

Global Markets Research

Fixed Income

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	1.53	0
5-yr UST	1.58	0
10-yr UST	1.77	-1
30-yr UST	2.22	-1

MGS		GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	2.86	-34	3.08	-2
5-yr	3.03	-12	3.19	-1
7-yr	3.23	-2	3.15	-11
10-yr	3.17	-12	3.18	-18
15-yr	3.36	-13	3.51	-1
20-yr	3.58	0	3.56	-9
30-yr	4.02	0	4.01	0

* Market indicative levels

MYR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.10	-17
3-yr	3.14	-13
5-yr	3.18	-12
7-yr	3.24	-10
10-yr	3.30	-11

Source : Bloomberg

Upcoming Government Bond Tender

RM3.0b of 3Y re-opening of MGS 3/23 on Thursday, 23rd January 2020

Fixed Income Daily Market Snapshot

US Treasuries

- US Treasuries ended marginally stronger on general lack of direction as traders monitored China's efforts to curb the contagion from the Wuhan coronavirus-related flu. Overall benchmark yields closed between a mere 0-1bps with the UST 2Y at 1.53% and the much-watched UST 10Y edging 1bps lower at 1.77%. The solid existing home sales for December did not dent bond prices. Similarly dollar IG credit issuances of ~\$9.7b led by Adobe's 4-tranche offering, had little effect on UST's too. The Treasury's earlier statement on the likelihood of new 20Y issuances has seen investors scrambling to add corporate bonds tied to this maturity.

MGS/GII

- Local govies saw strong momentum and interest following BNM's Overnight Policy Rate cut that caught many investors off-guard. Investors were seen scrambling to buy as overall secondary market volume ballooned to RM9.08b. Interest was seen up to 20Y tenures; with special mention on the 20's and 5Y, 7Y and 10Y bonds. Overall benchmark yields ended sharply lower between 0-34bps. Both the benchmark 5Y MGS and 10Y MGS 8/29 declined 12bps at 3.03% and 3.17% each. GII bonds rose to form ~ 50% of overall trades. Meanwhile expect investors to continue to search for yield-carry in lieu of a deluge of negative-yielding global bonds whilst inter-bank players shift focus to the upcoming 3Y MGS auction today.

Corp Bonds/Sukuk

- The Corporate bonds/Sukuk space saw spike in record volumes of RM1.72b not seen in almost a year following the OPR cut as investors chased for yields. Interest was seen across the GG-AA part of the curve. Overall yields declined on 56 different bonds with govt-guaranteed bonds making up two-thirds of overall interest. KHAZA 23-24's saw RM405m traded with yields closing between 16-39bps lower compared to previous-done levels at 3.14-20% whilst the long-end DANA 48's moved 6-9bps lower at 4.01% levels. AAA-rated MACB 12/24 and Putrajaya 5/25 edged between 0-2bps lower at 3.56% and 3.49% respectively. The seldom-traded ENCORP 22-25's notched trades closing sharply lower on yields between 3.43-62% levels whilst energy-related bonds saw plentiful trades. TADAU 7/30 and 7/32 similarly saw strong bids resulting in closing levels of 4.57% and 4.72%. In the banking space, MAYBANK 29NC24 closed 18bps lower at 3.63%.

Daily Trades : Government Bond

Securities		Closing	Vol	Previous	Previous	Chg
		YTM	(RM mil)	YTM	Trade Date (dd/mm/yyyy)	(bp)
MGS	03/20	2.731	2	2.919	21/01/2020	-19
MGS	07/20	2.770	276	2.896	21/01/2020	-13
MGS	10/20	2.881	356	2.898	21/01/2020	-2
MGS	02/21	2.813	50	2.979	20/01/2020	-17
MGS	09/21	3.012	102	3.032	21/01/2020	-2
MGS	11/21	2.877	109	3.033	21/01/2020	-16
MGS	03/22	2.856	205	3.200	21/01/2020	-34
MGS	09/22	3.052	135	3.090	21/01/2020	-4
MGS	03/23	2.900	200	3.047	21/01/2020	-15
MGS	04/23	2.989	99	3.102	21/01/2020	-11
MGS	08/23	2.934	19	3.130	20/01/2020	-20
MGS	06/24	3.028	576	3.146	21/01/2020	-12
MGS	07/24	3.153	33	3.163	21/01/2020	-1
MGS	09/24	3.032	66	3.154	21/01/2020	-12
MGS	09/25	3.184	17	3.184	21/01/2020	0
MGS	07/26	3.234	145	3.251	21/01/2020	-2
MGS	11/26	3.260	10	3.263	21/01/2020	0
MGS	05/27	3.076	751	3.264	21/01/2020	-19
MGS	11/27	3.157	54	3.282	21/01/2020	-13
MGS	06/28	3.162	162	3.281	21/01/2020	-12
MGS	08/29	3.167	412	3.291	21/01/2020	-12
MGS	04/30	3.374	130	3.400	21/01/2020	-3
MGS	06/31	3.413	100	3.438	21/01/2020	-3
MGS	11/33	3.504	113	3.509	21/01/2020	0
MGS	07/34	3.358	322	3.491	21/01/2020	-13
MGS	05/35	3.580	2	3.568	16/01/2020	1
MGS	06/38	3.632	66	3.628	21/01/2020	0
MGS	03/46	4.005	3	4.003	21/01/2020	0
GII	04/20	2.812	550	2.835	21/01/2020	-2
GII	04/20	2.794	130	2.961	09/01/2020	-17
GII	05/20	2.800	589	2.960	20/01/2020	-16
GII	06/20	2.801	100	3.047	09/01/2020	-25
GII	08/20	2.779	150	2.941	17/01/2020	-16
GII	03/21	3.008	100	3.036	21/01/2020	-3
GII	03/22	3.083	10	3.104	17/01/2020	-2
GII	04/22	2.939	240	3.080	21/01/2020	-14
GII	07/22	3.086	30	3.091	16/01/2020	-1
GII	07/23	2.984	340	3.135	21/01/2020	-15
GII	10/23	3.146	20	3.168	10/01/2020	-2
GII	11/23	2.986	50	3.152	21/01/2020	-17
GII	08/24	3.100	10	3.211	21/01/2020	-11
GII	10/24	3.189	70	3.195	21/01/2020	-1
GII	08/25	3.112	350	3.240	21/01/2020	-13
GII	03/26	3.152	170	3.258	21/01/2020	-11
GII	07/27	3.303	80	3.326	21/01/2020	-2
GII	08/28	3.365	80	3.363	16/01/2020	0
GII	07/29	3.181	740	3.358	21/01/2020	-18
GII	06/33	3.430	10	3.521	21/01/2020	-9
GII	08/33	3.433	20	3.524	17/01/2020	-9
GII	11/34	3.506	380	3.514	21/01/2020	-1
GII	08/37	3.676	270	3.676	21/01/2020	0
GII	09/39	3.559	80	3.649	21/01/2020	-9
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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*	
Khazanah Nasional Berhad	08/23	GG	3.140	200	3.301	27/12/2019	-16	14
Khazanah Nasional Berhad	03/24	GG	3.181	35	3.501	07/08/2019	-32	18
Small Medium Enterprise Development Bank M	03/24	GG	3.288	10	3.680	01/07/2019	-39	28
Khazanah Nasional Berhad	08/24	GG	3.201	170	3.325	20/08/2019	-12	15
Prasarana Malaysia Berhad	09/24	GG	3.290	10	3.303	15/01/2020	-1	24
Pengurusan Air SPV Berhad	02/26	GG	3.227	100	3.420	07/01/2020	-19	13
Danainfra Nasional Berhad	04/26	GG	3.240	185	3.399	06/01/2020	-16	14
Danainfra Nasional Berhad	02/28	GG	3.330	10	3.578	22/10/2019	-25	16
Prasarana Malaysia Berhad	03/28	GG	3.372	20	3.630	11/12/2019	-26	20
Pengurusan Air SPV Berhad	02/29	GG	3.370	20	3.458	16/01/2020	-9	19
Danainfra Nasional Berhad	10/33	GG	3.531	10	3.802	02/01/2020	-27	17
Perbadanan Tabung Pendidikan Tinggi Nasional	02/34	GG	3.571	20	3.646	16/01/2020	-7	21
Danainfra Nasional Berhad	04/34	GG	3.540	10	4.119	13/06/2019	-58	18
Danainfra Nasional Berhad	07/34	GG	3.571	20	3.679	08/01/2020	-11	21
Perbadanan Tabung Pendidikan Tinggi Nasional	03/39	GG	3.800	140	3.850	07/10/2019	-5	31
Prasarana Malaysia Berhad	08/39	GG	3.785	10	3.789	16/01/2020	0	30
Danainfra Nasional Berhad	04/40	GG	3.781	10	3.919	07/01/2020	-14	29
Danainfra Nasional Berhad	11/40	GG	3.800	30	4.473	11/04/2019	-67	31
Danainfra Nasional Berhad	04/43	GG	3.900	50	3.959	08/01/2020	-6	41
Danainfra Nasional Berhad	11/44	GG	3.970	20	3.968	17/01/2020	0	48
Danainfra Nasional Berhad	04/48	GG	4.009	70	4.099	08/01/2020	-9	52
Danainfra Nasional Berhad	11/48	GG	4.005	60	4.069	09/01/2020	-6	52
Bakun Hydro Power Generation Sdn Berhad (fk.	08/20	AAA	3.244	10	3.266	21/01/2020	-2	40
Telekom Malaysia Berhad	04/23	AAA	3.403	60	3.825	21/06/2019	-42	47
Manjung Island Energy Berhad	11/23	AAA	3.372	5	3.478	03/01/2020	-11	37
Malaysia Airports Capital Berhad	12/24	AAA	3.558	20	3.557	17/01/2020	0	51
Putrajaya Holdings Sdn Berhad	05/25	AAA	3.491	20	3.510	08/01/2020	-2	44
Pengurusan Air SPV Berhad	06/26	AAA	3.499	15	3.520	17/01/2020	-2	40
Manjung Island Energy Berhad	11/27	AAA	3.492	5	3.769	21/11/2019	-28	32
Telekom Malaysia Berhad	05/28	AAA	3.530	10	3.598	16/01/2020	-7	36
Sarawak Energy Berhad	07/29	AAA	3.590	5	3.679	07/01/2020	-9	41
DiGi Telecommunications Sdn Berhad	09/29	AAA	3.591	15	3.778	19/12/2019	-19	41
Sarawak Energy Berhad	12/32	AAA	3.718	10	3.839	11/10/2019	-12	35
Danga Capital Berhad	09/33	AAA	3.749	5	3.784	16/01/2020	-3	38
Danum Capital Berhad	02/34	AAA	3.769	10	3.774	16/01/2020	0	40
Sarawak Energy Berhad	08/35	AAA	3.809	30	4.040	19/12/2019	-23	44
Tenaga Nasional Berhad	08/38	AAA	3.959	30	3.988	17/01/2020	-3	47
Encorp Systembilt Sdn Berhad	05/22	AA1	3.426	5	4.240	05/03/2019	-81	51
Encorp Systembilt Sdn Berhad	05/24	AA1	3.573	5	4.535	25/10/2017	-96	57
Encorp Systembilt Sdn Berhad	11/25	AA1	3.621	5	4.658	13/07/2018	-104	52
YTL Power International Berhad	05/27	AA1	3.938	40	3.970	17/01/2020	-3	81
Malayan Banking Berhad	01/29	AA1	3.626	30	3.806	08/10/2019	-18	45
Benih Restu Berhad	06/25	AA2	3.739	20	3.873	26/11/2019	-13	69
Tanjung Bin O&M Berhad	07/21	AA-	3.531	30	4.156	02/05/2019	-63	69
Bumitama Agri Ltd	07/24	AA3	3.679	10	3.775	07/01/2020	-10	63
Tanjung Bin Energy Issuer Berhad	09/27	AA3	3.748	20	3.957	23/08/2019	-21	58
Tadau Energy Sdn Berhad	07/30	AA3	4.569	10	5.669	13/09/2017	-110	139
Tadau Energy Sdn Berhad	07/32	AA3	4.719	10	5.869	13/09/2017	-115	135
Edra Energy Sdn Berhad	07/33	AA3	4.360	10	4.520	23/12/2019	-16	100
Konsortium KAJV Sdn Bhd	05/23	AA-	4.937	6	-	-	-	201
UEM Sunrise Berhad	05/23	AA-	3.540	20	3.568	08/01/2020	-3	61
MMC Corporation Berhad	03/28	AA-	4.744	10	4.911	07/01/2020	-17	157
MNRB Holdings Berhad	03/29	A1	4.606	1	4.607	20/01/2020	0	143
Mah Sing Group Berhad	03/15	-	6.176	1	6.083	15/01/2020	9	269
YNH Property Berhad	08/19	-	6.462	18	6.463	21/01/2020	0	297
WCT Holdings Berhad	09/19	A	5.435	12	5.440	21/01/2020	-1	195
				<u>1722</u>				

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

Market/Corporate News: What's Brewing

The surprise move by Bank Negara to reduce the overnight policy rate (OPR) to 2.75% – the lowest level in nearly nine years – has rattled banking stocks as margin compression fears kick in. Major banking counters such as PUBLIC BANK BHD (-2.36%), HONG LEONG BANK BHD (-3.56%), CIMB GROUP HOLDINGS BHD (-1.95%) and MALAYAN BANKING BHD (-0.58%) yesterday saw sell-downs, which as a result dragged down the FBM KLCI by 9.35 points or 0.59% to 1,577.98 points. The Financial Services Index was the worst performing index among other indices as it dropped by 1.37%, particularly after 3pm when the decision by Bank Negara's Monetary Policy Committee (MPC) on the OPR was announced. The investor jitters post-rate cut is not surprising. While a cut in OPR lowers loan repayment costs for borrowers such as households and businesses, lenders or financial institutions generally take a hit on their profitability as they make less interest income on loans. For context, banks make a profit through the difference between the interest income generated by banks and the interest paid out to depositors. This is referred to as net interest margin (NIM). Analysts believe that the latest round of OPR cut could likely have a muted impact on the Malaysian banking sector. Imran told StarBiz that banks were largely prepared for rate cuts as they expected two OPR cuts last year. However, the central bank only slashed the benchmark interest rate once by 25 basis points (bps) to 3% in May 2019, down from 3.25%. The competition for fixed deposits towards the end of 2019 was not as intense as compared to before, likely due to expectations of further OPR cuts. "Fixed deposits mean higher costs for the banks. The fact that they have not loaded a lot of fixed deposits last year indicates that they are looking at further rate cuts and to lower costs," he said. Imran said banks would see a NIM compression in the first quarter of 2020, although the situation would recover in the following quarter as banks adjusted the rates for loans and deposits. "Banks with regional exposure such as Maybank and to a certain extent, CIMB, as well as those with lower variable rate loans as a portion of their loan books will be least affected by the OPR cut. "However, Alliance Bank Malaysia Bhd would likely be mostly affected as about 90% of its loans are at variable rates," an analyst said. The move by the MPC yesterday to lower the OPR by 25 bps was against market consensus, which predicted the rate to remain at 3%. An earlier poll by Bloomberg showed that 24 out of 26 economists expected the OPR to remain unchanged. The central bank remains cautious on the economic outlook, as evident in its MPC statement yesterday, and said the OPR adjustment "is a pre-emptive measure to secure the improving growth trajectory amid price stability". "At this current level of the OPR, the MPC considers the stance of monetary policy to be appropriate in sustaining economic growth with price stability. "For 2019, growth will be within the projected range. For 2020, growth is expected to gradually improve, with continued support from household spending and better export performance," it said. "Overall investment activity is expected to record a modest recovery, underpinned by ongoing and new projects, both in the public and private sectors. However, downside risks to growth remain. "These include uncertainty from various trade negotiations, geopolitical risks, weaker-than-expected growth of major trade partners, heightened volatility in the financial markets, and domestic factors that include weakness in commodity-related sectors and delays in the implementation of projects," it added. The central bank expects headline inflation this year to remain modest but average higher than last year's 0.7%. This is subject to global oil and commodity price developments and the timing of the lifting of the domestic retail fuel price ceilings. Socio-Economic Research Centre executive director Lee Heng Guie said the think-tank had expected a rate cut in the MPC's March meeting, but not as soon as the Jan 21-22 meeting. "I see the drop in OPR as a move by Bank Negara to address the weakness in the gross domestic product figures for the fourth quarter of 2020, which has been signalled in the export and industrial production index data. "The lower OPR will provide monetary policy support to the economy but this must also be complemented by the government's more efficient fiscal spending to stimulate the economy. "I don't see the need for more OPR cuts this year," he said. Other analysts said there is room for another 50 bps cuts in 2020. This, if executed, will lower OPR to 2.25%. "Room for more rate cuts cannot be ruled out. Much will depend on the performance of business activities, non-performing loan direction, external environment as well as the ringgit outlook," he said. When asked whether the OPR cut will increase loan growth in Malaysia, they said they expected loan growth to be around 4% to 5% on the basis that the GDP grew around 4.6%. "It will depend on whether corporate loans will

pick up, as household loans are likely to remain soft. The approval for household loans still depends on credit record quality," he added. Bank Negara reduced the benchmark OPR on May 7, 2019 by 25 bps to 3%, the first downward revision since July 2016. The MPC had then avoided a rate cut at its subsequent meetings in July, September and November. However, on Nov 8, Bank Negara lowered the Statutory Reserve Requirement ratio to 3% from 3.5% effective Nov 16. The last time OPR ranged below 3% was in 2011 at 2.75% before it was raised to 3% in May 2011. (Source: *The Star*)

Financial regulators across Asia are creating new rules for online-only banks, as they seek to shake up often staid markets, helped by technology companies which can operate at lower costs, without needing physical branches. South Korea led the way with special rules for online-only banks in Asia, licensing K bank, led by the country's largest telecom operator, KT Corp, in 2016, then Kakao Bank, operated by chat app operator Kakao Corp, in 2017. The Financial Services Commission has also issued a third preliminary digital licence to a consortium led by Toss, a mobile money transfer app provider, and which includes the local subsidiary of Britain's Standard Chartered PLC (StanChart). Hong Kong issued eight online-only licences in 2018 from 33 applications. Licensees include Ant Financial — an affiliate of Chinese e-commerce leader Alibaba Group Holding Ltd — and consortia involving StanChart and Chinese social media and video game firm Tencent Holdings Ltd. ZA Bank, run by a unit of China's ZhongAn Online P&C Insurance Co Ltd, has started trial operations, and up to four others are likely to follow suit early this year, the Hong Kong Monetary Authority said last week. In Taiwan, online-only licences were awarded in July 2019 to consortia led by Chunghwa Telecom Co Ltd, Japanese e-commerce firm Rakuten Inc and Japan-based chat app operator LINE Corp - the latter of which included Taipei Fubon Commercial Bank Co Ltd and StanChart. The banks are set to start operations later this year. Singapore in January said it had received 21 applications for five online-only bank licences on offer. Bidders in various groups include Singapore Telecommunications Ltd, ride-hailing firm Grab Holdings Inc, Ant Financial and Hong Kong-listed gaming firm Razer Inc. The Monetary Authority of Singapore will issue up to two retail and three wholesale bank licences, with the winners — to be announced in June — starting operations from mid-2021. Where next? The central bank in Malaysia plans to issue up to five licences for either conventional or Islamic banking under a framework set to be finalised later this year. Grab, Razer, AirAsia, telecoms firm Axiata and lender CIMB are among companies looking to apply, Reuters reported on Wednesday, citing sources. China is also working to finalise its first rules covering the online-only bank sector, Reuters reported last week, citing people with direct knowledge of the matter. The country already has four online-only banks including Tencent-backed WeBank and Alibaba offshoot MYbank, as well as AiBank, whose investors include search engine operator Baidu Inc and China Citic Bank Corp Ltd. (Source: *The Edgemarkets*)

Rating Action			
Issuer	PDS Description	Rating/Outlook	Action
Bank Muamalat Malaysia Berhad	Financial institution (FI) rating	A/MARC-1	Affirmed
West Coast Expressway Sdn Bhd	Tranche 1 and Tranche 2 of RM1 bil Guaranteed Sukuk Murabahah Programme (2015/2036)	AAA(BG)/Stable and AAA(FG)/Stable	Reaffirmed

Source: RAM, MARC

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