

Global Markets Research

Fixed Income

Fixed Income Daily Market Snapshot

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	2.40	-1
5-yr UST	2.40	0
10-yr UST	2.59	0
30-yr UST	3.00	0

MGS		GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.48	5	3.51	0
5-yr	3.70	8	3.77	5
7-yr	3.81	15	3.86	5
10-yr	3.87	6	3.96	5
15-yr	4.19	6	4.20	9
20-yr	4.37	3	4.40	4
30-yr	4.66	8	4.68	7

* Market indicative levels

MYR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.54	0
3-yr	3.58	3
5-yr	3.66	2
7-yr	3.76	3
10-yr	3.95	4

Source : Bloomberg

Upcoming Government Bond Tender

Nil

US Treasuries

- US Treasuries bull-steepened on Wednesday amid weaker equities and oil prices. Overall benchmark yields closed within 1bps of prior day's close with the UST 2Y edging 1bps at 2.40% whilst the much-watched 10Y closed almost unchanged at 2.59%, compared to the low of 2.34% on 28th March as the Fed's revised projections for interest rates led traders to position more aggressively for a recession. However those concerns have abated following better-than-expected U.S. data, including the recovery in March jobs data. Meanwhile senior US and China officials are scheduling more trade discussions in efforts to seal deals by early May.

MGS/GII

- Local govies again ended sharply weaker subsequent to earlier published news on FTSE Russell's possible exclusion adjustment involving MYR debt in the FTSE World Government Bond Index. Secondary market volume was higher at RM7.50b with trades focused on benchmark 5Y, 10Y and 15Y MGS/GII. Overall benchmark yields ended 3-15bps higher save for the 3Y MGS which closed unchanged. The benchmark 5Y MGS 4/23 spiked 8bps at 3.70% whilst the 10Y MGS 8/29 rose 6bps at 3.87%. GII bond trades rose to form 55% of overall trades. Meanwhile MYR also weakened in tandem with the news for which the review is expected only in September. Malaysia's weight in the World Global Bod Index is less than 0.4%. Nevertheless foreign holdings for 1Q 2019 rose, pointing to an increase in appetite for MYR bonds.

Corp Bonds/Sukuk

- Corporate Bonds/Sukuk space saw secondary volume maintain at RM506m with interest mainly across the GG and AA part of the curve. A slew of DANA bonds dominated the GG-segment with 2024-2027 and 2048 tranches closing 0-8bps lower at 3.79-82% levels and 4.63-65% levels respectively compared to previous-done levels (save for DANA 4/24 which closed sharply lower on yields at 3.79%). AAA-rated TNB Northern ended unchanged at 4.13% whilst AA-energy-related YTL Power 3/23 and 8/28 closed 0-11bps lower at 4.39% and 4.63% each. The banking space saw Public Finance 59NC19 also rallying strongly by 17 cents at 3.68%.

Daily Trades : Government Bonds

Securities		Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS	07/19	3.293	15	3.190	15/04/2019	10
MGS	10/19	3.351	20	3.328	16/04/2019	2
MGS	11/19	3.335	5	3.359	16/04/2019	-2
MGS	03/20	3.447	18	3.404	16/04/2019	4
MGS	07/20	3.458	10	3.367	15/04/2019	9
MGS	10/20	3.484	76	3.382	16/04/2019	10
MGS	07/21	3.456	8	3.393	16/04/2019	6
MGS	11/21	3.518	276	3.424	16/04/2019	9
MGS	03/22	3.481	140	3.435	16/04/2019	5
MGS	08/22	3.555	2	3.497	16/04/2019	6
MGS	03/23	3.760	10	3.587	16/04/2019	17
MGS	04/23	3.703	188	3.622	16/04/2019	8
MGS	08/23	3.829	120	3.623	16/04/2019	21
MGS	07/24	3.798	76	3.694	16/04/2019	10
MGS	09/24	3.802	360	3.768	16/04/2019	3
MGS	03/25	3.824	130	3.796	16/04/2019	3
MGS	09/25	3.809	101	3.761	16/04/2019	5
MGS	07/26	3.810	152	3.660	15/04/2019	15
MGS	11/26	3.793	20	3.831	16/04/2019	-4
MGS	05/27	4.011	20	3.856	12/04/2019	16
MGS	11/27	3.996	27	3.835	16/04/2019	16
MGS	06/28	3.929	102	3.811	16/04/2019	12
MGS	08/29	3.873	264	3.820	16/04/2019	5
MGS	04/30	4.002	2	3.950	16/04/2019	5
MGS	06/31	4.116	15	3.994	16/04/2019	12
MGS	04/32	4.077	10	4.077	16/04/2019	0
MGS	04/33	4.071	60	4.128	16/04/2019	-6
MGS	11/33	4.189	685	4.082	16/04/2019	11
MGS	05/35	4.310	140	4.280	16/04/2019	3
MGS	04/37	4.342	74	4.257	16/04/2019	9
MGS	06/38	4.369	52	4.339	16/04/2019	3
MGS	09/43	4.612	90	4.573	16/04/2019	4
MGS	07/48	4.662	100	4.581	16/04/2019	8
GII	04/20	3.423	341	3.422	16/04/2019	0
GII	11/20	3.519	20	3.448	12/04/2019	7
GII	03/21	3.498	50	3.472	16/04/2019	3
GII	07/23	3.768	40	3.665	15/04/2019	10
GII	10/23	3.784	20	3.729	25/03/2019	5
GII	11/23	3.767	385	3.703	16/04/2019	6
GII	08/24	3.752	90	3.735	16/04/2019	2
GII	10/24	3.632	685	3.696	16/04/2019	-6
GII	08/25	3.858	60	3.805	16/04/2019	5
GII	03/26	3.858	430	3.767	16/04/2019	9
GII	07/27	3.978	8	3.901	16/04/2019	8
GII	10/28	3.987	320	3.919	16/04/2019	7
GII	12/28	4.009	50	3.949	16/04/2019	6
GII	07/29	3.962	830	3.914	16/04/2019	5
GII	09/30	4.057	20	3.959	15/04/2019	10
GII	06/33	4.204	370	4.109	16/04/2019	9
GII	08/33	4.218	1	4.113	05/04/2019	11
GII	10/35	4.350	30	4.268	16/04/2019	8
GII	08/37	4.401	240	4.363	16/04/2019	4
GII	09/39	4.437	90	4.338	16/04/2019	10
GII	05/47	4.682	51	4.617	08/04/2019	7
			<u>7499</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*
Prasarana Malaysia Berhad	03/20	GG	3.554	10	3.588	29/03/2019	-3	19
Pengurusan Air SPV Berhad	06/20	GG	3.584	20	3.600	09/04/2019	-2	22
Pengurusan Air SPV Berhad	02/21	GG	3.601	10	3.580	16/04/2019	2	21
Pengurusan Air SPV Berhad	06/23	GG	3.719	5	4.082	26/11/2018	-36	15
Lembaga Pembiayaan Perumahan Sektor Awam	04/24	GG	3.781	30	4.031	05/03/2019	-25	11
Danainfra Nasional Berhad	04/24	GG	3.794	20	4.001	07/03/2019	-21	12
Danainfra Nasional Berhad	05/24	GG	3.800	10	3.800	16/04/2019	0	13
Lembaga Pembiayaan Perumahan Sektor Awam	04/25	GG	3.859	50	3.858	16/04/2019	0	13
Danainfra Nasional Berhad	04/25	GG	3.841	30	3.922	26/03/2019	-8	11
Lembaga Pembiayaan Perumahan Sektor Awam	09/26	GG	3.931	15	3.961	03/04/2019	-3	17
Danainfra Nasional Berhad	03/27	GG	3.922	60	3.931	04/04/2019	-1	12
Danainfra Nasional Berhad	04/48	GG	4.631	5	4.629	15/04/2019	0	26
Danainfra Nasional Berhad	11/48	GG	4.649	5	4.691	04/04/2019	-4	28
Aman Sukuk Berhad	04/24	AAA	4.111	5	4.307	18/01/2019	-20	44
Aman Sukuk Berhad	07/24	AAA	4.119	10	4.222	14/03/2019	-10	45
TNB Northern Energy Berhad	11/25	AAA	4.132	5	4.132	08/04/2019	0	38
Danum Capital Berhad	02/34	AAA	4.380	10	4.449	29/03/2019	-7	19
Tenaga Nasional Berhad	08/38	AAA	4.640	10	4.640	02/04/2019	0	27
YTL Power International Berhad	03/23	AA1	4.388	10	4.386	11/04/2019	0	82
YTL Power International Berhad	08/28	AA1	4.632	10	4.738	21/03/2019	-11	81
Malayan Banking Berhad	01/29	AA1	4.528	10	4.469	27/03/2019	6	69
PBFIN Berhad	06/59	AA2	3.677	10	5.176	12/04/2019	-150	-69
Fortune Premiere Sdn Berhad	11/23	AA	4.409	30	4.408	12/04/2019	0	74
Malakoff Power Berhad	12/19	AA-	3.984	10	4.043	25/03/2019	-6	62
IJM Corporation Berhad	04/20	AA3	4.158	10	4.336	13/04/2017	-18	79
Gamuda Berhad	03/23	AA3	4.459	40	4.469	02/04/2019	-1	89
BGSM Management Sdn Berhad	12/23	AA3	4.367	10	4.443	27/02/2019	-8	70
Edra Energy Sdn Berhad	07/29	AA3	5.590	2	5.620	12/04/2019	-3	175
UEM Sunrise Berhad	06/21	AA-	4.415	10	4.471	27/03/2019	-6	102
MMC Corporation Berhad	11/27	AA-	5.368	3	5.368	16/04/2019	0	154
CIMB Group Holdings Berhad	05/16	A1	4.573	1	4.656	16/04/2019	-8	20
CIMB Group Holdings Berhad	05/16	A1	4.529	1	4.775	10/04/2019	-25	16
UMW Holdings Berhad	04/18	A1	5.031	10	5.144	11/04/2019	-11	66
IJM Land Berhad	03/19	A2	5.110	30	5.203	15/04/2019	-9	74
DRB-Hicom Berhad	12/14	A-	6.483	1	6.876	11/04/2019	-39	211
				<u>506</u>				

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

Market/Corporate News: What's Brewing

The news on the potential downgrade of Malaysian bonds by FTSE Russell in its World Government Bond Index (WGBI) sparked heavy selling in the local bond market. The selling is said to be done mainly by foreign investors. Both Morgan Stanley and Maybank Kim Eng estimate the outflow to be as much as RM33 billion, should the downgrade materialise. The benchmark 10-year Malaysian Government Securities' (MGS) yield spiked up to 3.87% yesterday from 3.78% on Monday as investors were fleeing from the government debt papers as a knee-jerk reaction. On Monday, FTSE Russell announced that Malaysia, which is currently assigned a "2" and included in the FTSE WGBI since 2004, is being considered for a potential downgrade to "1" which would render Malaysia ineligible for inclusion in the WGBI. The announcement came shortly after Norway announced that its sovereign wealth fund will cut emerging-market debts, including Malaysian securities from its portfolio. An analyst told The Edge Financial Daily that the market may have overreacted to the news. He pointed out that the proportion of foreign holdings in government debts had been falling over the past two years, hence the implication of the foreign outflow could be limited. "The country's fundamentals have not changed that much, and we believe local institutions have the liquidity to absorb the foreign selling. We are not like Indonesia; their proportion of foreign holdings in government debt is higher," Wong commented. Bank Negara Malaysia's data show that the proportion of foreign holdings in Malaysian government debt papers has been on the decline since 2016, from 30.57%, to 23.04% in 2018. Meanwhile, RAM Ratings research pointed out that since the FTSE Russell review is done biannually and the decision is based on portfolio investors' feedback, it is not a reflection of a country's economic

conditions. According to them, the selling pressure is expected as a result of portfolio reallocation following the news. Fong reckons that the selling will normalise after the knee-jerk reaction and that local institutional investors have excess capacity to normalise these foreign outflows. “MGS [foreign] holdings have been normalising on the back of tightening global liquidity conditions, so it’s not an out of the ordinary development per se. “There have been times of some accentuated net outflows — post-GE14 (14th general election), [Donald] Trump’s presidential win, Taper Tantrum etc — but flows more or less stabilised after those bouts of volatility. That said, global uncertainties will prevail this year — the outcome of US-China trade talks, Brexit among others — and hence, flight to safety flows will be a given, even as tightening takes a back seat,” she explained. “Local institutional investors have stepped in in the past to mop up some excessive outflows and the demand for government papers has been strong this year, thus there should be capacity to normalise much of these outflows,” she said. Another analyst said Malaysia’s exclusion from the WGBI is not definite yet and FTSE Russell will continue to engage the regulators and market participants ahead of the next review in September. She said the concern is not about the country’s economy given that the international rating agencies have affirmed Malaysia’s sovereign ratings. “Stable fundamentals and Malaysia’s A-rated sovereign ratings provide underlying support for domestic bonds,” The issue seems to be more of market access and liquidity, which is one of the criteria in assessing eligibility for inclusion. Yesterday, Bank Negara Malaysia affirmed that it will have a dynamic hedging programme to provide market access for institutional investors to actively hedge their foreign exchange (forex) exposure onshore. “[The] question is whether there will be further relaxation of forex measures or the introduction of instruments to hedge forex ahead of the review in September. “[In the] meantime, the risk of an exclusion will weigh on markets and the ringgit in the near term,” said the analyst. Another analyst said that the risk of Malaysian bonds being excluded from the WGBI seems to be “more likely than not”, unless fundamental changes are made to improve Malaysia’s market accessibility level.. (Source: *The EdgeMarkets*)

Shares of Malayan Banking Bhd (Maybank) fell to a low of RM9.01 on Wednesday in a knee-jerk reaction to news that Singapore’s PUB would take over Hyflux’s Tuaspring desalination plant in the island nation. Analysts said Malayan Banking Bhd (Maybank) is a major financier of Hyflux’s Tuaspring and TuasOne. To recap, Maybank has a total exposure of RM1.95bil (S\$658.6mil) to Hyflux since September 2013, which covers project financing for: i) Tuaspring’s Integrated Water and Power Plant (IWPP) (S\$602.4m) and ii) TuasOne Waste-to-Energy Plant (SGD56.2m, to be ready by May 2019). As at 2Q18, Maybank had set aside collective provisions totaling RM315.1mil. Nonetheless, earnings forecasts may be kept unchanged pending more developments and clarity from the situation. Based on a worst-case-scenario, the Public Utilities Board of Singapore will take over the loss-making Tuaspring Desalination Plant without any compensation for Tuaspring. Singapore’s Public Utilities Board will be taking over the Tuaspring desalination plant, Singapore’s Straits Times reported. It issued a notice to Tuaspring on Wednesday to terminate its water purchase agreement with the company, PUB said in a press statement. The national water agency will subsequently take over the desalination plant after a 30-day notice period. Tuaspring is at the heart of its parent company Hyflux’s financial problems. The once shining star of Singapore companies had liabilities amounting to \$2.95 billion as of March 31 last year. Below is the statement issued by PUB: Singapore, 17 April 2019 – To safeguard Singapore’s water security, PUB, Singapore’s National Water Agency issued a notice to Tuaspring Pte Ltd (TPL) on 17 April 2019 to terminate the Water Purchase Agreement (WPA) and take over the Tuaspring Desalination Plant (TSDP). The termination notice provides a 30-day notice period before PUB takes over the TSDP. PUB is a statutory board under the Ministry of the Environment and Water Resources. It is the national water agency, and manages

Singapore's water supply, water catchment and used water in an integrated way.
(Source: *The Star/Bloomberg*)

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

Source: RAM, MARC

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