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## Media Release

# RAM Ratings: Corporate bond issuance remained robust in 2018

Gross corporate bond issuance for 2018 exceeded RAM's projected range of RM90 billion-RM100 billion, coming in at RM105.4 billion. The robust market was partly supported by large front-loaded issuances in the first quarter, ahead of the expected increase in the Federal Funds Rate (FFR) in March as well as the sustained momentum of issuance following the 14th General Election (GE14) for Malaysia. That said, the bond market still declined y-o-y in 2018, having come off a bumper year in 2017, when issuance hit a high of RM124.9 billion. On the government bond space, issuance value of MGS/GII remained steady in 2018, having rose a tad bit to RM114.8 billion – which is in line with our expectation of RM110 billion-RM120 billion – from RM113.9 billion of 2017.

Foreign investors had largely shorted the Malaysian fixed income market in 2018, as observed by the prevalent net foreign outflow throughout the year. Net foreign selling of bonds amounted to RM21.9 billion in 2018 - the largest outflow since 2008, when it clocked in at RM35.3 billion. This is not a big surprise given the faster pace of global liquidity tightening, along with a surge in investors' risk aversion as foreign policy direction becomes more uncertain in an era of trade protectionism and myriad geopolitical concerns. In addition, the unexpected change in Malaysian government following GE14 and a slew of consequent policy changes and resultant uncertainties also affected investor sentiment. As a result of the stronger selloff, accompanied by the rise in short-term interest rate in the US which place larger upward pressure on shorter-term yields, MGS yield curve ended last year higher and slightly flatter compared to 2017.

Looking ahead, we envisage gross corporate bond issuance to come in at RM70 billion-RM80 billion in 2019. "This is primarily due to the Government's project-rationalisation drive and the lengthening of project implementation time frames. This would dampen new quasi-government debt issue that had previously propped up issuance value in 2017 and to some extent, 2018," notes Kristina Fong, RAM's head of research. This change in policy direction could also, in turn, dampen the issuance activities of other infrastructure- and construction-related issuers as well as the relevant financing entities from the private sector. The government bonds segment, however, does not share the same issuance outlook as gross MGS/GII issuance is anticipated to remain stable in 2019, with a projected range of RM110 billion-RM120 billion. This takes into account the Government's deficit financing needs and the amount of bonds set to mature this year.

RAM also expects foreign bond holdings to remain muted in 2019, given the backdrop of lingering global uncertainties, with some outflow bias on the expectation that the Fed will keep raising interest rates in 2019. That said, the outflow this year is unlikely to revisit the levels of 2018, given the anticipated deceleration in the pace of rate hikes, which should moderate the risk of capital flight. The latest dot plot by the Fed shows that it now expects just two rate increases in 2019 compared to the previous forecast of three, a marked reduction from the four hikes in 2018.

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