

MALAYSIAN RATING CORPORATION BERHAD
(14830-V)

JUNE 2014

Monthly Bond Market & Rating Snapshot

FINANCIAL VARIABLE	MAY-14	JUN-14	MoM CHNG
Overnight Policy Rate (%)	3.00	3.00	0 bps
3-year Benchmark MGS (%)	3.45	3.50	5 bps
10-year Benchmark MGS (%)	4.03	4.03	0 bps
3-year IRS (%)	3.83	3.85	2 bps
10-year IRS (%)	4.35	4.31	-4 bps
Ringgit 3-year AAA (%)	3.89	3.90	0 bps
Ringgit 3-year AA (%)	4.29	4.29	0 bps
Ringgit 3-year A (%)	6.18	6.27	8 bps
10-year US Treasury (%)	2.48	2.53	5 bps
2-year US Treasury (%)	0.37	0.46	8 bps
MYR/USD	3.2130	3.2110	-0.1%
KLCI Index	1873.38	1882.71	0.5%
S&P 500 Index	1923.57	1960.23	1.9%

Source: Bloomberg, MARC Fixed Income Research

**Global Markets**

2

United States Treasuries (UST) ended the month on a bearish note with benchmark yields edging higher by three to nine bps across all maturities, narrowing the tenure spread between two-year and 10-year yields to 207 basis points (bps). Rallies seen in the UST post-Federal Open Market Committee (FOMC) meeting appear to be short-lived as positive economic data from the US reaffirmed investors' confidence that the US economic recovery is on track.

Ringgit Bonds

2

Reflecting the soft market sentiment, transacted volume in the local govies market dropped significantly in June to RM32.6 billion, down more than 20% from RM54.3 billion worth of securities transacted in May. The Malaysian Government Securities (MGS) yield curve has continued to flatten since January 2014 as the yield gap between the benchmark three- and 10-year yields narrowed further to 57 bps from 68 bps.

Currency

2

The Ringgit overturned its earlier gains to close weaker against the greenback due to profit-taking activities. On a quarterly basis, however, the Ringgit appreciated 1.87% in 2Q2014, the biggest quarterly gain since September 2012.

Topic of the Month – The ECB's Stimulus Measures

3

Benchmark YTM, IRS and OPR

3

Summary of Corporate Bond Issuance and Outstanding

4

Secondary Market Activities

5

MARC Rating Activities in 2014 YTD

5

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Market Review

US Treasuries

It was an eventful month for financial markets with central banks taking center stage. In the US, the Federal Reserve (Fed) announced another USD10 billion reduction to its monthly bond purchases programme, bringing down its monthly purchases to USD35 billion (USD15 billion for mortgage bonds and USD20 billion for UST) after June's FOMC meeting. Fed Chairwoman Janet Yellen reiterated that the central bank will continue to taper at a measured pace, while signalling that a hike in the benchmark interest rate remained, at least for now, far off sight. Over in the euro zone, the European Central Bank (ECB) unveiled an aggressive stimulus package, which included a cut in the marginal deposit facility rate to negative territory at -0.10%, and a cut in the main refinancing rate from 0.25% to 0.15%.

The UST ended the month on a bearish note, reversing gains in the previous month. Benchmark yields edged higher by three to nine basis points across the maturity spectrum and the tenure spread between the two-year and 10-year yields narrowed to 207 bps from 210 bps in May. Rallies seen in the UST post-FOMC meeting appear to be short-lived as positive economic data from the US reaffirmed investors' confidence that the US economic recovery is on track, fuelling speculation that the Fed could raise the key rate sooner than expected. The upbeat economic news include (i) rising US existing homes sales (+4.9% m-o-m), (ii) rising US consumer spending (+0.2% m-o-m), (iii) a climb in the US Thomson Reuters/University of Michigan Consumer Sentiment Index (82.5 in June vs. 81.9 in May), and; (iv) an advance in the US Conference Board's Leading Indicator Index (+0.5% in May vs. a revised +0.3% in April). Besides, waning geopolitical jitters between Russia and Ukraine also dented the appealing of safe haven asset.

Ringgit Bonds

Trading activities in the local govies market was rather quiet in June as investors were playing a cautious game, waiting for more clues from Bank Negara Malaysia (BNM) on the direction of monetary policy settings which will be determined in the next Monetary Policy Committee (MPC) meeting on 10 July. Reflecting the soft market sentiment, transacted volume in the govies space dropped significantly to RM32.6 billion, down more than 20% from RM54.3 billion worth of securities transacted in May. Meanwhile, last month saw the yield curve continuing to flatten since January 2014 as the yield gap between the benchmark three- and 10-years narrowed further to 57 bps from 68 bps. Selling interest continued to skew towards the short-end of the curve with benchmark yields inching higher by one to five bps, driven by fears of a possible rate hike by BNM. In addition, the ECB's stimulus measures announced on June 5 did little to infuse bidding interest among investors, evidenced by the muted reaction in the local market the day after the meeting. However, as stated in our 2H2014 Bond Market Outlook, we do not rule out the possibility of new liquidity from the ECB's measures to flow into the local market and exert downward pressure on bond yields.

On the domestic economic front, Malaysia's headline inflation stabilized in May, rising 3.2% from a year earlier after increasing 3.5% in the prior month, which served as a positive catalyst for MGS as evidenced by a fall in benchmark yields at the longer-end of the curve. Foreign holdings of MGS appears to be holding up well too, rising to near the all-time high at RM144.7 billion in May. Meanwhile, foreign holdings as a percentage of total MGS outstanding stood at 46.3%, the highest since October 2013.

On the primary market, there were three government offerings last month, including the RM3.0 billion 7-year reopening of Government Investment Issue (GII), RM 3.0 billion three-year reopening of MGS and RM1.5 billion 20-year reopening of GII, with each fetching an average yield of 4.112%, 3.486% and 4.675% respectively. Notably, the 20-year reopening of GII garnered a strong demand with bid-to-cover ratio of 3.277%, the highest ratio year-to-date, due to its modest offering size.

Currency

Last month saw a volatile Ringgit market with the local currency reaching 3.1997 against the US dollar (USD) on 9 June, the strongest level in seven months, lifted by expectations of an Overnight Policy Rate (OPR) hike by BNM and increased demand for the local currency stemming from newly-released positive economic data. However, the Ringgit overturned these earlier gains throughout the later part of the month to close weaker against the greenback due to profit-taking activities. Furthermore, positive economic data in the US fuelled investors' speculation that the Fed could raise the benchmark interest rate as early as the first quarter of 2015, boosting buying interest towards the USD. On a quarterly basis, however, the Ringgit appreciated 1.87% in 2Q2014, the biggest quarterly gain since September 2012.

The ECB's stimulus measures

Measures	Current	Before
Lower Refinancing rate	0.15%	0.25%
A cut in the marginal deposit facility rate	-0.10%	0.00%
A cut in the marginal lending facility rate	0.40%	0.75%
Introduction of targeted long-term refinancing operations (TRTROs)	EUR400 billion*	n.a.
Suspension of weekly fine-tuning sterilizing operation which will provide direct liquidity injection into the banking system	EUR160.6 billion (week ending 27 June)	EUR162.7 billion (week ending 6 June)

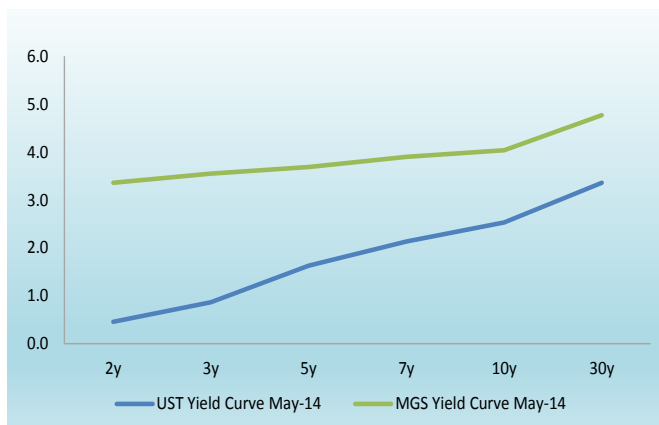
* Estimated figure. Will be launched in September and December 2014.

The euro zone bond market rallied with peripheral countries' yield spreads narrowing to the lowest level against the UST since 2010 after President of ECB Mario Draghi signalled that the ECB was considering bond purchases in early March this year to fight deflation risk (see [Monthly Bond Market and Rating Snapshot – April 2014](#)). On 5 June, Draghi walked the talk by introducing an aggressive series of stimulus measures to support lending to the real economy (see table above). Besides, the central bank highlighted that it will intensify its preparatory work for outright purchases of Asset Backed Securities (ABS) and is also considering "...purchasing simple and transparent ABS with underlying assets consisting of claims against the euro area non-financial private sector...". However, we expect that policymakers will face steep hurdles in implementing the plan, which include low issuances of ABS after the subprime crisis, a complex structure nature of ABS and higher capital charges against these securities under Basel III guidelines and the Solvency II Directive which will affect insurance companies. As such, we don't expect the central bank to be able to materialise the ABS purchases plan in the near future.

Regarding the newly-unveiled TLTROs, the operations will be conducted quarterly starting September 2014 and ending by June 2016, with all TLTROs maturing in September 2018. A fixed interest rate at the refinancing rate plus 10bps at the time of the take-up will be charged, equivalent to 25 bps based on the latest refinancing rate. We are of the view that this could induce investors to take up the facility and reinvest in sovereign bonds that offer higher returns. However, it remains to be seen whether the intended impact of these measures will be achieved. After all, during the Q&A session after the stimulus announcement, Draghi answered "Are we finished? The answer is no. We aren't finished here." We shall see.

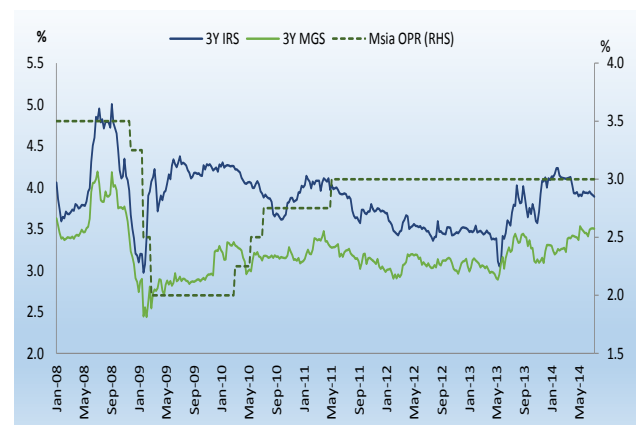
Yield Curve, IRS and OPR

UST and MGS Yield Curve (%)



Source: Bloomberg, MARC Fixed Income Research

IRS, MGS and OPR (%)



Source: Bloomberg, MARC Fixed Income Research

Summary of Corporate Bond Issuance and Outstanding

Historical Trend of Bond Issuance by Category (RM bn)

Year	MGS	Unrated Corporate Bonds	Rated Corporate Bonds	Unrated Government Guaranteed	Cagamas	Total Corporate Bonds
2008	60.0	3.52	40.38	6.80	5.05	55.74
2009	88.5	7.49	31.39	13.85	8.31	61.03
2010	58.1	6.03	35.99	4.73	6.33	53.07
2011	93.3	5.20	47.63	15.02	2.80	70.63
2012	96.2	13.44	76.55	30.38	3.42	123.79
2013	92.5	12.33	52.38	13.56	7.90	86.17
2014 YTD	45.5	2.51	25.46	11.51	0.66	40.04

Source: BPAM, MARC Fixed Income Research

The local corporate bonds market raised a total of RM6.0 billion, about 15% more compared with the RM5.2 billion raised in May, lifted by higher issuances from the financial sector (June: RM2.2 billion; May: RM1.6 billion) and quasi-government sector (June: RM1.1 billion; May: None). In the financial sector, about 64% of the funds raised are Basel III-compliant and qualify as Tier-2 regulatory capital. After excluding unrated segments however, total rated corporate bonds decreased slightly by 4% month-on-month to RM4.9 billion in June from RM5.1 billion in the prior month.

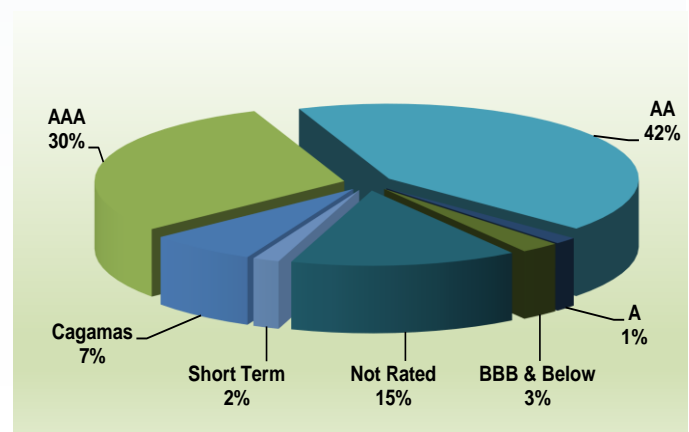
We maintain our forecast for rated corporate bonds to be in the range of RM45.0 billion to RM55.0 billion for 2014, supported by the issuance of Basel III-compliant subordinated bonds from the banking sector.

Outstanding Size of Sovereign, Cagamas and Corporate Bonds as of June 2014 (RM bn)

Asset Class	Conventional	Islamic	Total
Sovereign	315.53	203.50	519.03
Cagamas	11.04	13.53	24.57
PDS	126.75	197.61	324.36
Corporate	40.95	153.52	194.47
Corporate Guaranteed	13.96	26.58	40.54
Financial	62.45	13.34	75.78
ABS	9.40	4.17	13.57

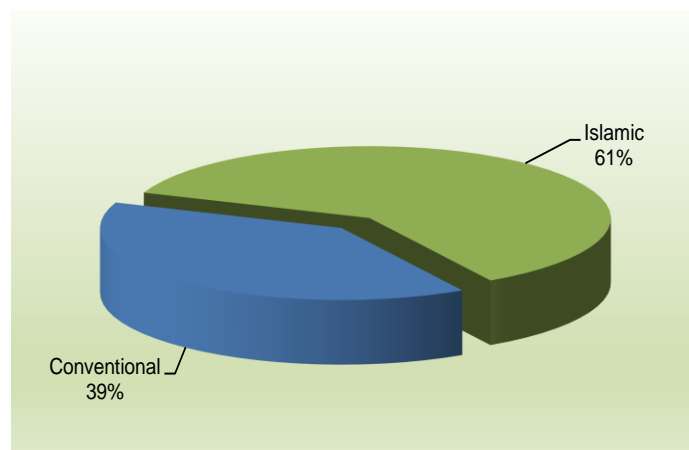
Source: BPAM, MARC Fixed Income Research

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 bn)

Asset Class	May-14	14-Jun	MoM Chng
MGS/GII	54.3	32.6	-21.7
Cagamas	0.4	0.3	-0.1
FI Corporate	1.6	2.1	0.6
Non FI-Corporate	4.1	4.9	0.8

Source: BPAM, MARC Fixed Income Research

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

Rating Type	May-14	Jun-14	MoM Chng
AAA	1.4	1.7	0.3
AA	2.5	3.1	0.6
A	0.0	0.0	0.0
BBB and below	0.0	0.0	0.0
Short term	0.1	0.0	-0.1

Source: BPAM, MARC Fixed Income Research

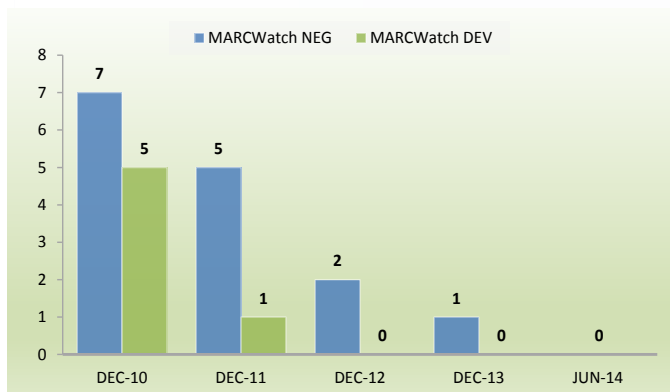
MARC Rating Activities in 2014 YTD

List of Rating Migration in 2014 YTD

Principle	Main Sector	Issuer	Date Announced	Rating Action	Rating Outlook	Long-Term Rating		Short-Term Rating		Issue Size (MYR mil)
						Before	After	Before	After	
Conventional	Trading/Services	Tesco Stores (M) Sdn Bhd	15-Jan-14	DOWNGRADED	STA	AAA	AA+	MARC-1	MARC-1	3500
Islamic	Industrial Products	Kinsteel Bhd	11-Mar-14	DOWNGRADED		C	D			100
Islamic	Industrial Products	Kinsteel Bhd	11-Mar-14	DEFAULT		C	D			100
Conventional	Property	Special Coral Sdn Bhd	21-Mar-14	UPGRADED	STA	AA	AA+			40
Conventional	Property	Special Coral Sdn Bhd	21-Mar-14	UPGRADED	STA	A	AA-			35
Conventional	Property	Special Coral Sdn Bhd	21-Mar-14	UPGRADED	STA	B	BB-			30
Conventional	Property	Special Coral Sdn Bhd	21-Mar-14	UPGRADED	STA	BBB	A-			25
Conventional	Property	Special Coral Sdn Bhd	21-Mar-14	UPGRADED	STA	BB	BBB-			10

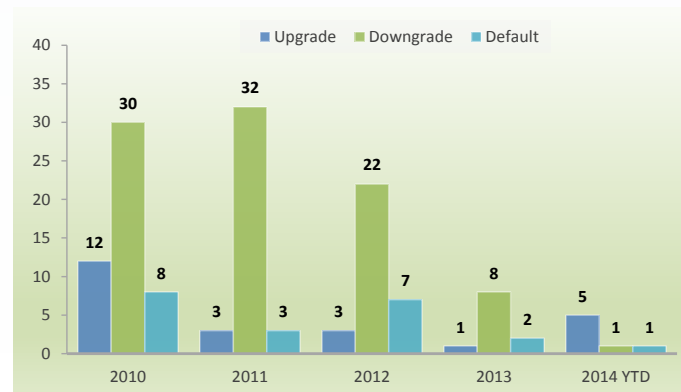
Source: MARC Fixed Income Research

MARCWatch Placements, by Issue Count



Source: MARC Fixed Income Research

Upgrades, Downgrades and Default



Source: MARC Fixed Income Research

List of Rating Actions in the month of June 2014

Principle	Main Sector	Issuer	Date Announced	Rating Action	Rating Outlook	Long-Term Rating		Short-Term Rating		Issue Size (MYR mil)
						Before	After	Before	After	
Conventional	Residential Mortgages	Cagamas MBS Bhd	3-Jun-14	AFFIRMED	STA	AAA	AAA			380
Conventional	Residential Mortgages	Cagamas MBS Bhd	3-Jun-14	AFFIRMED	STA	AAA	AAA			525
Conventional	Residential Mortgages	Cagamas MBS Bhd	3-Jun-14	AFFIRMED	STA	AAA	AAA			260
Conventional	Residential Mortgages	Cagamas MBS Bhd	3-Jun-14	AFFIRMED	STA	AAA	AAA			250
Conventional	Residential Mortgages	Cagamas MBS Bhd	3-Jun-14	AFFIRMED	STA	AAA	AAA			105
Islamic	Technology	Tele-Flow Capital Sdn Bhd	4-Jun-14	WITHDRAWN		AA	AA			10
Conventional	Residential Mortgages	Cagamas MBS Bhd	9-Jun-14	AFFIRMED	STA	AAA	AAA			320
Conventional	Residential Mortgages	Cagamas MBS Bhd	9-Jun-14	AFFIRMED	STA	AAA	AAA			350
Conventional	Residential Mortgages	Cagamas MBS Bhd	9-Jun-14	AFFIRMED	STA	AAA	AAA			385
Conventional	Residential Mortgages	Cagamas MBS Bhd	9-Jun-14	AFFIRMED	STA	AAA	AAA			260
Islamic	Finance	Maybank Islamic Berhad	10-Jun-14	AFFIRMED	STA	AA+	AA+			1000
Islamic	Construction	WCT Holdings Berhad	10-Jun-14	WITHDRAWN		AA-	AA-	MARC-1	MARC-1	100
Islamic	Residential Mortgages	Cagamas MBS Bhd	11-Jun-14	WITHDRAWN		AAA	AAA			270
Islamic	Infrastructure & Utilities	Tanjung Bin O&M Bhd	11-Jun-14	AFFIRMED	STA	AA-	AA-			470
Islamic	Finance	Cagamas Bhd	20-Jun-14	AFFIRMED	STA	AAA	AAA			40000
Islamic	Finance	Cagamas Bhd	20-Jun-14	AFFIRMED	STA	AAA	AAA			4000
Conventional	Finance	Cagamas Bhd	20-Jun-14	AFFIRMED	STA			MARC-1	MARC-1	20000
Islamic	Finance	Cagamas Bhd	20-Jun-14	AFFIRMED	STA			MARC-1	MARC-1	1000
Islamic	Finance	Cagamas Bhd	20-Jun-14	PRELIMINARY	STA			MARC-1	MARC-1	20000
Islamic	Infrastructure & Utilities	Putrajaya Management Sdn Bhd	20-Jun-14	WITHDRAWN		AAA	AAA			370
Islamic	Financial Institution	Bank Muamalat Malaysia Bhd	24-Jun-14	PRELIMINARY	STA	A	A			2000
Islamic	Finance	Bank Pembangunan Malaysia Bhd	25-Jun-14	AFFIRMED	STA			MARC-1	MARC-1	2000
Islamic	Infrastructure & Utilities	Kapar Energy Ventures Sdn Bhd	26-Jun-14	AFFIRMED	STA	AA+	AA+			2000
Islamic	Plantation	Kw antas SPV Sdn Bhd	27-Jun-14	WITHDRAWN		A-	A-	MARC-2	MARC-2	65
Islamic	Plantation	Kw antas SPV Sdn Bhd	27-Jun-14	WITHDRAWN		AAA	AAA			80
Conventional	Finance	Cagamas Bhd	30-Jun-14	WITHDRAWN				MARC-1	MARC-1	20000

Source: MARC Fixed Income Research

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