



## Media Release

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### **RAM Ratings: Bond market displayed resilience despite more cautious sentiment post-GE14**

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The Malaysian bond market was largely resilient in the week following the unexpected outcome of the 14th General Election (GE14). That said the market experienced greater volatility, with active flows and some upward movement in yields. At the start of the market reopening immediately after the election, yields of 10-year MGS (which had breached the psychological level of 4.00% to reach 4.14% prior to the election) rose to 4.26%. The ringgit also weakened to USD/RM3.99. The share market was not spared, with the FTSE Bursa Malaysia KLCI Index declining 1.7%. However, the markets subsequently regained some of these lost grounds. As at 17 May, 10-year MGS yields stood at 4.21% while the ringgit strengthened to USD/RM3.97. That said, the bond market remains in cautious mode as investors digest proposed policies announced by the new administration, such as the scrapping of the GST.

Despite the more cautious sentiment as the new administration's policy details are formulated, the Malaysian bond market has shown resilience. A government paper (7-year GII) issued on May 15 garnered an outstanding bid-to-cover ratio of 3.397 times – a level last seen in January 2017. As the government reviews its contingent liabilities, some of PH's election pledges could affect certain corporate sectors, some of which are major bond issuers, such as infrastructure and utilities. We expect corporate bond issuance, especially from the quasi-government space, to slow going forward. That said, RAM maintains its gross corporate bond issuance projection of RM90 billion-RM100 billion for 2018 on account of better than expected corporate bond issuances totalling RM42.1 billion as at end-April.

On the flipside, foreign holdings of Malaysian bonds were down RM4.7 billion in April, likely the result of cautious portfolio repositioning and the lead-up to GE14. Foreign bond inflows are anticipated to remain muted at best while some outflow of short-term papers could continue as global market players price-in for another US Federal Reserve rate hike in June. That said, we do not expect long-term fundamental bond investors to shy away from the market for too long and see policy announcements made in the next 100 days as vital to shoring up investor confidence.

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