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Media Release

Weaker foreign participation in Malaysian bond market in January

Foreign holdings of Malaysian bonds declined RM2.3 bil in January – the third consecutive month of outflows – following a sell-off for both short- and long-term government securities and corporate bonds. This has been a consistent trend through the last few months amid lingering global trade and geopolitical uncertainties.

That said, the US Federal Reserve's (Fed) shift to a more dovish tone in its monetary policy statement (released in late January) should support investor appetite for Malaysian and emerging market bonds in general. It has expressed that it will be more "patient" in future policy decisions, which contrasts against its earlier message of "further gradual increases". In response to this, the benchmark 10-year MGS yield took a dive earlier this month, falling below the psychological level of 4.0% on 13 February.

On the domestic front, private sector issuance was relatively robust in January, with RM5.8 bil of gross issuance value. For the quasi-government segment, January remained quiet (issuance value of RM100 mil), as observed in the last few years, further dampened by the bumped up issuance in 4Q 2018. "We expect this relatively muted trend to persist through the rest of this year, primarily due to the Government's project-rationalisation initiatives and the lengthening of project time lines, which should constrain new debt-raising initiatives," observes Kristina Fong, RAM's head of research.

Appetite for government bonds was also very healthy in January, as indicated by the bid-to-cover (BTC) ratios. Both the 10-year GII and 7-year MGS achieved very strong BTC ratios of 4.13 and 3.91 times, respectively. The BTC ratio for the slightly larger 5-year GII came in at 1.97 times. Government issuance summed up to RM13.0 bil for the month (January 2018: RM10.5 bil).

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