

## Global Markets Research

### Fixed Income

#### Fixed Income Daily Market Snapshot

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	2.54	-1
5-yr UST	2.52	-1
10-yr UST	2.70	0
30-yr UST	3.05	2

MGS		GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.57	0	3.65	1
5-yr	3.73	0	3.82	0
7-yr	3.96	-2	4.02	-1
10-yr	4.06	0	4.09	-4
15-yr	4.38	0	4.46	0
20-yr	4.56	-1	4.69	0
30-yr	4.78	-1	4.89	0

\* Market indicative levels

MYR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.67	-1
3-yr	3.69	-1
5-yr	3.79	0
7-yr	3.91	-1
10-yr	4.08	-2

Source : Bloomberg

#### Upcoming Government Bond Tender

Nil

#### US Treasuries

- US Treasuries ended mixed yesterday in a muted trading range; pivoted along the 5-7Y tenures as the curve steepened with overall benchmark yields ending between -1 to +2bps. The 2Y edged 1bps lower at 2.54% whilst the much-watched 10Y ended almost unchanged at 2.70%. It was noted that the Fed's balance sheet normalization was key to the market volatility seen in 2018. Meanwhile state-level data in US reveals that despite falling unemployment levels, wages continue to rise only gradually. US wages have been on the rise with average hourly earnings rising 3.2% last year. US rates strategists are now factoring in slightly dovish stance into their respective yield and curve forecasts. Separately, risk presently lies in the Brexit vote in UK parliament and may limit risk-taking positions.

#### MGS/GII

- Trading momentum in local govies maintained traction albeit on lower volume of RM3.93b with interest seen mainly in the previous 5Y benchmark MGS/GII bonds, the off-the-run 24-25's and also 30Y MGS benchmark. Overall benchmarks yields ended mostly lower between 0-4bps. Both the 5Y benchmark MGS 4/23 and 10Y MGS 6/28 ended within 1bps from prior session at 3.73% and 4.06% respectively. GII trades dropped to form 38% of overall trades. The auction for the new issuance of 7Y MGS 7/26 saw decent demand on a BTC ratio of 2.216x; averaging 3.906%.

#### Corp Bonds/Sukuk

- Corporate Bonds/Sukuk also saw solid volume at RM571m with investors nibbling across the GG-to-AA part of the curve. Govt-guaranteed PRASA again saw a slew of tranches done i.e. 2025-2033 tenures done 3-20 bps lower compared to previous-done levels between 4.15-4.6% levels save for the 12/33 which made its maiden trade; closed unchanged at 4.66%. AAA-rated CAGAMAS saw both the 3/20 and MBS 8/20 trade mixed on yields at 3.93% and 4.11% respectively. In the AA-space energy-related bond EDRA Energy continued to see many tranches from 2034-2036 trade generally higher on yields i.e. 0-9bps between 5.95-6.11% area. Meanwhile the banking space saw Public Islamic 7/21 end 7bps lower at 4.18%.

## Daily Trades : Government Bonds

Securities		Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS	07/19	3.31	3	3.33	10/01/2019	-2
MGS	10/19	3.38	123	3.36	11/01/2019	2
MGS	11/19	3.44	48	3.40	11/01/2019	4
MGS	03/20	3.49	50	3.46	11/01/2019	3
MGS	10/20	3.51	77	3.51	11/01/2019	-1
MGS	02/21	3.52	5	3.53	08/01/2019	-1
MGS	07/21	3.59	38	3.58	11/01/2019	0
MGS	11/21	3.57	92	3.56	11/01/2019	0
MGS	03/22	3.57	37	3.58	10/01/2019	-1
MGS	04/23	3.73	356	3.74	11/01/2019	-1
MGS	08/23	3.81	63	3.82	11/01/2019	-1
MGS	07/24	3.90	26	3.93	11/01/2019	-3
MGS	09/24	3.93	165	3.95	11/01/2019	-2
MGS	03/25	3.96	150	3.98	11/01/2019	-2
MGS	09/25	3.98	182	4.02	11/01/2019	-4
MGS	04/26	4.04	17	4.09	10/01/2019	-5
MGS	11/26	4.05	2	4.06	11/01/2019	-1
MGS	03/27	4.10	9	4.20	02/01/2019	-10
MGS	11/27	4.10	83	4.11	11/01/2019	-2
MGS	06/28	4.06	162	4.06	11/01/2019	0
MGS	06/31	4.34	33	4.37	11/01/2019	-3
MGS	04/33	4.47	2	4.46	11/01/2019	1
MGS	04/37	4.53	16	4.52	11/01/2019	1
MGS	06/38	4.56	83	4.57	11/01/2019	-1
MGS	07/48	4.78	250	4.78	10/01/2019	0
MGS	07/26	3.90	482	-	-	-
GII	08/19	3.31	21	3.43	04/01/2019	-12
GII	04/20	3.48	20	3.49	10/01/2019	-1
GII	08/20	3.55	1	3.53	04/01/2019	2
GII	03/22	3.65	170	3.64	11/01/2019	1
GII	04/22	3.67	4	3.64	11/01/2019	3
GII	11/23	3.82	347	3.82	11/01/2019	0
GII	08/25	4.02	130	4.04	11/01/2019	-1
GII	10/25	4.04	90	4.07	11/01/2019	-3
GII	07/27	4.12	50	4.13	11/01/2019	-1
GII	10/28	4.17	301	4.17	11/01/2019	0
GII	12/28	4.19	30	4.23	11/01/2019	-4
GII	07/29	4.09	190	4.09	11/01/2019	0
GII	10/35	4.70	5	4.77	03/01/2019	-7
GII	08/37	4.69	20	4.70	11/01/2019	0
			<u>3933</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*
Pengurusan Air SPV Berhad	02/19	GG	3.718	70	3.718	11/01/2019	0	29
Lembaga Pembiayaan Perumahan Sektor Awam	09/23	GG	4.030	30	4.217	06/01/2017	-19	30
Prasarana Malaysia Berhad	03/25	GG	4.145	5	4.175	11/01/2019	-3	26
Prasarana Malaysia Berhad	03/25	GG	4.144	10	4.181	01/10/2018	-4	26
Prasarana Malaysia Berhad	02/26	GG	4.190	45	4.238	11/01/2019	-5	25
Prasarana Malaysia Berhad	08/26	GG	4.220	5	4.262	08/01/2019	-4	22
Prasarana Malaysia Berhad	12/30	GG	4.460	65	4.660	25/07/2018	-20	40
Prasarana Malaysia Berhad	12/33	GG	4.660	65	-	-	-	26
DanaInfra Nasional Berhad	04/39	GG	4.850	5	4.870	10/01/2019	-2	29
DanaInfra Nasional Berhad	11/47	GG	5.030	40	5.061	08/01/2019	-3	47
Cagamas Berhad	03/20	AAA	3.932	50	3.914	17/10/2018	2	50
Cagamas MBS Berhad	08/20	AAA	4.114	50	4.137	26/12/2018	-2	59
Public Islamic Bank Berhad	07/21	AAA	4.182	10	4.249	08/01/2019	-7	61
Telekom Malaysia Berhad	03/24	AAA	4.280	5	4.299	11/01/2019	-2	55
Sarawak Energy Berhad	11/28	AA1	4.669	7	4.679	19/12/2018	-1	61
Malakoff Power Berhad	12/19	AA-	4.126	10	4.149	11/01/2019	-2	70
UMW Holdings Berhad	09/23	AA2	4.526	10	4.359	09/11/2018	17	79
Edra Energy Sdn Berhad	01/34	AA3	5.948	5	5.949	11/01/2019	0	155
Edra Energy Sdn Berhad	07/34	AA3	5.989	5	5.989	11/01/2019	0	159
Edra Energy Sdn Berhad	01/35	AA3	6.039	5	5.969	09/01/2019	7	164
Edra Energy Sdn Berhad	07/35	AA3	6.110	14	6.009	09/01/2019	10	171
Edra Energy Sdn Berhad	01/36	AA3	6.099	5	6.011	26/12/2018	9	170
Edra Energy Sdn Berhad	07/36	AA3	6.109	5	6.090	11/01/2019	2	171
UEM Sunrise Berhad	04/22	AA-	4.656	5	4.669	07/01/2019	-1	109
Malakoff Power Berhad	12/22	AA-	4.477	10	4.488	25/10/2018	-1	80
Malakoff Power Berhad	12/23	AA-	4.518	10	4.517	17/10/2018	0	79
Golden Assets International Finance Limited	08/19	A1	4.805	20	4.695	11/01/2019	11	138
CIMB Group Holdings Berhad	05/16	A1	4.881	1	4.928	02/01/2019	-5	32
UMW Holdings Berhad	04/18	A1	5.958	1	5.958	11/01/2019	0	139
Mah Sing Perpetual	-	-	5.789	2	6.468	10/01/2019	-68	-
Bank Muamalat Malaysia Berhad	11/21	A	4.969	1	4.846	10/01/2019	12	140
				<u>571</u>				

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

## Market/Corporate News: What's Brewing

**Revisions to global rules for bank trading books will result in a halving of the extra capital needed from January 2022 to cover risks from market price swings, the Basel Committee said on Monday.** It marks a completion of a welter of changes introduced by Basel since taxpayers had to bail out undercapitalised lenders during the financial crisis a decade ago. Banks had lobbied heavily to persuade the Swiss-based group of banking supervisors from the world's main financial centres to water down the original plans for new capital requirements for trading books. Basel said in a statement that its oversight body, the Governors and Head of Supervision, chaired by European Central Bank President Mario Draghi, endorsed the revisions on Monday. The new rules will mean an average increase of about 22 percent in total market risk capital requirements for banks compared with existing rules. A framework published in 2016 would have resulted in a 40 percent hike. The change in overall capital held by most banks will be relatively modest, however, though some of the giant trading banks will suffer a bigger hit. The bulk of a bank's capital requirements cover the threat of souring loans, while market risk capital is far lower, at about 5 percent of the total. Basel revised its market risk capital rules after getting better data from banks so that regulators could ease the initially conservative approach they took in the draft rules. Basel Committee Secretary General William Coen said last April that regulators were being left with only a small sample of observations to make revisions. A key change has been to ease a test which decides if a bank can use its own computer model to add up market risks for determining capital requirements, or must use a model set out by regulators. In house models tend to be more refined and result in lower capital requirements than the standard

regulatory "approach". The final rules, also known as the fundamental review of the trading book or FRTB, ease what was seen as a harsh pass or fail test by including a much broader "amber zone" than originally proposed, giving more wriggle room for banks to correct deficiencies. Regulators want banks to better capture risks from assets like stocks, bonds and derivatives held on their trading books, such as illiquidity, or assets becoming harder to offload to replenish safety buffers in turbulent markets. (Source: *The Star/Reuters*)

**FGV Holdings Bhd has identified several non-core businesses and assets worth RM350 million for disposal, said its chairman Datuk Wira Azhar Abdul Hamid.** In a letter to shareholders filed with Bursa Malaysia today, Azhar said FGV has also identified several areas for the development of strategic alliances or partnerships to capitalise on its strengths and plug capacity gaps where there are any. However, he said detailed announcements will only be made at the appropriate time. Azhar also acknowledged that FGV's operations are not effectively and efficiently managed, as evidenced by its persistent poor performance. "Furthermore, there are operational leakages and inefficiencies in the system that run into millions of ringgit a year. This has contributed to our poor financial performance," he said. As such, Azhar said operational processes are being improved under a transformation plan. These include improvements such as intensifying crop recovery, cost reduction in the estates, implementing mechanisation and enhancements of agricultural practices. "FGV's fresh fruit bunches (FFB) yield for 2018 is forecast at 16.9 tonnes per hectare, whereas the industry average for Malaysia is 19 tonnes per hectare. In 2019, we expect to close this gap with yields at 19.4 tonnes per hectare. "For 2018, we are forecasting average crude palm oil (CPO) production cost (ex-mill) at RM1,666 per tonne. In 2019, we are targeting average CPO production cost (ex-mill) at RM1,469 per tonne," he added. Through its transformation plan, Azhar said FGV will correct its legacy issues and restore operational integrity. "It is estimated that at an average CPO price of RM2,500 per tonne, FGV should be able to earn a profit before tax of RM1 billion a year. All shareholders, especially Federal Land Development Authority (Felda) will stand to benefit," said Azhar. "Getting to this stage in our future will take a lot of hard work and dedication, to correct the sins of the past and restore our operations to optimal levels. "One of the startling revelations over the last few months is the scale of the leakages and inefficiencies that have permeated almost the whole company. "As a result of inefficient procurement processes for example, FGV may be losing millions of ringgit a year. Several initiatives are being implemented including a group-wide review of procurement policies and practices. We are also reviewing our capital structure and financing costs," he added. Azhar said the group is also looking at rightsizing its manpower requirements. "It is estimated that FGV will be able to save at least RM150 million in 2019 from plugging leaks," he said. (Source: *The EdgeMarkets*)

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

Source: RAM, MARC

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