KDN PP 16084/10/2012 (030859)

MALAYSIAN RATING CORPORATION BERHAD

JANUARY 2015

Monthly Bond Market & Rating Snapshot

FINANCIAL VARIABLE	DEC-14	JAN-15	MoM CHNG
Overnight Policy Rate (%)	3.25	3.25	0 bps
3-year Benchmark MGS (%)	3.63	3.62	-2 bps
10-year Benchmark MGS (%)	4.08	3.80	-28 bps
3-year IRS (%)	3.89	3.76	-13 bps
10-year IRS (%)	4.22	4.02	-20 bps
Ringgit 3-year AAA (%)	4.00	4.04	4 bps
Ringgit 3-year AA (%)	4.33	4.38	5 bps
Ringgit 3-year A (%)	6.25	6.29	3 bps
10-year US Treasury (%)	2.17	1.64	-53 bps
2-year US Treasury (%)	0.66	0.45	-22 bps
MYR/USD	3.50	3.63	3.8%
KLCI Index	1761.25	1781.26	1.1%
S&P 500 Index	2058.90	1994.99	-3.1%

Source: Bloomberg, MARC Fixed Income Research

Global Markets 2

It was an eventful month as actions from central banks across the globe, both expected and unexpected, dominated the headlines, some of which have aided rallies in major bond markets. Alongside the moves by these central banks, the downward revision of global growth by the IMF, weak output in Europe, Japan and China have also helped boost the allure for safe-haven assets.

Ringgit Bonds 2

MYR govvies ended the month of January on firmer footing with benchmark yields seen compressing lower across the curve. Despite the persistent weakening of the ringgit and prospects of a possible downgrade by Fitch, the local govvies were well supported with the return of bargain hunting interests following a broad selling in December.

Currency 2

The ringgit continued to lose ground against the strengthening dollar as investors remained pessimistic amid fears that persistently falling oil prices would impose a danger to the country's fiscal health.

Analysts

Nick Lee, CFA
Senior Analyst
nick@marc.com.my

Raja Zarina
Analyst
zarina@marc.com.my

Market Review

Global Markets

It was an eventful month as actions from central banks across the globe, both expected and unexpected, dominated the headlines, some of which have aided rallies in major bond markets. Alongside the moves by these central banks, the downward revision of global growth by the IMF, weak output in Europe, Japan and China have also helped boost the allure for safe-haven assets.

On January 22, the ECB finally announced the much-anticipated government bond buying programme, which amounts to more than 1.0 trillion euros in an effort to revive the stalling economy and fight disinflation. The purchase of sovereign bonds along with the existing measures will see the ECB flooding the Eurozone with 60 billion euros a month beginning March. The Eurozone yields were crushed prior to the official announcement, as investors jostled to get hold of the government bonds before the purchases begin. That has turned the UST into an attractive bargain as investors searched for higher yields. Meanwhile, the latest US FOMC meeting brought no major surprise and caused little reaction in the market. The short-end of the UST remained well supported, even after the release of FOMC minutes as investors took the “patient stance” in stride.

Elsewhere in Denmark, the central bank unexpectedly cut interest rates in an attempt to curb the strengthening Danish krone. The move came a week after the Swiss National Bank (SNB) surprised the markets by removing the currency cap on the Euro-franc exchange rate. The SNB also cut the interest rate, pushing it into negative territory. These moves have heightened investors’ concerns, albeit to a lesser degree, prompting some flight to safety.

At month close, the 10-year UST fell further, settling at a record low of 1.64%. Eurozone government bonds also ended on a stronger note, with the 10-year German Bunds trading below those of Japanese bonds with similar maturity for the first time. The 10-year UK Gilts also painted the same picture, closing the month at 1.33%, the lowest since 2012.

Ringgit Bonds

On the local front, MYR govvies ended the month of January on firmer footing with benchmark yields seen compressing lower across the curve. Despite persistent weakening of the ringgit and prospects of a possible downgrade by Fitch, the local govvies were well supported with the return of bargain hunting interests following a broad selling in December. Yields on the short end remained anchored, falling two bps m-o-m as the BNM held the key interest rate unchanged at 3.25%, in line with the consensus view. In an accompanying statement, BNM viewed the current monetary policy stance as accommodative, while acknowledging moderating global growth and increasing divergence among major economies. Meanwhile, buying interest on the longer maturities returned with benign inflationary pressure amid falling oil prices, pushing the yields on 10- and 20-year 28 bps and 27 bps lower, respectively. Prospects of sovereign QE by the ECB also helped infuse bidding interests into the EM spectrum, including Malaysia in search for higher yields. Throughout the month, transacted volume was robust with a total of RM84 billion dealt, averaging about RM4.0 billion daily.

In the primary market, three government offerings have raised total funds of RM9.5 billion, i.e. the RM2.5 billion 15-year reopening of the MGS, the RM4.0 billion 7.5-year new issue of the GII and the RM3.0 billion 3-year reopening of the MGS. Of note, the sale of the newly-issued GII received strong demand with a bid-to-cover ratio of 2.53x, signalling increasing acceptance of GII papers among investors as it will soon be included in Barclay’s Global Aggregate Index. Meanwhile, the other two auctions of MGSs were also well bidded, with a bid-to-cover ratio of 2.37x and 2.60x, fetching an average yield of 4.70% and 3.54%, respectively.

Foreign holdings of MGS came in almost unchanged in December, despite softer ringgit performance. Foreign holdings of MGS stood at RM145 billion by end-December 2014. However, as a percentage of outstanding MGS in the market, foreign holdings were at RM44.1%, down slightly from 44.5% in November.

Currency

The ringgit continued to lose ground against the strengthening dollar as investors remained pessimistic amid fears that persistently falling oil prices would impose a danger to the country’s fiscal health. On the flipside, a bullish assessment on the US economy by the Fed officials anchored US dollar strength across the board. At month close, the local note slid 3.8% to 3.63.

Budget Revision 2015

Table 1.0 Fiscal Deficit to NGDP ratio

Scenario 1*: Fiscal balance for 2015 comes in at RM37 billion as projected by the government*

Scenario 2: *Fiscal balance for 2015 comes in unchanged from the amount budgeted in 2014*

Scenario 3: *A shortfall in government revenue, or overshoot in government spending, resulting in the fiscal balance coming in 5% higher than projected*

Scenario 4 *An underutilisation of budgeted expenditure, with unchanged level of revenue, resulting in the fiscal balance coming in 5% lower than projected*

	Growth of NGDP					
	4%	5%	6%	7%	8%	9%
Scenario 1	-3.3%	-3.3%	-3.3%	-3.2%	-3.2%	-3.1%
Scenario 2	-3.4%	-3.3%	-3.3%	-3.3%	-3.2%	-3.2%
Scenario 3	-3.5%	-3.5%	-3.4%	-3.4%	-3.4%	-3.3%
Scenario 4	-3.2%	-3.1%	-3.1%	-3.1%	-3.0%	-3.0%

Source : CEIC, MARC Fixed Income Research

Oil prices have continued to fall and are still searching for a floor. Forecasts from market watchers on the bottom of oil prices were all over the place, and in fact, looking at the consensus as a gauge can be misleading. Those in the bullish camp would cheer at recent pronouncements made by the IEA that a recovery in oil prices is underway and the glut that has been suppressing prices could start easing soon. However, against the backdrop of a super sluggish global economy, coupled with the build-up in oil inventory, it is probably safer to be realistic and not too optimistic on the rebound of oil prices.

That is why we applauded when the government recently revised the Budget 2015, which was tabled last year by the Prime Minister based on the assumption of oil prices holding at USD100 per barrel. The revision involves a number of expenditure cuts and a shuffle in government spending, with the assumption of oil price having been revised down to USD55 per barrel. Operating expenditure was cut by RM5.5 billion while development expenditure was maintained at RM48.5 billion. As the government was expecting a shortfall in revenue of RM13.8 billion from the amount that was initially budgeted, the fiscal deficit target for this year was revised to 3.2% from 3.0% initially. While the government has laid out measures for revenue enhancement, the ability to meet the new target is, however, questionable for many.

We share the same sentiment with our economics team, in that meeting the new budget deficit target would be challenging – although not impossible - unless the entire reduction in OPEX materialises and nominal GDP remains robust in 2015. If nominal GDP shrinks more than expected, it is likely that the new budget deficit target of 3.2% will have to be revised again. Table 1.0 describes a range of growth in nominal GDP and a few scenarios of deficit levels. The government has revised the initial budget deficit of RM35.7 billion to RM37 billion. With that level of deficit, the new fiscal target requires a nominal GDP growth of at least 7% from 2014. With benign inflationary pressure amid the persistent weakening of oil prices, reaching a nominal growth of 7% in 2015 is indeed very challenging.

Meeting the fiscal target is crucial for Malaysia's sovereign rating as after the announcement, Fitch Ratings released a statement saying that there is a higher chance of downgrading Malaysia's sovereign debt in a review that is expected to take place in the middle of this year. Local govvies saw broad selling the next day, with benchmark yields shooting up 5 bps to 10 bps on the longer tenures. Although we view the reaction as temporary, we maintain our call for the bearish steepening of the MGS yield curve for this year. In light of increased government borrowings with a higher fiscal deficit, we believe the supply of government bonds will come in within the range of RM85 to RM95 billion this year as highlighted in our *Bond Market Outlook 2015*.

Summary of Corporate Bond Issuance and Outstanding

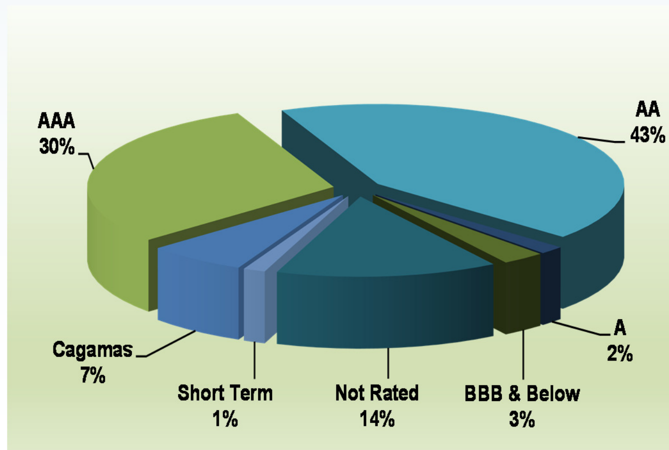
Historical Trend of Bond Issuance by Category (RM billion)

Year	MGS/GII	Unrated Corporate Bonds	Rated Corporate Bonds	Unrated Government Guaranteed	Cagamas	Total Corporate Bonds
2009	88.5	7.5	31.4	13.9	8.3	61.0
2010	58.1	6.0	36.0	4.7	6.3	53.1
2011	93.3	5.2	47.6	15.0	2.8	70.6
2012	96.2	13.4	76.6	30.4	3.4	123.8
2013	92.5	12.3	52.4	13.6	7.9	86.2
2014	84.5	8.1	52.7	21.9	3.4	86.0
2015 YTD	9.50	0.00	1.66	0.30	0.00	1.96

Source: BPAM, MARC Fixed Income Research

It was a quiet month in the primary market. The local corporate bond market raised RM1.96 billion, about 80% lower than the amount raised in the prior month (RM10.7 billion), dragged down by lower issuance across all sectors. Issuances mainly came from the rated segment, led by Danga Capital with an issue size of RM1.5 billion. Issuance in the Unrated GG segment was dominated by Malaysia Debt Ventures Bhd with an issue size of RM300 million. Meanwhile, there were no issuances from Cagamas in January.

PDS Outstanding: Distribution by Rating Type



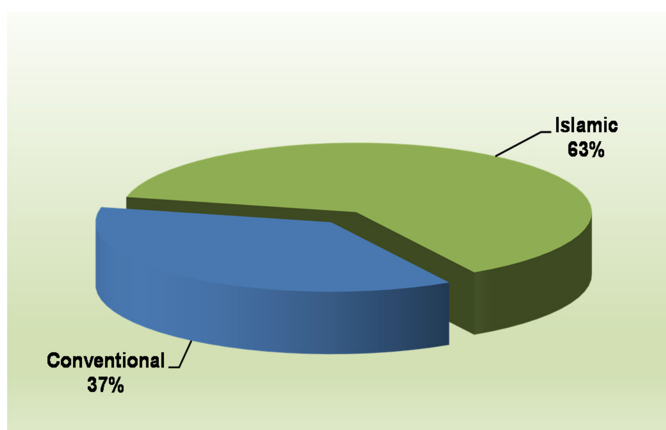
Source: BPAM, MARC Fixed Income Research

Outstanding Size of Sovereign, Cagamas and Corporate Bonds as of January 2015 (RM billion)

Asset Class	Conventional	Islamic	Total
Sovereign	335.13	209.90	545.03
Cagamas	10.09	13.13	23.21
PDS	122.00	209.33	331.33
Corporate	39.54	161.27	200.80
Corporate Guaranteed	14.20	29.52	43.71
Financial	59.38	14.12	73.49
ABS	8.89	4.43	13.32

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	Dec-14	Jan-15	MoM Chng
MGS/GII	39.1	84.8	45.7
Cagamas	0.1	0.1	0.0
FI Corporate	1.7	1.0	-0.7
Non FI-Corporate	6.0	5.2	-0.8

Source: BPAM, MARC Fixed Income Research

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

Rating Type	Dec-14	Jan-15	MoM Chng
AAA	1.7	2.9	1.1
AA	3.9	2.3	-1.6
A	0.3	0.0	-0.2
BBB and below	0.0	0.0	0.0
Short term	0.1	0.1	-0.1

Source: BPAM, MARC Fixed Income Research

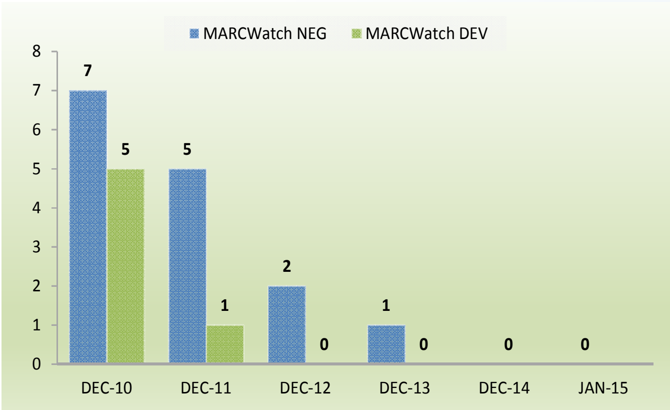
MARC Rating Activities in 2015 YTD

List of Rating Actions in January 2015

Principle	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		
Corporate Debt	Finance	Cagamas Bhd	30-Jan-15	INITIAL	STA			MARC-1	MARC-1	20,000	
Corporate Debt	Infrastructure & Utilities	Cerah Sama Sdn Bhd	29-Jan-15	AFFIRMED	STA	AA-	AA-			420	
Project Finance	Infrastructure & Utilities	Projek Lebuhraya Usahasama Berhad	28-Jan-15	AFFIRMED	STA	AAA	AAA			23,350	
Corporate Debt	Property	Putrajaya Holdings Sdn Bhd	19-Jan-15	AFFIRMED	STA	AAA	AAA			2,200	
Corporate Debt	Property	Putrajaya Holdings Sdn Bhd	19-Jan-15	AFFIRMED	STA	AAA	AAA			1,500	
Corporate Debt	Property	Putrajaya Holdings Sdn Bhd	19-Jan-15	AFFIRMED	STA	AAA	AAA			3,000	
Corporate Debt	Property	Putrajaya Holdings Sdn Bhd	19-Jan-15	PRELIMINARY	STA	AAA	AAA			370	fg
Corporate Debt	Property	Horizon Hills Development Sdn Bhd	14-Jan-15	AFFIRMED	STA	AAA	AAA			200	bg
Project Finance	Infrastructure & Utilities	TNB Western Energy Berhad	14-Jan-15	AFFIRMED	STA	AAA	AAA			4,000	
Corporate Debt	Infrastructure & Utilities	Alam Maritim Resources Bhd	9-Jan-15	AFFIRMED	NEG	A+	A+			500	bg
Structured Finance	Plantation	Tradewinds Plantation Capital Sdn Bhd	6-Jan-15	AFFIRMED	STA	AAA	AAA			180	
Structured Finance	Plantation	Tradewinds Plantation Capital Sdn Bhd	6-Jan-15	AFFIRMED	STA	AA+	AA+			30	
Corporate Debt	Plantation	Tradewinds Plantation Capital Sdn Bhd	6-Jan-15	AFFIRMED	STA			MARC-1	MARC-1	90	
Corporate Debt	Plantation	Tradewinds Plantation Capital Sdn Bhd	6-Jan-15	AFFIRMED	STA	AAA	AAA	MARC-1	MARC-1	100	

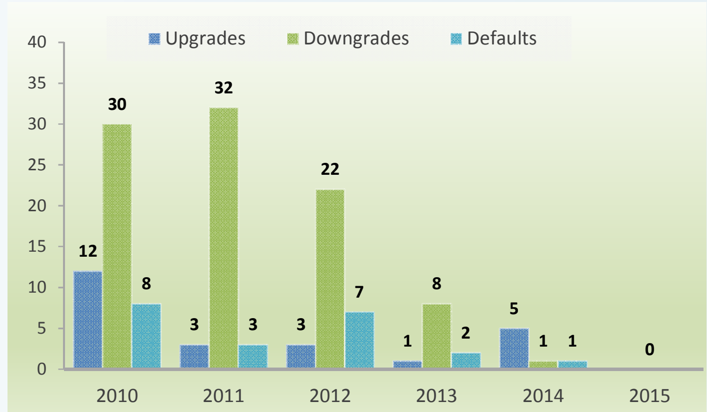
Source: BPAM, MARC Fixed Income Research

MARCWatch Placements, by Issue Count



Source: MARC Fixed Income Research

Upgrades, Downgrades and Default, by Issue Count



Source: MARC Fixed Income Research

List of Rating Migrations YTD

Principle	Main Sector	Issuer	Date Announced	Rating Action	Rating Outlook	Long-Term Rating		Short-Term Rating		Issue Size (M YR mil)	Credit Enhancement
						Before	After	Before	After		
-	-	-	-	-	-	-	-	-	-	-	-

Source: BPAM, MARC Fixed Income Research

THIS PAGE IS INTENTIONALLY LEFT BLANK

Disclaimer

Published and Printed by:

MALAYSIAN RATING CORPORATION BERHAD (364803-V)
5th Floor, Bangunan Malaysian RE, No 17 Lorong Dungun,
Damansara Heights, 50490 KUALA LUMPUR.
www.marc.com.my

Tel: 603 2082 2200
Fax: 603 2094 9397