

MALAYSIAN RATING CORPORATION BERHAD
(148820-V)

JUNE 2015

Monthly Bond Market & Rating Snapshot

FINANCIAL VARIABLE	MAY-15	JUN-15	MOM CHNG
OVERNIGHT POLICY RATE (%)	3.25	3.25	0 bps
3-YEAR BENCHMARK MGS (%)	3.30	3.20	-10 bps
10-YEAR BENCHMARK MGS (%)	3.91	4.01	10 bps
3-YEAR IRS (%)	3.72	3.74	2 bps
10-YEAR IRS (%)	4.32	4.39	7 bps
RINGGIT 3-YEAR AAA (%)	3.99	3.99	-1 bps
RINGGIT 3-YEAR AA (%)	4.39	4.35	-4 bps
RINGGIT 3-YEAR A (%)	6.28	6.22	-5 bps
10-YEAR US TREASURY (%)	2.12	2.35	23 bps
2-YEAR US TREASURY (%)	0.61	0.64	4 bps
MYR/USD	3.6675	3.7733	2.9%
KLCI INDEX	1,747.5	1,706.6	-2.3%
S&P 500 INDEX	2,107.4	2,063.1	-2.1%

Source: Bloomberg, MARC Fixed Income Research



Global Markets

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The timing of the Fed's rate hike remained the main theme in the US government bond market. The FOMC meeting in June suggested that the path to rising interest rates will be even more gradual than previously predicted. A mixed bag of economic data also complicated investors' prediction over the Fed's data-dependent policy direction. UST yields ended the month higher across the curve.

Ringgit Bonds

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The MGS yield curve steepened and the MGS 10/3-year spread widened to 81 bps, the highest since February 2014, as concerns over Fitch's possible downgrade of Malaysia's sovereign ratings led investors to shift their portfolios to the left-wing of the curve for lower duration risk. The rating agency finally decided to revise Malaysia's outlook to stable from negative on the back of the country's improved fiscal position, thanks to the implementation of the GST and fuel subsidies reform.

Currency

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The ringgit faced heavy selling pressure in June with the local currency weakening to 3.7843 against the USD on 29 June, the lowest level in a decade. In Europe, the region's currency strengthened against the USD, indicating that investors have generally shrugged off Greece's debt issue. The firmer euro was also driven by the Fed's June FOMC "dot-plot" which struck a relatively dovish tone.

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Market Review

Global Markets

In June, the main theme in the US government bond market remained “*When will the Fed raise its interest rates?*” After the June FOMC meeting, Fed Chairwoman Janet Yellen continued to indicate that the first rate hike will likely take place this year. However, the “dot-plot” showed that FOMC members indeed expect to see a lower average fed funds rate (FFR) target of 1.75% in 2016 compared to March’s expectations of 2.02%. This suggests that the path to rising interest rates will be even more gradual than previously predicted. In addition, a mixed bag of economic data released in June, such as upbeat employment data (jobless claims held below 300k for a 16th consecutive week) and the Conference Board Leading Economic Index (May: +0.7%, Survey: +0.4%) but lower-than-expected factory goods orders (April: -0.4%; Survey: -0.1%) and core consumer prices (May: +0.1% m-o-m; Survey: +0.2%), complicated investors’ prediction over the Fed’s data-dependent policy direction. Somewhat surprising to investors, the IMF urged the Fed to delay its rate hike plan until 2016, citing an uneven US recovery and the risks to emerging markets if the central bank was to tighten its monetary policy sooner. That said, market reaction suggests that investors in general believe that the Fed would stick to its plan to raise rates this year as evidenced by higher UST yields across the curve.

Another highlight in the financial market are developments related to the Greek debt crisis. The question of whether the Greek people would vote “YES” or “NO” in the 5th July referendum has dominated headlines. Worries over the contagion effects of “Grexit” sparked selling in the European bond markets. The benchmark 10-year German bund and UK gilt yields surged 28 bps and 21 bps to 0.76% and 2.02%, respectively. In China, the central bank cut its benchmark lending rate by 25 bps to 4.85%, a record low level and a fourth reduction since November, after the country’s stocks plunged and local government bond sales drained liquidity. Local governments are expected to issue about USD451 billion of debt this year, resulting in tighter liquidity and a rise in money market rates. The three-month interbank rates increased 37 bps to 3.23% in June from 2.86% in May.

Ringgit Bonds

Not immune to the global bond rout, local government bonds continued to experience selling pressure with longer-term bond yields trending higher. The MGS yield curve steepened and the MGS 10/3-year spread widened to 81 bps, the highest since February 2014, as concerns over Fitch’s possible downgrade of Malaysia’s sovereign ratings led investors to shift their portfolios to the left-wing of the curve for lower duration risk. The rating agency’s decision to revise Malaysia’s outlook to stable from negative and maintain Malaysia’s long-term foreign currency issuer default rating at A-, however, has caught the market by surprise. The upward revision on the outlook was backed by the country’s improved fiscal position, thanks to the implementation of the GST and fuel subsidies reform. Meanwhile, the GII/MGS spreads narrowed further to six bps in June, the lowest since August 2013, from 10 bps in May.

In the primary market, three government offerings have raised total funds of RM9.5 billion, namely the RM3.0 billion 10-year re-opening of the MGS, RM3.5 billion seven-year re-opening of the MGS and RM3.0 billion five-year re-opening of the GII. The 10-year MGS auction drew the lowest YTD bid-to-cover ratio at 1.67x compared with the YTD average of 2.38x, reflecting the weak sentiment among bond investors arising from uncertain internal and external landscapes.

In May, foreign investors were the net buyers of the MGS for a third consecutive month, boosting their holdings to RM158.2 billion (April: RM157.6 billion) or 46.9% of total outstanding MGS (April: 47.0%). Similarly, foreign holdings of GII continued to climb, standing at RM10.9 billion (April: RM10.7 billion) despite falling slightly in terms of percentage of outstanding GII (May: 5.3%; April: 5.5%) due to an increase in net issuances.

Currency

The ringgit faced heavy selling pressure in June with the local currency weakening to 3.7843 against the USD on 29 June, the lowest level in a decade. Selling of the ringgit can be attributed to (1) investors reducing their holdings of the ringgit on worries that Fitch would downgrade Malaysia’s sovereign ratings, (2) rising demand for the USD in anticipation of the Fed normalising its monetary policy later this year, and (3) lower risk appetite for emerging market currencies, the ringgit included, due to mounting concerns over the Greek debt crisis.

In Europe, the region’s currency strengthened against the USD, appreciating 1.47% to 1.1147 per USD in June after falling 2.12% in May, indicating that investors have generally shrugged off Greece’s debt crisis. The firmer euro was also driven by the Fed’s June FOMC dot plot which struck a relatively dovish tone as the target range for the FFR in 2015 has come down to 0.00% to 1.00% compared with March’s 0.00% to 1.75% range, indicating that the central bank will only raise the rate gradually. The US dollar index (DXY) fell 1.5% to 95.49 in June from 96.91 in the preceding month.

Summary of Corporate Bond Issuances and Outstanding

Historical Trend of Bond Issuances 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	8.0	52.7	21.9	3.3	85.9
2015 YTD	47.5	6.2	15.9	8.9	0.6	31.5

Source: BPAM, MARC Fixed Income Research

Gross issuances of local corporate bonds fell to RM3.7 billion in June compared with RM8.4 billion in May amid lower issuances across segments. The unrated segment bucked a fourth consecutive month of rising trend, coming in at RM1.0 billion compared with RM2.6 billion in May. Meanwhile, primary market activities in Cagamas remained muted for a third straight month.

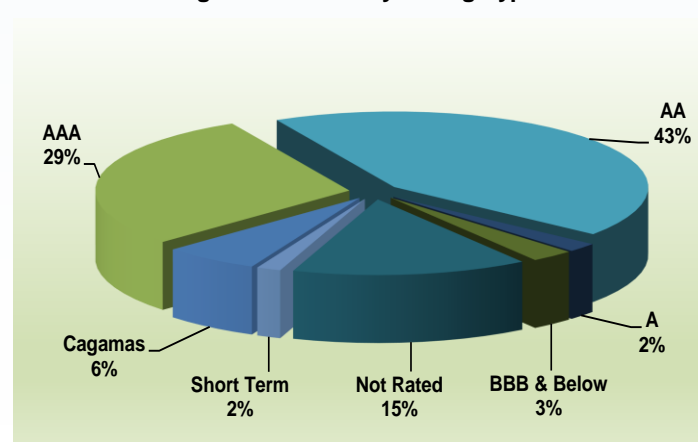
Rated corporate bond issuances stood at RM2.1 billion in June (May: RM3.9 billion), led by AA2-rated Bernih Restu's RM1.0 billion issuance from its RM1.5 billion sukuk programme. Notably, issuances from the financial services sector fell significantly to RM50 million (May: RM2.9 billion), partly due to a lack of activities from banks. Meanwhile, PASB is the only issuer in the unrated government-guaranteed segment, raising RM600 million from its RM20 billion IMTN programme.

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

Asset Class	Conventional	Islamic	Total
Sovereign	343.84	234.90	578.74
Cagamas	10.59	11.57	22.16
PDS	121.57	216.18	337.75
Corporate	39.59	163.10	202.69
Corporate Guaranteed	13.86	31.50	45.36
Financial	59.43	17.16	76.58
ABS	8.69	4.43	13.13

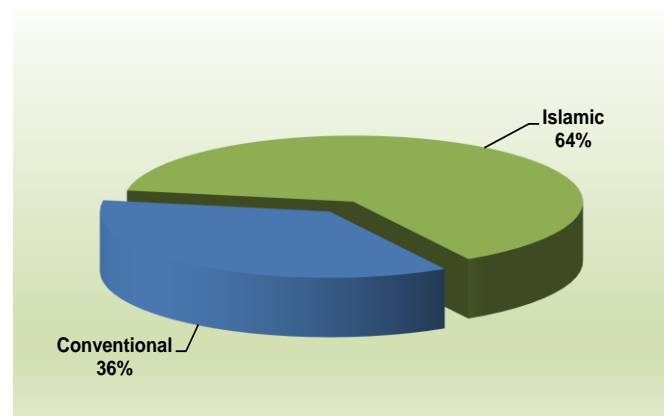
Source: BPAM, MARC Fixed Income Research

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 billion)

Asset Class	May-15	Jun-15	MoM Chng
MGS/GII	43.7	58.6	14.8
Cagamas	0.7	0.4	-0.3
FI Corporate	2.4	1.7	-0.7
Non FI-Corporate	7.9	7.9	0.0

Source: BPAM, MARC Fixed Income Research

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

Rating Type	May-15	Jun-15	MoM Chng
AAA	3.4	3.2	-0.2
AA	4.1	4.2	0.1
A	0.2	0.1	-0.1
BBB and below	0.0	0.0	0.0
Short term	0.2	0.4	0.1

Source: BPAM, MARC Fixed Income Research

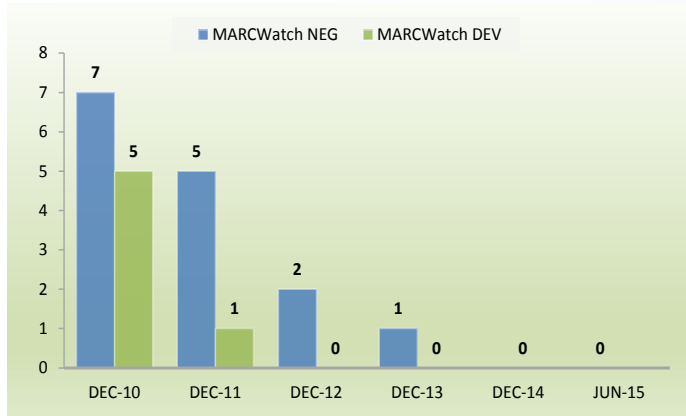
MARC Rating Activities in 2015 YTD

List of Rating Actions in June 2015

Principle	Category	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		
Islamic	Project Finance	Infrastructure & Utilities	Kapar Energy Ventures Sdn Bhd	26-Jun-15	AFFIRMED	STA	AA+	AA+			2000	
Islamic	Structured Finance	Technology	Pinnacle Tower Sdn Bhd	25-Jun-15	AFFIRMED	STA	AAA	AAA			400	
Islamic	Structured Finance	Technology	Pinnacle Tower Sdn Bhd	25-Jun-15	AFFIRMED	STA			MARC-1	MARC-1	50	
Islamic	Corporate Debt	Infrastructure & Utilities	Tanjung Bin O&M Bhd	10-Jun-15	AFFIRMED	STA	AA-	AA-			470	
Islamic	Corporate Debt	Construction	WCT Holdings Berhad	10-Jun-15	WITHDRAWN		AA-	AA-	MARC-1	MARC-1	300	
Conventional	Structured Finance	Residential Mortgages	Cagamas MBS Bhd	9-Jun-15	AFFIRMED	STA	AAA	AAA			320	
Conventional	Structured Finance	Residential Mortgages	Cagamas MBS Bhd	9-Jun-15	AFFIRMED	STA	AAA	AAA			350	
Conventional	Structured Finance	Residential Mortgages	Cagamas MBS Bhd	9-Jun-15	AFFIRMED	STA	AAA	AAA			385	
Conventional	Structured Finance	Residential Mortgages	Cagamas MBS Bhd	9-Jun-15	AFFIRMED	STA	AAA	AAA			260	
Islamic	Project Finance	Infrastructure & Utilities	Jimah East Power Sdn Bhd	5-Jun-15	WITHDRAWN		AA-	AA-			8400	
Conventional	Structured Finance	Residential Mortgages	Cagamas MBS Bhd	4-Jun-15	AFFIRMED	STA	AAA	AAA			525	
Conventional	Structured Finance	Residential Mortgages	Cagamas MBS Bhd	4-Jun-15	AFFIRMED	STA	AAA	AAA			260	
Conventional	Structured Finance	Residential Mortgages	Cagamas MBS Bhd	4-Jun-15	AFFIRMED	STA	AAA	AAA			250	
Conventional	Structured Finance	Residential Mortgages	Cagamas MBS Bhd	4-Jun-15	AFFIRMED	DEV	AAA	AAA			105	

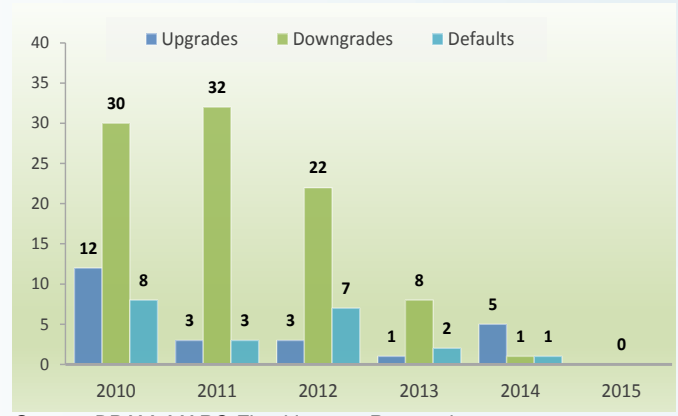
Source: BPAM, MARC Fixed Income Research

MARCWatch Placements, by Issue Count



Source: BPAM, MARC Fixed Income Research

Upgrades, Downgrades and Default, by Issue Count



Source: BPAM, 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

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