

# BOND MARKET MONTHLY

**RAM**  
RATINGS

November 2016

**Strong October  
inflows trumped by  
US election results**



# BOND MARKET MONTHLY

23 November 2016

## Strong October inflows trumped by US election results

### Analytical Contacts

Umamah Amirah Ali  
Analyst  
Research  
(603) 7628 1119  
umamah@ram.com.my

Woon Khai Jhek  
Analyst  
Research  
(603) 7628 1093  
khaijhek@ram.com.my

Kristina Fong  
Head  
Research  
(603) 7628 1011  
kristina@ram.com.my

October 2016					
Government Securities (RM bln)			BNM Securities (RM bln)		
Total Outstanding	629.3		Total Outstanding	5.8	
Gross Issuance	8.5		Gross Issuance	0.0	
Gross Issuance (YTD)	86.0		Gross Issuance (YTD)	5.8	
Corporate bonds (RM bln)					
Private sector		Quasi-Government		Total corporate bonds	
Total Outstanding	368.3	Total Outstanding	171.7	Total Outstanding	540.0
Gross Issuance	2.9	Gross Issuance	5.4	Gross Issuance	8.3
Gross Issuance (YTD)	41.8	Gross Issuance (YTD)	32.9	Gross Issuance (YTD)	74.7
Yields (%)					
MGS	1-yr	2.51	Corporate (AAA)	1-yr	3.69
	5-yr	3.29		5-yr	4.10
	10-yr	3.63		10-yr	4.40
5-year Spreads	AAA	0.81	10-year Spreads	AAA	0.77
	AA <sub>1</sub>	1.03		AA <sub>1</sub>	0.98
	AA <sub>3</sub>	1.31		AA <sub>3</sub>	1.22
	A <sub>1</sub>	2.41		A <sub>1</sub>	2.84
RAM Rating Actions (number)					
Reaffirmations					31
Outlook changes					1
Upgrades					0
Downgrades					1
Foreign Holdings					
Govt Securities	% share				34.7
	% change (m-o-m)				3.1
Corporate	% share				3.1
	% change (m-o-m)				(1.4)
BNM	% share				93.8
	% change (m-o-m)				(42.3)

Note: Please click on table titles to go to respective sections.

RAM Projections	2016e	2017f*
Govt Securities Gross Issuance (RM bln)	90-100	100-110
Corporate Bonds Gross Issuance (RM bln)	75-85	75-85
OPR (year-end)	3.00%	3.00%
CPI (annual change)	2.5%	3.0%
USD/RM (avg)	4.00-4.25	4.00-4.50

\*Please refer to Economic Outlook 2017 (published on 23 November 2016) for more details

Note: RAM forecasts are reviewed every quarter.

**Glossary**

BNM	Bank Negara Malaysia
BPAM	Bond Pricing Agency Malaysia
CPI	Consumer Price Index
FAST	Fully Automated System for Issuing/ Tendering
Fed	US Federal Reserve
FOMC	Federal Open Market Committee
GII	Government Investment Issues
LCY	Local currency
MGS	Malaysian Government Securities
MITB	Malaysian Islamic Treasury Bills
MTB	Malaysian Treasury Bills
OPEC	Organization of the Petroleum Exporting Countries
OPR	Overnight Policy Rate
PDS	Private debt securities
QE	Quantitative easing
SPK	Sukuk Perumahan Kerajaan
YTD	Year to date
YTM	Yield to maturity

**Tables<sup>1</sup>**

Table 1: Key statistics on government securities .....	4
Table 2: Key statistics on BNM securities.....	4
Table 3: Key YTD statistics on government securities .....	4
Table 4: Key YTD statistics on BNM securities.....	4
Table 5: Large MGS/GII issues (> RM1 billion) .....	5
Table 6: Key statistics on corporate bonds .....	6
Table 7: Key YTD statistics on corporate bonds .....	6
Table 8: Corporate bonds issuance (rated vs unrated) .....	7
Table 9: Short-term financing activities .....	7
Table 10: Short-term financing activities (YTD) .....	7
Table 11: YTM as at end-October 2016.....	12
Table 12: Foreign investment trends in the Malaysian debt capital market.....	17
Table 13: Proportion of foreign debt holdings to total outstanding bonds .....	17
Table 14: Proportion of foreign holdings of securities to total foreign holdings .....	17
Table 15: Outstanding RAM-rated corporate bonds by sector.....	18
Table 16: Rating actions .....	19

**Charts**

Chart 1: Total outstanding – MGS/GII vs corporate bonds.....	7
Chart 2: YTD issuance – MGS/GII vs corporate bonds.....	7
Chart 3: Gross corporate bond issuance by sector .....	8
Chart 4: Sectoral composition of corporate bonds (YTD) .....	9
Chart 5: Sectoral composition of corporate bonds (2015) .....	9
Chart 6: LCY outstanding corporate bonds.....	10
Chart 7: LCY outstanding corporate bonds to GDP (%).....	10
Chart 8: LCY outstanding corporate bonds to total outstanding debt securities.....	11
Chart 9: Market capitalisation of listed domestic companies .....	11
Chart 10: Market capitalisation of listed domestic companies (% of GDP) .....	11
Charts 11(a)-11(d): YTM trends of selected securities.....	13
Chart 12: Yield curve (conventional) as at end-October 2016 .....	13
Charts 13(a)-13(d): YTM curve movements of selected securities .....	14
Charts 14 (a)-14(d): Yield spread .....	15
Charts 15 (a)-15(d): M-o-m yield basis point change of selected securities.....	15
Chart 16: Trend in foreign holdings .....	16
Chart 17: Composition of foreign holdings.....	16
Chart 18: Foreign holdings of MGS .....	16

<sup>1</sup> **Disclaimer:** Due to rounding adjustments, some figures in the document may not add up precisely to the totals, and percentages may not precisely reflect the absolute figures.

## Summary

President-elect Trump's unexpected victory at the recent polls had triggered a global market sell-down that wiped out USD1 trillion from bond markets that same week. As a result, US Treasury yields hit an 11-month high on expectations that future Trump policies may ramp up inflationary pressures.

The Malaysian bond market's resurgence on the back of foreign investors' interest in October (following a net outflow in September) may be short-lived, given the unexpected results of the recent US presidential election. The rapid spike in yields of over 50 bp across the board indicates that investors' risk aversion has priced in this development. Despite the Fed's recent hawkish tone, uncertainties vis-a-vis the Trump presidency cast doubts on the timing of the continuation of the Fed's tightening cycle. We envisage the USD/RM exchange rate to stay volatile through the rest of this year, as the Trump cabinet line-up is announced. We expect a moderate reversal in foreign investment flows, elevated yields and a weaker ringgit as the year wraps up, albeit still to average within our projected USD/RM range of 4.00-4.25 for 2016.

Meanwhile, gross issuance of government papers strengthened to RM8.5 billion in October (September: RM6.5 billion). Outstanding government securities summed up to RM629.3 billion, after having declined to RM621.3 billion in September amid the maturity of a large volume of debt papers. The gross issuance value of RM86.0 billion in 10M 2016 is on track towards reaching RAM's projection of RM90 billion-RM100 billion for the year. BNM did not issue any debt securities in October.

Outstanding corporate bonds amounted to RM540.0 billion as at end-October. The month's issuance increased to RM8.3 billion (from RM6.3 billion in September), with improved volumes from both the private sector (almost double m-o-m) and quasi-government issuers (+12.7% m-o-m). This brought the YTD issuance value to RM74.7 billion, surpassing the RM54.9 billion of the previous corresponding period.

In October, RAM reaffirmed 32 issue ratings under 21 issuers, revised the outlook on one of the issue ratings and downgraded the rating of another issue. RAM downgraded the rating of the RM1.0 billion *Sukuk Wakalah* (2013/2023) issued by Al Bayan Holding Company (Al Bayan or the Group) through its special-purpose vehicle, **ABHC Sukuk Berhad** (ABHC), to BB<sub>2</sub>(s)/RW\_Negative from A<sub>1</sub>(s)/RW\_Negative. The steep downgrade is premised on the substantial deterioration in Al Bayan's liquidity position beyond our expectations. The Group had failed to meet the minimum required balance for the Finance Service Reserve Account (FSRA) under the *Sukuk Wakalah*, which had in turn triggered an event of default. Moreover, RAM has not been able to obtain satisfactory clarification from Al Bayan on its proposed resolution of this breach.

In the same month, RAM revised the outlook on the rating of **UniTapah Sdn Bhd's** (the Company) *Sukuk Murabahah* of up to RM600 million (2014/2035), to AA<sub>2</sub>/Positive from AA<sub>2</sub>/Stable. UniTapah continues to enjoy regular concession payments from the Government of Malaysia (GoM) and has demonstrated commendable scores for key performance indicators in maintenance work. This had pushed the Company's projected stressed minimum finance service ratio above 1.8 times (1.74 times during the previous review) – a level that, if sustainable, could lead to an upgrade of the rating.

## 1. Government Securities

[back](#)

Outstanding government securities came up to RM629.3 billion in October, after having declined to RM621.3 billion the previous month due to the large volume of papers that matured in September. Gross issuance strengthened to RM8.5 billion for the month (September: RM6.5 billion). That said, the overall issuance value of RM86.0 billion in 10M 2016 is still 3.1% lower y-o-y. However, it is on track towards meeting RAM's projection of RM90 billion-RM100 billion for the year. Meanwhile, no BNM securities were issued in October.

Table 1: Key statistics on government securities

Key government securities statistics (RM bln)	Sep-16			Oct-16		
	Conventional	Islamic	Total	Conventional	Islamic	Total
<b>TOTAL OUTSTANDING</b>	<b>356.4</b>	<b>264.9</b>	<b>621.3</b>	<b>358.4</b>	<b>270.9</b>	<b>629.3</b>
MGS/GII	353.4	262.9	616.3	355.4	269.4	624.8
MTB/MITB	3.0	2.0	5.0	3.0	1.5	4.5
<b>GROSS ISSUANCE</b>	<b>4.0</b>	<b>2.5</b>	<b>6.5</b>	<b>2.0</b>	<b>6.5</b>	<b>8.5</b>
MGS/GII	3.0	2.0	5.0	2.0	6.5	8.5
MTB/MITB	1.0	0.5	1.5	0.0	0.0	0.0
<b>MATURED &amp; OTHERS</b>	<b>13.8</b>	<b>0.0</b>	<b>13.8</b>	<b>0.0</b>	<b>0.5</b>	<b>0.5</b>
MGS/GII	12.8	0.0	12.8	0.0	0.0	0.0
MTB/MITB	1.0	0.0	1.0	0.0	0.5	0.5
<b>NET ISSUANCE</b>	<b>(9.8)</b>	<b>2.5</b>	<b>(7.3)</b>	<b>2.0</b>	<b>6.0</b>	<b>8.0</b>
MGS/GII	(9.8)	2.0	(7.8)	2.0	6.5	8.5
MTB/MITB	0.0	0.5	0.5	0.0	(0.5)	(0.5)

Source: BPAM

Table 2: Key statistics on BNM securities

Key BNM securities statistics (RM bln)	Sep-16			Oct-16		
	Conventional	Islamic	Total	Conventional	Islamic	Total
Total Outstanding	10.8	0.0	10.8	5.8	0.0	5.8
Gross Issuance	2.0	0.0	2.0	0.0	0.0	0.0
Matured & Others	5.0	0.0	5.0	5.0	0.0	5.0
Net Issuance	(3.0)	0.0	(3.0)	(5.0)	0.0	(5.0)

Source: BPAM

Table 3: Key YTD statistics on government securities

YTD government securities (RM bln)	Oct-15			Oct-16		
	Conventional	Islamic	Total	Conventional	Islamic	Total
<b>GROSS ISSUANCE</b>	<b>46.5</b>	<b>42.2</b>	<b>88.7</b>	<b>46.5</b>	<b>39.5</b>	<b>86.0</b>
MGS/GII	37.5	39.5	77.0	41.5	38.0	79.5
MTB/MITB	9.0	2.7	11.7	5.0	1.5	6.5
<b>NET ISSUANCE</b>	<b>5.3</b>	<b>31.3</b>	<b>36.6</b>	<b>15.4</b>	<b>26.8</b>	<b>42.2</b>
MGS/GII	2.9	30.0	32.9	15.4	27.0	42.4
MTB/MITB	2.4	1.3	3.7	0.0	(0.2)	(0.2)

Source: BPAM

Table 4: Key YTD statistics on BNM securities

YTD BNM securities (RM bln)	Oct-15			Oct-16		
	Conventional	Islamic	Total	Conventional	Islamic	Total
Gross Issuance	18.1	0.6	18.7	5.8	0.0	5.8
Net Issuance	(36.6)	(41.8)	(78.4)	(18.3)	(0.5)	(18.8)

Source: BPAM

**Table 5: Large MGS/GII issues (> RM1 billion)**

	Size of issue (RM bln)	Maturity date	Successful yield (%)	Bid-to-cover ratio (times)	Amount applied/ bid (RM bln)	Amount accepted/ offered (RM bln)
MGS 4/2015 4.254% 31.05.2035	2.00	31-May-35	4.295	2.154	4.31	2.00
GII MURABAHAH 3/2016 4.070% 30.09.2026	3.00	30-Sep-26	3.813	2.023	6.07	3.00
GII MURABAHAH 4/2016 15.04.2020	3.50	15-Apr-20	3.226	2.066	7.23	3.50

Source: BPAM

In October, the Government received RM17.6 billion of bids for its targeted RM8.5 billion of issuance; all papers were oversubscribed, recording bid-to-cover ratios of more than 2 times for each tendered issue. Despite the decent bid-to-cover ratios, the 11-year and 4-year papers recorded the respective second- and third-weakest bid-to-cover ratios for the year. They are only slightly better than the 1.915 times for a 20-year GII issued in January, when sentiment had been just as weak. We believe that the lower-than-average bid-to-cover ratios of the GII securities issued in October had been affected by the resurgence of the USD and risk-averse portfolio positioning ahead of the US presidential election in early November.

## 2. Corporate bonds

[back](#)

Outstanding corporate bonds amounted to RM540.0 billion as at end-October. The month's issuance, which increased to RM8.3 billion (from RM6.3 billion in September), was underpinned by improved volumes from both the private sector (almost double m-o-m) and quasi-government issuers (+12.7% m-o-m). The largest issuer was DanaInfra Nasional Berhad (RM4.5 billion, as part of its RM46.0 billion sukuk programme); the proceeds will be utilised for capital expenditure and operating expenses in relation to the development of the Klang Valley MRT project. This brought the YTD issuance value to RM74.7 billion, surpassing the RM54.9 billion of the previous corresponding period. With only 2 months left to the year, we believe that issuance is on track towards reaching the higher end of RAM's projected RM75 billion-RM85 billion for gross corporate bond issuance in 2016.

Unrated corporate papers (which currently comprise almost 48.3% of overall issuance) summed up to RM36.1 billion as at end-October 2016. A large chunk of the unrated bonds originated from quasi-government entities. At the same time, short-term securities continued gathering pace, with a monthly issuance of RM3.3 billion; this brought the YTD issuance value of short-term notes to RM44.4 billion as at end-October (+34.7% y-o-y). The largest issuer of short-term securities for the month was Sunway Treasury Sukuk Sdn Bhd (RM965 million). The proceeds will be utilised for investments, capital expenditure and working-capital requirements.

**Table 6: Key statistics on corporate bonds**

Key corporate bonds statistics (RM bln)	Sep-16			Oct-16		
	Conventional	Islamic	Total	Conventional	Islamic	Total
<b>TOTAL OUTSTANDING</b>	<b>143.8</b>	<b>392.6</b>	<b>536.5</b>	<b>143.3</b>	<b>396.6</b>	<b>540.0</b>
Private sector	125.0	244.0	369.0	123.7	244.6	368.3
Quasi-government	18.8	148.6	167.4	19.7	152.0	171.7
<b>GROSS ISSUANCE</b>	<b>1.2</b>	<b>5.0</b>	<b>6.3</b>	<b>1.0</b>	<b>7.3</b>	<b>8.3</b>
Private sector	0.7	0.7	1.4	0.1	2.8	2.9
Quasi-government	0.5	4.4	4.8	0.9	4.5	5.4
<b>MATURED &amp; OTHERS</b>	<b>0.4</b>	<b>0.8</b>	<b>1.3</b>	<b>1.5</b>	<b>3.3</b>	<b>4.8</b>
Private sector	0.3	0.7	1.1	1.4	2.2	3.6
Quasi-government	0.1	0.1	0.2	0.1	1.1	1.1
<b>NET ISSUANCE</b>	<b>0.8</b>	<b>4.2</b>	<b>5.0</b>	<b>(0.5)</b>	<b>4.0</b>	<b>3.5</b>
Private sector	0.4	(0.1)	0.4	(1.3)	0.6	(0.8)
Quasi-government	0.4	4.3	4.6	0.9	3.4	4.3

Sources: BPAM, RAM

**Table 7: Key YTD statistics on corporate bonds**

YTD corporate bonds (RM bln)	Oct-15			Oct-16		
	Conventional	Islamic	Total	Conventional	Islamic	Total
<b>GROSS ISSUANCE</b>	<b>18.4</b>	<b>36.5</b>	<b>54.9</b>	<b>15.8</b>	<b>58.9</b>	<b>74.7</b>
Private sector	15.7	26.0	41.7	11.3	30.5	41.8
Quasi-government	2.7	10.5	13.2	4.5	28.4	32.9
<b>NET ISSUANCE</b>	<b>4.1</b>	<b>19.1</b>	<b>23.2</b>	<b>(0.3)</b>	<b>35.3</b>	<b>35.0</b>
Private sector	5.1	13.0	18.1	(4.0)	14.1	10.2
Quasi-government	(1.0)	6.1	5.1	3.7	21.2	24.9

Sources: BPAM, RAM

**Table 8: Corporate bonds issuance (rated vs unrated)**

	Sep-16			Oct-16			YTD 2016		
	Private debt	Quasi-Govt	Total Corp	Private debt	Quasi-Govt	Total Corp	Private debt	Quasi-Govt	Total Corp
Rated	0.7	0.5	1.1	1.6	0.9	2.5	33.3	5.4	38.6
Unrated	0.8	4.4	5.1	1.3	4.5	5.8	8.5	27.6	36.1
<b>Total corporate bonds</b>	<b>1.4</b>	<b>4.8</b>	<b>6.3</b>	<b>2.9</b>	<b>5.4</b>	<b>8.3</b>	<b>41.8</b>	<b>32.9</b>	<b>74.7</b>
Rated over total (%)	46.4	9.8	18.1	54.4	17.1	29.9	79.6	16.3	51.7
Unrated over total (%)	53.6	90.2	81.9	45.6	82.9	70.1	20.4	83.7	48.3

Sources: BPAM, RAM

**Table 9: Short-term financing activities**

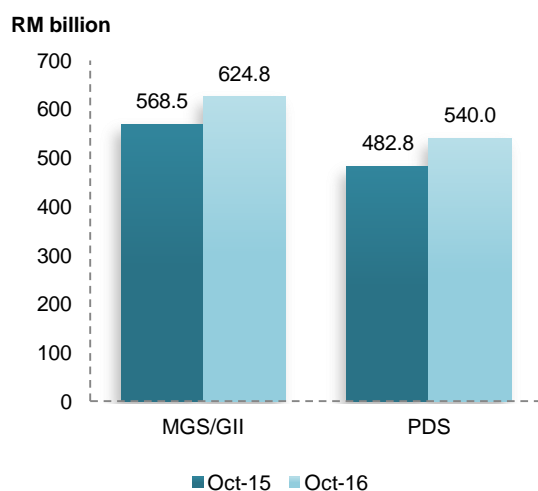
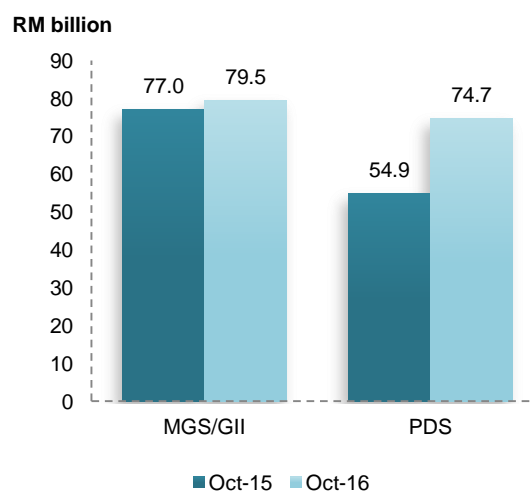
Key short-term financing activities statistics (RM bln)	Sep-16			Oct-16		
	Conventional	Islamic	Total	Conventional	Islamic	Total
<b>TOTAL OUTSTANDING</b>	<b>4.1</b>	<b>3.8</b>	<b>7.9</b>	<b>3.4</b>	<b>4.2</b>	<b>7.6</b>
Private sector	4.1	3.3	7.4	3.4	3.7	7.1
Quasi-government	0.0	0.5	0.5	0.0	0.5	0.5
<b>GROSS ISSUANCE</b>	<b>2.3</b>	<b>2.0</b>	<b>4.4</b>	<b>1.6</b>	<b>1.7</b>	<b>3.3</b>
Private sector	2.3	1.5	3.9	1.6	1.7	3.3
Quasi-government	0.0	0.5	0.5	0.0	0.0	0.0
<b>MATURED &amp; OTHERS</b>	<b>2.3</b>	<b>1.6</b>	<b>4.0</b>	<b>2.3</b>	<b>1.2</b>	<b>3.5</b>
Private sector	2.3	1.6	4.0	2.3	1.2	3.5
Quasi-government	0.0	0.0	0.0	0.0	0.0	0.0
<b>NET ISSUANCE</b>	<b>0.0</b>	<b>0.4</b>	<b>0.4</b>	<b>(0.7)</b>	<b>0.4</b>	<b>(0.2)</b>
Private sector	0.0	(0.1)	(0.1)	(0.7)	0.4	(0.2)
Quasi-government	0.0	0.5	0.5	0.0	0.0	0.0

Sources: BPAM, RAM

**Table 10: Short-term financing activities (YTD)**

YTD short-term financing activities (RM bln)	Oct-15			Oct-16		
	Conventional	Islamic	Total	Conventional	Islamic	Total
<b>GROSS ISSUANCE</b>	<b>27.8</b>	<b>5.2</b>	<b>33.0</b>	<b>27.8</b>	<b>16.6</b>	<b>44.4</b>
Private sector	27.8	4.7	32.5	27.8	16.1	43.9
Quasi-government	0.0	0.5	0.5	0.0	0.5	0.5
<b>NET ISSUANCE</b>	<b>3.4</b>	<b>0.8</b>	<b>4.2</b>	<b>(3.5)</b>	<b>1.6</b>	<b>(2.0)</b>
Private sector	3.4	0.8	4.2	(3.2)	1.1	(2.2)
Quasi-government	0.0	0.0	0.0	(0.3)	0.5	0.2

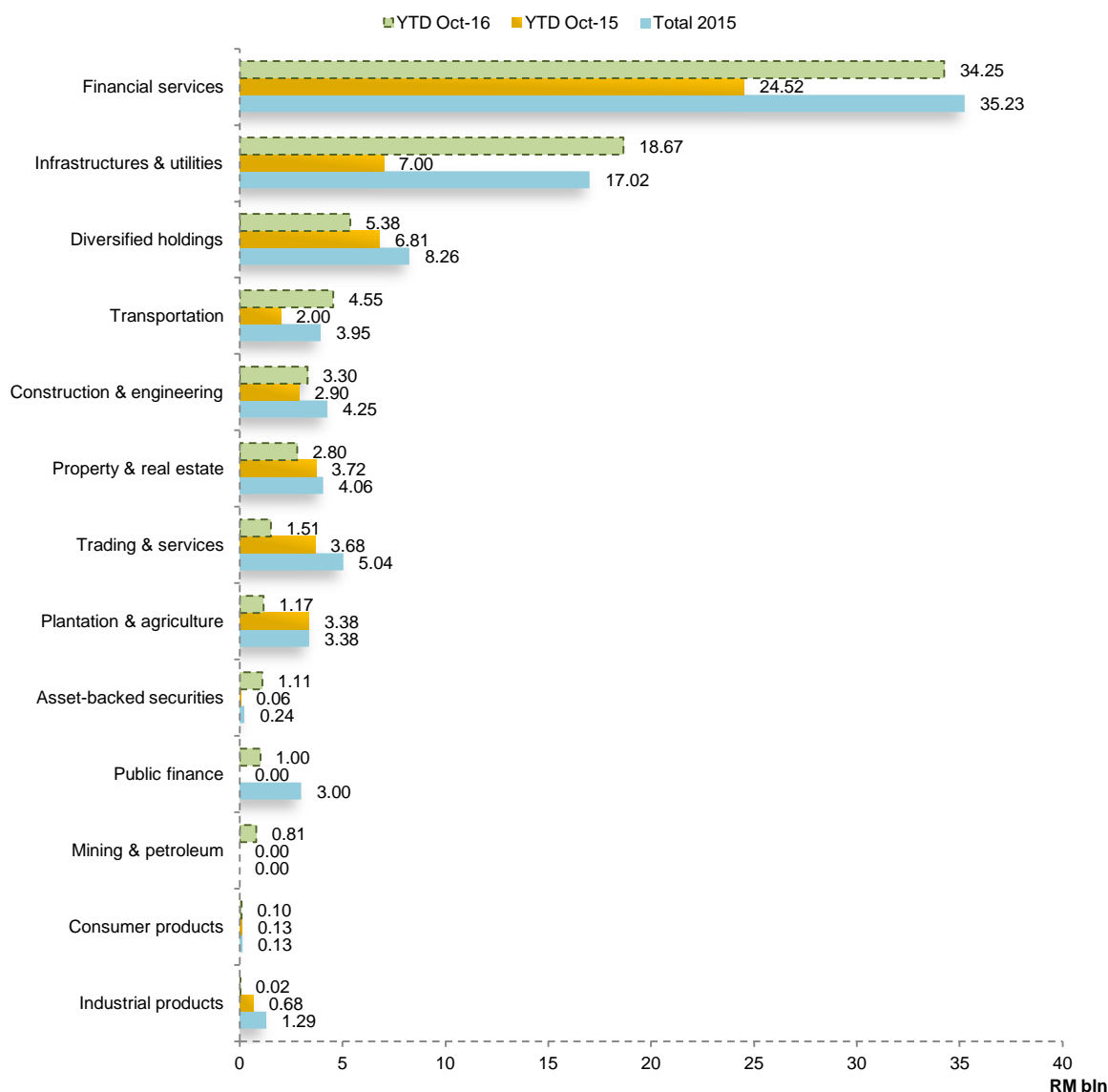
Sources: BPAM, RAM

**Chart 1: Total outstanding – MGS/GII vs corporate bonds****Chart 2: YTD issuance – MGS/GII vs corporate bonds**

Sources: BPAM, RAM

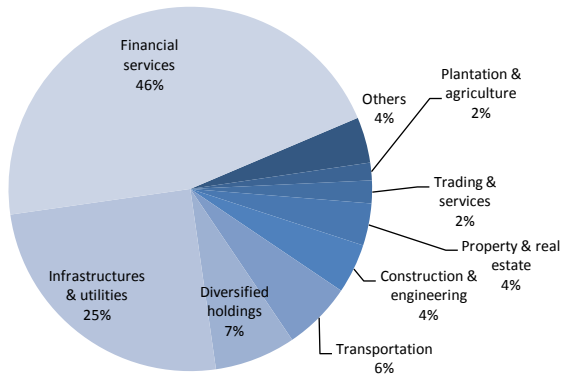
Similar to the preceding month, corporate issuance in October was largely driven by the financial services sector. A total of RM5.4 billion originated from this sector – making up approximately 65.5% of the monthly issuance – contributed by 2 issuers, i.e. DanaInfra Nasional Berhad (RM4.5 billion) and Cagamas Berhad (RM0.9 billion). At the same time, the market also saw robust issuance from 2 issuers in the infrastructure sector (telecommunications). Maxis Broadband Sdn Bhd and Celcom Networks Sdn Bhd each issued RM500 million during the month. YTD, the infrastructure and utilities sector has surpassed the previous corresponding period's issuance level by 166.7%.

**Chart 3: Gross corporate bond issuance by sector**

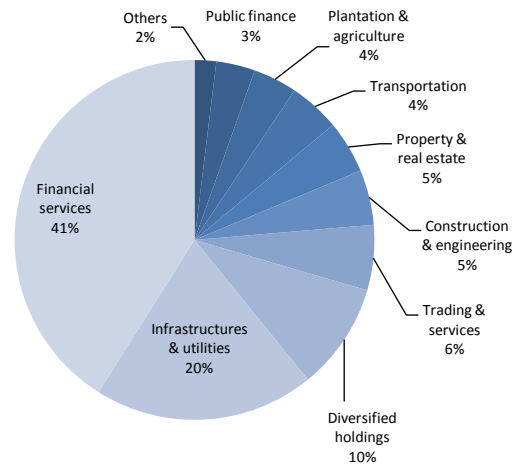


Sources: BPAM, RAM

**Chart 4: Sectoral composition of corporate bonds (YTD)**



**Chart 5: Sectoral composition of corporate bonds (2015)**



Sources: BPAM, RAM

### LCY corporate bond funding in ASEAN still has scope to grow

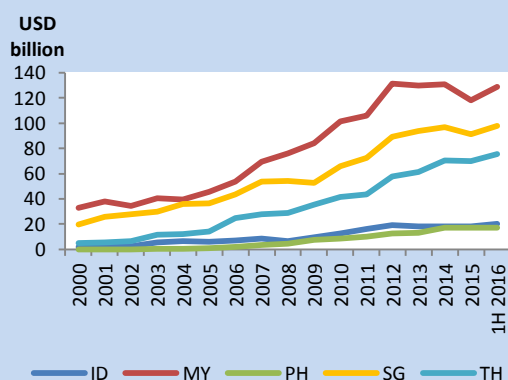
The need for infrastructure development and longer-tenured financing has contributed to a shift away from traditional bank-based loans to the capital markets. While the banking sector remains vital as a main financing channel for companies to expand and carry out their business, the development of the capital markets has opened up new alternatives, providing companies with different funding methods and broader access to various financing vehicles.

As such, the equity and debt capital markets of the various ASEAN economies have expanded in tandem. Although the equity market as a percentage of GDP still commands a larger share in general, its relative size to the economy has stabilised somewhat and is also notably more susceptible to global market volatility. The global financial crisis in 2008 had led to an ASEAN-wide stock market tumble on account of the contagion effect from the sub-prime crisis in the US. As at end-2015, Singapore's overall market capitalisation and corresponding share of GDP were the highest among its ASEAN peers, at USD640.0 billion and 218.6%, respectively (refer to Charts 9 and 10) - reflective of its status as a global financial hub.

The LCY corporate bond market, on the other hand, may not be as mature as its equity counterpart. Nonetheless, it is perceived to be more resilient as a source of funding, even during periods of excessive market volatility and uncertainties. Moreover, the corporate bond market as a percentage of GDP continues to expand (refer to Chart 7). Within ASEAN, Malaysia boasts the highest share of 43.8% (as at end-June 2016); it is one of the deepest markets in Asia even whilst running a fiscal deficit.

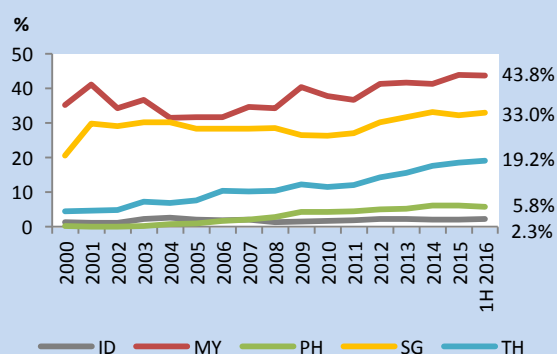
As funding needs become more sophisticated in line with the complexities of business activities, this will drive the quest for fresh funding options and sources. As such, there is still tremendous potential for the LCY corporate bond markets to become even more significant conduits for their respective economies. For ASEAN, the continued need for longer-tenured infrastructure development funding will be a key driver of bond financing in the coming years.

**Chart 6: LCY outstanding corporate bonds**



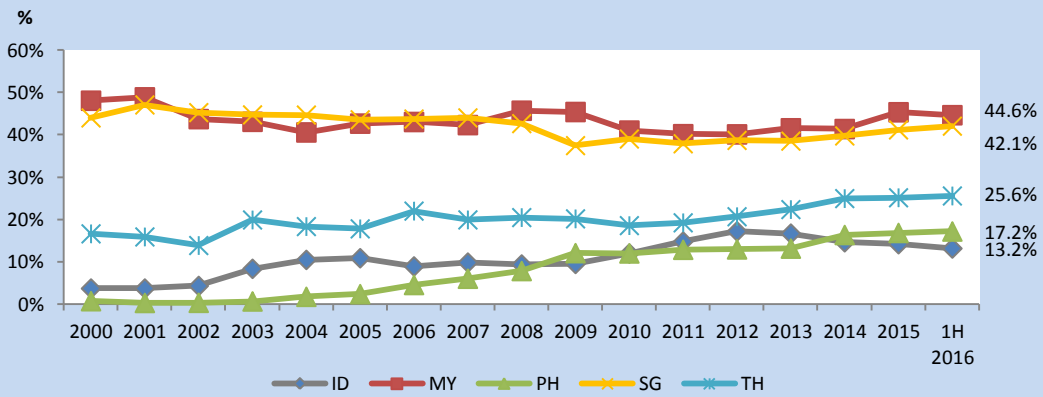
Source: AsianBondsOnline

**Chart 7: LCY outstanding corporate bonds to GDP (%)**



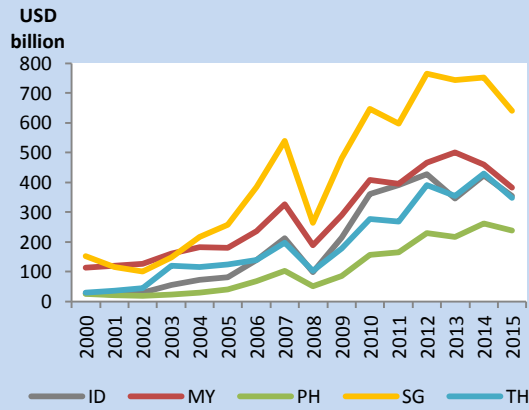
Source: AsianBondsOnline

**Chart 8: LCY outstanding corporate bonds to total outstanding debt securities**



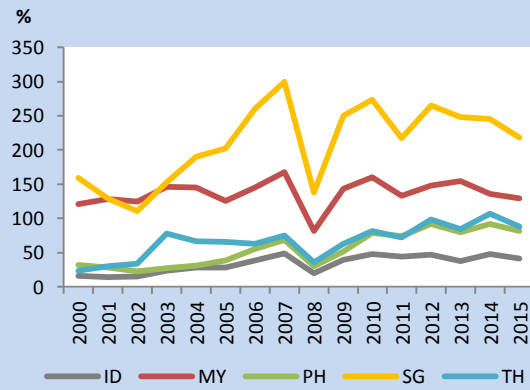
Source: AsianBondsOnline

**Chart 9: Market capitalisation of listed domestic companies**



Source: World Bank

**Chart 10: Market capitalisation of listed domestic companies (% of GDP)**



Source: World Bank

### 3. Yields

[back](#)

Prior to the steep spike across the board in YTM's of over 50 bps following the unexpected results of the US presidential election, yield curves for MGS and corporate bonds in the higher rating categories (AAA and AA<sub>1</sub>) had steepened for longer-term securities in October. As depicted by the divergence in yield movements across rating bands, bonds with relatively high ratings had experienced a surge in yields before reversing, particularly for 7-year AA<sub>3</sub>-rated corporate bonds moving down the rating bands (refer to Charts 15(a)-15(d)).

Yield spreads also narrowed across the board (with the exception of a slight widening of 1-year AA<sub>3</sub> and AA<sub>2</sub> papers), primarily driven by the sharp increase in MGS yields (refer to Charts 14(a)-14(d)). The hold-back in demand for government bonds could be partly due to the strong possibility of an upcoming hike in policy rate by the Fed, compounded by the lingering uncertainties arising from the lead-up to the US presidential election then. Given investors' preference of remaining on the sidelines amid the slew of uncertainties, the "wait and see" approach had negatively affected trading sentiment and demand; MGS trades shrank 25.7% in October, to the lowest level since December 2015.

**Table 11: YTM's as at end-October 2016**

YTM as at end- October (%) - Conventional												
	3M	6M	1Y	2Y	3Y	5Y	7Y	10Y	15Y	20Y	25Y	30Y
MGS	2.34	2.40	2.51	2.88	3.07	3.29	3.54	3.63	4.07	4.35	4.51	4.66
AAA	3.48	3.61	3.69	3.83	3.94	4.10	4.24	4.40	4.69	5.00	5.24	5.38
AA <sub>1</sub>	3.61	3.77	3.86	4.05	4.16	4.32	4.45	4.61	4.89	5.22	5.48	5.66
AA <sub>3</sub>	3.86	4.02	4.14	4.33	4.44	4.60	4.70	4.85	5.13	5.56	5.95	6.14
A <sub>1</sub>	4.36	4.55	4.75	5.12	5.36	5.70	6.02	6.47	7.20	7.93	8.58	9.20
YTM as at end- October (%) - Islamic												
	3M	6M	1Y	2Y	3Y	5Y	7Y	10Y	15Y	20Y	25Y	30Y
GII	2.52	2.58	2.69	2.91	3.15	3.40	3.64	3.76	4.16	4.39	4.52	4.67
AAA	3.43	3.56	3.64	3.78	3.89	4.05	4.19	4.35	4.64	4.95	5.19	5.33
AA <sub>1</sub>	3.56	3.72	3.81	4.00	4.11	4.27	4.40	4.56	4.84	5.17	5.43	5.61
AA <sub>3</sub>	3.81	3.97	4.09	4.28	4.39	4.55	4.65	4.80	5.08	5.51	5.90	6.09
A <sub>1</sub>	4.31	4.50	4.70	5.07	5.31	5.65	5.97	6.42	7.15	7.88	8.53	9.15
Difference in yields (Conventional - Islamic)												
	3M	6M	1Y	2Y	3Y	5Y	7Y	10Y	15Y	20Y	25Y	30Y
GII/ MGS	(0.18)	(0.18)	(0.18)	(0.03)	(0.09)	(0.12)	(0.10)	(0.13)	(0.09)	(0.04)	(0.01)	(0.01)
Corporate	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05

Source: BPAM

Charts 11(a)-11(d): YTM trends of selected securities

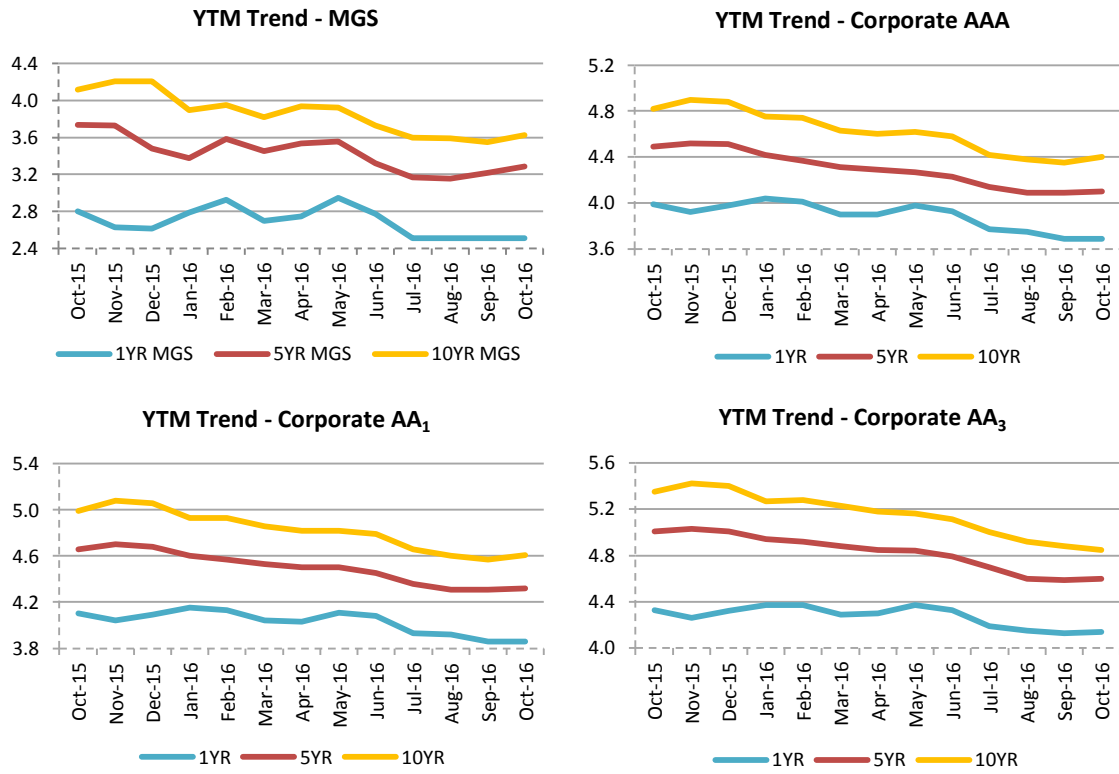
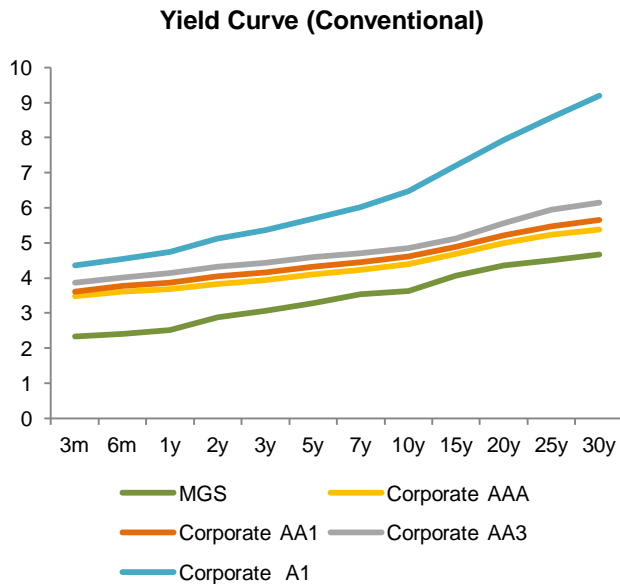
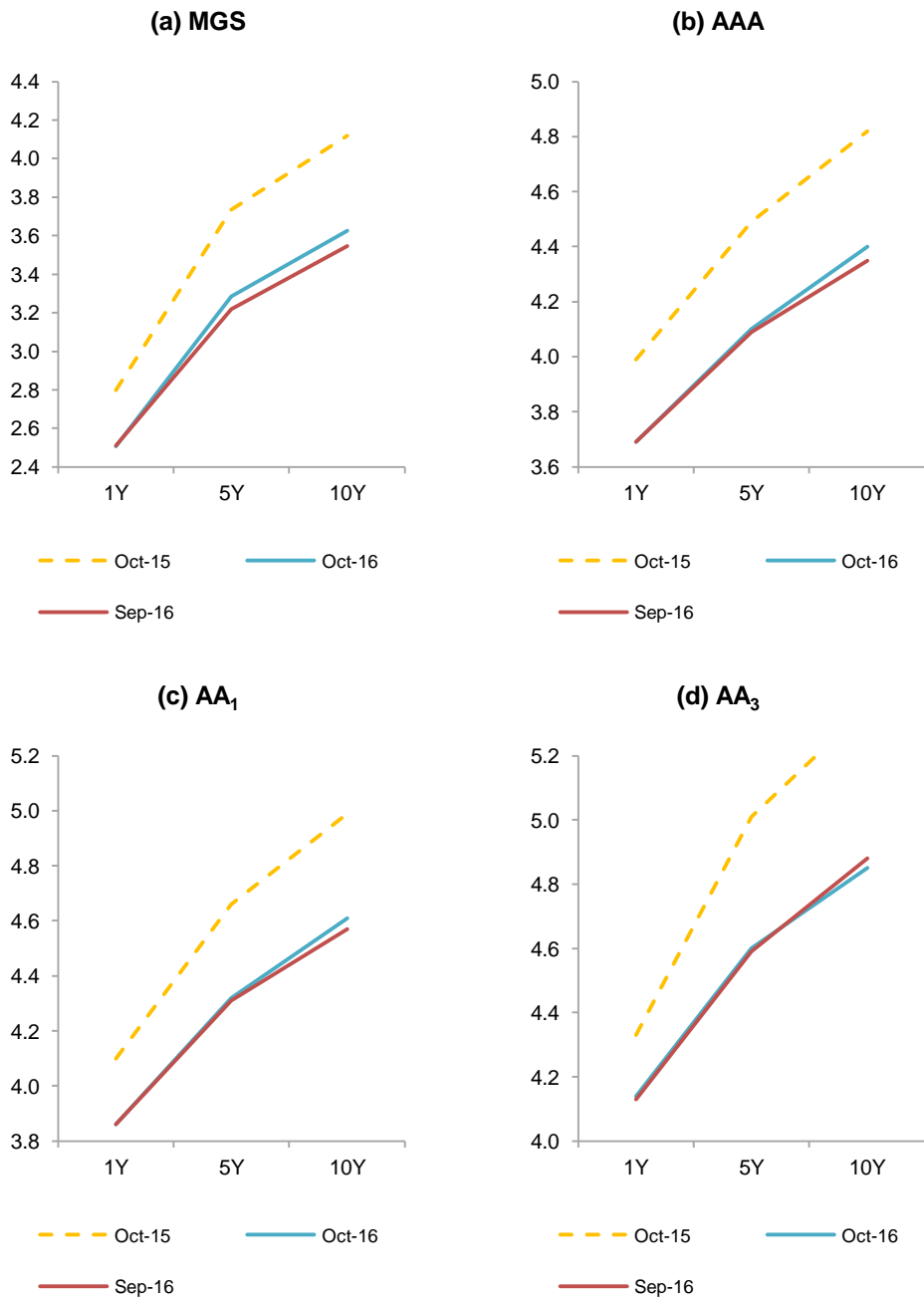


Chart 12: Yield curve (conventional) as at end-October 2016



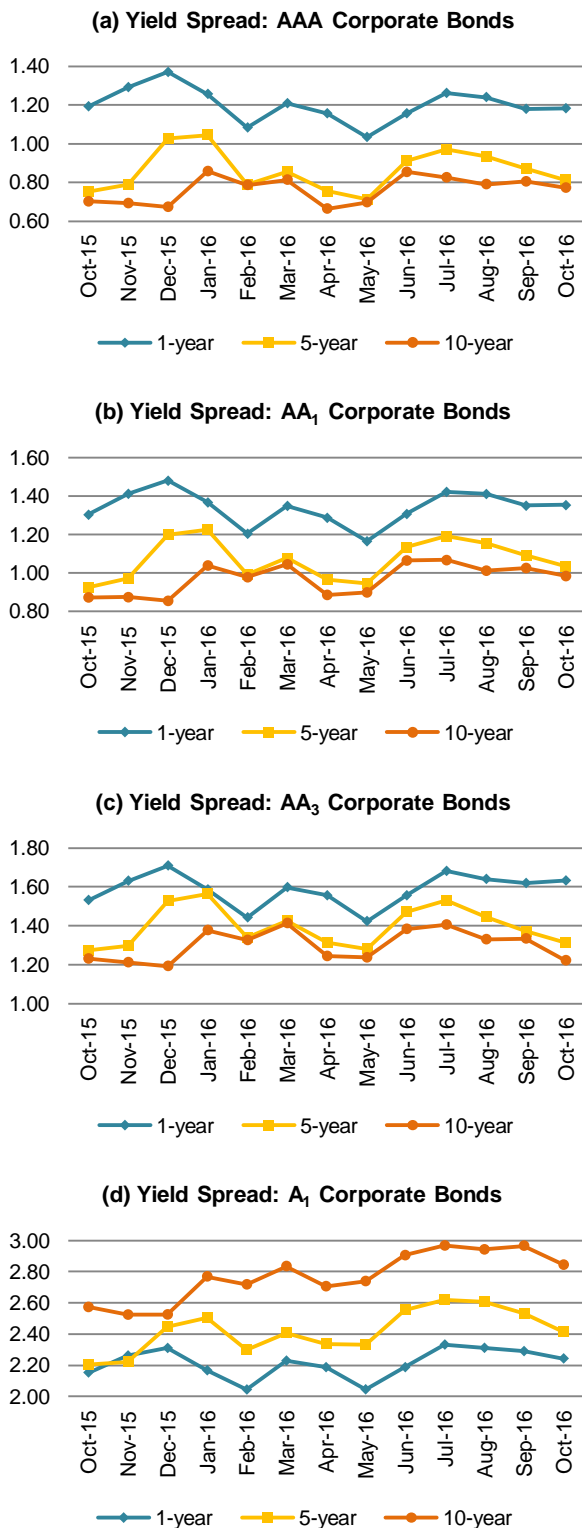
Source: BPAM

**Charts 13(a)-13(d): YTM curve movements of selected securities**

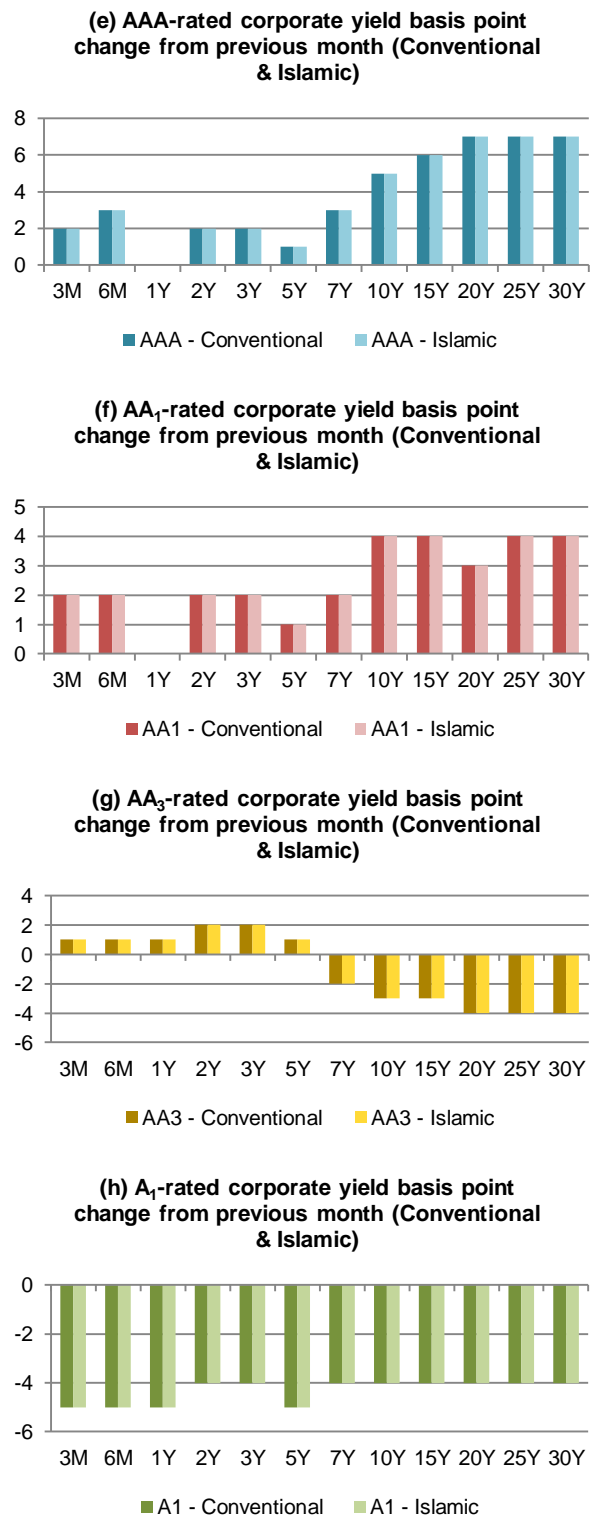


Source: BPAM

Charts 14 (a)-14(d): Yield spread



Charts 15 (a)-15(d): M-o-m yield basis point change of selected securities

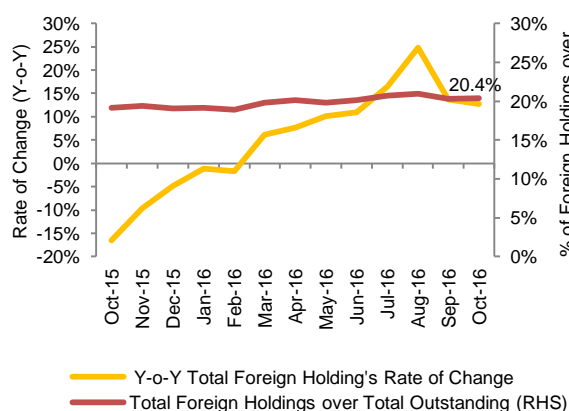


Source: BPAM

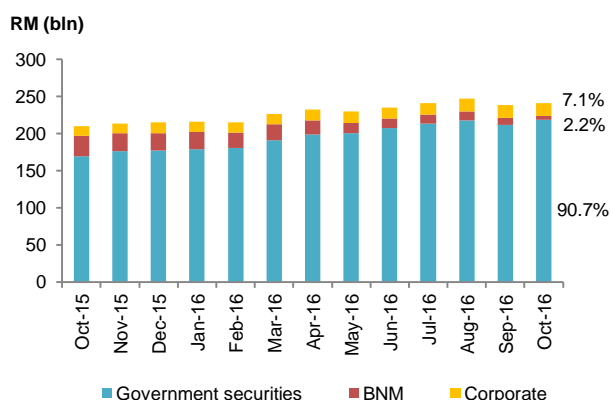
## 4. Foreign Holdings

[back](#)

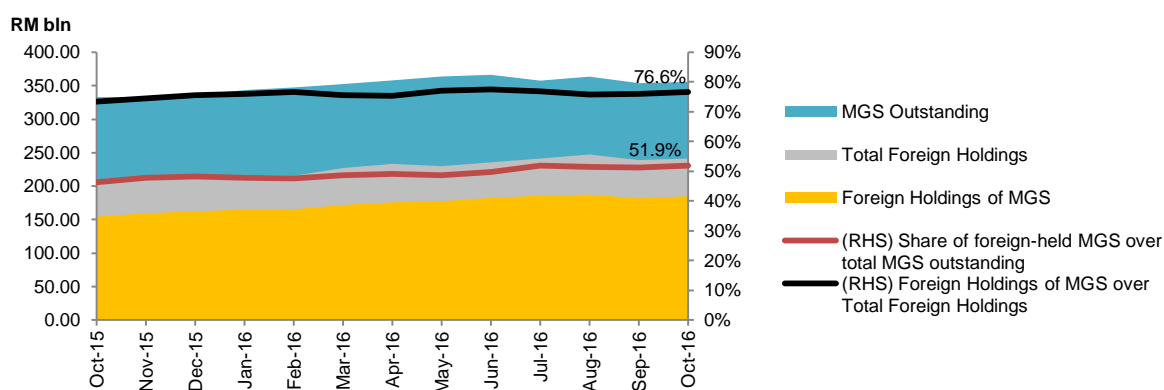
**Chart 16: Trend in foreign holdings**



**Chart 17: Composition of foreign holdings**



**Chart 18: Foreign holdings of MGS**



Source: BNM

Following the net outflow in September, foreign holdings of Malaysian bonds posted a net inflow of RM2.4 billion in October, bringing the total to RM240.9 billion at month-end (+1.0% m-o-m). This is largely attributable to expectations of the Fed holding rates steady at its meeting in November. Long-term government papers, i.e. MGS and GII, posted positive m-o-m changes, although GII recorded the most impressive growth in foreign holdings of 12.7%. As at end-October, RM30.3 billion of GII was held by investors – the highest amount to date – following its inclusion in JP Morgan’s Government Bond Index-Emerging Markets indices.

That said, the resurgence in foreign investors’ interest in the domestic bond market may be short-lived in the coming months, in light of the unexpected results of the US presidential election. Despite the Fed’s recent hawkish tone, uncertainties vis-a-vis the Trump presidency cast doubts on the timing of the continuation of the Fed’s tightening cycle. We envisage the USD/RM exchange rate to stay volatile through the rest of this year, as the Trump cabinet line-up is announced. We expect a moderate reversal in foreign investment flows, elevated yields and a weaker ringgit as the year wraps up, albeit still to average within our projected USD/RM range of 4.00-4.25 for 2016.

**Table 12: Foreign investment trends in the Malaysian debt capital market**

(RM bln)	Sep-16	% change (m-o-m)	Oct-16	% change (m-o-m)
<b>Government securities</b>	<b>211.8</b>	<b>-2.7%</b>	<b>218.4</b>	<b>3.1%</b>
<b>Conventional</b>	<b>184.1</b>	<b>-2.8%</b>	<b>187.2</b>	<b>1.7%</b>
- MGS	181.4	-3.0%	184.6	1.7%
- MTB	2.7	6.4%	2.6	-1.1%
<b>Islamic</b>	<b>27.7</b>	<b>-1.6%</b>	<b>31.2</b>	<b>12.5%</b>
- GII	26.9	-0.2%	30.3	12.7%
- MITB	0.8	-33.1%	0.9	6.0%
- SPK	0.0	0.0%	0.0	0.0%
<b>BNM</b>	<b>9.3</b>	<b>-22.8%</b>	<b>5.4</b>	<b>-42.3%</b>
Conventional	9.3	-22.8%	5.4	-42.3%
Islamic	0.00	0.0%	0.00	0.0%
<b>Corporate</b>	<b>17.4</b>	<b>1.1%</b>	<b>17.1</b>	<b>-1.4%</b>
Conventional	9.9	-0.1%	10.0	0.5%
Islamic	7.4	2.7%	7.1	-3.9%
<b>Total value of foreign holdings</b>	<b>238.5</b>	<b>-3.4%</b>	<b>240.9</b>	<b>1.0%</b>

Source: BNM

**Table 13: Proportion of foreign debt holdings to total outstanding bonds**

% of foreign holdings to total outstanding	Sep-16	Oct-16
MGS	51.3%	51.9%
BNM	86.9%	93.8%
Corporate	3.2%	3.1%

Source: BNM

**Table 14: Proportion of foreign holdings of securities to total foreign holdings**

% of foreign holdings to total foreign holdings	Sep-16	Oct-16
MGS	76.1%	76.6%
BNM	3.9%	2.2%
Corporate	7.3%	7.1%

Source: BNM

## 5. Details of RAM-rated Securities

[back](#)

**Table 15: Outstanding RAM-rated corporate bonds by sector**

Industry	No. of Issues		Issue Value (RM bln)	
	As at end-Oct 2015	As at end-Oct 2016	As at end-Oct 2015	As at end-Oct 2016
Asset-backed securities	55	64	8.7	8.9
Construction and engineering	10	10	11.7	11.3
Consumer products	3	3	2.0	2.0
Diversified holdings	17	15	38.4	47.6
Financial services	105	104	300.1	331.9
Industrial products	4	2	2.1	1.9
Infrastructure and utilities	42	40	95.6	100.6
Mining & petroleum	1	1	3.0	0.7
Plantation and agriculture	9	7	12.8	12.3
Property and real estate	21	20	5.8	8.5
Public finance	2	2	2.5	2.5
Trading & services	9	11	11.0	12.3
Transportation	3	3	10.5	10.5
<b>Total</b>	<b>281</b>	<b>282</b>	<b>504.2</b>	<b>550.8</b>

Source: RAM

Disclaimer: The data only reflects issues with national-scale ratings.

## 6. RAM's Rating Actions

[back](#)

In October, RAM reaffirmed 32 issue ratings under 21 issuers, revised the outlook on one of the issue ratings and downgraded the rating of another issue.

RAM downgraded the rating of the RM1.0 billion *Sukuk Wakalah* (2013/2023) issued by Al Bayan through its special-purpose vehicle, **ABHC**, to BB<sub>2</sub>(s)/RW\_Negative from A<sub>1</sub>(s)/RW\_Negative. The steep downgrade is premised on the substantial deterioration in Al Bayan's liquidity position beyond our expectations. The Group had failed to meet the minimum required balance for the Finance Service Reserve Account (FSRA) under the *Sukuk Wakalah*, which had in turn triggered an event of default. In addition, RAM has not been able to obtain satisfactory clarification from Al Bayan on its proposed resolution of this breach. Notably, the issue had been placed on Rating Watch with a negative outlook a week prior to the downgrade. RAM will maintain close monitoring of the relevant developments. If Al Bayan still does not meet the repayment requirements, or we are unable to obtain the requisite critical information and clarification to undertake a meaningful assessment of its credit position, or if the Group's liquidity position deteriorates, the rating of the *Sukuk Wakalah* may be downgraded further.

In the same month, RAM revised the outlook on the rating of **UniTapah's** *Sukuk Murabahah* of up to RM600 million (2014/2035), to AA<sub>2</sub>/Positive from AA<sub>2</sub>/Stable. UniTapah continues to enjoy regular concession payments from the GoM and has demonstrated commendable scores for key performance indicators in maintenance work. This has propelled the Company's projected stressed minimum finance service ratio to above 1.8 times (1.74 times during the previous review) – a level that, if sustainable, could lead to an upgrade of the rating.

The full list of RAM's rating actions in October is as follows:

**Table 16: Rating actions**

	Issuer	Industry	Instrument	Current rating	Last rating
<b>October</b>	Cendana Sejati Sdn Bhd	Asset-backed securities	Senior Sukuk Murabahah Medium-Term Notes Programme	AA <sub>1</sub> /Stable	AA <sub>1</sub> /Stable
	Mecuro Properties Sdn Bhd	Asset-backed securities	Guaranteed Class E Bonds	AAA(fg)/Stable	AAA(fg)/Stable
			Guaranteed Class D2 Bonds	AAA(fg)/Stable	AAA(fg)/Stable
			Senior Class C Bonds	AAA/Stable	AAA/Stable
			Senior Class B Bonds	AAA/Stable	AAA/Stable
			Guaranteed Class D1 Bonds	AA <sub>2</sub> (bg)/Stable	AA <sub>2</sub> (bg)/Stable
			Senior Class A2 Bonds	AAA/Stable	AAA/Stable
	Indera Persada Sdn Bhd	Construction and engineering	Fixed Rate Serial Bonds	AA <sub>1</sub> /Stable	AA <sub>1</sub> /Stable
	Benih Restu Berhad	Diversified holdings	Sukuk Murabahah Programme	AA <sub>2</sub> (s)/Stable	AA <sub>2</sub> (s)/Stable
	Danga Capital Berhad	Diversified holdings	Multi-Currency Islamic Securities Programme	AAA(s)/Stable	AAA(s)/Stable
Ihsan Sukuk Berhad	Diversified holdings	Islamic Medium-Term Notes Sukuk Ihsan Programme	AAA(s)/Stable	AAA(s)/Stable	
Rantau Abang Capital Berhad	Diversified holdings	Islamic Medium-Term Sukuk Musyarakah Programme	AAA(s)/Stable	AAA(s)/Stable	

Issuer	Industry	Instrument	Current rating	Last rating	
Bank of Tokyo-Mitsubishi UFJ (Malaysia) Berhad	Financial services	USD500 million Multi-Currency Sukuk Wakalah Bi Al-Istithmar Programme	AAA(bg)/Stable	AAA(bg)/Stable	
Cagamas Berhad	Financial services	Conventional Commercial Papers Programme	P1	P1	
		Islamic Commercial Papers Programme	P1	P1	
		Islamic Commercial Paper and Islamic Medium Term Notes Programme	AAA/Stable/P1	AAA/Stable/P1	
		Conventional Medium-Term Note Programme	AAA/Stable	AAA/Stable	
		Islamic Medium-Term Note Programme	AAA/Stable	AAA/Stable	
Cagamas Global P.L.C.	Financial services	USD2.5 billion Multicurrency MTN Programme	<sup>g</sup> A <sub>2</sub> (s)/Stable	<sup>g</sup> A <sub>2</sub> (s)/Stable	
Cagamas Global Sukuk Bhd	Financial services	USD2.5 billion Multicurrency Sukuk Programme	<sup>g</sup> A <sub>2</sub> (s)/Stable	<sup>g</sup> A <sub>2</sub> (s)/Stable	
Malaysia Building Society Berhad	Financial services	Tranche 2 Structured Covered Sukuk Commodity Murabahah Programme	AA <sub>1</sub> /Stable	AA <sub>1</sub> /Stable	
		Tranche 1 Structured Covered Sukuk Commodity Murabahah	AA <sub>1</sub> /Stable	AA <sub>1</sub> /Stable	
National Bank of Abu Dhabi PJSC	Financial services	Islamic/Conventional Medium-Term Notes Programme (Senior Medium-Term Notes)	AAA/Stable	AAA/Stable	
		Islamic/Conventional Medium-Term Notes Programme (Subordinated Medium-Term Notes)	AA <sub>1</sub> /Stable	AA <sub>1</sub> /Stable	
Besraya (M) Sdn Bhd	Infrastructure and utilities	Sukuk Mudharabah Issuance Facility	AA <sub>3</sub> /Stable	AA <sub>3</sub> /Stable	
Kesas Sdn Bhd	Infrastructure and utilities	Sukuk Musharakah Islamic Medium-Term Notes	AA <sub>2</sub> /Stable	AA <sub>2</sub> /Stable	
MRCB Southern Link Berhad	Infrastructure and utilities	Secured Senior Sukuk	BB <sub>3</sub> /Negative	BB <sub>3</sub> /Negative	
GB Services Berhad	Trading & services	Medium-Term Notes Programme	AAA(s)/Stable	AAA(s)/Stable	
GENM Capital Berhad	Trading & services	Medium-Term Notes Programme	AAA(s)/Stable	AAA(s)/Stable	
Genting Capital Berhad	Trading & services	Medium-Term Notes Programme	AAA(s)/Stable	AAA(s)/Stable	
Pendidikan Industri YS Sdn Bhd	Trading & services	Bai' Bithaman Ajil Islamic Debt Securities	AA <sub>1</sub> (s)/Stable	AA <sub>1</sub> (s)/Stable	
<b>Reaffirmed ratings with outlook changes</b>					
<b>October</b>	UniTapah Sdn Bhd	Construction and engineering	Sukuk Murabahah	AA <sub>2</sub> /Positive	AA <sub>2</sub> /Stable
<b>Rating upgrades</b>					
-	-	-	-	-	
<b>Rating downgrades</b>					
<b>October</b>	ABHC Sukuk Berhad	Diversified holdings	Sukuk Wakalah	BB <sub>2</sub> (s)/RW_Neg	A <sub>1</sub> (s)/RW_Neg
<b>Rating Watch</b>					
-	-	-	-	-	
<b>Lifted Rating Watch</b>					
-	-	-	-	-	

Source: RAM

Disclaimer: This list only shows active issues as at end-October 2016

Published by RAM Rating Services Berhad  
Reproduction or transmission in any form is prohibited except by  
permission from RAM Rating Services Berhad.  
© Copyright 2016 by RAM Rating Services Berhad

No statement in this paper is to be construed as a  
recommendation to buy, sell or hold securities, or as investment  
advice, as it does not comment on the security's market price or  
suitability for any particular investor.

**RAM Rating Services Berhad**

Suite 20.01, Level 20  
The Garden South Tower  
Mid Valley City, Lingkaran Syed Putra  
59200 Kuala Lumpur

T: (603) 7628 1000 / (603) 2299 1000

F: (603) 7620 8251

E: [ramratings@ram.com.my](mailto:ramratings@ram.com.my)

W: [www.ram.com.my](http://www.ram.com.my)

**RAM**

RATINGS

---

RAM Rating Services Berhad  
Suite 20.01, Level 20  
The Gardens South Tower  
Mid Valley City  
Lingkaran Syed Putra  
59200 Kuala Lumpur  
Malaysia

---

T: +603 7628 1000  
F: +603 2711 1701  
E: [ramratings@ram.com.my](mailto:ramratings@ram.com.my)  
W: [www.ram.com.my](http://www.ram.com.my)

---