

# WEEKLY MARKET UPDATE

02.03 - 02.07



Please find the latest updates on Mongolia's credit ratings, which was evaluated by Moody's, Fitch and Standard & Poor's, on the analyst's commentary section below.

## GLOBAL MARKET UPDATE

**US:** Stocks recorded solid gains on the back of encouraging economic data and hopes that the global economy would prove resilient in the face of the new coronavirus outbreak centered in China. Slower-growing value shares trailed their higher-valuation growth counterparts for the week, but T. Rowe Price traders noted a pronounced rotation into value at midweek. Reflecting the ongoing outperformance of technology stocks, the Russell 1000 Growth Index ended the week up 6% in terms of total return (including dividends) for the year to date, while the Russell 1000 Value Index was roughly flat. The large-cap benchmarks and the technology-heavy Nasdaq Composite Index established record highs, with the S&P 500 Index notching its weekly best gain since June.

Information technology stocks outperformed within the S&P 500 Index, helped by a gain in Microsoft shares. Other notable standouts included Tesla, which surged early in the week following news of positive results in its battery division, and Twitter, which jumped after beating revenue and user growth estimates. The interest rate-sensitive utilities sector lagged as longer-term Treasury bond yields rebounded from multi-month lows reached late the previous week.

**Europe:** Equities in Europe rebounded and reached record highs over the week after some strong earnings results and an advance in global markets triggered by China's moves to halve some tariffs on U.S. imports and to mitigate the impact of the coronavirus.

European Central Bank (ECB) President Christine Lagarde said in testimony to the European Parliament that eurozone economic growth remained modest and that ultra-easy monetary policy was still required. She also noted that moderate growth was delaying the pass-through from wage increases to prices and inflation developments remained subdued. She said that while domestic growth remained resilient, citing private consumption and low unemployment, global factors weighed on regional growth. She said the outbreak of the coronavirus in China was now the main risk to global growth, as trade war risks had receded.

**Japan:** Stocks in Japan rallied for the week, recouping the prior week's steep losses.

Bank of Japan (BoJ) Deputy Governor Masazumi Wakatabe confirmed in a speech to business leaders in the Ehime prefecture that the central bank will not hesitate to employ additional easing measures if there is a loss of momentum toward achieving price stability. Wakatabe noted a "decoupling" between the performance of the manufacturing and nonmanufacturing segments due to the slowdown in the global economy, which was largely the result of trade friction between the U.S. and China.

**China:** Equity markets reopened on February 3, having been shut since January 23 ahead of the Chinese Lunar New Year holidays. After their extended closure, A-shares fell heavily on Monday, with the Shanghai Composite Index dropping 7.7%. Over the remainder of the week, Chinese equities were able to first stabilize and then stage a partial recovery.

Helping to sustain the more positive tone to markets, the number of new reported cases of the Wuhan coronavirus fell for two consecutive days, although it is much too soon to tell if the situation is really stabilizing.

Source: Troweprice.com

International indices	Country	Last Price	Change /w/
MSE TOP 20	Mongolia	18,738.33	-0.48% ▼
Dow Jones	USA	29,102.51	3.00% ▲
S&P 500	USA	3,327.71	3.17% ▲
Nasdaq	USA	9,520.51	4.04% ▲
S&P/TSX	Canada	17,655.49	1.95% ▲
FTSE 100	Great Britain	7,466.70	2.48% ▲
S&P/ASX 200	Australia	7,022.60	0.08% ▲
Nikkei 225	Japan	23,827.98	2.68% ▲
Hang Seng	Hong Kong	27,404.27	4.15% ▲

Bond	Currency	Coupon	Last price
Mongol 2024 (Khuraldai)	USD	8.750%	114.32
Mongol 2023 (Gerege)	USD	5.625%	103.63
Mongol 2022 (Chinggis)	USD	5.125%	102.48
Mongol 2021 (Mazalai)	USD	10.875%	108.16
DBM' 23 (Samurai)	JPY	1.520%	103.26
DBM' 2023	USD	7.250%	107.00
TDBM' 2020	USD	9.375%	101.48
MGMTGE' 2022 (Hoelun)	USD	9.750%	97.66

Rates	Last	Change /w/
Libor 1M	1.665	0.00 ▲
Libor 3M	1.731	-0.02 ▼
Libor 6M	1.740	0.00 ▼
Libor 1YR	1.835	0.03 ▲
US 2YR Bond	1.387	0.05 ▲
US 3YR Bond	1.372	0.06 ▲
US 5YR Bond	1.386	0.05 ▲
US 10YR Bond	1.565	0.04 ▲

Exchange rates	2020.02.07	Change /w/
USD	2,753.93	0.09% ▲
CNY	394.31	-0.59% ▼
EUR	3,019.96	-0.48% ▼
RUB	43.29	-0.73% ▼
KRW	2.32	0.43% ▲
JPY	25.06	-0.67% ▼
CAD	2,069.85	-0.59% ▼

Commodity	Unit	Last price	Change /w/
Gold /spot/	USD/t oz.	1,570.44	-1.18% ▼
Silver /spot/	USD/t oz.	17.70	-1.89% ▼
Copper	USD/lb.	255.30	1.43% ▲
Coal	USD/MT	70.25	4.59% ▲
Crude Oil WTI	USD/bbl.	50.32	-2.40% ▼
Crude Oil Brent	USD/bbl.	54.47	-6.34% ▼

Indicators	Reference	Amount
Inflation Rate	2019. XII	5.2%
Policy Rate	2019. XII	11.00%
Interbank Rate	2019. XII	11.02%
Deposit Interest Rate /MNT/	2019. XII	11.29%
Deposit Interest Rate /Foreign currency/	2019. XII	4.75%
Loan Interest Rate /MNT/	2019. XII	16.84%
Loan Interest Rate /Foreign currency/	2019. XII	10.35%

Source: National Statistical Office, Bank of Mongolia, Bloomberg

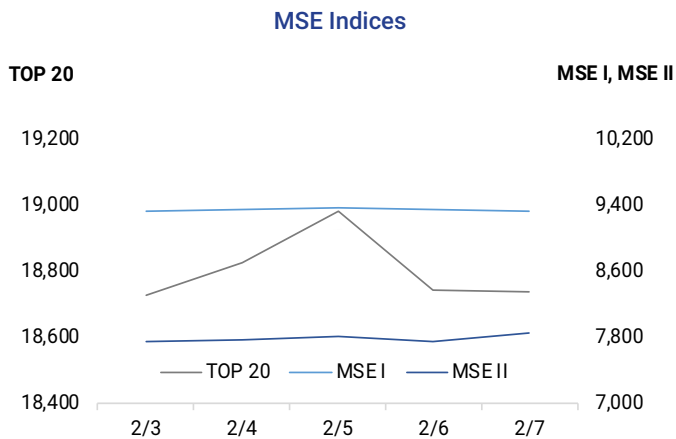
## MSE TRADE UPDATE

In this week, a total of 55 companies' 17,805,317 shares worth MNT 951.5 million were traded in the secondary market.

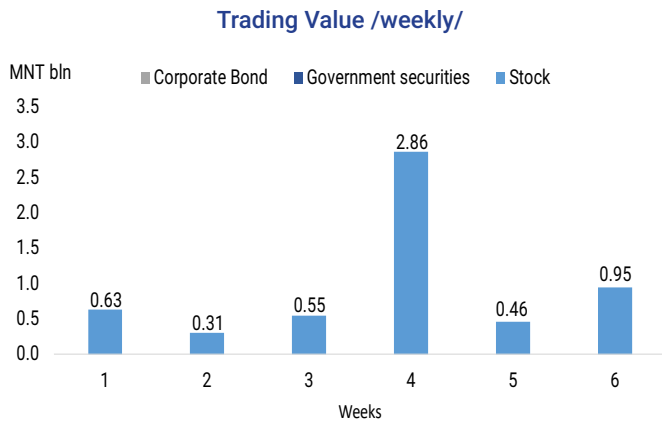
"Mongol Daatgal" /CHE/ companies shares rose 101.12 percent to MNT 430.56, while 'HBOil' /HBO/ company's share fell 16.29 percent to MNT 58.60.

No government securities were traded on the primary and the secondary markets during this week.

As of February 07, total market capitalization of MSE is MNT 2,674.2 billion. The TOP-20 index decreased by 0.48% to stand at 18,738.33 units.



Source: Mongolian Stock Exchange



Source: Mongolian Stock Exchange

Market Review		Total amount /MNT mln/	
Total Value		951.5	
Market Capitalization		2,674,213.4	
Market Indices		Last Price	Change /w/
MSE Top 20	18,738.33	-0.48%	▼
MSE I Index	9,336.25	0.04%	▲
MSE II Index	7,844.36	0.98%	▲
Actively Traded Securities		Volume	Amount/MNT/
HBOil	16,610,016	768,997,846	
APU	54,902	33,769,941	
Mongol Basalt	131,953	32,707,224	
Mandal Daatgal	617,071	30,718,644	
Gobi	70,345	18,156,243	
Securities with most growth		Last Price /MNT/	Change /w/
Mongol Daatgal	430.56	101.12%	▲
Moninjbar	130.00	18.18%	▲
Telecom Mongolia	472.00	17.96%	▲
Darkhan Nekhii	13,810.00	14.99%	▲
Sharyn Gol	1,255.00	14.09%	▲
Securities with most decline		Last Price /MNT/	Change /w/
HBOil	58.60	-16.29%	▼
Bluesky Securities	1,700.00	-15.00%	▼
Sor	977.50	-15.00%	▼
Standart Noos	240.00	-14.29%	▼
Standard Property Group	57.00	-13.64%	▼
Most Active Brokerage Firms		Amount/MNT/	
Ard Capital			1,540,233,589
BDSec			63,575,142
Golomt Capital			44,789,649
Bloomsbury Securities			44,022,184
TDB Capital			34,998,823
Top 5 Companies With Largest Market Capitalization		Last Price /MNT/	Market Cap. /MNT mln/
APU	614.31	655,737	
Tavan Tolgoi	6,495.00	342,060	
MIK Holding	14,940.00	309,397	
Gobi	255.00	198,929	
Invescore NBFi	2,582.00	185,201	

### Government securities /secondary market/

Nº	NAME	VOLUME	TURNOVER /MNT/	MINIMUM /MNT/	MAXIMUM /MNT/	WEEKS	ANNUAL INTEREST RATE
-	-	-	-	-	-	-	-

## CAPITAL MARKET UPDATE

### HIGHLIGHT



During the meeting of January 29, 2020, the FRC had a detailed discussion on the procedure of dividend distributions of JSCs. As a result, the FRC decided that JSCs should distribute dividends solely through “Central Securities Depository” LLC in order to protect the interests of small shareholders and entrusted executives of JSCs to comply with this decision. Also, the FRC added extra responsibilities to Securities companies to provide information to shareholders.

### NEWS ON JOINT STOCK COMPANIES

- According to Resolution №02/3 of January 31, 2020 by the Board of Directors of “Darkhan Nekhii” JSC, the company will allocate a total of MNT 232.1 million or 210 MNT per share as dividends to its shareholders.
- Mr. Telmen Gerelt has been appointed as Chief Executive Officer of ‘Ard Credit NBF’ JSC on January 27, 2020.
- To improve the trading volume of “Darkhan Nekhii” JSC’s shares, the company plans to divide its shares with 1:1,000 ratio.
- “Lendmn NBF” JSC will pay 24.4% of 2019 net profit as dividends.



### OTHER NEWS



As a part of the implementation of the 40 Technical implementation recommendations provided by Financial Action Task Force (FATF), “Procedure on determining the right person to conduct professional business activities in non-financial and financial sectors other than banking” has been developed in order to specify the requirements to prevent money laundering and terrorism financing, protect the financial system from risk of crimes, discover money with unknown origin or income from unlawful activities and prevent entities participating in the financial sector with an objective to launder money.

Additionally, in accordance with Article 62.1 of the General Administrative Code, the FRC is receiving the opinions and the recommendation of the public and the participants of the financial sector.

## OTHER NEWS

### HIGHLIGHT

- Foreign trade turnover in January decreased by 16.1% compared to the previous year and reached USD 932.3 million.
- Coal exports through the major ports have drastically decreased.
- Mortgage loan issuance increased by about 80% in 2019, compared to the previous year.
- Starting 2020, the fee on license for exploration will be 100% paid to the local Government.
- Banknotes with an updated security element will be issued



### MACROECONOMIC NEWS

The Bank of Mongolia (BoM) needs to recreate the reserves for MNT 50 and MNT 20,000 banknotes. As a part of this operation, the BoM will supply banknotes with modernized and upgraded new security features.

The revamped security features allow citizens to easily identify and recognize counterfeit banknotes, including 3-D, micro-optical, mobile surface ribbons and 3-D color transformers, as well as visual recognition plates for the visually impaired. The new MNT 20,000 banknotes is perfectly combined the latest technology and the historical and national traditions.

The updated MNT 50 and MNT 20,000 banknotes will be issued to the banks starting on February 10 and banks will issue them to their clients.

### COMMODITY MARKET NEWS

Due to the outbreak of the new coronavirus, the purchase of coal in China decreased resulting in Mongolia's coal exports to drop sharply. According to the Gashuunsukhait-Gansmod port's administration, less than 100 cars have been delivering coal daily after the Lunar New Year holidays in China. Under normal circumstances, about 800-1,000 cars deliver coal daily while a maximum of 111 cars delivered coal last Monday. The port administration also says that it is taking longer for cars transporting coal to pass through the port due to the need to sterilize the cars, with the time needed to sterilize one car being about 20 minutes.



## ANALYST’S COMMENTARY

### MONGOLIA’S CREDIT RATING HAS BEEN AFFIRMED

Of the international credit rating agencies, Moody’s, Standard & Poor’s and Fitch Rating are considered as the “Big Three” credit rating agencies and the rating scale and the explanation of long-term issuer rating of these agencies have been provided in Table 1.

The big three credit rating agencies all provide credit ratings on Mongolia, with Standard & Poor’s starting in 1999, Moody’s and Fitch Ratings following suit in 2005.

#### Moody’s

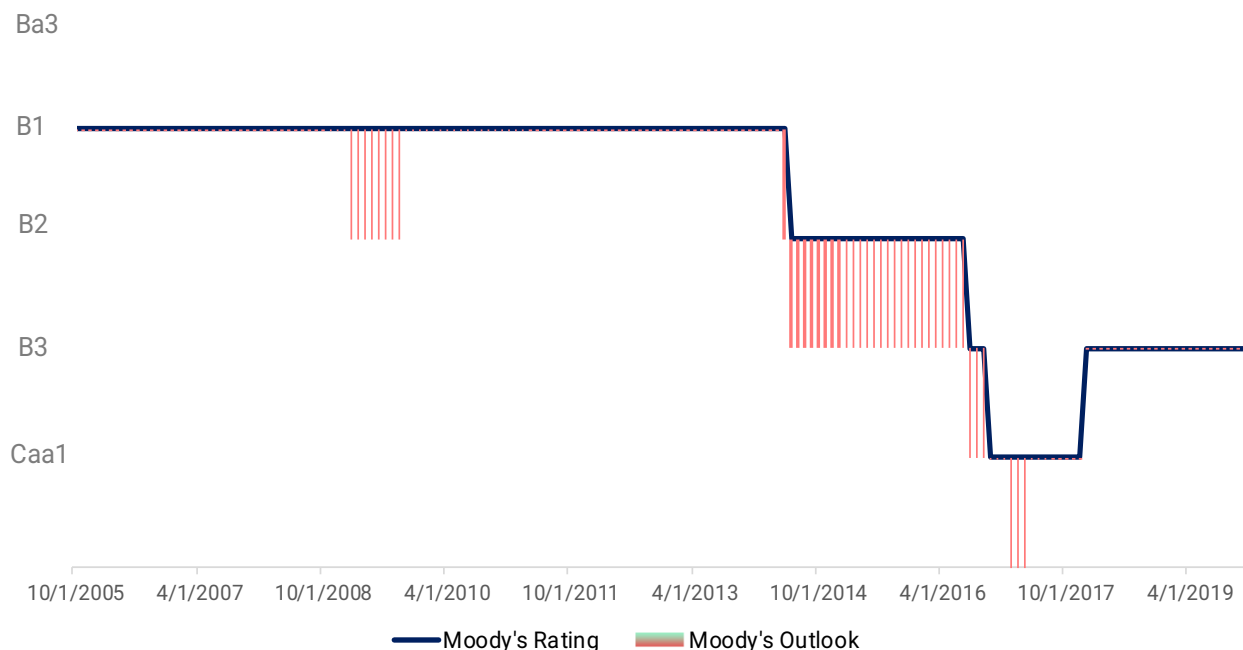
Most recently, Moody’s affirmed Mongolia’s B3 rating and stable outlook January 21, 2020. The B3 rating incorporates Mongolia’s still weak albeit improving debt and fiscal metrics and weak institutions and governance, balanced by strong growth potential. The stable outlook indicates balanced risks in the near term, including greater financial buffers than seen during past episodes of financing stress against still significant external and government liquidity risks. Moody’s expects foreign exchange reserves to be sufficient to meet external debt obligations and growth to remain relatively strong, notwithstanding a projected moderation. From 2021, the public sector debt refinancing needs will increase significantly. The stable outlook assumes that the government will be able to refinance its external debt obligations at affordable costs as they begin to come due.

Moody’s expects government debt to continue to moderate to around 57.5% in 2020 and stabilize around these levels, from close to 80% of GDP in 2015-16, as sustained nominal GDP growth offsets ongoing fiscal deficits. This is in line with the B3-median of 57.2% of GDP.

Table 1. Big three’s credit rating scale

Moody’s	Standard & Poor’s	Fitch Ratings	Explanation
Aaa	AAA	AAA	Prime
Aa1	AA+	AA+	High Grade
Aa2	AA	AA	
Aa3	AA-	AA-	
A1	A+	A+	Upper medium grade
A2	A	A	
A3	A-	A-	
Baa1	BBB+	BBB+	Lower medium grade
Baa2	BBB	BBB	
Baa3	BBB-	BBB-	
Ba1	BB+	BB+	Non-investment grade speculative
Ba2	BB	BB	
Ba3	BB-	BB-	
B1	B+	B+	Highly speculative
B2	B	B	
B3	B-	B-	
Caa1	CCC+	CCC+	Substantial risks
Caa2	CCC	CCC	Extremely speculative
Caa3	CCC-	CCC-	Default imminent
Ca	CC	CC	
	C	C	
C	RD	DDD	In default
/	D	DD	
/	D	D	

Figure 1. Mongolia’s credit rating and outlook (Moody’s)



## ANALYST'S COMMENTARY

### MONGOLIA'S CREDIT RATING HAS BEEN AFFIRMED (CONTINUED)

While fiscal and monetary policy tightening has improved Mongolia's fiscal buffers, the sovereign's institutions and governance remain weak, a significant rating constraint. The implementation of reforms that would reduce Mongolia's vulnerability to commodity price cycles has been partial and, at this stage, is not broadly embedded in the conduct of macroeconomic policy.

The financial buffers rebuilt over the past two years offer some time to the government to manage external vulnerabilities, which drive event risk for Mongolia. As external debt repayments rise, Mongolia's credit profile will be increasingly susceptible to a potential change in access to financing from international and bilateral creditors and financial markets.

#### Fitch Ratings

On July 04, 2019, Fitch Ratings has affirmed Mongolia's Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'B' with a Stable Outlook. Mongolia's ratings are supported by the country's robust growth outlook, improving fiscal metrics, and strong governance indicators. The ratings are constrained by Mongolia's narrow economic base, low external buffers, and a volatile political landscape, which can lead to sharp changes in economic policy and increases the likelihood of economic shocks.

The budget surplus was recorded at 2.6% of GDP in 2018, well above both the approved budget and Fitch's prior expectations. The prospect for continued fiscal outperformance into next year is considerably less certain amid a recent history of sharp increases in spending ahead of parliamentary election, which is to be held in mid-2020.

External buffers have continued to strengthen, despite the delay of some IMF programme-linked disbursements. Foreign reserves were USD3.7 billion by end-May 2019, up from USD3.3 billion a year prior, and more than triple their value in early 2017. Fitch estimates foreign reserves are now equivalent to roughly 4.4x current-external payments, which puts Mongolia ahead of the 'B' median of 3.8x, and roughly on par with the 'BB' median of 4.3x.

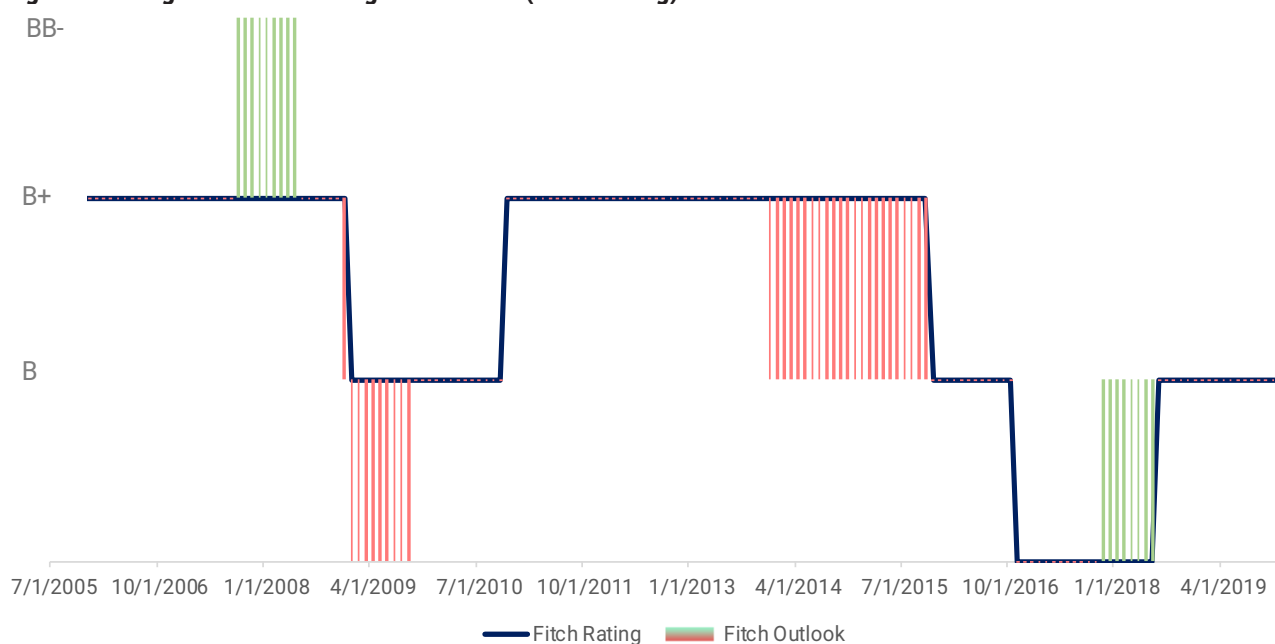
#### Standard & Poor's

On November 28, 2019, S&P Global Ratings affirmed its long-term sovereign credit rating on Mongolia at 'B'. The outlook on the long-term rating is stable. The stable outlook balances the expectation that Mongolia's strong macroeconomic outlook fuels continued, yet gradual, improvement in its external and debt settings over the next 12 months while the government continues to pursue prudent economic and fiscal policies.

Upside pressure on the rating could build if the economy outperforms the current projections over the next 12 months such that fiscal, debt, or external metrics improve more rapidly than expected.

Downward pressure could emerge if Mongolia's macroeconomic settings weaken, potentially owing to an unexpected acute downturn in commodities markets, such that we assess external and debt pressures to have materially deteriorated. Likewise, a backslide in the government's fiscal consolidation program, potentially associated with rising political uncertainty around general elections in 2020, could also lead to downward pressure on the rating.

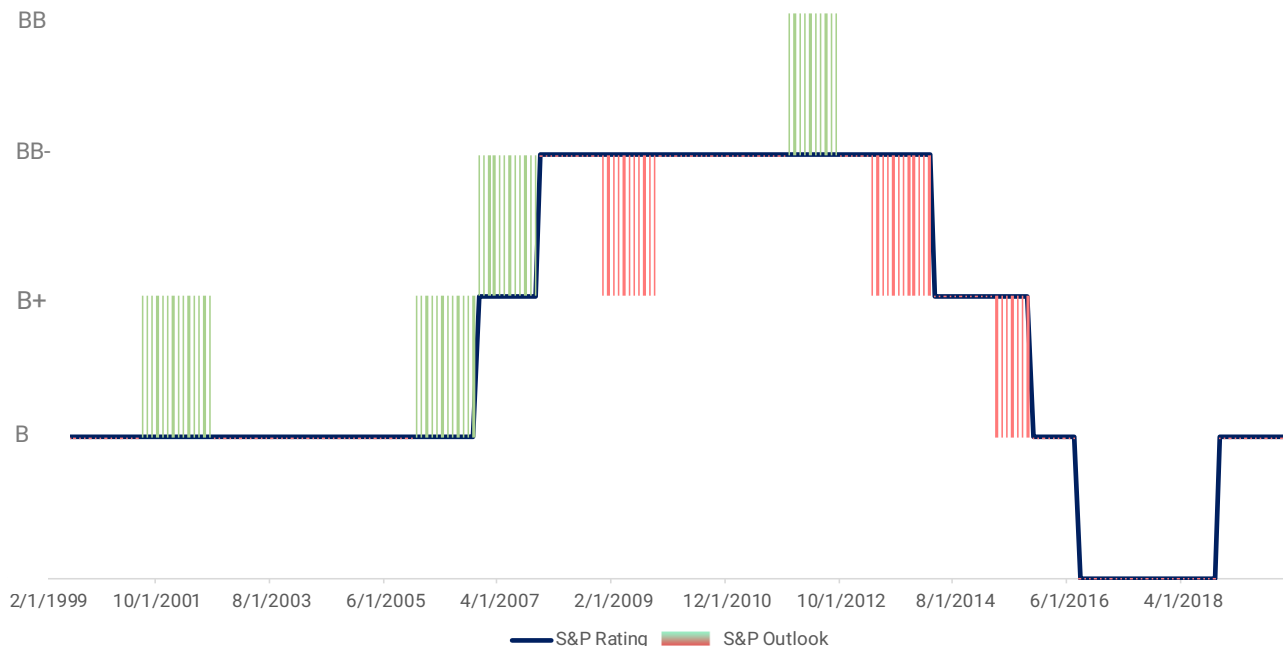
**Figure 2. Mongolia's credit rating and outlook (Fitch Rating)**



## ANALYST’S COMMENTARY

### MONGOLIA’S CREDIT RATING HAS BEEN AFFIRMED (CONTINUED)

**Figure 3. Mongolia’s credit rating and outlook (Standard & Poor’s)**



In recent years Mongolia’s credit rating and outlook have been classified in high risk investment countries, but in 2018 these agencies have upgraded Mongolia’s credit rating by 1 tier.

These agencies, in their most recent reports, all point out that Mongolia’s economy has solid growth potential and its budget indicators has improved significantly, but there is a significant political and economical risk due to the economy being overly dependent on the mining industry.

Therefore, reducing the economic vulnerability by structural reform could not only protect Mongolia’s economy from external shocks due to sudden swing in commodity prices but also positively affect Mongolia’s credit rating and outlook.

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