

MALAYSIAN RATING CORPORATION BERHAD  
04800 XI

NOVEMBER 2015

## Monthly Bond Market &amp; Rating Snapshot

FINANCIAL VARIABLE	OCT-15	NOV-15	MoM CHNG
OVERNIGHT POLICY RATE (%)	3.25	3.25	0 bps
3-YEAR BENCHMARK MGS (%)	3.59	3.42	-17 bps
10-YEAR BENCHMARK MGS (%)	4.37	4.20	-17 bps
3-YEAR IRS (%)	3.98	3.93	-5 bps
10-YEAR IRS (%)	4.47	4.40	-7 bps
RINGGIT 3-YEAR AAA (%)	4.12	4.14	2 bps
RINGGIT 3-YEAR AA (%)	4.45	4.44	-2 bps
RINGGIT 3-YEAR A (%)	6.25	6.31	6 bps
10-YEAR US TREASURY (%)	2.14	2.21	6 bps
2-YEAR US TREASURY (%)	0.72	0.93	21 bps
MYR/USD	4.3012	4.2600	-1.0%
KLCI INDEX	1,665.7	1,672.2	0.4%
S&P 500 INDEX	2,079.4	2,080.4	0.1%

Source: Bloomberg, MARC Fixed Income Research



## Global Markets

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In November, divergence was back in play with the Fed leaning towards monetary tightening and the ECB towards further easing. The latest Fed meeting minutes revealed most officials anticipating that conditions necessary for a rate hike *“could well be met by the time of the next meeting”*, although they also stressed that the pace of increase was likely to be *“gradual”*. The Fed’s view was broadly reinforced by recent US economic data, which induced a sell-off in the US Treasuries market.

## Ringgit Bonds

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Local govvnies rallied in November following last month’s losses. Both 3-year and 10-year benchmark MGS yields closed the month 17 bps lower as a slight recovery in the ringgit fuelled buying in local papers. The sale of the debt-laden 1MDB’s RM9.83 billion power assets to CGN Group and news that China plans to invest in Malaysia government bonds helped to improve investors’ sentiment and lent support to local govvnies. Subsequently, we saw Malaysia Credit Default Swap (CDS), which measures the cost of insuring Malaysia sovereign bonds, stabilising to 172 from its recent peak of 242.

## Currency

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## Market Review

### Global Markets

In November, divergence was back in play with the Fed leaning towards monetary tightening and the ECB towards further easing. The latest Fed meeting minutes revealed most officials anticipating that conditions necessary for a rate hike *“could well be met by the time of the next meeting”*, although they also stressed that the pace of increase was likely to be *“gradual”*. Furthermore, Fed Chair Janet Yellen expressed her confidence in the US economy, saying *“continuing improvement in the labour market helps strengthen confidence that inflation will move back to 2% inflation target over the medium term”*. The Fed’s view was broadly reinforced by recent US economic data, which induced a sell-off in the US Treasuries market. Shorter-term Treasury yields rose faster than longer-term maturities, causing the yield curve to flatten.

In the meantime, the ECB’s dovish stance continued to cheer the European government bond markets, driving yields on shorter-term bonds to record lows. Around 40% of outstanding European government bonds, including German bunds and Switzerland government bonds, were traded with negative yields. Notably, the spread between benchmark 10-year Treasury note yields and 10-year German bund yields widened to 174 bps, the highest in 15 years. The rate differentials attracted investors to US Treasuries, thus keeping a lid on the rise of Treasury yields.

### Ringgit Bonds

Local govvnies rallied in November following last month’s losses. Both 3-year and 10-year benchmark MGS yields closed the month 17 bps lower as a slight recovery in the ringgit fuelled buying in local papers. The sale of the debt-laden 1MDB’s RM9.83 billion power assets to CGN Group and news that China plans to invest in Malaysia government bonds helped to improve investors’ sentiment and lent support to local govvnies. Subsequently, we saw Malaysia Credit Default Swap (CDS), which measures the cost of insuring Malaysia sovereign bonds, stabilising to 172 from its recent peak of 242. Meanwhile, as expected, Bank Negara Malaysia (BNM) kept the Overnight Policy Rate (OPR) unchanged at 3.25% at its November meeting. In scrutinising its recent monetary policy statement, we noticed a less upbeat assessment on the overall economy. The central bank acknowledged that growth has slowed somewhat in most Asian countries and downside risk to global growth is expected to rise going forward. The performance of the domestic economy will therefore be affected by a weak external environment.

In the primary market, two government offerings have raised total funds of RM7.0 billion, namely the RM3.5 billion 10-year re-opening of the MGS and the RM3.5 billion three-year re-opening of the GII. Both auctions drew lacklustre demand as the bid-to-cover ratio came in below the YTD average of 2.2x, with the former at 1.5x and the latter at 1.9x.

Foreign holdings of Malaysia’s total government debt securities increased 4.0% m-o-m in November (October: 1.2% m-o-m) to RM170.6 billion, marking the highest in four months, led by an increase in the GII. Offshore holdings of GII came in at RM11.7 billion, an increase of 15% m-o-m, while the percentage of total GII outstanding in the market stood at 5.5%. Foreigners also raised their holdings of MGS to RM159.0 billion. The percentage of foreign holdings of MGS over total outstanding MGS in the market as of November stood at 47.3% (October: 46.3%).

### Currency

The ringgit extended its rally against major currencies in November as the Fed provided a clearer picture on the timing of the interest rates lift-off and crude oil prices recovered slightly. It strengthened against the US dollar to 4.2600 from 4.3012 in October, even though the greenback’s sentiments were positive. It also firmed up against the pound sterling and Singapore dollar by 2.9% and 1.6%, respectively.

# 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	9.0	13.6	22.6	34.9	3.4	38.3	60.9

Source: BPAM, MARC Fixed Income Research

In November, primary market activities remained robust at RM7.0 billion issued, albeit falling from October's RM10.1 billion. Except for the unrated GG segment, all other segments registered declines. Issuances in the unrated GG segment was lifted by Danalnfra which raised RM3.1 billion under their RM21 billion ICP/IMTN programme. Meanwhile, rated corporate bond issuances fell to RM2.6 billion (October: RM6.9 billion), while Cagamas raised RM1.2 billion (October: RM1.5 billion).

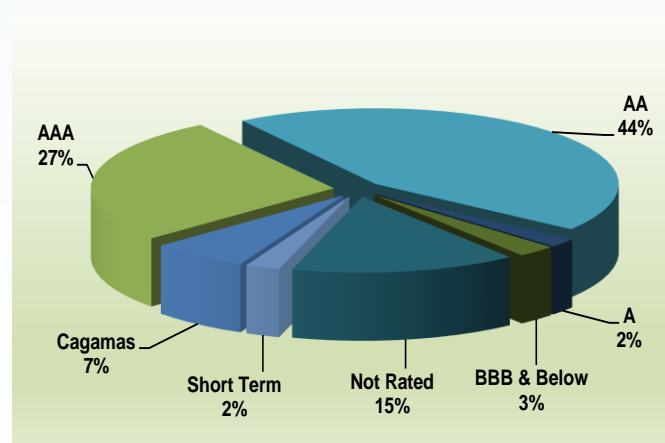
YTD gross issuances of long-term corporate debt remain relatively low at RM60.9 billion compared with RM75.2 billion in the corresponding period last year. Total rated issuances (including rated Cagamas) were also lower YTD at RM38.3 billion versus RM48.5 billion recorded for the same period last year.

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

Asset Class	Conventional	Islamic	Total
Sovereign	336.06	239.40	575.46
Cagamas	13.17	11.53	24.69
PDS	129.22	223.67	352.88
Corporate	42.23	167.02	209.25
Corporate Guaranteed	15.63	34.83	50.45
Financial	63.01	17.58	80.59
ABS	8.35	4.24	12.59

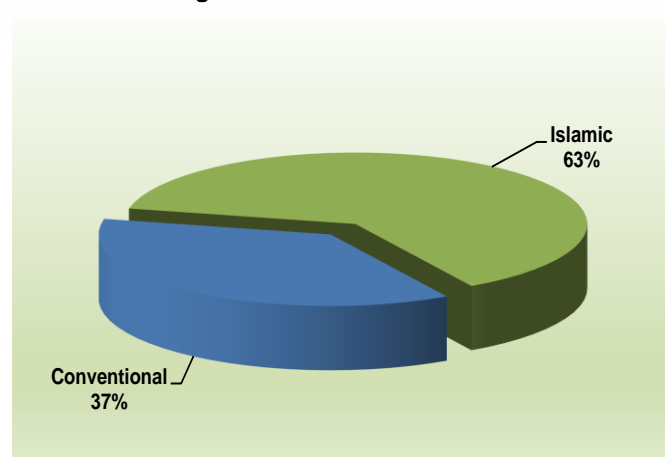
Source: BPAM, MARC Fixed Income Research

## PDS Outstanding: Distribution by Rating Type



Source: BPAM, MARC Fixed Income Research

## PDS Outstanding: Conventional & Islamic



Source: BPAM, MARC Fixed Income Research

## Summary of Corporate Bond Issuance and Outstanding

### Secondary Market Volume (RM billion)

Asset Class	Oct-15	Nov-15	MoM Chng
MGS/GII	61.3	47.9	-13.4
Cagamas	0.6	0.8	0.1
FI Corporate	1.7	2.2	0.5
Non-FI Corporate	3.9	3.3	-0.6

Source: BPAM, MARC Fixed Income Research

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

Rating Type	Oct-15	Nov-15	MoM Chng
AAA	1.8	1.2	-0.7
AA	1.8	1.6	-0.1
A	0.0	0.1	0.1
BBB and below	0.0	0.0	0.0
Short term	0.3	0.4	0.1

Source: BPAM, MARC Fixed Income Research

## MARC Rating Activities in 2015

### List of Rating Actions in November 2015

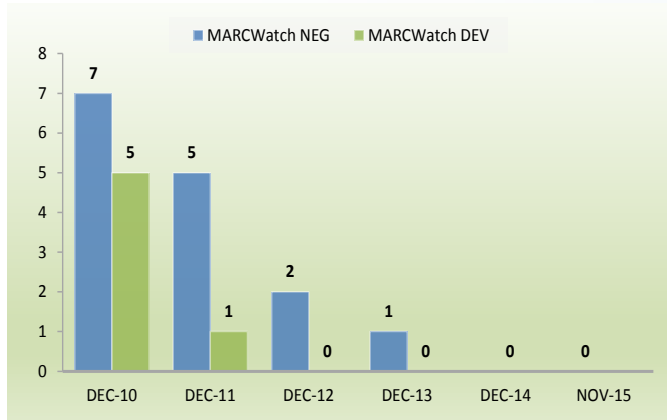
Principle	Category	Main Sector	Issuer	Date Announced	Rating Action	Rating Outlook	Long-Term Rating		Short-Term Rating		Issue Size (MYR mil)	Credit Enhancement
							Before	After	Before	After		
Conventional	Corporate Debt	Trading/Services	Premier Merchandise Sdn Bhd	27-Nov-15	AFFIRMED	STA	AAA	AAA			300	bg
Conventional	Corporate Debt	Trading/Services	Premier Merchandise Sdn Bhd	27-Nov-15	AFFIRMED	STA	AAA	AAA			300	fg
Conventional	Corporate Debt	Trading/Services	Sports Toto Malaysia Sdn Bhd	27-Nov-15	AFFIRMED	STA	AA-	AA-			800	
Conventional	Corporate Credit Ra	Finance	CIMB Group Holdings Bhd	25-Nov-15	PRELIMINARY	STA	AA+	AA+	MARC-1	MARC-1	10,000	
Conventional	Project Finance	Property	Central Impression Sdn Bhd	24-Nov-15	AFFIRMED	STA	AA-	AA-			120	
Islamic	Corporate Debt	Infrastructure & Utilities	Gas Malaysia Sdn Bhd	24-Nov-15	AFFIRMED	STA	AAA	AAA			500	
Islamic	Project Finance	Infrastructure & Utilities	Jimah East Pow er Sdn Bhd	20-Nov-15	INITIAL	STA	AA-	AA-			10,000	
Islamic	Corporate Debt	Infrastructure & Utilities	Alam Maritim Resources Bhd	16-Nov-15	DOWNGRADED	STA	A+	A			500	
Conventional	Corporate Debt	Finance	CIMB Bank Bhd	6-Nov-15	AFFIRMED	STA	AA	AA			1,000	
Conventional	Corporate Debt	Finance	CIMB Bank Bhd	6-Nov-15	AFFIRMED	STA	AA	AA			4,000	
Conventional	Corporate Debt	Finance	CIMB Bank Bhd	6-Nov-15	AFFIRMED	STA	AA+	AA+			5,000	
Conventional	Corporate Debt	Finance	CIMB Bank Bhd	6-Nov-15	AFFIRMED	STA	AA+	AA+			10,000	
Islamic	Corporate Debt	Finance	CIMB Islamic Bank Bhd	6-Nov-15	AFFIRMED	STA	AA+	AA+			2,000	
Islamic	Corporate Debt	Finance	CIMB Islamic Bank Bhd	6-Nov-15	INITIAL	STA	AA+	AA+			5,000	

Source: BPAM, MARC Fixed Income Research

\*fg – financial guarantee

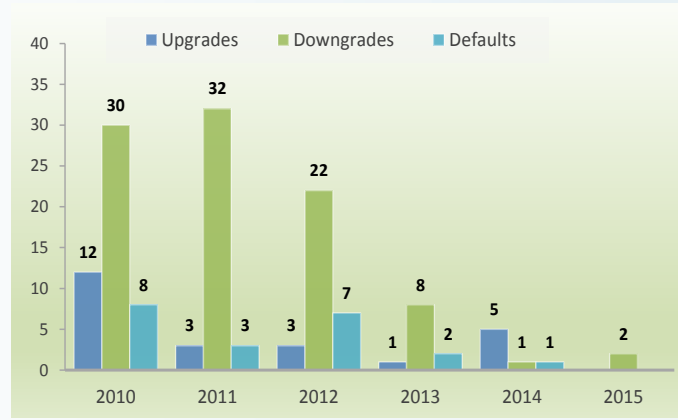
\*cg – corporate guarantee

**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	Alam Maritim Resources Bhd	16-Nov-15	DOWNGRADED	STA	A+	A			500	
Islamic	Corporate Debt	Infrastructure & Utilities	Celcom Netw orks Sdn Bhd (fka Celcom Transmission (M) Sdn Bhd	15-Sep-15	DOWNGRADED	STA	AAA	AA+			5,000	

Source: BPAM, MARC Fixed Income Research

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