

Global Markets Research

Fixed Income

Fixed Income Daily Market Snapshot

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	2.31	1
5-yr UST	2.29	3
10-yr UST	2.48	3
30-yr UST	2.89	3

MGS		GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.37	0	3.41	1
5-yr	3.57	0	3.63	1
7-yr	3.73	-1	3.73	0
10-yr	3.78	2	3.84	-3
15-yr	4.09	0	4.11	-3
20-yr	4.31	-4	4.35	0
30-yr	4.60	-2	4.63	0

* Market indicative levels

MYR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.48	0
3-yr	3.52	-2
5-yr	3.59	0
7-yr	3.66	0
10-yr	3.86	0

Source : Bloomberg

Upcoming Government Bond Tender

Nil

US Treasuries

- US Treasuries ended weaker on Wednesday ahead of a slate of IG issuances (including IBM's pricing requirements) and weak 10Y auction metrics amid worries on US-China trade matters. The curve shifted higher as overall benchmark yields moved up 1-3bps. The UST 2Y inched 1bps higher at 2.31% whilst the much-watched 10Y bond spiked 3bps at 2.48%. The Treasury's \$27b auction of 10Y meantime drew an average of 2.479% on the weakest BTC of 2.17x since 2009. The prospects for a trade agreement between the U.S. and China are still in limbo with tariffs set to be imposed. Meanwhile, investors mull the mixed job report last Friday and the Fed's move to tame down rate-cut speculation on apparent "transitory" inflation.

MGS/GII

- Local govvnies closed mixed following prior day's rally due to the 25bps cut on the OPR with secondary market volumes at a YTD record of RM9.01b. Overall benchmark yields ended between -4 to +2bps across the curve with interest mainly seen across the curve for MGS bonds and up to 20Y tenures in GII bonds. The benchmark 5Y MGS 4/23 closed unchanged at 3.57% whilst the 10Y MGS 8/29 moved 2bps higher at 3.78%. GII bond trades maintained at 38% of overall trades. The latest foreign holdings of MYR govvnies fell 4.2% to RM162.3b whilst overall MYR bonds also saw a steep 5.2% drop to RM180.1b due to earlier concerns on potential portfolio adjustments on certain portfolios and indices.

Corp Bonds/Sukuk

- Corporate Bonds/Sukuk space saw secondary volume boosted to RM1.0b largely due to the debut of DANUM Capital at 3bps lower than its coupon of 3.96%. Overall interest was seen across the credit curve with yields ending mostly lower. The long-end Govt-guaranteed DANA and PTPTN 41's closed 0-1bps lower compared to previous-done levels between 4.48-59% levels. AAA-rated TELEKOM 11/25 and 28's closed sharply lower on fields at 4.09% and 4.23-26% area whilst PLUS 21 rallied 3bps lower to 3.89%. Likewise AA-space was dominated by energy-related bonds with MALAKOFF 12/20, TBEI 3/25 and EDRA bonds closing a whopping 13-42bps lower. Other names that were traded included Southern Power 4/29 and 10/32 which closed at 4.30% and 4.45% respectively.

Daily Trades : Government Bonds

Securities		Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS	10/19	3.147	522	3.179	07/05/2019	-3
MGS	11/19	3.151	614	3.179	07/05/2019	-3
MGS	03/20	3.223	119	3.238	07/05/2019	-2
MGS	07/20	3.270	98	3.350	07/05/2019	-8
MGS	10/20	3.274	119	3.291	07/05/2019	-2
MGS	02/21	3.351	20	3.390	07/05/2019	-4
MGS	07/21	3.353	512	3.345	07/05/2019	1
MGS	09/21	3.372	108	3.397	07/05/2019	-2
MGS	11/21	3.381	168	3.434	06/05/2019	-5
MGS	03/22	3.370	81	3.411	07/05/2019	-4
MGS	08/22	3.466	51	3.498	07/05/2019	-3
MGS	09/22	3.495	1	3.517	07/05/2019	-2
MGS	03/23	3.605	31	3.614	06/05/2019	-1
MGS	04/23	3.565	226	3.592	07/05/2019	-3
MGS	08/23	3.633	73	3.644	06/05/2019	-1
MGS	07/24	3.678	191	3.689	07/05/2019	-1
MGS	09/24	3.681	39	3.714	07/05/2019	-3
MGS	03/25	3.737	300	3.737	07/05/2019	0
MGS	09/25	3.785	65	3.794	06/05/2019	-1
MGS	04/26	3.818	121	3.843	07/05/2019	-2
MGS	07/26	3.731	565	3.737	07/05/2019	-1
MGS	11/26	3.831	121	3.854	07/05/2019	-2
MGS	03/27	3.869	4	3.895	07/05/2019	-3
MGS	05/27	3.851	10	3.895	06/05/2019	-4
MGS	11/27	3.837	217	3.885	07/05/2019	-5
MGS	06/28	3.851	285	3.890	07/05/2019	-4
MGS	08/29	3.784	341	3.778	07/05/2019	1
MGS	06/31	4.009	42	4.022	07/05/2019	-1
MGS	04/33	4.151	7	4.197	07/05/2019	-5
MGS	11/33	4.094	377	4.138	07/05/2019	-4
MGS	04/37	4.305	4	4.302	07/05/2019	0
MGS	06/38	4.312	54	4.349	02/05/2019	-4
MGS	09/43	4.546	10	4.572	07/05/2019	-3
MGS	03/46	4.595	2	4.605	07/05/2019	-1
MGS	07/48	4.595	115	4.619	07/05/2019	-2
GII	04/20	3.224	39	3.334	07/05/2019	-11
GII	05/20	3.272	251	3.273	07/05/2019	0
GII	08/20	3.266	322	3.378	06/05/2019	-11
GII	03/21	3.381	100	3.436	07/05/2019	-6
GII	03/22	3.409	41	3.413	07/05/2019	0
GII	04/22	3.462	21	3.539	03/05/2019	-8
GII	07/22	3.506	136	3.565	02/05/2019	-6
GII	10/23	3.615	10	3.696	03/05/2019	-8
GII	11/23	3.611	279	3.640	07/05/2019	-3
GII	05/24	3.654	110	3.704	02/05/2019	-5
GII	08/24	3.676	120	3.703	06/05/2019	-3
GII	10/24	3.628	100	3.614	07/05/2019	1
GII	08/25	3.766	394	3.793	07/05/2019	-3
GII	03/26	3.734	196	3.742	07/05/2019	-1
GII	09/26	3.796	72	3.804	02/05/2019	-1
GII	07/27	3.838	104	3.856	07/05/2019	-2
GII	10/28	3.848	236	3.886	07/05/2019	-4
GII	07/29	3.844	562	3.866	07/05/2019	-2
GII	06/33	4.112	70	4.139	07/05/2019	-3
GII	08/37	4.331	22	4.355	30/04/2019	-2
GII	09/39	4.347	213	4.348	26/04/2019	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*
Pengurusan Air SPV Berhad	02/26	GG	3.901	10	3.901	07/05/2019	0	18
DanaInfra Nasional Berhad	04/26	GG	3.899	10	3.869	26/04/2019	3	18
Perbadanan Tabung Pendidikan Tinggi Nasional	07/26	GG	3.963	5	3.981	16/04/2019	-2	24
DanaInfra Nasional Berhad	04/29	GG	4.010	30	4.050	18/04/2019	-4	24
GovCo Holdings Berhad	06/31	GG	4.273	30	4.273	29/04/2019	0	50
Lembaga Pembiayaan Perumahan Sektor Awam	10/38	GG	4.429	20	4.466	06/05/2019	-4	11
DanaInfra Nasional Berhad	05/41	GG	4.480	15	4.480	11/04/2019	0	16
Perbadanan Tabung Pendidikan Tinggi Nasional	07/41	GG	4.589	30	4.599	04/04/2019	-1	27
Projek Lebuhraya Usahasama Berhad	01/21	AAA	3.890	40	3.917	03/05/2019	-3	55
Danum Capital Berhad	09/23	AAA	3.930	620	-	-	-	42
Malaysia Airports Capital Berhad	12/24	AAA	4.082	2	4.147	09/04/2019	-7	40
Telekom Malaysia Berhad	11/25	AAA	4.088	10	4.329	06/03/2019	-24	37
Telekom Malaysia Berhad	05/28	AAA	4.230	10	4.299	04/04/2019	-7	44
Telekom Malaysia Berhad	10/28	AAA	4.259	20	4.299	06/05/2019	-4	47
YTL Power International Berhad	08/28	AA1	4.600	10	4.611	25/04/2019	-1	81
Danajamin Nasional Berhad	10/27	AA+	4.324	1	4.457	28/03/2019	-13	55
First Resources Limited	10/21	AA2	4.194	10	4.255	24/04/2019	-6	86
PBFIN Berhad	06/59	AA2	5.027	1	4.621	19/04/2019	41	71
BEWG (M) Sdn Berhad	07/20	AA	4.255	0	4.377	18/03/2019	-12	102
Fortune Premiere Sdn Berhad	10/25	AA	4.522	1	4.887	08/01/2019	-36	84
IJM Corporation Berhad	06/22	AA3	4.354	1	4.398	08/04/2019	-4	97
Edra Energy Sdn Berhad	01/23	AA3	4.996	5	5.197	08/04/2019	-20	149
Tanjung Bin Energy Issuer Berhad	03/25	AA3	4.267	30	4.688	04/12/2018	-42	58
Edra Energy Sdn Berhad	07/27	AA3	5.308	5	5.439	15/04/2019	-13	153
Edra Energy Sdn Berhad	07/33	AA3	5.649	10	5.870	23/04/2019	-22	155
WCT Holdings Berhad	08/20	AA-	4.595	30	4.789	19/04/2019	-19	136
Malakoff Power Berhad	12/20	AA-	4.062	2	4.213	25/03/2019	-15	73
SAJ Capital Sdn Berhad	01/25	AA-	4.649	5	4.981	16/01/2019	-33	96
Southern Power Generation Sdn Berhad	04/29	AA-	4.299	10	4.351	11/04/2019	-5	53
Southern Power Generation Sdn Berhad	10/32	AA-	4.449	10	4.559	08/04/2019	-11	35
CIMB Group Holdings Berhad	05/16	A1	4.651	2	4.948	24/04/2019	-30	33
UMW Holdings Berhad	04/18	A1	5.200	1	5.368	07/05/2019	-17	88
Affin Islamic Bank Berhad	10/17	A3	4.787	10	4.828	09/04/2019	-4	47
Eco World International	10/21	-	5.500	1	-	-	-	-
Alliance Islamic Bank Berhad	03/19	BBB1	5.055	5	5.502	30/04/2019	-45	73
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*spread against nearest indicative tenured MGS (Source : BPAM)

Market/Corporate News: What's Brewing

The profitability of banks in Malaysia will be negatively affected in the short term following the recent cut in the overnight policy rate (OPR), with banks with higher floating rate loans being impacted the most. Analysts, which are cautiously optimistic on the banking sector's outlook, said that banks would be hit by short-term pressure on their net interest margins (NIM). However, the impact on earnings is expected to be insignificant. For context, NIM is a measure of the difference between the interest income generated by banks and the interest paid out to depositors. "On average, we estimate a 3% decline in the earnings of banks under our coverage compared to our previous forecast. Banks with higher floating rate loans to be impacted the most. "Meanwhile, we expect a less muted impact on Malayan Banking Bhd. (Maybank) due to a more geographically diversified loan exposure, and Affin Bank Bhd due to less exposure in floating rate loans," stated the research house in a note yesterday. Another analyst, meanwhile, expects the banking sector's NIM pressure to gradually ease over the next six to 12 months, as the repricing impact of deposit rates takes effect. "We estimate that banks may experience about a 1.4% to 3.9% full-year impact on the financial years of 2019 and 2020 net profit, on a pro-forma basis," it said. On May 7, the Monetary Policy Committee of Bank Negara reduced the OPR to 3% from 3.25%, on the back of macroeconomic headwinds and signs of tightening of financial conditions. The central bank's move to slash the key interest rate came in line with consensus expectations. Based on a Bloomberg poll, 14 economists among 23 respondents had predicted a 25-basis-point (bps) cut in the OPR. Despite the predicted margin compression in the local

banking sector, it said that “there is still room for investors to manoeuvre” by considering banks that have low exposure to floating rate loans, have a geographically diversified loan book and offer solid dividend yields. Maybank yesterday announced that it would cut its base rate (BR) and base lending rate (BLR) effective May 9. Already offering the lowest BR and BLR in the country, Maybank would further cut its annual BR and BLR by 20bps to 3.05% and 6.70%, respectively, for both conventional and Islamic banking from today. In line with the revision, Maybank’s fixed deposit rates would also be adjusted downwards by 20bps effective today. In a statement, Maybank group president and CEO Datuk Abdul Farid Alias said: “Maybank has been offering the lowest BR and BLR among commercial banks in the country for some time now at 3.25% and 6.90% respectively. “Our revision in rates will continue to benefit our borrowers who have loans pegged to the BR/BLR as their applicable interest rates will be adjusted downwards accordingly from May 9.” He added that depositors would continue to receive an appropriate return as fixed deposit rates have been adjusted less than the 25bps decrease in the OPR. Another research house has recommended investors to accumulate banking stocks amid the earnings impact. According to it, the longer-term effects caused by the OPR cut are likely to be shrugged off by gradual improvements in macroeconomic conditions. “We see this as an opportunity to accumulate. While we maintain our ‘neutral’ view on the sector, it is with a positive bias, given the sector’s lagging valuations to the broader market. “Meanwhile, the OPR cut may only have a marginal impact on loan growth, especially for banks that have raised their base rates this year. Four of the eight domestic banks have already raised their base rates by 10bps this year, in light of higher funding costs. The four banks that have yet to raise the rates are Maybank, Public Bank Bhd. “Loan application trends point to moderating loan growth in the coming months for on a three-month moving average basis, loan applications contracted 8.5% in March 2019, this being the fifth consecutive month of contraction. “We maintain our 2019 industry loan growth forecast of 5.1% for now,” said the research house. Some analysts have maintained its “neutral call” on the banking sector, with “buy” calls on RHB Bank Bhd, BIMB and Alliance Bank. In a separate note, another economist pointed out that there is a 40% chance of a second rate cut later in 2019 or early 2020, should the potential incoming data remain weak. “Will Bank Negara institute another rate cut? Much would depend on the severity of the downside risks to growth from the heightened uncertainties in the global and domestic environment, trade tensions and extended weakness in commodity-related sectors. “Another consideration will be if there is still evidence of a tightening in financial conditions even after a 25bps rate cut to 3% intended to preserve the degree of monetary accommodativeness”. (Source: *The Star*)

International Business Machines Corp kicked off a debt sale that’s likely to make this the corporate-bond market’s busiest week in at least eight months, a rare buying frenzy, amid turbulent markets globally. The computer-services giant plans to sell what could be US\$20 billion of senior unsecured bonds to help fund its acquisition of Red Hat Inc, according to a person with knowledge of the matter. The longest portion of the offering, a 30-year security, may yield around 1.55 percentage points more than Treasuries, said the person, who asked not to be identified as the details are private. The U.S. investment-grade corporate bond market reached record highs on Tuesday, shrugging off the trade war fears that have weighed on stocks and oil this week. Bristol-Myers Squibb Co managed on Tuesday to sell the biggest corporate bond offering of the year, a US\$19 billion deal, and high-grade issuance this week could top US\$40 billion. That would be the most since September, according to data compiled by Bloomberg. High-yield issuers are also taking advantage of the buying frenzy — they collectively had their busiest day in three months. The market turmoil of recent days may be spurring companies that had been waiting for an opportune moment to borrow now, said Lale Topcuoglu, senior fund manager and head of credit at J O Hambro Capital Management. Issuance tends to slow down over the summer, giving limited time for corporations to sell

debt. "If you've got to get a deal done and there's even a little uncertainty about the markets, that's an additional push," Topcuoglu said. "You really have May to crank as much as you can." More big bond offerings are coming. T-Mobile US Inc and Fidelity National Information Services Inc are expected to issue debt in the coming weeks to fund their respective acquisitions. IBM's bond sale could be in as many as eight parts, and the offering is starting, just days after the company received U.S. regulatory approval for its planned US\$33 billion Red Hat purchase. IBM said it's working with competition authorities in other jurisdictions — European Commission clearance is outstanding — though the company still expects the transaction to close in the second half of this year. The Red Hat purchase will push the combined company's borrowings above US\$60 billion with debt that's more than three times a key measure of earnings, said Bloomberg Intelligence analysts Robert Schiffman and Mike Campellone. Though IBM won't buy back shares in the next two years, it still risks a potential downgrade to the BBB range, the tier of corporate debt that's just above junk, they wrote. IBM took out a US\$20 billion bridge loan to fund the Red Hat deal and will use some of its cash pile, the company said in October when the transaction was announced. S&P Global Ratings and Fitch Ratings cut IBM one level to A at the time, the sixth-highest investment-grade rating, while it remains on review for downgrade at Moody's Investors Service. The Red Hat acquisition will be the world's second-largest technology deal ever and boosts IBM's credentials in the fast-growing and lucrative cloud market. Red Hat gives IBM much-needed potential for real revenue growth, as it has been slow to adopt cloud-related technologies and lagged market leaders Amazon.com Inc and Microsoft Corp. BNP Paribas SA, Bank of America Corp, Citigroup Inc, Goldman Sachs Group Inc, JPMorgan Chase & Co, Mizuho Financial Group Inc and Mitsubishi UFJ Financial Group Inc are managing the bond sale, the person said. (Source: *The EdgeMarkets*)

Rating Action			
Issuer	PDS Description	Rating/Outlook	Action
Nil	Nil	Nil	Nil

Source: RAM, MARC

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