HongLeong Bank

Global Markets Research
Fixed Income

Fixed Income Daily Market Snapshot

US Treasuries

- US Treasuries held steady yesterday following the successful results of its first 20Y bond auction since 1986. The long-end of the curve seemed well-supported post-auction. Overall benchmark yields ended mostly lower between -1 and +1bps with the UST 2Y closing within 1bps at 0.17% whilst the much-watched UST 10Y edged 1bps lower at 0.68%. The Treasury's $20b auction of newly-issued 20Y bonds since was awarded at 1.22% on a solid BTC ratio of 2.53x. Meanwhile Treasury Secretary, Mnuchin stated that it might issue more longer-tenured bonds (i.e. 10Y and beyond) to expand the government's financing requirements. Expect attention to shift to the upcoming release of the Labor Department's intial jobless claims report and Markit's US PMI data tonight.

MGS/GIII

- Local govvies closed generally stronger across the curve following weak April CPI numbers of -2.9% YOY amid spike in secondary market volume of RM6.92b. Both the MGS and GII curve shifted lower whilst overall benchmark MGS/GII yields declined between 0-10bps. Interest was mainly centred in the off-the-run 20-22's, 26-9's and also 10Y benchmark MGS. The benchmark 5Y MGS 6/24 rallied 5bps at 2.49% whilst the 10Y MGS 8/29 closed 3bps lower at 2.84%. GII bonds rose to form ~42% of overall trades. Expect investors to focus on the auction re-opening of existing 10Y benchmark MGS 8/29 today.

Corp Bonds/Sukuk

- Corporate bonds/Sukuk space saw strong secondary market activity as overall volume surged to RM1.14b. Interest was seen mainly across the GG-AA part of the curve as overall yields again ended mostly mixed-to-lower. PTPTN 23-24's edged 1bps lower compared to previous-done levels between 2.51-60% save for the 12/24 tranche which closed sharply lower on yields at 2.68%. DANA 229 and 3/32 however say yields rise between 1-10bps at 3.13-15% levels. AAA-rated PLUS bonds rallied with 24-28's closing between 12-17bps except for the 2027 tranche which ended 71bps lower at 3.18%. The AA-rated MAHB saw RM140m in nominal amounts traded ; edging 1bps lower at 3.98%. The banking space saw both RHB Islamic 27NC22 and MAYBANK 29NC24 close between 36-38bps sharply lower at 3.38% and 3.30% each.

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	0.17	0
5-yr UST	0.34	1
10-yr UST	0.68	-1
30-yr UST	1.40	-1

	MGS		GII*	
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	2.28	-2	2.34	0
5-yr	2.49	-5	2.52	0
7-yr	2.70	-2	2.76	-1
10-yr	2.84	-3	2.86	-10
15-yr	3.21	0	3.27	0
20-yr	3.44	-2	3.49	0
30-yr	3.82	-5	3.78	-7

** Market indicative levels*

MYR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	2.14	-4
3-yr	2.13	-5
5-yr	2.25	-4
7-yr	2.39	-5
10-yr	2.64	-1

Source : Bloomberg

Upcoming Government Bond Tender

RM4.5b re-opening of 10Y MGS 8/29 on Thurs, 21st May 2020

HongLeong Bank

Daily Trades : Government Bond

Securities		Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS	07/20	2.063	1035	2.067	14/5/2020	0
MGS	10/20	2.039	100	2.041	19/5/2020	0
MGS	02/21	2.051	360	2.060	19/5/2020	-1
MGS	07/21	2.068	86	2.073	18/5/2020	0
MGS	11/21	2.103	4	2.103	19/5/2020	0
MGS	03/22	2.174	163	2.192	19/5/2020	-2
MGS	08/22	2.286	87	2.267	15/5/2020	2
MGS	09/22	2.262	138	2.273	18/5/2020	-1
MGS	03/23	2.277	125	2.293	19/5/2020	-2
MGS	04/23	2.354	23	2.351	19/5/2020	0
MGS	07/24	2.476	82	2.489	19/5/2020	-1
MGS	09/24	2.495	40	2.488	19/5/2020	1
MGS	03/25	2.527	65	2.549	19/5/2020	-2
MGS	09/25	2.490	118	2.538	19/5/2020	-5
MGS	07/26	2.626	111	2.664	19/5/2020	-4
MGS	11/26	2.684	100	2.707	19/5/2020	-2
MGS	05/27	2.699	287	2.723	19/5/2020	-2
MGS	11/27	2.777	104	2.811	19/5/2020	-3
MGS	06/28	2.849	1	2.889	19/5/2020	-4
MGS	09/28	2.948	15	2.980	18/5/2020	-3
MGS	08/29	2.840	679	2.874	19/5/2020	-3
MGS	04/30	3.005	10	3.030	18/5/2020	-2
MGS	04/33	3.291	80	3.298	18/5/2020	-1
MGS	11/33	3.308	20	3.317	19/5/2020	-1
MGS	07/34	3.207	22	3.202	19/5/2020	0
MGS	06/38	3.549	15	3.530	18/5/2020	2
MGS	05/40	3.437	16	3.454	19/5/2020	-2
MGS	07/48	3.824	165	3.876	19/5/2020	-5
GII	03/21	2.055	70	2.083	19/5/2020	-3
GII	04/21	2.060	50	2.081	19/5/2020	-2
GII	04/22	2.238	520	2.227	19/5/2020	1
GII	07/23	2.354	81	2.338	19/5/2020	2
GII	10/23	2.387	60	2.420	15/5/2020	-3
GII	11/23	2.394	292	2.372	19/5/2020	2
GII	05/24	2.514	90	2.515	19/5/2020	0
GII	08/24	2.514	143	2.543	4/5/2020	-3
GII	10/24	2.524	230	2.525	19/5/2020	0
GII	08/25	2.610	260	2.646	19/5/2020	-4
GII	10/25	2.650	20	2.660	19/5/2020	-1
GII	03/26	2.668	140	2.695	19/5/2020	-3
GII	07/27	2.800	50	2.841	18/5/2020	-4
GII	09/27	2.764	110	2.779	19/5/2020	-2
GII	10/28	2.910	40	2.968	18/5/2020	-6
GII	07/29	2.954	340	2.953	19/5/2020	0
GII	09/30	2.985	70	3.039	18/5/2020	-5
GII	10/30	2.855	171	2.959	19/5/2020	-10
GII	06/33	3.301	33	3.302	18/5/2020	0
GII	11/34	3.275	100	3.278	19/5/2020	0
GII	11/49	3.779	4	3.851	19/5/2020	-7
			6923			

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*
Pengurusan Air SPV Berhad	11/20	GG	2.169	15	3.902	07/09/2018	-173	9
Pengurusan Air SPV Berhad	02/21	GG	2.190	10	2.188	19/05/2020	0	12
Pengurusan Air SPV Berhad	02/21	GG	2.190	25	2.198	15/05/2020	-1	12
Prasarana Malaysia Berhad	08/21	GG	2.175	30	2.659	17/04/2020	-48	10
Prasarana Malaysia Berhad	09/22	GG	2.467	50	2.750	05/03/2020	-28	26
Prasarana Malaysia Berhad	02/23	GG	2.493	50	2.542	19/05/2020	-5	20
MKD Kencana Sdn Berhad	04/23	GG	2.497	30	2.495	19/05/2020	0	21
Perbadanan Tabung Pendidikan Tinggi Nasional	08/23	GG	2.514	35	2.520	18/05/2020	-1	22
Perbadanan Tabung Pendidikan Tinggi Nasional	03/24	GG	2.594	15	2.599	18/05/2020	-1	16
Perbadanan Tabung Pendidikan Tinggi Nasional	03/24	GG	2.595	25	2.601	18/05/2020	-1	16
Perbadanan Tabung Pendidikan Tinggi Nasional	12/24	GG	2.681	15	3.729	20/03/2020	-105	17
MKD Kencana Sdn Berhad	02/25	GG	2.696	75	2.700	18/05/2020	0	19
DanaInfra Nasional Berhad	02/28	GG	3.070	25	3.008	05/05/2020	6	26
Prasarana Malaysia Berhad	03/28	GG	3.000	15	2.980	13/05/2020	2	19
DanaInfra Nasional Berhad	02/29	GG	3.129	30	3.119	14/05/2020	1	28
DanaInfra Nasional Berhad	04/29	GG	3.151	10	3.100	12/03/2020	5	30
DanaInfra Nasional Berhad	11/29	GG	3.170	25	3.248	16/03/2020	-8	29
DanaInfra Nasional Berhad	11/29	GG	3.181	10	2.934	04/03/2020	25	30
DanaInfra Nasional Berhad	03/32	GG	3.240	30	3.140	12/03/2020	10	36
DanaInfra Nasional Berhad	11/32	GG	3.270	15	3.699	06/01/2020	-43	7
Cagamas Berhad	11/20	AAA	2.355	20	2.806	13/02/2020	-45	28
Putrajaya Holdings Sdn Berhad	07/22	AAA	2.790	50	3.529	11/07/2019	-74	59
Pengurusan Air SPV Berhad	08/22	AAA	2.788	30	4.327	04/05/2017	-154	59
Putrajaya Holdings Sdn Berhad	10/22	AAA	2.791	45	3.264	07/04/2020	-47	59
Projek Lebuhraya Usahasama Berhad	01/24	AAA	3.008	50	3.179	29/04/2020	-17	58
DiGi Telecommunications Sdn Berhad	04/24	AAA	2.885	25	3.426	07/04/2020	-54	45
Projek Lebuhraya Usahasama Berhad	01/25	AAA	3.057	50	3.209	29/04/2020	-15	55
Projek Lebuhraya Usahasama Berhad	01/27	AAA	3.179	50	3.889	31/03/2020	-71	47
Projek Lebuhraya Usahasama Berhad	01/28	AAA	3.250	50	3.369	29/04/2020	-12	44
Danga Capital Berhad	09/33	AAA	3.478	10	3.959	15/04/2020	-48	28
CIMB Group Holdings Berhad	04/25	AA1	3.169	10	3.278	29/04/2020	-11	66
Malayan Banking Berhad	01/29	AA1	3.296	10	3.679	12/05/2020	-38	44
Malaysia Airport Holdings Berhad	12/14	AA2	3.980	140	3.992	28/04/2020	-1	54
Perbadanan Kemajuan Negeri Selangor	08/23	AA3	3.361	2	4.079	25/03/2020	-72	107
RHB Islamic Bank Berhad	04/27	AA3	3.375	40	3.735	27/03/2020	-36	67
IJM Corporation Berhad	08/28	AA3	3.868	10	4.439	23/03/2020	-57	106
MBSB Bank Berhad (fka Asian Finance Bank Berh	12/31	A3	4.602	3	4.602	19/05/2020	0	172
CIMB Group Holdings Berhad	05/16	A1	3.402	1	4.424	18/05/2020	-102	-4
DRB-Hicom Berhad	12/14	A-	5.110	2	5.305	19/05/2020	-19	167
YNH Property Berhad	08/19	-	6.924	1	7.077	14/05/2020	-15	348
Eco World International Berhad	05/23	-	6.278	1	6.964	19/05/2020	-69	399
				1135				

spread against nearest indicative tenured MGS (Source : BPAM)

Market/Corporate News: What's Brewing

Global demand for safety gear has helped Malaysia's state-owned air cargo carrier MAB Kargo record "impressive" profits since February by exporting products from the world's biggest producer of medical gloves, its CEO said. MAB Kargo had raised freight rates by as much as 50% in some cases and added capacity on high-demand routes as the coronavirus pandemic also sparked high demand for face masks and medical gowns, Chief Executive Ibrahim Mohamed Salleh told Reuters. "I can only say profitability has increased noticeably. Whilst I cannot share the numbers, I would say it is impressive," Ibrahim said in a phone interview. Malaysia's medical glove exports are expected to jump about 32% to 225 billion pieces this year, the government said, while the gloves association said supplies were being urgently air-lifted to Europe, Australia, Canada and America as customers did not want to wait for the usual sea route. MAB Kargo's jump in performance comes as sister company Malaysia Airlines has been forced to ground most of its planes as the coronavirus pandemic hammered global travel. The cargo arm typically contributes 10%-15% of group revenue to holding company MalaysiaAviation Group, but has contributed up to 25% in the past few months as demand has increased by as much as 50%, Ibrahim said. Freight rates have risen by up to 50% since mid-March, and the carrier had converted a few passenger aircraft to move cargoes as well operating its three freighter aircraft in the absence of belly cargo space. "Rates have risen quite substantially, to the point that it is profitable to operate an A330 passenger aircraft filled with about 20 tonnes of cargo back and forth," he said, referring to the wide-body airliner made by Airbus. The company also sent another wide-body Airbus A380 passenger plane to London with e-commerce goods from Guangzhou last month. (*Source:The Star)*

Malaysian banks are quite robust with a clear position of strength in facing the bump of the COVID-19 crisis and are seen better placed compared with their regional peers, said S&P Global Ratings. Associate, Financial Institutions Ratings, Nancy Duan said Malaysian banks are in a position of strength, based on gross non-performing loan (NPL), as well as Common Equity Tier 1 (CET1) ratio which compares a bank's capital against its assets. As at December 2019, Malaysia's banks CET-1 Ratio stood at a solid 14 percent while gross NPL at 1.5 percent, the lowest in the region, she said. "But there are some weaknesses in the profile as well coming from the earnings with consistent net interest margin (NIM) compression in Malaysian Banks at 5 to 10 basis points (bps) every year in the past decade which would impair the earnings retention capability of the banks in facing the COVID-19 headwind. "Interest margin is already sliding negative compared to regional peers in the past years and expected to further downside this year, given overnight policy rate slashes by Bank Negara Malaysia this year, which is expected to further squeeze the NIM," she said in a webinar entitled "COVID-19: How are Malaysian Banks Placed in A Turbulent 2020?" She also highlighted that Malaysia's key economic indicators are also showing the downside risk amid the pandemic crisis with unemployment rate expected to deteriorate from 3.3 percent in 2019 to 4.3 percent this year. "Unemployment rate has a very high correlation with asset quality trend for Malaysian banks. "Malaysian banks have high proportion of household exposure at 58.2 percent of loan book, so extensive layoff would have high correlation on a bank quality book," Duan said. However, in base case scenario S&P Ratings does not expect any sharp deterioration of asset quality in Malaysian banks but rather a gradual weakening of the asset quality ratio over this year and next year to around 3 percent. Although credit cost is expected to increase to almost 60 bps, she said Malaysian banks are still better placed compared with others in the region. The key assumptions underpinned the baseline views include 50 percent provision coverage required for any additional COVID-19 related non-performing assets (NPAs), employment conditions remain stable with no large layoffs and some spillover of borrower defaults (caused by COVID-19 disruptions) over 2020 and 2021, resulting in an increase in 2021 credit cost. Among banks under its coverage, S&P Ratings had given A rating with stable outlook for Public Bank and A- with stable outlook for Maybank and CIMB which were on par or higher than sovereign rating of Malaysia which is at A-, and believes that the Government is highly supportive of the banking industry. "The banks enjoyed 2 to 3 notches of stand-alone credit profile (SACP) protection. Therefore, at this juncture the rating downgrade is very unlikely, given the current scenario," she noted. Commenting on merger and acquisition, Director, Financial Institutions, Ivan Tan said he does not see the activity in the sector this year. In facing COVID-19, he said the banking sector is in defensive mode this year, focusing on strategy to minimise losses whereby much of the attention is directed at maintaining their long-term asset quality as the economy slows down. "Even if looking at business-as-usual condition, there had been attempts to merge in the likes of RHB and CIMB and most had fallen through due to lack of strong business synergies as most of them had the same customer profile, and the probable synergy would be more on cost cutting and lay offs. "Amid the current crisis with COVID-19 and the political situation, it is not palatable to execute the exercise, particularly if it involves job cuts," he said. On the moratorium given by banks to individuals and small and medium enterprises, he said it was one of the most generous in the region and he believes it is sufficient at this point, given the projection of a U-shaped economic recovery to over seven percent in 2021. He said with the moratorium, the NPL will stay flat and delay the pain felt by the banks till 2021. "Removing the distortion by the moratorium, the actual NPL ratio is set to rise to 2.7 percent by the end of the year from 1.5 percent in 2019 and credit cost to increase to 57 bps from 17 bps," he said. However, he added that the Malaysian banks' liquidity remains strong despite not being able to collect loan interest and principal until October this year as the loan growth is projected to be around lower single digits; hence, the need for funding is quite low. (*Source: The EdgeMarkets)*

Rating Action

Issuer	PDS Description	Rating/Outlook	Action
Nil	Nil	Nil	Nil

Source: RAM, MARC

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