



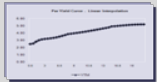
Bond Pricing Agency Malaysia

Malaysian Bond Market: Bullish Credit, Hawkish Rates and the Valuation Dilemma

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CEO
December 2010



Overview of the Malaysian Bond Market



Bullish Credit Market in a Rising Interest Rate Environment



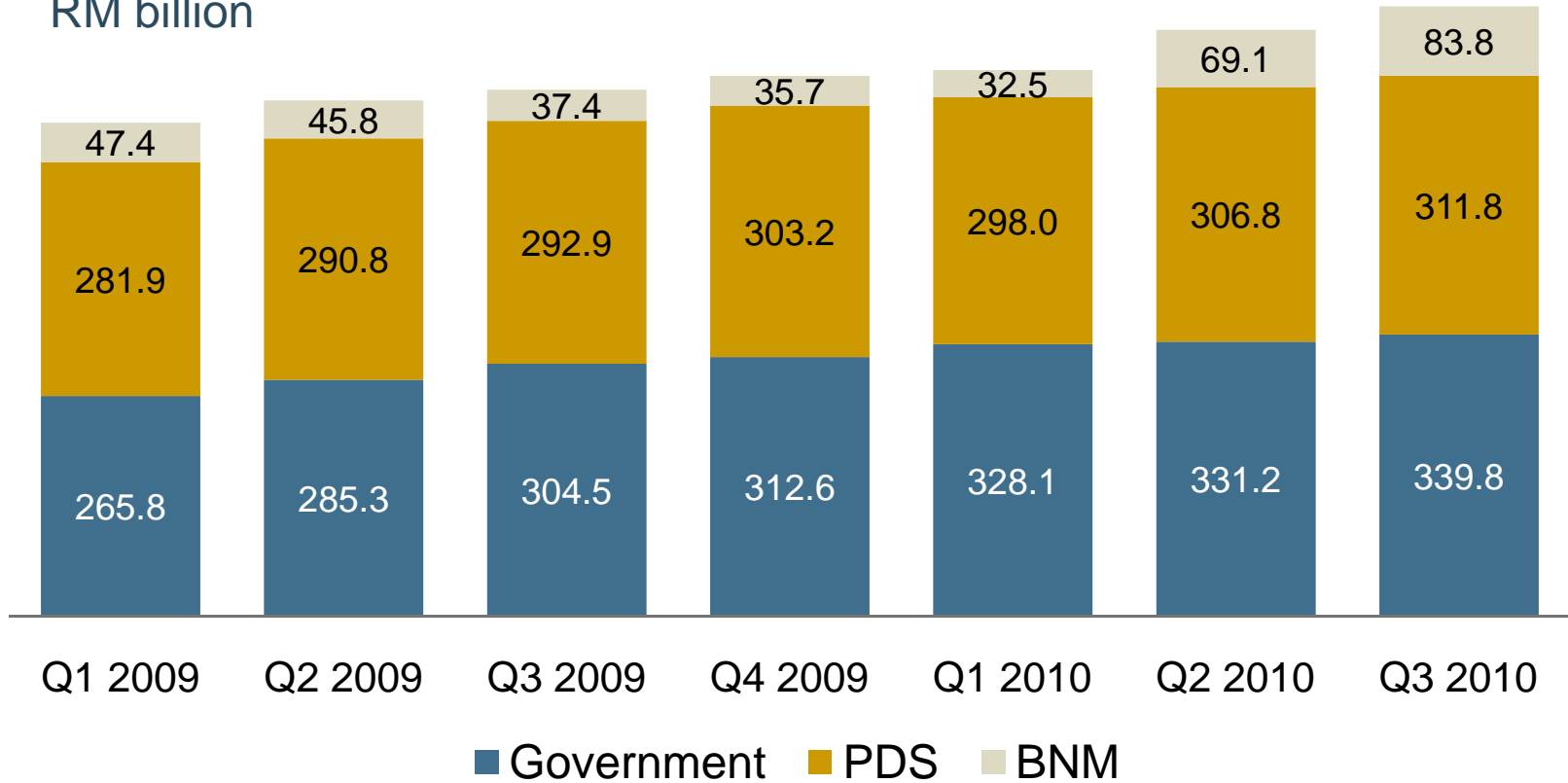
Solving the Valuation Dilemma : The New Market Standard

Overview of the Malaysian Bond Market

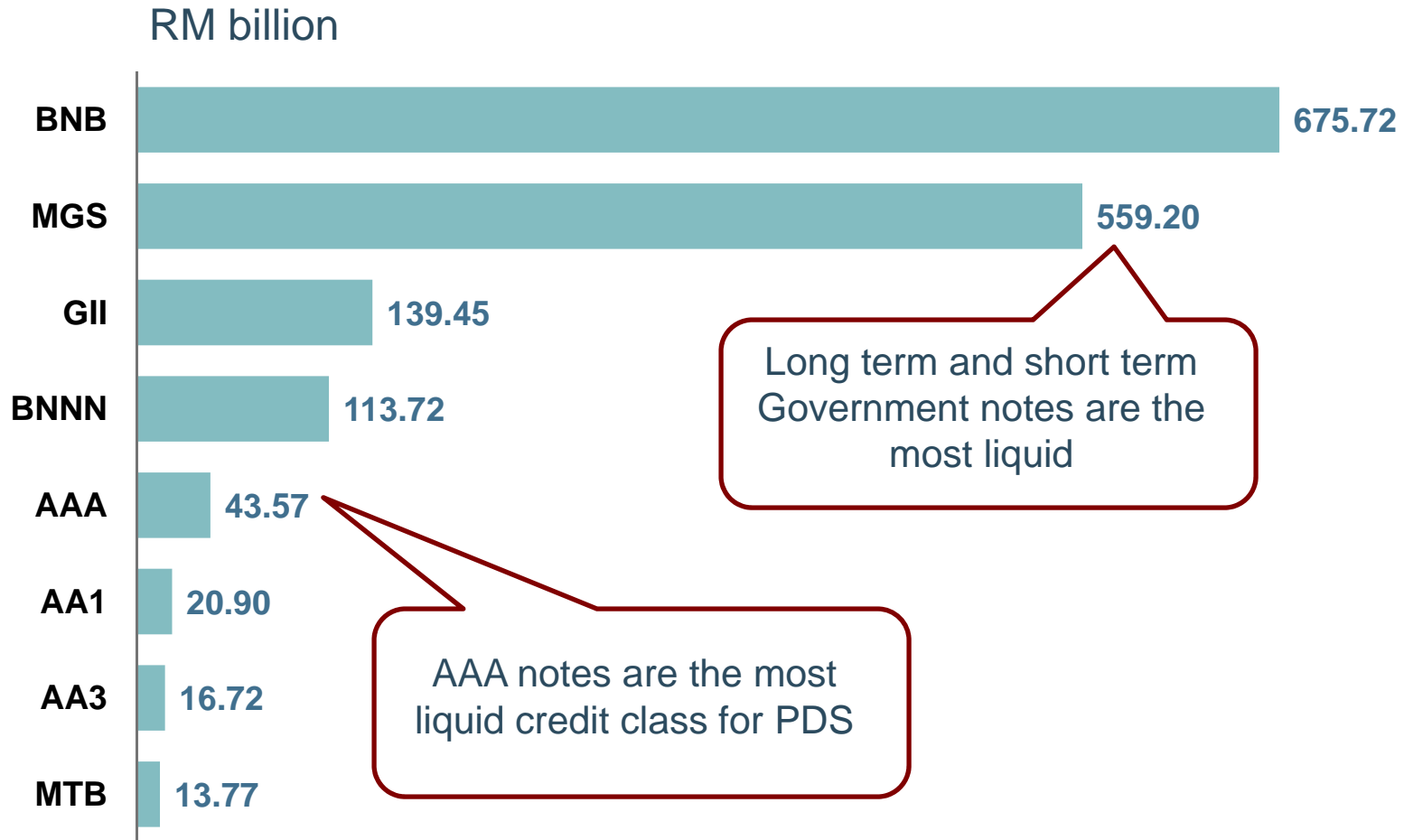
➤ Amount Outstanding by Credit Class

Total Bonds Outstanding (8 December 2010): RM754.45 billion

RM billion



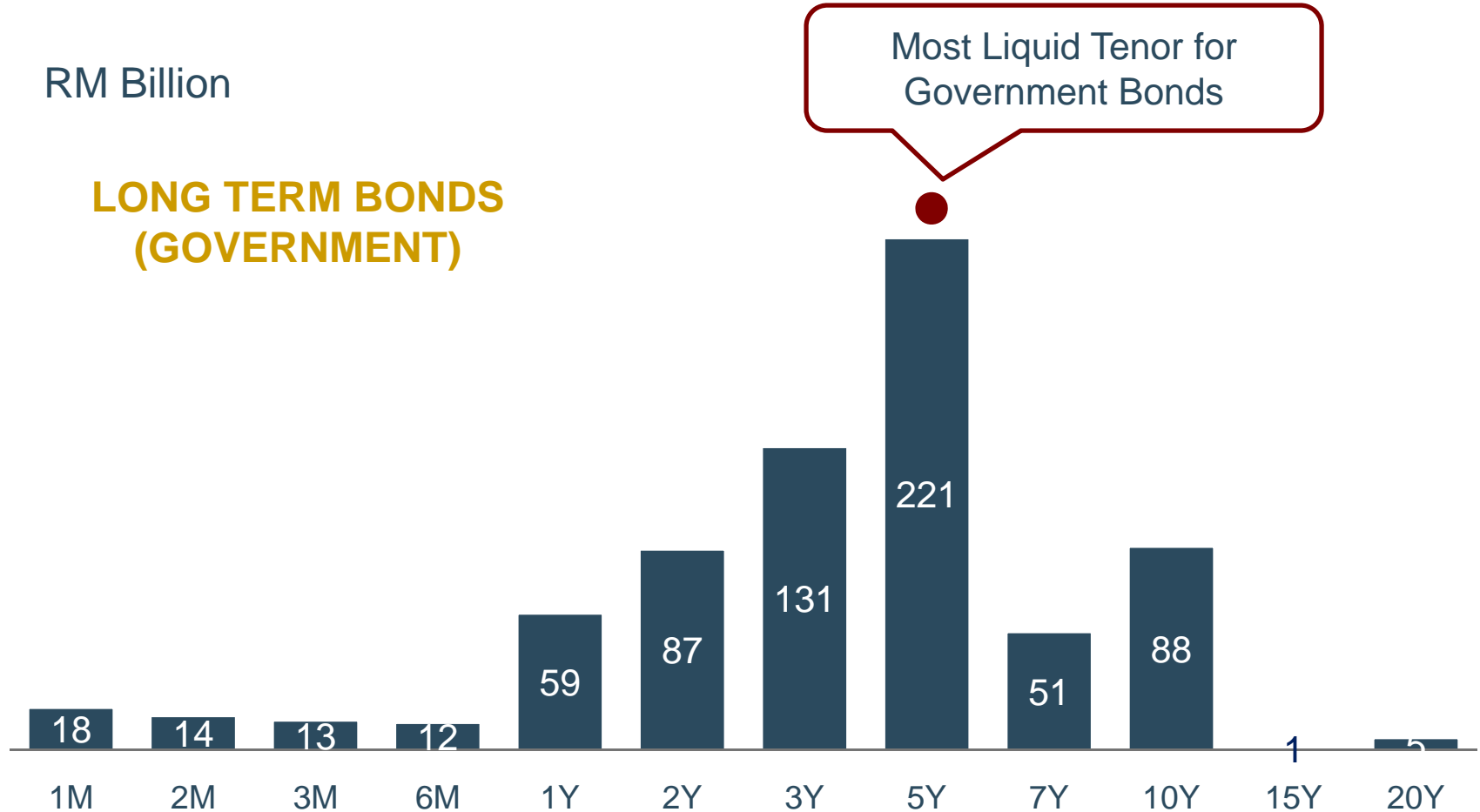
➤ Liquidity Analysis – Overall By Class Segment



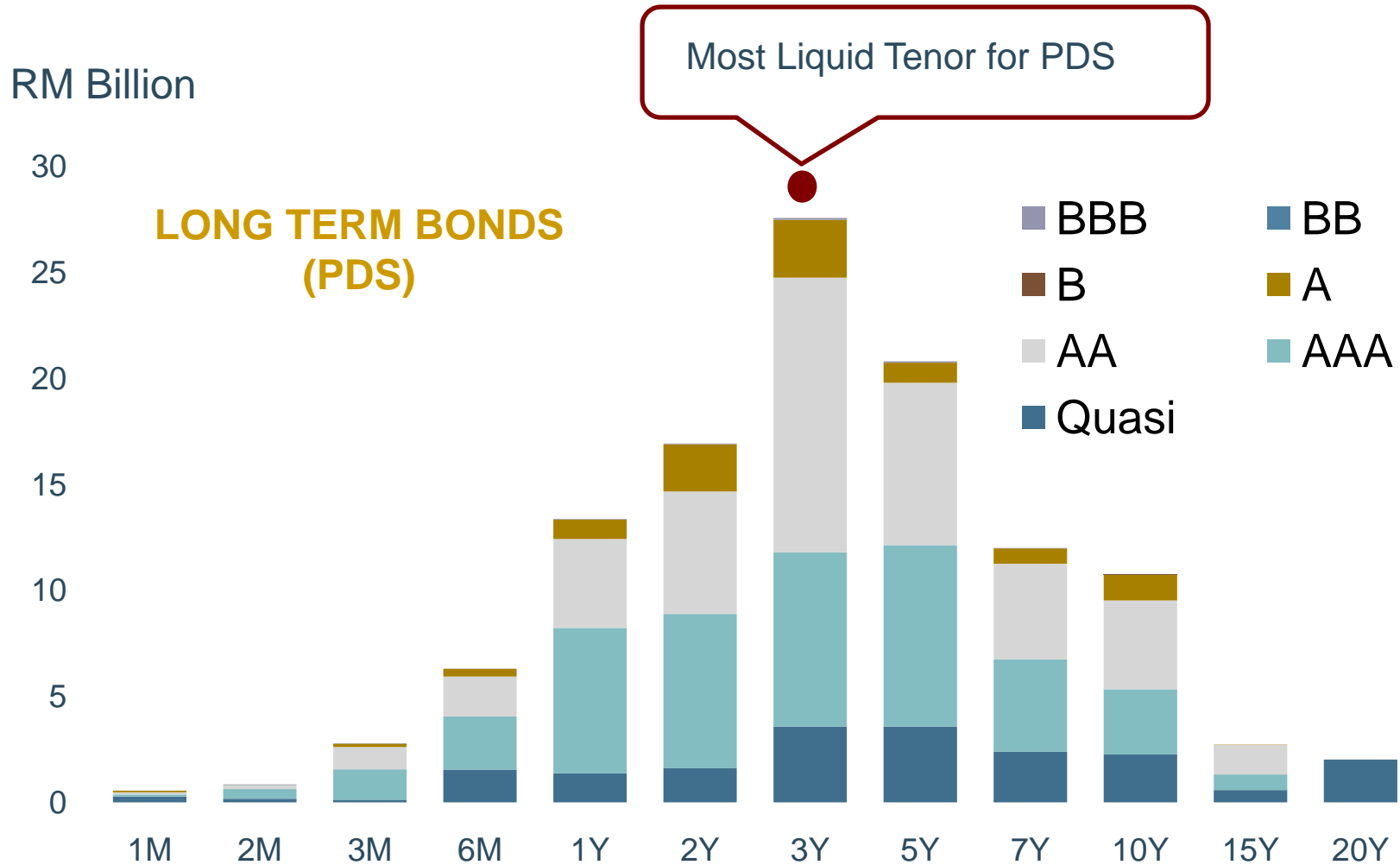
➤ Liquidity Analysis for Government Bonds in 2009/2010

RM Billion

LONG TERM BONDS (GOVERNMENT)

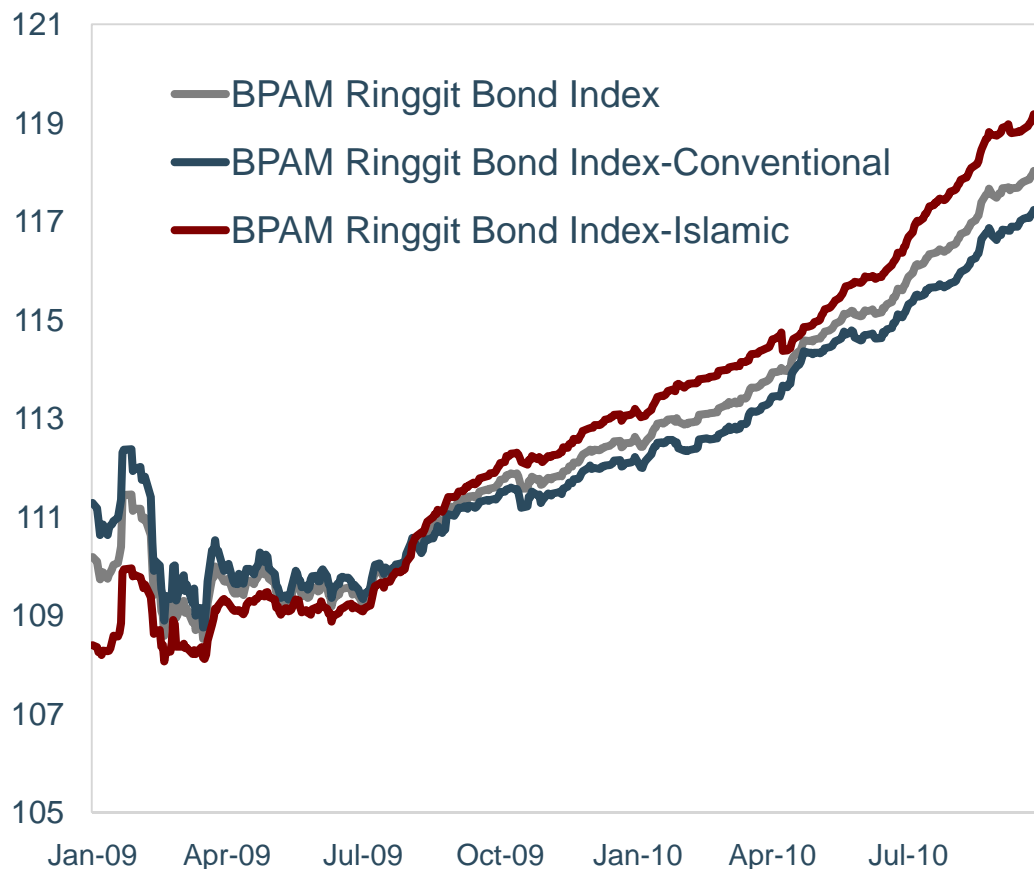


➤ Liquidity Analysis for PDS Bonds in 2009/2010



Overview of the Malaysian Bond Market

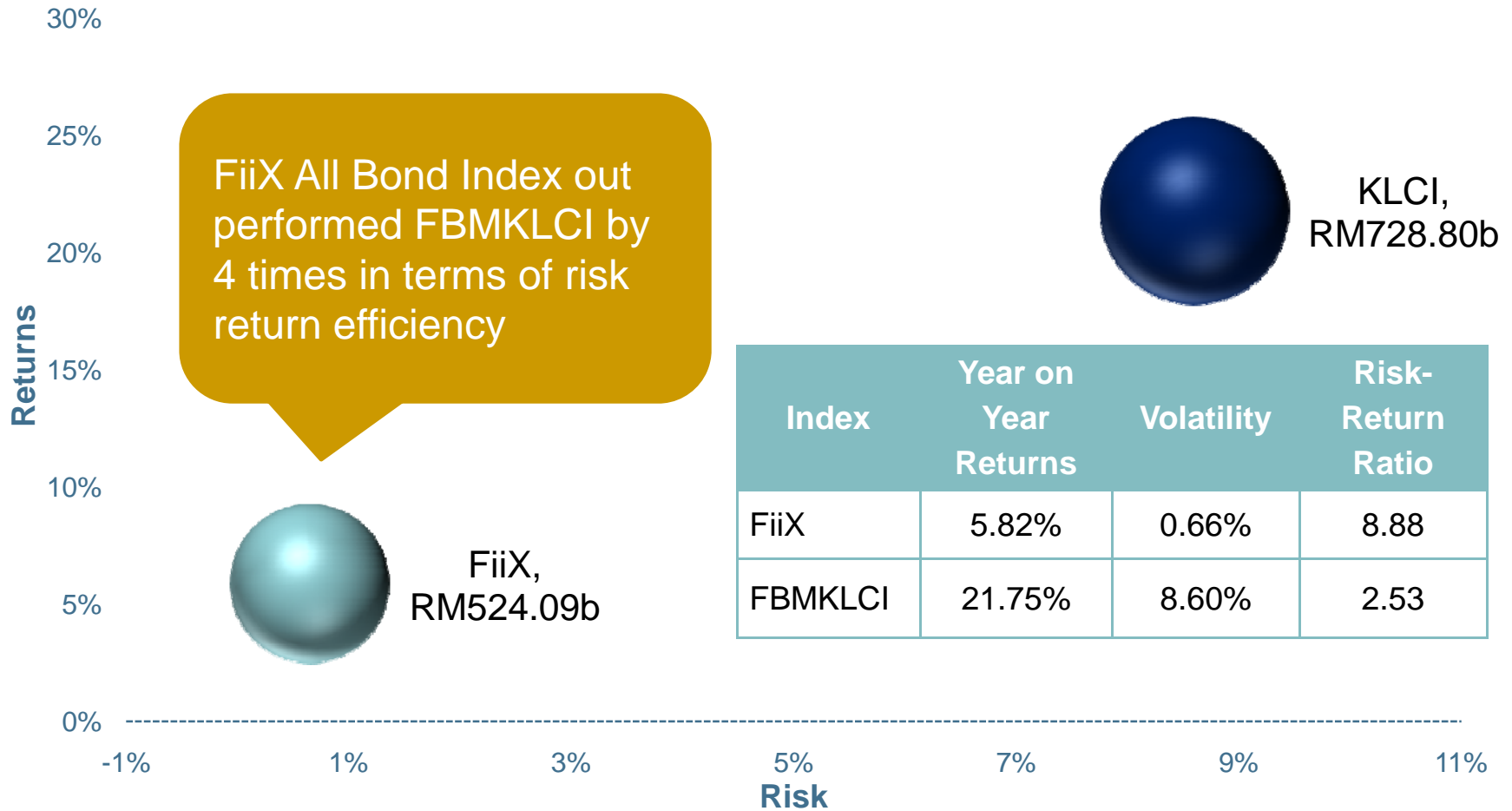
➤ The BPA Malaysia FiiX All Bond Index Level By Bond Type



Islamic	
1 Month	0.51%
3 Months	2.45%
6 Months	4.28%
12 Months	6.57%

Conventional	
1 Month	0.61%
3 Months	1.88%
6 Months	3.54%
12 Months	5.33%

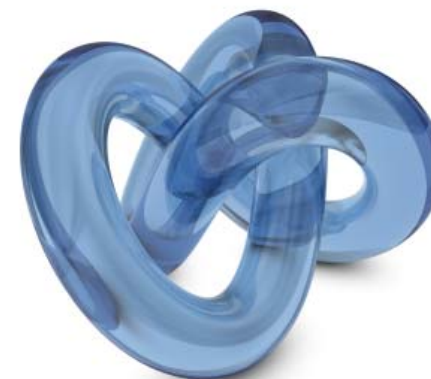
➤ Risk vs Return Analysis with Selected Equity Markets



➤ Conclusion and Summary

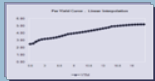
SUPPLY ISSUE FOR BONDS

- 2009 marks the beginning of a dry spell for issuance as less PDS enters the pipeline given the prevailing economic condition.
- However, 2010 shows a better economic sentiment and PDS issuance picks up with the increase issuance of Financial related bonds.





Overview of the Malaysian Bond Market



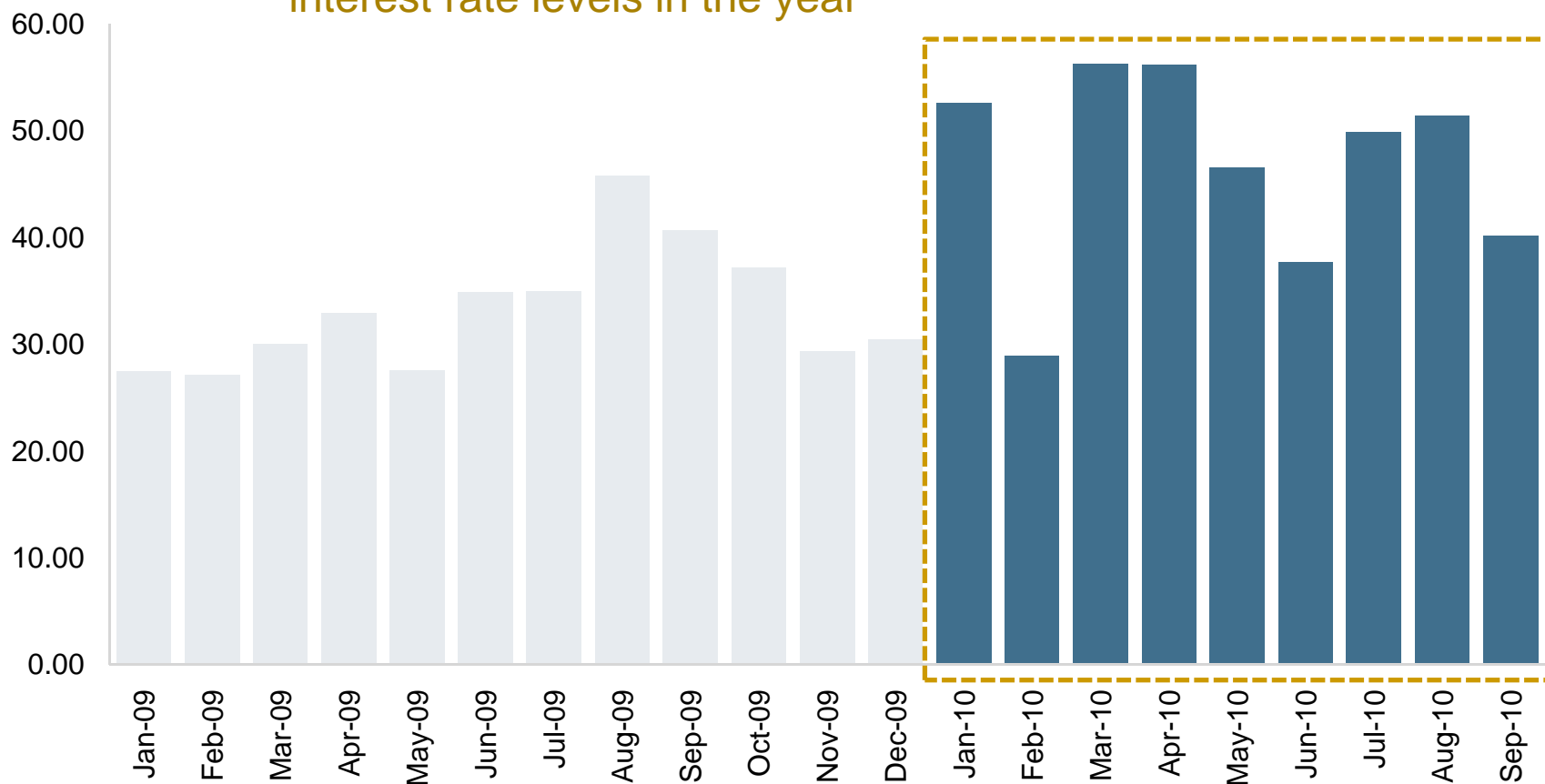
Bullish Credit Market in a Rising Interest Rate Environment



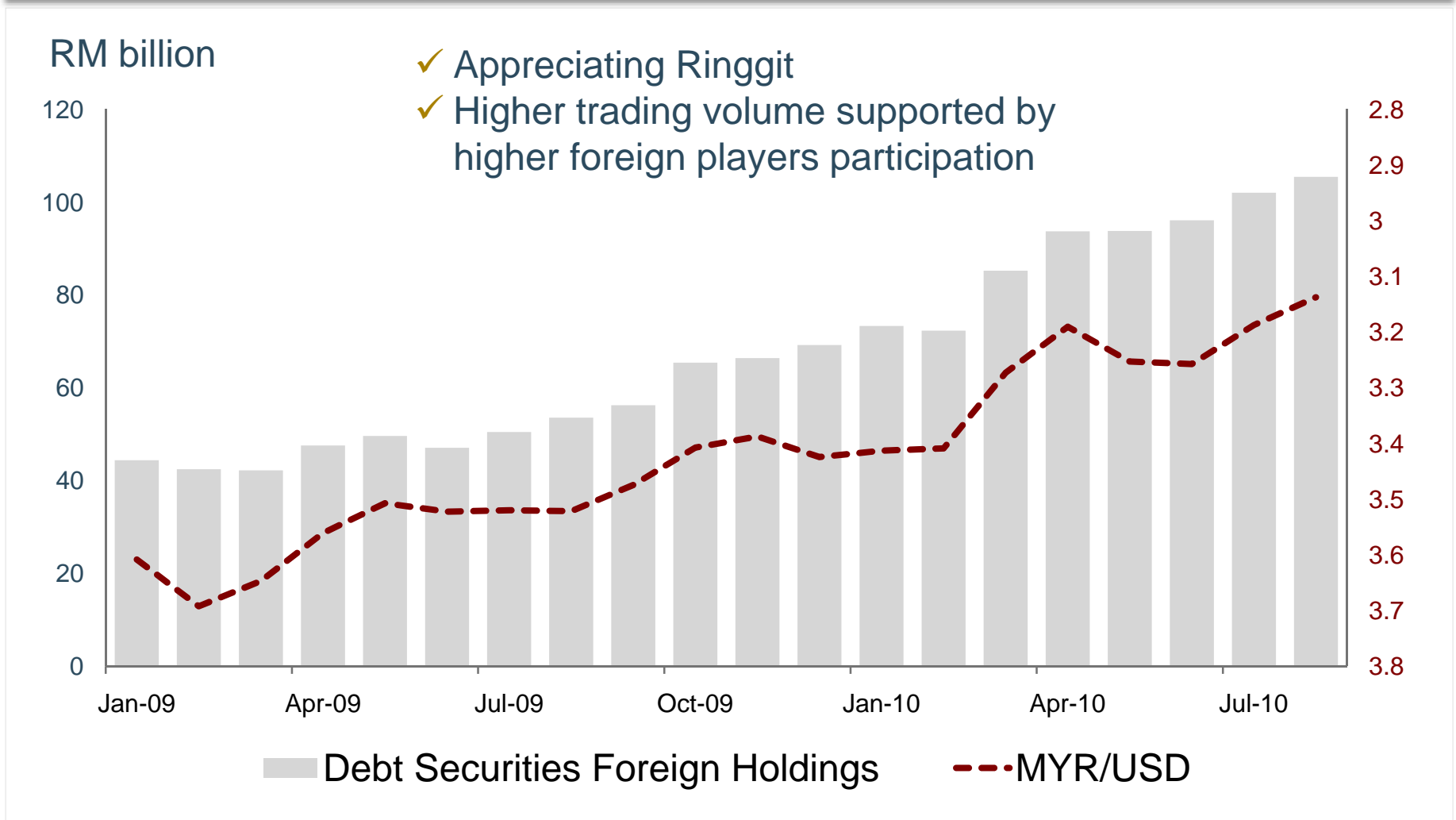
Solving the Valuation Dilemma : The New Market Standard

➤ Monthly Trade Movements in 2009/2010

RM billion ✓ 2010 – Trading volume is higher compared to 2009 despite rising interest rate levels in the year



➤ Increase in Foreign Holdings in the Bond Market



➤ Conclusion and Summary

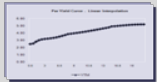
BULLISH DEMAND DESPITE INTEREST RATE CHANGES

- Issuance dry spell 2009 has led shortage in supply for good grade notes in 2010.
- Government issuance tapered down in 2010 and increases in OPR indicates better than expected economic sentiment .
- Increased participation of foreign players and the appreciating Ringgit has led to higher trading volume in 2010.
- The credit market is bullish despite a hawkish interest rate environment.





Overview of the Malaysian Bond Market



Bullish Credit Market in a Rising Interest Rate Environment



Solving the Valuation Dilemma : The New Market Standard

➤ Risk vs Valuation : The Goal Towards Better Transparency

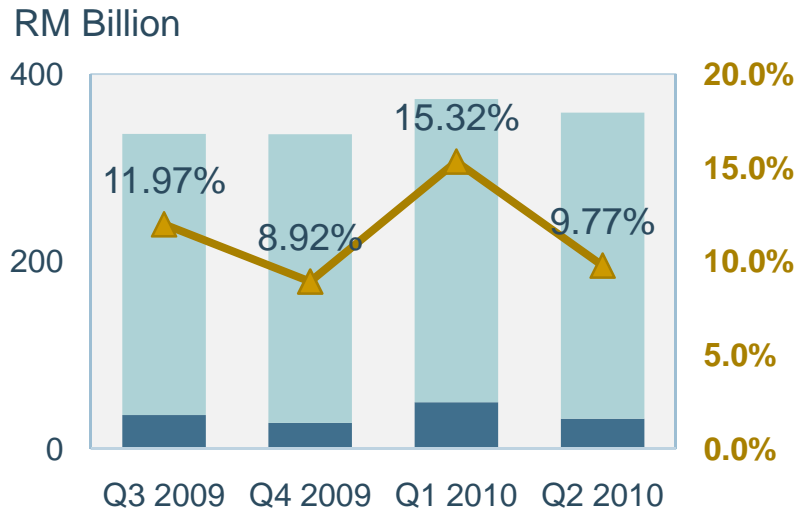
“The 2007 financial crisis has made clear to firms the importance of fully understanding the ramifications of the pricing and valuation function”



➤ Managing risk in an illiquid market

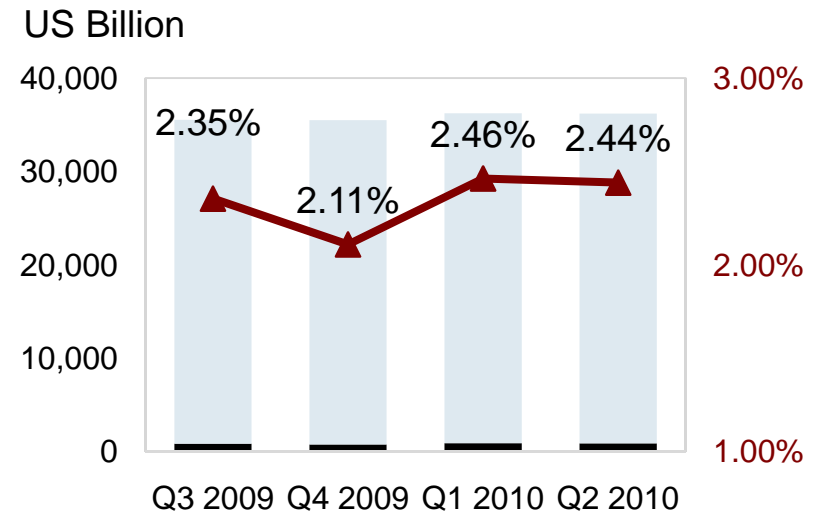
“Even in certain advanced bond market, illiquidity still remains a problem. The need for valuation is further amplified to assist risk management”

MALAYSIAN MARKET



■ Trade Volume ■ Amount Outstanding
▲ Turnover Ratio

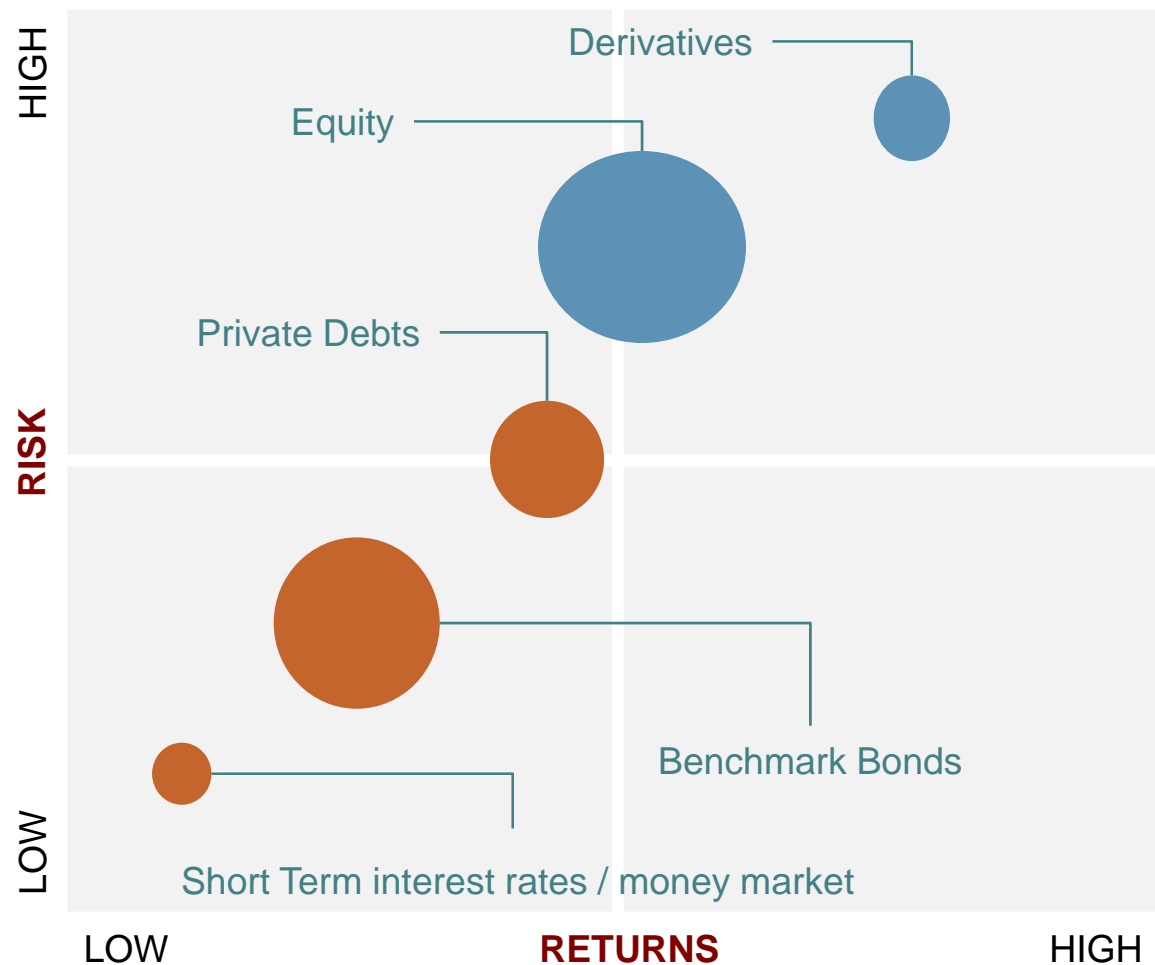
US MARKET



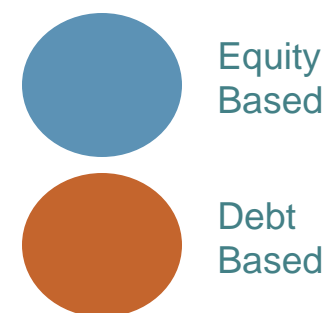
■ Trade Volume ■ Amount Outstanding
▲ Turnover Ratio

Source: Federal Reserve Bank of NY

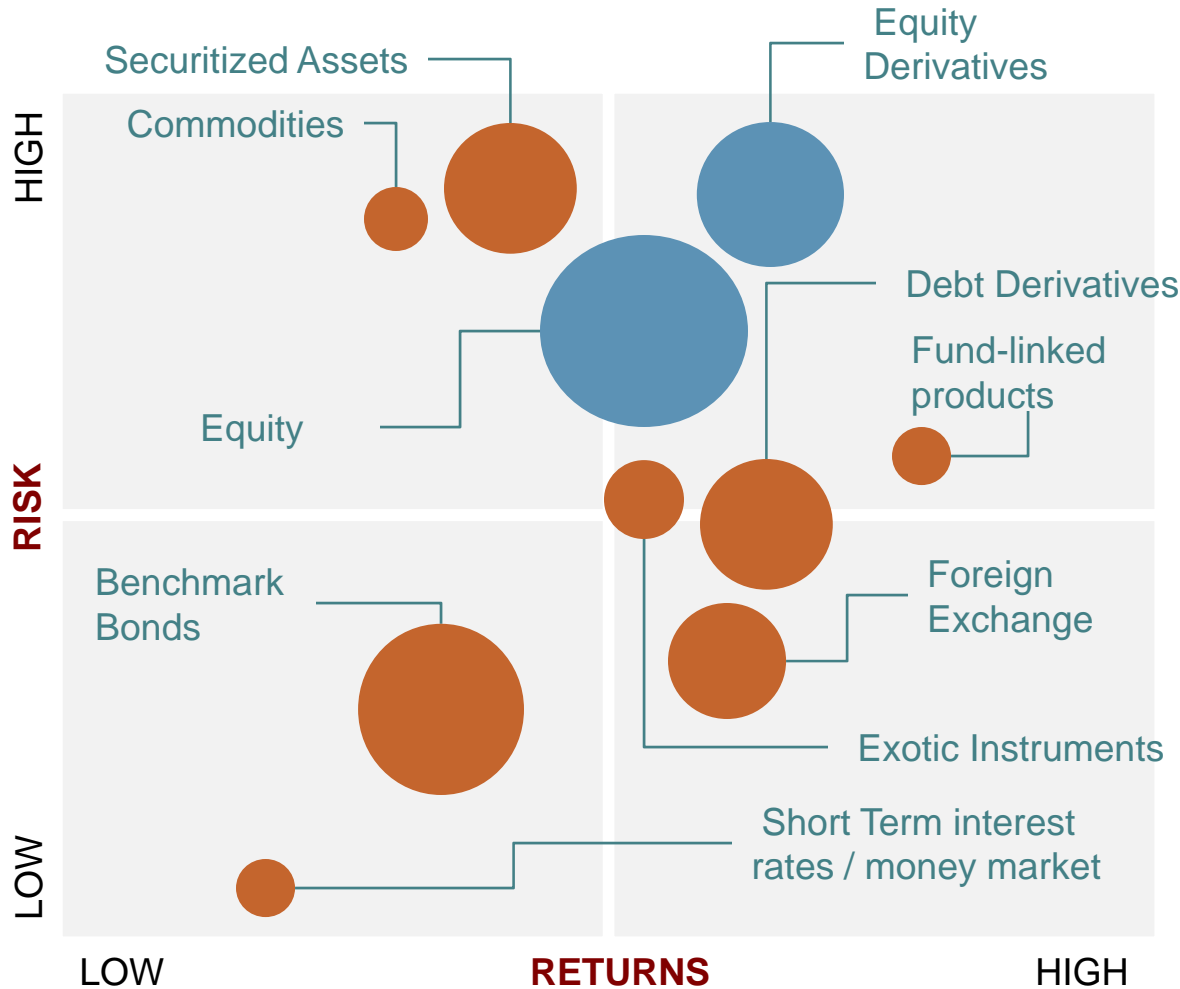
➤ The Risk Return Portfolio



“The traditional portfolio previously comprised of traditional, straight forward instruments”



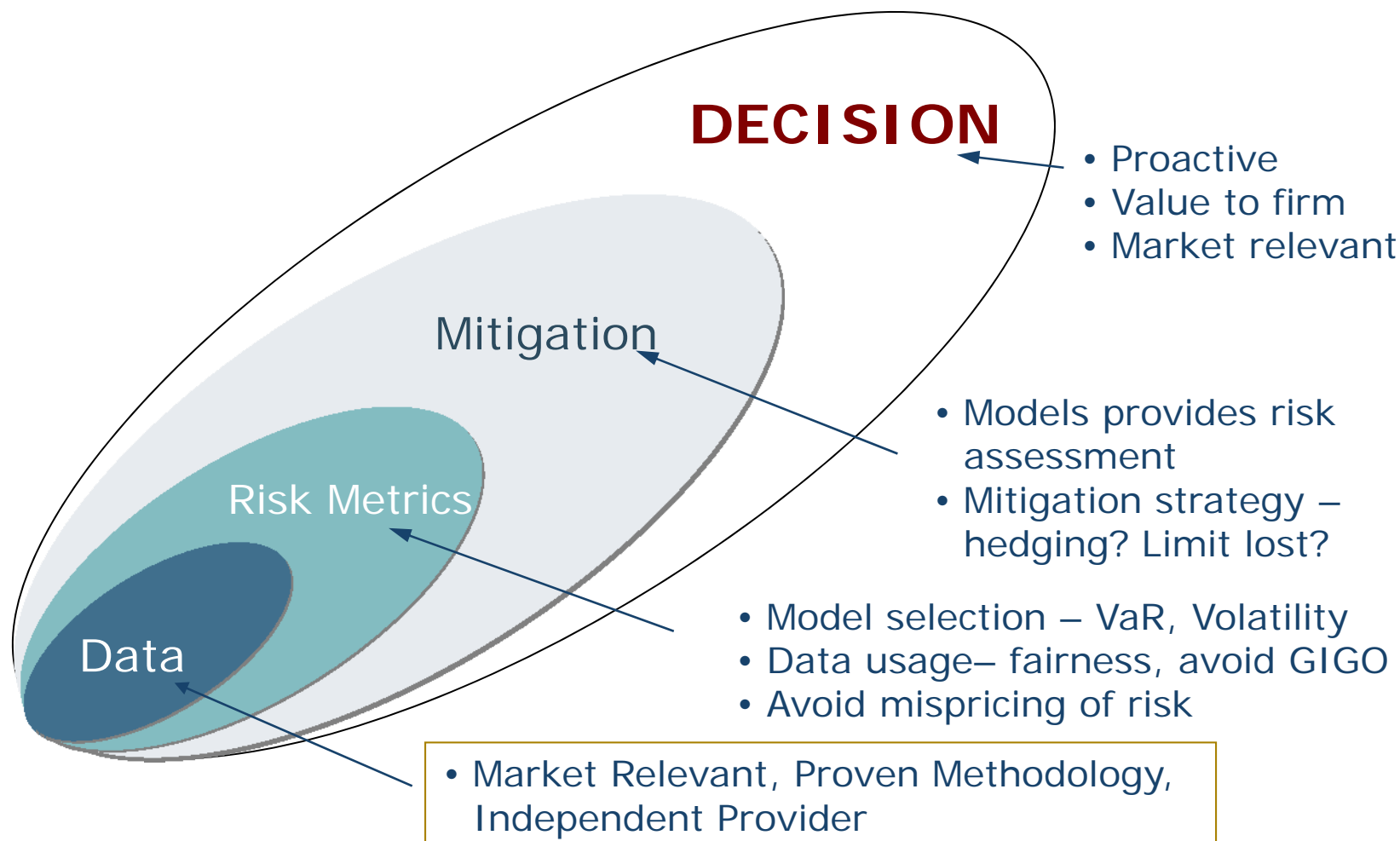
➤ The Complex Portfolio



“In today competitive market, financial institutions face the increasing challenge of managing risks as their portfolio becomes more complex”

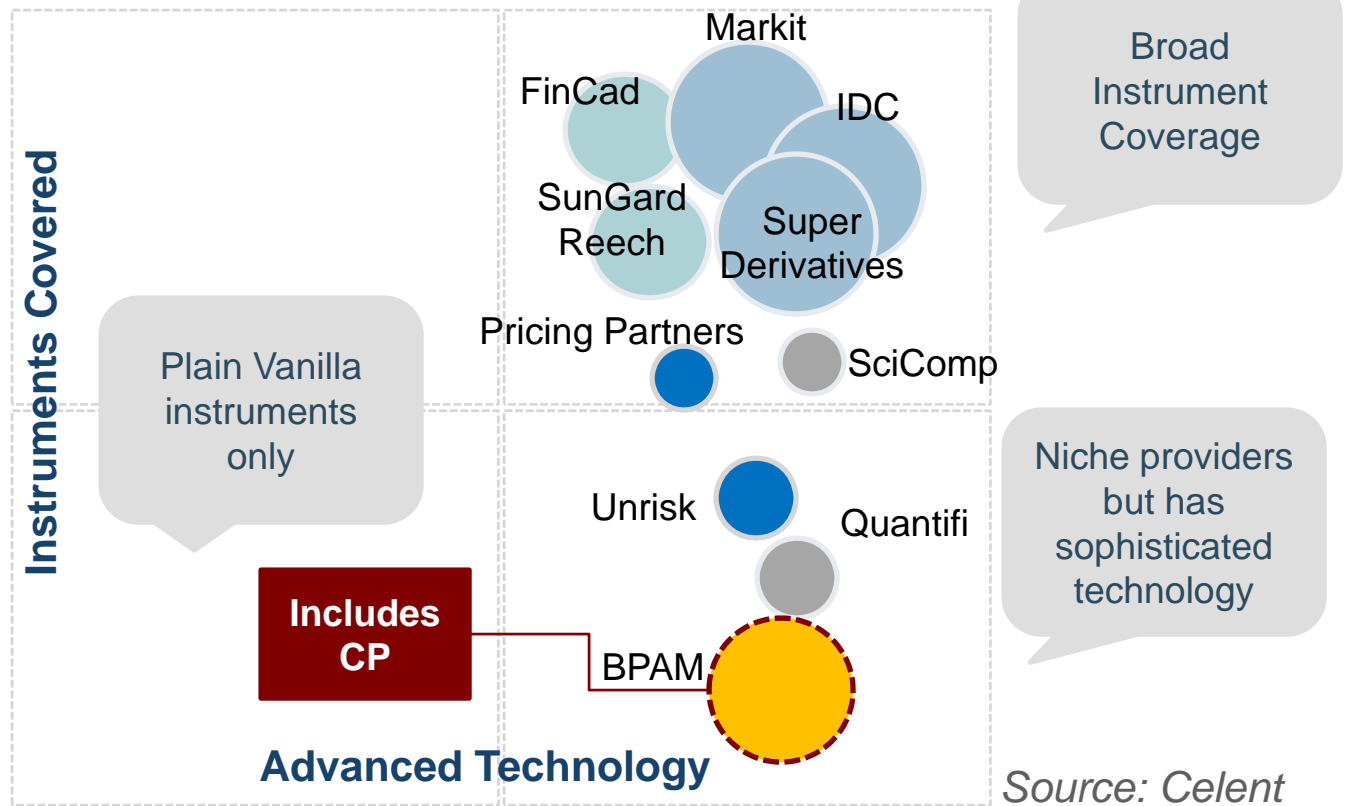


➤ Relevant Market Data is One of the Main Fundamentals of Risk Decision



➤ Valuation Vendor Market Positioning Matrix

“In advanced markets, the challenge for valuation is the provision of quick response and delivery time as well as asset type or instruments coverage”



➤ Why Value?

RISK AND VALUATION

- Firms that are incapable of attaining unbiased, transparent and independent valuation of their portfolios would consequently face problems in managing risk and effectively the whole business.
- Risk, Return and Valuation are interrelated. Valuation provides a holistic solution to counter the risk challenges of dealing with illiquidity and increasing complexity of the market. In addition, it promotes better capital return efficiency.



THANK YOU

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