

MALAYSIAN RATING CORPORATION BERHAD
014830101

OCTOBER 2014

Monthly Bond Market & Rating Snapshot

FINANCIAL VARIABLE	SEP-14	OCT-14	MoM CHNG
Overnight Policy Rate (%)	3.25	3.25	0 bps
3-year Benchmark MGS (%)	3.48	3.52	4 bps
10-year Benchmark MGS (%)	3.92	3.84	-8 bps
3-year IRS (%)	3.84	3.82	-2 bps
10-year IRS (%)	4.28	4.09	-19 bps
Ringgit 3-year AAA (%)	3.94	3.96	2 bps
Ringgit 3-year AA (%)	4.30	4.31	1 bps
Ringgit 3-year A (%)	6.22	6.23	1 bps
10-year US Treasury (%)	2.49	2.34	-15 bps
2-year US Treasury (%)	0.57	0.49	-8 bps
MYR/USD	3.2805	3.2895	0.3%
KLCI Index	1,846.31	1,855.15	0.5%
S&P 500 Index	1,972.29	2,018.05	2.3%

Source: Bloomberg, MARC Fixed Income Research

Global Markets

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From the US to Europe, government bonds rallied in the month of October as a sharp decline in oil prices reinstated speculation that another deflationary scenario is on the cards at a time when major central banks across the globe are working hard to push their respective price levels higher. The anxiety over the pace of global growth sparked some flock-to-safety activity among investors, sending the treasury yields to fresh lows.

Ringgit Bonds

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Meanwhile on the local front, trading in the local govies market gained traction in the month of October with RM67.2 billion dealt versus RM36.4 billion in September. Selling interest was seen on the front end of the curve despite markets' expectation that BNM will hold the interest rate at 3.25%. Selective bargain-hunting activities by offshore players saw the yields along the belly to the long-end of the curve ending the month on a bullish tone.

Currency

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In line with its regional peers, the ringgit closed lower against the strengthening US dollar to end the month at 3.2895, down a miniscule 0.3% from last month's 3.2805. The 2015 Budget announced during the month provided only a temporary support, while on the flipside, the USD received a boost from upbeat economic data, raising expectations of an interest rate hike and the outcome of the recent elections.

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Market Review

Global Markets

From the US to Europe, government bonds rallied in the month of October as a sharp decline in oil prices reinstated speculation that another deflationary scenario is on the cards at a time when major central banks across the globe are working hard to push their respective price levels higher. The prices of Brent and West Texas Intermediate (WTI) slid more than 25% since early June to USD84.80 and USD80.54 per barrel respectively at the end of last month, which dented inflation expectations among investors. During this month, the International Monetary Fund (IMF) revised its global economic growth forecast for 2014 from 3.4% to 3.3%, citing the worsening euro zone economy while going forward, emerging markets are expected to take the hit from capital outflows as the US Federal Reserve (US Fed) ends quantitative easing (QE). GDP growth forecasts in the euro zone and Emerging Markets were also revised downward from 1.1% and 4.5% to 0.8% and 4.4% respectively. The anxiety over the pace of global growth sparked some flock-to-safety behavior/activity among investors, sending the treasury yields to fresh lows. The UST 10-year yield declined to 2.13% sometime in October, the lowest closing level since June 2013, before pulling back some of the gains to close the month at 2.34%. The German bund also ended the month on bullish mode with the 10-year yield settling 11 bps lower at 0.84%

Monetary policy divergence continues to exist with the US Fed closing its chapter of easy money while at the same time, European Central Bank (ECB) has been stepping up monetary easing by purchasing covered bonds and has recently indicated that they are ready to buy Asset-Backed Securities (ABS) as part of their stimulus programme. The chapter of QE in the US saw its balance sheet swell to an unprecedented size of USD45 trillion. ECB, on the other hand, the stimulus program was intended reflate the bank's balance sheet to the level last seen in early 2012, with the combined measures to worth more than EUR700 trillion.

Ringgit Bonds

Meanwhile on the local front, trading in the local govvnies market gained traction in the month of October with RM67.2 billion dealt versus RM36.4 billion in September. Selling interest was seen on the front end of the curve despite markets' expectation that BNM will hold the interest rate at 3.25%. Selective bargain hunting activities by offshore players saw the yields along the belly to the long-end of the curve ending the month on a bullish tone. The only catalyst last month was the 2015 government budget announced by the Prime Minister, which however did little to infuse bidding interest among investors. We saw muted reactions post-budget while the benchmarks were largely unchanged after the announcement.

In the primary market, there were three government offerings last month i.e. the RM2.5 billion 15-year reopening of the MGS, the RM3.5 billion three-year reopening of the GII and the RM1.4 billion seven-year reopening of the Sukuk Perumahan Kerajaan (SPK). The 15-year reopening of the MGS and 10-year reopening of the GII garnered decent demand with bid-to-cover ratios of 1.73x and 2.13x, respectively. Average yields were recorded at 4.13% for the former and 3.667% for the latter. The auction for the seven-year reopening of the SPK saw decent demand, with a bid-to-cover ratio of 2.85x, lower than the average of 3.583x for the past three SPK auctions this year.

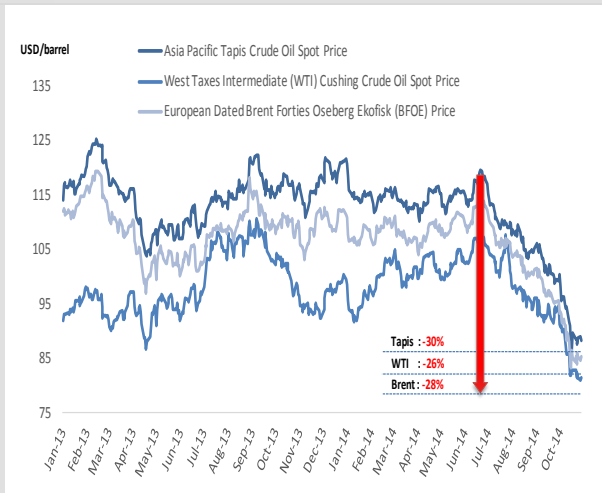
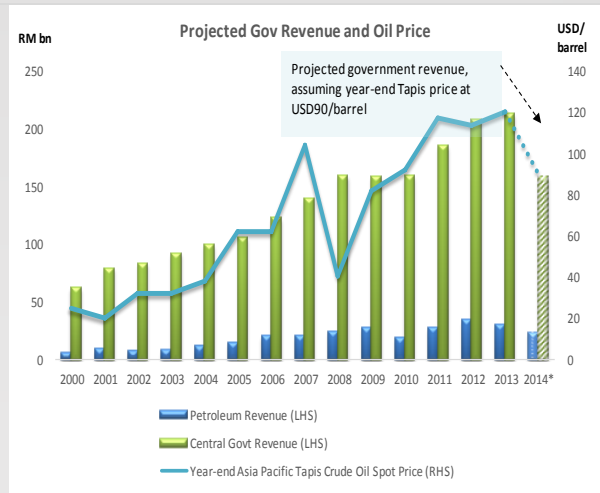
Malaysia's inflation rate growth slowed to 2.6% in September, from the previous month's 3.3% pace, which was partly due to the high base effect. Foreign holdings of the MGS held steady at RM149 billion in September versus RM143.8 billion the month before. However, percentage wise, foreign holdings of the MGS declined slightly to 46.9% from 47.3% in September due to a higher outstanding base.

Moving to rated corporate bonds, we saw lighter trading volume in October with RM8 billion worth of papers traded versus September's RM9.3 billion. The top five most actively traded bonds were PLUS BERHAD IMTN 4.560% 01/24, ARA BINTANG SECOND SENIOR MTNs 03/21, BFB IMTN 2.500% 01/30, UEMS IMTN 4.90% 06/21 and HBMS IMTN 4.220% 10/19.

Currency

In line with its regional peers, the ringgit closed lower against the strengthening US dollar to end the month at 3.2895, down a miniscule 0.3% from last month's 3.2805. The 2015 Budget announced during the month provided only a temporary support, while on the flipside, the USD received a boost from upbeat economic data, raising expectations of an interest rate hike and the outcome of the recent elections. The dollar index, a gauge of US dollar strength, settled at 86.9 for the month after hitting a four-year high of 87.4.

Impact of falling oil prices on Malaysian government revenue

Chart 1.0: Decline in prices of WTI, Brent and Tapis

Chart 2.0: Projected government revenue


Oil prices are tumbling despite predictions by many market watchers at the start of the year that the prices would stage an upward trend. Instead, the opposite has played out, leaving many wondering just how long the bear market in energy, oil in particular, will persist. The price of Brent, which is the global benchmark, has fallen 28% since early June, and hovered around USD85 per barrel at October-end. Meanwhile, the West Texas Intermediate (WTI) or the US benchmark has dropped 26% since June, trading around USD82 per barrel. No one had foreseen this coming, with even the Wall Street banks getting it wrong. While suggesting that oil prices have further room to fall, Goldman Sachs had recently trimmed their forecasts for both Brent and WTI to USD85 and USD75 per barrel, down from earlier forecasts of USD100 and USD 90 per barrel, respectively. Many other banks followed suit, slashing their projections for at least the short term.

What did we all miss and where did we get it wrong?

Market watchers underestimated the risk of oversupply in the market which exerts a downward pressure on oil prices. The growth of supply from non-OPEC members has been rising – the US and Russia in particular. The US produced 8.8m barrels a day in September, a 13% increase from previous year's level, whereas Russian production rose to a record of 10.6m barrels a day. The sanctions on Iran and political unrest in Libya did little to constrain the supply, as their production also increased. Iraqi and Kurdish output, despite the insurgency, is also on the rise. Meanwhile, Saudi Arabia surprised many market watchers by lowering their forward price, in contrast to expectations that the country would cut production to lift oil prices.

What does Malaysia stand to lose?

With Malaysia being a net oil exporter, many had raised concerns that tumbling oil prices could punch a hole in government revenue. Oil-related revenue i.e. petroleum income tax, petroleum royalty and net interest and dividends made up about 29% of the government's total revenue last year, averaging about 32.5% for the last five years. Should prices stay at the current level for a long time, assuming that the status quo is maintained, the country's fiscal position stands to take a hit with just a variance in degree. Using a one-year lead of Tapis oil price to ascertain the impact of reduced oil prices on government revenue, our estimates suggest that every USD1 price drop per barrel will translate into a loss of RM445 million in government oil-related revenue. Holding the assumption that annual average oil price to stay at USD90 per barrel (base case), we expect to see a shortfall in government oil revenue of RM11 billion in 2014 (see Chart 2.0).

Summary of Corporate Bond Issuance and Outstanding

Historical Trend of Bond Issuance by Category (RM billion)

Year	MGS/GII	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	7.5	31.4	13.9	8.3	61.0
2010	58.1	6.0	36.0	4.7	6.3	53.1
2011	93.3	5.2	47.6	15.0	2.8	70.6
2012	96.2	13.4	76.6	30.4	3.4	123.8
2013	92.5	12.3	52.4	13.6	7.9	86.2
2014 YTD	71.5	5.7	43.1	18.0	1.2	68.0

Source: BPAM, MARC Fixed Income Research

In October, the local corporate bond market raised a total of RM4.0 billion, less than half the amount raised in September (RM10.8 billion), dragged down by the broad-based slowdown in issuances across all segments, except for Cagamas (October: RM0.1 billion; September: none). There were no new quasi-government securities issued last month, compared to RM3.0 billion in September. There was a significant drop in the private placement segment as well, to RM0.1 billion in October, down from RM2.5 billion recorded in September.

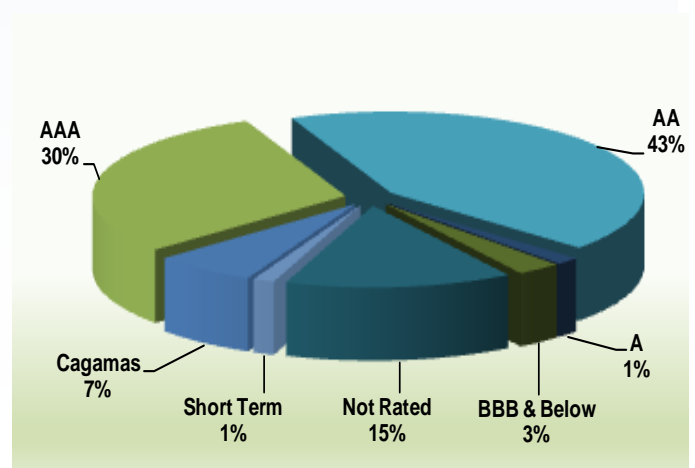
The issuances of rated corporate bonds declined by about 36% in October, largely attributed to lower issuances in the financial services sector (October: RM0.8 billion; September: RM3.7 billion) and asset-backed securities (October: none; September: RM1.0 billion). However, last month saw a pickup in the infrastructure and utilities sector, which came in at RM2.0 billion from none in September.

Outstanding Size of Sovereign, Cagamas and Corporate Bonds as of October 2014 (RM billion)

Asset Class	Conventional	Islamic	Total
Sovereign	319.63	208.40	528.03
Cagamas	10.65	12.20	22.85
PDS	119.69	205.24	324.93
Corporate	37.43	157.11	194.54
Corporate Guaranteed	13.28	29.95	43.23
Financial	60.20	14.02	74.21
ABS	8.78	4.17	12.95

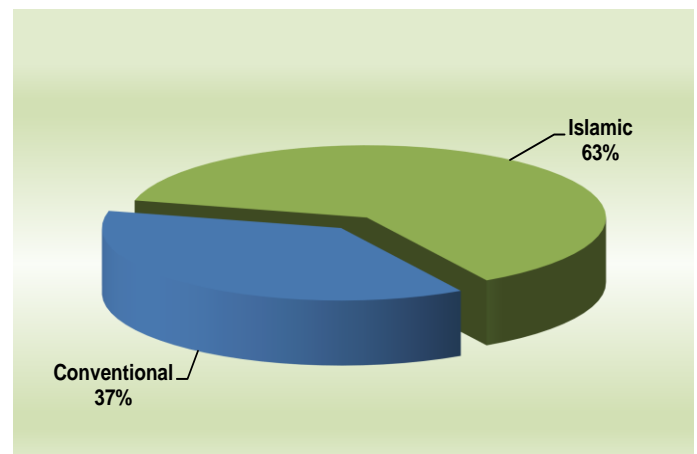
Source: BPAM, MARC Fixed Income Research

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 billion)

Asset Class	Sep-14	Oct-14	MoM Chng
MGS/GII	36.4	67.2	30.9
Cagamas	0.2	0.2	0.0
FI Corporate	3.8	1.6	-2.2
Non FI-Corporate	5.2	6.2	1.0

Source: BPAM, MARC Fixed Income Research

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

Rating Type	Sep-14	Oct-14	MoM Chng
AAA	2.4	2.9	0.4
AA	2.6	3.3	0.7
A	0.0	0.0	0.0
BBB and below	0.0	0.0	0.0
Short term	0.1	0.0	-0.1

Source: BPAM, MARC Fixed Income Research

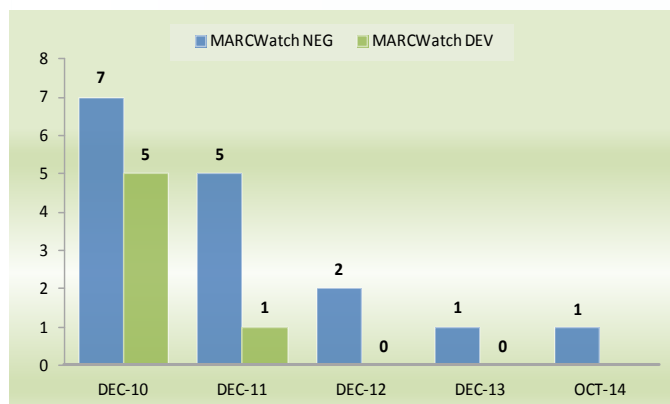
MARC Rating Activities in 2014 YTD

List of Rating Migration in 2014 YTD

Principle	Main Sector	Issuer	Date Announced	Rating Action	Rating Outlook	Long-Term Rating		Short-Term Rating		Issue Size (MYR mil)
						Before	After	Before	After	
Conventional	Trading/Services	Tesco Stores (M) Sdn Bhd	15-Jan-14	DOWNGRADED	STA	AAA	AA+	MARC-1	MARC-1	3500
Islamic	Industrial Products	Kinsteel Bhd	11-Mar-14	DOWNGRADED		C	D			100
Islamic	Industrial Products	Kinsteel Bhd	11-Mar-14	DEFAULT		C	D			100
Conventional	Property	Special Coral Sdn Bhd	21-Mar-14	UPGRADED	STA	AA	AA+			40
Conventional	Property	Special Coral Sdn Bhd	21-Mar-14	UPGRADED	STA	A	AA-			35
Conventional	Property	Special Coral Sdn Bhd	21-Mar-14	UPGRADED	STA	B	BB-			30
Conventional	Property	Special Coral Sdn Bhd	21-Mar-14	UPGRADED	STA	BBB	A-			25
Conventional	Property	Special Coral Sdn Bhd	21-Mar-14	UPGRADED	STA	BB	BBB-			10

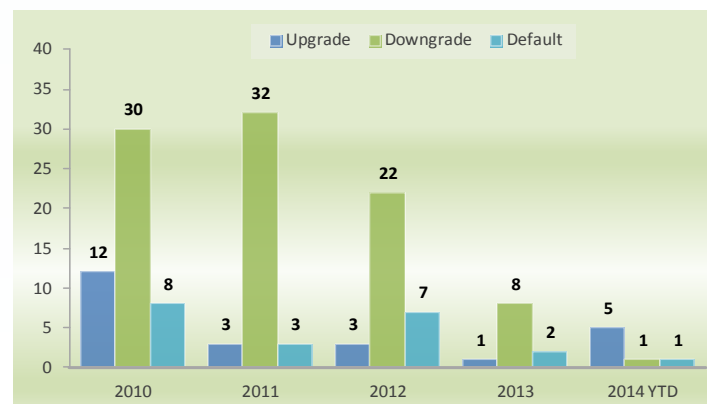
Source: BPAM, MARC Fixed Income Research

MARCWatch Placements, by Issue Count



Source: MARC Fixed Income Research

Upgrades, Downgrades and Default, by Issue Count



Source: MARC Fixed Income Research

List of Rating Actions in the month of October 2014

Principle	Main Sector	Issuer	Date Announced	Rating Action	Rating Outlook	Long-Term Rating		Short-Term Rating		Issue Size (MYR mil)	Credit Enhancement
						Before	After	Before	After		
Conventional	Construction	TRIpIc Ventures Sdn Bhd	30-Oct-14	AFFIRMED	STA	AAA	AAA			240	fg
Islamic	Property	Symphony Life Berhad (fka Bolton Bhd)	29-Oct-14	AFFIRMED	STA	AAA	AAA			230	fg
Islamic	Infrastructure & Utilities	Jimah East Power Sdn Bhd	28-Oct-14	INITIAL	STA	AA-	AA-			8400	
Conventional	Property	Central Impression Sdn Bhd	27-Oct-14	PRELIMINARY	STA	AA-	AA-			120	
Islamic	Infrastructure & Utilities	Senari Synergy Sdn Bhd	21-Oct-14	AFFIRMED	STA	AAA	AAA			380	fg
Islamic	Technology	Pinnacle Tower Sdn Bhd	17-Oct-14	AFFIRMED	STA	AAA	AAA			400	
Islamic	Technology	Pinnacle Tower Sdn Bhd	17-Oct-14	AFFIRMED	STA			MARC-1	MARC-1	50	
Islamic	Technology	Pinnacle Tower Sdn Bhd	17-Oct-14	AFFIRMED	STA			MARC-1	MARC-1	50	
Islamic	Property	Horizon Hills Development Sdn Bhd	14-Oct-14	WITHDRAWN				MARC-1	MARC-1	70	s
Islamic	Infrastructure & Utilities	Malaysia Marine and Heavy Engineering Holdings Berhad	14-Oct-14	PRELIMINARY	STA	AA-	AA-			1000	
Islamic	Infrastructure & Utilities	Jimah East Power Sdn Bhd	10-Oct-14	PRELIMINARY	STA	AA-	AA-			8400	
Islamic	Construction	WCT Holdings Berhad	10-Oct-14	INITIAL	STA	AA-	AA-			1500	
Islamic	Property	Putrajaya Holdings Sdn Bhd	3-Oct-14	AFFIRMED	STA	AAA	AAA			2200	
Islamic	Property	Putrajaya Holdings Sdn Bhd	3-Oct-14	AFFIRMED	STA	AAA	AAA			1500	
Islamic	Property	Putrajaya Holdings Sdn Bhd	3-Oct-14	AFFIRMED	STA	AAA	AAA			3000	

Source: BPAM, MARC Fixed Income Research

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