



Media Release

Foreign bond investors' risk aversion unlikely to abate in near term

Foreign investors' flight to safety, primarily due to escalating trade tensions and geopolitical concerns, led to another month of net foreign outflow in May. Trade relations between the US and China deteriorated further during the month, as the US imposed additional tariffs on Chinese imports and also slapped Huawei with sanctions. President Trump's threat of additional import tariffs on Mexico and the British prime minister's decision to step down also clouded economic prospects last month.

At the same time, Malaysia's attractiveness as an investment destination took a hit following its addition on to the US's watchlist on currency manipulation, along with declining yields following Bank Negara Malaysia's (BNM) OPR cut. Nevertheless, the RM4.2 bil of outflows in May paled in comparison to April's RM9.8 bil. April's outflow came on the heels of concern over the removal of Malaysia from FTSE Russell's benchmark index at the next review in September, albeit somewhat alleviated by BNM's initiatives in May to enhance market liquidity and accessibility.

That said, the current global uncertainties are unlikely to be resolved in June as investors still face risks and potentially negative developments. For one, Fed watchers are becoming increasingly more sensitised to expectations of a rate cut, on the back of its more dovish tone. On the other hand, the global markets are also eagerly anticipating more clarity on the fate of future trade, as President Trump and President Xi are set to meet at the G20 summit in late June. "These developments could lead to different portfolio allocation strategies for active investors. As such, the impact is rather uncertain at this point. Norway's decision to exclude emerging markets' fixed-income securities from its Government Pension Fund Global in June could also result in some staggered rationalisation by the sovereign wealth fund. All said, we are not likely to see the end of market volatility just yet," notes Kristina Fong, RAM's head of research.

In spite of weaker foreign demand, the yields of government and corporate bonds largely retreated in May, signalling strong domestic institutional support. This also followed BNM's pre-emptive 25 bps cut in the OPR by BNM last month, amid rising concern about the effects of the destabilising trade war on Malaysia's growth trajectory. The strong appetite was also highlighted by the robust bid-to-cover (BTC) ratios at government bond auctions in May. Demand for longer-tenured GII

issues was very strong, with the 15- and 30-year papers charting respective BTC ratios of 3.38 and 3.30 times. Meanwhile, the auction of 10-year MGS posted a BTC ratio of 1.84 times.

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