

Global Markets Research

Fixed Income

Fixed Income Daily Market Snapshot

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	2.47	-1
5-yr UST	2.44	-1
10-yr UST	2.63	-1
30-yr UST	3.01	-2

MGS			GII*	
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.45	-1	3.54	-1
5-yr	3.58	-4	3.73	-2
7-yr	3.78	-1	3.88	-4
10-yr	3.86	-2	3.99	0
15-yr	4.26	-28	4.34	0
20-yr	4.46	0	4.60	0
30-yr	4.71	0	4.86	0

* Market indicative levels

MYR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.57	0
3-yr	3.59	0
5-yr	3.68	0
7-yr	3.80	0
10-yr	4.00	3

Source : Bloomberg

Upcoming Government Bond Tender

Nil

US Treasuries

- US Treasuries closed stronger last Friday following the weakest February payrolls since 2017 which were nevertheless partly offset by bigger-than expected average hourly earnings growth. The curve shifted lower with overall benchmark yields 1-2bps lower. Both the 2Y note yield and the much-watched 10Y bond edged 1bps lower at 2.47% and 2.63% respectively. The US Treasury will be selling new 3Y papers and possibly reopen the 10Y , 30Y bonds later this week for a total of \$78b; which will be partly offset by redemption of \$24b. Fed Chair Powell reiterated that despite inflation under wraps and some "cross-currents" in recent months; nothing in outlook demands a Fed policy response for now as it adopts a patient, wait-and-see approach.

MGS/GII

- Local govies continued its robust momentum with volume at RM5.66b as slight intermittent profit-taking was well-absorbed save for the shorter-ends as MYR Interest Rate swaps ended marginally higher. Interest returned to the off-the-run 19-20's and also the benchmark 5Y, 10Y MGS/GII bonds which churned huge volumes. Overall benchmark yields ended mostly 0-4bps lower save for the glaring adjustment on the 15Y. The 5Y benchmark MGS 4/23 rallied 4bps lower at 3.58% whilst the 10Y MGS 8/29 moved 2bps lower at 3.86% level. GII trades maintained at 47% of overall trades. The improved foreign holdings levels of MYR bonds (all categories) for February spurred optimism overall last week.

Corp Bonds/Sukuk

- Despite demand for Corporate Bonds/Sukuk tapering off slightly volume was commendable at RM560m with investor interest mainly across the GG to AA part of the curve. DANA 22-23's ended 1-4bps lower compared to previous-done levels at 3.91-93% levels. AAA-rated DANGA 2/26 and 9/33 closed 3-4bps lower between 4.23% and 4.56% respectively. In the AA-space, energy-related bond EDRA Energy saw a slew of tranches i.e. 2033-2036 bonds close mixed on yields between -1 to +2bps; totaling RM80m in nominal amounts. Meanwhile DUKE3 bonds saw the 2037-2038 tranches close 3-6bps lower at 5.29% and 5.37% each. The banking space saw lesser demand as RHB Islamic 27NC22 closed 4bps lower at 4.41% whereas Bank Islam 25NC20 ended unchanged at 4.38%.

Daily Trades : Government Bonds

Securities		Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS	07/19	3.329	210	3.312	05/03/2019	2
MGS	10/19	3.361	274	3.362	07/03/2019	0
MGS	11/19	3.387	129	3.346	06/03/2019	4
MGS	03/20	3.374	235	3.374	07/03/2019	0
MGS	10/20	3.268	13	3.430	07/03/2019	-16
MGS	07/21	3.465	23	3.477	07/03/2019	-1
MGS	09/21	3.469	18	3.474	07/03/2019	-1
MGS	11/21	3.463	11	3.456	07/03/2019	1
MGS	03/22	3.453	291	3.464	07/03/2019	-1
MGS	08/22	3.511	74	3.592	07/03/2019	-8
MGS	09/22	3.523	40	3.553	07/03/2019	-3
MGS	04/23	3.577	342	3.611	07/03/2019	-3
MGS	08/23	3.676	10	3.726	07/03/2019	-5
MGS	07/24	3.738	292	3.754	07/03/2019	-2
MGS	09/24	3.757	48	3.773	07/03/2019	-2
MGS	03/25	3.854	10	3.844	07/03/2019	1
MGS	07/26	3.778	160	3.795	07/03/2019	-2
MGS	11/26	3.899	69	3.914	06/03/2019	-2
MGS	11/27	3.940	4	3.946	07/03/2019	-1
MGS	06/28	3.950	63	3.953	07/03/2019	0
MGS	08/29	3.855	460	3.874	07/03/2019	-2
MGS	06/31	4.195	132	4.211	07/03/2019	-2
MGS	04/32	4.288	2	4.308	05/03/2019	-2
MGS	11/33	4.263	40	4.258	07/03/2019	0
MGS	06/38	4.460	20	4.477	05/03/2019	-2
MGS	03/46	4.753	15	4.732	07/03/2019	2
GII	04/19	3.350	40	3.330	06/03/2019	2
GII	03/22	3.544	550	3.554	07/03/2019	-1
GII	07/22	3.642	36	3.649	07/03/2019	-1
GII	07/23	3.732	20	3.783	06/03/2019	-5
GII	11/23	3.733	610	3.745	07/03/2019	-1
GII	05/24	3.843	50	3.866	06/03/2019	-2
GII	08/24	3.870	40	3.886	07/03/2019	-2
GII	08/25	3.883	110	3.918	07/03/2019	-4
GII	07/27	4.023	100	4.038	07/03/2019	-2
GII	10/28	4.057	700	4.068	07/03/2019	-1
GII	12/28	4.090	120	4.114	06/03/2019	-2
GII	07/29	3.993	60	3.998	07/03/2019	-1
GII	06/33	4.340	90	4.354	07/03/2019	-1
GII	08/33	4.389	90	4.388	01/03/2019	0
GII	10/35	4.569	51	4.574	07/03/2019	0
GII	08/37	4.600	10	4.604	07/03/2019	0
			<u>5663</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*
Khazanah Nasional Berhad	03/21	GG	3.829	5	3.905	19/12/2018	-8	40
DanaInfra Nasional Berhad	11/22	GG	3.917	10	3.931	05/03/2019	-1	37
DanaInfra Nasional Berhad	02/23	GG	3.927	20	3.969	21/02/2019	-4	38
Prasarana Malaysia Berhad	02/26	GG	4.046	20	4.053	07/03/2019	-1	27
Perbadanan Tabung Pendidikan Tinggi Nasional	03/32	GG	4.459	25	4.487	05/03/2019	-3	20
Turus Pesawat Sdn Berhad	11/32	GG	4.449	20	4.454	07/03/2019	0	19
Cagamas Berhad	08/19	AAA	3.680	5	3.682	22/02/2019	0	30
Manjung Island Energy Berhad	11/21	AAA	4.026	20	4.042	06/03/2019	-2	57
Danum Capital Berhad	02/26	AAA	4.202	15	4.300	12/02/2019	-10	42
Danga Capital Berhad	02/26	AAA	4.228	30	4.272	28/02/2019	-4	45
Genting Capital Berhad	06/27	AAA	4.729	10	4.748	28/02/2019	-2	89
Pengurusan Air SPV Berhad	02/29	AAA	4.396	5	4.438	06/03/2019	-4	54
Danga Capital Berhad	09/33	AAA	4.559	25	4.589	05/03/2019	-3	30
Sabah Development Bank Berhad	07/20	AA1	4.651	10	4.652	19/02/2019	0	127
YTL Power International Berhad	05/27	AA1	4.740	19	4.735	07/03/2019	0	90
UMW Holdings Berhad	10/19	AA2	4.049	15	4.070	25/02/2019	-2	67
First Resources Limited	06/20	AA2	4.261	10	4.242	14/02/2019	2	88
UMW Holdings Berhad	10/21	AA2	4.336	10	4.353	18/02/2019	-2	88
Benih Restu Berhad	06/25	AA2	4.480	10	4.481	05/03/2019	0	75
Anih Berhad	11/28	AA	4.638	10	4.689	22/02/2019	-5	78
Anih Berhad	11/29	AA	4.678	10	4.719	01/03/2019	-4	82
Malakoff Power Berhad	12/21	AA-	4.341	10	4.376	24/01/2019	-4	89
Cahaya Mata Sarawak Berhad	05/22	AA3	4.465	50	4.461	26/02/2019	0	101
CIMB Thai Bank Public Company Limited	07/24	AA3	4.289	10	4.333	01/03/2019	-4	71
RHB Islamic Bank Berhad	04/27	AA3	4.411	10	4.448	24/01/2019	-4	57
Edra Energy Sdn Berhad	07/27	AA3	5.728	5	5.768	25/02/2019	-4	188
AmBank Islamic Berhad	10/28	AA3	4.621	10	4.621	07/03/2019	0	76
Edra Energy Sdn Berhad	07/33	AA3	6.069	35	6.049	07/03/2019	2	181
Edra Energy Sdn Berhad	07/34	AA3	6.119	5	6.119	07/03/2019	0	186
Edra Energy Sdn Berhad	01/35	AA3	6.149	15	6.149	07/03/2019	0	189
Edra Energy Sdn Berhad	07/35	AA3	6.169	10	6.169	07/03/2019	0	191
Edra Energy Sdn Berhad	01/36	AA3	6.199	15	6.210	14/02/2019	-1	194
UEM Sunrise Berhad	05/23	AA-	4.622	10	4.648	07/03/2019	-3	108
Konsortium Lebuhraya Utara-Timur (KL) Sdn Berh	12/28	AA-	4.624	20	4.666	21/02/2019	-4	76
Lebuhraya DUKE Fasa 3 Sdn Berhad	08/37	AA-	5.289	20	5.321	07/03/2019	-3	83
Lebuhraya DUKE Fasa 3 Sdn Berhad	08/38	AA-	5.370	20	5.430	15/02/2019	-6	91
Bank Islam Malaysia Berhad	12/25	A1	4.377	10	4.377	06/03/2019	0	60
Hong Leong Financial Group Berhad	11/17	A1	4.798	1	5.028	07/03/2019	-23	34
				<u>560</u>				

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

Market/Corporate News: What's Brewing

Investors are starting to worry that the world of emerging-market bonds is starting to overheat. The Federal Reserve's dovish turn and optimism about a trade deal between the U.S. and China spurred borrowers to raise about US\$360 billion in 2019, a record on a year-to-date basis. And more than US\$14 billion has flowed into developing-nation debt funds this year, EPFR Global data cited by Bank of America Merrill Lynch show. Investors question how long the rally will last, and whether a potential shift by the U.S. central bank to an inflation-targeting policy will hurt returns. Bond buyers' pursuit of extra yield is boosting demand for riskier notes of frontier markets such as Sri Lanka, whose debt slumped last year amid a leadership struggle, and Pakistan, where tensions with India are rising. "Some of the frontier markets you would argue have probably tightened a little bit more than one would be comfortable with," said Kenneth Akintewe, head of Asian sovereign debt at Aberdeen Standard in Singapore. After a selloff last year, yields on emerging-market dollar bonds globally have fallen to near the lowest since May, according to a Bloomberg Barclays Index. Qatar this week sold a three-part US\$12 billion bond, after attracting about US\$50 billion in demand. It outdid its rival Saudi Arabia, which issued US\$7.5 billion of notes in January Sri Lanka raised US\$2.4 billion, through

a dollar debt offering to investors on Friday, as it also seeks funding from the International Monetary Fund Egypt raised US\$4 billion from the dollar debt market in February, signaling a return in investor interest. Malaysia sold a jumbo 200 billion yen (US\$1.8 billion) bond in first fundraising in the global debt market since its landmark election last year. U.S. currency bond orders for Asian borrowers soared to 6.7 times their issuance size in February, unprecedented since Bloomberg started compiling the data in 2016. Spreads on emerging-market bonds globally have tightened “a lot” and may need further catalysts to rally more, according to an analyst. (Source: *The EdgeMarkets*)

The pressure on the banking sector is not expected to ease anytime soon, with more analysts lowering their core projected figures this year. After witnessing moderate growth for the sector in the final quarter of last year from lower provisions, there are strong signals for further cuts in earnings and loan growth this year. Apart from a slower growth this year, the ongoing margin pressure would be a drag on most banks’ bottom lines and loan growth. Analysts are projecting an earnings growth of between 4.5% and 6.3% and a loan growth of between 4% and 5.1% this year while maintaining a stable return on equity (ROE) forecast for the year. ROE is a measure of profitability to shareholders. An analyst, who is projecting an earnings and loan growth of 4.5% and 4%-5% this year, expects earnings to be supported by a modest total income growth, controlled rise in operating expenses, and a stable asset quality with no significant increase in provisions. In terms of valuation, he said the sector’s 2019 price-to-book value (P/BV) now stood at around 1.2 times and is expected to improve, moving ahead. Most banks with decent forward-looking ROEs are still trading at close to 1.0 times the P/BV valuation, he told StarBiz. On the banks that are expected to show strong performance for 2019, He said: “We expect RHB Bank Bhd and Malayan Banking Bhd (Maybank) to deliver stronger ROEs this year. For RHB, this is due to its undemanding valuation, trading at 0.9 times to the financial year 2019 (FY19) BV/share. Also, the group’s asset quality is improving with lower allowances for loan impairments. “Earnings contribution to RHB from the Singapore operations is anticipated to be higher in FY19 after substantial impairment allowances have been provided.” Separately, on Maybank, the group is expected to still deliver a decent revenue growth. Asset quality is improving with lower provisions. Meanwhile, dividend yields remain attractive relative to peers at 6.2%-7% for FY19 to FY21, and this is anticipated to be supportive of its share price,” he said. RAM Ratings co-head of financial institution ratings Wong Yin Ching said she expects loan growth to ease slightly to around 5% for 2019 from 5.6% in 2018. “The projection takes into account our GDP growth forecast of 4.6% (2018: 4.7%) that is premised on slower exports and investment activities, but still supported by resilient private consumption. Loan applications and loan approvals – both of which are forward-looking indicators – also point to signs of some deceleration with respective growth rates of 2% and 5% in 2018 (2017: +5% and +10%),” she said. Wong anticipates household loans to outpace business loans, with residential mortgages to remain as the key driver, although growth in this segment has been moderating amidst the sluggish property market. On the other hand, she said the less upbeat outlook by business enterprises would likely temper their demand for financing. The latest findings of the RAM Business Confidence Index corroborate our view, with the index polling weaker sentiment among the 3,500 firms surveyed, albeit still above the 50-point threshold for positive sentiment, added Wong. Wong said: “We expect some mild downside on net interest margin (NIM) this year, with competition for retail and SME deposits likely to heat up again as banks brace for the implementation of the Basel III Net Stable Funding Ratio (NSFR). This has also factored in our base expectation that the overnight policy rate (OPR) will stay unchanged at 3.25% in 2019. The NIM compression will be offset by loan growth, stable non-interest income given the low base last year, continued emphasis on cost efficiency and benign credit costs. As such, we project banks’ overall earnings to remain stable this year.” Another research house Research said NIM pressure would remain an ongoing theme for 2019

as deposit competition persists. This would be prevalent, especially towards the second-half of 2019 when the net stable funding ratio observation period concludes in January 2020, it noted. "Our 5% loan growth assumption for the year is mainly underpinned by retail loans, which has been supporting the sector thus far," the research house added. A banking analyst said he expected the operating environment this year to moderate, but with prevailing challenges. "We forecast domestic loan growth to slip to 5.1% from 5.6% in 2018, and ongoing NIM compression amid stiff deposit competition. "Having put through aggressive cost control measures, much of the low-hanging fruit has been plucked over the past few years and expenses are expected to normalise, moving forward," he said. He added that banks under Maybank IB's coverage ended 2018 with just a negligible 1% gain in operating profit compared with 9% in 2017. Backed by lower provisions, he said 2018 net profit rose 8% year-on-year (y-o-y) against 15% y-o-y in 2017. Key themes for most banks last year included slower loan growth, NIM compression, lower non-interest income (NOII), and lower y-o-y credit costs. For 2019, he is forecasting a faster operating profit growth of 5.5% (premised largely on lower NIM compression than in 2018 and faster growth in NOII), but marginally slower net profit growth of 6.3% amid stable credit costs. Into 2020, he said he is projecting a stable operating profit growth of 5.5% but slower net profit growth of 5.2%. For ROE, he is expecting ROEs to be relatively stable and to average 10.8% in 2019 and 2020, respectively, unchanged from 2018 levels. He expressed some concern on the current and savings account deposit growth trailing overall deposit growth for the eight consecutive month, slipping to just 0.8% in January. Meanwhile, Moody's Investors Service said the country's banking sector is likely to see profitability decline as revenue growth slows and credit costs rise. The banks' capital buffers would further improve as a result of slower asset growth and this would help financial institutions withstand any increase in asset risks, it said. (Source: *The EdgeMarkets*)

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

Source: RAM, MARC

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