

Global Markets Research

Fixed Income

Fixed Income Daily Market Snapshot

US Treasuries

- US Treasuries bore the brunt of a worrisome refunding package and also risk-on mode on Wednesday as investors found enough reasons to be optimistic over the economy for now (including the stronger-than-expected ISM services data). Overall benchmark yields ended between 1-4bps higher. The UST 2Y edged 1bps up 0.12% whilst the much-watched UST 10Y spiked 4bps at 0.55%. Meanwhile, traders noted with some concerns; the record supply of quarterly refunding package (beginning with auctions totaling \$112b next week). The package outlined by the US Treasury; caused the curve to steepen. Elsewhere the narrowing premium of swap spreads between USD and JPY may encourage investors to pile into longer dated swaps to buy Japanese bonds; mainly in the longer-ends. On the data front we have the initial jobless claims as at 1st August and the all-important job payrolls data this Friday.

| UST | | |
|-----------|-------------|-----------|
| Tenure | Closing (%) | Chg (bps) |
| 2-yr UST | 0.12 | 1 |
| 5-yr UST | 0.22 | 3 |
| 10-yr UST | 0.55 | 4 |
| 30-yr UST | 1.22 | 4 |

| MGS | | GII* | | |
|--------|-------------|-----------|-------------|-----------|
| Tenure | Closing (%) | Chg (bps) | Closing (%) | Chg (bps) |
| 3-yr | 1.87 | -6 | 1.89 | -5 |
| 5-yr | 2.03 | -6 | 1.99 | -4 |
| 7-yr | 2.15 | -2 | 2.24 | -3 |
| 10-yr | 2.40 | -6 | 2.40 | -12 |
| 15-yr | 2.81 | -2 | 2.84 | -8 |
| 20-yr | 3.08 | -6 | 3.20 | -10 |
| 30-yr | 3.52 | 2 | 3.66 | 0 |

* Market indicative levels

| MYR IRS Levels | | |
|----------------|-------------|-----------|
| IRS | Closing (%) | Chg (bps) |
| 1-yr | 1.85 | -1 |
| 3-yr | 1.85 | -3 |
| 5-yr | 2.04 | -2 |
| 7-yr | 2.25 | -3 |
| 10-yr | 2.48 | -3 |

Source : Bloomberg

Upcoming Government Bond Tender

Nil

MGS/GIII

- Local govies continued its sterling run yesterday amid sustained secondary market volume of RM6.88b as overall benchmark yields ended mostly lower between 0-12bps save for the long bond. Interest was mainly seen in the off-the-run 20's and also 3Y, 10Y, 15Y benchmark MGS/GII. Both the benchmark 5Y MGS 9/25 and the 10Y MGS 8/29 yields rallied 6bps at 2.03% and 2.40% respectively. GII bond trades rose slightly to form ~36% of overall trades. Sentiment continues to be buoyed by the initial USD2.5b cash settlement by Goldman Sachs which will lighten the government's funding requirements. Meanwhile MYR trades near a 5-month high mainly due to the current bond rally, rising oil prices and also due to the above-mentioned cash settlement. Despite a decline in real yields across EM, 2Y real yields are highest in Malaysia (~5.0%) followed by Indonesia (~3.6%), South Africa (2.2%) and Thailand (~2.1%). Expect some attention to shift to the industrial production numbers tomorrow.

Corp Bonds/Sukuk

- Investors continued to express interest despite a lower yet strong secondary market volume of RM600m; with transactions seen mainly across the AA followed by the AAA-part of the curve. Overall yields continued to close mostly lower. Govt-guaranteed PTPTN saw both its 2/28 and 2/34 tranches close 12-26bps lower compared to previous-done levels at 2.65% and 3.14% each. AAA-rated PASB notched RM80m trades rising 4bps instead at 2.94% whilst DANUM 2/35 ended 4bps lower at 3.22%. The AA-space which was active saw both YTL Corp and YTL Power close unchanged and 3bps lower respectively; closing between 3.33-3.75% area. Toll-operator KESTURI 12/28 closed 16bps lower at 3.73% whilst Southern Power 31 and 33 ended 21bps lower at 3.25% and 3.46% each.

Daily Trades : Government Bond

| Securities | | Closing | Vol | Previous | Previous | Chg |
|------------|-------|---------|-------------|----------|----------------------------|------|
| | | YTM | (RM mil) | YTM | Trade Date (dd/mm/yyyy) | (bp) |
| MGS | 10/20 | 1.596 | 423 | 1.652 | 04/08/2020 | -6 |
| MGS | 02/21 | 1.650 | 50 | 1.740 | 29/07/2020 | -9 |
| MGS | 07/21 | 1.666 | 109 | 1.696 | 04/08/2020 | -3 |
| MGS | 09/21 | 1.719 | 301 | 1.703 | 04/08/2020 | 2 |
| MGS | 11/21 | 1.667 | 213 | 1.705 | 04/08/2020 | -4 |
| MGS | 03/22 | 1.758 | 90 | 1.786 | 04/08/2020 | -3 |
| MGS | 08/22 | 1.804 | 80 | 1.821 | 04/08/2020 | -2 |
| MGS | 09/22 | 1.810 | 113 | 1.824 | 04/08/2020 | -1 |
| MGS | 03/23 | 1.872 | 813 | 1.927 | 04/08/2020 | -5 |
| MGS | 08/23 | 1.931 | 11 | 1.936 | 04/08/2020 | 0 |
| MGS | 06/24 | 1.998 | 8 | 2.001 | 04/08/2020 | 0 |
| MGS | 07/24 | 1.992 | 24 | 2.044 | 04/08/2020 | -5 |
| MGS | 09/24 | 2.025 | 140 | 2.040 | 04/08/2020 | -2 |
| MGS | 09/25 | 2.028 | 268 | 2.088 | 04/08/2020 | -6 |
| MGS | 07/26 | 2.154 | 36 | 2.166 | 04/08/2020 | -1 |
| MGS | 11/26 | 2.146 | 44 | 2.199 | 04/08/2020 | -5 |
| MGS | 05/27 | 2.146 | 59 | 2.171 | 04/08/2020 | -2 |
| MGS | 06/28 | 2.292 | 26 | 2.366 | 04/08/2020 | -7 |
| MGS | 09/28 | 2.412 | 3 | 2.475 | 04/08/2020 | -6 |
| MGS | 08/29 | 2.398 | 368 | 2.454 | 04/08/2020 | -6 |
| MGS | 04/30 | 2.510 | 49 | 2.537 | 04/08/2020 | -3 |
| MGS | 04/33 | 2.896 | 20 | 2.935 | 04/08/2020 | -4 |
| MGS | 11/33 | 2.872 | 141 | 2.942 | 04/08/2020 | -7 |
| MGS | 07/34 | 2.814 | 891 | 2.835 | 04/08/2020 | -2 |
| MGS | 05/35 | 3.119 | 3 | 3.189 | 03/08/2020 | -7 |
| MGS | 06/38 | 3.190 | 29 | 3.231 | 04/08/2020 | -4 |
| MGS | 05/40 | 3.078 | 70 | 3.143 | 04/08/2020 | -6 |
| MGS | 09/43 | 3.586 | 20 | 3.586 | 04/08/2020 | 0 |
| MGS | 03/46 | 3.662 | 2 | 3.651 | 04/08/2020 | 1 |
| MGS | 07/48 | 3.667 | 11 | 3.679 | 04/08/2020 | -1 |
| MGS | 06/50 | 3.521 | 2 | 3.501 | 04/08/2020 | 2 |
| GII | 08/20 | 1.658 | 15 | 1.706 | 04/08/2020 | -5 |
| GII | 03/21 | 1.687 | 7 | 1.750 | 03/08/2020 | -6 |
| GII | 04/21 | 1.709 | 30 | 1.753 | 03/08/2020 | -4 |
| GII | 08/21 | 1.725 | 10 | 1.771 | 04/08/2020 | -5 |
| GII | 07/22 | 1.819 | 70 | 1.838 | 04/08/2020 | -2 |
| GII | 05/23 | 1.893 | 30 | 1.941 | 04/08/2020 | -5 |
| GII | 07/23 | 1.927 | 30 | 1.963 | 04/08/2020 | -4 |
| GII | 11/23 | 1.958 | 7 | 1.980 | 03/08/2020 | -2 |
| GII | 10/24 | 1.985 | 50 | 2.022 | 04/08/2020 | -4 |
| GII | 03/26 | 2.139 | 60 | 2.157 | 04/08/2020 | -2 |
| GII | 09/26 | 2.203 | 40 | 2.233 | 04/08/2020 | -3 |
| GII | 09/27 | 2.235 | 484 | 2.264 | 04/08/2020 | -3 |
| GII | 10/28 | 2.397 | 92 | 2.460 | 04/08/2020 | -6 |
| GII | 12/28 | 2.436 | 200 | 2.497 | 03/08/2020 | -6 |
| GII | 07/29 | 2.460 | 20 | 2.519 | 04/08/2020 | -6 |
| GII | 09/30 | 2.505 | 90 | 2.619 | 04/08/2020 | -11 |
| GII | 10/30 | 2.397 | 228 | 2.516 | 04/08/2020 | -12 |
| GII | 06/33 | 2.917 | 146 | 2.956 | 04/08/2020 | -4 |
| GII | 08/33 | 2.928 | 70 | 2.974 | 04/08/2020 | -5 |
| GII | 11/34 | 2.844 | 440 | 2.927 | 04/08/2020 | -8 |
| GII | 10/35 | 3.096 | 30 | 3.583 | 30/06/2020 | -49 |
| GII | 08/37 | 3.269 | 50 | 3.308 | 04/08/2020 | -4 |
| GII | 09/39 | 3.197 | 260 | 3.296 | 04/08/2020 | -10 |
| | | | <u>6877</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* | |
|--|--------|-------------|--------------|--------------|----------------------------------|------------|---------------------|-----|
| PR1MA Corporation Malaysia | 10/22 | GG | 2.105 | 5 | 4.080 | 20/10/2017 | -198 | 31 |
| Perbadanan Tabung Pendidikan Tinggi Nasional | 02/28 | GG | 2.649 | 30 | 2.770 | 23/07/2020 | -12 | 35 |
| Perbadanan Tabung Pendidikan Tinggi Nasional | 02/34 | GG | 3.138 | 40 | 3.399 | 17/07/2020 | -26 | 34 |
| Prasarana Malaysia Berhad | 03/40 | GG | 3.420 | 20 | 3.539 | 28/07/2020 | -12 | 32 |
| Cagamas Berhad | 10/21 | AAA | 2.185 | 10 | 2.503 | 03/06/2020 | -32 | 48 |
| Telekom Malaysia Berhad | 04/23 | AAA | 2.374 | 5 | 2.424 | 29/07/2020 | -5 | 49 |
| Pengurusan Air SPV Berhad | 06/27 | AAA | 2.719 | 5 | 2.848 | 22/07/2020 | -13 | 56 |
| Pengurusan Air SPV Berhad | 06/29 | AAA | 2.935 | 80 | 2.890 | 04/08/2020 | 4 | 56 |
| Sarawak Energy Berhad | 07/29 | AAA | 2.891 | 1 | 3.229 | 03/06/2020 | -34 | 52 |
| EKVE Sdn Berhad | 01/32 | AAA | 3.320 | 6 | 3.949 | 15/01/2020 | -63 | 89 |
| Sarawak Energy Berhad | 12/32 | AAA | 3.144 | 2 | 3.259 | 27/07/2020 | -12 | 72 |
| Sarawak Energy Berhad | 11/33 | AAA | 3.215 | 2 | 3.329 | 27/07/2020 | -11 | 41 |
| Danum Capital Berhad | 02/35 | AAA | 3.217 | 25 | 3.259 | 30/07/2020 | -4 | 42 |
| Projek Lebuhraya Usahasama Berhad | 01/36 | AAA | 3.369 | 50 | 3.729 | 15/05/2020 | -36 | 57 |
| Malayan Banking Berhad | 10/25 | AA1 | 2.461 | 30 | 2.491 | 22/07/2020 | -3 | 42 |
| YTL Corporation Berhad | 11/26 | AA1 | 3.329 | 50 | 3.329 | 03/08/2020 | 0 | 120 |
| YTL Power International Berhad | 05/27 | AA1 | 3.369 | 50 | 3.396 | 28/07/2020 | -3 | 121 |
| Kuala Lumpur Kepong Berhad | 09/29 | AA1 | 3.119 | 10 | 3.199 | 20/07/2020 | -8 | 74 |
| CIMB Bank Berhad | 12/25 | AA+ | 2.428 | 20 | 2.968 | 27/04/2020 | -54 | 39 |
| Fortune Premiere Sdn Berhad | 09/25 | AA | 3.198 | 10 | 3.343 | 14/07/2020 | -15 | 116 |
| BGSM Management Sdn Berhad | 12/23 | AA3 | 2.900 | 20 | 3.697 | 17/04/2020 | -80 | 102 |
| Bumitama Agri Ltd | 07/26 | AA3 | 3.266 | 10 | 3.359 | 23/07/2020 | -9 | 114 |
| Dynasty Harmony Sdn Berhad | 12/28 | AA3 | 4.850 | 15 | 5.589 | 14/11/2019 | -74 | 255 |
| Dynasty Harmony Sdn Berhad | 06/29 | AA3 | 4.911 | 15 | 5.840 | 28/05/2019 | -93 | 254 |
| Konsortium Lebuhraya Utara-Timur (KL) Sdn Berhad | 12/23 | AA- | 3.236 | 4 | 3.638 | 17/02/2020 | -40 | 135 |
| Pelabuhan Tanjung Pelepas Sdn Berhad | 06/27 | AA- | 3.508 | 10 | - | - | - | 135 |
| Konsortium Lebuhraya Utara-Timur (KL) Sdn Berhad | 12/28 | AA- | 3.729 | 30 | 3.889 | 06/07/2020 | -16 | 143 |
| Pelabuhan Tanjung Pelepas Sdn Berhad | 06/30 | AA- | 3.569 | 10 | - | - | - | 114 |
| Southern Power Generation Sdn Berhad | 10/31 | AA- | 3.249 | 10 | 3.461 | 28/07/2020 | -21 | 82 |
| Southern Power Generation Sdn Berhad | 10/33 | AA- | 3.459 | 10 | 3.669 | 28/07/2020 | -21 | 66 |
| Jati Cakerawala Sdn Berhad | 01/23 | A1 | 3.902 | 1 | 3.899 | 15/07/2020 | 0 | 211 |
| MBSB Bank Berhad (fka Asian Finance Bank Berhad) | 12/29 | A3 | 3.499 | 1 | 3.926 | 14/07/2020 | -43 | 112 |
| Affin Bank Berhad | 07/18 | A3 | 4.354 | 13 | 3.880 | 03/08/2020 | 47 | 126 |
| Eco World International Berhad | 05/23 | - | 5.651 | 1 | 4.873 | 04/08/2020 | 78 | 377 |
| | | | | 600 | | | | |

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

Market/Corporate News: What's Brewing

As the pandemic sees resurgence in various corners of the world, banking analysts expect narrowing net interest margin (NIMs) and potentially deteriorating asset quality to continue to weigh on banks, moving forward. CGS-CIMB Research expects banks' net interest margin to contract by about 10 basis points (bps) year-on-year in the second quarter of the year (2Q20), due to the 50bps cut in the overnight policy rate (OPR) in May 20. "Another potential dampener for banks' 2Q20 net profit would be the modification loss for hire purchase loans," it said in its July 31 report, where it pinned a 'neutral' call on the sector, with its top picks being Public Bank Bhd, RHB Bank Bhd and AMMB Holdings Bhd. Based on June 2020 banking statistics, CSG-CIMB Research deduced that loan growth was stable at about 4% yoy at end-March and end-June, and that 2Q20 loan loss provisioning could have increased quarter-on-quarter, as the total provision for the industry rose by RM1.36 billion in 2Q20, versus an increase of RM1.14 billion in 1Q20. **Hong Leong Research, which is also neutral on the sector, said interest spread has shrunk. "Both the average lending and three-month board fixed deposit rates slipped 12bp and 2bp month-on-month, respectively. As a result, the spread contracted 10bp m-o-m to 2.03%. We reckon the squeeze will persist and we see a weaker NIMs outlook given the recent OPR reduction and potentially another one (-25bp) in 2H20," it said in its Aug 3 report.** Hong Leong Research noted that the only bank it likes now is RHB Bank, on which it has a target price of RM5.80, "given its appealing risk-reward profile, backed by undemanding valuations, strong CET1 ratio of 16.6%, and relatively large untapped FVOCI (Fair Value through Other Comprehensive Income) reserves". Kenanga Research, which also has RHB as its top sector pick, is of the view that banks' earnings ahead remain uncertain and volatile, while the path to recovery is unlikely to be clear cut. "Early signs from banking statistics suggest that pre-emptive loan provisioning may see an acceleration in 2Q. In mitigation, the re-opening of the economy and significant cuts to policy rate have helped clear some overhang for the sector," it said in an Aug 3

report. UOB KayHian Research, meanwhile, noted that system loan growth remained stable in June, but it expects this “growth to moderate downwards as leading loan growth indicators remain weak”. It also pointed out that “asset quality has not reflected Covid-19 impact”. “Sector GIL (gross impaired loans) declined 3.4% y-o-y, with the GIL ratio declining to 1.46% in June 20 from 1.55% in May 20. The loan moratorium continues to mask the potential Covid-19 induced asset quality stress,” it said in a report, also dated Aug 3. “Given the government’s announcement to extend the loan moratorium on a targeted basis, we expect asset quality trends to remain stable for the rest of 2020. However, banks are expected to continue frontloading provisions ahead, [so] we are forecasting a tripling in system net credit cost in 2020 and for it to remain elevated in 2021,” it added. UOB KayHian also noted that the banking sector is trading at 0.85x 2021F price-to-book, which it said is only slightly below the Global Financial Crisis (GFC) low of 0.95x, and broadly correlates with its current 2021 sector return on equity or ROE forecast of 7.5%. The foreign research house, meanwhile, reckoned “it is too early to upgrade the sector as asset quality uncertainties persist with banks still unable to accurately estimate the level of provisions required post loan moratorium (end-Sep 20)”. “Given the unprecedented impact on the economy, provisions are likely to remain elevated going into 2021. As such, even as the market is trying to price in a 2021 recovery, we note that sector ROE of 7.5-7.5% (consensus: 8.0%) in 2021 remains well below pre-Covid-19 levels of 9%-10% when sector valuations were hovering around 1.0-1.1x P/B,” it said. (Source: *The EdgeMarkets*)

| Rating Action | | | |
|---------------|-----------------|----------------|--------|
| Isuser | PDS Description | Rating/Outlook | Action |
| Nil | Nil | Nil | Nil |

Source: RAM, MARC

Hong Leong Bank Berhad

Fixed Income & Economic Research, Global Markets

Level 8, Hong Leong Tower

6, Jalan Damansara

Bukit Damansara

50490 Kuala Lumpur

Tel: 603-2081 1221

Fax: 603-2081 8936

Email: HLMarkets@hlbb.hongleong.com.my

DISCLAIMER

This report is for information purposes only and does not take into account the investment objectives, financial situation or particular needs of any particular recipient. The information contained herein does not constitute the provision of investment advice and is not intended as an offer or solicitation with respect to the purchase or sale of any of the financial instruments mentioned in this report and will not form the basis or a part of any contract or commitment whatsoever.

The information contained in this publication is derived from data obtained from sources believed by Hong Leong Bank Berhad ("HLBB") to be reliable and in good faith, but no warranties or guarantees, representations are made by HLBB with regard to the accuracy, completeness or suitability of the data. Any opinions expressed reflect the current judgment of the authors of the report and do not necessarily represent the opinion of HLBB or any of the companies within the Hong Leong Bank Group ("HLB Group"). The opinions reflected herein may change without notice and the opinions do not necessarily correspond to the opinions of HLBB. HLBB does not have an obligation to amend, modify or update this report or to otherwise notify a reader or recipient thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

HLB Group, their directors, employees and representatives do not have any responsibility or liability to any person or recipient (whether by reason of negligence, negligent misstatement or otherwise) arising from any statement, opinion or information, expressed or implied, arising out of, contained in or derived from or omission from the reports or matter. HLBB may, to the extent permitted by law, buy, sell or hold significantly long or short positions; act as investment and/or commercial bankers; be represented on the board of the issuers; and/or engage in 'market making' of securities mentioned herein. The past performance of financial instruments is not indicative of future results. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Any projections or forecasts mentioned in this report may not be achieved due to multiple risk factors including without limitation market volatility, sector volatility, corporate actions, the unavailability of complete and accurate information. No assurance can be given that any opinion described herein would yield favorable investment results. Recipients who are not market professional or institutional investor customer of HLBB should seek the advice of their independent financial advisor prior to taking any investment decision based on the recommendations in this report.

HLBB may provide hyperlinks to websites of entities mentioned in this report, however the inclusion of a link does not imply that HLBB endorses, recommends or approves any material on the linked page or accessible from it. Such linked websites are accessed entirely at your own risk. HLBB does not accept responsibility whatsoever for any such material, nor for consequences of its use.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. This report is for the use of the addressees only and may not be redistributed, reproduced or passed on to any other person or published, in part or in whole, for any purpose, without the prior, written consent of HLBB. The manner of distributing this report may be restricted by law or regulation in certain countries. Persons into whose possession this report may come are required to inform themselves about and to observe such restrictions. By accepting this report, a recipient hereof agrees to be bound by the foregoing limitations.