Global Markets Research

Fixed Income

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	1.64	1
5-yr UST	1.72	1
10-yr UST	1.91	1
30-yr UST	2.34	1

	MGS		GII*	
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.01	0	3.08	0
5-yr	3.19	0	3.25	-2
7-yr	3.34	1	3.36	0
10-yr	3.36	0	3.47	0
15-yr	3.66	0	3.77	0
20-yr	3.74	0	3.88	0
30-yr	4.15	0	4.00	0

** Market indicative levels*

MYR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.28	0
3-yr	3.30	0
5-yr	3.34	-2
7-yr	3.38	-1
10-yr	3.40	0

Source : Bloomberg

Upcoming Government Bond Tender

Nil

Fixed Income Daily Market Snapshot

US Treasuries

- US treasuries closed little changed with yields moving within 1bp across the curve on another day of thin trading and continuous rally in US equities to fresh record highs. The auction of $32bn 7-year notes, the last for the year, attracted a higher BTC of 2.47x (prior 2.44x) at a high yield of 1.835% (prior 1.719%). Markets are expected to remain quiet with limited moves as we head into the year end.

MGS/GIII

- Trading momentum in local govvies softened further post Christmas holiday as investors were mostly away for the year end festive season. Secondary market volume tapered off further to RM589m with GII trades continued to dominate, though at a lesser extent making up 57% of total trade (prior 64%). In the MGS space, trading was mainly at the front end to the belly up to 7Y and only the benchmark 7Y MGS 7/26 was traded, at 3.34% (+1bp) with RM40m changed hands. Meanwhile, benchmark 10Y GII 7/29 took center stage in the GII space with RM75m done flat at 3.472%. We continued to expect quiet trading today in the absence of fresh market catalysts as investors are away for the year-end holiday.

Corp Bonds/Sukuk

- The corporate bonds/Sukuk space saw secondary market volume picking up somewhat to RM278m yesterday with the GG and AAA-rated segments continued to draw substantial interests. In the GG space, DANA '3/34 and '5/36 were the only two papers traded with a cumulative amount of RM100m, at 3.832% and 3.930% respectively. AAA-rated SEB '4/31 and '11/33 saw RM20m dealt each, between 3-4bps lower at 3.808-3.948% respectively. AA-rated MBB ' 2/17 also drew commendable interests with RM40m last dealt 7bps inner at 4.013%.

Daily Trades : Government Bond

Securities		Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS	03/20	2.688	44	2.778	23/12/19	-9
MGS	10/20	2.922	42	2.917	24/12/19	1
MGS	07/21	3.024	4	3.011	23/12/19	1
MGS	09/21	3.022	15	3.053	23/12/19	-3
MGS	11/21	3.000	15	3.028	23/12/19	-3
MGS	09/22	3.087	4	3.110	20/12/19	-2
MGS	03/23	3.103	34	3.124	23/12/19	-2
MGS	04/23	3.140	33	3.156	20/12/19	-2
MGS	04/26	3.309	10	3.321	20/12/19	-1
MGS	07/26	3.336	40	3.324	24/12/19	1
MGS	11/26	3.442	10	3.385	24/12/19	6
GII	05/23	3.109	40	3.113	18/12/19	0
GII	10/24	3.246	40	3.269	20/12/19	-2
GII	10/28	3.468	60	3.482	24/12/19	-1
GII	07/29	3.472	75	3.475	24/12/19	0
GII	09/30	3.568	20	3.619	19/12/19	-5
GII	06/33	3.770	30	3.770	24/12/19	0
GII	10/35	3.851	20	3.870	29/11/19	-2
GII	09/39	3.880	52	3.875	24/12/19	0
			589			

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*
DanaInfra Nasional Berhad	03/34	GG	3.832	80	3.900	06/12/19	-7	16
DanaInfra Nasional Berhad	05/36	GG	3.930	20	3.902	23/10/19	3	26
Puncak Wangi Sdn Berhad	11/20	AAA	4.085	5	-	-	409	110
Pengurusan Air SPV Berhad	06/29	AAA	3.790	25	3.835	18/12/19	-4	39
Sarawak Energy Berhad	04/31	AAA	3.808	20	3.839	19/12/19	-3	43
Sarawak Energy Berhad	11/33	AAA	3.948	20	4.069	18/12/19	-12	28
Encorp Systembilt Sdn Berhad	11/21	AA1	3.440	5	3.495	27/09/19	-6	42
Perbadanan Kemajuan Negeri Selangor	08/21	AA3	3.596	3	3.598	19/12/19	0	58
Malayan Banking Berhad	02/17	AA3	4.013	40	4.078	09/12/19	-7	25
UiTM Solar Power Sdn Berhad	04/31	AA-	5.030	5	5.020	08/10/19	1	165
IJM Land Berhad	03/19	A2	4.679	10	4.678	16/12/19	0	91
MBSB Bank Berhad (fka Asian Finance Bank Berhad)	12/29	A3	5.047	20	5.000	19/12/19	5	167
WCT Holdings Berhad	09/19	A	5.598	10	4.962	24/12/19	64	183
Quantum Solar Park (Semenanjung) Sdn Berhad	10/27	A+	5.121	5	5.458	23/07/19	-34	174
Quantum Solar Park (Semenanjung) Sdn Berhad	04/28	A+	5.180	10	5.238	14/08/19	-6	180
				278				

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

Market/Corporate News: What's Brewing

Malaysia is expected to achieve a stronger and more sustainable gross domestic product (GDP) growth of 4.8% next year on the back of its strong macroeconomic fundamentals, according to Economic Affairs Minister Datuk Seri Mohamed Azmin Ali. He said Malaysia's highly-diversified economic and export structure, supportive labour market, low and stable inflation, a strong and well-capitalised financial sector and a healthy current account surplus on the balance of payments would continue to drive the economy, going forward. "This outlook is higher than the estimates by the International Monetary Fund at 4.4% and the World Bank at 4.5% as the government remains committed to implementing its development priorities. "For 2020, RM56bil has been allocated for 5,466 development projects to support the growth momentum and strengthen the country's long-term economic capacity whereby of this amount, RM53.2bil is allocated for 4,744 ongoing projects and the remaining RM2.8bil has been set aside for 722 new projects, " he said in a statement. Over the next decade, he said, the government would place greater emphasis on restructuring the economy by developing new economic areas to propel the economy forward and create business opportunities and high-paying jobs, in line with the objectives of Shared Prosperity Vision 2030. He said this entails ensuring an inclusive, sustainable and meaningful socio-economic development to provide a decent standard of living for all Malaysians, which would be operationalised through the 12th Malaysia Plan 2021-2025 and the 13th Malaysia Plan 2026-2030. Azmin said the government remained vigilant and would continue to focus on strengthening Malaysia's near-term resilience and advancing structural reforms to raise medium-term growth. "Hence, the country's growth potential will be optimised by strengthening productivity and innovation as catalysts of growth whereby emphasis will be placed on empowering the manufacturing sector to produce more high quality, diverse and complex products." (Source: The Star Online/ Bernama)

Japanese asset managers are planning to venture deeper into emerging markets in the coming year as falling bond yields in traditional investment destinations, such as Europe, force them into riskier assets. The country runs a large current account surplus and Japanese investors have routinely recycled that by buying up bonds in investment grade markets in Europe, and more recently China, to diversify from the extremely low interest rates at home. Expectations of looser monetary policy from the world's major central banks due to slowing growth and the Sino-U.S. trade war, however, have driven bonds to new lows and forced Japanese investors such as insurers and pension funds to look further afield. "We will increase exposure in Mexico next year and are looking for the opportunity to enter South Africa, which has one of the steepest yield curves around," said Akira Takei, global fixed income fund manager at Asset Management One in Tokyo. Italy and South Africa are appealing to money managers as they are among the few countries that still boast a steep yield curve. In both countries, long-term yields are well above shorter ones. The Bank of Japan (BOJ) has sent clear signals that it will allow the yield curve to steepen to help domestic banks and investors make money but, after years of quantitative easing, portfolio managers like Takei are unimpressed. The spread between two-year and 10-year South African government bonds is around 150 basis points, versus a mere 10-basis-point spread in Japan for the same tenors. In contrast, yield curves in the United States and other developed markets are extremely flat due to subdued inflationary pressures and uncertainty about growth. "Japanese investors are gradually lowering the grade they invest in" said Koichi Sugisaki, executive director at Morgan Stanley MUFG Securities in Tokyo. "First, it was JGBs, then Treasuries, then mortgage bonds, then France, and then Spain, which is where the banks are now. Next year, the banks will probably go to Italy," he said, adding that any assets rated below Italy's would be junk and most banks wouldn't be able to buy those. Japanese investors not only expect inflation to remain subdued in 2020, they also reckon the United States and China will continue to clash over trade policy, meaning that global investor appetite for safe haven assets will persist. "I expect U.S.-China trade friction to remain a risk in 2020," said Toshinobu Chiba, chief portfolio manager at Nissay Asset Management in Tokyo. "I want to be overweight in Indonesia and Malaysia." One reason emerging market sovereign debt is becoming an option for more Japanese investors is that other popular high-yield investments have become too crowded. Investors have for years bought into packaged loans, known as collateralised loan obligations (CLOs), for better returns. Large Japanese banks' holdings of CLOs, which repackage risky corporate loans into tranches, stood at 12.7 trillion yen ($116.10 billion) in the fiscal year ended March, more than double the 5.1 trillion yen in CLO holdings in fiscal 2015, BOJ data show. Japan's large banks now hold around 15% of the global CLO market, and 99% of these holdings are tranches rated AAA, according to the BOJ. Asset Management One's Takei monitors the U.S. leveraged loan market, which supplies the bonds that go into CLOs, but he worries that excessive lending to U.S. shale companies could cause problems next year. Nissay Asset Management's Chiba would consider buying U.S. corporate debt but is wary of the leveraged market, because Japanese investors "have been buying too much." Japan has pulled back from the U.S. CLO market before, but when this happened earlier this year spreads tightened because of strong demand from U.S. investors also hungry for yield, according to Thomas Majewski, managing partner at Eagle Point Credit Management in Greenwich, Connecticut, which invests in CLOs. (Source: The Star Online/ Reuters)

Rating Action

Issuer	PDS Description	Rating/Outlook	Action
Nil			

Source: RAM, MARC

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