

Global Markets Research

Fixed Income

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	1.62	2
5-yr UST	1.66	3
10-yr UST	1.84	3
30-yr UST	2.28	2

MGS		GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.04	-2	3.10	0
5-yr	3.24	1	3.31	0
7-yr	3.33	0	3.35	-2
10-yr	3.44	3	3.51	-1
15-yr	3.67	-3	3.76	0
20-yr	3.74	0	3.88	0
30-yr	4.01	3	4.00	0

* Market indicative levels

MYR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.25	0
3-yr	3.27	1
5-yr	3.33	3
7-yr	3.35	1
10-yr	3.40	0

Source : Bloomberg

Upcoming Government Bond Tender

Nil

Fixed Income Daily Market Snapshot

US Treasuries

- The US Treasuries extended their weakness further on better-than-expected jobs data for November, in addition to a separate release by Uni of Michigan that revealed a larger-than-expected improvement in US consumer sentiment for this month. The curve shifted higher as overall benchmark yields rose between 2-3bps with the UST 2Y at 1.62% and the much-watched 10Y rising 3bps to 1.84% levels. Meanwhile the year-end repo rates which are used by investors to borrow cash overnight in exchange for UST's and similar high-grade collateral surged to 3.95% from ~3.0% a month ago despite Fed's efforts to ease the situation. The US Treasury is expected to embark on fresh auctions involving 3Y, 10Y and 30Y bonds. Expect attention to eventually shift to the upcoming FOMC meeting this Thursday where the Fed is expected to stay pat on rates.

MGS/GII

- Local govvnies saw momentum ease further as secondary market volume maintained below the RM2.0b handle with investor interest mainly in the off-the-run 20's and 25's. Overall benchmark yields closed mostly mixed between -2 to +3bps across the curve. The benchmark 5Y MGS 6/24 edged up another 1bps at 3.24% whilst the 10Y MGS 8/29 closed up 3bps at 3.44%. GII trades maintained to form ~28% of overall trades. Meanwhile the nation's foreign reserves remained unchanged at \$103.2b as at end-November and sufficient to to finance 7.7 months of retained imports and 1.1x short-term external debt. Expect the bond market to trade cautiously on lack of market-moving data and ongoing US-China trade matters.

Corp Bonds/Sukuk

- Corporate bonds/sukuk space saw strong interest with secondary market volume at RM616m as investor interest remained across the curve with yields closed mostly mixed again. Govt-guaranteed space continued to see action with the DANA 5/22 and 3/34 closing between 5-30bps lower compared to previous-done levels between at 3.26% and 3.90% whilst the 10/26 and 4/37 tranche saw yield sjump between 1-17bps instead at 3.56% and 4.01% respectively. AAA-rated DANGA 26-27's closed unchanged between 3.700-77% area whilst AA-space saw TBEI, TG Bin and EDRA Energy dominate last Friday's trading session; closing lower on yields save for EDRA 1/34 which jumped 13bps at 4.55%. The banking space saw PUBLIC 27NC22 edge 2bps lower on substantial RM80m in nominal amounts.

Daily Trades : Government Bond

Securities	Closing	Vol	Previous	Previous	Chg
	YTM	(RM mil)	YTM	Trade Date (dd/mm/yyyy)	(bp)
MGS 03/20	2.994	467	2.966	05/12/2019	3
MGS 07/20	2.902	100	2.999	02/12/2019	-10
MGS 10/20	2.975	270	3.002	05/12/2019	-3
MGS 07/21	3.028	25	3.030	05/12/2019	0
MGS 09/21	3.039	10	3.040	05/12/2019	0
MGS 11/21	3.041	62	3.033	05/12/2019	1
MGS 03/22	3.037	57	3.061	05/12/2019	-2
MGS 08/22	3.131	1	3.109	04/12/2019	2
MGS 03/23	3.114	80	3.114	05/12/2019	0
MGS 08/23	3.181	2	3.186	05/12/2019	0
MGS 06/24	3.243	124	3.234	05/12/2019	1
MGS 07/24	3.261	41	3.249	05/12/2019	1
MGS 09/25	3.322	6	3.311	05/12/2019	1
MGS 04/26	3.326	3	3.352	05/12/2019	-3
MGS 07/26	3.331	10	3.326	05/12/2019	0
MGS 11/26	3.414	21	3.393	05/12/2019	2
MGS 11/27	3.433	3	3.405	05/12/2019	3
MGS 06/28	3.442	4	3.453	05/12/2019	-1
MGS 08/29	3.438	18	3.408	05/12/2019	3
MGS 04/33	3.719	8	3.711	05/12/2019	1
MGS 07/34	3.667	16	3.694	05/12/2019	-3
MGS 04/37	3.703	3	3.714	05/12/2019	-1
MGS 06/38	3.809	4	3.809	05/12/2019	0
MGS 07/48	4.011	9	3.981	05/12/2019	3
GII 04/20	2.987	2	2.987	05/12/2019	0
GII 04/20	3.011	75	2.975	25/11/2019	4
GII 05/20	2.970	10	3.020	04/12/2019	-5
GII 03/21	3.030	1	3.048	05/12/2019	-2
GII 03/22	3.103	30	3.103	04/12/2019	0
GII 11/22	3.141	10	3.150	04/09/2019	-1
GII 07/23	3.206	17	3.172	04/12/2019	3
GII 08/25	3.356	183	3.350	04/12/2019	1
GII 10/25	3.359	60	3.355	04/12/2019	0
GII 03/26	3.353	3	3.371	04/12/2019	-2
GII 07/27	3.454	2	3.455	04/12/2019	0
GII 07/29	3.508	120	3.517	05/12/2019	-1
GII 09/39	3.883	2	3.883	05/12/2019	0
		<u>1859</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	05/22	GG	3.262	20	3.559	09/05/2019	-30	23
Lembaga Pembiayaan Perumahan Sektor Awam	04/26	GG	3.504	40	3.528	12/11/2019	-2	21
DanaInfra Nasional Berhad	10/26	GG	3.560	15	3.393	12/09/2019	17	23
Lembaga Pembiayaan Perumahan Sektor Awam	10/28	GG	3.672	80	3.657	13/11/2019	2	25
DanaInfra Nasional Berhad	03/34	GG	3.900	40	3.950	18/11/2019	-5	21
DanaInfra Nasional Berhad	04/37	GG	4.011	5	3.999	05/12/2019	1	32
Lembaga Pembiayaan Perumahan Sektor Awam	10/38	GG	4.091	40	4.069	01/11/2019	2	33
Prasarana Malaysia Berhad	08/39	GG	4.050	15	4.070	04/12/2019	-2	29
Cagamas Berhad	12/22	AAA	3.407	10	3.378	22/11/2019	3	35
Danum Capital Berhad	02/26	AAA	3.698	35	3.728	25/11/2019	-3	40
Danga Capital Berhad	02/26	AAA	3.699	5	3.696	04/12/2019	0	41
Danga Capital Berhad	09/27	AAA	3.771	25	3.768	04/12/2019	0	37
Public Bank Berhad	04/27	AA1	3.576	80	3.576	21/11/2019	0	25
Tanjung Bin Power Sdn Berhad	08/20	AA2	3.342	20	3.363	26/11/2019	-2	35
Edra Solar Sdn Berhad	10/26	AA2	4.338	2	4.398	14/10/2019	-6	101
Tanjung Bin Energy Issuer Berhad	03/20	AA3	3.382	2	3.418	18/09/2019	-4	39
Country Garden Real Estate Sdn Berhad	02/23	AA3	6.455	2	6.368	05/12/2019	9	340
Burnitama Agri Ltd	07/26	AA3	3.962	20	3.946	21/11/2019	2	64
CIMB Thai Bank Public Company Limited	07/29	AA3	3.995	10	3.998	25/11/2019	0	56
Edra Energy Sdn Berhad	01/32	AA3	4.035	5	4.469	15/10/2019	-43	60
Edra Energy Sdn Berhad	01/34	AA3	4.549	10	4.418	11/09/2019	13	86
Edra Energy Sdn Berhad	07/35	AA3	4.608	20	4.608	28/11/2019	0	92
Konsortium Lebuhraya Utara-Timur (KL) Sdn Berhad	12/28	AA-	4.258	90	4.142	19/08/2019	12	83
Tan Chong Motor Holdings Berhad	11/21	A1	4.138	2	4.144	27/11/2019	-1	111
CIMB Group Holdings Berhad	05/16	A1	4.205	1	4.515	02/12/2019	-31	44
Alliance Bank Malaysia Berhad	12/25	A2	4.017	20	4.004	02/10/2019	1	72
IJM Land Berhad	03/19	A2	4.638	2	-	-	-	88
Eco World International Berhad	10/21	-	5.205	1	5.184	04/12/2019	2	217
Eco World International Berhad	04/23	-	5.653	1	5.576	05/12/2019	8	260
				<u>616</u>				

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

Market/Corporate News: What's Brewing

STUDENTS seeking higher education have long looked to the government for help with financing, creating a culture of student debt, with many borrowers unable to repay their loans. The National Higher Education Fund Corporation believes it is high time to change that mindset. It wants Malaysians to take ownership of their aspirations for their children's tertiary education by saving for their future. National Higher Education Fund Corporation (PTPTN) chairman Wan Saiful Wan Jan wishes that borrowers from the fund would think first of saving for their children's education rather than turning to the agency for an easy fix. "It's almost as if they forget that the 'T' in the fund's acronym PTPTN stands for 'tabung' (fund), which is a place for them to invest their money," he says wryly. They seem to think that the 'P' in PTPTN stands for "pinjaman" (borrowing). Herein lies the mindset change that he is seeking to bring about among PTPTN's beneficiaries in order to turn around the fortunes of the beleaguered fund. The savings aspect of its operations is one of three functions it undertakes in supporting the national higher education agenda. The other two are providing loans and managing repayment. Wan Saiful says PTPTN currently manages RM5 billion in depositors' funds. "This money is invested and we are able to give out competitive dividends. When we go on roadshows around the country, we inculcate this point about saving. We want parents to take it upon themselves to save for their children's education from day one so that they don't need to depend on the government so much," he says. While it works to bring about this shift in mindset, the fund's debt burden is a major problem that needs urgent attention. PTPTN is sitting on RM40 billion of government-guaranteed debt, which is expected to almost double to RM76 billion in 20 years. For perspective, this is more than the amount involved in the 1MDB scandal. "When I took over, I soon realised that I had inherited a legacy of mounting debt and this needed to be fixed as soon as possible to ensure the survival of the fund. The savings portfolio is a profitable business ... the problematic part is when the previous borrowers don't pay," Wan Saiful says. The emphasis on the repayment problem has detracted attention from the more serious issue of the sustainability of the fund, he adds. This is why it is now time for an overhaul of the fund's operating model, which the Education Ministry is in the midst of addressing. Last month, Education Minister Maszlee

Malik told parliament that a new committee would be formed to find a new sustainable model for PTPTN. The scale of the repayment problem is huge, with more than half of borrowers defaulting. The current loan repayment percentage ratio is 49:51, with 49% actively paying back their debt while 51% are not. Of the non-payers, 19% have not made a single payment (see Infographics). From RM56 billion that PTPTN has disbursed to date, only 32.5% has been repaid in full. The gap between the cumulative amount of loans disbursed and that have been repaid continues to widen every year, Wan Saiful says. Against that backdrop, the number of students requiring loans from PTPTN is also on an upward trend and is expected to grow from 180,000 today to 250,000 by 2040, in line with the enrolment growth projected in the Higher Education Blueprint. After the government ceased providing grants to PTPTN in 2002, the organisation subsequently sourced its funds by borrowing from banks and the financial markets. However, as a loan provider with a poor repayment performance, it will be impossible for PTPTN to continue borrowing successfully from the money market unless the debts are government guaranteed, Wan Saiful says. He acknowledges that the current model is not sustainable, especially as it borrows at 5% and lends at only 1%, with the difference being subsidised by the government. "So we need to figure out some other mechanism to ensure we can continue to give out loans at an affordable rate to the borrowers, but without creating more debt for the government," he says. These statistics were presented during a public consultation between PTPTN and various stakeholders between May and June. "I'm happy the minister made an announcement in parliament accepting PTPTN's view that the current model is not sustainable and that we need a new one. That opens up a door for us to propose a new model and tackle all the problems. "The new model must be one where we don't add debt to the government, but at the same time, those who come from lower-income families are assisted by the government so they are not overly burdened," Wan Saiful explains. The government has come under pressure for not fulfilling its election pledge on PTPTN loans in its entirety. In its manifesto, Pakatan Harapan had promised that within the first 100 days of taking office, it would postpone PTPTN repayments for graduates who earn a salary of less than RM4,000 monthly. Many have criticised proposed enforcement measures such as salary deductions for loan repayments, saying that low incomes and the high cost of living do not allow them to pay back their dues. PH's pledge on student loans has since been put on hold. However, the government did abolish the blacklisting of non-rePAYERS. The important role that PTPTN plays in enabling the people to fund their children's higher education has made it a convenient tool for politicians. Observers have commented that political statements have impacted the public's perception of PTPTN, with many believing their loan repayments would go away. Wan Saiful says future students must be given proper advice on the right courses to take so that graduates will be able to find suitable jobs that allow them to be responsible and pay back their loans. He cites data that show the relationship between the types of universities and repayment rates (see charts). PTPTN has been working on a proposal that aims to rework the model to be more sustainable and cost-effective, he adds. Private-sector companies have also come forward with proposals, such as making better use of technology to make PTPTN processes more efficient. "Some are also coming with ideas on how to insure the loans so that the risk can be better managed. Some have advised us on how we can borrow at lower rates," he says. He adds that the proposal will be shared with the government, which is aiming to announce a new model for the agency next year. How students elsewhere repay their loans In planning a new sustainable model, Wan Saiful says reference can be made to other countries that have managed to achieve higher repayment rates. Most look to countries such as Australia and New Zealand, where enforcement is strict and the repayment rate is high, at about 80%. "The system they have is based on income as well — it's a progressive system and it works. So we have been talking to diplomats there on how we can improve ours," he says. In New Zealand, once borrowers earn over NZ\$19,760 a year, they are required to start paying off their loans even if they are still studying. The borrower's tax code can be changed so that repayments are automatically

deducted from their pay, with the deductions amounting to 12% of everything over NZ\$19,760. Similarly, in Australia, those earning over A\$45,881 a year have to repay their student loans — a new repayment threshold which is 11% lower than the previous one. It marked the largest percentage drop in the threshold in more than 20 years, the government said. In the US, 2020 democratic presidential candidate Elizabeth Warren has pledged to cancel almost all of America's student loan debt. She believes this will help reduce the wealth gap in America and provide an economic stimulus to the middle class to increase home purchases and start small businesses. Wan Saiful notes the reasoning behind this concept, saying an important factor to consider is to clear the credit history of borrowers so that they can be free to do other things. "They may want to buy a house or buy a car. But because of a bad credit history, they can't take out those loans whereas they do need those loans to move forward." (Source: *The EdgeMarkets*)

Rating Action			
Issuer	PDS Description	Rating/Outlook	Action
Bank Kerjasama Rakyat Malaysia Berhad	Financial Institution rating	AA2/Stable/P1	Reaffirmed
MUFG Bank (Malaysia) Berhad	USD500 million Multi-Currency Sukuk Wakalah Bi Al-Istithmar Programme (the Programme)	AAA(BG)/Stable	Reaffirmed

Source: RAM, MARC

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