



MALAYSIAN RATING CORPORATION BERHAD



MARCH 2016

Monthly Bond Market & Rating Snapshot

FINANCIAL VARIABLE	FEB-16	MAR-16	MOM CHNG
OVERNIGHT POLICY RATE (%)	3.25	3.25	0 bps
3-YEAR BENCHMARK MGS (%)	3.31	3.22	-9 bps
10-YEAR BENCHMARK MGS (%)	3.92	3.78	-14 bps
3-YEAR IRS (%)	3.66	3.61	-5 bps
10-YEAR IRS (%)	4.10	4.00	-10 bps
RINGGIT 3-YEAR AAA (%)	4.11	4.05	-6 bps
RINGGIT 3-YEAR AA (%)	4.47	4.43	-4 bps
RINGGIT 3-YEAR A (%)	6.26	6.23	-3 bps
10-YEAR US TREASURY (%)	1.73	1.77	3 bps
2-YEAR US TREASURY (%)	0.77	0.72	-5 bps
MYR/USD	4.2030	3.8995	+7.2%
KLCI INDEX	1,654.8	1,717.6	3.8%
S&P 500 INDEX	1,932.2	2,059.7	6.6%

Source: Bloomberg, MARC Fixed Income Research



Global Markets

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March proved to be another volatile month as investors focused on much-anticipated monetary policy decisions from major central banks. European Central Bank President Mario Draghi's statement indicating no further rate cuts has sparked some selling in US and European government bonds. Meanwhile in the US, some readings on the economy remained favourable despite the headwinds from abroad, which has revived expectations that the Fed will raise interest rates faster than expected. However, the expectations receded on the Fed Chair's dovish tone.

Ringgit Bonds

2

On the local front, MYR govies staged a strong rally, with benchmark yields easing six bps to 14 bps for maturities ranging from three- to 10 years. Bidding interest in the local govies was mainly driven by a strong rebound in the ringgit as well as a dimmer Fed interest rate outlook. In the primary market, the auction of the 10.5-year new issue of Government Investment Issue (GII) papers garnered strong demand, with its bid-to-cover ratio surging to 3.2x, a level not seen for more than one year.

Currency

2

The ringgit posted its strongest monthly gain (+7.2%) against the US dollar since October 1998, lifted by firmer global crude oil prices, surging foreign portfolio inflows, and the anticipation of gradual rate hikes by the Fed.

Summary of Corporate Bond Issuances and Outstanding

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MARC Rating Activities in 2016 YTD

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Market Review

Global Markets

March proved to be another volatile month as investors focused on much-anticipated monetary policy decisions from major central banks. In an effort to raise inflation back to the target, European Central Bank (ECB) President Mario Draghi delivered an aggressive stimulus package, which comprised cuts to all three of the ECB's main interest rates, expansion of the monthly bond purchasing programme to EUR80 billion from EUR60 billion and to include investment grade corporate bonds. The stimulus was initially cheered by the markets, but Draghi's later statement suggesting that no further rate cuts will be made has been met with a wave of disappointment. Coupled with the Bank of Japan's inaction, doubts grew over whether central banks still have the tools to boost slowing growth, which has sparked some selling in US and European government bonds.

Meanwhile in the US, some readings on the economy remained favourable despite the headwinds from abroad, which has revived expectations that the Fed will raise interest rates faster than expected. Of note, latest data showed that the US core consumer price index (CPI) surged above 2% y-o-y and the Fed's preferred core PCE inflation rate has also picked up sharply to 1.7%. However, the rate hike expectations receded as Fed Chairwoman Janet Yellen continued to stress the need for a cautious and gradual pace of interest rate hikes as *"global economic and financial developments continue to pose risks to US economic growth"*. In line with her remarks, the Fed lowered its projection for the number of rate hikes this year to only two from the four times suggested in December. In response to the Fed's dovish stance, the two-year Treasury yield, which is the most sensitive to the Fed's policy outlook, tumbled the most in six months. The market implied probability of a rate hike from the Fed in June also plunged to around 15% from more than 50% before the March 15-16 FOMC meeting.

Ringgit Bonds

On the local front, MYR govies staged a strong rally, with benchmark yields easing six bps to 14 bps for maturities ranging from three- to 10 years. Notably, the benchmark 10-year yield was pushed below 3.80%, the lowest level in more than a year. Bidding interest in local govies was mainly driven by a strong rebound in the ringgit as well as a dimmer Fed interest rate outlook. Rising demand for emerging market assets, spurred by easing global growth concerns and firmer commodity prices, also lent some support to the local govies. On the other hand, Standard & Poor's has reaffirmed its sovereign ratings on Malaysia with a stable outlook, reflecting Malaysia's strong external position and considerable monetary flexibility. The rating agency pointed to Malaysia's deep domestic bond market compared to its peers in Asean, which could reduce its reliance on external financing.

In the primary market, three government offerings have raised total funds of RM9.0 billion, namely the RM2.5 billion 30-year new issue of the MGS, the RM4.0 billion 10.5-year new issue of GII and the RM2.5 billion 15-year re-opening of MGS. The tender of higher-yielding GII papers continues to garner strong demand, with its bid-to-cover ratio surging to 3.2x, a level not seen for more than one year. The sale of the 30- and 15-year MGS papers were also met with decent demand, resulting in bid-to-cover ratios of 2.6x and 2.4x, respectively.

Foreign holdings of Malaysia's total government debt securities increased 5.7% m-o-m in March (February: 0.5% m-o-m) to RM186.7 billion, marking the highest amount since April 2015. Of note, offshore holdings of GII came in at RM15.2 billion (February: RM11.7 billion), a surge of 29.4% m-o-m (February: 1.9%). The percentage of foreign holdings of GII of total GII outstanding in the market also rose to 6.9% (February: 5.4%). Likewise, foreigners raised their holdings of MGS to RM171.5 billion (February: 165.0 billion), or 48.7% (February: 47.5%) of total MGS outstanding in the market.

Currency

The ringgit posted its strongest monthly gain (+7.2%) against the US dollar since October 1998, ending the month at 3.8995. There were a few positive catalysts contributing to the outperformance of the ringgit: (1) supportive global crude oil prices which eased investors' concerns over Malaysia's fiscal health; (2) the Fed's cautious stance in raising its interest rates which sparked a sell-off in the US dollar; and (3) surging foreign portfolio inflows.

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	2.6	5.4	8.0	8.3	1.9	10.2	18.2

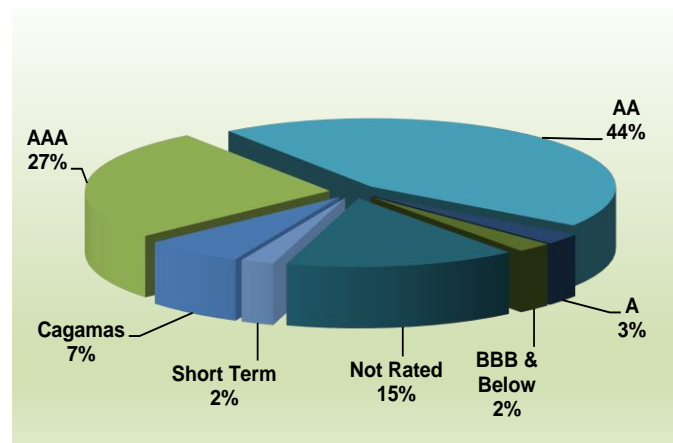
Source: BPAM, MARC Fixed Income Research

Note: Numbers may not necessarily add up to total due to rounding.

Gross issuances of local corporate bonds fell to RM5.2 billion in March after surging to RM10.9 billion in February. Fund-raising in the rated corporate bonds and unrated government guaranteed segments declined to RM3.0 billion (Feb: RM4.1 billion) and RM0.1 billion (Feb: RM4.8 billion), respectively. In addition, there were no issuances from Cagamas in March. The only segment that registered gains on issuances is the unrated corporate bonds segment, which raised RM2.1 billion compared to RM0.1 billion in the previous month.

A notable issuance in March is Sime Darby Bhd's RM2.2 billion perpetual sukuk. The issuance is the largest perpetual sukuk issuance globally by a non-bank as well as the largest ringgit-denominated perpetual sukuk issuance to date.

PDS Outstanding: Distribution by Rating Band



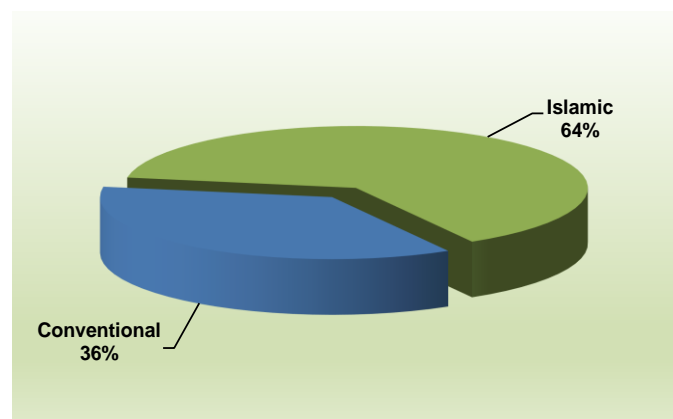
Source: BPAM, MARC Fixed Income Research

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

Asset Class	Conventional	Islamic	Total
Sovereign	352.06	248.90	600.96
Cagamas	14.49	11.60	26.09
PDS	132.88	236.13	369.01
Corporate	46.13	178.06	224.19
Corporate Guaranteed	14.82	36.25	51.07
Financial	63.85	18.08	81.93
ABS	8.08	3.75	11.83

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	Feb-16	Mar-16	MoM Chng
MGS/GII	66.9	76.6	9.7
Cagamas	1.2	2.1	0.8
FI Corporate	1.2	2.5	1.3
Non-FI Corporate	7.2	7.6	0.4

Source: BPAM, MARC Fixed Income Research

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

Rating Band	Feb-16	Mar-16	MoM Chng
AAA	2.4	3.3	0.9
AA	4.0	3.8	-0.2
A	0.1	0.2	0.1
BBB and below	0.0	0.0	0.0
Short term	0.7	0.3	-0.4

Source: BPAM, MARC Fixed Income Research

MARC Rating Activities in 2016

List of Rating Actions in March 2016

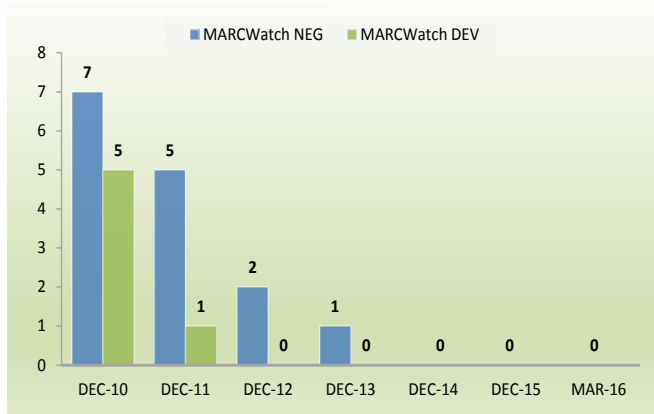
Principle	Category	Main Sector	Issuer	Date Announced	Rating Action	Rating Outlook	Long-Term Rating		Short-Term Rating		Issue Size (RM mil)	Credit Enhancement
							Before	After	Before	After		
Islamic	Project Finance	Infrastructure & Utilities	MEX II Sdn Bhd	1-Mar-16	PRELIMINARY	STA	AA-	AA-			1,300	
Conventional	Project Finance	Infrastructure & Utilities	MEX II Sdn Bhd	1-Mar-16	PRELIMINARY	STA	A-	A-			150	
Islamic	Corporate Debt	Infrastructure & Utilities	Alam Maritim Resources Bhd	2-Mar-16	AFFIRMED	NEG	A	A			500	
Conventional	Corporate Debt	Finance	Woori Bank	2-Mar-16	AFFIRMED	STA	AAA	AAA			1,000	
Islamic	Corporate Debt	Trading/Services	SIME Darby Bhd (formerly Synergy Drive Bhd)	14-Mar-16	INITIAL	NEG	AA	AA			3,000	
Conventional	Corporate Debt	Finance	Woori Bank	14-Mar-16	WITHDRAWN		AAA	AAA			1,000	
Conventional	Corporate Debt	Property	Riverson Corporation Sdn Bhd	16-Mar-16	WITHDRAWN		AAA	AAA	MARC-1	MARC-1	200	fg
Islamic	Structured Finance	Technology	Pinnacle Tower Sdn Bhd	21-Mar-16	WITHDRAWN		AAA	AAA			400	
Islamic	Structured Finance	Technology	Pinnacle Tower Sdn Bhd	21-Mar-16	WITHDRAWN				MARC-1	MARC-1	50	
Conventional	Corporate Debt	Finance	Export-Import Bank of Korea	23-Mar-16	AFFIRMED	STA	AAA	AAA			3,000	
Conventional	Corporate Debt	Finance	Export-Import Bank of Korea	23-Mar-16	AFFIRMED	STA	AAA	AAA			1,000	
Conventional	Project Finance	Infrastructure & Utilities	Sistem Penyuraian Trafik KL Barat Sdn Bhd	24-Mar-16	AFFIRMED	STA	AA-	AA-			365	bg
Islamic	Project Finance	Infrastructure & Utilities	Sistem Penyuraian Trafik KL Barat Sdn Bhd	24-Mar-16	AFFIRMED	STA	A+	A+			510	
Islamic	Corporate Debt	Trading/Services	MISC Bhd	28-Mar-16	AFFIRMED	STA	AAA	AAA			2,500	
Conventional	Structured Finance	Property	Inverfin Sdn Bhd	29-Mar-16	AFFIRMED	STA	AAA	AAA			185	
Conventional	Structured Finance	Property	Inverfin Sdn Bhd	29-Mar-16	AFFIRMED	STA	AA	AA			15	

Source: BPAM, MARC Fixed Income Research

*fg – financial guarantee

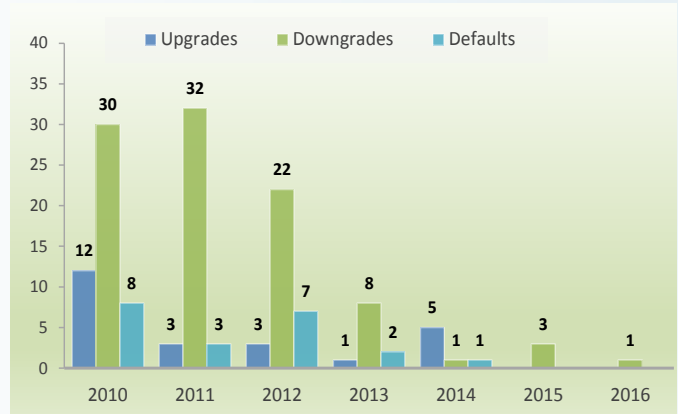
*bg – bank guarantee

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 (RM 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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Published and Printed by:

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