

MALAYSIAN RATING CORPORATION BERHAD
04480101

DECEMBER 2014

Monthly Bond Market & Rating Snapshot

FINANCIAL VARIABLE	NOV-14	DEC-14	MoM CHNG
Overnight Policy Rate (%)	3.25	3.25	0 bps
3-year Benchmark MGS (%)	3.59	3.63	4 bps
10-year Benchmark MGS (%)	3.86	4.08	22 bps
3-year IRS (%)	3.85	3.89	5 bps
10-year IRS (%)	4.06	4.22	16 bps
Ringgit 3-year AAA (%)	3.95	4.00	5 bps
Ringgit 3-year AA (%)	4.31	4.33	1 bps
Ringgit 3-year A (%)	6.21	6.25	5 bps
10-year US Treasury (%)	2.16	2.17	1 bps
2-year US Treasury (%)	0.47	0.66	20 bps
MYR/USD	3.3832	3.4973	3.4%
KLCI Index	1,820.9	1,761.3	-3.3%
S&P 500 Index	2,067.6	2,058.9	-0.4%

Source: Bloomberg, MARC Fixed Income Research

**Global Markets**

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The final month of 2014 saw UST yield curve flattening further as the 2/10 yield spread narrowed to 151 bps, the lowest since April 2013. Selling pressure was seen on the left wing of the curve after the Fed changed its tone in a statement after a two-day policy meeting on 17 December, saying that the central bank would be “patient” before raising rates. Meanwhile, the longer dated UST were well supported in December, despite upbeat economic data on the back of (1) softened global oil prices which contained inflationary expectations, and, (2) relatively higher yields compared with its Group of 7 peers have attracted investors demand for the UST.

Ringgit Bonds

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MGS prices decreased sharply during the month in thin volume. Medium to longer dated MGS yields spiked between 22 and 28 bps while three-year and five-year yields increased four and seven bps respectively. The sell-off in the MGS market is in tandem with a weakened ringgit, due to an outflow of non-resident portfolio as lower global oil prices raised concerns over the government’s fiscal position.

Currency

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Last month saw persistent selling pressure on the ringgit as softened global oil prices continued to dampen investors’ sentiment. To add to that, the hawkish tone of the Fed Chairwoman Janet Yellen’s post-FOMC speech reinforced investors’ view that the Fed would begin to raise rates in 2015, intensifying further selling in the local currency. The local note extended last month’s losses to close at 3.4973 versus the US dollar.

Our **Topic of the Month** will return next month

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Market Review

Global Markets

The final month of 2014 saw the UST yield curve flattening further as the 2/10 yield spread narrowed to 151 bps, the lowest since April 2013. Selling pressure was seen on the left wing of the curve after the Fed changed its tone in a statement after a two-day policy meeting on 17 December, saying that the central bank would be “patient” before raising rates. Although its Chairwoman Janet Yellen stressed that the patient stance did not signify any changes in the Fed’s monetary policy stance, a similar tone in the language was evident in FOMC’s statement in January 2004, about six months before the Fed began raising interest rates. In addition, continued growth in the country’s economy (3Q2014: +5.0%; 2Q2014: +4.6%) and labour market (Nov-2014: 5.8%; Nov-2013: 7.0%) also added speculation that the Fed would begin raising rates in 2015, pushing the benchmark two-year yield to the highest monthly closing level since March 2011. Despite the upbeat economic data, longer dated UST were well supported in December on the back of (1) softened global oil prices which contained inflationary expectations, and (2) relatively higher yields compared with its Group of 7 peers have attracted investors’ demand for the UST. Month-on-month, the benchmark 10-year yield inched up one bp while the 30-year yield declined 14 bps.

In Europe, the ECB kept its main refinancing rate unchanged at 0.05% after meeting on 4 December. However, euro zone’s inflation of 0.3% in November compared with the central bank’s target of 2.0% and ECB President Mario Draghi’s comments that policymakers are prepared to opt for additional unconventional measures to boost inflation have fuelled investors’ speculation that the ECB will expand its asset purchases programme to include government debts. This has pulled down the benchmark German bund 10-year yield to a historical low of 0.54%, down from 1.93% in end-2013.

Ringgit Bonds

Moving to the local govovies market, MGS prices decreased sharply during the month in thin volume. Medium to longer dated MGS yields spiked between 22 and 28 bps while three-year and five-year yields increased four and seven bps respectively. The sell-off in the MGS market is in tandem with a weakened ringgit, due to an outflow of non-resident portfolio as lower global oil prices raised concerns over the government’s fiscal position. In addition, a higher than expected headline inflation in November (Nov 14: 3.0%; Survey: 2.7%) also added selling pressure on the longer tenure bonds, not to mention higher inflation expectations post-implementation of the GST in April 2015. Meanwhile, transacted volume slipped to RM39.1 billion worth of securities traded from RM44.9 billion traded in November and vis-à-vis an average monthly volume of RM44.2 billion. Trading activities remained concentrated on the MGS market, indicating that the high foreign holdings of MGS (Nov 14: RM145.2 billion; Oct 14: RM146.7 billion) remained a major cause of market volatility.

In the primary market, two government offerings have raised total funds of RM6.0 billion, comprising the re-openings of the seven-year MGS and 10-year GII that are worth RM3.0 billion each. Notably, the MGS offering received a lackluster demand as the bid-to-cover ratio fell to its lowest in the year at 1.323x with an average yield of 4.277%, about 47 bps higher than a similar offering in August. Separately, BNM has released its government bonds auction calendar for 2015. The government is scheduled to offer 29 new issuances in 2015, of which 16 will be offered via MGS while the balance will be from the GII market.

In tandem with the govovies market, most corporate bond yields increased in December but in a smaller magnitude. However, on a yearly basis, corporate yield spreads have widened in general. The AAA yield spread, for instance, widened to 55 bps in December 2014 from 41 bps in end-2013. This shows that investors were getting concerned over the rising leverage among corporations and hence requested higher yields for the greater credit risk assumed.

Currency

Last month saw persistent selling pressure on the ringgit as softened global oil prices continued to dampen investors’ sentiment. To add to that, the hawkish tone of Yellen’s post-FOMC speech reinforced investors’ view that the Fed would begin to raise rates in 2015, intensifying further selling in the local currency. The local note extended last month’s losses to close at 3.4973 versus the US dollar. The greenback, on the flipside, continued to strengthen with the Bloomberg Dollar index climbing higher to 99.27. Meanwhile, in a bid to stop the outflow of money and further selloffs in the local currency, the government has directed all government-owned companies, statutory bodies and subsidiaries to stop buying foreign assets. The treasury circular also stated that in an effort to boost domestic consumption, these agencies must give priority to domestic investments and immediately cease acquiring foreign assets to reduce the outflow of funds.

Summary of Corporate Bond Issuances and Outstanding

Historical Trend of Bond Issuances by Category (RM billion)

Year	MGS/GII	Unrated Corporate Bonds	Rated Corporate Bonds	Unrated Government Guaranteed	Cagamas	Total Corporate Bonds
2008	60.0	3.5	40.4	6.8	5.1	55.7
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	84.5	8.1	52.7	21.9	3.3	85.9

Source: BPAM, MARC Fixed Income Research

In December, the local corporate bond market raised a total of RM10.7 billion, about 48% higher than the amount raised in November (RM7.2 billion), boosted by both unrated private placements (Dec 14: RM2.2 billion; Nov 14: RM0.1 billion) and rated bonds (Dec 14: RM7.5 billion; Nov 14: RM2.1 billion) segments. Last month saw only one issuance in the unrated government guaranteed segment, contributed by Perbadanan Tabung Pendidikan Tinggi Nasional's RM1.0 billion from its RM5.0 billion IMTN programme.

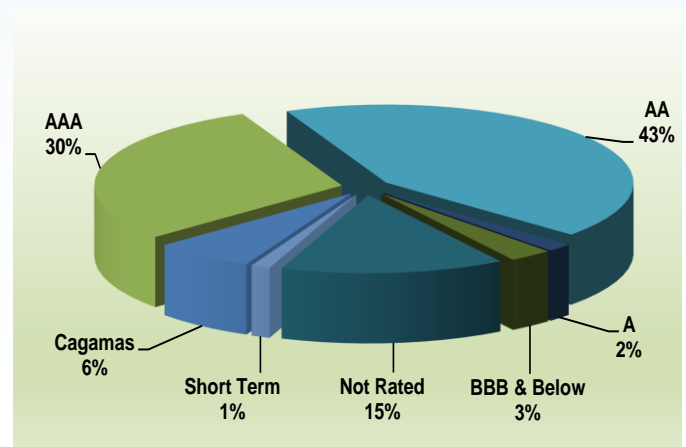
On a yearly basis, the corporate debt market raised total gross issuances of RM85.9 billion, slightly lower than the RM86.2 billion issued in 2013. The lower amount of issuances were attributed to a smaller amount of funds raised from unrated private placements and Cagamas segments.

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

Asset Class	Conventional	Islamic	Total
Sovereign	329.63	205.90	535.53
Cagamas	10.15	13.13	23.28
PDS	120.79	208.17	328.96
Corporate	38.47	160.01	198.48
Corporate Guaranteed	14.04	29.54	43.58
Financial	59.38	14.12	73.49
ABS	8.90	4.50	13.40

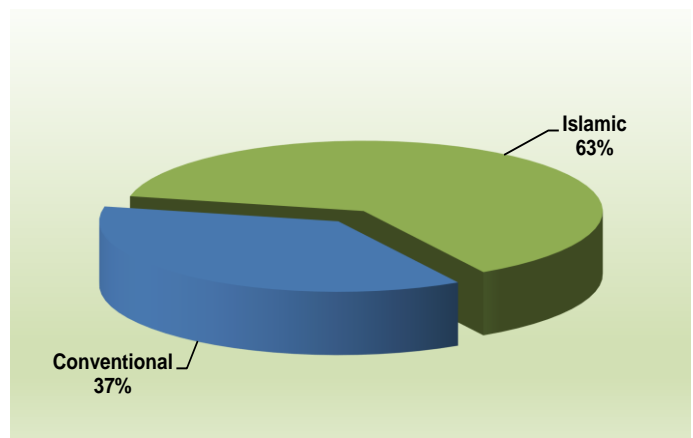
Source: BPAM, MARC Fixed Income Research

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	Nov-14	Dec-14	MoM Chng
MGS/GII	43.5	39.1	-4.4
Cagamas	0.1	0.1	0.0
FI Corporate	2.4	1.7	-0.7
Non FI-Corporate	4.7	6.0	1.3

Source: BPAM, MARC Fixed Income Research

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

Rating Type	Nov-14	Dec-14	MoM Chng
AAA	1.5	1.7	0.2
AA	3.1	3.9	0.8
A	0.0	0.3	0.2
BBB and below	0.0	0.0	0.0
Short term	0.1	0.1	0.1

Source: BPAM, MARC Fixed Income Research

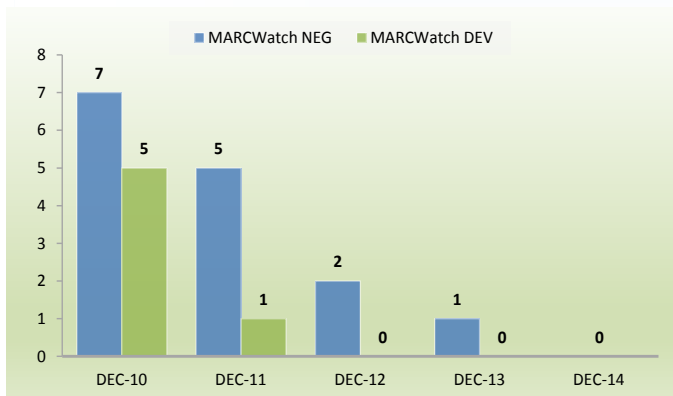
MARC Rating Activities in 2014 YTD

List of Rating Migrations in 2014 YTD

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	Trading/Services	Tesco Stores (M) Sdn Bhd	15-Jan-14	DOWNGRADED	STA	AAA	AA+	MARC-1	MARC-1	3500	cg
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	A	AA-			35	
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	B	BB-			30	
Conventional	Property	Special Coral Sdn Bhd	21-Mar-14	UPGRADED	STA	BB	BBB-			10	
Conventional	Property	Special Coral Sdn Bhd	21-Mar-14	UPGRADED	STA	BBB	A-			25	
Conventional	Trading/Services	Tesco Stores (Malaysia) Sdn Bhd	26-Nov-14	DOWNGRADED	NEG	AA+	AA	MARC-1	MARC-1	3500	cg

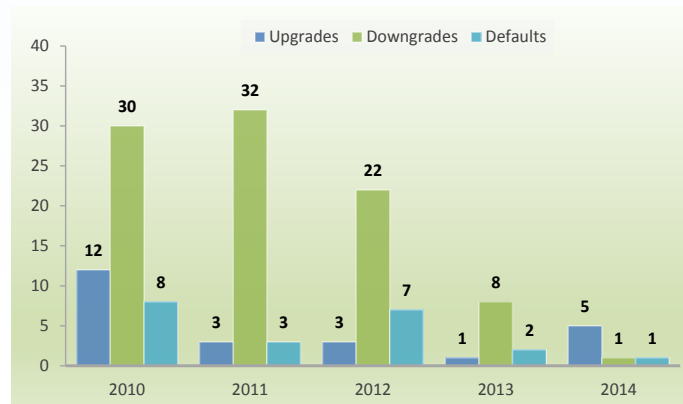
Source: BPAM, MARC Fixed Income Research

MARCWatch Placements, by Issue Count



Source: MARC Fixed Income Research

Upgrades, Downgrades and Defaults, by Issue Count



Source: MARC Fixed Income Research

List of Rating Actions in the month of December 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	Finance	RCE Advance Sdn Bhd	26-Dec-14	AFFIRMED	NEG	A+	A+			240	
Conventional	Finance	RCE Advance Sdn Bhd	26-Dec-14	AFFIRMED	NEG	A	A			120	
Conventional	Finance	RCE Advance Sdn Bhd	26-Dec-14	AFFIRMED	NEG	BBB+	BBB+			60	
Islamic	Trading/Services	DRB-Hicom Bhd	19-Dec-14	INITIAL	STA	A	A			2000	
Conventional	Property	Segi Astana Sdn Bhd	15-Dec-14	AFFIRMED	STA	AAA	AAA			470	fg
Islamic	Trading/Services	Alpha Circle Sdn Bhd	9-Dec-14	AFFIRMED	STA	AA-	AA-			540	
Islamic	Trading/Services	Alpha Circle Sdn Bhd	9-Dec-14	AFFIRMED	STA	A	A			55	
Islamic	Infrastructure & Utilities	Gas District Cooling (Putrajaya) Sdn Bhd	8-Dec-14	AFFIRMED	STA	AAA	AAA			300	
Conventional	Property	Berjaya Land Bhd	4-Dec-14	INITIAL	STA	AAA	AAA			500	fg
Conventional	Property	Berjaya Land Bhd	4-Dec-14	INITIAL	STA	AAA	AAA			150	bg
Islamic	Infrastructure & Utilities	Malakoff Power Bhd	4-Dec-14	AFFIRMED	STA	AA-	AA-			5400	
Conventional	Property	Berjaya Land Bhd	3-Dec-14	PRELIMINARY	STA	AAA	AAA			500	fg
Conventional	Property	Berjaya Land Bhd	3-Dec-14	PRELIMINARY	STA	AAA	AAA			150	bg
Conventional	Residential Mortgages	Cagamas MBS Bhd	2-Dec-14	WITHDRAWN		AAA	AAA			380	
Islamic	Infrastructure & Utilities	Northport (Malaysia) Bhd	2-Dec-14	INITIAL	STA	AA-	AA-	MARC-1	MARC-1	1500	
Islamic	Infrastructure & Utilities	Petronas Dagangan Bhd	1-Dec-14	AFFIRMED	STA	AAA	AAA	MARC-1	MARC-1	2000	

Source: BPAM, MARC Fixed Income Research

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