



MALAYSIAN RATING CORPORATION BERHAD

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JANUARY 2016

Monthly Bond Market & Rating Snapshot

FINANCIAL VARIABLE	DEC-15	JAN-16	MoM CHNG
OVERNIGHT POLICY RATE (%)	3.25	3.25	0 bps
3-YEAR BENCHMARK MGS (%)	3.29	3.21	-8 bps
10-YEAR BENCHMARK MGS (%)	4.17	3.85	-32 bps
3-YEAR IRS (%)	3.90	3.69	-21 bps
10-YEAR IRS (%)	4.40	4.13	-27 bps
RINGGIT 3-YEAR AAA (%)	4.13	4.11	-2 bps
RINGGIT 3-YEAR AA (%)	4.49	4.48	-2 bps
RINGGIT 3-YEAR A (%)	6.34	6.31	-3 bps
10-YEAR US TREASURY (%)	2.27	1.92	-35 bps
2-YEAR US TREASURY (%)	1.05	0.77	-27 bps
MYR/USD	4.2943	4.1480	-3.4%
KLCI INDEX	1,692.5	1,667.8	-1.5%
S&P 500 INDEX	2,043.9	1,940.2	-5.1%

Source: Bloomberg, MARC Fixed Income Research



Global Markets

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Worries of a crude supply glut has prompted a relentless sell-off of oil, which has spilled over into global stock and junk bond markets. In addition, downbeat economic data from around the globe and a downward revision of global growth by the IMF has caused investors to flee from riskier markets to safe-haven assets. As a result, global bond yields are at a near one-year low.

Ringgit Bonds

2

In line with UST, local govies ended January on a stronger note with benchmark yields compressing lower across the curve, thanks to the recent rout in global stocks. Benchmark 10-year yields were pushed below 4.00%, a low last seen one year ago.

Currency

2

The ringgit advanced 3.4% m-o-m against USD, the highest monthly gain in nine months as market sentiment improved somewhat following positive investors' response to the 2016 Budget recalibration. Some rebound in oil prices from their 12-year lows also lent support to the local unit.

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Market Review

Global Markets

Worries of a crude supply glut has prompted a relentless sell-off of oil, which has spilled over into global stock and junk bond markets. In addition, downbeat economic data from around the globe and a downward revision of global growth by the IMF has caused investors to flee from riskier markets to safe-haven assets. As a result, global bond yields are at a near one-year low.

Market turbulence has complicated the Fed's plans for monetary policy tightening. In the January FOMC statement, the line *"the Fed is closely monitoring global economic and financial developments and is assessing their implications for the labour market and inflation, and for the balance of risks to the outlook"* caught the most attention as it suggested that the Fed are having second thoughts about their projections for the US economy in 2016. The absence of risk assessment, which is used by the Fed to guide markets, also suggests that there is uncertainty among Fed policymakers. The last time the Fed omitted risk assessment in its FOMC statement was before the Global Financial Crisis of 2007-2008.

Other central banks have also been under pressure because of stagnant economic growth. The European Central Bank President has signalled that there could be more monetary stimulus starting as early as March. Meanwhile, the Bank of Japan has introduced negative interest rates for the first time.

At month close, global yields tumbled to levels not seen in at least nine months. The 10-year UST was trading below 2.00% while the 10-year German Bunds yields fell by almost half. Yields on the 10-year UK Gilts also slipped to 1.56%, the lowest in a year. The 10-year Japanese bond yields was hit the most, sinking to a record low of 0.10%.

Ringgit Bonds

In line with UST, local govies ended January on a stronger note with benchmark yields compressing lower across the curve, thanks to the recent rout in global stocks. Benchmark 10-year yields were pushed below 4.00%, a low last seen one year ago. There was a pullback in bond prices earlier in the month due to weaker-than-expected Malaysian industrial output data and a downward revision of Malaysia's sovereign rating outlook from 'positive' to 'stable' by Moody's. However, the losses were soon reversed by flight-to-safety as Malaysian stocks tumbled. Bank Negara Malaysia's decision to reduce the statutory reserve ratio (SRR) by 50 bps to 3.50% in a move to boost liquidity also lent some support to local govies. In addition, the unveiling of the recalibrated Budget 2016 on Jan 28, in which the government indicated that it will be maintaining the 2016 fiscal deficit target at 3.1%, boosted market sentiment.

Trading volume for government bonds improved significantly in January, buoyed by buying interest. It surged to RM93.0 billion from RM37.1 billion at December-end.

Meanwhile, three government offerings in the primary market have raised total funds of RM9.0 billion, namely the RM4.0 billion 7.5-year new issue of GII, the RM3.0 billion three-year re-opening of MGS and the RM 2.0 billion 20-year re-opening of GII. The sale of the newly issued GII drew the strongest demand since May 2015, with a bid-to-cover ratio of 2.68x. However, demand moderated in the latter two auctions, with bid-to cover ratios declining to 2.06x and 1.92x, respectively.

Foreign holdings of Malaysia's total government debt securities rose to RM175.9 billion in January (December: RM173.8 billion), marking the highest in six months. It was led by an increase in MGS. Foreigners raised their holdings of MGS to RM164.4 billion (December: RM162.1 billion), but cut their holdings of GII slightly to RM11.5 billion (December: RM11.6 billion). As a percentage of outstanding MGS in the market, foreign holdings increased moderately to 47.9% from 47.7% in the prior month.

Currency

The ringgit advanced 3.4% m-o-m against USD, the highest monthly gain in nine months as market sentiment improved somewhat following positive investors' response to the 2016 Budget recalibration. Some rebound in oil prices from their 12-year lows also lent support to the local unit. On the flipside, US data came out soft of late with both durable orders and factory orders continuing to decline. Manufacturing remains in contractionary territory, as reported by ISM, and rising jobless claims have put downward pressure on the USD.

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
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
2016 YTD	9.00	0.44	1.16	0.50	0.0	2.10

Source: BPAM, MARC Fixed Income Research

January saw muted issuance activity in the local corporate bond market. Gross issuances fell to RM2.1 billion versus RM24.1 billion in the preceding month, though it is slightly higher than January 2014's RM2.0 billion. Rated corporate bond issuances were also lower at RM1.2 billion from RM1.7 billion recorded for the same period last year, merely supported by AAA-rated EKVE Sdn Bhd's RM1.0 billion Sukuk Murabahah. There were no issuances from Cagamas in January.

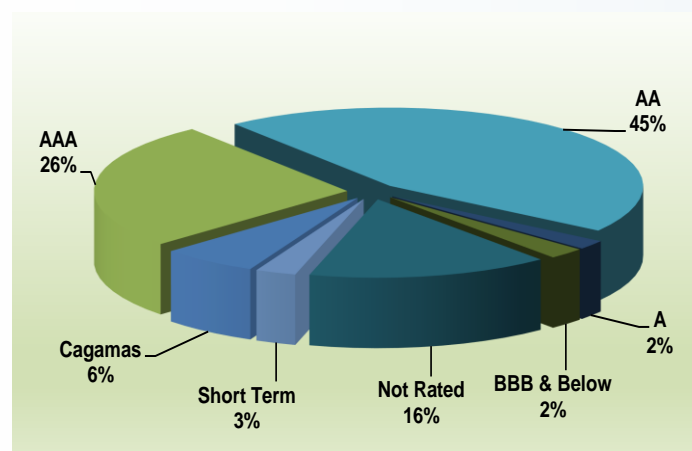
Meanwhile in the unrated segment, issuances came in higher at RM0.9 billion compared to RM0.3 billion issued in the corresponding period last year. Bank Pembangunan Malaysia Berhad was the sole issuer in the unrated-GG segment, issuing two tranches of conventional MTN worth RM0.5 billion.

Outstanding Size of Sovereign, Cagamas and Corporate Bonds as of January 2016 (RM billion)

Asset Class	Conventional	Islamic	Total
Sovereign	343.06	248.40	591.46
Cagamas	13.10	11.32	24.42
PDS	135.66	233.42	369.08
Corporate	48.61	175.46	224.07
Corporate Guaranteed	15.09	35.99	51.08
Financial	63.81	18.23	82.03
ABS	8.16	3.75	11.90

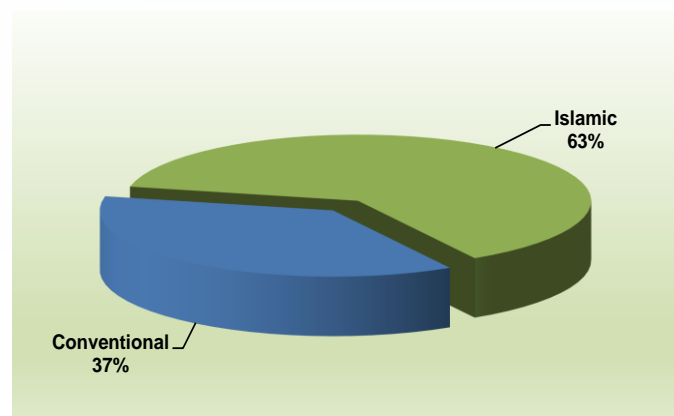
Source: BPAM, MARC Fixed Income Research

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	Dec-15	Jan-16	MoM Chng
MGS/GII	37.3	85.1	47.8
Cagamas	1.1	1.2	0.1
FI Corporate	2.3	2.0	-0.3
Non-FI Corporate	4.1	7.6	3.5

Source: BPAM, MARC Fixed Income Research

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

Rating Type	Dec-15	Jan-16	MoM Chng
AAA	1.1	4.3	3.2
AA	2.0	2.6	0.6
A	0.1	0.1	0.0
BBB and below	0.0	0.0	0.0
Short term	0.9	0.6	-0.3

Source: BPAM, MARC Fixed Income Research

MARC Rating Activities in 2016

List of Rating Actions in January 2016

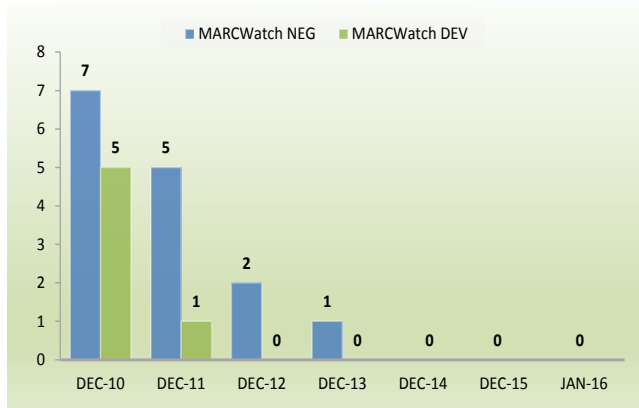
Principle	Category	Main Sector	Issuer	Date Announced	Rating Action	Rating Outlook	Long-Term Rating		Short-Term Rating		Issue Size (MYR mil)	Credit Enhancement
							Before	After	Before	After		
Unspecified	Financial Strength	Finance	Credit Guarantee & Investment Facility	28-Jan-16	AFFIRMED	STA	AAA	AAA	MARC-1	MARC-1	-	
Unspecified	Financial Strength	Finance	The Bank Of East Asia, Limited	28-Jan-16	AFFIRMED	STA	AAA	AAA	MARC-1	MARC-1	-	
Islamic	Corporate Debt	Infrastructure & Utilities	Malaysia Marine and Heavy Engineering Holdings Berhad	27-Jan-16	AFFIRMED	NEG	AA-	AA-			1,000	
Islamic	Corporate Debt	Plantation	TSH Sukuk Ijarah Sdn Bhd	26-Jan-16	AFFIRMED	STA			MARC-1	MARC-1	100	
Islamic	Corporate Debt	Plantation	TSH Sukuk Ijarah Sdn Bhd	26-Jan-16	AFFIRMED	STA	AA-	AA-			300	
Islamic	Corporate Debt	Plantation	TSH Sukuk Musyarakah Sdn Bhd	26-Jan-16	AFFIRMED	STA	AAA	AAA			100	fg
Islamic	Corporate Debt	Infrastructure & Utilities	Malakoff Power Bhd	22-Jan-16	AFFIRMED	STA	AA-	AA-			5,400	
Islamic	Corporate Debt	Infrastructure & Utilities	Northport (Malaysia) Bhd	22-Jan-16	AFFIRMED	STA	AA-	AA-	MARC-1	MARC-1	1,500	
Islamic	Project Finance	Infrastructure & Utilities	Gas District Cooling (Putrajaya) Sdn Bhd	21-Jan-16	AFFIRMED	STA	AAA	AAA			300	
Conventional	Project Finance	Property	Segi Astana Sdn Bhd	20-Jan-16	AFFIRMED	STA	AAA	AAA			470	fg
Islamic	Corporate Debt	Infrastructure & Utilities	Petronas Dagangan Bhd	19-Jan-16	AFFIRMED	STA	AAA	AAA	MARC-1	MARC-1	2,000	
Islamic	Corporate Debt	Property	Horizon Hills Development Sdn Bhd	18-Jan-16	AFFIRMED	STA	AAA	AAA			200	bg
Islamic	Project Finance	Infrastructure & Utilities	TTM Sukuk Berhad	15-Jan-16	AFFIRMED	STA	AAA	AAA			600	

Source: BPAM, MARC Fixed Income Research

*fg – financial guarantee

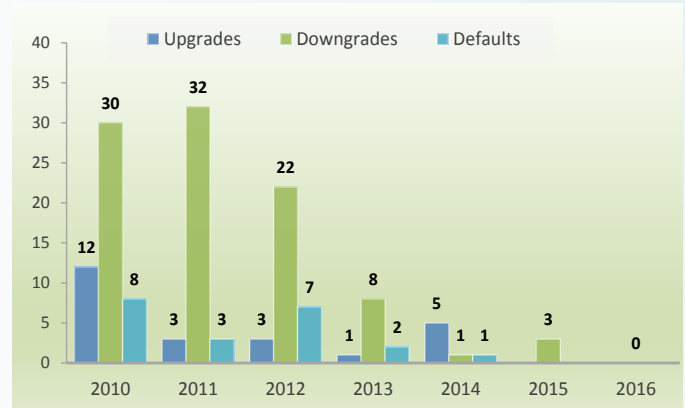
*bg – bank guarantee

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	Rating Action	Rating Outlook	Long-Term Rating		Short-Term Rating		Issue Size (MYR mil)	Credit Enhancement
							Before	After	Before	After		
-	-	-	-	-	-	-	-	-	-	-	-	-

Source: BPAM, MARC Fixed Income Research

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