Global Markets Research
Fixed Income

Fixed Income Daily Market Snapshot

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	0.12	0
5-yr UST	0.36	-1
10-yr UST	0.93	-2
30-yr UST	1.66	-4

	MGS		GII*	
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	1.88	0	1.93	0
5-yr	2.11	0	2.27	3
7-yr	2.38	0	2.52	2
10-yr	2.69	0	2.81	1
15-yr	3.27	1	3.35	0
20-yr	3.47	0	3.62	0
30-yr	3.86	0	4.01	0

** Market indicative levels*

MYR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	1.92	0
3-yr	2.05	0
5-yr	2.24	1
7-yr	2.39	0
10-yr	2.63	0

Source : Bloomberg

Note: 24-December closing

US Treasuries

- US treasuries gained amid thin volume as markets were quiet ahead of Christmas and the year end holidays. Yields fell between 1-4bps across the curve with the 2s staying flat at 0.12% whilst the curve flattened with the 10s and 30s shedding 2bps and 4bps respectively. The twist in the US stimulus bill following President Trump's refusal to ink the deal (which he has since agreed to sign at time of writing) coupled with the weak personal income and spending data somewhat dented market sentiments. Expect markets to remain quiet as most investors are away as the year draws to a close.

MGS/GIII

- The Malaysian government bond markets were similarly quiet last Thursday. Secondary market volume thinned to a mere RM660m, with only 22 papers transacted of which about two thirds were MGS and the remaining GIIs. Trades were seen concentrated on front end off-the-runs MGS 21, 23 and 24s, which collectively made up about half of total transaction. Overall markets were steady with only slight upward move of between 1-3bps in selected tenors most notably in GIIs. Both the benchmark 5Y MGS 9/25 and 10Y MGS 4/31 were flat at 2.11% and 2.69% respectively. Expect volume to remain thin this week as the year concludes.

Corp Bonds/Sukuk

- The Corporate Bond/Sukuk space also saw equally thin volume amid year-end festivities and low staffing levels. Secondary market volume notched a mere RM121m (prior RM273m) with only seven papers transacted. Government-guaranteeed PTPTN '34 took center stage with RM50m changed hands, flat at 3.57%, the only GG paper traded during the day. AAA-rated BPMB '22 and '26 followed next with RM20m changed hand each, while AA-rated UMW Holdings '23 and '26 were traded mixed at 2.731% (-1bp) and 3.165% (+2bps) respectively. Expect activity to remain subdued in the coming days as the year draws to a close.

Upcoming Government Bond Tender

Nil

Daily Trades : Government Bond

Securities		Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS	07/21	1.699	21	1.719	23/12/2020	-2
MGS	09/21	1.733	105	1.734	23/12/2020	0
MGS	04/23	1.903	10	1.916	23/12/2020	-1
MGS	08/23	1.923	100	1.900	21/12/2020	2
MGS	06/24	2.016	113	2.033	22/12/2020	-2
MGS	09/24	2.055	2	2.055	23/12/2020	0
MGS	08/29	2.615	1	2.624	23/12/2020	-1
MGS	04/31	2.688	2	2.687	23/12/2020	0
MGS	06/31	2.812	30	2.813	22/12/2020	0
MGS	04/33	3.219	0	3.200	23/12/2020	2
MGS	07/34	3.268	44	3.256	23/12/2020	1
MGS	09/43	3.836	1	3.752	21/12/2020	8
MGS	07/48	3.907	0	3.888	21/12/2020	2
MGS	06/50	3.860	5	3.859	21/12/2020	0
GII	11/23	1.987	40	2.074	23/12/2020	-9
GII	10/24	2.124	60	2.138	23/12/2020	-1
GII	03/26	2.274	2	2.249	22/12/2020	2
GII	09/26	2.393	10	2.398	22/12/2020	-1
GII	06/27	2.521	20	2.428	12/10/2020	9
GII	09/27	2.515	40	2.500	23/12/2020	2
GII	10/30	2.807	24	2.796	23/12/2020	1
GII	08/37	3.666	30	3.670	23/12/2020	0
			660			

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*
Perbadanan Tabung Pendidikan Tinggi Nasional	02/34	GG	3.570	50	3.570	23/12/2020	0	32
Bank Pembangunan Malaysia Berhad	03/22	AAA	2.349	20	2.389	11/11/2020	-4	64
Bank Pembangunan Malaysia Berhad	11/26	AAA	2.912	20	2.913	23/12/2020	0	64
YTL Corporation Berhad	11/26	AA1	3.351	0	3.367	13/10/2020	-2	108
UMW Holdings Berhad	09/23	AA2	2.731	10	2.740	14/12/2020	-1	83
UMW Holdings Berhad	10/26	AA2	3.165	21	3.142	10/11/2020	2	89
Jati Cakerawala Sdn Berhad	01/23	A1	3.959	0	3.959	16/12/2020	0	215
				121				

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

Market/Corporate News: What's Brewing

The Housing and Local Government Ministry is able to meet its target of building 100,000 units of houses per year under the 1Malaysia People's Housing Programme (PR1MA), says its minister Zuraida Kamaruddin. She said 55,000 units were built under the scheme this year, with another 150,000 units scheduled for completion next year. "This brings the total to 200,000 units in two years, showing that we have achieved the target, " she told reporters after the groundbreaking ceremony for the Bukit Gelugor residential project here yesterday. Zuraida said PR1MA had recorded sales totalling RM1.9bil this year, an increase of RM600mil compared to RM1.3bil last year. "While the Covid-19 pandemic has affected most of the industries, the housing sector still records a positive growth, with PR1MA registering a higher growth compared to last year, " she added. On the Bukit Gelugor PR1MA project, she said it was the first such venture to be launched in the state following the Covid-19 outbreak. "We hope this project will help Penang to achieving its target of providing affordable housing to its people. “It has 2,850 units with prices below RM300,000. The project is expected to be completed by 2024, ” she said, adding that with this, Penang would have two PR1MA housing projects, with the other one in Permatang Pauh. Zuraida said more PR1MA projects would be built on the mainland as Penang island was getting congested with many housing projects and activities. Penang Chief Minister Chow Kon Yeow, who was also present, said the state government was committed to helping expedite planning permission for other projects under PR1MA. “PR1MA has heeded the state’s request in using the 6.56ha land for a mixed development of affordable housing for the people of Penang. “This cooperation between the federal and state governments should be extended to other PR1MA projects for the comprehensive housing needs of the state, ” said Chow. He added that Penang had been officially informed of four more PR1MA projects – two each on the island and the mainland. Among those present were state Housing Committee chairman Jagdeep Singh Deo, Seri Delima assemblyman Syerleena Abdul Rashid and PR1MA Malaysia chief executive officer Datuk Mohd Nazri Md Shariff. (*Source: The StarOnline)*

The Malaysian Palm Oil Board (MPOB) expects the current high prices of crude palm oil (CPO) trading above RM3,000 per tonne mark will continue until the first quarter of 2021, given the tight supply situation. According to MPOB chairman Datuk Ahmad Jazlan Yaakub, the monsoon season which brings about floods in many parts of oil palm areas could also affect palm oil production this month up until early next year. “This will lead to further palm oil supply tightness that will result in firmer CPO prices going into 2021, ” he added. The CPO spot price was traded at RM3,701 per tonne on Dec 23 while the third-month benchmark CPO futures settled at RM3,854 per tonne, which is a 25-year high. He also expects industry players such as smallholders, estates, refiners and downstream operators to benefit from the higher CPO prices in the near term. MPOB’s latest statistics showed that palm oil stocks in November slumped to 1.56 million tonnes, which is the lowest since June 2017. CPO production for the same period under review also dropped to 1.49 million tonnes, the lowest since March. “If the underlying fundamental factors and market sentiment continues to stay positive, this will be reflected by the increase in CPO prices in the market, ” opined Ahmad Jazlan. As the local palm oil custodian, MPOB viewed that stagnation in yield per hectare in the estates and labour shortages as among major challenges faced by the oil palm sector. He noted that the local estates’ FFB yield have been hovering around 18 to 19 tonnes per ha, the oil extraction rate (OER) around 20% and the palm oil yield has been stagnant at around 3.5 tonnes per ha. Ahmad Jazlan pointed out that the national average oil yield should be around five tonnes to six tonnes per ha per year compared with less than four tonnes per ha per year now. “The OER on average should be at least 22%.” However, the current yield per ha per year and the OER have not been achieved as “the adoption of technology to ensure correct planting material such as Sure Sawit Shell and good agricultural practices (GAP) are not being implemented.” Furthermore, the industry does not seem to adapt well to the climate changes, which can affect yield. Milling practices also need to be improved, apart from planting materials and labour shortage to realise the ideal OER. Ahmad Jazlan said smallholders’ replanting rate have been much lower than expected – hardly 4% per year. On the other hand, big plantations are planting the best materials available during their replanting programmes. “However, the adoption of technology such as mechanisation in the estates, although improving, has not been applied on a wider scale. That is why heavy dependency on foreign labour still exists, ” he added. Therefore, MPOB opined that all planters will need to look at soil health and ensure that GAP is being implemented. “To further ensure quality planting materials reach the oil palm growers, we hope to implement genomics and epigenetics guided technologies and put it into our practice. “However, all these will have an impact on the cost of planting materials. And the market cannot continue to survive on subsidies and grants as those are not sustainable.” Hence, to effect changes to impact productivity, MPOB believed that industry players will need to make controversial decisions. “Just like our efforts to introduce clones, if we do not change the mindset of millers, then the clonal FFB sourced from smallholders will not benefit them. “While millers enjoy the additional OER percentage increase, the growers have to pay a higher cost of the planting materials. “Therefore, we believe that the cost must be shared across the board – only then this will be fair and just profits can be felt by all in the supply chain, ” said Ahmad Jazlan. On labour shortage, the oil palm plantation sector was reported to be short of 37,175 manpower, especially for the harvesting and collection of oil palm fruits as of May this year. Towards this, the government has introduced the Workforce Recalibration Programme from Nov 16,2020 to June 30,2021. In addition, the adaptation of mechanisation is increasing progressively especially since the Covid-19 pandemic started. This is well reflected by the Oil Palm Industry Mechanisation Incentives Scheme fund under the 11th Malaysia Plan. Ahmad Jazlan said the seriousness of the labour shortage situation also saw the government forking out a matching fund of RM30mil for mechanisation in the recent Budget 2021. (*Source: The StarOnline)*

Rating Action

Isuser	PDS Description	Rating/Outlook	Action
Bakun Hydro Power Generation Sdn Bhd	RM5.54 bil Sukuk Murabahah (2016/2031)	AAA/Stable	Reaffirmed
Mukah Power Generation Sdn Bhd	RM665 mil Senior Sukuk Mudharabah Programme (2006/2021)	AA1(s)/Stable	Reafirmed
Sarawak Power Generation Sdn Bhd	RM215 mil Serial Sukuk Musharakah (2006/2021)	AA1(s)/Stable	Reaffirmed
Cagamas Berhad	Corporate credit rating	AAA/Stable	Reaffirmed

Source: RAM, MARC

Hong Leong Bank Berhad
Fixed Income & Economic Research, Global Markets
Level 8, Hong Leong Tower
6, Jalan Damanlela
Bukit Damansara
50490 Kuala Lumpur
Tel: 603-2081 1221
Fax: 603-2081 8936
Email: HLMarkets@hlbb.hongleong.com.my