



MALAYSIAN RATING CORPORATION BERHAD
(364803 V)

Weekly Market Snapshot

22 August 2012

Market Highlights for the week ended 17 August 2012

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Local Currency

The ringgit pared gains last week to settle at 3.1328 per US dollar, registering a 0.5% weekly loss in tandem with other regional currencies besides the Chinese renminbi and Hong Kong dollar. In the middle of the week, the ringgit strengthened in light of better-than-expected gross domestic product (GDP) data for 2Q2012. In contrast with the slowdown in advanced economies, the Malaysian economy recorded a broad-based expansion as much as 5.4% y-o-y in 2Q2012 following a revised 4.9% growth in the previous quarter vis-à-vis a consensus reading of 4.6% advance. On another note, inflation was benign in July with consumer prices moderating to 1.4% y-o-y after growing 1.6% in June while economists expected the prices to increase at the same pace. The healthy growth in the economy may deter the central bank from loosening the monetary policy although the cooling inflation may provide sufficient room for a rate cut in 2H2012.

Nonetheless, external headwinds overshadowed the heartening domestic economy. The euro-zone economy contracted in 2Q2012 on account of tougher fiscal measures in the debt-laden nations despite France avoiding a recession while Germany's economy expanded marginally. On the other hand, investors hoped for easing measures by the Chinese central bank to stimulate growth in the region before the risk-on phenomenon re-emerged.

US Treasuries

Treasury yields surged to a 3-month high on a slew of positive economic data, raising concern on the US monetary stance. After a sharp retail sales deterioration in June, sales picked up 0.8% m-o-m in July to surprise the market on the upside as economists anticipated a 0.2% rise. Consumers were more willing to spend as all categories recorded gains in July. In spite of that, both headline and core inflation nudged down to 1.4% y-o-y and 2.1% respectively in July, softening from 1.7% and 2.2% in the previous month. Other than that, industrial production continued to advance in July, posting a 0.6% m-o-m gain following a rise of 0.1% in June. The median estimate called for a 0.5% advance. All three categories, namely manufacturing, mining and utilities output rose in July. On a related note, capacity utilization improved to 79.3% from 78.9% in June. Treasuries as safe haven assets were sold off after the news was announced, dampening possibilities of another round of asset purchase by the Federal Reserve. The US housing market at this juncture reported 6.8% more building permits in July than the previous month, totaling 812k grants as opposed to 760k permits in June. The gains in retail sales coupled with a better housing market pushed the 5- and 10-year treasury yields 9 bps and 15 bps higher to 0.80% and 1.81% respectively.

Ringgit Sovereign and Corporate Bonds

The reissuance of the 5-year MGS saw lackluster demand, reflecting the depreciated ringgit, while the resilient domestic demand as exhibited by the 2Q2012 GDP data pushed the investing community to hunt for yields elsewhere. The yields curve shifted upward as selling pressure was seen along the curve. The belly and longer end of the curve shifted 13 bps w-o-w and 18 bps higher to 3.33% and 3.59% while the 10/3 spreads widened to 45 bps w-o-w. The secondary MGS/GII market was active before the Hari Raya Aidilfitri holiday with the 5-day moving average rising to MYR3.5 billion from MYR3.1 billion in the previous week, led by the newly issued MGS 5/2012 3.314% 31.10.2017. The trading volume of the PDS market was 5.7% lower last week, posting MYR2.2 billion worth of trades. The most popular PDS was the financial paper OCBC LIMITED 4.600% 06.06.2018 (AAA) with last yield done at 3.56%.









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Weekly change in selected domestic markets

Financial Variable	10-Aug-12	17-Aug-12	WoW
Overnight Policy Rate (%)	3.00	3.00	Unchanged
3-year MGS Benchmark yield (%)	3.04	3.14	10
5-year MGS Benchmark yield (%)	3.20	3.33	13
10-year MGS Benchmark yield (%)	3.41	3.59	18
10/3s spread (bps)	37	46	8
3-year IRS (%)	3.08	3.17	9
5-year IRS (%)	3.19	3.30	12
10-year IRS (%)	3.45	3.57	13
3-year AAA yield (%)	3.68	3.70	2
3-year AA yield (%)	4.03	4.04	1
3-year A yield (%)	7.11	7.11	Unchanged
3-year AAA spread (bps)	64	57	-8
3-year AA spread (bps)	99	91	-9
3-year A spread (bps)	407	398	-10
USD 1-year CDS Spread (bps)	34	34	Unchanged
USD 5-year CDS Spread (bps)	109	109	0
KLCI Index	1,645	1,650	0.3%
MGS/GII Secondary Market Volume (MYR m)	13,050	17,255	32.2%
PDS Secondary Market Volume (MYR m)	2,368	2,232	-5.7%
USD/MYR	3.1171	3.1328	0.5%

*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	10-Aug-12	17-Aug-12	WoW
	US Fed Funds (%)	0.25	0.25	Unchanged
	2-year yield (%)	0.26	0.29	3
	10-year yield (%)	1.66	1.81	15
	USD Trade Weighted Index	41131.00	41138.00	0.0%
	Dow Jones Industrial	41,131.00	41,138.00	0.0%
S&P 500	41,131.00	41,138.00	0.0%	
	ECB Policy Rate (%)	0.75	0.75	Unchanged
	2-year yield	-0.07	-0.04	3
	10-year yield	1.39	1.50	11
	EUR/USD	1.2289	1.2334	0.4%
	Germany DAX	6,944.56	7,040.88	1.4%
	BOE Policy Rate (%)	0.50	0.50	Unchanged
	2-year yield (%)	0.11	0.16	4
	10-year yield (%)	1.54	1.67	13
	GBP/USD	1.5690	1.5697	0.0%
	London FTSE	5,847.11	5,852.42	0.1%
	BoJ Policy Rate (%)	0.10	0.10	Unchanged
	2-year yield (%)	0.09	0.09	0
	10-year yield (%)	0.80	0.84	3
	USD/JPY	78.2800	79.5600	1.6%
	Nikkei 225	8,891.44	9,162.50	3.0%
	RBA Cash Rate (%)	3.50	3.50	Unchanged
	2-year yield (%)	2.83	2.96	14
	10-year yield (%)	3.25	3.46	22
	AUD/USD	1.0577	1.0420	-1.5%
	S&P/ASX 200	4,277.30	4,370.10	2.2%
	Bank Indonesia Reference Rate (%)	5.75	5.75	Unchanged
	2-year yield (%)	5.15	5.32	17
	10-year yield (%)	5.75	5.95	21
	USD/IDR	9,485.0	9,519.0	0.4%
	JCI Index	4,141.56	4,160.51	0.5%
	Bank of Thailand Policy Rate (%)	3.00	3.00	Unchanged
	2-year yield (%)	2.98	3.06	8
	10-year yield (%)	3.22	3.38	16
	USD/THB	31.4700	31.5100	0.1%
	SET Index	1,219.37	1,223.91	0.4%
	South Korea Official Bank Rate (%)	3.00	3.00	Unchanged
	2-year yield (%)	2.80	2.92	12
	10-year yield (%)	3.04	3.19	15
	USD/KRW	1,130.5	1,134.3	0.3%
	KOSPI Index	1,946.40	1,946.54	0.0%
Commodities	Crude oil spot (USD/barrel)	92.87	96.01	3.4%
	Gold spot (USD/ounce)	1,620.20	1,616.05	-0.3%
	S&P GSCI Return Index	4,983.7	5,070.7	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
MGS 5/2012 3.314% 31.10.2017	4,105	3.33
MGS 1/2009 2.509% 27.08.2012	1,653	2.96
MGS 2/2004 5.09400% 30.04.2014	1,262	2.96
MGS 1/2012 3.418% 15.08.2022	1,124	3.59
PROFIT-BASED GII 6/2012 08.02.2016	985	3.30

Security	Volume (MYR m)	Last Traded Yield
OCBC LIMITED 4.600% 06.06.2018	200	3.56
TANJUNG BP IMTN 4.540% 16.08.2019	130	4.19
PLUS BERHAD IMTN 4.800% 12.01.2027 - Series 1 (11)	120	4.42
KEXIM MTN 1827D 02.2.2017	100	3.92
YTL POWER MTN 2556D 24.8.2018	95	4.09
CIMBBANK 4.150% 06.08.2021 - Issue No 3	95	3.98

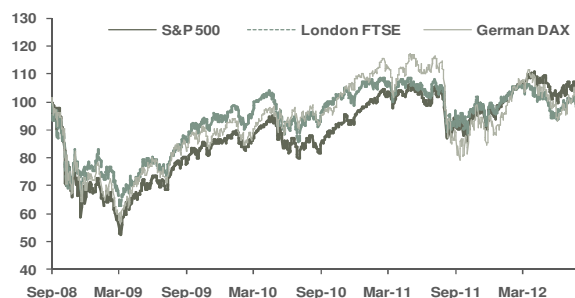
Benchmark MGS yields



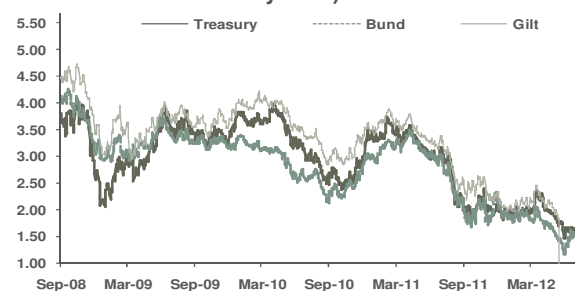
USD vs. Gold Price



Global Equities (Mar 08 = 100)



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



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Published and Printed by:

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