



**MALAYSIAN RATING CORPORATION BERHAD**  
(364803 V)

## Weekly Market Snapshot

22 October 2012

### Market Highlights for the week ended 19 October 2012

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#### Local Currency

Local currency traded stronger last week on Bank Negara Malaysia Governor Zeti Akhtar Aziz's confidence that the Malaysian economy will achieve a 5.0% expansion in 2012 as the third and fourth quarter this year are poised to deliver "good growth". Zeti observed the absence of imminent prices pressure but highlighted growth risks despite domestic demand remaining relatively robust.

From the external perspective, China's heartening economic releases (industrial production, retail sales and fixed-asset investment) for September suggested that the economy may be bottoming and "has started to stabilize", according to Premier Wen Jiabao. Meanwhile, the government is confident of achieving growth targets with more positive changes on the cards. The news overshadowed an unexpected rate cut in Thailand following a slowdown in Southeast Asia, and Thai policymakers will announce a lower expansion target for 2013 despite maintaining a growth forecast for 2012 at 5.7%. The ringgit was among the appreciating currencies in the region, gaining 0.2% w-o-w to 3.0523 against the US dollar.

#### US Treasuries

Treasuries lost ground w-o-w as investors sought better returns elsewhere after more optimism was observed in the US economy. Industrial production climbed more than predicted in September by 0.4% after declining 1.4% in August, beating the 0.2% forecast gain. On the other hand, housing starts surged 15.0% m-o-m to an annualised 872k after August's data was revised to a monthly gain of 4.1% or 758k in annual pace. Meanwhile, building permits showed a remarkable gain of 11.6% m-o-m, an annual pace of 801k in August compared to 894k in September. Nonetheless, the decline in September's existing home sales was accompanied by higher home prices on a y-o-y rate and lower home supply in the housing market that may give mixed data going forward. Concurrently, inflationary pressure from the ongoing stimulus in the US remained a major concern as the Core Consumer Price Index rose, albeit by a marginal 0.1% to 2.0% y-o-y in August.

The surge in treasury yields was restrained before a meeting among European leaders was concluded with an establishment of a single banking supervisor next year as German Chancellor Angela Merkel questioned if the move was realistic. Meanwhile, Spain saw no urgency to ask for a bailout. On a w-o-w basis, the 5- and 10-year treasury yields declined 9 bps and 10 bps to 0.75% and 1.76% respectively.

#### Ringgit Sovereign and Corporate Bonds

On the domestic front, inflation moderated to 1.3% y-o-y as opposed to a 1.4% increase suggested by the consensus reading that matched the previous month's data. Although the current policy is "quite accommodative" as described by Governor Zeti, the recent rate cut in Thailand and easing domestic inflation may indicate a rate cut before 2012 ends, reflected by a downward shift on the left wing of the benchmark yields curve. The secondary MGS/GII market was rather active last week with the weekly trading volume climbing 18.4% to MYR15.1 billion. Local govies were dealt higher as investors took more risk in relation to easing measures in developed economies. The most traded government note was MGS 6/2012 0% 31.03.2020 that saw MYR3.5 billion changing hands. The private debt securities market was led by financial papers last week, despite trading volume declining by 3.2% to MYR1.6 billion. The most traded paper was AMBANK MTN 3650D 14.10.2022, recording trades of MYR111 million with last yield done of 4.36%.

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## Weekly change in selected domestic markets

| Financial Variable                      | 12-Oct-12 | 19-Oct-12 | WoW       |
|---|-----------|-----------|-----------|
| Overnight Policy Rate (%)               | 3.00      | 3.00      | Unchanged |
| 3-year MGS Benchmark yield (%)          | 3.14      | 3.09      | -5        |
| 5-year MGS Benchmark yield (%)          | 3.26      | 3.24      | -2        |
| 10-year MGS Benchmark yield (%)         | 3.52      | 3.42      | -9        |
| 10/3s spread (bps)                      | 38        | 33        | -5        |
| 3-year IRS (%)                          | 3.16      | 3.14      | -1        |
| 5-year IRS (%)                          | 3.27      | 3.27      | 0         |
| 10-year IRS (%)                         | 3.57      | 3.60      | 2         |
| 3-year AAA yield (%)                    | 3.73      | 3.71      | -2        |
| 3-year AA yield (%)                     | 4.04      | 4.03      | -1        |
| 3-year A yield (%)                      | 7.00      | 6.97      | -3        |
| 3-year AAA spread (bps)                 | 59        | 62        | 3         |
| 3-year AA spread (bps)                  | 90        | 94        | 4         |
| 3-year A spread (bps)                   | 386       | 388       | 2         |
| USD 1-year CDS Spread (bps)             | 34        | 34        | Unchanged |
| USD 5-year CDS Spread (bps)             | 95        | 95        | Unchanged |
| KLCI Index                              | 1,653     | 1,666     | 0.8%      |
| MGS/GII Secondary Market Volume (MYR m) | 12,781    | 15,138    | 18.4%     |
| PDS Secondary Market Volume (MYR m)     | 1,653     | 1,600     | -3.2%     |
| USD/MYR                                 | 3.0578    | 3.0523    | -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                 | 12-Oct-12 | 19-Oct-12 | WoW       |
|-------------|------------------------------------|-----------|-----------|-----------|
| USA         | US Fed Funds (%)                   | 0.25      | 0.25      | Unchanged |
|             | 2-year yield (%)                   | 0.26      | 0.29      | 3         |
|             | 10-year yield (%)                  | 1.66      | 1.76      | 11        |
|             | USD Trade Weighted Index           | 41194.00  | 41201.00  | 0.0%      |
|             | Dow Jones Industrial               | 41,194.00 | 41,201.00 | 0.0%      |
| UK          | S&P 500                            | 41,194.00 | 41,201.00 | 0.0%      |
|             | ECB Policy Rate (%)                | 0.75      | 0.75      | Unchanged |
|             | 2-year yield                       | 0.04      | 0.11      | 7         |
|             | 10-year yield                      | 1.45      | 1.59      | 15        |
|             | EUR/USD                            | 1.2951    | 1.3024    | 0.6%      |
| Germany     | Germany DAX                        | 7,232.49  | 7,380.64  | 2.0%      |
|             | BOE Policy Rate (%)                | 0.50      | 0.50      | Unchanged |
|             | 2-year yield (%)                   | 0.21      | 0.25      | 5         |
|             | 10-year yield (%)                  | 1.72      | 1.88      | 16        |
|             | GBP/USD                            | 1.6072    | 1.6004    | -0.4%     |
| Japan       | London FTSE                        | 5,793.32  | 5,896.15  | 1.8%      |
|             | BoJ Policy Rate (%)                | 0.10      | 0.10      | Unchanged |
|             | 2-year yield (%)                   | 0.10      | 0.11      | 1         |
|             | 10-year yield (%)                  | 0.77      | 0.79      | 2         |
|             | USD/JPY                            | 78.4400   | 79.3200   | 1.1%      |
| Australia   | Nikkei 225                         | 8,534.12  | 9,002.68  | 5.5%      |
|             | RBA Cash Rate (%)                  | 3.25      | 3.25      | Unchanged |
|             | 2-year yield (%)                   | 2.44      | 2.56      | 12        |
|             | 10-year yield (%)                  | 3.04      | 3.18      | 15        |
|             | AUD/USD                            | 1.0233    | 1.0331    | 1.0%      |
| Indonesia   | S&P/ASX 200                        | 4,486.58  | 4,571.08  | 1.9%      |
|             | Bank Indonesia Reference Rate (%)  | 5.75      | 5.75      | Unchanged |
|             | 2-year yield (%)                   | 5.30      | 5.25      | -5        |
|             | 10-year yield (%)                  | 5.87      | 5.76      | -11       |
|             | USD/IDR                            | 9,585.0   | 9,629.0   | 0.5%      |
| Thailand    | JCI Index                          | 4,311.39  | 4,331.25  | 0.5%      |
|             | Bank of Thailand Policy Rate (%)   | 3.00      | 2.75      | -25       |
|             | 2-year yield (%)                   | 3.11      | 2.88      | -23       |
|             | 10-year yield (%)                  | 3.45      | 3.36      | -9        |
|             | USD/THB                            | 30.6700   | 30.7100   | 0.1%      |
| South Korea | SET Index                          | 1,296.98  | 1,307.71  | 0.8%      |
|             | South Korea Official Bank Rate (%) | 2.75      | 2.75      | Unchanged |
|             | 2-year yield (%)                   | 2.80      | 2.83      | 3         |
|             | 10-year yield (%)                  | 2.95      | 3.02      | 7         |
|             | USD/KRW                            | 1,111.3   | 1,103.5   | -0.7%     |
| Commodities | KOSPI Index                        | 1,933.26  | 1,943.84  | 0.5%      |
|             | Crude oil spot (USD/barrel)        | 91.86     | 90.05     | -2.0%     |
|             | Gold spot (USD/ounce)              | 1,754.48  | 1,721.75  | -1.9%     |
|             | S&P GSCI Return Index              | 5,058.6   | 4,988.4   | -1.4%     |

\*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                  |

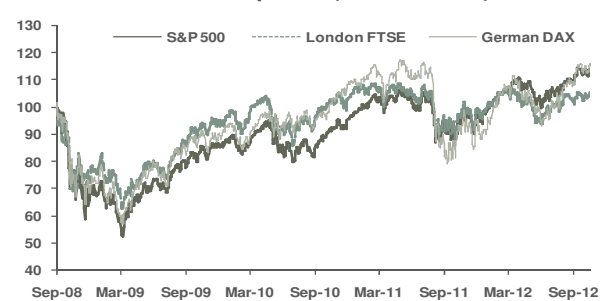
## Benchmark MGS yields



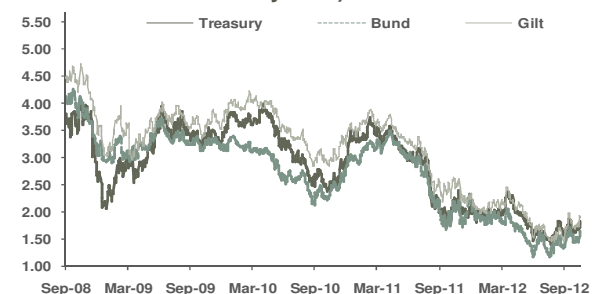
## USD vs. Gold Price



## Global Equities (Mar 08 = 100)



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



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