HongLeong Bank

Global Markets Research
Fixed Income

Fixed Income Daily Market Snapshot

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	0.23	2
5-yr UST	0.45	-2
10-yr UST	0.88	-2
30-yr UST	1.64	-2

	MGS		GII*	
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	2.31	1	2.36	2
5-yr	2.56	4	2.54	-1
7-yr	2.85	12	2.81	0
10-yr	2.96	5	2.90	6
15-yr	3.24	5	3.41	13
20-yr	3.48	4	3.59	2
30-yr	3.95	9	3.88	6

** Market indicative levels*

MYR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	2.24	6
3-yr	2.30	6
5-yr	2.48	10
7-yr	2.60	10
10-yr	2.78	7

Source : Bloomberg

Upcoming Government Bond Tender

Nil

US Treasuries

- US Treasuries generally brushed off the surprisingly better-than-expected May jobs numbers as markets were seen reluctant to unwind speculation that the Fed may utilize yield-curve control to keep the front-end yields anchored as much as possible. The curve reversed its recent steepening mode as overall benchmark yields ended mostly lower save for the slump in the short-end. Both the UST 2Y and the much-watched UST 10Y edged 2bps in different direction; closing at 0.23% and 0.88% respectively. The $44b 3Y auction saw solid demand at BTC ratio of 2.55x and awarded at 0.28% and benefitted from a rise in yields over the past month and supportive Fed policy; whilst being offset by the steepness of the curve. Expect attention to shift to the FOMC meeting scheduled tonight.

MGS/GIII

- Local govvies fell sharply on the revised estimated ~RM10b additional supply concerns following PM Muhyiddin's speech last Friday incorporating a short-term stimulus of RM35b as the country emerges from months long lockdown. Secondary market volume pulled back at RM2.86b as overall benchmark MGS/GII yields rose between 0-13bps with the 7Y MGS and 15Y GII facing the brunt of sell-off. Interest was mainly centred in the off-the-run 20's, 38's and also 10Y benchmark MGS/GII. The benchmark 5Y MGS 9/25 rose 4bps at 2.54% whilst the 10Y MGS 8/29 spiked 5bps at 2.96%. GII bonds dropped to form ~31% of overall trades. Meanwhile Asian FX including the MYR is expected to strengthen following risk-on appetite. Expect further pressure on local govvies as Interest Rate Swap spikes indicate that interest rates may not see further cuts going forward as more sectors of the economy (similar to many other countries worldwide) open-up and bring much-needed relief.

Corp Bonds/Sukuk

- Investor interest tapered slightly ahead of the long weekend amid lower secondary market volume of RM528m with trades mainly seen across the AAA part of the curve followed by the GG and AAA-space. Overall yields closed mostly mixed-to-higher instead. Govt-guaranteed LPPSA 23-24's edged 1-2bps higher compared to previous-done levels at 2.57% and 2.63% respectively whilst the longer-end MKD Kenchana 10/32 and DANA 9/34 vlosed unchanged at 3.31 and 3.39% each. AAA-rated RANTAU 20 and TELEKOM 9/27 however closed 2-3bps lower at 2.48% and 3.23% respectively whereas new debuntant PASB 6/25 notched 3.068% on RM80m in nomijal amounts. AA-rated GAMUDA 3/23 closed unchanged at 3.40%. The banking space saw AFFIN Islamic 28NC23 rally 19bps at 3.90% whilst MBSB 31NC26 saw strong bids resulting in a 28bps decline at 4.31%.

Daily Trades : Government Bond

Securities		Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS	07/20	1.972	82	1.987	04/06/2020	-2
MGS	10/20	1.980	412	1.950	04/06/2020	3
MGS	02/21	2.034	2	2.033	04/06/2020	0
MGS	07/21	2.090	10	2.038	04/06/2020	5
MGS	09/21	2.074	150	2.075	03/06/2020	0
MGS	11/21	2.122	4	2.143	04/06/2020	-2
MGS	03/22	2.240	12	2.185	04/06/2020	6
MGS	08/22	2.283	1	2.220	04/06/2020	6
MGS	03/23	2.312	5	2.297	04/06/2020	1
MGS	08/23	2.372	4	2.365	04/06/2020	1
MGS	06/24	2.529	119	2.463	04/06/2020	7
MGS	07/24	2.491	33	2.502	04/06/2020	-1
MGS	03/25	2.578	12	2.517	04/06/2020	6
MGS	09/25	2.555	22	2.517	04/06/2020	4
MGS	11/26	2.729	14	2.713	04/06/2020	2
MGS	05/27	2.849	143	2.726	04/06/2020	12
MGS	11/27	2.895	7	2.883	04/06/2020	1
MGS	08/29	2.958	360	2.906	04/06/2020	5
MGS	04/30	3.022	29	3.008	04/06/2020	1
MGS	04/33	3.352	22	3.300	04/06/2020	5
MGS	11/33	3.379	80	3.296	03/06/2020	8
MGS	07/34	3.241	3	3.189	03/06/2020	5
MGS	04/37	3.497	17	3.492	04/06/2020	0
MGS	06/38	3.581	400	3.500	04/06/2020	8
MGS	05/40	3.477	5	3.437	03/06/2020	4
MGS	09/43	3.826	11	3.695	01/06/2020	13
MGS	03/46	4.050	20	3.850	04/06/2020	20
GII	04/22	2.260	10	2.208	04/06/2020	5
GII	05/23	2.358	210	2.335	04/06/2020	2
GII	10/23	2.414	40	2.361	03/06/2020	5
GII	11/23	2.436	16	2.398	04/06/2020	4
GII	10/24	2.535	200	2.543	04/06/2020	-1
GII	08/25	2.619	2	2.516	04/06/2020	10
GII	09/26	2.790	50	2.764	04/06/2020	3
GII	07/29	3.051	111	2.987	04/06/2020	6
GII	10/30	2.902	21	2.847	04/06/2020	6
GII	11/34	3.414	200	3.285	04/06/2020	13
GII	09/39	3.591	20	3.568	04/06/2020	2
GII	11/49	3.882	1	3.819	02/06/2020	6
			2857			

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*
Prasarana Malaysia Berhad	05/23	GG	2.536	25	3.281	28/08/2019	-75	22
Lembaga Pembiayaan Perumahan Sektor Awam	09/23	GG	2.565	25	2.551	03/06/2020	1	25
Lembaga Pembiayaan Perumahan Sektor Awam	04/24	GG	2.631	15	2.611	21/05/2020	2	18
DanaInfra Nasional Berhad	11/25	GG	2.799	10	2.791	13/05/2020	1	26
Prasarana Malaysia Berhad	12/25	GG	2.788	10	2.792	04/06/2020	0	11
Lembaga Pembiayaan Perumahan Sektor Awam	04/26	GG	2.882	10	2.901	28/05/2020	-2	21
Prasarana Malaysia Berhad	12/27	GG	3.041	20	3.002	30/04/2020	4	25
Bakun Hydro Power Generation Sdn Berhad (fka S	10/28	GG	3.077	50	3.080	04/06/2020	0	22
Prasarana Malaysia Berhad	09/29	GG	3.142	10	3.139	04/06/2020	0	24
MKD Kencana Sdn Berhad	10/32	GG	3.308	60	3.310	04/06/2020	0	38
DanaInfra Nasional Berhad	09/34	GG	3.388	50	3.390	04/06/2020	0	12
Lembaga Pembiayaan Perumahan Sektor Awam	10/38	GG	3.600	10	3.510	05/05/2020	9	7
DanaInfra Nasional Berhad	11/47	GG	4.000	5	3.979	23/04/2020	2	47
Rantau Abang Capital Berhad	12/20	AAA	2.478	10	2.509	04/06/2020	-3	41
Cagamas Berhad	04/21	AAA	2.430	10	2.423	18/05/2020	1	37
Sarawak Energy Berhad	06/21	AAA	2.595	20	2.572	04/06/2020	2	53
Pengurusan Air SPV Berhad	06/25	AAA	3.068	80	-	-	-	53
Sarawak Energy Berhad	01/27	AAA	3.080	1	3.266	27/04/2020	-19	29
Pengurusan Air SPV Berhad	06/27	AAA	3.320	5	3.300	04/06/2020	2	53
Telekom Malaysia Berhad	09/27	AAA	3.228	10	3.250	01/06/2020	-2	44
Benih Restu Berhad	06/25	AA2	3.526	10	3.497	03/06/2020	3	99
Tanjung Bin Power Sdn Berhad	08/27	AA2	3.640	1	4.343	27/03/2020	-70	85
Gamuda Berhad	03/23	AA3	3.396	10	3.392	02/06/2020	0	108
Edra Energy Sdn Berhad	07/26	AA3	4.726	1	4.478	15/04/2020	25	205
UEM Sunrise Berhad	04/22	AA-	3.147	5	3.343	16/04/2020	-20	94
Jimah East Power Sdn Berhad	06/27	AA-	3.671	2	3.649	19/05/2020	2	88
MMC Corporation Berhad	11/27	AA-	4.386	10	5.133	18/05/2020	-75	160
Jati Cakerawala Sdn Berhad	01/23	A1	4.399	10	4.028	14/05/2020	37	208
Affin Islamic Bank Berhad	10/28	A1	3.898	30	4.087	02/04/2020	-19	104
CIMB Group Holdings Berhad	05/16	A1	4.731	1	4.241	27/05/2020	49	121
IJM Land Berhad	03/19	A2	4.898	1	4.898	04/06/2020	0	137
MBSB Bank Berhad (fka Asian Finance Bank Berh	12/31	A3	4.310	10	4.592	03/06/2020	-28	138
Eco World International Berhad	10/21	-	6.101	1	5.933	04/06/2020	17	404
Eco World International Berhad	05/23	-	5.464	1	5.467	03/06/2020	0	315
Mah Sing Group Berhad	04/17	-	5.453	1	5.553	04/06/2020	-10	193
				528				

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

Market/Corporate News: What's Brewing

Crude oil prices continue to rise as demand is expected to improve as more countries are opening their economies after months of lockdown due to coronavirus disease (Covid-19) pandemic. Yesterday, global crude oil prices jumped more than 2% after major crude producers extended their output cuts to the end of July. The international benchmark index climbed to as much as US$43.41 per barrel yesterday, before subsiding to US$42.51. Brent crude oil has nearly doubled since April, after it fell below US$20 per barrel thanks to the unprecedented production cut by the Organization of the Petroleum Exporting Countries (Opec), Russia and other allies, collectively known as Opec+. Icon Offshore Bhd managing director Datuk Seri Hadian Hashim said that the oil and gas sector (O&G) sector is slowly recovering and expected that oil price could be trading between US$35 and US$40 per barrel this year. "The demand for oil is expected to go back to pre-pandemic level by November as there is more clarity in the economy, " he told StarBiz. He reckoned that oil price recovery will accelerate next year following some period of adjustment from the pandemic and forecasted higher economic growth in 2021. Hadian pointed out that there will be consolidation among the local service providers should the low oil price environment prolonged for a period of time. "The pandemic has caused a lot of changes in asset value not only in Malaysia and around the world, " he said. It is worth noting that many oil majors around the world had already cut their capital expenditure (capex) for this year which in turn would see a slow order book replenishment among the service providers. Taking the cue from the global trend, national oil company Petroliam Nasional Bhd (Petronas) had recently announced to cut its capex and opex for this year to cope with the current low oil price environment. An economist from a local bank said oil price recoveries will be backed by more economies opening up. "The fears of Covid-19 were blown out of proportion. Now, the outbreak has been contain, for example New Zealand has declared it's free from Covid-19. "The US is also on the recovery path as the unemployment rate has improved. "Oil prices should pick up as global economy recovers, " he said. However, for Malaysia, he said the weakness in global oil prices could reduce the government's revenue for this year. Oil-related products contributed about 30% to government's revenue. As such, he reckoned that the government would need to diversify its revenue to mitigate the loss in revenue from oil. "The government is likely to introduce goods and services tax (gst) to diversify its revenue based, or raise new borrowings as last resort, " he said. "Amid restricted government coffers to finance the stimulus measures, we reckon the central bank can raise funds through the re-issuance of Malaysia Savings Bond, also known as Bon Simpanan Malaysia, " he said, when asked about the government deficit. Another research outfit said the policy revision by Opec was sentiment positive, which would strengthens and accelerates the collective effort to correct imbalances in the oil market and provides a strong support to oil price. "Simply put, the worst is over for the sector – supply cuts are in motion, demand is rising and the oil price is recovering, " it said in a report yesterday. (*Source:The Star)*

Expectations that the global economy has dodged the worst-case coronavirus pandemic scenarios have led to a dramatic sell-off in U.S. government bonds from their record highs, pushing the yield curve to its steepest level since March. Investors will get a chance next week to see whether the U.S. Federal Reserve agrees with their optimism. The U.S. central bank's two-day meeting, ending on Wednesday, will be the first since April when Fed Chair Jerome Powell said the U.S. economy could feel the weight of the economic

shutdown for more than a year. The meeting will follow a surprise gain in the Labor Department's closely watched jobs report on Friday that pushed benchmark 10-year Treasury yields to the highest since early March. "The sell-off in the bond market in the last few weeks seems to be justified," said Subadra Rajappa, head of U.S. rates strategy at Societe Generale. While the Fed could introduce additional bond-buying programs known as quantitative easing or yield-curve control measures to target short-term rates, fund managers say they expect yields will need to rise significantly to justify any intervention in the bulk of the curve. Instead, they are watching for hints that the central bank believes the worst part of the coronavirus crisis has passed. "They are really in this transition phase," said Eric Stein, co-director of global income and portfolio manager at Eaton Vance. "Markets are functioning, if not all the way back to pre-shock levels, with very strong debt issuance and market improvement, even though the real economy is incredibly weak." As a result, Stein is looking for signs that the Fed believes the economic rebound can support the rise in yields. "The Fed will be OK with a slow creep higher, particularly with a backdrop of a recovery, but if it moves too much and destabilizes the recovery, there's a reason for concern," he said. Ed Al-Hussainy, senior interest rate analyst at Columbia Threadneedle, expects the Fed to focus on its newly announced Main Street Lending Program to support small- and medium-sized businesses facing financial strain from the pandemic, rather than introducing significant new stimulus measures. "The Fed is likely to communicate that there is more scope for fiscal measures but that is a very uncomfortable spot to be in," he said. "We won't have a clear sense of direction of the economy until well into the fourth quarter because all the sequential data now is massively positive." The manufacturing ISM index rose to 43.1 in May from 41.5 in April, while weekly jobless claims fell to 1.877 million from 2.126 million the week before. "Recent economic reports in the U.S. have been uniformly weak, though not any worse than expected," said Kevin Cummins, senior U.S. economist at NatWest Markets.Eddy Vataru, lead portfolio manager at Osterweis Capital Management, said the larger risk for the Fed is that rates remain too low, making it unlikely that there will be a significant push for yield curve-control measures. "We can now discredit the worst outcomes of the virus. The sentiment around the risks around the virus have really changed," he said, pointing to declining infection and fatality rates in coronavirus hot spots such as the New York City region. As a result, he is moving into corporate debt and mortgage-backed securities and shying away from Treasuries, which he said have "no investment value" at their current yields. "At the end of the day, we have a ton of stimulus, both fiscal and monetary, and the markets have reacted to it," he said.
. (*Source: The EdgeMarkets)*

Rating Action

Issuer	**PDS Description**	**Rating/Outlook**	**Action**
Nil	Nilk	Nil	Nil

Source: RAM, MARC

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