

Global Markets Research

Fixed Income

Fixed Income Daily Market Snapshot

US Treasuries

- US Treasuries bull steepened amid return of safety bids following weaker than expected US retail sales and less sanguine Fed Beige Book that renewed fear the US economy is succumbing to slowing global demand arising from its self-inflicting trade war. Evidently, IMF downgraded its 2019 global growth forecast by a fourth consecutive time, to GFC's low of 3.0%. Benchmark 2Y and 10Y UST yields fell 3bps to 1.59% and 1.74% respectively while the long bond ended down just a bp at 2.23%. Fed Evans also passed dovish comments calling for aggressive cuts to boost inflation. Implied probabilities of a October Fed rat cut jumped to 86%, from 73% just a day ago, implying a October move is becoming a near certainty. With US-China trade deal seemingly taking a step backward after the US passed a bill aimed at supporting Hong Kong protestors, and on expectation of another round of disappointment in key US data tonight, we expect looming risk-off in the markets to continue keep UST supported.

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	1.59	-3
5-yr UST	1.56	-4
10-yr UST	1.74	-3
30-yr UST	2.23	-1

MGS		GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.11	-1	3.13	-2
5-yr	3.23	0	3.26	0
7-yr	3.37	-1	3.39	0
10-yr	3.41	0	3.40	-2
15-yr	3.62	0	3.69	4
20-yr	3.76	3	3.84	0
30-yr	3.99	0	4.01	0

* Market indicative levels

MYR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.24	0
3-yr	3.23	0
5-yr	3.28	1
7-yr	3.31	0
10-yr	3.39	1

Source : Bloomberg

Upcoming Government Bond Tender

Nil

MGS/GIII

- Local govies ended mixed between -2 to +4bps yesterday amid slightly softer secondary market trading of RM2.82bn (RM3.32bn a day ago). Interest was mainly seen in the front end '19-22 most notably MGS 10/20 with RM318m dealt 1bp inner at 3.07%. Benchmark 7Y MGS closed a bp down at 3.37% while the 10Y is practically flat at 3.41%. GII trades fell to make up only 31% of overall trades, down from 41% on Tuesday. Heavy demand was seen skewed to off-the-runs front end to the belly of the curve. We continue to expect demand for local govies to stay supported by an expansionary budget to promote steady growth in the Malaysian economy.

Corp Bonds/Sukuk

- On the contrary, corporate bonds/sukuk space continued to gain traction for a 2nd straight day, witnessing RM524m changed hands yesterday. GG papers hogged the stage accounting for about two thirds of trades, followed by AA-rated issuances. MKD Kencana '32, PTPTN '24 LPPSA '26 took the lead to settle at 3.800%, 3.335%, and 3.539% respectively. In the AA space, energy names stole the limelight with various tenors of YTLP '22-27, and SPG '26-32 closed between 2-54bps lower. In the finance space, MBB '1/31 saw RM80m transacted at 3.951% (+5bps).

Daily Trades : Government Bond

Securities	Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS 11/19	3.052	121	3.047	15/10/2019	0
MGS 10/20	3.071	318	3.081	15/10/2019	-1
MGS 02/21	3.078	230	3.090	15/10/2019	-1
MGS 07/21	3.097	210	3.113	15/10/2019	-2
MGS 03/22	3.109	120	3.115	15/10/2019	-1
MGS 08/23	3.197	77	3.222	14/10/2019	-2
MGS 07/24	3.241	111	3.274	15/10/2019	-3
MGS 09/25	3.353	80	3.344	15/10/2019	1
MGS 07/26	3.366	151	3.379	15/10/2019	-1
MGS 11/27	3.465	184	3.473	15/10/2019	-1
MGS 08/29	3.409	99	3.411	15/10/2019	0
MGS 11/33	3.713	127	3.716	15/10/2019	0
MGS 05/35	3.739	107	3.727	15/10/2019	1
GII 08/20	3.088	100	3.086	15/10/2019	0
GII 08/21	3.130	200	3.144	15/10/2019	-1
GII 11/23	3.232	76	3.242	15/10/2019	-1
GII 03/26	3.387	100	3.390	15/10/2019	0
GII 07/27	3.466	240	3.411	08/10/2019	6
GII 11/34	3.693	70	3.650	15/10/2019	4
GII 10/35	3.737	100	3.735	14/10/2019	0
		<u>2820</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	02/21	GG	3.213	30	3.179	20/08/2019	3	13
Danainfra Nasional Berhad	10/23	GG	3.441	2	3.328	04/10/2019	11	25
Perbadanan Tabung Pendidikan Tinggi Nasional	03/24	GG	3.335	60	3.339	14/10/2019	0	14
Pengurusan Air SPV Berhad	06/26	GG	3.580	35	3.580	26/09/2019	0	20
Perbadanan Tabung Pendidikan Tinggi Nasional	08/26	GG	3.490	0	3.390	11/09/2019	10	11
Lembaga Pembiayaan Perumahan Sektor Awam	09/26	GG	3.539	60	3.450	04/10/2019	9	16
Prasarana Malaysia Berhad	03/30	GG	3.669	10	3.531	18/09/2019	14	25
Danainfra Nasional Berhad	04/30	GG	3.668	10	3.569	15/08/2019	10	25
Danainfra Nasional Berhad	05/31	GG	3.709	10	3.599	15/08/2019	11	29
Danainfra Nasional Berhad	05/32	GG	3.759	10	3.730	07/10/2019	3	15
MKD Kencana Sdn Berhad	10/32	GG	3.800	90	3.651	06/09/2019	15	19
Danainfra Nasional Berhad	11/32	GG	3.775	10	3.890	18/07/2019	-12	17
Prasarana Malaysia Berhad	08/39	GG	3.999	10	3.740	28/08/2019	26	27
Danainfra Nasional Berhad	05/46	GG	4.099	5	4.110	15/10/2019	-1	37
Danainfra Nasional Berhad	10/46	GG	4.099	5	4.039	20/09/2019	6	37
First Abu Dhabi Bank PJSC	12/20	AAA	3.357	4	3.352	04/09/2019	1	28
YTL Power International Berhad	06/22	AA1	3.705	20	3.731	29/08/2019	-3	58
YTL Power International Berhad	08/23	AA1	3.806	10	4.349	04/06/2019	-54	61
YTL Power International Berhad	05/27	AA1	3.999	10	4.028	09/10/2019	-3	59
Malayan Banking Berhad	01/31	AA1	3.951	80	3.897	15/10/2019	5	54
IJM Corporation Berhad	06/22	AA3	3.830	2	3.854	26/09/2019	-2	71
Malakoff Power Berhad	12/19	AA-	3.177	4	3.118	15/10/2019	6	10
Southern Power Generation Sdn Berhad	10/26	AA-	3.838	10	4.146	29/05/2019	-31	46
Southern Power Generation Sdn Berhad	04/27	AA-	3.869	10	4.228	09/05/2019	-36	46
Southern Power Generation Sdn Berhad	10/32	AA-	4.139	20	4.158	25/09/2019	-2	53
DRB-Hicom Berhad	03/22	A+	4.409	5	4.414	15/10/2019	0	130
Eco World Capital Assets Berhad	08/24	-	6.097	2	6.098	14/10/2019	0	287
Mah Sing Group Berhad	04/17	-	5.341	0	5.343	10/10/2019	0	161
Tropicana Corporation Berhad	09/19	-	6.649	1	6.868	10/10/2019	-22	292
			<u>524</u>					

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

Market/Corporate News: What's Brewing

Malaysia's 2020 budget contains modest fiscal easing of the deficit target in response to increased economic growth risks, but does not represent a significant shift in the government's consolidation efforts, Fitch Ratings says. The new fiscal targets are slightly looser than our expectations when we affirmed Malaysia's sovereign rating at 'A-/Stable' in July, but they do not fundamentally change the medium-term fiscal outlook. The budget tabled on 11 October is the second since the Pakatan Harapan (PH) coalition came to power in May 2018's general election. It targets a 2020 fiscal deficit of 3.2% of GDP, revised from 3.0%. The government expects to meet this year's 3.4% target, and projects deficits to average 2.8% over the medium term. These medium-term targets are consistent with reducing Malaysia's high public debt, which is a sovereign rating weakness, although the reduction may be slightly delayed. The government estimates general government debt to GDP has risen to 65.1% in June 2019 (including committed guarantees serviced from the budget, and 1MDB debt) from 62.6% in December 2018. The rise in the debt ratio is due to an increase in committed guarantees for the continuation of infrastructure projects and the bail-outs of Tabung Haji, a financial institution that provides services to hajj pilgrims, and the state-owned Federal Land Development Authority. As a result, it will take longer - and require more consolidation efforts - to bring debt closer to the 'A'-category median of 48% of GDP. The PH coalition's first budget in November last year featured much bigger near-term deficit target revisions (the 2018 deficit was increased to 3.7% from 2.8%). These did signal weaker headline consolidation goals from the new government, although they were in part also caused by moves to boost fiscal transparency by bringing some one-off expenditure items on budget. Nevertheless, fiscal credibility could suffer if consolidation were to be repeatedly delayed, for example from difficulties in raising enough revenue to offset shortfalls from the Goods and Services Tax (GST), which was repealed after the 2018 election. The 2020 budget balances fiscal consolidation with a desire to support GDP growth, which we forecast to slow to 4.5% in both 2019 and 2020 from 4.7% in 2018. Global trade tensions are weighing on growth, particularly as Malaysia is a small, open economy integrated into Asian supply chains. A mitigating factor is Malaysia's well-diversified export base, both by product and by geographical destination. We think this can help maintain relatively strong growth, although the government's forecasts that GDP will increase by 4.7% this year - and 4.8% next year may be moderately optimistic. However, fiscal risks in 2020 from slower-than-forecast growth are limited by the budget's conservative revenue growth target of 4.8%, adjusted for last year's special Petronas dividend. The repeal of the GST and its replacement with a narrower sales and services tax was a significant setback to fiscal consolidation. The resulting net revenue loss of around 1% of GDP has effectively increased reliance on commodity receipts. However, the 2020 budget does not repeat the 2019 Petronas special dividend (only the fourth since the company was created in 1974), which supports the government's position that last year was a one-off measure needed to cover unexpected liabilities that emerged after it took power. The budget assumes an oil price of USD62/barrel, close to our own forecast of USD62.5/barrel. Increasing non-oil revenues and further economic diversification would be a meaningful support to medium-term consolidation. The budget contains various measures to support non-commodity based growth, including demand-side measures such as increasing the minimum wage by 9%, and structural measures to support investment, including a 10-year tax break for the electronics industry and steps to support SMEs. These incentives may help relocate investments to Malaysia (FDI has already been strong in recent quarters), but investors also face heightened political uncertainty. The PH coalition has a small parliamentary majority and its previously high public approval rates have fallen, and there is uncertainty over the succession of the 94-year old Prime Minister Mahathir Mohamad. (Source: Bloomberg)

Yinson Holdings Bhd has received two letters of intent (LOI) from **Petróleo Brasileiro S.A.** (Petrobras) with a value of US\$5.4bil to provide a vessel and also operations and maintenance over 25 years. Yinson said on Wednesday the first LOI was for a floating production storage and floating facility (Marlim 2 FPSO) to the Marlim field offshore Brazil in the north-eastern part of the Campos basin. The second LOI was for the operation and maintenance during the charter

phase of Marlim 2 FPSO. The LOIs were issued to Yinson Production Pte Ltd, an indirect unit of the Yinson group. The estimated aggregate value of the contracts is equivalent to US\$5.4bil. The contract period is for 25 years from the date of the final acceptance. FPSO Marlim 2 will be Yinson's first vessel to operate in Brazil waters, and is one of several bids in the region that the group has entered into. Yinson group CEO Lim Chern Yuan said FPSO Marlim 2 would be Yinson's largest project to date, and that the Group had been focusing on building their resources, capacity and expertise in order to meet the project's delivery and timeline. "This project further cements Yinson's position as a global FPSO player, demonstrating the industry's increasing confidence in our ability to deliver projects on time, and thereafter to maintain our excellent uptime and safety track record," he said. Yinson's CEO production Eirik Barclay added that much of the needed groundwork and preparations in order to swing into high gear upon project award has already been completed. "The team is excited and ready to demonstrate that we are able to meet the expectations of our client and project partner in realizing this project. We are committed to giving our very best towards this project in order to contribute to the advancement of the energy industry in Brazil," he said. In March 2019, Yinson and Sumitomo Corporation announced their intention to collaborate on the Marlim revitalisation project, in which Sumitomo would participate with an effective interest of at least 20% in the event of a successful bid by Yinson. Yinson said the shareholder agreement pertaining to this collaboration is expected to be announced in due course. (Source: *The Star Online*)

Rating Action			
Issuer	PDS Description	Rating/Outlook	Action
Nil			

Source: RAM, MARC

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