

Global Markets Research

Fixed Income

Fixed Income Daily Market Snapshot

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	2.24	-3
5-yr UST	2.19	-5
10-yr UST	2.38	-4
30-yr UST	2.81	-4

MGS		GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.42	0	3.46	0
5-yr	3.59	29	3.65	0
7-yr	3.76	1	3.78	0
10-yr	3.81	0	3.88	0
15-yr	4.11	2	4.16	0
20-yr	4.30	0	4.35	0
30-yr	4.58	0	4.61	0

* Market indicative levels

MYR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.47	0
3-yr	3.52	1
5-yr	3.59	1
7-yr	3.66	2
10-yr	3.85	1

Source : Bloomberg

Upcoming Government Bond Tender

Re-opening of RM4.0b of 10Y MGS 8/29 on Thursday, 23rd May 2019

US Treasuries

- US Treasuries ended stronger; influenced by the rally in Gilts with minimal reaction to the May FOMC minutes. The curve shifted lower with slight flattening-bias as overall benchmark yields fell between 3-5bps. The UST 2Y yields ended 3bps lower at 2.24% whilst the much-watched 10Y bond rallied to close 4bps lower at 2.38%. Meanwhile there was no intention on the part of US officials to go to Beijing for further trade negotiations. The UST10Y has fallen 12bps so far this month, to 2.38% yesterday, as a re-ignited U.S.-China trade war boosted haven assets. Market investors are expecting an interest-rate cut by the end of the year, though minutes of the Fed's last policy meeting showed officials expect patience on rates to be appropriate for "some time". Up next on the data front are the release of Markit PMI manufacturing and services data tonight.

MGS/GII

- Trading in local govies saw momentum fizzle out largely due to the holiday-shortened week as secondary market volumes fell sharply to a mere RM400m. Benchmark yields ended largely unchanged with token interest seen in the off-the-run 24's and 15Y benchmark bonds. The benchmark 5Y MGS 4/23 ended back to 3.59% levels following an odd-lot error trade last Friday whilst the 10Y MGS 8/29 closed unchanged at 3.81%. There were no GII bond trades. Asian currencies are expected to be pressured as risk-off sentiments and uncertainty over US-China trade issues remains at large. Meanwhile, investors are expected to focus on the 10Y MGS auction today whilst the release of April's CPI data is expected out tomorrow.

Corp Bonds/Sukuk

- Corporate Bonds/Sukuk space saw decent secondary volume of RM392m with interest mainly across the GG-part of the curve. PASB 22's closed 2-3bps lower at 3.55% levels compared to previous-done levels whilst PRASA 12/25 similarly ended 2bps lower at 3.86%. AAA-rated PLUS 33 closed 3bps lower at 4.38% whilst the AA-space was dominated by EDRA Energy bonds. The 2028-2036 tranches saw solid demand saw 4 tranches traded lower on yields with the 4/22 and 5/26 closing at 3.91% and 4.06% whilst the 2028-2030 tranches closed sharply lower on yields between 5.15-22% levels whilst the 2032-2036 tranches saw several odd-lot trades done between investors. between 4.11-15% levels. The banking space saw a both Bank Pembangunan and MAYBANK 32's move 1-12bps lower at 3.42% and 3.89% each.

Daily Trades : Government Bond

Securities		Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS	07/19	3.017	12	3.150	14/05/2019	-13
MGS	10/19	3.157	36	3.160	17/05/2019	0
MGS	03/20	3.214	4	3.238	17/05/2019	-2
MGS	07/20	3.297	36	3.282	17/05/2019	2
MGS	10/20	3.317	8	3.311	17/05/2019	1
MGS	09/21	3.408	24	3.380	17/05/2019	3
MGS	11/21	3.368	2	3.424	17/05/2019	-6
MGS	03/23	3.612	42	3.615	17/05/2019	0
MGS	04/23	3.593	9	3.591	17/05/2019	0
MGS	08/23	3.640	9	3.638	16/05/2019	0
MGS	09/24	3.707	71	3.704	16/05/2019	0
MGS	07/25	3.796	30	3.836	14/05/2019	-4
MGS	07/26	3.761	30	3.761	17/05/2019	0
MGS	11/26	3.838	4	3.838	17/05/2019	0
MGS	11/27	3.878	35	3.906	17/05/2019	-3
MGS	06/28	3.883	3	3.878	17/05/2019	0
MGS	08/29	3.813	3	3.813	17/05/2019	0
MGS	11/33	4.110	40	4.111	17/05/2019	0
MGS	07/48	4.577	1	4.580	17/05/2019	0
			<u>400</u>			

Daily Trades : Corp Bonds/ Sukuk

Securities	Maturity (dd/mm/yy)	Rating	Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)	Spread Against MGS*
Pengurusan Air SPV Berhad	02/21	GG	3.448	50	3.705	02/04/2019	-26	9
Khazanah Nasional Berhad	03/21	GG	-	10	3.829	08/03/2019	-	-
Pengurusan Air SPV Berhad	06/22	GG	3.548	30	3.577	16/05/2019	-3	12
Pengurusan Air SPV Berhad	06/22	GG	3.550	30	3.570	09/05/2019	-2	13
Lembaga Pembiayaan Perumahan Sektor Awam	09/23	GG	3.753	20	3.795	02/04/2019	-4	20
Prasarana Malaysia Berhad	12/25	GG	3.860	35	3.882	08/04/2019	-2	10
Pelabuhan Tanjung Pelepas Sdn Berhad	11/28	GG	4.099	5	4.101	17/05/2019	0	27
Danainfra Nasional Berhad	02/49	GG	4.677	10	4.679	16/05/2019	0	36
GENM Capital Berhad	07/28	AAA	4.499	1	4.207	02/05/2019	29	67
Malayan Banking Berhad	02/32	AAA	3.890	19	4.009	02/05/2019	-12	-21
Bank Pembangunan Malaysia Berhad	03/32	AAA	4.420	10	4.428	17/05/2019	-1	32
Projek Lebuhraya Usahasama Berhad	01/33	AAA	4.380	30	4.408	15/05/2019	-3	28
Sabah Credit Corporation	05/20	AA1	4.017	20	4.092	11/04/2019	-7	76
Teknologi Tenaga Perlis Consortium Sdn Berhad	07/21	AA1	4.015	10	4.096	29/04/2019	-8	65
YTL Corporation Berhad	04/23	AA1	4.360	1	4.351	16/05/2019	1	81
Anih Berhad	11/20	AA	4.016	20	4.317	17/01/2018	-30	65
Hong Leong Assurance Berhad	02/25	AA3	4.200	20	4.275	03/05/2019	-8	47
Edra Energy Sdn Berhad	07/28	AA3	5.148	10	5.428	07/05/2019	-28	132
Edra Energy Sdn Berhad	01/30	AA3	5.218	20	5.377	15/05/2019	-16	141
Edra Energy Sdn Berhad	01/32	AA3	5.289	5	5.381	17/05/2019	-9	119
Edra Energy Sdn Berhad	07/32	AA3	5.409	3	5.468	17/05/2019	-6	131
Edra Energy Sdn Berhad	01/35	AA3	5.529	4	5.880	06/05/2019	-35	143
Edra Energy Sdn Berhad	01/36	AA3	5.599	2	5.900	07/05/2019	-30	150
Edra Energy Sdn Berhad	07/36	AA3	5.640	2	5.790	09/05/2019	-15	154
MMC Corporation Berhad	04/23	AA-	5.008	4	5.003	13/05/2019	0	146
CIMB Group Holdings Berhad	05/16	A1	4.430	1	4.433	17/05/2019	0	12
Eco World International Berhad	05/23	-	6.300	22	-	-	-	-
				<u>392</u>				

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

Market/Corporate News: What's Brewing

Local oil and gas (O&G) players may be in for contrasting fortunes this year in spite of the steady rise in oil prices and outflow of contracts by Petroliaam Nasional Bhd (Petronas). Two companies that kicked off 2019 on opposite ends of the spectrum are Velesto Energy Bhd. Velesto posted a net loss of RM22.22mil in its first quarter ended March 31, compared with a net profit of RM5.02mil in the previous corresponding period, mainly due to a net foreign-exchange gain of RM18.2mil a year earlier that had resulted from the early settlement of revolving credit. Nevertheless, an analyst is optimistic that the company's fortunes could turn around in the second quarter. Operating seven JU rigs in Malaysian waters, UOB Kay Hian in a recent report said Velesto is in a sweet spot, benefitting from a surge in Petronas' yearly JU rig requirement from six to 10 and 16 to 19 for 2019 to 2021. The only other local competitor is troubled entity Perisai Petroleum Teknologi Bhd, which owns one JU rig, the research house said, adding that many new contracts have been awarded to foreign rigs and Velesto has secured six to seven year-to-date, including four long-term ones. Dayang, meanwhile, returned to the black in its financial year ended Dec 31, 2018, after its final quarter of the year raked in a net profit of RM97.72mil compared with a net loss of RM55.21mil in the previous corresponding quarter. This is mainly due to higher work orders received and performed under its topside maintenance contracts. Its quarterly revenue jumped 64.9% to a record high of RM285.65mil from RM173.26mil in the previous year, despite the fourth quarter being a typically weak quarter due to the monsoon weather. Despite the stellar performance, an analyst cautioned that Dayang was "still not out of the woods yet". "Its subsidiary, Perdana Petroleum Bhd, is deep in debt and until that is sorted out, it would be a while before Dayang is back to its glory days," he said. Earlier this week, Perdana Petroleum proposed to undertake a rights issue of redeemable convertible preference shares (RCPS) that could raise up to RM506mil. Dayang has provided a written unconditional and irrevocable undertaking to Perdana Petroleum to subscribe up to RM455mil of the RCPS. Dayang owns some 470.79 million shares or a 60.48% stake in Perdana Petroleum. Petronas, in its Activity Outlook 2019-21 report, said it would spend slightly more than RM50bil on capital expenditure (capex) in 2019, up from RM47bil last year. The higher capex is expected to boost the earnings of local O&G companies, in line with the steady rise in crude oil prices, which have risen 34% year-to-date to US\$62 per barrel currently. (Source: *The Star*)

Malaysian banks are well-positioned to manage the challenges associated with the country's weakening economy and the vulnerable oil and gas, real estate and construction sectors, according to Moody's vice president and senior credit officer Alka Anbarasu. This is because they are supported by strong loan-loss reserves and solid capital, Anbarasu said in a statement accompanying the release of Moody's report on the country's banking system. Hence, Moody's is of the view that the outlook for the Malaysian banking system remains stable as strong loss-absorbing buffers should be able to mitigate a potential rise in credit costs and moderating profitability over the next 12 to 18 months. Its baseline scenario assumes that a slowdown in trade, private investment and government spending will result in a moderation in Malaysia's gross domestic product growth to 4.4% in 2019 and 4.3% in 2020. Nevertheless, it is of the view that domestic private demand will remain supported by stable employment conditions and wage growth. "Banks' loan growth will average a moderate 5%, driven by the retail and small- and medium-sized enterprise segment," Moody's said. While Moody's said asset risk will rise, overall loan performance should remain stable, with the system's strong loan-loss buffers sufficient to absorb a potential rise in delinquencies. "Loan-loss reserves for most rated banks increased in 2018, following the adoption of Malaysian Financial Reporting Standards 9," it noted. Capitalisation will also remain stable. "Despite weaker profit, banks can generate sufficient capital to support potential

asset growth through risk-weighted asset optimisation and dividend reinvestment. Testifying to its resilience, the system-wide capital ratio still satisfies regulatory requirements even in the stress scenario presented in our forward-looking solvency analysis," Moody's said. Still, profitability, as it indicated, will deteriorate amid subdued asset growth and stiff competition for deposits that will pressure net interest margins and pre-provision income. Credit costs, meanwhile, are expected to rise from cyclical lows in line with an increase in asset risk, while operation costs are seen remaining stable as banks' efforts to reduce costs by cutting branches are offset by higher technology investment outlays. "But funding and liquidity should remain robust as deposit growth keeps pace with moderate loan growth," it said. On top of that, the Malaysian government's capacity to provide support to banks in times of stress is expected to remain strong. "Recent legislative reforms have not resulted in a shift in policy for the resolution of troubled banks outside liquidation, with no legislation in place to force bank creditors to bear the cost of any bank bailout," Moody's added. (Source: *The EdgeMarkets*)

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

Source: RAM, MARC

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