

MALAYSIAN RATING CORPORATION BERHAD
01480101

DECEMBER 2015

Monthly Bond Market & Rating Snapshot

FINANCIAL VARIABLE	NOV-15	DEC-15	MoM CHNG
OVERNIGHT POLICY RATE (%)	3.25	3.25	0 bps
3-YEAR BENCHMARK MGS (%)	3.42	3.29	-13 bps
10-YEAR BENCHMARK MGS (%)	4.20	4.17	-3 bps
3-YEAR IRS (%)	3.93	3.90	-3 bps
10-YEAR IRS (%)	4.40	4.40	0 bps
RINGGIT 3-YEAR AAA (%)	4.14	4.13	0 bps
RINGGIT 3-YEAR AA (%)	4.44	4.49	6 bps
RINGGIT 3-YEAR A (%)	6.31	6.34	2 bps
10-YEAR US TREASURY (%)	2.21	2.27	6 bps
2-YEAR US TREASURY (%)	0.93	1.05	12 bps
MYR/USD	4.2600	4.2943	0.8%
KLCI INDEX	1,672.2	1,692.5	1.2%
S&P 500 INDEX	2,080.4	2,043.9	-1.8%

Source: Bloomberg, MARC Fixed Income Research



Global Markets

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It was another eventful month as announcements and actions from the two most influential central banks in the world, the Fed and the ECB, continued to dominate the headlines. The latest round of stimulus measures announced by the ECB failed to meet the market's expectations, thus inducing a selloff in stocks and bonds on both sides of the Atlantic. Meanwhile in the US, the Fed finally raised interest rates for the first time since 2006, marking the end of the zero-rated era.

Ringgit Bonds

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The local govvnies extended their gains in December. The MGS yield curve steepened with the MGS 10/3 spread widening to 88 bps from 45 bps in November. Yields on the long end remained anchored, falling three bps m-o-m as investors coped with duelling forces in the market. While a clearer picture on the pace of the Fed's normalisation cycle spurred some buying sentiment, a rout in the junk bond market and a slump in crude oil prices to below USD40 per barrel amplified global growth worries.

Currency

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The ringgit reversed November's gain to close 0.8% lower against the US dollar at 4.2943 in December. The downside of the local currency can be attributed to a few factors: slumping crude oil prices, a stronger greenback and speculation that the yuan will weaken further.

Summary of Corporate Bond Issuance and Outstanding

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Market Review

Global Markets

It was another eventful month as announcements and actions from the two most influential central banks in the world, the Fed and the ECB, continued to dominate the headlines. On December 3, the ECB unveiled much-anticipated additional stimulus measures to boost the stubbornly low inflation in the euro zone, which included a cut in the deposit rate to -0.3% and an extension of the Asset Purchase Programme (APP) to the end of March 2017, or beyond, if necessary. However, the ECB held back from expanding the size of the APP beyond EUR60 billion per month, which disappointed the market, inducing a selloff in stocks and bonds on both sides of the Atlantic.

Meanwhile in the US, the Fed finally raised interest rates for the first time since 2006, marking the end of the zero-rated era. The FOMC unanimously voted for a quarter-point increase for the target federal funds rate (FFR), but stressed that the stance of the Fed's monetary policy remains accommodative. The committee also dropped a few hints on future Fed rates hikes in the latest FOMC statement. They expect "*economic conditions will evolve in a manner that will warrant only gradual increases in the federal funds rate*", but "*the actual path of the federal funds rate will depend on the economic outlook as informed by incoming data*". In addition, latest projections showed Fed policy makers separately forecasting the target FFR to creep up to 1.375% on average by the end of 2016, which implied four quarter-point increases. This is more optimistic than the market's expectations of only two quarter-point increases.

The selling of the US Treasuries, however, was moderate following the Fed's rates hike, mainly because (1) a rout in the junk bond market drove investors to safety assets; (2) investors have largely priced in the rates hike; (3) slumping crude oil prices and the stronger US dollar weighed on US inflation readings; and (4) yields offered by the UST are higher than their peers in other advanced economies. Yields on longer maturities rose slower than shorter ones, causing the UST yield curve to flatten bearishly.

Ringgit Bonds

The local govies extended its price gains in December. The MGS yield curve steepened with the MGS 10/3 spread widening to 88 bps from 45 bps in November. Yields on the long end remained anchored, falling three bps m-o-m as investors coped with duelling forces in the market. While a clearer picture on the pace of the Fed's normalisation cycle spurred some buying sentiment, a rout in the junk bond market and a slump in crude oil prices to below USD40 per barrel amplified global growth worries. Many investors shifted their portfolios to the short-end of the curve for lower duration risks amid uncertainties, pushing the yields 13 bps lower. Throughout the month, transacted volume was thinner than usual with a total of RM37 billion dealt, averaging less than RM1.8 billion daily.

In the primary market, two government offerings raised total funds of RM7.0 billion, namely the RM4.0 billion five-year re-opening of the MGS and the RM3.0 billion 10-year re-opening of the GII. While the sale of the five-year MGS drew decent demand with a bid-to-cover ratio of 2.47x, the sale of the 10-year GII saw lukewarm demand with a bid-to-cover ratio of 1.82x.

Foreign holdings of Malaysia's total government debt securities increased in December to RM173.8 billion (November: RM170.6 billion), marking the highest amount in six months, led by an increase in the MGS. Foreigners raised their holdings of the MGS to RM162.1 billion (November: RM159.0 billion), while the percentage of total MGS outstanding in the market stood at 47.7% (November: 47.3%). Meanwhile, offshore holdings of the GII came in slightly lower at RM11.6 billion (November: RM11.7 billion).

Currency

In line with other emerging Asian currencies, the ringgit reversed November's gain to close 0.8% lower against the US dollar at 4.2943 in December. The downslide of the local currency can be attributed to a few factors: slumping crude oil prices which sparked investors' concerns on Malaysia's fiscal health, a stronger greenback boosted by the Fed's rates hike, and speculation that the yuan will weaken further.

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	92.5	14.0	51.5	15.6	3.8	85.0

Source: BPAM, MARC Fixed Income Research

In December, the corporate debt market recorded total gross issuances of RM24.1 billion, a sharp rise from RM7.0 billion in November, lifted by higher issuances of both rated and unrated corporate bonds. Fund-raising activities in unrated private placements increased to RM5.0 billion (November: RM0.1 billion), whereas rated corporate bond issuances surged to RM16.6 billion (November: RM2.6 billion). Notable issuances in the month was Jimah East Power Sdn Bhd's RM9.0 billion Sukuk Murabahah.

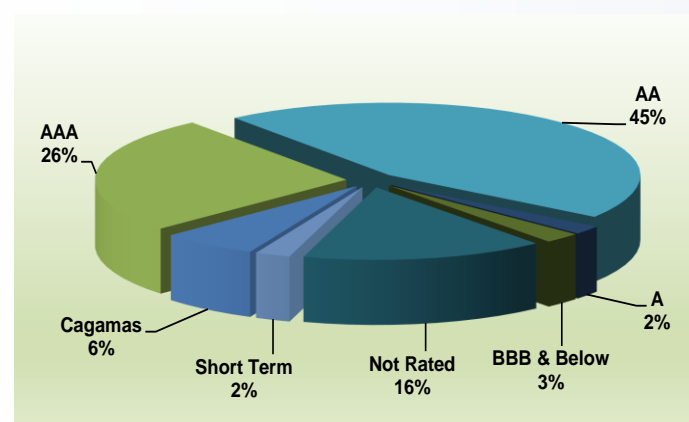
Still, 2015 gross issuances of long-term corporate debt came in slightly lower at RM85.0 billion versus RM85.9 billion in the preceding year. Lingering uncertainties and negative domestic and external developments such as the expectation of a US interest rate hike, a slump in commodity prices and domestic political noise contributed to a bearish ringgit performance and subsequently weighed on market sentiment.

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

Asset Class	Conventional	Islamic	Total
Sovereign	340.06	242.40	582.46
Cagamas	13.16	11.34	24.49
PDS	134.32	233.10	367.42
Corporate	47.52	176.48	224.00
Corporate Guaranteed	14.82	34.65	49.47
Financial	63.82	18.23	82.04
ABS	8.16	3.75	11.91

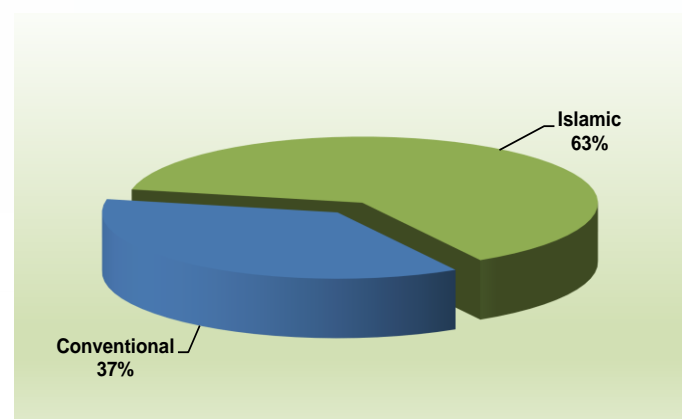
Source: BPAM, MARC Fixed Income Research

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-15	Dec-15	MoM Chng
MGS/GII	47.8	37.3	-10.6
Cagamas	0.8	1.1	0.3
FI Corporate	2.2	2.3	0.1
Non-FI Corporate	3.3	4.1	0.8

Source: BPAM, MARC Fixed Income Research

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

Rating Type	Nov-15	Dec-15	MoM Chng
AAA	1.2	1.1	-0.1
AA	1.6	2.0	0.3
A	0.1	0.1	0.0
BBB and below	0.0	0.0	0.0
Short term	0.4	0.9	0.5

Source: BPAM, MARC Fixed Income Research

MARC Rating Activities in 2015

List of Rating Actions in December 2015

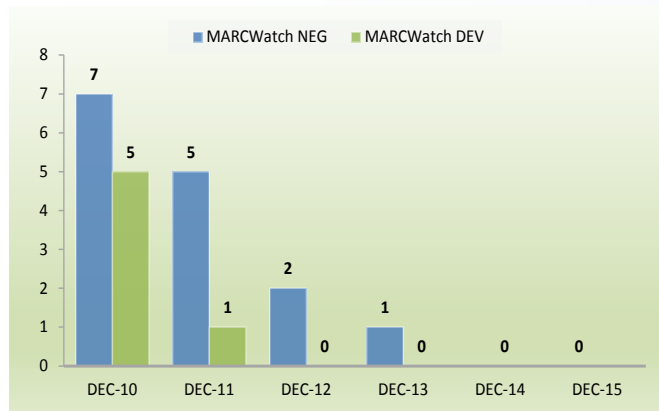
Principle	Category	Main Sector	Issuer	Date Announced	Rating Action	Rating Outlook	Long-Term Rating		Short-Term Rating		Issue Size (MYR mil)	Credit Enhancement
							Before	After	Before	After		
Unspecified	Financial Strength	Insurance Company	Atlantixlux Lebensversicherung S.A	31-Dec-15	AFFIRMED	DEV	AA-	AA-			-	
Islamic	Project Finance	Infrastructure & Utilities	Konsortium Lebuhraya Utara-Timur (KL) Sdn Bhd	31-Dec-15	AFFIRMED	STA	AA-	AA-			2,300	
Conventional	Project Finance	Infrastructure & Utilities	Konsortium Lebuhraya Utara-Timur (KL) Sdn Bhd	31-Dec-15	AFFIRMED	STA	A-	A-			180	
Islamic	Corporate Debt	Infrastructure & Utilities	Kuching Port Authority	30-Dec-15	WITHDRAWN		AAA	AAA			180	s
Islamic	Structured Finance	Plantation	Tradew inds Plantation Capital Sdn Bhd	30-Dec-15	WITHDRAWN		AAA	AAA			180	
Islamic	Structured Finance	Plantation	Tradew inds Plantation Capital Sdn Bhd	30-Dec-15	WITHDRAWN		AA+	AA+			30	
Conventional	Corporate Debt	Construction	WCT Holdings Berhad	30-Dec-15	WITHDRAWN		AA-	AA-			600	
Conventional	Structured Finance	Residential Mortgages	Cagamas MBS Bhd	23-Dec-15	WITHDRAWN		AAA	AAA			320	
Conventional	Corporate Debt	Property	Berjaya Land Bhd	18-Dec-15	AFFIRMED	STA	AAA	AAA			500	fg
Conventional	Corporate Debt	Property	Berjaya Land Bhd	18-Dec-15	AFFIRMED	STA	AAA	AAA			150	bg
Islamic	Project Finance	Trading/Services	Alpha Circle Sdn Bhd	14-Dec-15	AFFIRMED	STA	AA-	AA-			540	
Islamic	Project Finance	Trading/Services	Alpha Circle Sdn Bhd	14-Dec-15	AFFIRMED	STA	A	A			55	
Conventional	Corporate Debt	Property	Riverson Corporation Sdn Bhd	14-Dec-15	AFFIRMED	STA	AAA	AAA	MARC-1	MARC-1	200	fg
Conventional	Corporate Debt	Finance	CIMB Group Holdings Bhd	11-Dec-15	INITIAL	STA	AA	AA			10,000	
Conventional	Corporate Debt	Trading/Services	Tesco Stores (Malaysia) Sdn Bhd	8-Dec-15	DOWNGRADED	NEG	AA	AA-	MARC-1	MARC-1	3,500	cg
Islamic	Corporate Debt	Property	Symphony Life Berhad (fka Bolton Bhd)	7-Dec-15	AFFIRMED	DEV	AAA	AAA			230	fg
Conventional	Corporate Debt	Trading/Services	KMCOB Capital Bhd	1-Dec-15	AFFIRMED	STA	AAA	AAA			320	fg

Source: BPAM, MARC Fixed Income Research

*fg – financial guarantee

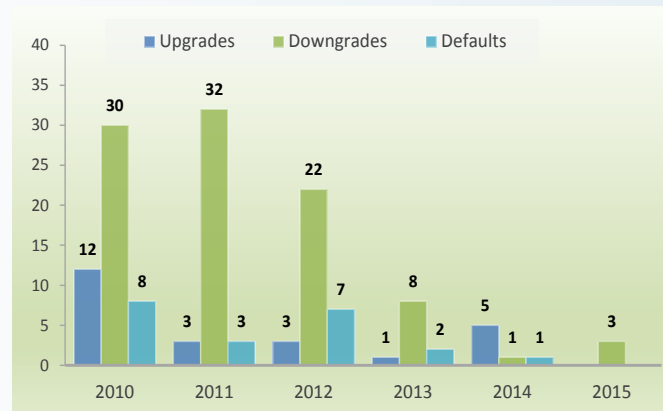
*bg – bank guarantee

2015 MARCWatch Placements, by Issue Count



Source: BPAM, MARC Fixed Income Research

2015 Upgrades, Downgrades and Defaults, by Issue Count



Source: BPAM, MARC Fixed Income Research

List of Rating Migrations in 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	Tesco Stores (Malaysia) Sdn Bhd	8-Dec-15	DOWNGRADED	NEG	AA	AA-			3,500	cg
Islamic	Corporate Debt	Infrastructure & Utilities	Alam Maritim Resources Bhd	16-Nov-15	DOWNGRADED	STA	A+	A			500	
Islamic	Corporate Debt	Infrastructure & Utilities	Celcom Networks 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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