

Global Markets Research

Fixed Income

Fixed Income Daily Market Snapshot

US Treasuries

- US Treasuries jumped on Tuesday; led by the longer-ends as President Trump rejected House Speaker Pelosi's \$2.4 trillion economic stimulus proposal and apparently has halted talks until after the US elections. The curve bull-flattened as overall benchmark yields declined between 0-5bps from prior day's close. The UST 2Y ended almost unchanged at 0.15% whilst the much-watched 10Y rallied 5bps at 0.74%. The record-sized \$52b UST 3Y note auction saw decent BTC ratio of 2.44x, awarded at 0.193%; better than the 2.28x the previous month and similar to the 12-month average. Nevertheless rates on T-Bills rose possibly signaling that a more generous package may be in the offing later. As the Fed policy remains in autopilot mode, attention is expected to be focused on the upcoming US elections instead. Expect attention to shift to the upcoming \$35b 10Y auction today followed by the \$23b 30Y bond auction tomorrow.

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	0.15	0
5-yr UST	0.31	-2
10-yr UST	0.74	-5
30-yr UST	1.54	-5

MGS		GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	1.92	0	1.94	-3
5-yr	2.19	-1	2.13	-4
7-yr	2.40	-1	2.37	-3
10-yr	2.64	-1	2.56	-7
15-yr	3.01	-3	3.12	0
20-yr	3.31	2	3.47	-3
30-yr	3.78	2	4.04	2

* Market indicative levels

MYR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	1.90	-2
3-yr	1.96	-2
5-yr	2.16	-1
7-yr	2.33	-2
10-yr	2.64	0

Source : Bloomberg

Upcoming Government Bond Tender

Nil

MGS/GIII

- Local govies closed mostly stronger on Tuesday save for the long-ends; spurred by solid 3Y auction results amid the doubling of secondary market volume at RM5.68b. Overall benchmark yields ended between -7 to +2bps. Both the benchmark 5Y MGS 9/25 and the 10Y MGS 8/29 yields edged 1bps lower at 2.19% and 2.64% respectively. Interest was mainly seen in the off-the-runs 20-21's, 5Y, 7Y and 10Y benchmark MGS. GII bond trades rose to form 42% of overall trades mainly due to the capture of auction trades. The 3Y GII 5/23 auction saw the 2nd highest amount of bids of RM13.9b, resulting in BTC ratio of 3.093x. Meanwhile, BNM is expected to decide on the interest rate outlook before the 2021 budget in November.

Corp Bonds/Sukuk

- The Corporate Bond/Sukuk space continued to see tepid interest yesterday despite a slight rise in secondary market volume at RM228m with overall yields closing mixed again. Interest was mainly seen across the AAA-AA part of the curve. There were no govt-guaranteed trades. AAA-rated SEB 35-36's closed unchanged compared to previous-done levels between 3.48-58% whilst AA-rated KLK 4/26 edged 1bps lower at 2.78%. New debutant TROPICANA saw its 2023 and 2025 tranche register trades at 5.40% and 5.45% each. However the banking space saw PUBLIC Islamic 29NC24 rally 13bps at 2.89%. Several odd-lot trades on unrated property-related bonds i.e. Eco World International made its foray again; closing mostly higher on yields.

Daily Trades : Government Bond

Securities	Closing	Vol	Previous	Previous	Chg
	YTM	(RM mil)	YTM	Trade Date (dd/mm/yyyy)	(bp)
MGS 10/20	1.797	1003	1.797	05/10/2020	0
MGS 02/21	1.549	60	1.600	05/10/2020	-5
MGS 07/21	1.580	178	1.620	05/10/2020	-4
MGS 09/21	1.600	674	1.640	05/10/2020	-4
MGS 11/21	1.704	5	1.717	02/10/2020	-1
MGS 03/22	1.723	70	1.726	05/10/2020	0
MGS 09/22	1.817	60	1.833	05/10/2020	-2
MGS 03/23	1.918	264	1.916	05/10/2020	0
MGS 06/24	2.030	17	2.117	05/10/2020	-9
MGS 07/24	2.030	1	2.080	05/10/2020	-5
MGS 03/25	2.138	6	2.200	05/10/2020	-6
MGS 09/25	2.187	205	2.194	05/10/2020	-1
MGS 04/26	2.321	4	2.333	05/10/2020	-1
MGS 07/26	2.331	9	2.362	05/10/2020	-3
MGS 11/26	2.366	30	2.384	05/10/2020	-2
MGS 03/27	2.397	5	2.408	05/10/2020	-1
MGS 05/27	2.400	245	2.405	05/10/2020	0
MGS 11/27	2.420	44	2.435	05/10/2020	-2
MGS 06/28	2.496	10	2.524	05/10/2020	-3
MGS 08/29	2.644	223	2.652	05/10/2020	-1
MGS 04/30	2.670	17	2.723	05/10/2020	-5
MGS 06/31	2.789	1	2.803	05/10/2020	-1
MGS 04/33	3.071	5	3.081	05/10/2020	-1
MGS 11/33	3.100	5	3.098	05/10/2020	0
MGS 07/34	3.014	92	3.040	05/10/2020	-3
MGS 04/37	3.344	7	3.385	05/10/2020	-4
MGS 05/40	3.311	5	3.291	05/10/2020	2
MGS 06/50	3.783	2	3.764	05/10/2020	2
GII 03/21	1.659	72	1.641	05/10/2020	2
GII 04/21	1.683	12	1.697	02/10/2020	-1
GII 08/21	1.704	60	1.700	01/10/2020	0
GII 05/23	1.943	1528	1.970	05/10/2020	-3
GII 07/23	2.002	4	2.029	05/10/2020	-3
GII 11/23	1.990	10	2.038	02/10/2020	-5
GII 10/24	2.129	151	2.167	05/10/2020	-4
GII 10/25	2.273	2	2.339	30/09/2020	-7
GII 09/27	2.365	20	2.396	05/10/2020	-3
GII 10/28	2.612	140	2.651	05/10/2020	-4
GII 07/29	2.649	150	2.698	02/10/2020	-5
GII 09/30	2.698	30	2.747	02/10/2020	-5
GII 10/30	2.555	40	2.621	01/10/2020	-7
GII 06/33	3.119	30	3.192	24/09/2020	-7
GII 11/34	3.118	41	3.115	02/10/2020	0
GII 09/39	3.470	60	3.500	05/10/2020	-3
GII 11/49	4.039	80	4.018	02/10/2020	2
		<u>5676</u>			

Daily Trades : Corp Bonds/ Sukuk

Securities	Rating	Closing	Vol	Previous	Previous	Chg	Spread	
		YTM	(RM mil)	YTM	Trade Date (dd/mm/yyyy)	(bp)	Against MGS*	
Bakun Hydro Power Generation Sdn Berhad (fka Sarav	08/26	AAA	2.751	20	2.768	29/09/2020	-2	43
Danum Capital Berhad	05/30	AAA	3.048	30	3.059	22/09/2020	-1	41
Sarawak Energy Berhad	11/33	AAA	3.371	30	3.349	29/09/2020	2	34
Danum Capital Berhad	02/35	AAA	3.432	30	3.430	02/10/2020	0	40
Sarawak Energy Berhad	06/35	AAA	3.481	10	3.479	29/09/2020	0	45
Sarawak Energy Berhad	04/36	AAA	3.577	30	3.579	30/09/2020	0	54
Kuala Lumpur Kepong Berhad	04/26	AA1	2.784	10	2.790	02/10/2020	-1	46
Public Islamic Bank Berhad	10/29	AA1	2.893	10	3.018	27/07/2020	-13	30
Edra Energy Sdn Berhad	01/25	AA3	3.204	2	3.189	08/09/2020	2	113
Press Metal Aluminium Holdings Berhad	08/25	AA3	3.919	10	3.937	05/10/2020	-2	172
Sinar Kamiri Sdn Berhad	01/21	AA-	3.451	4			345	178
Jimah East Power Sdn Berhad	06/26	AA-	3.166	2	3.602	17/06/2020	-44	84
Mumtaz Rakyat Sukuk Berhad	06/26	AA3	2.625	1	2.679	25/08/2020	-5	30
Tropicana Corporation Berhad	10/23	A1	5.400	10	-	-	-	348
Tropicana Corporation Berhad	10/25	A1	5.450	1	-	-	-	326
Affin Bank Berhad	02/27	A1	3.879	1	2.618	22/09/2020	126	155
Eco World International Berhad	10/21	-	4.966	2	4.969	05/10/2020	0	329
Eco World International Berhad	04/23	-	5.950	1	5.350	05/10/2020	60	403
Eco World International Berhad	05/23	-	5.950	2	5.356	05/10/2020	59	403
Eco World Capital Assets Berhad	08/24	-	6.409	5	6.338	05/10/2020	7	434
Cypark Renewable Energy Sdn Berhad	09/20	-	6.470	18			647	317
			<u>228</u>					

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

Market/Corporate News: What's Brewing

AirAsia X Bhd (AAX) has unveiled a massive debt restructuring proposal in which the airline will reconstitute RM63.5 billion worth of debts, including future lease rentals, aircraft purchase commitments and advanced ticket sales, into a principal amount of up to RM200 million. Besides a steep haircut for creditors, the long-haul low-cost carrier also proposed a capital reduction of 90% of its issued share capital in order to offset its accumulated losses. This means a reduction of RM1.38 billion from its share capital. AAX, which slipped to the brink of insolvency as the Covid-19 pandemic added to its financial woes, has also proposed share consolidation to combine every 10 shares into one, according to a bourse filing. The cash-strapped airline did not propose any cash call to recapitalise its balance sheet in the announcement. However, the group said it intends to raise up to RM500 million, including by applying for a government-guaranteed loan under the Danajamin PRIHATIN Guarantee Scheme and/or raising funds from equity providers. As at June 30, AAX's total borrowings were at RM6.09 billion, while its current lease liability amounted to RM856.41 million, and its non-current liabilities stood at RM4.95 billion. AAX's proposal comes just a few days after Malaysia's national carrier, Malaysia Airlines Bhd, revealed on Oct 2 that it had reached out to its lessors, creditors and key suppliers, seeking steep discounts, under an urgent restructuring exercise. Similarly hit hard by the pandemic, the group's holding company Malaysia Aviation Group had said in a letter to lessors that the group was unlikely to make payments owed after November, unless it received more funding from state fund Khazanah Nasional Bhd. Meanwhile, in its announcement today, AAX said the principal sum of RM200 million is an amount which the group's future operational cash flow may accommodate, and is payable annually over a period of up to five years via three equal payments from the third to the fifth anniversaries of the implementation of the proposed debt restructuring. "The debt settlement amount shall be unsecured and carry an interest rate of 2% per annum payable in arrears, commencing on the anniversary of the implementation date of the proposed debt restructuring. "In the case of airline customers and travel agents, they will receive travel credits with extended validity for future travel or purchase of seat inventory," said AAX in the announcement to Bursa Malaysia. Tune Group Sdn Bhd, which is the investment vehicle owned by Tan Sri Tony Fernandes and Datuk Kamarudin Meranun, is the largest shareholder of AAX, holding a 17.83% stake. AirAsia Group Bhd owns 13.76%, while Kamarudin holds an 8.94% direct stake and Fernandes has a 2.69% direct stake. Its director Datuk Lim Kian Onn, who will assume the deputy chairman post tomorrow to lead the airline's restructuring, owns a 4.24% stake. AAX said it will rationalise its network plan (by suspension and/or termination of unprofitable and/or immature routes), shift its focus from market share to that of sustainability and yield to drive profitability, and focus on routes that have proven load and yield performance. The carrier has been loss making in most of the years since it was listed in 2013. (see chart) For the six-month period ended June 30, AAX's net loss widened substantially to RM854.9 million as its revenue halved to RM1 billion. The board has appointed Mercury Securities Sdn Bhd as the principal adviser for the proposed corporate restructuring. (Source: *The EdgeMarkets*)

The Covid-19 pandemic had a severe impact on the global sukuk market in 2020, with green sukuk issuance falling by 44.4% year-on-year (y-o-y) in the first seven months of 2020, said Khazanah Nasional Bhd independent consultant and former assistant vice-president Marina Mardi. She said according to the World Bank Group's October 2020 Knowledge and Research report, entitled "Pioneering the Green Sukuk: Three Years On", the January-July 2020's statistics mirrored the global sukuk market, which contracted by 9.1% y-o-y in the first half of 2020. "As of July 31, 2020, up to US\$6.1 billion (US\$1= RM4.15) worth of green sukuk has been issued globally, including Indonesia, Malaysia and the United Arab Emirates," she said during the virtual Sustainable and Inclusive Finance Forum, co-organised by Bank Negara Malaysia (BNM) and the World Bank Group here today. The report showed that global sukuk

issuance dropped sharply in March and April as the pandemic reached markets around the world, but had rebounded in May and June. The report also cited Fitch Ratings' expectation for global sukuk issuers to diversify their funding bases, continuing a trend in innovation in sustainable, green and hybrid sukuk. Meanwhile, at a panel session held in conjunction with the virtual forum, Affin Hwang Asset Management Bhd fixed income head Esther Teo suggested for the government to take a proactive step by issuing green bonds or sukuk to fund on-going infrastructure projects to encourage the issuance of green sukuk in Malaysia. She said only a handful of green sukuk had been issued in the country, mainly involving projects such as solar energy and hydropower, adding that the government should tap into infrastructure projects by issuing green bond or sukuk for projects such as the Mass Rapid Transit (MRT). "We know that we have a very established government guaranteed programmes for our infrastructure projects such as the MRT project. Perhaps these can be turned into green sukuk as well," she said. Teo said regulators in Malaysia should also provide more incentives to green bond or sukuk issuers in order to see a more diversified issuance in the country. The World Bank Group senior financial sector specialist, Rozani Osman said the lack of awareness on green sukuk was one of the reasons for its low issuance in the country. "When we look at green sukuk issuance in Malaysia, we can only see (that it only involves) green buildings, solar companies or one hydro company. "We do not see the involvement of rail operators, water or waste management companies yet, although these are all 'green' companies," he said. Hence, Rozani said the development of green taxonomy — which identifies the activities or investments that deliver on environmental objectives such as the climate change and principle-based taxonomy that is currently finalised by BNM — could be useful to help Malaysia's financial sector to classify green assets transparently and consistently. "So that when we are moving forward, we can generate assets that are green," he said. Another prominent merchant bank representative said there is a bright prospect for green sukuk issuance in Malaysia, with government-linked companies like Tenaga Nasional Bhd (TNB) taking the lead by committing 20% of its electricity to be generated via renewable energy resources by 2025. "We are going to see more green projects in the future, be it in solar, hydro, or any other form of renewable energy," he said. (Source: *The EdgeMarkets*)

Rating Action			
Isuser	PDS Description	Rating/Outlook	Action
Guan Chong Berhad	Proposed Sukuk Wakalah Programme of up to RM800.0 million.	AA-IS/Stable	Assigned
Central Impression Sdn Bhd (CISB)	RM120.0 million Fixed Rate Serial Bonds	AA-/Negative	Affirmed
Talam Transform Berhad	RM40.0 million Settlement Bithaman Ajil Islamic Debt Securities (Settlement BalDs)	C-IS	Maintained
Notable Vision Sdn Bhd	RM750 mil MTN Programme Class A Senior MTNs Class B Junior MTNs Class C Junior MTNs	AAA/Stable B2/Stable C3/Stable	Reaffirmed

Source: RAM, MARC

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