

Global Markets Research

Fixed Income

Fixed Income Daily Market Snapshot

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	2.52	0
5-yr UST	2.49	0
10-yr UST	2.66	0
30-yr UST	2.99	0

MGS		GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.56	2	3.66	1
5-yr	3.72	0	3.82	0
7-yr	3.84	0	3.98	1
10-yr	3.89	1	4.03	0
15-yr	4.29	3	4.39	2
20-yr	4.48	3	4.62	3
30-yr	4.74	0	4.85	0

* Market indicative levels

MYR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.65	0
3-yr	3.68	0
5-yr	3.77	1
7-yr	3.89	1
10-yr	4.05	0

Source : Bloomberg

Upcoming Government Bond Tender

Nil

US Treasuries

- US markets were closed on Monday for President's Day celebrations. The Bloomberg Barclays US Treasuries Index has returned -0.16% for the week versus the worse off global aggregate return of -0.47%. Most central bankers are poised to provide dovish outlook for monetary policy whilst Europe is seen to experience a slowdown. Trade continues to grip global markets as both US and China try to avert a tariff increase before the 1st of March deadline. Meanwhile investors look to further guidance on US monetary policy this week from the minutes of the Fed's recent meeting.

MGS/GII

- Local govies saw momentum continue to ease on a mere volume of RM1.75b as yields gave in on profit-taking following recent run-up and strong 10Y MGS auction. Interest was mainly focused in 7-20Y GII bonds. Overall benchmarks yields ended 0-3bps higher with the 5Y benchmark MGS 4/23 edging within 1bps higher at 3.72% whilst the new 10Y MGS 8/29 closed 1bps up at 3.89%. GII trades rose to form 54% of overall trades. Separately, China has joined Japan by proposing for China Construction bank to issue "panda" bonds to help with the Malaysian government's refinancing options. This compares to the upcoming "samurai" bond issuance of JPY200b (~RM7.4b) in March.

Corp Bonds/Sukuk

- Corporate Bonds/Sukuk continued to attract strong secondary demand with volume at RM729m as interest spanning across the GG to single-A part of the curve. DANA bonds dominated the GG-segment again with a slew of tranches from 2028-2049 exchanging hands. Both DANA 10/28 and 2/49 closed unchanged at 4.24% and 4.99% respectively compared to previous-done levels whilst newly-issued 2/29 and 2/44 made their debut trade at 4.26% and 4.88% levels respectively i.e 8-10bps below their coupons. Both AAA-rated GENTING-related bonds and DANGA 27's ended 1-10bps at 4.77% and 4.37% area respectively. In the AA-space, UMW 20-21's also rallied 7-9bps between 4.23-35% whilst EDRA Energy 7/33 rose 9bps at 6.10%. The banking space saw CIMB 26NC21 close 4bps lower at 4.45%.

Daily Trades : Government Bonds

Securities		Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS	03/19	3.295	2	3.253	15/02/2019	4
MGS	07/19	3.347	83	3.342	13/02/2019	0
MGS	10/19	3.399	9	3.413	15/02/2019	-1
MGS	11/19	3.365	2	3.421	15/02/2019	-6
MGS	03/20	3.453	1	3.443	15/02/2019	1
MGS	10/20	3.474	25	3.481	15/02/2019	-1
MGS	07/21	3.563	3	3.560	14/02/2019	0
MGS	11/21	3.561	1	3.542	15/02/2019	2
MGS	08/22	3.695	1	3.680	15/02/2019	1
MGS	04/23	3.722	10	3.704	15/02/2019	2
MGS	07/24	3.794	14	3.792	15/02/2019	0
MGS	09/24	3.858	28	3.829	15/02/2019	3
MGS	03/25	3.900	30	3.891	15/02/2019	1
MGS	09/25	3.902	10	3.845	14/02/2019	6
MGS	07/26	3.838	41	3.843	15/02/2019	0
MGS	03/27	3.977	1	3.935	14/02/2019	4
MGS	11/27	3.980	42	3.938	15/02/2019	4
MGS	06/28	3.933	16	3.939	15/02/2019	-1
MGS	08/29	3.887	46	3.879	15/02/2019	1
MGS	04/30	4.136	50	4.131	15/02/2019	0
MGS	06/31	4.218	10	4.190	14/02/2019	3
MGS	04/33	4.287	10	4.310	14/02/2019	-2
MGS	11/33	4.290	190	4.254	15/02/2019	4
MGS	06/38	4.483	41	4.457	14/02/2019	3
MGS	09/43	4.704	140	4.711	14/02/2019	-1
GII	04/20	3.492	1	3.482	15/02/2019	1
GII	05/20	3.531	3	3.519	10/01/2019	1
GII	08/20	3.536	141	3.547	15/02/2019	-1
GII	03/22	3.659	100	3.649	15/02/2019	1
GII	08/25	3.982	140	3.962	15/02/2019	2
GII	07/27	4.039	23	4.032	15/02/2019	1
GII	10/28	4.097	110	4.079	15/02/2019	2
GII	07/29	4.035	110	4.029	15/02/2019	1
GII	06/33	4.386	160	4.365	15/02/2019	2
GII	08/37	4.620	160	4.593	15/02/2019	3
			<u>1753</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	08/24	GG	4.050	30	4.283	11/04/2018	-23	22
Sarawak Hidro Sdn Berhad	08/28	GG	4.259	20	4.278	13/02/2019	-2	37
Sarawak Hidro Sdn Berhad	10/28	GG	4.268	50	4.445	26/12/2018	-18	38
Lembaga Pembiayaan Perumahan Sektor Awam	10/28	GG	4.241	140	-	-	-	35
DanaInfra Nasional Berhad	10/28	GG	4.240	70	4.241	13/02/2019	0	35
DanaInfra Nasional Berhad	02/29	GG	4.258	10	-	-	-	37
DanaInfra Nasional Berhad	04/29	GG	4.271	10	4.470	16/08/2018	-20	38
Lembaga Pembiayaan Perumahan Sektor Awam	10/38	GG	4.731	20	4.728	15/02/2019	0	26
DanaInfra Nasional Berhad	04/40	GG	4.789	20	4.910	11/10/2018	-12	31
DanaInfra Nasional Berhad	02/44	GG	4.879	30	-	-	-	40
DanaInfra Nasional Berhad	02/49	GG	4.991	5	4.995	15/02/2019	0	52
Aman Sukuk Berhad	05/19	AAA	3.761	5	3.820	09/01/2019	-6	33
GB Services Berhad	11/19	AAA	4.215	30	4.193	13/02/2019	2	78
GB Services Berhad	11/19	AAA	4.215	10	4.198	28/01/2019	2	78
Great Realty Sdn Berhad	05/20	AAA	4.986	20	-	-	-	156
Sarawak Hidro Sdn Berhad	08/21	AAA	4.132	10	4.159	30/01/2019	-3	62
DiGi Telecommunications Sdn Berhad	04/24	AAA	4.229	20	4.387	12/10/2018	-16	50
Aman Sukuk Berhad	05/24	AAA	4.302	5	4.451	17/12/2018	-15	58
Projek Lebuhraya Usahasama Berhad	01/25	AAA	4.332	10	4.576	07/08/2018	-24	50
Projek Lebuhraya Usahasama Berhad	01/26	AAA	4.392	10	4.478	15/01/2019	-9	53
GENM Capital Berhad	03/27	AAA	4.769	10	4.868	31/10/2018	-10	87
Genting Capital Berhad	06/27	AAA	4.768	30	4.778	13/02/2019	-1	87
Danga Capital Berhad	09/27	AAA	4.368	30	4.431	31/01/2019	-6	47
Manjung Island Energy Berhad	11/29	AAA	4.499	5	4.769	23/07/2018	-27	61
Projek Lebuhraya Usahasama Berhad	01/31	AAA	4.610	1	4.632	29/01/2019	-2	72
UMW Holdings Berhad	06/20	AA2	4.225	40	4.297	02/01/2019	-7	79
UMW Holdings Berhad	10/21	AA2	4.353	10	4.445	30/11/2018	-9	80
CIMB Bank Berhad	08/26	AA2	4.450	10	4.489	15/01/2019	-4	59
Mumtaz Rakyat Sukuk Berhad	06/26	AA3	4.503	15	4.516	30/01/2019	-1	64
IJM Corporation Berhad	08/28	AA3	4.738	10	4.758	14/02/2019	-2	85
Edra Energy Sdn Berhad	07/33	AA3	6.099	10	6.009	08/02/2019	9	182
DRB-Hicom Berhad	12/14	A-	7.045	20	7.334	17/10/2018	-29	257
DRB-Hicom Berhad	02/22	A+	6.036	14	6.018	15/02/2019	2	248
				<u>729</u>				

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

Market/Corporate News: What's Brewing

Uncertainties worldwide will be the new norm as businesses adjust into 2019, and as far as the Employees Provident Fund (EPF) is concerned, it is not a time for it to be "too adventurous." The social security institution views 2019 to be a challenging year, but it is not all bad news as the EPF deems uncertainties as a doubled-edged sword. Stressing that the EPF is a long-term fund, CEO Tunku Alizakri Alias said that when markets head south, the EPF comes out to hunt. "Don't think because markets are bad, it's necessarily a bad thing. "It's going to be challenging this year so let's stick to what we know and let's really hunt for the assets that will bring the returns. "Uncertainty is going to be the new norm, powered by technology and social media, and the global impact will be felt in domestic markets very quickly," he told a media briefing on the EPF's 2018 dividend and performance yesterday. The EPF is also starting to tap the Latin American market and will go in with a "small amount of money which is good enough for it to learn". "We're not just going blindly into Latin America. There are some of the bigger economies like Brazil and Columbia that are highly targeted. "Give us around two to three years and we'll decide whether to start expanding," he said, adding that Latin America remains highly exposed to commodities. With the United States and China starting to record slower growth, weaker oil prices threatening the recovery in the Middle East and the uncertainty of Brexit in the United Kingdom, the EPF thinks that Asean is relatively the safer haven for money. The pension fund currently has RM833.76bil worth of investment assets, out of which RM222.61bil or 26.7% is invested overseas. The US

tops the list for overseas investment at around RM33.35bil with the UK coming in second at RM25bil. Meanwhile, out of the RM117.56bil that is being externally managed, 36% is managed in Malaysia itself. Despite the challenging outlook for 2019, the EPF continues to expect equities and overseas investments to drive income. The EPF recorded RM50.88bil in gross investment income last year, registering a 10-year compound annual growth rate (CAGR) of 10.26%. Equity remained the main driver, making up the main chunk of 58% of the amount. Out of the RM50.88bil, 40% of the income generated was from overseas investments in 40 countries and 28 currencies. "Our fund is just so huge that the natural momentum is we're going to be hitting RM1 trillion in assets under management within the next few years. "The CAGR of 10.26% is tremendous and since we're growing larger than Malaysia, we need to get outside Malaysia. We can't just put all our money in one basket, no matter how wonderful it is," said Alizakri. On its plans to increase its private equity (PE) allocation, Alizakri said the EPF was growing with the ones it was comfortable with, such as infrastructure and buildings. Technology will be its focus area, such as middleware, and it is looking into types of software that are already established. "We're working with PE partners who really know their stuff. We're not comfortable going into the venture capital stage and all that. It will be more towards the middle part and currently existing ones like Facebook or Alibaba. We'll look for opportunities there," he said. On Saturday, the EPF declared a dividend of 6.15% for conventional savings with a payout amounting to RM43bil, and a 5.9% dividend rate for syariah savings with a payout amounting to RM4.32bil. The total payout for 2018 was RM47.31bil, a marginal decrease of 1.7% from 2017. He added that the EPF's performance was consistent with the market, with incomes of RM12.877bil in the first quarter, RM12.385bil in the second quarter and RM14.614bil in the third quarter. "The bloodbath began in the fourth quarter when we recorded around RM10.9bil. But that is still quite an achievement, considering how bad things were performing at the end of the quarter. We had an interesting roller coaster of a ride for 2018. Domestically, we had the 14th general election and the uncertainties associated with it, and globally, we had the US interest rate hikes, the China-US trade war and Brexit," he said. For the past two years, conventional EPF savings have been outperforming syariah savings, but nevertheless, Alizakri said the dividend payouts for both savings over the long run would eventually converge. Meanwhile, he also stressed the importance of coming out with a clear policy direction to drive Malaysia's economy. Hence, he was looking forward to the outcome of the newly established Economic Action Council (EAC), the government's response in terms of the Fourth Industrial Revolution, or IR 4.0, and the policy direction to address Malaysia's dependence on palm oil. On Bank Negara's requirements for foreign insurance companies here to reduce their ownership to 70% to allow local ownership, Alizakri remained tight-lipped on the EPF's plans, but said that it would definitely take a portion of the stakes offered to the market. "We are currently evaluating the type of assets and companies that meet our investment profile. We look at the insurance industry as a huge growth industry in Malaysia. "We won't take a big bang approach as we are more strategic in nature. We don't believe in management control, that is the EPF's investment strategy," he said. (Source: *The Star*)

Asia's dollar bond markets have staged a blistering rally this year, but for a group of borrowers that sit on the cusp of a junk rating, there's no relief in sight. As worsening global macro-economic conditions put firms under pressure, concerns over so-called fallen angels, or investment-grade companies that are cut to junk, are mounting in Asia and globally. Man Group Plc, the world's largest publicly traded hedge fund manager, warned investors in December of the "astonishing bubble" in BBB level debt. The U.S.-China trade war and jitters over a slowdown are prompting worries that weaker companies could falter. Moody's Investors Service cut Bharti Airtel Ltd., India's second-largest wireless carrier, to junk earlier this month and downgraded five Asian companies in January, compared with two upgrades. A move from investment grade to junk raises

borrowing costs and also prompts a wave of forced selling by investors who may be unable to hold junk securities. “The macro picture remains a major headwind for the investment market,” said Arthur Lau, head of Asia ex-Japan fixed income at PineBridge Investments, who sees more fallen angels in the region this year. “Some of the companies are likely to face more margin pressure and operational challenges.” Election Risk. Globally, an era of easy money has fueled borrowers to take on leverage and they remain vulnerable to any tightening in liquidity. In Asia, major elections in countries like India could also throw up surprises for investors, and add to the volatility. At least eight Asian companies’ bonds were cut from investment grade to junk in 2018, an increase from four during the previous year, according to Bloomberg-compiled data. Borrowers that are on the brink include India’s state-owned Power Finance Corp. and REC Ltd., which are both rated one step above junk by Moody’s and Fitch Ratings. Indian chemical giant UPL Ltd.’s bonds are also on the cusp of junk. “There are more issuers on the borderline with a worsening credit profile,” said Manjesh Verma, head of Asia credit sector specialists at Citigroup Inc. “We see rising fallen angel risks.” Some of the bonds on the cusp of junk are “mispriced” and price declines would be “significant” if these companies drop to junk grade, Verma said. (Source: *The EdgeMarkets/Bloomberg*)

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

Source: RAM, MARC

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