



MALAYSIAN RATING CORPORATION BERHAD
(364803 V)

Weekly Market Snapshot

15 October 2012

Market Highlights for the week ended 12 October 2012

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Local Currency

The local currency depreciated as Malaysian industrial production weakened 0.7% y-o-y in August after a revised 2.9% gain in July, marking the first contraction this year, albeit not as high as the predicted drop of 2.0%. The decline was in line with the weaker overseas shipments data as a result of poor external demand for Malaysian products. The major weakness came from slower manufacturing activities although the mining and electricity indexes marked gains in August. On the external front, South Korea joined other developed nations in shielding growth by cutting its seven-day repurchase rate by 25 bps to 2.75%, which was also bearish for riskier assets. The ringgit fell by 0.1% w-o-w to 3.0578 against the US dollar.

US Treasuries

The investing community witnessed the return of appetite for riskless assets especially in treasury auctions held last week. The economic weaknesses in the euro-zone and slower growth in emerging markets weighed on the US exports, notably the weakness in industrial supplies. Meanwhile, imports rose on higher commodity prices to widen the trade deficit to USD44.2 billion, surprising the market on the upside as the consensus reading suggested the gap widened to USD40.0 billion. The latest Beige Book acknowledged a modest improvement in the US economy with very gradual gains in consumer spending coupled with an anemic employment situation. The bright spots of the report were the residential property market and loan demand in the economy. Nonetheless, manufacturing conditions were mixed but somewhat enhanced. The heartening release last week was the preliminary reading for the University of Michigan's Consumer Sentiment Index which was nearly 5 pts greater at 83.1 for October, as opposed to an anticipated decline to 78.0 after recording 78.3 in September, underscoring better current conditions and expectations for more promising income prospects while price pressure is anticipated to be insignificant.

Heightened risk aversion followed European Central Bank President Mario Draghi's pessimism on weak economic activities in the near term and only a very gradual recovery after that, mainly related to the financial market tensions in certain peripherals. Meanwhile, the International Monetary Fund sees room for a further rate cut following a downward projection of growth. Standard and Poor's downgraded Spain by two notches to one notch above junk last week while Moody's is considering a downgrade to junk, which would increase the sovereign's borrowing costs and instigate a spillover effect to other heavily indebted members in the region. The belly and right wings of the treasury yield curve shifted downward with the 10-year yields succumbing 8 bps w-o-w to 1.66%

Ringgit Sovereign and Corporate Bonds

The reopening of 5-year GII totaling MYR2.5 billion received a decent response from investors with a bid-to-cover rate of 2.0x compared with 1.9x in July's auction and a oversubscription rate of 2.3x when it was first issued in February. The YTD issuance of MGS/GII increased to MYR79.5 billion. MGS/GII's trading volume was a tad higher than previously at MYR12.8 billion while private debt securities (PDS) trades were rather dull with MYR1.7 billion papers changing hands, which was 58.5% lower than the previous week. The local govies market was dominated by MGS 6/2012 0% 31.03.2020 with MYR1.9 billion notes traded while the PDS market was led by Tanjung Bin Power's Sukuk, in particular the TANJUNG BP IMTN 5.230% 14.08.2026 that registered MYR110 million worth of trades with last yield done at 4.7%.

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Weekly change in selected domestic markets

Financial Variable	5-Oct-12	12-Oct-12	WoW
Overnight Policy Rate (%)	3.00	3.00	Unchanged
3-year MGS Benchmark yield (%)	3.15	3.14	-1
5-year MGS Benchmark yield (%)	3.27	3.26	-1
10-year MGS Benchmark yield (%)	3.52	3.52	0
10/3s spread (bps)	37	38	1
3-year IRS (%)	3.17	3.16	-1
5-year IRS (%)	3.30	3.27	-3
10-year IRS (%)	3.62	3.57	-5
3-year AAA yield (%)	3.73	3.73	Unchanged
3-year AA yield (%)	4.04	4.04	Unchanged
3-year A yield (%)	7.00	7.00	Unchanged
3-year AAA spread (bps)	58	59	1
3-year AA spread (bps)	89	90	1
3-year A spread (bps)	385	386	1
USD 1-year CDS Spread (bps)	34	34	Unchanged
USD 5-year CDS Spread (bps)	95	95	Unchanged
KLCI Index	1,660	1,653	-0.4%
MGS/GII Secondary Market Volume (MYR m)	12,711	12,781	0.6%
PDS Secondary Market Volume (MYR m)	3,982	1,653	-58.5%
USD/MYR	3.0545	3.0578	0.1%

*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	5-Oct-12	12-Oct-12	WoW
USA	US Fed Funds (%)	0.25	0.25	Unchanged
	2-year yield (%)	0.26	0.26	0
	10-year yield (%)	1.74	1.66	-9
	USD Trade Weighted Index	41187.00	41194.00	0.0%
	Dow Jones Industrial	41,187.00	41,194.00	0.0%
Germany	S&P 500	41,187.00	41,194.00	0.0%
	ECB Policy Rate (%)	0.75	0.75	Unchanged
	2-year yield	0.06	0.04	-2
	10-year yield	1.52	1.45	-8
	EUR/USD	1.3045	1.2951	-0.7%
UK	Germany DAX	7,397.87	7,232.49	-2.2%
	BOE Policy Rate (%)	0.50	0.50	Unchanged
	2-year yield (%)	0.21	0.21	0
	10-year yield (%)	1.77	1.72	-5
	GBP/USD	1.6136	1.6072	-0.4%
Japan	London FTSE	5,871.02	5,793.32	-1.3%
	BoJ Policy Rate (%)	0.10	0.10	Unchanged
	2-year yield (%)	0.10	0.10	Unchanged
	10-year yield (%)	0.78	0.77	-1
	USD/JPY	78.6700	78.4400	-0.3%
Australia	Nikkei 225	8,863.30	8,534.12	-3.7%
	RBA Cash Rate (%)	3.25	3.25	Unchanged
	2-year yield (%)	2.46	2.44	-2
	10-year yield (%)	3.04	3.04	-1
	AUD/USD	1.0187	1.0233	0.5%
Indonesia	S&P/ASX 200	4,494.38	4,486.60	-0.2%
	Bank Indonesia Reference Rate (%)	5.75	5.75	Unchanged
	2-year yield (%)	5.33	5.30	-3
	10-year yield (%)	5.85	5.87	2
	USD/IDR	9,594.0	9,585.0	-0.1%
Thailand	JCI Index	4,311.31	4,311.39	0.0%
	Bank of Thailand Policy Rate (%)	3.00	3.00	Unchanged
	2-year yield (%)	3.13	3.11	-2
	10-year yield (%)	3.48	3.45	-3
	USD/THB	30.5900	30.6700	0.3%
South Korea	SET Index	1,311.35	1,296.98	-1.1%
	South Korea Official Bank Rate (%)	3.00	2.75	-2500.0%
	2-year yield (%)	2.79	2.80	1
	10-year yield (%)	2.95	2.95	Unchanged
	USD/KRW	1,111.4	1,111.3	0.0%
Commodities	KOSPI Index	1,995.17	1,933.26	-3.1%
	Crude oil spot (USD/barrel)	89.88	91.86	2.2%
	Gold spot (USD/ounce)	1,780.60	1,754.48	-1.5%
	S&P GSCI Return Index	5,010.3	5,058.6	1.0%

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

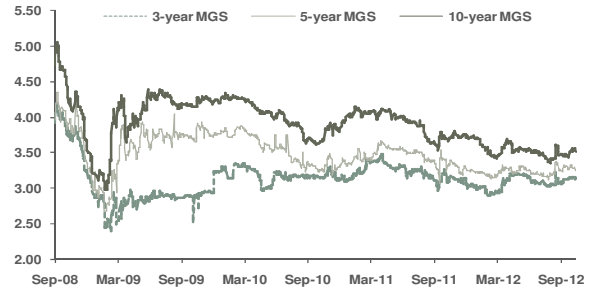
Source: Bloomberg, MARC Fixed Income Research

Top trades of the week (govvies & credits)

Security	Volume (MYR m)	Last Traded Yield (%)
MGS 6/2012 0% 31.03.2020	1,934	3.45
PROFIT-BASED GII 4/2012 15.11.2022	1,786	3.66
MGS 4/2012 4.127% 15.04.2032	1,239	3.97
MGS 3/2003 3.70200% 25.02.2013	1,050	3.01
PROFIT-BASED GII 2/2012 30.08.2017	731	3.36

Security	Volume (MYR m)	Last Traded Yield (%)
TANJUNG BP IMTN 5.230% 14.08.2026	110	4.70
TANJUNG BP IMTN 5.010% 16.08.2024	100	4.53
TANJUNG BP IMTN 5.280% 16.08.2027	100	4.77
TANJUNG BP IMTN 5.120% 15.08.2025	90	4.61
KDB MTN 1461D 24.2.2016 - MTN 1	90	3.92

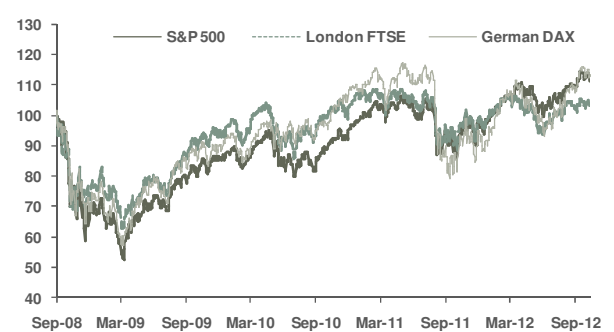
Benchmark MGS yields



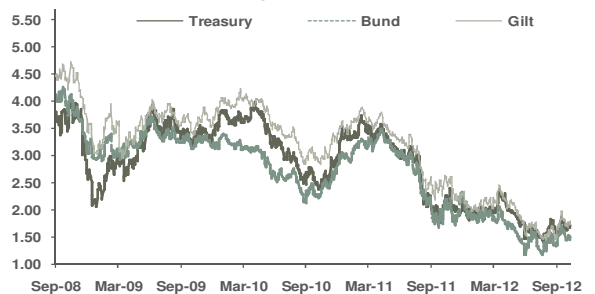
USD vs. Gold Price



Global Equities (Mar 08 = 100)



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



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