

MALAYSIAN RATING CORPORATION BERHAD  
014801 X1

AUGUST 2015

## Monthly Bond Market &amp; Rating Snapshot

FINANCIAL VARIABLE	JUL-15	AUG-15	MoM CHNG
OVERNIGHT POLICY RATE (%)	3.25	3.25	0 bp
3-YEAR BENCHMARK MGS (%)	3.22	3.31	9 bps
10-YEAR BENCHMARK MGS (%)	4.06	4.39	33 bps
3-YEAR IRS (%)	3.85	4.10	26 bps
10-YEAR IRS (%)	4.44	4.58	14 bps
RINGGIT 3-YEAR AAA (%)	4.00	4.07	8 bps
RINGGIT 3-YEAR AA (%)	4.38	4.41	3 bps
RINGGIT 3-YEAR A (%)	6.22	6.44	22 bps
10-YEAR US TREASURY (%)	2.18	2.22	4 bps
2-YEAR US TREASURY (%)	0.66	0.74	8 bps
MYR/USD	3.8310	4.1925	-9.4%
KLCI INDEX	1,723.1	1,612.7	-6.4%
S&P 500 INDEX	2,103.8	1,972.2	-6.3%

Source: Bloomberg, MARC Fixed Income Research



## Global Markets

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It was another rough month for financial markets with US stocks dropping further into correction territory and China's stock market extending its rout. Commodity prices also continued its downslide before recovering towards the end of the month. Meanwhile, US Treasuries (UST) ended August on a weaker note after volatile swings. We saw an upward shift in the UST curve with the two- and 10-year yields climbing eight bps and four bps m-o-m respectively.

## Ringgit Bonds

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Not spared from the recent market turmoil, local government bonds sold off and booked a hefty monthly loss, particularly from the belly to the long end of the curve. The benchmark yields settled at their highest level since 2008. The erosion in investors' confidence amid domestic political uncertainty fuelled bouts of selling in local govies and equities. Falling commodity prices, a bearish ringgit performance, and a surprise move by the People's Bank of China (PBoC) in devaluing the yuan contributed to negative sentiment, further intensifying the sell-down.

## Currency

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The ringgit extended its weakness, ending the month at 4.19, a level last seen in 1997. The downslide of the ringgit can be attributed to a few factors, namely declining oil prices, a surprise move by the PBoC, and the concerns over the domestic political situation.

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## Market Review

### Global Markets

It was another rough month for financial markets with US stocks dropping further into correction territory and China's stock market extending its rout. Commodity prices also continued its downslide before recovering towards the end of the month. Meanwhile, US Treasuries ended August on a weaker note after volatile swings. We saw an upward shift in the UST curve with the two- and 10-year yields climbing eight bps and four bps m-o-m respectively. US government bonds rallied earlier in the month, and briefly touched 1.92% as the PBoC surprised markets by devaluing their tightly controlled currency as policy makers stepped up efforts to boost exports and fuel economic growth. The unexpected move rattled sentiment and sent a shock across all markets, in turn fuelling flight to haven assets. However, the UST reversed gains towards the end of the month and there was a slight recovery in stocks as upbeat US economic data saw demand for haven assets dissipate. Weak treasury auctions also contributed to a rise in yields.

The volatile price swings in the treasury market in August highlighted the increasing investor jitters over uncertain global growth prospects and the future path of US interest rates. The Bank of America Merrill Lynch's MOVE Index, a gauge for volatility derived from over-the-counter options on Treasuries maturing in two to thirty years, touched 94.5 on August 24, the highest since February. While a number of investors turned increasingly sceptical that a lift-off will happen in September given recent developments, a poll of private forecasters suggests that a vast majority believe that the Fed will begin raising short-term interest rates in September.

### Ringgit Bonds

Not spared from the recent market turmoil, local government bonds sold off and booked a hefty monthly loss, particularly from the belly to the long end of the curve. The benchmark yields ticked 26 bps to 36 bps higher m-o-m and settled at their highest level since 2008. The erosion in investors' confidence amid domestic political uncertainty fuelled bouts of selling in local govovies and equities. Falling commodity prices, a bearish ringgit performance which saw the local currency falling to its lowest level since 1997, and a surprise move by the PBoC in devaluing the yuan contributed to negative sentiment, further intensifying the sell-down.

Meanwhile, Prime Minister Najib Razak set up an emergency committee on 26 August charged with monitoring the global economy and ensuring the country's economic growth amid a rout in the country's financial markets. The task force consists of economists and prominent corporate figures, including Nor Mohamed Yakcop, a former second finance minister, and Nazir Razak, chairman of CIMB Group Holdings Berhad. The move was largely welcomed by investors, with a few voicing out their scepticism. Later in the month, Moody's said that clouds are gathering on Malaysia's positive outlook. They added that while the Malaysian government's fiscal consolidation efforts remained intact, the underlying factors have somewhat changed.

In the primary market, two government offerings, namely the RM3.5 billion 5-year re-opening of the MGS and the RM3.0 billion 10-year re-opening of the MGS, raised a total of RM6.5 billion. Surprisingly, despite the recent sell-down, demand picked up in the latest auction of 10-year MGS. The bid-to-cover ratio was 2.03x, an improvement from 1.74x in the previous auction of 5-year MGS. The average yields for 5-year MGS and 10-year MGS were 3.899% and 4.453% respectively.

In August, foreign investors reduced their holdings of MGS to RM157.4 billion (July: RM165.4 billion) or 46.0% (July: 47.8%) of total MGS outstanding in the market. In contrast, foreign holdings of GII in July picked up to RM8.7 billion (July: RM8.2 billion) or 4.3% (June: 4.0%) of total GII outstanding.

### Currency

The ringgit extended its weakness, ending the month at 4.19, a level last seen in 1997. The sharp drop (-9.4%) can be attributed to: (1) a surprise move by the PBoC to devalue their currency which rattled sentiment across markets; (2) rising demand for the USD in anticipation of the Fed normalising its monetary policy later this year; and (3) concerns over the domestic political situation.

# Summary of Corporate Bond Issuance and Outstanding

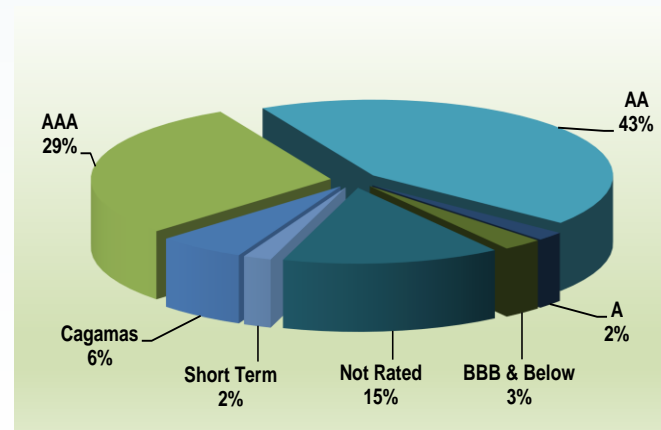
## Historical Trend of Bond Issuance by Category (RM billion)

Year	MGS/GII	Unrated Corporate Bonds	Rated Corporate Bonds	Unrated Government Guaranteed	Cagamas	Total Corporate Bonds
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	8.0	52.7	21.9	3.3	85.9
2015 YTD	53.0	6.2	24.7	8.9	0.7	34.1

Source: BPAM, MARC Fixed Income Research

In August, primary market activities came in higher at RM6.4 billion compared with RM2.4 billion in July, lifted by higher issuance of rated corporate bonds. Fund-raising activities in other segments i.e private placement, unrated government guaranteed and Cagamas were muted. YTD, total gross issuances of long-term corporate debt stood at RM40.5 billion, a drop of 24% from RM53.1 billion issued in the corresponding period last year. Total rated issuances (including rated Cagamas) were also lower at RM25.4 billion versus RM35.1 billion recorded for the same period last year.

## PDS Outstanding: Distribution by Rating Type



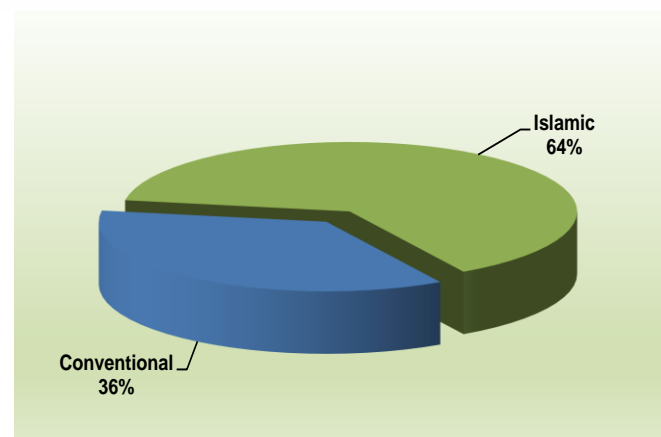
Source: BPAM, MARC Fixed Income Research

## Outstanding Size of Sovereign, Cagamas and Corporate Bonds as of August 2015 (RM billion)

Asset Class	Conventional	Islamic	Total
Sovereign	339.34	231.90	571.24
Cagamas	10.64	11.23	21.87
PDS	123.77	220.90	344.67
Corporate	39.97	166.57	206.53
Corporate Guaranteed	16.03	32.86	48.89
Financial	59.26	17.58	76.84
ABS	8.51	3.90	12.41

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	Jul-15	Aug-15	MoM Chng
MGS/GII	79.2	56.8	-22.4
Cagamas	0.2	0.2	0.0
FI Corporate	1.5	1.2	-0.3
Non-FI Corporate	7.1	4.6	-2.5

Source: BPAM, MARC Fixed Income Research

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

Rating Type	Jul-15	Aug-15	MoM Chng
AAA	2.4	1.9	-0.5
AA	4.4	2.3	-2.1
A	0.2	0.0	-0.1
BBB and below	0.0	0.1	0.1
Short term	0.2	0.4	0.2

Source: BPAM, MARC Fixed Income Research

## MARC Rating Activities in 2015

### List of Rating Actions in August 2015

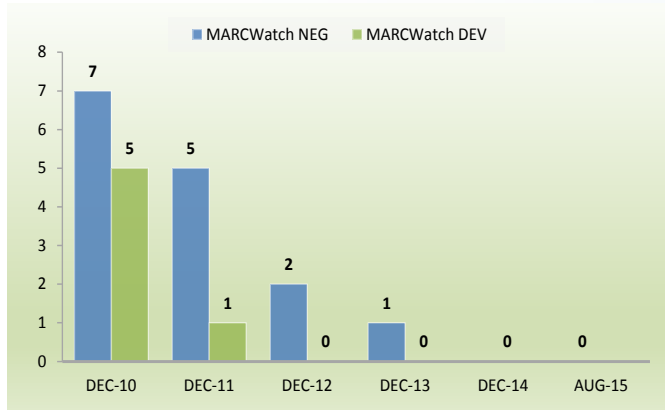
Principle	Category	Main Sector	Issuer	Date Announced	Rating Action	Rating Outlook	Long-Term Rating		Short-Term Rating		Issue Size (MYR mil)	Credit Enhancement
							Before	After	Before	After		
Islamic	Project Finance	Infrastructure & Utilities	Kimanis Power Sdn Bhd	25-Aug-15	AFFIRMED	STA	AA-	AA-			1160	
Islamic	Structured Finance	Residential Mortgages	Cagamas MBS Bhd	20-Aug-15	WITHDRAWN		AAA	AAA			515	
Islamic	Corporate Debt	Infrastructure & Utilities	Ranhill Group Sdn Bhd	6-Aug-15	AFFIRMED	STA	AAA	AAA			300	bg
Islamic	Corporate Debt	Infrastructure & Utilities	Ranhill Group Sdn Bhd	6-Aug-15	AFFIRMED	STA	AAA	AAA			500	fg

Source: BPAM, MARC Fixed Income Research

\*fg – financial guarantee

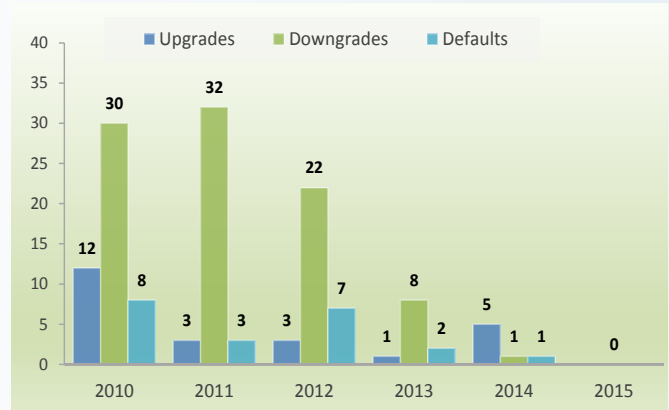
\*bg – bank guarantee

**YTD MARCWatch Placements, by Issue Count**



Source: BPAM, MARC Fixed Income Research

**YTD Upgrades, Downgrades and Defaults, by Issue Count**



Source: BPAM, MARC Fixed Income Research

**List of Rating Migrations YTD**

Principle	Category	Main Sector	Issuer	Date Announced	MARCWatch Outlook	Credit Rating	Credit Enhancement	Issue Size (RM mil)

Source: BPAM, MARC Fixed Income Research

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Published and Printed by:

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