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Media Release

Bond market to continue bearish run in June after brief respite

Foreign interest returned to the Malaysian bond market in May after three consecutive months of net outflows (totalling RM22.4 bil). This was supported by a more upbeat global sentiment. However, this skidded to an abrupt halt in early June amid heightened concerns over the escalating COVID-19 outbreak in the US and the consequent impact on the global economy. Further, the recent launch of the new PENJANA stimulus package totalling RM35 bil by the Malaysian government raised investors' concerns about the wider fiscal deficit and debt levels. These concerns pushed up the 10-year MGS yield by 25.5 bps to a peak of 3.12% on 9 June, before swiftly retreating below 3%. Since then, this benchmark yield has stayed above the level seen throughout May (average yield: 2.89%), on account of persistent foreign investor risk aversion. This trend suggests that foreign buying of MGS is likely to remain dull for the rest of June.

Over the longer term, all-time low global interest rates amid liquidity-boosting measures by central banks would continue to suppress domestic bond yields. At its last Federal Open Market Committee meeting on 10 June, the US Federal Reserve indicated that the benchmark short-term interest rate (i.e. the Federal Funds Rate) will remain near zero through 2022. Similarly, expectations of further Overnight Policy Rate cuts by BNM in 2H 2020 would also keep a lid on domestic bond yields.

The PENJANA stimulus package, launched in June, is expected to widen Malaysia's fiscal deficit to 5.8%-6.0% of GDP (from RAM's previous projection of 4.8%). Given the Government's intention to fund this deficit domestically, RAM has revised its MGS/GII issuance to RM155 bil-RM165 bil for 2020, from the previous RM135 bil-RM145 bil.

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About RAM Rating Services Berhad (RAM Ratings)

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