



MALAYSIAN RATING CORPORATION BERHAD



FEBRUARY 2016

## Monthly Bond Market & Rating Snapshot

FINANCIAL VARIABLE	JAN-16	FEB-16	MoM CHNG
OVERNIGHT POLICY RATE (%)	3.25	3.25	0 bps
3-YEAR BENCHMARK MGS (%)	3.21	3.31	10 bps
10-YEAR BENCHMARK MGS (%)	3.85	3.92	6 bps
3-YEAR IRS (%)	3.69	3.66	-3 bps
10-YEAR IRS (%)	4.13	4.10	-3 bps
RINGGIT 3-YEAR AAA (%)	4.11	4.11	0 bps
RINGGIT 3-YEAR AA (%)	4.48	4.47	0 bps
RINGGIT 3-YEAR A (%)	6.31	6.26	-5 bps
10-YEAR US TREASURY (%)	1.92	1.73	-19 bps
2-YEAR US TREASURY (%)	0.77	0.77	0 bps
MYR/USD	4.1480	4.2030	1.3%
KLCI INDEX	1,667.8	1,654.8	-0.8%
S&P 500 INDEX	1,940.2	1,932.2	-0.4%

Source: Bloomberg, MARC Fixed Income Research



### Global Markets

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The beginning of February saw investors piling into global government bonds and other safe haven assets, with some speculating that the Fed will not raise its interest rates this year amid heightened growth concerns. Benchmark US 10-year yield traded at the lowest level in one year while German and Japanese government bond yields touched record lows. However, this reversed shortly before end-February, in line with the increase in the market implied probability of a Fed rate hike by this year from near zero to more than 50%.

### Ringgit Bonds

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In contrast to the UST, local government bonds reversed January's gain to close the month on a weaker note. Heavy selling pressure was seen in the short- to mid-tenure space with the 3- and 5-year note yields climbing 10 bps and 18 bps respectively. The earlier rally at the beginning of the month appeared to be short-lived amid a slight bearish ringgit performance towards the month end.

### Currency

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The ringgit ended February on a weaker note after a strong rally in the prior month. It fell 1.3% m-o-m against the USD to 4.2030, tracking the weakness in crude oil prices. Concerns about the accelerating inflation in Malaysia also prompted some selling on the ringgit.

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## Market Review

### Global Markets

The beginning of February saw investors piling into global government bonds and other safe haven assets, with some speculating that the Fed will not raise its interest rates this year amid heightened growth concerns. Benchmark US 10-year yield traded at the lowest level in one year while German and Japanese government bond yields touched record lows. However, this reversed shortly before end-February, in line with the increase in the market implied probability of a Fed rate hike by this year from near zero to more than 50%. Riskier asset classes pared losses, reflecting an improvement in investors' risk appetites.

The sudden reversal in sentiment can be attributed to a number of reasons. Recent economic data has pointed to resilience in the US economy, bolstering the prospects of a Fed rate hike. Personal consumption expenditures (PCE) index, the preferred inflation measure of the Fed, picked up by the most since 2014. Crude oil prices were stabilising on hopes that oil producers would strike a deal to tackle the current supply glut. China's announcement to cut banks' reserve requirement ratios (RRR) also helped eased some concerns on capital outflow from the mainland.

Still, doubts over the global economy persist as economic data outside of the US remain lacklustre. The inflation rate in the euro zone dipped below zero while China's manufacturing activity shrank at its fastest rate in four years. Fed Governor Lael Brainard warned that "crosscurrents coming from abroad" may hit the US economy when she argued for a slower path of interest rate hikes. She was also particularly worried about the tightening financial conditions in the US, including the stronger greenback as she said that this had already delivered the equivalent of three quarter-point interest rate hikes.

### Ringgit Bonds

In contrast to the UST, local government bonds reversed January's gain to close the month on a weaker note. Heavy selling pressure was seen in the short- to mid-tenure space with the 3- and 5-year note yields climbing 10 bps and 18 bps respectively. The earlier rally at the beginning of the month appears to be short-lived amid a slight bearish ringgit performance towards the month end. Nevertheless, despite the sell-off, we opine that local govies remained well supported with the 10-year note yields trading below 4.00%. Growing expectations of an extended period of ultra-loose monetary policies in advanced economies and a dimming outlook for a Fed rate hike in the coming months would continue to lend support for local govies.

In the primary market, two government offerings have raised total funds of RM7.5 billion, namely the RM4.0 billion 7.5-year new issue of MGS and the RM3.5 billion 5.5-year new issue of GII. Of note, the sale of newly issued GII drew decent demand from yield-hungry investors and ended with a bid-to-cover ratio of 2.85x, the highest since March 2015. Meanwhile, the sale of the lower-yielding MGS papers saw lacklustre demand with a bid-to-cover ratio of only 1.63x.

Foreign investors emerged as the net buyers of Malaysia's government debt securities for a sixth consecutive month, increasing their holdings to RM176.7 billion (January: RM175.9 billion) as the ringgit stabilised. Offshore holdings of MGS and GII came in slightly higher at RM165.0 billion and RM11.7 billion respectively. Nonetheless, the percentage of foreign holdings of MGS over the total outstanding MGS in the market slid marginally to 47.5% due to an increase in net issuances of MGS.

### Currency

The ringgit ended February on a weaker note after a strong rally in the prior month. It fell 1.3% m-o-m against the USD to 4.2030, tracking the weakness in crude oil prices. Concerns about the accelerating inflation in Malaysia also prompted some selling on the ringgit. On the flipside, the greenback strengthened on flight-to-quality. Despite the fall, the ringgit remained the best performing Asian currency in the year to date (2.1%), aside from the Japanese yen and Indonesian rupiah.

# Summary of Corporate Bond Issuance and Outstanding

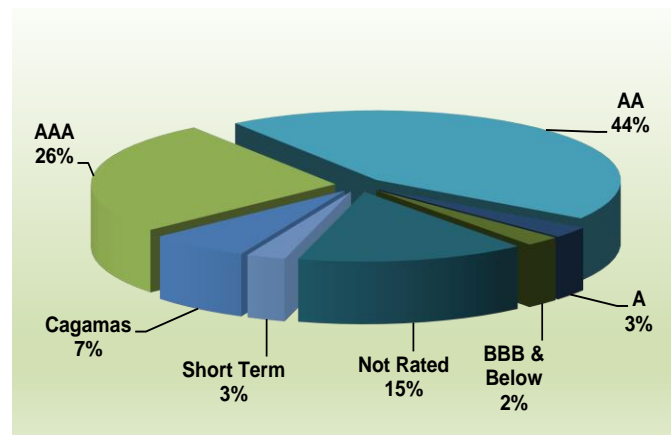
## Historical Trend of Bond Issuance by Category (RM billion)

Year	Unrated Corporate Bonds	Unrated Government Guaranteed	Total Unrated	Rated Government Guaranteed	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	70.6
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	14.0	15.6	29.6	51.5	3.8	55.3	85.0
2016 YTD	0.5	5.3	5.8	5.3	1.9	7.2	13.0

Source: BPAM, MARC Fixed Income Research

Local corporate bond issuance activity picked up in February amid improved sentiment. Gross issuances increased more than fivefold to RM10.9 billion from RM2.1 billion in the preceding month, lifted by gains in the rated corporate bonds (Feb: RM4.1 billion; Jan: RM1.2 billion), Cagamas (Feb: RM1.9 billion; Jan: 0) and the unrated government-guaranteed segment (Feb: RM4.8 billion; Jan: RM0.5 billion). Issuance was led by Prasarana Malaysia Berhad which issued five tranches of government-guaranteed sukuk Murabahah with tenures between seven and 25 years totalling RM3.1 billion. Meanwhile, fundraising activities in the unrated corporate bonds registered declines to RM0.1 billion (Jan: RM0.4 billion).

## PDS Outstanding: Distribution by Rating Type



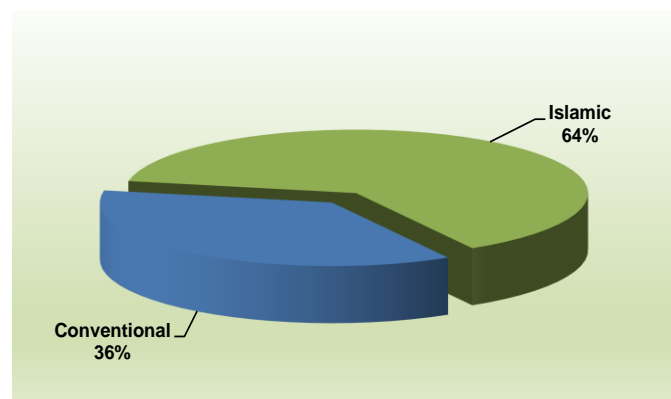
Source: BPAM, MARC Fixed Income Research

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

Asset Class	Conventional	Islamic	Total
Sovereign	347.06	244.90	591.96
Cagamas	14.72	11.72	26.44
PDS	134.64	235.54	370.18
Corporate	47.61	176.26	223.87
Corporate Guaranteed	15.10	36.31	51.41
Financial	63.80	19.23	83.03
ABS	8.14	3.75	11.88

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	Jan-16	Feb-16	MoM Chng
MGS/GII	85.1	67.0	-18.1
Cagamas	1.2	1.2	0.1
FI Corporate	2.0	1.2	-0.9
Non-FI Corporate	7.6	7.2	-0.4

Source: BPAM, MARC Fixed Income Research

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

Rating Type	Jan-16	Feb-16	MoM Chng
AAA	4.3	2.4	-1.9
AA	2.6	4.0	1.4
A	0.1	0.1	0.1
BBB and below	0.0	0.0	0.0
Short term	0.6	0.7	0.1

Source: BPAM, MARC Fixed Income Research

## MARC Rating Activities in 2016

### List of Rating Actions in February 2016

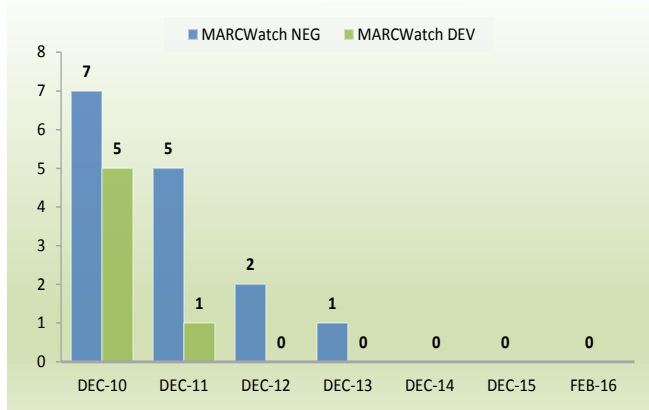
Principle	Category	Main Sector	Issuer	Date Announced	Rating Action	Rating Outlook	Long-Term Rating		Short-Term Rating		Issue Size (MYR ml)	Credit Enhancement
							Before	After	Before	After		
Islamic	Corporate Debt	Property	Putrajaya Holdings Sdn Bhd	29-Feb-16	AFFIRMED	STA	AAA	AAA			2,200	
Islamic	Corporate Debt	Property	Putrajaya Holdings Sdn Bhd	29-Feb-16	AFFIRMED	STA	AAA	AAA			1,500	
Islamic	Corporate Debt	Property	Putrajaya Holdings Sdn Bhd	29-Feb-16	AFFIRMED	STA	AAA	AAA			3,000	
Islamic	Corporate Debt	Property	Putrajaya Holdings Sdn Bhd	29-Feb-16	AFFIRMED	STA	AAA	AAA			370	
Islamic	Project Finance	Property	Putrajaya Bina Sdn Bhd	26-Feb-16	PRELIMINARY	STA	AAA	AAA			1,580	
Conventional	Corporate Debt	Trading/Services	Boustead Holdings Berhad	24-Feb-16	AFFIRMED	STA	AAA	AAA			1,000	bg
Islamic	Corporate Debt	Infrastructure & Utilities	Cerah Sama Sdn Bhd	24-Feb-16	AFFIRMED	STA	AA-	AA-			420	
Islamic	Corporate Debt	Trading/Services	DRB-Hicom Bhd	24-Feb-16	AFFIRMED	NEG	AA-	AA-			1,800	
Islamic	Corporate Debt	Trading/Services	DRB-Hicom Bhd	24-Feb-16	AFFIRMED	NEG	A	A			2,000	
Conventional	Structured Finance	Finance	RCE Advance Sdn Bhd	18-Feb-16	AFFIRMED	STA	A+	A+			240	
Conventional	Structured Finance	Finance	RCE Advance Sdn Bhd	18-Feb-16	AFFIRMED	STA	A	A			120	
Conventional	Structured Finance	Finance	RCE Advance Sdn Bhd	18-Feb-16	DOWNGRADED	STA	BBB+	BBB			60	
Unspecified	Issuer Rating	Finance	Credit Guarantee Corporation (M) Bhd	11-Feb-16	AFFIRMED	STA	AAA	AAA			-	
Islamic	Corporate Debt	Trading/Services	SIME Darby Bhd (formerly Synergy Drive Bhd)	11-Feb-16	AFFIRMED	NEG	AAA	AAA			4,500	
Islamic	Corporate Debt	Trading/Services	SIME Darby Bhd (formerly Synergy Drive Bhd)	11-Feb-16	AFFIRMED	NEG			MARC-1	MARC-1	500	
Islamic	Corporate Debt	Trading/Services	SIME Darby Bhd (formerly Synergy Drive Bhd)	11-Feb-16	PRELIMINARY	NEG	AA	AA			3,000	
Islamic	Project Finance	Infrastructure & Utilities	TNB Western Energy Berhad	4-Feb-16	AFFIRMED	STA	AAA	AAA			4,000	
Islamic	Corporate Debt	Finance	Cagamas Bhd	2-Feb-16	AFFIRMED	STA	AAA	AAA			40,000	
Islamic	Corporate Debt	Finance	Cagamas Bhd	2-Feb-16	AFFIRMED	STA	AAA	AAA			4,000	
Islamic	Corporate Debt	Finance	Cagamas Bhd	2-Feb-16	AFFIRMED	STA			MARC-1	MARC-1	1,000	
Islamic	Corporate Debt	Finance	Cagamas Bhd	2-Feb-16	AFFIRMED	STA			MARC-1	MARC-1	20,000	

Source: BPAM, MARC Fixed Income Research

\*fg – financial guarantee

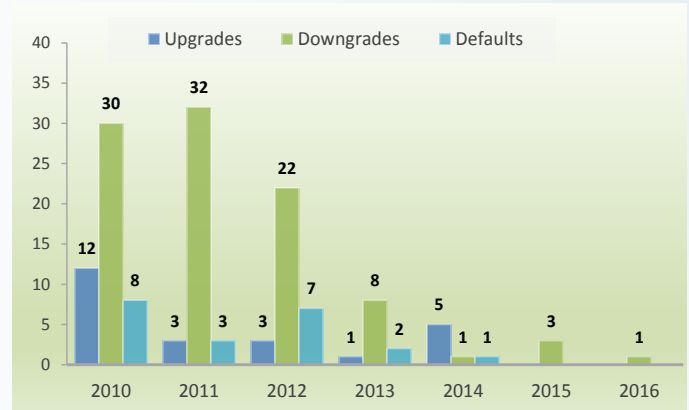
\*bg – bank guarantee

**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		
Conventional	Structured Finance	Finance	RCE Advance Sdn Bhd	18-Feb-16	DOWNGRADED	STA	BBB+	BBB	-	-	60	-

Source: BPAM, MARC Fixed Income Research

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