



MALAYSIAN RATING CORPORATION BERHAD
(364803 V)

Weekly Market Snapshot

14 May 2012

Market Highlights for the week ended 11 May 2012

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Local Currency

Local currency sputtered last week, moving in tandem with other emerging market currencies other than the Indonesian rupiah, amidst heightened political risks in the euro-zone, in particular Greece. Greek voters preferred anti-bailout parties despite knowing their ongoing debt woes needed austerity measures to ensure continuous funding from the European Financial Stability Facility (EFSF) with the alternative being an exit from the currency bloc. The political impasse which led to a failure to form a unity government puts at risk budget cuts as much as EUR11 billion needed by next month as required by the European Troika (the EC, ECB and IMF). The insolvency risk of Greece may not be imminent as the EFSF has confirmed the next disbursements. While the newly elected French president Francois Hollande is set to meet German Chancellor Angela Merkel to renegotiate the fiscal treaty by complementing it with growth-enhancing measures, the latter's party was defeated in the most populous state in Germany with voters expressing disagreement over the bailing out of Greece. The bubbling political uncertainties in the euro-zone have sidelined investors from holding more risky assets.

Closer to home, manufacturing activities were rather disappointing in March, growing 0.6% y-o-y after a revised 8.2% in February as opposed to an estimated 3.3% expansion in annual terms while overseas shipments contracted 0.1% y-o-y following a significant growth of 14.5% over the same period vis-à-vis a consensus increase of 3.0%. The uneven recovery in the US coupled with the recession in Europe threatened growth prospects for export-oriented Asian nations, instigating disposals of emerging market currencies. The ringgit lost ground by 1.0% to close the MYR/USD pair at 3.0709.

US Treasuries

The treasury yield curve shifted downward despite witnessing a budget surplus amounting to USD59.1 billion in April, the first since September 2008 in light of decreased fiscal expenditures and improved tax revenue. Treasuries traded firmer last week as investors' sentiment were weighed down by revived vexation over the European debt impasse, pushing yields on the peripheral countries higher.

Meanwhile, an easing cost-push inflation threat in the US may trigger another round of asset purchases by Federal Reserve as the producer price index (PPI) moderated to 1.9% y-o-y in April after climbing 2.8% in the prior month. The core PPI improved from a rise of 2.9% in annual terms, increasing 2.8% y-o-y last month. The data reflected weaker energy prices and more room for monetary loosening. Coupled with the lethargic labour market, players were largely net buyers of treasuries. The 5- and 10-year treasury yields declined 3 bps and 4 bps to 0.75% and 1.84% respectively.

Ringgit Sovereign and Corporate Bonds

As widely anticipated, the benchmark rate was held at 3.00% in the last Monetary Policy Committee meeting. The decision mirrored easing inflation while growth risks remain on the high side amidst external headwinds. The Malaysian economy is expected to be supported by domestic consumption and investment activities. Trading activities in the MGS/GII secondary market were thinner as measured by the 5-day moving average, witnessing MYR2.6 billion changing hands last week as opposed to MYR2.7 billion in the prior week. The PDS secondary market, however, recorded a higher 5-day moving average last week, amounting to MYR491 million vis-à-vis MYR330 million. The benchmark MGS were dealt mixed with the 10-year benchmark yield falling 2 bps w-o-w to 3.54%.

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Weekly change in selected domestic markets

Financial Variable	4-May-12	11-May-12	WoW
Overnight Policy Rate (%)	3.00	3.00	Unchanged
3-year MGS Benchmark yield (%)	3.18	3.19	1
5-year MGS Benchmark yield (%)	3.25	3.31	6
10-year MGS Benchmark yield (%)	3.56	3.54	-2
10/3s spread (bps)	38	35	-3
3-year IRS (%)	3.29	3.21	-8
5-year IRS (%)	3.48	3.40	-8
10-year IRS (%)	3.81	3.74	-8
3-year AAA yield (%)	3.71	3.71	Unchanged
3-year AA yield (%)	4.06	4.06	Unchanged
3-year A yield (%)	7.13	7.13	Unchanged
3-year AAA spread (bps)	53	52	-1
3-year AA spread (bps)	88	87	-1
3-year A spread (bps)	395	394	-1
USD 1-year CDS Spread (bps)	34	34	Unchanged
USD 5-year CDS Spread (bps)	111	114	3
KLCI Index	1,591	1,584	-0.4%
MGS/GII Secondary Market Volume (MYR m)	9,092	13,115	44.2%
PDS Secondary Market Volume (MYR m)	1,173	2,457	109.5%
USD/MYR	3.0412	3.0709	1.0%

*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	4-May-12	11-May-12	WoW
USA	US Fed Funds (%)	0.25	0.25	Unchanged
	2-year yield (%)	0.25	0.26	0
	10-year yield (%)	1.88	1.84	-4
	USD Trade Weighted Index	41033.00	41040.00	0.0%
	Dow Jones Industrial	41,033.00	41,040.00	0.0%
S&P 500	41,033.00	41,040.00	0.0%	
Germany	ECB Policy Rate (%)	1.00	1.00	Unchanged
	2-year yield	0.08	0.09	1
	10-year yield	1.58	1.52	-7
	EUR/USD	1.3084	1.2917	-1.3%
	Germany DAX	6,561.47	6,579.93	0.3%
UK	BOE Policy Rate (%)	0.50	0.50	Unchanged
	2-year yield (%)	0.40	0.40	Unchanged
	10-year yield (%)	2.00	1.96	-3
	GBP/USD	1.6151	1.6069	-0.5%
	London FTSE	5,655.06	5,575.52	-1.4%
Japan	BoJ Policy Rate (%)	0.10	0.10	Unchanged
	2-year yield (%)	0.11	0.11	-1
	10-year yield (%)	0.89	0.85	-4
	USD/JPY	79.8500	79.9400	0.1%
	Nikkei 225	9,380.25	8,953.31	-4.6%
Australia	RBA Cash Rate (%)	3.75	3.75	Unchanged
	2-year yield (%)	2.86	2.69	-17
	10-year yield (%)	3.56	3.29	-27
	AUD/USD	1.0182	1.0020	-1.6%
	S&P/ASX 200	4,396.04	4,285.07	-2.5%
Indonesia	Bank Indonesia Reference Rate (%)	5.75	5.75	Unchanged
	2-year yield (%)	4.63	4.70	7
	10-year yield (%)	6.05	6.25	20
	USD/IDR	9,214.0	9,198.0	-0.2%
	JCI Index	4,216.68	4,114.14	-2.4%
Thailand	Bank of Thailand Policy Rate (%)	3.00	3.00	Unchanged
	2-year yield (%)	3.24	3.22	-2
	10-year yield (%)	3.78	3.84	6
	USD/THB	30.9400	31.2000	0.8%
	SET Index	1,227.41	1,191.01	-3.0%
South Korea	South Korea Official Bank Rate (%)	3.25	3.25	Unchanged
	2-year yield (%)	3.41	3.37	-4
	10-year yield (%)	3.79	3.75	-4
	USD/KRW	1,131.5	1,146.6	1.3%
	KOSPI Index	1,975.35	1,989.15	0.7%
Commodities	Crude oil spot (USD/barrel)	98.49	96.13	-2.4%
	Gold spot (USD/ounce)	1,642.22	1,579.40	-3.8%
	S&P GSCI Return Index	4,911.1	4,826.4	-1.7%

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

Source: Bloomberg, MARC Fixed Income Research

Top trades of the week (govvies & credits)

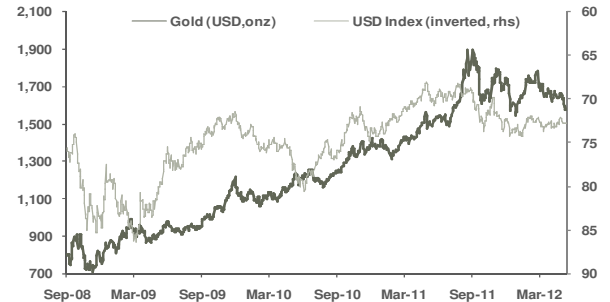
Security	Volume (MYR m)	Last Traded Yield
PROFIT-BASED Gil 3/2012 30.09.2019	2,580	3.55
MGS 5/2012 0% 31.10.2017	1,818	3.31
PROFIT-BASED Gil 3/2011 30.04.2021	1,090	3.65
MGS 3/2012 3.197% 15.10.2015	1,020	3.19
MGS 4/2009 3.741% 27.02.2015	890	3.22

Security	Volume (MYR m)	Last Traded Yield
AMAN IMTN 4.250% 12.04.2024 - Tranche No. 17	440	4.17
PUBLIC MTN 3652D 16.5.2018	220	3.60
PASB IMTN 4.4% 05.11.2014 - Issue No 2	120	3.54
MANJUNG IMTN 4.150% 25.11.2021 - Series 1 (6)	110	3.98
PUBLIC MTN 4018D 03.8.2022	84	3.88

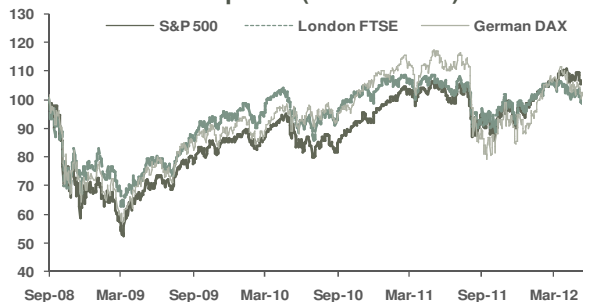
Benchmark MGS yields



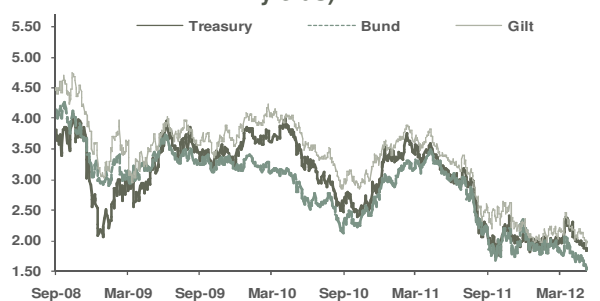
USD vs. Gold Price



Global Equities (Mar 08 = 100)



US Treasuries, German Bunds & UK Gilts (10-year yields)



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