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Media Release

The calm after the storm in November

The latest issue of RAM Ratings' *Bond Market Monthly* reports that foreign holdings of Malaysian debt securities continued to decline in December - as anticipated - with a net outflow of RM5.4 billion, albeit less than the previous month's RM19.9 billion. Despite this, foreign holdings summed up to RM215.6 billion as at end-December 2016, translating into an annual net inflow of RM825.9 million instead of the net outflows in both 2014 and 2015. Following the US Federal Reserve's (the Fed) hawkish tone after the initial knee-jerk reaction to Trump winning the US presidential election in early November, as well as Bank Negara Malaysia's clamping down on the offshore non-deliverable forwards (NDF) market, the momentum of foreign off-loading of ringgit debt appears to be waning. The OPEC's decision to cut output effective January 2017 was also a welcome development for the ringgit and investor confidence.

Yields of MGS and investment-grade corporate bonds also took a surprise turn, declining across the entire maturity spectrum as the fixed-income market adjusted its expectations following a highly volatile November marred by widespread speculation and the off-loading of investments. Nevertheless, yields remained elevated compared to October as global investors stayed wary about the downside risks stemming from key market developments this year, including the start of Trump's presidency, the potential triggering of Article 50 for Brexit, and the actual trajectory and speed of the Fed's rate normalisation. Lingering risk aversion amid expectations of an uptrend in US policy rates would thus explain the stronger demand for relatively safe bonds, as those rated AA_2 and above experienced sharper declines in yields, with double-digit falls in bps across the entire maturity spectrum. Investors' preference for safer investments was also underlined by a generally wider yield spread, driven by the steeper decline in MGS yields compared to corporate yields.

In total, RM94.0 billion of government securities was issued in 2016 - some 11.7% lower than the RM106.5 billion of the previous year, but within our projected range of RM90 billion-RM100 billion. Looking ahead, we expect gross issuance of government securities to come in at RM100 billion-RM110 billion in 2017, taking into account the Government's financing needs this year.

On the corporate side, gross issuance summed up to RM85.6 billion in 2016, slightly higher than our projection of RM75 billion-RM85 billion. Last year, issuance remained

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driven by the financial services sector (making up 44.6% of total corporate bonds), followed by the infrastructure & utilities sector (25.2%). Total corporate issuance is expected to again clock in at RM75 billion-RM85 billion in 2017, based on the projected issuance pipeline and taking into account the prevailing market volatility and uncertainties.

In 2016, RAM reaffirmed 281 issue ratings, with revisions on the outlook of 16 ratings. There were more rating downgrades last year, i.e. 11 compared to 6 in 2015. That said, the downgraded issue ratings originated from 6 issuers (in both years), indicating the persistently challenging conditions driven by a volatile market. Meanwhile, 6 issue ratings under 3 issuers were upgraded during the year.

The *RAM Bond Market Monthly* is a snapshot of bond-market activities in Malaysia. Please click here for the full report.

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