

## Global Markets Research

### Fixed Income

#### Fixed Income Daily Market Snapshot

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	1.54	1
5-yr UST	1.42	0
10-yr UST	1.54	0
30-yr UST	2.04	1

MGS			GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)	
3-yr	3.17	-2	3.21	0	
5-yr	3.24	-1	3.24	-7	
7-yr	3.25	-10	3.27	-6	
10-yr	3.38	0	3.30	-5	
15-yr	3.51	-3	3.46	-4	
20-yr	3.62	0	3.57	-7	
30-yr	3.80	-4	3.79	-6	

\* Market indicative levels

MYR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.24	-1
3-yr	3.21	-2
5-yr	3.23	-2
7-yr	3.24	-3
10-yr	3.33	-7

Source : Bloomberg

#### Upcoming Government Bond Tender

Nil

#### US Treasuries

- US Treasuries pared recent gains on Monday in a lack-lustre session with the belly still intact following optimistic trade talks between US and France. Equities rebounded as risk sentiment improved on US-China trade talks. Overall benchmark yields closed a mere 0-1bps across the curve with both the UST 2Y at 1.54% and the much-watched 10Y at parish 1.54% levels. Meanwhile investors are watching President Trump's regular positive remarks about US-China trade talks despite continuing to initiate disputes between the two countries. The 25% tariff on \$250b worth of Chinese imports will be raised to 30% effective 1<sup>st</sup> October, while the 10% tariff on the remaining \$300b worth of Chinese imports that Trump announced earlier this month will now be 15%. (The increase in the tariff rates came after China announced plans to impose news tariffs on \$75b worth of U.S. imports). Meanwhile expect investors to focus on the upcoming auction of \$40b of 2Y notes.

#### MGS/GII

- Trading momentum in local govovies maintained some traction as volume notched RM2.33b yesterday. Main interest was again seen in the off-the-run 19's, 24's and also benchmark 5Y, 7Y bonds. Overall benchmark yields closed mostly lower between 0-10bps across the curve. The 5Y benchmark MGS 6/24 edged 1bps lower at 3.24% whilst the 10Y MGS 8/29 was surprisingly untraded at 3.38%. GII rose to form ~42% of overall trades. The prospect of a lower global interest rate regime is expected to support local govovies and provide shelter from potential outflows from potential revision of index weightings in September. Meanwhile the government is studying another offer of Samurai bonds from Japan but is keen to obtain similar coupon rate of 0.63% to the previous 200b yen issuance earlier this year.

#### Corp Bonds/Sukuk

- Corporate Bonds/Sukuk saw secondary market volume ease further yet again to a mere RM234m with interest seen mainly across the GG-AAA part of the curve instead as overall yields declined. The govt-guaranteed space saw the belly slightly active with both PASB and DANA 2026 tranches registering trades between 6-27bps lower compared to previous-done levels at 3.39% area. AAA-rated PUTRAJAYA 9/20, 10/22 and 4/24 saw interest with yields closing sharply lower at 3.25%, 3.39% and 3.46% respectively. The AA-space was unusually quiet with token interest seen in energy-related bonds SEB and EDRA.

## Daily Trades : Government Bond

Securities		Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS	10/19	3.080	169	3.060	23/08/2019	2
MGS	11/19	3.075	250	3.102	23/08/2019	-3
MGS	10/20	3.122	68	3.108	23/08/2019	1
MGS	09/21	3.150	1	3.152	22/08/2019	0
MGS	03/22	3.174	90	3.195	23/08/2019	-2
MGS	08/22	3.228	2	3.215	23/08/2019	1
MGS	03/23	3.210	17	3.231	23/08/2019	-2
MGS	04/23	3.185	4	3.244	23/08/2019	-6
MGS	08/23	3.232	1	3.259	23/08/2019	-3
MGS	06/24	3.237	20	3.250	23/08/2019	-1
MGS	07/24	3.232	200	3.287	22/08/2019	-5
MGS	09/24	3.253	130	3.315	23/08/2019	-6
MGS	03/25	3.286	20	3.345	23/08/2019	-6
MGS	09/25	3.293	31	3.382	23/08/2019	-9
MGS	07/26	3.252	181	3.356	23/08/2019	-10
MGS	11/26	3.329	71	3.406	23/08/2019	-8
MGS	11/27	3.386	10	3.462	23/08/2019	-8
MGS	06/28	3.352	20	3.460	23/08/2019	-11
MGS	04/30	3.483	10	3.489	23/08/2019	-1
MGS	04/33	3.623	3	3.596	23/08/2019	3
MGS	11/33	3.532	40	3.583	22/08/2019	-5
MGS	07/34	3.506	2	3.532	23/08/2019	-3
MGS	05/35	3.656	3	3.637	23/08/2019	2
MGS	04/37	3.646	1	3.640	22/08/2019	1
MGS	07/48	3.802	20	3.838	23/08/2019	-4
GII	04/22	3.140	15	3.161	19/08/2019	-2
GII	11/22	3.183	40	3.238	20/08/2019	-6
GII	07/23	3.223	26	3.270	22/08/2019	-5
GII	10/23	3.252	40	3.306	23/08/2019	-5
GII	08/24	3.271	120	3.244	15/08/2019	3
GII	10/24	3.240	320	3.313	23/08/2019	-7
GII	08/25	3.318	10	3.350	22/08/2019	-3
GII	10/25	3.282	50	3.293	19/08/2019	-1
GII	03/26	3.266	60	3.326	21/08/2019	-6
GII	08/28	3.446	20	3.484	23/08/2019	-4
GII	10/28	3.471	10	3.375	19/08/2019	10
GII	09/30	3.489	20	3.495	22/08/2019	-1
GII	11/34	3.461	40	3.502	20/08/2019	-4
GII	10/35	3.636	10	3.671	23/08/2019	-3
GII	09/39	3.555	70	3.643	23/08/2019	-9
GII	11/49	3.789	120	3.850	23/08/2019	-6
			<u>2333</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*
Pengurusan Air SPV Berhad	02/26	GG	3.394	20	3.600	05/08/2019	-21	12
DanaInfra Nasional Berhad	04/26	GG	3.392	30	3.449	22/08/2019	-6	12
Pengurusan Air SPV Berhad	06/26	GG	3.391	30	3.661	03/07/2019	-27	12
GovCo Holdings Berhad	09/32	GG	3.640	70	3.650	21/08/2019	-1	13
Putrajaya Holdings Sdn Berhad	09/20	AAA	3.250	5	3.860	24/04/2019	-61	14
Putrajaya Holdings Sdn Berhad	10/22	AAA	3.390	20	3.530	11/07/2019	-14	20
Aman Sukuk Berhad	10/23	AAA	3.420	5	3.461	20/08/2019	-4	20
Putrajaya Holdings Sdn Berhad	04/24	AAA	3.460	20	4.122	20/03/2019	-66	23
Aman Sukuk Berhad	04/24	AAA	3.450	5	3.468	20/08/2019	-2	22
Malaysia Airports Capital Berhad	12/24	AAA	3.518	10	3.823	22/07/2019	-31	28
Aman Sukuk Berhad	07/27	AAA	3.580	5	4.109	07/05/2019	-53	25
Sarawak Energy Berhad	11/33	AA1	3.830	10	3.899	21/08/2019	-7	32
Edra Energy Sdn Berhad	07/31	AA3	4.430	1	4.429	22/08/2019	0	111
Edra Energy Sdn Berhad	01/38	AA3	4.730	2	4.964	14/08/2019	-23	114
UEM Sunrise Berhad	10/25	AA-	3.880	1	4.039	25/07/2019	-16	61
Eco World Capital Assets Berhad	08/24	-	6.107	1	6.099	23/08/2019	1	-
Eco World International Berhad	04/23	-	6.100	1	5.621	22/08/2019	48	-
				<u>234</u>				

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

### Market/Corporate News: What's Brewing

**Airlines will be seeking compensation from airport operator MALAYSIA AIRPORTS HOLDINGS BHD (MAHB) after more than four days of disruptions and delays that caused the airline industry to lose tens of millions of ringgit.**

One airline CEO, who declined to be named, said the cost to his airline during the four days was easily over RM6mil, while another airline is seeing losses of above RM10mil. Some passengers had also cancelled their flights and are asking for refunds. This does not include the undue stress and waiting time thousands of passengers had to endure since Wednesday night. A systems failure caused major flight delays over the past few days, with MAHB having to resort to manual means to get passengers on their flights. Flights were delayed for long periods of time, causing the airlines to incur cost to accommodate the wide-spread delays. There has been no official reason why the systems failed, but sources indicate that the core switch that links all the information systems at the KL International Airport (KLIA) broke down because it had passed its current lifespan. "There were still intermittent disruptions up to midday yesterday, especially at the back-end even though the IT experts, including those from Cisco, were still trying to change the hardware and stabilise the network," said an expert. The source said the core switch is part of the Total Airport Management System, which is an integrated airport management system used to interface and integrate the majority of electronic information within the airport for services such as check-in, baggage, WiFi, flight information display systems, communications systems and several others. He added that it was an old system that was due for an upgrade in 2012-2014, but was not approved despite several requests. A back-up is in place but could not withstand the overloading, adding to the chaos, the source said. According to a media report on Monday, the board did not approve the upgrade despite several attempts by management to get it upgraded. The cost of the core switch a few years ago when it was due for an upgrade was said to be about RM50mil, but now it would be much higher. MAHB in several statements said that the upgrade of network equipment was progressing. In a statement yesterday, MAHB hinted at sabotage as a reason for the airport's system to fail. The government said it would form a task force to investigate the systems failure. Coupled with the compensation that MAHB has to fork out to airlines and even passengers, its overall cost, including the hardware change after the recent disruption, could run into hundreds of millions of ringgit. Some felt that if the upgrade had been done in a timely fashion, MAHB would have avoided the recent disruption and extra cost it could be incurring. "Malaysia had the foresight to build an international airport, but 20 years later, it is not well maintained even though airlines pay substantial charges to the airport operator to use its services. Any delay at the airport is a cost to the airlines and they will have to compensate airlines and passengers," said Philippine Airlines chief commercial group adviser Datuk Bernard Francis. A source said: "Just like the core network switch, the next upgrade that is long overdue is that of the total baggage system. Even though it has been highlighted several times that the baggage system needs to be upgraded, as it is as old as the airport, it has not been done. This is yet another disaster waiting to happen. "The problem is that there are just too many committees and layers of decision-making within MAHB, and combined with over-governance and little empowerment, decision-making takes far too long and that is why several upgrade projects are still waiting for approval." Experts said that for an airport operator that manages 39 airports and especially KLIA, which is an international gateway, something needs to be done fast to avoid any future problems.

The prolonged disruption does not bode well for the country at a time when it is promoting Visit Malaysia Year 2020, as the systems failure could have an adverse impact on tourist arrivals. The Malaysian Aviation Commission said it had also commenced an official inquiry into the recent disruptions at both KLIA and KLIA2. It added that based on the Airport QoS Framework, a financial penalty of up to 5% of the airports' aeronautical revenues could be imposed on the airport operator if it does not meet with the services and standards. The disruptions over the past few days are said to be the longest for an international airport. (Source: *The Star*)

**Dragged by lower selling prices, Southern Steel Bhd reported a net loss of RM34.85 million for the fourth quarter ended June 30, 2019, as compared with a net profit of RM35.21 million a year ago.** This is the steel products manufacturer's third consecutive quarterly net loss, resulting in a full-year loss of RM119.05 million, compared with a RM210.85 million net profit for the previous year. Fourth quarter revenue came in at RM696.98 million, down 21.6% from RM888.64 million a year ago. This brings full-year revenue to RM3.14 billion, 18% lower as compared with RM3.7 billion registered a year ago. No dividend was declared for the current year, as opposed to a 3.5 sen payout in 2018. "As noted in the previous few quarters, the lower revenue and loss before tax for the quarter under review and financial year-to-date, as compared with the corresponding quarter or period of FY18, were largely due to lower selling prices," said Southern Steel. The group expects the market to remain volatile, and the impact from the revival of certain infrastructure projects by the government will be "slow and insufficient to address the oversupply condition in the market as created by the new entrants". It said it will continue to adopt measures to address cost and ensure its market position is not compromised. (Source: *The Edge*)

**Aeon Co (M) Bhd doubled its net profit to RM19.45 million for the second financial quarter ended June 30, 2019 (2QFY19), from RM9.79 million a year earlier, due to the absence of impairment losses at an associate, which had impacted its results in the previous year's corresponding quarter.** Its quarterly revenue grew 3% to RM1.1 billion, from RM1.06 billion a year earlier. The retail business segment achieved a 3% year-on-year increase in revenue to RM924.5 million, mainly due to contributions from newly-renovated stores and specialty shops, as well as a new store which was opened in January 2019. For the first half of its financial year (1HFY19), cumulative net profit stood at RM52.09 million, a 38% jump from RM37.73 million in the corresponding period a year earlier, while revenue increased 6% to RM2.31 billion from RM2.18 billion. While the Malaysian economy saw better-than-expected growth in the second quarter, the group expects conditions to soften in the second half of the year, due to both internal and external factors, including the global trade disputes. "As such, the board expects the performance for the current year to remain challenging," it said. Aeon said the retail business will continue to refurbish its selected stores and employ appropriate marketing and pricing strategies, merchandise assortment reformation, maintaining quality customer service and operational efficiency efforts. Meanwhile, the group expects occupancy and rental rates for its property management services to remain challenging. "The company will continue to leverage on its competitive strengths to draw customer traffic to its malls, so as to continue maintaining its position as a shopping destination," it said. (Source: *The Edge*)

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<b>Rating Action</b>			
<b>Issuer</b>	<b>PDS Description</b>	<b>Rating/Outlook</b>	<b>Action</b>
State of Kuwait	Foreign currency sovereign rating	AAA/Stable	Affirmed

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Source: RAM, MARC

**Hong Leong Bank Berhad**

Fixed Income & Economic Research, Global Markets  
Level 8, Hong Leong Tower  
6, Jalan Damanlela  
Bukit Damansara  
50490 Kuala Lumpur  
Tel: 603-2081 1221  
Fax: 603-2081 8936  
Email: HLMarkets@hlbb.hongleong.com.my

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