

Global Markets Research

Fixed Income

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	0.16	0
5-yr UST	0.38	0
10-yr UST	0.84	-1
30-yr UST	1.64	-4

MGS		GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	1.76	0	1.82	1
5-yr	2.09	0	2.19	7
7-yr	2.36	-4	2.41	-1
10-yr	2.65	2	2.58	0
15-yr	3.11	2	3.24	1
20-yr	3.44	3	3.51	0
30-yr	3.78	0	4.04	0

* Market indicative levels

MYR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	1.87	0
3-yr	1.94	0
5-yr	2.16	0
7-yr	2.36	0
10-yr	2.64	0

Source : Bloomberg

Upcoming Government Bond Tender

Re-opening of RM5.0b 5Y GII 3/26 on Tuesday, 27th Oct, 2020

Fixed Income Daily Market Snapshot

US Treasuries

- US Treasuries rallied the most in a week on Monday led by the longer-ends as the deadlock in economic stimulus discussions and stubborn COVID-19 infections in US and abroad saw safe haven appeal for bonds. Overall benchmark yields ended flat to 1-4bps lower from prior session's close as the curve flattened with the UST 2Y closing within 1bps higher at 0.16% and the much-watched UST 10Y edging 1bps lower at 0.84%. The belly of the curve may experience some pressure this week due to the onset of several auctions involving 2Y, 5Y and also 7Y notes totaling \$162b; beginning tonight. Expect some attention to shift to the upcoming 1st reading of 3Q2020 GDP and also the initial jobless claims for week ending 24th Oct this Thursday.

MGS/GII

- Local govies saw no let-up in recent weakness on Monday amid a slight improvement in secondary market volume of RM1.53b. Overall benchmark yields closed mostly higher between 0-7bps across the curve save for the 7Y benchmarks with the benchmark 5Y MGS 9/25 closing unchanged at 2.09% whilst the 10Y MGS 4/31 rose 2bps again at 2.65%. Interest was seen in both the current and previous 10Y benchmarks and also longer-end 15Y MGS/GII bonds. GII bond trades eased to form 27% of overall trades. Separately Asian bond YTD total returns reveal Malaysia being among the top 5 countries. Nevertheless investors are expected to tread cautiously due to the delicate political situation and elevated COVID-19 infections that have caused partial lockdowns in key states in the Peninsular and also Sabah. Meantime expect some attention to shift to the 5Y GII auction today followed by Wednesday's release of the September trade figures.

Corp Bonds/Sukuk

- The Corporate Bond/Sukuk sector saw strong investor appetite amid a solid secondary market volume of RM643m with interest seen across the GG to single-A part of the curve as overall yields closed mostly mixed-to-lower. Govt-guaranteed PRASA and PTP 28's closed unchanged compared to previous-done levels between 2.68-75% whilst PTPTN 23-24's edged 1bps lower at 2.01-09% area. AAA-rated AMAN 5/24 closed sharply lower on yields at 2.54%. The AA-space saw telco-related CELCOM 10/26 and 8/27 declined 6bps and 26bps each on RM30m in nominal trades between 0-4bp lower at 2.93% and 3.02% each whilst Fortune Premier 22-23's closed 6bps and 26bps lower respectively at 2.78% and 2.84%. The banking space saw several trades involving Bank Islam, BPMB and also the recently issued ALLIANCE Bank 30NC25, 32NC27 and 35NC30 bonds.

Daily Trades : Government Bond

Securities	Closing	Vol	Previous	Previous	Chg
	YTM	(RM mil)	YTM	Trade Date (dd/mm/yyyy)	(bp)
MGS 07/21	1.450	20	1.430	23/10/2020	2
MGS 09/21	1.520	118	1.450	23/10/2020	7
MGS 08/22	1.661	91	1.702	23/10/2020	-4
MGS 09/22	1.683	5	1.679	21/10/2020	0
MGS 03/23	1.758	2	1.759	23/10/2020	0
MGS 08/23	1.780	13	1.817	23/10/2020	-4
MGS 06/24	1.922	3	1.887	21/10/2020	3
MGS 07/24	1.941	1	1.922	23/10/2020	2
MGS 09/25	2.093	137	2.093	23/10/2020	0
MGS 04/26	2.197	4	2.205	22/10/2020	-1
MGS 05/27	2.357	53	2.397	23/10/2020	-4
MGS 11/27	2.432	30	2.380	23/10/2020	5
MGS 06/28	2.516	17	2.510	23/10/2020	1
MGS 08/29	2.693	219	2.654	23/10/2020	4
MGS 04/30	2.719	1	2.687	22/10/2020	3
MGS 04/31	2.647	170	2.632	23/10/2020	1
MGS 06/31	2.845	10	2.789	23/10/2020	6
MGS 04/33	3.113	20	3.104	23/10/2020	1
MGS 07/34	3.106	187	3.084	23/10/2020	2
MGS 04/37	3.431	2	3.436	23/10/2020	0
MGS 05/40	3.439	20	3.412	23/10/2020	3
MGS 03/46	3.945	1	3.897	23/10/2020	5
GII 03/21	1.501	50	1.450	22/10/2020	5
GII 03/22	1.665	7	1.638	23/10/2020	3
GII 04/22	1.718	3	1.689	16/10/2020	3
GII 05/23	1.816	57	1.809	23/10/2020	1
GII 07/23	1.839	10	1.875	14/10/2020	-4
GII 10/24	2.020	10	1.988	23/10/2020	3
GII 03/26	2.190	40	2.128	21/10/2020	6
GII 09/27	2.405	40	2.413	23/10/2020	-1
GII 07/29	2.776	10	2.715	23/10/2020	6
GII 06/33	3.212	10	3.126	14/10/2020	9
GII 08/33	3.222	10	3.017	03/09/2020	21
GII 11/34	3.238	160	3.230	23/10/2020	1
GII 08/37	3.574	1	3.535	12/10/2020	4
		1529			

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*
Bank Pembangunan Malaysia Berhad	09/21	GG	1.851	20	2.009	01/10/2020	-16	31
Prasarana Malaysia Berhad	05/23	GG	2.017	25	2.023	23/10/2020	-1	25
Perbadanan Tabung Pendidikan Tinggi Nasional	08/23	GG	2.014	35	2.020	23/10/2020	-1	24
Perbadanan Tabung Pendidikan Tinggi Nasional	03/24	GG	2.086	25	2.091	23/10/2020	-1	31
Prasarana Malaysia Berhad	03/28	GG	2.678	15	2.680	23/10/2020	0	30
Pelabuhan Tanjung Pelepas Sdn Berhad	11/28	GG	2.748	5	2.750	23/10/2020	0	26
Putrajaya Holdings Sdn Berhad	12/21	AAA	2.184	5	3.493	24/07/2019	-131	64
Aman Sukuk Berhad	05/24	AAA	2.543	30	3.037	27/02/2020	-49	59
Bakun Hydro Power Generation Sdn Berhad (fka Sarav	08/26	AAA	2.728	10	2.751	06/10/2020	-2	47
Bank Pembangunan Malaysia Berhad	03/32	AAA	3.246	10	3.250	23/10/2020	0	60
Pengurusan Air SPV Berhad	10/34	AAA	3.332	5	3.399	13/10/2020	-7	23
CIMB Bank Berhad	08/26	AA+	2.514	10	2.735	29/07/2020	-22	26
Celcom Networks Sdn Berhad	10/26	AA+	2.928	20	2.931	07/09/2020	0	67
Celcom Networks Sdn Berhad	08/27	AA+	3.018	20	3.061	21/09/2020	-4	64
AEON Co. (M) Berhad	07/21	AA2	2.749	10	-	-	-	120
Imtiaz Sukuk II Berhad	10/25	AA2	2.965	40	2.966	16/10/2020	0	88
Fortune Premiere Sdn Berhad	12/22	AA	2.776	10	2.837	20/10/2020	-6	110
Fortune Premiere Sdn Berhad	03/23	AA	2.840	20	3.098	09/07/2020	-26	116
Tanjung Bin Energy Issuer Berhad	09/24	AA3	2.807	10	2.919	11/08/2020	-11	86
Bumitama Agri Ltd	07/26	AA3	3.168	3	3.266	05/08/2020	-10	91
Konsortium Lebuhraya Utara-Timur (KL) Sdn Berhad	12/20	AA-	2.416	4	2.612	22/10/2020	-20	87
WCT Holdings Berhad	10/21	AA-	3.220	5	3.240	22/10/2020	-2	167
WCT Holdings Berhad	10/21	AA-	3.750	100	-	-	-	220
Jimah East Power Sdn Berhad	06/27	AA-	3.268	10	3.419	09/07/2020	-15	89
Affin Bank Berhad	02/27	A1	2.951	3	2.742	21/10/2020	21	69
Bank Islam Malaysia Berhad	10/30	A1	3.591	30	-	-	-	94
CIMB Group Holdings Berhad	05/16	A1	3.292	1	3.906	21/10/2020	-61	-13
Alliance Bank Malaysia Berhad	10/30	A2	3.450	32	3.380	23/10/2020	7	80
Alliance Bank Malaysia Berhad	10/32	A2	3.650	16	-	-	-	100
Alliance Bank Malaysia Berhad	10/35	A2	3.950	94	3.850	23/10/2020	10	85
YNH Property Berhad	08/19	-	6.588	1	6.812	23/10/2020	-22	316
WCT Holdings Berhad	05/22	AA-	3.347	20	3.360	22/10/2020	-1	167
				<u>643</u>				

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

Market/Corporate News: What's Brewing

AirAsia Group Bhd has lowered its projected recovery rate in Malaysia to 60% of its pre-Covid-19 capacity by year-end, it said on Monday in its third-quarter operating statistics. The airline in August had said it expected a 70-75% recovery in Malaysia by the last quarter. AirAsia Group's biggest market, it said it saw a 52% increase in domestic capacity in September compared to 40% in July, but stricter curbs on movement in October due to rising Covid-19 cases had reined in growth. It said it now expected a return to 45% of pre-pandemic capacity in Indonesia, up from a previous expectation of 35%, but lowered its view on India to 65% from 75%. It is aiming for its Thai operations to exceed pre-Covid-19 capacity levels. Group load factor — a measure of how full its planes are — grew 7 percentage points in September versus July, the group said, without providing further detail. It said passengers carried in that period increased by 36% for Malaysia, 79% for India and 65% for Thailand.. (Source: *The EdgeMarkets*)

IT is one of the three conditions laid out in Plan A to ensure Malaysia Airlines Bhd's (MAS) survivability — policy intervention to address the long-standing overcapacity problem in the airline industry. The first condition is to convince its creditors to accept a haircut on their outstanding debt as part of a debt restructuring scheme, after which its sole shareholder Khazanah Nasional Bhd will inject new capital into the airline to tide it over until the expected full recovery in the domestic and Asean air travel markets in 2022. Even before the Covid-19 pandemic, overcapacity in the industry was already weighing on the carrier's top line and margins as the entry of new airlines drove a massive increase in seat capacity. It has been blamed as a contributing factor for the failure of the RM6 billion MAS Recovery Plan (MRP), which had aimed to return the airline to profitability by the end of 2017. As MAS rebuilds its balance sheet, its group CEO Captain Izhah Ismail wants the government to step in to tackle the issue of overcapacity in the airline sector to ensure long-term sustainability. "Even if the other

two conditions are achieved, but we as a country do not look at how to manage the market's capacity, then let's just close the airline down. If the nation doesn't have a collective view to make MAS work, then we should shut it down," he tells The Edge in a recent interview. (See also cover story "Airlines play hardball with creditors", Issue 1340, Oct 12.) "I need my stakeholders to resolve the overcapacity problem. That is the problem facing the industry and MAS. So far, nobody is hearing us," he says. The carrier has prepared a contingency plan if Plan A does not work out. It will shut down MAS and operate under sister airline FlyFirefly Sdn Bhd's Air Operator's Certificate (AOC) to ensure the business continuity of the national carrier. "(If I fail to garner the support of at least 75% in debt value of the creditors,) I am ready to press the button for Plan B and file for bankruptcy here. I would have no choice but to use Firefly's AOC," says Izham, adding that six months to one year down the road, Firefly could change its name to reflect a Malaysian identity. "So, Malaysia will continue to have a national airline." Firefly would then have both jets and ATRs in its fleet, but operate at a smaller scale initially. That is because Firefly will have to apply for new air traffic rights on international routes that it currently does not fly to, Izham explains. On Oct 15, Malaysia Aviation Group Bhd (MAGB) — the holding company of MAS and Firefly — announced that Firefly will be adding up to 10 narrow-body jets to its fleet in phases, serving the domestic, Asean and Asia-Pacific markets out of Penang from the first-quarter of 2021. MAS may also deploy its Boeing 737-800s to Firefly. "The lesson learnt from MRP is not to roll from old to new, but to go really fresh." Of course, Plan B is not preferred, but if the dynamics are against MAGB, we have no choice and we will definitely press the button. MAGB needs to restructure (RM16 billion worth of) debt it owes with about 40 creditors such as banks, aircraft lessors, aircraft maintenance service providers and key suppliers. Restructuring our cost base does not mean our creditors will lose money. It is just that their earnings will be less," Izham says. Prominent economist Dr Nungsari Ahmad Radhi, who was executive chairman of the Malaysian Aviation Commission (Mavcom) between July 2018 and April 2020, concurs that the aviation industry before the pandemic was one characterised by overcapacity. "Airlines, especially the lower-cost carriers, ordered huge numbers of aircraft and were pressured to fill them up. Prices fell. Margins were razor thin. "And aviation became more than just flying — it was also leasing and other auxiliary services from ground handling to engineering to insurance to retail to developing a digital platform and brand recognition. But these evolving models of aviation business proved to be fragile to shocks such as spikes in oil prices. The pandemic was much more than such a shock. It was more of a fatal blow to many," he says. Nungsari believes there will be a global industry-wide consolidation and a redefinition of what an airline is. "Any decision on MAS, or even AirAsia Group Bhd, will have to be made in consonant with these dynamics." Tunku Datuk Seri Iskandar Tunku Abdullah, group executive chairman of Melewar Group, agrees that there are overcapacity concerns in the industry, noting that even before the pandemic, MAS was already trailing behind not only AirAsia and Malindo Airways Sdn Bhd, but also foreign carriers such as Emirates, Etihad, Qatar, Cathay Dragon, as well as the various Chinese airlines in market share. "For MAS to compete in this market against such players, it needs to have advantages but those will be deemed as antitrust and may result in retaliatory action," he tells The Edge. Izham says in 2019, there were 37.5 million seats in the market as opposed to the country's population of 32 million. "Twenty-five years ago, there were only five airlines operating (out of Malaysia) — MAS, Singapore Airlines (SIA), Garuda, Royal Brunei and Thai Airways. Today there are 32 airlines. "In 2019, even before the pandemic, the number of seats available in Malaysia was about 1.5 times greater than demand. For instance, there were four airlines operating out of Penang — MAS, AirAsia, Malindo Air and Firefly — all fighting for you (passengers). "Also, an air ticket for a 45-minute flight from Haneda to Osaka (Japan) costs US\$300, Jeju to Gimpo (South Korea), US\$290, but KL to Penang would cost US\$20. It doesn't make any sense. How do you expect MAS to recover in this environment, notwithstanding the balance sheet that we had inherited?" he asks. As at early-June, Malaysian and foreign carriers had cancelled 38.8 million seats (34.9% of total 2020 seat capacity) owing to the pandemic, according to Mavcom's June 2020

Waypoint report. "A national carrier was a concept at the onset of aviation when governments entered the industry ahead of the private sector. That is no longer true, of course," says Nungsari. "What's needed for a country, for Malaysia specifically, is connectivity that serves our economic interests — a connectivity that links us to the world [in terms of] both passenger and cargo. There should be sufficient choices available and such choices come from competition. "But we started with the legacy of a national airline. Although we have liberalised the industry, a national airline remains. The economic regulations by Mavcom don't favour the national airline nor does it discriminate against other airlines. So everything boils down to competitiveness and both the operational and financial sustainability of airlines," he says. "At the end of it all, regardless of who the shareholders are, it is about sustainability within the context of competition in the industry and what's needed for the country." Nungsari points out that the regulatory environment and the national imperatives are clear, that is, the government as a shareholder must decide how to transition its ownership role not just in aviation but in all parts of the industry. "What happened to MAS before the pandemic was clearly not sustainable and neither did it achieve a national airline role. Its footprint was shrunk to that of a regional airline and it lost the lustre it once had as a premium airline," he says. "Starting point matters. The government now owns an airline. What it shouldn't do is try to run the airline. It has been doing that unsuccessfully since the airline was nationalised after being privatised. So it is left with two choices: It gets out totally and ensures robust economic regulation is in place, or it divests its interests in MAS for it to be part of another airline group that serves the national economic interests. "Also, strong economic regulation needs to be in place," notes Nungsari. "My absolute conclusion is that the government should not run airlines. It should not abandon an airline it already owns for another. It should ensure economic regulation is strong to protect both the economic interests of Malaysian businesses and consumers," he says. Tunku Iskandar, who is former president of the Malaysian Association of Tour and Travel Agents and former chairman of the Pacific Asia Travel Association, believes that every sizeable nation needs a national carrier, but that it need not be government-owned to be deemed the flag carrier of a country. "Indeed, in the current scenario, both AirAsia and Malindo Air have had degrees of rights and privileges given by our government for their international operations, at times even to the disadvantage of MAS. Of course, it is nice to have an airline bearing the country's name to be the flag carrier, but there are examples around the world where this is not so," he says.

Rating Action			
Isuser	PDS Description	Rating/Outlook	Action
Aquasar Capital Sdn Bhd	RM1,500 million Sukuk Murabahah Programme (2014/2029)	AAA(s)/Stable	Reaffirmed

Source: RAM, MARC

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