

Global Markets Research

Fixed Income

Fixed Income Daily Market Snapshot

US Treasuries

- US Treasuries ended stronger on a late risk-off move with the long-end rallying the most. The curve bull-flattened as investors flocked to bonds as Wall Street fell under pressure on renewed concerns over the ongoing COVID-19 virus infection. Overall benchmark yields closed between 0-6bps higher with the UST 2Y unchanged at 0.16% and the much-watched UST 10Y declining by 4bps at 0.64%. Meanwhile the auction of \$46b of 3Y notes ended with decent bidding metrics as BTC ratio notched 2.44x (previous 10 auctions: 2.46x) and awarded at a record low of 0.19%. Demand reflected investors expectations for the shorter-end rates to be maintained low as indicated by the Fed. Meanwhile the Commercial Paper segment is expected to see higher issuance especially by financial firms; which could thus exert some upward pressure on the 3-month LIBOR. Expect attention to focus on the ongoing updates on the COVID-19 virus threat and also remaining auctions involving \$29b of 10Y bonds tonight.

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	0.16	0
5-yr UST	0.29	-2
10-yr UST	0.64	-4
30-yr UST	1.38	-6

MGS		GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	2.09	-8	2.14	-6
5-yr	2.34	-2	2.32	0
7-yr	2.55	-4	2.65	-11
10-yr	2.74	-5	2.77	-5
15-yr	3.26	-2	3.24	-9
20-yr	3.58	-2	3.68	-2
30-yr	3.90	-6	3.98	0

* Market indicative levels

MYR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	2.03	-5
3-yr	2.07	-4
5-yr	2.22	-7
7-yr	2.47	-6
10-yr	2.61	-10

Source : Bloomberg

Upcoming Government Bond Tender

Reopening of RM5.0b of 3Y MGS 3/23 on Thursday
9th July 2020

MGS/GII

- Local govvnies went into a frenzy mode yesterday with the catalyst behind the rally being BNM's 25bps OPR cut. This was the 4th such cut totaling 125bps this year; bringing the OPR to 1.75%. Secondary market volume jumped to RM7.37b as overall benchmark MGS/GII yields closed between 2-11bps lower. Trades were mainly centred in the off-the-run 20's, 25's and also 5Y, 7Y and 10Y benchmark bonds. The benchmark 5Y MGS 9/25 edged 2bps lower at 2.34% whilst the 10Y MGS 8/29 rallied 5bps at 2.74%. GII bond trades maintained to form ~29% of overall trades. Foreign holdings of overall MYR bonds for June saw a huge jump of RM11.6b to RM198.9b with govvnies making up 88% of the increase. Traders are expecting further support for MYR bonds amid an open door for potential further easing later this year. Meanwhile investors are expected to watch the delicate political situation and further updates on the fiscal position. Expect some attention to shift to the industrial production data for May this Friday.

Corp Bonds/Sukuk

- Investors jumped on the bandwagon on Tuesday following the OPR cut amid the quadruple rise in secondary market volume to RM851m with some interest mainly across the GG and AA-part of the curve; with overall yields closing mostly lower. Govt-guaranteed LPPSA, KHAZANAH and DANA 24's saw yields decline between 7-19bps compared to previous-done levels at 2.45-60% levels whilst the long-end PRASA 2/50 closed 3bps lower at 4.04%. AAA-rated BAKUN Hydro 8/25 fell 51bps at 2.99% whilst PASB 6/27 closed 14bps lower at 3.09%. AA-rated YTL Corp saw its 4/23 and 11/26 tranche continue to garner interest with yields also declining to 3.15% and 3.48% each.

Daily Trades : Government Bond

Securities	Closing	Vol	Previous	Previous	Chg
(dd/mm/yyyy)	YTM	(RM mil)	YTM	Trade Date (dd/mm/yyyy)	(bp)
MGS 07/20	2.154	613	1.988	03/07/2020	17
MGS 10/20	1.820	1302	1.953	06/07/2020	-13
MGS 02/21	1.851	60	2.000	03/07/2020	-15
MGS 07/21	1.880	116	1.949	06/07/2020	-7
MGS 11/21	1.997	6	2.019	06/07/2020	-2
MGS 03/22	2.083	248	2.060	06/07/2020	2
MGS 08/22	2.102	47	2.141	03/07/2020	-4
MGS 09/22	2.062	20	2.139	06/07/2020	-8
MGS 03/23	2.094	648	2.170	06/07/2020	-8
MGS 04/23	2.137	41	2.184	06/07/2020	-5
MGS 08/23	2.177	10	2.230	06/07/2020	-5
MGS 06/24	2.276	1	2.276	06/07/2020	0
MGS 09/24	2.266	1	2.285	03/07/2020	-2
MGS 03/25	2.329	8	2.384	06/07/2020	-5
MGS 09/25	2.338	401	2.360	06/07/2020	-2
MGS 07/26	2.484	36	2.545	06/07/2020	-6
MGS 05/27	2.550	520	2.586	06/07/2020	-4
MGS 11/27	2.607	98	2.692	06/07/2020	-9
MGS 06/28	2.765	66	2.779	06/07/2020	-1
MGS 09/28	2.830	30	2.794	02/07/2020	4
MGS 08/29	2.736	470	2.789	06/07/2020	-5
MGS 04/30	2.901	26	2.906	06/07/2020	-1
MGS 06/31	3.069	14	3.117	06/07/2020	-5
MGS 04/33	3.279	9	3.284	03/07/2020	0
MGS 11/33	4.335	80	3.274	06/07/2020	106
MGS 07/34	3.259	218	3.281	06/07/2020	-2
MGS 04/37	3.492	17	3.561	06/07/2020	-7
MGS 06/38	3.590	23	3.557	03/07/2020	3
MGS 05/40	3.583	3	3.601	03/07/2020	-2
MGS 03/46	3.894	11	3.979	06/07/2020	-9
MGS 07/48	3.983	4	3.980	06/07/2020	0
MGS 06/50	3.897	121	3.953	06/07/2020	-6
GII 03/21	1.853	60	1.979	06/07/2020	-13
GII 04/21	2.018	20	1.982	06/07/2020	4
GII 08/21	2.050	26	2.016	03/07/2020	3
GII 04/22	2.073	277	2.110	06/07/2020	-4
GII 07/22	2.101	100	2.109	06/07/2020	-1
GII 05/23	2.140	230	2.205	06/07/2020	-6
GII 07/23	2.224	100	2.292	03/07/2020	-7
GII 11/23	2.300	5	2.283	06/07/2020	2
GII 10/25	2.404	12	2.521	03/07/2020	-12
GII 03/26	2.446	45	2.473	06/07/2020	-3
GII 09/26	2.566	20	2.570	06/07/2020	0
GII 09/27	2.649	201	2.676	06/07/2020	-3
GII 08/28	2.846	60	2.98	11/06/2020	-13
GII 10/28	2.846	135	2.865	06/07/2020	-2
GII 07/29	2.847	310	2.904	06/07/2020	-6
GII 09/30	2.913	40	2.956	06/07/2020	-4
GII 10/30	2.773	11	2.822	06/07/2020	-5
GII 06/33	3.260	30	3.358	29/06/2020	-10
GII 08/33	3.281	10	3.449	30/06/2020	-17
GII 11/34	3.244	190	3.335	03/07/2020	-9
GII 09/39	3.677	121	3.700	03/07/2020	-2
GII 05/47	3.895	100	3.941	06/07/2020	-5
		<u>7370</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*
DanaInfra Nasional Berhad	07/22	GG	2.326	50	2.337	06/07/2020	-1	28
DanaInfra Nasional Berhad	02/23	GG	2.421	35	2.501	23/06/2020	-8	32
Khazanah Nasional Berhad	08/23	GG	2.499	5	2.530	03/07/2020	-3	40
Khazanah Nasional Berhad	03/24	GG	2.574	40	2.651	12/05/2020	-8	32
Lembaga Pembiayaan Perumahan Sektor Awam	04/24	GG	2.447	40	2.631	05/06/2020	-18	19
Khazanah Nasional Berhad	08/24	GG	2.599	5	2.669	12/05/2020	-7	34
Lembaga Pembiayaan Perumahan Sektor Awam	09/24	GG	2.469	100	2.641	02/06/2020	-17	21
DanaInfra Nasional Berhad	11/24	GG	2.471	100	2.660	01/07/2020	-19	21
DanaInfra Nasional Berhad	07/27	GG	2.819	10	3.010	29/06/2020	-19	28
Khazanah Nasional Berhad	10/27	GG	3.014	20	3.035	02/07/2020	-2	47
Bakun Hydro Power Generation Sdn Berhad	08/28	GG	3.011	10	3.011	06/07/2020	0	32
DanaInfra Nasional Berhad	10/28	GG	2.950	5	3.144	29/06/2020	-19	26
DanaInfra Nasional Berhad	05/30	GG	3.080	5	3.178	30/06/2020	-10	32
DanaInfra Nasional Berhad	03/32	GG	3.210	35	3.274	02/07/2020	-6	45
DanaInfra Nasional Berhad	04/33	GG	3.301	30	3.440	26/06/2020	-14	6
Prasarana Malaysia Berhad	12/35	GG	3.499	40	3.670	17/03/2020	-17	26
Prasarana Malaysia Berhad	02/50	GG	4.040	15	4.071	09/06/2020	-3	48
Cagamas Berhad	03/21	AAA	2.329	30	4.000	06/06/2016	-167	44
Bakun Hydro Power Generation Sdn Berhad	08/25	AAA	2.992	40	3.505	15/04/2020	-51	64
Pengurusan Air SPV Berhad	06/27	AAA	3.088	10	3.224	03/07/2020	-14	55
YTL Corporation Berhad	04/23	AA1	3.146	90	3.266	06/07/2020	-12	105
YTL Corporation Berhad	11/26	AA1	3.478	30	3.569	24/06/2020	-9	99
CIMB Bank Berhad	08/26	AA+	3.076	1	3.302	03/07/2020	-23	59
AmBank Islamic Berhad	12/25	AA3	2.884	2	3.071	12/05/2020	-19	54
Mumtaz Rakyat Sukuk Berhad	06/26	AA3	3.007	2	3.028	02/06/2020	-2	52
AEON Credit Service (M) Berhad	02/27	AA3	3.662	50	3.648	03/07/2020	1	112
AEON Credit Service (M) Berhad	02/28	AA3	3.711	20	3.699	03/07/2020	1	102
Edra Energy Sdn Berhad	01/30	AA3	3.899	20	4.539	24/03/2020	-64	114
Tropicana Corporation Berhad	06/23	A+	5.444	3	4.775	02/07/2020	67	334
IJM Land Berhad	03/19	A2	4.698	3	4.550	06/07/2020	15	114
MBSB Bank Berhad	12/31	A3	3.599	6	3.599	06/07/2020	0	84
				<u>851</u>				

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

Market/Corporate News: What's Brewing

Bank Negara Malaysia (BNM) has cut the overnight policy rate (OPR) by 25 basis points (bps) to the lowest-ever level of 1.75%. This is the fourth cut in 2020. The central bank has slashed 125bps so far this year. With OPR being at a historic low, an analyst called it "a testament of just how unprecedented our current situation has been". While BNM noted that "the reduction in the OPR provides additional policy stimulus to accelerate the pace of economic recovery", he said the extensive focus on the risk of virus resurgence suggests that the current rate cut may be just as much about bolstering Malaysia's defences against the onslaught of what may come as spurring the ongoing recovery. Another research institution believes that this aggressive rate cut reinforces that BNM is anticipating a worse-than-anticipated year, saying that BNM's gross domestic product (GDP) contraction is likely to be much worse than its earlier forecast of -2% to +0.5%. "This is because the outbreak of the Covid-19 is much more serious than initially thought as the US and some Middle East countries are facing a second wave, while emerging economies like India, Latin America, South Africa and Indonesia are still in the first wave and seeing more new cases every day," he said. It is of the view that the central bank "could have preserved its bullet" as economic activity is improving and at the same time allow the huge fiscal stimulus to take its course. "It (BNM) could still cut rates later if the recovery is not up to expectation," it added. Another economist told The Edge CEO Morning Brief that BNM's most recent decision on OPR seems to suggest that there are more uncertainties and downside risks ahead. "I think it (downside risks) also depends on how effective the fiscal and monetary stimulus measures are to buffer the economy," she said. Elsewhere an Investment Bank Bhd economist commented that BNM's decision to reduce the OPR this time around is more of a "pre-emptive move" or "precautionary measure" in view of the possible downside risks from the resurgence Covid-19 outbreak, which may lead to the reimposition of containment measures as well as concerns over weaknesses in labour market's condition. "It's more of a 'let's not take the risk and cut first'," he said.

Therefore, when the situation improves, BNM will then likely raise the interest rates again towards the second half of 2021, he said. BNM, in a statement yesterday, cautioned that risk aversion was still elevated, although financial conditions have improved. The central bank has guided that downside risks remain especially if a second wave causes another round of containment measures. Views are divided on further rate cut for 2020 as of the local economists contacted are of the view that BNM is unlikely to trim OPR for the rest of the year. It will only do so if the Covid-19 outbreak worsens. Socio-Economic Research Centre executive director Lee Heng Guie said BNM will continue to assess the evolving developments that warrant further review of monetary accommodation, noting that the OPR is likely to stay at the current level as it keeps the ammunition for buffers, should the threat to growth accelerate. He added the latest rate cut is to safeguard the mending economic activities, which bottomed out in the second quarter of this year. Some believe that BNM will keep its OPR at 1.75% until year end, pointed out that various international agencies are expecting a sharp recovery in Malaysia's GDP growth by a range of between 6.3% and 7.5% in 2021, after the sharp contraction of economic growth in 2020. "Some macro indicators are slowly showing improvement in economic activity following the reopening of the economy, especially on private consumption spending, supported by the smooth implementation of fiscal stimulus packages," said another analyst. Nonetheless, foreign research firms are not discounting BNM cutting another 25bps to end the year at an unprecedented low of 1.5% in the remaining monetary policy meetings this year on Sept 10 and Nov 3. UOB Global Economics and Markets Research economists are now pencilling in another 25bps cut as BNM leaves the door open alongside projected deflation this year. "However, we are cautious about the effectiveness of further rate cuts after four successive cuts," they wrote, in a note yesterday. "Interest rates are already at record lows, which makes it more challenging to manoeuvre if a second wave hits or other negative surprises materialise," they added. Likewise, some now see a good chance that BNM may have to bring the OPR down yet again to 1.5% as soon as the next meeting in September, given the increasingly real potential for the virus resurgence to deal the global economy another severe blow — and BNM's resolute dovishness to continue doing what it can to limit what Malaysia has to suffer through. (Source: *The Edgemarkets*)

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

Source: RAM, MARC

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