



## Media Release

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### Malaysian bond yields spiked up in tandem with global yields amid volatile markets

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The latest edition of RAM Ratings' *Bond Market Monthly* highlights that Malaysian bond yields faced upward pressure in tandem with increasing global yields amid the volatile world markets. Global stock markets underwent a massive sell-off and correction in early February. The turmoil had followed the release of US wage data and President Trump's proposed expansionary budget, which signalled a possibly faster-than-expected acceleration in inflation. This may, in turn, hasten the pace of the US Federal Reserve's rate-tightening cycle and increase the attractiveness of bond investments.

The yield on the 10-year UST had rallied to 2.72% as at end-January (+13.3% m-o-m), and rose further to 2.91% in mid-February. In line with rising global yields, those of MGS spiked up towards the end of January. The yield of 1-year MGS had increased 28 bps m-o-m to 3.19% by end-January, and has exceeded 3.20% since then. Similarly, the 10-year MGS posted a 4.6 bps m-o-m rise in yield to 3.96% as at end-January, before increasing further to 4.04% in mid-February. The second US government shutdown for the year – albeit short-lived - had also contributed to the widespread capital market volatility. Although the global stock markets have stopped plummeting, we cannot discount the risk of further market response to rising interest rates.

Foreign investors increased their holdings of Malaysian bonds by RM4.5 billion in January, elevating the value of foreign bond holdings to RM211.2 billion (+2.2% m-o-m). The inflows were mainly driven by demand for government securities, which posted a cumulative net inflow of RM4.9 billion at month-end. We believe the rise was also supported by expectations of rising domestic interest rates, coupled with the strengthening ringgit in January. Amid steady economic growth, Bank Negara Malaysia raised the overnight policy rate by 25 bps to 3.25% during the recent Monetary Policy Committee meeting in January - the first hike in more than 3 years.

The Malaysian corporate bond market kicked off 2018 with RM9.6 billion of bond and sukuk issuance in January, in contrast to the sluggish RM1.6 billion a year earlier. Notably, RM8.6 billion of this amount originated from the private sector. Similarly, issuance of government bonds, including short-term papers, came in at a healthy RM13.5 billion. Following a quiet December, which recorded an average bid-to-cover ratio of 1.258 times, government securities tendered and issued in January experienced generally stronger demand. The first auction of government bonds in 2018

elicited decent demand, as reflected by its bid-to-cover ratio of 1.905 times. The other 2 papers (a 5-year GII and a 20-year MGS) issued during the month recorded sturdy bid-to-cover ratios of a respective 2.581 and 2.474 times amid a firmer ringgit, which appreciated 2.9% on average m-o-m in January 2018.

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