Global Markets Research
Fixed Income

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	1.61	-5
5-yr UST	1.65	-7
10-yr UST	1.82	-7
30-yr UST	2.25	-6

	MGS		GII*	
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.04	1	3.10	3
5-yr	3.28	-1	3.29	0
7-yr	3.40	4	3.39	1
10-yr	3.44	-1	3.55	2
15-yr	3.71	3	3.78	1
20-yr	3.77	1	3.88	0
30-yr	4.11	3	4.00	0

** Market indicative levels*

MYR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.29	4
3-yr	3.30	3
5-yr	3.37	3
7-yr	3.39	2
10-yr	3.43	2

Source : Bloomberg

Upcoming Government Bond Tender

Nil

Fixed Income Daily Market Snapshot

US Treasuries

- US Treasuries closed stongly last Friday erasing prior session's losses as some certainty still lingered despite US and China close to signing-off Phase 1 of the trade pact that included suspending planned tariffs on Chinese goods and scaling back on some existing tariffs by 50%. The curve shifted lower with overall benchmark yields ending between 5-7bps lower. The UST 2Y declined 5bps at 1.61% whilst the much-watched 10Y rising 10bps at 1.89%. With the near-completion of the signing of Phase 1, trading may now be centred on other economic data and reports on housing starts, industrial production and existing home sales among others.

MGS/GIII

- Local govvies saw momentum fade last Friday compared to previous session as secondary market volume notched RM2.54b with investor interest again mainly in the off-the-run 20's and 3Y MGS. Overall benchmark yields closed mostly higher between 0-4bps save for both 5Y and 10Y MGS. Both the benchmark 5Y MGS 6/24 and the 10Y MGS 8/29 edged 1bps lower at 3.28% and 3.4% respectively. GII trades fell sharply to form ~ 19% of overall trades. Separately, we expect front-loading of issuances in 1H20 to replace bulk of maturities between April and August based on BNM's recent release of the 2020 Auction Calendar last week.

Corp Bonds/Sukuk

- Corporate bonds/Sukuk space saw solid interest with secondary market volume at RM825m yesterday with investor interest mainly in the GG-segment. LPPSA 4/33 saw RM570m in nominal amounts traded; closing 4bps higher compared to previous-done levels at 3.91%. The short-end AA-rated BGSM 12/20 rallied 5bps lower at 3.46% whilst MALAKOFF Power 12/20 edged 2bps lower at 3.40%. The banking space saw MBSB 20's similarly edge 2bps lower between 3.50-53%.

Daily Trades : Government Bond

Securities		Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS	03/20	2.908	190	2.873	12/12/2019	3
MGS	07/20	2.954	200	2.921	12/12/2019	3
MGS	10/20	2.966	404	2.943	12/12/2019	2
MGS	07/21	3.015	200	3.030	12/12/2019	-1
MGS	11/21	3.045	15	3.044	12/12/2019	0
MGS	03/22	3.035	159	3.027	12/12/2019	1
MGS	08/22	3.102	30	3.094	12/12/2019	1
MGS	09/22	3.091	16	3.109	12/12/2019	-2
MGS	03/23	3.136	154	3.120	12/12/2019	2
MGS	03/23	3.243	30	3.224	20/11/2019	2
MGS	04/23	3.190	89	3.176	11/12/2019	1
MGS	08/23	3.211	20	3.180	12/12/2019	3
MGS	10/23	3.202	20	3.200	09/12/2019	0
MGS	06/24	3.278	115	3.285	12/12/2019	-1
MGS	09/24	3.287	7	3.281	12/12/2019	1
MGS	07/25	3.313	7	3.376	04/11/2019	-6
MGS	09/25	3.317	4	3.313	12/12/2019	0
MGS	07/26	3.401	24	3.360	12/12/2019	4
MGS	11/27	3.464	26	3.444	12/12/2019	2
MGS	06/28	3.473	21	3.473	12/12/2019	0
MGS	08/29	3.443	34	3.456	12/12/2019	-1
MGS	04/30	3.588	3	3.562	11/12/2019	3
MGS	06/31	3.718	12	3.697	12/12/2019	2
MGS	11/33	3.770	150	3.714	10/12/2019	6
MGS	07/34	3.707	91	3.672	12/12/2019	3
MGS	05/40	3.771	10	3.757	12/12/2019	1
MGS	03/46	4.151	13	4.109	12/12/2019	4
MGS	07/48	4.113	10	4.086	12/12/2019	3
GII	08/20	3.033	100	3.007	12/12/2019	3
GII	03/22	3.102	7	3.078	12/12/2019	2
GII	04/22	3.120	3	3.094	12/12/2019	3
GII	11/23	3.231	10	3.226	12/12/2019	0
GII	08/25	3.377	80	3.356	12/12/2019	2
GII	10/25	3.369	70	3.360	12/12/2019	1
GII	03/26	3.393	40	3.382	12/12/2019	1
GII	07/27	3.481	31	3.468	11/12/2019	1
GII	10/28	3.484	10	3.486	06/12/2019	0
GII	07/29	3.545	78	3.529	12/12/2019	2
GII	11/34	3.784	60	3.777	12/12/2019	1
			2542			

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*
Bank Pembangunan Malaysia Berhad	09/29	GG	3.769	10	3.730	25/09/2019	4	33
DanaInfra Nasional Berhad	05/32	GG	3.859	60	3.860	12/12/2019	0	42
Lembaga Pembiayaan Perumahan Sektor Awam	04/33	GG	3.910	570	3.875	11/12/2019	4	21
Sarawak Energy Berhad	11/33	AAA	4.009	10	4.018	03/12/2019	-1	31
Sepangar Bay Power Corporation Sdn Berhad	07/20	AA1	3.248	10	3.284	11/12/2019	-4	26
MBSB Bank Berhad (fka Asian Finance Bank Be	10/20	AA1	3.501	10	3.525	11/12/2019	-2	51
MBSB Bank Berhad (fka Asian Finance Bank Be	12/20	AA1	3.528	5	3.547	11/12/2019	-2	54
Konsortium ProHAWK Sdn Berhad	12/21	AA2	3.619	5	3.630	11/12/2019	-1	60
Hong Leong Financial Group Berhad	06/29	AA2	3.898	20	3.828	06/09/2019	7	46
Malaysia Airport Holdings Berhad	12/14	AA2	4.122	20	4.148	27/11/2019	-3	36
Anih Berhad	11/21	AA	3.570	5	3.582	11/12/2019	-1	55
BGSM Management Sdn Berhad	12/20	AA3	3.461	60	3.509	03/12/2019	-5	47
Bumitama Agri Ltd	07/26	AA3	3.948	10	3.969	09/12/2019	-2	58
Tanjung Bin Energy Issuer Berhad	09/30	AA3	4.039	10	4.069	25/11/2019	-3	60
CIMB Group Holdings Berhad	05/16	A1	4.428	1	4.446	10/12/2019	-2	66
Quill Retail Malls Sdn Berhad	03/24	A2	8.500	4	8.500	30/09/2019	0	532
WCT Holdings Berhad	09/19	A	5.604	1	5.605	09/12/2019	0	184
Malakoff Power Berhad	12/20	AA-	3.399	5	3.422	11/12/2019	-2	41
UEM Sunrise Berhad	06/21	AA-	3.378	10	3.392	11/12/2019	-1	35
				825				

spread against nearest indicative tenured MGS (Source : BPAM)

Market/Corporate News: What's Brewing

Planters in Peninsular Malaysia are expected to pay the palm oil windfall profit tax (WPT) by next month. Industry players said the WPT seemed applicable given that the crude palm oil (CPO) spot prices would likely exceed RM2,500 per tonne this month, while the CPO futures prices have rallied to trade above the RM2,800-per-tonne level. The last time local planters paid for the WPT was in 2017. Planters have pegged the oil palm industry's contribution at nearly RM480mil to government coffers by way of the levy during the year under review. According to the Malaysian Palm Oil Association CEO Datuk Mohamad Nageeb Ahmad Abdul Wahab, there have been ongoing discussions with the government to deliberate on the calculation of the WPT, which has created much confusion among the planters. There are two sets of calculations – one states that oil palm planters in the peninsula would have to pay 3% per tonne of fresh fruit bunches (FFB) should palm oil prices go beyond RM2,500 per tonne in the cash market.Planters in Sabah and Sarawak, however, only need to pay 1.5% per tonne FFB when the threshold exceeds RM3,000 per tonne CPO.Another version is that for peninsula-based planters, a 15% WPT will be imposed when the CPO price threshold reaches RM2,500 per tonne and above. For their peers in Sabah and Sarawak, meanwhile, a 7.5% WPT will be imposed when the CPO price hits RM3,000 per tonne and above. "Despite the confusion and current negotiations with the government, I believe that peninsula-based oil palm planters would still need to pay up come January 2020, " added Nageeb. Given the government's seriousness in its palm biodiesel mandate, the WPT must be collected, whereby about 50% of the collection would be to subsidise the biodiesel programme. Previously, the government had fully subsidised the biodiesel programme. "However, with the CPO price now trading between RM2,800 and RM2,900 per tonne, it would be too costly to fully subsidise the programme now, " added Nageeb. Meanwhile, industry consultant M. R. Chandran pointed out that "one must bear in mind that the windfall profit levy is a tax levied by governments against certain industries, when economic conditions allow those industries to experience above-average profits."Windfall taxes are primarily levied on companies in the targeted industry that have benefited the most from the commodity price windfall.Chandran: The purpose is to redistribute excess profits in one area for the greater social good. handran: The purpose is to redistribute excess profits in one area for the greater social good. "The purpose is to redistribute excess profits in one area for the greater social good. However, this can also be a contentious ideal." Chandran pointed out that regrettably, with respect to Malaysia's palm oil industry, the windfall profit levy is applied as "a blanket tax" levied on all and sundry irrespective of an individual company's profit margin."In my view, the WPT is an archaic, inequitable, complex and inefficient tax system and should be abolished, for the cost structure of plantation operations has changed over the years." Therefore, it is timely for the government to review the proposed windfall tax formula, because it assumes that all planters make money when palm oil prices in the physical market surpass RM2,500 per tonne. "The industry is in need of some breathing space following the dismal palm product prices from July 2018 to October 2019. "As such, both companies and smallholders have been crushed by low prices with many reporting losses over the past four to five quarters, " he added. On the planters' current cost structure, Chandran said the average all-in cost of production (including overheads and replanting costs) works out to RM1,850 to RM2,000 per tonne CPO, depending on the productivity per unit area or the yield per hectare of CPO plus palm kernel. *(Source: The Star Online)*

Petroliam Nasional Bhd (Petronas), the locomotive of the domestic oil and gas (O&G) industry, is expected to award more jobs in the next three years, bringing hope that the recovery of the domestic O&G industry, hit hard by the severe downturn, could be gaining strength. However, in The Petronas Activity Outlook for 2020-2022 released last Friday, the national oil firm underlined the outlook to remain challenging next year amid a persistent downward pressure and volatility of crude oil prices. In the report, Petronas highlighted that many contracts are due for retendering in the next three years. "This would be an opportune time for players to strategise on resources, new technology offerings and strategic partnerships," Petronas said in the report. The dwindling number of jobs as a result of the soft crude oil prices has stressed many local O&G companies badly. Analysts opine that any additional jobs will certainly help lead the O&G companies out of the woods, in addition to their efforts to revive financial health. A fund manager commented no doubt that it is good Petronas is giving out more jobs, better than none. Nonetheless, he noted Petronas has been mindful of the cost management to defend its profit margin in the current low oil price environment. Hence, he expects the margin of the contracts (given out by Petronas) could be thin. Companies will have to be efficient to be decently profitable. In an interview with The Edge Malaysia weekly recently, Petronas president and group chief executive officer Tan Sri Wan Zulkiflee Wan Ariffin revealed that the group has budgeted a capital expenditure of about RM255 billion between 2020 and 2024, of which RM50 billion has been allocated for next year. The industry outlook remains challenging because geopolitical upheavals, prolonged trade tensions and a global economic slowdown will result in demand disruptions, Petronas vice president of group procurement Liza Mustapha said in the report. “Given the persistent market volatility, the challenging landscape would require Petronas and all its partners to continue to be conscious in managing costs, implement activity levelling to sustain offshore activities and pursue innovative solutions to unlock value in our supply chain,” she added. The average crude oil price (Jan 1 to Nov 18) stood at US$64 (RM264.96), lower than US$71 in 2018. Still, it was higher than US$54 in 2017 and US$44 in 2016. The report highlighted that the robust supply coming from non-Opec producers predominantly from the US has caused a build-up in oil inventories. “The US, currently the largest producer of crude oil, is targeting to be a net energy exporter by 2020, a first for the US in nearly 70 years,” said Petronas. In addition, there are other projects being ramped up in Canada, Brazil, Guyana and Norway. The International Energy Agency in its November 2019 report indicated that non-Opec production was expected to continue to grow; adding 2.3 million barrels per day of oil supply in 2020, said Petronas. Meanwhile, it pointed out that crude oil price volatility will continue due to supply disruptions in major oil-producing countries like Libya and Nigeria, coupled with tensions jittering the oil market — particularly in the Middle East. “While US sanctions on Iran and Venezuela have driven oil production from both countries to the lowest points in decades, the sanctions, however, only caused ripples in the oil market since every barrel displaced is substituted by other oil producers,” said the report. The local upstream industry can expect steady job flows in key segments next year including pipelines and pipe-laying; offshore fabrication; maintenance, construction and modification; offshore support vessels (OSV) and decommissioning. Petronas is expecting around 26 drilling rigs and hydraulic workover units (HWUs) in 2020, according to the report. In the pipeline, Petronas underlined a steady outlook for offshore fabricators. It expects between 10 and 13 wellhead platforms, and one central processing platform to be fabricated in 2020, while the outlook for 2021 is largely preconceptual. Meanwhile, Petronas expects 79km of carbon steel line pipes to be laid using pipelay barges, while more than double the distance is expected in 2021. HUC works are deemed steady with 4.6 million man-hours expected in 2020 — most of which are for brownfield HUC — before picking up further in 2021 in anticipation of more brownfield projects. There are a combined 37 subsea facilities and wells to be decommissioned in 2020, from 38 wells and one platform in 2019. Activities could increase further in 2021 with 54 wells to be abandoned in the pipeline. On underwater services, Petronas sees 10-18 support vessels to be utilised in 2020, compared with 11 in 2019. The outlook is stable in 2021 and 2022, Petronas said. In the OSV category, demand is steady in 2020 for anchor handling tug supply boats with nearly 150 vessels for all weight categories, fast crew boats (70), platform/straight supply vessels (56) and 30 landing craft tanks, to name a few. The demand outlook is positive for production operations, the report added.

Rating Action

Issuer	PDS Description	Rating/Outlook	Action
AZRB Capital Sdn Bhd	Proposed RM535.0 million Sukuk Murabahah Facility	AA-IS	Assigned

Source: RAM, MARC

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