



## Media Release

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### **Increasingly dovish Fed shifted foreign interest back to emerging markets**

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The Malaysian bond market enjoyed renewed foreign interest in February. Foreign holdings surged RM4.5 bil for the month, breaking a three-month streak of outflows. This is largely attributable to the US Federal Reserve's (the Fed) more dovish stance in its most recent monetary policy statement, released on 30 January. While benchmark interest rates stayed unchanged during the FOMC meeting in January, the Fed has stated that it will be more "patient" in future policy decisions. This contrasts against its earlier message of "further gradual increases".

"Portfolio outflow pressures have been somewhat reduced by the Fed's more dovish tone and, more recently, the growth concerns expressed by the European Central Bank and the subsequent pause in elevating policy rates. However, there may still be a flight to safety, especially as the US-China trade spat and Brexit dynamics have yet to be resolved," highlights RAM's head of research, Kristina Fong.

Given the more robust demand – amid renewed foreign interest and resilient domestic support – the yields to maturity of government and corporate bonds declined m-o-m across the rating spectrum. The yield of the benchmark 10-year MGS dived in the first half of February, falling below the psychological level of 4.0% on 13 February – the first time since 11 April 2018. Moving forward, yields are expected to face some further downward pressure as the market is also considering the prospects of an OPR cut by Bank Negara Malaysia, following the central bank's more cautious tone in its latest monetary policy statement (released on 5 March).

Government bond issuance was healthy in February, amounting to RM8.0 bil (January: RM13.0 bil). This was underpinned by robust appetite for government bonds, as indicated by the bid-to-cover (BTC) ratios. The 10-year MGS and 15-year GII issues in February achieved very strong BTC ratios of 2.54 and 3.91 times, respectively. Issuance of corporate bonds summed up to RM9.1 bil for the month (January: RM5.8 bil), backed by healthy issuance from both the quasi-government and private sectors.

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