



MALAYSIAN RATING CORPORATION BERHAD
(364803 V)

Weekly Market Snapshot

31 July 2012

Market Highlights for the week ended 27 July 2012

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Local Currency

The local currency closed the week as the worst performing currency in the region, depreciating 0.4% to settle at 3.1613 against the US dollar. The weak performance was mainly due to a sharp decline early last week on renewed concern over Greece's next aid tranche to avoid an exit from the euro-zone. Demand for the ringgit was subdued in the absence of encouraging domestic economic data against a background of turbulent global financial markets. That aside, weaknesses in the European economy were further evidenced by the advance readings of the Purchasing Managers Index and Consumer Confidence Index that showed further deterioration.

In the region, even as the Thai central bank kept its benchmark rate at 3.00%, exports declined 4.2% y-o-y in June following a 7.7% surge in May to surprise investors on the downside. The debt woes in the euro-zone coupled with cooling growth in the US continue to pose threats to emerging market exports.

US Treasuries

Treasury yields plunged to record all-time lows in the middle of the week with the 10-year yields closing at 1.39% while the belly of the yield curve posted 0.54% before yields rebounded to record weekly losses. On a w-o-w basis, the aforementioned yields climbed 9 bps each to 1.55% and 0.65% respectively. The momentum in treasuries was in line with ashrinkage in risk appetite after Greece became the centre of focus for its achievement of bailout targets. Markets are pricing in the failure of the heavily indebted nation to meet its austerity commitments which may lead to reluctance of the troika – the European Commission, the European Central Bank and the International Monetary Fund – to approve the next bailout tranche in late August. Germany, the pillar of growth in the euro bloc, was assigned a negative outlook on its Aaa credit rating by Moody's Investors Service, underscoring its heavy responsibility to support other indebted sovereigns.

On another note, the US residential property segment remained lethargic with new and pending home sales both softening in June in spite of low mortgage rates, putting more pressure on policy makers to act. Before last weekend arrived, treasuries declined on announcement of US gross domestic product (GDP) for 2Q2012 alongside a number of revisions on previous annual GDP data. For the quarter, GDP increased an annualized 1.5% q-o-q (or 2.2% y-o-y) after a 2.0% (or 2.4% y-o-y) increase in the previous quarter. The pace was rosier than anticipated, albeit more sluggish than the previous quarter, with a better-than-expected slowdown in personal consumption.

Ringgit Sovereign and Corporate Bonds

The reissuance of MYR2.5 billion 15-year MGS failed to garner decent demand with successful yields at 3.59%, which was 15 bps higher than the 10-year MGS issued in the middle of July. The oversubscription rate was 1.7x compared with a YTD average demand at 2.1x. The YTD issuance of MGS/GII reached MYR59.0 billion. Longer tenured sovereigns continued to be investor favourites in seeking higher returns, causing the yields curve to flatten. The secondary bond market was relatively active last week in both the sovereign notes and private debt securities spectrums. The MGS/GII market registered MYR19.9 billion notes traded which was 10.9% higher w-o-w, led by MGS 1/2012 3.418% 15.08.2022 with MYR2.9 billion worth of transactions. In the PDS segment, MYR2.8 billion worth of papers changed hands with the most popular paper being the IBK MTN 1827D 14.2.2017. The AAA-rated bond witnessed MYR150 million in trades and the last yield done was at 3.94%.

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Weekly change in selected domestic markets

Financial Variable	20-Jul-12	27-Jul-12	WoW
Overnight Policy Rate (%)	3.00	3.00	Unchanged
3-year MGS Benchmark yield (%)	3.03	3.03	0
5-year MGS Benchmark yield (%)	3.18	3.16	-2
10-year MGS Benchmark yield (%)	3.41	3.36	-5
10/3s spread (bps)	38	33	-6
3-year IRS (%)	3.07	2.93	-14
5-year IRS (%)	3.16	3.12	-3
10-year IRS (%)	3.33	3.31	-2
3-year AAA yield (%)	3.68	3.68	Unchanged
3-year AA yield (%)	4.03	4.03	Unchanged
3-year A yield (%)	7.11	7.11	Unchanged
3-year AAA spread (bps)	65	65	0
3-year AA spread (bps)	100	100	0
3-year A spread (bps)	408	408	0
USD 1-year CDS Spread (bps)	34	34	Unchanged
USD 5-year CDS Spread (bps)	119	120	1
KLCI Index	1,643	1,625	-1.1%
MGS/GII Secondary Market Volume (MYR m)	17,953	19,901	10.9%
PDS Secondary Market Volume (MYR m)	2,535	2,783	9.8%
USD/MYR	3.1493	3.1613	0.4%

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

Source: Bloomberg, BPAM, MARC Fixed Income Research

Top trades of the week (govvies & credits)

Security	Volume (MYR m)	Last Traded Yield
MGS 1/2012 3.418% 15.08.2022	2,949	3.36
PROFIT-BASED GII 3/2012 30.09.2019	2,450	3.37
PROFIT-BASED GII 2/2012 30.08.2017	2,220	3.24
MGS 1/2011 4.16% 15.07.2021	1,717	3.36
MGS 5/2011 3.580% 28.09.2018	1,476	3.29

Security	Volume (MYR m)	Last Traded Yield
IBK MTN 1827D 14.2.2017	150	3.94
IBK MTN 1099D 17.2.2015	140	3.71
HCS MTN 729D 30.8.2012	117	3.48
MALAKOFCRP JUNIOR SUKUK 30.04.2057	100	9.00
HLBANK 4.500% 21.06.2024	87	4.30

Benchmark MGS yields



Weekly change in selected global & regional markets*

Country	Financial Variable	20-Jul-12	27-Jul-12	WoW
USA	US Fed Funds (%)	0.25	0.25	Unchanged
	2-year yield (%)	0.20	0.24	4
	10-year yield (%)	1.46	1.55	9
	USD Trade Weighted Index	41110.00	41117.00	0.0%
	Dow Jones Industrial	41,110.00	41,117.00	0.0%
GER	S&P 500	41,110.00	41,117.00	0.0%
	ECB Policy Rate (%)	0.75	0.75	Unchanged
	2-year yield	-0.07	-0.03	5
	10-year yield	1.17	1.40	23
	EUR/USD	1.2157	1.2322	1.4%
UK	Germany DAX	6,630.02	6,689.40	0.9%
	BOE Policy Rate (%)	0.50	0.50	Unchanged
	2-year yield (%)	0.12	0.12	Unchanged
	10-year yield (%)	1.49	1.54	5
	GBP/USD	1.5623	1.5748	0.8%
JPN	London FTSE	5,651.77	5,627.21	-0.4%
	BoJ Policy Rate (%)	0.10	0.10	Unchanged
	2-year yield (%)	0.10	0.10	0
	10-year yield (%)	0.74	0.75	0
	USD/JPY	78.4900	78.4600	0.0%
AUS	Nikkei 225	8,669.87	8,566.64	-1.2%
	RBA Cash Rate (%)	3.50	3.50	Unchanged
	2-year yield (%)	2.40	2.59	19
	10-year yield (%)	2.93	3.01	9
	AUD/USD	1.0378	1.0483	1.0%
IDN	S&P/ASX 200	4,199.12	4,209.77	0.3%
	Bank Indonesia Reference Rate (%)	5.75	5.75	Unchanged
	2-year yield (%)	5.09	5.12	3
	10-year yield (%)	5.72	5.75	3
	USD/IDR	9,458.0	9,494.0	0.4%
THA	JCI Index	4,081.20	4,084.21	0.1%
	Bank of Thailand Policy Rate (%)	3.00	3.00	Unchanged
	2-year yield (%)	3.10	3.05	-5
	10-year yield (%)	3.28	3.24	-5
	USD/THB	31.6700	31.5200	-0.5%
KOR	SET Index	1,208.55	1,178.01	-2.5%
	South Korea Official Bank Rate (%)	3.00	3.00	Unchanged
	2-year yield (%)	2.88	2.86	-2
	10-year yield (%)	3.15	3.13	-2
	USD/KRW	1,141.2	1,138.3	-0.3%
Commodities	KOSPI Index	1,822.93	1,829.16	0.3%
	Crude oil spot (USD/barrel)	91.44	90.13	-1.4%
	Gold spot (USD/ounce)	1,584.50	1,622.90	2.4%
	S&P GSCI Return Index	4,942.4	4,865.9	-1.5%

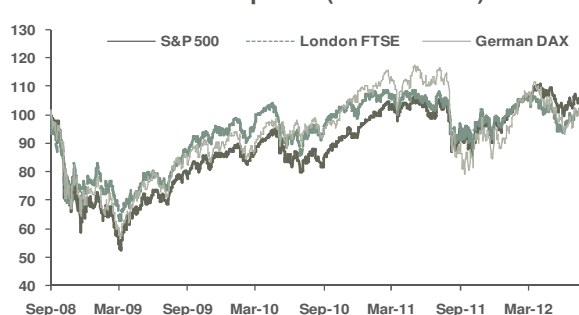
*Weekly change in bond yields is quoted in basis point.

Source: Bloomberg, MARC Fixed Income Research

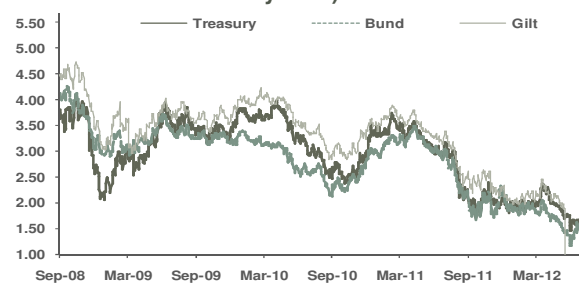
USD vs. Gold Price



Global Equities (Mar 08 = 100)



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



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