

Weekly Market Snapshot

26 July 2010

Market Highlights for the week ended 23 July 2010

Ringgit Sovereign and Corporate Bonds

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Malaysian Government Securities (MGS) closed mixed with a rally at both ends of the curve as foreigners increased their holdings of local government securities amid a backdrop of a rising ringgit and bullish growth prospects for the emerging markets. Foreign holdings of MGS as a percentage of outstanding MGS notes rose for a seventh consecutive month to 23.4% in May from 22.8% in April, nearing its peak of 24.6% in April 2008. In addition, expectations of a modest growth in inflation for the remaining months of 2010 despite the 5 sen hike in retail fuel RON 95 also help sustain demand at the long end of the curve. The consumer price index rose 1.7% YoY in June from 1.6% in May. The yields on MGS 5/13 and MGS 11/19 fell 1 bp and 2 bps WoW to settle at 3.17% and 3.89% respectively, resulting in a tighter 10/3s spread of 0.72% (-1 bp WoW).

In contrast, the 5-year and 7-year yields were sent higher to 3.40% (+4 bps WoW) and 3.70% (+2 bps WoW) respectively as traders sought higher premiums ahead of the upcoming MYR3.5 billion reopening auction of 7-year benchmark MGS papers on July 29. This auction will bring the total year-to-date gross issuance to MYR39.5 billion, compared to MYR58.0 billion in the corresponding period last year. A total of MYR8.3 billion changed hands in the MGS/GII market, a 31.2% decline from the prior week.

Trading in Private Debt Securities (PDS) slowed to MYR1.05 billion from MYR1.13 billion in the previous week. Along the AAA band, benchmark Rantau Abang traded mixed with the yields on Rantau 3/12 and 8/13 rising to 3.34% (+4 bps since July 8) and 3.58% (+3 bps WoW), while Rantau 9/15 was stalled at 3.87%. In contrast, Sime 11/14 and 11/16 rallied to 3.78% (-5 bps WoW) and 4.00% (-5 bps WoW) respectively. Moving down the AA credit curve, IJM bonds (AA-) closed mixed with IJM 10/13 last done at 4.20% (+2 bps since July 7) while IJM 10/15 rallied to 4.55% (-5 bps MoM).

USD/MYR

Local currency headed north on anticipation that the US Federal Reserve will keep its benchmark interest rate at low levels for a prolonged period after Ben S. Bernanke said the economic outlook remains "unusually uncertain", sustaining the current positive carry of 250 bps against the dollar. Positive outcome in the much awaited euro zone bank stress test and robust corporate earnings also boosted risk appetite for emerging market assets. The ringgit was the third best performer among the ten most actively traded Asian ex-Japan currencies, gaining 0.25% to end the week at 3.2000 per USD.

US Treasury

Treasuries declined as the better-than-expected European bank stress test results and solid quarterly corporate earnings spurred optimism that the global economy will be able to avert a double dip recession. Of the 91 European banks that underwent the stress test, only seven failed, suggesting that the region's banking system is still resilient. Nonetheless, the gains were eventually limited by skepticism that the stress tests may be too lenient. The 10-year yields closed at 2.99%, up by 7 bps WoW.

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Weekly change in selected Ringgit markets

Financial Variable	16-Jul-10	23-Jul-10	WoW
Overnight Policy Rate (%)	2.75	2.75	Unchanged
3-year MGS Benchmark yield (%)	3.18	3.17	-1
5-year MGS Benchmark yield (%)	3.36	3.40	4
10-year MGS Benchmark yield (%)	3.91	3.89	-2
10/3s spread (bps)	73.00	72.00	-1
3-year IRS (%)	3.38	3.37	0
5-year IRS (%)	3.67	3.66	-1
10-year IRS (%)	4.17	4.16	-1
3-year AAA yield (%)	3.92	3.92	Unchanged
3-year AA yield (%)	4.64	4.64	Unchanged
3-year A yield (%)	7.48	7.48	Unchanged
3-year AAA spread (bps)	74	75	1
3-year AA spread (bps)	146	147	1
3-year A spread (bps)	430	431	1
USD 1-year CDS Spread (bps)	33.56	33.56	Unchanged
USD 5-year CDS Spread (bps)	93.04	87.53	-6
KLCI Index	1336.65	1345.68	0.7%
MGS/GII Secondary Market Volume (MYR m)	12082.00	8312.00	-31.2%
PDS Secondary Market Volume (MYR m)	1133.00	1052.00	-7.1%
USD/MYR	3.2080	3.2000	-0.2%

*Weekly change in bond yields is quoted in basis point.

Source: Bloomberg, BPAM, MARC Fixed Income Research

Weekly change in selected global & regional markets*

Country	Financial Variable	16-Jul-10	23-Jul-10	WoW
	US Fed Funds (%)	0.25	0.25	Unchanged
	2-year yield (%)	0.58	0.58	0
	10-year yield (%)	2.92	2.99	7
	USD Trade Weighted Index	76.59	76.59	Unchanged
	Dow Jones Industrial	10,097.90	10,424.62	3.2%
	S&P 500	1,064.88	1,102.66	3.5%
	ECB Policy Rate (%)	1.00	1.00	Unchanged
	2-year yield	0.78	0.75	-3
	10-year yield	2.61	2.71	10
	EUR/USD	1.29	1.29	-0.2%
	Germany DAX	6,040.27	6,166.34	2.1%
	BOE Policy Rate (%)	0.50	0.50	Unchanged
	2-year yield (%)	0.75	0.87	12
	10-year yield (%)	3.33	3.44	11
	GBP/USD	1.53	1.54	0.8%
	London FTSE	5,158.85	5,312.62	3.0%
	BoJ Policy Rate (%)	0.10	0.10	Unchanged
	2-year yield (%)	0.15	0.15	0
	10-year yield (%)	1.10	1.08	-2
	USD/JPY	86.57	87.46	1.0%
	Nikkei 225	9,408.36	9,430.96	0.2%
	RBA Cash Rate (%)	4.50	4.50	Unchanged
	2-year yield (%)	4.53	4.68	15
	10-year yield (%)	5.12	5.20	8
	AUD/USD	0.87	0.90	3.1%
	S&P/ASX 200	4,422.70	4,458.40	0.8%
	Bank Indonesia Reference Rate (%)	6.50	6.50	Unchanged
	2-year yield (%)	6.55	6.66	11
	10-year yield (%)	8.17	8.28	11
	USD/IDR	9042.00	9040.00	0.0%
	JCI Index	2,992.45	3,042.02	1.7%
	Bank of Thailand Policy Rate (%)	1.50	1.50	Unchanged
	2-year yield (%)	1.90	1.90	Unchanged
	10-year yield (%)	3.44	3.44	Unchanged
	USD/THB	32.26	32.23	-0.1%
	SET Index	827.54	840.24	1.5%
	South Korea Official Bank Rate (%)	2.25	2.25	Unchanged
	2-year yield (%)	3.78	3.73	-5
	10-year yield (%)	4.91	4.90	-1
	USD/KRW	1203.39	1199.15	-0.4%
Commodities	SET Index	1,723.01	1,738.45	0.9%
	Crude oil spot (USD/barrel)	76.01	78.73	3.6%
	Gold spot (USD/ounce)	1,193.00	1,189.20	-0.3%
	S&P GSCI Return Index	4,072.30	4,178.50	2.6%

*Weekly change in bond yields is quoted in basis point.

Source: Bloomberg, MARC Fixed Income Research

Top trades of the week (govvies & credit)

Security	Volume (MYR m)	Last Traded Yield (%)
PROFIT-BASED GII 4/2010 15.07.2015	1990.00	3.49
MGS 2/2009 4.378% 29.11.2019	1217.10	3.89
MGS 4/2009 3.741% 27.02.2015	854.55	3.50
PROFIT-BASED GII 4/2008 31.10.2018	745.00	3.98
PROFIT-BASED GII 2/2010 30.09.2015	730.00	3.53

Security	Volume (MYR m)	Last Traded Yield (%)
HCS 5/11 (AA1)	100.00	4.00
NACF 7/13 (AAA)	65.00	4.50
Woori 6/11 (AAA)	45.00	3.49
RHB Bank 11/17 (AA3)	42.00	4.35
Sime 11/16 (AAA)	40.00	4.00

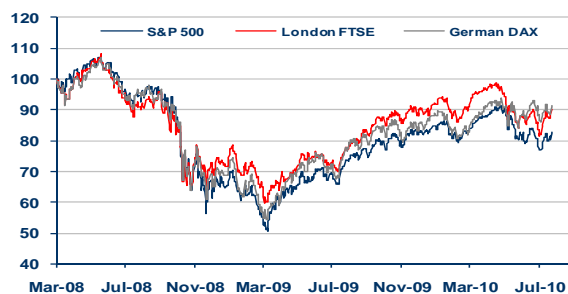
Benchmark MGS yields



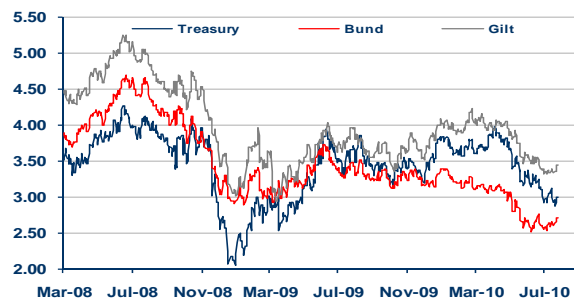
USD vs. Gold Price



Global Equities (Mar 08 = 100)



Global Bond Yields (10-year)



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