

Global Markets Research

Fixed Income

Fixed Income Daily Market Snapshot

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	1.51	-2
5-yr UST	1.39	-3
10-yr UST	1.50	-2
30-yr UST	1.96	-3

MGS		GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.12	1	3.13	0
5-yr	3.23	0	3.25	0
7-yr	3.27	2	3.30	3
10-yr	3.32	2	3.36	4
15-yr	3.48	0	3.51	0
20-yr	3.55	2	3.62	0
30-yr	3.78	1	3.81	0

* Market indicative levels

MYR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.19	0
3-yr	3.19	2
5-yr	3.22	4
7-yr	3.24	2
10-yr	3.34	1

Source : Bloomberg

Note: UST levels as at 30-Aug close

Upcoming Government Bond Tender

Nil

US Treasuries

- US Treasuries ended stronger Friday on continued safe-haven appeal as the US is due to impose 15% tariff on approximate \$110b of Chinese goods effective 1st September. Overall benchmark yields closed 2-3bps lower with both the UST 2Y and much-watched 10Y edging 2bps lower at 1.51% and 1.50% levels respectively; reflecting the continuing inversion of the curve. Heavy corporate bond issuance totaling \$40b this week is expected to weigh on the curve. US officials have been engaging on issuing ultra-long bond issuances (i.e. 50Y and 100Y) to fund the Federal budget deficit for some time. Meanwhile investors are still debating if the current global bond rally is indeed a bubble or a clear indication of an upcoming global recession. On the data front we have the ISM and PMI manufacturing out tonight.

MGS/GII

- Trading momentum continued to be light for local govies which ended weaker as secondary market volume recorded RM2.63b. Main interest was however seen in the off-the-run 20-21's and 5Y MGS/GII benchmark bonds. Overall benchmark MGS yields closed mostly higher between 0-4bps with the 5Y benchmark MGS 6/24 unchanged at 3.23% whilst the 10Y MGS 8/29 moved 2bps higher at 3.32%. GII bonds dropped to form ~37% of overall trades. Despite ongoing headwinds in the global economy, we do not foresee an immediate rate cut in the upcoming September BNM MPC meeting for now as the recent one in May continues to provide stimulus to the economy.

Corp Bonds/Sukuk

- Corporate Bonds/Sukuk continued to witness low traction with secondary market volume at RM327m. Surprisingly there were no govt-guaranteed trades. AAA-rated BAKUN Hydro power 25-26's closed 24-29bps sharply lower compared to previous-done levels at 3.48-4.9% levels whilst the longer end MANJUNG 29 and 31 closed at 4.10% and 3.64% oddly lower though. The AA-space saw YTL Power 5/27 move 10bps lower at 3.80% whilst another energy-related bond i.e. EDRA saw 2028 and 2035-36 tranches 1-15bps lower at 4.24% and 4.48-61% respectively. In the banking space A1-rated Bank Islam 27NC22 similarly closed sharply lower on yields at 3.69%.

Daily Trades : Government Bond

Securities		Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS	11/19	3.058	87	2.993	29/08/2019	6
MGS	03/20	3.062	100	3.089	28/08/2019	-3
MGS	07/20	3.073	146	2.994	29/08/2019	8
MGS	10/20	3.061	89	3.073	29/08/2019	-1
MGS	07/21	3.090	162	3.099	29/08/2019	-1
MGS	09/21	3.088	52	3.098	29/08/2019	-1
MGS	11/21	3.093	71	3.106	29/08/2019	-1
MGS	03/22	3.124	95	3.118	29/08/2019	1
MGS	08/22	3.149	11	3.147	28/08/2019	0
MGS	09/22	3.158	3	3.170	28/08/2019	-1
MGS	03/23	3.184	3	3.178	29/08/2019	1
MGS	04/23	3.197	8	3.189	29/08/2019	1
MGS	06/24	3.227	173	3.228	29/08/2019	0
MGS	07/24	3.246	9	3.242	29/08/2019	0
MGS	09/24	3.234	5	3.261	29/08/2019	-3
MGS	03/25	3.284	47	3.262	29/08/2019	2
MGS	09/25	3.253	50	3.266	28/08/2019	-1
MGS	04/26	3.310	6	3.316	27/08/2019	-1
MGS	07/26	3.270	10	3.255	29/08/2019	2
MGS	09/26	3.350	30	3.318	19/08/2019	3
MGS	11/26	3.312	1	3.312	28/08/2019	0
MGS	11/27	3.358	39	3.328	29/08/2019	3
MGS	06/28	3.342	123	3.336	28/08/2019	1
MGS	08/29	3.316	8	3.291	29/08/2019	2
MGS	04/30	3.436	74	3.428	29/08/2019	1
MGS	06/31	3.497	17	3.495	29/08/2019	0
MGS	04/33	3.522	12	3.536	28/08/2019	-1
MGS	11/33	3.528	102	3.503	29/08/2019	2
MGS	04/37	3.568	4	3.547	29/08/2019	2
MGS	06/38	3.551	67	3.536	28/08/2019	2
MGS	09/43	3.734	2	3.746	28/08/2019	-1
MGS	03/46	3.792	38	3.753	29/08/2019	4
MGS	07/48	3.784	24	3.777	29/08/2019	1
GII	05/20	3.059	30	3.068	29/08/2019	-1
GII	08/20	3.067	31	3.087	29/08/2019	-2
GII	03/21	3.116	1	3.151	22/08/2019	-3
GII	08/21	3.101	20	3.209	22/08/2019	-11
GII	03/22	3.133	102	3.133	29/08/2019	0
GII	04/22	3.151	83	3.154	28/08/2019	0
GII	07/22	3.173	1	3.148	29/08/2019	2
GII	07/23	3.852	80	3.215	29/08/2019	64
GII	11/23	3.220	62	3.224	28/08/2019	0
GII	10/24	3.246	300	3.248	29/08/2019	0
GII	08/25	3.282	5	3.280	29/08/2019	0
GII	03/26	3.299	90	3.266	29/08/2019	3
GII	09/26	3.350	1	3.327	29/08/2019	2
GII	07/27	3.395	2	3.385	29/08/2019	1
GII	10/28	3.344	2	3.348	28/08/2019	0
GII	07/29	3.357	72	3.318	29/08/2019	4
GII	10/35	3.625	27	3.644	29/08/2019	-2
GII	05/47	3.808	43	3.818	28/08/2019	-1
GII	11/49	3.808	10	3.809	29/08/2019	0
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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*
Mercedes-Benz Services Malaysia Sdn Berhad	05/22	AAA	3.447	20	3.638	02/08/2019	-19	31
Mercedes-Benz Services Malaysia Sdn Berhad	06/22	AAA	3.458	10	3.546	21/08/2019	-9	32
Malaysia Airports Capital Berhad	12/24	AAA	3.488	50	3.488	28/08/2019	0	25
Bakun Hydro Power Generation Sdn Berhad	08/25	AAA	3.487	10	3.722	25/07/2019	-24	23
Bakun Hydro Power Generation Sdn Berhad	08/26	AAA	3.478	40	3.768	25/07/2019	-29	22
Manjung Island Energy Berhad	11/29	AAA	3.569	30	4.099	07/05/2019	-53	26
Manjung Island Energy Berhad	11/31	AAA	3.640	20	3.628	21/08/2019	1	33
MBSB Bank Berhad	12/21	AA1	3.746	10	4.227	11/06/2019	-48	64
Encorp Systembilt Sdn Berhad	11/22	AA1	3.546	10	4.267	05/03/2019	-72	41
MBSB Bank Berhad	12/23	AA1	3.924	10	-	-	-	72
YTL Power International Berhad	05/27	AA1	3.799	20	3.900	28/08/2019	-10	49
UMW Holdings Berhad	10/23	AA2	3.613	1	4.167	30/04/2019	-55	41
Besraya (M) Sdn Berhad	07/20	AA3	3.794	10	4.480	28/03/2019	-69	71
Tanjung Bin Energy Issuer Berhad	03/23	AA3	3.696	10	4.658	07/02/2017	-96	49
Edra Energy Sdn Berhad	01/28	AA3	4.244	20	4.398	15/08/2019	-15	93
Tanjung Bin Energy Issuer Berhad	09/31	AA3	4.059	10	4.524	25/04/2019	-47	75
Edra Energy Sdn Berhad	07/35	AA3	4.479	20	4.539	21/08/2019	-6	99
Edra Energy Sdn Berhad	07/36	AA3	4.608	10	4.620	21/08/2019	-1	112
Bank Islam Malaysia Berhad	11/27	A1	3.694	10	3.834	14/08/2019	-14	38
CIMB Group Holdings Berhad	05/16	A1	4.267	1	4.273	29/08/2019	-1	70
Mah Sing perpetual	-	-	5.986	4	5.950	29/08/2019	4	-
Eco World Capital Assets Berhad	08/24	-	6.099	1	6.099	29/08/2019	0	-
Eco World International Berhad	10/21	-	5.452	1	6.048	28/08/2019	-60	-
				<u>327</u>				

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

Market/Corporate News: What's Brewing

S&P Global Ratings is maintaining a stable outlook on all Malaysian banks but flags external challenges and the financial technology (fintech) effect that could radically disrupt their industry. Malaysia's banks are battling on multiple fronts, namely a trade war, a China-led regional economic slowdown, dampened domestic business sentiment, and continuously soft commodities prices. "Moreover, the lenders need to contend with the possibility that financial technology may radically disrupt their industry, just as they are shaving costs," said S&P Global Ratings analyst Rujun Duan. "While such factors don't yet affect our ratings — we maintain a stable outlook on all the Malaysian banks we rate — we believe it's critical to flag the issues," she said in a report titled "Malaysian Banking Outlook: Incumbents Feel The Squeeze". Malaysia's incumbent lenders are facing cyclical and secular pressures that may slowly erode their financial standing if not addressed. She said S&P projects Malaysian bank loans to grow 3%-5% in 2019, about half the growth achieved in 2015. "We also expect the industry's net interest margin will contract 5-10 basis points in the year, following cuts to the policy rate and heated domestic competition for deposits," she said. Malaysian households have been deleveraging for the past three years. Most recently, the trade war and volatile capital markets have weighed on consumer sentiment and discouraged business investment. Given that Malaysian banks do over half (58%) of all lending to households, any indicator suggesting softness in household borrowing bodes poorly for lenders. Bank Negara Malaysia trimmed the policy interest rate by 25 basis points in May, and one more interest rate reduction is expected this year. The U.S. Federal Reserve's more accommodative monetary policy has given room for regional central banks to ease policy, weighing on banks' net interest margin. Competition for cheap, sticky retail deposits flares up repeatedly as banks vie for high-quality, liquid assets. All of this

pressures margins, worsening banks' profit outlook. Seeing few growth areas, Malaysian banks have responded by trimming operational costs, closing branches, and retrenching staff. The cost-to-income ratio in the sector has stayed at around 47%-48% over the past two years. "While banks have been striving to improve this ratio, we believe that is unlikely without better support from earnings," Duan noted. Malaysian banks have also diversified to countries such as Singapore and Indonesia. Generally, this is a good strategy, as the net interest margin is higher in these markets. "But when times are bad, Malaysian banks' overseas operations tend to drag down group profit, as seen in recent years' losses in the Singapore offshore oil and gas sector, and the Indonesian mining and commodities sectors," she said. Singapore, being a highly open economy, is likely to feel the full effect of macro-headwinds over the next 12-18 months, limiting the profit upside for banks. Notably, the Singapore economy grew by just 0.1% year-on-year in the second quarter, a marked slowdown from the 1.1% growth logged in the previous quarter, said Duan. In this climate of cost-cutting and strained profit arrives digital banking. Malaysian regulators are expected to hand out the country's first digital banking licences in the next 12-24 months. This will allow local tech and telecoms groups such as Grab Holdings Inc and Axiata Group Bhd to compete directly with banks in lending and deposits-taking, without the encumbrance of an expensive branch network. International leading technology giants such as Alibaba Group and Tencent Holdings, which already have a meaningful share of Malaysia's digital payments market, could challenge the Malaysian lenders. Both have proved highly competitive in digitalised financial services in China. "Tech groups have the potential to compete with traditional lenders on almost all fronts in retail banking. To manage this threat, incumbent banks will need to invest heavily in technology," she added. (Source: *The Edge/Bernama*)

National carmaker Proton Holdings Bhd is the only automotive player to register double-digit sales growth of nearly 50% in the first seven months of this year as demand for most non-national marques sees negative growth. Many consumers are holding back on their purchases as they are expecting new models to be launched in the second half of the year. According to CGS-CIMB research, Proton sales jumped to 52,108 units in the first seven months of 2019 from 35,208 units in the previous corresponding period. Comparatively, sales of Perusahaan Otomobil Kedua Sdn Bhd (Perodua) grew 0.6% to 141,706 units in the first seven months of 2019 compared with 140,928 units in the previous corresponding period. The research house noted that most major non-national car companies: Honda, Mazda, Nissan, Toyota, BMW, Ford, Mercedes Benz, Volkswagen, Lexus, Isuzu and Mitsubishi recorded decrease in sales in the first seven months of 2019 compared with the same period a year ago. The jump in Proton sales saw year-on-year total car sales rise 10% to 193,814 units in the first seven months of 2019, while total non-national vehicle sales dropped 16% to 153,373 units during the same period. Frost & Sullivan Asia Pacific mobility, aerospace, defence and security consulting analyst Nur Afiqah Mohamad said Proton's strong comeback can be greatly attributed to the release of its sport-utility vehicle (SUV), the X70. "The SUV sub-segment has been gaining immense popularity in recent years, and with the release of Proton X70 and Perodua Aruz, national carmakers are able to appeal to a wider customer base. "Equipped with specifications comparable to their mainstream competitors, and affordable selling price as a key selling point, we are optimistic that the national car brands will continue to sustain the recent surge in sales," she told StarBiz in an e-mail reply. After a gap of 40 months, Proton has returned to second in

total sales for Malaysia's automotive market. The last time the company was in a similar position was in March 2016, while the last calendar year it finished second was in 2015. (Source: *The Star*)

Malaysia Building Society Bhd registered a 24% year-on-year increase in the second quarter profit of its financial year 2019, as the group recorded lower than expected credit losses during the quarter under review. Hence, net profit climbed to RM106.23 million from RM85.69 million a year ago, which resulted in an improved earnings per share of 1.66 sen versus 1.39 sen previously, its stock exchange filing today showed. Revenue grew 3% to RM817.66 million from RM794.14 million. "Comparing ECL of 2QFY19 and 2QFY18, the reduction of ECL was due to improvement in stage 2 of corporate portfolio and a reduction in stage 3 of retail portfolios," MBSB said. The bank recognises financial assets with a 12-month ECL under 'Stage 1' while those considered to have a significant increase in credit risk are placed in 'Stage 2' and those for which there is evidence of impairment and are considered impaired are in "Stage 3". However, in terms of 2QFY19 net profit margin, it was down to 2.84% from 3.23% a year ago, while net income fell 6.09% to RM336.31 million from RM358.1 million, and net operating income retreated 11.33% to RM230.97 million from RM260.46 million. In terms of cost-to-income ratio, there was also a regression to 31.3% from the 27.3% it registered a year ago, due to higher personnel costs. "Nevertheless, the ratio remains below the industry average," MBSB said. Return on equity or ROE retreated 6.21% to 4.8% during the quarter from 11.01% previously, while return on assets slipped 1.01% to 0.8% from 1.81%. Group deposits, however, grew 12.85% to RM36.99 billion from RM32.78 billion. In terms of cumulative net profit for the six months ended June 30, MBSB's net profit fell more than 50% to RM190.06 million from RM402.48 million a year ago, mainly on higher ECL charged of RM245.44 million as opposed to an ECL write-back of RM7.99 million previously, and as interest income halved to RM77.8 million from RM143.21 million, while other operating expenses rose 12.18% to RM201.50 million. Cumulative revenue also retreated to RM1.6 billion from RM1.61 billion. Moving forward, MBSB expects its prospects for the year to be satisfactory, barring unforeseen circumstances. And while the group is cautious amid prevailing economic uncertainties, it will continue with its plans to enhance the level of its customer experience and expand its digital banking capabilities, said group president and chief executive officer Datuk Seri Ahmad Zaini in a separate statement. "MBSB Bank will be transforming 15 of its 47 branches into digital branches and will be introducing the current account and savings accounts (CASA-i) online application platform as well as the e-wallet facility by the end of this year," he added. (Source: *The Star*)

Rating Action			
Issuer	PDS Description	Rating/Outlook	Action
Tan Chong Motor Holdings Berhad	Long-term ratings	From Negative to Stable	Revised
	Corporate credit rating	A1/P1	Reaffirmed
	RM1.5 billion Commercial Papers Programme (2014/2021)	P1	Reaffirmed
	RM1.5 billion Medium-Term Notes Programme (2014/2034)	A1	Reaffirmed
First Resources Limited (FRL)	RM2.0 billion Sukuk Musharakah Programme (2012/2022)	AA2/Stable	Reaffirmed
Cagamas MBS Berhad	RM2.41 billion residential mortgage-backed securities (CMBS 2007-2). Cagamas MBS is a limited-purpose entity incorporated for the purpose of securitising government staff housing loans (GSHLs) and government staff Islamic	AAA/Stable	Reaffirmed
	RM2.05 billion Sukuk Musyarakah Islamic Residential Mortgage-Backed Securities (CMBS 2005-1)	AAA/Stable	Reaffirmed
	RM2.11 bil Sukuk Musyarakah Islamic residential mortgage-backed securities (2007/2027) (CMBS 2007-1-i)	AAA/Stable	Reaffirmed
	M2.06 bil residential mortgage-backed securities (2005/2025) (CMBS 2005-2)	AAA/Stable	Reaffirmed

Source: RAM, MARC

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