



MALAYSIAN RATING CORPORATION BERHAD



JUNE 2016

Monthly Bond Market & Rating Snapshot

FINANCIAL VARIABLE	MAY-16	JUN-16	MOM CHNG
OVERNIGHT POLICY RATE (%)	3.25	3.25	0 bps
3-YEAR BENCHMARK MGS (%)	3.25	3.15	-10 bps
10-YEAR BENCHMARK MGS (%)	3.93	3.75	-18 bps
3-YEAR IRS (%)	3.65	3.52	-13 bps
10-YEAR IRS (%)	4.09	3.86	-23 bps
RINGGIT 3-YEAR AAA (%)	4.02	3.97	-5 bps
RINGGIT 3-YEAR AA (%)	4.40	4.38	-2 bps
RINGGIT 3-YEAR A (%)	6.21	6.26	5 bps
2-YEAR US TREASURY (%)	0.88	0.58	-30 bps
10-YEAR US TREASURY (%)	1.85	1.47	-38 bps
10-YEAR GERMAN BUND (%)	0.14	-0.13	-27 bps
10-YEAR UK GILTS (%)	1.43	0.87	-56 bps
MYR/USD	4.1287	4.0288	2.8%
KLCI INDEX	1626.00	1654.08	1.7%
S&P 500 INDEX	2,096.96	2,098.86	0.1%

Source: Bloomberg, MARC Fixed Income Research



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Global Markets

2

The global rally in government bonds set other milestones in June following the UK's shocking vote to leave the European Union (EU). The UK gilts led the gains, with the benchmark 10-year yields plunging as much as 56 bps to an unprecedented low of 0.87%. Yields of equivalent German bunds dived into negative territory for the first time in history and settled at -0.13%. Government bonds of the same maturity in advanced economies i.e. US, Japan and Switzerland also saw their yields heading towards record lows.

Ringgit Bonds

2

Local govies joined the global government bond rally and staged a strong comeback in June, with the benchmark yields drifting lower by six bps to 25 bps across all maturities. The knee-jerk selloff in the local govies after the Brexit vote proved to be short-lived as investors snapped up bonds on renewed expectations for a cut in the overnight policy rate (OPR) by Bank Negara Malaysia (BNM).

Currency

2

The ringgit has taken a wild ride in the aftermath of Brexit, hitting a low of RM4.15 against the US dollar (USD) before reversing all its losses to close at RM4.03/USD. The strong rebound in the ringgit can be attributed to a recovery in crude oil prices, fading US interest rate hike expectations as well as rising speculation about a rate cut by BNM amid soft economic data.

Summary of Corporate Bond Issuances and Outstanding

4

Secondary Market Activities

5

MARC Rating Activities in 2016 YTD

5

Market Review

Global Markets

The global rally in government bonds set other milestones in June. The UK gilts led the gains, with the benchmark 10-year yields plunging as much as 56 bps to an unprecedented low of 0.87%. Yields of equivalent German bunds dived into negative territory for the first time in history and settled at -0.13%. Government bonds of the same maturity in advanced economies i.e. US, Japan and Switzerland also saw their yields heading towards record lows. Notably, yields for the 10-year US Treasuries dropped 38 bps to close at its four-year low of 1.47%.

Such erratic market movements came as investors paid close attention to a referendum that was held on June 23rd in the UK to gauge support for the country's continued membership of the EU - commonly known as the Brexit referendum. The International Monetary Fund (IMF) had previously warned that Brexit could deal a damaging blow to the fragile global economy. Eventually, the referendum resulted in a unanimous vote to exit from the EU by 52%, which sparked a global 'risk-off' trade. What is of concern is that the referendum may prompt other EU member countries to renegotiate their relationship with Brussels, which could lead to disintegration of the EU in the worst case scenario. Adding to the turbulence in the financial markets were the downgrades in the UK's credit ratings by international credit agencies Standard & Poor's and Fitch Ratings amid post-Brexit uncertainties that could undermine business investments.

The rush into government bonds also partly reflected expectations of a delay in the Fed rate hike this year following a setback in non-farm payrolls, with merely 11K jobs generated in May as opposed to an average of 210K jobs per month created in the earlier six months. As widely expected, the Fed left the interest rates unchanged at its June policy meeting. Concerns over 'global economic and financial developments' were again cited, particularly with regards to the risk associated with economic contagion from Brexit. What surprised the market was that more Fed officials expected only one rate hike this year, causing the market to scale down the probability of a single rate hike to merely 9.2% based on Fed Funds Futures, from 76% at the start of June.

Ringgit Bonds

Local govies joined the global government bond rally and staged a strong comeback in June, with the benchmark yields drifting lower by six bps to 25 bps across all maturities. The knee-jerk selloff in the local govies after the Brexit vote proved to be short-lived as investors snapped up bonds on renewed expectations for a cut in the OPR by BNM. The expectations were spurred by weaker-than-expected trade data, which showed a contraction in exports from Malaysia by 0.9% in May, compared with a consensus forecast of a 2.0% increase. The firmer Brent crude - which hovered around USD50 a barrel, as well as a more gradual expectation of US interest rate hikes also helped fuel some bidding interest for the local govies.

Meanwhile in the primary market, two government offerings had raised funds totalling RM6.0 billion, namely the RM3.5 billion 10-year re-opening of GII and the RM2.5 billion 30-year re-opening of MGS. Both offerings were met with strong bidding interests, resulting in bid-to-cover ratios of 2.3x and 2.4x, respectively.

Foreign investors were the net buyers of Malaysian government debt securities for a ninth consecutive month, boosting their holdings to an all-time high of RM203.9 billion (May: RM196.8 billion). Notably, foreigners raised their holdings of GII to RM21.8 billion (March: RM19.8 billion), or 9.5% (May: 8.7%) of the total GII outstanding in the market. Similarly, foreign holdings of MGS continued its uptrend, climbing to RM182.1 billion (May: RM177.1 billion), or 49.8% (May: 48.7%) of the total MGS outstanding.

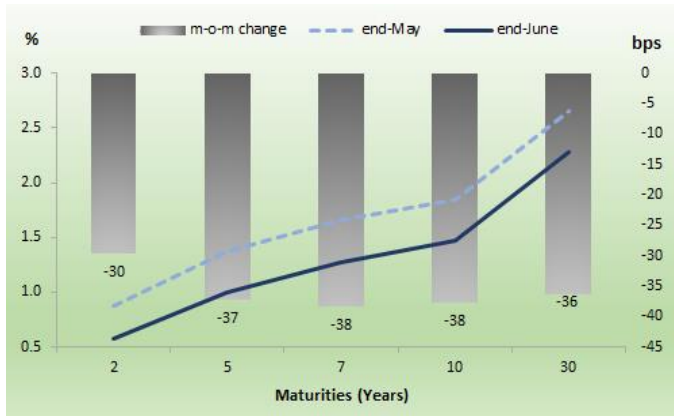
Currency

The ringgit has taken a wild ride in the aftermath of Brexit, hitting a low of RM4.15 against the USD before reversing all its losses to close at RM4.03/USD. The strong rebound in the ringgit can be attributed to: (1) a recovery in crude oil prices; (2) fading US interest rate hike expectations; and (3) rising speculation about a rate cut by BNM amid soft economic data.

On the external front, the UK pound sterling (GBP) was hit the most by the Brexit vote, hitting GBP1.32 against the greenback, the lowest level since 1985. Meanwhile, the Japanese yen (JPY), which is widely perceived as a safe haven currency, surged against the greenback to JPY102.00, its strongest level since July 2014.

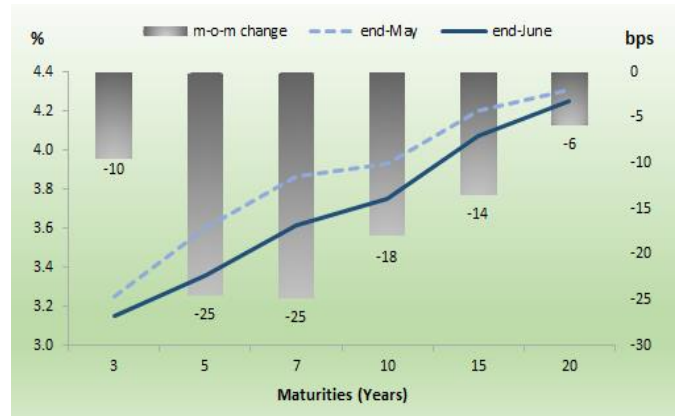
Market Review

UST Yield Curve



Source: Bloomberg, MARC Fixed Income Research

MGS Yield Curve



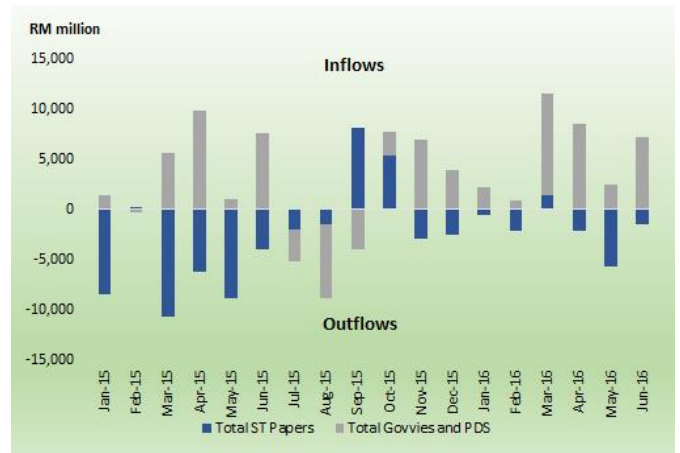
Source: Bloomberg, MARC Fixed Income Research

BTC Ratios of Government Bond Auctions



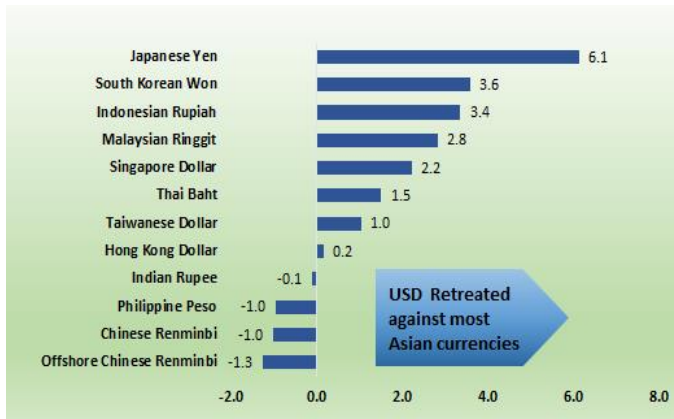
Source: FAST, BNM, MARC Fixed Income Research

Foreign Inflows & Outflows of Ringgit Bonds



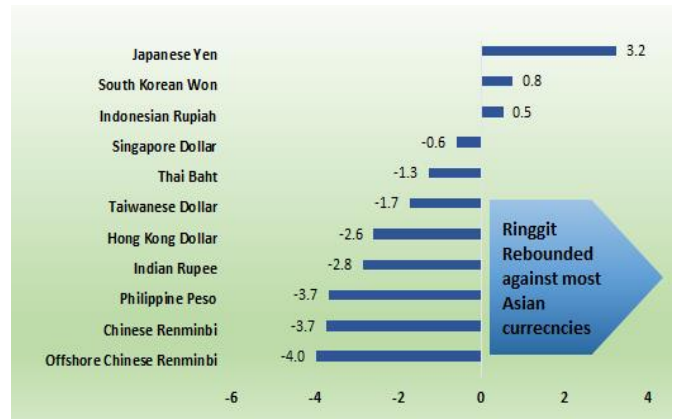
Source: CEIC, MARC Fixed Income Research

USD vs Asian Currencies (% M-o-M)



Source: Bloomberg, MARC Fixed Income Research

Ringgit vs Asian Currencies (% M-o-M)



Source: Bloomberg, MARC Fixed Income Research

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	70.6
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	4.4	13.0	17.3	18.4	2.1	20.5	37.8

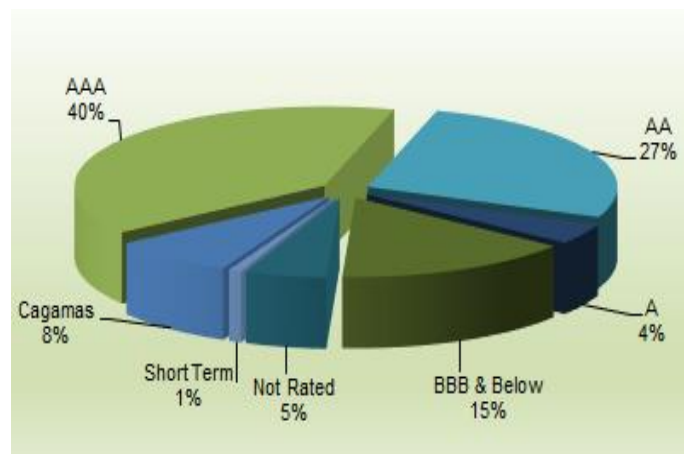
Source: BPAM, MARC Fixed Income Research

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

Gross issuances of local corporate bonds declined to RM5.9 billion in June from RM7.6 billion in May. Fund-raising in the rated corporate bonds and unrated government guaranteed segments fell to RM1.3 billion (May: RM3.1 billion) and RM3.1 billion (May: RM4.5 billion), respectively. Moreover, there were no issuances from Cagamas for a second consecutive month. The only segment that registered gains on issuances is the unrated corporate bond segment, which raised RM1.6 billion compared with RM45.0 million in the preceding month. Issuances were dominated by the financial services and infrastructure & utilities sectors, which raised RM2.45 billion and RM1.45 billion, respectively.

Nevertheless, YTD primary long-term corporate debt market activities came in higher at RM37.8 billion versus RM31.5 billion in the corresponding period last year, lifted by higher issuances in the rated segment (1H2016: RM20.5 billion; 1H2015: RM16.5 billion).

PDS Outstanding: Distribution by Rating Band



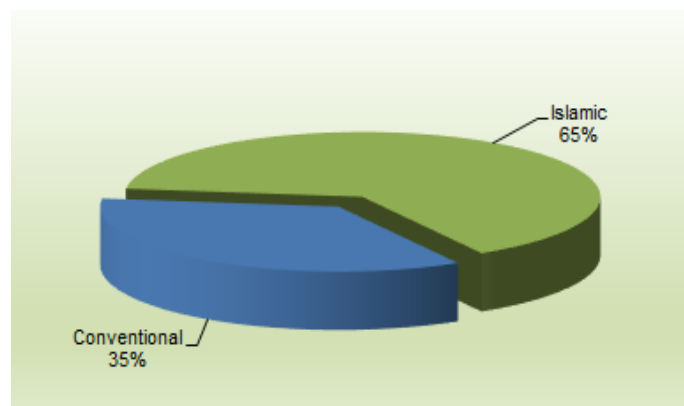
Source: BPAM, MARC Fixed Income Research

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

Asset Class	Conventional	Islamic	Total
Sovereign	365.89	258.40	624.29
Cagamas	14.75	11.52	26.26
PDS	131.07	239.83	370.89
Corporate	46.74	181.47	228.21
Corporate Guaranteed	14.57	37.18	51.75
Financial	61.71	17.28	78.99
ABS	8.04	3.90	11.94

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	May-16	Jun-16	MoM Chng
MGS/GII	69.2	106.2	37.0
Cagamas	1.1	2.0	1.0
FI Corporate	1.9	1.4	-0.4
Non-FI Corporate	10.1	7.9	-2.1

Source: BPAM, MARC Fixed Income Research

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

Rating Band	May-16	Jun-16	MoM Chng
AAA	2.4	3.4	1.0
AA	7.0	4.4	-2.5
A	0.6	0.0	-0.5
BBB and below	0.0	0.0	0.0
Short term	0.1	0.1	0.0

Source: BPAM, MARC Fixed Income Research

MARC Rating Activities in 2016

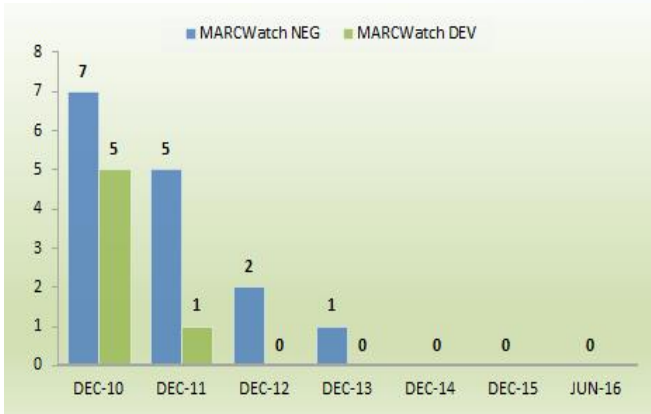
List of Rating Actions in June 2016

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	TNB Northern Energy Bhd	29-Jun-16	AFFIRMED	STA	AAA	AAA			1,625	
Islamic	Project Finance	Infrastructure & Utilities	Grand Sepadu (NK) Sdn Bhd	20-Jun-16	AFFIRMED	STA	AA-	AA-			210	
Islamic	Corporate Debt	Financial Institution	Islamic Development Bank	17-Jun-16	INITIAL	STA	AAA	AAA			400	
Islamic	Project Finance	Infrastructure & Utilities	Senai-Desaru Expressway Berhad	16-Jun-16	AFFIRMED	STA	BBB-	BBB-			1,890	
Islamic	Corporate Debt	Trading/Services	Malaysian Merchant Marine Bhd	13-Jun-16	WITHDRAWN		D	D			120	
Islamic	Corporate Debt	Industrial Products	Gas Malaysia Bhd	9-Jun-16	INITIAL	STA	AAA	AAA	MARC-1	MARC-1	700	
Islamic	Project Finance	Infrastructure & Utilities	Lebuhraya Duke Fasa 3 Sdn Bhd	2-Jun-16	INITIAL	STA	AA-	AA-			3,640	

Source: BPAM, MARC Fixed Income Research

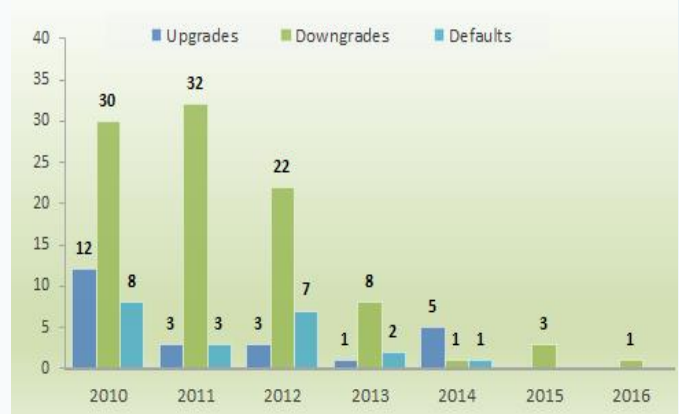
*fg – financial guarantee
 *bg – bank guarantee

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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