CLARITY AND INTEGRITY

MARC INVESTOR GUIDE

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THE BOND MARKET Summary

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Ringgit Bond Markets : Govvies

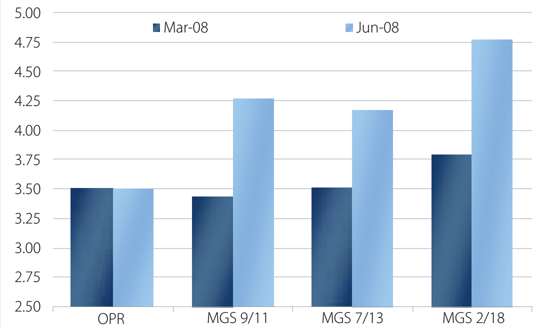
Malaysian Government Securities closed lower in Q2 2008 echoing a plunge in the local currency with the yield on the benchmark MGS 2/18 rising as high as 98 bps to settle at 4.86% on increasing inflationary pressures after a fuel subsidy revision by the government that is unprecedented in terms of magnitude while the uncertain domestic political scene also affected the valuation of all ringgit denominated asset classes. At the shorter end of the curve, the 3-year benchmark MGS 9/11 was last spotted at 4.26% after breaking its 4.00 % psychological level in June 2008. Rising interest rate expectation intensified as the yield curve steepened further on a bearish stance with the 10/3s spread widening to 75 bps compared to 37 bps seen at the end of last quarter. The 3-year swap spread rose to as high as 103 bps in June vis-à-vis 2-year average of 33 bps, signaling rising interest rates expectation. Furthermore, over the same period, the 1-year swap rate at one point was traded more than 75 bps above the cash rate of 3.50%.

The bond market started off the quarter under a shaky political environment after the incumbent Barisan Nasional government failed to defend its two-thirds majority in Parliament during the recent 12th General Election. In addition, additional post-election developments also sent investors to the sideline with sellers became better players. Benchmark extended losses earlier in June following a 41% hike in fuel prices announced by the government on June 4. The "Black Wednesday" witnessed the government, in an effort to narrow its budget deficit, unexpectedly increasing the price of 97-RON grade gasoline from MYR 1.92/liter to MYR2.70/liter, the most significant hike thus far.

Elsewhere, Malaysia's inflation accelerated to a 22-month high at 3.8% in April compared to 3.0% gain in March and was higher than 3.4% that economists had anticipated earlier on rising food and transportation costs. Going forward, inflation is likely to rise further as the impact of fuel price hike starts to filter through the economy.

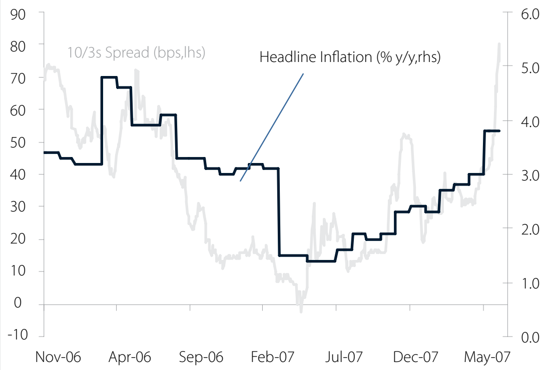
Meanwhile, Malaysia's central bank governor Zeti Akhtar Aziz said that interest rate policy will hinge on the upside risks to inflation and the downside risks to growth and that it would monitor inflation whether it results in a pass-through to other consumer items and whether there are second round effects like wage increases. She also added that the central bank would take action on monetary policy if there is a "generalized" increase in prices which is still not the case thus far. Given the nature of the central bank chief responses to monetary policy questions, we think that Bank Negara Malaysia is still reluctant to hike interest rates. There have been a few occasions where the downside risks to the growth were highlighted. In her statement on June 16, the governor quoted that "At the same time, we'll look at what growth outlook is and right now, there is also the risk that we may have slower growth". The next day while quashing the idea of calling for an unscheduled monetary policy meeting, some moderation in growth was again highlighted and that interest rate policy is not based on current conditions but on the outlook. Apart from the downside risks to economic growth, we opine that political sentiments will also add as an additional obstacle for the implementation of monetary tightening. The central bank is expected to meet on July 25th to decide on the monetary policy and at this juncture, we opine that it will not be altered. Hence, we are maintaining our view that the Overnight Policy Rate (OPR) of 3.50% will stay for the remaining months of 2008.

Govvies Benchmark Yield QoQ



Source : Bloomberg

10/3s Spread Vs. Inflation



Source : Bloomberg

Interest Rate Expectations

Source : Bloomberg

CORPORATE DEBT Rating Actions, Reviews and Outlooks Quarterly Update

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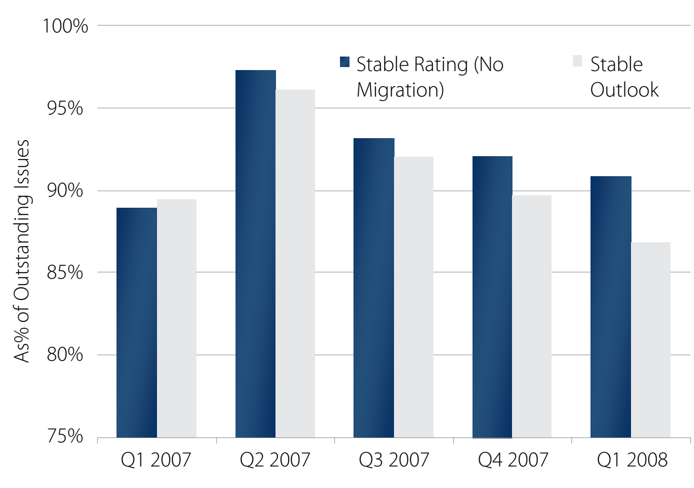
- Quarter 1 2008 -

Summary

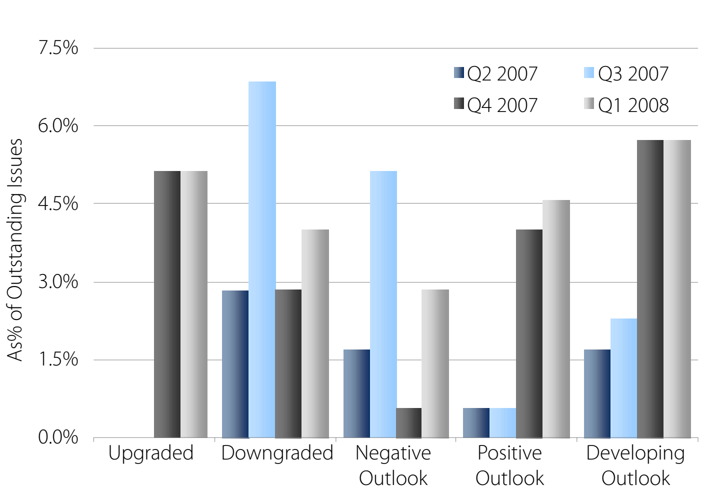
This report presents recent credit trends in MARC's corporate and project finance portfolios by summarizing rating actions, reviews and outlooks up to Q1 2008. Issuers with bank guarantee, credit support and corporate guarantee are all included in the study and both short term and long term ratings are covered[2] . Changes in credit quality can be observed from the number of downgrades and upgrades assigned. In addition, rating outlooks (positive versus negative) and watchlists allude to the level of creditworthiness that can be expected going forward[3] . Rating Actions are also summarized by rating category and industry. Key findings are as follows:

- Improving credit sentiments in MARC's corporate universe seen in Q4 2007 continued in the first quarter of 2008 with upgraded issues outnumbering downgraded issues significantly. Six issuers involving nine issues were upgraded compared to two issuers downgrade.
- Intelbest Corporation Sdn. Bhd., a fallen angel in 2007 defaulted in Q1 2008 from cohort B+, which is the third lowest cohort in MARC's ordinal credit ranking system. This reflects a continuous improvement in MARC's rating model at distinguishing defaulters along the credit curve as since the year 2006, all corporate defaults experience of independent ratings came from speculative grade cohorts.
- The ratio of downgrades to upgrades at the end of March 2008 was well below one, at 0.33:1.00, despite a marginal increase from the previous quarter of 0.22:1.00. The downgrades to upgrades ratio of 0.33:1.00 was also well below the quarterly long run weighted average of 0.78:1.00.
- The credit ratio that recorded its all time high at 4.50:1.00 in Q4 2007 fell to 3.00:1.00 in Q4 2008 but it is still way above the quarterly long run weighted average of 0.71:1.00
- The modified credit ratio[4] stood at 1.04 in Q1 2008, unchanged from the previous quarter given a higher number of upgrades relative to downgrades. Based on the modified credit ratio reading, credit condition eased by 3.61% as at end of March 2008.
- Rating drift[5], another measure of credit quality that hit a new high in the previous quarter since Q1 2005 remained elevated at 3.43% vis-à-vis an average of 0.28%.
- Statistics on issuers that are assigned with positive outlook and negative outlook imply a further improvement in credit quality. About 4.6% of the issues reviewed in the first quarter of 2008 have been assigned with a positive outlook vis-à-vis issues with negative outlook of 2.9%.
- Looking at the outlook distribution from a sectoral perspective, positive and negative outlooks assigned are not concentrated in any specific sector.
- Despite being the most volatile portfolio, Finance was the most outstanding performer in Q1 2008 with 28% of outstanding issues in this sector were upgraded. Consumer products, Industrial Products, Infrastructure & Utilities and Technology sectors were generally stable with no migration experienced in Q1 2008.
- From a broad industry perspective, both downgrades and upgrades were concentrated in financial industry with a 67% distribution in both forms of migrations. Upgrades were mainly contributed by the finance and property portfolios. Nevertheless, the property portfolio was the sole driver in financial sector downgrades, making the credit trend in this portfolio inconclusive.

Exhibit 1 : Migration & Outlook Distribution



Source: MARC Fixed Income Research



Source: MARC Fixed Income Research

FUEL HIKE :
Questions from man-in-the-street

Reality bites

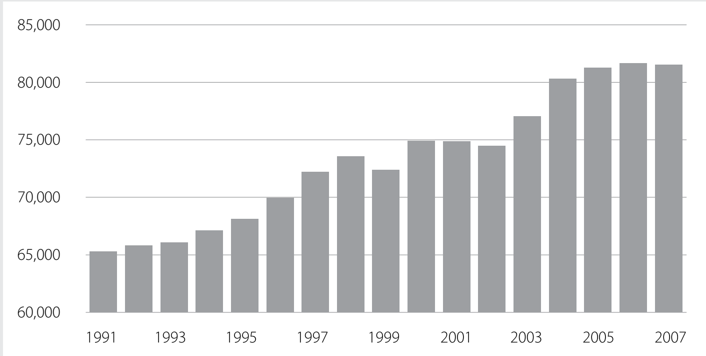
After a period of intense speculation over the new structure of fuel price, Malaysians woke up on June 5 in a daze, starring at a 41% increase in petrol prices at pump stations. It was a difficult thing to accept but reality has to come at some point of time. No matter how we look at it, critical questions pop up in people's mind – What was the rationale for the increase in the first place? Why increase by such a big quantum? To what extent would it affect inflation? Wouldn't such huge increase dampen consumer spending, the primary pillar of Malaysia's economy? Obviously, there are many questions needed to be answered.

Taking one step back…

But before we look at the new structure of petrol subsidy, an important question pops up in people's mind – how did global oil prices manage to reach the current level? From a fundamental point of view, the current tight supply of global oil has some barring on what is happening in the current global oil market. In fact, the same forces has been responsible for the steep ascent in global oil prices since the beginning of 2008.

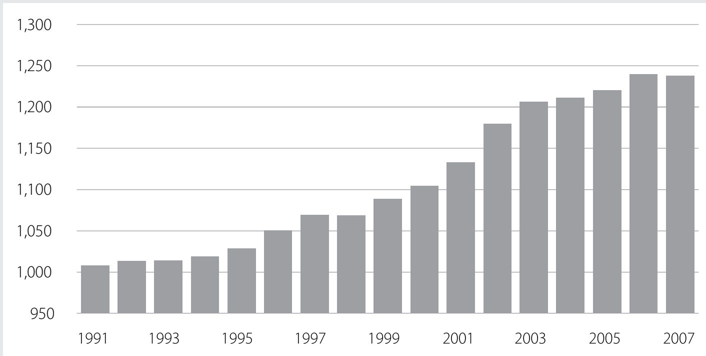
Looking back to 2007, global oil production actually dropped by 0.2% after expanding marginally by 0.5% in the year before. Likewise, global oil proved reserve declined by 0.1% in 2007 compared with 1.6% expansion in 2006. In tandem with steady global GDP growth last year (4.9% in 2007 vs. 5.0% in 2006), world oil consumption grew by 1.2% in 2007 against 1.1% previously. Rising oil consumption was largely driven by net oil importing countries such as US, Japan and China.

Chart 1 : Global Oil Production (Thousand Barrels Daily)



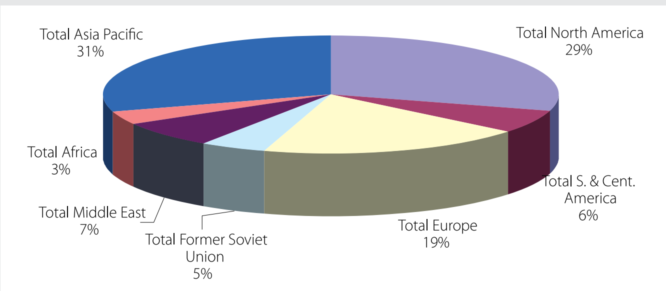
Source: BP Statisitical Review 2008

Chart 2 : Global Oil Proved Reserve (Thousand Barrels Daily)



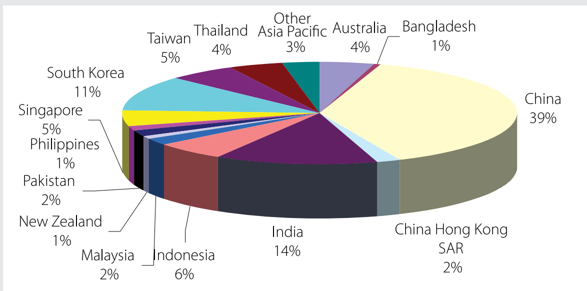
Source: BP Statisitical Review 2008

Chart 3 : Oil Consumption Profile in 2007 (% of Global Consumption)



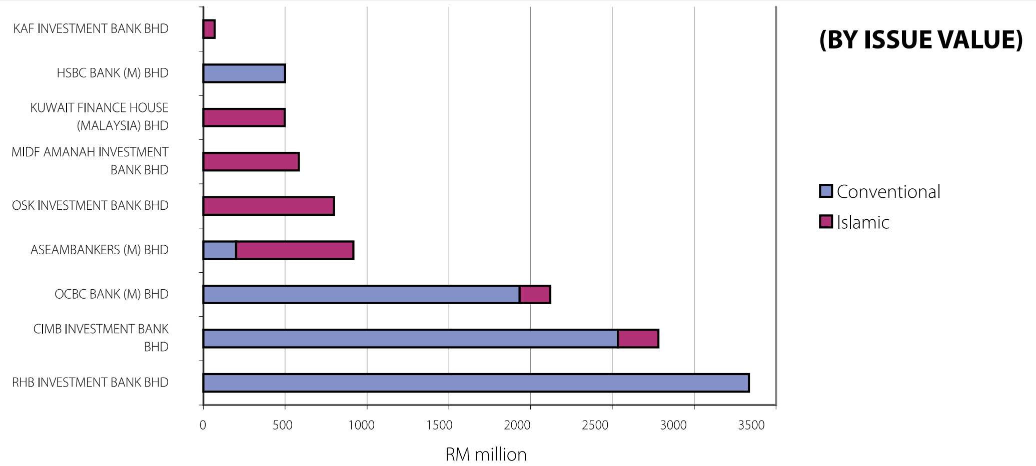
Source: BP Statisitical Review 2008

Chart 4 : Asia Pac ex Japan Oil Consumption Profile in 2007

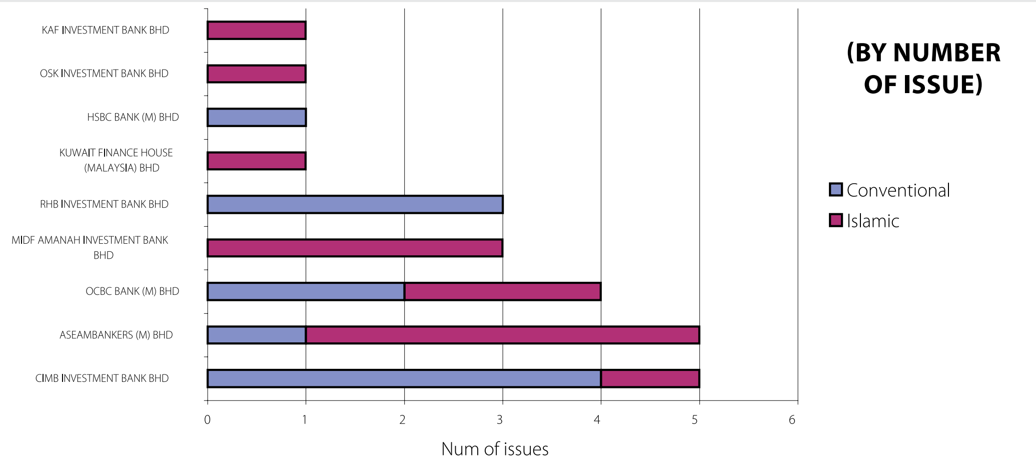


Source: BP Statisitical Review 2008

MARC LEAD MANAGERS LEAGUE TABLE 2008 (JANUARY - JUNE)



LEAD MANAGER	CONVENTIONAL	ISLAMIC	GRAND TOTAL
RHB INVESTMENT BANK BHD	3,333.3		3,333.3
CIMB INVESTMENT BANK BHD	2,533.3	250.0	2,783.3
OCBC BANK (M) BHD	1,933.3	190.0	2,123.3
ASEAMBANKERS (M) BHD	200.0	720.0	920.0
OSK INVESTMENT BANK BHD		800.0	800.0
MIDF AMANAH INVESTMENT BANK BHD		585.0	585.0
KUWAIT FINANCE HOUSE (MALAYSIA) BHD		500.0	500.0
HSBC BANK (M) BHD	500.0		500.0
KAF INVESTMENT BANK BHD		70.0	70.0
GRAND TOTAL	**8,500.0**	**3,115.0**	**11,615.0**



LEAD MANAGER	CONVENTIONAL	ISLAMIC	GRAND TOTAL
CIMB INVESTMENT BANK BHD	4	1	5
ASEAMBANKERS (M) BHD	1	4	5
OCBC BANK (M) BHD	2	2	4
MIDF AMANAH INVESTMENT BANK BHD		3	3
RHB INVESTMENT BANK BHD	3		3
KUWAIT FINANCE HOUSE (MALAYSIA) BHD		1	1
HSBC BANK (M) BHD	1		1
OSK INVESTMENT BANK BHD		1	1
KAF INVESTMENT BANK BHD		1	1
GRAND TOTAL	**11**	**13**	**24**