

Monthly Bond Market & Rating Snapshot:

DECEMBER 2019 (SUMMARY)



MALAYSIAN RATING CORPORATION BERHAD
199501035601 (364803-V)

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Global Markets

US President Donald Trump was impeached by the House of Representatives on charges of the abuse of power and obstruction of justice. The trial will begin in early 2020 on whether to acquit or to remove him from office. In Europe, economic sentiment rose sharply, driven by better German trade surplus alongside a robust labour market in the euro area. UK Prime Minister Boris Johnson gained a "historic" general election win and promised to deliver Brexit. However, this resulted in continued losses for the local currency. Meanwhile, the US and China reached an agreement on a phase one trade deal that involves a rollback of some tariffs and increased agricultural purchases.

Malaysian Government Bond Market

The total combined outstanding Malaysian Government Securities (MGS)/Government Investment Issues (GII) grew to RM759.7 billion in December (November 2019: RM756.7 billion). However, gross issuance of MGS/GII has weakened amid a lack of offerings at year-end, similar to previous years. Meanwhile, bidding interest for the government's final offering at auction was also minimal. At end-December, MGS yields settled at their multi-year lows with the 10y MGS shedding 12bps to 3.31% (November: 3.43%). Secondary market performance of MGS was supported by the significant decrease in US-China trade tensions throughout the month.

Malaysian Corporate Bond Market

Long-term corporate bond issuance rose for the third consecutive month in December to RM12.2 billion (November 2019: RM8.4 billion). The growth was underpinned by significantly higher issuances across all segments except for the quasi-government segment. Gross issuance activity was dominated by the financial services sector. Meanwhile, yield spreads continued to widen as the decline in government bond yields was more pronounced compared to corporate bond yields. Yields were broadly lower by 1bp to 10bps across the AAA, AA, A-rated spectrum.

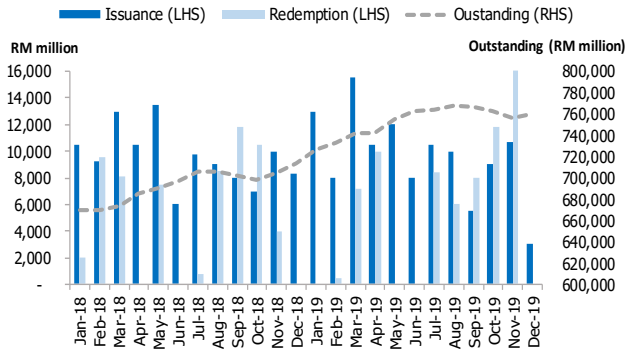
MARC Rating Activities

In December, MARC assigned two initial ratings of AA-*IS*/Stable to Penang Port Sdn Bhd's proposed RM1.0 billion Islamic Medium-Term Note Programme and AZRB Capital Sdn Bhd's proposed RM0.5 billion Sukuk Murabahah Facility. MARC also assigned an initial rating of A+*IS*/Positive to DRB-HICOM Bhd's proposed RM3.5 billion Sukuk programme. In addition, there were also five rating withdrawals. In the same month, MARC affirmed a total of 14 issue ratings under 11 different issuers. MARC also affirmed its financial institution ratings on Kuwait Finance House (Malaysia) Bhd, its corporate credit ratings on Sime Darby Plantation Sdn Bhd and its counterparty credit ratings on Credit Guarantee & Investment Facility.

Foreign Holdings of Local Bonds

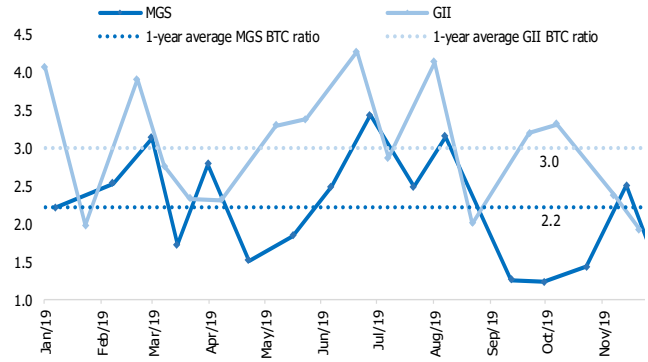
In December, foreign investors continued to flock into the local bond market, raising their holdings of local bonds by RM8.1 billion (November: RM8.0 billion). This brought the total foreign holdings of local bonds to RM204.7 billion (November: RM196.6 billion), the highest since April 2018. Foreign demand for local bonds was fuelled by the de-escalation of US-China trade tensions as both parties made significant progress towards a phase one trade deal. Strong foreign demand for MGS was the main contributor to the improvement in foreign holdings of local bonds in December.

Exhibit 1: MGS/GII papers supply



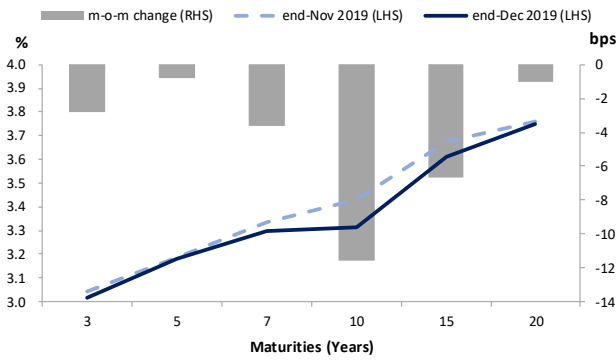
Sources: BNM Bond Info Hub, MARC Research

Exhibit 2: BTC ratios of MGS and GII papers



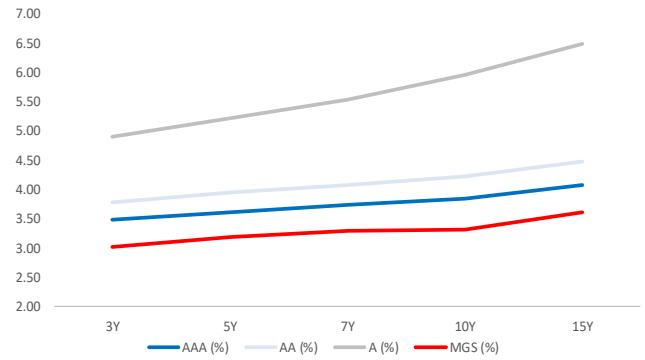
Sources: BNM Fast, MARC Research

Exhibit 3: MGS yield curves



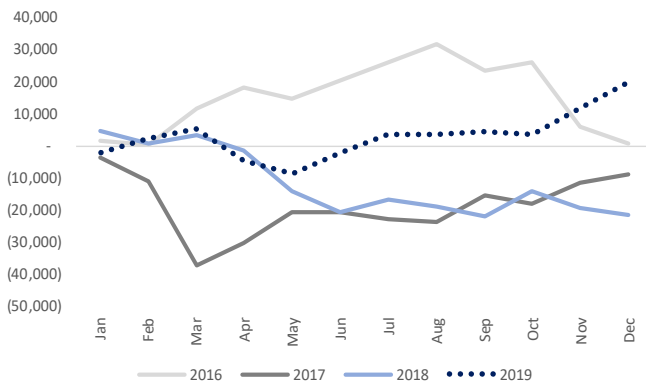
Sources: BNM, MARC Research

Exhibit 4: Corporate bonds yield curves



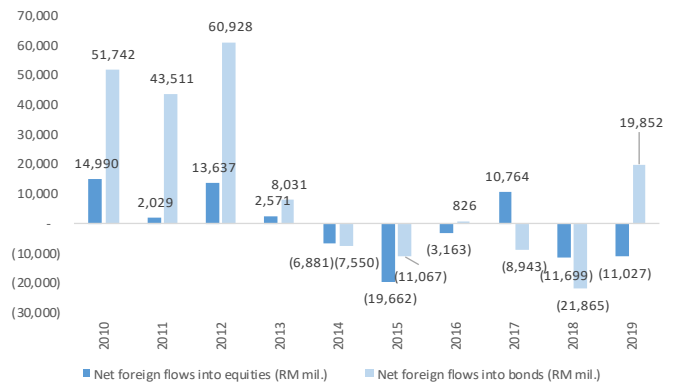
Sources: BNM, MARC Research

Exhibit 5: Cumulative net foreign flows in local bonds (Yearly comparison)



Sources: BNM, MARC Research

Exhibit 6: Cumulative net foreign flows into Malaysian bond and equity markets



Sources: BNM, MARC Research

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