

## Global Markets Research

### Fixed Income

#### Fixed Income Daily Market Snapshot

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	1.86	10
5-yr UST	1.83	10
10-yr UST	2.03	8
30-yr UST	2.54	8

MGS		GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.29	0	3.31	0
5-yr	3.42	0	3.44	0
7-yr	3.52	0	3.56	2
10-yr	3.62	0	3.63	0
15-yr	3.79	-8	3.90	0
20-yr	4.00	-2	4.02	1
30-yr	4.23	-1	4.37	0

\* Market indicative levels

MYR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.38	0
3-yr	3.39	0
5-yr	3.47	1
7-yr	3.52	0
10-yr	3.63	0

Source : Bloomberg

#### Upcoming Government Bond Tender

Nil

#### US Treasuries

- US Treasuries ended weaker as the curve bear-flattened and shifted higher following bullish jobs data for June; thus dampening the odds of a 50bps Fed interest rate cut in the upcoming FOMC meeting on 31<sup>st</sup> July. Overall benchmark yields ended 8-10bps sharply higher with the UST 2Y spiking at 1.86% and the much-watched 10Y at 2.03%. Despite the stronger than expected job growth, unemployment inched up to 3.7%. US officials have said that a meeting with Chinese counterparts is scheduled this week, marking the resumption of negotiations between the two countries. Bond traders are expected to watch the upcoming auctions of 3Y, 10Y and 30Y auctions this week along with the consumer and producer price inflation reports for May-June period.

#### MGS/GII

- Trading momentum in local govovies sustained on the back of RM4.36b volume. Interest was mainly seen in the shorter off-the-run 19-20's and 15Y, 30Y benchmarks bonds as overall yields ended mostly unchanged with some bonds between -8 to +2bps across the curve. Both the benchmark 5Y MGS 6/24 and the 10Y MGS 8/29 were unchanged at 3.42% and 3.62% respectively. GII trades maintained at ~38% of overall trades. Foreign holdings of local govovies for June rebounded by RM5.8b for MGS and to RM149.1b whilst maintaining their GII holdings at RM14.7b; thus improving overall holdings in both categories from 21.7% to 22.3%. Expect attention to shift on the upcoming BNM Overnight Policy Rate decision tomorrow as any hint of a dovish bias may rekindle further interest in MYR govovies.

#### Corp Bonds/Sukuk

- Corporate Bonds/Sukuk saw decent interest as volume notched RM726m with interest mainly across both the GG-AAA part of the curve as overall yields ended mostly lower again. A slew of Govt-guaranteed DANA bonds 2022-2029 tranches saw yields decline between 2-23bps compared to previous-done levels between 3.42-3.77% levels whilst the longer end DANA 5/41 similarly rallied to 4.17%. AAA-rated PLUS 31 closed 14bps lower at 4.08% whereas the 2033 tranche closed unchanged at 4.18%. In the AA-space GAMUDA 3/23 ended 7bps lower at 4.10% whilst EDRA Energy 35-36's also saw interest with yields moving lower between 5.07-5.13%. The banking space was relatively quiet.

## Daily Trades : Government Bond

Securities		Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS	07/19	3.028	2	2.860	03/07/2019	17
MGS	10/19	3.069	60	3.089	04/07/2019	-2
MGS	11/19	3.062	6	3.091	04/07/2019	-3
MGS	03/20	3.147	437	3.131	04/07/2019	2
MGS	07/20	3.221	20	3.180	03/07/2019	4
MGS	07/21	3.255	56	3.261	04/07/2019	-1
MGS	09/21	3.277	201	3.286	04/07/2019	-1
MGS	11/21	3.277	255	3.269	04/07/2019	1
MGS	03/22	3.291	172	3.286	04/07/2019	0
MGS	08/22	3.356	20	3.359	04/07/2019	0
MGS	09/22	3.369	103	3.356	04/07/2019	1
MGS	03/23	3.389	2	3.392	03/07/2019	0
MGS	04/23	3.407	20	3.401	04/07/2019	1
MGS	08/23	3.431	42	3.419	03/07/2019	1
MGS	06/24	3.415	40	3.416	04/07/2019	0
MGS	09/24	3.489	55	3.463	04/07/2019	3
MGS	03/25	3.511	130	3.514	04/07/2019	0
MGS	09/25	3.537	14	3.523	04/07/2019	1
MGS	07/26	3.522	191	3.525	04/07/2019	0
MGS	11/26	3.581	9	3.582	03/07/2019	0
MGS	11/27	3.647	1	3.647	04/07/2019	0
MGS	06/28	3.643	3	3.637	04/07/2019	1
MGS	08/29	3.617	241	3.617	04/07/2019	0
MGS	04/33	3.844	40	3.862	04/07/2019	-2
MGS	11/33	3.842	190	3.846	04/07/2019	0
MGS	04/37	3.993	49	4.020	04/07/2019	-3
MGS	06/38	3.998	20	4.015	04/07/2019	-2
MGS	03/46	4.274	21	4.262	04/07/2019	1
MGS	07/48	4.229	25	4.240	04/07/2019	-1
MGS	#N/A	3.793	237	3.832	04/07/2019	-4
GII	04/20	3.157	191	3.150	04/07/2019	1
GII	08/20	3.182	410	3.192	04/07/2019	-1
GII	08/21	3.316	33	3.326	04/07/2019	-1
GII	07/23	3.458	10	3.429	04/07/2019	3
GII	11/23	3.445	94	3.463	04/07/2019	-2
GII	10/24	3.443	110	3.439	04/07/2019	0
GII	03/26	3.560	10	3.587	02/07/2019	-3
GII	09/26	3.594	2	3.610	04/07/2019	-2
GII	06/27	3.650	40	3.731	18/06/2019	-8
GII	07/27	3.633	21	3.658	04/07/2019	-2
GII	10/28	3.642	250	3.657	04/07/2019	-2
GII	07/29	3.631	50	3.632	04/07/2019	0
GII	11/34	3.803	40	3.866	04/07/2019	-6
GII	09/39	4.019	380	4.009	04/07/2019	1
GII	11/49	4.243	50	4.271	04/07/2019	-3
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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*
DanaInfra Nasional Berhad	04/22	GG	3.421	10	3.649	06/05/2019	-23	13
DanaInfra Nasional Berhad	07/22	GG	3.421	20	3.468	13/06/2019	-5	13
Turus Pesawat Sdn Berhad	02/25	GG	3.729	120	3.730	25/06/2019	0	24
DanaInfra Nasional Berhad	02/26	GG	3.580	15	3.592	27/06/2019	-1	5
DanaInfra Nasional Berhad	04/26	GG	3.579	15	3.603	27/06/2019	-2	5
DanaInfra Nasional Berhad	03/27	GG	3.671	25	3.758	18/06/2019	-9	8
DanaInfra Nasional Berhad	11/27	GG	3.699	10	3.899	12/06/2019	-20	11
Lembaga Pembiayaan Perumahan Sektor Awam	10/28	GG	3.728	15	3.748	03/07/2019	-2	12
DanaInfra Nasional Berhad	11/29	GG	3.769	5	3.953	10/06/2019	-18	15
Lembaga Pembiayaan Perumahan Sektor Awam	10/38	GG	4.069	20	4.129	28/06/2019	-6	7
Lembaga Pembiayaan Perumahan Sektor Awam	04/39	GG	4.090	10	4.145	28/06/2019	-5	9
DanaInfra Nasional Berhad	05/41	GG	4.169	20	4.399	31/05/2019	-23	17
GB Services Berhad	11/19	AAA	3.600	10	3.745	04/06/2019	-15	43
Cagamas Berhad	09/21	AAA	3.549	10	3.781	07/05/2019	-23	30
Putrajaya Bina Sdn Berhad	09/27	AAA	3.843	20	3.898	03/07/2019	-6	26
Putrajaya Bina Sdn Berhad	03/28	AAA	3.857	10	4.041	17/06/2019	-18	24
GENM Capital Berhad	07/28	AAA	4.140	10	4.389	13/06/2019	-25	53
Telekom Malaysia Berhad	10/28	AAA	3.887	10	3.939	03/07/2019	-5	27
Projek Lebuhraya Usahasama Berhad	01/31	AAA	4.080	70	4.219	11/06/2019	-14	46
Rantau Abang Capital Berhad	05/31	AAA	3.980	15	4.100	13/06/2019	-12	36
Projek Lebuhraya Usahasama Berhad	01/33	AAA	4.180	30	4.179	04/07/2019	0	38
Tenaga Nasional Berhad	08/33	AAA	4.099	30	4.119	27/06/2019	-2	30
Danga Capital Berhad	09/33	AAA	4.188	30	4.379	29/05/2019	-19	39
Tenaga Nasional Berhad	08/38	AAA	4.449	40	4.500	27/06/2019	-5	45
Taqa	03/22	AA1	4.658	5	4.383	11/08/2016	28	137
YTL Corporation Berhad	04/23	AA1	3.997	10	4.056	27/06/2019	-6	62
Northern Gateway Infrastructure Sdn Berhad	08/25	AA1	4.038	10	4.309	03/04/2019	-27	55
Country Garden Real Estate Sdn Berhad	02/23	AA3	6.522	46	6.512	01/07/2019	1	315
Gamuda Berhad	03/23	AA3	4.096	10	4.168	02/07/2019	-7	72
Edra Energy Sdn Berhad	07/35	AA3	5.071	10	5.126	25/06/2019	-6	127
Edra Energy Sdn Berhad	07/36	AA3	5.127	10	5.261	12/06/2019	-13	133
MMC Corporation Berhad	04/23	AA-	4.718	10	4.906	12/06/2019	-19	134
Sinar Kamiri Sdn Berhad	01/36	AA-	5.831	3	6.078	02/04/2019	-25	203
IJM Land Berhad	03/19	A2	4.723	5	4.884	18/06/2019	-16	73
Bank Muamalat Malaysia Berhad	06/26	A3	4.776	1	4.792	25/06/2019	-2	125
DRB-Hicom Berhad	02/22	A+	4.772	20	5.189	11/06/2019	-42	148
Lebuhraya DUKE Fasa 3 Sdn Berhad	08/37	AA-	4.950	14	4.989	24/06/2019	-4	95
Alliance Islamic Bank Berhad	03/19	BBB1	4.788	2	5.055	08/05/2019	-27	79
Mah Sing Perpetual	-	-	5.389	1	5.317	04/07/2019	7	-
				<u>726</u>				

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

## Market/Corporate News: What's Brewing

The potential opening up of the power sector's retail space will give consumers more options to buy their electricity from, but it is likely to have limited earnings impact on Tenaga Nasional Bhd. TNB, which has come under the spotlight due to looming regulatory changes, is currently Peninsular Malaysia's only retail electricity provider. According to analysts, the liberalisation of the retail market would not hurt TNB, as it earns around 2% (0.96 sen/kWh of base electricity tariff of 39.45 sen/kWh) of revenue from the retail market. "The incentive-based regulation (IBR) model is based on returns of regulated assets. The retail segment is asset-light and as such, TNB earns minimal profits as Peninsular Malaysia's only retail electricity provider," it said. Last Friday, it was reported that the government was conducting a study on whether to allow new energy suppliers to come into the market, with the results to be made known soon. The government is studying whether the move would make tariff rates more competitive for consumers. The transformation of the local electricity industry is expected to come through the implementation of the Malaysia Electricity Supply Industry (MESI) 2.0 that aims to increase the industry's efficiency, as well as decentralise the electricity supply industry, among others. It is expected to be launched later this month. The aim of opening up the retail market is "to give

consumers the opportunity to choose a greener route, for example, by buying electricity from environmentally-friendly players like Cypark Resources Bhd, which owns 30MW of renewable energy in Peninsular Malaysia.” Besides the retail segment, there is the wholesale segment. However, analysts believe that the regulators will have to wait for the expiry of power purchase agreements (PPAs) and service-level agreements (SLAs) to be able to build a robust wholesale market. More than half of Peninsular Malaysia’s generation capacity (or 23,881MW) has long-dated PPAs expiring in 2030-40, analysts noted. Drawing from the Singapore experience, analysts noted that the power producers there compete to generate and sell electricity in the wholesale electricity market (WEM) every half hour. “The WEM is like a power exchange. Retailers buy electricity in bulk from the wholesale electricity market to sell to the customers.” Secondly, looking at the Singapore model, the research firm said that power pooling would result in power producers competing to sell electricity at the lowest rates to gain market share. This would result in lower operating profit margins. “We believe that fuel costs would still be passed through, but operating profit margins would be thin. YTL Power International Bhd’s power unit in Singapore recorded a pre-tax loss of RM149.1mil in the first nine months of financial year 2019 (FY19) (ex-impairment),” it said in its report on Friday. That said, it is believed that TNB will be a strong competitor if the retail segment is opened up due to its size and balance sheet. Analysts reckon that if the independent power producers or IPPs are selling electricity directly to the consumers, then they would need to pay a fee to TNB for the transmission and distribution activities. Currently, out of TNB’s base tariff rate of 39.45 sen/kWh, about 11.58 sen/kWh is for transmission, distribution, customer service and grid system operations. Another point to note is the possibility that the imbalance cost pass-through mechanism might not be relevant if the retail segment is opened up. “There may not be a need for the Electricity Industry Fund to subsidise rates for the domestic segment. “This is because under the open system, retail electricity rates would fluctuate based on cost, demand and supply.” One other reform that could feature in the upcoming MESI 2.0 is the separation of the single buyer role from TNB. This is seen as positive for TNB as it eliminates the fuel risk from the equation. The government will likely take over this role, said some analysts. According to another analyst, the segregation of the single buyer role would free up the company’s working capital requirements significantly. “Thus, this would provide a boost to TNB’s free cash flow and result in dividend upside potential.” As single buyer, the company is responsible for coal procurement, which amounted to RM11.7bil in FY18, the analyst pointed out. To facilitate the reforms, MyPower Corp was reactivated in September last year with the task to design and drive its implementation within three years. The current Regulatory Period 2 framework will end in 2021. (Source: *The Star*)

Rating Action			
Issuer	PDS Description	Rating/Outlook	Action
SPR Energy (M) Sdn Bhd	Senior Sukuk Ijarah of RM580 million	AA3/Stable	Reaffirmed
Chellam Plantations (Sabah) Sdn Bhd	RM150 million 10-year tranche (2016/2026)	AAA(FG)/Stable	Reaffirmed
AFFIN Islamic Bank Berhad	Financial Institution Rating	AA3/Stable/P1	Reaffirmed
	RM5 billion Islamic Medium Term Note Programme consisting of		
	Senior Sukuk Murabahah	AA3	Reaffirmed
	Tier 2 Sukuk Murabahah	A1	Reaffirmed
	Additional Tier-1 Capital Sukuk Wakalah	A3	Reaffirmed

Source: RAM, MARC

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