

MALAYSIAN RATING CORPORATION BERHAD
(14830-V)

APRIL 2014

Monthly Bond Market & Rating Snapshot

FINANCIAL VARIABLE	MAR-14	APR-14	MoM CHNG
Overnight Policy Rate (%)	3.00	3.00	0 bps
3-year Benchmark MGS (%)	3.40	3.38	-2 bps
10-year Benchmark MGS (%)	4.11	4.07	-4 bps
3-year IRS (%)	3.77	3.74	-2 bps
10-year IRS (%)	4.58	4.40	-19 bps
Ringgit 3-year AAA (%)	3.86	3.86	0 bps
Ringgit 3-year AA (%)	4.28	4.27	-1 bps
Ringgit 3-year A (%)	6.25	6.25	0 bps
10-year US Treasury (%)	2.72	2.65	-7 bps
2-year US Treasury (%)	0.42	0.41	-1 bps
MYR/USD	3.2645	3.2655	0.0%
KLCI Index	1849.21	1871.52	1.2%
S&P 500 Index	1872.34	1883.95	0.6%

Source: Bloomberg, MARC Fixed Income Research

**Global Markets**

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US Treasuries (UST) staged a strong rally throughout the month, overturning last month's losses with benchmark yields falling across the maturity spectrum, narrowing the tenure spread of the 2-year and 10-year UST to 224 bps, the least since October last year.

Ringgit Bonds

2

Malaysian Government Securities (MGS) ended on stronger footing with yields drifting lower across the curve, taking cues from a rally in the UST, steady ringgit and strong demand towards local debt auctions. Trading performance remained lackluster in the govies space, with over RM44.4 billion worth of papers changing hands versus RM44.2 billion transacted in March.

Local Currency

2

The ringgit ended the month surprisingly unchanged against the dollar despite swinging in a wider range of 3.2150 to 3.2842 during the month, as the global macro landscape continued to paint a mixed picture. Data turned out to be a mixed bag in the US, while data from China has not been encouraging.

Topic of the Month – Rally in the Euro bonds

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Benchmark YTM, IRS and OPR

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Market Review

US Treasuries

The UST market staged a strong rally throughout the month, overturning losses in the previous month with benchmark yields falling across the maturity spectrum, narrowing the 2-year and 10-year tenure spread to 224 bps. According to the FOMC meeting minutes on 18 – 19 March, Fed policymakers viewed an increase in the median projection for the key interest rate exaggerated the possibility of the central bank tightening its monetary policy earlier than expected. The UST gained further ground as geopolitical risk resulting from the Russia-Ukraine crisis intensified, spurring demand for US safe-haven assets. Meanwhile, the latest FOMC meeting delivered no major surprises, with the Fed continuing to wind down asset purchases for the fourth time by another US\$10 billion per month, prompting little reaction in the market. Federal Reserve Chairwoman Janet Yellen sounded more dovish in her statement this time, pledging to keep interest rates low for some time after the tapering ends.

On the economic front, US data released in April painted a mixed picture to investors i.e. the 1Q2014 GDP print came in weaker-than-expected by growing 0.1% q-o-q compared with market expectations of a 1.0% increase while retail sales rose 1.1% in March, the biggest increase since September 2012.

Separately, the US Treasury Department had announced that 2- and 3-year notes auction amounts would be reduced by US\$1 billion each beginning in May and will reduce the debt offering gradually in the coming months. While the pace of the cutting down is dependent on the government's fiscal position, the Treasury is expected to reduce a total borrowing of US\$66 billion for this year should it continue to reduce its debt auctions at the current pace for each maturity.

Ringgit Bonds

In the local bonds space, MGS ended on a stronger footing with yields drifting lower across the curve at a range of 2 bps to 7 bps, narrowing the yield gap between the 3-year and 10-year notes to 68 bps. Net buying interest was seen throughout the month, taking cues from a rally in the UST, steady ringgit and strong demand towards the local govies debt auctions. However, trading performance remained lackluster in the govies space, with over RM44.4 billion worth of papers changing hands versus RM44.2 billion transacted in March, due to uncertainties impacting the financial market, namely the Fed ending its monthly bond purchases programme and the possibility of BNM increasing its benchmark interest rate.

Regarding the domestic economy, Malaysia's headline inflation stayed stable in March, rising at 3.5% y-o-y, with broad-based increases across all categories. Separately, foreign holdings of MGS in March appears to be holding up well too, increasing by RM1.4 billion to RM140.8 billion. However, foreign holdings of MGS to the total outstanding amount were a tad lower at 44.1% in March compared with 44.7% in the prior month, attributed to a higher MGS outstanding denominator of RM319 billion.

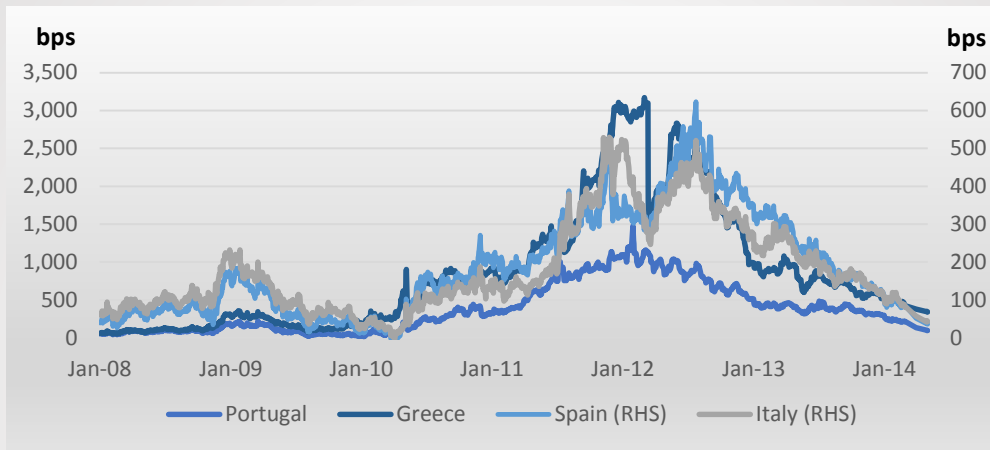
There were two government offerings last month i.e. the 15-year reopening of GII and 5.5-year new issue of MGS, with each fetching an average yield of 4.457% and 3.654% respectively. The two auctions raised a total of RM5.5 billion, with a healthy bid-to-cover ratio of 2.773x for the former and 2.715x for the latter.

Moving to corporate bonds, positive momentum was seen in April with RM7.3 billion worth of papers traded versus March's RM6.3 billion. The top five most actively traded bonds were BPMB Guaranteed MTN 04/15, HLBANK 4.50% 06/24, DANGA IMTN 4.35% 04/15, OCBC 4.20% 11/20, and PRASARANA IMTN 4.08% 03/19.

Local Currency

The ringgit ended the month surprisingly unchanged against the dollar despite swinging in a wider range of 3.2150 to 3.2842 during the month as developments in the global economic landscape continued to give conflicting directions to investors, including a mixed bag of economic data from the US as mentioned above and disappointing data from China. Nonetheless, increased inflows to the domestic market amid deflating concerns over the US interest rate hike has helped keep a lid on the ringgit, pushing the local note to appreciate by 1.3% to 3.2150 against the greenback in the second week of April, the lowest level since December 2013. Malaysia's strong industrial output, which rose 6.7% y-o-y led by gains in manufacturing and electricity output, also lent support for the local note. However, in the latter part of the month, the ringgit lost ground against the rallying dollar due to profit-taking activities, causing the local currency to close with little change on a monthly basis.

Rally in the Euro bonds

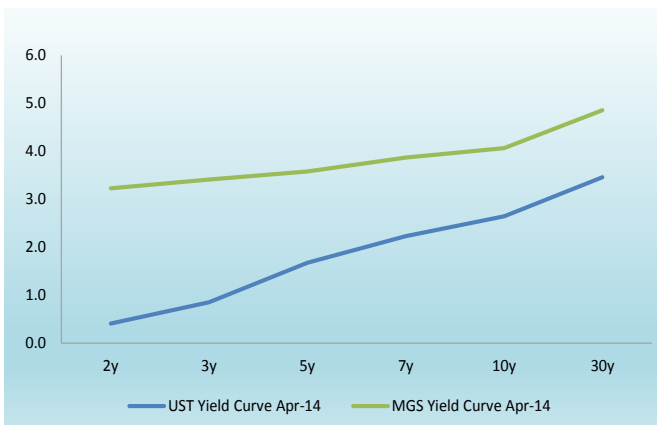


Last month saw the bond yields of the euro zone's peripheral countries on an extended rally for two straight months, with Spanish and Italian yields grinding lower by more than 20 bps each while Portuguese and Greek yields fell over 40 bps, narrowing their sovereign yield spreads compared with the UST to the least since 2010. German bunds also ended on higher ground, pushing the 10-year note yields lower by 9 bps m-o-m.

Since European Central Bank (ECB) President Mario Draghi pledged to do "whatever it takes" to support the euro in July 2012, the region's bond markets have been on an upward trajectory. The recent rally was mainly driven by the expectation of quantitative easing being introduced after Draghi signalled early in the month that the central bank was considering bond purchases to fight deflation risk. The bond market is also supported by broad-based economic recovery in the region, evidenced by the recent release of rather encouraging economic data. The PMI rose to 54.0 in April (March: 53.1; Survey: 53.0), exceeding the breakeven level of 50 for the tenth consecutive month and also the highest level since May 2011. The Eurozone Conference Board Leading Economic Index also rose 0.2% to 111.2 in March following a 0.1% increase in February, indicating that the area's economy grew steadily for the first quarter of the year.

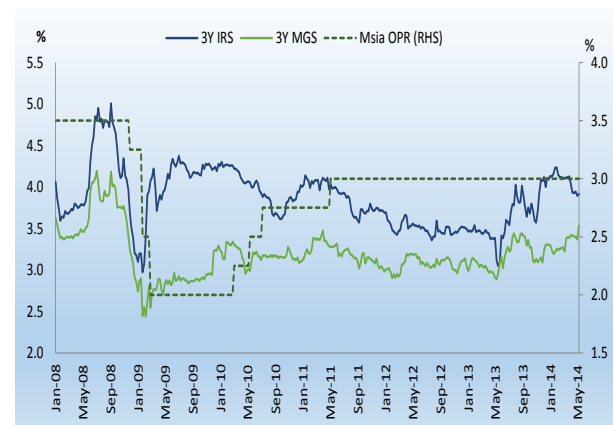
Yield Curve, IRS and OPR

UST and MGS Yield Curve (%)



Source: Bloomberg, MARC Fixed Income Research

IRS, MGS and OPR (%)



Source: Bloomberg, MARC Fixed Income Research

Summary of Corporate Bond Issuance and Outstanding

Historical Trend of Bond Issuance by Category (RM bn)

Year	MGS	Unrated Corporate Bonds	Rated Corporate Bonds	Unrated Government Guaranteed	Cagamas	Total Corporate Bonds
2008	60.0	3.52	40.38	6.80	5.05	55.74
2009	88.5	7.49	31.39	13.85	8.31	61.03
2010	58.1	6.03	35.99	4.73	6.33	53.07
2011	93.3	5.20	47.63	15.02	2.80	70.63
2012	96.2	13.44	76.55	30.38	3.42	123.79
2013	92.5	12.33	52.38	13.56	7.90	86.17
2014 YTD	29.0	1.94	15.98	10.91	0.12	28.95

Source: BPAM, MARC Fixed Income Research

Gross total issuances of local corporate bonds slowed down by 20% to RM7.3 billion in April 2014 from RM9.2 billion recorded in the previous month. However, over the period from January 2014 to April 2014, total gross issuances increased slightly to RM28.9 billion compared with RM27.1 billion raised during the corresponding period in 2013. In the unrated segment, last month continued to see quasi-government securities dominating primary market activities with DanaInfra Nasional Berhad raising a total of RM2.6 billion, bringing the total issuance size in the segment to RM2.7 billion.

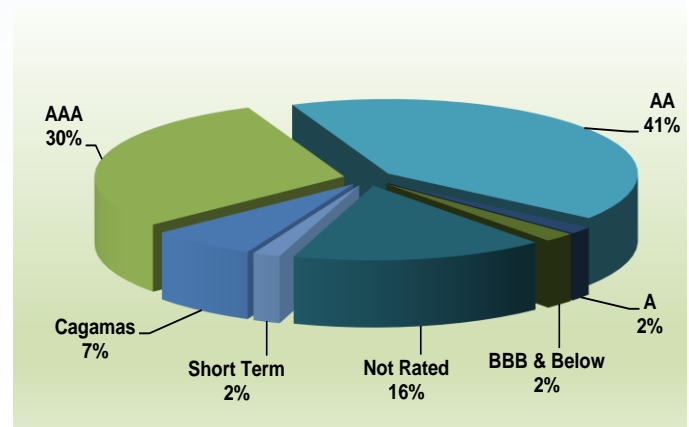
Meanwhile, after excluding unrated quasi-government securities and private placements, total rated corporate bonds increased by 26% to RM4.6 billion in April 2014 from previous month's RM3.7 billion, driven by Midciti Sukuk Berhad which issued a total of RM1.6 billion from its Islamic medium term notes (MTN) programme and Islamic commercial papers (CP) programme with a combined limit of RM3.0 billion.

Outstanding Size of Sovereign, Cagamas and Corporate Bonds YTD (RM bn)

Asset Class	Conventional	Islamic	Total
Sovereign	323.6	195.0	518.6
Cagamas	11.0	13.1	24.1
PDS	127.2	197.0	324.3
Corporate	43.0	154.9	197.9
Corporate Guaranteed	13.7	26.8	40.5
Financial	61.2	10.8	72.0
ABS	9.4	4.4	13.9

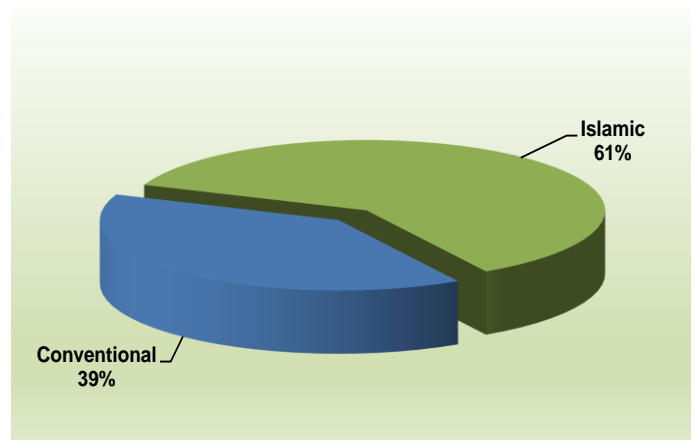
Source: BPAM, MARC Fixed Income Research

PDS outstanding: Distribution by Rating Type



Source: BPAM, MARC Fixed Income Research

PDS outstanding: Conventional & Islamic



Source: BPAM, MARC Fixed Income Research

Secondary Market Activities

Secondary Market Volume (RM bn)

Asset Class	Mar-14	14-Apr	MoM Chng
MGS/GII	42.2	44.4	2.1
Cagamas	0.2	0.5	0.4
FI Corporate	1.9	1.7	-0.2
Non FI-Corporate	4.7	5.1	0.3

Source: BPAM, MARC Fixed Income Research

Non-FI Corporate Traded by Rating Type (RM bn)

Rating Type	Mar-14	14-Apr	MoM Chng
AAA	1.9	2.0	0.1
AA	2.6	2.7	0.1
A	0.1	0.0	-0.1
BBB and below	0.0	0.0	0.0
Short term	0.2	0.4	0.1

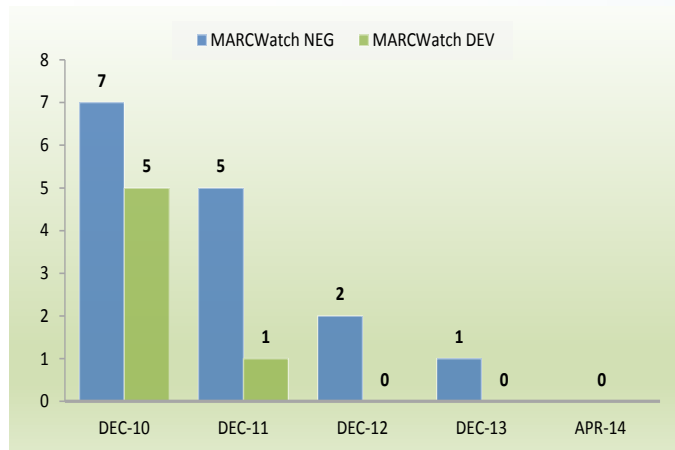
Source: BPAM, MARC Fixed Income Research

MARC Rating Activities in 2014 YTD

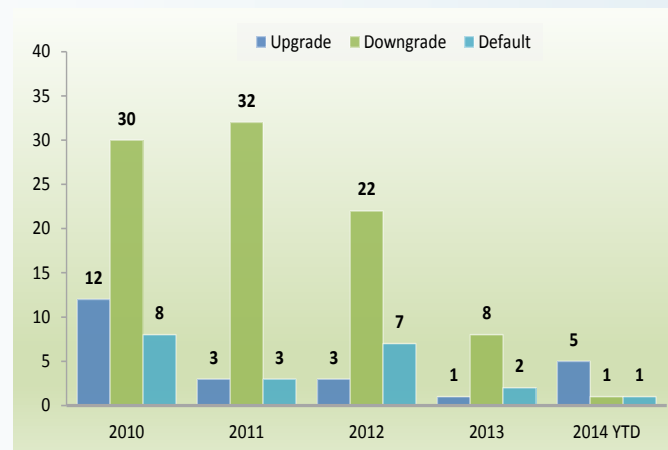
Summary of Rating Actions of the Month

Principle	Category	Main Sector	Issuer	Date Announced	Rating Action	Outlook	LT Rating		ST Rating		Issue Size (RM mil)
							Before	After	Before	After	
Islamic	Corporate Debt	Trading/ Services	MISC Bhd	2-Apr-14	AFFIRMED	STA	AAA	AAA			2,500
Islamic	Corporate Debt	Plantation	TSH Sukuk Ijarah Sdn Bhd	4-Apr-14	AFFIRMED	STA			MARC-1	MARC-1	100
Islamic	Corporate Debt	Plantation	TSH Sukuk Ijarah Sdn Bhd	4-Apr-14	AFFIRMED	STA	AA-	AA-			300
Islamic	Corporate Debt	Plantation	TSH Sukuk Musyarakah Sdn Bhd	4-Apr-14	AFFIRMED	STA	AAA	AAA			100
Conventional	Structured Finance	Finance	ABS Samudera Receivables Bhd	11-Apr-14	WITHDRAWN		AA+	AA+			5
Islamic	Corporate Debt	Trading/ Services	SIME Darby Bhd (formerly Synergy Drive Bhd)	16-Apr-14	AFFIRMED	STA	AAA	AAA			4,500
Islamic	Corporate Debt	Trading/ Services	SIME Darby Bhd (formerly Synergy Drive Bhd)	16-Apr-14	AFFIRMED	STA			MARC-1	MARC-1	500
Islamic	Structured Finance	Property	Midciti Sukuk Berhad	28-Apr-14	WITHDRAWN		AAA	AAA			880
Islamic	Corporate Debt	Property	LBS Bina Group Berhad	29-Apr-14	AFFIRMED	STA	AAA	AAA	MARC-1	MARC-1	135
Islamic	Corporate Debt	Construction	WCT Holdings Berhad	29-Apr-14	AFFIRMED	STA	AA-	AA-	MARC-1	MARC-1	100
Islamic	Corporate Debt	Construction	WCT Holdings Berhad	29-Apr-14	AFFIRMED	STA	AA-	AA-	MARC-1	MARC-1	300
Conventional	Corporate Debt	Construction	WCT Holdings Berhad	29-Apr-14	AFFIRMED	STA	AA-	AA-			600
Conventional	Corporate Debt	Construction	WCT Holdings Berhad	29-Apr-14	AFFIRMED	STA	AA-	AA-			1,000

Source: MARC Fixed Income Research

MARCWatch Placements, by Issue Count


Source: MARC Fixed Income Research

Upgrades, Downgrades and Default


Source: MARC Fixed Income Research

List of Rating Migration in 2014 YTD

Principle	Category	Main Sector	Issuer	Date Announced	Rating Action	Outlook	LT Rating		ST Rating		Issue Size (RM mil)
							Before	After	Before	After	
Conventional	Corporate Debt	Trading/ Services	Tesco Stores (M) Sdn Bhd	15-Jan-14	DOWNGRADED	STA	AAA	AA+	MARC-1	MARC-1	3,500
Islamic	Corporate Debt	Industrial Products	Kinsteel Bhd	11-Mar-14	DOWNGRADED		C	D			100
Islamic	Corporate Debt	Industrial Products	Kinsteel Bhd	11-Mar-14	DEFAULT		C	D			100
Conventional	Structured Finance	Property	Special Coral Sdn Bhd	21-Mar-14	UPGRADED	STA	AA	AA+			40
Conventional	Structured Finance	Property	Special Coral Sdn Bhd	21-Mar-14	UPGRADED	STA	A	AA-			35
Conventional	Structured Finance	Property	Special Coral Sdn Bhd	21-Mar-14	UPGRADED	STA	B	BB-			30
Conventional	Structured Finance	Property	Special Coral Sdn Bhd	21-Mar-14	UPGRADED	STA	BBB	A-			25
Conventional	Structured Finance	Property	Special Coral Sdn Bhd	21-Mar-14	UPGRADED	STA	BB	BBB-			10

Source: MARC Fixed Income Research

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