Robust bond market activity and fund flows in 2021

Financing via corporate bonds was stronger than expected in 2021, with total issuance of RM114.3 bil, up 9.3% from the previous year. The healthy supply was driven by the financial services sector (RM48.4 bil). With anticipation of interest rate hikes in 2022, we expect more issuers to lock in fixed rate credit facilities and corporate bonds to remain within RM110 bil-RM120 bil.

Gross issuance of MGS and GII in 2021 (RM163.9 bil) was the largest on record, on the back of enlarged fiscal spending and the rollout of pandemic-related relief expenditure. Looking ahead, we expect MGS and GII issuance to stay elevated at circa RM165 bil-RM175 bil on account of the government’s larger deficit financing requirement as well as the refinancing of debts maturing next year.

In terms of foreign funds, total net buying expanded further to RM33.6 bil compared to RM18.3 bil in 2020, the highest since 2012. Much of this, frontloaded in the beginning of the year, was fuelled by a hunt for yields and volatile equity markets triggered by the Delta variant. Impending US Fed rate hikes in 2022 may reduce foreign interest in Malaysian bonds but we believe the still-positive yield differential and local investors will offset some of this risk.

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