

MALAYSIAN RATING CORPORATION BERHAD
(148820-X)

OCTOBER 2015

Monthly Bond Market & Rating Snapshot

FINANCIAL VARIABLE	SEP-15	OCT-15	MoM CHNG
OVERNIGHT POLICY RATE (%)	3.25	3.25	0 bps
3-YEAR BENCHMARK MGS (%)	3.69	3.59	-9 bps
10-YEAR BENCHMARK MGS (%)	4.14	4.37	23 bps
3-YEAR IRS (%)	4.13	3.98	-15 bps
10-YEAR IRS (%)	4.63	4.47	-16 bps
RINGGIT 3-YEAR AAA (%)	4.12	4.12	0 bps
RINGGIT 3-YEAR AA (%)	4.44	4.45	2 bps
RINGGIT 3-YEAR A (%)	6.10	6.25	15 bps
10-YEAR US TREASURY (%)	2.04	2.14	11 bps
2-YEAR US TREASURY (%)	0.63	0.72	10 bps
MYR/USD	4.3950	4.3012	-2.1%
KLCI INDEX	1,621.0	1,665.7	2.8%
S&P 500 INDEX	1,920.0	2,079.4	8.3%

Source: Bloomberg, MARC Fixed Income Research



Global Markets

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It was an eventful month as announcements and actions from central banks across the globe dominated the headlines. In the US, the Fed held its short-term interest rates unchanged as widely expected, but the central bank's officials had explicitly signalled that the December rate hike remains in play. Speaking to the House Financial Services Committee, Yellen said that a lift-off in December is a "live possibility" if indicators continued to turn in their favour.

Ringgit Bonds

2

The MGS yield curve steepened in October, with the MGS 10/3 spread widening to 78 bps. Longer dated government bonds reversed September's gains with the 10-year yield settling 23 bps higher at 4.37%. The Budget 2016 tabled by the PM and slight recovery of the ringgit saw the market stabilising before selling down towards the end of the month. Shorter-dated local government bonds also registered gains as the Fed left its interest rate pinner near zero.

Currency

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The ringgit strengthened in October, reversing last month losses to close at 4.3012. Receding concerns both domestically and abroad e.g. China's hard landing, along with slight recovery in oil prices and improving global sentiments helped to bolster the local currency.

Our Topic of the month will return next month

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Market Review

Global Markets

It was an eventful month as announcements and actions from central banks across the globe dominated the headlines. In the US, the Fed held its short-term interest rates unchanged as widely expected, but the central bank's officials had explicitly signalled that the December rate hike remains in play. Speaking to the House Financial Services Committee, Yellen said that a lift-off in December is a "live possibility" if indicators continued to turn in their favour. Scrutinising the Fed's statement, we notice that the Fed has removed its concerns on turbulence in financial markets and uncertainties about growth overseas, which were the reasons for them to stay put in the September meeting. Nine voting members preferred the Fed to stay put while Jeffrey Lacker was the only Fed governor to dissent, arguing for a quarter-point increase. The US treasuries sold off across the curve and ended the month on a weaker note.

Meanwhile in Europe, the ECB in its October meeting kept interest rates unchanged while opening the door for more stimulus in December if necessary, most likely by adjusting the size, composition or duration of its current QE programme as the central bank grappled with mixed domestic economic signals and uncertain global growth. The European bond markets cheered at the news, pushing the benchmark 10-year Germany and Spain bond yields seven bps and 22 bps lower, respectively.

Elsewhere in Asia, two other economies unexpectedly eased their monetary policy as growth stalled. China cut its one-year lending rate 25 bps to 4.35% and one-year deposit rate to 1.5% from 1.75%. The PBoC also slashed reserve requirements for all banks by 50 bps, with an extra 50 bps for some institutions. Meanwhile, Singapore slightly reduced its currency appreciation as the economy reported a marginal expansion and had narrowly avoided falling into a technical recession.

Ringgit Bonds

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Trading volume for government bonds picked up to RM61.3 billion from September's RM59.1 billion. With more volatility and uncertainty ahead of Fed's policy meeting in December, we expect the volume to hold up in the coming months.

In the primary market, three government offerings have raised total funds of RM8.0 billion, namely the RM3.0 billion five-year re-opening of the GII, the RM3.5 billion seven-year re-opening of the MGS and the RM1.5 billion 20-year new issue of the GII. The bid-to-cover ratio improved significantly to 2.4x, the highest since June in the latest auction of GII, from 1.8x and 1.7x in the auction of the five-year GII and seven-year MGS as the bond market showed some signs of stabilisation.

Meanwhile, foreign holdings of the MGS remained steady at RM153.9 billion (August: RM153.8 billion) or 46.3% (September: 45.6%) of total MGS outstanding in the market. Similarly, foreign holdings of the GII in September also increased to RM10.2 billion (September: RM8.3 billion) or 4.9% (August: 4.1%) of the total GII outstanding. We expect support from domestic institutional investors to remain strong and keep yields of the local government bonds in check should there be a sell-down by offshore investors.

Currency

The ringgit strengthened in October, reversing last month losses to close at 4.3012. Receding concerns both domestically and abroad e.g. China's hard landing, slight recovery in oil prices, along with improving global sentiments helped to bolster the local currency. The ringgit also improved against Euro and Japanese yen by 5.4% and 2.8% respectively while ended the month unchanged against Singapore dollar.

Summary of Corporate Bond Issuance and Outstanding

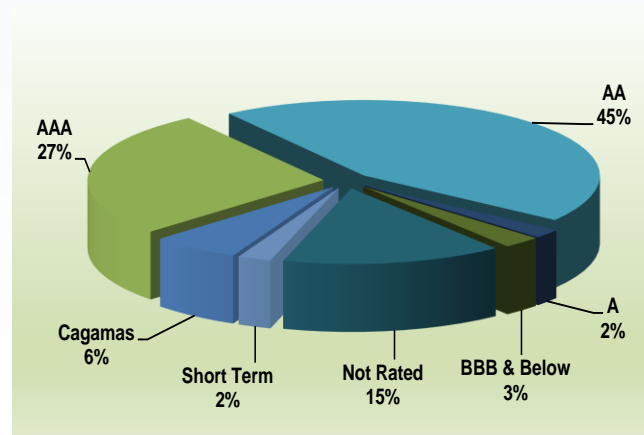
Historical Trend of Bond Issuance by Category (RM billion)

Year	Unrated Corporate Bonds	Unrated Government Guaranteed	Total Unrated	Rated Corporate Bonds	Cagamas	Total Rated	Total Corporate Bonds
2010	6.0	4.7	10.8	36.0	6.3	42.3	53.1
2011	5.2	15.0	20.2	47.6	2.8	50.4	70.7
2012	13.4	30.4	43.8	76.6	3.4	80.0	123.8
2013	12.3	13.6	25.9	52.4	7.9	60.3	86.2
2014	8.0	21.9	29.9	52.7	3.3	55.9	85.9
2015 YTD	8.9	10.5	19.4	32.3	2.2	34.5	53.9

Source: BPAM, MARC Fixed Income Research

In October, primary market activities came in higher at RM10.1 billion compared with RM3.2 billion in September. Except for unrated government-guaranteed, all segments registered gains. Fund raising activities in the rated corporate bonds increased to RM6.9 billion (September: RM0.7 billion), while Cagamas raised RM1.5 billion (September: no issuances). Meanwhile in the unrated segment, issuance by private placement came in higher at RM1.7 billion (September: RM0.9 billion) while there was no issuance from unrated government-guaranteed. Despite higher gross issuances in October, YTD gross issuances of long term corporate debt remained lower at RM53.9 from RM68 billion issued in the corresponding period last year. Total rated issuances (including rated Cagamas) were also lower at RM34.5 billion versus RM44.3 billion recorded for the same period last year.

PDS Outstanding: Distribution by Rating Type



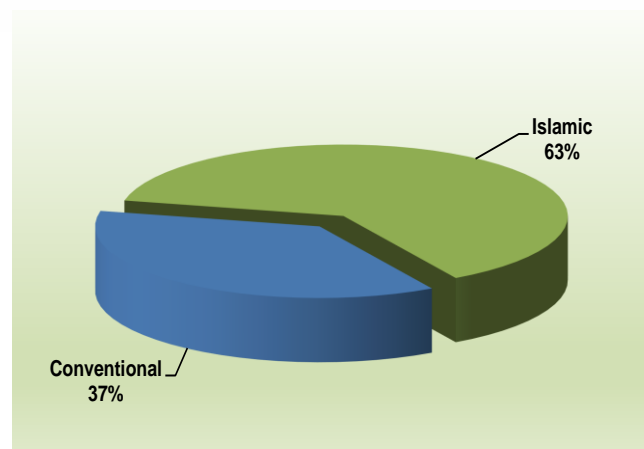
Source: BPAM, MARC Fixed Income Research

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

Asset Class	Conventional	Islamic	Total
Sovereign	332.56	235.90	568.46
Cagamas	12.27	10.60	22.86
PDS	129.31	222.00	351.30
Corporate	42.55	166.11	208.67
Corporate Guaranteed	15.09	34.41	49.50
Financial	63.29	17.58	80.87
ABS	8.38	3.90	12.27

Source: BPAM, MARC Fixed Income Research

PDS Outstanding: Conventional & Islamic



Source: BPAM, MARC Fixed Income Research

Summary of Corporate Bond Issuance and Outstanding

Secondary Market Volume (RM billion)

Asset Class	Sep-15	Oct-15	MoM Chng
MGS/GII	59.1	61.3	2.2
Cagamas	0.3	0.6	0.3
FI Corporate	1.2	1.7	0.6
Non-FI Corporate	3.2	3.9	0.6

Source: BPAM, MARC Fixed Income Research

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

Rating Type	Sep-15	Oct-15	MoM Chng
AAA	1.4	1.8	0.4
AA	1.4	1.8	0.4
A	0.1	0.0	-0.1
BBB and below	0.0	0.0	0.0
Short term	0.3	0.3	0.0

Source: BPAM, MARC Fixed Income Research

MARC Rating Activities in 2015

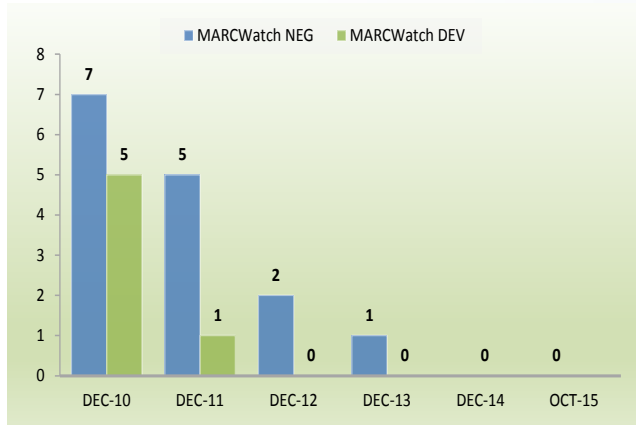
List of Rating Actions in October 2015

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	Structured Finance	Property	Aman Sukuk Bhd	30-Oct-15	AFFIRMED	STA	AAA	AAA			10000	
Conventional	Structured Finance	Construction	TRIPLE Ventures Sdn Bhd	30-Oct-15	AFFIRMED	STA	AAA	AAA			240	fg
Islamic	Corporate Debt	Financial Institution	Bank Muamalat Malaysia Bhd	27-Oct-15	AFFIRMED	STA	A	A			2000	
Islamic	Corporate Debt	Infrastructure & Utilities	Senari Synergy Sdn Bhd	22-Oct-15	AFFIRMED	STA	AAA	AAA			380	fg
Islamic	Structured Finance	Technology	Pinnacle Tower Sdn Bhd	20-Oct-15	AFFIRMED	STA	AAA	AAA			400	
Islamic	Structured Finance	Technology	Pinnacle Tower Sdn Bhd	20-Oct-15	AFFIRMED	STA			MARC-1	MARC-1	50	
Islamic	Corporate Debt	Infrastructure & Utilities	Kuching Port Authority	12-Oct-15	AFFIRMED	STA	AAA	AAA			180	s
Conventional	Corporate Debt	Construction	WCT Holdings Berhad	7-Oct-15	AFFIRMED	NEG	AA-	AA-			600	
Conventional	Corporate Debt	Construction	WCT Holdings Berhad	7-Oct-15	AFFIRMED	NEG	AA-	AA-			1000	
Islamic	Corporate Debt	Construction	WCT Holdings Berhad	7-Oct-15	AFFIRMED	NEG	AA-	AA-			1500	

Source: BPAM, MARC Fixed Income Research

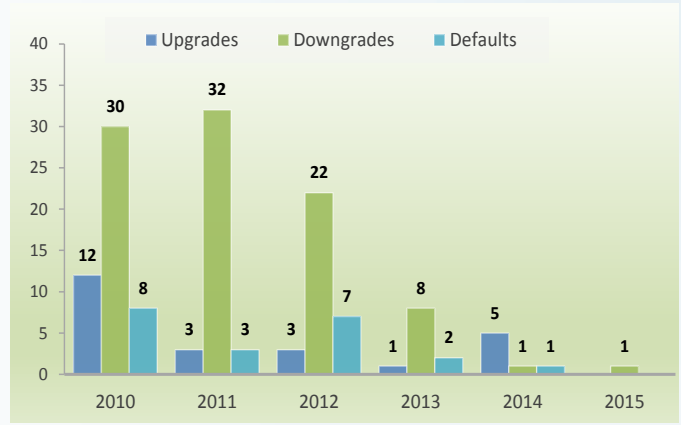
*fg – financial guarantee
*cg – corporate guarantee

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	Rating Action	Rating Outlook	Long-Term Rating		Short-Term Rating		Issue Size (MYR mil)	Credit Enhancement
							Before	After	Before	After		
Islamic	Corporate Debt	Infrastructure & Utilities	Celcom Networks Sdn Bhd (fka Celcom Transmission (M) Sdn Bhd	15-Sep-15	DOWNGRADED	STA	AAA	AA+			5000	

Source: BPAM, MARC Fixed Income Research

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