While the new government measures such as the zero-rating of GST and stable prices of RON95 could exert some upward pressure on Malaysia's budget deficit, the increase in government bond issuance will be capped given the new government's focus to reduce overall fiscal liability," he said. Nor Zahidi did not rule out the possibility of continuing foreign outflows from local government bonds (govvies) in the second half of the year but at a lower magnitude. This is because of resilient global crude oil prices, greater clarity from the current government on its medium-term fiscal plan, and expectation of improved medium-term economic fundamentals for Malaysia, he pointed out. As at the end of the first half of 2018, total foreign holdings of local govvies amounted to RM167.6bil, down from RM186.3bil a year ago. "Malaysia will likely experience short-term volatility in the financial market due to both external and internal factors," Nor Zahidi said. Externally, he said, the global financial market would continue to go through a roller-coaster ride due to uncertainties with regard to the threat of the trade war and investors shying away from emerging markets. Back home, he expected investors to still pay close attention to the sovereign rating outlook of the country as credit rating agencies seek to get greater clarity on the medium-term revenue-generating measures. On the demand of govvies, Nor Zahidi said Malaysia could face the risk of a contagion effect if recent financial market turbulence in some emerging markets such as Argentina, Brazil and Turkey intensifies. "Foreign demand for govvies could also be hit by global central banks' expected plans to end their post-global financial crisis stimuli by the end of the year. "The unresolved trade spat between the US and China would continue to strengthen the demand for the dollar and safe-haven assets from developed markets, decreasing foreign demand for assets from emerging markets," he said. (Source: *The Star*)

No further decision has been made regarding the operation of the Trans-Sabah Gas Pipeline (TSGP) project after the suspension notice was issued on July 3, said Energy, Technology, Science, Climate Change and Environment Minister Yeo Bee Yin. The ministry was still discussing what happened to RM3.5 billion paid for the TSGP

project when the actual work had not been completed, she said. "What happened to the RM3.5 billion is still in discussion and there are two options, namely we get the project done or recover the money. I have no news update yet but when we have an update, we will announce it to the public. "The federal government has paid 88% of the value of the project, which is RM4 billion. But there is nothing on the ground. On paper, it is stated the project is as at 11.4% completion," she told reporters after attending a stakeholder townhall session involving Sabah's energy industry here yesterday. Yeo said the Ministry of Finance (MoF) had already taken action against the project developer that was wholly owned by MoF under the previous government, and the entire management had been replaced by another group appointed by the ministry. The TSGP project involved building a 662km gas pipeline from Kimanis Gas Terminal to Sandakan and Tawau, costing 3.08 billion yuan and RM2.14 billion, or about RM4.06 billion in total. On July 3, the MoF issued a services and operation suspension notice for three multi-billion-ringgit projects including TSGP, saying the TSGP and the Multi-Product Pipeline projects were only about 13 per cent completed although 88 per cent of the projects' value had been paid. In another development, Yeo said the Energy, Technology, Science, Climate Change and Environment Ministry was considering implementing a hydroelectric project in Sabah. "The priorities are on long-term electrical supply and reasonable rates," she added. (Source: *The Edge, Bernama*)

Rating Actions			
Issuer	PDS Description	Rating/Outlook	Action
Tanjung Bin Energy Issuer Berhad	RM3.29 billion Sukuk Murabahah (2012/2032)	AA3/Stable	Reaffirmed
Tanjung Bin Power Sdn Bhd	Sukuk Ijarah Programme of up to RM4.5 billion in nominal value (2012/2029)	AA2/Stable	Reaffirmed

Source: RAM Ratings; MARC

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